



Treasury Management and Investment Sub Committee

13th October 2025

Treasury Management Mid-Year Review 2025/26

Report by:
Section 151 Officer

Officer Contact:
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Purpose

To inform the Treasury Management and Investment Sub-committee (TMISC) of the treasury activities undertaken in the first part of 2025/26 and to report on compliance with the approved TM Strategy.

Options

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

Preferred option and reasons

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

Recommendations

That:

1. Treasury Management and Investment Sub Committee (TMISC) note the contents of this report
2. TMISC ask Cabinet to seek Full Council to review the report and approve that no changes to the 2025/26 Treasury Strategy are required.

1. Background

- 1.1. The Council has cash to invest arising from its revenue activities, capital balances and the collection of Council Tax and Business Rates. The Council can use borrowing only to fund its capital programme and for temporary liquidity. The activities around the management of Council cash and external borrowing are known as Treasury Management.
- 1.2. Under statute and the CIPFA Code of Practice on Treasury Management (“the Code”), members are required to receive reports on the Council’s Treasury Management (TM) activities. The report in Appendix 1 complies with the CIPFA Code of Practice and relevant Government regulations.
- 1.3. Full Council has overall responsibility for Treasury Strategy but delegates to the Treasury Management and Investment Sub Committee (TMISC) responsibility to monitor and recommend changes to the strategy. The Section 151 Officer of the Council is delegated to manage operational TM activities within the approved strategy.
- 1.4. Members of TMISC are asked to review the contents of the report and recommend that the Cabinet note its contents and seek Council approval for it.

2. Executive Summary

- No breaches of the 2025/26 Treasury Management Strategy have occurred.
- Higher than expected cash balances are estimated to result in investment income being £88K more than the budget for 2025/26.
- The Council remains internally borrowed to fund its capital investment; however, the council is expected to need to undertake external borrowing in October 2025.
- No changes have been made to the holdings of diversified investment funds. Any decisions to change holdings will be made under the operational delegation by the s151 officer.
- The performance of the asset funds as a whole has returned a higher rate of income returns than cash investments, however the CCLA fund has underperformed compared to the portfolio.
- No change to the TM Strategy is recommended for 2025/26.

3. Conclusion

- 3.1. No changes to the 2025/26 Treasury Management Strategy are recommended.
- 3.2. Cabinet will be asked to recommend the report to Council.

List of appendices:

Appendix 1 – Review of Treasury Management Activity (2025/26)

Background papers:

Nil

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:

Fund managers are 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.

Equality and Diversity: N/A

Health and Safety: N/A

Digital: N/A

Other: N/A

Consultees:

Relevant Policies and Strategies:

Treasury Management Strategy 2025/26

Treasury Management Activity during the period 1st April 2025 – 31st August 2025

This report complies with the CIPFA Code by identifying the Council's investments and external borrowings as at 31/08/2025 and compares treasury activity to the approved strategy.

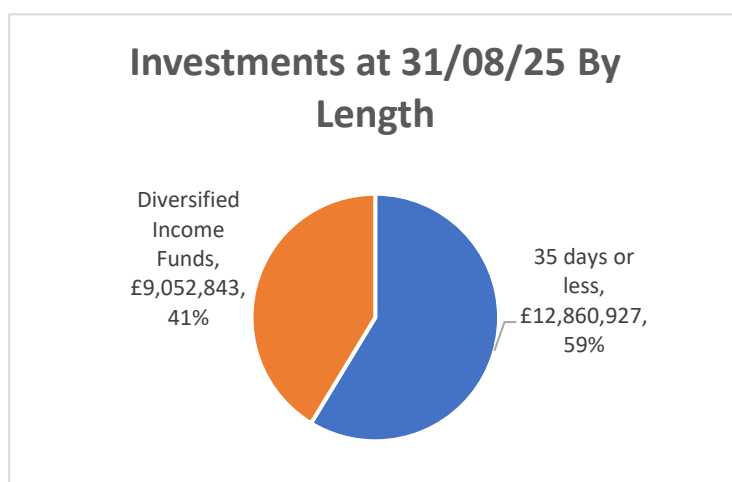
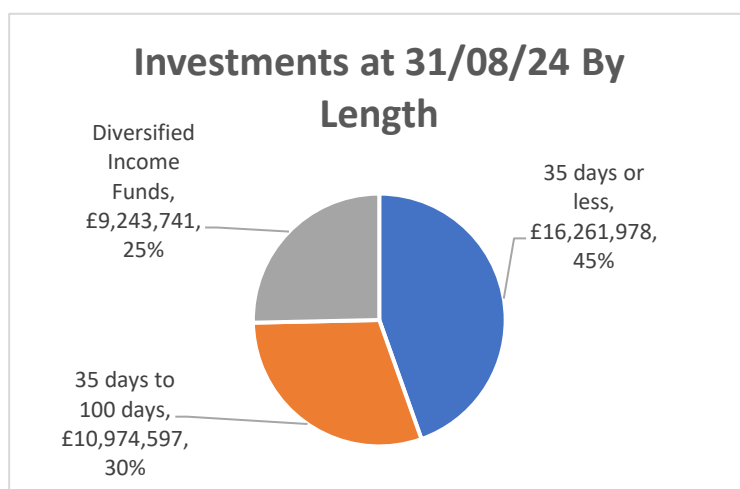
1 Liquidity Management and borrowing

