

# Appendix I - Capital Strategy & Treasury Management Strategy 2026/27

## Contents

1. Executive Summary

### Appendix 1 - 2026/27 Capital Strategy

1. Introduction
2. The Prudential Code
3. Setting Capital Budgets
4. Capital Financing Requirement
5. Revenue budget implications
6. Long Term capital investment
7. Capital disposals & receipts
8. Treasury management
9. Investments for service purposes
10. Commercial investments
11. Knowledge & skills

### Appendix 2 - 2026/27 Monmouthshire County Council Treasury Management Strategy

1. Economic background and financial context
2. Local Context
3. Borrowing strategy
4. Investment Strategy
5. Other matters
6. Additional requirements of Welsh Government Investment Guidance
7. Advisors Economic & Interest Rate Forecast
8. MRP Policy Statement 2026/27
9. Glossary of treasury terms

# 1. Executive Summary

## **Capital Strategy**

The Capital Strategy is produced in accordance with the CIPFA Prudential Code and provides a high-level framework for how the Council plans, prioritises and finances capital investment. It is intended to support transparency, member understanding and effective governance of decisions that have long term financial implications.

Capital investment decisions shape the Council's asset base and financial position for many decades. As such, the strategy focuses on ensuring that capital expenditure and borrowing decisions are affordable, prudent and sustainable, and that the associated risks to the Council's future financial resilience are clearly understood and managed.

The strategy sets out the long-term context within which capital decisions are made, recognising the significant financial constraints facing the Council. Demand for capital investment continues to exceed the level of funding that can be supported within the Medium Term Financial Plan, requiring careful prioritisation of schemes, disciplined programme management and a strong focus on value for money.

In recent years, the Council's approach to capital investment has increasingly been shaped by the need to maintain and safeguard existing assets, manage growing maintenance backlogs and address health and safety and statutory requirements. While opportunities to secure external funding and work with partners remain important, the strategy recognises the operational and financial challenges associated with short term and restricted grant funding and the need to avoid overreliance on uncertain funding sources.

The Capital Strategy therefore places emphasis on clarity of purpose and outcomes. It provides a framework for balancing competing demands, including maintaining the existing asset base, supporting priority infrastructure and enabling longer term transformation where this can be achieved within affordable limits. This approach supports consistent decision making and effective member scrutiny, particularly where difficult trade-offs are required.

The strategy also highlights the close relationship between capital investment, borrowing and treasury management. Decisions on how capital expenditure is financed directly affect future revenue budgets through borrowing costs and Minimum Revenue Provision. The strategy confirms that the Council's approach to borrowing and capital financing remains prudent and aligned with its long-term financial capacity.

Overall, the Capital Strategy provides assurance that capital investment decisions are being taken within a clear governance framework, informed by long term financial planning and a realistic assessment of risk. It supports the Council's commitment to stewardship of public resources, financial sustainability and the delivery of priority outcomes for residents.

## **Treasury Strategy**

Treasury management is concerned with the effective management of the Council's cash flows, borrowing and investments, and the associated financial risks. Given the scale and long-term nature of the Council's

capital programme, treasury management decisions have a significant influence on affordability, financial resilience and the stability of future revenue budgets.

The Treasury Management Strategy is prepared in accordance with the CIPFA Treasury Management Code of Practice and relevant Welsh Government guidance. It provides the framework within which borrowing and investment decisions are taken, ensuring that these activities are carried out prudently, transparently and in a manner consistent with the Council's overall financial strategy.

The strategy is set within a challenging but gradually stabilising economic environment. While inflationary pressures have eased and interest rates are expected to reduce modestly over the medium term, longer term borrowing costs remain volatile and subject to wider economic and geopolitical risks. In this context, the strategy prioritises the protection of public funds, the management of risk and the maintenance of sufficient liquidity over the pursuit of higher returns.

The Council continues to adopt a cautious approach to borrowing and investment. Internal borrowing remains a central feature of the strategy, helping to limit exposure to higher long-term borrowing costs while maintaining flexibility to respond to changing market conditions. Where external borrowing is required, decisions will be closely aligned to the capital programme and informed by affordability and risk considerations over the long term.

Investment activity is primarily focused on the management of day-to-day cash flows and the safeguarding of balances held. The strategy confirms that security and liquidity remain the Council's overriding priorities when investing treasury funds, supported by clearly defined counterparty limits, ongoing monitoring and the use of independent professional advice.

A key component of the Treasury Management Strategy is the Minimum Revenue Provision (MRP) Policy Statement. MRP ensures that borrowing undertaken to finance capital expenditure is repaid in a prudent and sustainable manner over the useful life of assets. The strategy recommends continuation of the Council's established MRP approach, supporting intergenerational fairness and long-term financial sustainability.

The Treasury Management Strategy sets out the framework within which the Council's borrowing and investment activities are undertaken, enabling the Governance & Audit Committee to effectively monitor performance, compliance and risk. It provides assurance that these activities are managed within a robust governance and control environment, aligned to the Capital Strategy and Medium Term Financial Plan, and focused on risk management, affordability and the prudent stewardship of public resources.

## 1. Introduction

- 1.1. This Capital Strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and a summary of the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.
- 1.2. Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.
- 1.3. In the current economic climate of financial constraints and a continued Medium Term Financial Projection (MTFP) revenue budget gap, expenditure on capital needs to remain within affordable limits. Demand for capital resources remains high and therefore inevitably, prioritisation of projects, leveraging in other sources of funding and working with partners remain key to meeting this demand.
- 1.4. The strategy highlights the key risks and considerations:
  - The Council's medium-term capital programme includes annual funding from unsupported borrowing. While this borrowing remains affordable and is factored into medium-term revenue budget planning, recent budget reviews have identified several capital backlog pressures that will need substantial action within the financial plan period. If other funding sources cannot be secured, additional borrowing will become necessary.
  - Given the considerable demands on capital resources and their limited availability, it is essential to integrate and coordinate the organisation's various strategic plans that drive capital investment. Developing alternative strategies to address these demands will enable the Council to prioritise its capital programme within an affordable framework. This approach will also provide greater transparency and evaluation of required maintenance for assets such as property, highways, and other operational holdings, while placing emphasis on asset rationalisation.
  - Useable capital receipts have been used successfully to provide a limited one-off resource to support financing of the capital programme. In recent years the Council has made use of Welsh Government's guidance allowing flexible use of capital receipts to meet one-off revenue costs associated with service reform. The Council has called upon this flexibility since 2019/20 and plans to do similarly over the medium term.
  - With the pool of useable capital receipts forecast to be at minimal levels at the end of the medium term financial plan period, the continued use of capital receipts for this purpose is recognised as necessary but will be required to be tapered down.
  - Due to the funding pressures on the Capital programme and the challenges with delivering projects on time, it's important to have strong governance structures in place. Traditionally, this has been managed through finance oversight and by the Capital working group, who have ensured that services and project managers are accountable for progress. However, the level of project slippage remains a challenge that can impact both wider capacity for project delivery, and future funding clarity.

- The prudential indicators, including borrowing limits, are in line with the Council’s medium term financial plan.
- 1.5. The strategy will be reviewed and updated on an annual basis alongside the Treasury Management Strategy given that both strategies are intrinsically linked.
- 1.6. The strategy sets out:
- The key objectives outlined in the Prudential Code and the governance arrangements for the Capital Strategy and programme (Section 2)
  - The medium term capital programme, its financing, and the revenue implications arising from capital investment (Sections 3 to 5)
  - Long term projections for the capital financing costs of the Council and where future demands arise from the various strategic plans across the Council for further capital investment. (Section 6)
  - Capital disposals & receipts (Section 7)
  - The link to treasury decision making. (Section 8)
  - Consideration of investment for service purposes and commercial activity of the Council and the strategy going forward. (Section 9 and 10)
  - Summary of the skills and knowledge the Council holds in order for it to carry out its capital investment and treasury functions. (Section 11)

## 2. The Prudential Code

- 2.1. The objective of the Prudential Code is to ensure, within a clear framework, that the capital expenditure plans of local Councils are:
- **AFFORDABLE** - It is important that the Council’s capital investment remains within sustainable limits. The Code requires Councils to consider the resources currently available to them and those estimated to be available in the future, together with the totality of the capital plans and income and expenditure forecasts. As well as capital expenditure plans, Councils should consider the cost of past borrowing, ongoing and future maintenance requirements, planned asset disposals and the MRP policy, which all impact upon affordability.
  - **PRUDENT** – All external borrowing and other long-term liabilities are within prudent levels. The full Council set an authorised limit and operational boundary for external debt, these need to be consistent with the Council’s plans for affordable capital expenditure and financing, and with its treasury management policy statement and practices.
  - **SUSTAINABLE** – taking into account the arrangements for repayment of debt (including through MRP) and consideration of risk and the potential impact on the Council’s overall financial sustainability in the medium to longer term.
- 2.2. The risks associated with investments for commercial purposes should be proportionate to the Council’s financial capacity and standing.

