COTSWOLD
District Council

Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**COUNCIL – 24 SEPTEMEBER 2025**
Subject	**TREASURY MANAGEMENT OUTTURN REPORT 2024/25**
Wards affected	None
Accountable member	Cllr Patrick Coleman, Cabinet Member for Finance Email: patrick.coleman@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and S151 Officer Email: David.stanley@cotswold.gov.uk
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Summary/Purpose	To receive and discuss details of the Council's Treasury management performance for the period 01 April 2024 to 31 March 2025.
Annexes	Annex A – Economic Background
Recommendation(s)	That Council resolves to: 1. Note the Council's Treasury Management performance for the period 1 April 2024 to 31 March 2025. 2. Approve the Treasury Management Outturn Report 2024/25.
Corporate priorities	The Council's Treasury Management Strategy underpins all of the Council Priorities and is relevant to the Council principle of "Value for money – we will use the council's resources wisely but will invest in the fabric and future of the district."
Key Decision	NO
Exempt	NO
Consultees/	Arlingclose Limited – Council's treasury advisors

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Consultation	

1. EXECUTIVE SUMMARY

1.1 This report covers the Treasury Management activity and performance of Cotswold District Council for the period 01 April 2024 to 31 March 2025.

1.2 During the year, the Council operated within the treasury limits and prudential indicators as set out in the Treasury Management Strategy approved by Council on the 21 February 2024. Investment interest for 2024/25 has produced a net surplus of £0.389m against the original budget set in February 2024 of £1.223m largely due to sustained higher interest rates throughout the year and higher level of surplus cash balances available to invest than budgeted.

1.3 The Council's strategy has been to diversify investments into Pooled Funds in order to reduce risk and increase returns. Pooled Funds have maintained strong returns of dividends and returned over 4.85% (£0.503m) against the £12.5m invested in this area (further details provided in section 6). This compares to returns achieved of 4.5% for cash invested in money market funds and call accounts and 4.5% achieved where cash is invested in short term deposits with Government and Banks.

1.4 The capital values of the Pooled Funds and REIT decreased by £75,251 from £11.552m to £11.477 during 2024/25.

1.5 The Council holds a £0.500m loan administered by Abundance Investments Limited for the purpose of Community Municipal Investments. The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors. The balance outstanding at 31s March 2025 is £0.260m as show in table 1.

1.6 In July 2022, Cotswold District Council entered into an agreement with Cottsway 2 Housing Association, to provide an unsecured development loan of up to £3.753m in increments upon drawdown requests. The first request was received in June 2023 and the balance outstanding as at the 31st March 2025 is £1.930m. During the 2025/26 financial year, the loan will be converted into a secured loan with a 50-year term which will trigger the interest charges on the balance of the loan. The interest rate for the secured element of the loan is currently under negotiation and is expected to exceed the rate of 3.25% outlined in the July 2022 Council report.

1.7 Council has continued to have no requirement to undertake new borrowing or hold any further external debt as at 31 March 2025.

1.8 The treasury management position as at 31 March 2025 is set out in table 1 below together with the year-on-year movements.

1.9 Table 1: Treasury Management Summary

	31/03/2024 Actual £m	**2024/25 Movement £m**	**31/03/2025 Balance £m**	**31/03/2025 Rate %**
Short-term borrowing	0.357	(0.097)	0.260	2.20
Total Borrowing	**0.357**	**(0.097)**	**0.260**	**2.20**
Long-term investments	11.552	(0.075)	11.477	4.85
Short-term investments	1.221	1.448	2.669	4.50
Cash and cash equivalents	12.138	(3.891)	8.247	4.50
Total investments	**24.911**	**(2.518)**	**22.393**	**4.67**
Net Investments	**24.554**	**(2.421)**	**22.133**	

2. BACKGROUND

2.1 The purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

2.3 The Council continued to engage the services of Arlingclose for independent treasury advice during the year 2024/25. Arlingclose provide specialist treasury support to 25% of UK local authorities. They provide a range of treasury management services including technical advice on investment management and long-term capital financing. They advise on investment trends, developments, and opportunities consistent with the Council's Treasury Management Strategy.

2.4 The Council's treasury management advisors have provided commentary on the economic background that prevailed during 2024/25. This commentary is provided within Annex A.

2.5 In February 2011, the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code). The CIPFA Code requires the Council to approve reports on treasury management activities at the end of the first half of the financial year and at the end of the financial year.

