



**WEST OXFORDSHIRE
DISTRICT COUNCIL**

WEST OXFORDSHIRE DISTRICT COUNCIL

Name and date of Committee	AUDIT AND GOVERNANCE COMMITTEE - 25 JUNE 2026
Subject	2025/26 TREASURY OUTTURN.
Wards affected	All
Accountable member	Councillor Alaric Smith - Executive 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, Treasury Accountant Email: sian.hannam@publicagroup.uk
Purpose	To advise members of treasury management activity and the performance of internal and external fund managers for 2025/26
Annexes	Annex A – Cash Investments Outstanding at 31 March 2026
Recommendations	That the Audit and Governance Committee resolves to: <ol style="list-style-type: none">I. Note the Treasury Management and performance of internal and external funds for 2025/26.
Corporate Priorities	<ul style="list-style-type: none">• Putting Residents First• A Good Quality of Life for All• A Better Environment for People and Wildlife• Responding to the Climate and Ecological Emergency• Working Together for West Oxfordshire
Key Decision	No
Exempt	No
Consultees/ Consultation	None

I. BACKGROUND AND SUMMARY

- 1.1. The overall performance of our investments in 2025/26 was favourable, returning interest of £1,852,205 against a revenue budget of £1,156,228 and achieving an unrealised capital gain of £203,398 in the 12 months to 31st March 2026.
- 1.2. The capital value of the pooled funds increased by £203,398 during the year, although performance continued to reflect broader uncertainty within financial markets. Results for 2025/26 were largely positive, supported by strong global equity performance, resilient economic conditions, and moderating inflation. Pooled funds are held as long-term investments; therefore, short-term market fluctuations are expected. Over time, these investments are intended to deliver sustained capital growth.
- 1.3. Following the initial market reaction to US trade tariffs, conditions stabilised in subsequent months, with equity markets recovering and bond yields easing modestly. However, this trend partially reversed in the UK, where an uncertain economic outlook, alongside concerns regarding the government's fiscal position and the Autumn Budget, led to an increase in term premia. As a result, investors required higher returns to hold UK government bonds (gilts).
- 1.4. The Council has continued to benefit from higher revenue returns due to sustained higher interest rates, as the expected sharp decline in interest rates was delayed as the Bank of England Bank Rate continued to balance levels of inflation.
- 1.5. The Council complied with the majority of the Prudential Indicators for 2025/26 as set in the February 2025 budget. Further details can be found in section 7 of this report.

2. Economic & Financial Markets Background

- 2.1 The financial year was largely dominated by two periods of significant uncertainty and volatility. The first being the US trade tariff 'Liberation Day' in April 2025 and the second was the US/Israel war with Iran at the end of February 2026.
- 2.2 Following the March Monetary Policy Committee (MPC) meeting, Arlingclose, the Authority's treasury adviser, revised its central interest rate forecast and now expects Bank Rate to be held at 3.75%. However, the outlook for interest rates remains highly uncertain given the evolving economic backdrop. In the near term, risks are skewed to the upside, with the possibility of further increases in Bank Rate if the MPC seeks to act decisively to limit potential second-round inflationary effects. Looking further ahead, any rapid tightening in policy could be followed by more pronounced and faster rate reductions than previously anticipated, as policymakers respond to a potentially weaker economic growth outlook by introducing additional stimulus.
- 2.3 The Budget itself was more subdued than anticipated. Despite a weak economic outlook, this provided support to UK markets, with gilt yields declining, inflation easing, and expectations for cuts to the Bank of England (BoE) base rate strengthening.

2.4 After reducing the BOE Bank Rate to 3.75% in December 2025, the Bank of England’s MPC voted 5-4 to hold rates in February 2026 and then unanimously to maintain that position in March. Prior to the outbreak of conflict, financial markets had expected a further reduction to 3.5% at the March meeting. However, developments in the Middle East materially altered this outlook. The MPC highlighted increased risks to both inflation and economic growth, signalling that policy could move in either direction depending on how conditions evolve. In response, financial markets quickly adjusted, with expectations shifting towards the possibility of further rate increases.

