

Treasury and Prudential Indicators

This Appendix provides additional information and explanations for each of the Treasury and Prudential indicators included within the Executive Summary of the report.

Indicator 1 - The Council's Capital Expenditure and Financing for 2024/25 and 2025/26.

- 1.1. Capital expenditure budgets are set annually within the General Fund Capital and HRA Budget annexes to the Medium-Term Financial Strategy approved by Council each February.
- 1.2. Throughout the year revisions to forecasts are updated to reflect latest spend projections which may require reprofiling into future years, or to update the current year budget for additional approvals or to reflect programme slippage from the prior year.
- 1.3. The Council undertakes capital expenditure on its long-term assets. These activities can either be financed immediately through the application of capital receipts, capital grants and contributions, or from revenue resources. These resources do not impact on the Council's underlying borrowing need.
- 1.4. If insufficient resources are available to fund the capital programme then the remaining expenditure can be serviced through Prudential Borrowing resulting in an increase in the Council's borrowing need (Capital Financing Requirement – CFR). For General Fund prudential borrowing this amount is charged to the Council's General Fund Revenue Account over a period of years linked to the life of the asset the borrowing funded (up to 40 years). This is known as the Minimum Revenue Provision (MRP). There is no legal requirement for an MRP to be charged to the Housing Revenue Account.

- 1.5. Actual capital expenditure is one of the Prudential Indicators and the table below provides a summary of information required and how this expenditure was financed:

Indicator 1 – Capital Expenditure:

	2023/24 Actual £m	Original Indicator (Feb TMSS) £m	2024/25 Revised Estimate (Mid Year Review) £m	Actual £m	2025/26 Approved Indicator £m	Updated Estimate (Mid Year Review) £m
Capital Expenditure						
General Fund	61.454	144.476	82.291	76.771	190.765	73.703
HRA	59.032	58.945	80.270	69.305	78.401	100.456
Total	120.486	203.421	162.561	146.076	269.166	174.159
Resources used to finance:						
Capital Receipts	7.089	9.658	2.943	19.750	2.655	17.444
Grants and External Contributions	40.744	131.699	74.800	80.868	187.123	55.680
Revenue Contributions	5.722	3.560	2.884	10.041	4.992	2.724
Major Repairs Reserve (HRA)	18.796	18.089	21.917	22.925	20.520	20.052
Total Resources Applied	72.351	163.006	102.544	133.584	215.290	95.900
Residual amount to be financed from Prudential Borrowing	48.135	40.415	60.017	12.492	53.876	78.259
<i>being:</i>						
General Fund	17.894	21.504	20.942	2.492	24.736	25.692
HRA	30.241	18.911	39.075	10.000	29.140	52.567

- 1.6. Key variances from the approved indicators in 2024/25, and revisions for 2025/26 indicators are due to the slippage of capital expenditure into future financial years due to phasing of works on schemes being reprofiled or schemes not commencing.
- 1.7. Overall performance of capital programme is within approved budgets and differences between forecasts and actual/ updated estimates reflects the revising timings of delivery.

Indicator 2 - The Council's Capital Financing Requirement (CFR) and Gross Borrowing

- 1.8. The initial CFR estimates are approved within the Treasury Management Strategy (TMS) approved by Council in February each year, with

revisions required at the Mid-Year Review to reflect variances between capital spend estimates at that time and actual outturn.

- 1.9. The Council's underlying need to borrow for capital expenditure is called the Capital Financing Requirement (CFR) and represents the historic amounts of capital expenditure that have yet to be financed from revenue resources or capital receipts.
- 1.10. CFR projections are updated to account for revisions to the capital programme and for 2024/25 to reflect the introduction of a new accounting standard (IFRS 16 – Leases) which has increased the CFR through the recognition of liabilities to be repaid through future payments from revenue for leased assets. This new accounting standard does not impact in budgets but recategorises expenditure on leases as interest and principal repayments instead of a service revenue cost.
- 1.11. 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 as at the end of the previous financial year plus estimates for any additional prudential funding requirements in the current and the next two financial years. This essentially means that the Council is not borrowing to support its revenue activities. By including the following two financial years in this calculation does allow some flexibility to borrow in advance of need, although this Council has not utilised this option due to the economic uncertainty and the cost of debt which would create additional pressures on the Council's finances.

