# Mid-Year Review Of Treasury Management Activities 2025/26

Overview Select Committee

Date of meeting: 3 December 2025

Lead director: Amy Oliver, Director of Finance

**Useful information**

- Ward(s) affected: All
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- Report version number: 1

## 1. Summary

1.1. This report reviews how the Council conducted its borrowing and investments during the first six months of 2025/26.

1.2. The report commences with an overview of treasury management, including loans and investments at key dates. It then reviews the credit worthiness of investments and implementation of our strategy, provides outcomes on key performance measures and concludes by reviewing compliance against limits set by the Council.

1.3. During 2025/26 inflation has edged up slightly starting at 3.5% in April it then fluctuated before settling at 3.8% in July to September.

1.4. Despite inflation sticking above 3.5% the bank of England still made two cuts to base rate from 4.5% to 4% in order to stimulate the economy. With inflation stabilising in the second quarter of 2025/26, a further cut is anticipated in the new year.

1.5. The Council has been required to carry out planned borrowing during the first six months of this year.

## 2. Recommended actions/decision

2.1. Members of the Overview Select Committee are recommended to note the report and make comments to the Director of Finance and the Executive as they wish.

## 3. Scrutiny / stakeholder engagement

N/A

4. **Background and options with supporting evidence**

4.1. Treasury management is the process by which our borrowing is managed, and our cash balances are invested. Whilst there are links to the budget approved annually by Council, the sums in this report do not themselves form part of the budget. Cash balances reported here cannot be used to finance expenditure, except to the extent already shown in the budget report and accounts.

4.2. The Council has incurred debt to pay for past capital expenditure.

4.3. The Council also needs cash balances. These are needed for day-to-day expenditure (e.g. to pay wages when they are due) and some is set aside to repay back borrowing.

4.4. The report commences with an overview of treasury management, including loans and investments at key dates, It then reviews the credit worthiness or investments and implementation of our strategy, provides outcomes on key performance measures, and concludes by reviewing compliances against limits set by the Council.

4.5. Reports reviewing treasury management activities are submitted twice a year, this is the first for 2025/26.

**Overview of Treasury Management**

Main elements of Treasury Management

4.6. There are two main elements to treasury management. The first is managing our borrowing, which has been taken out to finance capital expenditure. Most capital schemes are financed by grant or borrowing.

4.7. Up until last year the Council had not borrowed for over a decade. However, as cash balances have reduced this period and the increased need to fund the capital programme with borrowing, the Council is once again utilising government borrowing facilities.

4.8. Historic debt can sometimes be restructured to save money, i.e. repaying one loan and replacing it with another, and this is always given active consideration. However, Government rules had previously made it prohibitively expensive to repay loans borrowed from the PWLB earlier than the maturity date. Therefore, any repayments would likely be as part of an overall longer-term debt refinancing and rescheduling exercise after taking into account the prevailing interest rates and a full cost benefit analysis.

4.9. The revenue budget approved by the Council for each financial year includes provision for the interest payable on this borrowing. It also includes a provision for repaying the borrowing over a number of years (broadly speaking over the economic life of the assets acquired). As noted above, the actual loans have generally not been repaid, hence the funding set aside annually for repayment does help to maintain the cash balances.

4.10. The second element is <u>cash management</u> involves managing the Council's investments to ensure the optimum amount of money is in the bank account on a day-to-day basis – so that there is enough money in the account to cover the payments made on the day, but no more (cash held in the bank account earns negligible interest).

4.11. The Councils investments have reduced for the reasons detailed earlier in this report but as noted this is not "spare cash". There are a number of key reasons for the level of cash:

a) As explained above, whilst the Government no longer supports capital spending with borrowing allocations, we are still required to provide money in the revenue budget each year to repay debt on past capital spending.
b) We have working balances arising from our day-to-day business (e.g. council tax received before we have to pay wages and suppliers, and capital grants received in advance of the associated capital spending).
c) We have reserves as shown in the annual budget report and the annual outturn report, which are essentially held in cash (or to underwrite 'internal borrowing' for new capital spending) until we need to spend them.
d) We hold funds previously associated with our role as the accountable body to the former Leicester and Leicestershire Enterprise Partnership (LLEP). These are now held by the Council as the lead Upper Tier Local Authority for the post-LLEP arrangements.