- 1.1 The Council has to keep a sufficient amount of its cash and investments available for instant access to fund services and the capital programme

To assist in managing liquidity, the Council set the following target in its Treasury Management Strategy.

A minimum of £5m of all investments are targeted to be invested for periods of 35 days or less.

Outcome: The target was achieved, and officers will continue to keep the average durations of investments short.



| Investment s at: | 31/08/24 | % of holdin gs |
|--|--------------------|----------------------|
| 35 days or less | £16,261,978 | 45 |
| 35 to 100 days | £10,974,597 | 30 |
| +100 days to 1 yr. | £0 | 0 |
| Over 1 yr. | £0 | 0 |
| Diversified Monthly Income Fund | £9,243,741 | 25 |
| Total | £36,480,316 | 100 |

| Investment s at: | 31/08/25 | % of holdin gs |
|--|--------------------|----------------------|
| 35 days or less | £12,860,927 | 59 |
| 35 to 100 days | £0 | 0 |
| +100 days to 1 yr. | £0 | 0 |
| Over 1 yr. | £0 | 0 |
| Diversified Monthly Income Fund | £9,052,843 | 41 |
| Total | £21,913,770 | 100 |

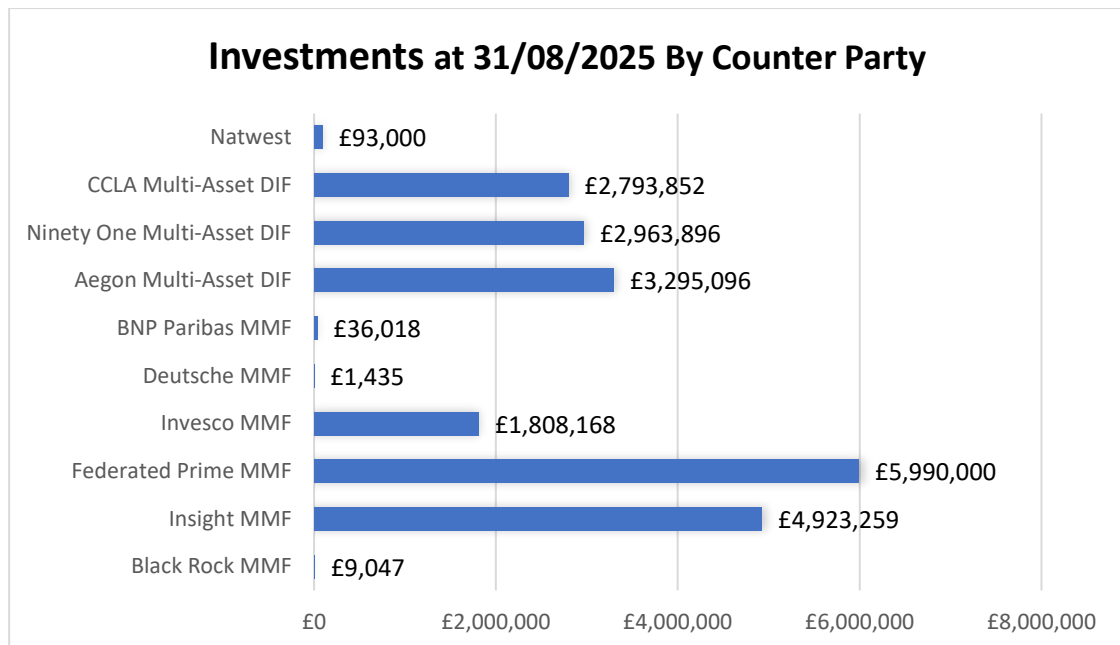
- 1.2 The Council's Treasury strategy identified the following.

