Blaby District Council

Council

Date of Meeting	8 July 2025
Title of Report	**Recommendations of the Cabinet Executive-Treasury Management Outturn 2024/25**
	This is not a Key Decision and is on the Forward Plan
Lead Member	**Cllr. Cheryl Cashmore - Finance, People & Transformation (Deputy Leader)**
Report Author	Finance Group Manager
Strategic Themes	Ambitious and well managed Council, valuing our people

1. What is this report about?

1.1 The report reviews the Council's treasury management activities undertaken during the 2024/25 financial year and gives details of the prudential and treasury indicators for the same period.

1.2 It also provides an update regarding the property fund investment.

2. Recommendation(s) to Cabinet Executive and Council

2.1 That the treasury management activities for 2024/25 are approved.

2.2 That the prudential and treasury indicators for 2024/25 are approved.

3. Reason for Decisions Recommended

3.1 The regulatory framework governing treasury management activities includes a requirement that the Council should produce an annual review of treasury activities undertaken in the preceding financial year. It must also report the performance against the approved prudential indicators for the year.

3.2 This report fulfils the requirement above and incorporates the needs of the Prudential Code to ensure adequate monitoring of capital expenditure plans and the Council's prudential indicators. The treasury strategy and prudential indicators for 2024/25 were contained in the report approved by Council on 27th February 2024.

4. Matters to consider

4.1 Background

The Council is required to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25 by regulations issued under the Local Government Act 2003. This report meets the requirements of both the Chartered Institute of Public Finance Accountants' (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2024/25 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Cabinet Executive 26th February 2024, Council 27th February 2024)
- a mid-year treasury update report (Cabinet Executive 4th November 2024, Council 19th November 2024)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulations place responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is important, in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

The Council has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Cabinet Executive and/or Scrutiny Commission before they were reported to the full Council. Member training on treasury management issues is undertaken on an ad hoc basis as required, with a training session proposed to be arranged during 2025/26.

4.2 Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets which may either be:

- Financed immediately through the application of capital or revenue resources (e.g., capital receipts, grants, revenue contributions), which has no resultant impact on the Council's borrowing need; or
- Financed through borrowing if insufficient resources are available, or a decision is taken not to apply resources.

The actual capital expenditure forms one of the main prudential indicators. The following table summarises the capital expenditure and financing for the year. A more detailed analysis is provided at Appendix A.

	2023/24 Actual £	**2024/25 Budget £**	**2024/25 Actual £**
Capital Expenditure	6,996,593	10,650,011	4,608,979
Financed in year	(3,332,263)	(6,864,237)	(3,370,859)
Unfinanced Capital Expenditure	**3,664,330**	**3,785,774**	**1,238,120**

4.3 The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2024/25 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2024/25 on 27th February 2024.

Once again, the Council undertook no new borrowing during 2024/25. Although there was a borrowing need to fund the capital programme, there are still sufficient reserves and balances available to enable the Council to effectively borrow internally.

The table below highlights the gross borrowing position against the CFR. The CFR represents a key prudential indicator. It includes finance leases that appear on the balance sheet, and which increase the Council's borrowing need. However, no borrowing is required to cover finance leases as there is a borrowing facility included in the contract.

	31st March 2024 Actual £	**31st March 2025 Budget £**	**31st March 2025 Actual £**
Opening Balance	14,486,025	17,465,910	17,465,910
Add Unfinanced Capital Expenditure	3,664,330	3,785,774	1,238,120
Less IFRS 16 Adjustment	0	0	(3,916)
Less MRP & VRP	(784,445)	(910,820)	(910,520)
Closing Balance	**17,365,910**	**20,240,864**	**17,689,594**

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

It is important to ensure that borrowing is prudent over the medium term and that it is only undertaken for capital purposes. Therefore, the Council needs to make sure that, except in the short term, its gross external borrowing does not exceed the total of the CFR in the preceding year (2023/24) plus the estimates of any additional CFR for the current year (2024/25) and next two financial years. Effectively this means that the Council is not borrowing to support revenue expenditure. This indicator also allows the Council some flexibility to borrow in advance of its immediate need where it is appropriate to do so. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31st March 2024 Actual £	**31st March 2025 Budget £**	**31st March 2025 Actual £**
CFR	17,365,910	20,240,864	17,689,594
Gross Borrowing	6,168,303	8,099,341	5,721,563
(Under)/Over Funding of CFR	**(11,197,607)**	**(12,141,253)**	**(11,968,032)**

The Authorised Limit – this is the affordable borrowing limit required by Section 3 of the Local Government Act 2003. Once it has been set, the Council does not have the power to borrow above this level. The table below demonstrates that the Council has maintained gross borrowing within the authorised limit during 2024/25.