2.6 The Council's Treasury Management Strategy for 2024/25 was approved at the Council meeting on the 21 February 2024. The Council has invested substantial sums of money and is therefore exposed to financial risks including changes in capital value of funds, the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are central to the Council's treasury management strategy.

3. BORROWING

3.1 Local authorities can borrow from the Public Works Loan Board (PWLB) provided they can confirm they are not to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the S151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to re-finance existing loans or externalise internal borrowing.

3.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing debt and treasury management.

3.3 Competitive market alternatives are available for authorities with or without access to the PWLB. However, the financial strength of the individual Council and borrowing purpose will be scrutinised by commercial lenders.

3.4 The Council is not planning to purchase any investment assets primarily for yield and so is able to fully access the PWLB.

3.5 The Council's first Community Municipal Investment (CMI), named 'Cotswold Climate Investment' (CCI) which targeted a £0.500m fundraise closed on the 16 August 2022, fully funded by over 450 investors. As at the 31 March 2025 the Council therefore held a £0.26m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments at a rate of 2.2%.

3.6 Although the Council has no immediate need to borrow externally, future capital spending plans may require borrowing to support delivery of the Capital Programme. Any borrowing undertaken will be subject to approval by either Cabinet or Council as appropriate.

3.7 In order to determine whether the Council needs to borrow, the underlying need to borrow needs to be compared against the Council's internal borrowing capacity. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) which is total capital expenditure to be funded by borrowing less any revenue provision made for the Minimum Revenue Provision.

3.8 Whilst there may be an underlying need to borrow, the Council may not actually undertake external borrowing and may instead use its internal cash balances to fund the borrowing requirement which is known as "internal borrowing."

3.9 For Cotswold District Council, there is a small underlying need to borrow of £0.360m and significant internal borrowing capacity as set out in Table 2 below:

Table 2: Balance Sheet Summary

	31/03/2024 Actual £m	**2024/25 Movement £m**	**31/03/2025 Actual £m**
General Fund CFR	0.071	0.289	0.360
Less: External borrowing	(0.357)	0.097	(0.260)
Less: Usable reserves	(22.15)	(2.841)	(24.991)

Less: Working capital	(2.118)	4.876	2.758
Available for investment or internal borrowing*	**(24.554)**	**2.421**	**(22.133)**

*A positive figure would indicate a need to externally borrow

3.10 If interest rates were to rise by 1%, then investment income would average 5.67%, whilst borrowing costs (based on 20-year PWLB Loan) would be 5.70%. For every £1m borrowed there would be additional cost of £300 per annum. The impact on a 1% interest rate rise on investment income is shown at 7.3.

4. INVESTMENT PERFORMANCE

4.1 The Council invested funds representing income received in advance of expenditure plus balances and reserves held. During 2024/25, the Council's investment balance ranged between £21.596m and £46.296m due to timing differences between income and expenditure. The investment position is shown in table 3 below:

Table 3: Treasury Investment Position

	31/03/2024 Actual £m	**2024/25 Movement £m**	**31/03/2025 Balance £m**	**31/03/2025 Rate %**
Bank of England DMADF	1.141	1.446	2.587	4.46
Money Market Funds/Call Accounts	12.138	(3.891)	8.247	4.5
Real Estate Investment Trust (REIT)	0.96	(0.262)	0.698	3.00
Cash Plus Fund	1.154	0.059	1.213	N/A
Pooled Funds (1)	9.518	0.13	9.648	4.85
Net Investments	**24.911**	**-2.518**	**22.393**	**4.67**

(1) See breakdown at Table 4 and 5 below.

4.2 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 investments before seeking the highest 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.

4.3 High levels of cash were maintained throughout 2024/25, in part due to Capital Programme underspend, these balances were diversified over several counterparties and Money Market Funds to manage credit and liquidity risk.

4.4 The investment income budget for 2024/25 is £1.223m, as approved in February 2024, investment income of £1.612m was achieved. A sustained higher than expected Base Rate has fed through to higher short-term deposit and MMF interest rates. These slowly decreased, after three base rate cuts in August 24, November 24 and February 25 from 5.22% at the start of the year to 4.53% by March. There has been a small increase in Pooled Fund interest, further details are provided in section 6 of this report.

4.5 The year-end investment position analysed between investment types and the year-on-year change in show in table 4 below.

