WEST OXFORDSHIRE DISTRICT COUNCIL	WEST OXFORDSHIRE DISTRICT COUNCIL
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTEE – 24 SEPTEMBER 2026.**
Subject	**2026/27 TREASURY MANAGEMENT INDICATORS – QUARTER ONE**
Wards affected	All
Accountable member	Cllr 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, Business Partner – Treasury Management Email: sian.hannam@publicagroup.uk
Summary/Purpose	To report to the Audit and Governance Committee the Quarter One (Q1) Treasury Management Indicators as required by the CIPFA Treasury Management Code.
Annexes	A. Glossary of Treasury Management Terms
Recommendation(s)	That the 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 3 months to 30th June 2026 was positive, returning interest of £364,790 or 4.13% against a quarter of the annual revenue budget of £289,057 and generating an unrealised capital gain of 3.72% or £425,405 in the year to date.

1.2 The capital value of pooled funds continues to be influenced by global economic conditions and market volatility. As these investments are intended to be held over the long-term, short-term fluctuations in value are expected. The funds are being closely monitored by the Council's Treasury Management Adviser, Arlingclose, which continues to forecast a recovery in capital values as gilt yields and bond income rates begin to fall.

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) has maintained the Bank Rate at 3.75% since December 2025.

1.4 The Council complied with the Prudential Indicators for Q1 2026/27 as set out in the budget approved by full Council in February 2026. Further details can be found in section 8 of this report.

2. ECONOMIC & FINANCIAL MARKETS BACKGROUND

2.1 The main story for the quarter was the continuation of the Middle East conflict, started on 28th February with strikes by Israel and the US on Iran. The conflict led to the closure of the Hormuz Strait, a waterway through which around 20% of the world's oil and liquified natural gas flows, resulting in sharp rises in energy and other commodity prices. Towards the end of the quarter, the US and Iran came to an agreement to negotiate a peace settlement, which prompted a reduction in energy commodity prices, albeit remaining higher than before the war.

2.2 Following the energy price shock of 2022, which resulted from Russia's invasion of Ukraine, central banks and financial markets quickly adjusted their expectations for monetary policy. In the UK, headline Consumer Price Index (CPI) inflation was widely expected to fall back to the Bank of England's 2% target in April, supported by government energy policy changes announced in the Budget that reduced household energy bills. However, petrol prices linked to the ongoing conflict kept inflation above target, with the CPI rate remaining at 2.8%.

2.3 The Bank of England's Monetary Policy Committee (MPC) was widely expected to reduce Bank Rate from 3.75% during the quarter. However, it chose to keep rates unchanged at each meeting. While the MPC continued to adopt a cautious stance, the voting split shifted from a unanimous 9-0 decision to hold rates in March to a 7-2 vote in June, indicating growing support for a rate cut. The majority of members appear to believe that the UK economy and labour market are sufficiently resilient to absorb current price pressures without triggering the persistent inflation seen in 2022, which led to Bank Rate increasing to

5.25%. This view is supported by business surveys published towards the end of the quarter, which suggest that although pricing pressures remain elevated, they are beginning to ease.

2.4 Contrary to expectations, UK headline CPI inflation fell during the quarter, from 3.3% in March to 2.8% in May. Although fuel prices remained a source of inflationary pressure, weaker price growth elsewhere more than offset this effect.

2.5 However, it remained above the Bank of England's 2% target. Core CPI inflation, which excludes more volatile items such as energy and food, also declined from 3.1% to 2.6% over the same period. While higher fuel prices continued to exert upward pressure on inflation, many other categories experienced slower price growth, indicating that rising energy costs had not yet fed through more broadly to the wider economy.

2.6 Inflation is expected to rise from July following a 13% increase in the retail energy price cap. Forecasts suggest that CPI inflation could increase to between 3.5% and 4.0%. If these expectations are realised, the Monetary Policy Committee's (MPC) decision to maintain Bank Rate at 3.75% is likely to come under greater scrutiny and may test its resolve to keep rates unchanged.

2.7 Arlingclose, the Authority's Treasury Management Adviser, maintained its central forecast that Bank Rate would remain at 3.75%. It expects the Bank of England to place greater emphasis on spare capacity within the economy, particularly in the labour market, rather than on the risk of persistently higher inflation. In the short term, however, risks are considered to be weighted to the upside, as evidence of second-round inflationary effects could prompt policymakers to increase interest rates further. Over the medium term, the balance of risks shifts to the downside, with tighter monetary policy, elevated prices and weaker economic growth expected to reduce inflationary pressures and support lower interest rates.

2.8 **Financial markets:** Following a sharp deterioration in sentiment earlier in the quarter, financial markets showed signs of improvement as expectations grew that the conflict involving the US, Israel and Iran could de-escalate. Despite this, both bond and equity markets remained volatile.

Bond yields rose sharply at the start of the period as investors anticipated tighter monetary policy. However, yields gradually declined as it became clearer that central banks, including the Bank of England, were unlikely to raise interest rates in the short term.