- 2.3. Treasury management decisions should be taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.
- 2.4. The Prudential Code requires Councils to look at capital expenditure plans, investments and debt in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-term financing implications and potential risks to the Council.
- 2.5. In order to demonstrate that local Councils have fulfilled these objectives, the Prudential Code sets out the prudential indicators that must be used, and the factors that must be taken into account. These indicators are presented alongside the final budget presented to Council.
- 2.6. **Governance & reporting**
- 2.7. The responsibility for decision making in respect of capital investment, investment and borrowing, and prudential indicators lies with full Council.
- 2.8. Council will approve the Capital strategy and the annual Treasury management strategy (including the investment strategy and MRP policy statement).
- 2.9. The Council delegates responsibility for the detailed implementation, monitoring and scrutiny of capital investment and its associated treasury management policy, strategy and practices to the Section 151 Officer, with oversight and assurance provided by the Governance & Audit Committee.
- 2.10. The execution and administration of treasury management decisions is delegated the Section 151 officer or deputy, who will act in accordance with the policy and strategy and follow CIPFA's Standard of Professional Practice on Treasury Management.
- 2.11. The Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided by its current advisors Arlingclose Limited includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance.
- 2.12. **Revised strategy:** Full Council would be asked to approve a revised Treasury Management Strategy should the assumptions on which this report is based change significantly. Such circumstances could include, for example, a large unexpected change in interest rates, a significant change in the Council's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

### 3. Setting capital budgets

Over the next four years the Council is planning capital expenditure of £55.9m as summarised below:

**Table 1: Capital Medium Term Financial Plan**

<b>Scheme Type</b>	<b>Indicative Budget 2026/27</b>	<b>Indicative Budget 2027/28</b>	<b>Indicative Budget 2028/29</b>	<b>Indicative Budget 2029/30</b>
Asset Management Schemes	2,251,599	2,230,049	2,230,049	2,230,049
School Development Schemes	0	0	0	0
Infrastructure & Transport Schemes	9,186,137	6,704,740	4,204,740	4,204,740
Regeneration Schemes	730,200	730,200	730,200	730,200
Inclusion Schemes	1,200,000	1,200,000	1,200,000	1,200,000
ICT Schemes	370,655	413,000	413,000	413,000
Vehicles Leasing	1,500,000	1,500,000	1,500,000	1,500,000
Capitalisation Directive	2,707,500	1,707,500	707,500	0
Other Schemes	550,000	550,000	590,000	590,000
<b>Total Expenditure</b>	<b>18,496,091</b>	<b>15,035,489</b>	<b>11,575,489</b>	<b>10,867,989</b>

3.1. Member responsibility for assets rests with the Cabinet member for Resources. The main governance and approval process for capital investment is summarised as follows:

- Council approve the overall revenue and capital budgets following recommendations from Cabinet. They also approve the borrowing limits of which the capital programme will need to remain within (*the Authorised limit*). This limit is a key performance indicator for treasury management and ensures that capital expenditure is limited and borrowing remains within an affordable limit.
- Any variation of the Authorised borrowing limit can only be approved by Council.
- Council approve the Treasury Management, Investment & Borrowing strategies, which are intrinsically linked to capital expenditure and the capital strategy.
- Service managers put forward proposals for any change or additional capital investment annually which are collated and scrutinised by senior finance teams, who consider the financing cost of the proposals. These are initially screened against the approved priority investment matrix, and a recommendation made to the strategic leadership team (SLT).
- SLT further consider the recommendations against the approved priority matrix and wider Council plans and strategies in place. Following review, SLT will make recommendation to Cabinet for inclusion in the capital budget and to be considered further by Cabinet and Council at final budget setting stage.
- Monitoring of capital expenditure is reported to Cabinet and includes updates on capital receipts and any consequential impact on the revenue budget of the scheme progress made.
- The 2026/27 and forward capital budgets include investment in schemes which attract significant match funding from external bodies which services will be responsible for bidding for. The agreed priority investment matrix listed below plays a key role in ensuring investment is properly aligned with the overall Community and Corporate Plan and wider strategic principles of the Council.

<b>Ref</b>	<b>Aspect</b>	<b>Indicative Rank</b>
------------	---------------	------------------------

<b>H&amp;S</b>	Health & safety works (life & limb works)	1
<b>Legal</b>	Legal & regulatory obligations	1
<b>Rev</b>	Allow a balanced revenue budget to be set, or a net deficit in revenue spending to be positively addressed	2
<b>Corp</b>	Deliver Community & corporate plan priorities	2
<b>Third</b>	Attract significant 3 <sup>rd</sup> party or private match funding to the County	3
<b>S2S</b>	Spend to save transformational works (including flexible use of capital receipts)	3
<b>INC</b>	Spend to earn net income – rents, interest and dividends	3
<b>Sust</b>	Create sustainable income streams – business rates and council tax	3
<b>AMP</b>	Asset management plan outcomes	4
<b>INF</b>	Addresses major infrastructure investment	4

- 3.2. The current capital MTFP does not cover all the capital budget pressures that have been identified. This shows that there is more demand for capital spending than the Council considers it can reasonably afford. This means that capital schemes will have to be ranked or the capital available has to be divided more widely than is ideal.
- 3.3. All stakeholders must understand that paying for capital spending by borrowing only pushes the cost to revenue budgets over future years, but at the same time if capital maintenance works are put off then the total lifetime costs of keeping an asset are likely to go up. This effect is often hidden in medium term financial planning as asset lives are much longer than four years.
- 3.4. There might be other calls for capital funding for schemes that are not yet included in the overall programme. Any new schemes that come forward during the year will either need to be paid for by specific funding sources or represent a call upon any available programme under spends. It is important that capital spending stays at a reasonable level within the framework agreed and, therefore, ranking of capital spending is essential and needs to be affordable and sustainable in the long-term.
- 3.5. Frequent reviews of previously approved schemes that have been delayed will be carried out to ensure that they are still affordable within set budgets. This is especially important in the current economic situation of high inflation and supply chain disruption.

## 4. Capital financing requirement

- 4.1. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

**Table 2: Capital financing**

<b>Financing source</b>	<b>Final Budget 2026/27</b>	<b>Indicative Budget 2027/28</b>	<b>Indicative Budget 2028/29</b>	<b>Indicative Budget 2029/30</b>
Debt	10,848,936	9,302,989	7,592,889	7,592,889
External sources	4,692,000	3,872,000	3,122,000	3,122,000
Capital Receipts	2,757,500	1,757,500	757,500	50,000
Reserves	197,655	103,000	103,000	103,000
<b>Total Funding</b>	<b>18,496,091</b>	<b>15,035,489</b>	<b>11,575,489</b>	<b>10,867,989</b>

- 4.2. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (capital receipts) may be used to replace debt finance.
- 4.3. The Council’s cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace the debt.
- 4.4. The table below provides the medium-term outlook for the Council’s CFR, inclusive of the impact of PFI arrangements. This is based on the indicative medium term capital programme and, therefore, does not reflect any potential additional borrowing beyond that already approved.

**Table 3: CFR and related MRP charges in £m**

	<b>2025/26 Forecast £m's</b>	<b>2026/27 Estimate £m's</b>	<b>2027/28 Estimate £m's</b>	<b>2028/29 Estimate £m's</b>	<b>2029/30 Estimate £m's</b>
Capital Financing Requirement	196.0	226.8	237.1	237.7	237.8
Minimum Revenue Provision	6.0	6.1	6.3	6.5	6.6

- 4.5. Delivery of the capital programme within planned timeframes has proved challenging to achieve, as evidenced by the significant levels of slippage incurred over recent financial years. Therefore, it is important to recognise the possibility that the actual CFR may be lower than estimated by the end of the 2026/27 financial year, and in turn reducing the actual need to undertake external borrowing.

- 4.6. It is important that capital expenditure plans are realistic, as otherwise this can result in unnecessarily committing revenue resources towards capital financing budgets, which in turn restricts alternative investment in achieving service delivery aspirations.

## 5. Revenue budget implications

- 5.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. These net annual charges are known as financing costs. The table below compares these financing costs to the net revenue stream i.e. the amount of income from Council Tax (MCC element), business rates and general government grants.