<u>Treasury Management Policy and Monitoring</u>

4.12. The activities to which this report relates are governed by the Treasury Management Strategy for 2025/26 which was approved by the Council on 19 February 2025. This establishes an outline plan for borrowing and investment. The strategy was drawn up based on the Council's expected borrowing requirements, its expected cash balances, the outlook for interest rates and the credit worthiness of the banks with whom the Council might invest its cash balances.

4.13. A twice-yearly report is submitted to your committee reviewing the treasury activity undertaken in the year. This report is the mid-year report for 2025/26.

<u>Loans and Investments at Key Dates</u>

4.14. Table 1 shows the loans (money borrowed by the Council) and investments (money invested by the Council) as at 31/03/2025 and 30/09/2025. The rates shown are the averages paid and received during 2025/26.

4.15. The level of gross debt has increased during the first half of the year for the reasons detailed earlier in the report. It is anticipated we will undertake additional borrowing through the second half of the year.

4.16. Investments have increased during the first 6 months of the financial year from £54.8m on 31 March 2024 to £109.7m. It is normal for balances to be higher in the first half of the year, as we often receive the income at the start of the year ahead of our need to spend and we have borrowed ahead of the need to spend. It should be noted though that this is £48m less than the position in September 2024.

4.17. Interest rates have gradually reduced over the first six months of the year with the Bank of England making two base rates cuts which have impacted on investment rates. As Inflation has stabilised there is likely to be a further cut in early 2026

**Table 1 - Loans & Investments**

| | **Position at 31 March 2025 £m** | **Position at 30 September 2025 £m** | **Average Rate of Interest** |
|---|---|---|---|
| **Long-Term Loans** | | | |
| Public Works Loans Board | 134.5 | 174.5 | 4.2% |
| Debt Held by the County Council | 19.1 | 18.7 | 6.0% |
| **Short-Term Loans** | | | |
| Local Authority Loans | 20 | 23 | 4.4% |
| **Gross Debt** | **173.6** | **216.2** | **4.4%** |
| **Treasury Investments** | **Position at 31 March 2025 £m** | **Position at 30 September 2025 £m** | **Average Rate of Interest** |
| Local Authorities | 25.0 | 30.0 | |
| Money Market Funds | 21.8 | 74.7 | |
| Property Funds | 5.0 | 5.0 | |
| **Gross Investments** | **51.8** | **109.7** | **4.2%** |
| **NET DEBT** | **121.8** | **106.5** | |

4.18. Council has invested £5m in the Threadneedle Property Fund Trust since 2018. At the 30 September 2025 this fund had a value of £4.3m.

**Table 2 – Property Funds**

| **Threadneedle St Property Fund** | **£m** |
|---|---|
| Initial Investment 2018 | 5.00 |
| Unrealised loss | (0.67) |
| **Value at 30 September 2025** | **4.33** |
| Interest received on investment | 1.55 |
| **Overall Gain/(Loss)** | **0.88** |

4.19. The Council's (Non-Treasury ) Investment Strategy also allows the authority to spend capital or make loans to a third party where it is intended to (at least partly) achieve a return. As at 30 September the Council had the following non-treasury loans with third parties.

**Table 3 - Loans & Investments under the Investment Strategy**

| **Loans** | **Loans outstanding At 30/09/2024 £m** | **Interest rate** |
|---|---|---|
| Ethically Sourced Products Ltd | 1.0 | 4% |
| Leicester Hockey Club CIC | 0.4 | 5% |
| Leicester Community Sports Arena Ltd | 1.4 | 5% |
| Chapter of the Leicester Cathedral | 0.8 | 5% |
| **Total All Loans** | **3.6** | **4.8%** |

4.20. It is positive to note that Leicestershire Cricket Club repaid their £2m loan from us at the beginning of September.

