

<b>Meeting of:</b>	<b>CABINET</b>
<b>Date of Meeting:</b>	<b>23 SEPTEMBER 2025</b>
<b>Report Title:</b>	<b>TREASURY MANAGEMENT QUARTER 1 REPORT 2025-26</b>
<b>Report Owner / Corporate Director:</b>	<b>CHIEF OFFICER – FINANCE, HOUSING AND CHANGE</b>
<b>Responsible Officer:</b>	<b>NIGEL SMITH GROUP MANAGER – CHIEF ACCOUNTANT</b>
<b>Policy Framework and Procedure Rules:</b>	<p>Para 22.5 Financial Procedure Rules require that the Chief Finance Officer shall report quarterly to the Cabinet, summarising borrowing and investment activity and indicating compliance with any statutory or Council approved guidelines together with a half yearly and an annual report to Council.</p>
<b>Executive Summary:</b>	<p>The report provides an update of Treasury Management activity for the quarter 1 period 2025-26, to 30 June 2025.</p> <p>As at 30 June 2025 the Council had £96.29 million of long term debt, £2.32 million of Salix loans (interest free), £14.58 million of other long term liabilities and £64 million of investments. The overall net debt position is £49.19 million.</p> <p>The average interest rate for debt as at 30 June 2025 was 4.69%. For investments it was 4.08%.</p> <p>The Council has a manageable maturity structure of borrowing, with its current debt repayable at various points over the next 30 years, the next repayment being due in September 2025.</p> <p>The Council is required to set and report against Treasury Management Indicators, details of which are included in Appendix A. These show that the Council is operating within its approved limits.</p> <p>The Council has complied with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services Code of Practice and Welsh Government Investment Guidance during the period.</p>

## **1. Purpose of Report**

- 1.1 The purpose of this report is to update the Cabinet on the treasury management activities for the quarter ending 30 June 2025.

## **2. Background**

- 2.1 Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council is 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 financial risk are therefore central to the Council's prudent financial management.
- 2.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 edition (the TM Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, and, as a minimum, a semi-annual and annual treasury outturn report. The TM Code also requires the Council to set a number of Treasury Management Indicators, which are forward looking parameters, and enable the Council to measure and manage its exposure to treasury management risks, and these are included throughout this report. Welsh Government (WG) guidance issued in November 2019 on Local Authority Investments requires the Council to approve an Investment Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government Guidance.
- 2.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 Edition) (Prudential Code) includes a requirement for Local Authorities to provide a Capital Strategy, which is a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The definition of investments in the revised Prudential Code covers all the financial assets of the Council as well as other non-financial assets which the authority holds primarily for financial return. The Council's Capital Strategy 2025-26 complied with CIPFA's requirement and included the Prudential Indicators along with the details regarding the Council's non-treasury investments. The Capital Strategy and Treasury Management Strategy should be read in conjunction with each other as they are interlinked, as borrowing and investments are directly impacted upon by capital plans, and both were approved together by Council on 26 February 2025.
- 2.4 The Council's treasury management advisors are Arlingclose. The current services provided to the Council include:
- advice and guidance on relevant policies, strategies and reports
  - advice on investment decisions
  - notification of credit ratings and changes
  - other information on credit quality
  - advice on debt management decisions
  - accounting advice
  - reports on treasury performance
  - forecasts of interest rates
  - training courses

### **3. Current situation / proposal**

#### **3.1 External Context – Economic Background**

- 3.1.1 UK headline consumer price inflation (CPI) rose over the quarter from 2.6% at 31 March 2025 to 3.6% at 30 June 2025, well above the Bank of England's 2% target. The core measure of inflation, which excludes the most volatile components, specifically food and energy prices, also increased, from 3.4% to 3.7%.
- 3.1.2 Data released during the period showed that the UK economy expanded by 0.7% in the first quarter of the calendar year (January – March), following three previous quarters of weaker growth. UK Gross Domestic Product (GDP) is estimated to have increased by 0.3% in the April – June quarter, growth not as strong as in the first quarter of the year.
- 3.1.3 Interest rates during the quarter reduced from 4.5% on 1 April 2025 to 4.25% in May and remained at that rate to the end of the quarter. The rate was further reduced in August to 4.0%. Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall, and a further reduction is expected later in the year.

#### **3.2 Public Works Loan Board (PWLB) Lending Facility Advice, Revised CIPFA Codes**

- 3.2.1 The Council continues to undertake its duties in line with the current guidance for the PWLB lending facility which was significantly revised by HM Treasury in August 2021. Authorities that are purchasing or intending to purchase investment assets primarily for yield, or financial return, will not be able to access funding from the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 3.2.2 The Council's treasury management activities are undertaken in line with CIPFA's Prudential Code for Capital Finance in Local Authorities and CIPFA's Treasury Management in the Public Services Code. To comply with the Prudential Code authorities must not borrow to invest primarily for financial return. The Prudential Code also states it is not prudent for local authorities to make investment or spending decisions that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold, however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

#### **3.3 Treasury Management update for period 1 April 2025 to 30 June 2025**

- 3.3.1 The Council has complied with its legislative and regulatory requirements during the first quarter of 2025-26. The Treasury Management Strategy 2025-26 was approved by Council on 26 February 2025.
- 3.3.2 A summary of the treasury management activities is shown in the Treasury Management Quarterly report to 30 June 2025 at **Appendix A**. The Council's external debt and investment position on 30 June 2025 is shown in Table 1 below, and more

detail is provided in **Appendix A**. No long-term borrowing has been taken out in the first quarter of 2025-26.

The balance on investments held at 30 June 2025 was £64.00 million, an increase from the £36.75 million held at 31 March 2025, with an average interest rate of 4.08% (4.39% as at 31 March 2025). The Council receives two amounts of Welsh Government Revenue Settlement Grant (at £17.226 million per amount) which has provided a positive cash flow position for the first quarter.

**Table 1: Council's external debt and investment position at 30 June 2025**

<b>Investments for Treasury Purposes</b>	<b>Principal as at 31/03/2025 £m</b>	<b>Principal as at 30/06/2025 £m</b>	<b>Average Rate 30/06/2025 %</b>
<b>External Long Term Borrowing</b>			
Public Works Loan Board (PWLB)	77.04	77.04	4.70
Lenders Option Borrowers Option (LOBO)	19.25	19.25	4.65
Salix Loans (Interest Free)	2.51	2.32	NIL
<b>Short Term Borrowing</b>	5.00	NIL	NIL
<b>Total External Borrowing</b>	<b>103.80</b>	<b>98.61</b>	<b>4.69*</b>
<b>Other Long Term Liabilities</b>			
Private Finance Initiative**	11.97	10.89	
IFRS 16 Leases	3.69	3.69	
<b>Total Other Long Term Liabilities</b>	<b>15.66</b>	<b>14.58</b>	
<b>Total Gross Debt</b>	<b>119.46</b>	<b>113.19</b>	
<b>Investments for treasury management purposes</b>			
Debt Management Office	18.00	32.50	4.21
Money Market Funds (instant access)	12.75	23.50	4.29
Banks	6.00	8.00	2.93
<b>Total Treasury Investments</b>	<b>36.75</b>	<b>64.00</b>	<b>4.08</b>
<b>Net Debt</b>	<b>82.71</b>	<b>49.19</b>	

\* Excluding Salix loans which are interest free

\*\* (PFI) arrangement for the provision of a Secondary School in Maesteg 9.75 years remaining term

- 3.3.3 The £19.25 million in Table 1 above relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054 though these may be rescheduled in advance of this maturity date with the lender having the ability to recall the debt at 2 intervals in the year, July and January. Whilst the expectation is that as interest rates fall the lender is unlikely to exercise this option, and it was not exercised on 22 July 2025, there remains some risk that the lender may exercise their option.
- 3.3.4 The Total Other Long Term Liabilities figure of £14.58 million at 30 June 2025 includes £10.89 million for the Private Finance initiative (PFI) arrangement for the provision of a Secondary School in Maesteg and £3.69 million right of use assets..
- 3.3.5 Both the CIPFA Code and Welsh Government Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments

before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard and Poor's to ensure that this lies within the Councils' agreed minimum credit rating.

- 3.3.6 The Council defines high credit quality as organisations and securities having a credit rating of A- (A3 for Moody's) or higher and the Council does not invest in any organisation below this level. Schedule A in **Appendix A** shows the equivalence table for credit ratings for Fitch, Moody's, and Standard and Poor's and explains the different investment grades.
- 3.3.7 There are no long-term investments (original duration of 12 months or more) outstanding as at 30 June 2025. All investments at 30 June 2025 are short term deposits including instant access and notice accounts.
- 3.3.8 The Treasury Management Code requires the Council to set and report on a number of Treasury Management Indicators. The indicators either summarise the expected activity or introduce limits upon the activity. Details of the estimates for 2025-26 set out in the Council's Treasury Management Strategy compared to the actual at 30 June 2025 are shown in **Appendix A** and these show that the Council operated within the approved limits throughout the year to date.

#### **4. Equality implications (including Socio-economic Duty and Welsh Language)**

- 4.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. This is an information report, therefore it is not necessary to carry out an Equality Impact assessment in the production of this report. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

#### **5. Well-being of Future Generations implications and connection to Corporate Well-being Objectives**

- 5.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives because of this report.

#### **6. Climate Change and Nature Implications**

- 6.1 The Climate Change and nature implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the environment because of this report.

#### **7. Safeguarding and Corporate Parent Implications**

- 7.1 The Safeguarding and Corporate Parenting implications were considered in the preparation of this report. It is considered that there will be no significant or

unacceptable impacts upon safeguarding and corporate parenting because of this report.

## **8. Financial Implications**

8.1 The financial implications are reflected within the report and the attached **Appendix A**.

## **9. Recommendations**

9.1 It is recommended that Cabinet:

- Note the treasury management activities for the quarter ending 30 June 2025.
- Note the Treasury Management Indicators for the period 1 April 2025 to 30 June 2025 against those approved in the Treasury Management Strategy 2025-26.

## **Background documents**

None