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## Treasury Management and Investment Sub-Committee

15th June 2026

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### Treasury Management Outturn Report 2025/26

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**Report by:**

FINANCIAL SERVICES MANAGER (Section 151 officer)

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**Officer Contact:**

Phil Reeves, Financial Services Manager, phil.reeves@chelmsford.gov.uk, 01245 606562

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**Purpose**

Under statute and the CIPFA Code of Practice on Treasury Management (“the Code”), Members are required to receive a report on the Treasury Management activities that took place in 2025/26.

**Recommendations**

That the Sub-Committee recommends the Treasury Management Outturn Report 2025/26 to Cabinet and, subsequently, to Full Council, or amends it as appropriate.

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#### 1. Introduction

- 1.1. The CIPFA Code of Practice for Treasury Management sets out the requirements for Council oversight of treasury management operations. As part of the Code, the Council is required to receive an annual report on the performance of the treasury management function, highlighting the effects of decisions taken and any instances of non-compliance with the Code and the Council’s Treasury Management Strategy.

#### 2. Background

- 2.1. The Council can expect to hold cash for investment, arising from its revenue and capital balances and the collection of local taxes. This cash can be invested to generate a return that helps support services or used for internal

borrowing to fund the capital programme. The Council also needs to borrow externally to fund its capital programme and ensure sufficient liquidity for day-to-day activities. The management of this cash and borrowing is known as Treasury Management.

2.2. Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as:

“The management of the local authority’s investments and cash flows, 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”

2.3. This report fulfils the Authority’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

2.4. The Council’s investment priorities as required by Government regulations are in order of priority:

- (a) The security of Capital
- (b) The liquidity of its investments; and
- (c) Yield

MHCLG and CIPFA both advise that absolute certainty over security of capital and liquidity does not need to be achieved before seeking yield from investments. Instead, an appropriate balance between all three objectives should be sought, with that balance determined by the Council through its Treasury Management Strategy.

2.5. The operation of Treasury Management is not without risk, and the Council could suffer losses if one of its counterparties had financial difficulties.

2.6. The Council formally reviews its investment holdings in the following ways:

- Treasury Management Strategy report in February
- Treasury Outturn report in July
- A half-year update in November
- The Treasury Management Sub-Committee monitors treasury activity during the financial year.

The review of the year’s activities is set out in the following appendices:

**Appendix A** – External Environment Update

**Appendix B** – Borrowing and Investment Activity compared to the Approved 2025/26 Strategy

### 3. Summary of Review

3.1. During the financial year, there were no breaches of the Treasury Management Strategy.

3.2. The economic environment for the financial year saw a gradual reduction in rates but was marked with new uncertainties due to the conflict in Iran.

3.3. The year-end cash and borrowing position were as follows:

- Cash and investments held by the Council was higher than expected, some £18.6m compared to projections of £11.3m made for the 2026/27 budget (forecast was produced in December 2025).
- External borrowing was £14m at year end, in the form of one-year loans from the Public Works Loan Board (PWLB). The forecast external debt position was £20m, resulting in an underspend on estimated borrowing of £6m. This favourable variance arose broadly from slippage in capital expenditure and higher receipts and income. Borrowing remained within approved parameters.

#### 3.4. Revenue impact of cash and investment

- Interest earned on investments for the year was £1.20m, which was £0.27m above budget, mainly due to higher-than-average cash balances caused by capital slippage and higher receipts and revenue income.
- The overall return on investments for 2025/26 was 4.3% compared to 4.94% in the previous year. The budget had assumed 4.05%. During the year, the Bank of England base rate decreased from 4.5% to 3.75%.

3.5. The Council at the beginning of 2025/26 held three pooled funds. Ongoing underperformance of one fund, the CCLA cautious world fund led to the decision by s151 officer to dispose of the fund.

3.6. The Council's remaining two pooled funds held at the end of 2025/26, generated total income returns of £335k, equating to a return of 5.35%. After allowing for the CCLA Cautious Fund, the average income return on the funds was 0.43% higher than cash, generating an additional £35k of interest. The value of the funds increased by £309k during the year, but prior to conflict in the Middle East the improvement was £568k. Across the remaining two funds at the end of 2025/26, there was an unrealised loss of £332k.