*Table 4: Proportion of financing costs to net revenue stream*

Proportion of financing Costs to net revenue stream	2025/26 Estimate £m's	2026/27 Estimate £m's	2027/28 Estimate £m's	2028/29 Estimate £m's	2029/30 Estimate £m's
Net Interest payable	6.8	7.0	7.3	7.3	7.3
MRP	6.0	6.1	6.3	6.5	6.6
Total Financing costs	12.8	13.2	13.6	13.8	13.9
Net Revenue Stream	214.5	229.7	234.4	239.5	244.7
Proportion of net revenue stream %	5.98%	5.74%	5.79%	5.76%	5.69%

- 5.2. The overall proportion of financing costs remains broadly stable over the MTFP window which is reflective of the total revenue stream increasing in line with expected inflationary impacts whilst the financing costs increase moderately in line further capital investment made.
- 5.3. **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years afterwards. The Section 151 officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because the financing costs have been spread over no more than, the lower of 50 years and the expected life of the resultant asset, so the assets will be paid for by the Council tax payers benefitting from them over the life of the assets. The financing costs for assets funded by debt are included in each annual revenue budget which is balanced before approval by Council.

## 6. Long term capital investment

### Purpose and Strategic Context

- 6.1. Capital expenditure enables the Council to deliver services by investing in long-term assets such as land, buildings, infrastructure and equipment. These assets underpin both statutory services (including schools, housing and libraries) and discretionary services (such as leisure facilities and museums) and therefore play a critical role in service delivery and community outcomes.

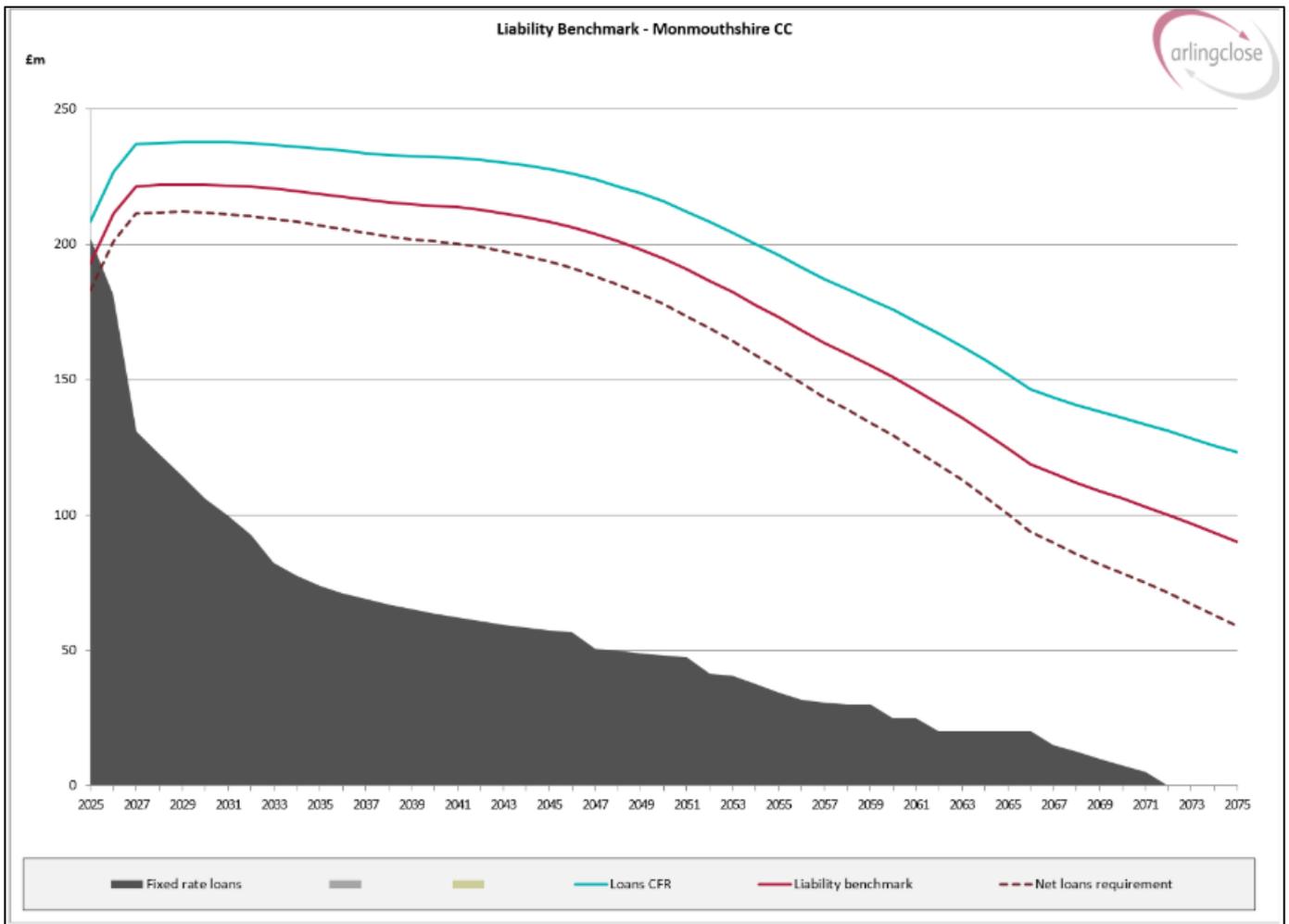
- 6.2. Given the breadth of services provided by the Council, capital investment decisions have wide ranging implications for both costs and income. Capital spending shapes the Council's asset base for decades and directly influences future revenue budgets. As a result, capital decisions must be taken within a clear strategic framework and with a long-term focus on affordability, sustainability and value for money.

### **Financing and Affordability**

- 6.3. Capital investment is typically associated with assets that have long useful lives, often extending beyond 50 years. How these assets are financed has a significant impact on the Council's financial sustainability. Where expenditure is financed through borrowing, long-term revenue commitments arise, most notably through the requirement to make annual Minimum Revenue Provision (MRP) charges.
- 6.4. Ongoing financial constraints mean that the Council's capacity to support capital investment through borrowing is expected to remain highly restricted over the long term. This significantly limits the Council's ability to fund both new investment and the resolution of existing maintenance backlogs, creating a challenging environment in which to deliver medium and long-term capital aspirations.

### **Long-Term Borrowing Outlook**

- 6.5. The liability benchmark illustrates the long-term impact of the current capital programme and projected borrowing over a 50 year period. In summary, it demonstrates:
- A short-term increase in the Capital Financing Requirement (CFR), reflecting delivery of the existing capital programme and the associated need for external borrowing;
  - A gradual reduction in overall CFR over the longer term, driven by assumed annual borrowing levels being lower than annual MRP charges;
  - A corresponding long-term reduction in the need for external borrowing; and
  - A requirement for further borrowing in the medium to long term to refinance maturing debt, even where capital expenditure levels reduce.



6.6. The modelling is indicative and for planning purposes only. Actual outcomes will be influenced by a range of factors, including the scale and deliverability of the capital programme, the availability of external funding and grants, the Council’s internal resources, and future MRP policy and treasury management strategy.

**Grant Funding uncertainty and planning constraints**

6.7. The timescales and structure of capital grant funding also present increasing challenges for councils in planning and delivering capital investment effectively. Since the pandemic, the timeframe between notification of funding and the requirement to approve balanced budgets has shortened significantly, reducing the time available to develop robust capital proposals and limiting opportunities for member scrutiny.

6.8. In addition, a significant proportion of capital funding is provided through restricted grants awarded on an annual basis, often confirmed late in the financial year and, in some cases, requiring expenditure within the same year. While such funding can increase overall investment, the short-notice nature of these awards can encourage a more reactive or opportunistic approach, making it harder to align projects with longer-term asset strategies and to maximise value for money.

- 6.9. Short-term and fragmented grant funding can also disrupt delivery of existing capital programmes, as resources must be diverted to develop bids and deliver new schemes at pace. This creates pressure on capacity, complicates integration with revenue planning, and can reduce the effectiveness, efficiency and economy of capital investment over the longer term. The Council therefore seeks, where possible, to plan prudently for grant funding uncertainty and to prioritise schemes that remain affordable and deliverable even where external funding assumptions change
- 6.10. In these circumstances, it is particularly important that the Council's capital programme is underpinned by clear aims and intended outcomes. The capital strategy provides a framework for balancing the competing demands of maintaining the existing asset base, investing in priority new infrastructure and supporting longer-term transformation objectives.
- 6.11. This clarity helps ensure that individual schemes, including those supported by short-term or restricted grant funding, can be assessed consistently, aligned with wider corporate and financial strategies, and prioritised in a way that maximises value for money across the Council area as a whole, while recognising the need for members to balance local and corporate priorities.

