

ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	GOVERNANCE AND AUDIT COMMITTEE
DATE:	16 JULY 2026
SUBJECT:	ANNUAL TREASURY MANAGEMENT REVIEW FOR 2025/26
PORTFOLIO HOLDER(S):	CLLR ROBIN WILLIAMS – DEPUTY LEADER & PORTFOLIO HOLDER - FINANCE & CORPORATE BUSINESS & CUSTOMER EXPERIENCE
LEAD OFFICER(S):	R MARC JONES - DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER
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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 2025/26 (Appendix 10 of the Treasury Management Strategy Statement 2025/26). 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.

1. COMPLIANCE WITH REPORTING REQUIREMENTS

- 1.1. 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 details of these reports are summarised in Table 1 below:-

**Table 1
Summary of Treasury Management Reports presented to Committees and full Council**

Report	Governance & Audit Committee	Executive	Full Council
Annual Treasury Management Strategy 2025/26	11 February 2025	27 February 2025	6 March 2025
Treasury Update Report Quarter 1 2025/26	Delegated to Portfolio Holder – Issued 1 October 2025		
Mid Year Treasury Update Report 2025/26	4 December 2025	16 December 2025	5 March 2026
Treasury Update Report Quarter 3 2025/26	Delegated to Portfolio Holder – Issued 19 February 2026		
Annual Review Report 2025/26	16 July 2026	21 July 2026	24 September 2026

2. REVIEW OF 2025/26 – EXTERNAL FACTORS

- 2.1. 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.

2.2. 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% but, as inflation fell and the economy slowed, the rate was reduced by 0.25% in May 2025, August 2025 and December 2025 and, at the end of the financial year, it stood at 3.75%.

Further cuts in the base rate were anticipated during the remainder of 2026, with rates expected to fall to around 3% by late 2026 or early 2027. However, the war in the Middle East has led to an increase in gilt rates and upward pressure on inflation. This will delay any further reductions in base rates until such time that the situation becomes clearer, or the war ends and oil prices reduce back towards pre-war levels.

2.3. 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 war in the Middle East and the implementation of trade tariffs by the United States, all of which have the potential to slow down the world economy and increase in oil and energy prices which will drive up inflation.

UK inflation has proved somewhat stubborn throughout 2025/26. Having started the financial year at 3.5%, the CPI (Consumer Price Index) measure of inflation peaked at 3.8% from July to September, before dipping to 3% in January and February. Core inflation picked up to 3.2% in February, from 3.1%, and the recent upward pressure on energy costs could see CPI inflation move back towards 4% later this year.

There has been an increase in net tax revenues, mainly from self employment incomes and capital gains tax, and this has increased the Chancellor's headroom. However, the possibility of higher inflation and higher interest rates will slow economic growth and will increase the Government's debt repayments. This will reduce the Chancellor's headroom and may result in an increase in public borrowing.

Unemployment has started to rise and this, along with falling inflation during 2025, has reduced wage growth, with average earnings increasing by 3.3% in January 2026.

UK economic growth remains weak, with GDP (Gross Domestic Produce) increasing by 1.4% in 2025, which is 0.3% higher than the previous year, but is expected to slow again in 2026, with growth lower than 1%. The latest forecast for 2026 is 0.7%, which has been revised down from 1.2% following the start of the war in the Middle East.

3. CAPITAL EXPENDITURE 2025/26

3.1. 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.

