

ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	GOVERNANCE AND AUDIT COMMITTEE
DATE:	4 DECEMBER 2025
SUBJECT:	TREASURY MANAGEMENT MID YEAR REVIEW 2025/26
PORTFOLIO HOLDER(S):	COUNCILLOR R WILLIAMS – DEPUTY LEADER & PORTFOLIO HOLDER – FINANCE & CORPORATE BUSINESS AND CUSTOMER EXPERIENCE
LEAD OFFICER(S):	R MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER
CONTACT OFFICER(S):	JEMMA ROBINSON

Nature and reason for reporting

To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2024/25 (Appendix 10 of the Treasury Management Strategy Statement 2024/25). In accordance with the Scheme of Delegation, this report is due to be presented to the Executive and then the full Council once it has been scrutinised by this Committee.

The Governance & Audit Committee are requested to:-

1. Review and note the contents of the report which summarises the treasury management activity as at 30 September 2025.
2. To forward any comments in respect of the report to the Executive meeting on 16 December 2025, where the report will be discussed.

1. INTRODUCTION

- 1.1. The report sets out the position at the end of the first 6 months of 2025/26 in respect of the Council's performance in respect of the treasury management strategy. This mainly relates to investment of surplus cash and borrowing to fund capital expenditure.

2. COMPLIANCE WITH REPORTING REQUIREMENTS

- 2.1. Under the requirements of the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code), a number of reports are required to be presented to the Governance & Audit Committee, the Executive and the full Council during the year. The mid year review is one of those reports and the presentation of this report ensures the Council's continuing compliance with the reporting requirements.

3. REVIEW OF 2025/26 TO 30 SEPTEMBER 2025 – EXTERNAL FACTORS

- 3.1. A number of factors influence the Council's Treasury Management activities which are outside the Council's control but have a major impact on the Council's borrowing and investment decisions.

3.2. Interest Rates

The level of interest rates at the time decisions are taken and the future trajectory for rates has a significant impact on treasury management decisions and can influence if the Council borrows externally, the length of any borrowing, when the Council ties into longer term investments and where the Council invests its surplus cash.

At the commencement of 2025/26, the Bank of England base rate stood at 4.5%. It was anticipated that this rate would fall fairly quickly during the first half of the year, however, inflation has not fallen as quickly as expected and growth remains fairly low. With wage levels also remaining above inflation, but slowing, and unemployment rising to 5% in October 2025, the inflationary pressures seem to be easing. However, the Bank of England has taken a cautious approach to reducing interest rates, with a cut of 0.25% in May 2025, followed by a further cut of 0.25% in August 2025.

The Bank of England narrowly decided to maintain interest rates at 4% in November 2025, but a further 0.25% cut is expected in December 2025 or February 2026. A further cut of 0.25% is expected before the end of the financial year and rates will continue to follow a slow downward trend during 2026/27 and 2027/28.

3.3. The UK Economy

The UK economy is still operating within major global events which are impacting the global economy, which include the continuing war in Ukraine and the need to increase expenditure on defence, the change in the President of the United States, the introduction of higher tariffs by the United States causing a potential slowdown in the world economy and its impact on oil and energy prices.

In the first quarter of 2025/26, the UK economy grew by 0.3% and was 0.2% during the second quarter. The forecast growth in GDP for 2025 is 1.4%, with a similar figure forecast for 2026 and only a slight increase in 2027.

The Bank of England has indicated that they believe that CPI inflation has peaked in September 2025 and will begin to fall during the third quarter of 2025, reaching 3% early next year and gradually returning towards the 2% target in 2027.

How the UK economy performs and its impact on interest rates will be impacted by the Chancellor's budget in November 2025. Higher tax rises are likely, which may have a negative impact on inflation and unemployment.

- 3.4.** A more detailed economic analysis produced by the Council's Treasury Management advisors, MUFG, is attached as Appendix 1. Forecasted economic indicators to March 2027 are shown in Appendix 2.

4. CAPITAL EXPENDITURE 2025/26

- 4.1.** Capital expenditure has a significant impact on the Council's treasury management activity. Capital expenditure can be financed:-
- immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
 - from borrowing: If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 4.2.** Following the completion of the draft accounts, the Executive approved the carry forward of unspent budget from 2024/25 to 2025/26, and this is detailed in the capital outturn report which was presented to the Executive on 17 July 2025. Further to this, additional capital funding has been received during the year, which has added to the capital budget. These additions were approved by the Executive at its meetings on 23 September 2025 and 25 November 2025.
- 4.3.** Table 1 below provides details of the updated capital programme for 2025/26, following on from the decision of the Executive 2025:-

