WEST OXFORDSHIRE DISTRICT COUNCIL	**WEST OXFORDSHIRE DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 19 MARCH 2026.**
Subject	**2025/26 TREASURY MANAGEMENT INDICATORS – QUARTER THREE**
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 three Treasury Management Indicators as required by the CIPFA Treasury Management Code.
Annexes	None.
Recommendation(s)	That the Audit and Governance Committee Resolves to: 1. 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 9 months to 31st December 2025 was positive, returning interest of £1.360m or 4.14% against a quarter of the annual revenue budget of £1,156,230 also generating an unrealised capital gain of 3.41% or £580,484 in the year to date.

1.2 The value of the pooled funds is still being influenced by current global economic conditions. These funds are designed for long-term investment, so short-term ups and downs are normal. The Council's Treasury Management adviser, Arlingclose, is monitoring the funds closely. They expect the values to recover over the next 2–3 years, as government bond (gilt) and other bond yields begin to fall again

1.3 The Council has continued to benefit from higher revenue returns due to the Bank of England reducing the Bank Rate more slowly than previously predicted. In January 2026 the Bank of England's Monetary Policy Committee (MPC) cut the bank rate to 3.75%, from 4%, in December 2025.

1.4 The Council complied with all but one of the Prudential Indicators for quarter 3 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 first quarter was heavily influenced by US trade tariffs, which impacted both equity and bond markets. Although equity markets recovered to some extent in the second quarter, this period also saw US and UK government bond yields move in different directions. UK yields remained higher, reflecting investors' demand for greater returns - a response to increased uncertainty around the UK's fiscal outlook and broader economic conditions

2.2 The latter part of the period included the government's November autumn Budget. Despite much speculation and drip-feeding of potential policies in the weeks leading up to the event, what was ultimately announced was generally deemed more muted than had been anticipated, helping ease investors' fears of significantly higher government borrowing.

2.3 The Bank of England's November Monetary Policy Report forecast a modest 0.2% increase in Gross Domestic Product (GDP) for the final quarter of 2025. However, its inflation projections quickly became outdated when Consumer Price Index (CPI) fell faster than expected in November. The Office for Budget Responsibility echoed expectations of only modest economic growth in its Economic and Fiscal Outlook, published alongside the Autumn Statement, lowering its estimate of annual GDP growth to around 1.5% for the period 2025–2030.

2.4 Arlingclose, the authority's treasury adviser, maintained the view that the Bank Rate would continue to be reduced in 2025/26, as most Monetary Policy Committee members remained more concerned about weak GDP growth than inflation risks. In line with this outlook, the Bank Rate was cut to 3.75% in January. Further reductions are anticipated through 2026, with Arlingclose's central forecast suggesting the rate will ease to around 3.25%.

2.5 **Financial markets:** After a sharp decline at the start of the period, market sentiment turned broadly positive, although volatility in riskier assets persisted. Bond yields fell initially, but rising uncertainty about the UK's economic and fiscal outlook pushed medium- and long-term yields higher. These yields remained elevated until the third quarter, when concerns about the potential impact of the UK Budget proved less severe than anticipated, leading to a modest easing in yields.

2.6 **Credit review:** Arlingclose continued to recommend a maximum unsecured investment duration of 6 months for most banks on the Council's counterparty list. For the remaining institutions, the advised limit was maintained at 100 days.

2.7 **Outlook:** Financial market volatility is expected to continue, and credit default swap (CDS) levels will be monitored closely for any signs of ongoing credit stress. Arlingclose's recommended counterparties and investment durations remain under continual review to ensure the Authority's exposure is appropriately managed.

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 below.

Table 1: Balance Sheet Summary

	31.3.25 Actual £m	**31.3.26 Forecast £m**
General Fund CFR	29.41	32.88
External borrowing	0.00.	0.00.
Internal borrowing	29.41	32.88
Less: Balance sheet resources	(34.106)	(35.472)
Net investments	**(4.696)**	**(2.59)**

3.2 The treasury management position on 31st December 2025 and the change over the 9 months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.25 Balance £m	Movement £m	31.12.25 Balance £m	31.12.25 Rate %
Total borrowing	0	0	0	0
Long-term investments	11.934	0.530	12.464	4.63
Short-term investments	0.062	2.482	2.544	3.93
Cash and cash equivalents	12.354	8.214	20.568	4.15
Total investments	**24.350**	**11.226**	**35.576**	**3.89**
Net investments	**24.350**	**11.226**	**35.576**	

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 being 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 CIPFA's 2021 Prudential Code states explicitly that councils must not borrow purely to generate a financial return. It also requires that councils avoid any investment or spending decisions that would increase their CFR - and therefore potentially lead to new borrowing - unless the activity is directly and primarily linked to the delivery of council services.