No fixed duration investments over 365 days are proposed for 2025/26;

Current cashflow forecasts suggest there will be insufficient liquidity to make investments beyond 365 days. However, this should also be retained as contingent possibility, so it is recommended that any investments beyond 365 days are at the discretion of the Section 151 Officer. For investments 2 years and over, consultation will be made with TMISC chair.

Outcome: The target has not been exceeded. Currently, none are proposed as a result of declining investment balances and a need to externalise debt.

- 1.3 **No breaches of counter-party limits have occurred.** The investments held by the Council are noted below.



- 1.5 **Investment Balances.** The Council cash balances will fall as the year progresses due to the normal outflow of Council Tax to other precepting bodies, and capital programme spend. A full review of the Council's forecast cashflow is taking place as part of the budget cycle which will update the long-term borrowing forecast. Cash and investments at end of August 2025 are £14.6m lower than August 2024, reflecting the ongoing trend of moving towards permanent external borrowing to manage Council cashflow and capital financing.

- 1.5 **The Council has not undertaken any new external borrowing in the year to date.**
Over the financial year-end the Council had £11m of short-term borrowing which was repaid in May and June.

The funding of the approved Capital programme has required borrowing but to date that has been mostly internal borrowing which reduces the amount the Council has to invest plus temporary periods of external short-term borrowing.

The Council operates two external borrowing limits, the Authorised (maximum limit) which cannot be exceeded without Council agreement and an Operational boundary (which provides an expected level of external debt). The current limits are noted below.

| | Limit |
|--|-------------|
| Authorised Limit of Borrowing | £70m |
| Operational Boundary of Borrowing | £66m |

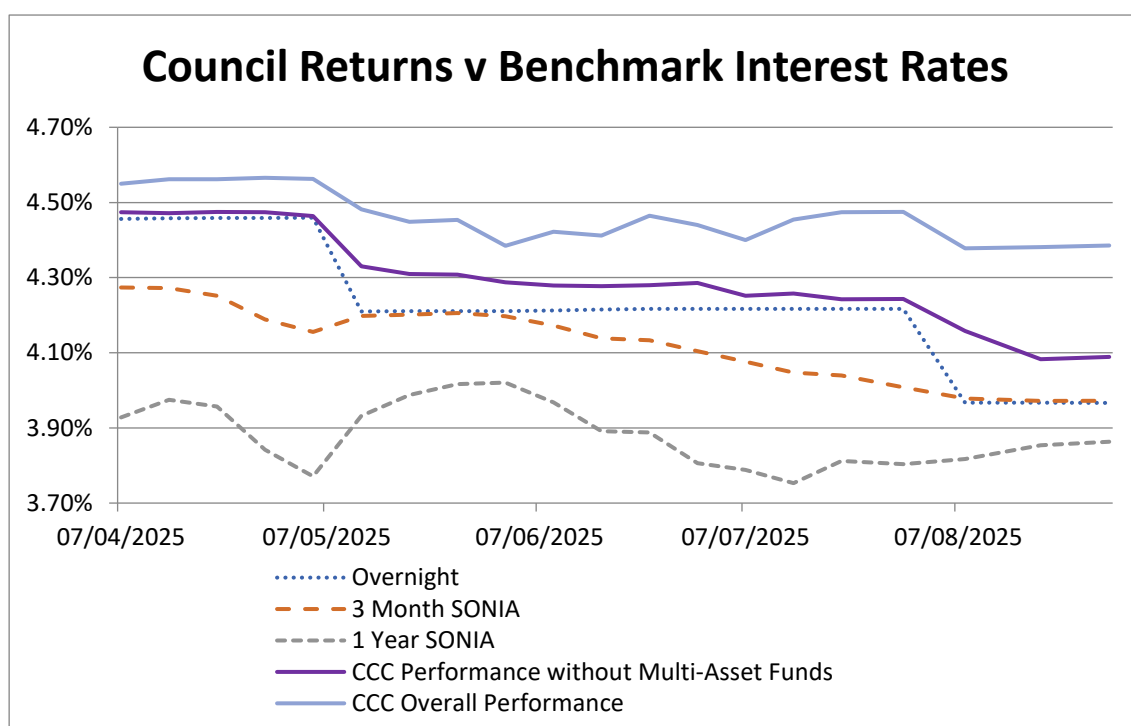
2. Rate of Return

- 2.1 The Bank of England Base rate stands at 4.0% after its cut in August. The Markets are forecasting that the Bank of England is unlikely to cut interest again this calendar year with inflation being stickier and stubbornly high inflation expectations.

