CYNGOR
monmouthshire
COUNTY COUNCIL
sir fynwy

REPORT

SUBJECT:	**2025/26 TREASURY MANAGEMENT OUTTURN REPORT**
MEETING:	**Governance & Audit Committee**
DATE:	**4 June 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. This report presents the 2025/26 Treasury Management Outturn and year-end prudential indicator position and is brought to the committee to enable it to discharge its delegated role in scrutinising treasury management activity, including performance against the approved strategy and compliance with prudential limits and indicators.

2. **RECOMMENDATIONS:**

2.1. That Governance & Audit Committee considers the 2025/26 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	Q4 2425	Q1 2526	Q2 2526	Q3 2526	Q4 2526
External	Bank of England base rate	4.50%	4.25%	4.00%	3.75%	**3.75%**
External	UK Consumer Prices Index	2.6%	3.6%	3.8%	3.2%	**3.2%**
External	10-year UK gilt yield	4.69%	4.49%	4.70%	4.48%	**4.86%**
Internal	Borrowing	£202.3m	£208.2m	£179.2m	£182.8m	**£197.6m**
Internal	Borrowing Average rate	3.90%	3.93%	3.72%	3.69%	**3.77%**
Internal	Investments	£16.0m	£37.0m	£11.7m	£12.0m	**£17.7m**
Internal	Investment Average rate	5.17%	4.40%	4.57%	4.56%	**4.33%**
Internal	Credit score/rating	A+ / 4.50	AA-/ 4.50	AA- / 4.44	AA- / 4.45	**A+ / 4.51**

3.2. **Key messages:**

Treasury management activities undertaken during 2025/26 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 full year from 3.72% at quarter 2 to 3.77% at year end, while remaining below the 3.90% position reported at 31 March 2025.
Cash balances increased over the quarter from £12.0m to £17.7m. During 2025/26, the Authority's investment balances ranged between £11.0m and £48.0m, reflecting the timing of income receipts and expenditure, and achieved an average return of 4.33% at year end.
Investments in externally managed pooled funds generated £222k of income during the year, equivalent to a 5.39% income return, together with a £209k unrealised capital gain. Accumulated unrealised capital losses over the lifetime of these pooled fund investments stand at £178k, 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 31 March 2026 this product returned 3.68% compared with an average rate of 3.77% for all Money Market Funds.
Non-treasury investments, comprising the Authority's Solar Farm and two strategic property assets, generated a net surplus of £454k in 2025/26 and an overall return of 1.61%.

4. ECONOMIC SUMMARY

4.1. **Economic Overview:** The financial year was characterised by heightened uncertainty and volatility, driven primarily by two major geopolitical events: the US trade tariff measures introduced in April 2025 and the outbreak of conflict between the US/Israel and Iran in February 2026. Following the initial market disruption from trade tariffs, global conditions stabilised somewhat, with equity markets recovering and bond yields easing; however, in the UK, gilt yields later rose due to concerns over the fiscal outlook and the autumn Budget, as investors demanded higher returns. The Budget itself proved less severe than anticipated, supporting improved market sentiment, with falling gilt yields, easing inflation, and increasing expectations of Bank of England rate cuts. Toward the end of the period, the escalation of conflict in the Middle East led to sharp increases in oil and commodity prices due to disrupted supply routes, leaving the global economic outlook highly uncertain, particularly in relation to inflation and future fiscal and monetary policy responses

4.2. **UK Economic and Monetary Policy Developments:** UK economic conditions remained subdued, with inflation moderating prior to the outbreak of conflict, as CPI held at 3.0% in February 2026 and was expected to fall toward the Bank of England's 2% target; however, the escalation of war has introduced renewed upward pressure on inflation, driven by higher commodity prices and increased uncertainty. Economic growth remained weak, with marginal GDP expansion through 2025 and no growth recorded in January 2026, while labour market conditions showed ongoing softness, with rising unemployment and limited wage pressure. Against this backdrop, the Bank of England adopted a cautious stance, holding Bank Rate at 3.75% in early 2026 after a prior cut, as policymakers weighed risks to both inflation and growth. While markets had initially anticipated further rate reductions, the conflict shifted expectations toward potential rate increases, with the outlook for monetary policy now highly uncertain; in the near term, there is a risk of tighter policy to contain inflation, while over the medium term, weaker growth could prompt more significant easing.

