

Treasury Management Update

Quarter 1 Report 2025/26
ended 30 June 2025

Boston Borough Council

1 Treasury Management Update

Quarter Ended 30 June 2025

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

2 Economic Update

The first quarter of 2025/26 saw:

- A 0.3% month on month fall in real Gross Domestic Product in April – the first fall since October 2024;
- The 3 month year on year rate of average earnings growth excluding bonuses fall from 5.5% to 5.2% in May;
- Core Consumer Price Index inflation ease from 3.8% in April to 3.5% in May as temporary easter related effects faded;
- The Bank of England cut interest rates from 4.50% to 4.25% in May and hold them steady in June.
- The 10-year gilt yield fluctuates between 4.4% and 4.8%, and end the quarter at 4.50%.

Monetary Policy Committee (MPC) meetings 8 May and 19 June 2025

There were two MPC meetings this quarter. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from food prices rising. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates will be reduced further.

3. Interest rate forecasts

The Council has appointed MUFG as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The following Public Works Loan Board (PWLB) rate forecasts are based on the Certainty Rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1 November 2012.

The latest forecast was provided on 10 February 2025.

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

4 Annual Investment Strategy

The Treasury Management Strategy Statement for 2025/26, which includes the Annual Investment Strategy, was approved by the Council on 3 March 2025. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the MUFG suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap overlay information.

As shown by the charts below and the interest rate forecasts in section 3, investment rates have started to taper downwards during the first quarter of 2025/26 and are expected to fall back further if inflation falls through 2025 and 2026 and the MPC loosens monetary policy more substantially.

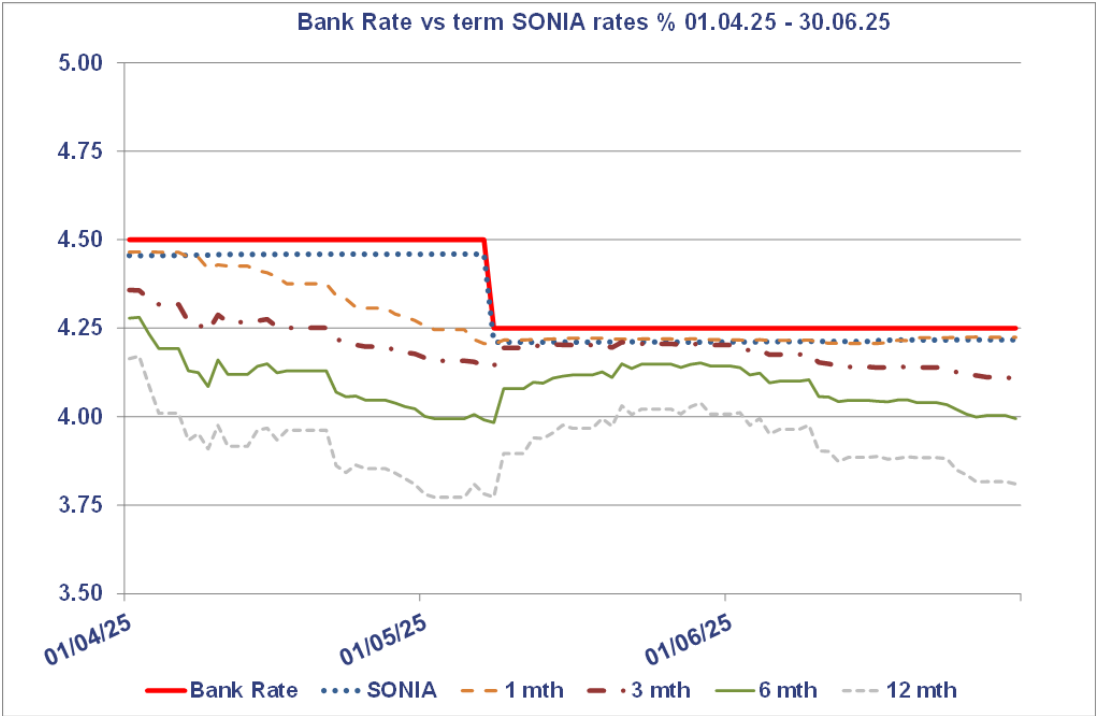
Creditworthiness - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment Counterparty Criteria - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Credit Default Swap prices - For UK banks, and international banks these have remained low, and prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return.