Table 1			
Revised Capital Budget 2025/26			
Summary	Budget Approved March 2025 including Slippage	Additional Funding Q1 and Q2	Revised Capital Budget as at November 2025
	£	£	£
Housing General Fund	900,650	198,030	1,098,680
Housing HRA	20,894,000	3,626,814	24,520,814
Lifelong Learning	1,666,791	1,904,082	3,570,873
Economic and Regeneration	9,460,242	1,900,668	11,360,910
Highways	2,974,500	4,021,120	6,995,620
Waste Management	1,470,124	-	1,470,124
Property	6,756,605	1,194,711	7,951,316
Transformation	784,861	-	784,861
Adult Services	1,915,439	-	1,915,439
TOTAL	46,823,212	12,845,425	59,668,637
Funded By			
Capital Grant	22,014,411	13,762,949	35,777,360
Capital Receipts	831,431	-	831,431
Supported Borrowing	3,813,331	-	3,813,331
Unsupported Borrowing	13,020,000	9,338,353	3,681,647
Revenue Contribution	5,788,000	7,323,493	13,111,493
Reserves	1,340,443	252,625	1,593,068
Other Loans	15,596	844,711	860,307
TOTAL FUNDING	46,823,212	12,845,425	59,668,637

4.4. A summary of the capital programme and the forecasted expenditure and funding as at 30 September 2025 is shown in Table 2 below:-

Table 2						
Projected Expenditure compared to Annual Budget 25/26 as at 30 September 2025						
Summary	Annual Budget (£'000)	Total Expenditure (£'000)	Annual Budget Spent (%)	Projected Expenditure (£'000)	Projected Under / Over (£'000)	Variance (%)
Housing General Fund	1,099	842	77	1,099	0	0
Housing HRA	24,521	10,149	41	22,056	(2,465)	(10)
Lifelong Learning	3,571	1,123	31	3,571	0	0
Economic and Regeneration	11,361	3,968	35	10,881	(480)	(4)
Highways	6,996	2,704	39	6,996	0	0
Waste Management	1,470	-	0	865	(605)	(41)
Property	7,951	161	2	7,154	(797)	(10)
Transformation	785	194	25	630	(155)	(20)
Adult Services	1,915	435	23	1,915	0	0
TOTAL	59,669	19,576	33	55,167	(4,502)	(8)
Funded By						
Capital Grant	35,777			34,692	(1,085)	(3)
Capital Receipts	831			497	(334)	(40)
Supported Borrowing	3,814			3,797	(17)	(0)
Unsupported Borrowing	3,682			1,445	(2,237)	(61)
Revenue Contribution	13,111			12,883	(228)	(2)
Reserves	1,594			993	(601)	(38)
Other Loans	860			860	0	0
TOTAL FUNDING	59,669	-		55,167	(4,502)	(8)

5. IMPACT ON COUNCIL'S FINANCIAL POSITION AS AT 30 SEPTEMBER 2025

5.1. Analysis of the Council's Current External Borrowing is shown in Appendix 3a – 3ch.

5.2. During the first half of the year, no new borrowing was undertaken, and the combined balance of all outstanding loans is £121.898m as at 30 September 2025. It is estimated that £10m of internal borrowing will have to be externalised by the end of the financial year, to give a forecasted borrowing position of £131.895m, with a further £25.033m of internal borrowing. This gives an estimated Capital Financing Requirement (CFR) of £156.928m, which is based on the forecasted capital expenditure and funding.

Table 3
Internal and External Borrowing Forecast to 31 March 2026

EXTERNAL BORROWING	£'000	£'000
Opening Balance		122,082
Borrowing to Fund Capital Expenditure	-	
Borrowing to Fund Loan Repayments	-	
Borrowing to Replace Internal Borrowing	10,000	
Total New Borrowing in Year		10,000
Loan Repayments in Year		- 187
Closing Balance of External Borrowing		131,895

INTERNAL BORROWING	£'000	£'000
Opening Balance		30,203
Replacement of Internal Borrowing	- 10,000	
Borrowing to Fund Loan Repayments	-	
Borrowing to Fund Capital Expenditure	6,102	
Total New Borrowing in Year		- 3,898
Rights of Use Assets brought onto Balance Sheet		
Loan Repayments in Year		187
Minimum Revenue Provision		- 1,459
Minimum Revenue Provision - Rights of Use Assets		
Closing Balance of Internal Borrowing		25,033

5.3. Debt Repayments

During the first half of 2025/26, annual repayments on PWLB annuity loans totalling £9k and zero interest Salix loans totalling £178k were made.

6. INVESTMENTS

6.1. The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by the Council on 6 March 2025. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:-

- Security of capital;
- Liquidity;
- Yield.