Financial markets:

2.5 Following a sharp decline in market sentiment at the start of the financial year—triggered by the announcement of US trade tariffs—conditions gradually stabilised in the months that followed. However, both equity and bond markets continued to experience notable volatility throughout the period. The latter part of the year was dominated by the escalation of the US/Israel conflict with Iran, which resulted in a significant downturn in equity markets alongside rising bond yields. In this instance, concerns over the inflationary impact of sharply higher oil and commodity prices outweighed the typical “flight-to-quality” behaviour, whereby investors would ordinarily shift towards government bonds during periods of geopolitical uncertainty.

2.6 Equity markets had begun to recover following the declines experienced during the April sell-off. However, the outbreak of conflict reversed this trend, resulting in another sharp market downturn. Both the FTSE 100 and FTSE 250 fell by approximately 10% over the month, from the onset of the conflict through to the end of the financial year.

2.7 Financial market volatility is expected to persist, at least in the short term, and credit default swap (CDS) spreads will continue to be monitored for indications of ongoing credit stress. The institutions and investment durations on the Authority’s counterparty list, as recommended by Arlingclose, are kept under continual review to ensure they remain appropriate in the prevailing market conditions.

Local Context

2.8 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 the tables below.

Balance Sheet resources

Balance Sheet Summary	31.3.26 Actual £m	31.3.27 Forecast £m
General Fund CFR	29.36	31.46
External borrowing	0	0
Internal borrowing	29.36	31.46
Less Balance Sheet resources	(41.45)	(36.42)
Net Investments	(12.09)	(4.96)

Treasury Management Summary

	31.3.25 Balance £m	Movement £m	31.3.26 Balance £m	31.03.26 Rate %
Short-term borrowing	0	0	0	
Total borrowing	0	0	0	
Long-term investments	11.934	0.153	12.087	1.80*
Short-term investments	0.062	0.001	0.063	4.87
Cash and cash equivalents	12.354	-0.407	11.497	4.07
Total investments	24.35	8.37	24.097	5.19
Net investments	24.35	8.37	24.097	

* % Rate on Long Term Investments relates to capital gain or loss

3. Investment Activities

- 3.1 A counterparty list, recommended and regularly reviewed by the Authority's treasury management advisers, Arlingclose, is received on a monthly basis and used by the treasury team to inform investment decisions. As in 2024/25, the majority of in-house balances were maintained in liquid Money Market Funds (MMFs) and call accounts. However, over the course of the year, the team also took advantage of short-term deposit opportunities with the UK Debt Management Office (DMO), securing rates higher than those available on MMFs. This approach enabled the Council to continue supporting service delivery and to fund its capital programme without the need for external borrowing.

Treasury Investment Position

	31.3.25 Balance £m	Movement £m	31.3.26 Balance £m	31.03.26 Rate %
Bank & building societies (unsecured)	0.051	0.001	0.051	3.51
Money Market Funds	12.303	-0.415	11.888	4.07
Other Pooled Funds				
- Equity & Multi Asset Income funds	7.662	0.224	7.886	4.87
- Bond income funds	3.645	-0.021	3.624	4.87
-Real Estate investment Trusts	0.690	-0.042	0.648	3.00
Total investments	24.35	-0.253	24.097	5.19

3.2 Both the CIPFA and the CLG's Investment Guidance require the Council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2024/25. Investments during the year included:

- Investments in AAA-rated Stable Net Asset Value Money Market Funds
- Call accounts and deposits with the UK Debt Management Office (DMO)
- Pooled funds (collective investment schemes) meeting the criteria in SI 2004 No 534 and subsequent amendments.
- Real Estate Investment Trust (REIT)
- Housing Association Bond

3.3 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.

- 3.4** The progression of risk and return metrics are shown in the Arlingclose quarterly investment benchmarking report; the results of which are summarised in the table below.

Investment Benchmarking - Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2026	4.81	A+	100%	1	5.19
31.03.2025	4.87	A+	100%	2	5.30
Similar LAs	4.57	A+	58%	45	4.67
All LAs	4.6	A+	64%	10	4.46

The Council has 100% bail-in exposure at the end of the year because all the in-house managed funds are held in Money Market Funds, highly secure and highly liquid but subject to bail-in.

