Chelmsford City Council Cabinet

10th November 2026

Treasury Management Mid-Year Review 2026/27

Report by:
Cabinet Member for Finance

Officer Contact:
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Purpose
To inform the Cabinet of the treasury activities undertaken in the first part of 2026/27 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 Council without amendment for their consideration and thereby meet statutory obligations.

Recommendations
1. That Cabinet note the contents of this report and request that Full Council review the report and approve that no changes are required to the 2026/27 Treasury Strategy.

Summary of Key Points
- No breaches of the 2026/27 Treasury Management Strategy have occurred.
- Higher than expected cash balances are projected to result in investment income being £194K more than the budget for 2026/27.
- The Council has both external and internal borrowing to fund its capital investment and is expected to increase external borrowing before the end of the financial year.
- The long-term multi-asset funds have been disposed of to de-risk the Council from ongoing geo-political events and conflicts.

- No change to the TM Strategy is recommended for 2026/27.

1. Introduction

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 were asked to review the contents of the report and recommend that the Cabinet note its contents and seek Council approval for it.

2. Conclusion

2.1. No changes to the 2026/27 Treasury Management Strategy are recommended.

2.2. Cabinet will be asked to recommend the report to Council.

List of appendices:

Appendix 1 – Review of Treasury Management Activity (2026/27)

Background papers:

None

Corporate Implications

Corporate Implication	Response
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	None
Personnel	None
Risk Management	The report is part of the Council's approach to managing risks arising from Treasury Management.
Equality and Diversity	None
Health and Safety	None
Digital	None
Other	None

Equality Impact Assessment:

An Equality Impact Assessment was not required, as the report was for information only and no decisions were sought.

Consultees:

None

Relevant Policies and Strategies:

Treasury Management Strategy 2026/27

Treasury Management Activity during the period 1st April 2026 – 31st August 2026

This report complies with the CIPFA Code by identifying the Council's investments and external borrowings as at 31/08/2026 and compares treasury activity to the approved strategy.

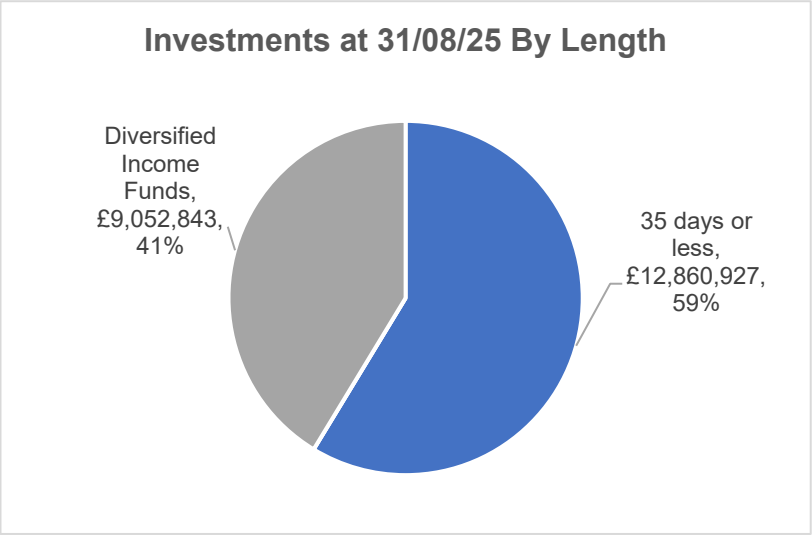
1 Liquidity Management

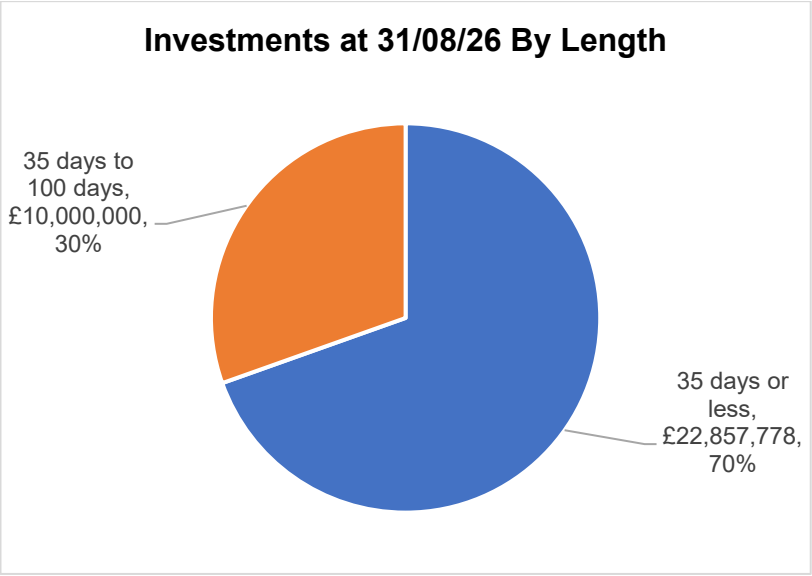
1.1 The Council has to keep a sufficient amount of its cash and investments available for instant access to fund services and the capital programme.