6.2. All investments were made with institutions that met the required credit rating, as set out in the Treasury Management Strategy, and the value of the investments held with the institutions at any one time did not breach the approved limit set out in the strategy.

6.3. Further information on the Council's cash balances and investments are shown in Appendix 4a to 4c.

6.4. The interest received on investments as at 30 September 2025 is shown in Table 4 below, along with the forecasted position for 2025/26:-

Table 4
Interest Received on Investments as at 30 September 2025

	As at 30 September 2025	Forecast to 31 March 2026
	£	£
General Fund	387,892	652,564
Housing Revenue Account	49,456	83,201
School Balances	39,975	67,251
Total Interest Received	477,322	803,016

7. PRUDENTIAL INDICATORS

7.1. The Treasury Management Strategy (TMS) sets out a number of prudential indicators and authorised limits. The current forecasted position against each of the indicators and limits is set out in Table 5 below:-

Table 5
Comparison of the Forecasted Position at the End of Quarter 1 to the Treasury Management Strategy

PERFORMANCE INDICATORS				
Indicator Group	Description	Treasury Management Strategy Statement 2025/26	Estimated Position at end of Q2	
Affordability	Ratio of Financing Costs to Net Revenue Stream – General Fund	2.60%	1.55%	
	Ratio of Financing Costs to Net Revenue Stream – Housing Revenue Account (HRA)	10.03%	12.65%	
Capital Financing Requirement (CFR)	Council Fund & HRA	£154.390m	£156.928m	
AUTHORISED LIMITS				
Prudence	Gross debt must be lower than the CFR plus any additional CFR in the next two years	<171.070m	£121.895m	
External Debt	Authorised Limit	< £181.230m	£121.895m	
	Operational Boundary	< £171.230m	£121.895m	
Maturity of Debt	Under 12 months	<20% of total debt = £24.379m	£0.550m	0.45%
	12 months and within 24 months	<20% of total debt = £24.379m	£1.895m	1.55%
	24 months and within 5 years	<50% of total debt = £60.947m	£7.632m	6.26%
	5 years and within 10 years	<75% of total debt = £85.326m	£14.275m	11.71%
	10 years and above	100% = £121.895m	£121.895m	100.00%

8. REPORTABLE BREACHES TO THE TREASURY MANAGEMENT PRACTICE

- 8.1.** The TMS for 2025/26 allows for the maximum investment of £10m in any single non nationalised bank or building society. The Council operates a Call Account with Lloyds Bank and the sum held is maximised as it provides a higher interest rate than other call accounts held by the Council.
- 8.2.** On 4 June 2025, the balance on the Lloyds Call Account was £9.993m. On the 5 June 2025, interest totalling £25,748 was credited to the account, which took the balance to £10.019m, which exceeded the limits set out in the TMSS. On 23 June 2025, £1m was transferred from the account, bringing the balance down to £9.019m. Technically, this is a breach, although the breach did not result in any loss for the Council.

9. CONCLUSIONS

- 9.1.** The Council's Treasury Management performance during the year was in line with the strategy of low risk, low return investments and a planned approach to borrowing designed to minimise interest charges.
- 9.2.** The performance against the Prudential Indicators set by the Council show that the Council's Treasury Management activities are being undertaken in a controlled way which ensure the financial security of the Council and do not place the Council at any significant financial risk in terms of unaffordable or excessive borrowing.
- 9.3.** The Council's Treasury Management Strategy, and its performance against the strategy, takes into account the external economic factors and it is constantly reviewed to ensure that it is the most appropriate strategy moving forward.

