



## Chelmsford City Council Cabinet

28th January 2025

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### Capital, Treasury Management & Investment Strategies 2025/26

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#### Report by:

Cabinet Member for Finance

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#### Officer Contact:

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#### Purpose

To recommend an approach for managing the Council's cash and other types of investment including property; and

to explain how capital expenditure, capital financing and treasury management activities will contribute to the provision of services, how risk is managed, and the implications for future financial sustainability.

#### Options

1. Accept the recommendations contained within the report and appendices.
2. Recommend changes to the way the Council's investments are to be managed.

#### Preferred option and reasons

Recommend the report to Council without amendment for consideration and thereby meet statutory obligations.

#### Recommendations

That Cabinet requests that Full Council approve the Capital, Treasury Management and Investment Strategies.

## 1. Background

1.1. There are three financial strategies that the Council is obliged by Government to approve when setting a budget:

- Capital Strategy
- Treasury Management Strategy
- Investment Strategy

### 1.2. Capital Strategy

The Capital Strategy **Appendix 1** sets out a framework for the management of capital finance and links to capital and revenue budget plans being reported to Cabinet in January 2025. The strategy is not reviewed by the Treasury Management and Investment Sub-committee. The strategy should support the Council's objectives in 'Our Chelmsford Our Plan' and sets the framework in which the capital programme is planned. It enables the Council to prioritise the use of limited resources to support long-term priorities whilst balancing services' operational requirements. The strategy reports on deliverability, affordability and the risks associated with the strategy. The aim of this Capital Strategy is also to ensure that members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risks.

### 1.3. Treasury and Investment Strategies

Members of the Treasury Management and Investment Sub-Committee (TMISC) have reviewed the contents of these strategies and recommended that the Cabinet note their contents and seek Council approval for the Strategies.

The activities around the management of the Council's cash and external borrowing are known as Treasury Management (TM). Under statute and the CIPFA Code of Practice on Treasury Management ("the Code"), members are required to receive reports on the Council's TM activities. The document in **Appendix 2** complies with the Code and relevant Government regulations.

Full Council has overall responsibility for the Treasury Strategy but delegates to the TMISC responsibility to monitor activity and recommend changes to the strategy. The Accountancy Services Manager (Section 151 Officer) has delegated responsibility to manage operational TM activities within the approved strategy.

1.4. The Ministry of Housing, Communities and Local Government requires the Council to publish and have approved an Investment Strategy. This strategy covers investments that are deemed not to be Treasury Management activities. The Investment Strategy is in **Appendix 3**.

## 2. Executive Summary

### Capital Strategy

- Sets out how this strategy will support the Council towards achieving 'Our Chelmsford Our Plan'.
- Sets limits to amounts that can be borrowed by the Council.
- Summarises the costs of the capital programme.
- Identifies how the Council plans to finance its capital expenditure programme and the cost to the revenue budget.
- Identifies how processes will limit risks associated with the strategy.
- Will ensure that members understand the Capital Strategy requirements, governance procedures and risks.

### Treasury Strategy

#### Investments

- No material changes from the previous year.
- Target of a minimum of £5m of liquid funds to manage cashflow during the year remains unchanged. However, this target may be increased by officers during the year if liquidity management requires it.
- Cash available for investment is expected to reduce as the Council funds the capital programme.
- Prior to completion of the budget, gross interest income of circa £925k is expected for 2025/26 based on an assumed interest rate of 4.35% across the Council's portfolio.

#### Borrowing

- Changes
  - Maturity limit for 2 to 5 years has been increased to 100% to increase flexibility, if needed.
  - An affordability indicator has been added. This is a result of reviewing currently published indicators against those required by best practice.
  - No other material changes from the previous year.
- Borrowing will only be undertaken for the purpose of managing temporary liquidity or to fund the capital programme.
- Limits for external borrowing will be set in the Capital Strategy which will be reported to Cabinet and then Council as part of the 2025/26 Budget.
- Under the Constitution, the Section 151 Officer manages investments and borrowings, so will undertake any borrowing as needed. Prior to completion of the budget, the Council's cashflow planning indicates borrowing is likely to be required in late 2024/25 and onwards. Projections suggest external borrowing of £58m by March 2026 may be needed.

### **Non-Cash Investments (Investment Strategy)**

- No changes to the principles of last year's investment strategy are recommended.
- No new capital expenditure (investments) will be made where the purpose of the investment is primarily for yield. This restriction is in line with 2024/25 Strategy.
- The strategy has provision to allow for the creation of a stand-alone housing company if needed and subject to appropriate approvals.
- The monitoring of non-treasury investments is undertaken by the Treasury Management and Investment Sub-committee.

### **3. Conclusion**

3.1. Cabinet is asked to accept the endorsement by Treasury Management and Investment Sub-committee and to recommend to the Council the Treasury Management and Investment Strategies.

3.2. Cabinet is asked to recommend the Capital Strategy to Council. This strategy should be reviewed regularly and reported on during the year.

#### **List of appendices:**

Appendix 1 - Capital Strategy 2025/26

Appendix 2 – Treasury Management Strategy 2025/26

Appendix 3 – Investment Strategy 2025/26

#### **Background papers:**

Nil

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### **Corporate Implications**

Legal/Constitutional: The report meets statutory obligations on reporting Treasury Management Activity

Financial: As detailed in the 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:

N/A

Personnel:

N/A

Risk Management:

The report is part of the Council's approach to managing risks arising from Treasury Management and its Capital Strategy.

Equality and Diversity:

N/A

Health and Safety:

N/A

Digital:

N/A

Other:

Consultees:

Management team, Section 151 Officer and Monitoring officer

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Relevant Policies and Strategies:

Our Chelmsford Our Plan

## **Capital Strategy 2025/26**

- 1.1 This capital strategy report provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

It should be noted that this strategy has not included future receipts which will be realised from disposals of strategic sites such as Chelmer Waterside as the amount and timing of the receipts is not currently known. Future forecasts and outlook should be judged in light of the potential upside from these receipts when realised.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and a local policy framework, summarised in this report.

- 1.2 Capital expenditure is where the Council spends money on non-current assets, such as property or vehicles, that will be used for more than one year. The majority of these assets are used in service delivery. Additionally, in local government it can include spending on assets owned by other bodies, and loans or grants to other bodies which enable them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 do not have to be capitalised and can be charged to revenue in year.

- 1.3 **Governance: Capital Investment in Council Services – Capital Schemes and Replacement Programme**

The Replacement Programme is expenditure required to maintain existing levels of service provision. It includes software, vehicles, plant, equipment, grants and improvement loans which are budgeted for annually.

Capital Scheme items are usually building works but can be anything which does not meet the criteria of replacement, including regeneration schemes.

Details of the approved capital schemes, replacement programme and new scheme proposals included in this strategy can be found elsewhere on the agenda as part of the Budget 2025/26 report.

The Prudential Code requires that authorities demonstrate that they make capital spending and investment decisions in line with service objectives and have proper stewardship arrangements, provide value for money, are prudent, sustainable and affordable.

The Council's constitution and financial regulations govern the capital programme.

- All capital expenditure must be carried out in accordance with the financial regulations and the Council's constitution.
- Capital expenditure must comply with the statutory definition.
- The Capital Programme is approved by Full Council as part of the Council's annual budget report. It reports on the revenue cost of financing the capital expenditure to ensure that it is affordable. This is kept under review and updates are reported to Cabinet and approved by Full Council when required during the year.

- All schemes are formally approved into the capital programme by following an agreed process (see below).
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations.
- Each scheme must be under the control of a responsible person/project manager.

### **New Capital Spending – Prioritisation and Approval**

New capital spending should only be considered where the proposals are fully funded from, new external sources, from internal resources currently available, or where capital financing costs are offset from income/savings generated from the proposal or when increasing revenue costs is considered affordable.

It is always difficult to make choices between competing priorities and with reduced resources this is more challenging. To assist, during 2025/26 it is proposed that monitoring of capital programme projected costs will also include monitoring of resources to ensure the use of limited resources are prioritised.

Funding of new capital projects will require the production of a business case. An annual process is in place where Service managers bid in September for new capital scheme proposals and replacement items to be included in the Council's capital programme.

Business cases are collated by Accountancy who review the proposals and ensure that financial elements are validated and calculate any financing and/or running costs.

The bids are reviewed and prioritised by Management Team then referred to Cabinet which then makes recommendations to Council in February each year.

The Council has introduced a corporate Project Management Toolkit to support good project management practice across the Council. The toolkit provides templates for business cases and guidance on all aspects of project management.

