



**WEST OXFORDSHIRE
DISTRICT COUNCIL**

WEST OXFORDSHIRE DISTRICT COUNCIL

Name and date of Committee	AUDIT AND GOVERNANCE COMMITTEE – 25 SEPTEMBER 2025
Subject	2025/26 TREASURY MANAGEMENT INDICATORS – QUARTER ONE
Wards affected	All
Accountable member	Cllr Alaric Smith Cabinet Member for Finance Email: alaric.smith@westoxon.gov.uk
Accountable officer	Madhu Richards, Director of Finance Email: madhu.richards@westoxon.gov.uk
Report author	Sian Hannam, Business Partner – Treasury Management Email: sian.hannam@publicagroup.uk
Summary/Purpose	To report to the Audit and Governance Committee the quarter one Treasury Management Indicators as required by the CIPFA Treasury Management Code.
Annexes	A. Glossary of Treasury Management Terms
Recommendation(s)	That the Audit and Governance Committee resolves to: I. Note the contents of the report
Corporate priorities	Working Together for West Oxfordshire
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A

1. BACKGROUND AND SUMMARY

- 1.1** The overall performance of investments in the 3 months to 30th June 2025 was positive, returning interest of £385,375 or 4.37% against the profiled budget of £289,058 and generating an unrealised capital gain of 2.3% or £260,711 in the year to date.
- 1.2** The capital value of pooled funds continues to be affected by prevailing economic conditions in the world markets. Pooled funds are intended to be long term investments where short term fluctuations in the capital value are expected. The Council's Treasury Management adviser (Arlingclose) are closely monitoring these funds and they continue to forecast that the capital values will recover over the next 2 years as gilts and bond revenue rates start to decline again.
- 1.3** The Council has continued to benefit from higher revenue returns due to the Bank of England reducing Bank Rate more slowly than previously predicted. The Bank of England's Monetary Policy Committee (MPC) cut the bank rate to 4.25%, from 4.5%, in May, with a further cut to 4% in August.
- 1.4** The Council complied with the Prudential Indicators for quarter one 2025/26 as set out in the budget approved by full Council in February 2025. Further details can be found in section 8 of this report.

2. ECONOMIC & FINANCIAL MARKETS BACKGROUND

- 2.1** The year started with significant financial market volatility as US President Donald Trump announced a wide range of 'reciprocal' trade tariffs in early April, causing equity markets to decline sharply which was followed by bond markets as investors were increasingly concerned about US fiscal policy. As the UK was included in these increased tariffs, equity and bond markets here were similarly affected by the uncertainty and investor concerns.
- 2.2** President Trump subsequently implemented a 90-day pause on most of the tariffs he announced, which has been positive for both equity and bond markets, but there has been a heightened uncertainty in markets over the first quarter of the year.
- 2.3** In its May report, the Bank of England said that inflation and wage growth in the UK were continuing to slow down. It also noted that there was now a small amount of spare capacity in the economy, which should help bring inflation down to the Bank's 2% target over time. While economic growth in the second quarter of 2025 is expected to be stronger than previously thought, the forecast for the same period in 2026 has been lowered, partly due to ongoing challenges in global trade.
- 2.4** Arlingclose, the Council's treasury adviser, expects the Bank of England to continue lowering interest rates. They believe the Bank will prioritise weak economic growth over stubbornly high inflation. One more rate cut is expected in 2025, bringing the Bank Rate down to 3.75%. However, there is a risk that growth could slow even more due to low consumer confidence and reduced business investment.

- 2.5 Financial markets:** After a sharp drop early in the quarter, financial market sentiment improved, but both bond and equity markets remained unstable. Bond yields fell at first, then rose due to concerns over U.S. trade policy, but have been steadily declining since mid-May—though volatility continues. Equity markets fell sharply in April but have since recovered most of those losses, with investors staying optimistic despite ongoing uncertainty.
- 2.6 Credit review:** Arlingclose continues to recommend a maximum investment period of 6 months for most banks on its approved list. For the remaining banks, the limit is 100 days.
- 2.7 Financial Markets:** volatility is expected to continue in the short term. The Council will keep monitoring credit default swap levels for signs of financial stress. As always, Arlingclose regularly reviews the approved institutions and investment durations on the Council's counterparty list.

