

REPORT

SUBJECT:	TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 2 2025/26
MEETING:	Governance & Audit Committee
DATE:	27th November 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 half 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 second update of treasury management activity during 2025/26 following the Quarter 1 report being considered by this Committee on the 24th of July 2025.

2. **RECOMMENDATIONS:**

That Governance & Audit committee review the results of treasury management activities and the performance achieved in quarter 2 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	Q4 2425	Q1 2526	Q2 2526
External	Bank of England base rate	4.50%	4.25%	4.00%
External	UK Consumer Prices Index	2.6%	3.6%	3.8%
External	10-year UK gilt yield	4.69%	4.49%	4.70%
Internal	Borrowing	£202.3m	£208.2m	£179.2m
Internal	Borrowing Average rate	3.90%	3.93%	3.72%
Internal	Investments	£16.0m	£37.0m	£11.7m
Internal	Investment Average rate	5.03%	4.40%	4.57%
Internal	Credit score/rating	A+ / 4.50	AA-/ 4.50	AA- / 4.44

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 decreased marginally from 3.93% to 3.7% over the quarter, reflective of the maturity and replacement of temporary borrowing at a lower rate.

Cash balances decreased significantly over the quarter from £37.0m to £11.7m due to the maturity of temporary borrowing and subsequent unwinding of short-term investments. During the quarter, the authority's investment balances ranged from between £11.7m and £48.0m.

Investments in externally managed pooled funds generated £117k (5.32%) income return, together with a £160k (3.89%) unrealised capital gain during the first half of the year.

Unrealised capital losses over the lifetime of the investments stand at £227k, 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 3.96% compared to an average rate of 4.04% for all Money Market Funds.

Non-treasury investments, comprising the Authority's Solar farm and two strategic property assets, are budgeted to generate £533,000 (1.89%) in net income during the year.

4. ECONOMIC SUMMARY

- 4.1. **Economic Overview:** The first half of the year was marked by global trade tensions and domestic uncertainty, which influenced both equity and bond markets. UK government bond yields diverged from US yields, with medium and long-term gilt yields rising sharply from late June amid concerns over fiscal policy and speculation surrounding the autumn Budget. Inflation remained elevated, with headline CPI climbing from 2.6% in March to 3.8% in August, well above the Bank of England's 2% target, while core and services inflation showed mixed movements. GDP growth slowed from 0.7% in Q1 to 0.3% in Q2, and monthly data indicated a sluggish start to Q3.
- 4.2. **UK Economic and Monetary Policy Developments:** The Bank of England cut the Bank Rate twice during the period, from 4.5% to 4.0%, as the Monetary Policy Committee weighed upside inflation risks against weakening demand. The August Monetary Policy Report projected inflation to return to target by mid-2027, supported by spare capacity and prior tightening measures, while GDP is expected to remain weak in the near term. Arlingclose anticipates one further rate cut to 3.75% in 2025/26, with risks skewed to the downside due to subdued consumer sentiment and business confidence. Uncertainty around the autumn Budget adds further complexity to the outlook.
- 4.3. **Financial Markets and Credit Conditions** Market sentiment improved after early declines, but volatility persisted, particularly in UK gilts where yields fluctuated significantly. The 10-year gilt yield ended the period at 4.70%, while the 30-year reached its highest level in nearly three decades. Equity markets recovered earlier losses, reflecting cautious optimism despite ongoing uncertainty. Credit conditions remained broadly stable, with rating upgrades for several UK and international banks and CDS prices trending lower after an initial spike in April. Arlingclose continues to monitor credit risk closely, maintaining current counterparty limits and durations.

5. BORROWING ACTIVITY

	30.6.25 Balance £m	30.6.25 Weighted Average Rate %	30.6.25 Weighted Average Maturity (years)	Balance Movement	30.9.25 Balance £m	30.9.25 Weighted Average Rate %	30.9.25 Weighted Average Maturity (years)
Public Works Loan Board	147.7	3.7	16.6	(1.0)	146.7	3.7	16.4
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Govt Interest Free	6.5	0.0	2.6	0.0	6.5	0.0	2.3
Local Authorities / Other	54.0	5.1	0.4	(28.0)	26.0	4.9	0.5
Total borrowing	208.2	3.9	11.9	(29.0)	179.2	3.7	13.6

- 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 5.62%, and short-term borrowing costs from other local authorities broadly aligned with the Base Rate at 4.0% to 4.55%. The Authority's average short-term borrowing rate decreased slightly over the quarter, reflecting lower market rates.
- 5.2. As of 30th September 2025, the Authority's total borrowing stood at £179.2m, down £29.0m from the previous quarter. This was largely due to the maturity of short-term loans and generally in line with the receipt of higher amounts of income in the first half of the financial year prior to the levels of expenditure increasing as the year progresses.
- 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 quarter, the authority's investment balances ranged from between £11.7m and £48.0m due to timing differences between income and expenditure. The movement in investments during the year was:

	30.6.25 Balance £m	Net Movement £m	30.9.25 Balance £m	30.9.25 Income Return %	30.9.25 Weighted Average Maturity Days
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	Average 4.18%	Up to 180 days
Government (incl. local authorities)	(11.0)	8.0	(3.0)		

Money Market Funds (MMFs)	(20.0)	17.4	(2.7)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.32%	N/A
Total investments	(37.0)	25.4	(11.7)	4.57%	

- 6.2. Bank Rate reduced by 0.25% through the quarter to 4.00% with short term interest rates largely being around this level. The rates on DMADF deposits ranged between 3.95% and 4.20% and money market rates between 3.93% and 4.33%.
- 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 £117k (5.32%) income return, together with a £160k (3.89%) unrealised capital gain in first month of the year.
- 6.5. Accumulated unrealised capital losses over the lifetime of the investment stand at £227k. 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. One of the charters, the Net Zero Asset Managers (NZAM) initiative has recently suspended its activity and removed its list of signatories. As such it will no longer be considered when assessing potential investments.
- 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 September 2025 the Authorities ESG specific Money Market Fund returned 3.96% compared to an average rate of 4.04% 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:

	Forecast (income) / loss 2025/26 £000's	Carrying Value 31.03.25 £000's	Forecast return 2025/26 %	Net return 2024/25 %
Oak Grove Solar Farm	(465)	5,785	8.04	5.25
Newport Leisure Park & service loan	(275)	15,616	1.76	1.41
Castlegate Business Park	207	6,784	-3.05	-7.56*
Total	(533)	28,185	1.89	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 periodically 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

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

Arlingclose Limited – External Treasury management advisors to Monmouthshire CC

11. **APPENDICIES**

Appendix 1 – 2025/26 Treasury Management Outturn Quarter 2 Report

12. **AUTHORS**

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