In determining viability, capital business cases must include:

- details of how the proposal will help to achieve the corporate priorities;
- details of the intended outcomes and potential running costs;
- a statement of the risks of undertaking the scheme and how these will be managed;
- details of consultations undertaken in arriving at the proposal and any potential alternatives; and
- robust/validated costs. Proposals will not be taken forward for approval where costs are indicative.

If the above items cannot be included, then the service manager should consider whether a feasibility study should be undertaken prior to submission of the business case.

Due to the high significant that the financing of capital schemes has on the revenue budget, all future one off-schemes that are not self-financing (produce income or savings at least equivalent to the additional revenue costs of the proposal), will be automatically included on an Unfunded Priorities list.

Management team will review proposals on unfunded list as part of the budget estimates' cycle. Schemes management team consider as a priority, will be progressed to a feasibility study to gain a clearer understanding of potential costs and therefore affordability of the scheme.

Business cases that are considered as a lower priority, that are unaffordable or that can be deferred will remain on the Unapproved Priorities list. The cost of the schemes on this list are not included in the forecast spend as they have not been approved. In some instances, approved capital schemes may be reviewed and moved onto the Unapproved Priorities list should higher priority schemes come forward or further costing is required due to a change in scope or the original costs require updating.

The Unapproved Priorities list has been produced in Annex 1 and will be maintained and updated on an annual basis. This list will take time to fully establish but will contain details of potential future schemes linked to the priorities in 'Our Chelmsford Our Plan'. When schemes become 'affordable' and of sufficient priority they will be brought forward for approval following submission of a business case and included in the Capital programme.

Wherever possible proposals will only be taken forward for approval and added to the capital programme when there is certainty with the cost and outcomes of the proposal. This may be based on quotes or in some cases a full tender exercise. The full cost of the proposal must be identified including the revenue consequences and financing costs to ensure that the scheme is affordable. As the timing of the feasibility and tender works will not always align with the budget approval timetable it is likely that approval for the one-off schemes will be sought throughout the year.

Following approval, the agreed Corporate Project Management Toolkit should be used to ensure successful delivery of the project

There are always going to be schemes which need to be approved outside this process, due to urgent health and safety issues for example, or the need to respond quickly to market opportunities, and these will need approval in line with financial rules.

Governance and reporting arrangements, including risk management, will be reviewed to ensure that it remains fit for purpose and is in line with best practice.

#### 1.4 **Funding the Costs of Capital Expenditure**

Below is an explanation of the Council's proposed approach to funding capital expenditure.

##### Methods of Capital Financing

Capital resources, these are the funds that pay for capital expenditure and can come from many sources. Broadly speaking these are:

- **Sales of Assets (Capital Receipts):** Any disposal of property or equipment over £10,000 in value is a capital receipt. These can only be spent on other capital items. The Council seeks to maximise the level of these resources, which will be available to support the Council's plans. The use of cash proceeds from disposals up to £100k will be prioritised to fund assets with the shortest useful life, such as vehicles and equipment, to reduce the

requirement to borrow for assets that attract a greater annual Minimum Revenue Provision cost. The use of more strategic disposals, which will result in larger receipts, should be considered with a view to paying down debt and reducing financing costs. Relative benefits of the disposal of assets in exchange for non-cash benefits such as housing nomination rights which may reduce future Council revenue costs, will also be assessed on a site-by-site basis.

- **Leasing:** This is where we can use an asset in exchange for making a series of payments over several years. From 1<sup>st</sup> April 2024 under IFRS16 all leasing will be treated as a debt on the balance sheet. Leasing differs from traditional debt as more often than not the leasing company/property owner retains legal ownership of the asset. Companies are able to obtain capital allowances to reduce the cost to the Council. Leasing will be used following due diligence, comparing the financial and non-financial benefits and risks to the Council versus owning outright such assets.
- **Borrowing** (excluding leasing):
  - The Council can borrow externally from other local authorities, the Government or the private sector.
  - Borrowing can also be carried out internally, where cash balances are “borrowed” to fund capital expenditure.

If the Council undertakes any form of internal or external borrowing, then payments must be made to cover future or current principal debt repayments (Minimum Revenue Provision (MRP)). Before the start of each financial year the Council should prepare a statement of its policy on charging MRP in respect of that financial year and submit it to full Council for approval. The statement should describe how it is proposed to discharge the duty to make prudent MRP charges during that year. The method to calculate MRP is set out in section 1.6 below ‘The Borrowing Strategy’. Councils can choose to pay off debt from surplus capital resources, such as capital receipts, at any time.

- **Revenue contributions to capital:** the Council can use revenue budgets set aside to fund capital expenditure.
- **Grants:** there are Government grants and grants from external organisations. These can be used towards specific works that the Council can often bid for or can be non-specific.
- **Section 106 agreements and Community Infrastructure Levy (CIL):** if a new development is undertaken within the City, the Council is legally entitled to ask for assets or money to mitigate the impact of the development. Wherever possible these contributions are used towards the financing of eligible capital spend.

The circumstances where each type of capital resource will be used depends on the nature of the scheme. Whilst developing scheme proposals, consideration should be given to the types of funding which offer the best value for money for the Council. Clearly, the optimal funding arrangements are those where third parties fund or help fund the investment. The s151 Officer will, at the end of each financial year, determine the appropriate funding for the capital programme.

The Council has limited capital resources and will apply those resources in a way that reduces the revenue burden of the schemes. This will therefore use the principle of applying any suitable resource available to fund schemes before using borrowing (internal or external). For example, CIL resources will be applied to schemes that meet CIL regulatory requirements at the earliest opportunity if this defers or avoids the need to borrow. A review will be undertaken in 2025 to determine how future CIL income can be used to support the Corporate Plan.

### 1.5 **Cost of the Capital Programme**

In the 2025/26 budget, the Council is planning capital expenditure as summarised below:

	<b>2023/24 actual</b>	<b>2024/25 forecast</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>	<b>2027/28 budget</b>
Replacement Programme Updated Budgets Require Approval	£3.573m	£4.465m	<b>£7.552m</b>	£4.586m	£4.595m
Capital Projects - Forecast Variations Require Approval	£19.048m	£42.825m	<b>£27.954m</b>	£5.766m	£3.096m
New Capital Submissions 2025/26 - Require Approval	£0.000m	£0.000m	<b>£0.980m</b>	£0.000m	£0.000m
Provision for Building Condition Works - Require Approval	£0.000m	£0.000m	<b>£3.910m</b>	£0.750m	£0.000m
<b>TOTAL</b>	<b>£22.621m</b>	<b>£47.290m</b>	<b>£40.396m</b>	<b>£11.102m</b>	<b>£7.691m</b>

Details of the programme can be found in the Budget Report 2025/26 elsewhere on this agenda.

This forecast expenditure has been assessed following a full review of the existing programme by Management team. Some previously approved schemes have been moved to the Unapproved Priorities list as they are now considered as possibly being unaffordable or the approved budgets are not based on validated costs. The funding (CIL) previously earmarked for these schemes has been redirected to other higher priority schemes to limit the revenue costs of the capital financing. An example of this would be the proposal for the new cemetery and crematorium infrastructure being removed until an updated business case is brought forward. The CIL freed up, has been re-directed to other schemes lowering the overall need to borrow.

#### **Basis for Estimating Future Costs**

The above table reflects the forecast capital programme and known replacement items. These costs are reflected in the Budget Report 2025/26 and variations from previously reported costs require approval.

The replacement programme will be approved for the years 2025/26 and 2026/27. The two-year approval provides services with the ability to better manage their replacements. They can move items between the two years should it be necessary and are able to place orders in advance as some vehicles have over a year lead in

times for delivery. As the budgets will be approved in advance of spend, a provision for increases in price has been included. Use of this provision will be delegated to the s151 Officer.

There is a high risk that scheme costs will increase due to inflation and supply and demand. Annual reviews of approved scheme budgets will be undertaken to identify and seek approval for the consequences of inflation.

The table includes a provision for works which have been identified from building condition surveys. Decisions will need to be taken on the affordability and priority of these works. Feasibility and option appraisals will be carried out and business cases will need to be completed for some of the larger more complicated projects such as the Riverside Chiller Unit. A delegation will need to be established to enable the provision to be drawn down as more certainty of the costs is achieved.

The building condition surveys are carried out as part of a rolling programme so additional provisions will be required in future years.

An ongoing budget of £369k to make a revenue contribution to capital has been included in the revenue budgets. This will be vired in later years to cover the associated revenue financing costs (e.g. MRP and interest) when they become payable.

This capital programme has been based on what is affordable. Long-term unfunded priorities will only be included when they become affordable.

Financing of the programme is currently planned as shown in the table below.