The Operational Boundary – this is the expected borrowing position for the year. Periods where the actual position is either above or below the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream – this indicator identifies the trend in the cost of capital (i.e., borrowing, and other long term obligation costs net of investment income), against the net revenue stream.

	2024/25
Authorised limit	£23,000,000
Maximum gross borrowing position during the year	£6,168,303
Operational boundary	£20,700,000
Financing costs as a proportion of net revenue stream	8.81%

4.4 The Council's treasury management debt and investment position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2024/25 the Council's treasury position was as follows:

	Principal at 31st March 2024	**Rate/ Return**	**Average Life**	**Principal at 31st March 2025**	**Rate/ Return**	**Average Life**
PWLB Debt	£5,713,439	2.25%	18.8 years	£4,857,602	2.25%	17.8 years
Market Debt	0	n/a	n/a	0	n/a	n/a
Total debt	**£5,713,439**	2.25%	18.8 years	**£4,857,602**	2.25%	17.8 years
Capital Financing Requirement	£17,365,910			£17,269,227		
Over/(under) borrowing	**(£11,652,471)**			**(£12,411,626)**		
Short Term investments	(£22,089,000)	5.34%		(£22,575,200)	4.34%	
Long Term Investments	(£742,726)	5.27%		(£754,697)	3.90%	
Net debt	(£34,484,197)			(35,741,523)		

Other long-term liabilities, such as finance leases, are excluded from the table above.

The interest rates in the table above are based on the loans and investments outstanding at the year end and are not necessarily the same as the average rate payable during the financial year.

The maturity structure of the debt portfolio was as follows:

	31st March 2024 £	31st March 2025 £
Less than one year	855,837	857,602
Between one and two years	857,602	0
Between two and five years	0	0
Between five and ten years	0	0
Over ten years	4,000,000	4,000,000
	5,713,439	**4,857,602**

Investment Portfolio	**31st March 2024 £**	**31st March 2024 %**	**31st March 2025 £**	**31st March 2025 %**
Banks	18,129,000	5.27%	19,391,200	4.31%
Local Authorities	1,000,000	6.90%	0	0
Money Market Funds	2,960,000	5.26%	3,184,000	4.49%
Property Fund	742,726	5.27%	754,697	3.90%

The return on the Property Fund comprises both rental income and interest income gross of fees.

4.5 The Strategy for 2024/25

Investments

Investment returns remained robust throughout 2024/25 with Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England published its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

Over the year Local Authorities were able to achieve returns in excess of 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% - 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of “laddered investments” paid off.

Investment choices were not straight-forward due to concerns over rising inflation after the Autumn Statement in October led to reduced expectations for Bank Rate to fall. The CPI measure of inflation is expected to reach c3.75% by the autumn of 2025, which could provide for some presentational issues for a Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March, only two further rate cuts were priced into the market for 2025 (4% at December 2025). A week later and sentiment has changed dramatically in the wake of the equity market sell-off to the extent that markets now expect three Bank Rate reductions between May and December 2025 (Bank Rate to fall to 3.75%).

Borrowing

During 2024/25, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2025 and 2026 in the light of economic growth concerns and the eventual dampening of inflation. The Authority has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Executive Director (Section 151) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around a relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts, updated from November 2024 onwards, look more realistic.

At the start of April 2025, following the introduction of President Trump's trade tariffs policies, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, pulling down the 5- and 10-year parts of the curve too.

This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

4.6 Borrowing Outturn

No new borrowing was undertaken during the year. As a result, gross borrowing has fallen from £5,713,439 to £4,587,602 on 31st March 2025. The movement is summarised in the following table:

	£
Balance at 1st April 2024	**5,713,439**
New borrowing in year	0
Loans repaid in year	(855,837)
Balance at 31st March 2025	**4,587,602**

The total loan interest payable in 2024/25, excluding finance leases, was £108,264.64 (£131,268 in 2023/24), and the average interest rate payable was 2.25% (2.25% in 2023/24).