A bail-in is when a failing bank or financial institution uses its own investors' and lenders' money to cover its losses, instead of being rescued with government funds.

In simple terms, if the bank gets into serious trouble, some of the money invested with it could be reduced or turned into shares to help keep it running. The Treasury Management teams therefore are very careful about who they invest with and spread risk across different institutions.

Investment Background

- 3.5** The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2025/26, the Council's investment balance ranged between £9.2 million and £39.7 million. These balances included £9.327m of external loans to Cottsway and Southill Solar, £11.661m in Pooled Funds and £25.567 in cash balances invested in MMFs and Short term deposits. Cash balances fluctuate significantly due to the timing differences in collecting Council Tax, Business Rates, Fees and Charges and government funding and money going out for Precepts and paying the Council's bills.
- 3.6** Multiple years of funding the capital programme with internal borrowing have reduced cash reserves and the expectation is that there will be reduced levels of invested short term and overnight funds going forward and the Council will need to borrow to fund future capital programmes. Processes are in place to manage cashflow effectively and reduce the need for large buffers of cash on hand. Managing working capital more effectively reduces our need to borrow and ensures we are earning the maximum amount of return from long term pooled funds.

Investment Returns and Externally Managed Funds

3.7 The investment income budget for 2025/26 was set at £1,156,228. Actual investment receipts exceeded budget by £695,977 with an overall level of return of 4.35% with an average investment balance of £17.578m for the financial year. The overall performance is shown in the table below:

Investment Performance: 1 st April 2025 to 31 st March 2026	Pooled Funds	In-House Investments	Housing REIT	External Loans	Total
Budget (£)	506,102	348,560	28,500	273,066	1,156,228
Budgeted return (%)	4.39	4.13	3.00	2.86	0.00
Average Balances (£)	11,660,837	25,567,481	645,833	9,327,433	47,201,584
Interest earned (£)	549,022	1,008,515	30,000	264,668	1,852,205
(Over)/Under Budget (£)	(42,920)	(659,955)	(1,500)	8,398	(695,977)
Gross rate of Return (%)	4.87	3.81	3.00	2.85	4.35

3.8 Pooled Funds returned 4.87% in dividends and made an unrealised gain of £0.203m on the capital value compared to a £0.068m loss in 2024/25. The capital values as at 31st March 2026 stand at £11.447m, an unrealised loss of £0.535m compared to the original investments.

Fund Manager	Original Investment	Value 31st March 2025	Value 31st March 2026	Dividend 2025/26	2025/26 Capital Gain/(Loss)	Capital Gain/(Loss) vs Original Investment
	£	£	£	£	£	£
M&G Strategic (Bond)	2,000,000	1,760,300	1,741,637	90,351	- 18,663	- 258,363
Royal London (Liquidity)	1,982,791	1,862,609	1,860,031	94,634	- 2,578	- 122,759
Schroders (Equity)	1,000,000	951,479	1,021,944	72,523	70,465	21,944
Threadneedle UK (Equity)	1,000,000	1,139,932	1,221,704	44,593	81,772	221,704
CCLA Cautious MA Fund (Bond/Equity)	3,000,000	2,751,339	2,594,603	83,266	- 156,737	- 405,397
Aegon/Kames (Liquidity)	3,000,000	2,778,320	3,007,460	163,656	229,140	7,460
Total - Current funds	11,982,791	11,243,980	11,447,379	549,022	203,398	- 535,412

Liquidity = transferable to cash within 2 days, Bond = effectively a loan, Equity = stocks & shares

3.9 This £11.447m is invested in externally managed strategic pooled bond, equity, and multi-asset funds where short-term security and liquidity are lesser considerations when compared with short term cash deposits, and the objectives instead are regular revenue income and long-term price stability. In 2025/26, these funds generated a total dividend return of £0.549m (4.87%) - income that is used to support services in year, and £0.203m (1.8%) of capital gain.

3.10 Further to consultations in April 2023 and December 2024 MHCLG wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. This policy announcement extended the statutory override until the 1st of April 2029 for investments already in place before 1st April 2024.

Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charged to the revenue account, and must be taken into an unusable reserve account.

4. Borrowing Strategy and Activity

4.1 As outlined in the Treasury Management Strategy, the Council’s main objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council’s long-term plans change being a secondary objective. The Council’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

5. Compliance with Prudential Indicators

5.1 The Council can confirm that it has complied with all but one of its Prudential Indicators for 2025/26, which were set in February 2025 as part of the Council’s Treasury Management Strategy and Capital Strategy, further details below. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2025/26. One of the Prudential Indicators has been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

5.2 Debt Limits

	2025/26 Maximum	31.3.26 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied? Yes/No
Borrowing	0	0	£36.54m	£41.54m	Yes
PFI and Finance Leases	0	0	0	0	N/A
Total debt	0	0	£36.54m	£41.54m	

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 the table below.

5.3 Investment Limits

	2025/26 Maximum £m	31.3.26 Actual £m	2025/26 Limit £m	Complied? Yes/No
Any single organisation, except the UK Government	2	0	5	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	9.211	10	YES
Unsecured investments with banks	3	0.051	10	YES
Money Market Funds	20	11.888	25	YES
Strategic pooled funds	12	12	25	YES
Real Estate Investment Trusts	1	1	3	YES

6. Looking Forward

- 6.1 During the 2025/26 financial year, financial markets were characterised by generally positive performance in risk assets for much of the period, albeit with significant volatility, particularly at the beginning and end of the year. The year was effectively bookended by market disruption linked to US trade and foreign policy developments—initially following the announcement of ‘Liberation Day’ tariffs in April 2025, and later by the escalation of the US and Israel conflict with Iran in March 2026.

Between these events, market sentiment improved as inflationary pressures eased and expectations of further interest rate reductions strengthened, providing support to both bond and equity markets. Looking ahead, the balance of risks around Bank Rate is considered to be tilted to the downside. While the Bank of England may reduce rates sooner than anticipated, it is likely to remain cautious given the heightened uncertainty in the economic environment.

- 6.2 When the capital value of our pooled funds has fully recovered, we will have the option of cashing in some of our investments in order to support the capital programme, but the Council will need to balance the need to generate a revenue return from interest - which supports the delivery of front-line services, against the cost of external borrowing. If the return from Treasury Management activity is higher than the cost of borrowing, then it would be wise to retain the pooled funds as the long-term investments they were intended to be. There are also implications to our status as a professional investor under MiFID 2 if we reduce our balance of external investments below £10m.

7. Treasury Management Prudential Indicators

- 7.1 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.

	2025/26 Actual £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m
Capital Financing Requirement (CFR)	29.36	31.46	33.53	29.05	26.74
Less usable reserves	(41.45)	(36.42)	(28.19)	(21.84)	(16.47)
Less working capital	(13.59)	(14.02)	(12.62)	(13.08)	(11.97)
Net loans requirement	(25.68)	(18.98)	(7.28)	(5.87)	(1.70)
Plus liquidity allowance	14.00	14.00	14.00	14.00	14.00
Liability Benchmark	(11.68)	(4.98)	6.72	8.13	12.30

An increasing liability benchmark demonstrates that the Council will become a long term borrower.

7.2 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:

	2024/25	2025/26	2026/27	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	£12m
Complied?	YES	YES	YES	YES

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.

7.3 Security

	2025/26 Target	31.3.26	Complied?
Portfolio average credit rating	A-	A+	YES

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.

7.4 Interest Rate Exposure

This indicator is set to control the Council's exposure to interest rate risk. The Bank Rate decreased from 4.5% on 1st April 2024 to 3.75% in December 2025, it remained at this level to 31st March 2026.

Interest rate risk indicator	2025/26 Target	31.03.26	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	(160,000)	(416,098)	No
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	160,000	416,098	No

This non-compliance is mainly due to the availability of unexpected surplus funds available to invest. The impact of change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates. The approved Treasury Management Strategy assumed a lower average balances than actual creating a higher impact on the 1% rise indicator.