3.2. Table 2 below compares the draft capital expenditure for 2025/26 with the original and revised budgets:-

**Table 2
Capital Expenditure 2025/26**

	2025/26 Original Budget £'m	2025/26 Revised Budget £'m	2025/26 Actual £'m
General Fund	25.929	43.735	29.548
HRA (Housing Revenue Account)	20.894	26.914	25.114
Total Capital Expenditure	46.823	70.649	54.662
Financed By			
General Fund Grants, Reserves and Revenue Contributions	20.655	35.463	24.702
HRA Grants and Revenue Contributions	9.319	21.852	25.114
General Fund Borrowing	5.274	8.272	4.846
HRA Borrowing	11.575	5.062	0.000
Total Funding	46.823	70.649	54.662
Total Expenditure Funded from Borrowing	16.849	11.291	4.846

3.3. The main areas of variances in the capital expenditure (over £500k) are set out in Table 3 below:-

**Table 3
Capital Expenditure Variances 2025/26**

Scheme	Underspend £'000	Comments
HRA Capital Improvements	1,800	For further information on the HRA capital expenditure, please refer to the HRA Outturn report, presented to this Committee on 21 July 2026.
School and Council Building Refurbishments, including disabled adaptations	1,107	Underspends on these budgets were expected due to the award of additional grant funding in the year. Welsh Government's (WG) Additional Learning Needs (ALN) Grant was used to fund works to enable Disabled Access in Education Buildings for 2025/26. It is expected that the pressure on this budget heading will increase in future as results of access audits will provide a fuller picture of the works required. The Education buildings capital budget underspend was a consequence of grant award of Capital Repairs and Maintenance Grant 2025/26. There is a conscious decision not to try to push the spend out hurriedly and, rather, to displace it against committed expenditure and carry over to a measured 2026/27 programme.

Scheme	Underspend £'000	Comments
Crown Site redevelopment	731	<p>£936k of grant funding was awarded, covering the period December 2025 to March 2027, therefore, the grant spans the next financial year also.</p> <p>Progress has been made on the scheme and is in line with the spending profile. £816k slippage has already been approved in the 2026/27 budget paper, with only £731k now required. Grant funding will be carried forward to the 2026/27 financial year.</p>
Holyhead UK Government Regeneration Programme	3,295	<p>Significant underspend was likely due to significant delays being faced within the overall programme delivery. However, an extension to the expenditure deadline has been granted by the Government which should allow the projects to be completed with no loss of funding.</p>
Council Buildings Low Carbon Heat Replacement Programme	1,780	<p>£729k of this underspend is simply 5% retention that we have claimed on the projects to date, being held to be released after successful completion of the projects. The remaining underspend has arisen from a variation request to WG across three of the projects for additional works that have since not been able to complete within the 2026/27 financial year, or have come in under budget. The Energy service has been made aware of the progress of the schemes, with it being anticipated to carry the funding forward to 2026/27 to complete the works.</p>
Transforming Towns - Amlwch Marine Terminal	507	<p>£920k of grant funding was awarded, covering the period September 2025 to March 2027, therefore, the grant spans the next financial year also.</p> <p>Progress has been made on the scheme and is in line with the spending profile. £480k slippage has already been approved in the 2026/27 budget paper, with an additional £27k now required. Grant funding will be carried forward to 2026/27.</p>
Transforming Towns - Place Making Grant	489	<p>A total of £952k of grant funding was awarded, covering the period September 2025 to March 2027, therefore, the grant spans the next financial year also. Progress has been made on the scheme, with £301k slippage having already been approved in the 2026/27 budget paper, with an additional £188k now required. Grant funding will be carried forward to 2026/27.</p>
Waste Projects	1,237	<p>Significant slippage was already anticipated throughout the 2025/26 financial year, due to the service focusing on priority items. £816k slippage has already been approved previously, with an additional £421k now required.</p>
Property schemes (including Plas Arthur)	1,227	<p>As reported in previous quarters, significant underspend on property schemes were anticipated. Improvement works at Plas Arthur faced a significant underspend due to prioritising grant funding to contribute to the works. This funding was prioritised and utilised in full this financial year, with the underspend to be carried forward to 2026/27 to continue the works. Other specific budgets were not utilised due to the service prioritising more pressing matters. £1,529k slippage was already approved in the 2026/27 budget paper in relation to these schemes, with a reduction of £176k now required.</p>

