



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	COUNCIL – 21 JANUARY 2026
Subject	TREASURY MANAGEMENT MID-YEAR REPORT 2025/26
Wards affected	N/A
Accountable member	Cllr Patrick Coleman, Cabinet Member for Finance Email: patrick.coleman@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 to 30 September 2025 and Quarter 2 Treasury Management Prudential Indicators
Annexes	Annex A – Arlingclose Economic Background 6 months to 30 September 2025.
Recommendation(s)	That Council resolves to: <ol style="list-style-type: none">1. Note the Council's Treasury Management performance for the period 1 April 2025 to 30 September 2025 and the Quarter 2 Prudential Indicators.2. Approve the Treasury Management Mid-Year Report 2025/26
Corporate priorities	The Council's Treasury Management Strategy underpins all of the Council Priorities and is relevant to the Council's priority of "Delivering Good Services" – through ensuring value for money and standards, enhancing financial resilience and making best use of our assets.



COTSWOLD
District Council

Key Decision	NO
Exempt	NO
Consultees/ Consultation	Arlingclose Limited – Council's treasury advisors



1. EXECUTIVE SUMMARY

- 1.1** This report covers the Treasury Management activity and performance of Cotswold District Council for the period 01 April to 30 September 2025.
- 1.2** During the period, 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 2025.
- 1.3** The Council's strategy has been to diversify investments into Pooled Funds to reduce risk and increase returns. Pooled Funds have maintained strong returns of dividends in the first six months of the year and returned 4.23% against the £12.5m invested in this area (further details provided in section 5). The capital values of the Pooled Funds and REIT increased by £0.210m from £11.477m to £11.687 during the first six months of 2025/26.
- 1.4** The Council raised £0.500m through a 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) closed on the 16 August 2022, fully funded by over 450 investors. The balance outstanding on 30 September 2025 is £0.212m.
- 1.5** In July 2022, Cotswold District Council entered into an agreement with Cottsway 2, to provide a loan of up to £3.753m to support the development of affordable, low carbon homes. The balance outstanding as at the 30 September 2025 is £1.930m and will be converted to a secured loan over 50 years during the second half of the 2025/26 financial year.
- 1.6** Council has continued to have no requirement to borrow or hold any further external debt as at 30 September 2025.
- 1.7** The treasury management position as at 30 September 2025 is set out in table 1 below together with the year-on-year movements.



1.8 Table 1: Treasury Management Summary

	31/03/2025	2025/26	30/09/2025	30/09/2025
	Balance	Movement	Balance	Rate
	£m	£m	£m	%
Short-term borrowing	0.260	(0.048)	0.212	2.20
Short-term borrowing	0.260	(0.048)	0.212	2.20
Long-term investments	11.477	0.210	11.687	4.23
Short-term investments	2.669	7.361	10.030	4.12
Cash and cash equivalents	8.247	1.066	9.313	4.23
Total investments	22.393	8.637	31.030	4.16
Net investments	22.133	8.685	30.818	

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 six months to 30 September 2025. 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 the first half of 2025/26. 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 2025/26 was approved at the Council meeting on the 24 February 2025. 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 30 September 2025 the Council therefore held a £0.212m loan administered through Abundance Investments Limited for the purpose of Community Municipal Investments at a rate of 2.2%.

- 3.6** The Council has no further borrowing considerations. There are plans to borrow in the future to fund the Capital Programme these will be outlined and updated in the Council's Capital Strategy to be approved by full Council in February 2026.
- 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

	31/03/2025	31/03/2026
	Actual	Forecast
	£m	£m
General Fund CFR	0.360	0.467
Less: External borrowing	(0.260)	(0.163)
Less: Usable reserves	(24.991)	(23.961)
Less: Working capital	2.758	1.500
Available for investment or internal borrowing*	(22.133)	(22.157)

*A positive figure would indicate a need to externally borrow



4. INVESTMENT PERFORMANCE

- 4.1** The Council invested funds representing income received in advance of expenditure plus balances and reserves held. During the half year, the Council's investment balances ranged between £20.176m and £44.386m due to timing differences between income and expenditure. On 30th September 2025, the Council had total investments of £31.030m arising from its revenue and capital income and expenditure. The investment position is shown in table 3 below:

Table 3: Treasury Investment Position

	31.3.25	Net	30.9.25	30.9.25
	Balance	Movement	Balance	Income
	£m	£m	£m	Return
				%
Bank of England DMADF	2.587	7.443	10.030	3.98
Money Market Funds/ Call Accounts	8.247	1.051	9.298	4.23
Real Estate Investment Trust (REIT)	0.698	(0.040)	0.658	3.00
Cash Plus Fund	1.213	0.026	1.239	N/A
Pooled Funds (I)	9.648	0.157	9.805	4.23
Total investments	22.393	8.637	31.030	4.16

(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 the first half of 2025/26, 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 2025/26 is £1.138m, as approved in February 2025. As part of Treasury Management monitoring, a review of Investment income expectations for the year indicates income could exceed budget by £0.360m by year



end Income achieved in excess of budget will be transferred to the Treasury Management Reserve at year end to mitigate the risk around future borrowing. Higher than expected interest rates have fed through to higher short-term deposit and MMF interest rates.

- 4.5** The six-monthly investment position analysed between investment types and the year to 30th September 2025 change in show in table 4 below.

Table 4: Investment Position (Treasury Investments)

Investment type	Balance Invested at 30/09/25 (£'000)	Investment Income received to 30/09/2025 (£'000)	2025/26Forecast (£'000)	Interest Rates at 30/09/25 (%)
Bank of England DMADF	10,000	222	575	3.97
Money Market Funds				
Federated Money Market Fund	3,000	64	132	4.08
DGLS Money Market Fund	3,000	64	132	4.08
Insight Liquidity Money Market Fund	3,000	58	124	4.01
Lloyds Instant Access	265	11	21	3.77
Santander Call Account	1	-	1	2.48
Other Short-term deposits	-	13	13	3.97
Real Estate Investment Trusts (REIT)				
Fundamentum Housing REIT	650	8	30	3.01
Cash Plus Fund				
Federated Cash Plus Fund ¹	1,239	-	-	N/A
Pooled Funds				
CCLA Property Fund	2,199	25	95	3.99
Schroders Income Maximiser Fund	922	36	54	8.67

¹ Investment income is reinvested into the funds' capital value rather than distributed as dividends.



CCLA Cautious Multi Asset Fund	926	11	30	4.58
M&G UK Income Fund	1,943	54	104	10.71
Ninety-One (Investec) Diversified Fund	1,848	38	88	4.58
Columbia Threadneedle Bond Fund	1,959	43	86	4.47
	30,952	647	1,484	4.93

5. EXTERNALLY MANAGED 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 crystallise 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 total externally managed funds of £12.5m, £10.5m are held in externally managed strategic pooled cash, bond, equity, multi-asset and property funds. An additional £1m is invested in a Cash Plus fund and £1m 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 £0.215m (4.92%) during the first half of 25/26 and the capital values on these funds increased by £0.210m. Most asset classes achieved positive performance over the first half of the 2025/26 financial year, although conditions remained volatile and heavily influenced by political and macroeconomic developments, more details can be found in Annex A. Members are reminded that Pooled Funds are held for the longer-term and the capital value will fluctuate over each financial year.
- 5.3 Statutory override IFRS 9 (Pooled Investment Funds)** This override allows councils to disapply part of IFRS 9 so that fair value gains and losses on pooled investment funds do not hit the General Fund. Originally due to end 31 March 2025, it has now



been extended for four more years under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2025. It will apply until 31 March 2029, but only for existing pooled fund investments held as of 1 April 2024. New investments after 1 April 2024 must comply fully with IFRS 9 and will impact the General Fund.

- 5.4** A "Treasury Management" risk reserve was established in 2024/25, with additional investment income above the budgeted level being transferred to this reserve. The purpose of the reserve is to manage potential higher borrowing costs, mitigate the impact of reduced investment income from lower interest rates, and cover any potential realised losses from pooled funds either at March 2030 or if they were disposed of earlier.
- 5.5** The current balance is £0.375m, and further transfers to this reserve are forecast during 2025/26 given the expectation of better-than-budgeted investment income.
- 5.6** The change in the Council's funds' capital values and income return over the 6-month period is shown in Table 5 (overleaf).



