

**CABINET – 21 JULY 2026****ANNUAL TREASURY MANAGEMENT REPORT 2025/26****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****PART A****Purpose of the Report**

1. The purpose of this report is to advise the Committee of the action taken and the performance achieved in respect of the treasury management activities in the final quarter of 2025/26 and the overall position for 2025/26.

Recommendation

2. The Cabinet is asked to note this report.

Reason for Recommendation

3. The Authority's full adoption of the CIPFA Code of Practice for treasury management requires an annual report on Treasury Management activity and performance to be considered by both the Cabinet and the Corporate Governance Committee before the end of September each year.

Timetable for Decisions (including Scrutiny)

4. Under the CIPFA Code of Practice it is necessary to report on treasury management activities undertaken in 2025/26 by the end of September 2026.
5. The Corporate Governance Committee considered the matter at its meeting on 26 June 2026.

Policy Framework and Previous Decisions

6. The Authority has adopted the CIPFA Code of Practice for treasury management. Treasury management issues are reported to either the Corporate Governance Committee or the Cabinet. Approval of the Annual Treasury Management Strategy remains the responsibility of the full Council which it considers as part of the Medium Term Financial Strategy (MTFS) each year.

Resource Implications

7. The interest earned on revenue balances and the interest paid on external debt impact directly onto the resources available to the Council. The budgeted income for interest generated by treasury management activities for 2025/2026 was £12m, excluding the Investing in Leicestershire Programme treasury investments (pooled property, pooled infrastructure, private debt and bank risk sharing investments). The actual interest received from treasury management activities at year end was £16.6m. This overperformance is due to the BoE base rate levels being higher and for longer than forecast, and higher than estimated average cash balances.

Circulation under the Local Issues Alert procedure

8. None.

Officers to Contact

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PART B

Background

9. The term 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”.

10. The Director of Corporate Resources is responsible for carrying out treasury management on behalf of the Council, under guidelines agreed annually by the Council.

Action Taken during Quarter 4 to March 2026

Economic Background

11. 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.
12. Like 2024/25, UK inflation has proved stubborn throughout 2025/26. Having started the financial year at 3.5% y/y (April), the CPI measure of inflation peaked at 3.8% from July to September, before dipping to 2.8% in March 2026. The recent upward pressure on energy costs could see CPI inflation reach 4.5% later this year.
13. Against this backdrop and the potentially negative implications for global growth as a consequence of the implementation of US tariff policies, Bank of England Base Rate reductions look limited for the remainder of 2026 (as they do in the euro-zone). The Bank Rate currently stands at 3.75%.
14. Moreover, borrowing has become more expensive in 2025/26. UK gilt yields have risen materially by year end, and into May 2026 to their highest yields this century. Additionally, the public finances have remained under pressure. The higher than expected public net sector borrowing of £14.3bn in February was £2.2bn above last February’s outturn. But that borrowing overshoot was mainly due to timing effects relating to the £13bn government debt interest payments which were the highest payment since June 2025, causing a 12.3% y/y jump in spending. On the flip side, sitting at £8.1bn, tax revenues were also higher than last February, largely on the back of solid growth in self-employment incomes in 2024/25, boosting self-assessment income tax receipts and stronger capital gains tax receipts.

Short Term Investments

15. 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 (£m)	APR (Loans Only)	WAM (Days) ¹	Maturities (£m)	APR Maturities	New Loans (£m)	APR New Loans
Current Qtr	335.6	4.15%	109	41.2	4.10%	31.0	3.85%
Prior Qtr	345.8	4.19%	167	135.8	4.37%	86.2	4.05%
Change	↓ 10.2	↓ 0.04%	↓ 58	↓ 94.6	↓ 0.27%	↓ 55.2	↓ 0.2%

