

MIDDLESBROUGH COUNCIL	
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Report of:	Andrew Humble - Director of Finance and Transformation (S151 Officer)
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Relevant Executive Member:	Cllr Nicky Walker - Executive Member for Finance
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Submitted to:	Executive
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Date:	3 December 2025
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Title:	Treasury Management – Mid Year Review 2025/26
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Report for:	Information
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Status:	Public
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Council Plan priority:	Delivering Best Value
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Key decision:	No
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Why:	Report is for information only
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Subject to call in?	No
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Why:	Report not for decision
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Proposed decision(s)
That the Executive : • NOTES the following in relation to the annual Treasury Management Strategy: - the mid-year Prudential Indicator results for 2025/26 as the Council's current position in relation to capital finance activities and overall indebtedness. - the performance of the treasury management function against the Council's approved strategy for the current financial year.

Executive summary
In accordance with the Local Government Act 2003 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice on Capital Finance and Treasury Management, the Council is required to approve a Treasury Management Strategy and a set of Prudential Indicators on an annual basis. It is also required to undertake a mid-year review to understand how the Council is performing to date in this financial year.

This process self-regulates the level of capital financing activities and the long-term affordability and value for money achieved in delivering capital investment for the Council. The report also gives assurance on managing the short, medium and long-term borrowing and investment decisions of the Council in an effective manner. The Treasury Management Strategy is therefore a critical foundation of the Council's financial management and governance framework.

The report sets out the 2025/26 mid-year performance against the annual Treasury Management Strategy approved by Council and gives an analysis of the results achieved to date. The key points for Members to note on this are as follows:

Borrowing

- Treasury management activity has remained compliant with approved prudential management indicators during the first six months of 2025/26.
- The amount of borrowing required during the year is expected to be **£18.735m** compared to an approved budget of **£17.085m**. This is due to the approval of £1.600m in terms of a loan to Middlesbrough College, plus other movements in the capital programme over the first six months. The borrowing requirement over the two subsequent financial years however is in line with Council limits.
- The Council's underlying need to borrow, which reflects the total of all historical capital expenditure financed from borrowing, is called the Capital Financing Requirement (CFR) and is expected to be **£314.380m** on 31 March 2026.
- The Council does not borrow externally for the total amount of the CFR as it holds internal cash balances against which it borrows internally, as part of its Treasury Management Strategy. Total external debt was **£254.605m** on 30/9/25 and is expected to rise by a further £30m to **£284.605m** by the end of the financial year.
- The Council is therefore expected to be 'under borrowed' by **£29.775m or 9.5%** at the financial year end. This is good practice to avoid unnecessary revenue costs and to ensure effective cashflow management.

Investments

- All cash investments have been made in line with the Council's credit worthiness criteria, generally with either central government or other local authorities.
- Interest earned on these cash investments is expected to generate in the region of **£0.900m** for 2025/26 and this will reduce the net cost of capital financing.

Affordability

- The net annual revenue cost of financing the Council's current and historic debt, less income from its commercial investments and on its cash balances is **£12.205m or 8.5%** of the net revenue budget for the financial year. This reflects the cost of loan principal repayments (Minimum Revenue Provision - MRP) and interest on external borrowing.

- The affordability limit advised by the s151 Officer is for revenue costs of capital financing to be contained within **10% of the net revenue budget**, unless specific advice is given to Members as part of the budget setting process.
- The long-term forecast shows costs approaching 10% by the end of the decade. This will limit the availability of borrowing as a source of funding future capital investment and more reliance will be required on external funding and capital receipts and/ or projects for which investment will reduce operating costs or increase operating income of the Council.

1. Purpose of this report and its contribution to the achievement of the Council Plan ambitions

- 1.1 This report provides an important update to the Executive on performance in relation to the Council's borrowing, investments, and cash-flow for the 2025/26 financial year to meet the requirements of the CIPFA Treasury Management Code of Practice and the Local Government Act 2003. It should be read in conjunction with the Council's revenue and capital Quarter Two budget monitoring report for 2025/26, which is a separate report on this agenda, to understand the full financial position of the Council.
- 1.2 The report also provides the mid-year Prudential Indicators results for 2025/26 in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Capital Finance, which is best practice in terms of governance in this area.