### **Ongoing Capital Programme Development**

- 6.12. In the context of constrained resources, it is essential that the Council maintains a clear understanding of its future capital priorities and risks. These are informed by a range of corporate plans and strategies, which set out long-term objectives such as decarbonisation, regeneration and the provision of affordable housing.
- 6.13. Alongside investment in new priorities, there is a continuing need to maintain the existing asset base. Historic funding constraints have contributed to the development of a maintenance backlog, increasing the risk of asset failure over time. While condition surveys and ongoing monitoring help to manage these risks, ageing assets will inevitably require increasing levels of investment to maintain fitness for purpose or to undertake major refurbishment.
- 6.14. Balancing capital investment with day-to-day revenue spending presents an ongoing challenge. Revenue expenditure can often provide more immediate responses to service pressures, whereas capital projects typically have longer lead-in times and extended delivery periods. This can make capital investment harder to prioritise in periods of acute service demand.
- 6.15. However, deferring capital investment can lead to higher costs in the longer term. Poor quality or outdated assets can drive increased maintenance expenditure, reduce service effectiveness and expose the Council to inflationary pressures in construction costs. In many cases, timely capital investment represents the more sustainable and cost effective option.
- 6.16. The capital programme therefore prioritises maintenance and refurbishment funding towards the highest risk assets, focusing on condition, criticality and health and safety considerations. In parallel, estate rationalisation, asset disposals, transfers and targeted refurbishment or replacement projects will be used to mitigate the scale of the backlog where this can be achieved in an affordable way. While this approach will not eliminate the backlog in full, it supports a risk based and proportionate response.

6.17. Looking ahead, additional priorities are likely to emerge over the medium to long term, including future phases of the Welsh Government's Sustainable Communities for Learning Programme and further regeneration initiatives. These schemes will require significant match funding and will need to be carefully assessed alongside other competing demands to ensure overall affordability and alignment with the Council's strategic objectives.

## 7. Capital disposals & receipts

7.1. The Council's [Asset Management Strategy](#) (AMS) sets out the strategic objectives for our land and property. The strategy sets out the way property will be managed and contribute to the policy objectives of the council. The Asset Management Strategy provides a clear vision of the future of property assets and management of their strategic performance.

7.2. Asset Management Strategy objectives:

- **A fit for purpose and collaborative estate** – providing assets necessary to deliver council services, in the right location, compliant and co-located where possible.
- **Be good role models for climate and nature practices** – manage our assets well, lowering our carbon footprint and promoting more sustainable practices.
- **Maximised and commercialised asset base** – generate more revenue and higher value outcomes (financial and non-financial) from sales of surplus assets.
- **Strengthen the enablement role of Landlord Services** – continue to support service objectives including job creation, tackling homelessness, constructing affordable homes, driving value for money.
- **Optimise social value from community assets** – support community assets equitably, transparently, and consistently.

7.3. MCC benefits from a diverse land and property portfolio that has delivered a commercial return over a number of years. There are over 1500 assets in MCC ownership which support different services and public needs.

7.4. In circumstances where property is deemed surplus to requirements and can be sold, the Disposal Strategy within the AMS provides the process by which this happens and considerations for doing so. To enable a consistent approach to the disposal of surplus land and property, the Disposal policy clarifies the circumstances within which the council will achieve its requirements for best consideration, whilst supporting the Council's objectives as per the Community & Corporate Plan and AMS.

7.5. The AMS acknowledges a need for assets to align to its five core objectives. In circumstances where properties are considered to not meet this criteria, have alternative development potential or can be rationalised to unlock capital receipts, the Council's Disposal Policy can be exercised to support the disposal of surplus assets.

- 7.6. When capital receipts are generated these can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts “flexibly” on service transformation projects under the Welsh Government flexible use of capital receipts policy. Repayments of capital grants, loans and investments also generate capital receipts.
- 7.7. The Council anticipates the following capital receipts in the forthcoming financial years:

**Table 5: Forecast Capital receipts**

	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000
Balance as at 1st April	6,083	4,627	4,430	3,474	2,819
Less: capital receipts used for financing	(289)	(367)	(50)	(50)	(50)
Less: capital receipts used to support capitalisation directive	(3,770)	(2,708)	(1,708)	(708)	0
Capital receipts for Redundancies	0	0	0	0	0
Capital receipts received	2,500	0	0	0	0
Capital receipts forecast	103	2,878	803	103	103
<b>Forecast Balance as at 31st March</b>	<b>4,627</b>	<b>4,430</b>	<b>3,474</b>	<b>2,819</b>	<b>2,871</b>

- 7.8. Further specific details of planned asset disposals are reported regularly to Cabinet Members.
- 7.9. The value of Capital receipts forecast after 2026/27 drops off quite considerably as the Council awaits the outcome of the replacement Local Development Plan.
- 7.10. Traditionally receipts have been earmarked to finance the Councils future schools investment. Whilst the Council has further future schools aspirations, it is not proposed to advocate a similar approach to members in respect of futures tranches of investment. Schools based assets commonly have a useful life of 50 years+, and as such traditional long term loan funding can be sourced at competitive rates with limited annual revenue volatility. The Council derives greater revenue benefit by using capital receipts in affording replacement of short life assets, given the avoidance of proportionately more significant minimum revenue provision.

## 8. Treasury management

- 8.1. The Treasury management strategy is developed in conjunction with the Capital strategy, each influencing the Council’s debt levels and investment decisions. Treasury management ensures the Council maintains enough cash to meet spending needs, balancing revenue surpluses against capital shortfalls to minimise borrowing and avoid unnecessary credit balances.
- 8.2. Currently, the Council favours internal borrowing, funding capital expenditure from available reserves and positive cash flows, rather than taking out new long-term loans. This approach reduces reliance on external borrowing and helps minimise investment counterparty risk when market rates remain volatile.

- 8.3. While internal borrowing lowers risk and costs in the short term, it carries exposure to future interest rate increases. The Council closely monitors market conditions to manage this risk and aims to achieve a low, predictable cost of finance, balancing short-term flexibility with the certainty of long-term borrowing rates.
- 8.4. The Council's treasury investment policy prioritises security and liquidity over maximising returns, with short-term funds invested securely and longer-term cash invested more broadly.
- 8.5. Further details on these policies and practices can be found in the adjoining Treasury Management Strategy document.

## 9. Investments for Service Purposes

- 9.1. The Council has historically incurred the majority of its capital expenditure on the assets required to provide its services such as schools, highways and corporate facilities.
- 9.2. However it may also invest in other entities for the wider economic and societal benefits of its communities or businesses. This may include making loans or taking an equity interest in local bodies or the Council's subsidiaries and joint ventures which in turn contribute to services to Monmouthshire residents. It may also include providing guarantees to other bodies.
- 9.3. In light of the public service objective, the Council traditionally is willing to take more risk on these investments than it would with more traditional treasury investments, which are more highly regulated, however any such arrangement should only be entered into if such investments are assessed to break even after all costs are taken into account or if the benefits of the scheme are considered to be worth the net cost.
- 9.4. Decisions on service related investments (e.g. vibrant homes loans afforded through WG repayable grant or economic development loans) can be made by the relevant service manager provided a 100% loss can be covered by the managers existing budgets. Should additional budget/funding be required in the event of a default, then before making the service expense/investment, the Section 151 officer is required to be consulted and where member approval is felt necessary that the details and risks involved presented to Cabinet for approval.
- 9.5. The criteria and limits laid down in the strategy for treasury Investments can be used as a comparator to measure risks against. Most loans and shares are capital expenditure and such decision requires approval of full Council to be added to the capital programme.
- 9.6. A list of investments for service purposes including loans and guarantees will be maintained by the Treasury team and they will be assessed at least annually and reported as part of the annual accounts and include Foster carer loans and Low cost home ownership equity interest.

## 10. Commercial Activities

- 10.1. Monmouthshire County Council adopted an Asset Investment Policy in May 2018, with a further amendment to the policy approved in February 2019, which afforded the authority the powers to acquire property to meet policy objectives. The commercial asset investment portfolio contains the strategic sites that are to generate a revenue return to MCC, and/or afford regenerative or social benefit via the ownership of strategic investments.
- 10.2. Total commercial investments held by the Council are currently valued at £28.4m:

**Table 6: Value of Commercial investments**

Asset	Value @ 01/04/2024	Movement	Value @ 31/03/2025
Castlegate Business Park	6,654,270	129,735	6,784,005
Castlegate Business Park - Service Charge	201,422	0	201,422
Newport Leisure Park	18,819,000	-3,203,000	15,616,000
Oak Grove Solar Farm	5,610,937	174,478	5,785,415
<b>Total</b>	<b>31,285,629</b>	<b>-2,898,787</b>	<b>28,386,842</b>

- 10.3. The ratio of commercial income compared to the Council's net revenue budget is around 1.2% and is considered prudent and proportionate, and is not considered to expose the Council to undue risk if any one income stream was compromised. To assist in managing this risk the Council holds reserves for its commercial investments that look to further mitigate the factors that may impact upon future income generation.