	<b>2023/24 Actual</b>	<b>2024/25 forecast</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>	<b>2027/28 budget</b>
Capital Receipts	£0.408m	£1.649m	<b>£0.200m</b>	£0.200m	£0.200m
Grants and Contributions	£17.627m	£38.333m	<b>£18.467m</b>	£1.523m	£0.002m
Revenue Contributions	£0.897m	£0.901m	<b>£0.819m</b>	£0.062m	£0.192m
Borrowing	£2.784m	£6.180m	<b>£20.266m</b>	£7.880m	£7.014m
Finance Leases	£0.659m	£0.227m	<b>£0.644m</b>	£1.437m	£0.283m
Operational Leases	£0.246m	£0.000m	<b>£0.000m</b>	£0.000m	£0.000m
<b>TOTAL</b>	£22.621m	£47.290m	<b>£40.396m</b>	£11.102m	£7.691m

## 1.6 Borrowing strategy

The table above shows that the Council will need to borrow to fund its Capital spending.

For details on the governance for Council borrowing please see Appendix 2 of the Treasury Management Strategy.

IFRS16 Implementation

Changes to accounting regulations came into effect on the 1<sup>st</sup> April 2024 which required conversion and restatement of operational leases and contract hire to finance leases. The effect of this conversion is that the outstanding liability on the leases must be shown as a debt on the balance sheet. The conversion has increased the level of debt held on the Council's balance sheet. An exercise was undertaken with services to identify those leases that would need to be converted. The main classes of lease identified to be included were in relation to vehicles, properties with peppercorn rents and properties currently leased from private sector landlords for temporary accommodation.

The estimated converted level of debt taken onto the balance sheet as at 1<sup>st</sup> April 2024 was as follows:-

Vehicles £0.415m

Private Sector Landlords £5.061m

The estimated converted debt balances as at 31<sup>st</sup> March each year are shown in the table below as they need to be reported and included in the Authorised Limit and Operational Boundary borrowing limits.

The Capital Financing Requirement (CFR) is the calculation of the Council's internal and external borrowing used to finance its capital expenditure. Statutory guidance is that long-term debt should remain below the CFR. Temporary breaches for cashflow are acceptable.

The table below highlights the requirement for external borrowing to finance the capital programme from 2024/25.

<i>Estimates of Gross Debt and the Capital Financing Requirement in £ millions</i>	<b>31.3.2024 actual</b>	<b>31.3.2025 forecast</b>	<b>31.3.2026 budget</b>	<b>31.3.2027 budget</b>	<b>31.3.2028 budget</b>
Leasing (Debt)	£1.356m	£1.413m	£1.457m	£2.219m	£2.037m
New IFRS16 Conversion Debt		£4.315m	£3.532m	£2.711m	£1.850m
External Borrowing	£5.000m	£26.000m	£58.000m	£66.000m	£68.000m
<b>Total "External Borrowings"</b>	£6.356m	£31.728m	<b>£62.989m</b>	£70.930m	£71.887m
<b>Total Capital Financing Requirement (CFR)</b>	£37.576m	£47.619m	<b>£66.462m</b>	£72.727m	£76.655m
Internal Borrowing (makes up the difference between CFR and external borrowings)	£31.220m	£15.891m	<b>£3.473m</b>	£1.797m	£4.768m

The Council is required to approve a policy for repaying debt (MRP) which is in italics below:

*MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis up to a period of 50 years. For those short-term assets with a life of less than 10 years an average life year rate will be applied. Interest will be charged based on an average PWLB annuity rate for a loan with a term equivalent to the life of the asset. For assets acquired under leases, the principal repayment inherent in the lease will be used as the basis for MRP in respect of those assets. This policy does not prevent the Council from making early or one-off repayments of debt from capital receipts or from revenue provisions. MRP is charged in the year following the one in which the expenditure is incurred or the first year following the one in which the asset becomes operational.*

### **Affordability of the Capital Programme**

The table below shows the planned repayment of debt. This is a charge to the revenue budgets. The consequences of any capital spend must be considered in relation to the impact on the revenue budgets and whether it is affordable. There are limited sources of new capital financing available, and this will result in additional capital spending being financed by borrowing. The Council will only commit to additional capital spending where it is affordable. The Council must take a prudent approach to new borrowing, any business cases brought forward must be robust and include forward predictions of affordability, with the aim that projects should be self-funding.

The table provides an indication of the cost to the revenue budget of repaying borrowing, both MRP and interest on external borrowing. Some of the capital schemes, earmarked for being financed by borrowing, will provide an income which will offset the cost of the MRP and interest. The revenue budgets for these schemes have not yet been included in a future year but are instead shown as a separate line in the table below. These financing costs could vary due to the timing of the capital spend and the interest rate when the financing is sourced. The borrowing costs shown below assume short term loans from other local authorities and interest rate assumptions are listed in section 2.4 of the Treasury Management Strategy.

### **Affordability Indicator: Financing Costs to Net Revenue Stream**

	<b>2023/24 Actual £m</b>	<b>2024/25 Forecast £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>	<b>2027/28 Budget £m</b>
Interest costs on existing borrowing	0.031	0.002	0.000	0.000	0.000
Forecast Interest cost on new borrowing	0.000	0.160	1.090	1.837	1.848
Interest cost on leases	0.122	0.305	0.252	0.225	0.159
Provision for cost of financing new schemes	0.000	0.000	0.369	0.252	0.218
MRP Existing Schemes	0.811	1.840	2.067	2.935	3.218
MRP New Scheme Proposals	0.000	0.000	0.000	0.117	0.151
<b>Total Financing Costs of Capital Programme</b>	<b>0.964</b>	<b>2.307</b>	<b>3.778</b>	<b>5.366</b>	<b>5.594</b>
<b>Affordability Indicator</b>					
Net Revenue Stream £ms	28.976	29.556	30.147	30.750	31.365

Ratio of financing costs to Net Revenue Stream	3.33%	7.81%	12.53%	17.45%	17.84%
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This Indicator shows the trend in the cost of capital against the net revenue stream of the Council. Net revenue stream is the estimate of the amounts to be met from government grants and local taxpayers excluding capital grants.

The higher the ratio, the higher the proportion of resources tied up to service net capital costs and represents a potential affordability risk.

The table below provides a reconciliation back to table 14 in the 2025/26 Budget Report elsewhere on this agenda.

	2023/24 Actual £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
<b>Total Financing Costs of Capital Programme from Table above</b>	0.964	2.307	3.778	5.366	5.594
Provision for cost of financing new schemes	0.000	0.000	-0.369	-0.369	-0.369
PSL costs MRP and Interest	0.000	-0.947	-0.948	-0.947	-0.947
Interest costs on revenue balances held	0.109	0.189	0.125	0.125	0.235
Interest Income	-2.884	-1.010	-0.925	-0.772	-0.726
MRP Variation Budget to Latest Forecast	0.000	0.040	0.000	0.000	0.000
Interest Variation from Budget to Latest Forecast	0.000	0.401	0.000	0.000	0.000
<b>Net Revenue Financing Costs</b>	<b>-1.811</b>	<b>0.980</b>	<b>1.661</b>	<b>3.403</b>	<b>3.787</b>

**Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. The higher borrowing limit may not reflect long-term need and may only be reached for short periods. It therefore can be higher than the Capital Financing Requirement.

*Authorised limit and operational boundary for external debt in £ms*

	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit
Authorised limit – total external debt	£50m	£70m	£75m	£80m
Operational boundary – total external debt	£35m	£66m	£74m	£75m

Authorised limit – total external debt – this includes Finance leases.

Operational Boundary – total external debt – this is based on the debt outstanding on forecast finance leases and potential external borrowing.

**Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer and staff, who

must act in line with the annual treasury management strategy approved by Council. Three times a year, the Treasury Management and Investment Sub-committee meets to review activity and any new material issues, recommend new strategies and review year-end performance.

## 1.7. **Sustainability – Capital Funding**

### **Capital Receipts from Disposals**

The consequences of the Capital programme, such as loss of interest on capital receipts spent, or scheme running costs, will be included in the annual revenue budget reports to Council and Medium-Term Financial Forecast. This provides Members with the ability to gain assurance of the affordability and sustainability of the capital expenditure plans.

The Council has a plan for disposals of assets. The Council will be considering plans to dispose of several sites in the period up to the end of March 2028. Not all disposals will result in a capital receipt and there may be other benefits such as nomination rights for the use of affordable housing developed by Registered Social landlords (RSL's) on previously owned Council sites. There could be revenue costs associated with the disposal of assets and a loss of income which should be considered before a decision is made on the disposal.

Sites Under Consideration for disposal are listed below. Individual values of estimated receipts are not shown for commercial reasons.

