
Review of Treasury Management Activities 2025/26

Overview Select Committee

Date of meeting: 8 July 2026

Lead director: Amy Oliver, Director of Finance

Useful information

- Ward(s) affected: All
- Report author: Adam Wuni – Head of Finance Strategy
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- Report version number: 1

1. Summary

- 1.1. This report reviews how the Council conducted its borrowing and investments during 2025/26.
- 1.2. The year started with interest rates at a base rate of 4.5% and there was an expectation that they would move down during 2025/26 as inflation came under control. December 2025 saw the third rate cut of the financial year bringing bank rate to 3.75%. This fall in interest rates will have impacted the Council's return on its investments.
- 1.3. Inflation fluctuated during 2025/26 but overall went up starting at 2.6% in March 2025 (on the CPI measure of inflation) rising to a peak of 3.8% between July and September before falling again to 3.0% in February 2026. Throughout the year it remained above the Bank of England target of 2%. It rose slightly in March 2026 and is expected to rise further during the early part of 2026/27 principally due to geopolitical pressures most notably from the war in the Middle East.
- 1.4. During 2025/26 the Council increased its actual borrowing after many years of using internal borrowing as part of its capital financing. This new borrowing totalled £110m from the Public Loans Works Board (PWLb).

2. Recommended actions/decision

- 2.1. Members of the Overview Select Committee are recommended to note this report and make comments to the Director of Finance and the Executive as they wish.

3. Scrutiny / stakeholder engagement

- 3.1. N/A

4. Background and options with supporting evidence

- 4.1. Treasury management is the process by which our borrowing is managed, and our cash balances are invested. Whilst there are links to the budget approved annually by Council, the sums in this report do not themselves form part of the budget. Cash balances reported here cannot be used to finance expenditure. Rather, measures approved by Council such as drawing on managed reserves to help

support the budget and incurring capital spending funded by prudential borrowing translate to a planned and approved call on cash balances.

- 4.2. The Council incurred long term loan debt to finance both past and current capital expenditure. However, it has taken the opportunity to rationalise debt by repaying the Lender Option Borrower Option (LOBO) style loans and moving to a mix of short, medium and long-term loans from the Public Loan Works Board. During 2025/26 the Council has increased its level of borrowing to secure its liquidity and to fund capital expenditure.
- 4.3. The Council needs cash balances to meet day to day expenditure (e.g. to pay wages when they are due) and some is set aside to repay back borrowing.
- 4.4. The report commences with an overview of treasury management, including loans and investments at key dates. It then reviews the credit worthiness of investments and implementation of our strategy, provides outcomes on key performance measures, and concludes by reviewing compliance against limits set by the Council.
- 4.5. Reports reviewing treasury management activities are submitted twice a year. The previous report was presented to Overview Select Committee on 3 December 2025.

Overview of Treasury Management

Main elements of Treasury Management

- 4.6. There are two main elements to treasury management. The first is managing the Council borrowing, which is used to finance past capital expenditure. The majority of capital schemes have historically been supported by capital grants, with only limited recent use of prudential borrowing. These typically include schemes that are self-financing, along with contributions towards the acquisition and construction of new council housing within the Housing Revenue Account (HRA). The 2025/26 budget process included proposals to borrow for a greater proportion of our capital expenditure, as reserves previously earmarked for capital projects were expected to be needed to support the revenue budget. However limited improvements in the financial position have allowed this to be reversed in the 2026/27 budget, reducing our borrowing costs going forward.
- 4.7. Without a change in approach, and after more than 15 years without long-term borrowing, the Council's cash balances would have fallen below the £25 million minimum level by the end of 2024/25; this was avoided by utilising government borrowing facilities to support the capital programme, including major investment in new council housing. The Council's cash/cash equivalent balances at the end of 2025/26 was £62m.
- 4.8. Historic debt can at times be restructured to achieve savings (for example, by repaying one loan and replacing it with another), and this is kept under active review at the Council. However, any such action must take account of Government rules, which can make early repayment of PWLB borrowing

expensive. Therefore, any repayments would likely be as part of an overall longer-term debt refinancing and rescheduling exercise after considering the prevailing interest rates and a full cost benefit analysis. As long-term interest rates remain unattractive and the Council continues to increase its debt levels, this option has not been pursued this year.

