LONDON BOROUGH OF CAMDEN	**WARDS:** All
REPORT TITLE Treasury Management Mid-Year Report 2025-26 (CS/2025/20)	
REPORT OF Cabinet Member for Finance and Cost of Living	
FOR SUBMISSION TO Audit and Corporate Governance Committee Cabinet Council	**DATE** 27 November 2025 10 December 2025 19 January 2026

STRATEGIC CONTEXT

We Make Camden is our shared vision for the borough, co-created with our community. To realise the bold ambitions of our residents, a strong and effective treasury management strategy is essential. Our strategy underpins our commitment to strong financial management, a core pillar of We Make Camden and our approach to medium term financial planning. By ensuring sound stewardship of public finances, we can support the delivery of the priorities that matter most to our communities.

SUMMARY OF REPORT

This report presents the Council's treasury mid-year position and activity for 2025/26. It outlines how the Council has complied with regulatory requirements and treasury indicators and provides an update on the economic context influencing treasury decisions and performance.

Local Government Act 1972 – Access to Information

No documents that require listing have been used in the preparation of this report.

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RECOMMENDATIONS

1. **Audit and Corporate Governance Committee** is asked to consider the report and make any recommendations to the Cabinet.

2. **Cabinet** is recommended to note the Treasury Management Mid-Year Report for 2025-26 and recommend to Council for approval.

3. **Council** is recommended to
    a) Approve the content of the Treasury Management Mid-Year Report for 2025/26 and compliance with all Prudential Indicators.
    b) Delegate authority to the Director of Finance to take any decision on whether to continue investment with our current Money Market Funds or convert to alternative vehicles if required to if rates go negative on these funds (paragraphs 3.21 and 3.29)

Signed: Signed by the Director of Finance

Date: 07 November 2025

1. Purpose of Report

1.1. The report outlines how the Council has complied with regulatory requirements and treasury indicators and provides an update on the economic context influencing treasury decisions and performance during 2025/26. The Council is required under the Local Government Act 2003 to produce a mid-year review of treasury management activities, including a summary of actual prudential and treasury indicators. This report satisfies the obligations set out by the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities.

1.2. In accordance with the prudential regulations the council's Treasury Management Strategy Statement and Prudential Indicators for 2025/26 were approved at Council on 3 March 2025. The investment and borrowing of cash exposes the Council to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk have therefore been central to the council's successful approach to treasury management.

2. Context and background

2.1. This report provides a mid-year update on the Council's treasury management activities for the financial year 2025/26. It assesses how these activities have complied with the Treasury Management Strategy approved for the year and the effectiveness of decisions made under that strategy.

<u>Key Highlights</u>

2.1.1. The Council has maintained a consistent risk profile and prudent investment and borrowing strategies.
2.1.2. Economic conditions remain uncertain and volatile, with central banks worldwide continuing efforts to curb inflation amidst looming recessionary risks. This climate necessitates a cautious and measured financial approach.
2.1.3. The Council has not pursued high-risk commercial investments, which have contributed to financial instability elsewhere. Investment decisions continue to prioritise capital security while seeking reasonable returns.
2.1.4. Camden has avoided the financial pitfalls experienced by some councils, notably those related to imprudent lending or underperforming commercial ventures. Instead, our strategy prioritises long-term financial sustainability and support for the capital programme.
2.1.5. No new external borrowing is planned at present. The internal borrowing policy remains sound and cost-effective, delivering annual savings of approximately £9.4 million.
2.1.6. The Council has operated fully within its treasury and prudential indicators, reflecting strong governance and effective financial control.
2.1.7. This report does not include direct reporting of NLWA borrowing which is governed and reported separately through NLWA's own internal governance processes. The North London Waste Authority (NLWA) continues to borrow significant sums (totalling £1.13bn to date, with further borrowing expected in late 2025). Whilst these funds are co-invested alongside Camden's own balances increasing the overall level of

investment, all governance and decision-making responsibilities for NLWA borrowing rest solely with the NLWA.

3. Treasury Management Mid-Year Report 2025/26

Borrowing

3.1. Over the course of the first half of 2025/26 financial year, the Council maintained its prudent and carefully considered borrowing strategy, which is fundamentally based on internal borrowing. This approach involves making use of the Council's existing internal resources, such as general reserves and positive working capital balances to temporarily finance capital expenditure, instead of taking on new external debt from capital markets or government sources like the Public Works Loan Board (PWLB).

