



CORPORATE GOVERNANCE COMMITTEE – 23 JANUARY 2026

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 31 December 2025 (Quarter 3).

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 below.
9. The third quarter of 2025/26 saw:
 - A -0.1% m/m change in real GDP in October, leaving the economy no bigger than at the start of April.
 - The 3myy rate of average earnings growth excluding bonuses fall to 4.6% in October, having been as high as 5.5% earlier in the financial year.
 - CPI inflation fall sharply from 3.6% to 3.2% in November, with core CPI inflation easing to 3.2%.
 - The Bank of England cut interest rates from 4.00% to 3.75% in December, after holding in November.
 - The 10-year gilt yield fluctuate between 4.4% and 4.7%, ending the quarter at 4.5%.

Action Taken During Quarter 3 to December 2025

Short Term Investments

10. 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	345.8	4.19%	167	135.8	4.37%	86.2	4.05%
Prior Qtr	395.4	4.27%	165	144.7	4.56%	145.8	4.13%
Change	↓ 49.6	↓ 0.08%	↑ 2.0	↓ 8.9	↓ 0.19%	↓ 59.6	↓ 0.08%

¹WAM excludes MMFs as these are overnight maturity

11. The total balance available for short term investment decreased by £49.6m during the quarter.

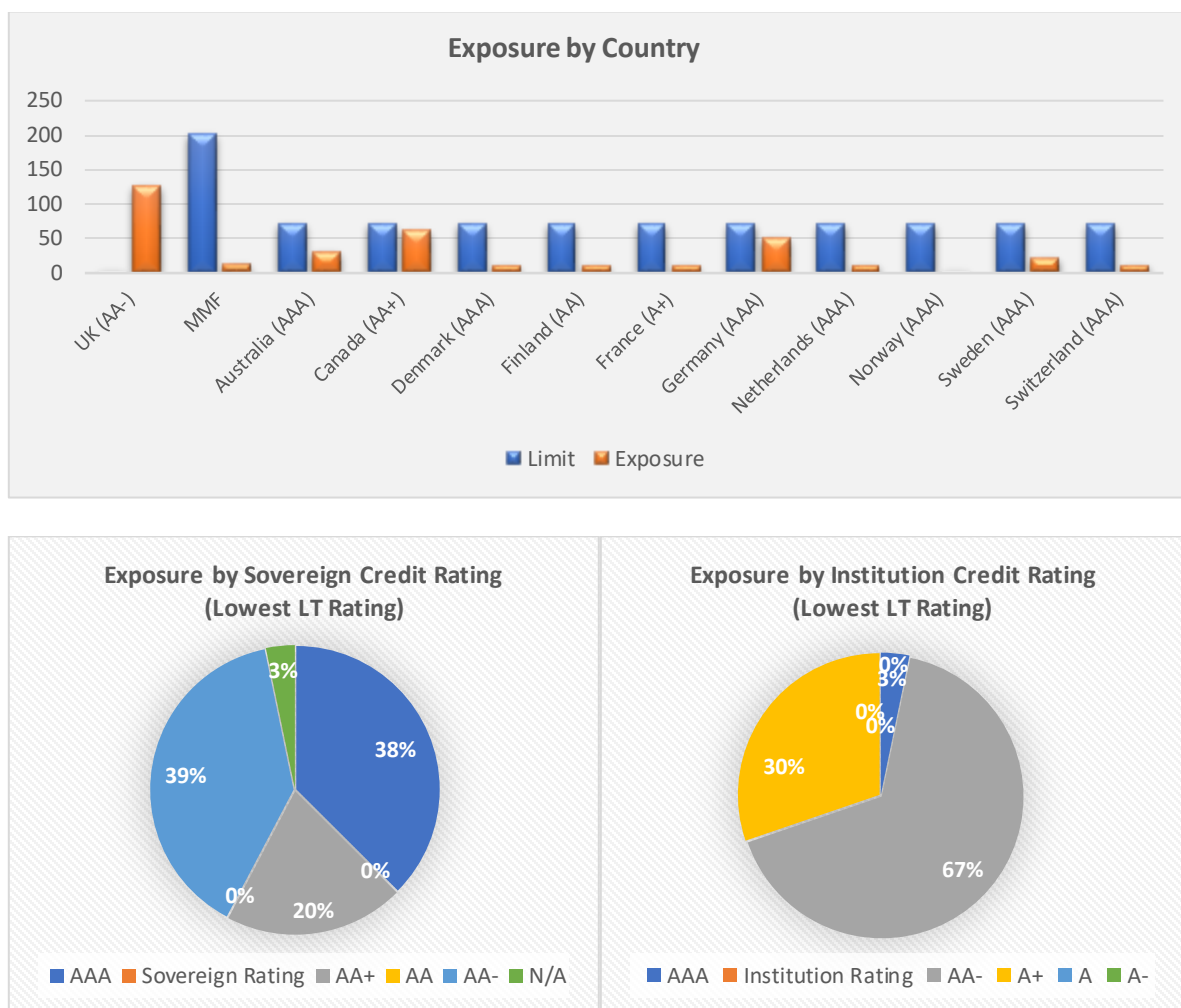
12. As a result of the falling base rate, the APR on new loans has reduced by 0.08% quarter on quarter.
13. The loans WAM increased by 2 days and indicates that the portfolio will be more insulated against movements in interest rates (whether these are up or down). This was primarily driven by less cash being available to lend longer due to the value of maturities in the quarter.
14. The loan portfolio at the end of December was invested with the counterparties shown in the table below, listed by original investment date:

	£m	<u>Maturity Date</u>
Instant Access		
Money Market Funds	11.2	January 2026
6 Months		
Credit Industriel vt Commercial	10.0	March 2026
Goldman Sachs	10.0	March 2026
Goldman Sachs	15.0	April 2026
12 Months		
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	9.6	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
Landesbank Baden Wurtemberg	10.0	October 2026
Landesbank Hessen Thuringen	10.0	October 2026
Lloyds Bank Plc	15.0	October 2026
National Westminster Bank Plc	25.0	October 2026
Beyond 12 Months but included in short term investments		
Danske Bank [#]	10.0	May 2027
Short term investments total	345.8	
Beyond 12 Months		
Partners Group (Private Debt) 2017	0.0	Estimated 2025
Partners Group (Private Debt) 2021	9.2	Estimated 2029

Partners Group (Private Debt) 2023	8.5	Estimated 2030
CRC CRF 5 (Bank Risk Sharing) 2022	11.0	Estimated 2030
CRC CRF 6 (Bank Risk Sharing) 2025	9.6	Estimate 2032
Pooled Property	9.9	Open ended/ Estimated 2026/27
Pooled Infrastructure	8.8	Open ended fund
<u>TOTAL PORTFOLIO BALANCE:</u> <u>31 December 2025</u>	402.8	

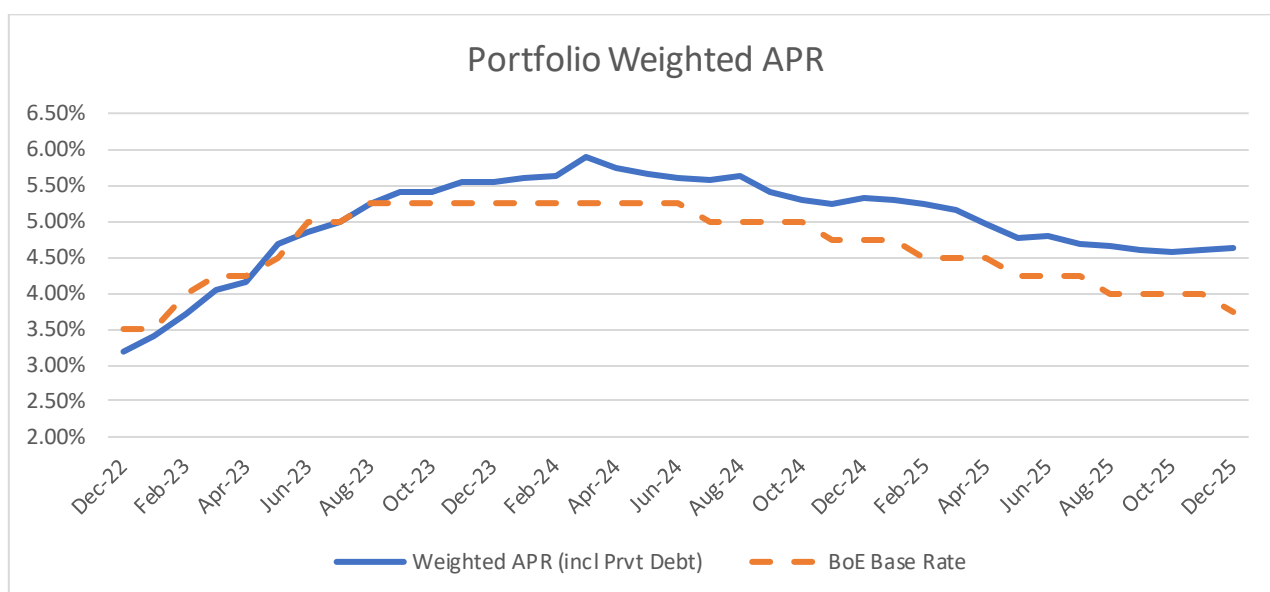
#Danske Bank loan is included in short term investments for reporting in the tables above as the interest fixing is every six months.

