COUNCIL – 8 September 2026

TREASURY MANAGEMENT ANNUAL PERFORMANCE REPORT 2025/26

Report by the Deputy Chief Executive (Section 151 Officer)

RECOMMENDATION

1. **Council is RECOMMENDED to note the council's treasury management activity and outcomes in 2025/26.**

Executive Summary

1. Treasury management is defined as: "The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks."

2. The Chartered Institute of Public Finance and Accountancy (CIPFA) 'Code of Practice on Treasury Management 2021' requires that committees to which some treasury management responsibilities are delegated, will receive regular monitoring reports on treasury management activities and risks. This report is the fourth and final for the 2025/26 financial year and sets out the position at 31 March 2026.

3. Throughout this report, the performance for the year is measured against the budget agreed by Council in February 2025.

4. As at 31 March 2026, the council's outstanding debt totalled £265m and the average rate of interest paid on long-term debt during the year was 4.41%. No new external borrowing was raised during the year, whilst £2m of maturing Public Works Loan Board (PWLB) and £5m of LOBO loans, were repaid. The council's debt financing position for 2025/26 is shown in Annex 1.

5. The Treasury Management Strategy for 2025/26 agreed in February 2025 assumed an average base rate of 4.00%.

6. The average daily balance of temporary surplus cash invested in-house was expected to be £304m in 2025/26, with an average in-house return on new and existing deposits of 3.25%.

7. During the year the council achieved an average in-house return of 4.44% on average cash balances of £406.712m, producing gross interest receivable of £18.068m. In relation to external funds, the return for the year was £4.406m,

bringing total investment income to £22.475m. This compares to budgeted investment income of £14.232m, giving a net overachievement of £8.243m.

8. At 31 March 2026, the council's investment portfolio totalled £423.960m. This comprised £256.500m of fixed term deposits, £78.358m at short term notice in money market funds and £89.101m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 March 2026.

Treasury Management Activity

Debt Financing & Maturing Debt

9. The strategy for long term borrowing agreed in February 2025 included the option to fund new or replacement borrowing up to the value of £300m through internal borrowing. The aim was to reduce the council's exposure to credit risk and reduce the long-term cost of carry (difference between borrowing costs and investment returns).

10. The council is able to borrow from the Public Works Loan Board (PWLB) or through the money markets. The strategy for 2025/26 assumed no new external borrowing during the year, with any increase in the capital financing requirement met through internal borrowing, as external borrowing rates were expected to remain elevated throughout the year.

11. As at 31 March 2026, the authority had 41 PWLB loans totalling £239.383m, four LOBO loans totalling £20m and two money market loans totalling £5.41m. The average rate of interest paid on PWLB debt was 4.51% and the average cost of LOBO debt for 2025/26 was 3.84%. The cost of debt on the money market loan was 3.99%. The combined weighted average for interest paid on long-term debt was 4.41%. The council's debt portfolio as at 31 March 2026 is shown in Annex 1.

12. The council repaid £2m of maturing PWLB loans in the first half of the financial year, whilst a LOBO with the value of £5m was called and repaid without penalty in the third quarter of the year. The council considered issuing another green bond, however elevated borrowing rates meant that it was not in the financial interest of the council to issue one during the year. The weighted average interest rate payable on the matured loans was 3.84%. The outturn for interest payable during 2025/26 is £11.841m.

Investment Strategy

13. The council holds deposits and invested funds representing income received in advance of expenditure plus balances and reserves. The guidance on Local Government Investments in England gives priority to security and liquidity and the council's aim is to achieve a yield commensurate with these principles. The council continued to adopt a cautious approach to lending to financial institutions and continuously monitored credit quality information relating to counterparties.

14. During the year term fixed deposits have been placed with other local authorities in accordance with the approved lending list, whilst Money Market Funds have been utilised for short-term liquidity. Inter local authority lending remains an attractive market to deposit funds from both a security and return perspective.

15. The Treasury Management Strategy Statement and Annual Investment Strategy for 2025/26 included the use of external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the council's in-house investment performance over a rolling three-year period. The strategy permitted up to 50% of the total portfolio to be invested with external fund managers and pooled funds (excluding Money Market Funds). The performance of the pooled funds will continue to be monitored by the Treasury Management Strategy Team (TMST) throughout the year against respective benchmarks and the in-house portfolio.

16. At the start of the year the UK Bank Rate was 4.50% which was in line with the forecast. The Bank of England cut rates by 0.25% in May 2025 to 4.25%, to 4.00% in August and again in December to 3.75%. The market had then forecast two more reductions to 3.25% by the end of the year, however the US and Iran war in the Middle East resulted in the Bank holding rates at 3.75% for the remainder of 2025/26.

The Council's Lending List

17. In-house cash balances are deposited with institutions that meet the council's approved credit rating criteria. The approved lending list, which sets out those institutions, is updated to reflect changes in bank and building society credit ratings. Changes are reported to Cabinet as part of the Business Management & Monitoring Report. The approved lending list may also be further restricted by officers, in response to changing conditions and perceived risk. There were no changes to the lending list during 2025/26.

