

REPORT

SUBJECT:	TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 1 2025/26
MEETING:	Governance & Audit Committee
DATE:	24th July 2025
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 2025/26 was approved by Council on 6th March 2025. 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 2025/26.

2. **RECOMMENDATIONS:**

That Governance & Audit committee review the results of treasury management activities and the performance achieved in quarter 1 as part of their delegated responsibility to provide scrutiny of treasury policy, strategy and activity on behalf of Council.

3. **KEY ISSUES:**

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

Type	Metric	Q1 2425	Q2 2425	Q3 2425	Q4 2425	Q1 2526
External	Bank of England base rate	5.25%	5.00%	4.75%	4.50%	4.25%
External	UK Consumer Prices Index	2.0%	1.7%	2.5%	2.6%	3.4%*
External	10-year UK gilt yield	4.29%	4.01%	4.57%	4.69%	4.29%
Internal	Borrowing	£177.7m	£175.3m	£184.5m	£202.3m	£208.2m
Internal	Borrowing Average rate	3.62%	3.60%	3.71%	3.90%	3.93%
Internal	Investments	£10.3m	£16.0m	£15.5m	£16.0m	£37.0m
Internal	Investment Average rate	5.30%	5.13%	5.03%	5.03%	4.40%
Internal	Credit score/rating	AA- / 4.3	AA- / 4.1	AA- / 3.95	A+ / 4.50	AA- / 4.50

*May 2025

3.2. Key messages:

Treasury management activities undertaken during the quarter complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.

The Authorities average cost of borrowing has increased marginally from 3.9% to 3.93% over the quarter, reflective of slightly increased UK Gilt yields.

Cash balances increased significantly over the quarter by £21.0m to £37.0m due to the front-loading of the Councils budgeted funding. During the quarter, the authority's investment balances ranged from between £14.5m and £48.0m.

Investments in externally managed pooled funds generated £16k (5.44%) income return, together with a £0.1k (-0.01%) unrealised capital loss during the first month of the year.

Unrealised capital losses over the lifetime of the investments stand at £378k, for which the Authority maintains a sufficient treasury risk reserve to mitigate against realisation.

The Authority continues to invest in a specific Environmental, Social and Governance (ESG) investment product and is prioritised for investment where returns remain competitive. During the quarter this product returned 4.17% compared to an average rate of 4.29% for all Money Market Funds.

Non-treasury investments, comprising the Authority's Solar farm and two strategic property assets, are budgeted to generate £453,000 (1.6%) in net income during the year.

4. **ECONOMIC SUMMARY**

- 4.1. **Economic Overview:** The quarter began with heightened financial market volatility following US President Donald Trump's announcement of broad trade tariffs, which impacted global equity and bond markets, including the UK. Although a subsequent 90-day pause on most tariffs helped stabilize markets somewhat, uncertainty remained a persistent theme. UK inflation rose notably, with headline CPI increasing from 2.6% in March to 3.4% in May, exceeding the Bank of England's 2% target. Core and services inflation also showed elevated levels, though slightly lower than the previous month.
- 4.2. **UK Economic and Monetary Policy Developments:** UK GDP grew by 0.7% in Q1 2025, marking a recovery from previous quarters of weaker performance. However, April's monthly data showed a contraction of 0.3%, suggesting a slowdown in Q2. Labour market indicators pointed to softening conditions, with slower earnings growth and rising unemployment. In response to economic signals, the Bank of England reduced the Bank Rate from 4.5% to 4.25% in May, with expectations of further cuts. The May Monetary Policy Report indicated that disinflationary pressures and excess supply could help bring inflation back to target over the medium term.
- 4.3. **Global Central Bank Actions and Market Sentiment:** Internationally, central banks responded to evolving economic conditions. The US Federal Reserve held rates steady for the fourth consecutive month despite revised forecasts indicating weaker growth and higher inflation. The European Central Bank cut its main refinancing rate to 2.0%, citing near-term trade uncertainties and potential economic softening. Financial markets showed signs of recovery after early declines, with bond yields and equity prices rebounding, although volatility persisted throughout the period.
- 4.4. **Credit Conditions and Outlook:** Credit conditions remained stable, with Arlingclose maintaining its recommended counterparty limits. Fitch upgraded NatWest Group's rating, while Moody's downgraded the US sovereign rating. Credit default swap (CDS) prices spiked in early April but

generally trended downward by quarter-end, remaining within acceptable limits. European and Canadian banks saw modest increases in CDS levels due to trade tensions. Looking ahead, financial market volatility is expected to continue, and credit indicators will be closely monitored to manage risk and maintain prudent investment strategies.

