Review of Treasury Management Activities 2024/25

Overview Select Committee

Date of Meeting: 9th July 2025

Lead director: Amy Oliver, Director of Finance

Useful information

- Ward(s) affected:
- Report author: Chris Raymakers, Treasury and Investments Manager
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- Report version number: 1

1. Summary

1.1 This report reviews how the Council conducted its borrowing and investments during 2024/25.

1.2 The year started with interest rates at a base rate of 5.25% and an expectation that they would continue to rise slightly to counter high inflation. Rates had fallen to 4.50% on 6 February 2025 and remained at this level for the rest of the financial year. This fall in interest rates will have impacted the Council's return on its investments.

1.3 Inflation fluctuated during 2024/25 but overall went up starting at 2.3% in April 2024 and finishing on 2.6% in March 2025. It had briefly fallen below the Bank of England target of 2% in September before climbing again. It is expected to continue to rise in 2025 as the 2024 Autumn Budget takes effect before once again decreasing toward the target rate.

2 Recommendations

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. Background

3.1 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. Rather, measures approved by Council such as drawing on managed reserves to help support the budget and incurring capital spending funded by prudential borrowing translate to a planned and approved call on cash balances.

3.2 The Council has incurred long term loan debt to pay for past capital expenditure.

3.3 The Council needs cash balances to meet day-to-day expenditure, such as to pay wages and suppliers when they are due. Substantial cash has however accumulated from funds set aside in the annual budget to repay the long-term loans. Because of Government rules regards repayment of loans from the Public Works Loans Board (PWLB), it has historically been prohibitively expensive to repay such debt early. This cash has therefore been invested, and more recently used as 'internal borrowing' for new capital spending not funded by grants, rather than taking out new loans (such as for new council housing). The ability for the Council to use cash balances is reducing as we use our reserves and undertake increased borrowing for the capital programme. However, the Council did repay the loan with Dexia in January 2025 when the lender asked for an interest rate increase as per the agreement.

3.4 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.

3.5 Reports reviewing treasury management activities are submitted twice a year. The previous report was presented to your committee on 12 December 2024.

4. **Overview of Treasury Management**

Main elements of Treasury Management

4.1 There are two main elements to treasury management. The first is managing our borrowings which were used to finance past capital expenditure. Previously capital schemes have for some time been financed by capital grant, and only a limited number of recent schemes have been financed by prudential borrowing. This has changed since the budget strategy for 2025/26 were the capital budget is now financed from grants and borrowing.

4.2 Whilst the Council has not borrowed long-term for more than 15 years. However, as cash balances have reduced over this period and the increased need to fund the capital programme through the use of borrowing, the Council recognises the need to change this approach and once again utilise government borrowing facilities.

4.3 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.

4.4 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 doe help to maintain the cash balances.

4.5 The second element of treasury management is cash management which 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 lower interest).

4.6 During 2024/25 the Council has seen its cash investments reduce, but as noted above this is not of itself "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.

4.7 There has been a very significant reduction in cash balances during the second half of the financial year as grants received for the capital programme have been spent, acquisitions of council housing have progressed and reserve balances reduce. Balances have fallen by £107m, from £159m at 30 September 2024 to £52m at 31 March 2025 (balances at 31 March 2024 were £237m).

Treasury Management Policy and Monitoring

4.8 The activities to which this report relates were governed by the Treasury Strategy for 2024/25 which was approved by the Council on 21 February 2024. This established an outline plan for borrowing and investment. The Treasury Strategy is drawn up in the light of 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.

4.9 A twice-yearly report is submitted to your Committee reviewing the treasury activity undertaken in the year. This report is the second and final report for 2024/25.

Loans and Investments at Key Dates

4.10 Table 1 overleaf shows the loans (money borrowed by the Council) and investments (money invested by the Council) as at 30 September 2024 and at 31 March 2025. The rates shown are the averages paid and received during 2023/24.

4.11 The level of gross debt (total loans borrowed both long and short-term) remained the same during the second half of the year and no new long-term loans were borrowed during the year.

4.12 Our historic borrowing is predominantly from the Public Works Loans Board (PWLB), plus two historic bank loans. One of these was repaid in 2023/24 the other, which was a "LOBO" loan (Lender Option, Borrower Option) was repaid in January 2025. The Council took the option to repay this in January, at the triannual review of the interest rate by the lender. The Dexia loan was replaced over year end with temporary borrowing.

4.13 Investments in the second half of the year have decreased significantly by £107m, from £159m at 30 September 2024 to £52m at 31 March 2025. This change partially reflects the usual pattern of balances declining towards the end of the financial year as grant income is spent and incoming Council Tax and Business Rates income winds down. However, the continuation of both the General Fund and HRA capital programmes together a many years resisting the need to borrow while more recently not refinancing the two loans mentioned above have seen balances decrease further.

4.14 Since 2019/20, we have generally invested in the short to medium term with other local authorities, rather than banks which have less protection for institutional investors. At the end of the 2024/25 financial year, the Council had no exposure to banks except to Barclays who act as the Council's bankers. We may potentially in the future look to increase our deposits with banks if they can be secured by other assets.

