REPORT

SUBJECT:	**TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 1 2026/27**
MEETING:	**Governance & Audit Committee**
DATE:	**10 September 2026**
DIVISIONS/WARD AFFECTED:	**All**

1. **PURPOSE:**

1.1. The Prudential Code and CIPFA treasury guidance require local authorities to produce annually a Treasury Management Strategy Statement and Prudential Indicators on their likely financing and investment activity, and to ensure that the appropriate governance function that oversees the treasury management activities of the Authority is kept informed of activity quarterly.

1.2. The Authority's treasury management strategy for 2026/27 was approved by Council on 26th February 2026. Over the first quarter of the year the Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

1.3. This report represents the first update of treasury management activity during 2026/27.

2. **RECOMMENDATIONS:**

2.1. That Governance & Audit Committee considers the 2026/27 Treasury Management Outturn report, including performance against the approved Treasury Management Strategy and compliance with treasury limits and prudential indicators, in order to discharge its delegated scrutiny and assurance responsibilities on behalf of Council.

3. **KEY ISSUES:**

3.1. **Key data metrics at quarter end:**

Type	Metric	Q1 2526	Q2 2526	Q3 2526	Q4 2526	Q1 2627
External	Bank of England base rate	4.25%	4.00%	3.75%	3.75%	**3.75%**
External	UK Consumer Prices Index	3.6%	3.8%	3.4%	3.3%	**2.6%**
External	10-year UK gilt yield	4.49%	4.70%	4.48%	4.86%	**4.77%**
Internal	Borrowing	£208.2m	£179.2m	£182.8m	£197.6m	**£186.8m**
Internal	Borrowing Average rate	3.93%	3.72%	3.69%	3.77%	**3.93%**
Internal	Investments	£37.0m	£11.7m	£12.0m	£17.7m	**£19.7m**

Internal	Investment Average rate	4.40%	4.57%	4.56%	4.33%	**3.98%**
Internal	Credit score/rating	AA- / 4.50	AA-/ 4.44	AA- / 4.45	A+ / 4.51	**AA- / 4.15**

3.2. **Key messages:**

Treasury management activities undertaken during the first quarter of 2026/27 complied fully with the CIPFA code and the limits and indicators set out in the Authority's approved Treasury Management Strategy.
The Authority's average cost of borrowing increased slightly over the quarter from 3.77% at year end to 3.93% at the end of the quarter.
Cash balances increased over the quarter from £17.7m to £19.7m. During quarter 1, the Authority's investment balances ranged between £13.0m and £42.2m, reflecting the timing of income receipts and expenditure, and achieved an average return of 3.98% at quarter end.
Investments in externally managed pooled funds generated £65k of income during the year, equivalent to a 6.22% income return, together with a £150.6k unrealised capital gain. Accumulated unrealised capital losses over the lifetime of these pooled fund investments stand at £27.5k, for which the Authority maintains an adequate treasury risk reserve to mitigate against any future realisation.
The Authority continues to invest in a specific Environmental, Social and Governance (ESG) investment product and prioritises it where returns remain competitive. At 30 June 2026 this product returned 3.78% compared with an average rate of 3.88% for all Money Market Funds.

4. <u>ECONOMIC SUMMARY</u>

4.1. **Economic Overview:** The quarter was dominated by the escalation of the Middle East conflict, which disrupted global energy markets following strikes on Iran and the temporary closure of the Strait of Hormuz. This led to higher oil and gas prices and increased inflationary pressures, although energy prices eased later in the quarter as peace negotiations began. Despite these challenges, UK inflation fell from 3.3% in March to 2.8% in May, while core inflation also declined, suggesting that higher energy costs had not yet fed through broadly into the wider economy.

4.2. **UK Economic and Monetary Policy Developments:** Although the Bank of England had been expected to reduce Bank Rate from 3.75%, it kept rates unchanged throughout the quarter due to inflation remaining above its 2% target. The Monetary Policy Committee judged that a weakening economy and softer labour market conditions would help absorb the energy price shock without triggering sustained inflation. UK GDP grew by 0.6% in Q1 2026, but momentum weakened during the quarter, with falling business activity, softer employment conditions, lower vacancies and rising unemployment indicating slowing economic growth.

4.3. **Financial Markets and Credit Conditions:** Financial markets were volatile, with bond yields and equity prices initially reacting negatively to heightened geopolitical tensions before recovering as expectations of further interest rate rises diminished. UK gilt yields fluctuated significantly during the quarter, influenced by both monetary policy expectations and domestic political uncertainty. Credit conditions remained stable overall, with bank credit default swap (CDS) spreads rising briefly during the conflict before returning to pre-conflict levels. Credit rating upgrades by Fitch and Moody's strengthened the outlook for many banks, and Arlingclose maintained confidence in the creditworthiness of institutions on its counterparty list while continuing to monitor market volatility closely.