Our ambitions	Summary of how this report will support delivery of these ambitions and the underpinning aims
A successful and ambitious town	Treasury Management is a corporate discipline that underpins and supports the financial infrastructure of the Council. As a result, this report and the governance around capital financing and treasury management arrangements indirectly contributes to all areas and ambitions within the Council Plan.
A healthy Place	
Safe and resilient communities	
Delivering best value	The cost of capital financing and cashflow management for the Council is more than £12m per annum. This is one of the largest operating budgets managed by the Council and pays for more than £300m of historic capital investment. All decisions on borrowing and investments need to operate within this budget and the parameters set by Full Council (the prudential indicators) in February 2025 to ensure that they are affordable and sustainable over the medium-term. Given the size of the transactions involved on borrowings and investments, it is important that these comply with the framework set out in the annual treasury management strategy. This allows risk to be managed in a prudent way, that appropriate governance measures are in place, and that best value can be achieved from these resources in the support of the Council Plan priorities.

2. Recommendations

2.1 That the Executive :

- **NOTES** the following in relation to the annual treasury management strategy:
 - the mid-year Prudential Indicator results for 2025/26 as the Council's current position in relation to capital finance activities and overall indebtedness.
 - the performance of the treasury management function against the Council's approved strategy for the current financial year.

3. Rationale for the recommended decision(s)

3.1 The recommendations above will fulfil the following for the local authority:

- Compliance with the CIPFA Prudential Code for Capital Finance for local authorities.
- Compliance with the CIPFA Treasury Management Code for local authorities.
- Compliance with the Local Government Act 2003 Section 1 in relation to borrowing.

4. Background and relevant information

4.1 The Council's Treasury Management Strategy for 2025/26 (including prudential indicators) was approved at the annual budget setting meeting on 19 February 2025. The Authority both borrows and invests substantial sums of money to provide liquidity for its revenue and capital plans, and is therefore exposed to various financial risks, including the potential loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the treasury management strategy each year.

4.2 The Council is a net borrower overall. The borrowing required to fund its capital programme is significantly higher than its normal cash balances that are available for operational purposes and investments. As a result, the timing of capital financing decisions has a significant impact on the overall treasury strategy within the Council, the total cost involved, and how risk is managed on day-to-day activities.

4.3 The structure of this report to assess performance against the 2025/26 approved treasury strategy for the financial year to date is as follows:

- Capital expenditure and financing for the financial year.
- The Council's overall borrowing need.
- Prudential indicators and any compliance issues.
- The treasury position on 30 September 2025.
- The economic background for the 2025/26 financial year so far.
- A summary of the Treasury Management Strategy approved for the financial year.
- Treasury Management activity and compliance to date.

Capital Expenditure and Financing 2025/26

4.4 The Council undertakes capital expenditure on long term assets, which can be financed as follows:

- immediately during the year of incurring the expenditure, through capital receipts, capital grants, contributions, or from the revenue budget.
- if insufficient immediate capital resources are available, prudential borrowing can be used to spread these costs over future financial years.

4.5 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies – predominantly the Public Works Loan Board (PWLB), other banks and financial institutions, or by utilising temporary cash resources within the Council (internal borrowing). The wider treasury activities also include managing the day-to-day cash flow position, its previous borrowing activities, and the investment of surplus funds from cash balances that are not required immediately. These activities are structured to manage risk foremost and then optimise performance where appropriate.

4.6 Capital Expenditure forms one of the prudential indicators that are used to regulate treasury activity. Table 1 shows total forecast capital expenditure for the year and how this is expected to be financed. Further information on the capital variances at directorate level from the original budget and what impact this has had on the overall financing of the programme can be found in the 2025/26 Quarter Two revenue and capital budget monitoring report.

Table 1: Capital expenditure and financing: 2024-25 FY to 2027-28 FY

	2024/25 actual (£m)	2025/26 original budget (£m)	2025/26 forecast outturn (£m)	2025/26 variance (£m)	2026/27 original budget (£m)	2026/27 revised budget (£m)	2026/27 variance (£m)	2027/28 original budget (£m)	2027/28 revised budget (£m)	2027/28 variance (£m)
Prudential Borrowing	12.343	17.085	18.735	1.650	28.180	21.687	(6.493)	-	3.074	3.074
Capital Receipts	6.000	6.000	6.000	-	6.000	6.000	-	11.613	12.560	0.947
EFS Receipts	2.443	-	-	-	-	-	-	-	-	-
Flexible Use of Capital Receipts	4.447	7.500	6.132	(1.368)	6.750	10.827	4.077	6.250	5.294	(0.956)
Grants	31.693	43.230	35.339	(7.891)	15.558	33.059	17.501	-	-	-
Contributions	0.237	0.983	0.938	(0.045)	6.520	7.312	0.792	-	4.112	4.112
TOTAL	57.163	74.798	67.144	(7.654)	63.008	78.885	15.877	17.863	25.040	7.177