Table 4: Investment Position (Treasury Investments)

	31/03/2024 Actual £m	2024/25 Movement £m	31/03/2025 Balance £m	31/03/2025 Rate %
Banks & building societies (unsecured)	3.099	(3.045)	0.054	4.34
Government (incl. local authorities)	1.141	1.446	2.587	4.46
Money Market Funds	9.039	(0.846)	8.193	4.5
Other Pooled Funds				
- *Federated Cash plus fund*	1.153	0.06	1.213	N/A
- *CCLA Property Fund*	2.182	0.039	2.221	4.39
- *CCLA Better World Multi Asset Income Fund*	0.993	(0.055)	0.938	3.11
- *Schroders Equity Income Fund*	0.815	0.057	0.872	5.98
- *M&G UK Strategic Bond Fund*	1.781	0.083	1.864	5.08
- *Investec Multi asset income fund*	1.818	(0.004)	1.814	4.49
- *Columbia Threadneedle Equity Income Fund*	1.93	0.009	1.939	3.99

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Fundamentum - Real Estate Investment Trust	0.96	(0.262)	0.698	3.00
Total investments	**24.911**	**(2.518)**	**22.393**	**4.67**

5. EXTERNALLY MANAGED POOLED FUNDS

5.1 A key aspect of the Council's current investment strategy is to invest into pooled funds in order to increase investment returns. These funds do introduce higher levels of risk as the capital value is not protected and the value of the funds can go up and down. The funds can be drawn down at relatively short notice, but consideration would need to be given as to whether drawing them down would crystalise a capital loss. The funds themselves are invested in different investment classes and therefore risk within the pooled fund is diversified.

5.2 Of the Council's investments, £10.5m are held in externally managed strategic pooled cash, bond, equity, multi-asset and property funds with a further £1m held in a Cash Plus fund and £1m held in a Housing Real Estate Investment Trust (REIT) 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 a total return of £0.503m (4.85%) during 24/25 and the capital values on these funds decreased by £75K in the year to 31 March 2025 due to continued external economic factors as outlined in Annex A including sustained political instability, global economic uncertainty and market confidence capital values did not increase as much as expected. The majority of the decrease was attributed to the Real Estate Investment Trust which made a loss of £263k. This was due a 20% fall in property valuations according to their independent valuer. Going forward. Fundamentum has had a change in investment criteria, broadening the focus of the REIT investment opportunities the intended outcome is to be less volatile and also produce the 5% intended income. Arlingclose supports the change in investment criteria as a prudent evolution of the fund's strategy and suggests that the shift is likely to have a positive impact on the Net Asset Value of the fund. Members are reminded that Pooled Funds are held for the longer-term and the capital value will fluctuate over each financial year.

5.3 The decrease in value is treated as an unrealised capital loss i.e., the loss is not recognised as any gain or loss will only be recognised at the point funds are sold. The Council did not make any further contributions to these funds during 2024/25 with the amount invested remaining at £12.5m.

5.4 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. On the assumption that when published regulations follow this policy announcement, the statutory override will be extended up until the 1st April 2029 for investments already in place before 1st April 2024. The override will not apply to any new investments taken out on or after 1st April 2024.

5.5 With the expectation of improved investment returns during the financial year, it was agreed by Cabinet that £0.125m of additional investment income above the budgeted level is transferred to a new earmarked reserve ("Treasury Management Risk") to manage higher borrowing costs in the short-term and potential reduced investment income from lower interest rates in the short-term and to mitigate any potential realised losses from pooled funds from March 2030 or if were they to be disposed.

5.6 The change in the Council's funds' capital values and income earned over the 12-month period is shown in Table 5.

Table 5: Pooled Funds, Cash Plus and REIT

Fund Manager	Investment	1st April Fund Value	31st March Fund Value	Dividends in 2024/25	2024/25 Gain/(Loss)	Gain/ (Loss) to Initial Principal	% Return Capital & Dividend 2024/25
	£	£	£		£	£	%
CCLA Property	2,500,000	2,153,645	2,195,084	109,915	41,439	(304,916)	7.03
Schroders	1,000,000	806,834	862,383	59,798	55,549	(137,617)	14.30
M&G UK Income	2,000,000	1,763,426	1,847,558	101,697	84,132	(152,442)	10.54
Investec Div Income	2,000,000	1,812,676	1,807,700	90,550	(4,976)	(192,300)	4.72
Threadneedle Bond	2,000,000	1,923,475	1,928,956	79,706	5,481	(71,044)	4.43
CCLA Div	1,000,000	985,867	932,668	30,601	(53,198)	(67,332)	(2.29)
Federated Cash +	1,000,000	1,153,550	1,212,773	n/A	59,223	212,773	5.13
Fundamentum REIT	1,000,000	952,900	690,000	30,375	(262,900)	(310,000)	(24.40)
Total current funds	**12,500,000**	**11,552,372**	**11,477,121**	**502,640**	**(75,251)**	**(1,022,879)**	**3.70**

5.7 Pooled funds capital value made a small loss of -0.89% in the financial year. In financial markets the 2024/25 year was characterised by overall positive equity market performance, market volatility, elevated global yields, central bank interest rate cuts and uncertainties surrounding the impact of UK and European fiscal policy and particularly US President Donald Trump's tariff plans.

