Agenda Item 8

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 18 SEPTEMBER 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 30 June 2026 (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 2026-30 form part of the Council's Medium Term Financial Strategy (MTFS). These were considered and supported by the Corporate Governance Committee in January 2026 and approved by the County Council in February 2026.

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 2025/26 was provided to the Committee on 26 June 2026 as part of the Annual Treasury Management Report 2025/26.

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, 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.

10. The first quarter of 2026/27 (April to June) saw:

    - The first sign that the economy is starting to falter with a 0.1% m/m fall in real GDP in April
    - The 3myy rate of average earnings growth excluding bonuses stagnate at 3.4% in April
    - CPI inflation stuck at 2.8% in May, with a rise in core CPI inflation from 2.5% to 2.6% (CPI minus food and energy).
    - The Bank of England leave interest rates unchanged at 3.75%.
    - The 10-year gilt yield fluctuate between 5.18% and 4.69%, ending the quarter at 4.76%

Notable economic events subsequent to MUFG Quarter 1 Update

11. Following the 30 April and 18 June Monetary Policy Committee meetings, the Bank of England retained the interest rate at 3.75% at its last meeting on 30 July (the next meeting is 17 September). MUFG forecast the next reduction in Bank Rate to be made in the second half of 2027, with the Bank Rate falling to 3.25% by the start of 2028.

12. The latest CPI annual inflation rate increased to 2.9% for the 12 months to July 2026 driven mainly by a 13% increase in the Ofgem energy price cap for gas and electricity.

13. Increases in CPI place direct upward pressure on bank rates because central banks use interest rates as their primary tool to reduce. When CPI rises, it indicates that the purchasing power of money is declining. To prevent a wage-price spiral and anchor long-term inflation expectations, the Bank of England will increase or hold their

benchmark base rates high. This mechanism deliberately cools down economic activity by making borrowing more expensive

Treasury Management Action Taken During Quarter 1 to June 2026

Short Term Investments

14. 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	287.9	4.16%	130	155.6	4.21%	107.9	4.24%
Prior Qtr	335.6	4.15%	109	41.2	4.10%	31.0	3.85%
Change	↓ 47.7	↑ 0.01%	↑ 21.0	↑ 114.4	↑ 0.11%	↑ 76.9	↑ 0.39%

[1]WAM excludes MMFs as these are overnight liquidity

15. The total balance available for short term investment decreased by £47.7m during the quarter partly due to the early repayment of external debt, explained later in the report.

16. The APR on new loans has increased marginally by 0.01% quarter on quarter.

17. The loans WAM increased by 21 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 the cash balances being available to lend longer due to the value of maturities in the quarter.

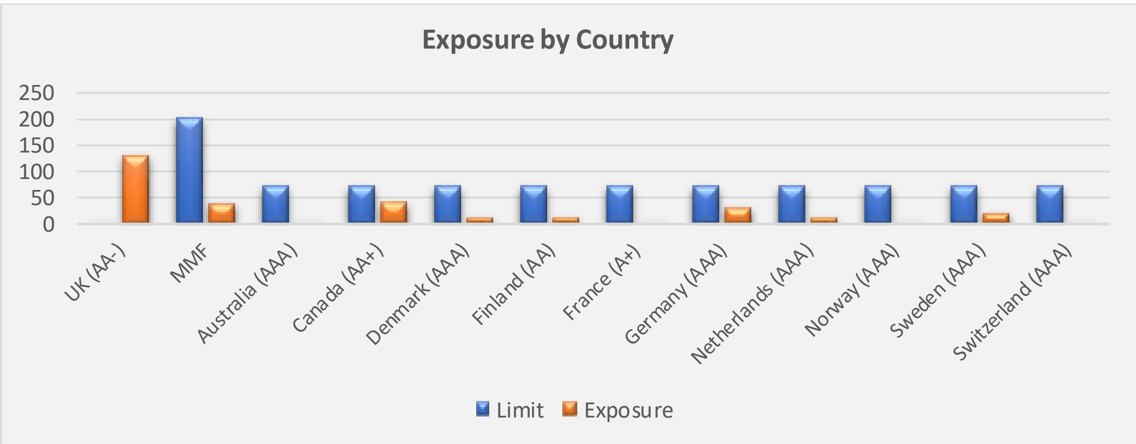
18. The loan portfolio at the end of June was invested with the counterparties shown in the table below, listed by original investment date:

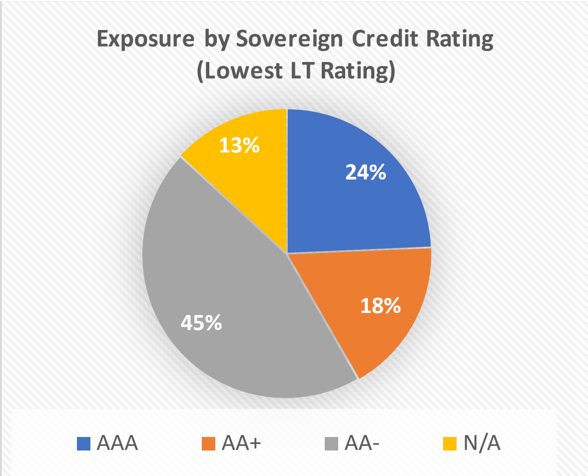
	£m	Maturity Date
Instant Access		
Money Market Funds	37.9	July 2026
12 Months		
National Westminster Bank Plc (RF)	10.0	July 2026
Lloyds Bank Plc (RF)	40.0	July 2026
Royal Bank of Canada	20.0	September 2026
National Westminster Bank Plc (RF)	10.0	September 2026
Landesbank Hessen Thuringen	10.0	September 2026
Landesbank Baden Wurtember	10.0	October 2026
Landesbank Hessen Thuringen	10.0	October 2026
Lloyds Bank Plc (RF)	15.0	October 2026
National Westminster Bank Plc (RF)	25.0	October 2026

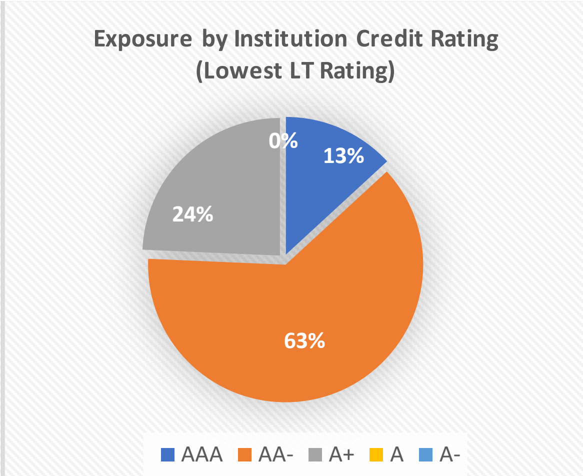
National Westminster Bank Plc (RF)	10.0	February 2027
Cooperative Rabobank U.A	10.0	February 2027
Skandinaviska Enskilda Banken AB	20.0	April 2027
Nordea ABP	10.0	April 2027
Bank of Montreal	20.0	May 2027
Goldman Sachs International Bank	20.0	June 2027
Beyond 12 Months but included in short term investments		
Danske Bank#	10.0	May 2027
Short term investments total	**287.9**	
Beyond 12 Months (IiLP)		
Partners Group (Private Debt) 2021	7.1	Estimated 2029
Partners Group (Private Debt) 2023	7.0	Estimated 2030
CRC CRF 5 (Bank Risk Sharing) 2022	7.1	Estimated 2030
CRC CRF 6 (Bank Risk Sharing) 2025	7.8	Estimate 2032
Pooled Property	9.0	Open ended/ Estimated 2026/27
Pooled Infrastructure	8.8	Open ended fund
TOTAL PORTFOLIO BALANCE: 30 June 2026	**334.7**	