Table 5: Pooled Funds, Cash Plus and REIT

FUND NAME	Initial Investment	1 April Fund Value	30th Sept Value	Dividends in 2025/26 (as at 30 Sept)	Gain / (Loss) for 2025/26	Gain / (Loss) to Initial Principal	% Return Capital & Dividend 2025/26
	£	£	£	£	£	£	%
CCLA Property Fund	2,500,000	2,195,084	2,199,998	24,896	4,914	(300,002)	1.19%
Schroders Income Maximiser Fund (E)	1,000,000	862,383	921,871	35,694	59,488	(78,129)	9.52%
CCLA Cautious Multi Asset Income Fund (M)	1,000,000	932,668	926,276	11,450	(6,392)	(73,724)	0.51%
M&G UK Income Fund (E)	2,000,000	1,847,558	1,942,665	53,995	95,107	(57,335)	7.46%
Investec Diversified Fund (M)	2,000,000	1,807,700	1,847,707	37,691	40,007	(152,293)	3.88%
Columbia Threadneedle Bond Fund (B)	2,000,000	1,928,956	1,958,794	43,359	29,839	(41,206)	3.66%
Federated Cash + Fund (C) ²	1,000,000	1,212,773	1,239,493	-	26,720	239,493	2.67%
Fundamentum Housing REIT	1,000,000	690,000	650,000	7,500	(40,000)	(350,000)	-3.25%
Total	12,500,000	11,477,121	11,686,804	214,586	209,683	(813,196)	3.39%

Key: E- Equity, M – Multi asset, B –Bond, C – Cash

- 5.7** Most asset classes achieved positive performance over the first half of the 2025/26 financial year, although conditions remained volatile and heavily influenced by political and macroeconomic developments.
- 5.8** The most notable market shock came early in the period when US President Trump announced his 'Liberation Day' tariffs on 2 April, triggering sharp falls in global equity and bond markets. Sentiment improved once the US administration softened its stance and markets recovered relatively swiftly, although uncertainty lingered.
- 5.9** 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

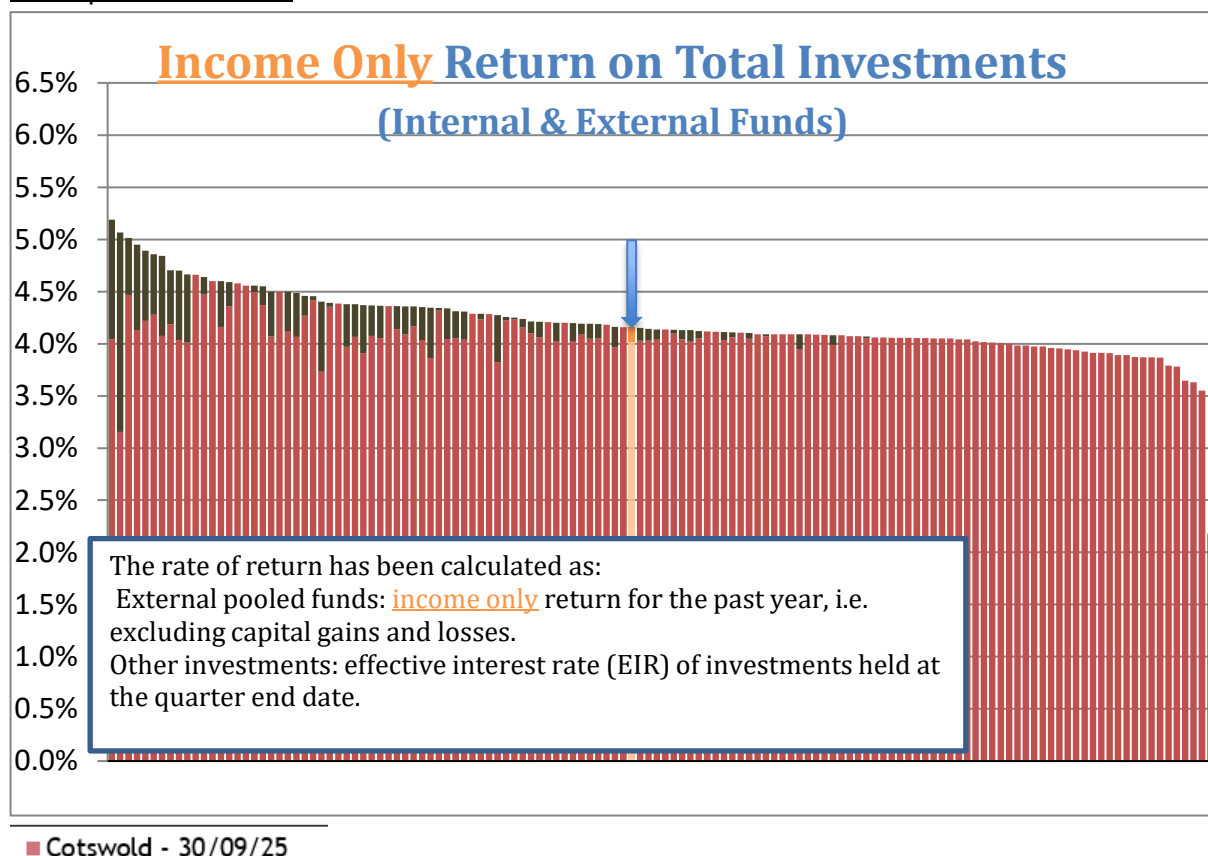
² Investment income is reinvested into the funds' capital value rather than distributed as dividends.