Investment performance year to date as at 30 June 2025

The graph below shows that during the first quarter of the financial year rates have been gradually falling.



During the financial year the Council has made investments in line with the agreed Treasury Management Strategy.

Because the Council collects money on behalf of other organisations which are paid out at future dates (e.g. Council Tax and Business Rates) the value of investments held at any point in time does not represent the value of Boston BC's own resources.

The following table provides details of the cash investments held by the Council on 30 June 2025. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis.

Financial Institution	Country	Amount (£)	Start Date	Maturity Date	Fixed/ Variable	Yield (%)
HSBC Bank	UK	92,229	N/A	Instant Access	N/A	0.00%
CCLA* Money Market Fund	Various	6,380,000	N/A	Instant Access	Variable	4.28%
Barclays Bank	UK	523,905	N/A	Instant Access	Variable	2.75%
UBS Bank	Switzerland	3,000,000	12/07/24	11/07/25	Fixed	5.18%
Police & Crime Commissioner for Herts	UK	2,000,000	13/12/24	11/07/25	Fixed	5.60%
City of Bradford MDC	UK	2,000,000	17/03/25	17/09/25	Fixed	5.45%
Ashford District Council	UK	2,000,000	18/12/24	19/09/25	Fixed	5.60%
Gloucester City Council	UK	2,000,000	03/01/25	03/10/25	Fixed	5.40%
The Highland Council	UK	2,000,000	24/10/24	23/10/25	Fixed	5.00%
North Lanarkshire Council	UK	2,000,000	11/11/24	10/11/25	Fixed	5.05%
The Moray Council	UK	2,000,000	28/11/24	27/11/25	Fixed	5.35%
Broxbourne BC	UK	2,500,000	20/06/25	22/12/25	Fixed	4.25%
Basildon BC	UK	2,000,000	18/02/25	17/02/26	Fixed	5.65%
Great Yarmouth BC	UK	2,000,000	24/02/25	24/02/26	Fixed	5.60%
Aberdeen City Council	UK	2,000,000	28/03/25	27/03/26	Fixed	5.50%
TOTAL		32,496,134				

** The CCLA (Church, Charities and Local Authorities) Money Market Fund is domiciled in the UK but investment funds deposited globally.*

At the start of the year the level of investments was £34.7m.

Maturity profile of investment

A breakdown of the maturity structure of investments on 30 June 2025 is as follows:

Period to Maturity	Amount (£)	% of Portfolio
Instant Access	6,996,134	14%
Less than one month	5,000,000	10%
One to three months	4,000,000	8%
Three to six months	10,500,000	21%
Six to nine months	6,000,000	12%
Nine months to a year	0	0%
>12 Months	17,208,735	35%
TOTAL	49,704,869	100%

Property Fund Investments

The Council purchased property fund units between 2016 and 2018.

The overall change in the combined Net Asset Values for all funds during the first quarter of 2025/26 has been a decrease of £10,023.

The movement in fair value of the Capital Funds gets charged to the revenue account and reversed out through the MIRS to the capital adjustment account each year end so there is no bottom-line impact.

The M&G UK Property fund is liquidating its assets and therefore their fund valuation is reducing as repayments are made. Of the £4m originally invested, M&G have now paid Boston BC distribution payments totalling £3,781,031 as of 30 June 2025 leaving a book value of £218,969 outstanding.

The following table provides details of purchase cost, current fair value and performance information of the property fund investments on 30 June 2025 and projected outturns for the year.

Property Funds (Capital Expenditure)