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

A minimum of £10m 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.





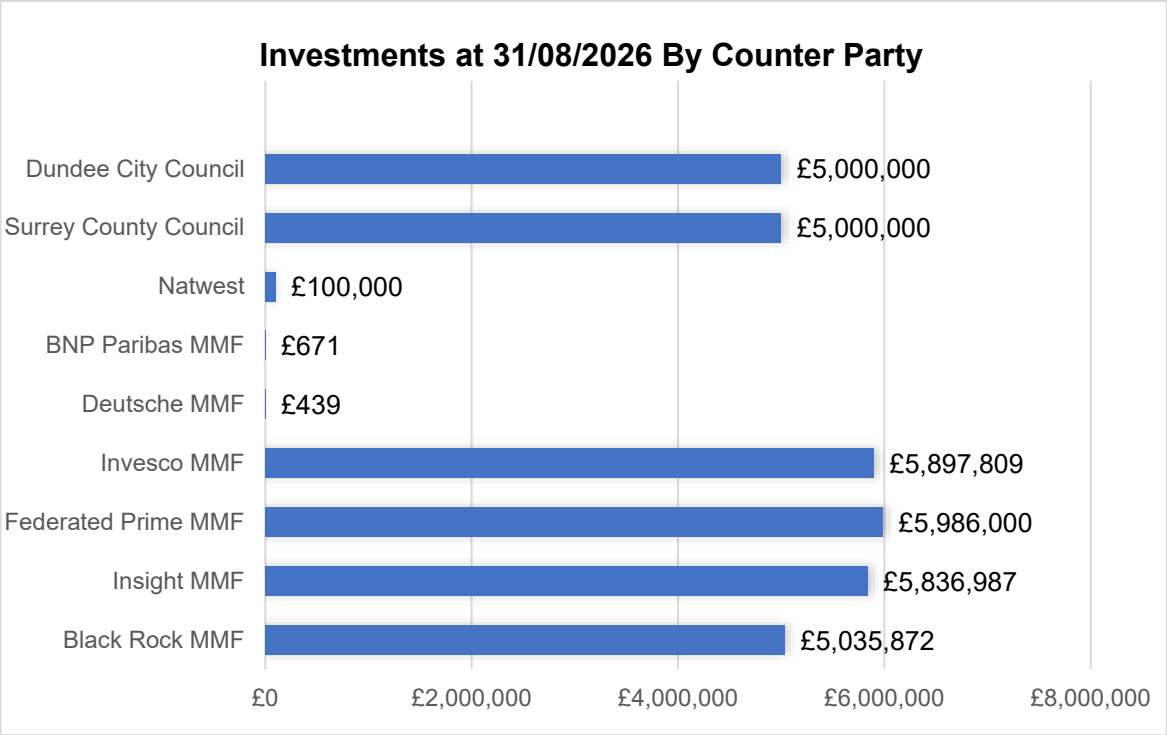
Investments at:	31/08/25	% of holdings
35 days or less	£12,860,927	59
35 to 100 days	£0	0
+100 days to 1 yr.	£0	0
Over 1 yr.	£0	0
Diversified Monthly Income Fund	£9,052,843	41
Total	**£21,913,770**	**100**

Investments at:	31/08/26	% of holdings
35 days or less	£22,857,778	70
35 to 100 days	£10,000,000	30
+100 days to 1 yr.	£0	0
Over 1 yr.	£0	0
Diversified Monthly Income Fund	£0	0
Total	**£32,857,778**	**100**

1.2 The Council's Treasury strategy identified the following.
No fixed duration investments over 365 days are proposed for 2026/27; Current cashflow forecasts suggest there will be insufficient liquidity to make investments longer than 365 days. However, this should also be retained as a 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.



1.4 **Investment Balances.** The Council's 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 and will update the long-term borrowing forecast.

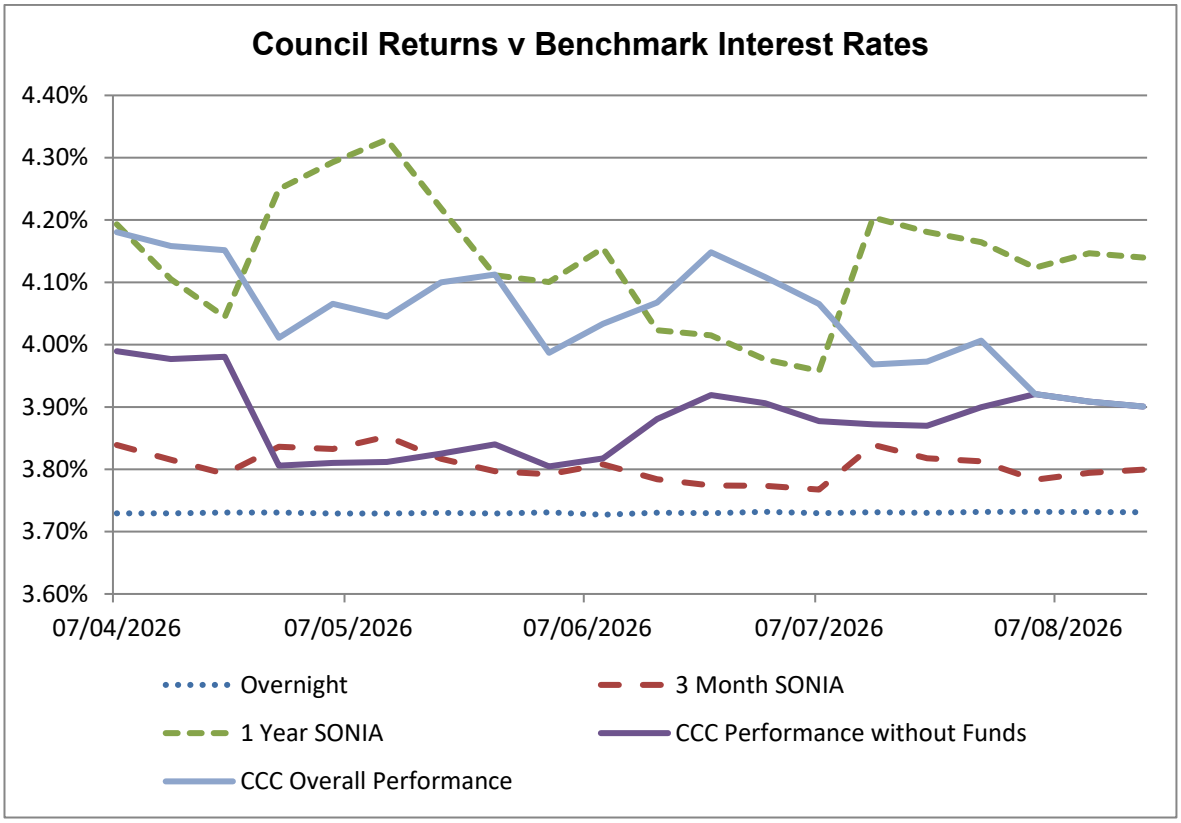
2. Rate of Return

2.1 The Bank of England base rate has stood at 3.75% since 18 December 2025, with the latest meeting in September split 6-3 in favour of maintaining the bank rate at this level. The pressures of rising energy prices and conflict in the Middle East may cause a rate rise to 4% at the next meeting.

On the 16th of September, the one-month local authority loans were around 4.1% and one-year loans around 5.1%. Money Market Funds are currently running between 3.78% to 3.92% with other cash investments such as building societies generally offering rates below the base rate. However, the rate of return is volatile.

The Council sold the remaining multi-asset diversified income funds that were previously held as a long-term strategy to generate returns and diversify the portfolio. The returns are discussed in section 3.

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



2.3 The Council had an average yield on all its investments of 4.07% as at 31st August 2026. The budgeted income for 2026/27 from investment returns is £882k; this is expected to be exceeded for the year by £194k, at £1,076k, mainly due to higher than forecast cash balances and interest rates not being cut as expected when set in February. However, the average income yield for 2026/27 is expected to be lower than last year, partly due to disposal of the multi-asset funds.

3 Externally Managed Fund Performance

3.1 Since 2021, the Council has invested in three multi-asset diversified income funds . At the time these investments were made, the Council already held an investment in the CCLA Property Fund These were intended to be longer-term investments made from core cash reserves to generate a higher return for the Council than standard cash deposits. The Council disposed of the CCLA Cautious Fund last year. The capital values of the other two funds have fluctuated throughout the period of investment and, in recent times, markets have been volatile. The s151 officer decided to reduce risks from rising borrowing rates and increasing volatility in capital values which are due to geo-political events and conflicts. The sale also provided an opportunity to exit the market while the funds were recovering and continued recovery could not be guaranteed given world events.

Fund	Initial Investment Value	01/04/2026 Investment Value	Disposal Value	Unrealised Gain/(Loss) (since inception)
Aegon DIF	£3,600,000	£3,570,445	£3,777,871	£177,871
Ninety One DIF	£3,300,000	£2,997,836	£3,027,207	-£272,793

- Aegon Multi-Asset Diversified Income Fund – A £3.6m investment was made into the Aegon DIF in June 2021.
  - Dividend received during 2026/27 was £61.5K representing a yield of 5.17% on the valuation at 1st April 2026.
  - Capital Value – 4.94% increase on initial investment and 5.81% increase against April valuation.
  - The capital appreciation continued in 2026/27 and the fund recovered the original investment sum.
  - The fund was 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.
  - Dividend received during 2026/27 was £49.1K representing a yield of 4.91% on the valuation at 1st April 2026.
  - Capital Value – 8.27% decrease on initial investment and 0.98% increase on April valuation.
  - The fund valuation had been slowly recovering.

3.2 The funds as a whole saw an improvement in value of £237k compared to the 1st April 2026 valuation, and the sale resulted in a realised loss of £95k against inception. The sale of the funds will now allow the remainder of the gain from the pooled fund reserve, £641k, to be released to the general fund. Overall, the funds portfolio since their inception has generated an extra net £1,247K over cash.

3.3 The portfolio of funds has had a positive impact compared to cash on the overall income yield. A return on the two funds improved the total investment return from 3.89% to 4.07% for the period.

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 2025	As at 31st August 2026
Bail-in risk – Direct Investment	59%	70%
Bail in Risk – Diversified Income Funds	41%	0%
Exempt from bail-in (local authority)	0%	30%
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 borrowed £14m externally towards the end of 2025/26 to ensure sufficient year-end liquidity to meet operational needs. The Council has not undertaken any further borrowing since then, and current forecasts indicate that external borrowing could be up to £37m by year-end, driven by capital programme spend. This is lower than the amount set at budget time due to capital receipts, balances from the sale of multi-asset funds and slippage in the capital programme.

Loans taken out are expected to be kept short, or around one year in duration. This is because borrowing costs are more expensive over medium- to long-term durations. However, keeping debt short creates refinancing risk and, although not expected, interest rates could rise. As a result, a portfolio of debt will need to be built up over time to help de-risk the debt portfolio.

The Council's approach to borrowing is informed by cashflow forecasts. These forecasts contain a significant margin of uncertainty because capital expenditure and other cashflows can vary during the year. Borrowing decisions are also affected by expectations about future interest rates, which remain volatile because of wider economic and geopolitical conditions. These factors mean that decisions on the timing and duration of borrowing remain challenging.

5.3 As of 16th September, the Public Works Loan Board (PWLB) one-year maturity loan, after the certainty discount, is 5.23%, and the equivalent Local Authority (LA) loan is currently around 5.1%. LA borrowing rates remains relatively high due to demand and a shortage of supply. These local authority rates are expected to rise towards the financial year-end and could exceed 6% for temporary periods in the first quarter of 2027.

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	31/03/26 Actual (£m)	31/03/27 Forecast (£m)	31/03/28 Forecast (£m)	31/03/29 Forecast (£m)	31/03/30 Forecast (£m)
1	Capital Financing Requirement (CFR) (total of external borrowing and internal borrowing)	46	58	79	86	85
2	Less: Balance sheet resources Internal borrowing, temporary surplus cash used instead of external loans	44	31	38	34	34
3	Subtotal of 1 and 2: Net loans requirement (Positive figures are external borrowing requirement)	2	27	41	52	51
4	Plus: Cash balance to ensure we have liquidity allowance, which we hold as short term investments for treasury management purposes.	5	10	10	10	10
5	**External Borrowing requirement:** Total of 3 and 4; Known as Liability benchmark. (Positive figure indicates an external borrowing requirement)	7	37	51	62	61
			<------- Forecast - Externally borrowed ------>			

The table above shows how the Liability Benchmark is calculated.

Ref./Row 1 shows the Capital Financing Requirement (CFR), which is the total of external and internal borrowing needed to fund the capital programme. At 31 March 2026, the capital programme required £46m of borrowing and is expected to be £58m by 31 March 2027 based on latest forecast.

