Appendix 7

Treasury Management Monitoring – Quarter 2 2025/26

Executive Summary

This report focuses on the treasury borrowing and investment activity of the council and therefore excludes capital expenditure and other long-term liabilities, as capital expenditure is reported separately, and other long-term liabilities are instruments for specific capital financing and do not impact on the day-to-day treasury portfolio.

The key balances in the debt and investment portfolios are summarised below, with additional detail throughout this report.

	31 Mar 2025 £m	30 Jun 2025 £m	30 Sept 2025 £m
Debt Portfolio			
General Fund	122.318	131.384	122.497
HRA	319.370	310.486	305.199
Total Debt	**441.688**	**441.870**	**427.696**
Investments	**41.054**	**78.298**	**68.106**
Net Debt (Treasury)	**400.634**	**363.572**	**359.590**

Debt balances are lower than the originally projected levels. A number of loan maturities has resulted in reduced debt levels. Whilst this has impacted on cash balances available for investment, there has not been a need to take new borrowing, but there will be a need during October/ November to increase borrowings as per the approved Treasury Management Strategy and to ensure that cash balances remain at acceptable levels.

As at the end of September investment balances are £7m lower than original cash-flow projections used to set the Treasury Management Strategy and revenue budgets for 2025/26. This is due to the early call of a market loan during the first quarter. The strategy is to maintain a minimum investment balance of £30m as a risk cover to ensure adequate resources are available at short notice to fund unexpected payments.

During the first half of the financial year there have been no breaches of the approved treasury and prudential indicators and all deposits have been placed in accordance with the approved counterparty selection criteria.

There has been no deviation from the approved Treasury Management Strategy.

Cabinet and Council are required to approve a Treasury Outturn report for 2024/25 and a Mid-year Review report for 2025/26.

Due to the ongoing audit of the 2024/25 Statement of Accounts which included implementing new accounting standards for leases and PFI arrangements (IFRS16) and has resulted in significant changes to the Council's Treasury Capital Financing Requirement (CFR – Council's underlying need to borrow for a capital purpose), the reports are delayed pending agreement of updated values per the new standards to ensure that Members are provided with accurate information for consideration and approval.

This delay does not impact on the Treasury activity for loans and investments and the approved strategy for managing those instruments.

1. Investment Portfolio

1.1. The investment balances held at the end of Quarter 2 were £68m, a £10m decrease compared with the end of the previous Quarter. Original cash-flow projections were for approximately £75m to be held, which is £7m different but not a material cause for concern as this is mainly due to the early loan repayment in the first quarter. Cash balances are projected to drop further and below £15m by end January 2026, taking into account debt maturities (repayments) and other cash flows, and new debt will therefore be required to replenish cash balances before this time. This significant drop in investments allows for the usual profiling of expenditure commitments and was projected within the approved Treasury Management Strategy. Borrowing markets will be monitored to ensure that any new debt taken is compliant with the strategy.

1.2. A summary of the treasury activity and portfolio by investment type at 30th September is summarised in the tables below:

Investment Portfolio Movements		**Cash Manager (Bank) £m**	**Money Market Funds £m**	**Total Invested £m**	***Portfolio Yield at Qtr End %***
	31 Mar 2025	**0.554**	**40.500**	**41.054**	***5.29%***
Q1 Activity					
Withdrawals/ Maturities		(7.764)	(190.500)		
New Deposits		8.308	227.200		
	30 Jun 2025	**1.098**	**77.200**	**78.298**	***4.28%***
Q2 Activity					
Withdrawals/ Maturities		(7.996)	(239.200)		
New Deposits		7.604	229.400		
	30 Sep 2025	**0.706**	**67.400**	**68.106**	***4.07%***

Portfolio as at 30 September 2025			Average year to date	
	Investment £m	**Yield %**	**Average Investment £m**	**Average Yield %**
MMFs	67.400	4.09%	84.745	4.26%
Cash Mgr	0.706	2.50%	0.713	2.50%
Grand Total	**68.106**	**4.07%**	**85.459**	**4.24%**

1.3. During Quarter 2 of the financial year, all investment activity has been run through the money market funds to manage cash flows, as access to cash was needed at short notice to fund outgoings and fixed rates available in the market were not at levels deemed acceptable to “lock in” for returns.

1.4. The amount of cash balances held within the cash manager (the council’s general bank accounts) is kept to low levels due to interest rates offered on the balances being significantly lower than that available in money market funds. The target overnight balance set is £0.5m, to allow for resources being available for urgent payments should they be required, thereby avoiding need for any overdraft.