4.9. The revenue budget approved by the Council for each financial year includes provision for the interest payable on this borrowing. It also includes a provision for repaying the borrowing over a number of years (typically over the economic life of the assets acquired). As noted above, the actual loans have generally not been repaid, hence the funding set aside annually for repayment has helped to maintain the cash balances.

4.10. The second element of treasury management is cash management which involves managing the Council's investments to ensure the optimum amount of money is in the bank account on a day-to-day basis so that there is enough money in the account to cover the payments made on the day but no more (cash held in the bank account earns lower interest).

4.11. During 2025/26 the level of the Council's cash investments (although fluctuating during the year) have remained reasonably consistent, but as noted above this is not of itself "spare cash". There are a number of key reasons for the level of cash:

- a) As explained above, whilst the Government no longer supports capital spending with borrowing allocations, we are still required to provide money in the revenue budget each year to repay debt on past capital spending.
- b) We have working balances arising from our day-to-day business (e.g. council tax received before we pay wages and suppliers and capital grants received in advance of the associated capital spending).
- c) We have reserves as shown in the annual budget report and the annual outturn report, which are essentially held in cash (or to underwrite 'internal borrowing' for new capital spending) until we need to spend them.

Treasury Management Policy and Monitoring

4.12. The activities to which this report relates are governed by the Treasury Strategy for 2025/26 approved by the Council on 19 February 2025. This established a plan for borrowing and investment. The Treasury Strategy is formulated taking into account the Council's anticipated borrowing requirements, its expected cash balances, the outlook for interest rates and the credit worthiness of the banks with whom the Council might invest its cash balances.

4.13. Treasury activity is reviewed and reported to the committee twice annually, and this is the second and final report for 2025/26.

Loans and Investments at Key Dates

- 4.14. Table 1 shows the loans (money borrowed by the Council) and investments (money invested by the Council) as at 30 September 2025 and at 31 March 2026. The rates shown are the averages paid and received during 2025/26.
- 4.15. The borrowing strategy that the Council began to implement in the first half of the year continued through the second half. Gross debt increased during the second half of the year by £45m.
- 4.16. Although historically the Council has used banks as well as PWLB for its long-term borrowing the bank loans have now been repaid leaving the PWLB as its only current source of borrowing.
- 4.17. Investments in the second half of the year have decreased by £18m, from £110m at 30 September 2025 to £92m at 31 March 2026. This partly reflects the typical year-end pattern, as grant income is utilised and receipts from Council Tax and Business Rates reduce. In addition, both the General Fund and HRA capital programmes start to accelerate in the second half of the year requiring the Council undertake further borrowing.
- 4.18. Since 2019/20, we have invested in the short to medium term with other local authorities, rather than banks which have less protection for institutional investors. At the end of the 2025/26 financial year, the Council had no exposure to banks except to Barclays who function as the Council's bankers. We may potentially in the future look to increase our deposits with banks if they meet the criteria laid down by the Council TMSS and if rates are attractive.
- 4.19. The Council has continued to make use of money market funds which comprise a basket of short-dated loans to financial institutions. The funds used are considered low risk and are supported by strong credit ratings. We also use them because they are liquid (we can get money back when we need it). We have never lost any money in investing in these funds, but the downside of their safety is that returns are generally lower than some less secure alternatives.

Table 1- Loans & Investments

	Position at 30/09/2025 Principal £M	Position at 31/03/2026 Principal £M	Average Rate at 31 March 2026	Average Rate in 2025/26
Long Term Fixed Rate Loans				
Public Works Loan Board (PWLB)	169	220	4.2%	4.2%
Short Term (less than 6 months) Loans				
Public Works Loan Board (PWLB) Loans due in <12 months	5	22	4.3%	4.3%
Local Authority Loans	23	0	4.4%	NIL
Gross Debt	197	242	4.3%	4.2%
Treasury Investments				
Other Local Authorities	30	25		
Money Market Funds	75	62		
Property Funds	5	5		
Total Treasury Investments	110	92	4.2%	4.0%
NET INVESTMENTS/(DEBT)	(87)	(150)		

4.20. The investments include £5.0m in a property unit trust. These are unit trusts which invest in property, as opposed to more traditional unit trusts that invest in shares. With this type of investment capital value can go both up or down and in recent years the value of these investments has been variable. The funds are held with the Threadneedle Property fund, with a valuation of £4.3m which is also £0.7m lower than the original purchase price of £5m. The dividends received in the year totalled £210k (a return of 4.2% on the original capital investment).

