COTSWOLD
District Council

Council name	**COTSWOLD DISTRICT COUNCIL**
Name and date of Committee	**AUDIT AND GOVERNANCE COMMITTE– 27 JULY 2026**
Subject	**TREASURY MANAGEMENT OUTTURN REPORT 2025/26**
Wards affected	N/A
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 to 31 March 2026.
Annexes	Annex A – Economic Background
Recommendation(s)	That Audit and Governance Committee resolves to: 1. Consider the Council's Treasury Management performance for the period 1 April 2025 to 31 March 2026. 2. Agree any comments to be passed to full Council when considering this item.
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 – using the council's resources wisely and investing in the district's future."

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

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1. EXECUTIVE SUMMARY

1.1 This report covers the Treasury Management activity and performance of Cotswold District Council for the period 01 April to 31 March 2026.

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 24 February 2025. Investment income for 2025/26 generated a net surplus of £1.505 million, £0.367 million above the original budget of £1.138 million, 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 4.94% (£0.516m) against the £12.5m invested in this area (further details provided in section 6). This compares to returns achieved of 3.77% for cash invested in money market funds and call accounts and 3.96% where cash is invested with the Government.

1.4 The capital values of the Pooled Funds, REIT and Cash Plus investment increased by £286,290 from £11.477m to £11.763 during 2025/26.

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 2026 is £0.161m.

1.6 In July 2022, Cotswold District Council entered into an agreement with Cottsway Housing Association, to provide an unsecured development loan of up to £3.753m in increments upon drawdown requests. The balance outstanding as at the 31st March 2026 is £1.930m. The loan has been converted to a secured loan over 50 years commencing 1st June 2026 at a rate of 4%.

1.7 Council continues to have no requirement to borrow or hold any further external debt as at 31 March 2026.

1.8 The treasury management position as at 31 March 2026 is set out in table 1 below together with the year-on-year movements.

1.9 Table 1: Treasury Management Summary

	31/03/2025 Actual £m	2025/26 Movement £m	31/03/2026 Balance £m	31/03/2026 Rate %
Short-term borrowing	0.260	(0.099)	0.161	2.20
Short-term borrowing	**0.260**	**(0.099)**	**0.161**	**2.20**
Long-term investments	11.477	0.286	11.763	6.99
Short-term investments	2.669	4.861	7.530	3.77
Cash and cash equivalents	8.247	0.929	9.176	3.77
Total investments	**22.393**	**6.076**	**28.469**	**5.22**
Net Investments	**22.133**	**6.175**	**28.308**	

*Increase/decrease on Long Term Investments is capital gain/loss

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 2025/26. 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 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 31 March 2026 the Council therefore held a £0.161m 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 no plans to borrow in the future to fund 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 £0.472m, and significant internal borrowing capacity as set out in Table 2 below:

Table 2: Balance Sheet Summary

	31/03/2025 Actual £m	**2025/26 Movement £m**	**31/03/2026 Actual £m**
General Fund CFR	0.360	0.112	0.472
Less: External borrowing	(0.260)	0.099	(0.161)
Less: Usable reserves	(24.987)	(5.977)	(30.964)
Add Working capital	2.754	(0.570)	2.184
Available for investment or internal borrowing*	**22.133**	**6.336**	**28.469**

*A positive figure represents resources available for investment or internal borrowing. A negative figure would indicate a need to externally borrow

3.10 If interest rates were to rise by 1%, then investment income would average 5.32%, whilst borrowing costs (based on 20-year PWLB Loan) would be 6.08%. For every £1m borrowed there would be additional cost of £7,600 per annum. The impact on a 1% interest rate rise on investment income is shown at 7.3.

