**Corporate Governance, Audit and Standards Committee**
**31 July 2024**

**EXECUTIVE HEAD OF FINANCE**
**REPORT NO: FIN2410**

# TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS 2024/25 – Quarter 1

**SUMMARY**:
This report sets out the activities of the Treasury Management and non-Treasury Investment Operations for quarter 1 in the financial year 2024/25, and reports on compliance with Prudential Indicators.

**RECOMMENDATIONS:**
Members are requested to:

(i) Make any recommendations, as appropriate, to the Cabinet on the contents of this report in relation to the treasury management and non-treasury investment operations carried out during 2024/25.

(ii) Note the position on the pooled funds held in the UBS Multi Asset Income fund and the CCLA Local Authorities Property Fund as detailed in paragraphs 4.1-4.7.

## 1. INTRODUCTION

1.1 This report sets out the Treasury Management and Non-Treasury Investment operation performance for Quarter 1 2024/25. This report is a statutory requirement under the CIPFA Code of Practice on Treasury Management.

1.2 Full Council approved the Annual Treasury Management Strategy and Non-Treasury Investment Strategy for the financial year 2024/25 in February 2024. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management 2021 ("the Code") and is fully incorporated into the Council's adopted strategy.

## 2. PURPOSE

2.1 This report sets out compliance with the strategy and performance against Prudential Indicators to the end of June 2024/25 within appendices (1-4):

**<u>Appendix 1</u>**

- The **Treasury Management operations** which sets out how the Council's treasury service operated during the period to June 2024;
- The **Treasury Management Borrowing** which sets out the Council's borrowing during the period to June 2024, and;
- The **Treasury Management Investments** which sets out the Council's Treasury Management investment operations for the period to June 2024.

**Appendix 2**

- the **Prudential indicators** performance is compared to the indicators set out in the Annual Capital Strategy for the year 2024/25.

**Appendix 3**

- The list of borrowing counterparties as at end of June 2024.

**Appendix 4**

- Market commentary regarding from the Council's treasury management advisors Arlingclose

## 3 BACKGROUND

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on the aims and requirements of a Capital Strategy focusing on a whole organisation approach to prudent, sustainable, and resilient local government investment.

3.2 CIPFA have also issued two professional Codes of Practice to which the Council is required to "have regard to". These Codes provide frameworks that are designed to support local strategic planning, local asset management planning and proper option appraisal:

- The Prudential Code – developed to support local authorities in taking decisions around their capital investment programmes. The objectives of the Prudential Code are to ensure, within a clear reporting framework, that a local authority's capital expenditure plans and investment plans are affordable and proportionate; that all external borrowing and other long-term liabilities are within prudent and sustainable levels; that the risks associated with investments for commercial purposes are proportionate to their financial capacity; and that treasury management decisions are taken in accordance with good professional practice.
- The Treasury Management Code - Treasury Management is defined as 'The management of the organisation's borrowing, investments, and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

3.3 The primary purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed to deliver the Councils services. The secondary function of the treasury management operation is the funding of the Council's capital programme and manage cashflow requirements over a longer-term period.

3.4 Non-treasury investment operations should ensure that all investments made primarily for service reasons. Then, second to this, the function of investment management is to generate returns.

3.5 This quarterly report provides an additional update and includes the requirement in the 2021 Code of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal quarterly Budget Management report.

## 4 POOLED FUNDS

4.1 The Council holds investments in a number of pooled funds. These were invested into between 2013 and 2019 when the Council was in a different Treasury Management position, with higher cash holdings. Despite delivering dividends (in 2023/24 the Council Receipted £1.1m) which have performed in line with the treasury market (2023/24 average 5.78%), as a total, the funds are currently valued below the value of initial sums invested. These are detailed below:

| Pooled Fund | Original Investment | Current Value (as at 31 June 2024) | Current Gain/(Loss) |
|---|---|---|---|
| CCLA | 3,882,128 | 4,240,996 | 358,868 |
| UBS Multi Asset Fund | 5,000,000 | 3,551,024 | (1,448,976) |
| Threadneedle Investments | 2,000,000 | 1,868,018 | (131,982) |
| M&G Investments Strategic Corporate Bond Fund | 4,000,000 | 3,466,114 | (533,886) |
| Schroders Income Maximiser | 5,000,000 | 4,519,353 | (480,647) |
| Aegon Diversified Monthly Income Fund | 2,000,000 | 1,863,763 | (136,237) |
| **Total Pooled Funds** | **21,882,128** | **19,509,268** | **(2,372,860)** |

4.2 Whilst the council has been in a net loss position, the intention was to mitigate the current losses by holding on to the funds into the future to avoid the crystallisation of the capital loss. The council has been closely tracking the situation, and funds have been improving.