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.

5.10 Table 6 below shows that as of 30 September 2025, Cotswold District Council (orange bar) achieved an average rate on investments of 4.16%, 63rd in a pool of 132 Local Authorities where the average was 4.20%.

5.11 Table 6: Cotswold District Council investment returns v Arlingclose clients (132) as at 30 September 2025.



6. COMPLIANCE REPORT

6.1 The Chief Finance Officer reports that all treasury management activities undertaken during the first half of 2025/26 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.



6.2 Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment limits

Investment Limits Qtr1	2025/26 Maximum (£)	30/09/2025 Actual (£)	2025/26 Counterparty Limit (£)	2025/26 Sector Limit (£)	Complied?
The UK Government	0	10,000,000	Unlimited	n/a	Yes
Local authorities & other government	0	0	3,000,000	Unlimited	Yes
Secured Investments*	0	0	3,000,000	Unlimited	Yes
Banks (Secured)*	3,000,000	266,000	3,000,000	Unlimited	Yes
Building Societies (Unsecured)*	0	0	2,000,000	10,000,000	Yes
Registered providers (Unsecured)*	3,000,000	0	5,000,000	10,000,000	Yes
Money Market Funds*	9,000,000	9,000,000	3,000,000	Unlimited	Yes
Strategic pooled funds	11,500,000	11,500,000	4,000,000	20,000,000	Yes
Real Estate Investment Trusts	1,000,000	1,000,000	3,000,000	20,000,000	Yes
Other Investments*	0	0	£1m-£3m	10,000,000	Yes

**Investments in these sectors will only be made with entities whose lowest published long-term credit rating is no lower than A-*

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

Debt, Authorised Limit and Operational Boundary	Maximum Debt Q2 2025/26 (£)	Debt as at 30.09.2025 (£)	2025/26 Authorised Limit (£)	2025/26 Operational Boundary (£)	Complied?
Borrowing	10,000,000	211,935	10,000,000	5,000,000	YES
PFI and Finance Leases	0	0	0	0	YES
Total debt	10,000,000	211,935	10,000,000	5,000,000	

6.3 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.



7. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

7.1 As required by the 2021 CIPFA Treasury Management Code, the Council monitors and measures the following treasury management prudential indicators.

7.2 Liability Benchmark - This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £13m required to manage day-to-day cash flow.

Liability benchmark - Q2	31/03/2025 Actual (£m)	31/03/2026 Forecast (£m)	31/03/2027 Forecast (£m)	31/03/2028 Forecast (£m)
Loans CFR	0.36	0.47	2.97	2.57
Less: Balance sheet resources	(22.23)	(22.50)	(17.14)	(10.85)
Net loans requirement	(21.87)	(22.03)	(14.17)	(8.28)
Plus: Liquidity allowance	13.00	13.00	13.00	11.00
Liability benchmark	(8.87)	(9.03)	(1.17)	2.72
Existing borrowing	0.26	0.16	0.06	-

* A negative liability benchmark () means the Council can fund its borrowing internally using its own balance-sheet resources, rather than needing to borrow externally.

7.3 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:

Long Term Q2	2025/26 (£)	2026/27 (£)	2027/28 (£)	No fixed date (£)
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Limit on principal invested beyond year end	13,000,000	13,000,000	13,000,000	13,000,000
Actual principal invested beyond year end at 30.09.2025	£0	N/A	N/A	12,500,000
Complied?	Yes	N/A	N/A	Yes

7.4 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.

7.5 Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	2025/26 Target	30/09/2025 Actual	Complied?
Portfolio average credit rating	A-	AA-	Y

7.6 Interest Rate Exposure

This indicator is set to control the Council's exposure to interest rate risk. Bank Rate fell by 0.50% from 4.50% on 1st April 2024 to 4.00% by 30th September 2025.

Interest rate risk indicator	2025/26 Target	30/09/2025 Actual	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	-£0.18m	-£0.15m	Y
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£0.18m	£0.15m	Y

8. FINANCIAL IMPLICATIONS

8.1 Financial implications are outlined in the body of the report.

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

13.1 None.

(END)