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

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



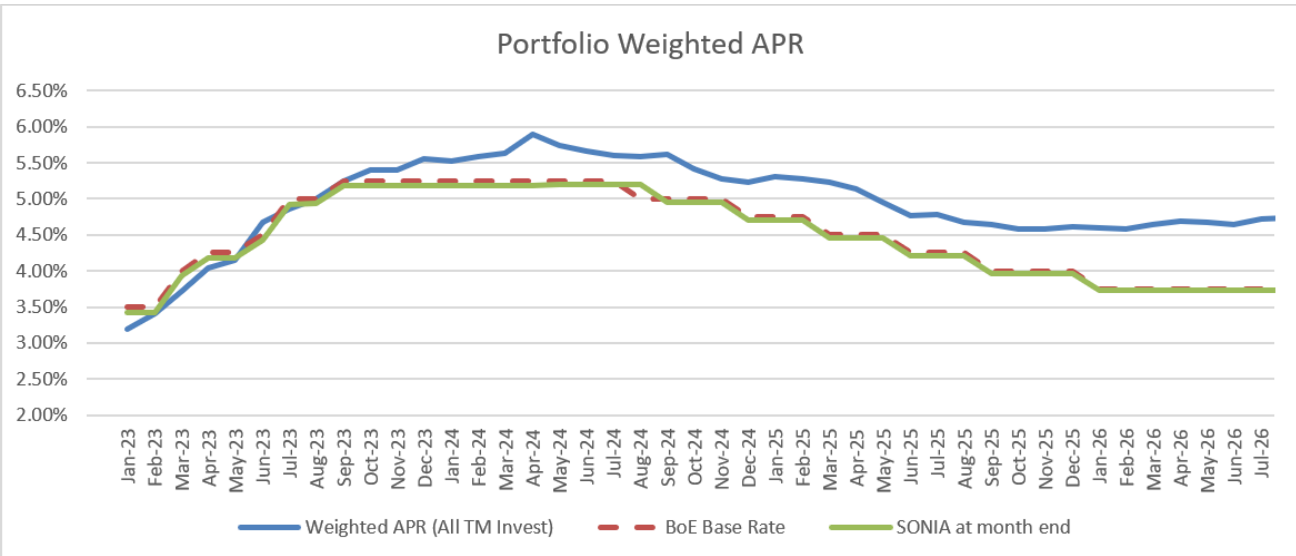




20. These graphs provide an indication of the Council's exposure to credit risk but it should be noted that long term credit rating is just one of the components used to determine the list of acceptable counterparties; short-term ratings, ratings outlook, rating watches, credit default swap movements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

21. The loan portfolio weighted APR increased from 4.15% in Quarter 4 2025-26 to 4.16% in Quarter 1 2026-27. The chart below shows the weighted APR achieved by the treasury portfolio compared to the Bank of England base rate and the Sterling Overnight Index Average (SONIA) rate – the average rates that banks pay to borrow overnight.

22. 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. An indicator for how large the lag is the WAM. This shows the average length of time remaining until the Council's short-term investments mature in days. The position at the end of quarter one shows the average days to maturity of loans is 130 days – an increase of 21 days from the last quarter. Market forecasts for increases in base rates have resulted in higher interest rates being achieved on new investment loans.



<u>Investments Beyond 12 Months</u>

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

As at end of Q1					During Qtr	
	Capital invested (remaining) (£m)	NAV (£m)	IRR (Since Incep'n)	Total Income Rec'd (£m)	Capital Repaid (£m)	Income (£m)
Private Debt						
2021 MAC VI	7.1	8.6	6.2%	3.3	1.7	0.0
2023 MAC VII	7.0	8.1	8.7%	0.4	0.6	0.0
Bank Risk Share						
2022 CRC CRF 5	7.1	7.2	15.1%	8.5	1.7	0.9
2025 CRC CRF 6	7.8	7.9	11.3%	0.6	1.0	0.3
Pooled Property						
2015-19 DTZ, Threadneedle *	9.0	7.6	2.2%	3.4	0.2	0.1
Pooled Infrastructure						
2023 JPM Infra	8.8	9.2	7.0%	1.7	0.0	0.1

*The remaining pooled property funds are Threadneedle property unit trust and DTZ managed active value 2 fund are distributing income quarterly.

24. The Council received distributions from the MAC VI fund during the quarter comprising a return on invested capital of £1.7m. The income from this investment reduces as capital is returned.

25. The MAC VII is a relatively new fund that was calling investments until September 2025. It has now entered its capital return phase like the MAC VI fund. During quarter one the Council received a capital repayment of £0.6m. The Council is reviewing options for further Private Debt investments as part of the overall IiLP Strategy Review.

26. Distributions from the Christofferson Robb and Company's (CRC) Capital Relief Fund 5 (CRF 5) during the quarter related to £1.7m capital repaid and £0.9m being income. In addition, distributions from the CRC CRF 6 fund were also received of £1.0m return on invested capital and £0.3m of income.

