Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 24th JANUARY 2025

QUARTERLY TREASURY MANAGEMENT REPORT

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of report

1. The purpose of this report is to update the Committee on the actions taken in respect of treasury management for the quarter ending 31st December 2024 (Quarter 3).

Policy Framework and Previous Decisions

2. Within the County Council's Constitution, Part 3 – responsibility for functions, the functions delegated to the Corporate Governance Committee include 'that the Council's Treasury Management arrangements are appropriate and regularly monitored'.

3. The Annual Treasury Management Strategy and Annual Investment Strategy (AIS) for 2024-28 form part of the Council's Medium Term Financial Strategy (MTFS). These were considered and supported by the Corporate Governance Committee in January 2024 and approved by full Council in February 2024.

4. The Treasury Management Strategy requires quarterly reports to be presented to the Corporate Governance Committee, to provide an update on any significant events in treasury management. The aim of these reporting arrangements is to ensure that those with responsibility for the treasury management function appreciate the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. This is in line with the CIPFA Treasury Management Code.

Background

5. Treasury Management is defined as "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

6. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans

provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management Code of Practice.

7. Capital investments in services, including those within the Investing in Leicestershire Programme, are part of the Capital Strategy (and are part of the capital programme), rather than the Treasury Management Strategy. The capital programme is monitored and reported regularly to the Scrutiny Commission and the Cabinet.

Economic Background

8. The Council's treasury management adviser, Link Asset Management (Link), provides a periodic update outlining the global economic outlook and monetary policy positions. An extract from that report is attached as Appendix A to this report. The key points are summarised in the following paragraphs.

9. Inflation as measured by the consumer price index (CPI) increased to 2.6% in November. Core CPI (CPI excluding energy and food prices) has also increased, from 3.3% in October to 3.5% in November. CPI inflation is likely to rise further in January, perhaps to 2.8% though is expected to be back at close to the 2.0% target by the end of 2025.

10. GDP growth contracted by 0.1% m/m in October following no growth in the quarter ending September.

11. The Government's October budget has loosened fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

Action Taken During Quarter 3 to December 2024

Private Debt and Bank Risk Sharing Funds

12. The table below provides an overview of the Council's investments in private debt and bank risk sharing funds. As well as showing the current capital levels within each fund the table also shows the Net Asset Value (NAV), and Internal Rate of Return (IRR) for each fund.

Summary Private Debt and CRC:						During Q3	
	Total Commitment (£m)	Capital invested (£m)	NAV (£m)	IRR (Since Incep'n)	Total Income Rec'd	Capital Repaid (£m)	Income (£m)
2017 Mac IV	20.0	1.8	2.7	4.94%	-3.9	- 0.9	-
MAC VI	20.0	12.6	14.9	7.40%	-2.3	- 0.8	- 0.2

CRC CFR 5	15.0	15.0	14.1	11.14%	-6.0	-	-2.6
MAC VII	10.0	6.7	7.3	-	-	-	-

13. The Council received its 36th, 37th and 38th distributions from the Partners MAC IV (2017) fund during the quarter in the form of invested capital totalling £0.9m (shown as a negative figure in the table above).

14. The Council received its 16th, 17th and 18th distributions from the MAC VI fund during the quarter totalling £1.0m. £0.8m represented a return of invested capital with the remaining £0.2m being income.

15. The Council received distributions 7 to 10 from the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5). The total receipt of £2.6m is represented wholly by income.

16. The Council received no further capital calls to the Partners MAC VII fund in quarter 3. As this investment is still in the investment period the IRR cannot yet be calculated reliably.

Short Term Investments

17. A summary of movements and key performance indicators (KPIs) in the Council's investment loan portfolio can be viewed in the table below. The table details the portfolio Annual Percentage Rate (APR) of the portfolio, the average APR of loans matured, and new loans placed. The table also shows the weighted average maturity (WAM) of the portfolio.

KPIs Loans only:

	Total Loans	APR (Loans Only)	WAM (Days)[1]	Maturities (£m)	APR Maturities	New Loans (£m)	APR New Loans
Current Qtr	372.5	5.00%	139	148.4	5.30%	77.5	4.64%
Prior Qtr	443.4	5.16%	150	119.4	5.67%	153.4	5.00%
Change	↓70.9	↓ 0.16%	↓11.0	↑ 29.0	↓0.37%	↓75.9	↓ 0.36%

[1]WAM excludes MMFs as these are overnight maturity

18. The total balance available for short term investment reduced by £70.9m during the quarter largely due to the early repayment of PWLB loans and no precept in December.

19. As a result of the falling base rate the APR on new loans has reduced by 0.36% quarter on quarter.

20. The loans weighted average maturity (WAM) reduced by 11 days and indicates that the portfolio is now more sensitive to the impact of interest rate changes. This is due to achieving better rates on loans in the short term, though security in the longer term with lower interest rates can be beneficial.

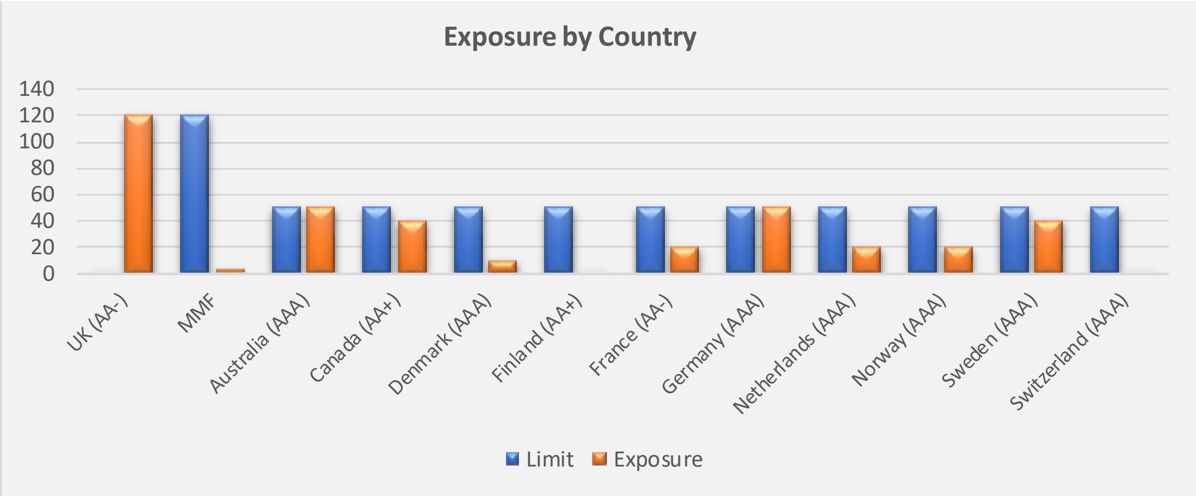
21. The loan portfolio at the end of December was invested with the counterparties shown in the table below, listed by original investment date:

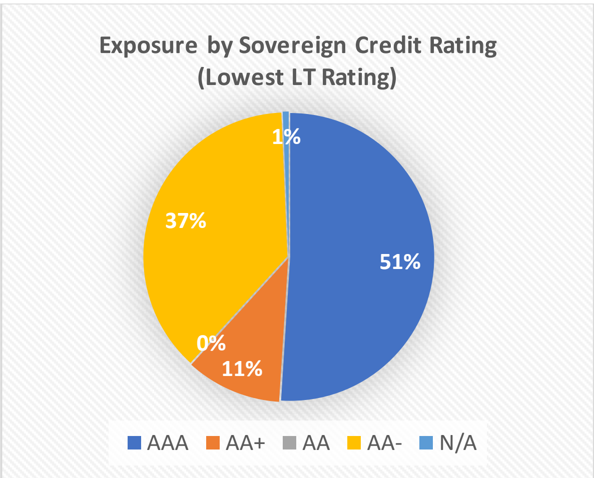
	£m	**Maturity Date**
Instant Access		
Money Market Funds	2.5	January 2025
6 Months		
Credit Industrial et Commercial	10.0	March 2025
Santander	20.0	March 2025
Goldman Sachs	10.0	March 2025
Goldman Sachs	15.0	April 2025
Goldman Sachs	10.0	June 2025
12 Months		
National Westminster Bank PLC	10.0	February 2025
National Westminster Bank PLC	20.0	February 2025
Rabo Bank	10.0	March 2025
National Westminster Bank PLC	25.0	April 2025
Skandinaviska Enskilda Banken AB (SEB)	20.0	April 2025
Commonwealth Bank of Australia (CBA)	10.0	April 2025
Macquarie Bank	10.0	April 2025
Toronto Dominion Bank	20.0	May 2025
Credit Industriel et Commercial (CIC)	10.0	May 2025
Bank of Montreal	20.0	May 2025
Deutsche Zentral (DZ)	20.0	May 2025
Australia & New Zealand Bank	20.0	May 2025
Rabo Bank	10.0	June 2025
Swedbank	20.0	July 2025
National Westminster Bank PLC	10.0	July 2025
Landesbank Hessen Thuringen	10.0	September 2025
Landesbank Baden Wurtemberg	10.0	October 2025
Landesbank Hessen Thuringen	10.0	October 2025
Commonwealth Bank of Australia (CBA)	10.0	October 2025
DNB Bank	10.0	October 2025
DNB Bank	10.0	October 2025
Beyond 12 Months but included in short term investments		
Danske Bank#	10.0	May 2027
Short term investments total	**372.5**	
Beyond 12 Months		
Partners Group (Private Debt) 2017	1.8	Estimated 2024
Partners Group (Private Debt) 2021	12.6	Estimated 2026
CRC CRF 5 (Bank Risk Sharing)	15.0	Estimated 2026

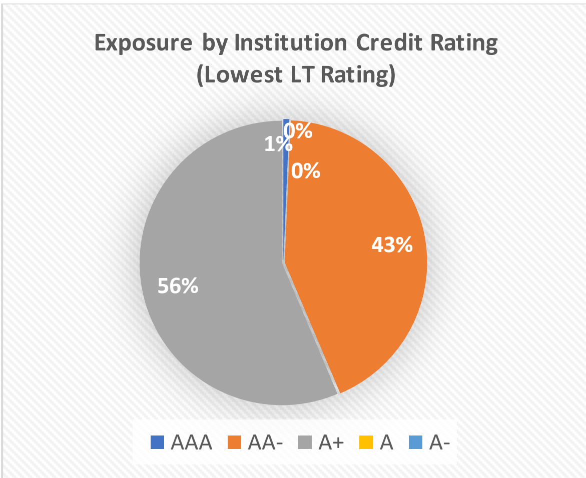
Partners Group (Private Debt) 2023	6.7	Estimated 2028
TOTAL PORTFOLIO BALANCE: 31 December 2024	**408.6**	

#Danske Bank loan is included in short term investments for reporting in the tables above as the interest fixing is every six months.

22. The graphs below show the exposure of the short-term investments by country, sovereign rating and institution rating:





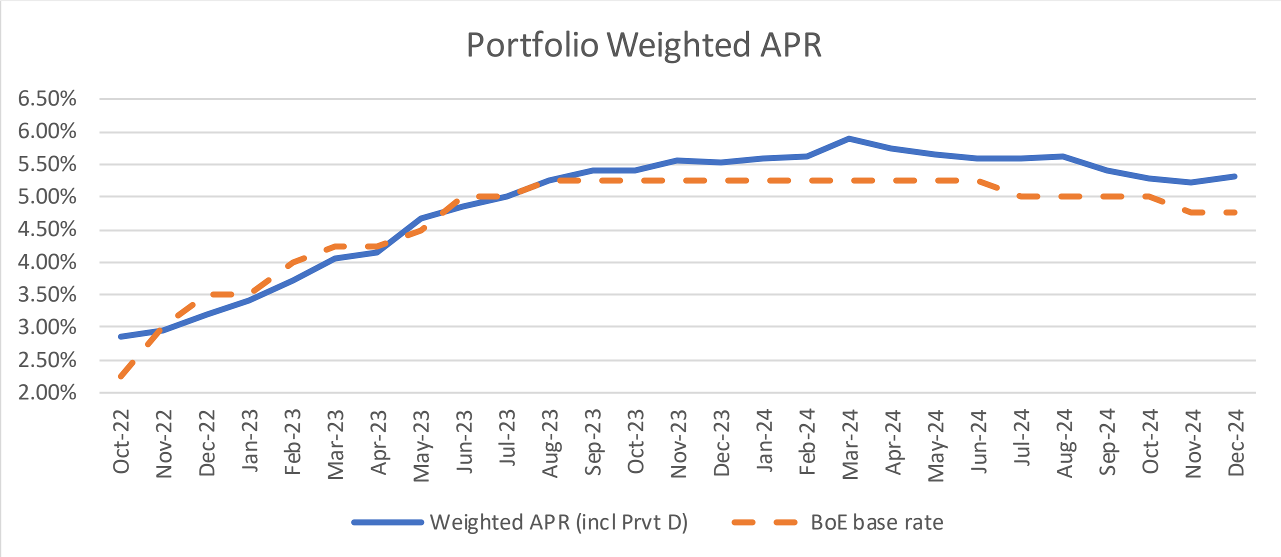


23. These graphs provide an indication of the Council's exposure to credit risk but it should be noted long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements (the cost of insuring against a default) and general economic conditions are also factored in before the counterparty list is drawn up.

Total Portfolio

24. The total portfolio weighted APR decreased from 5.41% in quarter 2 to 5.31% in quarter 3 2024-2025. This is due to reductions in the rates available in the market. The chart below shows the weighted APR achieved by the treasury portfolio

compared to the BoE base rate. The graph shows that whilst base rates have stabilised since August 2023, and started to decrease, the weighted APR of the portfolio has achieved a higher return in the months that followed. Most investments within the portfolio are on a fixed interest basis so changes in base rate do not immediately have a material impact on the APR achieved. One indicator for how big this lag is the WAM. This shows the average length of time remaining until the Council's short-term investments mature.



Debt Rescheduling

25. During quarter 3, gilt yields, which underpin PWLB rates, rose to levels sufficient to consider further longer-term debt rescheduling opportunities.

26. After consultation with Link a decision was taken to reschedule the following loans:

		Start Date	Maturity	Principle	Interest Rate	Interest PA	Premium/ (discount)	Premature repayment rate	Remaining Principle
481483	PWLB	28/09/1998	25/09/2058	9,835,000	4.88%	479,456	-48,402	4.9%	0
476646	PWLB	30/11/1995	28/07/2054	2,400,000	8.00%	192,000	1,120,609	4.97%	2,436,500
				12,235,000	5.49%	**671,456**	**1,072,207**		

27. Rescheduling the above loans resulted in a net premium of £1,072,207 for the Council. Note that the above premium is offset by the discount (-£1,062,619) on the repayment of the Barclays loan undertaken in the previous quarter as reported in the Q1 Treasury Management report. This follows the same strategy taken for previous PWLB debt repayment of netting off premiums against discounts received.

28. Following the continuation of high gilt yields and after consultation with Link the Council also took the decision to repay the following loans:

		Start Date	Maturity	Principle	Interest Rate	Interest PA	Premium/ (discount)	Premature repayment rate	Remaining Principle
476646	PWLB	30/11/1995	28/07/2054	2,436,500	8.00%	194,920	1,122,534	5.00%	0
476645	PWLB	30/11/1995	28/07/2053	4,836,500	8.00%	386,920	2,194,148	5.00%	0
				7,273,000	8.00%	**581,840**	**3,316,682**		

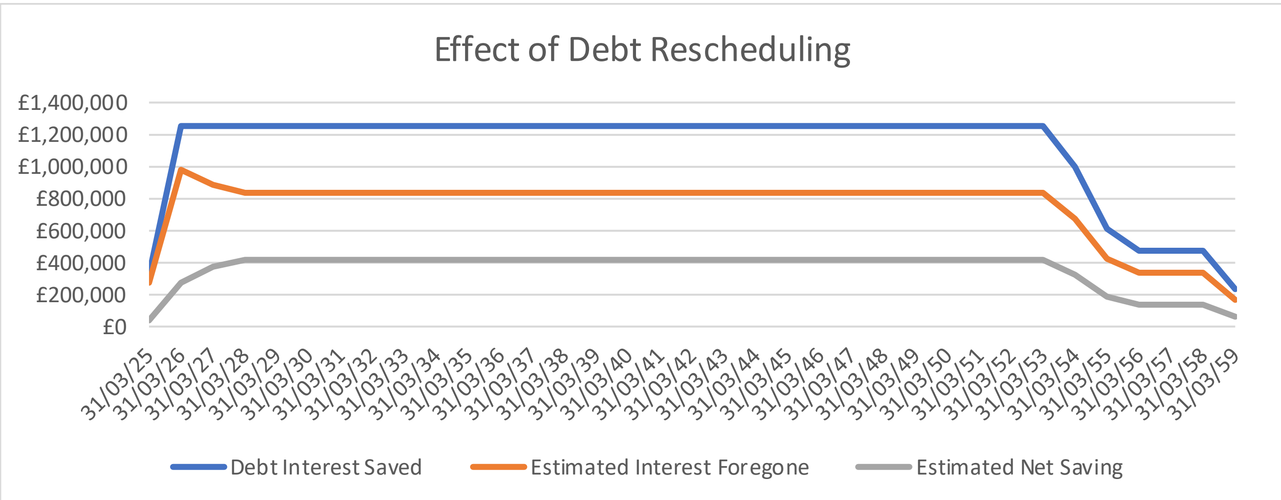
29. Despite the lack of discount to net off this premium of £3.3m there was still a projected net saving to the authority to repay these loans early. This is because the effective rate of saving achieved (5.49%) significantly exceeds Link's forecast long-term earning rate (3.50%) per the table below.

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

30. The overall impact of the debt rescheduling undertaken across Q3 is shown in the table below.

		Start Date	Maturity	Principle	Interest Rate	Interest PA	Premium/ (discount)	Premature repayment rate	Remaining Principle
481483	PWLB	28/09/1998	25/09/2058	9,835,000	4.88%	479,456	-48,402	4.9%	0
476646	PWLB	30/11/1995	28/07/2054	2,400,000	8.00%	192,000	1,120,609	4.97%	0
				2,436,500	8.00%	194,920	1,122,534	5.00%	
476645	PWLB	30/11/1995	28/07/2053	4,836,500	8.00%	386,920	2,194,148	5.00%	0
				19,508,000		**1,253,296**	**4,388,889**		

31. By rescheduling debts across Q3, the Council will save nearly £1.3m pa in fixed interest payments. However, with lower cash balances there will be a reduction on the interest that can be earnt. The graphs below show the estimated net benefit to the authority over the remaining life of the loans.



<u>Notable events subsequent to Quarter 3 Update</u>

32. Early January has seen several yield highs for the past 15-25 years in the UK gilt market. The result being further early repayment of PWLB debt opportunities being

available. After review, including advice from Link a decision was made in early January to repay two loans of £9.7m total principal at a combined rate of 7.93% early. As a result of this action, the Council incurred a premium of £4.0m. Despite the premium, the effective rate of saving of 5.63% exceeds the forecast long term earning rate provided by Link of 3.5%.

33. As per the Link and Capital Economics long term forecasts, which suggest a reduction in the Bank of England base rate, repayment of this loan should also provide an opportunity for the Council to refinance it in the future at a lower rate, if needed, enabling further savings.

34. The repayment of the loan also offers the Council greater flexibility on the loan portfolio with the opportunity to refinance in a different period, thus further balancing out the debt maturity profile as desired. The latest forecast of actual debt as at 31 March 2025 is now £175m.

Compliance with Prudential and Treasury Indicators – Quarter 3

35. The prudential and treasury indicators are shown in Appendix B. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ending 31st December 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Director of Corporate Resources reports that no difficulties are envisaged in complying with these indicators.

Resource Implications

36. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council. The budgeted income for interest generated by treasury management activities (excluding private debt and pooled property investments) for 2024/2025 is £14.2m. Current bank interest forecasts show interest earned in 2024/2025 could be £19.6m. The increase in interest income is due to forecast Bank of England base rate levels being higher and for longer than forecast, and higher than estimated average Council balances. Average balances remain strong due to earmarked reserves, the latest phasing of spend on the capital programme and government grants received in advance.

Recommendations

37. The Committee is asked to note this report.

Background papers

38. None.

Circulation under the Local Issues Alert Procedure

39. None.

Equality and Human Rights Implications

40. There are no discernible equality and human rights implications.

Appendices

Appendix A - Economic Overview (For the quarter to December 2024)
Appendix B – Prudential and Treasury Indicators for 2024/25 as at 31st December 2024
Appendix C – Interest Rate Forecast 11 November 2024

Officers to Contact

Declan Keegan, Director of Corporate Resources,
Corporate Resources Department,
Tel: 0116 305 6199 E-mail: declan.keegan@leics.gov.uk

Simone Hines, Assistant Director (Finance, Strategic Property and Commissioning)
Corporate Resources Department,
Tel: 0116 305 7668 Email: simone.hines@leics.gov.uk

This page is intentionally left blank