3. LOCAL CONTEXT

- 3.1** On 31st March 2025, the Council had net investments of £24.35m arising from its revenue and capital income. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These items are summarised in Table I below.

Table I: Balance Sheet Summary

	31.3.25 Actual £m	31.3.26 Forecast £m
General Fund CFR	29.41	34.54
External borrowing	0.00	(3.35)
Internal borrowing	29.41	31.19
Less: Balance sheet resources	(34.106)	(35.472)
Net investments	(4.696)	(4.282)

- 3.2 The treasury management position at 30th June and the change over the 3 months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	30.06.25 Balance £m	30.06.25 Rate %
Total borrowing	0	0	0	0
Long-term investments	11.934	0.230	12.165	4.55
Short-term investments	0.062	1.938	2.000	4.26
Cash and cash equivalents	12.354	6.891	19.245	4.26
Total investments	24.350	9.059	33.410	4.37
Net investments	24.350	9.059	33.410	

4. BORROWING STRATEGY AND ACTIVITY

- 4.1 As outlined in the Treasury Management Strategy, the Council's main goal when borrowing is to keep interest costs low while also ensuring cost certainty over the time the money is needed. A secondary goal is to keep loans flexible in case the Council's long-term plans change. So far, the Council has used "internal borrowing," meaning it has borrowed less than its actual funding needs by using its own cash reserves instead.
- 4.2 According to CIPFA's 2021 Prudential Code, councils must not borrow money just to make a profit from investments. It is considered financially irresponsible to make decisions that increase borrowing unless the spending is directly linked to the Council's core services. As a result, councils can no longer access Public Works Loan Board (PWLB) loans if they plan to use the money to buy assets for income—unless the loan is just to refinance existing debt.
- 4.3 At 30th June, the Council had no external borrowing.

5. TREASURY INVESTMENT ACTIVITY

- 5.1 Each month, the Council receives a list of approved investment options from its treasury advisers, Arlingclose. The treasury team uses this list to decide where to invest. Most approved institutions currently have a 6-month investment limit, reflecting ongoing market uncertainty. The Council keeps its funds in easy-access accounts like Money Market Funds and Call Accounts and also makes short-term deposits with the UK Debt Management Office (DMO). This approach helps ensure there is enough cash available to support public services and fund capital projects—without needing to borrow.

- 5.2 The Council holds a large amount of invested funds. These come from income received before it is spent, along with reserves and balances that are set aside. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.25	Net	30.06.25	30.06.25
	Balance	Movement	Balance	Income
	£m	£m	£m	Return
				%
Banks & building societies (unsecured)	0.050	2.835	2.885	4.22
Money Market Funds	12.303	6.057	18.360	4.26
Other Pooled Funds				
- <i>Equity & Multi Asset income funds</i>	7.662	0.176	7.838	4.55
- Bond income funds	3.645	0.021	3.666	4.55
- <i>Real Estate Investment Trusts</i>	0.690	(0.030)	0.660	3.00
Total investments	24.350	9.060	33.410	4.37

- 5.3 The Council follows rules from CIPFA and the government that require it to invest money carefully. The main priorities are keeping investments safe and easy to access, rather than chasing high returns. The goal is to find a good balance between risk and reward—avoiding losses and ensuring a reasonable level of income.
- 5.4 As shown in the liability benchmark, the Council expects to need long-term borrowing. For now, most new investments are short-term and low risk, helping manage daily cash needs. The Council also keeps its existing investments in strategic pooled funds to spread risk across different types of assets and improve returns.
- 5.5 Bank Rate started the period at 4.5% and was cut to 4.25% in May, with short term interest rates being around this level. The rates on DMADF deposits ranged between 4.45% and 4.22% and money market rates between 4.5% and 4.26%.
- 5.6 The progression of risk and return metrics are shown in the Arlingclose quarterly investment benchmarking report; the results of which are summarised in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30.06.2025	4.87	A+	100%	4	4.37
Similar LAs	4.51	A+	62%	50	4.36
All LAs	4.56	A+	62%	10	4.36

- 5.7 The Council has invested £12 million in externally managed pooled funds, which include bonds, equities, and multi-asset investments. These funds focus more on generating steady income and long-term value rather than short-term safety or quick access to cash. During the period, they earned £131,014 in income, which helps support Council services, and showed an unrealised gain of £260,711 in capital value. Details of the current pooled fund holdings are shown in Table 6 below.