The Council's overall borrowing requirement

- 4.7 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This results from the historic capital activity of the Council and the resources used to pay for the capital expenditure over time. It represents 2025/26 and prior years' net capital expenditure which has not yet been paid for from revenue, capital receipts, or other external resources, and therefore must be met from borrowing.
- 4.8 The CFR will normally be a combination of external borrowing (from third parties in the form of loan arrangements) or from internal borrowing (from the council's own unapplied revenue and capital resources). External borrowing incurs both principal and interest costs as part of the Council's capital financing budget. Internal borrowing is from the Council's own cash resources and has an opportunity cost in that the cash is spent on capital activities, rather than being invested to earn interest.
- 4.9 Part of the Council's treasury role is to meet the funding requirements for this borrowing need. Depending on the funding requirements of the capital programme, the treasury team organises the Council's position to ensure that sufficient cash is available to meet the capital plans and general liquidity requirements. This may be sourced through borrowing from external bodies (such as the government, through the PWLB, or the money markets).
- 4.10 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory guidance is in place to ensure that capital expenditure is broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a principal loan repayment of the long-term borrowing need from the revenue budget.
- 4.11 The Council's capital financing requirement for the next three financial years is shown in Table 2 and represent a key prudential indicator for the Council. The CFR position at the mid-year position for 2025/26 is expected to be £314.380m which is £4.183m higher than forecast at the start of the financial year. This is due to £1.650m additional prudential borrowing from when the budget was set, plus £2.533m of technical adjustments to the CFR amount as part of the closure of the 2024/25 financial statements.

Table 2: expected change in the Capital Financing Requirement 2025/26 to 2027/28 FY

	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)
Opening CFR at 1 April	300.041	314.380	331.312
Add: Capital expenditure financed by borrowing	18.735	21.687	3.074
Less: Minimum Revenue Provision	(4.396)	(4.755)	(5.137)
Forecast closing CFR at 31 March	314.380	331.312	329.249
Approved CFR 2025/26 – budget setting	310.197	333.295	327.929
Variance on CFR since budget set	4.183	(1.983)	1.320

Mid-year Treasury Position for 2025/26

4.12 Whilst the measure of the Council's underlying need to borrow is the CFR, the Director of Finance and Transformation can manage the Council's actual borrowing position by:

- borrowing to the CFR level; or
- choosing to utilise some temporary cash flows instead of borrowing ("under borrowing").

4.13 Most local authorities have a degree of under borrowing within their CFR at present. This tends to be in the range of 10% - 20% of the total CFR. This means that external debt is lower than the need to borrow and other resources available have been used to bridge the gap. This strategy has been common as part of a Treasury Management approach to generating revenue savings in relation to annual capital financing costs, by deferring external borrowing, to a later point in time driven by cash flow/liquidity needs of the organisation. It also mitigates the Council's risk exposure on investments with external counterparties.

4.14 The Council's treasury management debt and investment position is organised by the corporate finance service to ensure adequate liquidity for revenue and capital spending needs, security for investments, and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council's Treasury Management Practices. These practice statements are available for officers, members, auditors, regulators, and members of the public to review if required.

4.15 A summary of outstanding balances is shown below.

Table 3 – summary of borrowing and investments and movement since 2024/25-year end position

<i>Treasury Position</i>	2024/25 Outturn Principal (£m)	Average Rate (%)	2025/26 mid-year Principal (£m)	Average Rate (%)
Public Works Loan Board	225.604	3.76	225.069	3.79
LOBO loans	13.000	6.83	13.000	6.83
Other loans	14.838	3.82	16.536	3.85
Total Debt	253.442		254.605	
Cash Investments	(21.555)	4.45	(22.245)	4.17
Net Debt	231.887		232.360	