3.2. This strategy was underpinned by three interrelated considerations:

- The Council's ongoing and structural need to borrow, linked to its long-term capital investment commitments;
- The continued availability of internal resources (reserves and working capital) that can be utilised to support capital spending, delaying or avoiding the need for new external borrowing;
- The cost differential between borrowing rates (e.g., from the PWLB or market lenders) and the returns achievable on cash investments (commonly referred to as the 'cost of carry').

3.3. By continuing to rely on internal borrowing, the council has avoided locking in higher interest rates on long-term borrowing, thereby preventing avoidable costs to its revenue budgets. This decision has proved financially sound, given that external borrowing rates remained relatively high across the financial year, while investment returns on surplus cash holdings remained modest. Had the Council proceeded with new long-term borrowing in September 2025 at the prevailing rate of 6.18% for 50-year loans, it would have incurred a cost of carry of approximately £9.4 million, without an immediate need for that funding.

Borrowing Position and Capital Financing Requirement

Table 1

	31-Mar-25			30-Sep-25		
	Value	Average interest rate (%)	Avg life (yrs)	Value	Average interest rate (%)	Avg life (yrs)
Fixed rate (PWLB) borrowing	£169m	4.57	**19.66**	£169m	4.57	**19.15**
Variable rate (market) borrowing	£125m	4.43	**25.73**	£125m	4.43	**25.24**
Total debt	**£294m**	**4.50**	**22.69**	**£294m**		
Capital Financing Requirement (CFR)	£762m			£854m		
Under-borrowing	**£468m**			**£560m**		

* Forecast year end CFR position as at 30 September 2025

3.4. As of 30 September 2025, Camden Council's total external borrowing stood at £294 million, no change since 2024/25 financial year end.

3.5. However, the Council's Capital Financing Requirement (CFR), which represents the underlying need to borrow for past and current capital investment rose to £854 million, up from £762 million as at 31 March 2025. The difference between the CFR and the level of actual external debt represents the Council's under-borrowing position, which increased from £468 million to £560 million in 2025/26.

3.6. This growing under-borrowing gap reflects the Council's continued commitment to internal borrowing and is aligned with the annual financial strategy. This position is actively monitored with input from the Council's external treasury advisors, Mitsubishi UFJ Financial Group (MUFG) Corporate Markets, to ensure the approach remains appropriate and sustainable.

3.7. The Council's capital programme saw a revision in the profiled spend of certain projects compared to initial forecasts. This was due to higher than planned levels of project delivery in key projects and consequent re-profiling of previously planned capital works. It is a high year of spend as the Council has many projects on site in the HRA (Godwin and Crowndale, Abbey Phase 3 and Camden and Chester Road hostels). This resulted in a higher borrowing requirement and has contributed to the CFR rising to £854 million. Also, there was an opening balance adjustment to the 2024/25 statement of accounts for the introduction of IFRS16 accounting for leases, which has increased the CFR.

3.8. The Council is awaiting further details on the support for building affordable housing announced in the Spending Review 2025. Officers, in consultation with professional advisors and wider stakeholders, will consider additional funding, including the use of low interest finance where beneficial, and may recommend updates to its Treasury Management Strategy. The Council is exploring the use of the Green Finance Fund through the Greater London Authority, which should deliver a significantly below market interest rate on carbon positive capital spend.

<u>Loan Portfolio Composition and Market Position</u>

3.9. The Council's borrowing portfolio consists of a mix of fixed-rate PWLB loans and variable-rate market loans, including LOBOs (Lender's Option, Borrower's Option loans). As of 30 September 2025:

- PWLB loans stayed the same at **£169 million**, with an average interest rate of **4.57%** and a weighted average maturity of approximately 19.2 years.
- Market loans remained steady at **£125 million** [made up of £124 million LOBO loans and £1m Community Municipal Investment (CMI) bond], with an average interest rate of **4.43%** and an average life of nearly 25.2 years.

3.10. The Council's LOBO loans were originally taken out at rates more favourable than those available from the PWLB at the time. While they currently carry slightly higher average rates than the Council's PWLB debt, they are still viewed as part of a valid, diversified borrowing strategy. Importantly, Camden's LOBOs are considered relatively straightforward in structure and do not contain the complex risk characteristics of some of the 'inverse linkers' that have attracted scrutiny at other authorities.

