cyngor monmouthshire county council sir fynwy

REPORT

SUBJECT:	**TREASURY MANAGEMENT ACTIVITY UPDATE - QUARTER 3 2025/26**
MEETING:	**Governance & Audit Committee**
DATE:	**28th January 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 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 third update of treasury management activity during 2025/26 following the Quarter 1 report being considered by this Committee on the 24th of July 2025 and Quarter 2 on the 27th of November.

2. **RECOMMENDATIONS:**

That Governance & Audit committee review the results of treasury management activities and the performance achieved in quarter 3 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	Q3 2526
External	Bank of England base rate	4.50%	4.25%	4.00%	**3.75%**
External	UK Consumer Prices Index	2.6%	3.6%	3.8%	**3.2%**
External	10-year UK gilt yield	4.69%	4.49%	4.70%	**4.48%**
Internal	Borrowing	£202.3m	£208.2m	£179.2m	**£182.8m**
Internal	Borrowing Average rate	3.90%	3.93%	3.72%	**3.69%**
Internal	Investments	£16.0m	£37.0m	£11.7m	**£12.0m**
Internal	Investment Average rate	5.03%	4.40%	4.57%	**4.56%**
Internal	Credit score/rating	A+ / 4.50	AA-/ 4.50	AA- / 4.44	**AA- / 4.45**

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 3.72% to 3.69% over the quarter, reflective of the maturity and replacement of temporary borrowing at a lower rate.
Cash balances increased marginally over the quarter from £11.7m to £12.0m. During the quarter, the authority’s investment balances ranged from between £11.7m and £34.0m.
Investments in externally managed pooled funds have generated £169k (5.48%) income return, together with a £247k (5.99%) unrealised capital gain during the year. **Unrealised capital losses over the lifetime of the investments stand at £141k, 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 3.80% compared to an average rate of 3.88% for all Money Market Funds.
Non-treasury investments, comprising the Authority’s Solar farm and two strategic property assets, are forecast to generate £562k (1.99%) in net income during the year.

4. <u>ECONOMIC SUMMARY</u>

4.1. **Economic Overview:** The early part of the year was marked by volatility in global markets, driven by US trade tariffs that negatively impacted equities and bonds. While equity markets recovered somewhat in the second quarter, a divergence emerged between US and UK government bond yields. UK yields remained elevated as investors demanded higher term premia amid heightened uncertainty around the UK’s fiscal and economic outlook. Later in the period, global monetary policy trends showed the US Federal Reserve continuing to cut rates, while the European Central Bank held its key rates steady, citing inflation near target and moderate euro area growth despite geopolitical risks.

4.2. **UK Economic and Monetary Policy Developments:** Domestically, the UK economy showed signs of slowing, with GDP growth easing from 0.7% in Q1 to 0.1% in Q3 and a slight contraction in October. Inflation moderated faster than expected, with CPI falling to 3.2% in November, though still above the Bank of England’s target. Labour market conditions softened as unemployment rose to 5.1% and vacancies declined. Against this backdrop, the Bank of England cut Bank Rate to 3.75% in December, with further reductions anticipated in 2026 amid concerns over weak growth. The Autumn Budget was more muted than expected, easing fears of higher borrowing, while forecasts from the BoE and OBR pointed to modest GDP growth and a gradual decline in inflation over the medium term.

4.3. **Financial Markets and Credit Conditions** Financial markets recovered from the April sell-off, with equities continuing to rise despite concerns over an AI-driven market bubble and concentration in US and global stocks. UK gilt yields experienced notable volatility, with the 10-year yield ranging between 4.39% and 4.82% before ending the period at 4.48%, while the 20-year gilt moved between 5.05% and 5.55%, closing at 5.11%. SONIA averaged 4.10% over the nine months. Credit conditions remained broadly stable, though rating agencies made several adjustments: Fitch upgraded NatWest and Clydesdale Bank, while Moody’s downgraded US sovereign debt to Aa1. UK credit default swap prices spiked in April following US tariff announcements but trended lower through year-end, remaining within acceptable limits. Market volatility is expected to persist, and credit risk indicators will continue to be closely monitored.

5. BORROWING ACTIVITY

	30.9.25 Balance £m	30.9.25 Weighted Average Rate %	30.9.25 Weighted Average Maturity (years)	Balance Movement	31.12.25 Balance £m	31.12.25 Weighted Average Rate %	31.12.25 Weighted Average Maturity (years)
Public Works Loan Board	146.7	3.7	16.4	1.9	148.6	3.7	16.3
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Govt Interest Free	6.5	0.0	2.3	(0.3)	6.2	0.0	2.3
Local Authorities / Other	26.0	4.9	0.5	2.0	28.0	4.5	0.4
Total borrowing	**179.2**	**3.72**	**13.6**	**3.6**	**182.8**	**3.69**	**13.3**

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 4.50%. The Authority's average short-term borrowing rate decreased slightly over the quarter, reflecting lower market rates.

5.2. As of 31st December 2025, the Authority's total borrowing stood at £182.8m, up £3.6m from the previous quarter. The slight increase 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 quarter, the authority's investment balances ranged from between £11.0m and £48.0m due to timing differences between income and expenditure. The movement in investments during the year was:

	30.9.25 Balance £m	Net Movement £m	31.12.25 Balance £m	31.12.25 Income Return %	31.12.25 Weighted Average Maturity Days
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	Average 4.11%	Up to 180 days
Government (incl. local authorities	(3.0)	0.0	(3.0)		
Money Market Funds (MMFs)	(2.7)	(0.4)	(3.0)		

Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.48%	N/A
Total investments	**(11.7)**	**(0.4)**	**(12.0)**	**4.56%**	

6.2. Bank Rate reduced by 0.25% through the quarter to 3.75% with short term interest rates largely being around this level. The rates on DMADF deposits ranged between 3.70% and 4.20% and money market rates between 3.77% 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 and important diversification for the Authority and generated £169k (5.48%) income return, together with a £247k (5.99%) unrealised capital gain in first month of the year.

6.5. Accumulated unrealised capital loses over the lifetime of the investment stand at £141k. 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 half of the year, the Council reviewed its investment portfolio against three voluntary ESG charters. Notably, the Net Zero Asset Managers (NZAM) initiative has suspended its activities and revised its commitment statement, removing binding requirements and reducing transparency for investors. In response the Council decided to no longer use NZAM as a formal criterion when assessing potential investments, while continuing to monitor future developments.

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 December 2025 the Authorities ESG specific Money Market Fund returned 3.80% compared to an average rate of 3.88% 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 (surplus) / deficit 2025/26 £000's	Carrying Value 31.03.25 £000's	Forecast Return 2025/26 %	Net return 2024/25 %
Oak Grove Solar Farm	(474)	5,785	8.19	5.25
Newport Leisure Park & service loan	(295)	15,616	1.89	1.41
Castlegate Business Park	207	6,784	-3.05	-7.56*
Total	**(562)**	**28,185**	**1.99**	**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 will be higher during 2025/26 which reflects favourable weather conditions and 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 3 Report

12. AUTHORS

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