Table 6: Current Pooled Funds

Fund Manager	Original Investment	Value 31st March 2025	Value 30th June	3 Month Dividend 2025/26	2025/26 Capital Gain/ (Loss)	Capital Gain/(Loss) vs Original Investment
	£	£	£	£	£	£
M&G Strategic (B)	2,000,000	1,760,300	1,791,798	22,599	31,498	- 208,202
Royal London (L)	2,000,000	1,862,609	1,874,509	22,892	11,899	- 125,491
Schroders €	1,000,000	951,479	1,001,409	25,406	49,930	1,409
Threadneedle UK €	1,000,000	1,139,932	1,220,659	10,324	80,727	220,659
CCLA Diversified Fund (B/E)	3,000,000	2,751,339	2,767,642	196	16,302	- 232,358
Aegon/Kames (L)	3,000,000	2,778,320	2,848,675	49,597	70,355	- 151,325
Total - Current funds	12,000,000	11,243,980	11,504,691	131,014	260,711	- 495,309

(L = Liquidity; B= Bond; E= Equity)

- 5.8 Most types of investments performed well in the first quarter of 2025/26, although markets were quite volatile. Investor confidence improved after April, which helped boost equity (stock) market performance despite ongoing uncertainty.

- 5.9 Government bond yields mostly fell during the quarter, meaning bond prices went up. Corporate bonds also recovered from earlier losses caused by trade tariffs, resulting in modest positive returns overall.
- 5.10 The UK commercial property market continued to improve slowly, with small increases in property values across most sectors. Income remains the main source of returns.
- 5.11 Table 6 shows how the Council's investment funds changed in value and income over the three months ending 30 June.
- 5.12 **Statutory override:** In February 2025, the government confirmed that councils can continue using the statutory override for unrealised accounting gains and losses on pooled investment funds until 1 April 2029—but only for investments made before 1 April 2024. Any new investments made after that date will not be covered by the override.

6. TREASURY PERFORMANCE

- 6.1 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 7 below.

Table 7: Performance

	Q1 Actual £m	2025_26 Budget £m	Over/ under	Actual %	LA's Average Benchmark %	Over/ under
Short-term investments	0.049	0	0.049	4.34	4.29	0.05
MMF & Call Accounts	0.189	0.348	-0.159	4.36	4.29	0.07
Strategic Funds	0.131	0.506	-0.375	4.85	4.84	0.01
Long Term Loans	0.007	0.273	-0.266	2.84	N/A	N/A
REIT	0.008	0.029	-0.021	3.00	N/A	N/A
Total treasury investments	0.384	1.156	-0.772	4.49	4.36	0.13

7. COMPLIANCE

- 7.1 The Director of Finance reports that all treasury management activities undertaken during the quarter complied with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 8 below.

Table 8: Investment Limits

	2025/26 Maximum £m	30.06.25 Actual £m	2025/26 Limit £m	Complied? Yes/No
Any single organisation, except the UK Government	2	0	3	YES
Any group of organisations under the same ownership	3	0	5	YES
Any group of pooled funds under the same management	0	0	5	YES
Limit per non-UK country	0	0	1	YES
Registered providers and registered social landlords	9.448	9.375	10	YES
Unsecured investments with banks	3	2.885	5	YES
Money Market Funds	20	14.245	25	YES
Strategic pooled funds	12	12	25	YES
Real Estate Investment Trusts	1	1	3	YES

- 7.2** Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 9 below.

Table 9: Debt and the Authorised Limit and Operational Boundary

	Q1 2025/26 Maximum	30.06.25 Actual	2025/26 Operational Boundary	2025/26 Authorised Limit	Complied? Yes/No
	£m	£m	£m	£m	
Borrowing	0	0	36.54	41.54	YES
Total debt	0	0			

- 7.3** Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

8. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

- 8.1 As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

Liability Benchmark - The liability benchmark is a useful tool that helps the Council decide whether it will need to borrow money long-term or invest money long-term. This helps guide its financial strategy and decision-making. It shows how much debt the Council needs to hold to support its current spending plans, while keeping at least £4 million in cash available to manage daily operations.

	31.3.25 Actual £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Capital Financing Requirement (CFR)	29.41	34.54	38.95
Less: usable reserves	(34.11)	(31.82)	(27.54)
Less: working capital	(17.54)	(13.40)	(13.40)
Net loans requirement	(22.23)	(10.68)	(1.99)
Plus: Liquidity allowance	14.00	14.00	14.00
Liability benchmark	(8.23)	3.32	12.01

- 8.2 **Long-term Treasury Management Investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2025/26	2026/27	2027/28	No fixed date
Limit on principal invested beyond year end	£25m	£25m	£25m	£25m
Actual principal invested beyond year end	0	n/a	n/a	£16m
Complied?	YES	YES	YES	YES

- 8.3 Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.
- 8.4 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2025/26 Target	30.06.2025	Complied?
Portfolio average credit rating	A-	A+	YES

- 8.5 Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk.

Interest rate risk indicator	2025/26 Target £	30.06.25 Actual £	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	160,000	121,934	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	-160,000	- 121,934	Yes

9. NON TREASURY MANAGEMENT PRUDENTIAL INDICATORS

- 9.1** The Council measures and manages its capital expenditure, borrowing and service investments with references to the following indicators with it being a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

- 9.2** The Council has undertaken and is planning capital expenditure as summarised below.

	2024/25 actual £m	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m
General Fund services	6.35	16.16	2.87	1.97

- 9.3** Capital expenditure this quarter amounts to £643,834, related to S106 payments, Disabled Facilities Grants and Council Building repairs & maintenance. Significant expenditure is expected throughout quarters two and three on the decarbonisation of Windrush Leisure Centre and the purchase of Temporary Emergency Accommodation.

- 9.4 Capital Financing Requirement:** The Council's total debt is measured by something called the Capital Financing Requirement (CFR). This amount goes up when the Council spends money

on projects using borrowed funds, and it goes down when the Council makes repayments, applies MRP or uses money from asset sales to reduce debt.

	2024/25 actual £m	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m
General Fund services	29.81	34.54	38.95	36.15
TOTAL CFR	29.81	34.54	38.95	36.15

- 9.5 Gross Debt and the Capital Financing Requirement:** Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	2024/25 actual £m	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m	Debt at 30.06.25
Debt (Incl.PFI & leases)	0.000	3.35	3.85	3.85	0
Capital Financing Requirement	29.81	34.54	38.95	36.15	

- 9.6 Debt and the Authorised Limit and Operational Boundary:** The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

	Maximum debt 2025/26	Debt at 30.06.25	2025/26 Authorised Limit £m	2025/26 Operational Boundary £m	Complied? Yes/No
Borrowing	0.00	0	41.54	36.54	Yes
Total Debt	0	0	0	0	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

- 9.7 Net Income from Commercial and Service Investments to Net Revenue Stream:** The Council’s income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below.

	2024/25 actual £m	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m
Investment Property Investments	3.27	3.27	3.27	3.27

Service Investments	1.33	1.24	1.40	1.40
	4.60	4.51	4.67	4.67
Net Revenue Stream	16.95	18.49	15.31	14.86
Proportion of Net Revenue Stream	27.14%	24.39%	30.52%	31.45%

9.8 Proportion of Financing Costs to Net Revenue Stream: Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, MRP and loan repayments are charged to revenue.

9.9 The net annual charge is known as financing costs; this is compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general government grants.

	2024/25 actual £m	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m
Interest Payable	0.00	0.09	0.16	0.15
MRP	0.52	0.56	0.69	0.69
Total borrowing costs	0.52	0.65	0.85	0.84
Net Revenue Stream	16.95	18.49	15.31	14.86
Proportion of Net Revenue Stream	3.06%	3.48%	5.59%	5.66%

10. Conclusion

Quarter One is in a positive position, achieving above budget returns on investment income and the pooled fund capital value's recovering by 2.32%.

11. Financial Implications

There are no financial implications arising from this report.

12. Legal Implications

There are no legal implications arising from this report.

13. Risk Assessment

None required as a result of this report.

14. Equalities Impact

No direct equalities impact with regards to the content of this report.

15. Climate and Ecological Emergencies Implications

None.

16. Background Papers

None.

(END)