South Tyneside Council

item 4

Treasury Management Quarterly Report – 31 March 2026

This document has been classified as: Not protectively marked

Paul McCann, Head of Pensions, 0191 424 7377

Cabinet – 1 July 2026

Report to Cabinet

Cabinet Portfolio/Lead Member: Councillor Susan Sybenga, Deputy Leader and Finance and Resources

Report of Stuart Reid, Director of Business and Resources

Subject: Treasury Management Quarterly Report – 31 March 2026

Date: 1 July 2026

Wards affected: all

Council ambitions: all

Does the report and any appendices contain information which has been identified as confidential or exempt?

- No, this report does not contain information identified as confidential or exempt.

For Executive Decisions only:

Is the decision a Key Decision? No

Is it included in the Forward Plan? Yes

If not in the Forward Plan is the report: n/a

Relevant Scrutiny Chair: Cllr Ford

Is the decision eligible for call-in by Scrutiny? No

(If the decision is anything other than any executive decision made by the Cabinet or a Key Decision made by an officer under delegated powers, call-in is not applicable. This should be explained in the report).

Purpose of Report

1. There is a requirement to report quarterly to the Executive on Treasury Management activity and on the exercise of delegated powers.

2. Members are recommended to note this report.

Background Information

3. Treasury Management is the process by which the Council’s cash flow, investments and borrowing activities are managed.

4. It is the Council’s practice to comply with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management.

5. This Code requires that the Executive receives a quarterly report on Treasury Management activity and on the exercise of delegated powers in accordance with the Council approved Treasury Management Strategy.

6. This report is for the quarter ended 31 March 2026.

7. The Assistant Director/Pensions manages the Treasury Management process and reporting on behalf of the Director of Business and Resources.

Main issues and Options to be Considered

Economic Background and Interest Rates

8. Economic conditions during the period showed that inflation was starting to come down, while the economy continued to grow, although more slowly. Central banks, including the Bank of England, kept interest rates high for most of the period to make sure inflation returns to target. As a result, interest rates have stayed higher than usual compared to recent years.

9. Markets are now expecting interest rates to be cut, but only gradually. However, there is still uncertainty about when and how quickly this will happen, due to risks such as global tensions, a strong labour market, and continued high inflation in the services sector.

10. Because of this, short-term interest rates have stayed fairly stable at higher levels, which has supported income on variable-rate investments. At the same time, longer-

term interest rates have been more volatile as markets adjust their expectations about future rate changes.

11. At the time of writing, the most recent Bank of England inflation report showed CPI inflation had fallen to 3.3%. This is above the Bank of England target of 2%.

12. During the quarter the Bank of England Rate remained at 3.75%.

13. At the quarter end, the three month investment rate was at 4.00% and the one year investment rate was at 4.60%.

14. The Council's main source of long term borrowing is the Public Works Loans Board (PWLB). The interest rates have remained relatively volatile over the period and PWLB 5 to 50 years rates have generally been in the range of 5.00% to 6.30%.

15. Rates have drastically increased in periods between 5 to 50 years compared with those at the end of the previous quarter. In the shorter term rates increased due to forecasted interest rate rise. As a general rule, short term rates reflect expected movements in Bank Rate, whilst medium to long term yields are driven primarily by the inflation outlook.

16. At the quarter end, the borrowing rates were:

Period	Rate at end of last quarter %	Rate at end of this quarter %	Increase / (Decrease) %
5 year	4.78	5.28	0.50
25 year	5.95	6.29	0.34
50 year	5.71	6.08	0.37

Credit Rating Methodology and Lending Lists

17. The organisations that the Council lends to, the periods for which it can lend and the maximum amounts to be invested with each organisation are set in agreement with the Council's Treasury Management Advisor, Mitsubishi Financial Group (MUFG).

18. In addition to applying the MUFG methodology, the Council forms its own view based on market data and the level of implied Government support.

19. Currently, the Council is only lending directly to selected UK banks and building societies, local authorities and to a limited number of foreign institutions that are domiciled in a country with a AAA credit rating, i.e. are highly rated, and are assessed by MUFG as suitable for investments.

20. In addition to direct lending, the Council makes investments into AAA rated, i.e. highly rated money market funds. These funds are separate legal entities from the companies that manage them. Using them also helps diversify risk.

21. The Council has continued to review the lending on a weekly cycle, and whenever there are changes to organisations' credit ratings.

22. There were no changes to the lending list during the quarter.

Council Cash Balance

23. The Council had cash investments of £15.50 million at the quarter end with an annual average return earned on investments of 4.03%.

