

Treasury Management Monitoring – Quarter 3 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	31 Dec 2025 £m
Debt Portfolio				
General Fund	122.318	131.384	122.497	102.120
HRA	319.370	310.486	305.199	336.315
Total Debt	441.688	441.870	427.696	438.435
Investments	41.054	78.298	68.106	66.141
Net Debt (Treasury)	400.634	363.572	359.590	372.294

Debt balances have increased marginally in the quarter as new fixed term borrowing of £40m has been taken to support the capital programme, to fund maturing loans, and also ensuring cash balances remain sufficient to service spending. This new borrowing is in accordance with the approved Treasury Management Strategy which indicated a total new borrowing requirement of £118m. Cash flow forecasts indicate that there will be an additional borrowing need of approximately £60m to 70m during the final quarter.

As at the end of December investment balances are £31m lower than original cash-flow projections used to set the Treasury Management Strategy and revenue budgets for 2025/26. This is due to the Treasury Team being able to defer new borrowing whilst interest rates remain inflated and while cash investment balances remained adequate to cover spend projections. The 2025/26 strategy assumed a borrowing need in the final quarter of £30m compared to our latest estimate of £60-£70m.

Approximately £2.8m has been received in dividends from Birmingham Airport shares. In line with the strategy, the Council does not budget for this income due to the uncertainty of amounts and dates of receipt and therefore this amount will be transferred to the Capital Financing Earmarked Reserve.

After allowing for the transfer to reserves detailed above, the net revenue impact of the treasury function is a net underspend/ surplus income projection of (£6.5m) for the General Fund and an overspend within the HRA of £0.4m. This is due to a combination of the ability to defer new borrowing decisions therefore reducing debt interest and an increased capital borrowing need in the HRA.

During the first three quarters 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.

1. Investment Portfolio

1.1. The investment balances held at the end of Quarter 3 were £66m, a £2m decrease compared with the end of the previous Quarter. Original cash-flow projections were for approximately £97m to be held, which is £31m different. Despite being a material difference, it can be explained through the deferral of new borrowing until the final quarter. This is effective treasury management whilst interest rates on new borrowing remain inflated. Cash balances are projected to drop to £50m by end January 2026 and to £22m by the end of February 2026. Therefore, the Council will be required to take new borrowing during this time and replenish cash balances before this time, ensuring our liquid cash position remains above £30m. Borrowing markets will be monitored to ensure that any new debt taken is compliant with the strategy.

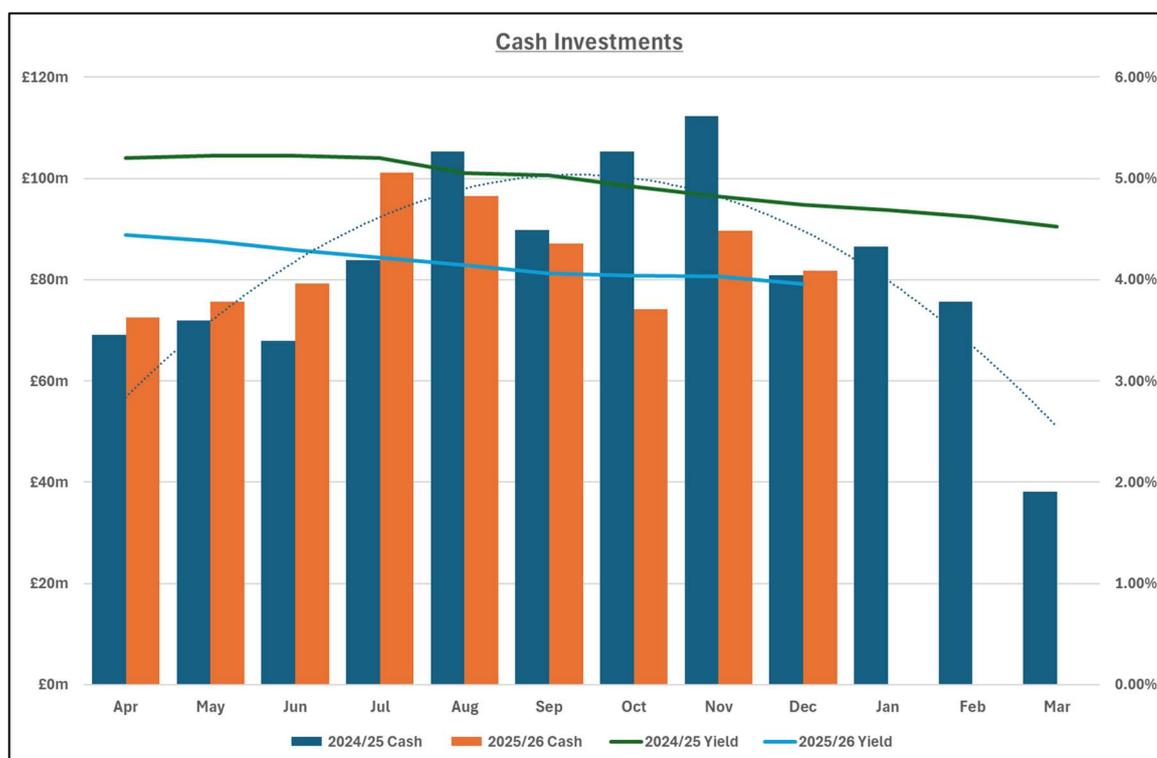
1.2. A summary of the treasury activity and portfolio by investment type up to end of Q3 is summarised in the tables below:

Investment Portfolio Movements	Cash Manager (Bank) £m	Money Market Funds £m	Fixed Interest £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%
Q3 Activity					
Withdrawals/ Maturities	(17.980)	(232.250)	-		
New Deposits	18.715	229.550	-		
31 Dec 2025	1.441	64.700	-	66.141	3.88%

	Portfolio as at 31 December 2025		Average year to date	
	Investment £m	Yield %	Average Investment £m	Average Yield %
MMFs	64.700	3.92%	83.417	4.18%
Cash Mgr	1.441	2.50%	0.802	2.50%
Grand Total	66.141	3.88%	84.219	4.17%

- 1.3. During Quarter 3 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. However, the actual closing balance may be higher as credits are received throughout the day not including in morning treasury dealing activity.
- 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 December 2025 this averaged 4.12% and therefore the performance achieved by the Treasury Services team was above benchmark, with returns being 4.17% on average investment balances of £84m.
- 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 3, better value was achievable through holding cash in the money market funds.
- 1.8. During Quarter 3, there were two meetings of the Bank of England’s Monetary Policy Committee (MPC). At the November meeting the committee voted to hold rates at 4.00% with the vote 5-4 and the Governor having the deciding vote. The December committee held no surprises with the Bank Rate reduced to 3.75%. At that meeting the Governor made it clear that any further reductions would require strong supporting data and the pace of any further cuts would be slower compared to recent events.
- 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		Grand Total £m
	Fixed Rate £m	Variable Rate £m	Total GF £m	Fixed Rate £m	Total HRA £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
Q3 Activity						
Fixed Rate Maturities	(6.313)			(8.884)		
New Fixed Rate Loans	-			40.000		
Net Movement in Variable Rate Loans		(14.064)				
31 Dec 25	72.282	29.838	102.120	336.315	336.315	438.435

2.4. Activity in Quarter 3 included:

- Loan Maturities:
 - £5.00m temporary loan from other local authority (9 months at 5.25%) (100% General Fund)
 - £10.00m PWLB loan (20 years at 3.97%) (11% General Fund : 89% HRA)
 - 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 £14.0m is due to movements in the cash holdings from the Fire Service, Leisure Trust and Children's Trust (per paragraph 2.2).
- New Borrowing:
 - £20.00m PWLB (2 years at 4.04%) (100% HRA)
 - £20.00m PWLB (3 years at 4.10%) (100% HRA)

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-Sep-25		31-Dec-25	
	Principal £m	Avg Rate						
Fixed Rate Debt								
General Fund	86.86	4.88%	85.447	4.90%	78.595	4.83%	72.281	4.83%
HRA	319.37	4.89%	310.486	4.90%	305.199	4.84%	336.315	4.78%
Total	406.23	4.89%	395.933	4.90%	383.794	4.84%	408.596	4.79%

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 (updated within the Mid-Year Review Report 2025/26):

	£m
Authorised Limit (Debt)	920.000
Operational Boundary (Debt)	600.000
Maximum Treasury Debt to 30 Dec 25	475.599
Average Treasury Debt to 30 Dec 25	440.869

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 achieved on the investment portfolio are in line with those projected in the Treasury Management Strategy and budget setting assumptions.
- 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.
- 4.7. The forecast revenue implications of treasury activity detailed within this appendix is summarised in the table below:

	General Fund			HRA		
	Forecast £m	Budget £m	Variance £m	Forecast £m	Budget £m	Variance £m
Investments:						
Investment income (including HRA charge for internal borrowing)	(12.999)	(10.000)	(2.999)	(1.966)	(2.019)	0.053
Dividend income	(2.773)	-	(2.773)	-	-	-
Net income before reserve movements	(15.772)	(10.000)	(5.772)	(1.966)	(2.019)	0.053
Reserve adjustments	2.773	-	2.773	-	-	-
Net income after reserve movements	(12.999)	(10.000)	(2.999)	(1.966)	(2.019)	0.053
Debt Costs:						
Debt interest/ other costs	5.720	8.699	(2.979)	28.898	28.514	0.384
Minimum Revenue Provision (MRP)	12.907	13.401	(0.494)	-	-	-
Net debt costs before reserve movements	18.627	22.100	(3.473)	28.898	28.514	0.384
Reserve adjustments	3.473	-	3.473	-	-	-
Net debt costs after reserve movements	22.100	22.100	-	28.898	28.514	0.384
Net treasury costs/ (income) after reserves movements	9.101	12.100	(2.999)	26.932	26.495	0.437