4.3. **Financial Markets and Credit Conditions:** Financial markets experienced significant volatility throughout the year, initially declining sharply following the announcement of US tariffs before partially recovering, only to weaken again amid the escalation of the US/Israel conflict with Iran. This latter event drove a sharp fall in equity markets— with the FTSE 100 and 250 both declining by around 10% over the final month—while bond yields rose as inflation concerns linked to higher oil and commodity prices outweighed typical safe-haven demand. Gilt yields were notably volatile, with the 10-year yield fluctuating widely before ending slightly higher over the year, and similar movements observed across longer maturities, while SONIA averaged 4.01%. From a credit perspective, counterparty limits remained broadly conservative, and despite several ratings upgrades across major banks and institutions by Fitch, Moody’s, and S&P, there were some notable downgrades, reflecting a mixed but broadly resilient credit environment.

5. BORROWING ACTIVITY

Lender	31 Mar 2025 Balance £m	31 Mar 2025 Weighted Average Rate %	31 Mar 2025 Weighted Average Maturity (years)	Balance Movement	31 Mar 2026 Balance £m	31 Mar 2026 Weighted Average Rate %	31 Mar 2026 Weighted Average Maturity (years)
Public Works Loan Board	145.5	3.7	17.0	13.2	158.7	3.7	15.2
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Gov Interest Free	6.7	0.0	2.7	(0.8)	5.9	0.0	2.4
Local authorities /Other	50.0	5.3	0.4	(17.0)	33.0	4.7	0.1
Total borrowing	**202.3**	**3.9**	**12.4**	**(4.6)**	**197.6**	**3.77**	**12.3**

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 and ended the year up. Public Works Loan Board (PWLB) rates fluctuated across maturities, with 10-year loans ranging from 5.13% to 5.88%, and short-term borrowing costs from other local authorities broadly aligned with the Base Rate at 3.0% 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 March 2026, the Authority's total borrowing stood at £197.6m, a decrease of £4.6m year-on-year. The slight 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 final quarter, the Authority's investment balances ranged between £12.0m and £37.0m, reflecting timing differences between income receipts and expenditure. Over the full financial year, balances fluctuated between £11.0m and £48.0m. The movement in investments throughout the year is summarised below:

Investment Type	31 Mar 2025 Balance £m	Net Movement £m	31 Mar 2026 Balance £m	31 Mar 2026 Income Return %	31 Mar 2026 Weighted Average Maturity Days
Banks & building societies (unsecured)	(2.0)	0.0	(2.0)	Average 4.02% (5.09% 24/25)	Up to 180 days
Government (incl. local authorities)	(3.0)	0.0	(3.0)		
Money Market Funds (MMFs)	(7.0)	(1.7)	(8.7)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.39% (5.42% 24/25)	N/A
Total investments	**(16.0)**	**(1.7)**	**(17.7)**	**4.33% (5.17% 24/25)**	

6.2. Bank Rate reduced by 0.75% over the year to 3.75% with short term interest rates largely being around this level. The rates on DMADF deposits ranged between 3.70% and 4.45% and money market rates between 3.67% and 4.27%.

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 £222k (5.39%) income return, together with a £209k (5.08%) unrealised capital gain over the year.

6.5. Accumulated unrealised capital loses over the lifetime of the investment stand at £178k. 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. During the year, 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 March 2026, the Authority's ESG-specific Money Market Fund returned 3.68% compared to an average rate of 3.77% for all Money Market Funds.

8. NON-TREASURY INVESTMENTS:

8.1. The Authority held a net book value of £28.19m of such non-financial asset investments at the 31st March 2025 (£31.1m as at 31st March 2024) made up of:

	(Surplus) / deficit 2025/26 £000's	Carrying Value 31 Mar 2026 £000's	Return 2025/26 %	Return 2024/25 %
Oak Grove Solar Farm	(474)	5,785	8.47	5.25
Newport Leisure Park & service loan	(266)	15,616	1.70	1.41
Castlegate Business Park	286	6,784	-4.22	-7.56
Total	**(454)**	**28,185**	**1.61**	**1.06**

8.2. The investment at Oak Grove Solar Farm continues to provide a substantial return on investment for the Council. Overall returns were higher during 2025/26, reflective of favourable weather conditions and the ability of the Council to export energy.

8.3. The investment at Newport Leisure Park continues to provide a diversified income stream for the Authority and delivered a net return of 1.7% in 2025/26. While this remains marginally below the original 2% net ROI target, performance remains broadly consistent with the April 2026 commercial update report to P&O committee, which identified the asset as continuing to generate a strong net return, with the final vacant unit under offer and forecast performance improving further in 2026/27.

8.4. The investment at Castlegate Business Park delivered a net negative return of -4.22% in 2025/26. While this reflects the continuing financial impact of voids, business rates and site-specific pressures, the asset has a broader strategic purpose than income generation alone, supporting employment and economic development within the county. This remains consistent with the April 2026 commercial update report, which noted improved letting activity, continued occupation by a range of businesses, and active steps to improve medium-term performance through re-letting vacant space and ongoing negotiations with occupiers

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 Report

12. AUTHORS

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