Equity markets also experienced significant falls earlier in the quarter but recovered some of these losses as sentiment improved. The recovery was particularly strong in US markets, where continued optimism surrounding artificial intelligence (AI) supported investor confidence.

2.9 **Credit review:** Arlingclose maintained its recommended maximum unsecured investment duration limit of six months for the majority of banks on its approved counterparty list. For other counterparties, the recommended maximum duration remained at 100 days.

2.10 Financial market volatility is expected to persist in the short term, and credit default swap (CDS) levels will continue to be monitored for signs of increasing credit risk. As part of its ongoing treasury management oversight, Arlingclose regularly reviews the institutions and investment duration limits included on the Council's approved counterparty list.

3. LOCAL CONTEXT

3.1 On 31st March 2026, the Council had net investments of £24.097m 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

	31.3.26 Actual £m	**31.3.27 Forecast £m**
General Fund CFR	29.36	31.46
External borrowing	0.00.	0.00.
Internal borrowing	29.36	31.46
Less: Balance sheet resources	(41.45)	(36.42)
Net investments	**(12.09)**	**(4.96)**

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

	31.3.26 Balance £m	**Movement £m**	**30.06.26 Balance £m**	**30.06.26 Rate %**
Total borrowing	0	0	0	0
Long-term investments	12.087	0.406	12.493	4.61
Short-term investments	0.063	3.332	3.395	4.02
Cash and cash equivalents	11.947	8.113	20.060	3.87

Total investments	24.097	11.851	35.948	4.13
Net investments	24.097	11.851	35.948	

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 is clear that local Council's must not borrow to invest primarily for financial return and that it is not prudent for local Council's to make any investment or spending decisions that will increase the CFR and so may lead to new borrowing, unless directly and primarily related to the functions of the Council. Public Works Loan Board (PWLB) loans are no longer available to local Council's planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

4.3 At 30th June, the Council had no loans outstanding.

5. TREASURY INVESTMENT ACTIVITY

5.1 Each month, the Council Treasury team receives a list of approved investment options from its treasury advisers, Arlingclose. Investment decisions are made in accordance with the approved counterparty list they provide.

5.2 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 (MMF) 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.

5.3 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 3 below.

Table 3: Treasury Investment Position

	31.3.26 Balance £m	Net Movement £m	30.06.26 Balance £m	30.06.26 Income Return %
Banks & building societies (unsecured)	0.051	2.009	2.060	3.905
Bank of England DMADF	0.000	1.395	1.395	3.73
Money Market Funds	11.888	8.112	20.000	3.87
Other Pooled Funds				
- *Equity & Multi Asset income funds*	7.886	0.322	8.208	4.61
- Bond income funds	3.624	0.041	3.665	4.61
- *Real Estate Investment Trusts*	0.648	(0.028)	0.620	2.85
Total investments	**24.097**	**11.851**	**35.948**	**4.13**

5.4 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.

5.5 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.

5.6 Bank Rate started the period at 3.75% and held steady at 3.75% throughout the quarter. The rates on DMADF deposits ranged between 3.71% and 3.73% and money market rates between 3.76% and 3.84%.

5.7 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 %

30.06.2026	4.84	A+	94%	14	4.13
Similar LAs	**4.61**	**A+**	**65%**	**47**	**3.97**
All LAs	**4.59**	**A+**	**66%**	**11**	**3.95**

5.8 **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 £152,241 which is used to support services in year, and £425,405 unrealised capital gain. The current Pooled Fund position can be seen in table 5 below.

<u>Table 5: Current Pooled Funds</u>

Fund Manager	Original Investment	Value 31st March 2026	Value 30th June	3 Month Dividend 2026/27	2026/27 Capital Gain/ (Loss)	Capital Gain/(Loss) vs Original Investment
	£	£	£	£	£	£
M&G Strategic (B)	2,000,000	1,741,637	1,778,762	22,065	37,125	- 221,238
Royal London (L)	2,000,000	1,860,031	1,886,011	22,670	25,980	- 113,989
Schroders €	1,000,000	1,021,944	1,054,157	24,159	32,213	54,157
Threadneedle UK €	1,000,000	1,221,704	1,288,135	12,248	66,431	288,135
CCLA Diversfied Fund (B/E)	3,000,000	2,594,603	2,712,057	30,190	117,454	- 287,943
Aegon/Kames (L)	3,000,000	3,007,460	3,153,662	40,908	146,202	153,662
Total - Current funds	**12,000,000**	**11,447,379**	**11,872,784**	**152,241**	**425,405**	**- 127,216**

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

5.9 All asset classes delivered positive returns during the first quarter of 2026/27, despite markets remaining volatile and sensitive to geopolitical events, energy prices and changing expectations for interest rates. The quarter largely marked a recovery from the weakness experienced towards the end of 2025/26, when investor confidence was affected by the escalation of tensions involving the US, Israel and Iran. As conditions in the Middle East stabilised and oil prices eased, market sentiment improved, supporting a broad recovery across most asset classes.

5.10 Equity markets generally performed strongly over the quarter, supported by improving risk appetite, resilient corporate earnings and continued enthusiasm for technology and AI-related investment. Emerging markets performed most strongly, with UK equities also delivering positive returns, although lagging overseas markets.