1. Chelmer Waterside
2. Riverside Surplus Land
3. St Michaels Drive Roxwell Garage Site
4. Pease Place East Hanningfield
5. Glebe Road South Car Park
6. Rectory Lane East Car Park
7. Medway Close Garage Site
8. George Street Car Park
9. Railway Street Car Park
10. Meadows Land
11. Boreham Exception Site
12. Waterhouse Lane Petrol Station
13. Writtle Street Car Park (Land at Cricket Club)
14. Various Council owned dwellings currently used as temporary accommodation

A more cautious approach to the timing of receipts has been taken to move towards a 'worst-case' funding assumption reflecting economic conditions. The development potential of some larger sites is being considered but due to the uncertainty of the developments and the timing no receipts are being shown for the period up to 31/03/2028.

At the end of 31/3/2025 there is no material forecast holdings of capital receipts from asset sales. All of the smaller receipts collected will have been applied to resource the capital spend.

As detailed above, the limited forecast of capital receipts decreases the sustainability of capital funding and unless external sources of funding are identified

for individual capital projects then borrowing will be required for future capital spending and the affordability of borrowing will need to be kept under review.

Where a disposal results in a receipt it should be carefully considered how that receipt should be applied to the funding of the capital spend.

### **Funding of the Replacement Programme**

The Council borrows against shorter life assets to fund them. An example of the impact of borrowing against short term assets on the revenue budget is shown in the table below. It shows that the MRP cost charged to revenue is a much higher percentage for replacements than the capital schemes compared to the amount of borrowed.

<b>Forecast MRP Charge on New Borrowing in 2025/26</b>	<b>Forecast Borrowing in Year</b>	<b>% of Spend</b>	<b>MRP Charge</b>	<b>% MRP Charge</b>
<b>Capital Schemes Capital Borrowing in Year</b>	£15.999m	79%	£0.314m	37%
<b>Capital Replacements</b>	£4.267m	21%	£0.531m	63%
<b>Total</b>	<b>£20.266m</b>	<b>100%</b>	<b>£0.845m</b>	<b>100%</b>

It is expected that short term assets will need to be funded by borrowing and will attract higher financing costs as shown in the table.

An detailed exercise will need to be undertaken to assess the future cost of a full cycle of all the short-term replacements (those assets with 10 year or less life) required by services and what the impact will be on revenue. Depreciation charged on prior years' spending can be identified for vehicles and equipment which will be a good indicator of the cost going forward. As plant is normally treated as a component and added to the value of the building it will be more difficult to assess the future cost.

### Risk

To reduce the risk of overspends, it is intended that wherever possible budgets should only be approved following completion of a business case when validated/robust scheme costs have been identified allowing for suitable contingencies and inflation. Once schemes are approved regular monitoring is undertaken to identify those schemes at risk of overspending or not being delivered on time so that appropriate action can be taken. To support risk management a corporate project management "tool kit" for officers undertaking large projects has been implemented in 2024/25.

As part of capital planning, a number of potential future projects or needs for additional funding have been identified. These are included in the Unapproved Priorities List. The list will be kept under review, which should improve planning of

capital financing and minimise the risk of allocating resources against lower priority schemes.

The updating of building condition surveys has reduced the risk of not identifying high need capital spend in timely manner and improve prioritisation in short term. As these are carried out on a rolling programme there remains a risk that future capital costs have not been included beyond 2026/27. The next round of condition surveys is due in 2028/29 which will improve the accuracy of longer-term forecasting of costs.

The resourcing of the capital spend has been based on assumptions of receipts, grants and contributions being received and applied. To minimise risk, these assumptions have been prudent, however circumstances outside of the Council's control, such as economic environment, may impact on the timing of receipt of resources.

Future decisions in relation to the method of application of Community Infrastructure Levy to priority schemes may lead to an increase in borrowing costs, but may aid prioritisation of funding long term priorities.

### Summary

The responsibility for decision making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with Full Council. The level of the Council's borrowing is significant, reaching a forecast £77m by March 2028 with a £5.7m revenue cost and this differs from the budget report as the amount shown here includes a technical adjustment for temporary Accommodation funded by Private Sector Leases.

All members need to be fully informed as to all implications of its capital investment decisions, in particular those funded from borrowing. Council is asked to approve the 'Authorised Limit for External Debt' as shown in the table in section 1.6, £70m in 2025/26.

The borrowing and financing figures above do not include any costs for scheme proposals on the Unfunded Priorities List (Annex 1). These should be reviewed and brought forward for consideration on the basis of priority and affordability.

Due to the timing and uncertainty of receipts from disposals this strategy is currently based on the assumption that there will not be any large receipts in the period covered by the report. If capital receipts are realised for some of the larger strategic sites such as Chelmer Waterside within this period there will be significant benefits to the forecast.

Regular reporting and reviews of capital schemes costs, condition surveys and resources will ensure capital plans remain affordable.



## Treasury Management Strategy

- 1.1 Treasury Management at Chelmsford City Council is conducted within the code /framework set by the Chartered Institute of Public Finance and Accountancy. *Treasury Management in the Public Services: Code of Practice 2021 Edition* requires the authority to approve a Treasury Management strategy before the start of each financial year. This report fulfils the authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA code.
- 1.2 Treasury Management covers the management of the Council's cash flows, borrowing and investments, and any associated risks. Chelmsford City Council has substantial cashflows and investments from its activities and is therefore exposed to a series of financial risks including the loss of invested funds. Risk also arises from possible changes in interest rates affecting investment income or the cost of any external borrowings.
- 1.3 The Council's investment priorities are, in order of priority:
- (a) the security of capital,
  - (b) the liquidity of its investments; and
  - (c) yield.

The Government regulations and CIPFA both advise that absolute certainty of security of capital and liquidity does not have to be achieved before seeking yield from investments. An appropriate balance of all three should be sought and that balance is determined by the Council in its Treasury Strategy.

- 1.4 Borrowing purely to invest or lend on to make a return is unlawful and this Council will not engage in such activity. The borrowing to fund the capital programme is allowed and including borrowing up to a year in advance to secure the funding or de-risk the interest rates. Officers will aim to minimise borrowing costs by investing surplus cash based on forecast cashflow needs.
- 1.5 In the event of unforeseen major changes to the external environment or financial plans of the authority, it may be necessary for the Council to revise its strategy during the year.
- 1.6 This Treasury Management Strategy will focus solely on investments arising from the organisation's cashflows and debt management activity. Non-treasury investments will be covered separately under the Investment Strategy (**Appendix 2**). The monetary limits on borrowing will be set in the Capital Strategy which forms part of the 2025/26 budget papers going to Cabinet and Council in January and February.

## 2. External Context

- 2.1 The macroeconomic environment has a significant impact on the Council's treasury operations via inflation, interest rate and counterparty risks. The Council obtains advice on macro-economic issues from its Treasury advisor, Link, and public news sources. Our treasury advisor, Link, is changing its name to MUFG Corporate Markets from January 2025 but will be referred to as Link through this document.

## The Economic Environment and Interest Rate Forecast

2.2 The Bank Base Rate at the start of the financial year was 5.25% and was reduced to 5.00% in August and to 4.75% in November. Interest rates are generally expected to fall further.

2.3 The Office for Budget Responsibility (OBR) predicts the UK economy will grow by 2% in 2025, and 1.8% in 2026.

CPI inflation was running at 2.6% in November up from 2.3% in October and this is higher than the Bank of England's 2% target and could delay expected interest rate cuts.

Average wages excluding bonuses increased by 4.8% July to September 2024. A significant reduction in interest rates is less likely while wage growth remains at this level.

A factor that may offset wage and inflation growth in the Bank England decisions on interest rates is actual overall economic growth that fell by 0.1% in October. There are on balance expectations that interest rates will fall in 2025.

2.4 Below is Link's interest rate forecast for the period 2024 to 2027 and officer use this for planning. The expectation of the normal/neutral interest rate is within the range 2.5% to 3.5%. Actual Treasury Management activity will follow prevailing market conditions.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
<b>BANK RATE</b>	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

## 3. Forecast cashflow and external borrowing for the City Council

3.1 Forecast year-end investment balances are in the table below. These are best estimates at this stage (*Please note: if any changes are made to the capital programme in the budget, then the figures below will be amended before the report is presented to Council by the s151 officer.*)

Date	31/03/2024 Actual (£m)	31/03/2025 Forecast (£m)	31/03/2026 Forecast (£m)	31/03/2027 Forecast (£m)	31/03/2028 Forecast (£m)
Year-end <b>investment</b> held	25	14	14	14	14
Cumulative External <b>Borrowing</b>	5	26	58	66	68

In practice the amount of borrowing could well be lower due to slippage in of capital expenditure and if income such as CIL arrives earlier than expected.

