



## **CORPORATE GOVERNANCE COMMITTEE – 24 NOVEMBER 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 September 2025 (Quarter 2).

##### **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.

##### **Background**

5. 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".
6. 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.

7. 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**

8. 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.
9. CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
10. There was a 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth. With the 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
11. The Bank of England cut interest rates from 4.5% to 4.25% in May, and then to 4% in August.

### **Notable events subsequent to MUFG Quarter 2 Update**

12. Over the summer, Internal Audit undertook a review of the Treasury Management function and issued a substantial assurance opinion, with some minor improvements required with medium risk issues to be addressed.
13. Following the 6 November Monetary Policy Committee meeting, the Bank of England held interest rates at 4.00% with rates now predicting to fall in quarter 4 2025/26.

### **Action Taken During Quarter 2 to September 2025**

#### **Private Debt and Bank Risk Sharing Funds**

14. 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:**

| Summary Private Debt and CRC: |                             |                             |             |                           |                          | During Qtr                |                |
|-------------------------------|-----------------------------|-----------------------------|-------------|---------------------------|--------------------------|---------------------------|----------------|
|                               | Total<br>Commitment<br>(£m) | Capital<br>invested<br>(£m) | NAV<br>(£m) | IRR<br>(Since<br>Incep'n) | Total<br>Income<br>Rec'd | Capital<br>Repaid<br>(£m) | Income<br>(£m) |
| Private Debt                  |                             |                             |             |                           |                          |                           |                |
| 2017 Mac IV                   | 20.0                        | 0.2                         | 0.3         | 4.44%                     | - 3.9                    | - 0.2                     | 0.0            |
| MAC VI                        | 20.0                        | 10.1                        | 11.7        | 7.25%                     | -3.0                     | -1.6                      | -0.2           |
| MAC VII                       | 10.0                        | 8.5                         | 7.8         | 6.05%                     | 0.0                      | -0.7                      | 0.0            |
| Bank Risk Share               |                             |                             |             |                           |                          |                           |                |
| CRC CFR 5                     | 15.0                        | 11.7                        | 11.1        | 12.16%                    | -6.2                     | -0.4                      | -1.2           |

15. The Council received its 41<sup>st</sup> distribution from the Partners MAC IV (2017) fund during the quarter in the form of £249,000 of invested capital (shown as a negative figure in the table above). Only £0.2m capital now remains invested in this fund.
16. The Council received its 24<sup>th</sup>, 25<sup>th</sup> and 26<sup>th</sup> distributions from the MAC VI fund during the quarter totalling £1.7m; this represented a return on invested capital of £1.6m, with £200,000 being income.
17. The Council received its second distribution of £0.7m from the Partners MAC VII fund in quarter 2, a return on invested capital.
18. The Council received its 16<sup>th</sup> to 18<sup>th</sup> distributions from the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5). The total receipt of £1.6m represented a return on invested capital of £400,00, with £1.2m being income.

**Short Term Investments**

19. 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<br>(Loans<br>Only) | WAM<br>(Days) <sup>1</sup> | Maturities<br>(£m) | APR<br>Maturities | New Loans<br>(£m) | APR<br>New Loans |
|-------------|-------------|------------------------|----------------------------|--------------------|-------------------|-------------------|------------------|
| Current Qtr | 395.8       | 4.30%                  | 165                        | 144.7              | 4.56%             | 145.8             | 4.13%            |
| Prior Qtr   | 394.7       | 4.43%                  | 149                        | 232.2              | 4.82%             | 244.7             | 4.29%            |
| Change      | ↑ 1.1       | ↓ 0.13%                | ↑ 16.0                     | ↑ 87.5             | ↓ 0.26%           | ↑ 98.9            | ↓ 0.16%          |

<sup>1</sup>WAM excludes MMFs as these are overnight maturity

20. The total balance available for short term investment increased by £1.1m during the quarter.
21. As a result of the falling base rate, the APR on new loans has reduced by 0.16% quarter on quarter.