The table below highlights the Council's CFR and gross borrowing positions for 2023/24, 2024/25 outturn (comparing the position to original estimates) and updated estimate for 2025/26:

Indicator 2 – Capital Financing Requirement and Gross Borrowing:

	2023/24 Actual £m	Original Indicator (Feb TMSS) £m	2024/25 Revised Estimate (Mid Year Review)	Actual £m	2025/26 Approved Indicator £m	Updated Estimate (Mid Year Review) £m
CFR - General Fund						
Opening CFR	325.365	350.655	331.866	331.866	334.313	340.251
+ capital expenditure financed by borrowing	17.894	21.504	20.942	2.492	24.736	25.692
- Minimum Revenue Provision	(8.875)	(11.477)	(12.662)	(12.657)	(13.401)	(12.907)
+/- Movements in other Long Term Liabilities (e.g. PFI)	(2.518)	(2.733)	(2.733)	18.765	(2.813)	(4.669)
Other Movements	-	-	(3.100)	(0.215)	-	-
Closing CFR	331.866	357.949	334.313	340.251	342.835	348.367
CFR - HRA						
Opening CFR	514.602	573.602	543.637	543.636	584.389	557.885
+ capital expenditure financed by borrowing	30.240	18.911	39.075	10.000	29.140	52.567
+/- Movements in other Long Term Liabilities (e.g. PFI)	(1.206)	(1.423)	(1.423)	4.034	(1.624)	(2.326)
Other Movements	-	-	3.100	0.215	-	-
Closing CFR	543.636	591.090	584.389	557.885	611.905	608.126
CFR - Council Total						
Opening CFR	839.967	924.257	875.503	875.502	918.702	898.136
+ capital expenditure financed by borrowing	48.134	40.415	60.017	12.492	53.876	78.259
- Minimum Revenue Provision	(8.875)	(11.477)	(12.662)	(12.657)	(13.401)	(12.907)
+/- Movements in other Long Term Liabilities (e.g. PFI)	(3.724)	(4.156)	(4.156)	22.799	(4.437)	(6.995)
Other Movements	-	-	-	-	-	-
Closing CFR	875.502	949.039	918.702	898.136	954.740	956.493
Closing Gross Borrowing:						
External Borrowings	437.305			441.688		507.211
Other Liabilities	61.570			84.369		77.374
Total Borrowing	498.875			526.057		584.585
Over/ (Under) Borrowing	(376.627)			(372.079)		(371.908)

1.12. Whilst actual closing CFR balances for 2024/25 are not materially different from initial forecasts there are some significant variances within the in-year movements:

- Amounts of prudential borrowing are lower than estimates for both General Fund and Housing Revenue Account due to slippage in the capital programme referred to earlier
- The movements in other long-term liabilities is larger than original estimates as these originally did not include values for the implementation of IFRS 16 – Leases due to us not having the data to quantify the financial impact. The new accounting standard requires the

Council to recognise on its balance sheet the value of the assets being leased and also the future liabilities for existing and new leases effective at 1st April 2024. This significant project involved collating all lease arrangements within the Council (including schools) and determining future cost liabilities and the deemed value of those leased assets.

- 1.13. The CFR for the 2025/26 mid-year review included above has been updated to account for changes in the prudential borrowing need for financing of the capital programmes and also the repayment of lease liabilities recognised under IFRS 16.
- 1.14. For all financial years detailed above, the Council has held an under-borrowed position when comparing actual debt holdings to the Capital Financing Requirement. This is a strategic application of treasury cash management as the Council has borrowed “internally” from its cash investment resources, thereby reducing investment income opportunity but also not incurring increased debt costs. In a high-interest rate environment for borrowing this generates cash efficiencies but requires careful management with the assistance of our Treasury Advisors.

Indicator 3 – Authorised Limit and Operational Boundary

- 1.15. The Authorised Limit and Operational Boundary are approved by Council before the start of each financial year within the Treasury Management Strategy and can be amended within the mid-year review report (this report)
- 1.16. **The Authorised Limit** is the short term ‘affordable borrowing limit’ required by Section 3 of the Local Government Act 2003. This reflects the maximum Capital Financing Requirement projected during the year plus headroom for cash-flow borrowing requirements. Once this has been set, the Council does not have the power to borrow above this level.

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual borrowing is either above or below this value does not constitute a breach but is a guide for managing debt levels with the approved strategy.

- 1.17. The following table provides all the relevant values, updated to reflect the changes in the CFR estimates. This change is required to take into account the increase in CFR following the implementation of IFRS16 and also a lower than originally anticipated increase from prudential borrowing due to reprofiling of capital spend into future years. This also shows that actual debt holdings during the year remained below the Operational Boundary, and therefore also below the statutory maximum level of the Authorised Limit.