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4. INVESTMENT PERFORMANCE

4.1 The Council invested funds representing income received in advance of expenditure plus balances and reserves held. During 2025/26, the Council's investment balance ranged between £20.176m and £51.601m due to timing differences between income and expenditure. The investment position is shown in table 3 below:

Table 3: Treasury Investment Position

	31/03/2025 Actual £m	2025/26 Movement £m	31/03/2026 Balance £m	31/03/2026 Rate %
Bank of England DMADF	2.587	3.787	6.374	3.70
Banks	0	1.001	1.001	3.93
Money Market Funds/Call Accounts	8.247	0.929	9.176	3.77
Real Estate Investment Trust (REIT)	0.698	(0.043)	0.655	3.00
Cash Plus Fund	1.213	0.05	1.263	4.16
Pooled Funds (1)	9.648	0.352	10.00	6.99
Net Investments	**22.393**	**6.076**	**28.469**	**5.22**

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

(2) Amounts above include accrued interest.

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 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, investment income of £1.505m 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 May 25, August 25 and December 25 from 4.5% at the start of the year to 3.75% by December.

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)

	31/03/2025 Actual £m	**2025/26 Movement £m**	**31/03/2026 Balance £m**	**31/03/2026 Rate %**
Banks & building societies (unsecured)	0.054	1.094	1.148	3.93
Government (incl. local authorities)	2.587	3.787	6.374	3.70
Money Market Funds	8.193	0.836	9.029	3.77
Other Pooled Funds				
- *Federated Cash plus fund*	1.213	0.05	1.263	4.16
- *CCLA Property Fund*	2.221	0.001	2.222	4.66
- *CCLA Better World Multi Asset Income Fund*	0.938	(0.053)	0.885	-2.67
- *Schroders Equity Income Fund*	0.872	0.132	1.004	16.39
- *M&G UK Strategic Bond Fund*	1.864	0.26	2.124	19.74
- *Investec Multi asset income fund*	1.814	0.021	1.835	6.00
- *Columbia Threadneedle Equity Income Fund*	1.939	(0.009)	1.93	4.13
Fundamentum - Real Estate Investment Trust	0.698	(0.043)	0.655	-2.90
Total investments	**22.393**	**6.076**	**28.469**	**5.22**

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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 £0.516m (4.94%) during 25/26 and the capital values on these funds increased by £286K in the year to 31 March 2026 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. 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 increase in value is treated as an unrealised capital gain i.e., the gain 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 2025/26 with the amount invested remaining at £12.5m.

5.4 Following consultations in April 2023 and December 2024, MHCLG confirmed in February 2025 its intention to extend the statutory override relating to the accounting treatment of fair value gains and losses on pooled investment funds. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2025 subsequently extended the override until 31 March 2029 for investments in pooled funds held before 1 April 2024. The override does not apply to investments acquired on or after 1 April 2024, for which fair value gains and losses are recognised in accordance with normal accounting requirements.

5.5 As a result of improved investment returns during the financial year, Cabinet approved the transfer of £0.300m of surplus investment income a earmarked reserves ("Treasury

Management Risk"). This reserve will provide financial resilience against future treasury risks, including higher borrowing costs if borrowing is required, lower investment returns resulting from falling interest rates, and any realised losses on pooled investment funds from March 2030 or on disposal.

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 2025/26	2025/26 Gain/(Loss)	Gain/ (Loss) to Initial Principal	% Return Capital & Dividend 2025/26
	£	£	£		£	£	%
CCLA Property	2,500,000	2,195,084	2,194,911	102,475	(174)	(305,089)	4.66
Schroders	1,000,000	862,383	926,992	76,733	64,609	(73,008)	16.39
M&G UK Income	2,000,000	1,847,558	2,107,282	104,892	259,723	107,282	19.74
Investec (91) Income	2,000,000	1,807,700	1,828,400	87,730	20,700	(171,600)	6.00
Threadneedle Bond	2,000,000	1,928,956	1,923,069	85,535	(5,887)	(76,931)	4.13
CCLA Cautious MA	1,000,000	932,668	879,536	28,226	(53,132)	(120,464)	(2.67)
Federated Cash +	1,000,000	1,212,773	1,263,222	n/A	50,449	263,222	4.16
Fundamentum REIT	1,000,000	690,000	640,000	30,000	(50,000)	(360,000)	(2.90)
Total current funds	**12,500,000**	**11,477,121**	**11,763,412**	**515,591**	**286,290**	**(736,588)**	**6.99**