Financial Institution	Purchase Cost (£)	Q1 Budgeted Net Revenue 2025/26 (£ & %)	Q1 Estimated Net Revenue (£ & %)	2025/26 Budgeted Net Revenue 2025/26 (£ & %)	2025/26 Estimated Outturn Net Revenue (£ & %)	Net Asset Value (£)	Total Gain/(Loss) Since Purchase (£ & %)	Capital Gain/(Loss) Since 31/03/25 (£ & %)	2025/26 Combined Annual Return (%)
BlackRock UK Property Fund	4,500,006	44,877 4.00%	37,119 3.31%	180,000 4.00%	155,353 3.45%	4,062,765	(437,241) (9.72%)	17,254 0.43%	3.74%
Schroder UK Real Estate Fund	4,250,006	42,384 4.00%	37,383 3.53%	170,000 4.00%	149,047 3.51%	3,512,779	(737,227) (17.35%)	(43,705) (1.23%)	2.30%
Threadneedle Property Unit Trust	4,239,754	42,281 4.00%	36,996 3.50%	169,590 4.00%	148,391 3.50%	3,680,499	(559,255) (13.05%)	23,999 0.66%	4.16%
M&G Investments UK Property Fund (After Distribution Payments)	218,969	3,224 4.00%	3,527 N/A	12,932 4.00%	12,362 N/A	343,433	124,464 N/A	(3,311) N/K	N/K
AEW UK Core Property Fund	4,000,000	39,890 4.00%	34,904 3.49%	160,000 4.00%	140,000 3.50%	3,509,798	(490,202) (12.26%)	(4,260) (0.12%)	3.37%
TOTAL	17,208,735	172,656	149,929	692,523	605,153	15,109,274	(2,099,461)	(10,023)	
Adjustment for 2024/25 Accrual	-	-	(55)	-	(55)	-	-	-	-
GRAND TOTAL	17,208,735	172,656	149,874	692,523	605,098	15,109,274	(2,099,461)	(10,023)	

Summary of Investment Income Received Against Budget and Forecast Outturn

The table below provides a comparison of investment income received against budget at Quarter 1 and a forecast outturn position for the year.

Investment Type	2025/26 Budget Quarter 1	2025/26 Actual Quarter 1	2025/26 Variance Quarter 1	2025/26 Annual Budget	2025/26 Forecast Outturn	2025/26 Forecast Variance
<u>Treasury Investments</u>						
Gross Interest	(259,185)	(443,767)	(184,582)	(1,039,588)	(1,339,503)	(299,915)
Brokers Fees	<u>2,493</u>	<u>0</u>	<u>(2,493)</u>	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Net Position	(256,692) (4.708%)	(443,767) (5.110%)	(187,075) (0.402%)	(1,029,588)	(1,329,503)	(299,915)
<u>Property Funds</u>						
Gross Distributions	(215,040)	(186,665)	28,375	(862,523)	(753,637)	108,886
Less Management Fees	<u>42,384</u>	<u>36,791</u>	<u>(5,593)</u>	<u>170,000</u>	<u>148,539</u>	<u>(21,461)</u>
Net Distributions	(172,656) (4.000%)	(149,874) (3.457%)	22,782 0.543%	(692,523)	(605,098)	87,425
M&G Property Fund Liquidation Distributions (<i>to be used for MRP Contributions as the original capital purchase was unfinanced</i>)	0	(117,308)	(117,308)	0	(216,288)	(216,288)
Total Net Income	(429,348) (4.400%)	(710,949) (4.563%)	(281,601) (0.163%)	(1,722,111)	(2,150,889)	(428,778)

Treasury investments achieved an average rate of 5.110% and property fund investments achieved an estimated average rate of 3.457%. The combined rate achieved on all investments was 4.563%.

On 30 June 2025 there was a favourable variance of £281,601 and the forecast outturn was a favourable variance of £428,778. The liquidation distribution from M&G which is included in these figures will be used to finance a corresponding MRP charge.

The higher level of investment income achieved compared to the original budget is due to interest rates in the market being higher than the budgeted return for 2025/26 and balances available for investment being higher due to slippage in the capital programme.

5 Borrowing

The Council has a £1m Lender Option Borrower Option (LOBO) loan outstanding on 30 June 2025 with State Street Nominees at a rate of 11.125% which is due to mature in 2051.