24. The original forecast for investment income for the year is £0.40 million. At the end of the year, the income earned from investment balances was around £0.69 million. This is higher than anticipated due to average investment balances being slightly higher than those assumed in the original forecast.

Capital Financing Requirement and the Consolidated Loans

25. The Capital Financing Requirement is the Council's liability for financing of the Capital Programme.

26. The requirements for the General Fund and for the Housing Revenue Account are managed separately.

27. The Capital Financing Requirement for 2025/26 and the latest forecasts for the next two years are shown below:

28. The CFR has increased from the previous report. This is due to a change in the methodology applied to set aside monies to repay debt principal known as minimum revenue provision (MRP). The MRP will now be set aside on an annuity basis rather than equal instalment basis to more closely align with the expected economic benefits of the asset.

	2025/26 £'m	**2026/27 £'m**	**2027/28 £'m**
Council	**490.8**	**486.1**	**485.8**
Housing	**287.5**	**287.5**	**287.5**
Total	**778.3**	**773.6**	**773.3**

29. During the quarter two PWLB loan were taken.

    - One for £15m at a rate of 4.35% for 1 year.
    - One for £10m at a rate of 4.30% for 1 ½ Year.

30. Of the £25 million taken in the quarter £10 million was refinancing of existing debt.

31. Given the current position with elevated borrowing interest rates, deferring new long term borrowing has been beneficial.

32. The external borrowing for the Housing Revenue Account at the quarter end was £287.6 million, against a forecast requirement of £287.5 million.

Estimate of Interest Charges on Borrowing

33. The interest charges for 2025/26 are £27.1 million, which is an overspend of £0.8 million against the original forecast. This is allocated between the General Fund and Housing Revenue Account as follows:

	General Fund £'000	HRA £'000	Total £'000
Original forecast	16,155	10,155	26,310
Year-end	16,649	10,453	27,102
Saving / (Cost)	**(494)**	**(298)**	**(792)**

34. The costs are higher than those included in the original forecast which is due to recent borrowing taken at a higher interest rate than that assumed in the original forecast as government borrowing rates rose during the quarter.

Private Finance Initiative Contracts

35. The Council has liabilities of £98.9 million from contracts arranged through the Private Finance Initiative in relation to the Epinay School, Boldon School, Jarrow School, Street Lighting, and the Waste Facility. These liabilities are payable over the next 8-16 years and are accounted for within the Medium-Term Financial Plan.

36. Specific Government funding is received which offsets, in part, the cost of these contracts.

Treasury and Prudential Indicators

37. Each year, the Council is required to set a range of Treasury and Prudential Indicators that provide a framework within which the Treasury Management Service is delivered.

38. During the quarter, the Treasury Management activity was controlled within the Treasury and Prudential Limits. A schedule that sets out the position as at 31 March 2026 is attached as Appendix A.

Liability Benchmark

39. The Council is required to produce a Liability Benchmark for the current financial year and the following two financial years, as a minimum. The actual external debt is then compared against this benchmark.

40. Further details on the Liability Benchmark calculation are shown in Appendix B.

41. The table shows the current and the following two years position of external debt against the benchmark.

	2025/26 £m	2026/27 £m	2027/28 £m
External Debt	791.5	788.0	783.7
Benchmark	774.2	788.8	788.4
(Over)/Under Benchmark	**(17.3)**	**0.8**	**4.7**

42. The external debt was above the benchmark for 2025/26 due to the impact of the implementation IFRS16 and the need for short term borrowing to meet cash flow demand. Cashflows have been impacted by the deficit in the Dedicated Schools Grant (DSG) Reserve. Forecasts show that overall indebtedness is expected to reduce in the next 2 years.

Implications

43. Not applicable. Report is for information purposes.

Financial and Resources

44. The current economic environment means that achieving a favourable variance against the budget for borrowing and investment activities will be challenging. Levels of borrowing are more than offset by the value of assets, such as housing, land, buildings and vehicles, which the Council owns and are held on the balance sheet.

Legal and Governance

45. Under the Local Government Act 2003, local authorities must have regard to proper practices in their treasury management activities. In effect this means the Council must adhere to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities and CIPFA's 'Treasury Management in the Public Services: Code of Practice' (the CIPFA code). The activity outlined in the report reflects the Councils approach to treasury management as set out in the Treasury management Strategy, which is in accordance with the CIPFA Treasury Management Code.

46. There are no significant legal or governance implications arising from the proposed recommendations in this report.

Risk

47. Risk Management within the treasury function requires the ongoing monitoring and adjustment of debt and investment exposures to changing market, counterparty and regulatory conditions, in order to help achieve the Council's objectives.

