



CORPORATE GOVERNANCE COMMITTEE – 19 SEPTEMBER 2025

QUARTERLY TREASURY MANAGEMENT REPORT

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of report

1. The purpose of this report is to update the Committee on the actions taken in respect of treasury management for the quarter ending 30 June 2025 (Quarter 1).

Policy Framework and Previous Decisions

2. Within the County Council's Constitution, Part 3 – responsibility for functions, the functions delegated to the Corporate Governance Committee include 'that the Council's Treasury Management arrangements are appropriate and regularly monitored'.
3. The Annual Treasury Management Strategy and Annual Investment Strategy (AIS) for 2025-29 form part of the Council's Medium Term Financial Strategy (MTFS). These were considered and supported by the Corporate Governance Committee in January 2025 and approved by the County Council in February 2025.
4. The Treasury Management Strategy requires quarterly reports to be presented to the Corporate Governance Committee, to provide an update on any significant events in treasury management. The aim of these reporting arrangements is to ensure that those with responsibility for the treasury management function appreciate the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. This is in line with the CIPFA Treasury Management Code.
5. An update in respect of Quarter 4 2024/2025 was provided to the Committee on 23 June 2025 as part of the Annual Treasury Management Report 2024/25.

Background

6. 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".
7. Temporary cashflow balances are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity

initially before considering investment return. The second main function of the treasury management service is the funding of the Council's capital plans. These provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council 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. Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management Code of Practice.

8. Capital investments in services, including those within the Investing in Leicestershire Programme, are part of the Capital Strategy (and the capital programme), rather than the Treasury Management Strategy. The capital programme is monitored and reported regularly to the Scrutiny Commission and the Cabinet.

Economic Background

9. The Council's treasury management adviser, MUFG Pension & Market Services (formerly Link Asset Services), provides a periodic update outlining the global economic outlook and monetary policy positions. An extract from that report is attached as Appendix A to this report. The key points are summarised in the following paragraphs.
10. Inflation, as measured by the consumer price index (CPI), fell slightly from 3.5% in April to 3.4% in May. Core CPI (CPI excluding energy and food prices) has also continued to decline, reaching 3.5% in May. Service inflation is expected to continue to fall as wage growth slows. With CPI inflation staying above 3.0% for longer the Bank of England may shift to an even slower rate cutting path.
11. GDP fell by 0.3% month-on-month in April, the first fall since October 2024 [Note – this was subsequently revised to a 0.1% fall and has been followed by a 0.1% fall in May and 0.4% growth in June]
12. The Bank of England cut interest rates from 4.5% to 4.25% in May, holding them steady in June.

Notable events subsequent to MUFG Quarter 1 Update

13. Following the 8 August Monetary Policy Committee meeting, the Bank of England reduced the bank rate by 0.25% to 4.00%. MUFG forecast the next decrease is likely to be made in quarter 4.
14. CPI data for June and July has also been announced since quarter one. The Consumer Prices Index rose by 3.8% in the 12 months to July 2025, up from 3.6% in the 12 months to June, the highest level for the last eighteen months and remaining above the Bank of England's 2% target. CPI is now expected to peak at 4% in September. Government figures reveal that the rising cost of food, airfares and fuel has pushed inflation higher than expected, ending any hopes of any further cuts in the base rate this year.

Action Taken During Quarter 1 to June 2025

Private Debt and Bank Risk Sharing Funds

15. The table below provides an overview of the Council's investments in private debt and bank risk sharing funds. 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 Qtr	
	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	0.5	0.6	4.52%	- 3.9	- 1.2	0
MAC VI	20.0	11.7	13.2	7.34%	-2.8	-0.1	-0.1
CRC CFR 5	15.0	12.5	12.0	11.18%	-5.3	0	-0.7
MAC VII	10.0	7.9	8.3	9.24%-	-0.5	0	-0.5

16. The Council received its 40th distribution from the Partners MAC IV (2017) fund during the quarter in the form of £1.2m of invested capital (shown as a negative figure in the table above). Only £0.5m capital now remains invested in this fund.
17. The Council received its 22nd and 23rd distributions from the MAC VI fund during the quarter totalling £262,000; this represented a return on invested capital of £131,000 with £131,000 being income.
18. The Council received its 14th and 15th distributions from the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5). The total receipt of £0.7k is represented wholly by income.
19. The Council received its first distribution of £0.5m from the Partners MAC VII fund in quarter 1, wholly represented by income

Short Term Investments

20. A summary of movements and key performance indicators (KPIs) in the Council's investment loan portfolio can be viewed in the table below which details the Annual Percentage Rate (APR) of the portfolio, the average APR of loans matured, and new loans placed. The table also shows the Weighted Average Maturity (WAM) of the portfolio.

