



**WEST OXFORDSHIRE
DISTRICT COUNCIL**

WEST OXFORDSHIRE DISTRICT COUNCIL

Name and date of Committee	AUDIT AND GOVERNANCE COMMITTEE - 26 JUNE 2025
Subject	2024/25 TREASURY OUTTURN
Wards affected	All
Accountable member	Cllr 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, 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 2024/25
Annexes	A – Cash Investments Outstanding at 31 March 2025
Recommendations	That the Audit and Governance Committee resolves to: I. Note the Treasury Management and performance of internal and external funds for 2024/25.
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

- I.1. The overall performance of our investments in 2024/25 was favourable, returning interest of £1,723,505 (4.54%) against a revenue budget of £1,156,230 with an unrealised capital loss, excluding the UBS pooled fund, of £68,347 (-2.24%) in the 12 months to 31st March 2025.
- I.2. The UBS pooled fund announced its closure in July 2024 and closed in September 2024. This resulted in a capital loss of £435,643 which has been funded through earmarked reserves.
- I.3. The capital value of our pooled funds has decreased by £68,347 and continued to be affected by uncertainty in the financial markets. The effect in 2024/25 was mostly positive due to buoyed global equities, resilient economic data and falling inflation. Pooled funds are intended to be long term investments where short-term fluctuations in capital value are expected but will provide capital appreciation over the long term.
- I.4. After an initial period of caution due to the likelihood of recession, the UK economy fared better than anticipated with a shallow recession, falling inflation and improved consumer confidence providing support for UK equities, with stocks trading at attractive valuations relative to their global peers.
- I.5. 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.
- I.6. The Council complied with the majority of the Prudential Indicators for 2024/25 as set in the February 2024 budget. Further details can be found in section 9 of this report.

2 Economic & Financial Markets Background

- 2.1 Both the UK and US elected new governments during the period, whose policy decisions impacted the economic outlook. The Chancellor of the Exchequer delivered her Spring Statement in March 2025, following her Budget in October 2024. Based on the plans announced, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 from 2% to 1%. However, it upgraded its predictions for the four subsequent years.

Inflation predictions for 2025 were increased to 3.2% from 2.6%, before falling back to target in 2027. The market reaction to the Spring Statement was more muted compared to the Budget, with very recent market turbulence being driven more by US trade policy decisions.

- 2.2 After revising its interest rate forecast in November following the Budget, the council's treasury management advisor, Arlingclose, maintained its stance that the Bank of England Base Rate will fall to 3.75% by the end of 2025.
- 2.3 The UK economy Gross Domestic Product (GDP) grew by 0.1% between October and December 2024, unrevised from the initial estimate. This was an improvement on the zero growth in the previous quarter, but down from the 0.4% growth between April and June 2024. Of the monthly

GDP figures, the economy was estimated to have contracted by 0.1% in January, worse than expectations for a 0.1% gain.

- 2.4 The Bank of England's Monetary Policy Committee (MPC) held the Base Rate at 4.5% at its March 2025 meeting, having reduced it in February. This follows earlier 0.25% cuts in November and August 2024 from the 5.25% peak. The meeting minutes showed the Bank also upgraded its Q1 2025 GDP forecast to around 0.25% from the previous estimate of 0.1%.

Financial markets:

- 2.5 Financial market sentiment was reasonably positive over most of the period, but economic, financial and geopolitical issues meant the trend of market volatility remained. In the latter part of the period, volatility increased and bond yields started to fall following a January peak, as the economic uncertainty around likely US trade policy impacted financial markets. Yields in the UK and US started to diverge in the last month of the period, with the former rising around concerns over the fiscal implications on the UK government from weaker growth, business sentiment and higher rates, while the latter started falling on potential recession fears due to the unpredictable nature of policy announcements by the US President and their potential impact.
- 2.6 Financial market volatility is expected to remain a feature, at least in the short term and, credit default swap levels (where the buyer pays a premium to the seller for protection against any losses if the underlying asset i.e. a bond, defaults) will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