### 3.2 Investment forecast

During most months, the cash balance can rise and fall by up to £15m due to receipt of various income and payments including precepts to other Essex bodies. The Council should therefore aim to keep sufficient cash in hand to manage these fluctuations. However, the Council can undertake temporary borrowing and will do so wherever needed, to ensure sufficient liquidity.

The financial year-end tends to be the lowest point for the Council's cash balances. This is because most residents pay their Council Tax over 10 instalments, but the Council pays these out to central government and other precepting authorities monthly; so significant net cash outflows occur in February and March each year. The principles to establish how investments should be managed are discussed in Section 4 below.

The £14m forecast investment balance is made up of cash for liquidity of £5m and £9m of long-term investments. The long-term investments are supported by reserves and other balances. A minimum of £10m of investments needs to be held by the Council to satisfy money market regulations (MiFID II requirements required £10m to enable the Council to maintain its professional client status).

### 3.3 Borrowing Forecast:

The Capital Strategy published with the Revenue 2025/26 budget papers will include debt limits reflective of the 2025/26 budget. A summary over page provides a breakdown of forecast borrowing position.

The CFR (Capital Financing Requirement) is the amount of capital expenditure the Council has financed by (internal and external) borrowing. The capital strategy will update the forecast of the CFR. The table below shows current estimates. This may be amended by s151 before this report is taken to Cabinet.

	<b>March 2024 Actual £m</b>	<b>March 2025 Forecast £m</b>
Capital Financing Requirement	37.6	47.6
<b>Made up of:</b>		
Surplus cash internally borrowed	31.2	15.9
External Debt (leasing)	1.4	5.7
<b>External Borrowing</b>	5.0	26.0

It is not unusual for councils to hold investments whilst external debt is being used to fund capital expenditure as, the Council has reserves that are cash-backed which can be invested for long-periods as the Council always maintains a certain level of reserves and working capital.

The Council may partially reduce investments by internally borrowing the cash (balance sheet resources) to fund the capital programme instead of external loans. This can lower financing costs payable by the revenue budget compared to external borrowing.

#### 4.0 **How we intend to Borrow**

4.1 This section of the strategy sets out the Council's methods to borrow. Long-term borrowing is only used to fund the capital programme so the level of borrowing will never exceed the CFR (Capital Financing Requirement) for any meaningful amount of time. As previously stated in Section 3.3, the CFR is the amount of capital expenditure the Council has which will be financed by internal or external borrowing. The CFR will be determined by the decisions in Budget Report 2025/26.

4.2 The use of internal borrowing is undertaken where possible, instead of externalising debt, however, the Section 151 Officer will monitor the position to determine the optimal mix. Seeking to strike a balance between minimising interest costs, securing certainty of borrowing costs and ensuring it has the liquidity required.

4.3 Examples of where the Council can seek to borrow funds from are:

- Public Works Loan Board (PWLB). This is only allowed if a Council has no approved capital plans to purchase assets primarily for the purposes of yield. More details can be found in the Investment Strategy and paragraph 3.8 below.
- Other UK Local Authorities. This is usually relatively short-term debt running from a few days to two years in duration.
- Any institution which meets the Council's investment criteria.
- UK public or private sector pension funds (Excluding the Essex Local Authority Pension Fund).

4.4 The PWLB can lend to local authorities for any duration up to 50 years. The PWLB is the source of loans/funds if no other lender can provide finance. The PWLB will not lend to an authority that plans to buy investment assets primarily for yield. The Section 151 Officer will be expected by the PWLB to certify that no such purchases are planned.

From a Treasury Management perspective, it is recommended that the PWLB should be retained as a borrowing option and therefore the purchase of investment assets primarily for yield should not be considered. This is recommended not only due to the reduced rates available through PWLB but due to the backstop accessibility of this source of borrowing.

4.5 Borrowing officers can undertake for the Council is limited by the following debt indicators, the amounts are approved each in the Capital Strategy:

- The Authorised Limit is the limit placed by the Council on the absolute level of its gross debt at any time. The Local Government Act 2003 stipulates that it must not be breached at any time. When setting the limits, these will need to be consistent with the liability benchmark as this shows the borrowing requirement to fund the forecast capital programme.
- The Operational Boundary of external debt is lower reflecting the planned maximum level of debt at any time, the difference being designed to give headroom to deal with unforeseen movements in cash flow. A sustained or regular trend above the Operational Boundary would require investigation and appropriate action.

The calculations are linked to the CFR (the overall borrowing needed to fund the capital programme).

During the financial year TMISC will receive reports on how any borrowing compares to the indicators.

In Annex 4 of this report, Prudential Borrowing and Investment indicators are shown.

4.6 Officers will undertake short-term borrowing for liquidity purposes.

4.7 In addition to borrowing via loans, other debt financing models may be used to finance the capital programme where this represents best value for the authority. These forms of debt are included in the overall borrowing limits. Such debt finance models include:

- Sale and leaseback arrangements
- Hire purchase arrangements

## 5 How we intend to Invest

5.1 Investment objectives are in order of priority:

- Security of assets – investing in counterparties only where the risks of incurring a capital loss through default, and the risks of late payment of principal and interest, are low. Also, by spreading risk as widely as is practically possible.
- Liquidity – Ensuring that the authority can access enough cash to meet its obligations with appropriate notice. It is recommended for 2025/26 a target of at least £5m of short-notice funds is held. The definition of short notice will be any held for less than or equal to 35 days.
- Yield – subject to the management of risks associated with security and liquidity of assets, the Council will seek to maximise the yield from its investment portfolio.

The Government regulations and CIPFA both advise that absolute certainty of security of capital and liquidity does not have to be achieved before seeking yield from investments. The Council will aim to achieve the optimum return on its investments with proper levels of security and liquidity that is within the Council's risk appetite.

5.2 The Council uses credit ratings and Link Group's advice to determine suitable counterparties. Link Group employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies.
- CDS spreads that may give early warning of changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

Link combines credit ratings and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The result is a series of colour-coded bands which indicate the relative creditworthiness of counterparties.

The Council's policy has been and is recommended to differ from Link Group advice when it comes to duration of investments with Banks (UK and Foreign) and Building Societies. The Council's officers have focused more on long-term credit ratings and an assessment of systematic importance to the UK economy when assessing investment duration. This means the Council has a slightly longer duration and slightly less Counter

parties than suggested by Link Group, but still maintains diversification of investments and security of the Council's assets.

Given the advice received by the Council regarding credit risks, and potential economic activity, the Council will not change its approach in 2025/26 and will retain within the strategy the following investment types (**see Annex 2 for background**):

- Enhanced Money Market Funds & Money Market Funds (MMF)
- UK Public bodies
- Unsecured Bank Investments
- Unsecured Building Society Investments
- Unsecured Non-UK Bank Investments
- Unsecured Registered Social Landlord Loans
- Covered Bonds, Reverse Repurchase Agreements and Supranational Bonds
- Multi Asset funds, Bond funds and Property funds

**Annex 3** sets out the background detail relating to counterparties, also limits of size of investment and durations. These are unchanged from previous years.

- 5.3 The institutions the Council can invest with are well-capitalised. General credit conditions across the sector are expected to remain benign, limiting the chances of losses to the Council. However, no investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit-rating criteria.
- 5.4 Public Bodies provide much less risk as investment counterparties, but yields can be vary depending on the liquidity available within the market. The Council will consider security, liquidity and return when reviewing new investments over different organisations and different investment categories (pooled funds, public bodies, etc.) to provide a satisfactory balance of security of capital and return. The City Council will avoid lending to councils that have a section 114 notice but there is no evidence that a s114 notice makes a loss of investment more likely.
- 5.5 Changes in valuation of the Muti-Asset fund holding under IFRS9 accounting standards are chargeable to a company's profit and loss in the financial year. For a Council, if IFRS 9 were applied, it would mean the local taxpayer meeting valuation changes through the general fund as cost or gain even if they were due to temporary volatility. An IFRS 9 statutory override was applied by Government to local government since 2018 and was extended until 31 March 2025 and the Government is consulting on its proposal to not to extend this override beyond its current end date. The Council is expected to able to manage any consequences from IFRS9 through it reserves.
- 5.6 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's approach does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

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.

Therefore, externally managed funds will be required have regard for ESG, but this is not possible for internally managed bank deposits and short-term investments (money market funds).

- 5.7 The Council's cashflow and need to borrow mean officers expect investments during 2025/26 to be relatively short in duration.
- 5.8 The indicative budget for interest income for 2025/26 is £925K based on an average investment portfolio of £21m at an interest rate of 4.35%. If actual levels of investments or actual interest rates differ from those forecasts, performance against the budget could be significantly different. The interest income is highly dependent on the timing of capital programme expenditure.