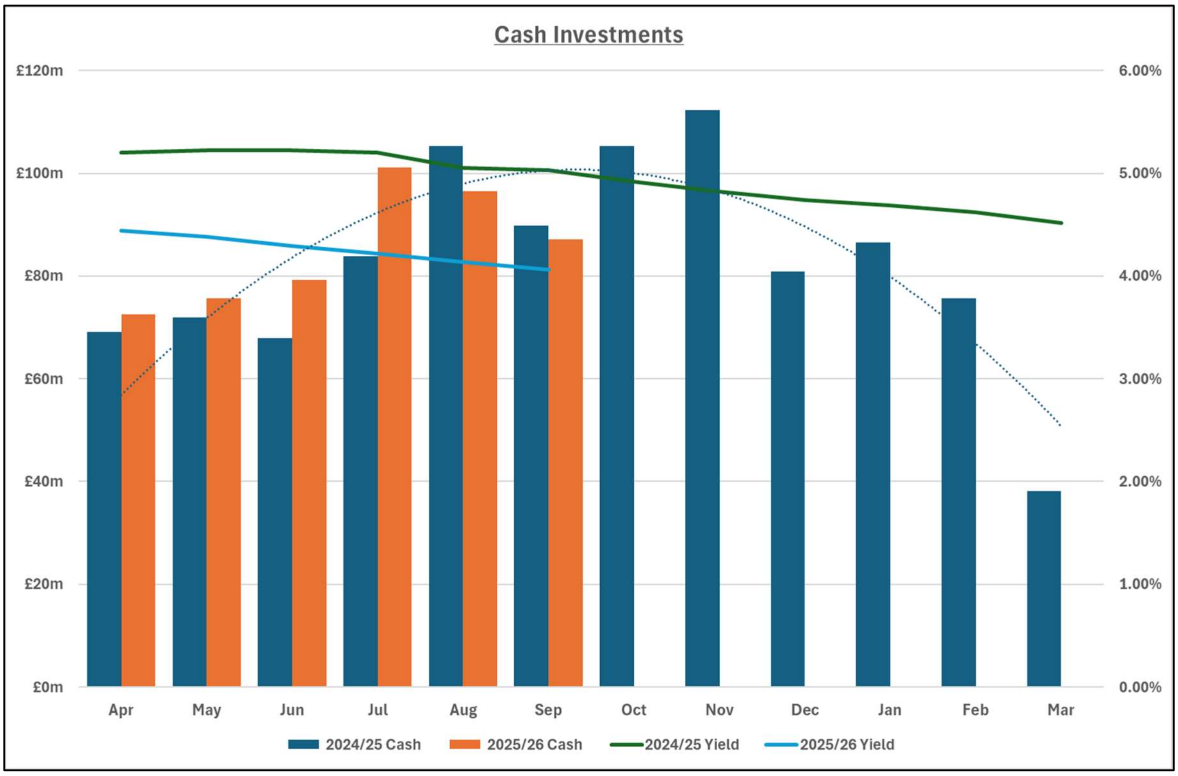
1.5. The comparable benchmark used by many councils to monitor performance is the Sterling Overnight Index Average (SONIA). This is based on actual transactions that banks pay to borrow sterling from other financial institutions. Up to end September 2025 this averaged 4.19% and therefore the performance achieved by the Treasury Services team was above benchmark, with returns being 4.24% on average investment balances of £85m.

1.6. The majority of the council’s investment portfolio is held in money market funds and these are proactively managed to ensure that sufficient liquid resources are available to service day to day expenditure commitments such as salaries, general creditor payments and housing benefit payments.

1.7. Other investment opportunities are also considered with a view to interest rate forecasts and counterparty availability, but during Quarter 2, better value was achievable through holding cash in the money market funds.

1.8. During Quarter 2, there were two meetings of the Bank of England’s Monetary Policy Committee (MPC). At the August meeting the committee voted to cut Bank Rate to 4.00% from 4.25%, however the 5-4 split in voting showed the differing views of the members. Therefore, it was no surprise that the September meeting voted 7-2 to hold Bank Rate at 4.00%.

1.9. The following chart displays the average cash investment balances held for each month for the current year plus the previous year. This shows that the general trajectory is for balances to increase during the Quarters 1-3 and then to fall as the financial year comes to an end (shown as the dotted line). The fall in cash resources available is due to the timing of receipts from council tax and business rates which tend to be aligned to the first 10 months of the year. Balances held are close to the forecast and therefore no revisions to original assumptions are required.



2. Debt Portfolio

2.1. The council's debt portfolio is mostly long-dated fixed rate loans from PWLB or other markets. A small proportion of the debt portfolio consists of loans from other local authorities which assist with short term debt management and cash flow requirements.

2.2. Another element of the debt portfolio consists of amounts deposited with the council from the West Midlands Fire Service, Sandwell Leisure Trust and Sandwell Children's Trust. These are at agreed variable rate terms in line with either actual council treasury investment performance or Bank Rate as published by Bank of England. These amounts are held as liquid as they are repayable on demand as and when required.