### **Governance**

- 10.4. The Council paused any further active consideration of commercial investments activity as a consequence of the pandemic and the resultant uncertainty in property and investment markets. No investments have been made subsequent to the strengthening of the Prudential code and confirmation has been provided on an annual basis to the DMO that no PWLB borrowing is intended for the purpose of acquiring investment assets primarily for the purposes of yield.
- 10.5. A residual capital budget of £1.78m is held to support any further capital investment required on existing investments, in order to maintain value and maximise return on investment.
- 10.6. As a result of the Council's risk appetite any further new investment will only be considered in order to support the core policy objectives contained within the Council's latest Community and Corporate Plan, and where deemed prudent, sustainable and affordable.
- 10.7. In terms of any future investment proposals, these can be considered in line with the Council's current constitution and decision-making processes through Council, Cabinet or otherwise.
- 10.8. The Investment Committee, as an existing sub-committee of Council, has been retained but put in abeyance. This therefore allows Council in future, and if it so wishes, to request the Investment Committee to preside over an investment proposal before making recommendation back to Council

for consideration. In such circumstances this will retain the cross-party scrutiny and consideration of any such investment proposals.

- 10.9. The Performance & Overview Scrutiny Committee now focuses on maintaining oversight and scrutiny of the performance of the Council's property investment portfolio on a six-monthly basis.
- 10.10. The Governance and Audit Committee looks to seek ongoing assurance on overall governance arrangements of the commercial and property investments as part of the Council's overall land and property portfolio.

## 11. Knowledge & skills

### **Internal expertise**

- 11.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Section 151 officer, deputy Section 151 officer, and Head of Commercial and Integrated Landlord Services are professionally qualified with extensive Local Government experience between them.
- 11.2. The central finance team who manage day-to-day cashflow activities and monitor capital investment activity consists of experienced qualified and part-qualified accountants who maintain Continuous Professional Development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and obtain relevant skills.

### **External expertise**

- 11.3. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors, and Alder King as property investment advisors. This approach is more cost effective than employing such staff directly and ensures that the Council has access to expert knowledge and skills commensurate with its risk appetite.

### **Members**

- 11.4. Training is offered to members to ensure they have up to date skills to make capital and treasury decisions. The most recent training was provided in November 2022, with a number of new members attending for the first time. A register is also kept on member attendance.

## 2026/27 Treasury Management Strategy

### 1. Economic background and financial context

- 1.1. **Economic background:** The most significant impacts on the Authority's treasury management strategy for 2026/27 are expected to include: the influence of the government's budget strategy, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.
- 1.2. In February 2026, the MPC held Bank Rate at 3.75%, but the more dovish tone accompanying the decision led markets to bring forward expectations of monetary easing. Four members voted for an immediate cut, and two of the holding majority indicated they may support a reduction soon, reflecting continued disinflation, rising unemployment and softening wage growth.
- 1.3. The February 2026 Monetary Policy Report indicates that UK economic growth remains subdued but stabilising, with the Bank of England projecting GDP to expand by around 1.4% in 2026, broadly consistent with the modest outlook signalled in earlier forecasts. Although recent data confirm only slight momentum in late-2025, the Bank notes that easing inflation, looser monetary conditions and gradually improving global demand should support a modest pickup in activity later in the year. Nevertheless, risks around domestic demand, higher taxes, and continued labour-market slack suggest that the recovery will remain fragile. This reinforces the overall picture of a slow-growth environment, in line with both Bank projections and other independent assessments of UK economic prospects.
- 1.4. CPI inflation was 3.4% in December 2025, slightly below expectations and continuing its downward trend. The Bank of England now anticipates inflation will fall more sharply than previously projected, reaching around 2.1% by Q2 2026, driven in part by lower energy prices and the impact of fiscal measures announced in Budget 2025. Wage and price pressures have continued to moderate, giving the MPC increased confidence that inflation is on track to return sustainably to the 2% target thereafter.
- 1.5. The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.

- 1.6. The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.
- 1.7. The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.
- 1.8. **Credit outlook:** Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump’s ‘Liberation Day’ tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly during October and November, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.
- 1.9. While lower interest rates may weigh on banks’ profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the authority’s treasury management advisor) Arlingclose’s counterparty list. Arlingclose’s advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.
- 1.10. **Interest rate forecast (December 2025):** Arlingclose, the Authority’s treasury management adviser, currently forecasts that the Bank of England’s Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18th December.
- 1.11. Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.
- 1.12. A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.
- 1.13. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 3.2%, and that new long-term loans will be borrowed at an average rate of 4.7%.

## 2. Local Context

2.1. On 31st December 2025, the Council held £182.8m of borrowing and £12.0m of treasury investments as demonstrated below:

**Table 1: Current debt and investment levels**

	<b>31st Dec 2024 Actual Portfolio £m's</b>	<b>Average Rate %</b>	<b>31st Dec 2025 Actual Portfolio £m's</b>	<b>Average Rate %</b>
<b>External borrowing:</b>				
Public Works Loan Board	135.8	3.52%	148.6	3.7%
LOBO loans from banks	0.0	0.0%	0.0	0.0%
Welsh Government Loans	4.7	0.0%	6.2	0.0%
Council to Council & other ST loans	44.0	5.06%	28.0	4.5%
<b>Total external borrowing</b>	<b>184.5</b>	<b>3.71%</b>	<b>182.8</b>	<b>3.69%</b>
<b>Treasury investments:</b>				
Banks & building societies (unsecured)	0.0	0.0%	2.0	3.60%
Government (incl. local Councils)	9.0	4.99%	3.0	4.35%
Money Market Funds	2.5	4.78%	3.0	4.17%
Strategic pooled funds	4.0	5.44%	4.0	5.48%
<b>Total treasury investments</b>	<b>15.5</b>	<b>5.03%</b>	<b>12.0</b>	<b>4.56%</b>
<b>Net debt</b>	<b>169.0</b>		<b>170.8</b>	

2.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.3. The Council has an increasing CFR due to the indicative capital programme, but minimal investments and will therefore be required to borrow additional sums over the longer term.

2.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The Authority expects to comply with this recommendation during 2026/27.

2.5. **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

2.6. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external

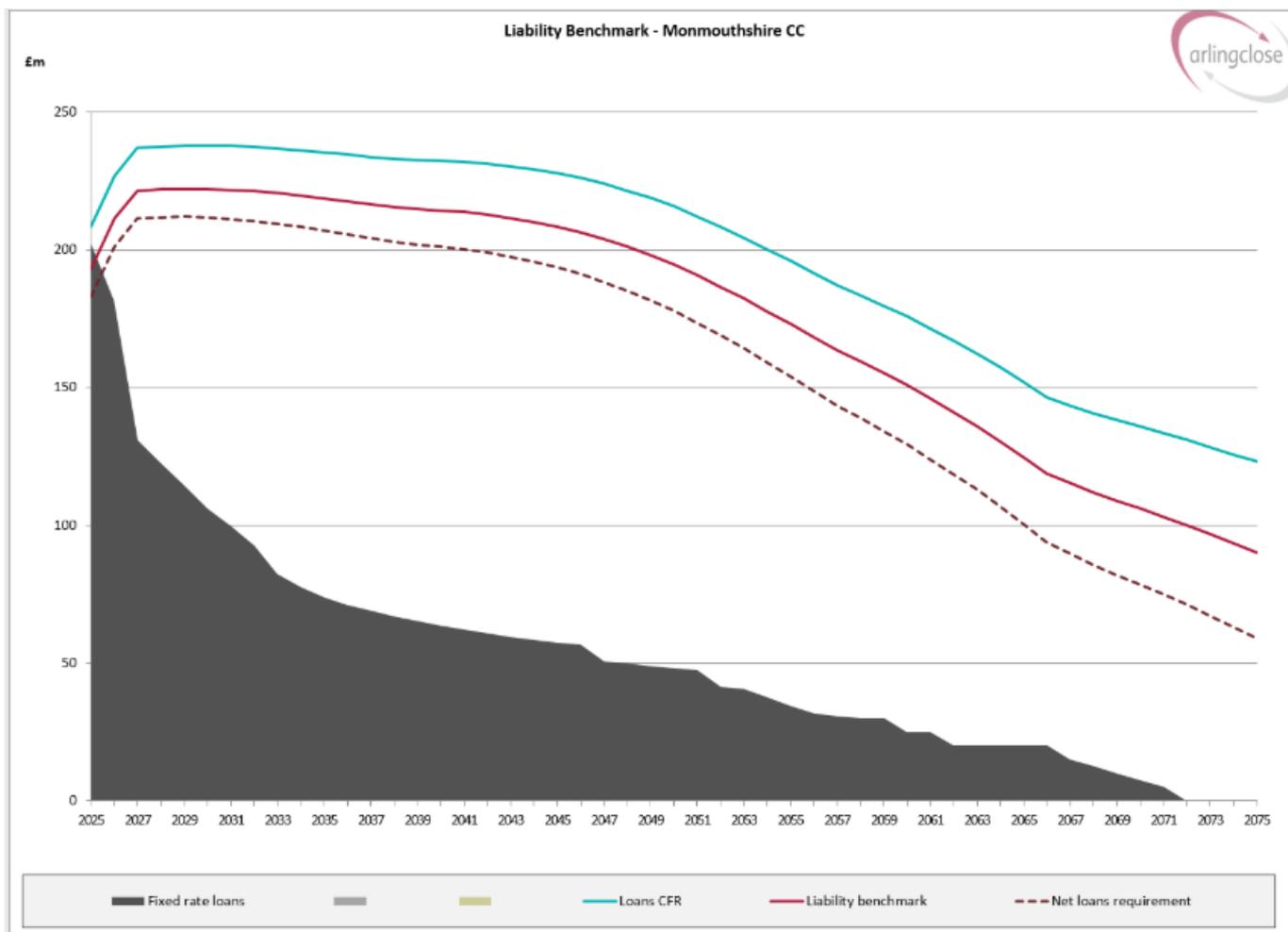
borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

