Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 23 JANUARY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TREASURY MANAGEMENT STRATEGY STATEMENT 2026-27

Purpose of the Report

1. The purpose of this report is to provide the Corporate Governance Committee with an opportunity to review the Treasury Management Strategy Statement which includes the minimum revenue provision (MRP) policy statement and the annual investment strategy for 2026/27.

Background

2. The Treasury Management Strategy statement forms part of the Medium-Term Financial Strategy which will be considered by the Council at its meeting on 18 February 2026.

3. Any comments that are made by the Corporate Governance Committee will be included in the report to the Council on this matter.

4. In 2021 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code of Practice and a revised Prudential Code. The changes to the Codes reflect concern within Central Government about a trend towards authorities borrowing to make investments in assets which are not required for service reasons, in an attempt to generate additional resources to assist the revenue budget. The main changes in the 2021 Code updates are that a Council must not borrow (internally or externally) to invest primarily (more than 50% of the reason) for financial return.

5. Investments may therefore only be made where they are directly and primarily related to the functions of the Council and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. This includes investments for the delivery of public services, e.g. affordable housing, job creation, environmental sustainability, local infrastructure and the regeneration of areas – that addresses areas of economic or social market failure and should only be made within the Council's area of economic influence. Investments should not be made primarily for return.

6. The updated Prudential Code does not require authorities to sell existing primarily for return investment assets that were acquired (or committed to) prior to November 2020. However, where the Council has an expected need to borrow (internally or externally), as does the County Council for the wider capital programme, the Code requires an annual review of options to exit investments held primarily for return. The reviews should evaluate the benefit of holding such assets with taking out new borrowing and any risk reduction benefits. This will be undertaken each year as part of the annual Investing in Leicestershire Programme (IiLP) strategy refresh. The Prudential Code allows continued investment in such assets to maximise their value, including repair, renewal and updating of the properties. IiLP has always had wider objectives than simply financial return. The IiLP strategy and appraisal approach was updated last year to ensure all new IiLP investments will be compliant with the updated prudential code and also updated HM Treasury guidance.

7. As part of the prudent management of the Council's finances, investments will need to continue to be well managed and deliver a financial return commensurate with the level of risk. This is applicable even where the primary purpose is delivery of wider County Council policy objectives.

8. Guidance produced by HM Treasury in 2023 reinforces the requirements of the Prudential Code by restricting access to the Public Works Loans Board (PWLB) for borrowing where any schemes within an Authority's capital programme are primarily for return. The Council has had in place for some time its IiLP Strategy which it first produced in 2014, prior to this guidance. This has been updated annually since then. The most recent version is scheduled to be reported to the Scrutiny Commission in January 2026, and the Cabinet in February 2026, and when read in conjunction with the Treasury Management Strategy this fulfils the Council's obligations set out within this guidance.

9. The Council's IiLP Strategy sets out the approach the Council will follow when considering the acquisition of investments for the purposes of inclusion within the IiLP. It specifically documents the Council's requirements for ensuring effective due diligence, risk appetite, independent and expert advice and scrutiny arrangements, and performance monitoring by the IiLP Board, the Cabinet and the Scrutiny Commission as part of the regular monitoring of the MTFS.

10. The County Council has not borrowed to fund the investments within the IiLP programme. IiLP investments comprise direct capital investments and treasury management investments. The proposed 2026-30 capital programme includes further investments in IiLP assets of £43m subject to satisfactory business cases. This will bring the total held to £260m (based on historic cost). Annual income returns are currently around £9m excluding capital growth, contributing ongoing net income for the Council. Any new investments in IiLP assets will be assessed to ensure that they are not primarily for return, in line with the requirements of the updated Prudential Code, and to ensure ongoing access to PWLB for future borrowing requirements.

11. Decisions on the availability and proportionality of funding for the capital programme are made through the Capital Strategy (which includes funding for IiLP). They are reviewed annually as part of the MTFS, and the Treasury Management Strategy Statement. These documents take into account the statutory guidance issued by the

Secretary of State under the Local Government Act 2003.

Treasury Management Strategy Statement and Annual Investment Strategy

12. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, prioritising security, liquidity and investment return in that order of importance.

13. The second main function of treasury management is the funding of the Council's capital programme. The capital programme sets out the borrowing need of the Council and the longer-term cash flow planning, to ensure that it 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. It will also, when it is prudent and economic to do so, restructure existing long-term debt to reduce risk or costs.

14. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. As cash balances result mainly from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of the principal will in effect result in a loss to the General Fund Balance.

15. Following the lasting implications of the Covid-19 pandemic, in particular the way the pandemic demonstrated that unforeseeable events can very quickly cause significant uncertainty and shock financial markets, it is recognised that in exceptional circumstances the Director of Corporate Resources, in order to protect capital balances and liquidity, may have to take immediate action that breaches the limits within the policy on a temporary basis. The Committee noted at its meeting in January 2021 that action would only be taken as a last resort and that any such action taken would be reported, along with the rationale behind it, to the Corporate Governance Committee at the first opportunity. It was also agreed at the meeting that ideally the decision should be made in consultation with the Chairman of the Corporate Governance Committee and if immediate action was required and it was not possible to consult with the Chairman, the Chairman would be informed as soon as practicable afterwards.

Minimum Revenue Provision Review

16. The Local Authorities (Capital Finance and Accounting) Regulations 2003 require local authorities to charge to their revenue account in each financial year a minimum amount to finance capital expenditure. This is referred to as Minimum Revenue Provision (MRP). The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

17. In 2019/20 the Council reviewed the expenditure that is required under statute relating to a prudent MRP. Based on the average economic remaining life of assets

held, the MRP calculation for supported and unsupported borrowing was amended to a period of 40 years, which reduced the MRP charge to around £6m per annum.

18. During 2024/25 the Council has reassessed the MRP policy to assess its continued appropriateness. The review has identified that changes to the existing policy can be made to remain prudent and to more accurately reflect the time value of money through the use of an annuity calculation. This results in a consistent charge to the general fund for assets over their useful lives. Setting the annuity rate at the Bank of England's Monetary Policy Committee's inflation target rate of 2% is considered appropriate and prudent. MRP will increase by this percentage each year. This reflects the time value of money and can be considered to be fairer on council tax-payers as it produces a consistent charge as measured in real terms. The revised approach was approved by the Council in February 2025 and is being applied from 2025/26.

19. CIPFA's Practitioners' Guide to Capital Finance in Local Government supports the use of the Annuity method on the basis that the MRP charge to the General Fund takes account of the time value of money.

20. It should be noted that the revised approach does not change the overall amount of MRP payable; the same amount is simply repaid over a different time period but is more aligned with the period over which the underlying assets provide benefit. The MRP strategy can be found in Annex 1 to this strategy.

21. Overall capital financing costs, MRP (annuity basis) and external debt interest, are forecast to be £12.4m in 2026/27 and to then rise to £14m in 2029/30 as a result of the requirement for new borrowing. This estimate assumes the required new borrowing is from internal cash balances. The capital financing costs do not include the cost of interest returns foregone by using internal cash balances, this will be reflected in a reduction to the bank and other interest budget.

Resource Implications

22. The interest earned on revenue balances and the interest paid on external debt (which are directly correlated to the Treasury Management Strategy Statement) will impact onto the resources available to the Council.

Equality Implications

23. There are no discernible equality implications arising from the recommendations in this report.

Human Right Implications

24. There are no discernible human rights implications arising from the recommendations in this report.

Recommendation

25. The Committee is asked to comment on this report and recommend that the County Council approves the Treasury Management Strategy Statement 2026/27, attached as an Appendix to this report.

Background Papers

Report to Corporate Governance Committee on 24 January 2025 – Treasury Management Strategy Statement and Annual Investment Strategy 2023/24:

https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7959&Ver=4

Circulation under the Local Issues Alert Procedure

26. None

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Appendix
Treasury Management Strategy Statement 2026/27