¹WAM excludes Money Market Funds as these have overnight maturity

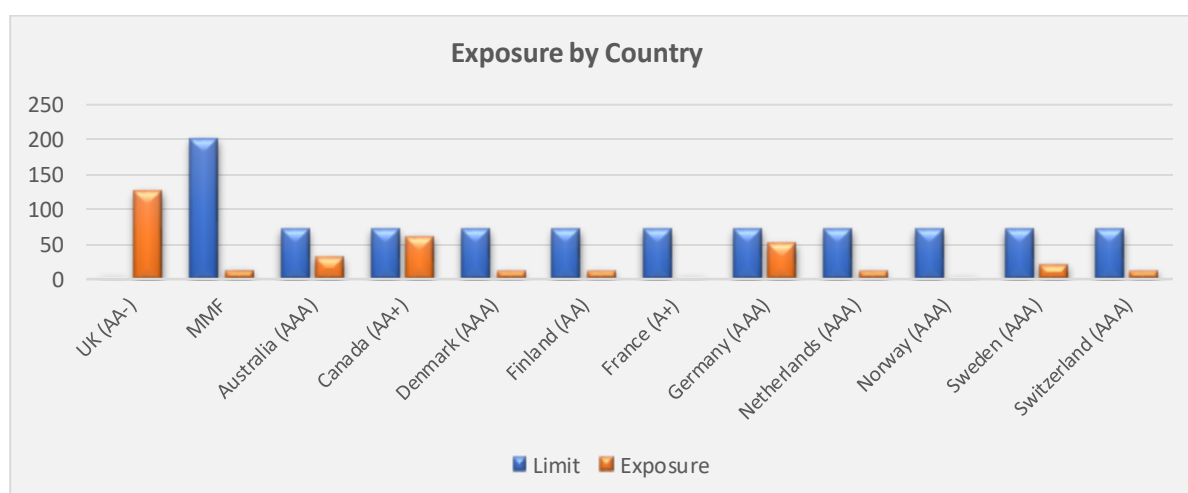
16. The total balance available for short term investment decreased by £10.2m during the quarter.
17. As a result of the falling base rate, the APR on new loans has reduced by 0.04% quarter on quarter.
18. The loans WAM reduced by 58 days quarter on quarter as the County Council retained liquidity to repay PWLB loans.
19. The loan portfolio at the end of March was invested with the counterparties shown in the table below, listed by original investment date:

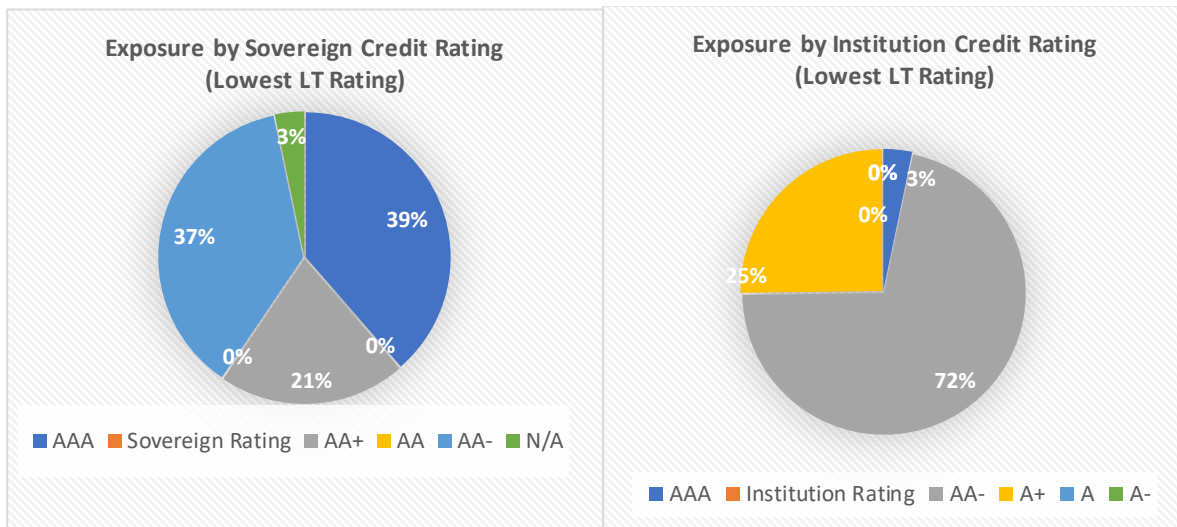
	£m	Maturity Date
Instant Access		
Money Market Funds	11.0	April 2026
6 Months		
Goldman Sachs	15.0	April 2026
12 Months		
Skandinaviska Enskilda Banken AB (SEB)	20.0	April 2026
Union Bank of Switzerland (UBS)	10.0	April 2026
Macquarie Bank	9.6	April 2026
Toronto Dominion Bank	20.0	May 2026
Bank of Montreal	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 Wurtember	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
National Westminster Bank Plc	10.0	February 2027
Cooperative Rabobank UA	10.0	February 2027
Beyond 12 Months but included in short term investments		
Danske Bank [#]	10.0	May 2026
Short term investments total	335.6	
Beyond 12 Months		
Partners Group (Private Debt) 2021	8.8	Estimated 2029
Partners Group (Private Debt) 2023	7.6	Estimated 2030
CRC CRF 5 (Bank Risk Sharing) 2022	8.7	Estimated 2030
CRC CRF 6 (Bank Risk Sharing) 2025	8.8	Estimate 2032
Pooled Property	9.2	Open ended/ Est.2026/27
Pooled Infrastructure	8.8	Open ended fund
TOTAL PORTFOLIO BALANCE:	387.5	
31 March 2026		