Scheme	Underspend £'000	Comments
Other Projects	3,814	
Total Underspend 2025/26	15,986	

4. IMPACT ON COUNCIL'S FINANCIAL POSITION

4.1. The Council's expenditure on capital and how it is financed impacts on the Council's financial position in respect of the following:-

- Capital Financing Requirement (CFR) – this is the measure of the Council's underlying need to borrow, i.e. the sum of capital expenditure which has not been financed through grants, revenue contributions or reserves;
- Level of borrowing;
- The balance between borrowing that is external and borrowing which is funded from the Council's own cash balances (internal borrowing);
- The Council's own reserves and provisions.

4.2. Capital Financing Requirement

In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This, essentially, means that the Council is not borrowing to support revenue expenditure.

**Table 4
Capital Financing Requirement and External Borrowing**

	Budget £'000	Actual £'000	Variance £'000
Capital Financing Requirement			
Opening Balance	152,389	152,389	-
Capital Expenditure	46,823	54,662	7,839
Right of Use Assets (leases) brought onto Balance Sheet	1,275	1,275	-
Funding from Grants, Balances and Revenue	(29,974)	(49,816)	(19,842)
Minimum Revenue Provision (MRP)	(1,534)	(1,534)	-
Minimum Revenue Provision – Right of Use Assets	(424)	(424)	-
Closing Balance	168,555	156,552	(12,003)

4.3. Debt Repayments

During 2025/26, annual repayments on PWLB annuity loans, totalling £20k, and zero interest Salix loans, totalling £356k, were made. No fixed maturity PWLB loans were repaid in the year.

A total of £5.643m of interest payments were made in respect of PWLB loans.

4.4. Internal and External Borrowing

When cash balances are sufficient and when investment rates are lower than long term borrowing costs, the Council has followed a policy of internal borrowing, where cash balances are used to fund capital expenditure or fund the repayment of existing loans, rather than borrowing externally. This policy maximises the savings possible. The level of internal borrowing is the difference between the CFR and the outstanding balance of external loans. This is summarised in Table 5 below:-

**Table 5
External and Internal Borrowing**

	Budget £'000	Actual £'000	Variance £'000
External Borrowing			
Opening Balance	122,082	122,082	-
New Borrowing	16,849	-	(16,849)
Loan Repayments	(376)	(376)	-
Closing Balance	138,555	121,706	(16,849)
A breakdown of the outstanding balance by loan repayment year, by outstanding loan balance per year, by loan type and by Fund is attached as Appendix 1 to 4			
Internal Borrowing			
Opening Balance	30,307	30,307	-
New Borrowing to Replace Internal Borrowing	(26,849)	-	26,849
New Borrowing to Fund Loan Repayments	-	-	-
New Borrowing to Fund Capital Expenditure	16,849	4,846	(12,003)
Loan Repayments in Year	376	376	-
Right of Use Assets (leases) brought onto Balance Sheet	1,275	1,275	-
Minimum Revenue Provision (MRP)	(1,534)	(1,534)	-
Minimum Revenue Provision Right of Use Assets	(424)	(424)	-
Closing Balance	20,000	34,846	14,846

4.5. The average length to maturity of the existing loans and the average rate of the loans are shown in Table 6 below:-

**Table 6
Average Length to Maturity and Average Interest Rate of Outstanding Loans**

	31 March 2026		31 March 2025	
	Average Years to Maturity	Average Interest Rate	Average Years to Maturity	Average Interest Rate
PWLB Maturity	18.21 Years	4.47%	19.21 Years	4.47%
PWLB Annuity	4.37 Years	10.87%	5.37 Years	10.57%
Salix	3.67 Years	0.00%	3.63 Years	0.00%