**Table 2: Liability benchmark**

	<b>31.3.25 Actual £m</b>	<b>31.3.26 Forecast £m</b>	<b>31.3.27 Forecast £m</b>	<b>31.3.28 Forecast £m</b>	<b>31.3.29 Forecast £m</b>	<b>31.3.30 Forecast £m</b>
Loans CFR	196.0	226.8	237.1	237.5	237.7	237.8
Less: Balance sheet resources	(34.1)	(25.5)	(25.5)	(25.5)	(25.5)	(25.9)
<b>Net loans requirement</b>	<b>161.9</b>	<b>201.3</b>	<b>211.6</b>	<b>212.0</b>	<b>212.2</b>	<b>211.9</b>
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0	10.3
<b>Liability benchmark</b>	<b>171.9</b>	<b>211.3</b>	<b>221.6</b>	<b>222.0</b>	<b>222.2</b>	<b>222.2</b>
Current loan profile**	(202.3)	(182.1)	(131.8)	(123.5)	(115.3)	(106.8)
<b>Borrowing requirement</b>	<b>0.0</b>	<b>29.2</b>	<b>89.8</b>	<b>98.5</b>	<b>106.9</b>	<b>115.4</b>

\*\* shows only loans to which the Council is committed and excludes optional refinancing

2.7. The long-term liability benchmark assumes capital expenditure funded by borrowing is in line with the medium-term financial plan, minimum revenue provision on new capital expenditure is based on the annuity method, and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



- 2.8. The underlying need to borrow is shown by the top blue line and increases sharply over the short term due to the current approved capital programme. However, due to the use of reserves and working capital, the Council is expected to need total external borrowing between the full and dotted red lines. As the existing loans portfolio (shown in grey) reduce as loans mature, new loans will therefore be required to fill the gap between the grey area and the red lines over the longer term. The Council intends to maintain a level of short term loans which will partly fill this gap, but we will still need to take out longer term loans, mainly to fund the long-term capital investment built into the Capital MTFP.
- 2.9. The Council does not intend to borrow in advance of need and will not do so just to gain financially from short term investment of that borrowing. However, this option may be considered if it is felt that borrowing in advance allows opportunities to lock into favourable long-term rates as part of risk mitigation. This will be limited to no more than the expected increase in the Council's Capital Financing Requirement over its medium term financial plan.

### 3. Borrowing Strategy

- 3.1. The Council currently holds £182.8m of loans, a reduction of £1.7m compared to the previous year, as part of its strategy for funding previous years' capital programmes. The liability benchmark above

shows that the Council expects to take new loans of up to £89.8m in 2026/27 as existing loans mature and new capital investment is made. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

- 3.2. **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 3.3. **Strategy:** Given the constraints on public expenditure over recent years and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates have fallen over the past year, and are expected to fall a little further, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead.
- 3.4. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators, noted later in the strategy.
- 3.5. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.
- 3.6. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 3.7. The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local Councils, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local Councils planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 3.8. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 3.9. In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.
- 3.10. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
  - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
  - National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)

- any institution approved for investments (see below)
- any other bank or building society or insurance company authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Greater Gwent Pension Fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- CSC Foundry Ltd

**Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset based finance

- 3.11. **LOBOs:** The Council no longer holds LOBO (Lender’s Option Borrower’s Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.
- 3.12. **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).
- 3.13. **Debt rescheduling:** The PWLB allows Councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities.
- 3.14. **Authorised limit and Operational boundary:** The Council is legally obliged to approve an affordable borrowing limit (also termed the ‘authorised limit’ for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.
- 3.15. Based on the capital programme proposed, it is recommended that the Council approve the following authorised limits and operational boundaries. The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.
- 3.16. The operational boundary remains an internal management tool to monitor borrowing levels and exceeding the boundary would not represent a compliance failure.

**Table 3: Authorised limit and operational boundary for external debt in £m**

<b>Operational boundary and Authorised limit</b>	<b>2026/27 Estimate £m's</b>	<b>2027/28 Estimate £m's</b>	<b>2028/29 Estimate £m's</b>	<b>2029/30 Estimate £m's</b>
Operational Boundary - borrowing	255.5	259.3	262.0	262.5
PFI, leases & right of use assets/Headroom	17.8	17.8	17.8	17.8
<b>Operational Boundary - total external debt</b>	<b>273.3</b>	<b>277.1</b>	<b>279.8</b>	<b>280.3</b>
Authorised Limit – borrowing	270.9	274.7	277.4	277.9
PFI, leases & right of use assets/Headroom	18.8	18.8	18.8	18.8
<b>Authorised Limit - total external debt</b>	<b>289.7</b>	<b>293.5</b>	<b>296.2</b>	<b>296.7</b>

**Maturity structure of borrowing:** This indicator is set to control the Council’s exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

**Table 4: (Treasury management indicator) - Maturity structure of borrowing**

<b>Refinancing rate risk indicator</b>	<b>Upper limit</b>	<b>Lower limit</b>
Under 12 months	50%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	Cumulatively minimum 30%
10 years and within 20 years	30%	
20 years and within 30 years	30%	
30 years and within 40 years	30%	
40 years and within 50 years	30%	
50 years and above	30%	

## 4. Investment strategy

### Treasury Investment strategy

- 4.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the year to date, the Council’s treasury investment balance has ranged between £10.2m and £50.1m million. It is anticipated that the level of investments held in 2026/27 will remain at the lower end, as cash balances are used in lieu of external borrowing, in line with the authority’s internal borrowing strategy.
- 4.2. **Objectives:** Both the CIPFA Code and the WG Guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council’s objective when investing money is to strike an

appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

- 4.3. **Strategy:** As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds currently provides a degree of risk diversification into different sectors.
- 4.4. The CIPFA Code does not permit local Councils to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.
- 4.5. **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, and the UK Stewardship Code.
- 4.6. An updated list of signatories to both the charters is provided by the Authority's treasury advisors each quarter and will continue to be monitored. Any counterparties not meeting the criteria will be removed from the Authorities investment portfolio, with any existing funds to be disinvested at the earliest appropriate opportunity.
- 4.7. At this stage, ESG considerations inform counterparty selection rather than acting as a quantitative investment constraint. The Council will continue to engage with its advisors Arlingclose to evaluate its existing investments and assess whether a more sophisticated ESG policy can be applied. Governance and Audit Committee will be kept informed of progress through the regular reporting of treasury performance into committee.
- 4.8. **Business models:** Under the new IFRS 9 accounting standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 4.9. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown.

*Table 5: Treasury investment counterparties and limits*

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local Councils & other government entities	25 years	£4m	Unlimited
Secured investments *	5 years	£4m	75%
Banks (unsecured) *	13 months	£3m (£4m total for the Councils operational bank)	Unlimited
Building societies (unsecured) *	13 months	£2m	50%
Registered providers (e.g. Housing Associations (unsecured) *	5 years	£2m	50%
Money market funds *	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£5m	£10m
Real estate investment trusts	n/a	£5m	£10m
Covered or Supranational bonds	n/a	£5m	£10m
Other Investments*	13 months	£2m	£5m

\* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

**Uk Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Local authorities and other government entities:** Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

**Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments. A higher limit applies for investments fully secured on UK or other government collateral.

**Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

**Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Strategic pooled funds:** Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

**Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

**Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

**Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

4.10. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments

that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 4.11. **Reputational aspects:** The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.
- 4.12. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, or with other local Councils. This will cause investment returns to fall but will protect the principal sum invested.
- 4.13. **Investment limits:** The Council’s revenue reserves available to cover investment losses currently stand at £15.0m. In order that no more than a third of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
- 4.14. Limits are also placed on fund managers, investments in brokers’ nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**Table 6: Additional investment limits**

	<b>Cash limit</b>
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker’s nominee account	£5m per broker
Foreign countries	£4m per country

- 4.15. **Liquidity management:** The Council uses its own cash flow forecasting system to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council’s medium-term financial plan and cash flow forecast.
- 4.16. The Council will spread its liquid cash over at least two providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

**Treasury Management Indicators**

- 4.17. The Council measures and manages its exposures to treasury management risks using the following indicators.
- 4.18. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating / score	A-/5.0

- 4.19. **Long-term treasury management investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2025/26	2026/27	2027/28	No fixed date
Limit on principal invested beyond year end	£5m	£4m	£2m	£10m

- 4.20. Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

## 5. Other matters

- 5.1. The CIPFA Code requires the Council to include the following in its treasury management strategy:
- 5.2. **Financial derivatives:** Local Councils have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 24 of the Local Government and Elections (Wales) Act 2021 removes much of the uncertainty over local Councils' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 5.3. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 5.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance

for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

- 5.5. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 5.6. **External Funds:** The Council will from time to time hold fund on behalf of external organisations, companies or individuals. Unless a specific agreement is in place for the investment of the funds held, the Council will normally allocate interest returns based on a calculation of the average returns achieved from an overnight deposit rate with the Debt Management Office over the period held.
- 5.7. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council’s treasury management activities, the Section 151 officer or deputy believes this to be the most appropriate status.
- 5.8. **Government Guidance:** Further matters required by the WG Guidance are included in Section 6 below.

**Financial Implications**

- 5.9. The budget for investment income in 2026/27 is £804k, based on an average investment portfolio of £22m and existing pooled fund investments. Returns are expected to come from pooled fund investments, from shorter term investments with the Government, from secured/unsecured investments, or from Money Market Funds.
- 5.10. The budget for debt interest paid in 2026/27 is £7.85m, based on existing loans and assumed new borrowing at an average rate of 4.7%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

**Other Options Considered**

- 5.11. The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local Councils to adopt. The Section 151 officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater

Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## 6. Additional requirements of Welsh Government Investment Guidance

- 6.1. The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local Councils that are not integral to this Council's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.
- 6.2. **Contribution:** The Council's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:
- treasury management investments support effective treasury management activities,
  - loans to local organisations provide financial support to those organisations to enable them to deliver local public services that would otherwise be provided directly by the Council, and
  - investment property provides a net financial surplus that is reinvested into local public services and supports economic regeneration.
- 6.3. **Climate change:** The Authority's investment decisions consider long term climate risks to support a low carbon economy to the extent that the Council has invested in, as part of the overall capital programme, a number of energy efficiency related schemes, including LED lighting and Solar PV, as well as ultra-low emission vehicles. In addition, the newly constructed Abergavenny 3-19 school is designed to operate on a net carbon zero basis.
- 6.4. **Specified investments:** The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local Council,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local Council, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

6.5. The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of [A-] or higher.

6.6. **Loans:** The WG Guidance defines a loan as a written or oral agreement where the Council temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local Council.

6.7. The Council uses an allowed ‘expected credit loss’ model for loans and receivables as set out in *International Financial Reporting Standard 9 Financial Instruments* as adopted by proper practices to measure the credit risk of its loan portfolio. Appropriate consideration is given to state aid rules and competition law. The Council has appropriate credit control arrangements to recover overdue repayments in place.

6.8. **Non-specified investments:** Any financial investment not meeting the definition of a specified investment or a loan is classed as non-specified. Given the wide definition of a loan, this category only applies to units in pooled funds and shares in companies. Limits on non-specified investments are shown below; the Council confirms that its current non-specified investments remain within these limits.

**Table 7: Non-specified investment limits**

	<b>Cash limit</b>
Units in pooled funds without credit ratings or rated below [A-]	£10m
Shares in real estate investment trusts	£10m
Shares in local organisations	£5m
Total non-specified investments	£25m

6.9. **Non-financial investments:** This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. Security is determined by comparing each asset’s purchase price to its fair value using the model in International Accounting Standard 40: Investment Property as adapted by proper practices.

- 6.10. Based on current information, the Council's investment property portfolio does not currently provide sufficient security for capital investment since its fair value is below its purchase price. It should be noted however, that the Council has elected to make Minimum Revenue Provision (MRP) for commercial investments funded via prudential borrowing. This ensures that over the expected useful life of the assets, that sufficient overall provision is being made for the financing of the assets, and that the Council is not reliant on any future capital disposal value.
- 6.11. The Council continues to closely review options in respect of existing non-financial investments, including:
- Retaining assets and increasing net returns
  - Disposing of assets
  - Retaining assets for future capital gains
  - Maximising return on capital in another way
- 6.12. The Council consider that the scale of its commercial investments including property are proportionate to the resources of the Council since gross income from such investments represent around 1.2% of the overall net revenue budget stream.
- 6.13. **Liquidity:** The Council's liquidity management has been detailed in the main Treasury report with regard to treasury activities. Before supporting local entities or placing a commercial investment the impact on liquidity is fully addressed, most commonly by taking out loans of an appropriate maturity to ensure funds are available for the life of the activity.
- 6.14. Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council will follow its Investment strategy for Commercial assets which ensures that any borrowed capital will be repaid with annual income earned from the investment or that an exit strategy identified during the due diligence will be followed.
- 6.15. **Investment advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and use Alder King as advisers for Commercial Property management. The quality of these services is controlled by the Finance and Estates teams.
- 6.16. **Borrowing in advance of need:** Welsh Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority, after having regard to the guidance, will only borrow in advance of need as part of a strategy for reducing risk of future interest rate rises and would not undertake such activity purely in order to profit from an investment.
- 6.17. **Capacity and skills:** The Section 151 officer is responsible for ensuring that those elected members and statutory officers involved in the investment decision making process have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
  - assess individual investments in the context of the strategic objectives and risk profile of the local Council; and
  - understand how the quantum of these decisions have changed the overall risk exposure of the local Council.
- 6.18. Steps taken include relevant training for elected members and a minimum level of qualification for statutory officers, as well as ensuring continuing professional development, via attendance at relevant training courses. Officers will always take advice from its independent advisers regarding investment and borrowing activity.
- 6.19. **Commercial deals:** Any commercial deals that the Council would be involved in would involve statutory officers in those discussions and any final decisions. This ensures that the core principles of the prudential framework and the regulatory regime of the local authority is adhered to when making such decisions.
- 6.20. **Corporate Governance:** The Council has a clear corporate governance framework set out within its constitution, delegation framework and Annual Governance Statement. This ensures that decisions regarding investment are taken at the appropriate level. For example, the overarching treasury strategy and framework is approved by full Council. Operational decisions, such as day to day cashflow management, including borrowing, are delegated to the Section 151 officer or Deputy.

## 7. Advisors Economic & Interest Rate Forecast – December 2025

### Underlying assumptions:

- The Bank of England duly delivered on expectations for a December rate cut, but, despite softer economic data over the past two weeks, the minutes highlighted increased caution surrounding both the inflation outlook and the speed of future easing. With a close vote of 5-4 in favour of a rate reduction, this suggests that the bar for further monetary easing may be higher than previously thought despite the possibility of the CPI rate falling to target in 2026.
- Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. However, many policymakers appear concerned that household and business inflation and pricing expectations are proving sticky following recent bouts of high price and wage growth, which may allow underlying inflationary pressure to remain elevated. While, the Bank's measure of household expectations ticked lower in December, it remains above levels consistent with the 2% target at 3.5%.
- While policymakers hold valid concerns, these appear somewhat out of line with current conditions; CPI inflation fell to 3.2% in November, private sector wage growth continued to ease amid the highest unemployment rate since the pandemic, and the economy contracted in October after barely growing in Q3. Business surveys pointed to marginally stronger activity and pricing intentions in December but also suggested that the pre-Budget malaise was not temporary. These data are the latest in a trend suggesting challenging economic conditions are feeding into price and wage setting.

- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the minutes suggest that the bar to further rate cuts beyond 3.25% is higher and the near-term upside risks to our Bank Rate forecast have increased. Having said that, we believe inflation expectations will naturally decline alongside headline inflation rates.
- Investors appear to have given the UK government some breathing space following the Budget, with long-term yields continuing to trade at slightly lower levels than in late summer/early autumn. Even so, sustained heavy borrowing across advanced economies, the DMO's move towards issuing more short-dated gilts and lingering doubts about the government's fiscal plans will keep short to medium yields above the levels implied by interest rate expectations alone.