4.21. As previously reported, Leicester Community Sports Arena Ltd is currently in arrears in relation to the repayment of their loan.

4.22. Leicester Hockey Club C.I.C. had a loan has also fallen into arrears and have a repayment plan in place and should be caught up in the next 9 months.

Credit Worthiness of Investments & Interest Rate Outlook

4.23. The economic situation in the UK has remained subdued with very low growth, though to date the UK has avoided a recession. Growth is expected to continue to be slow into 2025.

4.24. Interest rates have fallen from 4.5% at the 1 April 2025 to 4% at 30 September. It is expected that if inflation remains stable or starts to reduce then further cuts will be made in 2026.

4.25. The November 2025 Bank of England Monetary Policy Committee voted 5-4 to keep interest rates the same showing greater appetite for a cut than previously.

4.26. The Council has an indirect exposure to non-UK banks through its investment in money market funds. Money market funds are like “unit trusts” but rather than investing in company shares these funds invest in interest bearing investments such as bank deposits. When we open such funds, they are vetted to ensure that they have strong investment and risk management processes to ensure a high level of credit worthiness in the underlying investments, and we receive advice from our treasury advisor, Link.

Implementation of Borrowing & Investment Strategy

4.27. All treasury management operations have also been conducted in full compliance with the Authority's Treasury Management Practices. There have been no breaches of the strategy during the first half of 2025/26.

4.28. The strategy approved by Council for 2025/26 envisaged the Council requiring borrowing to be taken out to fund Capital Expenditure after a number of years of utilising cash balances and internal borrowing. The first tranche of borrowing of £40m took place in July while planning to borrow further in October and again in the new year.

4.29. Short-term borrowing has been utilised to provide liquidity during the first six months of the year. This borrowing is planned to be repaid in October when the Council takes out a second tranche of long-term borrowing.

4.30. The Council will time future borrowing to take place when both need and advantageous interest rates coincide.

Key Performance Measures

4.31. The Council benchmarks its investments and the latest data for the investment portfolio is as of 30 September 2025.

4.32. Treasury investments comprise internally managed investments, and longer maturity externally managed funds.

Other Prudential Indicators

4.33. Debt and the Authorised Limit and Operational Boundary, is set out in the table below:

| | **Debt at 30/9/2024 £m** | **2025/26 Authorised Limit £m** | **2024/25 Operational Boundary £m** | **Complied?** Yes/No |
|---|---|---|---|---|
| Borrowing | 216 | 650 | 550 | yes |
| PFI and Finance Leases | 80 | 500 | 450 | yes |
| **Total debt** | **296** | **1,150** | **1,000** | |

4.34. The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

4.35. The operational boundary is a management tool for in-year monitoring and it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Maturity Structure of Borrowing

4.36. This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity of all borrowing were:

| | Upper Limit £m | Lower Limit £m | 30/09/2025 Actual £m | Complied? |
|---|---|---|---|---|
| Under 12 months | 50 | nil | 28.25 | yes |
| 12 months and within 24 months | 80 | nil | 15.25 | yes |
| 24 months and within 5 years | 140 | nil | 12.0 | yes |
| 5 years and within 10 years | 140 | nil | 7.5 | yes |
| 10 years and within 25 years | 180 | nil | 19.0 | yes |

| | | | | |
|---|---|---|---|---|
| 25 years and over | 250 | nil | 115.0 | yes |

*Note that these figures exclude PFI and finance leases, and amounts owed to Leicestershire County Council. The figures held as under 12 months include money borrowed short term from Local Authorities.

Long-term Treasury Management Investments

4.37. The Council has a limit of £50 million for investments in all types of long-term investments such as property funds, long dated bond funds and equities. The total sum of such investments held by the Council as of 30th September 2025 was the £10m of which £5 was held in property funds. The Council will monitor opportunities for long term investments in order to respond agilely when such opportunities arise.