5. INVESTMENTS

- 5.1. At any one time, the Council holds surplus cash which comprises of the Council's general balances, earmarked reserves, school balances, HRA reserves, provisions and useable capital receipts, less the level of capital expenditure that is funded through internal borrowing. During the year, the amount available to invest changes as capital expenditure is incurred and through the normal daily movement in cash balances.
- 5.2. The invested funds at the start and end of the financial year are shown in Table 7 below:-

Table 7
Invested Funds at Beginning and End of Financial Year

	Opening Balance 1 April 2025 £	Closing Balance 31 March 2026 £
Fixed Term Bank Investments	7,000,000	0
Local Authority Investments	0	0
Call & Deposit Accounts	5,961,425	19,786,350
Current Account	257,026	198,055
Total Invested Funds	13,218,451	19,984,405

- 5.3. An analysis of the investments by quarter and by counterparty is attached in Appendix 5 and 6.
- 5.4. The average balance invested in 2025/26 in fixed term investments was £10.13m, with an average rate of return of 4.48%. This compares to an average investment of £14.59m in 2024/25, with an average return of 5.05%.
- 5.5. The average balance held in call accounts in 2025/26 was £20.624m, with an average return of 2.83%. This compares to an average balance of £22.175m in 2024/25, with an average return of 3.88%.
- 5.6. The investments through fixed term investments, call accounts and current accounts generated £1.006m in interest. After allowing for the transfer of interest to bond holders and minor trusts, the investments generated £705k of interest for the general fund, compared to a budget of £450k, £157k for the HRA, compared to a budget of £138k, and £144k for schools.

6. COMPLIANCE WITH THE TREASURY MANAGEMENT STRATEGY STATEMENT

- 6.1. The Annual Treasury Management Strategy Statement (TMSS) for 2025/26 was approved by the Council on 6 March 2025 and it set out a number of principles. How the Council has performed against these principles is detailed below.
- 6.2. **Borrowing Strategy (Paragraph 8.1 & 8.2 of the TMSS 2025/26)**

The Council has followed a strategy of using cash reserves to fund capital expenditure (internal borrowing) and only externalises borrowing if cash balances fell too low, that there was a sharp rise in interest rates forecast at a time when the Council would have to borrow or if borrowing rates fell below investment rates.

During 2025/26, no new borrowing was undertaken, with the intention of delaying any borrowing for as long as possible as interest rates continued to fall. In March 2025, the Council's cash balances were significantly increased on receipt of £11m of capital seed funding for the Freeport. This allowed the Council to postpone additional borrowing which was planned for March 2025.

The current issues in the Middle East have impacted interest rates and the Council will continue to monitor and, if possible, postpone any new borrowing until rates begin to fall again.

6.3. Borrowing in Advance of Need (Paragraph 8.3 of the TMSS 2025/26)

The strategy was clear that the Council would not borrow in advance of need unless value for money could be demonstrated and that the security of funds could be assured.

No borrowing took place during 2025/26.

6.4. Debt Rescheduling (Paragraph 8.4 of the TMSS 2025/26)

Debt rescheduling would be considered if surplus cash was available to facilitate the repayment and that the rescheduling rebalances the portfolio and that the premium payable is lower than the interest saving made.

No rescheduling took place during 2025/26 as there is no urgent need to rebalance the portfolio and the cost of early redemption remains prohibitive.

6.5. Borrowing Counterparties (Paragraph 8.5 of the TMSS 2025/26)

The strategy sets out that the PWLB would remain as the Council's main source of borrowing, although consideration may be given to borrowing from other institutions.

During the year, no external borrowing took place.

6.6. Investment Priority (Paragraph 10.2.1 of the TMSS 2025/26)

The strategy sets out that the Council prioritises investments in terms of security, liquidity, yield, i.e. the Council prioritises the security of the investment above all other considerations. It then ensures that investments take into account the Council's need to access a level of cash instantly and that the yield generated is the final consideration.

During the year, these investment principles remained in place and all investments were made in accordance with these principles.

