Appendix 8

Treasury Management Monitoring – Quarter 4 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 25 £m	30 Jun 25 £m	30 Sep 25 £m	31 Dec 25 £m	31 Mar 26 £m
Debt Portfolio					
General Fund	122.326	131.392	122.502	102.125	130.049
HRA	319.370	310.486	305.199	336.315	356.315
Total	**441.696**	**441.878**	**427.701**	**438.44**	**486.364**
Investments	**41.054**	**78.298**	**68.106**	**66.141**	**44.929**
Net Debt (Treasury)	**400.642**	**363.580**	**359.595**	**372.299**	**441.435**

Debt balances have increased in the quarter as new fixed term borrowing of £80m 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 with actual new borrowing taken during the year of £120m.

As at the end of March 2026, investment balances are in line with expected closing position and marginally higher than the closing position the previous year.

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.

There have been no breaches of the approved treasury and prudential indicators during the year 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 4 were £45m, a £21m decrease compared with the end of the previous Quarter. Cash balances were projected to drop to £30m to £40m by the end of the financial year, after allowing for new borrowing, due to reduced income from Council Tax and Business Rates in the final two months of the year.

1.2. A summary of the treasury activity and portfolio by investment type up to end of Q4 is summarised in the tables below:

Portfolio as at 31 March 2026	Investment £m	Yield %	Average Yield for Year %
Money Market Funds	44.100	3.81%	4.12%
Cash Manager (Bank)	0.829	1.75%	2.35%
Grand Total	**44.929**	**3.77%**	**4.10%**

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%***
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%***
Q4 Activity				
Withdrawals/ Maturities	(8.773)	(234.400)		
New Deposits	8.161	213.800		
31 Mar 2026	**0.829**	**44.100**	**44.929**	***3.77%***

1.3. During Quarter 4 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.

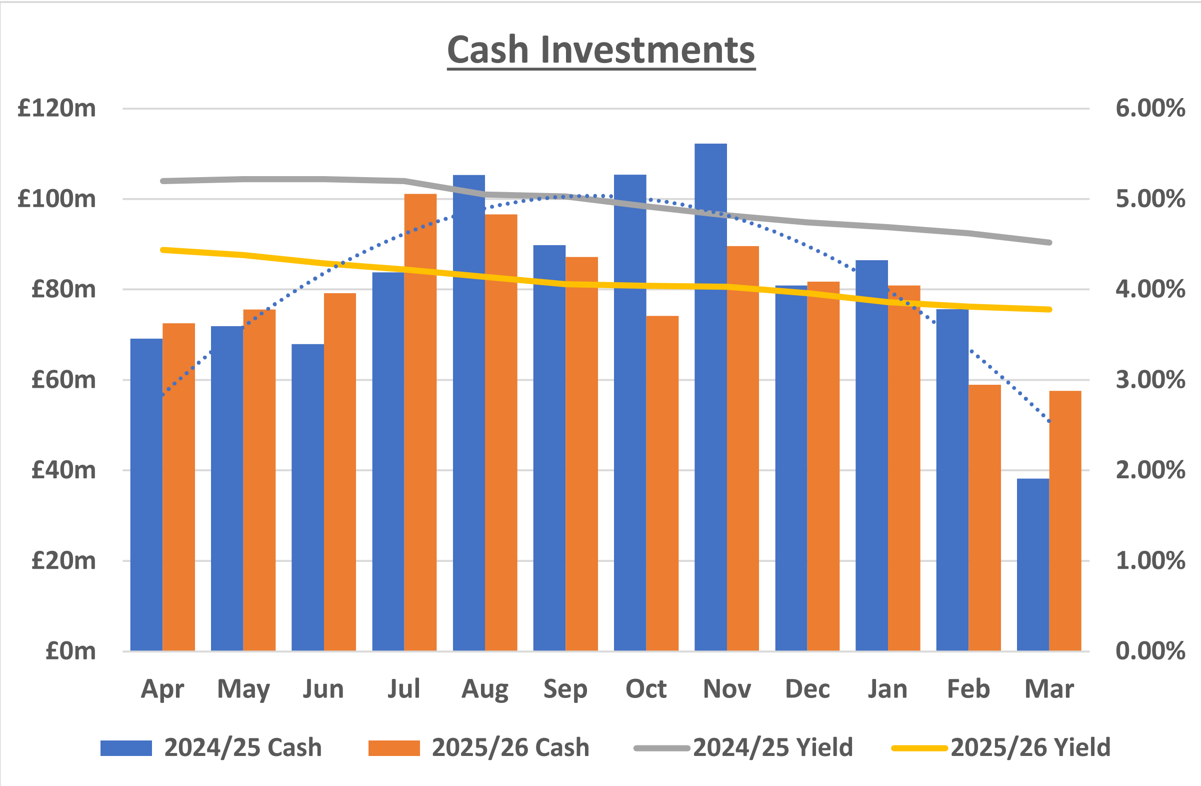
1.5. The comparable benchmark used by many councils to monitor performance is the Sterling Overnight Index Average (SONIA). This is based on actual transactions that banks pay to borrow sterling from other financial institutions. Up to end March 2026 this averaged 4.01% and therefore the performance achieved by the Treasury Services team was above benchmark, with returns being 4.10% on average investment balances of £80m.

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 4, better value was achievable through holding cash in the money market funds.

1.8. During Quarter 4, there were two meetings of the Bank of England’s Monetary Policy Committee (MPC). At the February meeting the committee voted to hold rates at 3.75% with the vote 5-4. The March committee held no surprises with the Bank Rate held unanimously at 3.75%. The Committee will continue to monitor closely the situation in the Middle East and its impact on global energy supply and energy prices.

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.