Investment Performance

18. Temporary surplus cash balances include: developer contributions; council reserves and balances; and various other funds to which the council pays interest at each financial year end. The budgeted annual return on these in-house balances for 2025/26 was 3.25% and assumed an average annual in-house cash balance of £303.534m.

19. The actual average daily balance of temporary surplus cash invested in-house was £406.712m in 2025/26 and the average in-house return was 4.44%, producing gross interest receivable of £18.068m. Gross distributions from pooled funds totalling £4.406m were also realised in the quarter, bringing total investment income to £22.475m. This compares to budgeted investment income of £14.232m, giving a net overachievement of £8.243m. This over achievement

is a combination of higher than forecast balances, base rate forecasts remaining higher than previous forecasts, and a decoupling of the local to local lending market from the remainder of the money market. The local to local lending market is more aligned to the gilt market, which remains elevated as a result of persistently high inflation.

20. Due to interest rates and cash balances during the year being higher than modelled in February 2025, the investment return on treasury management activity was £8.7m above the budgeted level in 2025/26. In January 2026, Cabinet agreed to transfer £5.5m of this to a Budget Reserve. In June 2026 Cabinet agreed to add a further £8.0m, incorporating the £4.1m remaining additional interest, to the High Needs DSG risk reserve. The funding held in these reserves will be considered as part of the budget for 2027/28. Cash balances for the year were lower than they otherwise would be as a result of negative Dedicated Schools Grant (DSG) balances relating to High Needs. The negative DSG balance by the end of 2025/26 was £149.3m. This created an estimated opportunity cost of £6.0m in unearned interest during 2025/26, compared to £3.8m in unearned interest during 2024/25. The cumulative opportunity cost as a result of negative DSG balances since 2019/20 up to 31 March 2026£16.4m.

21. The council operates a number of instant access call accounts and money market funds to deposit short-term cash surpluses. During 2025/26 the average balance held on instant access was £76.268m, at an average rate of 4.07%.

22. During the third quarter of 2025/26, the council divested its allocation of shares in the Schroder Income Maximiser fund. Gross disposal proceeds were £12.96m against an original purchase price of £12.5m, realising a gain of £0.46m. At 31 March 2026 the total value of pooled fund investments was £89.101m, against an original purchase price of £88.06m.

23. At 31 March 2026, the council's investment portfolio totalled £423.959m. This comprised £256.500m of fixed term deposits, £78.358m at short term notice in money market funds and £89.101m in pooled funds with a variable net asset value. Annex 4 provides an analysis of the investment portfolio at 31 March 2026.

24. The council's Treasury Management Strategy Team regularly monitors the risk profile of the council's investment portfolio. An analysis of the investment portfolio at 31 March 2026 is included at Annex 4.

Prudential Indicators for Treasury Management

25. During the year, the council operated within the treasury limits and Prudential Indicators set out in the council's Treasury Management Strategy for 2025/26. The position for the Prudential Indicators as at 31 March 2026 is shown in Annex 3.

Financial Implications

26. This report is mostly concerned with finance and the implications are set out in the main body of the report. The impact of additional interest on cash balances and income from investments is reflected in the forecast position set out in the Business Management & Monitoring Reports to Cabinet during the year including the Provisional Outturn Report for 2025/26 considered by Cabinet in June 2026.

27. The use of funding added to reserves in 2025/26 will be considered through the budget process for 2027/28.

28. Interest on cash balances is less likely to be significantly higher than budgeted because of the increasing impact of the High Needs DSG deficit on the cash that the council is holding. Relatively higher interest rates and returns than in 2025/26, were assumed when the 2026/27 budget was set.

Legal Implications

29. The report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003. There are no other legal implications.

Staff Implications

30. There are no staffing implications arising from the updates set out in this report

Equality & Inclusion Implications

31. There are no equality or inclusion implications arising from the report.

Sustainability Implications

32. This report is not expected to have any negative impact with regards to the Council's zero carbon emissions commitment by 2030.

Risk Management

33. The purpose of treasury management is the management of the council's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". The Prudential Code

34. Prudential indicators and credit criteria are agreed by Council each year as part of the Treasury Management Strategy.

35. The credit quality of institutions, changes in the interest rate forecast, cash flow, and prudential indicators are monitored throughout the year and reported monthly to the TMST and quarterly to the council's Audit & Governance Committee, Cabinet and Council.

LORNA BAXTER
Deputy Chief Executive (Section 151 Officer)

Annex:	Annex 1 – Oxfordshire County Council Debt Financing 2025/26
	Annex 2 – Long Term Debt Maturing 2025/26
	Annex 3 – Prudential Indicator Monitoring to 31 March 2026
	Annex 4 – Oxfordshire County Council Investment Portfolio at 31 March 2026
Background papers:	Treasury Management Strategy for 2025/26
Contact Officer:	Tim Chapple, Strategic Financing & Investment Manager

August 2026