- 4.16 Almost 90% of the Council's total debt is with central government via the PWLB on 30 September 2025. These loans vary in length from between 5 – 45 years and in essence, these match the lives of the capital assets they are financing. Most of the Lender Option Borrower Option (LOBO) and other debt was taken out by the Council in the early 2000's when interest rates were higher, but these options were more attractive than borrowing from central government at the time. Due to the terms and conditions on these loans, there is no option to refinance them in the short term and switch to PWLB loans at lower rates of interest.
- 4.17 Cash investments are temporary surpluses in liquidity that are either invested with central government (via the debt management office) or with other local authorities with a cash need to borrow. Over £0.900m in interest is forecast to be earned during 2025/26 on these balances at an average rate of around 4.0%.
- 4.18 The Council's total debt outstanding as on 30 September 2025 was £254.605m. The Council's revised CFR position is estimated to be £314.380m at Quarter Two. This means that the Council was "under borrowed by £59.775m or 19.1%. Most borrowing to date has therefore been to replace maturing short-term debt and most of the capital programme borrowing for the financial year still needs to be taken.
- 4.19 This "under borrowed" amount is currently financed by internal borrowing from cash balances (usable reserves) which means that the amount that could have been invested externally was reduced to cover this. The reduced under borrowed position has the dual effect of reducing revenue costs incurred by the General Fund budget because borrowing costs are generally greater than investment returns. It also reduces counterparty risk by reducing our exposure to the inherent risks that exist in commercial banks and other financial institutions.
- 4.20 Gross Borrowing and the CFR – in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2024/25) plus the estimates of any additional capital financing requirement for the current (2025/26) and next two financial years (2026/27 & 2027/28). This essentially means that the Council is not borrowing to support revenue expenditure and allows the Council some flexibility to borrow in advance of its immediate capital needs in 2025/26, if required.
- 4.21 Table 4 sets out the Council's gross borrowing position against the CFR and shows **compliance with this prudential indicator** as debt levels continue to be lower than required over the medium term.

Table 4 – Gross Borrowing to Capital Financing Requirement comparison in millions

	2024/25 Actual	2025/26 Original	2025/26 Mid-year	2026/27 Forecast	2027/28 Forecast
Gross External Borrowing	253.442	292.388	284.605	316.785	319.859
Capital Financing Requirement	300.041	310.197	314.380	331.312	329.249
(Under)/Over borrowing	(46.599)	(17.809)	(29.775)	(14.527)	(9.390)
% of CFR	15.5	5.7	9.5	4.4	2.9

4.22 **The Authorised Limit** – The Authorised Limit is the “Affordable Borrowing Limit” required by section 3 of the Local Government Act 2003. The Council does not have power to borrow above this level.

4.23 **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary are both acceptable, subject to the Authorised Limit not being breached.

4.24 **Actual financing costs as a proportion of net revenue expenditure** - This identifies the trend in the revenue cost of capital (borrowing and other long term obligation costs net of investment income) as a proportion of the Council’s net revenue budget. The actual for this indicator has risen from the previous year due to an increase in the Financing costs outturn.

Table 5 – Key Prudential indicators in millions

	2024/25 actual	2025/26 mid-year	2026/27 forecast	2027/28 forecast
Authorised Limit (£m)	328.000	331.000	354.000	348.000
Operational Boundary (£m)	318.000	321.000	344.000	338.000
Capital Financing Requirement (£m)	300.041	314.380	331.312	329.249
Financing costs (£m)	11.405	12.205	13.732	14.226
Net Revenue Budget (£m)	143.190	143.304	144.382	148.621
Proportion of net revenue budget (%)	7.8%	8.5%	9.5%	9.6%

*Forecasts for 2026/27 & 2027/28 net revenue budgets subject to future change

- 4.25 The table above also shows the profile of debt required to fund the capital programme over the whole of the medium-term financial planning period, and that this will rise to a maximum of £331.312m on 31st March 2027. This increase in indebtedness is a direct result of the amount required to fund the capital programme in each financial year and any additional cash flow demands, due to the use of reserves and debt refinancing.
- 4.26 Although the Council does not have relatively highly debt levels against its comparator authorities, the strain on the revenue budget is increasing, particularly against the 2025/26 and 2026/27 budgets. When CIPFA introduced the Capital Finance Code of Practice in 2007, a nominal amount of 10% of the net revenue budget was suggested as being a maximum threshold for sustainability and prudence. Although some councils have exceeded this over the years the S151 Officer's advice is to contain capital expenditure financed by borrowing at a level which remains below this benchmark. This is particularly important given the Council's overall financial position and the low level of unrestricted revenue reserves.
- 4.27 The levels though do remain aligned to the operational boundary (the Council's capital planning total) and are within the authorised limit approved by Members, which is the statutory limit for the Council in relation to external debt.

Economic Background 2025/26

- 4.28 A summary of the general economic conditions that have prevailed through the first six months of the 2025/26 financial year is attached at Appendix 1 for information. This has been provided by the Council's external treasury adviser and gives some context on the current economic drivers that are influencing interest and bond rates at present.

Summary of the Treasury Management Strategy agreed for 2025/26.