3.11. Given the broader movement in market interest rates, there is now a greater likelihood that LOBO lenders may choose to exercise their option to renegotiate rates during contractual call dates. If such events occur, the Council will have the option to repay these loans at par, avoiding any financial penalty. This potential is actively monitored as part of the Council's ongoing debt management practices.

<u>Innovation in Borrowing: Community Municipal Investment</u>

3.12. The Council continues to demonstrate leadership in adopting innovative funding mechanisms to meet both financial and environmental objectives. In June 2022, Camden launched a Community Municipal Investment (CMI), a form of local climate bond at a value of £1 million with an interest rate of 1.75%.

3.13. This instrument enabled local residents to directly invest in Council projects and is specifically targeted at helping deliver Camden's ambitious goal of achieving net-zero carbon emissions. This marks a significant step towards diversifying funding sources and aligning financial instruments with the Council's climate ambitions.

<u>Conclusion</u>

3.14. In line with the internal borrowing policy, no new borrowing was undertaken during the year-to-date. Similarly, no debt rescheduling was carried out in the first half of 2025/26 due to unfavourable market conditions. It is currently estimated that early repayment and rescheduling of the Council's £169 million PWLB debt would incur a cost of around £8.9 million, in addition to the principal repayment, making this option financially unviable at present.

3.15. The Council continues to monitor interest rate forecasts and cash flow projections in partnership with treasury advisors to ensure that it can respond appropriately to any shifts in the market or funding needs. The timing of any future borrowing will be guided by the need to balance affordability, risk, and flexibility. Further market commentary is included in paragraphs 3.22 to 3.25.

3.16. The Council's continued emphasis on internal borrowing has delivered tangible financial benefits by avoiding high borrowing costs during a period of elevated interest rates. This strategy has helped the Council maintain flexibility, minimise revenue impacts, and make efficient use of its existing financial resources. Given the ongoing economic uncertainty, particularly around future inflation and interest rate trajectories, the Council's cautious and adaptive stance remains appropriate.

3.17. However, this approach is not without risk. The increasing level of under-borrowing represents a deferred liability, and future market conditions could necessitate a shift in strategy. The Council will therefore continue to monitor all relevant indicators including interest rates, cash balances, capital expenditure forecasts, and reserve levels on a regular basis to ensure its borrowing policy remains sustainable, affordable, and aligned with its broader strategic goals.

Investments

3.18. The council holds invested funds, representing income received in advance of expenditure, plus reserves and balances held which have not been utilised for internal borrowing. Both the CIPFA Code and government guidance require the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.19. As noted above the council manages its investment portfolio in accordance with the strategy approved annually by Full Council in line with Government guidance. The strategy prioritises:

1. **Security** of capital
2. **Liquidity** (accessibility of funds)
3. **Yield** (rate of return)

3.20. As such the council adopts a conservative and risk-averse approach compared to many other local authorities, reflecting the scale and complexity of the funds it manages, including balances held on behalf of external bodies such as the North London Waste Authority (NLWA).

Investment Position

Table 2

	31-Mar-25				30-Sep-25			
	Camden	NLWA	Total	Average interest rate (%)	Camden	NLWA	Total	Average interest rate (%)
Money Market Funds	£62m	£40m	**£102m**	4.45	£36m	£35m	**£71m**	4.04
Banks	£94m	£61m	**£155m**	4.71	£40m	£40m	**£80m**	4.70
Government (Treasury Bills & UK Gilts)	-	-	-	-	-	-	**-**	-
Local Authority Lending	£43m	£27m	£70m	5.38	-	-	**-**	-
Total Investments	**£199m**	**£128m**	**£327m**		**£76m**	**£75m**	**£151m**	

Use of Money Market Funds

3.21. As of 30 September 2025, the Council had investments in four Money Market Funds (MMFs) managed by Aberdeen, JP Morgan, Goldman Sachs and Insight Liquidity Funds. MMFs are regulated investment vehicles offering high liquidity and capital preservation, with structural safeguards preventing negative yields. The Council added an EU Sustainable Finance Disclosure Regulation (SFDR) Article 8 Money Market Fund from a founding PRI signatory Investment Manager – Insight Investment Limited to its portfolio of MMF's in line with the Council's green credentials which offers equally competitive returns.

Economic Conditions and Interest Rates

3.22. UK monetary policy shifted in response to inflation trends. The Bank of England Base Rate started the financial year at 4.50%, following several rate hikes in 2022/23 (from 0.75% to 4.25%). The base rate peaked at 5.25% in August 2023 and then declined as inflation eased:

- 5.00% (Aug 2024)
- 4.75% (Nov 2024)
- 4.50% (Feb 2025)
- 4.25% (May 2025)
- 4.00% (Aug 2025)
- 4.00% (Sep 2025)

3.23. The UK economy grew by **0.3%** in the 3 months to August 2025. This was driven by:

- Services sector growth: +0.4%
- Production sector growth: -0.3%
- Construction: +0.3%

3.24. UK real gross domestic product (GDP) is estimated to have increased by 0.3% in the 3 months to August 2025. This follows a growth of 0.2% in the 3 months to July 2025 and a growth of 0.3% in the 3 months to June 2025. A rise of 0.4% in the services sector made the largest contribution to the increase in GDP during this period. The Council's treasury advisors expect the Bank Rate to:

- Remain at 4.00% through to December 2025
- Fall to 3.75% in March 2026
- Decline further to 3.50% in September 2026

3.25. Whilst these changes have impacted the Council's investment income, despite falling rates, the Council is forecasting a strong average return of 4.27% on investments during 2025/26.

Investment Performance

- Average investment balance: **£304 million**
- Average actual return: **4.53%**
- Comparable market benchmarks:

3-month SONIA:	4.10%
6-month SONIA:	4.01%
12-month SONIA:	3.87%

3.26. As of 30 September 2025, the total investment portfolio stood at £151 million, of which £75 million was invested on behalf of the NLWA. Returns moderated slightly toward mid-year, in line with reductions in base rate.

Loan to Camden Living Housing Association

3.27. On 24 April 2025 a £6.4 million loan was made to Camden Living Housing Association (CLHA), a wholly owned Council subsidiary, to fund the acquisition of 34 affordable homes (social rent tenure) at Central Somers Town. The loan was agreed as part of the Camden Living Implementation Strategy (Cabinet, September 2022), to support housing affordability. The Council will issue a further loan to CLHA to increase the delivery of affordable housing; this is yet to be confirmed.

NLWA Energy Recovery Facility (ERF) Funding

3.28. The North London Waste Authority continues to progress its Energy Recovery Facility (ERF) within the North London Heat and Power Project (NLHPP). Initial cost estimates in 2021 projected a range of £800m–£850m. Funding to date includes:

- £280 million (PWLB, Dec 2021)
- £250 million (Feb 2022)
- £200 million (Jan 2023)
- £140 million (July 2024)

3.29. The 2021 borrowing in euros (c. €330 million) was invested in euro-denominated MMFs to hedge currency exposure. As of September 2025, €52 million of this balance remained. Further borrowing is anticipated later in 2025, though not yet confirmed. Full Council is asked to delegate authority to the Director of Finance to take any decision on whether to continue investment with our current Money Market Funds or convert to alternative vehicles if required to by rates going negative on these funds. A previous delegation was given to the Executive Director Corporate Services in similar terms and is sought again in this report to reflect the fact that the s151 officer is now the Director of Finance. This is in line with the Treasury Management Scheme of Delegation in the 2025/26 Treasury Management Strategy.

3.30. As noted in table 2 above, as of 30 September 2025 the council held total investment balances of £151 million, of which £75 million was invested on behalf of the NLWA. This £75 million balance reflects a combination of NLWA working capital and reserves, plus the borrowing undertaken above less planned capital outlays associated with construction of the North London Heat and Power Project.

Conclusion

3.31. The council maintained a prudent and well-structured treasury management approach throughout the first half of 2025/26, ensuring that all investment and borrowing activities aligned with approved strategies and risk parameters. Key outcomes included:

- Full compliance with the Council's borrowing, investment strategy and liquidity requirements
- Investment returns exceeding relevant benchmark rates
- Responsible deployment of borrowing and lending powers (e.g. the loan to Camden Living Housing Association)
- Effective risk management amid a dynamic macroeconomic environment

3.32. The Council remains well positioned to manage its investment portfolio securely and efficiently while contributing to broader strategic objectives such as affordable housing delivery and sustainable infrastructure investment. The investment strategy permits term investments of up to two years with approved financial institutions and local authorities. The strategy also sets specific exposure limits per counterparty to manage risk. During first half of 2025/26, there were no breaches of investment limits or prudential indicators, and no liquidity shortfalls.