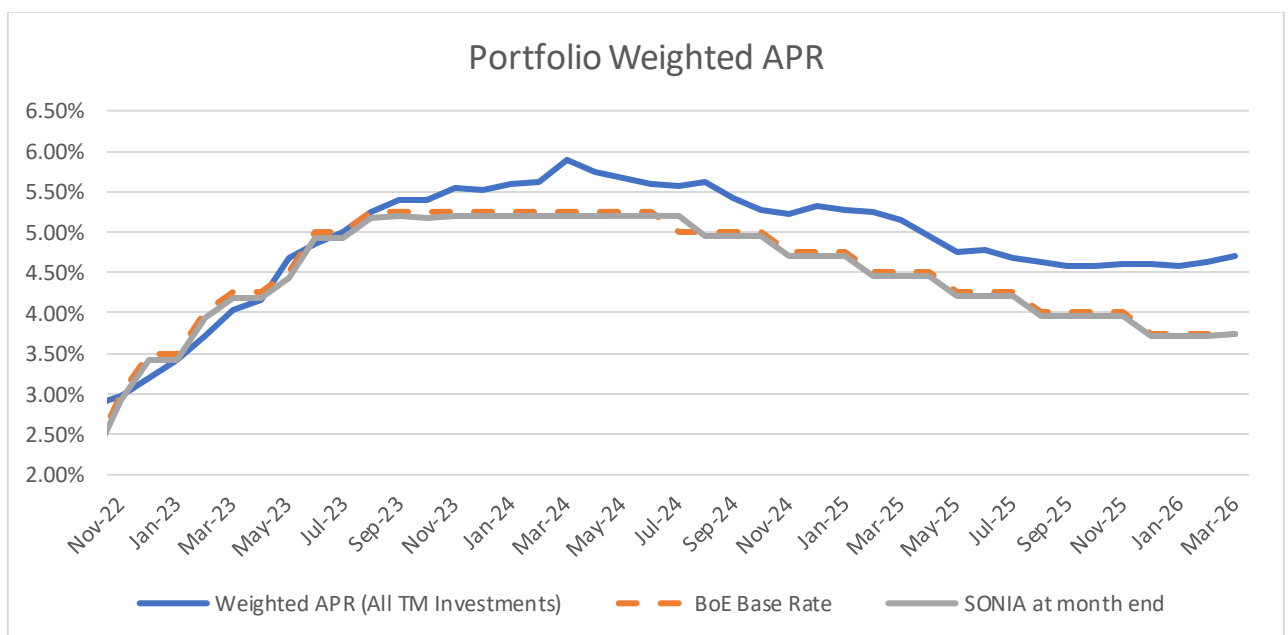
[#]Danske Bank loan is included in short term investments for reporting in the tables above as the interest fixing is every six months.

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





21. 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.
22. The loan portfolio weighted APR decreased from 4.19% in Quarter 3 to 4.15% Quarter 4. This is due to reductions in the rates available in the market, in anticipation (at the time) of 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 and the Sterling Overnight Index Average (SONIA) rate – the primary risk free reference rate for sterling markets. This highlights that following the base rate increases to August 2023, the weighted APR of the portfolio has since achieved a higher return in every month 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.



Investments Beyond 12 Months

23. The table below provides an overview of the investments made that were beyond 12 months when placed. This shows the current capital invested within each fund. The table also shows the Net Asset Value (NAV) and Internal Rate of Return (IRR) for each fund.