1.10. The above chart shows that whilst cash balances invested are similar compared to the previous year, the yield being achieved is seeing a reducing trend reflecting the current market.

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	Variable Rate £m	Total HRA £m	Grand Total £m
31 Mar 25	**86.868**	**35.458**	**122.326**	**319.370**	**-**	**319.370**	**441.696**
Q1 Activity							
Fixed Rate Maturities	(1.413)			(8.884)			
New Fixed Rate Loans	-			-			
Net Movement in Variable Rate Loans		10.479			-		
30 Jun 25	**85.455**	**45.937**	**131.392**	**310.486**	**-**	**310.486**	**441.878**
Q2 Activity							
Fixed Rate Maturities	(6.855)			(5.287)			
New Fixed Rate Loans	-			-			
Net Movement in Variable Rate Loans		(2.035)			-		
30 Sep 25	**78.600**	**43.902**	**122.502**	**305.199**	**-**	**305.199**	**427.701**
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	**72.287**	**29.838**	**102.125**	**336.315**	**-**	**336.315**	**438.440**
Q4 Activity							
Fixed Rate Maturities	(31.191)			-			
New Fixed Rate Loans	60.000			20.000			
Net Movement in Variable Rate Loans		(0.885)			-		
31 Mar 26	**101.096**	**28.953**	**130.049**	**356.315**	**-**	**356.315**	**486.364**

2.4. Activity in Quarter 4 included:

- Loan Maturities:
  - £10.00m temporary loan from other local authority (1 year at 5.25%) (100% General Fund)
  - £10.00m temporary loan from other local authority (1 year at 5.30%) (100% General Fund)
  - £10.00m temporary loan from other local authority (2 months at 4.10%) (100% General Fund)
  - Other amounts relate to scheduled repayments of interest free debt and amounts payable to other local authority transferred debt.
- The slight decrease in variable rate debt is due to movements in the cash holdings from the Fire Service, Leisure Trust and Children’s Trust (per paragraph 2.2).
- New Borrowing:
  - £10.00m PWLB (1 year and 4 months at 4.30%) (100% GF)
  - £10.00m PWLB (2 years at 4.33%) (100% GF)
  - £20.00m PWLB (1 year at 4.73%) (100% HRA)
  - £5.00m other local authority (9 months at 4.55%)

- £5.00m other local authority (9 months at 4.90%)
- £5.00m other local authority (1 year at 4.40%)
- £5.00m other local authority (6 months at 5.00%)
- £10.00m other local authority (1 year at 4.95%)

2.5. The new borrowings listed above were taken after careful consideration of the markets, interest rate forecasts and the current portfolio maturity structure.

2.6. 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		31 Mar 26	
	Principal £m	Avg Rate	Principal £m	Avg Rate	Principal £m	Avg Rate	Principal £m	Avg Rate	Principal £m	Avg Rate
Fixed Rate Debt										
General Fund	86.868	4.89%	85.454	4.91%	78.598	4.84%	72.284	4.84%	101.093	4.62%
HRA	319.370	4.89%	310.486	4.90%	305.199	4.84%	336.315	4.78%	356.315	4.77%
Total	**406.238**	**4.89%**	**395.940**	**4.90%**	**383.797**	**4.84%**	**408.599**	**4.79%**	**457.408**	**4.74%**

2.7. 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)	931.842
Operational Boundary (Debt)	594.282
Maximum Treasury Debt to 31 Mar 26	488.281
Average Treasury Debt to 31 Mar 26	442.270

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.

3.4. A further prudential indicator is the maturity structure of our fixed rate borrowings seeking a prudent spread of maturities to reduce refinancing risk. The table below shows the outturn against the approved indicator:

Maturity Structure of Fixed Rate Borrowing	Principal Amount as at 31 March 26 £m	Percentage of Total Fixed Rate Debt	Approved Indicator
Less than 1 year	93.241	20.4%	40%
Between 1 and 2 years	68.698	15.0%	30%
Between 2 and 5 years	70.000	15.3%	30%
Between 5 and 10 years	19.500	4.3%	30%
Between 10 and 20 years	28.203	6.2%	30%
Between 20 and 30 years	83.115	18.2%	40%
Between 30 and 40 years	94.454	20.6%	50%
Between 40 and 50 years	-	-	70%
Above 50 years	-	-	90%
Total	**457.211**		

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 revenue implications of treasury activity detailed within this appendix is summarised in the table below:

	General Fund			**HRA**		
	Outturn £m	**Budget £m**	**Variance £m**	**Outturn £m**	**Budget £m**	**Variance £m**
Investments:						
Investment income (including HRA charge for internal borrowing)	(11.540)	(10.000)	(1,540)	(1.947)	(2.019)	0.072
Dividend income	(2.773)	-	(2.773)	-	-	-
Net income before reserve movements	**(14,313)**	**(10.000)**	**(4,313)**	**(1.947)**	**(2.019)**	**0.072**
Reserve adjustments	2.773	-	2.773	-	-	-
Net income after reserve movements	**(11.540)**	**(10.000)**	**(1.540)**	**(1.947)**	**(2.019)**	**0.072**
Debt Costs:						
Debt interest/ other costs	5.618	8.699	(3.081)	26.601	28.514	(1.913)
Minimum Revenue Provision (MRP)	12.907	13.401	(0.494)	-	-	-
Net debt costs before reserve movements	**18.525**	**22.100**	**(3.575)**	**26.601**	**28.514**	**(1.913)**
Reserve adjustments	3.575	-	3.575	-	-	-
Net debt costs after reserve movements	**22.100**	**22.100**	**-**	**26.601**	**28.514**	**(1.913)**
Net treasury costs/ (income) after reserves movements	**10.560**	**12.100**	**(1.540)**	**24.654**	**26.495**	**(1.841)**