

Meeting of:	GOVERNANCE AND AUDIT COMMITTEE
Date of Meeting:	16 JULY 2026
Report Title:	TREASURY MANAGEMENT OUTTURN REPORT 2025-26
Report Owner: Responsible Chief Officer / Cabinet Member	CORPORATE DIRECTOR – FINANCE AND TRANSFORMATION
Responsible Officer:	NIGEL SMITH, GROUP MANAGER – CHIEF ACCOUNTANT
Policy Framework and Procedure Rules:	Para 28.3 of the Financial Procedure Rules notes that the Governance and Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management policies and practices. The Committee will review the Half Year and Annual Report on Treasury Management. This report supports this scrutiny function.
Executive Summary:	The report provides an update of Treasury Management activity for the year 1 April 2025 – 31 March 2026. As at 31 March 2025 the Council had £99.72 million of long term debt, £12.87 million of other long term liabilities and an overall net debt position of £68.09 million. The average interest rate for debt was 4.63% and for investments it was 4.73%. The Council has a manageable maturity structure of borrowing, with its current debt repayable at various points over the next 30 years. The Council has complied with the Chartered Institute of Public Finance and Accountancy's Treasury Management Code and Welsh Government Investment Guidance.

1. Purpose of Report

1.1 The purpose of this report is to:

- comply with the requirement of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Treasury Management in the Public Services: Code of Practice' (the TM Code) to report an overview of treasury activities for the preceding financial year.
- report the actual Treasury Management Indicators for 2025-26.

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 (the CIPFA 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 CIPFA 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 TM Code and the Welsh Government Guidance.

2.3 The CIPFA Prudential Code for Capital Finance in Local Authorities (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 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 Prior to the start of the US/Israel and Iran war, headline UK consumer price inflation (CPI) inflation had generally been trending downwards, albeit the 3% in February 2026 was unchanged from January 2026. CPI then rose to 3.3% in the 12 months to March 2026. Core CPI (CPI excluding energy, food, alcohol and tobacco) rose by 3.1% in the 12 months to March 2026, down from 3.2% in the 12 months to February 2026. Inflation was expected to fall further over the coming months to the Bank of England's 2% target, but the war changed this. Inflation is expected to continue to rise, but how quickly and by how much depends on how long commodity prices remain elevated.
- 3.1.2 After cutting Bank Rate to 3.75% in December 2025, the Bank of England's Monetary Policy Committee (MPC) voted 5-4 to hold rates in February 2026 and then unanimously chose to hold it again in March 2026. Until the war started, financial markets were expecting Bank Rate to be cut to 3.5% at the March meeting. However, the conflict in the Middle East quickly changed this. The MPC noted the risks to both inflation and growth and indicated they could move rates either up or down depending on the conditions. Financial markets quickly responded to this by pricing in rate hikes.
- 3.1.3 Following the March MPC meeting, Arlingclose, the authority's treasury adviser, revised its central interest rate view and now predicts Bank Rate will be held at 3.75%. However, the conflict makes the outlook for rates highly uncertain. In the short-term the risks are to the upside with the chance of higher Bank Rate should the MPC decide it wishes to quickly quash potential second-round effects from higher inflation. Further out, if Bank Rate is increased quickly, the pace and magnitude of subsequent cuts could take it far lower than was previously anticipated as policymakers add significant stimulus to a much weaker economic growth outlook.
- 3.1.4 While the most recent labour market figures were slightly better than expected, the general trend has been one of persistent weakness. In the three months to January 2026, the unemployment rate rose to 5.2% (from 5.1%), while the employment rate held at 75.1% and is estimated at 75% for the February to April quarter. Despite inflation being expected to rise in the coming months, labour market conditions remain loose and so any upward pressure on wages from general inflation is likely to be tempered by the weaker labour market environment.

3.2 Public Works Loan Board (PWLB) Lending Facility Advice

- 3.2.1 As the Council may need to borrow to support its capital programme, it continues to follow the PWLB requirement for borrowing to not invest in assets primarily for yield, or financial return, as this would prevent the Council from accessing 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 and CIPFA's TM 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. The Council has complied with the full requirements of both codes during the 2025-26 financial year.

3.3 Treasury Management update for the year ending 31 March 2026

- 3.3.1 The Council has complied with its legislative and regulatory requirements during the year. 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 Outturn 2025-26 at **Appendix A**. The Council's external debt and investment position on 31 March 2026 is shown in Table 1 below, and more detail is provided within the appendix. During the year an additional £5m long term borrowing was taken out from the PWLB for a duration of 16 months to replace some maturing debt, £3.709 million of borrowing was repaid during the year, £2.790 million on 30 September 2025 and £0.919 million on 31 March 2026.
- 3.3.3 The balance on investments held on 31 March 2026 was £44.50 million, with an average interest rate of 4.73%. The total balance of investments has increased compared to those at the end of last financial year, 31 March 2025, when the balance held was £36.75 million, at an average interest rate of 4.39%.

Table 1: Council's external debt and investment position as of 31 March 2026

Investments for Treasury Purposes	Principal as at 31/03/2025 £m	Principal as at 31/03/2026 £m	Average Rate 31/03/2026 %
External Long-Term Borrowing			
Public Works Loan Board	77.04	78.33	4.75
Lender's Option Borrower's Option	19.25	19.25	4.65
Salix Loans (interest Free)	2.51	2.12	NIL
Salix Loans (Other)	NIL	0.02	2.15
Short Term Borrowing	5.00	NIL	NIL
Total External Long-Term Borrowing	103.80	99.72	4.63
Other Long-Term Liabilities			
Private Finance Initiative**	11.97	10.89	
IFRS 16 Leases	3.69	1.98	
Total Other Long-Term Liabilities	15.66	12.87	
Total Gross Debt	119.46	112.59	
Investments for treasury management purposes			
Local Authorities	NIL	30.00	5.50
Money Market Funds (instant access)	12.75	6.50	3.82
Banks	6.00	8.00	2.59
Debt Management Office	18.00	NIL	NIL
Total Treasury Investments	36.75	44.50	4.73
Net Debt	82.71	68.09	

** (PFI) arrangement for the provision of a Secondary School in Maesteg with a remaining term to 30 September 2033*

- 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. However, although shown as maturing in 2054, the £19.25 million of Lender's Option Borrower's Option loans is likely to be called sooner than this, the next call date being 22 July 2026.
- 3.3.4 The Total Other Long Term Liabilities figure of £12.87 million at 31 March 2026 includes £10.89 million for the Council's Private Finance initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. The Other Long-Term Liabilities reflect leases required to be recognised under International Financial Reporting Standard 16 – Leases (IFRS 16).
- 3.3.5 Both the CIPFA TM 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 Council's 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 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 31 March 2026. All investments at 31 March 2026 are short term deposits including instant access and fixed term deposits.

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 31 March 2026 are shown in **Appendix A** and these show that the Council operated within the approved limits throughout the period.

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 attached **Appendix A**.

9. Recommendations

9.1 It is recommended that the Governance and Audit Committee:

- Note the treasury management activities for the 2025-26 financial year.
- Note the Treasury Management Indicators for the period year ending 31 March 2026 against those approved in the Treasury Management Strategy 2025-26.

Background documents

None