5.8 For UK and US government bonds, yields declined (and therefore prices rose) until September but then moved higher following the UK budget and strong US economic data. Government bond yields were then generally dragged upwards (prices down) globally by US market movements, given the uncertain trade policy outlook of Donald Trump's administration. Announcements of increased defence spending by governments in Europe and fiscal concerns in the UK saw yields spiking in January before easing somewhat, despite some divergence.

5.9 Having had a challenging time since 2022, UK commercial property generally experienced a recovery during the period, with improved investment activity, capital values stabilising or improving, particularly towards the end of the period, and income remaining relatively robust.

5.10 As highlighted above, the nature of these funds is that values can fluctuate from one year to another. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are monitored and discussed with Arlingclose on a regular basis. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

5.11 With the expectation of continued good investment income returns during the 2024/25 financial year, it was recommended to Cabinet in July 2023 that any additional investment income above the budgeted level is transferred to a new earmarked reserve ("Treasury Management Risk") to manage higher borrowing costs and potential reduced investment income from lower interest rates in the short-term and to mitigate any potential realised losses from pooled funds from March 20230 of if they were they to be disposed.

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6. INVESTMENT RETURNS

6.1 The outturn for investment income received in 2024/25 was £1.612m which equates to a 4.67% return (23/24 – 4.98%) on an average investment portfolio of £35.594m against a budgeted £1.223m an average investment portfolio of £24m. Net loans and investments made a surplus of £0.389m, for the 2024/25 financial year. See table 6 for details. Interest receivable from the Council's loan to Cottsway Housing Association is now due during 2025/26 when the loan is converted to a 50 year secured loan.

Table 6: Investment income and interest payable versus budget

Investment and Loan Income/Interest Payable	**2024/25 Budget £m**	**2024/25 Actual £m**	**Variance Surplus/ (Deficit) £m**
Community Municipal Borrowing (Interest payable)	(0.009)	(0.008)	(0.001)
Interest receivable (loans)	0.060	0.008	(0.052)
Pooled Funds	0.435	0.473	0.038
Housing REIT	0.029	0.030	0.001
Short term	0.359	0.703	0.344
Call/MMF's	0.400	0.406	0.006
NET Income	**1.274**	**1.612**	**0.336**

6.2 Table 7 below shows that as at 31 March 2025, Cotswold District Council (red bar) achieved the 60th highest average rate on investments from the 121 local authorities that Arlingclose support.