Indicator 3 – Authorised Limit and Operational Boundary:

	2023/24 Actual £m	2024/25 Actual £m	2025/26 Original Limit/ Boundary £m	2025/26 Revised Limit/ Boundary £m
Indicators:				
Authorised Limit	987.195	1,013.411	1,013.356	1,017.750
Operational Boundary	619.344	655.851	654.155	685.000
Actuals:			<i>maximum holdings to end Sept 25</i>	
Maximum External Debt in Year	493.019	459.385	475.599	
Maximum Other Liabilities in Year	65.294	90.900	84.369	
Total	558.313	550.285	559.968	

The lower debt levels were due to the Council not taking new external borrowings due to the interest rate levels available in the market being inflated and cash holdings sufficient to maintain the under-borrowed position.

Indicator 4 – Financing Costs as Proportion of Net Revenue Stream

- 1.18. The ratio is approved within the Treasury Management Strategy each February for the forthcoming year.

- 1.19. The borrowing decisions taken to fund the capital programme require revenue expenditure to service the associated debt financing costs such as debt interest and MRP (General Fund only). The net revenue stream for the General Fund is calculated as income from council tax, business rates plus any non-ringfenced government grants, whereas the HRA it is income from housing rents, non-dwelling rents and income from service charges.
- 1.20. For the General Fund, a local prudency indicator has been established for 2025/26 that a maximum of 6% of the Councils revenue stream is allocated to support financing costs to ensure that sufficient resources remain to support vital services to residents.
- 1.21. The table below shows the outturn positions for both the General Fund and the HRA with updated projections for 2025/26:

Indicator 4 – Ratio of Capital Financing Costs to Net Revenue Stream:

	2023/24	2023/24			2025/26	
	Actual Outturn	Original Indicator	Mid-Year Review	Actual Outturn	Approved Indicator	Revised Indicator
General Fund	4.7%	6.1%	5.5%	5.4%	5.6%	5.3%
HRA	18.1%	18.9%	18.7%	18.2%	19.0%	18.6%

Outturn is in line with forecasts and there are only minor revisions required to the indicator for 2025/26.

- 1.22. For the General Fund, a local prudency indicator has been established for 2025/26 that a maximum of 6% of the Councils revenue stream is allocated to support financing costs to ensure that sufficient resources remain to support vital services to residents.

Indicator 5 - Treasury Portfolio

- 1.23. This indicator shows the actual debt and investment portfolio for the Council. Whilst this indicator is not approved within the strategy, the Treasury Team manage the portfolio in accordance with the policies within the Treasury Management Strategy.

- 1.24. The Council's treasury management debt and investment position is managed by the internal treasury management service in order to ensure adequate liquidity for its revenue and capital activities, ensure security for its investments and to manage risks within all treasury activities. Procedures and controls to achieve these objectives are well established and relevant staff regular attend training services provided by MUFG (the Council's treasury advisory service) to ensure that staff are fully briefed and updated on any changes in the regulatory environment or best practice.
- 1.25. The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the Financial Statement of Accounts due to the accounting treatment of these items (e.g. accrued interest, fair value).
- 1.26. During 2024/25 the Treasury Team managed the debt and investment portfolios and closed the financial year at £441.688m for borrowings and £41.079m for investments. The breakdown of these amounts compared to the end of the previous financial year are included in following table (*Note: investment balances are held at full Council level and not split between General Fund and Housing Revenue Account*).

Treasury Portfolio:

	2023/24 31 Mar 24 Actual Rate				2024/25 31 Mar 25				2025/26 30 Sep 25			
	General Rate		HRA Rate		Total Rate		General Rate		HRA Rate		Total Rate	
	Fund		Fund		Fund		Fund		Fund		Fund	
	£m		£m		£m		£m		£m		£m	
Fixed Rate Borrowings:												
PWLB	282.663	5.0%	40.979	4.8%	257.184	5.1%	298.163	5.0%	40.314	4.7%	251.897	5.0%
Market Loans	82.000	4.1%	7.815	4.1%	62.185	4.1%	70.000	4.1%	6.698	4.0%	53.302	4.0%
Local Authorities (long term)	4.535	5.4%	5.000	5.0%	-	-	5.000	5.0%	5.000	5.0%	-	-
Local Authorities (short term)	25.000	5.7%	32.376	5.3%	-	-	32.376	5.3%	26.188	5.3%	-	-
Interest Free	1.286	-	0.691	-	-	-	0.691	-	0.394	-	-	-
Total Fixed Rate Debt	395.484	4.8%	86.861	4.9%	319.369	4.9%	406.230	4.9%	78.594	4.8%	305.199	4.8%
Variable Rate Debt (repayable on demand)	41.821	3.8%	35.458	4.6%	-	-	35.458	4.6%	43.902	3.9%	-	-
Total Treasury Debt	437.305	4.7%	122.319	4.8%	319.369	4.9%	441.688	4.9%	122.496	4.5%	305.199	4.8%
Investments:												
Money Market Funds (AAA)	(33.200)	5.3%					(40.525)	4.6%			(67.400)	4.1%
Cash at Bank	(0.615)	3.3%					(0.554)	2.5%			(0.706)	2.5%
Fixed Term Deposits (<1yr)	(5.000)	5.6%					-	-			-	-
Fixed Term Deposits (>1yr)	-						-	-			-	-
Total Investments	(38.815)	5.3%					(41.079)	4.5%			(68.106)	4.1%
Net Debt (Treasury Management)	398.490						400.609				359.589	
Non Treasury Amounts												
PFI/ Lease Liabilities	61.570						84.369				80.872	
Kickstart Loans (Fair Value)	(5.058)						(5.774)				(5.774)	
Equity Investments (Fair Value)	(36.184)						(31.284)				(31.284)	