48. The Treasury Management Strategy and Annual Investment Strategy set out the Council's approach to treasury management including how risks are mitigated and managed.

Equality and Diversity and Community

49. There are no significant equality, diversity, community and integration implications arising from the proposed recommendations in this report.

Environmental and Sustainability

50. The Council's prime objectives when investing cash, are the security of the capital sum and the liquidity of those investments. Where appropriate the Council places funds in sustainable investments.

51. Environmental and Sustainability issues are more typically associated with longer term Pension Fund investments although the CIPFA Code now expects Local Authorities to consider these issues across all treasury management activities. These issues are now reflected in the Council's Annual Investment Strategy.

Council Ambitions, Policies, Strategies and Plans

52. The Council's Treasury Management Strategy Statement supports the Council ambitions, policies, strategies and plans.

Consultation and Engagement

53. The Council budget is subject to regular consultation and engagement throughout the year in the development of the Medium-Term Financial Plan, with further engagement planned in the development of the 2026-2031 MTFP.

Recommendations

54. It is recommended that Cabinet notes this report.

Reasons for Recommendations

55. To comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Public Services.

List of Appendices

Appendix A – Prudential Indicators as at 31 March 2026
Appendix B – Liability Benchmark as at 31 March 2026

Treasury Management Quarterly Report – 31 March 2026

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
Treasury Management File		Investment Office, South Shields Town Hall

Appendix A

Prudential Indicators as at 31 March 2026

A summary of the Council's Prudential Indicators for 2025/26 and compliance against them is set out below.

	Upper Limit	Lower Limit	Actual as at 31/03/26
Cash Investments			
Cash Investments for longer than 364 days *	£10m	£0m	£0m
Cash Investments less than three months *	100%	40%	100%
South Tyneside Consolidated Loans Fund			
Authorised Limit for External Debt	£945m	£0m	£791.5m
Operational Boundary for External Debt	£850m	£0m	£791.5m
Limit for Fixed Rate Debt (excluding PFI)	100%	0%	91.3%
Limit for Variable Rate Debt (excluding PFI)	35%	0%	8.7%
Maturity Structure of Fixed Debt (excl. PFI)			
- Under 12 Months	40%	0%	8.7%
- 12 months to 24 months	40%	0%	8.1%
- 24 months to 5 years	50%	0%	12.4%
- 5 years to 10 years	75%	0%	3.1%
- 10 years and above	100%	25%	67.7%

* These limits are applied at the time an investment decision is made.

Appendix B

Liability Benchmark as at 31 March 2026

The calculation of the Liability Benchmark is shown in the table below:

	2025/26 £m	2026/27 £m	2027/28 £m
External Debt	**791.5**	**788.0**	**783.7**
Opening Loan Debt	738.5	-	-
Investments as 01/04/2024	-	-	-
Net Loans brought forward	**738.5**	**759.1**	**773.8**
New Borrowing Requirement – General Fund	27.2	22.0	7.4
MRP	(6.6)	(7.3)	(7.8)
Net Loans carried forward	**759.1**	**773.8**	**773.4**
Liquidity Buffer	15.0	15.0	15.0
Benchmark	**774.1**	**788.8**	**788.4**
(Over)/Under Benchmark	**(17.4)**	**0.8**	**4.7**

1. A liquidity buffer of £15.0 million has been agreed as the minimum level of cash required to meet the Council's liquidity needs, on a day-to-day basis.

2. The table shows the current and the following two years position of external debt against the benchmark.

3. This profile is typical for many Local Authorities and is in line with expectations of both officers and the Treasury Management Advisers. The table reflects the current approved capital programme expenditure for the next three years but does not include anything beyond that. The Council will make new capital expenditure decisions in the years ahead which will affect the Liability Benchmark in the future. The long term nature of the Council's existing PWLB debt and its maturity profile means that overall debt levels should remain stable in the long term.

4. Local authorities are required by statute to make a charge to their revenue account to provide for the repayment of debt resulting from capital expenditure, known as Minimum Revenue Provision ("MRP"). The statutory duty to provide Minimum Revenue Provision (MRP) was introduced by the Local Authority (Capital Financing and Accounting) (England) Regulation 2003 ("the Regulations"). In 2008, the Regulations were amended and the detailed rules that applied to the MRP provision were replaced with a simple duty for an authority each year to calculate an amount of MRP which it considers to be "prudent". The Regulations do not define "prudent provision". The Regulations states, "A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent"