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| WEST OXFORDSHIRE DISTRICT COUNCIL | **WEST OXFORDSHIRE DISTRICT COUNCIL** |
| Name and date of Committee | **AUDIT AND GOVERNANCE – 27 NOVEMBER 2025** |
| Subject | **2025/26 HALF YEAR TREASURY MANAGEMENT ACTIVITY AND PERFORMANCE AS AT 30 SEPTEMBER 2025** |
| Wards affected | All |
| Accountable member | Cllr Alaric Smith Executive Member for Finance<br>Email: alaric.smith@westoxon.gov.uk |
| Accountable officer | Madhu Richards, Director of Finance<br>Email: madhu.richards@westoxon.gov.uk |
| Report author | Sian Hannam, Treasury Accountant<br>Email: sian.hannam@publicagroup.uk |
| Summary/Purpose | To provide Members with an update on Treasury Management activity, the performance of internal and external funds and prudential indicators for the period 1st April 2025 – 30th Sept 2025 |
| Annexes | N/A |
| Recommendation(s) | That the Executive resolves to:<br>1. Note the contents of the report |
| Corporate priorities | Working Together for West Oxfordshire |
| Key Decision | No |
| Exempt | No |

## 1. BACKGROUND AND SUMMARY

**1.1** The overall performance of investments in the 6 months to 30th September 2025 was positive, returning interest of £953,176 against the annual revenue budget of £1,156,230, but also generating an unrealised capital gain of 2.83% or £318,712 in the year to date.

**1.2** Pooled Funds have maintained strong dividend returns in the first six months of the year and returned 4.83% against the £12m invested in this area (further details provided in section 5). The capital value of pooled funds continues to be affected by economic conditions in the world markets but have provided a gain in the first six months. 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) is closely monitoring these funds, and they continue to forecast that the capital values will recover over the next 2-3 years as gilts and bond revenue rates start to decline again.

**1.3** The Council has benefitted from higher revenue returns due to a delay in Bank of England Interest Rate cuts leading to a sustained higher Bank Rate in the first six months of 2025/26.

**1.4** This report includes the quarterly updates on treasury management prudential indicators, as required by the 2021 Prudential Code published by CIPFA.

**1.5** The Council complied with the majority of the Prudential Indicators for 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** In the first quarter, global markets were shaken by U.S. trade tariffs, which caused uncertainty and affected both stock (equity) and bond markets. In the second quarter, although uncertainty continued, stock markets started to recover, and U.S. and U.K. government bond yields began moving in different directions after previously tracking closely.

**2.2** From late June concerns about the U.K.'s economy, government finances, and speculation about the autumn Budget pushed up yields on medium- and long-term government bonds (gilts). The 30-year gilt yield even reached its highest level in almost 30 years.

**2.3** The Bank of England's Monetary Policy Committee (MPC) cut interest rates twice—first from 4.5% to 4.25% in May, then to 4.0% in August after a rare second vote. The final decision was close (5 votes to 4). In September, most members voted to keep rates steady, while two wanted another cut. The MPC remains divided on whether inflation risks outweigh the risks of slower economic growth.

**2.4** The August BoE Monetary Policy Report highlighted that after peaking in Q3 2025, inflation is projected to fall back to target by mid-2027. This decline will be helped by slower economic activity and the ongoing impact of previous interest rates. In the short term, economic growth (GDP) is likely to stay weak, while the medium-term outlook will depend on both UK and global developments.

**2.5** The Council's treasury adviser, Arlingclose, expects the Bank of England to cut interest rates again because it is prioritising weak economic growth over concerns about inflation. One more cut is likely during 2025/26, which would bring the Bank Rate down to 3.75%. In the short term, the outlook is fairly balanced, but further ahead, risks lean towards slower growth due to weak consumer confidence and low business investment. There is also significant uncertainty about the autumn Budget and how it might affect the economy.

**2.6 The US and Eurozone**

In the U.S. uncertainty over trade policy and pressure from President Trump led the Federal Reserve to keep interest rates steady for most of the period. In September, it cut rates slightly to 4.00%–4.25%. The Fed also forecast that rates would fall by 0.50% by the end of 2025 and another 0.25% in 2026. It expects U.S. GDP growth of 1.6% in 2025, inflation at 3%, and unemployment at 4.5%.