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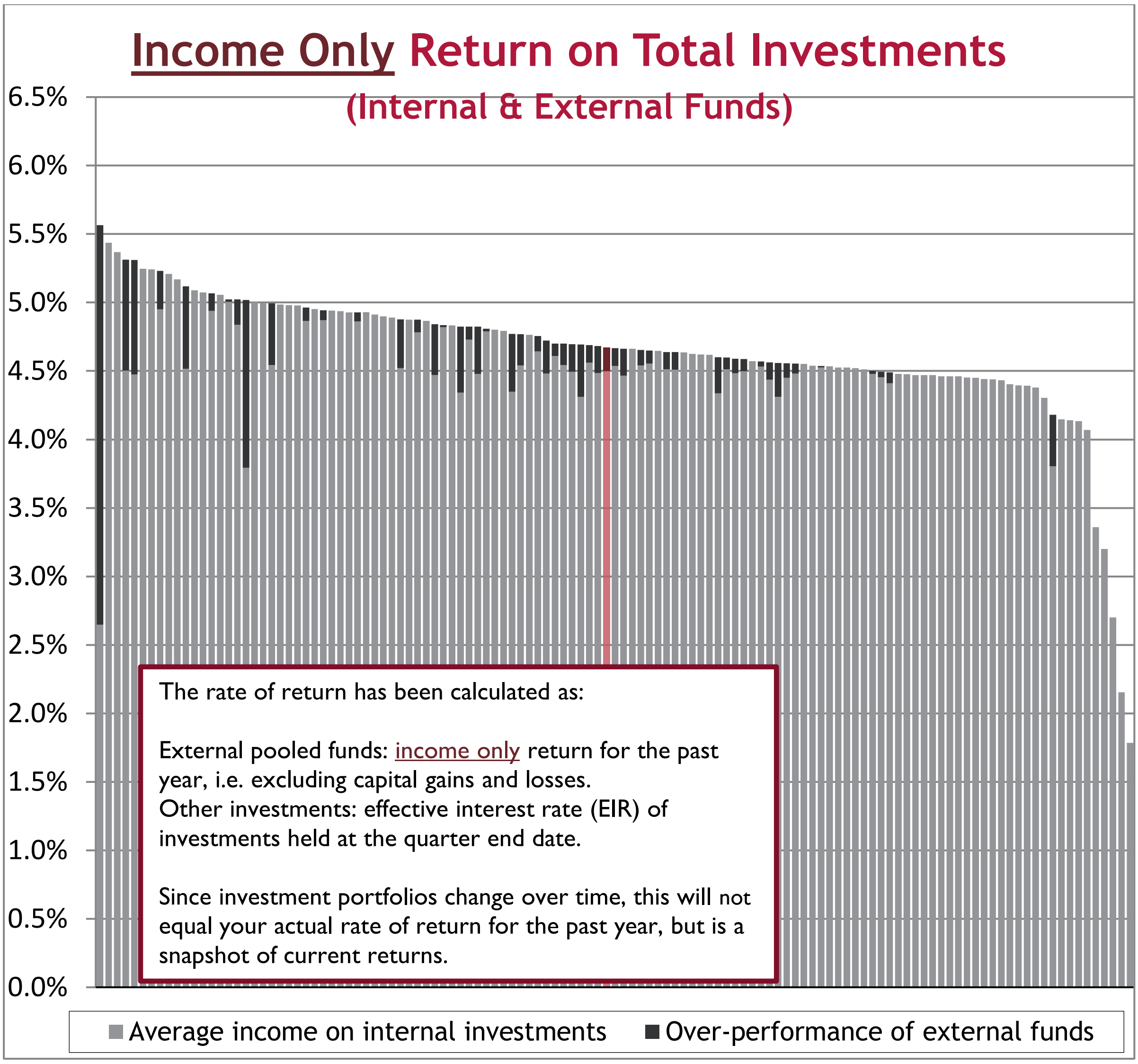
Table 7 Cotswold' District Council investment returns v Arlingclose clients (125) as at 31 March 2025.



7. COMPLIANCE REPORT

7.1 The Chief Finance Officer reports that all treasury management activities undertaken during 2024/25 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, with the exception of Interest Rate Risk, see 7.3 below for more detail.

Security

7.2 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.

Table 9: Portfolio average credit rating

	31.3.24 Actual	**2024/25 Target**	**Complied**
Portfolio average credit	AA-	A-	✓

Interest Rate Exposure

7.3 This indicator is set to control the Council's exposure to interest rate risk. Bank Rate fell by 0.75% from 5.25% on 1st April 2024 to 4.5% by 31st March 2025.

Interest rate risk indicator	**2024/25 Target**	**31.3.25 Actual**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates	-£0.153m	-£0.324	N
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.153	£0.324	N

This indicator was not complied with due to higher than expected average cash balances and higher than expected interest rates.

Principal Sums Invested for Periods Longer than 364 days:

7.4 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 limits on the long-term principal sum invested to final maturities beyond the period end were:

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Table 10: Limit on principal invested > 364 days.

	2024/25	2025/26	2026/27
Actual principal invested beyond year end	£12.5m	£12.5m	£12.5m
Limit on principal invested beyond year end	£13m	£13m	£13m
Complied	✓	✓	✓

8. FINANCIAL IMPLICATIONS

8.1 The Council maintained an average investment portfolio of £35.594m during 2024/25. The funds earned an average rate of return of 4.67%, this compares to 4.98% in 2023/24.

8.2 The Council budgeted for £1.223m in treasury investment income for 2024/25. Actual performance was a surplus of £0.389m, with investment income received of £1.612m.

9. LEGAL IMPLICATIONS

9.1 None

10. RISK ASSESSMENT

10.1 Treasury risk is managed by the application of the Council's Treasury Management Strategy. This report discusses the impact of economic risk on the value and returns associated with the Council's investment portfolio together with the risk of low interest rates on the Council's revenue budget.

11. EQUALITIES IMPACT

11.1 None.

12. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

12.1 None.

13. BACKGROUND PAPERS

None.

(END)