

Treasury Management Update

Quarter 3 Report 2025/26
ended 31 December 2025

Boston Borough Council

1 Treasury Management Update

Quarter Ended 31 December 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 third quarter of 2025/26 saw:

- A -0.1% month on month change in real Gross Domestic Product (GDP) in October, leaving the economy no bigger than at the start of April.
- The 3 month year on year 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.
- Core Consumer Price Index (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 fluctuates between 4.4% and 4.7%, ending the quarter at 4.50%.

Monetary Policy Committee (MPC) meetings 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025

There were six Monetary Policy Committee (MPC) meetings held between April and December. 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 (Dhingra, Ramsden and Taylor) 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 rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.

In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the MPC, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the

CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that “a gradual and careful” approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.

At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 Gross Domestic Product (GDP) revised down from 0.3% quarter on quarter (q/q) to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

3. Interest rate forecasts

The Council has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts and commentary on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 basis points.

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

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

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 31 December 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	62,543	N/A	Instant Access	N/A	0.00%
CCLA* Money Market Fund	Various	4,200,000	N/A	Instant Access	Variable	3.85%
Barclays Bank	UK	2,187,152	N/A	Instant Access	Variable	3.50%
Lancashire County Council	UK	2,000,000	19/09/25	19/01/26	Fixed	4.30%
Ashford District Council	UK	3,000,000	21/11/25	23/01/26	Fixed	4.15%
Luton Borough Council	UK	2,000,000	28/11/25	23/01/26	Fixed	4.20%
Basildon BC	UK	2,000,000	18/02/25	17/02/26	Fixed	5.65%
South Ayrshire Council	Uk	2,000,000	11/12/25	23/02/26	Fixed	4.10%
Wrexham County Borough Council	UK	2,000,000	18/12/25	18/02/26	Fixed	4.25%
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%
Police & Crime Commissioner for Herts	UK	2,000,000	29/08/25	29/05/26	Fixed	4.15%
TOTAL		25,449,695				

** 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 31 December 2025 is as follows:

Period to Maturity	Amount (£)	% of Portfolio
Instant Access	6,449,695	15%
Less than one month	7,000,000	16%
One to three months	10,000,000	24%
Three to six months	2,000,000	5%
Six to nine months	0	0%
Nine months to a year	0	0%
>12 Months	17,107,006	40%
TOTAL	42,556,701	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 three quarters of 2025/26 has been a decrease of £359,763.

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 £3,882,760 as of 31 December 2025 leaving a book value of £117,240 outstanding.

The following table provides details of purchase cost, current fair value and performance information of the property fund investments on 31 December 2025 and projected outturns for the year.

Property Funds (Capital Expenditure)

Financial Institution	Purchase Cost (£)	Q3 Budgeted Net Revenue 2025/26 (£ & %)	Q3 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 Estimated Combined Annual Return (%)
BlackRock UK Property Fund	4,500,006	135,617 4.00%	93,779 2.77%	180,000 4.00%	132,615 2.95%	4,066,825	(433,181) (9.63%)	21,314 0.53%	3.48%
Schroder UK Real Estate Fund	4,250,006	128,082 4.00%	98,934 3.09%	170,000 4.00%	136,156 3.20%	3,219,592	(1,030,414) (24.25%)	(336,892) (9.47%)	(6.27%)
Threadneedle Property Unit Trust	4,239,754	127,773 4.00%	133,250 4.17%	169,590 4.00%	169,840 3.98%	3,715,596	(524,158) (12.36%)	59,097 1.62%	5.60%
M&G Investments UK Property Fund (After Distribution Payments)	117,240	9,744 4.00%	9,059 N/A	12,932 4.00%	9,058 N/A	261,389	144,149 N/A	(16,375) N/K	N/K
AEW UK Core Property Fund	4,000,000	120,548 4.00%	49,487 1.64%	160,000 4.00%	84,008 2.10%	3,427,151	(572,849) (14.32%)	(86,907) (2.47%)	(0.37%)
TOTAL	17,107,006	521,764	384,509	692,523	531,677	14,690,553	(2,416,453)	(359,763)	
Adjustment for 2024/25 Accrual	-	-	(68)	-	(68)	-	-	-	-
GRAND TOTAL	17,107,006	521,764	384,441	692,523	531,609	14,690,553	(2,416,453)	(359,763)	

Summary of Investment Income Received Against Budget and Forecast Outturn

The table below provides a comparison of investment income received against budget at Quarter 3 and a forecast outturn position for the year.

Investment Type	2025/26 Budget Quarter 3	2025/26 Actual Quarter 3	2025/26 Variance Quarter 3	2025/26 Annual Budget	2025/26 Forecast Outturn	2025/26 Forecast Variance
<u>Treasury Investments</u>						
Gross Interest	(783,251)	(1,145,107)	(361,856)	(1,039,588)	(1,386,756)	(347,168)
Brokers Fees	<u>7,534</u>	<u>0</u>	<u>(7,534)</u>	<u>10,000</u>	<u>0</u>	<u>(10,000)</u>
Net Position	(775,717) (4.708%)	(1,145,107) (4.813%)	(369,390) (0.105%)	(1,029,588)	(1,386,756)	(357,168)
<u>Property Funds</u>						
Gross Distributions	(649,846)	(478,813)	171,033	(862,523)	(662,108)	200,415
Less Management Fees	<u>128,082</u>	<u>94,372</u>	<u>(33,710)</u>	<u>170,000</u>	<u>130,499</u>	<u>(39,501)</u>
Net Distributions	(521,764) (4.000%)	(384,441) (2.974%)	137,323 1.026%	(692,523)	(531,609)	160,914
M&G Property Fund Liquidation Distributions <i>(to be used for MRP Contributions as the original capital purchase was unfinanced)</i>	0	(219,037)	(219,037)	0	(219,037)	(219,037)
Total Net Income	(1,297,481) (4.400%)	(1,748,585) (4.166%)	(451,104) (0.234%)	(1,722,111)	(2,137,402)	(415,291)

Treasury investments achieved an average rate of 4.813% and property fund investments achieved an estimated average rate of 2.974%. The combined rate achieved on all investments was 4.166%.