**2.7** The Eurozone Central Bank (ECB) cut its main interest rate from 2.25% to 2.0% in June and then held it steady. Its forecasts show inflation averaging 2.1% in 2025 before dropping below target in 2026, with GDP growth expected to improve and risks becoming more balanced.

**2.8** After sharp declines early in the period, market confidence improved, but risky assets remain volatile. Bond yields fell at first but later rose—especially in the UK—because investors demanded higher returns due to concerns about economic risk. Equity markets recovered losses from April and remain strong despite ongoing uncertainty.

**2.9** **Credit Review -** Arlingclose, the Council's treasury adviser, kept its recommended maximum investment period for most banks at six months, with others limited to 100 days.

**2.10** Financial markets are expected to stay volatile in the short term. Credit risk indicators, such as credit default swaps, will be monitored closely. The Council's approved list of banks and investment durations will continue to be reviewed regularly.

## 3. LOCAL CONTEXT

**3.1** On 31st March 2025, the Council had net investments of £24.350m arising from its revenue and capital income and expenditure. 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 1.

Table 1: Balance Sheet Summary

| | 31.3.25 Actual £m | 31.3.26 Forecast £m |
|---|---|---|
| General Fund CFR | 29.41 | 34.54 |
| External borrowing | 0.00. | 0.00 |
| **Internal borrowing** | **29.41** | **34.54** |
| Less: Balance sheet resources | (34.106) | (35.472) |
| **Net investments** | **(4.696)** | **(0.932)** |

**3.2** The treasury management position on 30th September and the change over the six months is shown in Table 2.

Table 2: Treasury Management Summary

| | 31.3.25 Balance £m | Movement £m | 30.9.25 Balance £m | 30.9.25 Rate % |
|---|---|---|---|---|
| **Total borrowing** | 0 | 0 | 0 | |
| Long-term investments | 11.934 | 0.278 | 12.212 | 4.83 |
| Short-term investments | 0.062 | 2.524 | 2.586 | 4.03 |
| Cash and cash equivalents | 12.354 | 8.589 | 20.943 | 4.03 |
| **Total investments** | **24.350** | **11.391** | **35.741** | **4.31** |

## 4. BORROWING STRATEGY AND ACTIVITY

**4.1** As outlined in the Treasury Management Strategy, the Council's chief objective when borrowing has been to strike a low-risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required. Flexibility to renegotiate loans should the Council's long-term plans change has been a secondary objective. The Council's borrowing strategy thus far has maintained borrowing and investments below their underlying levels, known as internal borrowing.

**4.2** The CIPFA Prudential Code (2021) states that councils must not borrow money just to make a profit from investments. It is also considered imprudent for councils to take on new borrowing or make spending decisions that increase their borrowing requirement unless the purpose is directly linked to delivering council services. In addition, Public Works Loan Board (PWLB) loans are no longer available for councils that plan to buy assets mainly to earn income, except when refinancing existing loans.

**4.3** At 30th September, the Council had no external borrowing.

## 5. TREASURY INVESTMENT ACTIVITY

**5.1** A counterparty list recommended and reviewed by the Council's treasury management advisors, Arlingclose is received monthly, and the treasury team use this to evaluate investment options. At the end of the period the majority of counterparties remained on a 100-day limit maintaining precautions brought about by uncertainty in the market. The treasury team continues to hold most of in-house balances in the liquid Money Market Funds and Call Accounts and making short term deposits with the UK Debt Management Office (DMO). This enables continued cash support for the services the Council provides to the public and provides funding for the Council's capital programme, without the need to borrow.

**5.2** The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position is shown in table 3.

Table 3: Treasury Investment Position

| | **31.3.25 Balance £m** | **Net Movement £m** | **30.9.25 Balance £m** | **30.9.25 Income Return %** |
|---|---|---|---|---|
| Banks & building societies (unsecured) | 0.051 | 1.460 | 1.511 | 3.97 |
| Bank of England DMADF | 0.000 | 1.002 | 1.002 | 3.96 |
| Money Market Funds | 12.303 | 8.640 | 20.943 | 4.23 |
| Other Pooled Funds | | | | |
| - *Equity & Multi Asset income funds* | 7.662 | 0.295 | 7.957 | 4.83 |
| - Bond income funds | 3.645 | 0.033 | 3.678 | 4.83 |
| - *Real Estate Investment Trusts* | 0.690 | (0.040) | 0.650 | 3.00 |
| **Total investments** | **24.351** | **11.390** | **35.741** | **4.31%** |

**5.3** Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

**5.4** As demonstrated by the liability benchmark in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term minimal risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

**5.5** Bank Rate reduced from 4.50% to 4.00% in the six months to 30 September, with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.46% and 3.95% and money market rates between 4.50% and 4.09%.