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

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

Ref./Row 5 shows that the forecast year-end external borrowing requirement for 2025/26 was £7m. Actual external borrowing was £14m, meaning the Council was £7m over-borrowed at year end. This was because some payments were made later than expected and cash receipts were higher than expected at year end. The latest projections show external borrowing requirements of £37m at the end of 2026/27 and £51m at the end of 2027/28, after allowing for a minimum liquidity requirement of £10m. This also factors in an assumed slippage allowance of £11m in 2027/28.

5.5 Maturity Structure of borrowing

The Council had £14m of external loan borrowing with the PWLB with durations of a year. It is within the limits set in the 2026/27 Strategy shown below.

Maturity structure of fixed interest rate borrowing 2026/27		
	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 2026/27		
	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%

5.6 Other borrowing indicators

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.

	2026/27 Limit
Authorised Limit of Borrowing	**£85m**
Operational Boundary of Borrowing	**£68m**

The table below shows the updated affordability indicator based on the current forecast. A comparison with the position in February shows that the impact is similar, and marginally lower, across the projection. The movement in the forecast is based on assumed slippage in the planned programme. The context of affordability is reviewed as part of the budget process and has traditionary been underspent. The increase in borrowing costs for the capital programme is the driver for increasing costs and this is compared to the Net Revenue Stream (the amount funded from Council Tax, Business Rates and general Government grants) as the standard basis.

Local Indicator on Affordability	2024/25 Actual	2025/26 Actual	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Total Financing Costs (excludes Private sector lease (PSL) costs and net of self-financing)	**£1.437m**	**£1.860m**	**£2.247m**	**£3.395m**	**£4.852m**
Net Revenue Stream	£29.186m	£30.947m	£31.566m	£32.197m	£32.841m
Local Indicator Ratios:-					
Updated Ratio of financing costs to Net Revenue Stream	**4.92%**	**6.01%**	**7.12%**	**10.54%**	**14.77%**
Previously identified at February 2026; Ratio of financing costs to Net Revenue Stream	**4.92%**	**6.33%**	**10.57%**	**13.07%**	**15.66%**

The indicator has been updated to match what has been reported in the Mid-Year Review 2026/27 being presented to Cabinet which present excluding financing private sector leased temporary accommodation and after allowing new schemes likely to be self-financing capital schemes. Also, included above is the updated forecast for the current year based on current forecast for 2026/27.

The rise in financing costs over time is caused by the need to fund the majority of the replacement of plant, equipment and vehicles through external borrowing which has significantly higher (per pound borrowed) than the debt repayment charge for one-off/longer life schemes. An action in the budget will be to review capital financing costs and seek reductions where possible.

6 Treasury and Prudential Code Consultation

CIPFA is currently consulting on proposed revisions to the Prudential Code for Capital Finance in Local Authorities and the Treasury Management Code. The key proposed changes are, in summary:

- Requiring greater consideration of risks within group structures where these may be obscured by considering prudential indicators on a single-entity basis. This has no current impact on the Council as it does not have a group structure.
- Clarifying the link between the authorised borrowing limit and affordability, in line with the principles of the Local Government Act 2003. This changes the emphasis from whether borrowing remains within approved limits to whether borrowing requirements identified through the liability benchmark are affordable and sustainable.
- Removing non-treasury investments from the scope of the Treasury Management Code, so they are considered instead under the MHCLG Investment Guidance, which is currently under review.
- Embedding the liability benchmark as a key decision-making tool by redesigning treasury management prudential indicators so they are driven by its outputs. This is intended to help users review the Council's best estimate of the borrowing required to support the capital programme and day-to-day cash flow.
- Simplifying the structure of the two documents, including bringing all prudential indicators together in the Prudential Code.

The revised Codes are expected to apply from 2027/28. There is no immediate impact on the 2026/27 Treasury Management Strategy, but officers will review the final requirements and incorporate any necessary changes into the 2027/28 strategy, prudential indicators and liability benchmark reporting.

7 Conclusion

- No breaches of the 2026/27 Treasury Management Strategy have occurred.
- Higher than expected cash balances are estimated to result in investment income being £194K more than the budget for 2026/27.
- The Council has £14m external borrowing with the remainder being internally borrowed to fund its capital investment; however, the Council is expected to need to undertake external borrowing later this financial year.
- The holdings of diversified investment funds have been sold to de-risk the Council from the potential volatile capital values of holding these funds.
- No change to the TM Strategy is recommended for 2026/27.
- The indicators shown are to be noted.