Local Context

- 2.7 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	31.3.25	31.3.26
	Actual £m	Forecast £m
General Fund CFR	29.41	34.54
External borrowing	0	(3.35)
Internal borrowing	29.41	31.19
Less Balance Sheet resources	(34.106)	(35.472)
Net Investments	(4.693)	(4.282)

Treasury Management Summary

	31.3.24 Balance £m	Movement £m	31.3.25 Balance £m	31.03.25 Rate %
Total borrowing	0	0	0	0
Long-term investments	13.768	-1.834	11.934	4.55
Short-term investments	0.077	-0.015	0.062	4.53
Cash and cash equivalents	2.135	10.219	12.354	4.53
Total investments	15.98	8.37	24.35	4.54

3. Investment Activities

- 3.1 A counterparty list recommended and reviewed by treasury management advisors Arlingclose is received monthly and the treasury team use this to evaluate options. The treasury team, as with 2023/24, still held the majority of in-house balances in liquid MMF's and Call Accounts, but throughout the year were able to take advantage of short-term deposits with the UK Debt Management Office (DMO) achieving higher rates than the MMF's. This enabled continued cash support for services the Council provides to the public and provided funding for the Council's capital programme, without the need to borrow.

Treasury Investment Position

	31.3.24 Balance £m	Movement £m	31.3.25 Balance £m	31.03.25 Rate %
Bank & building societies (unsecured)	0	0.051	0.051	4.53
Money Market Funds	2.135	10.168	12.303	4.53
- Equity & Multi Asset Income funds	9.201	-1.539	7.662	4.55
- Bond income funds	3.692	-0.047	3.645	4.55
-Real Estate investment Trusts	0.953	-0.263	0.69	3.00
Total investments	15.981	8.37	24.351	

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 %
30.09.2024	4.92	A+	89%	10	4.94
31.12.2024	4.59	A+	74%	10	4.90
31.03.2025	4.83	A+	100%	1	4.54
Similar LAs	4.79	A+	63%	54	4.69
All LAs	4.77	A+	64%	8	4.65

4. Investment Background

- 4.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2024/25, the Council's investment balance ranged between £3.115 million and £30.775 million. These balances included £9.480m of external loans to Cottsway and Southill Solar, £11.996m in Pooled Funds and £12.354 in cash balances invested in MMFs. 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.
- 4.2 Multiple years of funding the capital programme with internal borrowing has reduced cash reserves and there is an expectation that the Council will need to borrow to fund future capital expenditure. 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

- 4.3 Interest earned in 2024/25 from investments held was £851,309 from short-term and overnight deposits, and £872,196 from Pooled Funds, Extended Loans and Bonds. The return on an average investment balance of £18.073m was 4.79%. The net surplus of £567,275 above the budget for the year is made up of an additional £70,151 from Pooled Funds and the Housing REIT, and £497,124 from Bank of England Debt Management Office (Central Government) short term deposits and overnight deposits with Money Market Funds and Call Accounts.
- 4.4 Investments of £11.996m in Pooled Funds returned 4.55% in dividends and made an unrealised loss of 2.24% (£0.068m) on its capital value compared to a £0.439m gain in 2023/24 (see table below). The capital values as at 31st March 2025 stand at £11.244m, £1.174m lower than the original investments, of this £435,643 relates to the loss on closure of the UBS fund in September 2024. In 2024/25 we have seen an extension of uncertain financial markets with interest rates maintained higher as a response to unstable inflation. Bond yields continued to be volatile, in contrast global equities were buoyed by healthy corporate earnings, resilient economic data and moderating inflation and the view central banks had reached the peak of their rate tightening cycles.

5. Externally Managed Funds

5.1 Ten years ago the Council decided to invest £12m over several pooled funds. Some of the original funds have been sold and then re-invested into new ones. The performance of each of the current Pooled Funds can be seen in the table below.