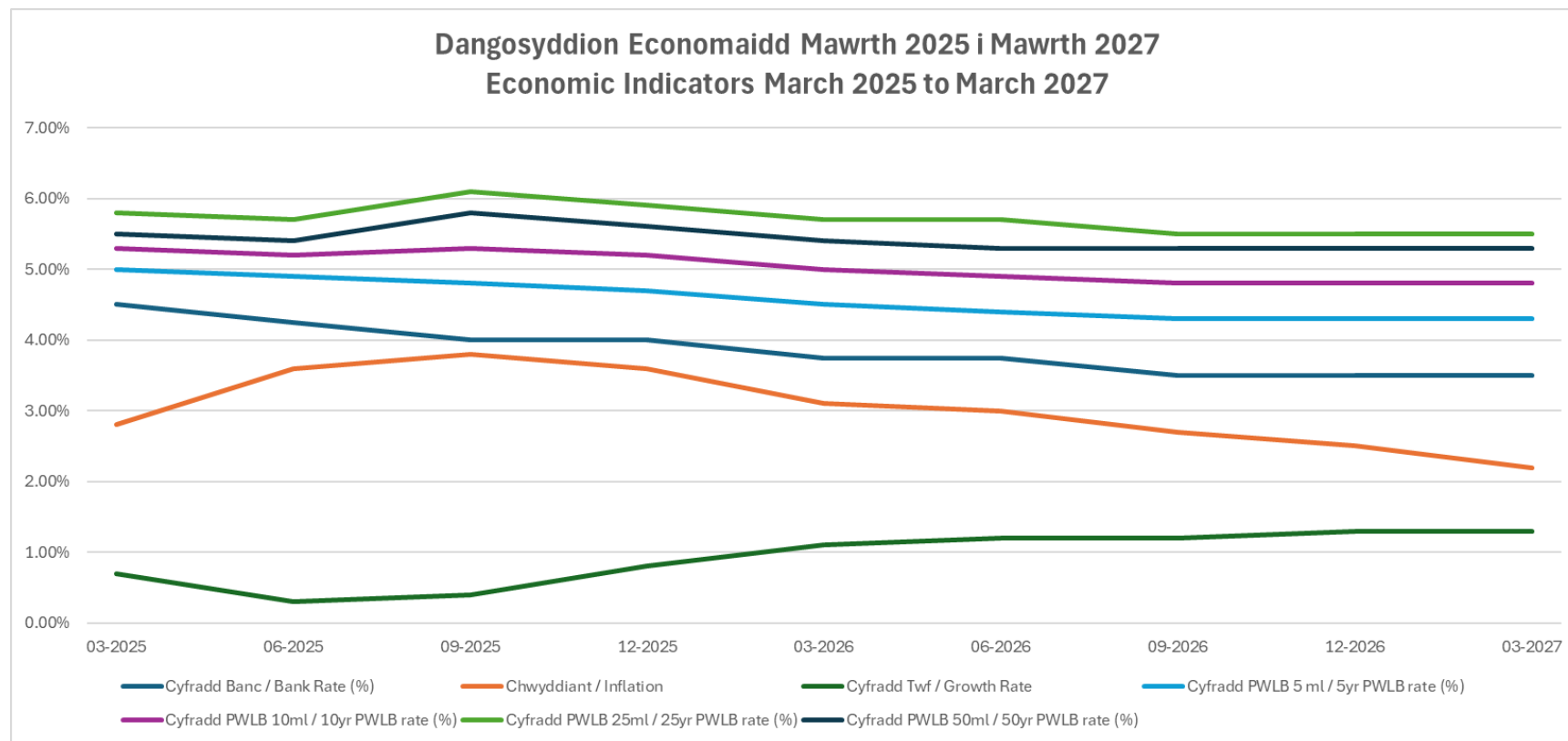
Economics Update – Produced by MUFG

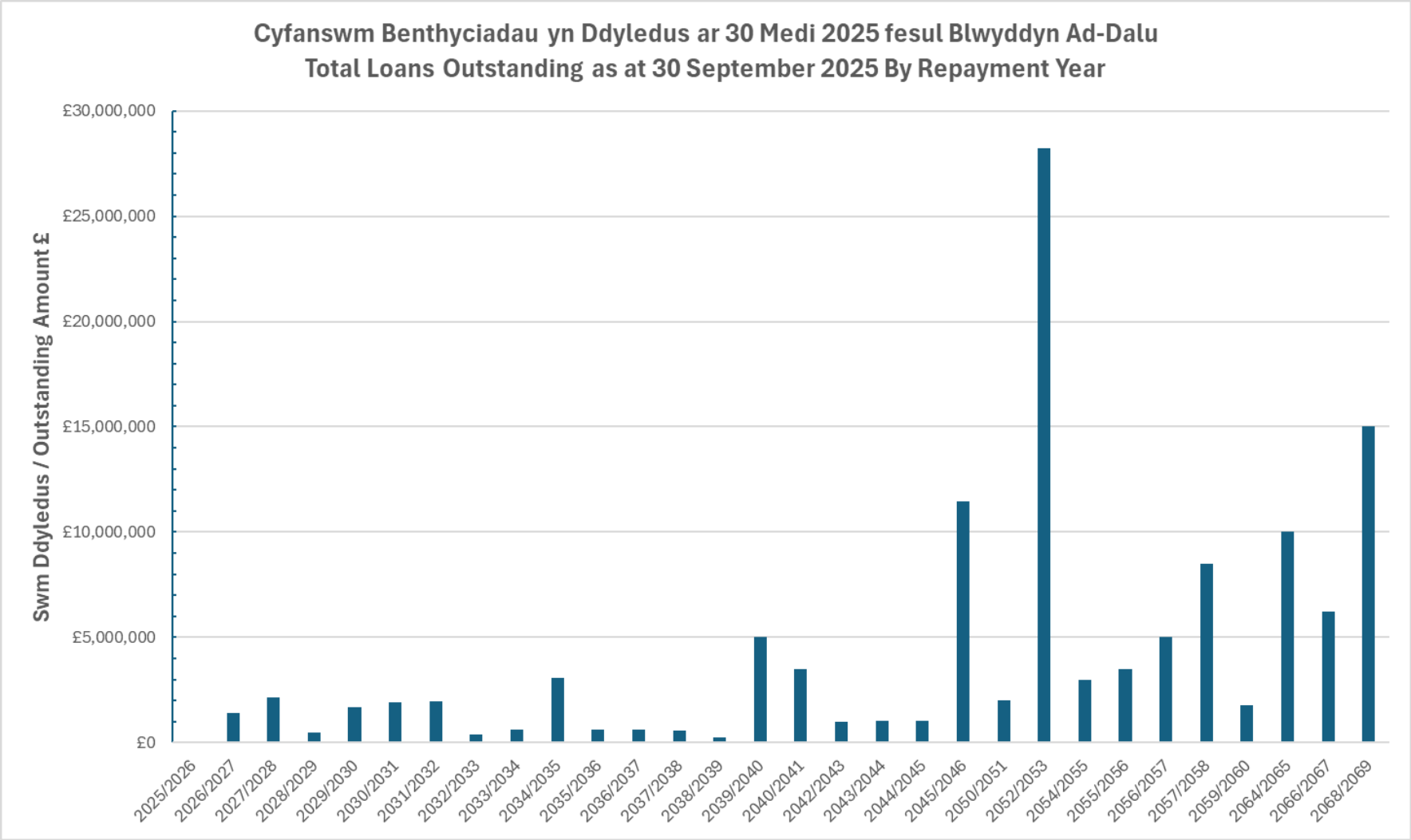
- The first half of 2025/26 saw:
 - A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
 - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
 - CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
 - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
 - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.
- Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.
- With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshoot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).
- CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

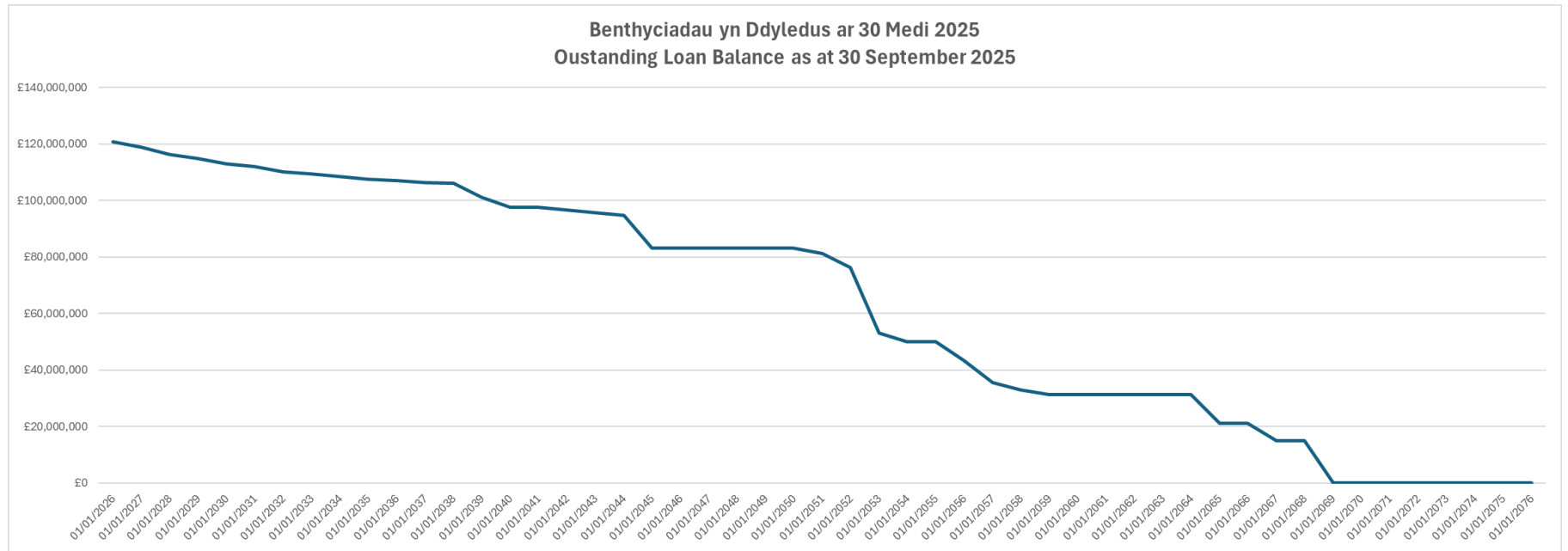
MPC meetings: 8 May, 19 June, 7 August, 18 September 2025