3.7. At the time of publication of this report, the yield (income) from the funds is broadly in line with the Council's short-term cost of borrowing. This reflects the elevated cost of borrowing in 2026/27. Borrowing interest rates were expected to fall during 2026/27, which would have improved both the capital value and the relative benefit of the funds. The position on the funds remains under review, and disposal may become the best option, but geopolitical uncertainty makes the long-term outlook difficult to determine.

3.8. Since the inception of the fund portfolio, it has delivered an additional £1,075k compared with what the Council would have received from cash investments.

#### 3.9. Revenue impact of borrowing:

- External loan interest costs were £428k, a favourable variance of £761k against the budget of £1,189k. This lower cost was due to lower levels of borrowing than was estimated in the budget for 2025/26.
- The estimated borrowing interest rate was 4.50%, while the average rate actually borrowed at was 5.35%.

## 4. Conclusion

- 4.1. It should be noted that the Council's Treasury Management activities operated within approved parameters.
- 4.2. The Treasury Management and Investment Sub-Committee will continue to monitor investment and borrowing activity.

### List of appendices:

Appendix A – Economic Environment Update

Appendix B – Borrowing and Actual Investment Activity compared to the Approved 2025/26 Strategy

### Background papers:

None

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### Corporate Implications

Legal/Constitutional: None

Financial: As detailed in report.

Potential impact on climate change and the environment: Any fund managers will be required to consider ESG (Environmental, Social and Governance) factors in their investment process. All the fund managers would be expected to have signed up to the UN Principles for Responsible Investment (PRI). PRI argues that active participation in ESG and exercising shareholder rights on this basis can help to improve the performance of companies which may otherwise not address such concerns and so being an engaged corporate stakeholder is a more effective way to bring about change in corporate behaviour on ethical issues.

Further requirements from those identified above are not practical given the limited ability to directly influence any immediate change in the financial markets.

Contribution toward achieving a net zero carbon position by 2030: None.

Personnel: None

Risk Management: All treasury management activity requires a careful consideration of risk and reward.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

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### Consultees: None

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### Relevant Policies and Strategies:

Treasury Management Strategy 2025/26

## **Appendix A – External Environment Update**

### Introduction

The Council's investment performance and borrowing costs are affected by a range of external economic factors, particularly interest rate expectations and the wider economic outlook.

### Economic factors impacting treasury management activity during 2025/26

During 2025/26, the external environment remained uncertain. The lack of progress in ending the Russian invasion of Ukraine, together with the potentially negative implications for global growth arising from US tariff policies, meant that expectations for further Bank Rate reductions during the remainder of 2026 became more limited than had been assumed at the beginning of the year.

At the start of the financial year, Bank Rate was 4.5%, before declining to 3.75% by December 2025. By late February 2026, markets were widely expecting a further rate cut in March, particularly after a close 5–4 vote at the February meeting left Bank Rate unchanged.

However, sentiment changed sharply at the end of February 2026. The outbreak of conflict in the Middle East created uncertainty over the supply of crude oil and wider energy prices. Increased concerns about rising inflation led markets to reassess the likelihood of near-term Bank Rate reductions.

This change in expectations fed quickly through into borrowing markets. Public Works Loan Board (PWLB) one-year rates were 4.46% on 27 February. PWLB one-year rates reached a high of 5.4% during March, reflecting significant volatility in gilt markets and making borrowing more expensive than had originally been expected towards the end of 2025/26. Local authority one-month rates rose above 6% before the middle of March and above 7% in the final week of March. PWLB one-year rates have remained above 5% since that point.

At its March 2026 meeting, the Bank of England left Bank Rate unchanged at 3.75% by a vote of 9-0. The Monetary Policy Committee (MPC) stated that it “stands ready to act as necessary” and was “alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting”. This reinforced the view that, while growth remained weak, inflation risks could limit the scope for further reductions in interest rates over the near term.

### Other factors

Local authority-to-local authority lending remained tight. This has limited the availability of funds particularly at year end when borrowing is most needed.

Long Term PWLB rates remain unattractive and generally loans beyond 10 years are 6% plus.

## Appendix B – Borrowing and Investment Activity compared to the Approved Strategy for 2025/26

### External borrowing

1. The Council has the freedom to borrow in the following circumstances:

- Short-term borrowing to manage liquidity
- Long-term borrowing only to fund capital expenditure if no other capital resources exist e.g. the Council has spent its capital receipts or expects to do so imminently.