4.15 The Council has continued to make use of money market funds which comprise a basket of short-dated loans to financial institutions. The funds that we use are very low risk and have very high credit ratings. We also use them because they are liquid (we can get money back when we need it). We have never lost any money in investing in these funds, but the downside of their safety is that returns are generally lower than some less secure alternatives.

Table 1- Loans & Investments

	Position at 30/09/2024 Principal £M	Position at 31/03/2025 Principal £M	Average Rate at 31 March 2025	Average Rate in 2024/25
Long Term Fixed Rate Loans				
Public Works Loan Board (PWLB)	134	134	4.2%	4.2%
Bank Loans	NIL	NIL		
LOBO Loans				
Bank Loans	20	NIL	0.0%	4.6%
Short Term (less than 6 months) Loans				
Local Authority Loans (repaid in April 2025)	NIL	20	6.3%	4.0%
Gross Debt	**154**	**154**	**4.5%**	**4.2%**
Treasury Investments				
Banks	0	0		
Other Local Authorities	65	25		
Money Market Funds	87	22		
Property Funds	7	5		
Total Treasury Investments	**159**	**52**	**4.1%**	**4.1%**
NET INVESTMENTS	**5**	**(102)**		

4.16 The investments include £5.2m in two property unit trusts. These are unit trusts which invest in property, as opposed to more traditional unit trusts that invest in shares. With this type of investment capital value can go both up or down and in recent years the value of these investments has been somewhat variable with both seeing a decline from the nominal investment value of the asset.

4.17 The Threadneedle Property fund, with a valuation of £4.3m which is also £0.7m lower than the original purchase price of £5m.

4.18 The Lothbury property fund was terminated on 30 May 2024. This means the fund is being wound up and as assets are sold the investors will receive repayment of their investment in instalments. Repayments have been regularly forthcoming during 2024/25 however as has been previously reported the Council will not recoup its full investment and has allowed for £1m loss on the original principle in the 2024/25 revenue outturn. This has been reflected in the tables 1 and 2.

4.19 The dividends received on the units in the year totalled £241k (a return of 2.9% on the original capital investment).

4.20 The Treasury Strategy permits additional investments in property funds up to a total value of £30m, but no further such investments have been made during the last year. We do not expect to make any new property investments for the foreseeable future. The table 2 below shows the overall position of the property funds since purchase in 2018.

Table 2 – Position of Property Funds

	Lothbury £m	Threadneedle St £m
Initial Investment 2018	**3.30**	**5.00**
Investment Returned	(2.30)	0.00
Realised Loss	(1.00)	0.00
Unreaslised Loss	0.00	(0.70)
Value at 31 March 2025	0.00	4.30
Interest received on Investment	0.60	1.40
Overall Gain/(loss)	**(0.40)**	**0.70**

4.21 The Council's (Non-Treasury) Investment Strategy also allows the spending of capital or making of loans to a third party which are intended to (at least partly) achieve a return. During 2024/25 the Council made one further loan to The Chapter of the Leicester Cathedral. A summary of outstanding loans made under the Investment Strategy is shown in table 3 below.

4.22 As previously reported, the cricket club and Leicester Community Sports Arena are currently working with the Council on revised payment schedules.

Table 3 - Loans under the Investment Strategy

Loans	Total loans outstanding At 31/03/2025 £m	Percentage Return 2024/25
Loans		
Ethically Sourced Products Ltd	1.0	4%
Leicestershire County Cricket Club Ltd	2.0	5%
Leicester Hockey Club CIC	0.4	5%
Leicester Community Sports Arena Ltd	1.4	5%
The Chapter of Leicester Cathedral	0.8	5%
Total Loans	**5.6**	**4.8%**

5. **Credit Worthiness of Investments & Interest Rate Outlook**

5.1 During 204/25 we started to see the economy stabilise with inflation gradually coming down with the hope of settling around the government target during 2025/26. Growth however has remained hard to find but with inflation coming down it has allowed the bank of England to start to reduce interest rates which in turn is hopped will encourage growth.

5.2 Since the financial crisis of 2008 the governments of the largest world economies, including the UK, have implemented measures to make banks less likely to fail but also to reduce the impact on the financial system and on taxpayers if they do fail. The measures for dealing with a failing bank see investors who are not protected by the Financial Services Compensation scheme (which includes the Council) who have lent or deposited money, taking significant losses before there is any taxpayer support ("bail in"). These developments are reflected in the Council's approach to managing credit risk in its treasury strategies and the very low level of lending to banks.

5.3 The position is continually under review. One factor is that other regulatory developments are continuing to require or push banks towards greater financial robustness. Banks are now required to "ring fence" bank deposits from other riskier activities.

5.4 The Council has an indirect exposure to banks (including 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 make 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, and we receive advice from our treasury advisor.

5.5 During 2024/25 the Council changed its treasury advisor from Arlingclose to MUFG (formerly known as Link Asset Services)

6. **Implementation of Borrowing & Investment Strategy**

6.1 The strategy approved by Council for 2024/25 continued with it's strategy using cash balances to underpin new prudential borrowing and HRA council housing acquisitions and new build, before undertaking borrowing. However, as forecast the Council is now required to undertake external borrowing as it uses its cash balances.