6.7. Investment Counterparties (Paragraph 10.2 – 10.4 of the TMSS 2025/26)

The strategy set out a number of criteria in respect of investment counterparties which covers the credit rating of each institution, set limits on the sums that could be invested with one institution, set limits on the length of investment and set out approved countries for investment.

During the year, all the criteria set were complied with and no breaches occurred.

7. PRUDENTIAL INDICATORS

7.1. In addition to the principles set out above, the Strategy also included a number of prudential indicators and authorised limits. The purpose of these indicators place controls on the level of capital expenditure and the level of borrowing to fund the expenditure and measures the affordability of the revenue costs of borrowing. The comparison of the actual performance for 2025/26, compared to the estimate in the original strategy, is shown in Table 8 below:-

**Table 8
Prudential Indicators 2025/26**

PERFORMANCE INDICATORS				
Indicator Group	Description	Treasury Management Strategy Statement 2025/26	Draft Final Position at end of Q4	
Affordability	Ratio of Financing Costs to Net Revenue Stream – General Fund	2.60%	1.83%	
	Ratio of Financing Costs to Net Revenue Stream – Housing Revenue Account (HRA)	10.03%	10.13%	
Capital Financing Requirement (CFR)	Council Fund & HRA	£154.390m	£156.581m	
AUTHORISED LIMITS				
Prudence	Gross debt must be lower than the CFR plus any additional CFR in the next two years	<£171.070m	£121.706m	
External Debt	Authorised Limit	< £181.230m	£121.706m	
	Operational Boundary	< £171.230m	£121.706m	
Maturity of Debt	Under 12 months	<20% of total debt = £24.341m	£2.061m	1.69%
	12 months and within 24 months	<20% of total debt = £24.341m	£4.908m	4.03%
	24 months and within 5 years	<50% of total debt = £60.853m	£9.026m	7.42%
	5 years and within 10 years	<75% of total debt = £85.194m	£14.086m	11.57%
	10 years and above	100% = £121.706m	£121.706m	100.00%

7.2. The table above confirms that all the indicators and authorised limits set out in the strategy have been complied with.

8. 2026/27 AND BEYOND

8.1. The TMSS for 2026/27 (approved by the Council on 5 March 2026) sets out the forecasts and strategy for the forthcoming year.