27. The Council also holds investments in two UK commercial Pooled Property funds, Threadneedle and DTZ, committed to between 2015 and 2019. Capital distributions of £0.2m and revenue interest of £0.1m was received in quarter one. Both pooled property funds have current valuations below the invested capital. This is generally due to the higher value of property when these investments were originally made (during a very low UK interest rate period) compared to the valuations in a higher UK interest rate environment and property market backdrop. The Threadneedle fund is an open fund and can be held indefinitely as it has no scheduled capital return period, it also provides regular quarterly income. The DTZ managed fund is closed ended meaning it was setup with the intention to return capital to investors after a period of time; it is currently returning capital as properties are sold and paying quarterly income.

28. The pooled infrastructure investment with JP Morgan is a diversified global fund investing in developed infrastructure. The commitment to this Fund in 2022 was for £8.8m which was called by JP Morgan in January 2023. The fund has been paying regular quarterly distributions since the original investment.

Loans to Counterparties that breached authorised lending list

29. During quarter one 2026/27 there were no investment loans which breached the authorised lending list.

External Debt Repaid

30. During quarter one and in recent months, gilt yields, which underpin external loan rates, have continued to increase reaching 30-year highs caused by inflation remaining stubbornly above the Bank of England's target of 2% and the ongoing US-Israel-Iran conflict. The increases have been sufficient for the Council to consider further longer-term debt repayment opportunities, which will then lead to annual savings in interest payments for the next 20 to 30 years in excess of the premiums paid.

31. As a result, and after consultation with the Council's Treasury Management advisors, the Council has repaid a total of £42.7m of external debt principal in the current financial year to date. Details of the loans repaid are shown below:

Loan Number	Lender	Start Date	Maturity	Principle £000	Interest Rate	Interest PA £000	Premium £000	Internal Rate of Return	Repayment Date
622	FMS	23/01/2004	23/01/2054	10,000	4.75%	475	0	4.75%	30/04/2026
477672	PWLB	08/05/1996	08/05/2048	4,836	8.38%	405	1,778	5.48%	06/05/2026
477673	PWLB	08/05/1996	08/05/2049	4,836	8.38%	405	1,803	5.50%	06/05/2026
478210	PWLB	26/09/1996	25/09/2047	6,423	8.13%	522	2,045	5.56%	12/05/2026
478214	PWLB	26/09/1996	25/09/2047	832	8.13%	68	265	5.56%	12/05/2026
625	Dexia	14/02/2005	16/02/2065	10,000	4.50%	450	0	4.50%	14/08/2026
461700	PWLB	27/03/1987	31/12/2046	5,804	9.00%	522	2,332	5.65%	04/09/2026
				42,731	**6.66%**	**2,847**	**8,222**	**5.12%****	

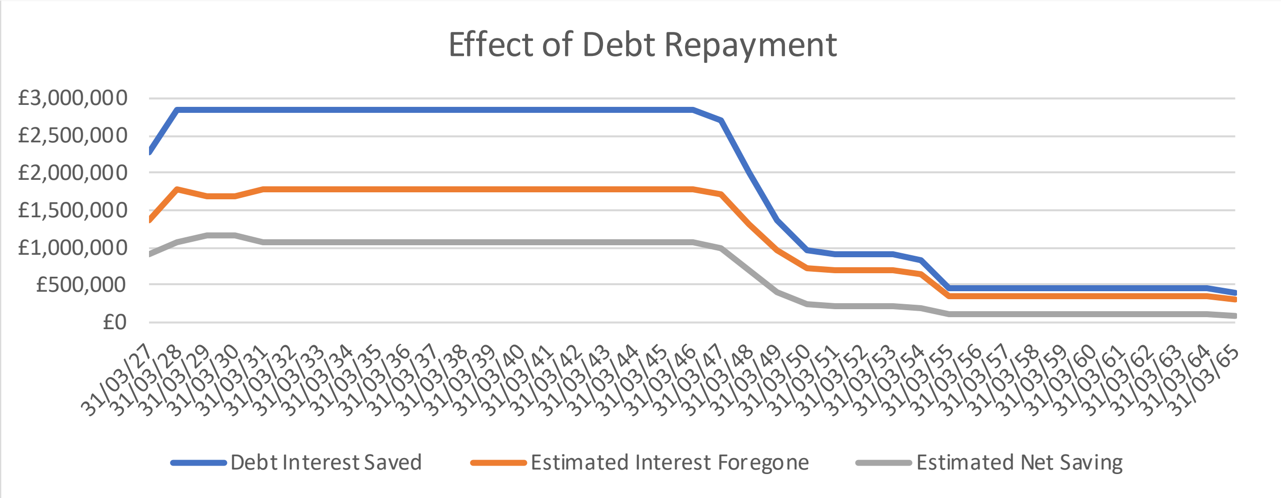
*(FMS Wertmanagement – owned by German Federal Government)
**PWLB only 5.55%

