

COUNCIL

Treasury Management Mid-Year Review 2025/26 17th December 2025

Report of Chief Finance Officer

PURPOSE OF REPORT

This report seeks Council's consideration of various matters in connection with the Treasury Management Mid-Year Review 2025/26.

This report is public

RECOMMENDATIONS:

That Council :

- (1) Consider the various matters in connection with the Treasury Management Mid-Year Review 2025/26
- (2) Approves the changes to the investment counterparty criteria and the sovereign limit as set out in the report

1.0 INTRODUCTION

- 1.1 The Council's Treasury Management Activities are regulated by the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003
- 1.2 During 2025/26 the minimum reporting requirements are that Full Council should receive the following reports:
 - an annual treasury strategy in advance of the year (Council 26 February 2025)
 - a mid-year (minimum) treasury update report (this report).
 - an annual review following the end of the year describing the activity compared to the strategy
- 1.3 In addition, Members will receive quarterly treasury management update reports which are presented to Cabinet and Budget and Performance Panel.

2.0 BACKGROUND

- 2.1 The Mid-Year Review (Appendix A) sets out the performance of treasury operations for the first six months of the 2025/26 financial year in terms of long and short-term borrowing, investment activities and relevant borrowing limits and prudential indicators.
- 2.2 Under CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) it is a requirement that an information report on these matters be presented to Cabinet and full Council.

3.0 MID YEAR REVIEW SUMMARY DETAILS

Mid-year quarter 2 position incorporates the amended indicators set out in the amended TM strategy

Investments

- 3.1 The average level of funds available for investment purposes over the six-month period was £27.6M (2024/25 £25.0M). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.
- 3.2 The Council's investments returned a weighted average rate of 4.09% on deposit generating £593K of interest against a profiled budget of £261K.

Borrowing

- 3.3 The Capital Financing Requirement (CFR) measures the Council's underlining need to borrow for capital purpose, i.e., its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.
- 3.4 The Council's capital financing requirement (CFR) for 2025/26 was forecast as £117.96M the current forecast CFR at quarter 2 is, however, £115.16M. This is principally due to the impact of slippage of expenditure funded by unsupported borrowing into future years.
- 3.5 If the CFR is positive the Council may borrow from the PWLB, or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council currently has borrowings of £56.93M and has utilised £40.93M of cash flow funds in lieu of borrowing and with current forecasts estimating new borrowing of up to £15M later in the financial year. However, the potential for further slippage & uncertainty of large cashflows relating to the Eden Project make this difficult to quantify with certainty and the actual amount of borrowing may be lower.
- 3.6 Consideration also needs to be given to the recent volatility in the markets leading to high PWLB interest rates. In light of this it may be prudent to delay borrowing or consider the use of short-term borrowing as an interim measure.

Prudential Indicators

- 3.7 In compliance with the Prudential Framework the Council sets an annual Treasury Management Strategy including key indicators, determined under regulation, to assist Members in assessing the affordability of borrowing and in determining that it is prudent and sustainable.

The indicators are set out in **Annex A** of The Mid-Year Report at **Appendix A**

4.0 Recommended Changes to the Treasury and Capital Strategies

The current investment counterparty criteria selection approved in the TMSS requires updating to ensure it continues to meet the requirement of the treasury management function.

It is recommended that the money limits for orange and red rated banks be increased from £6M to £12M to allow increased use of Environmental, Social and Governance (ESG) based investment funds.

The Council will therefore use counterparties within the following durational bands:

- **Yellow (Y)** – up to but less than 1 year
- **Dark pink (Pi1)** liquid – Ultra-Short Dated Bond Funds with a credit score of 1.25
- **Light pink (Pi2)** liquid – Ultra-Short Dated Bond Funds with a credit score of 1.5
- **Purple (P)** – up to but less than 1 year
- **Blue (B)** – up to but less than 1 year (only applies to nationalised or part-nationalised UK Banks)
- **Orange (O)** – up to but less than 1 year
- **Red (R)** – 6 months
- **Green (G)** – 100 days
- **No colour (N/C)** – not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7

	Colour (and long- term rating where applicable)	Money Limit	Time Limit
Banks /UK Govt. backed instruments*	yellow	£12m	≤1 year
Banks	purple	£6m	≤1 year
Banks	orange	£12m	≤1 year
Banks – part nationalised	blue	£12m	≤1 year
Banks	red	£12m	≤6 mths

Banks	green	£3m	≤100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker (for non-specified investments)	n/a	£1.5m	1 day
DMADF	UK sovereign rating	unlimited	≤6 months
Local authorities	n/a	£12m	≤1 year
	Fund rating**	Money and/or % Limit	Time Limit
Money Market Funds CNAV	AAA	£6m	liquid
Money Market Funds LVNAV	AAA	£6m	liquid
Money Market Funds VNAV	AAA	£6m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	£6m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	Light pink / AAA	£6m	liquid

* the yellow colour category includes UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.

** "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.

Whilst the Council does not set a minimum credit rating for the UK, in line with advice from MUFG it is also recommended to amend the minimum sovereign credit rating to lend to UK banks and building societies plus banks in other countries with at least one sovereign rating of a minimum of AA-.

5.0 OPTIONS AND OPTIONS ANALYSIS

5.1 As the report is for consideration and progressing to Budget and Performance Panel and Full Council, no alternative options are put forward.

6.0 CONCLUSION

6.1 Consideration of Treasury Management Mid-Year Review and presentation to Full Council will ensure the Council complies with CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

RELATIONSHIP TO POLICY FRAMEWORK

Treasury Management forms part of the Council's budget framework

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

Effective Treasury Management and use of the Council's resources is fundamental to the delivery of its priorities and outcomes.

LEGAL IMPLICATIONS

None directly arising from this report.

FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

However, due to the financial pressures faced by the Council, and the significant increase in interest rates and borrowing costs areas of capital investment may be delayed, reprofiled or stopped. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal and external advice considered ahead of any borrowing being incurred.

OTHER RESOURCE IMPLICATIONS

There are no additional resource or risk implications

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has written this report in his role as Chief Finance Officer and would draw Members attention to the following comments

As part of the work to address the "Community concern over bombardment of Gaza and reaffirming Lancaster City Council's commitment to human rights and International Law" motion presented to Council 24th September 2025, this report requests an increase in sovereign limits from £6M to £12M. Whilst this increase will allow wider access to, and use of Environmental, Social and Governance (ESG) based investment funds, it does significantly increase the level of risk to the Council. As approval of the Treasury Management Strategy is a function of Full Council Members must be satisfied that the increase in risk is balanced against the benefits of investment in ESG funds

Work to address other issues raised within the motion is on going and will be reported to Full Council at the appropriate date.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Community concern over bombardment of Gaza and reaffirming Lancaster City Council's commitment to human rights and International Law

[Agenda for Council on Wednesday, 24th September 2025, 6.00 p.m. - Lancaster City Council](#)

Treasury Management Strategy

[Agenda for Council on Wednesday, 26th February 2025, 6.00 p.m. - Lancaster City Council](#)

Treasury Management Mid-Year Review

[Agenda for Cabinet on Tuesday, 2nd December 2025, 6.00 p.m. – Lancaster City Council](#)

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