On the 15th of September, the one-month local authority loans were around 4.1% and one-year loans around 4.4%. Money Market Funds are currently running between 4.01% to 4.1% with other cash investments such as building societies generally offering rates below the base rate.

The Council continues to invest in three multi-asset diversified income funds as part of its long-term strategy for returns and diversified portfolio. The returns are discussed in section 3.

- 2.2 Money market interest rates on average are around bank rate. The Council returns are shown below alongside some comparable benchmark rates.



- 2.3 The Council's income yield in 2025/26 is expected to be lower than last year with Bank of England base rate falling and the Council having less cash to invest resulting in shorter duration investments which pay less yield.

- 2.4 The Council had an average yield on all its investments of 4.39% as at 31st August 2025. The budgeted income for 2025/26 from investment returns is £925k; this is expected to be exceeded for the year by £88K at £1,013K, mainly due to higher than forecast cash balances and interest rates not being cut as quickly as expected. The performance of the asset funds as a whole has had a positive contribution to the income return although the CCLA fund has been underperforming.

3 Externally Managed Fund Performance

- 3.1 The Council is invested in three Multi Asset Diversified Income Funds. These are all intended to be longer-term investments made from core cash (reserves) to generate a return for the Council at a higher rate than standard cash deposits. Capital values will fluctuate throughout the period of investment. During recent times, markets have been volatile. Market value of the fund moved downwards during the first half of the year, but values have begun to recover. It should be noted that the CCLA fund remains below the April 2025 valuation.

| Fund | Initial Investment Value | 01/04/2025 Investment Value | 31/08/2025 Investment Value | Unrealised Gain/(Loss) (since inception) | Annualised Income Return on 1 st April Valuations | Annualised Total Return (2025/26) |
|--------------------|--------------------------|-----------------------------|-----------------------------|--|--|-----------------------------------|
| Aegon DIF | £3,600,000 | £3,295,096 | £3,434,403 | - £165,597 | 5.96% | 10.18% |
| Ninety One DIF | £3,300,000 | £2,963,896 | £3,011,543 | - £288,457 | 4.81% | 6.48% |
| CCLA Cautious Fund | £3,100,000 | £2,793,852 | £2,784,877 | - £315,123 | 3.38% | 3.06% |

- Aegon Multi-Asset Diversified Income Fund – A £3.6m investment was made into the Aegon DIF in June 2021.
 - Annualised income yield is 5.96% on the valuation at 1st April 2025.
 - Capital Value – 4.60% decrease on initial investment and 4.23% increase against April valuation.
 - Should the capital appreciation continue on this trend, the fund value would in April 2026 broadly match the original investment sum.
 - The fund is performing well based on the current capital growth and income yield
- Ninety-One Multi Asset Diversified Income Fund – A £3.3m investment was made into the Ninety-One DIF in June 2021.

- Annualised income yield is 4.81% on the valuation at 1st April 2025.
- Capital Value – 8.74% decrease on initial investment and 1.61% increase on April valuation.
- The fund valuation has been slowly recovering but based on the current trend would take some 3 years to recover to the initial value.
- The fund is performing sufficiently to justify continuing holding it
- CCLA Multi Asset Diversified Income Fund – A £3.1m investment was made into the CCLA DIF in July 2021.
 - Annualised income yield– 3.38% based on first quarter's dividend on the valuation at 1st April 2025.
 - Capital Value – 10.17% decrease on initial investment and 0.32% decrease on April valuation.
 - The fund valuation has been fluctuating around the valuation it had at beginning of the financial year. It is unclear whether the fund managers expect the valuation to return to the initial investment value.
 - This fund is the weaker performing of the three and under greater scrutiny by officers. A full or partial disposal continues to be under consideration.

The annualised return on the funds is variable and is likely to change during the year.

- 3.2 The investment return on all external funds should be looked at as a portfolio, allowing for periods of over- and underperformance for individual funds. If the performance of the first few months of this year were to continue, then the annualised income yield would be 4.81% on April valuation. The unrealised capital loss to date is £769K improving by £178K from April valuation. It is important to note the unrealised capital gain will fluctuate; the main objectives of the investment in funds are spread of risks across asset types and improving annual income (yield).
- 3.3 The portfolio of funds has had a positive impact compared to cash on the overall income yield so far this year. A return on the three funds of 4.81% improves the total investment return from 4.09% to 4.39%.