1.27. The non-treasury liabilities and assets included in the table above, whilst not forming part of the general day to day treasury management activities and debt and investment holdings, remain key components of the Council's balance sheet:

- PFI/ Lease Liabilities are outstanding debt liabilities relating to the PFI schemes and the new liabilities recognised under the IFRS16 Accounting for leases, which was implemented from 1st April 2024. Liabilities are paid through the annual unitary charge to the PFI provider which includes (i) operating service costs and lifecycle replacement costs for key components of the asset (ii) interest cost for outstanding liability amounts and (iii) an amount to repay a portion of the outstanding liability and from regular lease payments for other assets.
- Kickstart loans are amounts lent to homeowners to undertake improvement works and are an equity loan share of the house value. These are repayable on the sale of the property by the homeowner and are revalued each year using house price indices.
- Equity Investments include the Council's shareholdings in Birmingham Airport (revalued annually) and approximately £518k in shares in Environment for Learning Sandwell PFI Ltd which was a special purpose vehicle set up by the Local Enterprise Partnership.

The Investment Strategy for 2024/25 and 2025/26

- 1.28. The priorities for the Council's investments are Security, Liquidity and Yield.
- Security – ensuring only suitable investment counterparties are used for investments
 - Liquidity – Investments are placed for periods following cash flow considerations to ensure sufficient cash resources are available to meet expenditure commitments
 - Yield – Only after the above two criteria have been addressed is the actual return on the investment considered to obtain optimum return.
- 1.29. For 2024/25 and 2025/26 the strategy has been to maintain investments short term to cover cash flow requirements, although consideration was to be given to place investments for periods up to 12 months with high credit rated institutions, in line with the approved counterparty selection criteria.
- 1.30. Returns on the investment portfolio have been marginally above benchmark with 2024/25 posting an average return of 4.95% (with average balances invested of £82.25m) against a benchmark of 4.90% and performance up to end September for 2025/26 showed a return of 4.24% (average balances invested of £85.46m) against benchmark of 4.19%.
- 1.31. As performance remains in line with benchmark, despite continuing to adopt a low-risk appetite for investments, no changes to the investment strategy for the remainder of 2025/26 are proposed.
- 1.32. The approved methodology for investment counterparty list remains fit for purpose and no changes are proposed.

Treasury Investment Returns:

	2023/24		2024/25		2025/26	
	Actual Outturn		Actual Outturn		as at 30 Sep 2025	
	Average Balance £m	Average Return	Average Balance £m	Average Return	Average Balance £m	Average Return
Liquid Investments (variable rate)						
Money Market Funds	82.930	5.14%	78.583	4.96%	84.745	4.26%
Cash at Bank	0.930	2.25%	0.882	2.96%	0.713	2.50%
Total Liquid Cash	83.860 ✓	5.11%	79.465 ✓	4.94%	85.458	4.25%
Non-Liquid Investments						
Fixed Term Fixed Rate (< 1 year)	5.095	5.21%	2.795	5.18%	-	-
Fixed Term Fixed Rate (> 1 year)	-	-	-	-	-	-
Total Non-Liquid Cash	5.095 ✓	5.21%	2.795 ✓	5.18%	-	-
Total Investments	88.955 ✓	5.11%	82.260 ✓	4.95%	85.458	4.25%

