

# Treasury Management and Investment Sub-Committee Agenda



**20 January 2025 at 2pm**

**Waterhouse Room, Civic Centre, Duke Street,  
Chelmsford, CM1 1JE**

## **Membership**

Councillor C. Davidson (Chair)

## **and Councillors**

P. Clark, K. Franks, S. Hall, M. Sismey, A. Sosin, and R. Whitehead

Local people are welcome to attend this remote meeting, where your elected Councillors take decisions affecting YOU and your City. There will also be an opportunity to ask your Councillors questions or make a statement. These have to be submitted in advance to [committees@chelmsford.gov.uk](mailto:committees@chelmsford.gov.uk). Further details are on the agenda page. If you would like to find out more, please email [committees@chelmsford.gov.uk](mailto:committees@chelmsford.gov.uk) or telephone on 01245 606480

# Treasury Management and Investment Sub-Committee

20 January 2025

## AGENDA

### 1. Apologies for Absence and substitutions

### 2. Minutes

To consider the minutes of the meeting held on 14 October 2024.

### 3. Declaration of Interests

All Members are reminded that they must disclose any interests they know they have in items of business on the meeting's agenda and that they must do so at this point on the agenda or as soon as they become aware of the interest. If the interest is a Disclosable Pecuniary Interest they are also obliged to notify the Monitoring Officer within 28 days of the meeting.

### 4. Public Question Time

Any member of the public may ask a question or make a statement at this point in the meeting. Each person has two minutes and a maximum of 20 minutes is allotted to public questions/statements, which must be about matters for which the Committee is responsible.

The Chair may disallow a question if it is offensive, substantially the same as another question or requires disclosure of exempt or confidential information. If the question cannot be answered at the meeting a written response will be provided after the meeting.

Any member of the public who wishes to submit a question or statement to this meeting should email it to [committees@chelmsford.gov.uk](mailto:committees@chelmsford.gov.uk) 24 hours before the start time of the meeting. All valid questions and statements will be published with the agenda on the website at least six hours before the start time and will be responded to at the meeting. Those who have submitted a valid question or statement will be entitled to put it in person at the meeting.

5. Treasury Management & Investment Strategies 2025/26

6. Urgent Business

To consider any other matter which, in the opinion of the Chair, should be considered by reason of special circumstances (to be specified) as a matter of urgency.

## MINUTES OF THE TREASURY MANAGEMENT AND INVESTMENT SUB COMMITTEE

held on 14 October 2024

Present:

Councillor C. Davidson (Chair)

Councillors P. Clark, K. Franks, S. Hall, and A. Sosin

Also in attendance –

Councillor B. Knight

### 1. Apologies for Absence and Substitutions

Apologies for absence had been submitted by Cllr Sismey.

### 2. Minutes

The minutes of the meeting held on 16 July 2024 were agreed as a correct record and signed by the Chair.

### 3. Declaration of Interests

All Members were reminded to declare any Disclosable Pecuniary interests or other registerable interests where appropriate in any items of business on the meeting's agenda. None were made.

### 4. Public Question Time

No public questions or statements were received for the meeting.

### 5. Treasury Management Mid-Year Review 2024/25

In accordance with the CIPFA Code of Practice, the mid-year review of the Council's treasury management function and activities in 2024/25 was presented to the Sub-Committee. The review examined the position with the Council's investments on 31 August 2024 and compared treasury activity to the approved Treasury Management Strategy. The Sub-Committee was asked to consider whether any amendments to the Strategy were necessary and, if so, to recommend them to Cabinet and then Full Council.

The Sub-Committee was advised that a significant proportion of the Council's portfolio was available for instant access, however investment balances were expected to fall for next few months. Estimates identify that there would be a need for external borrowing later in the financial year. To manage liquidity, members were advised that at least £5 million of all investments were to be invested for the period

of 35 days or less. It was also advised that due to declining investment balances, no fixed duration investments over 365 days were proposed for 2024/25. There were also no breaches of counter-party limits that had occurred. It was advised that a £9 million investment was due to be back by 18<sup>th</sup> November 2024 and the majority would be paid over to Essex County Council as contribution from developers for the s106 funding of the Beaulieu Station.

Officers also advised members on the rate of return on investments. Members were informed that further rate cuts to Bank of England rate were expected. The Council's income yield and income for 2024/25 was expected to be lower than last year due to the return rates on the Council's investments expecting to fall as interest rates decline. The Council had an average yield on all its investments of 5.26% as at 31<sup>st</sup> August. It was advised that the budgeted income for 2024/25 from investment returns was £1 million and this was expected to be exceeded for the year by £0.45 million, due to higher than forecasted cash balances.

The Sub-Committee was advised that the Council currently invested in three Multi Asset Diversified Income Funds. It was advised that the capital values would fluctuate throughout the period of investment and that interest rates were expected to fall. Members were advised that the annualised income yield on all three funds was 5.32% on the April valuation. The CCLA Multi Asset Diversified Income Fund (CCLA DIF) was advised not to be performing well and continued to be under the scrutiny of officers. Members were also advised on the bail-in risk, which the diversified income funds would be partially exposed to.

Members were advised on the Council's previous external borrowing which was short term and used for liquidity purposes. Officers informed that this short-term borrowing had been repaid in April 2024.