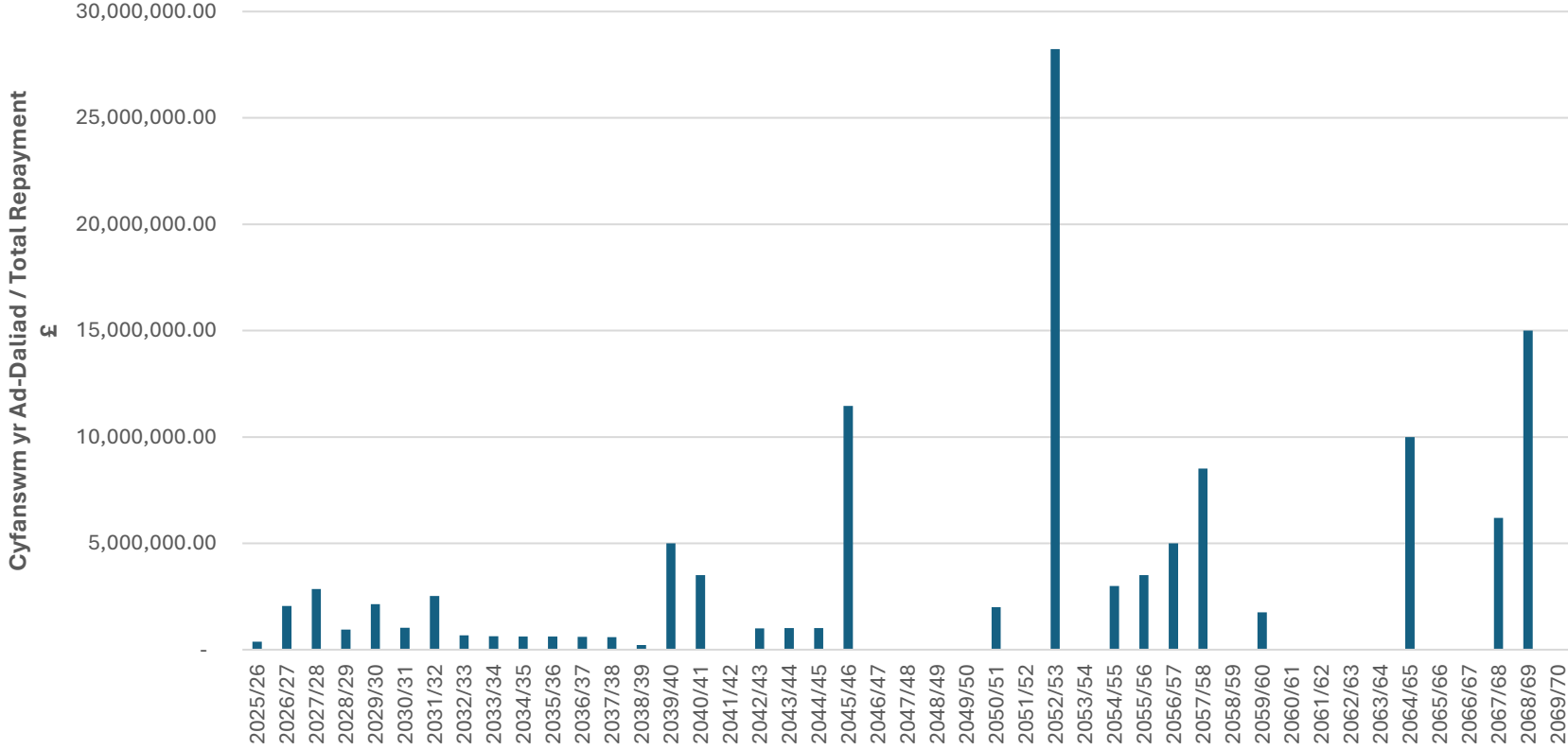
8.2. At the beginning of the financial year, the Council had £20m in liquid cash balances. It is estimated that net cash outflow in 2026/27 will be around £9m and this will bring the Council close to the minimum cash balance of £10m. These figures are based on forecasts and will vary, mainly due to the timing of capital expenditure and grant funding received from the WG. In order to ensure that cash balances remain healthy, it may be necessary to convert internal borrowing to external borrowing at some point during the year. However, given the potential for interest rates to fall during the later part of 2026 or the early part of 2027, further borrowing will be delayed for as long as possible, in order to minimise future interest costs.

- 8.3. During 2026/27, one loan dating back to 1994 for £853,800 will be repaid, along with the first HRA buy out loan for £527,601. Further buy out loans will be repaid annually until 2045. In addition, £22,232 annuity loans and £657,692 of Salix loans will be repaid in 2026/27. Further loans, totalling £2.847m, will be repaid in 2027/28.