### Forecast:

- In line with our long-held forecast, Bank Rate was cut to 3.75% in December
- Continuing disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose expects Bank Rate to be cut to 3.25% by middle of 2026. However, near-term upside risks to the forecast have increased.
- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly and we expect yields to remain higher.

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
<b>Official Bank Rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.82	3.55	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.35	3.35	3.35
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.96	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.80
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>10yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>20yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.16	5.00	4.95	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.95	4.95	4.95
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
<b>50yr gilt yield</b>													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.74	4.65	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

UK Infrastructure Bank Rate = Gilt yield + 0.40%

## 8. MRP Policy Statement 2026/27

- 8.1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to Welsh Government's Guidance on Minimum Revenue Provision (the WG Guidance) most recently issued in 2018.
- 8.2. The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.
- 8.3. The WG Guidance requires the Council to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement only incorporates options recommended in the Guidance.
- 8.4. MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.
- 8.5. MRP options recommended in the Guidance include:

Option 1	For capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined in accordance with the former regulations that applied on 31st March 2008.
Option 2	For General Fund capital expenditure incurred before 1st April 2008, and for supported capital expenditure incurred on or after that date, MRP will be determined as 4% of the capital financing requirement in respect of that expenditure.
Option 3	For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
Option 4	For capital expenditure incurred after 31st March 2008, MRP will be determined as being equal to the accounting charge for depreciation and impairment on those assets (or parts of) continuing until the expenditure has been fully funded.

Option 5	Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.
Option 6	For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the WG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

*Note: This does not preclude other prudent methods.*

**MRP in 2026/27:**

8.6. The following MRP policy will be applied:

<b>Type of Expenditure</b>	<b>Option Applied</b>	<b>MRP Calculation</b>
Supported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money
Unsupported Borrowing funded Expenditure	Option 3	Calculated on an annuity basis over the expected useful life of an asset, whereby the MRP element increases over time to reflect a consistent charge over life of the assets taking into account the real value of money
Leases and PFI	Option 5	MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

Loans classed as capital expenditure	Option 6	As prescribed
--------------------------------------	----------	---------------

- 8.7. For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council may make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the WG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.
- 8.8. In all cases Capital expenditure incurred during 2026/27 will not be subject to an MRP charge until 2027/28. The 2026/27 budget proposals reflect these outlined positions.
- 8.9. In February 2026, Welsh Ministers issued supplementary guidance alongside amendments to the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, providing time-limited flexibility for the 2026/27 financial year only in relation to Minimum Revenue Provision (MRP). The amended regulations allow county and county borough councils to exercise discretion in that year to charge no MRP, charge a reduced amount, or continue to charge MRP in line with existing guidance, subject to the requirement that any amount charged must be considered prudent.
- 8.10. Where the Council chooses to apply this flexibility, Welsh Government guidance makes clear that any decision to reduce or defer MRP in 2026/27 must be temporary and fully unwound in future years. Any foregone or reduced provision must be reassessed annually and recovered over time, with Welsh Ministers recommending that any resulting adjustment is spread over a reasonable period and normally no longer than ten years, to avoid creating unsustainable future budget pressures. The guidance therefore reinforces that the flexibility is intended to support short-term financial management only and does not remove the Council’s long-term obligation to make prudent provision for the repayment of capital debt.
- 8.11. Any use of this flexibility by the Council would represent a material change to its established approach to MRP. Accordingly, the application of the discretion provided by the 2026 Regulations would require explicit approval by Full Council, through consideration and adoption of a revised MRP Policy Statement, in line with the governance requirements set out in the 2018 MRP guidance. No departure from the Council’s approved MRP methodology would be implemented without such approval being obtained.

## 9. Glossary of treasury terms

<b>Authorised Limit</b>	<p>The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh Councils) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Council and needs to be consistent with the Council's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.</p> <p>(see <b>also</b> <i>Operational Boundary</i>, below)</p>
<b>Balances and Reserves</b>	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
<b>Bail-in</b>	Refers to the process which the banking regulatory Councils will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local Council investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
<b>Bank Rate</b>	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
<b>Bond</b>	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
<b>Capital Expenditure</b>	Expenditure on the acquisition, creation or enhancement of capital assets
<b>Capital Financing Requirement (CFR)</b>	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local Council that has not been financed.
<b>Capital growth</b>	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
<b>Capital receipts</b>	Money obtained on the sale of a capital asset.
<b>CIPFA</b>	Chartered Institute of Public Finance and Accountancy

<b>Constant Net Asset Value (CNAV)</b>	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US\$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.
<b>Collective Investment Schemes</b>	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.
<b>Corporate Bonds</b>	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
<b>Corporate Bond Funds</b>	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
<b>CPI</b> <i>Also see RPI</i>	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
<b>Credit Default Swap (CDS)</b>	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
<b>Credit Rating</b>	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
<b>Cost of carry</b>	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
<b>Credit default swaps</b>	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
<b>Diversification / diversified exposure</b>	The spreading of investments among different types of assets or between markets in order to reduce risk.
<b>Derivatives</b>	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying

	investments. Derivatives may be traded on a regulated exchange or traded ‘over the counter’.
<b>ECB</b>	European Central Bank
<b>Federal Reserve</b>	The US central bank. (Often referred to as “the Fed”)
<b>Floating Rate Notes</b>	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
<b>GDP</b>	Gross domestic product – also termed as “growth” in the economy. The value of the national aggregate production of goods and services in the economy.
<b>General Fund</b>	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
<b>Gilts (UK Govt)</b>	Gilts are bonds issued by the UK Government. They take their name from ‘gilt-edged’: being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
<b>Housing Revenue Account (HRA)</b>	A ring-fenced account of all housing income and expenditure, required by statute
<b>IFRS</b>	International Financial Reporting Standards
<b>Income Distribution</b>	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a ‘dividend’
<b>Investments</b> - <b>Secured</b> - <b>unsecured</b>	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default  Unsecured investments do not have underlying collateral. Such investments made by local Councils with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
<b>Liability Benchmark</b>	Term in CIPFA’s Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).

<b>LOBOs</b>	LOBO stands for ‘Lender’s Option Borrower’s Option’. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility.
<b>LVNAV (Low Volatility Net Asset Value)</b>	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
<b>Maturity</b>	The date when an investment or borrowing is repaid.
<b>Maturity profile</b>	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
<b>MiFID II</b>	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
<b>Money Market Funds (MMF)</b>	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
<b>Minimum Revenue Provision</b>	An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
<b>Non-Specified Investments</b>	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Council Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
<b>Net Asset Value (NAV)</b>	A fund’s net asset value is calculated by taking the current value of the fund’s assets and subtracting its liabilities.
<b>Operational Boundary</b>	This is the limit set by the Council as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Council’s plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
<b>Permitted Investments</b>	Term used by Scottish Councils as those the Council has formally approved for use.

<b>Pooled funds</b>	See Collective Investment Schemes (above)
<b>Premiums and Discounts</b>	<p>In the context of local Council borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest.</p> <p>PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.</p> <p>*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.</p>
<b>Private Finance Initiative (PFI)</b>	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public Council.
<b>Prudential Code</b>	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local Council capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
<b>Prudential Indicators</b>	Indicators determined by the local Council to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between Councils.
<b>PWLB</b>	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local Councils and other prescribed bodies, and to collect the repayments.

<b>Quantitative Easing</b>	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It “does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”. Source: Bank of England
<b>Registered Provider of Social Housing</b>	Formerly known as Housing Association
<b>Revenue Expenditure</b>	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges
<b>RPI</b>	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
<b>SORP</b>	Statement of Recommended Practice for Accounting (Code of Practice on Local Council Accounting in the United Kingdom).
<b>Specified Investments</b>	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Council Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local Councils and bodies that have a high credit rating.
<b>Supported Borrowing</b>	Borrowing for which the costs are supported by the government or third party.
<b>Supranational Bonds</b>	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
<b>Treasury Management Code</b>	CIPFA’s Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in autumn 2011.
<b>Temporary Borrowing</b>	Borrowing to cover peaks and troughs of cash flow, not to fund spending.

<b>Term Deposits</b>	Deposits of cash with terms attached relating to maturity and rate of return (interest)
<b>Unsupported Borrowing</b>	Borrowing which is self-financed by the local Council. This is also sometimes referred to as Prudential Borrowing.
<b>Usable Reserves</b>	Resources available to finance future revenue and capital expenditure
<b>Variable Net Asset Value (VNAV)</b>	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
<b>Working Capital</b>	Timing differences between income/expenditure and receipts/payments
<b>Yield</b>	The measure of the return on an investment instrument