In response to the Sub-Committee's questions and concerns, it was advised that;

- The funds had been showing an upward trend in capital values, but recent movements had been slightly down and the yields were not likely to improve. Officers would continue to scrutinise the funds and considered CCLA the most likely to be disposed given its weaker performance.
- Regarding the authorised borrowing limit of £55 million, members were advised that this figure included both external and internal borrowing and that the limit was set by the Council every year. It was also advised that the limit related to the maximum amount to borrow in order to fund a capital programme. The amount of borrowing was an internal decision by the Council based on the capital spending plans. It was also advised that the government did not impose limits on borrowing.
- In relation to the portion of the capital spends on the Waterside Development, it was advised that as most of the funds being spent were for infrastructure, the benefits had not been calculated yet as the site is due to marketed shortly.
- Regarding the decision on leaving the CCLA property fund, officers advised that being in a property fund where there was low liquidity was not ideal. Also, property funds had been adversely affected by working from home and changes in retail industry. It was felt that the property fund had delivered well for the Council but for the next few years at least, it was not the investment most suited to the Council's needs.

- There were also multiple external factors that created a volatile environment for investments, such as the recent war on the Middle East and the change of government. These had made the use of funds less successful than had been hoped.

**RESOLVED** that the Treasury Management Mid-Year Review for 2024/25 be endorsed and recommended to Cabinet for approval, without any amendments.

*(2.02pm to 2.33pm)*

8. Urgent Business

There were no matters of urgent business to discuss.

The meeting closed at 2.33pm.

Chair



---

## Chelmsford City Council Treasury Management and Investment Sub-Committee

20<sup>th</sup> January 2025

---

### Treasury Management & Investment Strategies 2025/26

---

#### Report by:

Accountancy Services Manager (s151 Officer)

---

#### Officer Contact:

[Phil Reeves, Accountancy Services Manager (S151),  
phil.reeves@chelmsford.gov.uk, 01245 606562]

---

#### Purpose

To recommend Treasury Management and Investment Strategies for 2025/26 to Cabinet and then Full Council

#### Options

1. Accept the strategies
2. Recommend changes to the way by which the Council's investments are to be managed

#### Recommendation

Recommend the Treasury Management and Investment Strategies to Cabinet

---

#### 1. Background

- 1.1 Cabinet is responsible for recommending to Council the Treasury Management and Investment Strategies which Council is legally responsible for approving. The attached report enables the sub-committee to recommend to Cabinet and Council the Treasury Management and Investment Strategies for 2025/26.

- 1.2 The report references the Capital Strategy, which is a matter for Cabinet and Council as it relates to decisions regarding the capital & revenue budgets. The Treasury Management and Investment Committee does not consider the Capital Strategy.
- 1.3 Members of the sub-committee can amend the contents of the attached report and thereby recommend changes to how the Council invests its money.
- 1.4 The capital estimates are in the process of being reviewed and updated and some values in this report may change when they are presented to Cabinet in January.

**List of appendices:**

Draft Cabinet Report and Appendices

**Background papers:**

None

---

**Corporate Implications**

Legal/Constitutional: None

Financial: As detailed in report.

Potential impact on climate change and the environment: The Council's Climate and Ecological Emergency Action Plan as agreed at Cabinet 28<sup>th</sup> January 2020 included a review of the Council's investment strategy in light of the Climate and Ecological Emergency Declaration.

Contribution toward achieving a net zero carbon position by 2030: As above

Personnel: None

Risk Management: All investment activities require a careful consideration of risk and reward.

Equality and Diversity: None

Health and Safety: None

Digital: None

Other: None

---

**Consultees:** None

---

**Relevant Policies and Strategies:** Medium Term Financial Strategy

---





## Chelmsford City Council Cabinet

28<sup>th</sup> January 2025

---

Capital (*to be taken directly to Cabinet*), Treasury Management and Investment Strategies 2025/26

---

Report by:  
Cabinet Member for Finance

---

Officer Contact:  
Phil Reeves, Accountancy Services Manager, 01245 606562,  
[phil.reeves@chelmsford.gov.uk](mailto:phil.reeves@chelmsford.gov.uk)

---

### Purpose

To recommend an approach for managing the Council's:

- Cash and
- Other types of investment including property

### Options

1. Accept the recommendations contained within the report
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 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 (***Not currently included***) sets out a framework for the management of capital finance and links to capital and revenue budget plans being reported to January Cabinet. The strategy is not reviewed by the Treasury Management and Investment Sub-committee.

### 1.3. Treasury & Investment Strategies

Members of the Treasury Management & 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 Treasury Management activities. The document in **Appendix 1** complies with the Code and relevant Government regulations.

Full Council has overall responsibility for the Treasury Strategy but delegates to the Treasury Management and Investment Sub-committee responsibility to monitor activity and recommend changes to strategy. The Accountancy Services Manager (section 151 Officer) has been 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 2**.

## 2. Executive Summary

### 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.
- The Section 151 Officer under the constitution 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.

List of appendices:

Appendix 1 – Treasury Management Strategy 2025/26

Appendix 2 – Investment Strategy 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:

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. So currently the instant access money market funds are excluded from the ESG assessment.

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:

Consultees:

---

Relevant Policies and Strategies:

Medium Term Financial Strategy

## 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's decision 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 by s151 officer, before the report is made to Council.*)

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.

	March 2024 Actual £m	March 2025 Forecast £m
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 3 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 1 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 2** 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 3**): 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: -

<b>Category of borrower</b>	<b>31.3.2024 actual</b>			<b>2025/26</b>
	<b>Balance owing</b>	<b>Loss allowance</b>	<b>Net figure in accounts</b>	<b>Approved Limit</b>
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.

## 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 2.

### 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.