3.33. Throughout the year-to-date, the Council operated entirely within the governance framework defined by the Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management Code of Practice. All borrowing was conducted within the authorised borrowing limits, and prudential indicators were monitored and adhered to. The Council's debt portfolio remains affordable, structured, and sustainable, with no current requirement to revise its overall funding strategy.

4. What are the key impacts/risks? How will they be addressed?

4.1. Commentary on the key risks and any mitigations are contained throughout this report.

5. Finance Comments of the Section 151 Officer

5.1. The comments of the Section 151 Officer have been incorporated into this report.

6. Legal Comments of the Borough Solicitor

6.1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators.

6.2. This report forms part of the monitoring of the treasury function as recommended in the Chartered Institute of Public Finance and Accounting (CIPFA) Treasury Management Code of Practice. It reviews the implementation of the strategy and mid-year position.

7. Environmental Implications

7.1. As part of Camden's broader strategy to explore innovative funding mechanisms that align financial planning with both fiscal sustainability and environmental objectives, the Council launched a Community Municipal Investment (CMI) in June 2022. This instrument, effectively a local climate bond, raised £1 million from residents and businesses, offering an interest rate of 1.75%. The CMI allows local residents to directly invest in Council-led infrastructure and sustainability initiatives, creating a tangible link between community capital and the delivery of net-zero carbon targets. This approach represents a strategic diversification of funding sources, while also embedding community engagement and environmental responsibility into the Council's financial decision-making framework.

7.2. The Council added an EU Sustainable Finance Disclosure Regulation (SFDR) Article 8 Money Market Fund from a founding PRI signatory Investment Manager – Insight Investment Limited to its portfolio of MMF's in line with the Council's green credentials which offers equally competitive returns on capital invested.

8. Appendices

- Appendix A – Compliance Report

REPORT ENDS

Appendix A – Compliance Report

1. All treasury management activities undertaken during the first half of 2025/26 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

2. The complete list of prudential indicators reported includes the following:

- Prudential Indicator 1 – The Operational Boundary
  Prudential Indicator 2 – The Authorised Limit for External Debt
  Prudential Indicator 3 – Maturity Structure of Borrowing
  Prudential Indicator 4 – Capital Financing Requirement & Gross Debt
- Prudential Indicator 5 – Upper Limit for Principal Sums Invested for over 365 Days

3. Compliance with the operational boundary, authorised limit for external debt, maturity structure of borrowing and upper limits for sums invested is demonstrated in the schedules below:

DEBT LIMITS

The Operational Boundary

4. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Authorised Limit for External Debt

5. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

	2024/25 Actual £m	2025/26 Actual £m	2025/26 Operational Boundary £m	2025/26 Authorised Limit £m	Complied Yes / No
Debt	294	294	690	790	Yes
Other long term liabilities	43	40	40	40	Yes
	337	**334**	**730**	**830**	

Maturity Structure of Borrowing

6. The Council is exposed to the risk of having to refinance debt at a time in the future when interest rates may be volatile or uncertain. This indicator helps to manage this risk and avoid large concentrations of fixed rate debt maturing at the same time.

	Lower Limit	Upper Limit	2025/26 Position	Complied Yes / No
Under 12 Months	0%	20%	4%	Yes
12 months and within 24 months	0%	20%	0%	Yes
24 months and within 5 years	0%	25%	0%	Yes
5 years and within 10 years	0%	50%	0%	Yes
10 years and within 20 years	0%	50%	31%	Yes
20 years and within 30 years	0%	50%	42%	Yes
30 years and within 40 years	0%	50%	22%	Yes
40 years and within 50 years	0%	50%	0%	Yes

INVESTMENT LIMITS

Upper Limit for Principal Sums Invested for over 365 Days

7. A key risk inherent in investment activity is that the Council may be forced to liquidate an investment before it reaches final maturity, and thus at a time when its value may be dependent on market conditions that are unlikely to be known in advance. In order to mitigate this risk, an upper limit will be set on the total principal sums invested for periods longer than 365 days.

	2024/25 Actual £m	2025/26 Actual £m	2025/26 Upper Limit £m	Complied Yes / No
Upper limit for principal sums invested for over 365 day	-	-	75	Yes