2. The Council borrowed £14m externally towards the end of 2025/26 to ensure sufficient year-end liquidity to meet operational needs. The external borrowing outstanding at year end is shown below.

Counter Party	Start	Maturity	Amount	Interest Rate
Public Works Loan Board	25-Feb-26	25-Feb-27	4,000,000	4.29%
Public Works Loan Board	03-Mar-26	03-Mar-27	3,000,000	4.27%
Public Works Loan Board	18-Mar-26	18-Mar-27	7,000,000	4.63%
			<b>14,000,000</b>	

Officers concluded that borrowing from the Public Works Loan Board (PWLB) was a better option than borrowing from other local authorities, due to limited market availability and the high year-end rates.

The Council's financing (borrowing) costs which are charged to the revenue budget, are made up of interest and principal repayment (minimum revenue provision (MRP)).

- Interest costs for 2025/26 were £428k against a budget of £1,189k, giving a favourable variance of £761k because borrowing was both later and lower than budgeted.
- MRP costs were £165k higher than budget, mainly because more vehicles were financed than originally planned.

Overall, this meant in 2025/26 the Council's overall financing cost comprising both MRP and interest was £596k favourable (underspent) against budget.

In December 2025, an updated forecast for external borrowing was prepared for the 2026/27 budget. This forecast identified a borrowing requirement of £20m at 31 March 2026. In practice, borrowing was £6m lower than expected, mainly due to:

- the delayed repayment of £2m from the PLACE scheme. The PLACE scheme was a joint project involving several local authorities in Essex and Hertfordshire to improve housing, funded by Government grant. Chelmsford acted as the lead authority, holding the funds, and it was agreed that the scheme would be disbanded during 2025/26.
- higher receipts and income, including £2m from Saxton 4x4; and

- more vehicles being leased than budgeted (£1.8m), which meant the lease company refunded the Council for the cost of purchases.

Government accounting rules treat finance leases as a form of borrowing, so the Council must report them as such in its accounts and treasury management reporting. At 31 March 2026, the Council had outstanding right-of-use lease liabilities of £6,233k, of which £2,477k related to vehicles and equipment and the remaining £3,755k related mainly to private sector leasing (PSL) for temporary accommodation. PSL leases were not previously included in financing costs before 2024/25, but this changed with the introduction of IFRS 16, which removed the distinction between finance and operating leases.

### 3. Borrowing Prudent Indicators

#### Liability Benchmark:-

The Liability Benchmark is a prudential indicator that the Council is required to publish. It helps show whether the Council is likely to be a long-term borrower or a long-term investor and therefore supports long-term financial planning. It represents the cumulative level of external borrowing needed to fund the capital programme while maintaining the minimum level of treasury investments required for day-to-day cash flow management.

Ref.	Liability Benchmark	31/03/26 Actual (£m)	31/03/27 Forecast (£m)	31/03/28 Forecast (£m)	31/03/29 Forecast (£m)
1	Capital Financing Requirement (CFR) (total of external borrowing and internal borrowing)	46	75	82	86
2	Less: Balance sheet resources Internal borrowing, temporary surplus cash used instead of external loans	44	32	32	38
3	Subtotal of 1 and 2 :Net loans requirement (Positive figures are external borrowing requirement)	2	43	51	48
4	Plus: Cash balance to ensure we have liquidity allowance, which we hold as short term investments for treasury management purposes.	5	10	10	10
5	Total of 3 and 4; Liability benchmark + are external; borrowing requirements.  (Positive is an external borrowing requirement)	7	53	60	58

<- Forecast externally borrowed ->

The table above shows how the Liability Benchmark is calculated.

Ref./Row 1 shows the Capital Financing Requirement (CFR), which is the total of external and internal borrowing needed to fund the capital programme. At 31 March 2026, the capital programme required £46m of borrowing.

Ref./Row 2 shows the balance sheet resources available to support internal borrowing instead of external debt. Most of these resources comprise revenue reserves and capital grants.

Ref./Row 3 shows the net loans requirement. A positive figure indicates that external borrowing is forecast. A further allowance is then added to ensure that the Council holds a minimum level of liquid cash, as shown in Row 4.