- 4.29 Treasury Management is defined as 'the management of the Council's cash flows, borrowing and investments, and the associated risk'. The main risks that affect a local authority include credit risk, interest rate risk, liquidity risk and refinancing risk.
- 4.30 The borrowing approach outlined in the treasury strategy was to achieve the optimum value for money for the revenue budget by a combination of long-term borrowing from the Public Works Loan Board when interest rates reached a trigger rate of below 4.75% and the maturity term of the new borrowing fitted in with the Council's current debt portfolio. If these conditions did not exist when cash balances fell below £10.000m, then short term borrowing would be considered for the minimum period possible, given that interest rates were expected to rise over the period. Additionally short-term borrowing would be capped at a maximum of 20% of the total of the Council's gross external debt balance.
- 4.31 The approach to investing cash balances is to follow the relevant government and CIPFA guidance in prioritising and protecting the principal sums involved by only investing with institutions on the Council's approved lending list. This factor is paramount and more important than the fact that higher interest rates that could be achieved on riskier and illiquid investments with longer duration terms. Only 10% of total investments

could be deposited for periods over one financial year given the higher levels of risk associated with these products.

Treasury Management activity during 2025/26

4.32 During the financial year so far, the Council has maintained an under-borrowed position. This means that the capital borrowing need, (the CFR), was not fully funded with loan debt. Internal cash balances underpinning the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments needed to be considered.

4.33 All borrowing and investment activity undertaken so far during the financial year has been in line with the approved strategy agreed, with no exceptions.

4.34 A total of £10.000m of new long-term borrowing was undertaken from the PWLB, with £8.837m repaid on either maturity or annuity loans. The total level of external debt for the Council rose by £1.163m during the first six months of 2025/26. Significant borrowing (circa £30m) is still required to fund the capital programme and other liquidity requirements over the remainder of the financial year. Any borrowing decisions will be undertaken in line with the Council's approved treasury management policy and via consultation with external advisers. All the costs of the above debt decisions have been factored into the medium-term financial plan and are fully funded.

4.35 Investments were made with either central government or other local authorities on an almost daily basis to ensure that the Council's overall liquidity position was protected. All principal sums invested have been repaid on time by each counterparty. The total interest earned on these temporary cash balances for 2025/26 is expected to be £0.900m and helps to balance the overall net capital financing budget of £12.205m.

4.36 The Council's Treasury Management function has complied with all the relevant statutory and regulatory requirements to date during 2025/26, which limit the levels of risk associated with its treasury management activities. The adoption and implementation of both the Prudential Code and the code of Practice for Treasury Management means both that its capital expenditure is prudent, financially affordable, and sustainable, and its treasury practices demonstrate a low-risk approach.

4.37 Officers of the Council are aware of the risks of passive management of the treasury portfolio and, with the support of Arlingclose, the Council's advisers, have proactively managed the debt and investments so far over the financial year.

5. Ward Member Engagement if relevant and appropriate

5.1 Not relevant to this report as it relates to corporate financial management and governance issues.

6. Other potential alternative(s) and why these have not been recommended

6.1 Not relevant as the report is for information only.

7. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including procurement and Social Value)	All relevant financial implications are outlined within the body of this report and the supporting Appendix 1. The capital programme and financing being recommended in the budget report continues to remain affordable within the approved MTFP and revenue budget parameters. However, the Council needs to manage and prioritise its future capital investment and associated funding strategies more strictly over the term of the MTFP to maintain the revenue cost of capital investment within affordable and prudent parameters. The prudential and treasury management indicators and processes remain robust and within prudent limits over the term of the MTFP. Tables 3-5 outlines the key debt metrics, and the capital financing costs as a % of the net revenue budget over the medium-term financial planning period.
Legal	There are no direct legal implications of this report. All activity on capital financing, investments and borrowing is under current local authority powers, under either the local government act 2003 or the capital finance and accounting regulations.
Risk	Any risk related issues are set out within the report. Risk management is an integral part of the Council's treasury management strategy, and these are considered as part of business-as-usual activities and are set out in more detail within the Treasury Management Practices document maintained by the corporate finance team.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no applicable issues to consider within this report.
Reducing Poverty	There are no applicable issues to consider within this report.
Climate Change / Environmental	There are no applicable issues to consider within this report.
Children and Young People Cared for by the Authority and Care Leavers	There are no applicable issues to consider within this report.
Data Protection	There are no applicable issues to consider within this report.

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Not Applicable		

Appendices

1	Economic Background – 2025/26 financial year – first six months
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Background papers

Body	Report title	Date
Council	Prudential Indicators and Treasury Management Strategy Report – 2025/26	19 February 2025

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