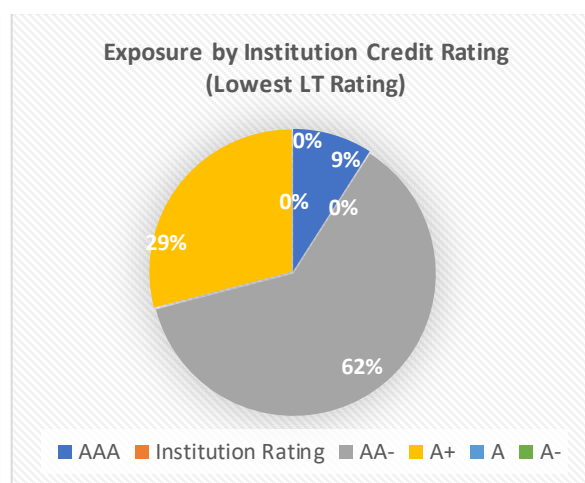
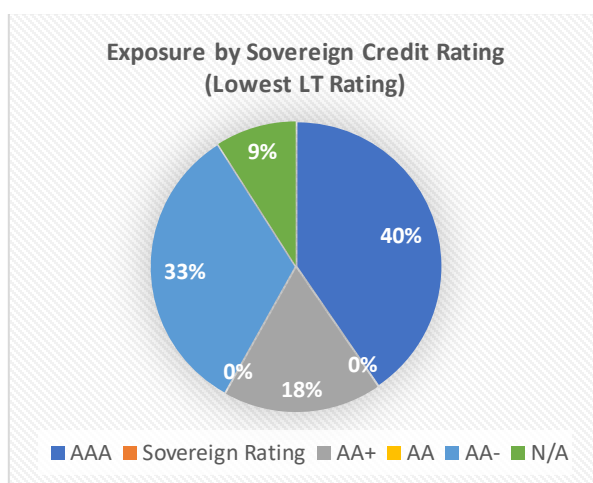
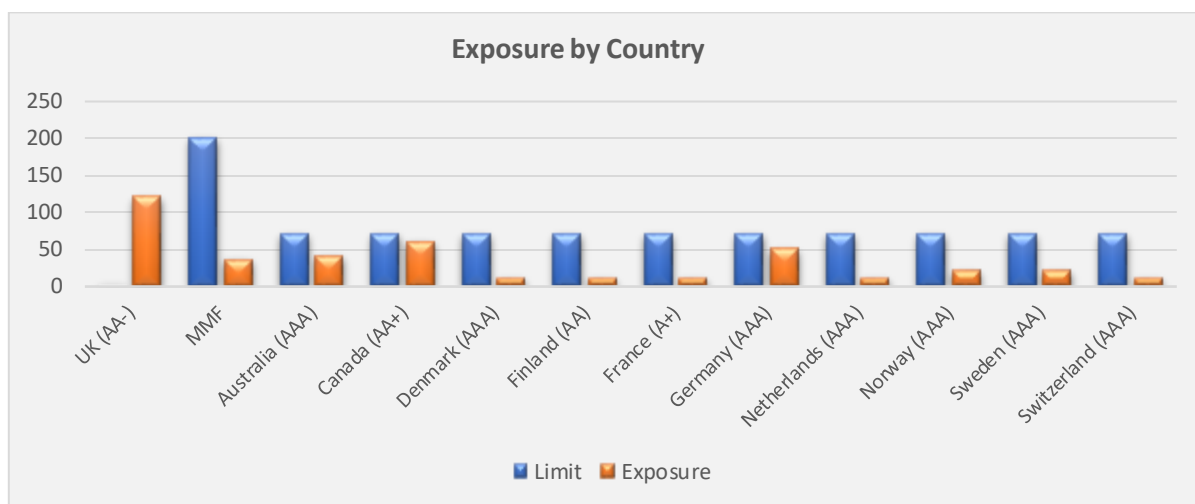
22. The loans WAM increased by 16 days and indicates that the portfolio will be more insulated against movements in interest rates (whether these are up or down). This was primarily driven by more cash being available to lend longer due to the value of maturities in the quarter.
23. The loan portfolio at the end of September was invested with the counterparties shown in the table below, listed by original investment date:

|                                                                | <u>£m</u>    | <u>Maturity Date</u> |
|----------------------------------------------------------------|--------------|----------------------|
| <b>Instant Access</b>                                          |              |                      |
| Money Market Funds                                             | 35.8         | October 2025         |
| <b>6 Months</b>                                                |              |                      |
| Goldman Sachs                                                  | 15.0         | October 2025         |
| National Westminster Bank Plc                                  | 25.0         | October 2025         |
| Goldman Sachs                                                  | 10.0         | December 2025        |
| Credit Industriel vt Commercial                                | 10.0         | March 2026           |
| Goldman Sachs                                                  | 10.0         | March 2026           |
| <b>12 Months</b>                                               |              |                      |
| 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             |
| National Westminster Bank Plc                                  | 10.0         | July 2026            |
| Lloyds Bank Plc                                                | 40.0         | July 2026            |
| Royal Bank of Canada                                           | 20.0         | September 2026       |
| National Westminster Bank Plc                                  | 10.0         | September 2026       |
| Landesbank Hessen Thuringen                                    | 10.0         | September 2026       |
| <b>Beyond 12 Months but included in short term investments</b> |              |                      |
| Danske Bank <sup>#</sup>                                       | 10.0         | May 2027             |
| <b>Short term investments total</b>                            | <b>395.8</b> |                      |
| <b>Beyond 12 Months</b>                                        |              |                      |
| Partners Group (Private Debt) 2017                             | 0.2          | Estimated 2025       |
| Partners Group (Private Debt) 2021                             | 10.0         | Estimated 2029       |

|                                        |              |                |
|----------------------------------------|--------------|----------------|
| Partners Group (Private Debt) 2023     | 8.5          | Estimated 2030 |
| CRC CRF 5 (Bank Risk Sharing)          | 11.7         | Estimated 2030 |
| <b><u>TOTAL PORTFOLIO BALANCE:</u></b> | <b>426.2</b> |                |
| <b><u>30 September 2025</u></b>        |              |                |