KPIs Loans only:

	Total Loans	APR (Loans Only)	WAM (Days) ¹	Maturities (£m)	APR Maturities	New Loans (£m)	APR New Loans
Current Qtr	394.7	4.43%	149	232.2	4.82%	244.7	4.29%
Prior Qtr	382.2	4.86%	86	92.5	4.99%	102.2	4.57%
Change	↑ 12.5	↓ 0.43%	↑ 63.0	↑ 139.7	↓ 0.17%	↑ 142.5	↓ 0.28%

¹WAM excludes MMFs as these are overnight maturity

21. The total balance available for short term investment increased by £12.5m during the quarter.

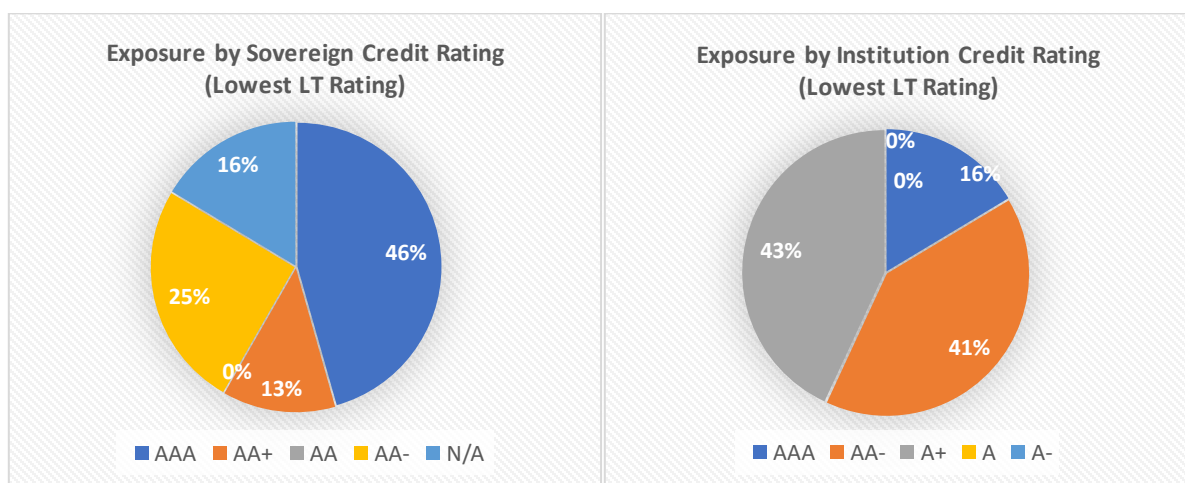
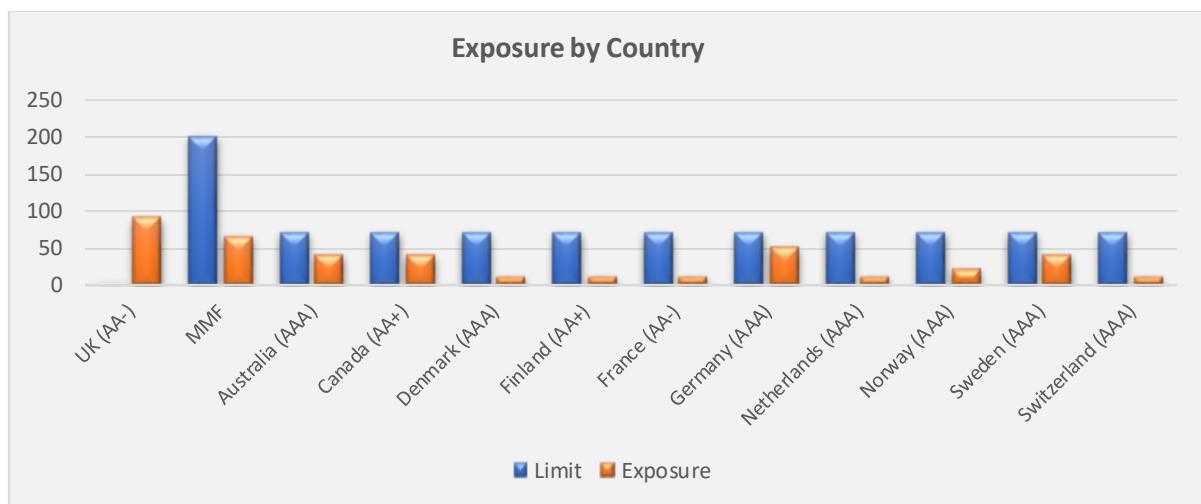
22. As a result of the falling base rate, the APR on new loans has reduced by 0.28% quarter on quarter.
23. The loans WAM increased by 63 days and indicates that the portfolio will be more insulated against movements in interest rates (whether these are up or down). This was primarily driven by more cash being available to lend longer due to the high value of maturities in the quarter.
24. The loan portfolio at the end of June was invested with the counterparties shown in the table below, listed by original investment date:

	£m	Maturity Date
Instant Access		
Money Market Funds	64.7	July 2025
6 Months		
Credit Industrial Et Commercial	10.0	September 2025
Goldman Sachs	10.0	September 2025
Santander	20.0	September 2025
Goldman Sachs	15.0	October 2025
National Westminster Bank Plc	25.0	October 2025
Goldman Sachs	10.0	December 2025
12 Months		
Swedbank	20.0	July 2025
National Westminster Bank Plc	10.0	July 2025
Landesbank Hessen Thuringen	10.0	September 2025
Landesbank Hessen Wurtemberg	10.0	October 2025
Landesbank Hessen Thuringen	10.0	October 2025
Commonwealth Bank of Australia	10.0	October 2025
DNB Bank	10.0	October 2025
DNB Bank	10.0	October 2025
Rabo Bank	10.0	March 2026
Skandinaviska Enskilda Banken AB (SEB)	20.0	April 2026
Union Bank of Switzerland (UBS)	10.0	April 2026
Macquarie Bank	10.0	April 2026
Toronto Dominion Bank	20.0	May 2026
Bank of Montreal	20.0	May 2026
Nordea ABP	10.0	May 2026
Deutsche Zentral (DZ)	20.0	May 2026
Australia & New Zealand Bank	20.0	May 2026
Beyond 12 Months but included in short term investments		
Danske Bank [#]	10.0	May 2027
Short term investments total	394.7	

Beyond 12 Months		
Partners Group (Private Debt) 2017	0.5	Estimated 2025
Partners Group (Private Debt) 2021	11.7	Estimated 2029
CRC CRF 5 (Bank Risk Sharing)	12.5	Estimated 2030
Partners Group (Private Debt) 2023	7.9	Estimated 2030
<u>TOTAL PORTFOLIO BALANCE:</u> <u>30 June 2025</u>	427.3	

#Danske Bank loan is included in short term investments for reporting in the tables above as the interest fixing is every six months.

25. The graphs below show the exposure of the short-term investments by country, sovereign rating and institution rating:

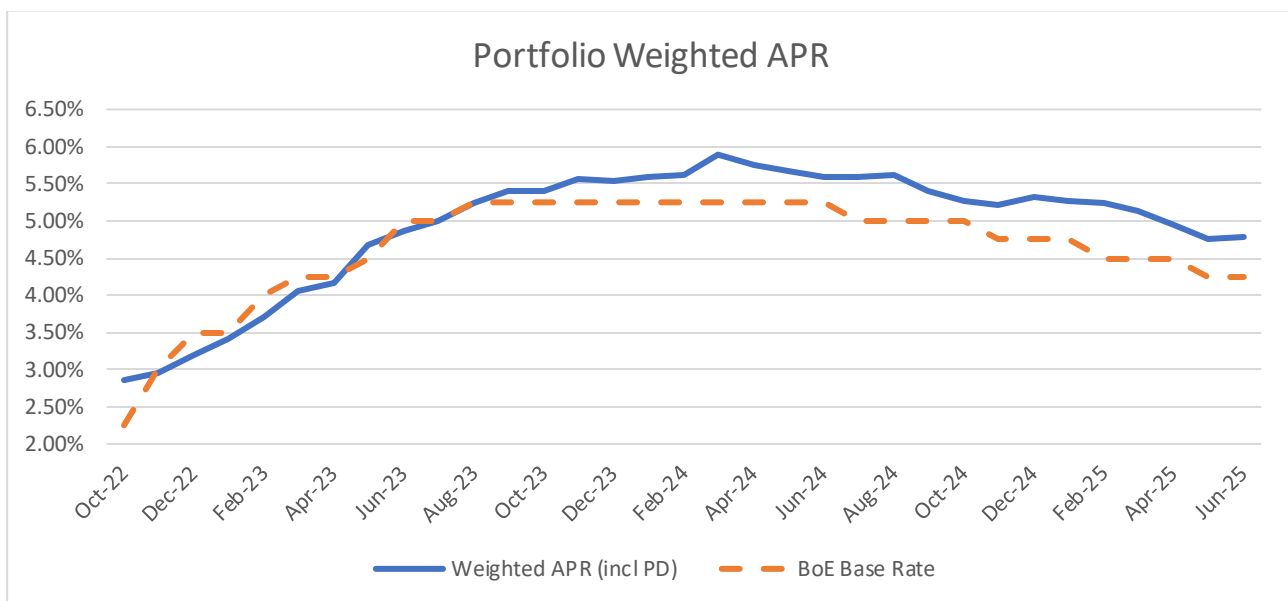


26. These graphs provide an indication of the Council's exposure to credit risk but it should be noted that long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements (the cost of insuring against a default)

and general economic conditions are also factored in before the counterparty list is drawn up.

Total Portfolio

27. The total portfolio weighted APR decreased from 4.86% in Quarter 4 2024-2025 to 4.43% in Quarter 1 2025-2026. This is due to reductions in the rates available in the market, in anticipation of an upcoming reduction to the Bank of England (BoE) base rate. The chart below shows the weighted APR achieved by the treasury portfolio compared to the BoE base rate. This highlights that whilst base rates have stabilised since August 2023, the weighted APR of the portfolio has achieved a higher return in the months that followed. Most investments within the portfolio are on a fixed interest basis so changes in base rate do not immediately have a material impact on the APR achieved. One indicator for how big this lag is the WAM. This shows the average length of time remaining until the Council's short-term investments mature. It can be seen from the table in paragraph 20 that the average days to maturity of loans is 149 days – an increase of 63 from the last quarter.



Loans to Counterparties that breached authorised lending list

28. During quarter 1 2025/26 there were no loans which breached the authorised lending list.

Debt Rescheduling

29. There was no debt rescheduling during quarter 1 2025/26.

Compliance with Prudential and Treasury Indicators – Quarter 1

30. The prudential and treasury indicators are shown in Appendix B. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ending 30 June 2025, the Council has operated within the treasury and prudential indicators as set out in the Council's Treasury Management Strategy Statement for 2025/26, except for the capital expenditure forecast for 2025/26. The latest estimate of capital expenditure in 2025/26 is £199m compared with the original

prudential indicator of £164m. The increase is due to additional government capital grants, announced after the MTFS was approved, and the rephasing of capital expenditure (and its funding) from the 2024/25 outturn. The increase in the programme is fully funded and there is no change in the overall borrowing required to fund the four-year capital programme - £84m by 2028/29. The Director of Corporate Resources reports that no difficulties are envisaged in complying with these indicators.

Resource Implications

31. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council. The budgeted income for interest generated by treasury management activities (excluding private debt and pooled property investments) for 2025/2026 is £12.0m. Current bank interest forecasts show interest earned in 2025/2026 could reach £16.0m. The increase in interest income is due to i) forecast Bank of England base rate levels being higher and for longer than forecast and ii) higher than estimated average Council balances than when the budget was set. Average balances remain strong due to the level of earmarked reserves, latest phasing of spend on the capital programme and government grants received in advance. The forecast position is also compounded by the lag on changes to interest rates impacting the portfolio, as explained earlier in the report.

Recommendations

32. The Committee is asked to note this report.

Background papers

33. None.

Circulation under the Local Issues Alert Procedure

34. None.

Equality and Human Rights Implications

35. There are no discernible equality and human rights implications.

Appendices

Appendix A - Economic Overview (For the quarter to June 2025)

Appendix B – Prudential and Treasury Indicators for 2025/26 as at 30th June 2025

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