As at end of Q4					During Qtr	
	Capital invested (remaining) (£m)	NAV (£m)	IRR (Since Incep'n)	Total Income Rec'd (£m)	Capital Repaid (£m)	Income (£m)
<u>Private Debt</u>						
2021 MAC VI	8.8	10.1	6.85%	-3.3	-0.4	-0.2
2023 MAC VII	7.6	8.6	8.30%	-0.3	-0.9	-0.3
<u>Bank Risk Share</u>						
2022 CRC CFR 5	8.7	8.9	12.57%	-6.3	-1.4	-0.3
2025 CRC CRF 6	8.8	8.9	12.66%	-0.3	-0.9	-0.3
<u>Pooled Property</u>						
2015-19 Hermes, DTZ, Lothbury, Threadneedle	9.2	7.8	2.2%	-7.9	-0.1	-0.1
<u>Pooled Infrastructure</u>						
2023 JPM Infra	8.8	9.2	6.94%	-1.6	-	-0.1
Total	51.9	53.5		-19.7	-3.7	-1.3

24. The Council received distributions from the MAC VI fund during the quarter comprising a return on invested capital of £437,000 and £163,000 income.
25. The Partners MAC VII is a relatively new fund that was calling capital until September 2025. During Q4 2025/26 the Council received capital repayments of £904,000 and £333,000 income.
26. Distributions from the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5) were received during the quarter; £1.4m return on invested capital and £283,000 income. In addition, distributions from the CRC CRF 6 fund were also received of £872,000 return on invested capital and £338,000 income.
27. Four UK commercial Pooled Property funds were committed to between 2015 and 2019. Two of the funds, Hermes and Lothbury have now been liquidated, following large investors requesting redemptions. The liquidations come at a time when property prices have fallen as interest rates rose through 2022 and 2023. During 2025/26 the final returns of capital were received which resulted in the Council recognising a loss on capital of £0.5m as at 31 March 2026. This has been funded through a charge against reserves. However, it should be noted that the Council has received over £4.7m in income from these two funds over the time of the investment.

28. The pooled infrastructure investment with JP Morgan is a globally diversified product investing in largely developed infrastructure. The commitment to this fund in 2022 was for £8.8m which was called by JP Morgan in January 2023. The fund pays regular quarterly distributions.

Loans to Counterparties that breached authorised lending list

29. During quarter 4 2025/26 there were no loans which breached the authorised lending list.

External Debt Repaid

30. During quarter 4, gilt yields, which underpin PWLB rates, rose to new 20+ year highs sufficient to consider further longer-term debt rescheduling opportunities. After consultation with the Council's Treasury Management advisors a decision was taken to repay the following loans (based on the discount rate achievable on the repayment):

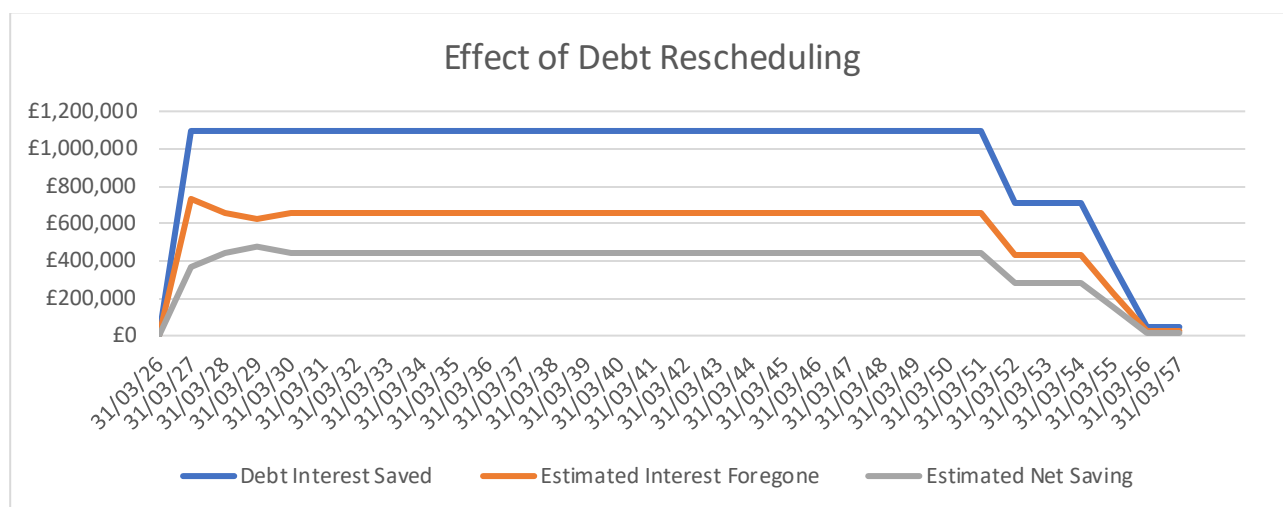
		Start Date	Maturity	Principle	Interest Rate	Interest PA	Premium/ (discount)	Premature repayment rate	Repayment Date
476844	PWLB	21/12/1995	13/12/2050	4,836,500	7.88%	380,874	1,534,134	5.51%	31/03/2026
479773	PWLB	07/08/1997	31/07/2053	4,836,500	6.88%	332,509	919,425	5.52%	31/03/2026
479772	PWLB	07/08/1997	31/07/2054	4,836,500	6.88%	332,509	933,617	5.52%	31/03/2026
480371	PWLB	29/12/1997	13/12/2056	567,057	6.25%	35,441	60,908	5.52%	31/03/2026
480372	PWLB	29/12/1997	13/12/2056	206,783	6.25%	12,924	22,213	5.52%	31/03/2026
				15,283,340	7.16%	1,094,258	3,470,298		