On 31 December 2025 there was a favourable variance of £451,104 and the forecast outturn was a favourable variance of £415,291. 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

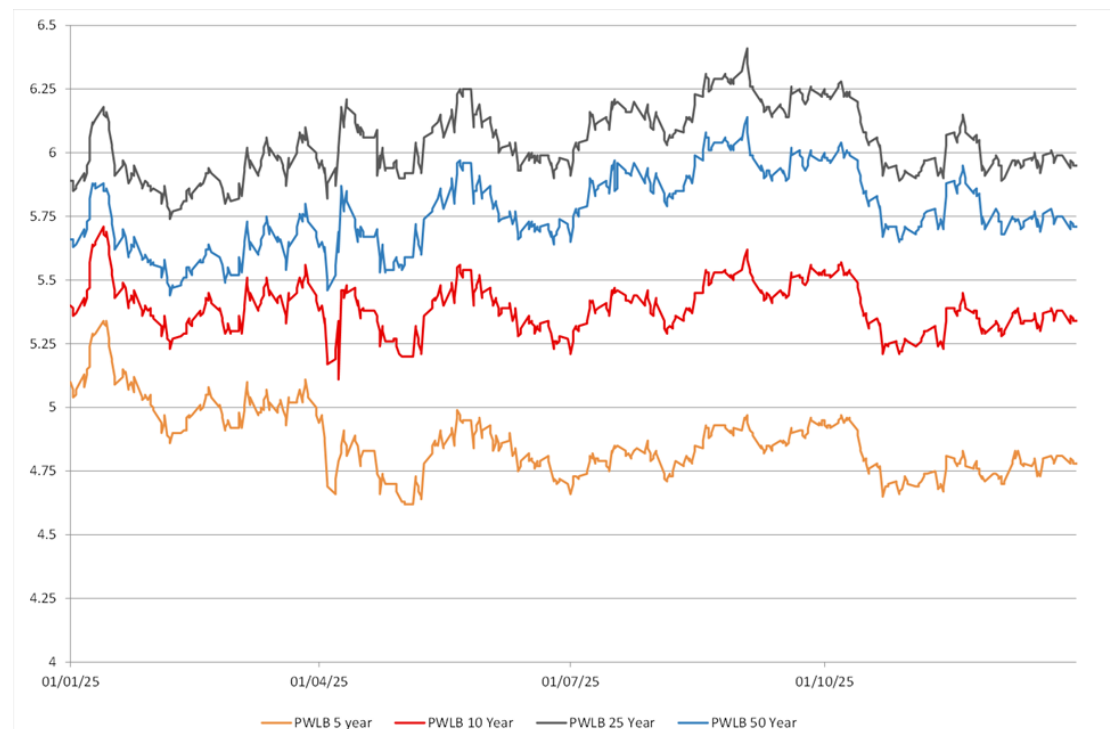
As reported in the Mid Term Treasury report, the Council had a £1m Lender Option Borrower Option (LOBO) loan with State Street Nominees at a rate of 11.125% which was repaid on 11 July 2025. This loan was replaced with a 5 year PWLB maturity loan at 4.81% from 15 July 2025.

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

Borrowing Type	2025/26 Budget Quarter 3	2025/26 Actual Quarter 3	2025/26 Annual Budget	2025/26 Forecast Outturn
State Street LOBO	83,816	30,784	111,250	30,784
Premium Allocated in Year	0	13,597	0	18,047
PWLB Loan	0	22,403	0	34,263
Total Borrowing Costs	83,816	66,784	111,250	83,094

Public Works Loan Board (PWLB) Borrowing Rates

The 50 year PWLB certainty rate was 5.71% on 31 December 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 31 December 2025 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

The 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 31 December 2025

Treasury Indicators	31/03/25 Actual £'000	2025/26 Budget £'000	Revised at Quarter 3 £'000
Authorised limit for external debt	18,000	38,000	38,000
Operational boundary for external debt	15,000	35,000	35,000
Gross external debt	1,000	1,000	1,000
Investments	(50,669)	(26,414)	(42,557)
Net investments	(49,669)	(25,414)	(41,557)
Upper limit for principal sums invested over 365 days:			
2025/26	0	10,000	10,000
2026/27	0	10,000	10,000
2027/28	0	10,000	10,000
2028/29	0	10,000	10,000
2029/30	0	10,000	10,000

Prudential Indicators	31/03/25 Actual £'000	2025/26 Budget £'000	Revised at Quarter 3 £'000
Capital expenditure:			
Non Towns Fund	1,648	4,260	3,614
Towns Fund	8,514	14,849	14,849
UKSPF Projects	626	404	404
LUF Projects	2,376	10,970	10,970
BPF Projects	<u>1,906</u>	<u>8,080</u>	<u>7,585</u>
TOTAL	15,070	38,563	37,422
Capital Financing Requirement (CFR):	18,577	19,705	18,686
Annual change in CFR:	172	1,128	109
In year borrowing requirement:	404	1,335	486
Ratio of financing costs to net revenue stream:	(20.98%)	(15.98%)	(16.39%)