4.3 In addition, the Public Works Loan Board (PWLB) will not provide loans to councils intending to purchase investment assets primarily for yield, except where the borrowing is solely for refinancing existing debt.

As of 31st December, the Council had no loans outstanding.

5. TREASURY INVESTMENT ACTIVITY

5.1 A counterparty list reviewed and recommended monthly by the Council's treasury management advisers, Arlingclose, is used by the treasury team to assess suitable investment options. At the end of the period, most approved counterparties were subject to a 6-month investment limit, reflecting the continued caution required in the current market environment.

5.2 The treasury team continues to hold the majority of in-house cash balances in highly liquid Money Market Funds (MMF) and call accounts, supplemented by short-term deposits with the UK Debt Management Office (DMO). This strategy ensures that sufficient cash remains readily available to support the Council's day-to-day service delivery, while also providing funding for the capital programme—without requiring additional borrowing.

5.3 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 below.

5.4

Table 3: Treasury Investment Position

	31.3.25 Balance £m	Net Movement £m	31.12.25 Balance £m	31.12.25 Income Return %
Banks & building societies (unsecured)	0.050	2.458	2.508	3.82
Money Market Funds	12.303	8.265	20.568	4.15
Other Pooled Funds				
- *Equity & Multi Asset income funds*	7.662	0.472	8.134	4.63
- Bond income funds	3.645	0.081	3.726	4.63
- *Real Estate Investment Trusts*	0.690	(0.050)	0.640	3.00
Total investments	**24.350**	**11.226**	**35.576**	**4.14**

5.5 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.

5.6 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 low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

5.7 Bank Rate reduced from 4.50% to 4.25% in May 2025, followed by a further reduction to 4.00% in August 2025 and to 3.75% in December 2025. Short term interest rates have largely followed these levels. The rates on DMADF deposits ranged between 3.925% and 4.25% and money market rates between 3.88% and 4.5%

5.8 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 below.

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

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
30.12.2025	4.87	A+	100%	2	5.30
Similar LAs	**4.53**	**A+**	**57%**	**52**	**4.73**
All LAs	**4.59**	**A+**	**60%**	**13**	**4.6**

5.9 **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 income return of £397,361 which is used to support services in year, and £580,484 unrealised capital gain. The current Pooled Fund position can be seen in table 5 below.

Table 5: Current Pooled Funds

Fund Manager	Original Investment	Value 31st March 2025	Value 31st December	9 Month Dividend 2025/26	2025/26 Capital Gain/ (Loss)	Capital Gain/(Loss) vs Original Investment
	£	£	£	£	£	£
M&G Strategic (Bond)	2,000,000	1,760,300	1,809,248	66,800	48,948	- 190,752
Royal London (Liquidity)	2,000,000	1,862,609	1,895,530	70,135	32,921	- 104,470
Schroders (Equity)	1,000,000	951,479	1,083,148	60,153	131,669	83,148
Threadneedle UK (Equity)	1,000,000	1,139,932	1,268,301	33,170	128,369	268,301
CCLA Diversified Fund (Bond/Equity)	3,000,000	2,751,339	2,749,375	53,271	- 1,964	- 250,625
Aegon/Kames (Liquidity)	3,000,000	2,778,320	3,018,861	113,832	240,541	18,861
Total - Current funds	**12,000,000**	**11,243,980**	**11,824,464**	**397,361**	**580,484**	**- 175,536**

5.10 By quarter 3 of 2025/26 most asset classes delivered positive returns, despite continued volatility across financial markets. Investor sentiment strengthened after April, and although uncertainty persisted, this ultimately supported strong equity market performance.

5.11 In fixed income markets, government bond yields - despite experiencing significant volatility - generally ended the quarter lower, resulting in higher bond prices. Corporate bond spreads also narrowed after the tariff-driven widening earlier in the year, contributing to broadly positive, low single-digit returns.

5.12 Capital values in UK commercial property continued to recover as demand returned to the sector. While interest in office space has begun to improve, industrial and retail warehouse properties remained the primary drivers of performance.

5.13 The change in the Council's funds' capital values and income return over the 9-month period to 31st December is shown in Table 5.

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 below.