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

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

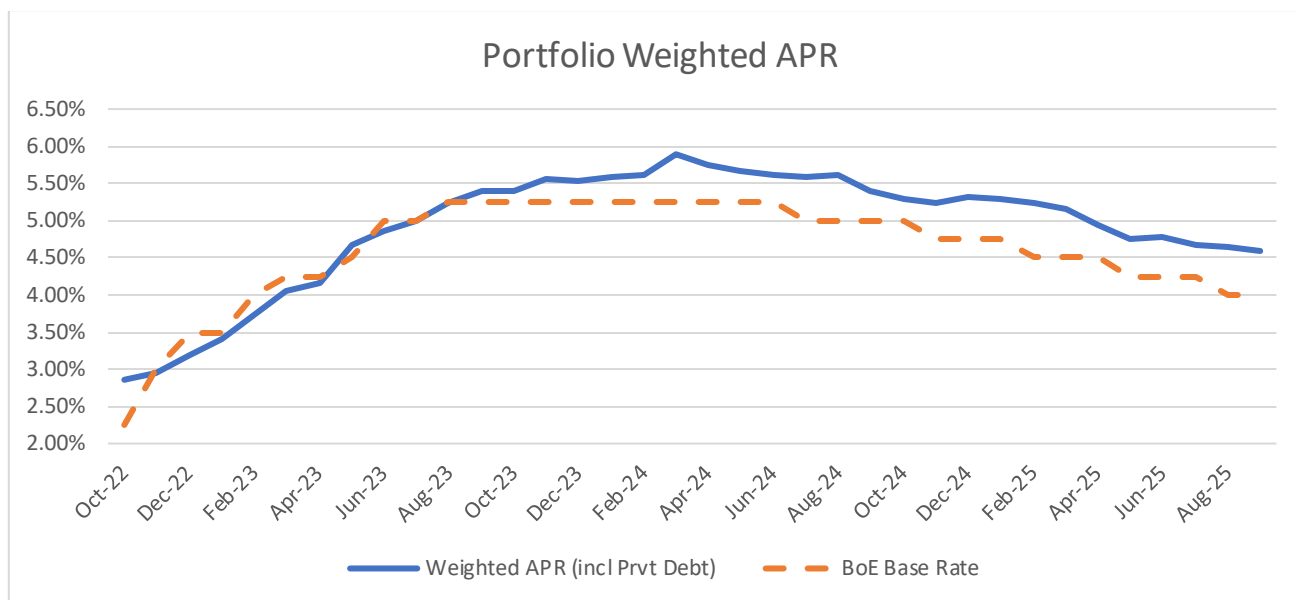


25. These graphs provide an indication of the Council's exposure to credit risk but it should be noted that long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements (the cost of insuring against a default) and general economic conditions are also factored in before the counterparty list is drawn up.

#### Total Portfolio

26. The total portfolio weighted APR decreased from 4.43% in Quarter 1 2025-2026 to 4.30% in Quarter 2. This is due to reductions in the rates available in the market, in anticipation of upcoming reductions 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 19 that the average days to maturity of loans is 165 days – an increase of 16 from the last quarter.



### **Loans to Counterparties that breached authorised lending list**

27. During quarter 2 2025/26 there were no loans which breached the authorised lending list.

### **External Debt Repaid**

28. During quarter 2, gilt yields, which underpin PWLB rates, rose to levels sufficient to consider further longer-term debt rescheduling opportunities.
29. After consultation with MUFG Corporate Markets a decision was taken to repay the following loans (based on the discount rate achievable on the repayment).

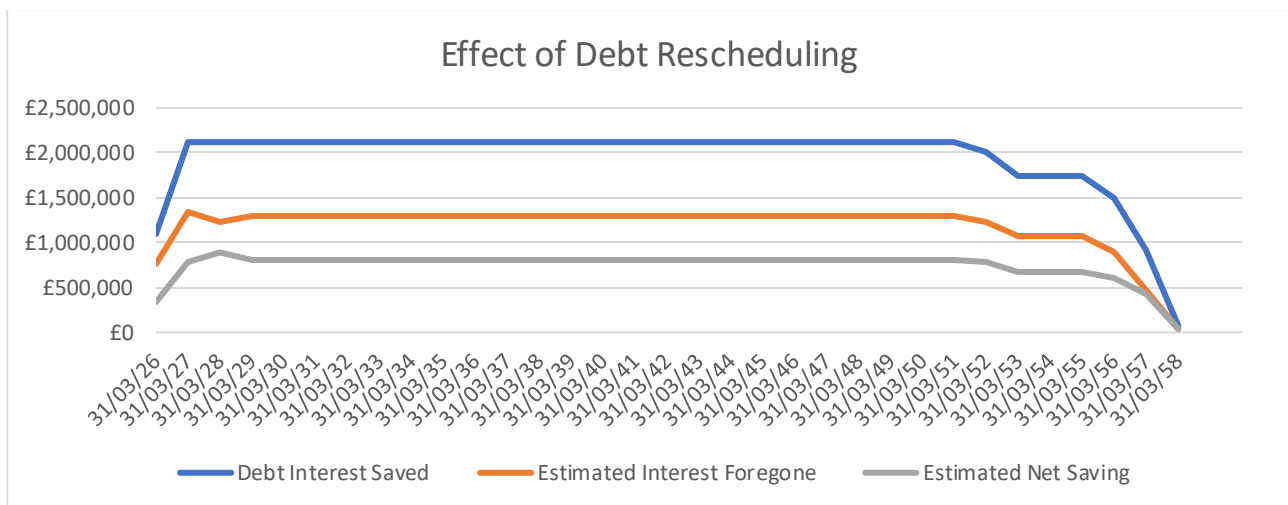
|        |      | Start Date | Maturity   | Principle         | Interest Rate | Interest PA      | Premium/ (discount) | Premature repayment rate | Repayment Date |
|--------|------|------------|------------|-------------------|---------------|------------------|---------------------|--------------------------|----------------|
| 476843 | PWLB | 21/12/1995 | 13/12/2051 | 4,836,500         | 7.88          | 380,874          | 2,001,326.88        | 5.35%                    | 23/09/25       |
| 479771 | PWLB | 07/08/1997 | 31/07/2055 | 4,836,500         | 6.88          | 332,509          | 1,141,796.15        | 5.37%                    | 23/09/25       |
| 479770 | PWLB | 07/08/1997 | 31/07/2055 | 193,460           | 6.88          | 13,300           | 1,076,798.43        | 5.37%                    | 23/09/25       |
| 479405 | PWLB | 21/05/1997 | 08/05/2056 | 4,352,850         | 7.13          | 310,141          | 2,569,528.90        | 5.37%                    | 23/09/25       |
| 478211 | PWLB | 26/09/1996 | 25/09/2056 | 4,836,500         | 8.13          | 392,966          | 1,710,834.17        | 5.37%                    | 23/09/25       |
| 479404 | PWLB | 21/05/1997 | 08/05/2057 | 9,673,000         | 7.13          | 689,201          | 43,071.94           | 5.37%                    | 23/09/25       |
|        |      |            |            | <b>28,728,810</b> | <b>7.38%</b>  | <b>2,118,991</b> | <b>8,543,356.47</b> |                          |                |

30. Rescheduling the above loans resulted in a premium of £8,543,356 for the Council.
31. Despite the lack of discount to net off this premium of £8.5m there was still a projected net saving to the authority to repay these loans early. This is because the

effective rate of saving achieved (7.38%) significantly exceeds Link's forecast long-term earning rate (3.50%) per the table below.

| Average earnings in each year | Now<br>% | Previously<br>% |
|-------------------------------|----------|-----------------|
| 2025/26 (residual)            | 3.90     | 4.10            |
| 2026/27                       | 3.60     | 3.60            |
| 2027/28                       | 3.30     | 3.50            |
| 2028/29                       | 3.50     | 3.50            |
| 2029/30                       | 3.50     | 3.50            |
| Years 6-10                    | 3.50     | 3.50            |
| Years 10+                     | 3.50     | 3.50            |

32. By rescheduling debts across Q2, the Council will save nearly £2.1m pa in fixed interest payments. However, with lower cash balances there will be a reduction on the interest that can be earned. The graph below show the estimated net benefit to the authority over the remaining life of the loans.
33. The Council's actual level of external debt now stands at £146m, the lowest level for over 20 years. Compared with the capital financing requirement (the level of historic capital expenditure required to be funded) the Council is now forecast to be £48m underborrowed as at 31 March 2026, which can be funded using internal investment balances rather than more expensive external borrowing.



### **Compliance with Prudential and Treasury Indicators – Quarter 2**

34. 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 September 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**

35. 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**

36. The Committee is asked to note this report.

### **Background papers**

37. None.

### **Circulation under the Local Issues Alert Procedure**

38. None.

### **Equality and Human Rights Implications**

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

### **Appendices**

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

Appendix B – Prudential and Treasury Indicators for 2025/26 as at 30<sup>th</sup> September 2025

### **Officers to Contact**

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