4.21. The Treasury Strategy permits additional investments in property funds up to a total value of £30m, but no further such investments have been made during the 2025/26. We do not expect to make any new property investments for the near future. Table 2 below shows the overall position of the property funds since purchase in 2018.

Table 2 – Position of Property Fund

	Threadneedle Street
	£
Initial Investment 2018	5.00
Valuation at 31 March 2026	4.30
Unrealised gain/(Loss)	(0.70)
Interest on Investment	1.60
Overall Return on Investment	0.90

4.22. The Council's (Non-Treasury) Investment Strategy also allows the spending of capital or making of loans to a third party which are intended to (at least partly) achieve a return. A summary of outstanding loans made under the Investment Strategy is shown in table 3 below.

Loans	Total loans outstanding At 31/03/2026 £m	Percentage Return 2025/26
Ethically Sourced Products Ltd	0.9	4%
Leicester Hockey Club CIC	0.4	5%
Leicester Community Sports Arena Ltd	1.4	5%
The Chapter of Leicester Cathedral	0.8	5%
Total Loans	3.5	4.8%

Table 3 - Loans under the Investment Strategy

4.23. Ethically Sourced Products Ltd loan was due for repayment in 2025/26, we are currently working with them to resolve by early 2026/27.

4.24. As previously reported, Leicester Community Sports Arena Ltd is currently in arrears in relation to the repayment of their loan.

4.25. Leicester Hockey Club C.I.C. loan has also fallen into arrears and have a repayment plan in place and are now back on repayment schedule.

4.26. Leicestershire Cricket Club repaid their £2m loan from us at the beginning of September 2025

5. Detailed report

Economic Outlook, Interest Rates and Creditworthiness

- 5.1. As with 2024/25, UK inflation has proved challenging throughout 2025/26. Having started the financial year at 3.5%, the CPI measure of inflation peaked at 3.8% from July to September, before dipping to 3% in January before increasing to 3.3% in March, the recent upward pressure caused by war in the Middle East may see inflation breach 4.5% later this year.
- 5.2. Also due to the continued lack of progress in ending the Russian invasion of Ukraine and the potentially negative implications for global growth as a consequence of the implementation of US tariff policies, Bank Rate reductions now look limited for the remainder of 2026. Bank Rate currently stands at 3.75%.
- 5.3. In addition, borrowing has becoming more expensive in 2025/26. Gilt yields, to which PWLB borrowing rates are tied, have risen materially in March 2026, more than reversing the falls earlier in the financial year. Additionally, the public finances have remained under pressure.
- 5.4. In the wider economy the loosening in the labour market continues to bear down on wage growth. The 3 month year on year growth rate of average earnings including bonuses slowed from 4.2% in December to 3.9% in January. Meanwhile, excluding bonuses, private earnings growth continued to fall from 3.4% to 3.3%.
- 5.5. It was not surprising that the Bank of England left the Bank Rate unchanged at its March meeting, at 3.75% by a vote of 9-0, but suggesting rates may need to rise if inflation picks up markedly. The vote could best be described as moderately hawkish. The MPC stated it “stands ready to act as necessary” and “is alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting”. Even so, there is a strong possibility the committee is likely to put equal weight on higher inflation and weaker growth, particularly the poor macroeconomic backdrop prior to the energy shock, keeping interest rates at 3.75% this year.
- 5.6. The banking crisis of 2008 saw robust measures put in place to protect depositors and make them less likely to fail. The measures for dealing with a failing bank see investors who are not protected by the Financial Services Compensation scheme (which includes the Council) who have lent or deposited money, taking significant losses before there is any taxpayer support (“bail in”). The Council therefore has put in place strict criteria for banks eligible to be invested in which limits investments to UK registered banks.
- 5.7. The position is continually under review. One factor is that other regulatory developments are continuing to require or push banks towards greater financial robustness. Banks are now required to “ring fence” bank deposits from other riskier activities and this has remained the cornerstone of UK financial regulation although smart reforms have been brought in recently to make it more flexible.