**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 4.

Table 4: Investment Benchmarking – Treasury investments managed in-house.

| | **Credit Score** | **Credit Rating** | **Bail-in Exposure** | **Weighted Average Maturity (days)** | **Rate of Return %** |
|---|---|---|---|---|---|
| 30.9.2024 | 4.82 | A+ | 96% | 6 | 4.31 |
| Similar LAs | 4.53 | A+ | 64% | 53 | 4.27 |
| All LAs | 4.54 | A+ | 62% | 11 | 4.20 |

**5.7** **Externally Managed Pooled Funds -** £12m of the Council's investments are invested in externally managed strategic pooled bond, equity, and multi-asset funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an interest income return of £300,412 in the first half of the year which supports service delivery, and an unrealised capital gain of £318,712. The current Pooled Fund position can be seen in table 5.

Table 5 Current Pooled Funds

| Fund Manager | Original Investment | Value 31st March 2025 | Value 30th September | 6 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 | 1,773,981 | 45,103 | 13,680. | (226,019) |
| Royal London (B) | 2,000,000 | 1,862,609 | 1,881,251 | 46,498 | 18,642. | (118,749) |
| Schroders E | 1,000,000 | 951,479 | 1,016,710 | 46,060 | 65,230. | 16,710. |
| Threadneedle UK E | 1,000,000 | 1,139,932 | 1,229,226 | 21,747 | 89,294. | 229,226. |
| CCLA Diversified Fund (MA) | 3,000,000 | 2,751,339 | 2,732,484 | 51,931 | (18,856) | (267,516) |
| Aegon/Kames (MA) | 3,000,000 | 2,778,320 | 2,929,041 | 89,074 | 150,721. | (70,959) |
| **Total - Current funds** | **12,000,000** | **11,243,980** | **11,562,692** | **300,412** | **318,712.** | **(437,308)** |

(MA = Multi Asset; B= Bond; E= Equity)

**5.8** Most types of investments performed well during the first half of 2025/26, even though markets were volatile and heavily influenced by political and economic events.

**5.9** The biggest shock came early in the period when U.S. President Trump announced "Liberation Day" tariffs on 2 April. This caused sharp drops in global stock and bond markets. Confidence improved after the U.S. softened its stance, and markets recovered fairly quickly, although uncertainty remained.

**5.10** Bond markets stayed unpredictable as investors weighed political risks and concerns about government finances. Corporate bonds generally delivered positive returns, though not as strong as stocks. Longer-term government bonds saw yields rise (meaning prices fell), especially in the UK, where worries about fiscal issues and persistent inflation pushed 30-year gilt yields to their highest level since the late 1990s.

**5.11** The change in the Council's funds' capital values and income return over the 6-month period is shown in Table 5.

**5.12** Despite ongoing market volatility, most major types of investments delivered positive returns in the first half of 2025/26. Shares (equities) performed best, while bonds (fixed income) and property also contributed positively.

## 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 6.

Table 6: Performance

| | **Q2 Actual £m** | **2025_26 Budget £m** | **Over/ under** | **Actual %** | **LA's Average Benchmark %** | **Over/ under** |
|---|---|---|---|---|---|---|
| Short-term investments | 0.117 | 0 | 0.117 | 4.15 | 4.06 | 0.09 |
| MMF & Call Accounts | 0.418 | 0.348 | 0.070 | 4.23 | 4.06 | 0.17 |
| Strategic Funds | 0.300 | 0.506 | -0.206 | 4.83 | 4.94 | -0.11 |
| Long Term Loans | 0.102 | 0.273 | -0.171 | 2.84 | N/A | N/A |
| REIT | 0.015 | 0.029 | -0.014 | 3.00 | N/A | N/A |
| **Total treasury investments** | **0.952** | **1.156** | **-0.204** | **4.81** | **4.90** | **-0.09** |

## 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 7.

Table 7: Investment Limits

| | 2025/26 Maximum £m | 30.9.25 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 | 9.33 | 10 | YES |
| Unsecured investments with banks | 3 | 2.388 | 5 | YES |
| Money Market Funds | 20.066 | 20.066 | 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 8.