5. **BORROWING ACTIVITY**

	31.3.25 Balance £m	31.3.25 Weighted Average Rate %	31.3.25 Weighted Average Maturity (years)	Balance Movement	30.6.25 Balance £m	30.6.25 Weighted Average Rate %	31.3.25 Weighted Average Maturity (years)
Public Works Loan Board	145.5	3.7	17.0	2.2	147.7	3.7	16.6
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Govt Interest Free	6.7	0.0	2.7	(0.2)	6.5	0.0	2.6
Local Authorities / Other	50.0	5.3	0.4	4.0	54.0	5.1	0.4
Total borrowing	202.3	3.9	12.4	6.0	208.2	3.9	11.9

- 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 but ended the period slightly lower. Public Works Loan Board (PWLB) rates fluctuated across maturities, with 10-year loans ranging from 5.17% to 5.56%, and short-term borrowing costs from other local authorities broadly aligned with the Base Rate at 4.0% to 4.5%. The Authority's average short-term borrowing rate decreased slightly over the quarter, reflecting lower market rates.
- 5.2. As of 30th June 2025, the Authority's total borrowing stood at £208.2m, up £6.0m from the previous quarter, supporting capital programme funding. A small long-term PWLB loan was taken to replace short-term borrowing and enhance cost certainty. 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 quarter, the authority's investment balances ranged from between £14.5m and £48.0m due to timing differences between income and expenditure. The movement in investments during the year was:

	31.3.25 Balance	Net Movement	30.6.25 Balance	30.6.25 Income Return	30.6.25 Weighted Average Maturity Days
	£m	£m	£m	%	
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	Average 4.26%	Up to 180 days
Government (incl. local authorities)	(3.0)	(8.0)	(11.0)		
Money Market Funds (MMFs)	(7.0)	(13.0)	(20.0)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.54%	N/A
Total investments	(16.0)	(21.0)	(37.0)	4.40%	

- 6.2. Bank Rate reduced by 0.25% through the quarter to 4.25% with short term interest rates largely being around this level. The rates on DMADF deposits ranged between 4.2% and 4.45% and money market rates between 4.14% and 4.56%.
- 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 an important diversification for the Authority and generated £16k (5.44%) income return, together with a £0.1k (-0.01%) unrealised capital loss in first month of the year.
- 6.5. Accumulated unrealised capital losses over the lifetime of the investment stand at £378k. 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. Throughout the quarter the investment portfolio has been assessed against 3 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 30th June 2025 the Authorities ESG specific Money Market Fund returned 4.17% compared to an average rate of 4.29% for all Money Market Funds.

8. NON-TREASURY INVESTMENTS:

- 8.1. The authority continues to hold £28.19m of non-financial asset investments and their forecast performance can be seen in the table below:

	Budgeted (income) / loss 2025/26 £000's	Carrying Value 31.03.25 £000's	Budgeted return 2025/26	Net return 2024/25 %
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			%	
Oak Grove Solar Farm	(263)	5,785	4.55	5.25
Newport Leisure Park & service loan	(300)	15,616	1.92	1.41
Castlegate Business Park	111	6,784	-1.64	-7.56*
Total	(452)	28,185	1.60	1.06

* includes one-off provision for bad debt of £248k & £169k relating to service charges and business rates respectively. Net return excluding this write-off would be -1.42% (overall portfolio 1.52%)

- 8.2. The investment at Oak Grove Solar Farm continues to provide a substantial return on investment for the Council. Overall returns are expected to be slightly lower during 2025/26 which reflects the trend in market prices of the ability of the Council to export energy.
- 8.3. The investment at Newport leisure park continues to provide a net income stream for the Authority. This is budgeted to remain slightly lower than the expected 2% net ROI until negotiated rent free concessions end towards the end of 2025.
- 8.4. The investment at Castlegate Business Park is budgeting a net negative return on investment for 2025/26. Continued negotiations with interested parties are expected to further improve the net return over the medium term and the Council is actively working with its agents to fill any remaining space. The overall position continues to represent a significant improvement on the position since the anchor tenant vacated their space in Spring 2022.
- 8.5. A more detailed report on the performance of these investments is considered regularly by the Performance & Overview scrutiny committee.

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 (Acting Section 151 Officer)

Deputy Chief Executive, Chief Officer Resources

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

11. **APPENDICIES**

Appendix 1 – 2024/25 Treasury Management Outturn Quarter 1 Report

12. **AUTHORS**

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