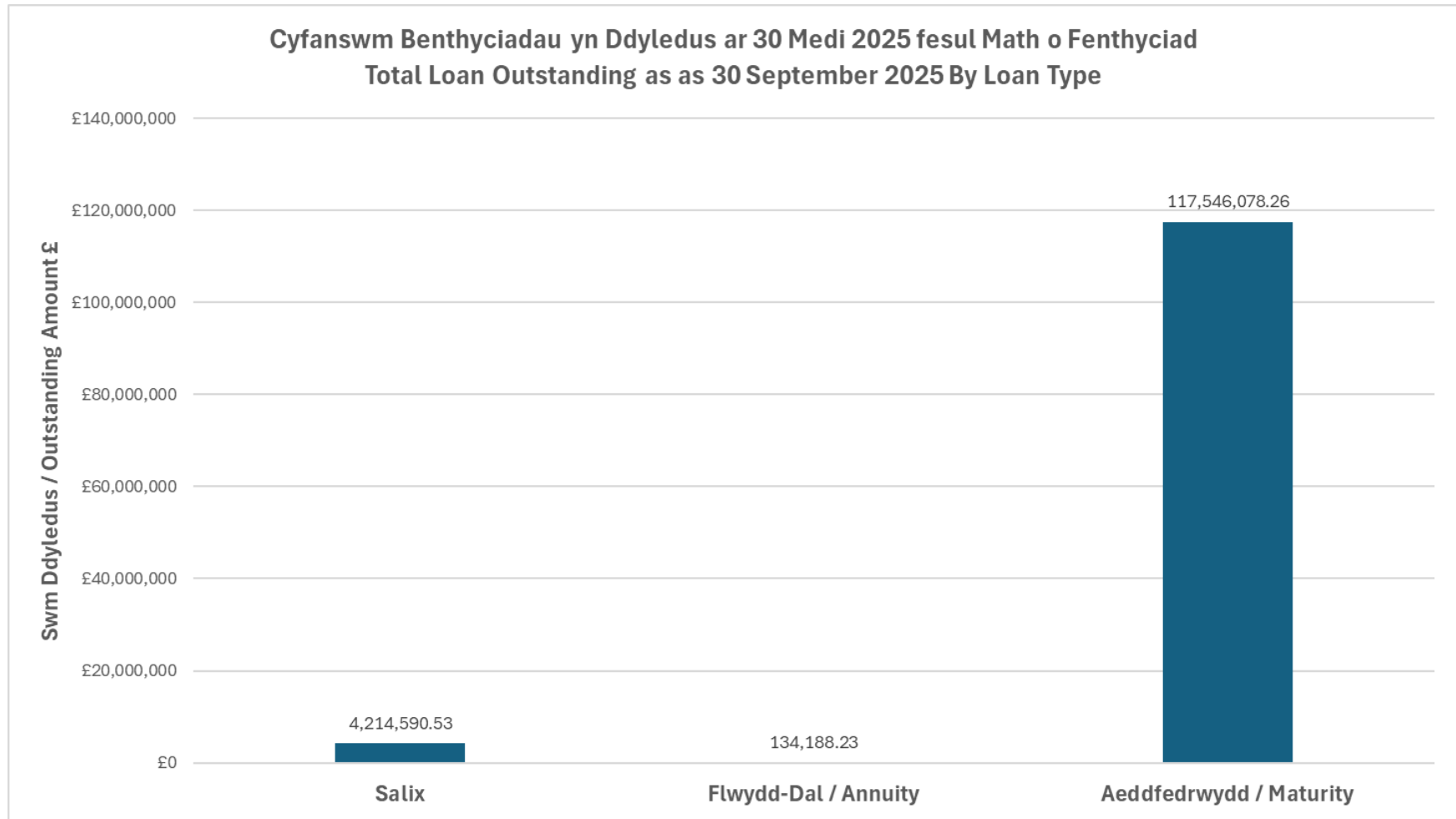
- There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).
- The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.

