Agenda Item 5

Leicestershire County Council

CABINET – 15 July 2025

ANNUAL TREASURY MANAGEMENT REPORT 2024/25

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. The purpose of this report is to advise the Cabinet of the action taken and the performance achieved in respect of the treasury management activities of the Council in 2024/25.

Recommendation

2. The Cabinet is asked to note this report.

Reason for Recommendation

3. The Authority's full adoption of the CIPFA Code of Practice for treasury management requires an annual report on Treasury Management activity and performance to be considered by both the Cabinet and the Corporate Governance Committee before the end of September each year.

Timetable for Decisions (including Scrutiny)

4. Under the CIPFA Code of Practice it is necessary to report on treasury management activities undertaken in 2024/25 by the end of September 2025.

5. The Corporate Governance Committee considered the matter at its meeting on 23rd June 2025.

Policy Framework and Previous Decisions

6. The Authority has adopted the CIPFA Code of Practice for treasury management. Treasury management issues are reported to either the Corporate Governance Committee or the Cabinet. Approval of the Annual Treasury Management Strategy remains the responsibility of the full Council which it considers as part of the Medium Term Financial Strategy (MTFS) each year.

Resource Implications

7. Treasury management is an integral part of the Council's finances. Interest generated by treasury management activities (excluding private debt and bank risk sharing investments) for 2024/25 was £21.7m, and interest paid on external debts was £12.4m.

Circulation under the Local Issues Alert procedure

8. None.

Officer to Contact

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PART B

Background

9. The term 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".

10. The Director of Corporate Resources is responsible for carrying out treasury management on behalf of the Council, under guidelines agreed annually by the Council.

Treasury Management 2024/25

11. The Treasury Management Policy Statement for 2024/25 was agreed by the full Council on 21st February 2024, in relation to the sources and methods of borrowing and approved organisations for lending temporarily surplus funds.

12. The criteria for lending to Banks are derived from the list of approved counter parties provided by the County Council's Treasury Management advisors, MUFG Pension & Market Services (formerly Links Asset Services). The list is amended to reduce the risk to the County Council by removing the lowest rated counterparties and reducing the maximum loan duration.

13. During the year all outstanding loans were repaid on time with the interest due.

14. In 2016 it was agreed that any counterparty that was downgraded whilst a loan was active, and where the unexpired period of the loan, or the amount on loan, would then breach the limit at which a new loan could be made to that counterparty, this would be included in the appropriate quarterly treasury management report to the Corporate Governance Committee. There was one such incident during 2024/2025.

15. On 15th November 2024 MUFG Pension & Market Services downgraded the suggested holdings for NatWest Group following changes to the government's shareholding in the bank whereby it would now be treated in the same way as all other entities, with a limit of £35m (previously £75m). The Council had £75m invested across five loans with the bank at the time of the breach. £10m was repaid with full interest at the expiry of one loan on 25 November 2024, and £30m repaid with full interest at expiry in Q4 February 2025, bringing the total held down to £35m and within the revised limit.

16. Investment returns have steadily fallen throughout 2024/25 as interest rates have reduced.

17. Starting in April 2024 at 5.25%, the Bank Rate moved down in stepped increases of 0.25%, reaching 4.5% by March 2025, and to 4.25% in May 2025. MUFG Pension &

Market Services advise that rates will continue to fall to around 3.75% by the March 2026.

18. The Council has taken a cautious approach to investing and is fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Financial Crisis of 2008/9. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions. Nonetheless caution still needs to be exercised and the council continues to monitor credit ratings and watches on a daily basis and confirm the counterparty list before any new loans are placed.

<u>Debt Position at 31 March 2025</u>

19. On the debt portfolio, no new loans were taken. A total of £44.5m was repaid in the year, comprising:
    - £29.2m - Early repayment - PWLB debt on favourable terms
    - £10.0m – Early repayment - Market debt (Barclays) of £10m.

    [n.b. these early repayments will generate an estimated £2.4m in annual interest savings for the Council.]
    - £4.8m – PWLB maturity
    - £0.5m – PWLB Equal Instalment of Principal (EIP)

20. The Council's external debt position at the beginning and end of the year was as follows: -

	31 March 2024			**31 March 2025**		
	Principal	**Average Rate**	**Average Life**	**Principal**	**Average Rate**	**Average Life**
Fixed Rate Funding						
- PWLB	£116.0m	7.6%	27 yrs	£81.5m	7.78%	26 yrs
-Market	£ 10.0m	3.99%	42 yrs	£ 0.0m	0%	0 yrs
Variable Rate Funding:						
- Market (1)	£ 93.5m	4.41%	39 yrs	£ 93.5m	4.41%	38 yrs
Total Debt	£219.5m	6.08%	32 yrs	£175.0m	5.98%	32 yrs

(1) The majority of lenders have an option to increase the rates payable on these loans on certain pre-set dates, and if they exercise this option the Council can either repay or accept the higher rate.

21. The Authority has not raised any new external loans since August 2010 and external debt is around £180m lower than it was at its peak in November 2006. The most recent MTFS capital programme, for 2025-2029, includes a funding requirement of £83.6m to be funded from borrowing. However, due to the strength of the County

Council's balance sheet, it is expected to be possible to use internal balances to fund this on a temporary basis instead of raising new loans.

Investment Position at 31 March 2025

22. The position in respect of investments varies throughout the year due to the large inflows and outflows of cash that occur. Over the course of the year the loan portfolio (which includes cash managed on behalf of schools with devolved banking arrangements) varied between £408m and £501m and averaged £453m. Investments as at 31 March 2025 were £415m.

Debt Transactions

23. The Council began the financial year £18m over-borrowed (actual debt) compared with the Capital Financing Requirement (the amount required to fund the historic capital programme).

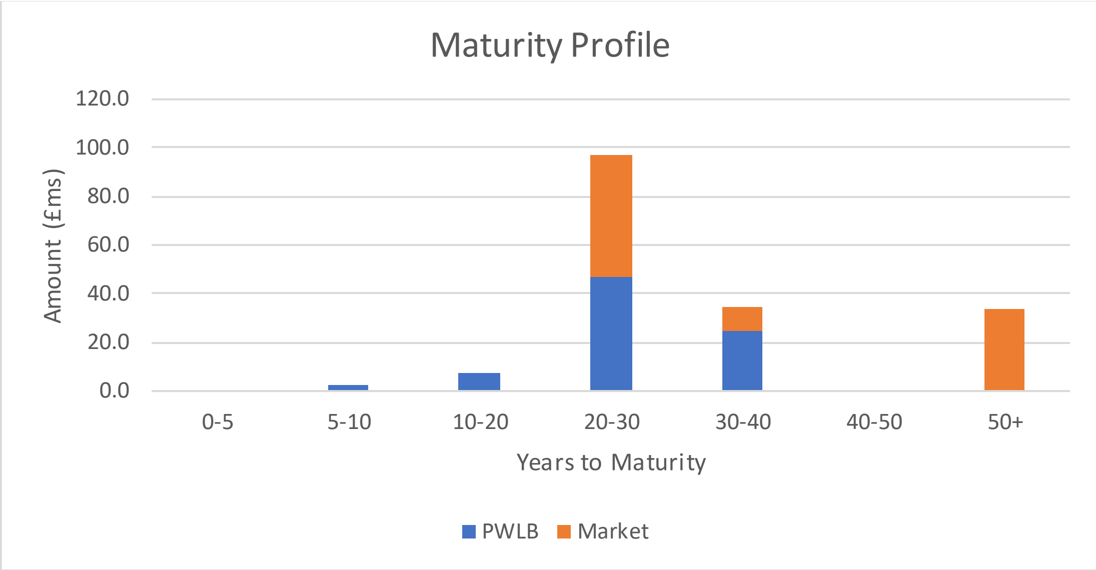
24. Although the term 'over-borrowed' suggests an unusual situation it is simply caused by the Council setting aside money each year so that when loans become due they can be repaid. Historically this situation did not arise because new borrowing was undertaken each year. For the last fifteen years, there has been no requirement to undertake new borrowing to fund the capital programme (which leads to a reduction in debt financing costs falling on the revenue budget). This is linked to the Government's change of approach since 2010 to award grants to fund the capital programme rather than the previous approach of supported borrowing (i.e. support for capital expenditure by providing revenue funding to cover borrowing costs). Ideally the situation would be remedied by repaying loans early.

25. To this end, during 2024/25 the over-borrowed position reversed due to the early repayment of debt as mentioned above.

26. At the end of the financial year, after the repayment of debt, and setting aside funding for the Minimum Revenue Provision (MRP) of £6.2m (to ensure that loans raised to finance capital expenditure are paid off over the longer term) the Council was £20m under-borrowed.

27. During the year, there were two favourable opportunities to reduce the Council's debt portfolio, as reported in quarterly treasury management updates. These opportunities arose due to the prevailing economic conditions at the time of repayment, with Gilt yields (which underpin PWLB rates) remaining at levels sufficient to consider long term debt rescheduling opportunities. The total debt repaid was £44.5m, of which £29.2m with the PWLB (and £10m with Barclays) was as a direct result of debt rescheduling activities. At the end of the financial year, the debt portfolio stood at £175.0m with an average pool rate of 5.98%, as shown in the table above.

28. The maturity profile of the Council's debt portfolio is shown in the chart below. This illustrates the long-term nature of the historic debt.



Investments

29. The loan portfolio produced an average return of 5.15% in 2024/2025, compared to an average base rate of 4.95% and a Sterling Overnight Index Average (SONIA) of 4.90% published daily by the BoE. The SONIA rate is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. It is therefore a good proxy for the risk-free rate of investing surplus cash.

30. The loan portfolio has outperformed both the average base rate and the average SONIA in four of the last five years. The average rate of interest earned on the portfolio in the last five years is 2.63% which compares favourably to average base rate and the SONIA which have reported returns of 2.51% and 2.47% respectively.

31. The variability of balances makes it difficult to calculate the excess interest that the over performance has achieved over the whole of the five-year period, but it is estimated to be at least £2.6m.

32. The above paragraphs exclude investments relating to private debt and bank risk sharing investments. The capital value of these investments as at 31st March 2025 was £32.7m. Since inception (January 2018) the Council has received interest payments totalling £11.2m from these investments and the current performance as measured by the internal rate of return is 8.49%.

33. The table below provides an overview of the Council's investments in private debt and bank risk sharing investments. 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 2024/25	
	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	1.7	2.3	5.03%	-3.9	- 2.7	-
MAC VI	20.0	11.8	13.3	7.34%	-2.7	- 5.8	- 1.7
CRC CFR 5	15.0	12.5	12.7	11.11%	-4.7	-2.5	-3.5
MAC VII	10.0	6.7	7.5	-	-	-	-

Summary

34. Treasury Management is an integral part of the Council's overall finances, and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium to long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in significant savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

Equality and Human Rights Implications

35. There are no equality or human rights implications arising from the recommendations in this report.

Background Papers

Report to County Council on 21 February 2024 – 'Medium Term Financial Strategy (MTFS) 2024/25 - 2027/28. Appendix N, 'TMS 2024-25:

https://democracy.leics.gov.uk/documents/s181392/Appendix%20N%20-%20TM%20Strategy%20Statement%202024-25.pdf

Appendices

None.

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