31. Repaying the above loans resulted in a premium of £3.5m, overall there was still a projected net saving to the authority to repay these loans early. This is because the effective rate of saving achieved (7.16%) significantly exceeds MUFG's forecast long-term earning rate (3.50%) per the table below.

Average earnings in each year	Now %	Previously %
2026/27	3.90	3.40
2027/28	3.50	3.30
2028/29	3.30	3.30
2029/30	3.50	3.50
Years 6-10	3.50	3.50
Years 10+	3.50	3.50

32. By repaying external loans the Council will save nearly £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 shows the estimated net benefit to the authority over the remaining life of the loans.
33. The Council's actual level of external debt at 31st March 2026 was £130m, the lowest level for over 20 years. Compared with the capital financing requirement (CFR - the level of historic capital expenditure required to be funded) the Council was forecast to

be £63m under borrowed as at 31 March 2026, which can be funded using internal investment balances rather than more expensive external borrowing. Part of Treasury Management activities is to manage this position – i.e. the forecasting of cash balances and the amount required to finance the CFR.



Treasury Management 2025/26

34. The Treasury Management Strategy Statement (TMSS) for 2025/26 was approved by the Cabinet and the Council in February 2025 as part of the MTFSS.
35. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, prioritising security, liquidity and investment return in that order of importance.
36. The second main function of treasury management is the funding of the Council's capital programme. The capital programme sets out the borrowing need of the Council and the longer-term cash flow planning, to ensure that it 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. It will also, when it is prudent and economic to do so, restructure existing long-term debt to reduce risk or costs.
37. The TMSS includes the Annual Investment Strategy and Investment Policy. The Council's investment policy has regard to the following:
 - Government Guidance on Local Government Investments
 - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
 - CIPFA Treasury Management Guidance Notes 2021.
38. The Council's investment priorities are security first, portfolio liquidity second and then yield. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security, liquidity, inflation

expectations and with regard to the Council's risk appetite. The above guidance places a high priority on the management of risk. The Council's policy in respect of deciding which counterparties are acceptable has always been stringent. In broad terms the list of acceptable counterparties uses the list produced by the Council's treasury management advisors.

39. During the year all outstanding loans were repaid on time with the interest due.
40. In 2016 it was agreed that any counterparty that was downgraded whilst a loan was active, and where the unexpired period of the loan, or the amount on loan, would then breach the limit at which a new loan could be made to that counterparty, this would be included in the appropriate quarterly treasury management report to the Corporate Governance Committee. There were no breaches during 2025/2026.
41. Investment returns have steadily reduced throughout 2025/26 as interest rates and prospects for future interest had reduced. Starting in April 2025 at 4.5%, the BoE base rate moved down in stepped increases of 0.25%, reaching 3.75% by March 2026. MUFG Pension & Market Services latest forecasts advise that rates will remain at 3.75% until summer 2027.
42. The Council has taken a cautious approach to investing and is fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Financial Crisis of 2008/9. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions. Nonetheless caution still needs to be exercised and the council continues to monitor credit ratings and watches on a daily basis and confirm the counterparty list before any new loans are placed.
43. The strategy and decisions relating to the Council's long term investments (those greater than 12 months) are managed through the Council's Investing in Leicestershire Programme (liLP) and are reported regularly to the Cabinet.