5. BORROWING ACTIVITY

Lender	31 Mar 2026 Balance £m	31 Mar 2026 Weighted Average Rate %	31 Mar 2026 Weighted Average Maturity (years)	Balance Movement	30 Jun 2026 Balance £m	30 Jun 2026 Weighted Average Rate %	30 Jun 2026 Weighted Average Maturity (years)
Public Works Loan Board	158.7	3.7	15.2	(11.5)	147.1	3.6	16.1
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Gov Interest Free	5.9	0.0	2.4	(0.2)	5.7	0.0	2.4
Local authorities /Other	33.0	4.7	0.1	1.0	34.0	4.1	0.6
Total borrowing	197.6	**3.77**	**12.3**	**(10.8)**	**186.8**	**3.6**	**12.8**

5.1. The Authority maintained its borrowing strategy focused on affordability and long-term debt stability, continuing to rely on internal borrowing where possible. Gilt yields remained volatile and ended the year up. Public Works Loan Board (PWLB) rates fluctuated across maturities, with 10-year loans ranging from 4.77% to 5.45%, and short-term borrowing costs from other local authorities broadly aligned with the Base Rate at 4.0% to 4.50%. The Authority's average short-term borrowing rate decreased slightly over the quarter, reflecting lower market rates.

5.2. As of 30th June 2026, the Authority's total borrowing stood at £186.8m, a decrease of £10.7m from 31st March 2026. The decrease in total borrowing reflects timing differences, as new temporary loans were drawn shortly before the maturity of the loans they were intended to replace.

5.3. The Authority continues to balance securing low interest costs with maintaining flexibility to adjust borrowing in line with evolving long-term plans, ensuring a prudent and responsive approach to debt management.

6. INVESTMENT ACTIVITY

6.1. During the first quarter, the Authority's investment balances ranged between £13.0m and £42.2m, reflecting timing differences between income receipts and expenditure.

Investment Type	31 Mar 2026 Balance £m	Net Movement £m	30 Jun 2026 Balance £m	30 Jun 2026 Income Return %	31 Mar 2026 Weighted Average Maturity Days
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	Average 3.76% (4.33% 25/26)	Up to 180 days
Government (incl. local authorities)	(3.0)	(6.0)	(9.0)		
Money Market Funds (MMFs)	(8.7)	4.0	(4.7)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	4.83% (5.39% 25/26)	N/A
Total investments	**(17.7)**	**(2.0)**	**(19.7)**	**3.98% (4.33% 25/26)**	

6.2. Bank Rate was held at 3.75% over the first quarter with short term interest rates largely being around this level. The rates on DMADF deposits ranged between 3.70% and 3.79% and money market rates between 3.60% and 3.90%.

6.3. **Externally Managed Pooled Funds:** £4m of the Authority's investments are invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and longer-term price stability.

6.4. These funds provide and important diversification for the Authority and generated £65k (6.22%) income return, together with a £150.6k (3.48%) unrealised capital gain over the year.

6.5. Accumulated unrealised capital loses over the lifetime of the investment stand at £27.5k. The Authority maintains an adequate treasury risk reserve to mitigate against the risk that capital losses on pooled funds become realised and consequently result in a charge against the Council Fund.

7. Environmental, Social and Governance

7.1. During the first quarter, the Council has continued to review its investment portfolio against two ESG charters that organisations can voluntarily sign up for to ensure that all are meeting minimum level of ESG responsibility.

7.2. The authority continues to hold an ESG specific Investment product. This fund aims to provide security of capital and liquidity while focussing on the performance of the underlying issuers on a range of environmental, social and governance.

7.3. At 31st March 2026, the Authority's ESG-specific Money Market Fund returned 3.78% compared to an average rate of 3.88% for all Money Market Funds.

8. NON-TREASURY INVESTMENTS:

8.1. The Authority held a net book value of £29.53m of such non-financial asset investments at the 31st March 2026 (£29.19m as at 31st March 2025) made up of:

	Budgeted (Surplus) / deficit 2026/27 £000's	Carrying Value 31 Mar 2026 £000's	Return 2026/27 %	Return 2024/25 %
Oak Grove Solar Farm	(347)	5,938	5.84	8.47
Newport Leisure Park & service loan	(332)	16,418	2.02	1.70
Castlegate Business Park	217	7,177	-3.02	-4.22
Total	**(462)**	**29,533**	**1.56**	**1.61**

8.2. At this early stage of the financial year, there is insufficient information to produce a reliable forecast of the 2026/27 performance of the Authority's non-treasury investments. Performance will continue to be monitored against the approved budgets and expected returns for Oak Grove Solar Farm, Newport Leisure Park and Castlegate Business Park.

8.3. A further update, including the latest forecast position where available, will be provided through the period 1 financial monitoring report. The period 1 financial monitoring report is due to progress through the committee cycle in late September and October 2026.

9. **Compliance with treasury limits and indicators**

9.1. The Section 151 officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.

10. **CONSULTEES**

Cabinet Member – Resources

Head of Finance

Deputy Chief Executive, Strategic Director Resources (Section 151 Officer)

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

11. **APPENDICIES**

Appendix 1 – 2026/27 Treasury Management Quarter 1 Report

12. **AUTHORS**

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