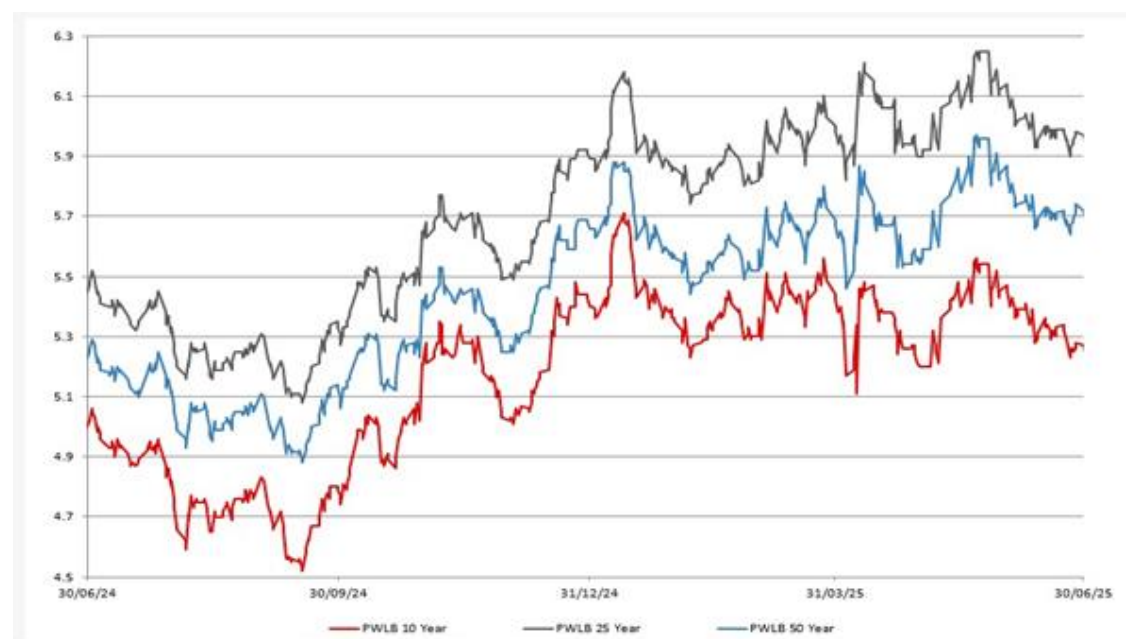
The following table provides a comparison of budgeted borrowing costs and the outturn position for the year.

Borrowing Type	2025/26 Budget Quarter 1	2025/26 Actual Quarter 1	2025/26 Annual Budget	2025/26 Forecast Outturn
State Street LOBO	27,736	27,736	111,250	111,250
Total Borrowing Costs	27,736	27,736	111,250	111,250

On 30 June 2025 negotiations were ongoing with a view to prematurely repaying this loan on preferential terms to the Council and taking out a cheaper loan with the PWLB. The loan has subsequently been repaid during quarter 2 and full financial details will be provided in the Quarter 2 Treasury Management Update.

Public Works Loan Board (PWLB) Borrowing Rates

The 50 year PWLB certainty rate was 5.71% on 30 June 2025 compared with 5.67% at the end of 2024/25.



6 Compliance with Treasury and Prudential Indicators

The prudential and treasury Indicators are shown in the following tables.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement.

During the quarter ended 30 June 2025 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

The Interim Director of Finance & S151 Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

Treasury Indicators and Prudential Indicators for 2025/26 as of 30 June 2025

Treasury Indicators	2025/26 Budget £'000	Revised Budget as at Quarter 1 £'000	31/03/25 Actual £'000
Authorised limit for external debt	38,000	38,000	18,000
Operational boundary for external debt	35,000	35,000	15,000
Gross external debt	1,000	1,000	1,000
Investments	(26,414)	(49,705)	(50,669)
Net investments	(25,414)	(48,705)	(49,669)
Upper limit for principal sums invested over 365 days:			
2025/26	10,000	10,000	0
2026/27	10,000	10,000	0
2027/28	10,000	10,000	0
2028/29	10,000	10,000	0
2029/30	10,000	10,000	0

Prudential Indicators	31/03/25 Actual £'000	Original 2025/26 Budget £'000	Revised 2025/26 Budget as at Quarter 1 £'000
Capital expenditure:			
Non Towns Fund	1,648	4,887	4,282
Towns Fund	8,514	14,849	14,849
UKSPF Projects	626	0	404
LUF Projects	2,376	10,870	10,870
BPF Projects	<u>1,906</u>	<u>8,080</u>	<u>8,080</u>
TOTAL	15,070	38,686	38,485
Capital Financing Requirement (CFR):	18,577	19,709	19,201
Annual change in CFR:	172	1,132	624
In year borrowing requirement:	404	1,339	1,302
Ratio of financing costs to net revenue stream:	(20.98%)	(15.98%)	(17.64%)