2.3. The council's loan portfolio has been split between the General Fund and Housing Revenue Account since 2012, when HRA self-financing was introduced. The following table summarises the movements in the debt portfolios in the financial year:

	General Fund			HRA		
	Fixed Rate £m	Variable Rate £m	Total GF £m	Fixed Rate £m	Total HRA £m	Grand Total £m
31 Mar 25	**86.860**	**35.458**	**122.318**	**319.370**	**319.370**	**441.688**
Q1 Activity						
Fixed Rate Maturities	(1.413)			(8.884)		
New Fixed Rate Loans	-			-		
Net Movement in Variable Rate Loans		10.479				
30 Jun 25	**85.447**	**45.937**	**131.384**	**310.486**	**310.486**	**441.870**
Q2 Activity						
Fixed Rate Maturities	(6.852)			(5.287)		
New Fixed Rate Loans	-			-		
Net Movement in Variable Rate Loans		(2.035)				
30 Sep 25	**78.595**	**43.902**	**122.497**	**305.199**	**305.199**	**427.696**

2.4. Activity in Quarter 2 included:

- Loan Maturities:
  - £5.95m PWLB loan (29 years at 8.00%) (11% General Fund : 89% HRA)
  - £5.00m temporary loan (6 months at 5.35%) (100% General Fund)
  - Other amounts relate to scheduled repayments of interest free debt and amounts payable to other local authority transferred debt.
- The reduction of variable rate debt of £2.0m is due to movements in the cash holdings from the Fire Service, Leisure Trust and Children's Trust (per paragraph 2.2).

2.5. The effect on the average interest rate on the fixed interest debt portfolio from the movements highlighted above is shown in the following table:

	31 Mar 25		**30 Jun 25**		**30 Sept 25**	
	Principal £m	**Avg Rate**	**Principal £m**	**Avg Rate**	**Principal £m**	**Avg Rate**
Fixed Rate Debt						
General Fund	86.860	4.88%	85.447	4.90%	78.595	4.83%
HRA	319.370	4.89%	310.486	4.90%	305.199	4.84%
Total	**406.230**	**4.89%**	**395.933**	**4.90%**	**383.794**	**4.84%**

2.6. The current strategy will remain to only take short-dated debt (up to 5 years), due to market conditions, and to refinance for longer periods at the appropriate time to prevent a longer term cost burden on the council's revenue budgets.

3. Prudential Borrowing Indicators

3.1. The Treasury Management Strategy approved by Council in February 2025 included two key indicators to manage the council's external debt.

- Authorised Limit – This is the legal maximum allowable external debt that the council can hold. This is calculated by each council separately and approved by Council.
    - The calculation is derived from the council's Capital Financing Requirement (being the amount of current and historic capital spend that has been financed by borrowing and not yet funded through Minimum Revenue Provision contributions) plus a level of headroom to cover emergency borrowing needs for cash-flow purposes.
- Operational Boundary – Whilst not a limit, this is the expected level of borrowing across the financial year. Should borrowing exceed the operational boundary this is not seen as a breach but a signal to identify reasons and potential deviation from the strategy.
    - The calculation is the opening external debt adjusted for projected new borrowings or repayments with the maximum level across the year being set as the operational boundary.

3.2. The key prudential indicators in relation to the council's borrowing are detailed below:

	£m
Authorised Limit (Debt)	915.942
Operational Boundary (Debt)	571.741
Maximum Treasury Debt to 30 Sep 25	475.599
Average Treasury Debt to 30 Sep 25	441.631

Note: The authorised limit and operational boundary shown above are for debt levels only and exclude other long-term liabilities (as detailed in the Treasury Management Strategy Report) as these are PFI/ finance lease arrangements.

3.3. As can be seen from the table above, treasury debt levels are within the authorised limit (the council's statutory limit of debt holdings) and no breaches have occurred.

4. Revenue Implications

4.1. Investment income earned from treasury investments is shared between the General Fund and HRA in accordance with an agreed formula. Furthermore, the General Fund also receives a recharge from the HRA to ensure that the General Fund is compensated for investment income foregone due to the HRA being under-borrowed (actual debt levels are lower than capital expenditure that is funded through prudential borrowing, therefore reducing cash balances available for investment).

4.2. Performance of the investment portfolio is measured against the benchmark referred to in paragraph 1.5, with performance being marginally above that measure.

4.3. Interest rates available on the investment portfolio are as projected in the Treasury Management Strategy and budget setting assumptions, and there are no variances to budget projected at this stage.

4.4. Revenue implications of borrowing include actual debt interest (split between the General Fund and HRA) but also the Minimum Revenue Provision chargeable to the General Fund only, to cover principal amounts of historic capital expenditure funded through borrowing.

4.5. For the General Fund, the council has set a limit of borrowing costs equating to 6% of net budget, in order to ensure that debt costs are prudent and not an excessive cost to the tax payer, which would also reduce resources available for essential services. The current projections are that outturn borrowing costs will be within the budgeted level, and the 6% measure will not be breached.

4.6. Debt costs within the HRA are funded by Housing rents and measures of affordability are included within the HRA 30-year Business Plan. Similarly to the General Fund, no variances are predicted in the current year and therefore are in line with the approved Business Plan.

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