Ref./Row 5 shows that the forecast year-end external borrowing requirement for 2025/26 was £7m. Actual external borrowing was £14m, meaning the Council was £7m over-borrowed at year end. This was because some payments were made later than expected and cash receipts were higher than expected at year end. The latest projections show external borrowing requirements of £53m at the end of 2026/27 and £60m at the end of 2027/28, after allowing for a minimum liquidity requirement of £10m.

### Maturity Structure of borrowing

The Council had £14m of external loan borrowing with the PWLB with durations of a year (100% of loans for less than 2 years). This loan maturity profile is within the limits set in the 2026/27 Strategy that are shown below

<b>Maturity structure of fixed interest rate borrowing 2026/27</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	50%
10 years to 25 years	0%	50%
25 years to 50 years	0%	50%
<b>Maturity structure of variable interest rate borrowing 2026/27</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	50%
10 years to 25 years	0%	50%
25 years to 50 years	0%	50%

### Other borrowing indicators

There has been no need to revise external borrowing limits, given the continued borrowing position being below that which was forecast. Those limits are identified below:

	2025/26 limit	2026/27 limit	2027/28 limit	2028/29 limit
Authorised limit – total external debt	£50m	£85m	£90m	£90m
Operational boundary – total external debt	£28m	£68m	£72m	£72m

The table below shows the updated affordability indicator for the provisional outturn of 2025/26. A comparison that approved at Full Council in February shows the impact is similar (marginally lower) across the projection.

	2024/25 Actual	2025/26 Provision Outturn	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
<b>Total Financing Costs (excludes income generated by capital schemes)</b>	<b>£2.407m</b>	<b>£2.860m</b>	<b>£4.343m</b>	<b>£5.509m</b>	<b>£6.569m</b>
<b>Affordability Indicator</b>					
Net Revenue Stream	£29.186m	£30.947m	£31.566m	£32,197m	£32,841m
<b>Updated Ratio of financing costs to Net Revenue Stream</b>	<b>8.25%</b>	<b>9.24%</b>	<b>13.76%</b>	<b>17.11%</b>	<b>20.00%</b>
<b>Previously identified at Council Feb 2026; Ratio of financing costs to Net Revenue Stream</b>	<b>8.25%</b>	<b>9.51%</b>	<b>13.92%</b>	<b>18.27%</b>	<b>20.98%</b>

## Investments

5. Officers with appropriate knowledge and training invest the Council's cash balances. MUFG Corporate Markets were used as advisers on treasury management to help inform the decision-making process.
6. The Council's cash is invested in the following priority order, in accordance with statutory guidance:
  - i) Security – protecting the capital sum invested from loss
  - ii) Liquidity – ensuring the funds invested are available for expenditure when needed
  - iii) Yield – subject to achieving proper security and liquidity, to pursue a yield on investments to support service provision

Both the regulations and CIPFA advise that absolute certainty of security and liquidity does not need to be achieved before seeking yield from investments. Instead, the Council should strike an appropriate balance between all three objectives, as set out in its Treasury Strategy.

7. The Council forecasts its cash flow to manage in-house investments and liquidity. This enables officers to divide in-house funds into two categories:

- Shorter-term, lower-yielding investments – these are placed for relatively short periods, normally 3 to 6 months, so that investment maturities align with peaks and troughs in the Council’s liquidity needs. This is particularly important in the final two months of the year, when council tax income falls significantly because most residents pay in 10 monthly instalments.
- Longer-term, higher-yielding investments – these involve investing ‘core cash’, also referred to as ‘balance sheet resources’, which the Council does not need for operational purposes in the short to medium term. Core cash includes balances such as revenue reserves. These funds can be invested for a year or more with appropriate counterparties to generate higher returns without creating liquidity pressures.

8. The Council’s investment portfolio decreased from £22.8m at 31 March 2025 to £18.6m at 31 March 2026. This reflects the longer-term trend of lower cash balances available for investment as the Council uses cash to fund capital expenditure.

**Indicators to demonstrate Compliance with the Approved Treasury Management Strategy**

9. A summary of the approved Treasury Management Strategy and the actual outcomes is set out below:

- |   |  |
|---|--|
| a. <b>To ensure that there are no breaches of the approved counterparty limits or durations</b>   | No breach occurred.  |
| b. <b>To maintain a target balance of £5m of short notice funds to manage liquidity</b>           | The Council maintained cash balances within the target range for funds available at up to 35 days’ notice. |
| c. <b>To maintain long term investments within set limit of £10m and Investment funds of £12m</b> | Long-term investment holdings remained within the approved limits.   |

Total bail-in risk exposure (direct and pooled) was at 89% for 2025/26 and this had reduced compared to the previous year which was 100%. This shown below.