## 6 Role of the Treasury Management and Investment Sub-committee

- 6.1 The Sub-committee will be informed of investment, borrowing activity and of significant changes in conditions that may lessen or increase the risks of Treasury Management activity. The Sub-committee will, where necessary, consider changes to the strategy and report back to Council.
- 6.2 Reporting and reviewing of treasury management activity will include
- Monitoring Treasury management indicators (**Annex 4**): The code requires local authorities to have regard to certain treasury indicators. The indicators will assist in measuring and managing the Council's exposure to Treasury Management risk in 2025/26. The 2021 Prudential Code introduced Prudential indicators and a requirement for monitoring to be reported formally on at least a quarterly basis. However, due to the volume of finance reports already made to formal committees, it is recommended that reporting is three times a year to TMISC or Cabinet. Officers believe the existing 3 meetings of the TMISC committee are sufficient.
  - The indicators in reality include limits and indicators. Limits should not be breached, and if they are, TMISC should report that to Full Council, whereas indicators can be breached during the year if necessary. TMISC should seek clarification on why an indicator is breached and seek appropriate actions.

## **Investment Strategy**

This document ensures compliance with the requirements of the CIPFA Prudential Code and the Ministry of Housing, Communities and Local Government (MHCLG) guidance on local authority investment. The CIPFA code and MHCLG guidance recognise that organisations may make investments for reasons outside of treasury management objectives and these investments may prioritise other objectives above the security of capital.

### **Contents of the Investment Strategy**

- The types of non-cash investments
- How Council monitors performance
- The role of the sub-committee

### **Investment Primarily for Yield (overarching principle)**

Guidance from the PWLB issued in 2020/21 bans any local authority from borrowing from it if, in the current or following 2 years, the authority has plans in its capital programme to invest in assets to be held primarily for yield. The City Council can access non-PWLB sources to fund capital investment. However, the Council previously approved the principle that keeping access to PWLB borrowing was more important than keeping the option to undertake the purchase of investment property primarily for yield. The recommended overarching principle in the investment strategy is that the Council will not undertake any capital investment with the primary objective of yield. The CIPFA 2021 Prudential and Treasury Management best practice code is explicit that authorities must not borrow for the primary purpose of earning a financial return.

### **Service Investments: Loans and Shareholdings**

These covers making loans to, and buying shares in, local service providers, local small businesses to promote economic growth, and, for some authorities, subsidiary companies that provide services. Considering the public service objective, Councils can take moderate risk with the principal invested.

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. To limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans have been set as follows: -

Category of borrower	31.3.2024 actual			2025/26
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Chelmsford City Football Club	£0.083m	£0.083m	£0.000m	£0.021m
CHESS (Support for Homeless Service)	Nil	Nil	Nil	£0.700m
Maximum New loans if required.	Nil	Nil	Nil	£10.000m
<b>TOTAL LIMIT</b>	<b>£0.083m</b>	<b>£0.083m</b>	<b>£0.00m</b>	<b>£10.721m</b>

The above table includes an allowance of up to £10m of new loans should the Council for example decide to create a standalone company to facilitate the creation of additional affordable housing or for other trading purposes. Any decision would be subject to Council approval.

The football club has made 3 payments during 2024/25 and has one final outstanding that is due to be paid in the next financial year.

The Council will monitor the financial position of the recipient or potential recipient using (but not limited to) credit ratings where appropriate, published financial information (such as annual accounts), press articles and by maintaining an open dialogue.

Accounting standards require the Authority to set aside an allowance for losses on loans, reflecting the likelihood of non-payment. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

There may be times to approve items outside this process, due to urgent health and safety issues for example, or the need to respond quickly to market opportunities. These changes will need approval in line with the constitution.

### **Commercial Investments:**

MHCLG defines property to be a commercial investment if it is held primarily to generate a financial return. This type of investment may also involve making loans to subsidiaries or partners, where the aim is achieving profit.

The Council's commercial property investments are summarised below. No new assets have been acquired since last reported; any increases shown reflect improvement or refurbishment works.

There was a fall in valuation of the Aquarium office building as result of lower occupancy and the broader market having lower demand. The value of Meadows Retail Shopping Centre fell due to low rents and occupancy.

Property Type	31.3.2024 actual				31.3.2025 expected				
	Disposals In Year	Transfers to PPE in Year	Works and Gains or (losses)	Value in accounts	Acquisitions In Year	Disposals In Year	Transfers to PPE in Year	Works/ Additional Gains or (losses)	Value in accounts
Office	£0.0m	£0.0m	-£4.9m	£15.7m	£0.0m	£0.0m	£0.0m	-£0.2m	£15.4m
Other	£0.0m	-£0.2m	£0.1m	£4.7m	£0.0m	£0.0m	£0.0m	£0.1m	£4.7m
Retail	£0.0m	£0.0m	-£22.2m	£33.8m	£0.0m	£0.0m	£0.0m	-£0.1m	£33.7m
Industrial	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
<b>TOTAL</b>	<b>£0.0m</b>	<b>-£0.2m</b>	<b>-£27.0m</b>	<b>£54.1m</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>£0.0m</b>	<b>-£0.2m</b>	<b>£53.9m</b>

The Council will consider the purchase of commercial property but only where it supports regeneration, facilitates land assembly for future regeneration projects, or supports Council priorities set out in "Our Chelmsford: Our Plan" but not where the primary purpose would be for yield.

Properties will only be purchased within the Council's geographic area.

Any properties that generate commercial yield will be monitored by the Treasury Management and Investment sub-committee until redevelopment occurs.

### **Loan Commitments and Financial Guarantees**

Although not strictly counted as investments since no money has exchanged hands, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness. The Council is entering into a new loan agreement with CHSS (Support for Homeless Services) of up to £700K to help finance their redevelopment of a Homeless Accommodation.

### **Capacity, Skills and Culture**

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Accountancy Services Manager (Section 151 Officer) is a qualified accountant with over 30 years' experience and the Head of Property is a member of the Royal Institution of Chartered Surveyors with over 20 years' experience in both Public and Private Sectors. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and external short courses to keep abreast of developments and maintain up to date skills and knowledge.

**Elected members:** The Council does not expect members to make investment decisions but to understand the risks the Treasury Strategy creates. The Council therefore provides training for members on the appropriate issues by providing advice and access to Link Group, the Council's Treasury Advisors.

**Training and qualifications:** Documents and schedules will be kept of training and qualifications of the key roles.

**Due Diligence:** When undertaking investments there is a need to recognise where the Council is lacking detailed market knowledge and then external advisors will be employed. The Council uses Link Group as Treasury Management Advisors and external property valuers are engaged when undertaking material purchases.

### **Investment Indicators (Limits or Indicators)**

The Authority must set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure because of its investment decisions.

**1) Total investment risk exposure (indicator):** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third-party loans.

<b>Total investment exposure</b>	<b>31.03.2024 Actual</b>	<b>31.03.2025 Forecast</b>	<b>31.03.2026 Forecast</b>
Treasury management investments	£25.5m	£14.0m	£14.0m
Service investments: Loans	£ 0.1m	£0.7m	£0.7m
Commercial investments: Property	£54.1m	£53.9m	£54.1m
<b>TOTAL INVESTMENTS</b>	<b>£79.7m</b>	<b>£68.6m</b>	<b>£68.8m</b>

The commercial property forecast values shown above are projected changes arrived at after discussions with the Council's external valuer. It has been assumed that offices remain relatively static, with retail and other property types having a 1% increase except for Meadows Retail and Aquarium Office.

**2) How investments are funded (indicator):** Investments funded from borrowing have more risk than those funded from surplus resources, so Government guidance is that there should be indicators on how investments are funded. Since the Authorities do not normally associate particular assets with specific borrowing liabilities, this guidance is difficult to comply with. However, the following table probably best describes any borrowing link to investments.

<b>Investments funded by borrowing</b>	<b>31.03.2024 Actual</b>	<b>31.03.2025 Forecast</b>	<b>31.03.2026 Forecast</b>	<b>31.03.2027 Forecast</b>
Service investments: Loans	Nil	Nil	Nil	Nil
Commercial investments: Property*	£6.8m	£6.7m	£7.9m	£7.8m
<b>TOTAL FUNDED BY BORROWING</b>	<b>£6.8m</b>	<b>£6.7m</b>	<b>£7.9m</b>	<b>£7.8m</b>

\*In 2019/20 to alleviate the temporary costs of the pandemic, the Council choose not to make revenue contributions to capital. The overall level of borrowing would have been lower, and the commercial assets (Aquarium offices) would not have been funded from internal borrowing. The additional borrowing in 2026 and 2027 relates to remodelling works to existing properties and development of existing sites.