Table 8: Debt and the Authorised Limit and Operational Boundary

| | Q2 2025/26 Maximum | 30.9.25 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.

**8.2** **Liability Benchmark -** This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is a valuable tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £4m required to manage day-to-day cash flow.

| | **31.3.25 Actual** | **31.3.26 Forecast** | **31.3.27 Forecast** |
|---|---|---|---|
| Capital Financing Requirement (CFR) | 29.41 | 34.54 | 38.95 |
| Less: usable reserves<br>Less: working capital | (34.11)<br>(17.54) | (36.10)<br>(13.40) | (27.54)<br>(13.40) |
| **Net loans requirement** | **(22.23)** | **(14.96)** | **(1.99)** |
| Plus: Liquidity allowance | 14.00 | 14.00 | 14.00 |
| **Liability benchmark** | (8.23) | **(0.96)** | **12.01** |
| **External borrowing** | **0.00** | **0.00** | **3.85** |

**8.3** <u>**Long-term Treasury Management Investments:**</u> 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 | £13m |
| Complied? | YES | YES | YES | YES |

**8.4** 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.

**8.5** <u>Security:</u> 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 | 30.9.2025 | Complied? |
|---|---|---|---|
| Portfolio average credit rating | A- | A+ | YES |

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

| Interest rate risk indicator | 2025/26 Target | 30.09.25 Actual | Complied? |
|---|---|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | 160,000 | 483,588 | No |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | -160,000 | - 483,588 | No |

Due to the lack of capital expenditure, the weighted average on variable rate investments (MMFs) has been higher than originally forecast. The 1% increase was therefore higher than the target and we have generated more interest income.

**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.

**9.2** It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

**9.3** Capital Expenditure: 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 | 11.28 | 11.21 | 2.87 | 1.97 |

**9.4** The main capital expenditure this quarter has been £256,800 installing solar panels to Carterton Leisure Centre funded by a grant, £142,180 on replacement CCTV cameras across the district and £127,408 in repairs to Council owned operational buildings.

**9.5** Capital Financing Requirement: The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP / loans fund repayments and capital receipts used to replace debt.

| | 2024/25 actual £m | 2025/26 forecast £m | 2026/27 forecast £m | 2027/28 forecast £m |
|---|---|---|---|---|
| General Fund services | 29.41 | 34.54 | 33.50 | 32.15 |
| **TOTAL CFR** | **29.41** | **34.54** | **33.50** | **32.15** |

**9.6** 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 30.09.25 |
|---|---|---|---|---|---|
| Debt (Incl.PFI & leases) | 0 | 3.35 | 3.85 | 0 | 0 |
| Capital Financing Requirement | 28.62 | 34.54 | 33.5 | 32.15 | |

**9.7** 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 30.09.25 | 2025/26 Authorised Limit £m | 2025/26 Operational Boundary £m | Complied? Yes/No |
|---|---|---|---|---|---|
| External Borrowing | 0 | 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.

**9.8** 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<br>Service Investments | 3.27<br>1.33 | 3.27<br>1.24 | 3.27<br>1.40 | 3.27<br>1.40 |
| <br>Net Revenue Stream | 4.60<br>16.95 | 4.51<br>18.49 | 4.67<br>15.31 | 4.67<br>14.86 |
| Proportion of Net Revenue Stream | 27.14% | 24.39% | 30.50% | 31.43% |

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

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<br>MRP | 0.00<br>0.52 | 0.00<br>0.56 | 0.16<br>0.69 | 0.15<br>0.69 |
| Total borrowing costs<br>Net Revenue Stream | 0.52<br>16.95 | 0.56<br>18.49 | 0.85<br>15.31 | 0.84<br>14.86 |
| Proportion of Net Revenue Stream | 3.07% | 3.02% | 5.55% | 5.65% |

**9.10 Conclusion**

Overall performance of investments in the 6 months to 30th September 2025 was positive and the Council complied with the majority of the Prudential Indicators for 2025/26 as set out in the budget.

**10. Financial Implications**

There are no financial implications arising from this report.

**11. Legal Implications**

There are no legal implication arising from this report.

**12. Risk Assessment**

None required as a result of this report.

**13. Equalities Impact**

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

**14. Climate and Ecological Emergencies Implications**

None.

**15. Background Papers**

None.

(END)