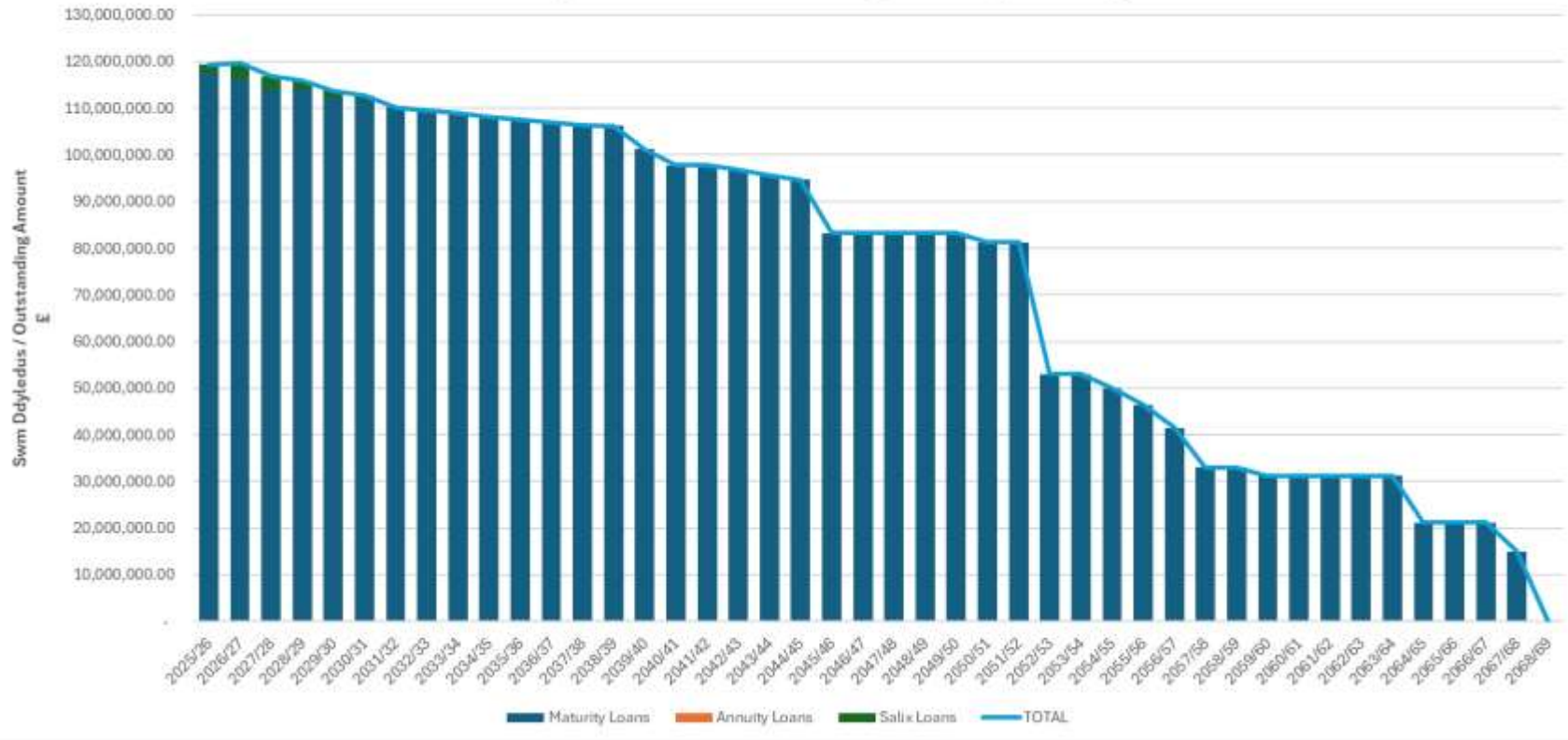
9. CONCLUSIONS

- 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 Statement and its performance against the Strategy take into account the external economic factors and it is constantly reviewed to ensure that it is the most appropriate strategy moving forward.