Current Pooled Funds

Fund Manager	Original Investment £	Value 31.03.24 £	Value 31.03.25 £	Dividends Received 2024/25 £	2024/25 Gain/(Loss) £	Gain/(Loss) vs Original Investment £
Closed Funds						
UBS (B/E) (Sold Sept 2024)	2,000,000	1,466,417	0	38,104	36,140	(435,643)
Open Funds						
Schroders (E)	1,000,000	890,477	951,479	65,985	61,003	(48,521)
Threadneedle UK (E)	1,000,000	1,093,543	1,139,932	44,384	46,389	139,932
CCLA Cautious Fund (B/E)	3,000,000	2,908,273	2,751,339	90,272	(156,933)	(248,661)
M&G Strategic (B)	2,000,000	1,827,489	1,760,300	87,079	(67,188)	(239,700)
Royal London (B)	1,982,791	1,842,579	1,862,609	90,170	20,030	(120,182)
Aegon (L)	3,000,000	2,786,106	2,778,320	153,694	(7,786)	(221,680)
Total – current funds	11,982,791	11,348,467	11,243,979	531,584	(104,485)	(738,812)

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

Liquidity = transferable to cash within 2 days

Bond = effectively a loan

Equity = stocks & shares

5.2 These monies are 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 2024/25, these funds generated a total dividend return of £0.570m (4.55%) - income that is used to support services in year, and £0.068m (2.24%) of capital loss.

5.3 Further to consultation Ministry of Housing, Communities and Local Government (MHCLG) wrote to finance directors in England in February 2025 regarding the statutory override on accounting for gains and losses in pooled investment funds. The statutory override will be extended to 1st April 2029 for investments already in place before 1st April 2024. Unrealised gains and losses from fair value movements in pooled funds, that would otherwise have been recognised in the revenue account will instead continue be taken into an unusable reserve.

5.4 The investment income budget for 2024/25 was set at £1,156,230. Actual investment receipts exceeded budget by £567,275 with an overall level of return of 4.54% with an average investment balance of £18.073m for the financial year. The overall performance is shown in the table below:

Table 2 Investment Performance 2024/25

Investment Performance: 1 st April 2024 to 31 st March 2025	Pooled Funds	In-House Investments	Housing REIT	External Loans	Total
Budget (£)	500,479	354,185	28,500	273,066	1,156,230
Budgeted return (%)	4.07	4.84	2.85	3.50	
Average Balances (£)	12,064,991	17,500,381	1,000,000	9,560,939	40,126,311
Interest earned (£)	569,688	851,309	30,000	272,508	1,723,505
(Over)/Under Budget (£)	(69,209)	(497,124)	(1,500)	558	(567,275)
Gross rate of Return (%)	4.55	4.53	3.00	2.85	4.54

6. Borrowing Strategy and Activity

6.1 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.

6.2 At 31st March 2025 the Council had no borrowing.

7. Compliance with Prudential Indicators

7.1 The Council can confirm that it has complied with the majority of its Prudential Indicators for 2024/25, which were set in February 2024 as part of the Council's Treasury Management Strategy and Capital Strategy. 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 2024/25. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Debt Limits

	2024/25 Maximum	31.3.25 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied? Yes/No
Borrowing	0	0	£33.57m	£40.57m	Yes

The Director of Finance reports that all treasury management activities undertaken during the year 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.