5.8. The Council has an indirect exposure to banks (including non-UK banks) through its investment in money market funds. Money market funds are like “unit trusts” but rather than investing in company shares these funds make interest bearing investments such as bank deposits. When we open such funds, they are vetted to ensure that they have strong investment and risk management processes, and we receive advice from our treasury advisor. During 2025/26 the Council has received borrowing and investing guidance from its treasury advisors MUFG (formerly Link Asset Services)

Implementation of Borrowing & Investment Strategy

5.9. For 2025/26 the Council implemented a strategy of moving away from using cash balances to underpin the capital programme instead moving back to borrowing as interest rates fell during the year. This strategy has been adhered to and although borrowing rates have been under pressure from geopolitical events outside of the control of the UK, rates have come down from the starting point at the beginning of the year.

5.10. Total investment income during 2025/26 was £4.5m. This is slightly lower than the £4.7m budget, and considerably lower than the £6.4m return in 2024/25 principally due to the gradual lowering of investment rates and the bank of England reduced base rate.

Key Performance Measures

5.11. The most important performance measures are the rate of interest on the Council’s borrowings, the timing of borrowing decisions, the timing of decisions to prematurely repay debt, the return on investments and the full repayment of the principal amounts invested.

5.12. The average rate of interest on all investments for English Unitary Authorities at 31 March 2026 is 4.23% whilst the Council’s own rate was lower at 4.15%. This is mainly explained by differences on income from longer term investments, as the Council has had a few medium-term deposits with other local authorities which were made before the unexpectedly fast rise in interest rates and thus didn’t benefit from those high rate rises.

5.13. The Council has no higher-risk investments in unsecured bank deposits and has fewer longer dated strategic funds invested in more variable assets such as property and equities than many other authorities; and has a lower risk portfolio with a far smaller exposure to failed bank bail-in than most. Whilst this quite deliberately lowers our risk of capital losses, it also impacts our relative returns.

5.14. Members will be aware that some authorities have found themselves in major difficulties because they invested too much in riskier assets in anticipation of higher returns; and have since seen significant financial losses and in some cases Government intervention.

5.15. Higher investment returns are always available if higher risk is accepted. Risk can take the form of credit risk (money due is not paid) or market risk (the value of investments fall). However, the trade-off between risk and reward was considered when investment strategies were set for 2025/26 and in the current economic climate continues to be a most important consideration.

5.16. In practice, there is no such thing as a representative “average” authority. The benchmarking data reflects a division between the authorities that use longer term and more risky assets (about half of all authorities) and those adopting a more cautious approach. We fall much nearer to the cautious side of the two as we have only a small proportion of longer-term assets.

Other Prudential Indicators

1.1. Debt and the Authorised Limit and Operational Boundary, is set out in the table below:

	Debt at 31/3/26 £m	2025/26 Authorised Limit £m	2025/26 Operational Boundary £m	Complied? Yes/No
Borrowing	242	650	550	yes
PFI and Finance Leases	79	500	450	yes
Total debt	321	1,150	1,000	

1.2. The Authority is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

1.3. The operational boundary is a management tool for in-year monitoring and it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

1.4. However, as reported in the Three-Year Capital Programme 2026/27 report, the Authority's strategy is to reduce borrowing. To support this, £90 million of previously approved capital expenditure will be financed from reserves rather than through borrowing, thereby reducing the ongoing revenue costs associated with borrowing

Maturity Structure of Borrowing

- 1.5. This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity of all borrowing were:

	Upper Limit £m	Lower Limit £m	31/3/26 Actual £m	Complied?
Under 12 months	50	nil	22	yes
12 months and within 24 months	100	nil	52	yes
24 months and within 5 years	150	nil	22	yes
5 years and within 10 years	200	nil	10	yes
10 years and within 25 years	250	nil	19	Yes
25 years and over	350	nil	116	Yes

*Note that these figures exclude PFI and finance leases, and amounts owed to Leicestershire County Council. The figures held as under 12 months include money borrowed short term from Local Authorities.