Debt Position at 31 March 2026

44. On the debt portfolio, no new loans were taken out in 2025/26. A total of £44.5m was repaid in the year, comprising:
 - £44.0m Early repayment of PWLB debt on favourable terms
 - £0.5m PWLB equal instalment of principal loans (EIP)
45. The Council's external debt position at the beginning and end of the year was as follows: -

	31 March 2025			31 March 2026		
	Principal	Average Rate	Average Life	Principal	Average Rate	Average Life
Fixed Rate Funding - PWLB	£81.5m	7.78%	26 yrs	£37.0m	8.39%	20 yrs
Variable Rate Funding: - Market (1)	£ 93.5m	4.41%	38 yrs	£ 93.5m	4.41%	37 yrs
Total Debt	£175.0m	5.98%	32 yrs	£130.5m	5.54%	32 yrs

(1) These lenders have an option to increase the rates payable on these loans on certain pre-set dates, and if they exercise this option the Council can either repay or accept the higher rate.

46. The Authority has not raised any new external loans since August 2010. The most recent MTFS capital programme, for 2026-2030, includes a funding requirement of £65m to be funded from prudential borrowing. However, due to the strength of the County Council's balance sheet, it is expected to be possible to use internal balances to fund this on a temporary basis instead of raising new loans.

Investment Position at 31st March 2026

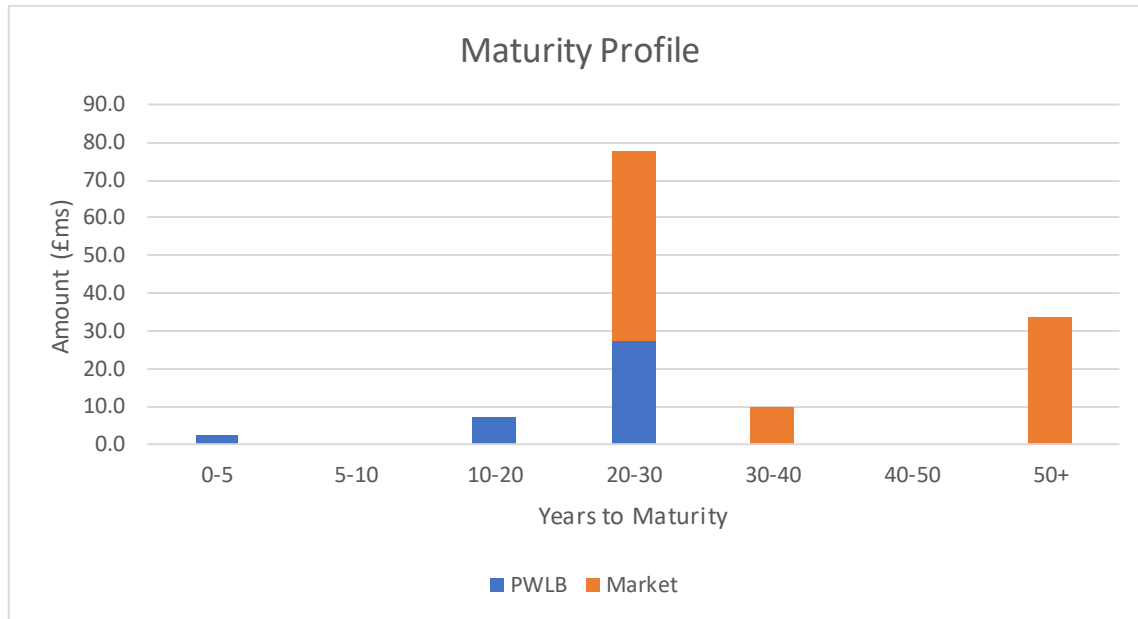
47. The position in respect of investments varies throughout the year due to the large inflows and outflows of cash that occur. Over the course of the year the loan portfolio varied between £387m and £477m and averaged £439m. Investments as at 31 March 2026 were £387.5m.