**3) Rate of return received (indicator):** This indicator shows the net investment income received less the associated costs, including the cost of borrowing where appropriate, the calculated as a proportion of the sum initially invested.

<b>Investments net rate of return (income)</b>	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Forecast</b>
Treasury management investments	5.5%	4.7%	4.3%
Service investments: Loans	Nil	Nil	Nil
Commercial investments: Property	6.6%	6.5%	5.7%
Treasury Management Income £ms (draft estimate 25/26)	£2.9m	£1.5m	£0.9m
Investment Rent Income £ms (draft estimate 25/26)	£3.5m	£3.1m	£2.9m

#### 4) Other investment indicators

The Section 151 Officer has identified the following estimates to help assess Risks and Proportionality of investment activity at the Council:

<b>Estimates</b>	<b>2023/24 Actual</b>	<b>2024/25 estimate</b>	<b>2025/26 estimate</b>	<b>2026/27 estimate</b>	<b>2027/28 estimate</b>
Income from Treasury Management as Percentage of Net Revenue Stream	8.5%	4.1%	2.6%	2.1%	1.9%
Commercial Income as percentage of Net Revenue Stream (to be replaced with next line in 2025/26)	13.5%	12.2%	11.5%	11.9%	13.9%
Commercial Income as percentage of Net Service Expenditure	11.5%	10.3%	9.6%	9.9%	11.4%
Total Borrowing Undertaken to Fund Investment Properties	£6.8m	£6.7m	£7.9m	£7.8m	£7.6m

The estimates/indicators reflect historic decisions, and the schemes included in the proposed/approved Capital programme.

#### 5) Investment Indicator Limits

Below are limits on investments which reflect the estimates above plus allowance for some headroom or flexibility to undertake higher levels of investment activity. The limit is that recommended by the Section 151 Officer. These limits are required under Government

guidance and should not be exceeded. If the Council does exceed these limits, then it is expected not to rashly dispose of investments but instead should avoid entering any further investments except for short term Treasury Management activity until appropriate alleviation of the breach is undertaken.

Limits	2023/24 Limit	204/25 Limit	2025/26 Limit	2026/26 Limit	2026/27 Limit
Commercial Income as percentage of Net Service Expenditure <i>(to be replaced in 2025/26 with the limit below)</i>	14%	11%	14%	14%	14%
Commercial Income as percentage of Net Revenue Stream			19%	19%	19%

A new limit has been added to the table above as it is proposed to switch in 2025/26 to Net Revenue Stream to be more line with code.

#### **Role of Treasury and Investment Sub-committee**

The non-cash investments require continuous monitoring, and the role of the sub-committee is to undertake that ongoing assessment. At a previous sub-committee meeting it was agreed that the following would be the basis of the ongoing monitoring:

- Any changes in the portfolio in the period (acquisitions and sales)
- All charges and receipts, indicating any arrears.
- Capital expenditure; planned or reactive.
- Performance against budgets; both expenditure and income.
- Any potential changes to the income through lease renewals and rent reviews.

The Sub-committee is also responsible for recommending the Investment Strategy. The strategy requires Full Council approval.

## Unfunded Priorities List Identified December 2024

	<b>Proposed Schemes</b>	<b>Brief Overview of Proposal</b>
	<b><u>Leader</u></b>	
1	Accommodation Strategy - Coval Lane Building	To relocate staff in Coval Lane to Duke Street with the intention to rent out the majority of the Coval Lane Building with the aim of covering fixed costs whilst also generating a rental income.
	<b><u>Active Chelmsford</u></b>	
2	SWF Leisure Gym & Studio expansion	To convert existing "gym" to enhance health & fitness facilities to enable daytime use in line with the swimming pool
3	Hylands Walled Garden	To bring walled garden into use (TBA) with a commercial partner. Feasibility, followed by market testing - will likely need some CCC financial input
	<b><u>Strategic Outdoor Sports Provision</u></b>	
4	Runwell Sports and Social Club	Provision of additional facility for community by third party funded from S106 Contributions
5	Community Sports Ground North Chelmsford (East New Hall School)	Provision of additional facility for community
6	Melbourne Park Changing Room Pavilion, Flood lighting and surface replacement of multi-sport Courts	Enhancement of existing community facility
7	Coronation Park additional Rugby Pitch	Provision of additional facility for community
8	Additional 3G Pitch - Warren Farm Sports Area additional floodlit artificial pitch	Provision of additional facility for community
9	Saltcoats Park and Compass Gardens - new cricket and football facilities and sports pavilion	Provision of additional facility for community
10	Springfield Hall - enhanced floodlit football facilities	Enhancement of existing community facility
	<b><u>Connected Chelmsford</u></b>	
11	Museum Re-imagining The Bothy, Oaklands Park	Adaptations to expand use of asset
	<b><u>Fairer Chelmsford</u></b>	
12	Housing Initiatives Provision	To continue to increase provision of temporary and affordable housing.
	<b><u>Greener Chelmsford</u></b>	
13	Sandford Mill Future Use of Area	
14	Rivers, Waterways and bridges - development and Improvement	Parks, Green Spaces and Waterways Strategy 2022 and Improvement Plan for Rivers and Waterways Policy Board 2022

15	Cemetery and Crematorium Infrastructure	To enable provision of current service at new location
	<b><u>Growing Chelmsford</u></b>	
16	Local Plan Digital Platform	Replacement digital solution to engage, prepare, consult and monitor future Local Plan
17	Public Realm - Market Square (1)	Enhancement to Market Square to make the space more attractive and active
18	Public realm - Half Moon Square to Stone Bridge (2)	Improve public realm in city centre
19	Public Realm - Stone Bridge to Baddow Road (3)	Improve public realm in city centre
20	Public Realm - Springfield Road (4)	Improve public realm in city centre
21	Cathedral Precinct Enhancement Scheme	Public realm enhancement to Cathedral Grounds and adjoining connecting spaces
22	ECC Army and Navy Contribution	Contribution to ECC to enable development of highways
23	ECC East Chelmsford Cycling & Walking Connectivity	Contribution to ECC to enable works
24	Q-Tech Park	Economic development initiative
25	Car Parking - Future requirements	Potential decked car park
26	Townfield Street Improvement works	Staircase and lobbies structural and waterproofing works
27	North-East Chelmsford Garden Community Infrastructure Ringfenced CIL	New development
28	South Woodham Ferrers Town Infrastructure - Ringfenced CIL	Improve facilities
29	Land Bank	To create a provision to acquire new land for the future (not from CIL)
30	Park and Ride	

## Treasury Investment Types

**Enhanced Money Market and Money Market Funds.** The Council has access to enhanced money market funds (AAA rated) which offer a rate of return but require 2 – 5 days' notice to withdraw funds.

The Council invests short-term cash in several AAA-rated money market funds. These funds provide a rate of interest (4.68%-4.76% in November 2024) and most importantly allow same-day access to funds. Interest rates are linked to the BOE base rate and so any increase in this will feed through to the rates earned for the Council.

These funds spread the Council's investment over many financial institutions, so reducing risk. Historically the funds have proved very safe.

**UK Public Bodies.** Debt Management Agency Deposit Facility, Government Treasury Bills or Gilts are all investments with the UK Central Government. These are the safest possible form of UK investment, so the Council will place no limit on the amount that can be invested.

Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans). These are theoretically as safe as lending to Government, but what would happen should a Local Authority go bankrupt has never been tested in law. It is therefore prudent to place some limit on investments with each local authority but recognising this type of investment is much safer than most alternatives.

**Unsecured UK bank investments.** The changes to UK Bank regulation from the adoption of a "bail-in" approach to recapitalising banks and the move to ringfencing of UK bank retail operations have increased the amount that could be lost in the event of a bank failure. With the completion of ringfencing activities by major banks to protect retail investors from investment banking losses, different banks have placed local authority depositors in either the retail or investment banking divisions. It should be noted that the credit scores for the banks to which the Council lends have either remained the same or improved because of ringfencing. The Council believes that it is prudent to invest with banks who are on Link Group suggested lists. Link Group only suggest investments with UK banks for up to 6 months for the majority of those listed. The Council differs from Link Group advice in terms of the length of investment, up to a period of 365 days. But only if the credit rating criteria (below) are met and no information is available that identifies unacceptable risk. The Council will not invest with any bank that is not on the suggested Link Group list.

**Unsecured building society investments.** Link Group recommend a pool of Building Societies that it suggests clients could invest with. Where our criteria do differ to Link Group relates to the suggested duration periods where Link Group only recommend up to a maximum of 6 months. The Council current policy goes beyond Link Group advice and lends up to 365 days.