Borrowing in advance of need:

The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

Rescheduling:

No rescheduling was done during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

4.7 Investment Outturn

The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Council on 27th February 2024. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council experienced no liquidity difficulties during the financial year.

Interest on in house investments amounted to £1,539,528 (£1,699,508 in 2023/24), above the revised budget by over £0.2m, due to the Monetary Policy Committee maintaining the high bank rate and cash flow balances remaining high. The average rate of return for 2024/25 was 4.34% compared with the average of 5.34% achieved in 2023/24.

In addition to this the Council achieved a return of £34,055 interest and rental income on its property fund investment during 2024/25. There is a statutory override in place until 1st April 2029, for legacy investments already in place at the end of the previous financial year (1st April 2024), which prevents fluctuations in the fund value from having to be charged to the General Fund. The Council also has an earmarked reserve as a mitigation against losses in the fund value.

The Council invested £1m in the Lothbury Property Trust in December 2019. Following the unprecedented withdrawal of a number of investors, notice was given by Lothbury for the termination of the fund on the 31st March 2024 if a viable merger option could not be found by this date.

Following an extraordinary general meeting held in March 2024, the deadline for terminating the fund was extended to the end of May 2024. Unfortunately, due to a difference in opinion over the valuation of certain assets that were to be transferred from Lothbury to UBS, the merger option did not proceed, and the fund was wound up on 30th May.

Although the merger fell through, officers maintained communication with UBS Triton fund managers. Due to the opportunity to transfer the Council's share of proceeds from Lothbury to UBS Triton, as and when funds are distributed, at a preferential management fee rate, under delegated authority the Executive Director (Section 151), in consultation with the Portfolio Holder for Finance, People and Performance determined that the transfer of funds from Lothbury to UBS Triton remained the Council's best opportunity to recover its investment loss. Following the winding up of this fund on the 30th May 2024 Lothbury continue to dispose of all assets and making distributions to investors.

As at 31st March 2025 the remaining balance within the Lothbury Fund still to be distributed was £90,045.82.

As at 31st March 2025 the UBS Triton Property Fund LP investment value stood at £664,651.45.

4.8 Significant Issues
None.

4.9 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities and there are no areas of concern.

5. Environmental impact

5.1 No Net Zero and Climate Impact Assessment (NZCIA) is required for this report.

6. What will it cost and are there opportunities for savings?

6.1 Not applicable.

7. What are the risks and how can they be reduced?

7.1

Current Risk	Actions to reduce the risks
That external borrowing might not be undertaken at the most advantageous rate	Treasury officers maintain regular contact with the Council's advisors, Link Treasury Services, who monitor movements in interest rates on our behalf. The aim is always to drawdown loans when interest rates are at their lowest point.
Credit risk – the risk that other parties might fail to pay amounts due, e.g., deposits with banks etc	The Annual Investment Strategy sets the criteria through which the Council decides with whom it may invest. The lending list is updated regularly to reflect changes in credit ratings.
Liquidity risk – the Council might not have sufficient funds to meet its commitments	Daily monitoring of cash flow balances. Access to the money markets to cover any short-term cash shortfall.
Refinancing and maturity risk – the risk that the Council might need to renew a loan or investment at disadvantageous interest rates	Monitoring of the maturity profile of debt to make sure that loans do not all mature in the same period. Monitoring the maturity profile of investments to ensure there is sufficient liquidity to meet day to day cashflow needs.
That the investment in UBS Triton will not achieve full recovery of the Council's current investment loss as expected.	UBS Triton is an established property fund. An earmarked reserve is in place to mitigate any potential fluctuations in the fund value, although it does not cover the full value of the initial investment.

8. Other options considered

8.1 None. It is a legislative requirement that the Council receives an annual report covering its treasury activities for the financial year.

9. Appendix

9.1 Appendix A – Prudential and Treasury Indicators 2024/25

10. Background paper(s)

10.1 None

11. Report author's contact details

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