<b>Exposure</b>	<b>2024/25</b>	<b>2025/26</b>
Bail In Risk -Direct investment (NatWest holding)	1%	2%
Bail In Risk – Pooled Fund Managers and Money Market Funds	99%	87%
Exempt from Bail In (Local authority investment)	0%	11%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Counter Party**

<b>Money Market Funds &amp; Long-Term Funds</b>	<b>Credit Rating (Fitch)</b>	<b>Sum Invested (31/03/2026)</b>	<b>Limits 2025/26</b>
Black Rock Money Market Fund	AAAmf	£600	£6,000,000
Insight Money Market Fund	AAAmf	£3,008,730	£6,000,000
Federated Money Market Fund	AAAmf	£5,986,000	£6,000,000
Deutsche Money Market Fund	AAAmf	£370	£6,000,000
Invesco Money Market Fund	AAAmf	£724,040	£6,000,000
BNP Paribas Money Market Fund	AAAmf	£540	£6,000,000
Aegon Multi Asset Fund	N/A	£3,570,450	Total of £12,000,000
Ninety-One Multi Asset Fund	N/A	£2,997,840	
CCLA Multi Asset Fund	N/A	£0	

**Banks & Building Societies**

Natwest	A+	£339,580	£3,000,000
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**Local Authorities**

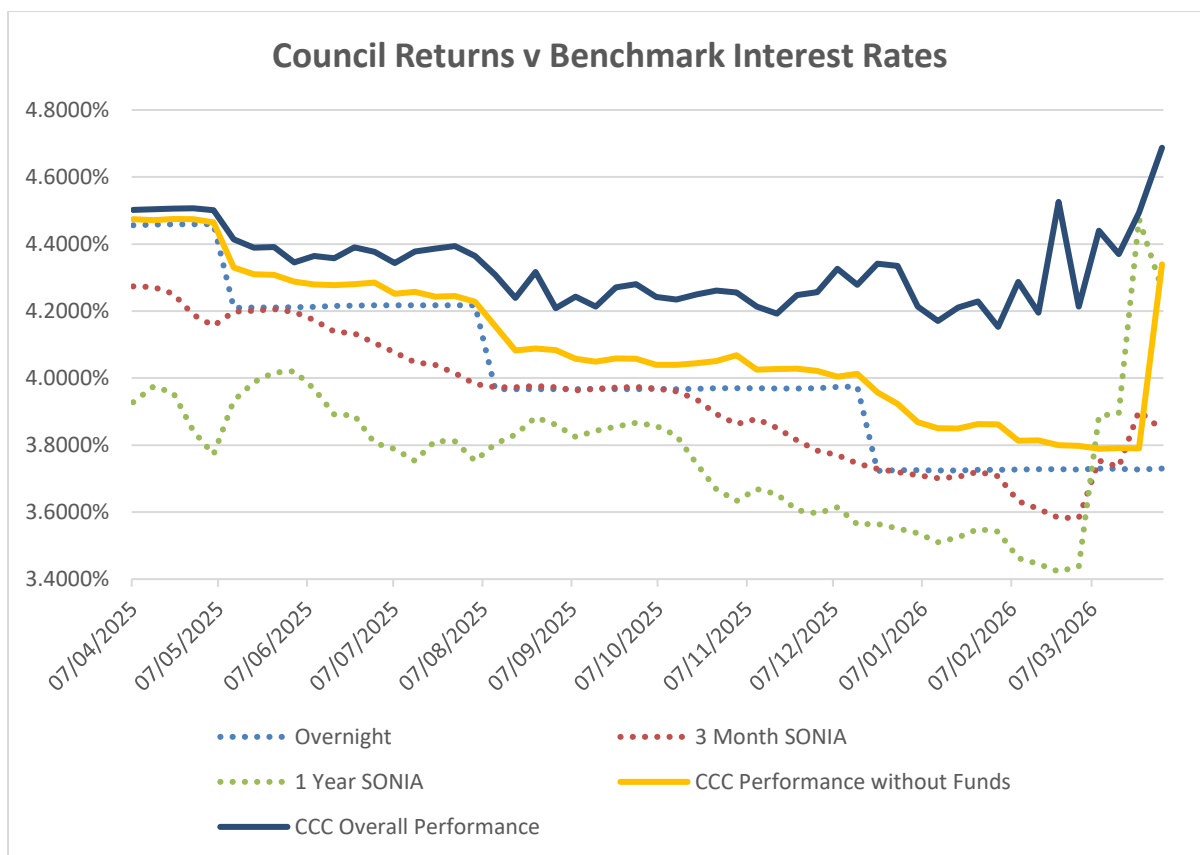
Surrey County Council		£2,000,000	£10,000,000
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<b>Total Investments</b>	<b>£18,628,150</b>
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**Return on investments**