Long-term Treasury Management Investments

- 1.6. The Council has a limit of £170 million for investments in all types of long-term investments such as property funds, long dated bond funds and equities. The total sum of such investments held by the Council as of 31st March 2026 was £30m of which £5 was held in property funds. The Council will monitor opportunities for long term investments in order to respond agilely when such opportunities arise.

Gross Debt and the Capital Finance Requirement

- 1.7. Statutory guidance is that debt should remain below the capital finance requirement, except in the short term. The authority has complied and expects to continue to comply with this requirement. The total debt including PFI and finance leases was £321 million whereas our capital finance requirement is £657 million.

Liability Benchmark

- 1.8. The Treasury Management Strategy is required to include the Liability Benchmark. This compares the underlying need to borrow for capital purposes with the external loans profile over the next 50 years, for existing and approved future expenditure.
- 1.9. The underlying need to borrow for capital purposes is called the Capital Financing Requirement (CFR). The CFR falls over time as loans are gradually repaid and rises with new borrowing. The historic Housing

Revenue Account debt does not have to be repaid and will therefore remain in the CFR.

- 1.10. After revenue and other balances have been considered, the liability benchmark (the underlying need to borrow for all purposes), is less than the CFR which is the maximum amount that can be borrowed except for very short term cashflow requirements.
- 1.11. In terms of risks, the Council is exposed to rising interest rates increasing the cost of future borrowing, but this is offset by an exposure to falling interest rates, which would reduce the return received on investments. The Council is also exposed to credit risk on its investments, that is the risk that loans or investments are not repaid although the great majority of its treasury balances are in low-risk investments.
- 1.12. Statutory guidance is that debt should remain below the capital finance requirement, except in the short term. The authority has complied and expects to continue to comply with this requirement.

Use of Treasury Advisors

- 5.17. MUFG advises the Council, they advise on all aspects of treasury management, but their focus is on providing advice on the following matters:
- the creditworthiness of banks
 - the most cost-effective ways of borrowing
 - appropriate responses to Government initiatives
 - technical and accounting matters.

Compliance with the Council's Treasury Strategy

- 5.18. As required by the statutory borrowing framework, the Council is required to set a number of prudential limits and indicators. These limits are set annually and can be found within the budget and Treasury Strategy.
- 5.19. For the operational implementation of the Council's Treasury Management strategy, the most important limits and indicators that need to be monitored throughout the year are:
- The authorised limit – the maximum amount of borrowing that the Council permits itself to have outstanding at any one time.
 - The operational limit – a lower limit to trigger management action if borrowing is higher than expected.
 - The maximum proportion of debt that is fixed rate.
 - The maximum proportion of debt that is variable rate.
 - Limits on the proportion of debt maturing in a number of specified time bands.
 - Limits on sums to be invested for more than 364 days.

These limits have been complied with.

5.20. Further details on the Prudential Indicators can be found in Appendix F to the Capital Budget Monitoring Outturn April-March 2025/26 report found elsewhere on your agenda.

6. Financial, legal, equalities, climate emergency and other implications

6.1 Financial implications

This report is solely concerned with financial issues.

Signed: Claire Gavagan – Assistant Director of Finance

Date: 8 May 2026

6.2 Legal implications

There are no legal issues from this report.

Signed: Kevin Carter, Head of Law - Commercial, Property and Planning

Date: 8 May 2026

6.3 Equalities implications

This report reviews how the Council conducted its borrowing and investments during 2025/26 and monitors compliance with the treasury management strategy. It has no direct equality impacts.

Signed: Surinder Singh, Equalities Officer, ext. 37 4148

Dated 5 May 2026

6.4 Climate Emergency implications

There are limited climate emergency implications directly associated with this report. However, in general, the Council should consider opportunities to ensure that its investments are not contributing to negative climate and environmental impacts, as relevant and appropriate.

Signed: Phil Ball, Sustainability Officer, ext. 37 2246

Dated 6 May 2026

6.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

None

7. Background information and other papers:

Treasury Policy 2025/26 approved at Council 19 February 2025

Treasury Management Strategy 2025/26 approved at Council 19 February 2025

Investment Strategy 2025/26 approved at Council 19 February 2025

Mid- Year Review of Treasury Management Activities 2025/26 OSC 3 December 2025

8. Summary of appendices:

None

9. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

No

10. Is this a “key decision”? If so, why?

No