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



16. 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 into the counterparty list.

17. The loan portfolio weighted APR decreased from 4.27% in Quarter 2 to 4.19% in Quarter 3. 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 following the base rate increase to August 2023, the weighted APR of the portfolio has since 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 16 that the average days to maturity of loans is 167 days – an increase of 2 days from the last quarter.



Investments Beyond 12 Months

18. The table below provides an overview of the investments made that were beyond 12 months when placed. This shows 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. Following a review of the accounting treatment of the Council's investments in pooled property and pooled infrastructure, these have been assessed as meeting the definition of treasury management investments, previously held as capital expenditure, and are now included in the table below.

As at end of Q3					During Qtr	
	Capital invested (remaining) (£m)	NAV (£m)	IRR (Since Incep'n)	Total Income Rec'd (£m)	Capital Repaid (£m)	Income (£m)
Private Debt						
2017 MAC IV	0.0	0.0	4.48%	-3.9	-0.2	-0.1
2021 MAC VI	9.2	10.7	7.10%	-3.1	-0.9	-0.1
2023 MAC VII	8.5	9.6	8.43%	0.0	0.0	0.0
Bank Risk Share						

2022 CRC CFR 5	11.0	10.3	11.85%	-6.4	0.0	-0.9
2025 CRC CRF 6	9.6	9.6	8.0%	0.0	9.6	0.0
<u>Pooled Property</u>						
2015-19 Hermes, DTZ, Lothbury, Threadneedle *	9.9	7.9	2.4%	-7.9	0.0	-0.1
<u>Pooled Infrastructure</u>						
2023 JPM Infra	8.8	8.9	5.1%	-1.5	0.0	-0.1

*At present only the Threadneedle property unit trust and DTZ property fund are distributing income quarterly. The Hermes property fund returned all capital in Q2 2025/26 and Lothbury property fund has just £0.1m of capital to return.

19. The Council received its 42nd and 43rd distributions from the Partners MAC IV (2017) fund during the quarter in the form of £207,000 of invested capital. Only £2,000 capital now remains invested in this fund.
20. The Council received its 27th, 28th and 29th distributions from the MAC VI fund during the quarter totalling £1.0m; this represented a return on invested capital of £874,000, with £131,000 being income.
21. The Partners MAC VII is a relatively new fund that was calling investments until September 2025.
22. The Council received its 19th and 20th distributions from the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5). The total receipt of £914,000 being income.
23. During quarter 3, calls were made to the new Christofferson Robb and Company's (CRC) Fund 6 (CRF 6). The total currently invested is £9.65m.
24. The pooled property investments were committed to between 2015 and 2019. Four UK commercial property funds were invested into, three open funds and one closed ended fund. All provided regular quarterly income. At present one has returned all the invested capital, and another is in the process of returning the final amount of capital from the remaining portfolio after it was decided by unit holders to liquidate and return capital. The income for the quarter ended 31 December 2025 is estimated at £85k.
25. The pooled infrastructure investment with JP Morgan is a diversified global mandate investing in already developed infrastructure. The commitment to this Fund in 2022 was for £8.8m which was called by JP Morgan in January 2023. The fund can pay regular quarterly distributions given the operational assets it owns.

Loans to Counterparties that breached authorised lending list

26. During quarter 3 2025/26 there were no loans which breached the authorised lending list.

Compliance with Prudential and Treasury Indicators – Quarter 3

27. 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 31 December 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 £200m 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

28. 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 investments beyond 12 months – which are reported separately as part of the Investing in Leicestershire Programme, liLP) for 2025/2026 is £12.0m. Current bank interest forecasts show interest earned in 2025/2026 could reach £16.5m. 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

29. The Committee is asked to note this report.

Background papers

30. None.

Circulation under the Local Issues Alert Procedure

31. None.

Equality and Human Rights Implications

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

Appendices

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

Appendix B – Prudential and Treasury Indicators for 2025/26 as at 31st December 2025

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