It is recommended that the Council's treasury strategy takes a different approach to investing with building societies than that suggested by Link Group. If a building society has a long-term credit rating of at least A- then investments for up to 365 days should be allowed. This is the same as the Council's previous counterparty policy for Building Societies but is a higher risk approach than Link Group based on duration.

**Unsecured Non-UK bank investments.** Link Group review the approach to investment with non-UK banks separately to UK banks. This reflects the different risks and ownership structures that affect the security of the investment. The Council first uses Link Group advice to select appropriate non-UK banks and then uses credit rating information to make investment decisions. The Council uses credit rating of AA- for selecting investments with non-UK banks of up to a maximum of 365 days and A- for investments of up to 100 days.

The Council may differ from Link Group advice in terms of the length of investment, if the credit rating criteria above are met. The Council will not invest with any bank that is not on the suggested Link Group list. In practice, the Council's approach is more conservative than Link Group who, for non-UK banks with a Fitch rating of between A- to A+, suggest in many cases durations up to 6 months. The Council is broadly consistent with Link Group where the suggested duration is up to 2 years for the non-UK banks with a rating of AA-.

**Registered Social Landlord (RSL) Loans.** The Council can lend to RSLs in the pursuit of treasury management objectives but must treat any loans made for policy reasons as capital expenditure. The option to lend for Treasury purposes has been on the Council's counterparty list for several years but there has not been a suitable opportunity.

**Covered Bonds, Reverse Repurchase Agreements and Supranational Bonds.** These are all different investment products but have in common the highest levels of credit rating. They are either backed by a pool of guaranteed bank assets or UK and/or foreign Governments. The Council takes advice from Link Group before undertaking any of these investments, so an investigation of the individual strength of each investment has been determined. They are rarely used by the Council.

**Multi-Asset, Bond and Property Funds.** These potentially offer the Council income and capital growth of the sum invested. There are several types of funds including property funds, bond funds, equity funds and multi-asset funds. Funds seek to reduce risk by building a pool of investments and as such are considerably safer than an investment of comparable size in a specific single asset.

However, any fund exposes the Council to market price volatility. Officers will carefully consider any investment opportunities and always keep any ownership under review. A review of the risks and benefits of using Funds was made in the summer of 2019 and which concluded that Multi-Asset, Bond and Property funds provide a suitable method to invest Council funds.

As at the end of November 2024, the Council has an investment of around £9m in 3 Multi-Asset funds.

## Counterparty – Duration and Monetary Limits

The duration that an investment is made affects the amount of risk to the capital invested. The longer the investment the more risk of some unexpected change occurring to the financial strength of the deposit taker. Perhaps, more importantly the Council can only invest for durations that enable Council's liquidity to be managed effectively. To reduce these risks limits can be placed on the length of investments. The Council is required by law to identify the proposed investment criteria under the categories Specified and Non-Specified, as shown below:

<b>Specified Investments</b>				
<ul style="list-style-type: none"> <li>- investments of duration less than or equal to 365 days and denominated in sterling.</li> <li>- investments made to UK Government, UK local authorities or institutions of high credit quality.</li> <li>- high credit quality defined as a minimum A- by Fitch or the equivalent score of the other main rating bodies (Standard &amp; Poor's, Moody's).</li> </ul>				
<b>Specified Counterparty</b>	<b>Minimum Credit Criteria</b>	<b>Max. Limit £m</b>	<b>Max. maturity period</b>	<b>Change from Prev. approach</b>
Enhanced Money Market Funds (Variable Unit Price) Up to 5 funds	AAA	£6m each fund	2-5-day notice	None
Money Market Funds (per fund)	AAA	£6m each fund	Instant Access	None
Debt Management Agency Deposit Facility, Government Treasury Bills or Gilts	UK Government	No Limit	365 days	None
Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans)	UK Government	£10m each authority	365 days	None
UK Banks	A-	£3m for each group	365 days	None
Building Societies	A-	£3m for each group	365 days	None
Non-UK Banks	AA-	£3m each group	365 days	None

Non-UK Banks	A-	£3m each group	100 days	None
Registered Social Landlord Loans	A-	£3m each group	365 days	None
Covered Bonds	AA-	£6m	365 days	None
Reverse Repurchase Agreements (each agreement)	AA-	£6m	365 days	None
Supranational Bonds (per institution)	AAA	£6m	365 days	None

The counterparty limit for 2024/25 is £3m per financial institution and it is recommended that this is retained for 2025/26. Reducing the £3m limit would reduce the number of institutions willing to take Council deposits, as a smaller investment would be judged too small to be economic for large institutions. Indeed, there are many institutions who will not accept £3m from the Council as this is too small for them.

<b>Non-specified Investments</b>				
These do not meet the criteria of specified investments. They are identified separately to ensure the Council understands that these are higher risk, either due to counter party risk, liquidity risk, market risk or interest rate risk.				
<b>Counterparty</b>	<b>Min. Credit Criteria</b>	<b>Max. Limit £m</b>	<b>Max. maturity period</b>	<b>Change from existing approach</b>
Multi-Asset or Bond funds	Unrated	£5m per fund	n/a	None
Covered Bonds (per bond)	AA-	£6m	3 years	None
Supranational Bonds (per each institution)	AAA	£6m	3 years	None
Debt Management Agency Deposit Facility, Government Bills or Gilts	UK Government	No Limit	5 years	None
Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans)	UK Government	£10m each authority	5 years	None

## Treasury Management Indicators

### Limits

- 1) **Long-Term Treasury Management Investments (Limit)** – The purpose of this indicator is to manage the Authority’s exposure to the risk of incurring losses by seeking early repayment of its investment or the costs of enforced borrowing for liquidity purposes. The prudential limits on the long-term treasury management investment will be: -

Price Risk Indicator	2023/24	2024/25	2025/26	Investment Funds
Limit on total principal invested beyond year end	£10m	£10m	£10m	£12m

The £12m shown is a maximum limit for investment funds which have no fixed maturity date such as Multi Asset. Additionally, there is a separate £10m limit for sums invested in fixed term investments over 365 days in duration. The £10m limit for cash invested over 365 days is only expected to be used if cash balances turn out materially higher than forecast, which is unlikely.

- 2) **Counterparty limit** – The Council will be informed whether investments have been made within the approved limits for counterparties and any breaches will be reported during the year. The limits are shown in Annex 3.

### 3) Maturity structure of borrowing:

These gross limits set to reduce the Authority’s exposure to large amounts falling due for refinancing in a short space of time. Officers will have regard to prevailing interest rate assumptions when undertaking borrowing.

The Council is asked to approve the following treasury indicators and limits: -

Maturity structure of fixed interest rate borrowing 2025/26		
	Lower	Upper
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%
Maturity structure of variable interest rate borrowing 2025/26		
	Lower	Upper
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%

The borrowing limits are set within the capital strategy and the above shows the maturity structure of loans.

### Indicators that are Targets

- 1) **Liquidity** – The liquidity indicator is a voluntary measure that seeks to ensure that the Council has the necessary funds to meet unexpected payments within a rolling period without additional borrowing.

<b>Liquidity Risk Indicator</b>	Target
Total minimum cash available within 35 days	£5m

### 2) Liability Benchmark (indicator):

This indicator is a tool to help establish whether the Council is likely to be a long-term borrower or long-term investor and as a result aids long-term planning. The liability benchmark itself 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 required to manage day-to-day cash flow.

Ref.	Liability Benchmark	31/03/24 Actual (£m)	31/03/25 Estimate (£m)	31/03/26 Forecast (£m)	31/03/27 Forecast (£m)	31/03/28 Forecast (£m)
1	Capital Financing Requirement (CFR)	38	48	66	73	77
2	Less: Balance sheet resources	58	27	13	12	14
3	<b>Net loans requirement (Negative shows surplus cash/Positive are external borrowing requirement)</b>	<b>-20</b>	<b>21</b>	<b>53</b>	<b>61</b>	<b>63</b>
4	Plus: Liquidity allowance		5	5	5	5
5	<b>Liability benchmark (Negative shows surplus cash/Positive are external borrowing requirement)</b>	<b>-20</b>	<b>26</b>	<b>58</b>	<b>66</b>	<b>68</b>

<-----Externally Loans Borrowing----->

The table above shows

Ref 1 - our capital financing requirement, being total external and internal borrowing needed to fund the capital programme. Example at 31/03/24 the capital programme needed £38m of borrowing.

Ref 3 - is a forecast of any external borrowing expected/required. A positive figure means external borrowing is forecast to be required. This indicator will be updated by the Section 151 officer for January Cabinet to reflect any new budget proposals.

The current forecasts identify short-term borrowing of c.£26m will be needed towards the end of March 2025, £58m in 2025/26, and £66m in 2026/27 cumulatively.

The information above is shown graphically below.