32. While this resulted in a premium of £8.2m, there was still a projected net saving to the authority to repay these loans early. This is because the effective rate of saving (IRR) achieved on the PWLB loans, including premiums, (5.55%) significantly exceeds MUFG's latest forecast long-term earning rate (3.50%) per the table below. If the Council needed to borrow again in the future, the interest savings and the forecast lower interest rate on new borrowing means debt repayments, even with a premium, are financially advantageous.

Average earnings in each year	Now %	Previously %
2026/27	3.80	3.90
2027/28	3.50	3.50
2028/29	3.30	3.30
2029/30	3.30	3.50
Years 6-10	3.50	3.50
Years 10+	3.50	3.50

33. The loans to FMS and Dexia were lender option borrower option (LOBO) loans where the lender exercised their call option to change the interest rates on the loans (to a significantly higher rate). As a result, the Council took the opportunity to repay these loans, no premiums apply in these circumstances.

34. By repaying external loans the Council will save £2.8m per annum in fixed interest payments over the next 20 to 30 years. However, with lower cash balances there will be a reduction on the interest that can be earned, shown below. The estimated net cash saving to the authority over the remaining life of the loans repaid is £1.1m p.a.



35. The Council's actual level of external debt now stands at £87m, the lowest level for over 30 years.

36. The capital financing requirement (CFR) is the level of historic capital expenditure required to be funded, which is estimated to be £189m at 31 March 2027. Comparing the actual external debt to the CFR, the Council is forecast to be £102m underborrowed at year end. With investment balances of £335m, this position can be managed using internal investment balances rather than more expensive external borrowing. Part of Treasury Management activity is to manage this position, the forecasting of cash balances and the amount required to finance the CFR.

Notable events subsequent to Quarter 1 Update

37. Details of external debt repayments made after quarter one are included in the above. No further material events are reported.

Compliance with Prudential and Treasury Indicators – Quarter 1

38. 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 2026, the Council has operated within the treasury and prudential indicators as set out in the Council's Treasury Management Strategy Statement for 2026/27, except for the capital expenditure forecast for 2026/27 and the actual financing costs as a % of net revenue stream by 0.1% due to the premiums payable on the early repayment of debt.

39. The latest estimate of capital expenditure in 2026/27 is £181m 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 2025/26 outturn. The increase in the capital programme is fully funded.

Resource Implications

40. 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, IiLP) for 2026/27 is £11m. Current bank interest forecasts show interest earned in 2026/27 could reach £12m due to the Bank of England base rate levels being higher and for longer than forecast and higher than estimated average Council balances than when the budget was set.

41. 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.

42. Capital financing costs for 2026/27 are forecast to be £2.3m lower than budgeted for in 2026/27 before premiums are charged.

Recommendations

43. The Committee is asked to note this report.

Background papers

44. None.

Circulation under the Local Issues Alert Procedure

45. None.

Equality and Human Rights Implications

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

Appendices

Appendix A - Economic Overview (For the quarter to June 2026)
Appendix B – Prudential and Treasury Indicators for 2026/27 as at 30 June 2026

Officers to Contact

Declan Keegan, Director of Corporate Resources,
Corporate Resources Department,
Tel: 0116 305 6199 E-mail: declan.keegan@leics.gov.uk

Simone Hines, Assistant Director (Finance, Strategic Property and Commissioning)
Corporate Resources Department,
Tel: 0116 305 7668 Email: simone.hines@leics.gov.uk

This page is intentionally left blank