Gross Debt and the Capital Finance Requirement

4.38. Statutory guidance is that debt should remain below the capital finance requirement, except in the short term. The authority has complied and expects to continue to comply with this requirement. The total debt including PFI and finance leases was £296 million whereas our capital finance requirement is £648m.

Liability Benchmark

4.39. The Treasury Management Strategy is required to include the Liability Benchmark. This compares the underlying need to borrow for capital purposes with the external loans profile over the next 50 years, for existing and approved future expenditure.

4.40. The underlying need to borrow for capital purposes is called the Capital Financing Requirement (CFR). The CFR falls over time as loans are gradually repaid and rises with new borrowing. The historic Housing Revenue Account debt does not have to be repaid and will therefore remain in the CFR.

4.41. After revenue and other balances have been considered, the liability benchmark (the underlying need to borrow for all purposes), is less than the CFR which is the maximum amount that can be borrowed except for very short term cashflow requirements.

4.42. In terms of risks, the Council is exposed to rising interest rates increasing the cost of future borrowing, but this is offset by an exposure to falling interest rates, which would reduce the return received on investments. The Council is also exposed to credit risk on its investments, that is the risk that loans or investments are not repaid although the great majority of its treasury balances are in low-risk investments.

4.43. Statutory guidance is that debt should remain below the capital finance requirement, except in the short term. The authority has complied and expects to continue to comply with this requirement.

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| Compliance with the Council's Treasury Management Strategy<br><br>4.44. For the operational implementation of the Council's Treasury Management Strategy the most important limits and indicators that need to be monitored throughout the year are:<br>• The authorised limit – the maximum amount of borrowing that the Council permits itself to have outstanding at any one time.<br>• The operational limit – a lower limit to trigger management action if borrowing is higher than expected.<br>• Limits on sums to be invested for more than one year<br><br>4.45. These limits are monitored and have been complied with.<br><br>Use of Treasury Advisors<br><br>4.46. The Council have appointed Link group as advisers from 1 October 2024. They advise on all aspects of treasury management, but their main focus is on providing advice on the following matters:<br>• the creditworthiness of banks<br>• the most cost-effective ways of borrowing<br>• appropriate responses to Government initiatives<br>• technical and accounting matters. |

## 5. Financial, legal, equalities, climate emergency and other implications

5.1 Financial implications

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| This report is solely concerned with financial issues. |
| Signed: Amy Oliver |
| Dated: 11th November 2025 |

5.2 Legal implications

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| There are no specific legal implications arising from this report, which is for information purposes. |
| Signed: Kevin Carter – Head of Law - Commercial, Property & Planning |
| Dated: 07 November 2025 |

5.3 Equalities implications

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| This report is for noting and outlines the Treasury activity and highlights investment, performance and the council's compliance to the Treasury and Prudential indicators during the first six months of 2025/26, it has no direct equality impacts |
| Signed: Surinder Singh, Equalities Officer, ext. 37 4148 |
| Dated: 10 November 2025 |

5.4 Climate Emergency implications

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| There are limited climate emergency implications directly associated with this report. However, in general, the Council should consider opportunities to ensure that its investments are not contributing to negative climate and environmental impacts, as relevant and appropriate. |
| Signed: Phil Ball, Sustainability Officer, Ext 37 2246 |
| Dated:  07 November 2025 |

5.5 Other implications (You will need to have considered other implications in preparing this report.  Please indicate which ones apply?)

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**6. Background information and other papers:**

Treasury Policy 2025/26 approved at Council 19 February 2025

Treasury Management Strategy 2025/26 approved at Council 19 February 2025

Investment Strategy 2025/26 approved at Council 19 February 2025

**7. Summary of appendices:**

N/A

**8. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?**

No

**9. Is this a “key decision”? If so, why?**

No