6.2 Total investment income during 2024/25 was £6.4m. This was significantly greater than the £4.7m budgeted for, principally due to interest rates not falling as quickly as anticipated and slippage in the capital programme. Most of this increase was reflected within the period 6 and period 9 revenue budget monitoring reports.

6.3 In January 2025 the Council repaid both the loans with Dexia, totalling £20m, with an fixed interest rate of 4.6% (£0.92m p.a.) which was due for repayment in the year 2054. This loan was a LOBO style loan (Lender Option Borrowing Option) which includes a review of interest rates by the lender every three years. The most recent option was in January when the lender requested an interest rate going forward of 6.26% giving them a considerable premium on rates available elsewhere and the prevailing trend of interest rate reduction. The Council took this opportunity to repay both loans with the view to re-finance them at around 4.25%.

6.4 The Council took out £20m temporary borrowing toward year end which served as both replacement for the Dexia loan and in order to manage cash balances across year end. Due to interest rates being high at the time, around 6.25%, they were held for a minimal period only. These loans were refinanced in April at a lower interest rate of around 4.25%

7. Key Performance Measures

7.1 The most important performance measures are the rate of interest on the Council's borrowings, the timing of borrowing decisions, the timing of decisions to prematurely repay debt, the return on investments and the full repayment of the principal amounts invested.

7.2 The average rate of interest on all investments for English Unitary Authorities at 31 March 2025 is 4.59% whilst the Council's own rate was lower at 4.1%. This is mainly explained by differences on income from longer term investments, as the Council has had a number of medium-term deposits with other local authorities which were made before the unexpectedly fast rise in interest rates and thus didn't benefit from those high rate rises. These medium-term deposits are coming to an end in July 2025.

7.3 The Council has no higher-risk investments in unsecured bank deposits and fewer longer dated strategic funds invested in more variable assets such as property and equities than many other authorities; and has a lower risk portfolio with a far smaller exposure to failed bank bail-in than most. Whilst this quite deliberately lowers our risk of capital losses, it also impacts our relative returns.

7.4 Members will be aware that some authorities have found themselves in major difficulties because they invested too much in riskier assets in anticipation of higher returns; and have since seen significant financial losses and in some cases Government intervention.

7.5 Higher investment returns are always available if higher risk is accepted. Risk can take the form of credit risk (money due is not paid) or market risk (the value of investments fall). However, the trade-off between risk and reward was considered when investment strategies were set for 2024/25 and in the current economic climate continues to be a most important consideration.

7.6 In practice, there is no such thing as a representative "average" authority. The benchmarking data reflects a division between the authorities that use longer term and more risky assets (about half of all authorities) and those adopting a more cautious approach. We fall much nearer to the cautious side of the two as we have only a small proportion of longer-term assets.

8. Use of Treasury Advisors

8.1 The Council is advised by MUFG. They advise on all aspects of treasury management, but their main focus is on providing advice on the following matters:

- the creditworthiness of banks
- the most cost-effective ways of borrowing
- appropriate responses to Government initiatives
- technical and accounting matters.

9. Compliance with the Council's Treasury Strategy

9.1 As required by the statutory borrowing framework, the Council is required to set a number of prudential limits and indicators. These limits are set annually and can be found within the budget and Treasury Strategy.

9.2 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:

- The authorised limit – the maximum amount of borrowing that the Council permits itself to have outstanding at any one time.
- The operational limit – a lower limit to trigger management action if borrowing is higher than expected.
- The maximum proportion of debt that is fixed rate.
- The maximum proportion of debt that is variable rate.
- Limits on the proportion of debt maturing in a number of specified time bands.
- Limits on sums to be invested for more than 364 days.

9.3 These limits have been complied with.

9.4 Further details on the Prudential Indicators can be found in Appendix F to the Capital Budget Monitoring Outturn April-March 2024/25 report found elsewhere on your agenda.

10. Financial, legal, equalities, climate emergency and other implications

10.1 Financial implications

This report is solely concerned with financial issues.

10.2 Legal implications

There are no legal issues from this report – Kevin Carter, Head of Law (Commercial Property & Planning)

10.3 Equalities implications

This report reviews how the Council conducted its borrowing and investments during 2024/25 and monitors compliance with the treasury management strategy. It has no direct equality impacts. - Surinder Singh, Equalities Officer, ext. 37 4148

10.4 Climate Emergency implications

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. - Phil Ball, Sustainability Officer, Ext: 37 2246

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

None

11. Background information and other papers:

The Council's Treasury Management Strategy - "Treasury Strategy 2024/25" - Council 21 February 2024
The Council's Treasury Policy Document – "Framework for Treasury Decisions" – Council 21 February 2024.
Mid-year review of Treasury Management activities - Overview Select Committee 12 December 2024.

12. Summary of appendices:

None

13. 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

14. Is this a "key decision"? If so, why?

No