Debt Transactions

48. The Council began the financial year £22m under borrowed (actual debt) compared with the CFR - the amount required to fund the historic capital programme. This means that the Council is internally funding the difference from its cash balances – called internal borrowing – which is often at a lower cost than what it would incur on external loans. For example, current investment returns on Treasury Management balances are around 4% compared to a 30 year external loan interest rate of more than 6%. Managing this position is a key activity of the Treasury Management team.
49. At the end of the financial year, after the repayment of two tranches of external debt, in September 2025 and March 2026, and setting aside funding for the Minimum Revenue Provision (MRP) of £4.1m (to ensure that loans raised to finance capital expenditure are paid off over the longer term) the Council was £63m under-borrowed. With cash balances of £388m this position can be managed.
50. During the year, there were two favourable opportunities to reduce the Council's debt portfolio, as reported in quarterly treasury management updates. These opportunities

arose due to the prevailing economic conditions at the time of repayment, with Gilt yields (which underpin PWLB rates) remaining at levels sufficient to consider long term debt rescheduling opportunities. The total debt repaid was £44.5m, all of which related to PWLB. At the end of the financial year, the debt portfolio stood at £130.5m with an average pool rate of 5.54%, as shown in the table above.

51. The maturity profile of the Council's external debt portfolio is shown in the chart below. This illustrates the long-term nature of the historic debt.



Investments

52. The overall investment portfolio produced an average return of 4.69% in 2025/2026, compared to an average base rate of 4.04% and a Sterling Overnight Index Average (SONIA) of 4.01% published daily by the BoE. The SONIA rate is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. It is therefore a good proxy for the risk-free rate of investing surplus cash.
53. The loan portfolio has outperformed both the average base rate and the average SONIA in four of the last five years. The average rate of interest earned on the portfolio in the last five years is 3.49% which compares favourably to average base rate and the SONIA which have reported returns of 3.3% and 3.26% respectively.
54. The variability of balances makes it difficult to calculate the excess interest that the over performance has achieved over the whole of the five-year period, but it is estimated to be at least £4.5m.
55. The above paragraphs exclude investments greater than one year – those relating to private debt, bank risk sharing, pooled property and pooled investments which are managed as part of the liLP. The capital value of these investments as at 31st March 2026 was £53.4m compared with the principal invested held of £51.9m, a £1.5m unrealised gain. In addition to the capital valuation since inception (December 2015)

the Council has received interest payments totalling £23.6m from these investments and the current performance as measured by the internal rate of return is 4.88%.

Compliance with Prudential and Treasury Indicators

56. The Council is required to set and keep under review prudential and treasury indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable. Appendix B compares the indicators with those set and agreed by the Council at its budget meeting in February 2025. These are all within the limits set except for the 'actual capital financing costs as a percentage of net revenue stream' indicator – the increase is due to premiums on the early repayment of debt, reducing future interest costs, explained earlier in the report.

Resource Implications

57. The interest earned on revenue balances and the interest paid on external debt impact directly onto the resources available to the Council. The budgeted income for interest generated by treasury management activities for 2025/2026 was £12m, excluding the LiLP treasury investments (pooled property, pooled infrastructure, private debt and bank risk sharing investments). The actual interest received from treasury management activities at year end was £16.6m. This overperformance is due to the BoE base rate levels being higher and for longer than forecast, and higher than estimated average cash balances.
58. Average balances remain strong due to earmarked reserves, the latest phasing of spend on the capital programme and government grants received in advance. Such a significant level of interest is unlikely to be sustainably achieved in the medium to long term though given the market expectation of intertest rate reductions and as reserves are used to fund the MTFS and the capital programme.

Summary

59. Treasury Management is an integral part of the Council's overall finances, and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium to long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in significant savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

Equality and Human Rights Implications

60. There are no equality or human rights implications arising from the recommendations in this report.

Background Papers

Report to County Council on 19 February 2025 – 'Medium Term Financial Strategy (MTFS) 2025/26 - 2028/29. Appendix N, 'TMS 2025-26:

<https://democracy.leics.gov.uk/documents/g7391/Public%20reports%20pack%20Wednesday%2019-Feb-2025%2014.00%20County%20Council.pdf?T=10>

Appendices

Appendix A – Economic Update from MUFG Pension & Market Services

Appendix B – Prudential and Treasury Indicators