4.3 In July, just after the close of this Q1 report period, the council received notification that the UBS fund in which the council has £5m invested, would be closed from September 2024. This is, as at the end of June 2024, valued at £1.4m lower than the original investment, which the council will be forced to react to this.

4.4 Options include:

- Redeem the UBS fund now
  The Council would suffer the estimated £1.4m loss, however the net £3.5m investment return can also be used to support the council's treasury management position and support reduction of the council's debt. One investment within the fund is not traded on the stock exchange, the current valuation of this for Rushmoor is £18k which would not be payable if the council wished to redeem now.
- Redeem the UBS fund when it closes in September
  As above, however the funds value may improve or worsen, the trend has been reasonably steady in recent months, but future movements are unknown. One investment within the fund is not traded on the stock

exchange, the current valuation of this is £18,000 which would be payable if the council waits until September to redeem.

- Redeem the UBS & CCLA fund to help mitigate the loss
  Currently this is valued to have a net £1.0m loss. The CCLA fund has a 6 month notice period to redeem, so there will be a risk as to how the value of this fund moves over coming months. Over the previous 12 months, the CCLA fund has lost £171k in its fair value but has been delivering revenue income throughout this time.

4.5 In previous reports to members, a risk regarding the change in accounting requirements regarding these funds has been reported. From 2025/26, any movement in the capital gain or loss will impact the bottom line of the General Fund, where in the past there has been protections built into the local authority accounting standards. Therefore, the potential impact of pooled funds was anticipated, however not within this financial year.

4.6 Other held pooled funds remain in a capital loss position, with a trend of slow improvement. The strategic position on these is to continue to hold with a view they will potentially improve to minimise the capital loss. They continue to deliver dividends in 2024/25, and in the first quarter £324k is due for all of the funds.

4.7 Officers have considered options and propose to wait until the final quarterly dividend (estimated at £42,761) has been paid on the UBS fund and redeem both this fund and give notice on the CCLA fund ahead of September to minimise further capital value loss. This decision will be taken to Cabinet to ensure appropriate budget is put in place to cover the impact.

## 5 CONCLUSIONS ON THE TREASURY MANAGEMENT AND NON-TREASURY INVESTMENT OPERATIONS DURING 2024/25

4.1 All treasury activity was conducted within the approved Treasury Management Practices (TMP's).

4.2 The majority of borrowing is currently short term and will remain so until the interest rate reduces. The rates are predicted by the financial markets to reduce to circa 3.1% by the end of the calendar year 2025. The Council's revenue budget has capacity to pay approximately £3million interest on its borrowing, equating to £100million of borrowing in the long term. Interest costs above £3million are being funded by the Council's reserves. A full narrative on this challenge, including long term mitigation, is provided in the 2024/25 Annual Treasury Management Strategy adopted by Full Council at its meeting on 22nd February 2024.

4.3 Pooled funds are a long-term investment of surplus cash. Due to the rapid change in base rate and forecast economic climate the funds are currently valued at less than initial sums invested. The mitigation is to hold these funds into the future to avoid the crystallisation of the capital loss. The current return of pooled funds is performing in line with short term treasury deposits.

## 5 KEY RISKS

5.1 The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

5.2 The key risks to the Councils delivery of successful treasury and non-treasury investment options include:

- Inflation levels
  Inflation rates are now reducing after a prolonged period of increased levels
- Bank of England Base rate
  Base rate as of writing remains at 5.25%. Expectations are that this will reduce during quarter 2 or quarter 3, however a slow reduction is anticipated
- Delivery of Capital Programme
  Will impact borrowing requirements and timing will impact rates achievable for both borrowing and investments during the years
- Changes in Valuation of Pooled Funds
  From 2025/26 will impact bottom line of General Fund

Contact Details:

Report author:
Rosie Plaistowe-Melham – Services Manager Finance
01252 398037
rosie.plaistowe@rushmoor.gov.uk

Head of Service:
Peter Vickers - Executive Head of Finance