Non-compliance with this indicator is not of concern, it simply means our investments made more in interest than was anticipated at budget setting.

7.5 Non Treasury Management Prudential Indicators

The Authority measures and manages its capital expenditure, borrowing and service investments with references to the following indicators. It is now a requirement of the CIPFA Prudential Code that these are reported on a quarterly basis.

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

	2025/26 Actual £m	2026/27 Forecast	2027/28 Forecast
General Fund services	8.242m	13.459m	5.52m

In 2025/26 The main capital expenditure was the acquisition and repair of temporary emergency accommodation (£1,805,695), a Local Authority Housing Fund project with South Oxfordshire Housing Association (£1,465,500), upgrading the CCTV system (£247,180), paying out S106 to Parishes and Town Councils (£1,632,213), the decarbonisation of Witney Leisure Centre (£1,383,087), the installation of Solar Panels at Carterton Leisure Centre (£321,000) and Disabled Facilities Grants (£1,054,780).

7.6 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.

Capital Financing Requirement

	31.3.2026 actual	31.3.2027 forecast	31.3.2028 forecast
General Fund services	19.01	21.37	23.7
Capital investments	10.35	10.09	9.83
TOTAL CFR	29.36	31.46	33.53

7.7 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 Authority has complied and expects to continue to comply with this requirement in the medium term as is shown below.

	31.03.2026 actual	31.03.2027 Forecast	31.03.2028 Forecast
Debt (Incl. PFI & leases)	0	0	(2.75)
Capital Financing Requirement	29.36	31.46	33.53

7.8 Debt and the Authorised Limit and Operational Boundary

The Authority 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 31.3.26	2025/26 Authorised Limit	2025/26 Operational Boundary	Complied? Yes/No
Borrowing	0	0	36.54	41.54	Yes
Total debt	0	0	36.54	41.54	

7.9 Net Income from Commercial and Service Investments to Net Revenue Stream

The Authority’s income from commercial and service investments as a proportion of its net revenue stream is indicated below.

	2025/26 Actual £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m
Capital Investments	3.41	3.04	3.23	3.23	3.23
Service Investments	1.32	1.13	1.13	1.13	1.13
	4.73	4.17	4.36	4.36	4.36
Net Revenue Stream (per MTFS)	16.43	14.88	13.28	13.82	14.36
Proportion of Net Revenue Stream	28.80%	27.98%	32.81%	31.53%	30.35%

7.10 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.

	2025/26 Actual £m	2026/27 Budget £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m
Interest Payable	0.002	0.000	0.063	0.113	0.095
MRP	0.537	0.864	1.146	1.070	1.070
Total borrowing costs	0.539	0.864	1.209	1.182	1.164
Net Revenue Stream (per MTF5)	19.27	16.43	14.88	13.28	13.82
Proportion of Net Revenue Stream	2.80%	5.26%	8.13%	8.90%	8.42%

7.11 Conclusion

In summary, the Council's treasury management activity for 2025/26 has delivered a strong financial outcome despite a challenging and volatile economic environment. Investment returns significantly exceeded budget expectations, supported by higher interest rates and proactive treasury management decisions, while maintaining a prudent approach that prioritised security and liquidity.

Although the capital values of pooled funds continue to reflect market uncertainty, performance over the year has shown encouraging signs of recovery, reinforcing their role as long-term strategic investments. The Council has remained compliant with the majority of its Prudential Indicators and has demonstrated sound governance and risk management throughout the period.

Looking ahead, the economic outlook remains uncertain, with potential changes in interest rates and ongoing geopolitical risks likely to influence financial markets. The Council will therefore continue to adopt a cautious and flexible approach, balancing the generation of sustainable investment income with the need to support future capital programmes and manage borrowing requirements.

Overall, the treasury position remains robust, providing a solid foundation to support the Council's financial resilience and the delivery of its corporate priorities in the medium to long term.

8. Financial Implications

There are no financial implications arising from this report.

9. Legal Implications

There are no legal implications arising from this report.

10. Risk Assessment

None required as a result of this report.

11. Equalities Impact

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

12. Climate and Ecological Emergencies Implications

None.

13. Background Papers

None.