Table 6: Performance

	Q3 Actual £m	2025_26 Budget £m	Over/ under	Actual %	LA's Average Benchmark %	Over/ under
Short-term investments	0.165	0	0.165	3.93	3.94	-0.01
MMF & Call Accounts	0.636	0.348	0.288	4.15	3.94	0.21
Strategic Funds	0.397	0.506	-0.109	4.63	4.71	-0.08
Long Term Loans	0.140	0.273	-0.133	2.84	N/A	N/A
REIT	0.022	0.029	-0.007	3.00	N/A	N/A
Total treasury investments	**1.360**	**1.156**	**0.204**	**4.15**	**4.36**	**0.21**

7. COMPLIANCE

7.1 The Director of Finance reports that all bar one 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 below.

Table 7: Investment Limits

	2025/26 Maximum £m	31.12.25 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	9.256	10	YES
Unsecured investments with banks	3	2.508	5	YES
Money Market Funds	20	20.568	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 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	Q3 2025/26 Maximum	31.12.25 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 valuable tool to help establish whether the Council is likely to be a long-term borrower or long-term investor and so shapes its strategic focus and aids decision making. It represents an estimate of the cumulative amount of outstanding debt 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 £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Capital Financing Requirement (CFR)	29.41	32.88	33.46
Less: usable reserves Less: working capital	(34.11) (17.54)	(37.18) (14.01)	(33.42) (14.71)
Net loans requirement	**(22.23)**	**(18.32)**	**(14.67)**
Plus: Liquidity allowance	14.00	14.00	14.00
Liability benchmark	**(8.23)**	**(4.32)**	**(0.67)**

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	£13m
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	31.12.2025	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 £	31.12.25 Actual £	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	160,000	315,886	No
Upper limit on one-year revenue impact of a 1% fall in interest rates	-160,000	- 315,886	No

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 Capital Expenditure: The Council has undertaken and is planning capital expenditure as summarised below.

	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m	2028/29 forecast £m
General Fund services	12.21	9.07	5.52	2.42

9.3 At the end of Q3 capital expenditure is £4,024,078 against an approved Capital Programme for the year of £16.165m. Forecast expenditure for the year end is £12.21m, with the remainder being carried forward to 2026/27, mainly relating to the waste vehicle replacement as part of the WESP programme (£3.4m)

9.4 The main capital expenditure year to date the acquisition and repair of temporary emergency accommodation (£850,364), upgrading the CCTV system (£247,180), paying out S106 to Parishes and Town Councils (£1,587,571) and Disabled Facilities Grants (£838,265).

9.5 **Capital Financing Requirement:** The Council's cumulative outstanding amount of debt finance is measured by the CFR. This increases with new debt-financed capital expenditure and reduces with Minimum Revenue Provision (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	32.88	33.46	31.41
TOTAL CFR	**29.41**	**32.88**	**33.46**	**31.41**

9.6 <u>Gross Debt and the Capital Financing Requirement:</u> 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 31.12.25**
Debt (Incl.PFI & leases)	0.00	0.00	0.00	(2.75)	0
Capital Financing Requirement	29.41	32.88	33.46	31.41	

9.7 <u>Debt and the Authorised Limit and Operational Boundary:</u> 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 31.12.25**	**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.

9.8 <u>Net Income from Commercial and Service Investments to Net Revenue Stream:</u>

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.

	2025/26 forecast £m	**2026/27 forecast £m**	**2027/28 forecast £m**	**2028/29 forecast £m**
Investment Property Investments Service Investments	3.16 1.08	3.10 1.13	3.23 1.13	3.23 1.13
 Net Revenue Stream	4.24 16.95	4.23 16.43	4.36 14.88	4.36 13.28
Proportion of Net Revenue Stream	25.01%	25.74%	29.30%	32.83%

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.

9.10 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.

	2025/26 forecast £m	**2026/27 forecast £m**	**2027/28 forecast £m**	**2028/29 forecast £m**
Interest Payable MRP	0.00 0.70	0.00 0.86	0.063 1.14	0.113 1.07
Total borrowing costs Net Revenue Stream	0.70 16.95	0.86 16.43	1.203 14.88	1.183 13.28
Proportion of Net Revenue Stream	4.12%	5.23%	8.08%	8.9%

10. Conclusion

Quarter 3 is in a positive position, achieving above budget returns on investment income and the pooled fund capital value's recovering by 3.41%. The Bank of England Base Rate has been lowered to 3.75% during this period. It is uncertain when the next rate cut will come due to the inflationary impact on the economy of the Iran, US-Israeli conflict on the supply of oil, but one, possibly two more rate cuts are expected by the end of 2026.

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)