10. UK interest rates began the year at 4.5% and ended it at 3.75%. The budget assumed an average return of 4.05%.

The table below compares SONIA (the Sterling Overnight Index Average) with the returns generated by the City Council. The figures shown are daily data not cumulative average.



The Council earned a total of £1,199k in investment income during the 2025/26 financial year, which was £274k additional income over the £925k budget. This was mainly due to higher-than-average cash balances caused by capital slippage and higher receipts and revenue income but also partly due to interest rates being slightly higher than budgeted. The year end spike was due to a short duration investment with another local authority at 7%.

### 10.1 Investment Funds

	<b>Market investments (excluding Multi Asset Funds)</b>	<b>Multi Asset Funds Income (Based on April 2025 Valuation)</b>	<b>All Investments Income Yield</b>
<b>Year ending 31/03/2026</b>			
<b>Average yield</b>	4.09%	4.52%	4.30%

The yields shown above have been calculated using opening balances.

The City Council held investments in three Multi-Asset Funds during the financial year. The CCLA Cautious Fund was sold in phases during the year, resulting in a realised loss of £306k. The fund had been generating a lower return than the other two funds and there was little sign of improvement.

In addition, the yield on the fund was below the interest rate the Council was paying on its borrowing. The Section 151 Officer therefore concluded that it was in the Council's best interests to realise the loss.

Income returns for the two remaining funds are shown below, together with each fund's closing capital value, initial investment value, and unrealised gain or loss.

Fund	Initial Investment Value £	1/04/2025 Investment Value £	31/03/2026 Investment Value £	Unrealised +Gain/(Loss) (since inception) £	Income Return (Based on 1 <sup>st</sup> April 2025 Valuation)
Aegon DIF	3,600,000	3,295,096	3,570,445	(29,555)	5.79%
Ninety One DIF	3,300,000	2,963,896	2,997,836	(302,164)	4.85%
Total/Average	6,900,000	6,258,991	6,568,281	(331,719)	5.35%

Total income from all funds during 2025/26 was £388,504, including dividends received from the CCLA Cautious Fund before it was sold during the year. Income from the two remaining funds was £335k.

The unrealised loss on the two remaining funds had recovered £309K during 2025/26. Fund valuations have been affected by conditions in the global economy and by the conflict in the Middle East. Compared with their initial investment value, the two funds showed a combined unrealised loss of £332k at year end. Only a few days earlier, before the conflict escalated, the unrealised loss had reduced to £73k.

These investments are intended to be held over the medium to long term, so their capital values will fluctuate over time. Since the initial investments were made, the capital performance of the Aegon and Ninety One funds has been adversely affected by geopolitical events. The Section 151 Officer is monitoring the position closely and is considering whether over the medium term the funds offer enough added value to justify holding them. The main concern is whether the yield on these investments falls below the Council's borrowing costs for a prolonged period. If that happens, the Council should consider disposing of some or all of the funds in 2026/27, instead of taking on additional external borrowing. A caveat is that gains in capital value could offset the interest differences. Any decision will depend on the outlook for interest rates, fund values and the Council's borrowing requirement. The funds are not considered to be inherently underperforming, but continued geopolitical uncertainty has weakened returns. In a more stable environment, there remains potential for capital values to recover, although that position is now complicated by higher borrowing costs.

Overall, since inception, the fund portfolio has generated an additional £1,075k of returns above what would be obtained from cash, of which £405k is unrealised.

### **Conclusion**

The Council operated within its Treasury Management Framework throughout the year. This enabled it to protect its financial assets while achieving a good level of return relative to prevailing market interest rates.