5.11 UK commercial property delivered broadly flat to slightly negative capital returns during the quarter, with overall performance continuing to be driven mainly by income rather than capital appreciation. While market conditions have stabilised compared with the challenges experienced in recent years, investor sentiment remained cautious due to ongoing economic uncertainty, higher financing costs and fluctuations in gilt yields.

5.12 The change in the Council's funds' capital values and income return over the 3-month period to 30th June 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

	Q1 Actual £m	2026_27 Profiled Budget £m	Over/ under	Actual %	LA's Average Benchmark %	Over/ under
Short-term investments	0.021	0	0.021	3.87	3.89	-0.02
MMF & Call Accounts	0.177	0.087	0.090	3.87	3.89	-0.02
Strategic Funds	0.152	0.126	0.026	4.61	4.11	0.5
Long Term Loans	0.006	0.069	-0.063	2.84	N/A	N/A
REIT	0.008	0.007	0.001	3.00	N/A	N/A
Total treasury investments	**0.364**	**0.289**	**0.073**	**4.13**	**3.95**	**0.46**

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 below.

Table 7: Investment Limits

	2026/27 Maximum £m	30.06.26 Actual £m	2026/27 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	9.211	9.136	10	YES
Unsecured investments with banks	3	2.06	5	YES
Money Market Funds	20	20	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

	Q1 2026/27 Maximum	30.06.26 Actual	2026/27 Operational Boundary	2026/27 Authorised Limit	Complied? Yes/No
	£m	£m	£m	£m	
Borrowing	0	0	35.46	40.46	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.

	31.3.26 Actual	**31.3.27 Forecast**	**31.3.28 Forecast**
Capital Financing Requirement (CFR)	29.36	31.46	33.53
Less: usable reserves Less: working capital	(41.45) (13.59)	(36.42) (14.02)	(28.19) (12.62)
Net loans requirement	**(25.68)**	**(18.98)**	**(7.28)**
Plus: Liquidity allowance	14.00	14.00	14.00
Liability benchmark	(11.68)	(4.98)	**6.72**
Existing borrowing	**0.00**	**0.00**	**2.75**

8.2 <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:

	2026/27	**2027/28**	**2028/29**	**No fixed date**
Limit on principal invested beyond year end	£15m	£15m	£15m	£15m
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.

	2026/27 Target	30.06.2026	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	2026/27 Target	30.06.26 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	344,000	81,984	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	-344,000	- 81,984	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.

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.

	2025/26 Actual £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
General Fund services	8.25	11.21	5.52	2.42

9.4 At the end of Q1 capital expenditure is £1.064m against an approved Capital Programme for the year of £13.46m, which includes slippage from 2025/26 of £4.4m related to Waste Vehicle replacement, repairs to our buildings and renovation of the newly acquired temporary accommodation properties. The bulk of capital expenditure this quarter is £443,032 relating to the replacement roof at Units 1-3 Carterton Industrial Estate and £252,000 for the deposit payment for four electric food waste vehicles due for delivery in Q3.

9.5 <u>Capital Financing Requirement:</u> 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 MRP / loans fund repayments and capital receipts used to replace debt.

	2025/26 actual £m	**2026/27 forecast £m**	**2027/28 forecast £m**	**2028/29 forecast £m**
General Fund services	29.36	31.46	33.50	33.53
TOTAL CFR	**29.36**	**31.46**	**33.50**	**33.53**

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.

	2025/26 actual £m	**2026/27 forecast £m**	**2027/28 forecast £m**	**2028/29 forecast £m**	**Debt at 30.06.26**
Debt (Incl.PFI & leases)	0.00	0.0	3.85	0.00	0
Capital Financing Requirement	29.36	31.46	33.50	33.53	

9.7 <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 actual £m	**2026/27 forecast £m**	**2027/28 forecast £m**	**2028/29 forecast £m**
Investment Property Investments Service Investments	3.41 1.33	3.20 1.22	3.27 1.22	3.27 1.22
 Net Revenue Stream	4.74 19.26	4.42 17.96	4.49 16.84	4.49 16.77
Proportion of Net Revenue Stream	24.6%	24.6%	26.66%	26.77%

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

9.9 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.

	2025/26 actual £m	**2026/27 forecast £m**	**2027/28 forecast £m**	**2028/29 forecast £m**
Interest Payable – Finance Leases	0.135	0.135	0.135	0.135
MRP	0.563	0.635	0.635	0.635
Total borrowing costs	0.698	0.770	0.770	0.770
Net Revenue Stream	19.26	17.96	16.84	16.77
Proportion of Net Revenue Stream	3.62%	4.28%	4.57%	4.59%

10. Conclusion

Q1 is in a positive position, achieving above budget returns on investment income and the pooled fund capital values recovering by 3.72%. The Bank of England Base Rate has remained at 3.75% throughout this period.

Despite ongoing geopolitical and inflationary risks, treasury performance remained strong during the quarter and all prudential indicators were met.

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

The report itself introduces no new risks; treasury risks are managed through the approved Treasury Management Strategy.

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.