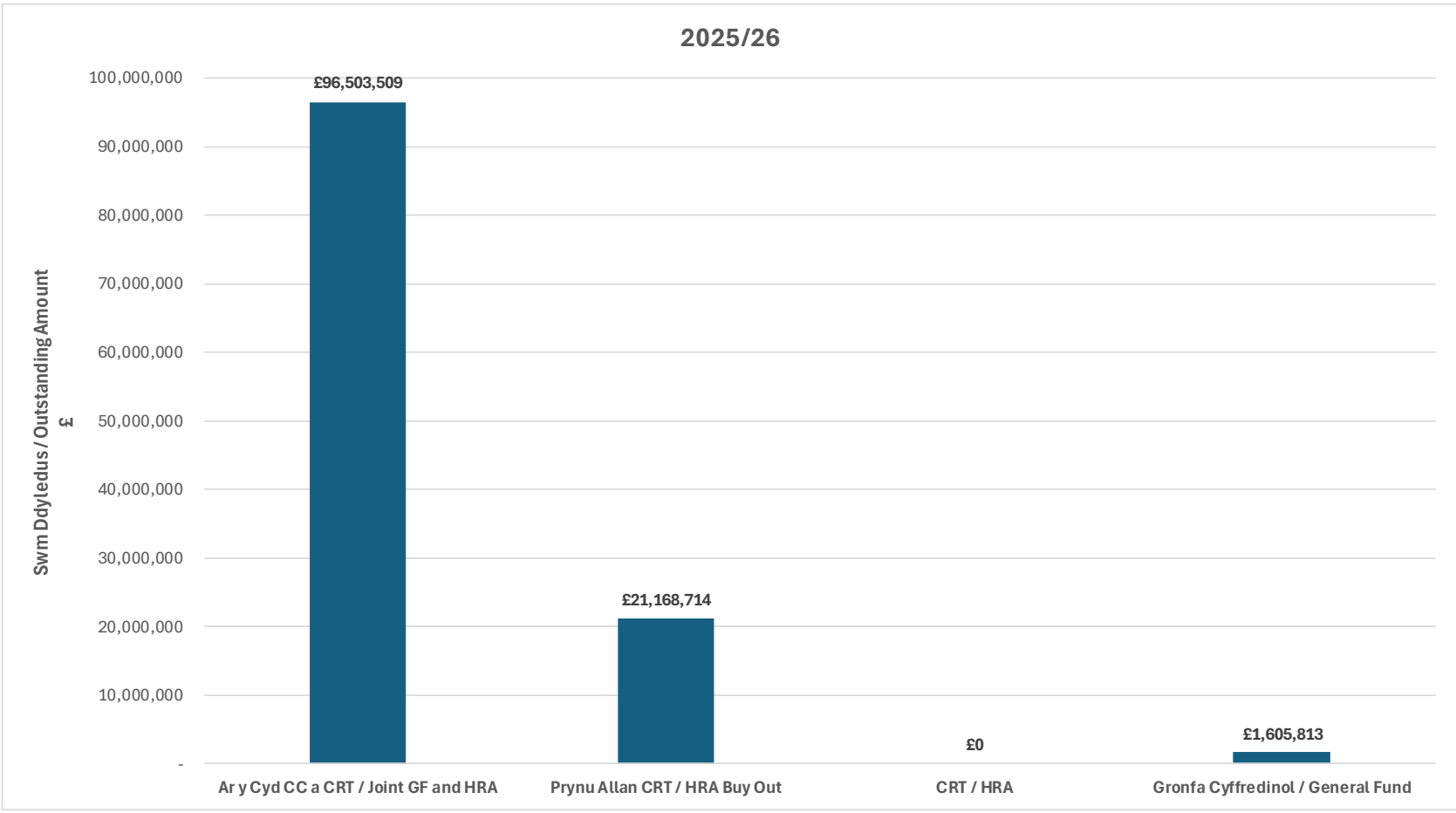
Cyfanswm Ad-Daliadau Benthyciadau fesul Blwyddyn Ad-Dalu Total Loan Repayments by Repayment Year



Balans Benthyciadau Dyledus - Benthyciadau Presennol Fesul Fath o Fenthyciad
Outstanding Loan Balance - Existing Loans by Loan Type



Cyfanswm Benthyciadau yn Ddyledus ar Diwedd Flwyddyn Ariannol Fesul Gronfa
Total Loan Outstanding as at the End of the Financial Year by Fund



Cyfanswm Benthyciadau yn Ddyledus ar Diwedd Flwyddyn Ariannol Fesul Gronfa
Total Loan Outstanding as at the End of the Financial Year by Fund