Investment limits

	2024/25 Maximum £m	31.3.25 Actual £m	2024/25 Limit £m	Complied? Yes/No
Any single organisation, except the UK Government	3	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	9.8	9.448	10	Yes
Unsecured investments with banks	3	0	10	Yes
Money Market Funds	15	12.315	25	Yes
Strategic pooled funds	14	12	25	Yes
Real Estate Investment Trusts	1	1	5	Yes

8. Looking Forward

8.1 The Bank of England chose to cut (BoE) Bank Rate in May 2025 to 4.25% due to global uncertainty and a more pessimistic economic outlook but counterbalancing the expectation of rising inflation in Q3 2025. The MPC will continue to adopt its current cautious stance in its approach to further rate reductions. Arlingclose expect rate cuts from Q3 2025 to a low of around 3.75% by December 2025. Private sector wage growth and services inflation remain elevated but wage pressures are expected to ease. Employment has peaked and employment growth is likely to remain weak in the short term.

8.2 When the capital values of our pooled funds have 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.

9. Treasury Management Prudential Indicators

9.1 As required by the 2021 CIPFA Treasury Management code, the Council monitors and measures the following 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.

	2024/25 Actual £m	2025/26 Forecast £m	2026/27 Forecast £m
Capital Financing Requirement (CFR)	29.41	34.54	38.95
Less usable reserves	(34.11)	(31.82)	(27.54)
Less working capital	(17.54)	(13.40)	(13.40)
Net loans requirement	(22.23)	(10.68)	(1.99)
Plus liquidity allowance	14.00	14.00	14.00
Liability benchmark	(8.23)	3.32	12.01

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

9.2 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.

9.3 Security

	2024/25 Target	31.3.25	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.

9.4 Interest Rate Exposure

This indicator is set to control the Council's exposure to interest rate risk. The Bank Rate decreased from 5.25% on 1st April 2024 to 4.5% in February 2025, it remained at this level to 31st March 2025.

Interest rate risk indicator	2024/25 Target	31.03.25	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	(135,000	(226,381)	No
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	135,000	226,381	No

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment 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 we anticipated at budget setting.

10. 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.

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

	2024/25 actual £m	2025/26 forecast £m	2026/27 forecast £m
General Fund services	6.34	16.16	2.865

The Capital Strategy approved in February 2024 has reduced the level of capital investment over the life of the MTFS until interest rates have fallen sufficiently for the cost of capital for projects to be affordable. The Capital, Treasury Management and Investment strategies have all been updated as part of the 2024/25 budget setting process.

Capital Financing Requirement

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 forecast
General Fund services	23.43	29.74	33.33
Capital investments	5.98	5.80	5.62
TOTAL CFR	29.41	35.54	38.95

10.3 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.

	31.03.2025 actual	31.03.2026 Forecast	31.03.2027 Forecast
Debt (Incl. PFI & leases)	0	3.35	3.85
Capital Financing Requirement	29.41	34.54	38.95

10.4 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 2024/25	Debt at 31.3.25	2024/25 Authorised Limit	2024/25 Operational Boundary	Complied? Yes/No
Borrowing	0	0	40.57	33.57	Yes
PFI and Finance Leases	0	0	0	0	Yes
Total debt	0	0	40.57	33.57	

10.5 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.

	2024/25 Actual £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Investment Property Investments	3.27	3.27	3.27	3.27
Service Investments	1.33	1.24	1.40	1.40
	4.56	4.63	4.63	4.63
Net Revenue Stream	16.95	18.49	15.31	14.86
Proportion of Net Revenue Stream	26.92%	25.06%	30.26%	31.18%

10.6 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 table shows revenue expenditure related to financing costs as a direct proportion of our available funding.

	2024/25 Actual £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Interest Payable	0.00	0.09	0.16	0.15
MRP	0.52	0.56	0.69	0.69
Total borrowing costs	0.52	0.64	0.86	0.84
Net Revenue Stream	16.95	18.49	15.31	14.86
Proportion of Net Revenue Stream	3.06%	3.48%	5.59%	5.66%

10.7 Conclusion

Overall, the Q4 position is positive, with above budget returns on investment income and the collective pooled fund capital values remaining stable with some recovering faster than others. The Base rate has started to be cautiously lowered which means that Investment Recovery & capital projects could become more financially viable and meet the criteria of the Council's Investment Strategy.

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.