The Borrowing Strategy for 2024/25 and 2025/26

- 1.33. The strategy has been, and continues to be, to maintain an under-borrowed position (internal borrowing) while cash resources allowed, but to monitor the debt markets to seek opportunities to externalise the internal borrowing position should there be a risk of a sharp rise in borrowing rates.
- 1.34. Interest rates available for new borrowings remained inflated throughout 2024/25 and into 2025/26. Therefore, for any new borrowing need it was considered prudent to take short-dated debt with the view that at maturity it could be refinanced at a more preferential rate.
- 1.35. The table below details the interest rate forecast as provided by MUFG (Treasury Advisors), highlighting the expected fall in longer term borrowing rates over the course of the next few financial years:

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

- 1.36. Movement in the debt portfolio across 2024/25 and to the mid-year point of 2025/26 is detailed in the table below:

						Fixed Rate Debt £m	Variable Rate Debt £m	Total Treasury Debt £m
Opening Portfolio 1 April 2024						395.484	41.821	437.305
2024/25 Movements:								
Maturities						(54.254)		
Deposits/ Withdrawals							(6.363)	
New Borrowings:								
Other Local Auth	Jan-25	GF	1.00 year	5.25%		10.000		
Other Local Auth	Jan-25	GF	1.00 year	5.00%		10.000		
Other Local Auth	Jan-25	GF	2.00 years	5.00%		5.000		
Other Local Auth	Mar-25	GF	0.50 years	5.35%		5.000		
Other Local Auth	Mar-25	GF	0.75 years	5.25%		5.000		
PWLB	Mar-25	HRA	1.50 years	4.49%		10.000		
PWLB	Mar-25	HRA	2.50 years	4.52%		10.000		
PWLB	Mar-25	HRA	3.00 years	4.54%		10.000		
Closing Portfolio 31 March 2025						406.230	35.458	441.688
2025/26 Movements (mid- year position):								
Maturities						(22.437)		
Deposits/ Withdrawals							8.444	
Closing Portfolio 30 September 2025						383.793	43.902	427.695

- 1.37. Variable rate debt holdings consist of surplus daily cash balances from the Children's Trust and the West Midlands Fire and Rescue Authority which are deposited or withdrawn on a daily basis after considering their own cash-flow requirements. The Council also allows deposits from the Leisure Trust with 1 day notice requirements. All amounts deposited with the Council are at pre-agreed contracted rates.
- 1.38. **Debt Rescheduling:** No rescheduling of debt was undertaken during 2024/25 or 2025/26 to date.

Indicator 6 – Maturity Structure of Fixed Rate Borrowing

- 1.39. A further key indicator to highlight and manage re-financing risk is the maturity structure of the fixed rate debt portfolio. This sets upper limits of amounts due to mature during specific time periods. The indicator is approved by Council within the TMS report in February each year. Revisions to the limits, as included in the mid-year review, may be required due to changes in the economic conditions affecting new loan rates.
- 1.40. The actual portfolio as at 31st March 2025 compared to the approved indicator is shown in the following table along with current position for 2025/26:

Indicator 6 – Fixed Interest Debt Maturity Profile Limits

Fixed Rate Debt Maturity Profile	2023/24	Outturn Approved Indicator	2024/25		Mid Year Review		2025/26	
	Actual 31 March		Actual 31 March	Actual 31 March £m	Approved Indicator	Forecast 31 March	Forecast 31 March £m	2025/26 Current Indicator
Under 12 months	14.8%	40%	16.9%	68.821	40%	9.9%	33.438	40%
12 months to 2 years	7.8%	30%	8.2%	33.438	30%	8.5%	28.698	30%
2 years to 5 years	15.6%	20%	15.7%	63.698	30%	14.8%	50.000	30%
5 years to 10 years	11.6%	25%	8.5%	34.500	30%	5.8%	19.500	30%
10 years to 20 years	-	30%	6.9%	28.203	30%	8.4%	28.203	30%
20 years to 30 years	24.5%	40%	20.5%	83.115	40%	24.6%	83.115	40%
30 years to 40 years	25.7%	50%	23.3%	94.454	50%	28.0%	94.454	50%
40 years to 50 years	-	70%	-	-	70%	-	-	70%
50 years plus	-	90%	-	-	90%	-	-	90%
	100.0%		100.0%	406.229		100.0%	337.408	

- 1.41. The maturity profile as at 2024/25 was within the approved limits.
- 1.42. The forecast for 2025/26 also indicates the Council will be well within the approved limits, however, this calculation is taken from the debt portfolio as at 30th September 2025 and there is a need for new borrowing to be taken before the end of the financial year. Considering the likely remaining borrowing need and interest rate forecasts, which assist in determining the period for new borrowings, the current limits for the maturity profile remain appropriate and no revisions are proposed to the current approved limits.