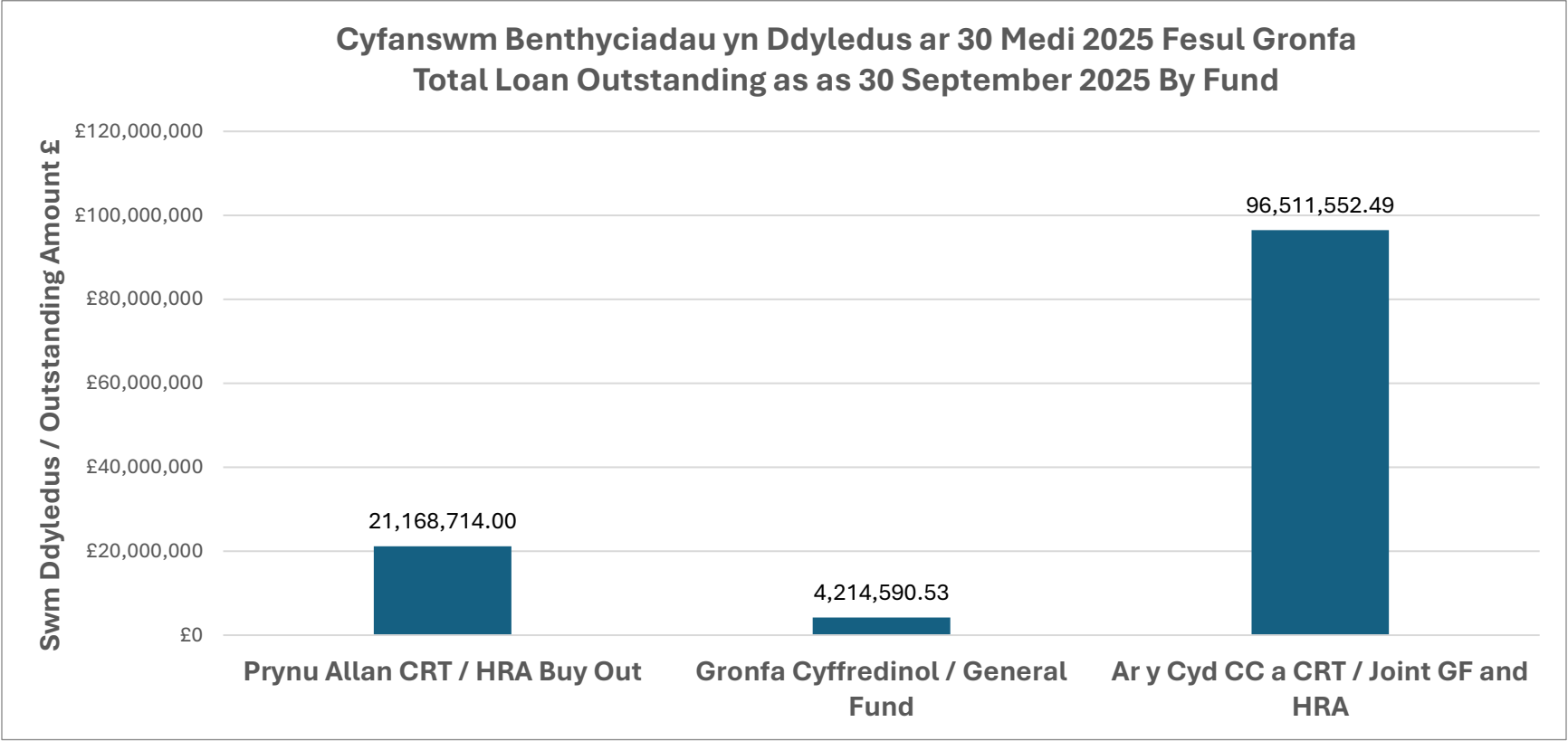


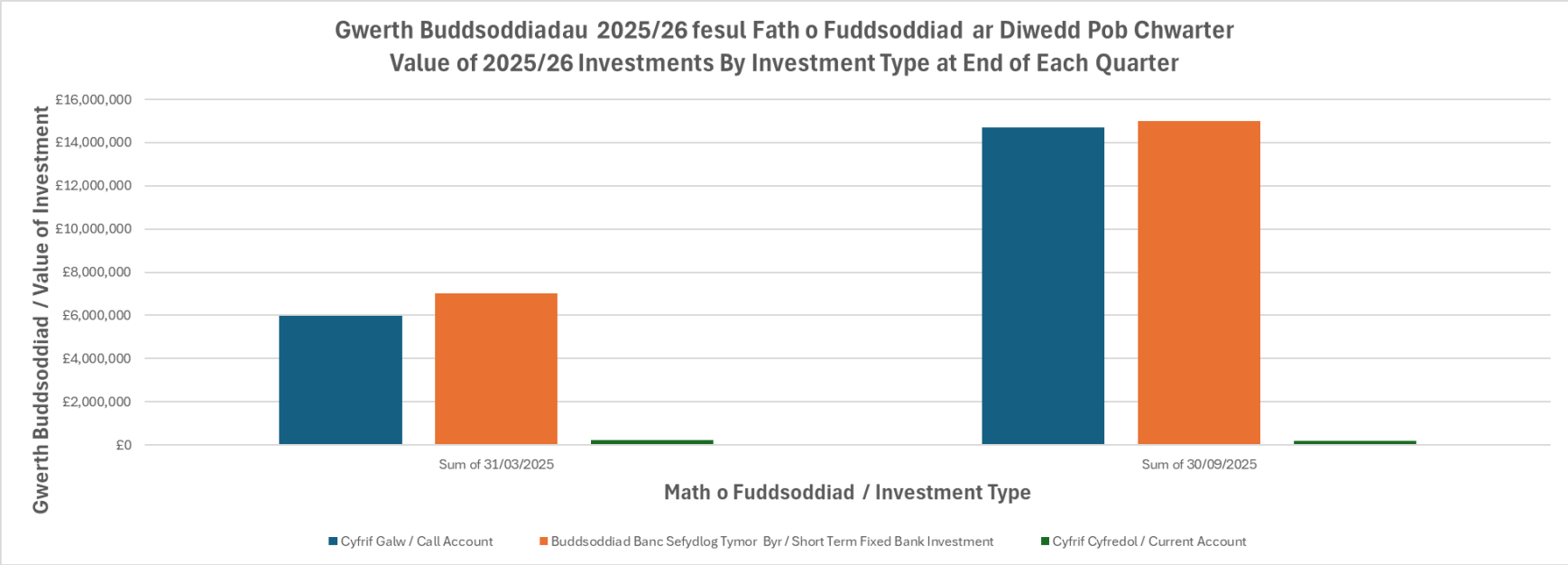


APPENDIX 3b

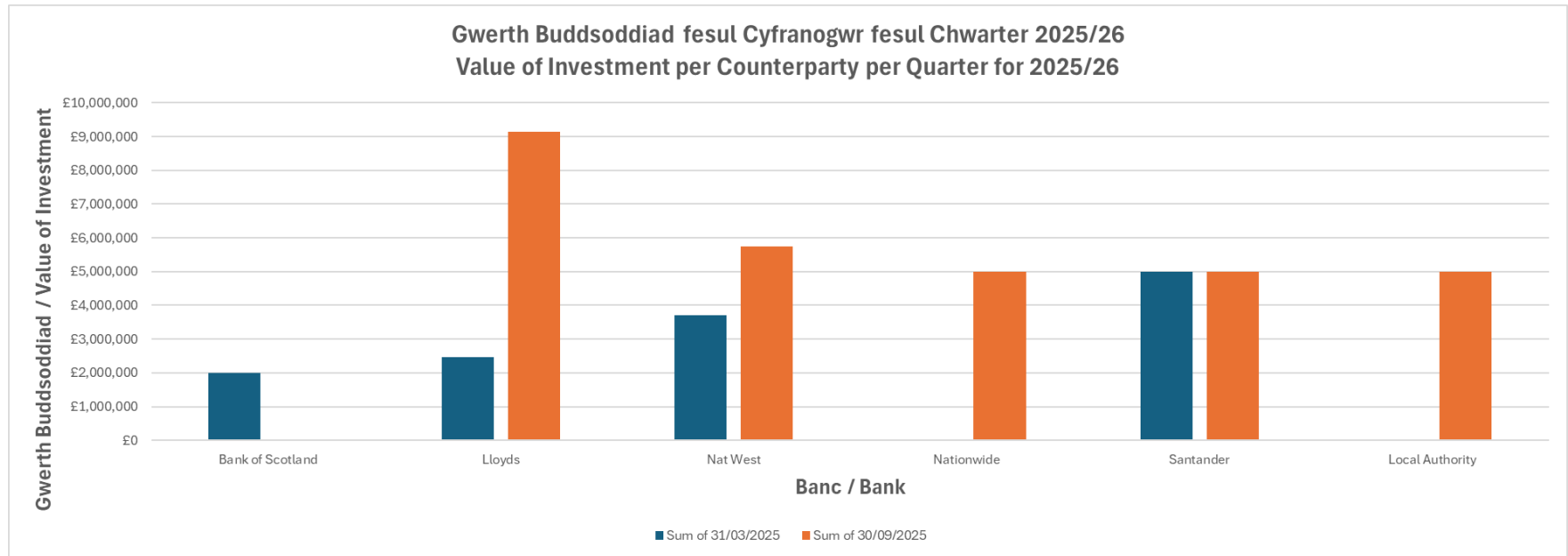








APPENDIX 4b



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Percentage of Investment Held in Each Investment Type per Quarter 2025/26