4 Bail-in Risk

- 4.1 This is the risk that regulators will step in and enforce losses on depositors to recapitalise a failing bank or building society, rather than rely on taxpayer bailouts.

| Exposure | As at 31st August 2024 | As at 31st August 2025 |
|---|--|--|
| Bail-in risk – Direct Investment | 39% | 59% |
| Bail in Risk – Diversified Income Funds | 25% | 41% |
| Exempt from bail-in | 36% | 0% |
| Total | 100% | 100% |

5 External Borrowing

5.1 The Council has the freedom to borrow in the following circumstances:

- Short-term borrowing to manage liquidity
- Long-term borrowing is only used 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.

5.2 The Council currently has no external borrowing. When the Council undertakes external borrowing, this will be done within the maturity borrowing rules specified in the strategy. External borrowing is forecast to become necessary from October 2025. External borrowing could be up to £34m by year-end. Loans taken out are expected to be kept short or around one-year duration. This is due to borrowing costs being more expensive in the medium to the long-term duration periods. However, keeping debt short leads to refinancing risk and, although not expected, interest rates could go up and as a result a portfolio of debt will need to be built up over time which will help de-risk the debt portfolio.

5.3 As of 15th September, the Public Works Loan Board (PWLB) one-year maturity loan after the certainty discount is 4.53% and the equivalent Local Authority (LA) loan is currently around 4.40%. The LA borrowing rate has not dropped despite the interest rate cut in August mainly due to the high demand and shortage of supply. These local authority rates will rise towards financial year-end and could well be above 5% for temporary periods in first quarter of 2026.

5.4 Liability Benchmark:

This indicator is a tool devised by CIPFA to help establish whether the Council is likely to be a long-term borrower or long-term investor. The liability benchmark is a calculation of the cumulative amount of external borrowing the Council must hold to fund its capital plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow. The liability benchmark is shown below.

| Row | Liability Benchmark | 31/03/2 5 Actual (£m) | 31/03/2 6 Foreca st (£m) | 31/03/2 7 Foreca st (£m) | 31/03/2 8 Foreca st (£m) | 31/03/2 9 Foreca st (£m) |
|-----|-------------------------------------|--------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| 1 | Capital Financing Requirement (CFR) | 45 | 60 | 74 | 77 | 80 |
| 2 | Less: Balance sheet resources | 57 | 31 | 28 | 31 | 38 |

Appendix 1

| | | | | | | |
|---|---|-----|--|----|----|----|
| 3 | Net loans requirement Line 1 above less Line 2 above (Negative shows surplus cash/ Positive are external borrowing requirement) | -12 | 29 | 46 | 46 | 42 |
| 4 | Plus: Liquidity allowance. | 14 | 5 | 5 | 5 | 5 |
| 5 | Liability benchmark (Total forecast external borrowing) | 2 | 34 | 51 | 51 | 47 |
| | | | <----- Forecast - Externally borrowed -- -----> | | | |

The table above shows

Row 1: our capital financing requirement, being total external and internal borrowing needed to fund the capital programme. At 31/03/25 the capital programme needed £45m of borrowing with forecast external loans borrowing of £34m by the end of the current financial year (ref/row 5).

Row 2: the balance sheet resources (cash) available to use as internal borrowing instead of external debt. Where most of the resource is cash from revenue reserves and capital grants.

Row 3: A positive figure means external borrowing is being forecast. However, further allowance must be made to ensure the Council has a minimum level of liquidity cash available (row 4).

Row 5: the forecast year-end external borrowing required. For 2024/25 the external borrowing requirement was £2m. Actual external debt was £11m, £9m higher, as we borrowed based on forecast expenditure by the end of the financial year and a need to ensure sufficient liquidity. The higher borrowing than actually needed meant the Council had more cash to invest resulting in increased liquid funds held in row 4, £14m compared to the £5m minimum liquidity target. The new projection shows external borrowing needed of £34m at end of 2025/26 and £51m at the end of 2026/27. After allowing for liquidity requirements of at least £5m.

The liability benchmark is shown graphically below where the external debt is expected to increase over time to fund previous capital expenditure and the current programme.

6 Conclusion

- No breaches of the 2025/26 Treasury Management Strategy have occurred.
- Higher than expected cash balances are estimated to result in investment income being £88K more than the budget for 2025/26.
- The Council remains internally borrowed to fund its capital investment; however, the council is expected to need to undertake external borrowing in October 2025.
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