5.6 Pooled funds capital value made a small gain of 2.49% in the financial year. During the 2025/26 financial year, financial markets were characterised by generally positive risk asset performance for much of the period, but with significant volatility, particularly at the beginning and end of the year. The period was effectively bookended by market disruption associated with US trade and foreign policy, initially following the announcement of US 'Liberation Day' tariffs in April 2025 and then, towards the year end, by the escalation of the US and Israel conflict with Iran in March 2026. Between these two episodes, market sentiment improved as inflation generally eased and expectations for further interest rate cuts increased, supporting both bond and equity markets.

5.7 For much of the year, the backdrop for government bonds became more constructive than had been the case in recent years. In the UK in particular, falling inflation and growing expectations of further Bank of England rate cuts supported sentiment, although yields remained volatile as investors also had to contend with fiscal concerns and an uncertain economic outlook. As a result, income returns remained attractive, while capital values were more variable. By the final quarter, however, the rise in oil and other commodity prices caused by the conflict with Iran raised concerns that inflation could move higher again and that further monetary easing could be delayed or even reversed, leading to renewed pressure on bond markets.

5.8 UK commercial property experienced a more stable backdrop than in the most difficult period following the sharp rise in yields in 2022 and 2023. Lower interest rate expectations and a firmer tone in markets for much of the year helped support valuations, although capital values were broadly flat overall. Income remained the main driver of returns, with rental income providing a relatively resilient contribution. However, as with other asset classes, the environment became more uncertain towards the end of the period.

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 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.

6. INVESTMENT RETURNS

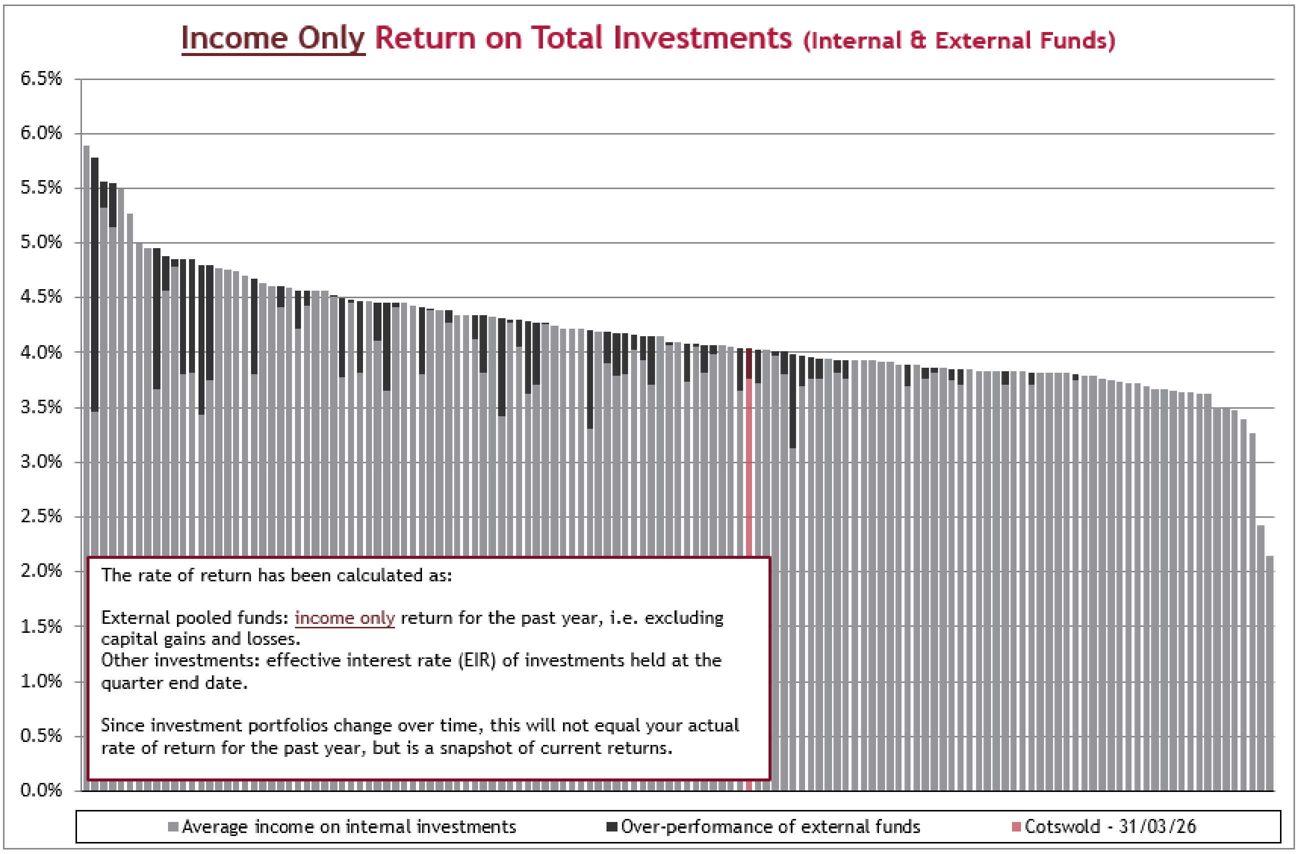
6.1 The outturn for investment income received in 2025/26 was £1.505m which equates to a 4.04% return (24/25, 4.67%) on an average investment portfolio of £35.060m against a budgeted £1.138m an average investment portfolio of £26.641m. Net loans and investments made a surplus of £0.295m, for the 2025/26 financial year. See table 6 for details. Interest receivable from the Council's loan to Cottsway Housing Association is now due during 2026/27 as the loan has been converted to a 50 year secured loan commencing 1st June 2026.

Table 6: Investment income and interest payable versus budget

Investment and Loan Income/Interest Payable	2025/26 Budget £m	2025/26 Actual £m	Variance Surplus/ (Deficit) £m
Community Municipal Borrowing (Interest payable)	0.000	(0.005)	(0.005)
Interest receivable (loans)	0.070	0.003	(0.067)
Net loan Interest	**0.070**	**(0.002)**	**(0.072)**
Pooled Funds	0.486	0.486	0.000
Housing REIT	0.030	0.030	0.000
Short term	0.223	0.607	0.384
Call/MMF's	0.399	0.382	(0.017)
Investment Interest	**1.138**	**1.505**	**0.367**
NET Income	**1.208**	**1.503**	**0.295**

6.2 Table 7 below shows that as at 31 March 2026, Cotswold District Council (red bar) achieved the 76th highest average rate on investments from the 135 local authorities that Arlingclose support.

Table 7 Cotswold' District Council total investment returns v Arlingclose clients (135) as at 31 March 2026.



7. COMPLIANCE REPORT

7.1 The Chief Finance Officer reports that all treasury management activities undertaken during 2025/26 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

	31.3.25 Actual	2025/26 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 4.5% on 1st April 2025 to 3.75% by 31st March 2026.

Interest rate risk indicator	2025/26 Target	31.3.26 Actual	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	(£0.18m)	(-£0.362m)	N
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.18m	£0.362m	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:

Table 10: Limit on principal invested > 364 days.

	2025/26	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 £36.045m during 2025/26. The funds earned an average rate of return of 4.04%, this compares to 4.67% in 2024/25.

8.2 The Council budgeted for £1.138m in treasury investment income for 2025/26. Actual performance was a surplus of £0.367m, with investment income received of £1.505m.

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)