

Appendix '1'

Treasury Management Update

Quarter 3 Report 2025/26
ended 31 December 2025

South Holland District 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 (commentary by MUFG Corporate Markets)

The third quarter of 2025/26 saw:

- A -0.1% month on month change in real 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 falls 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 Council on 27 February 2025. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council’s investment priorities as being:

- Security of capital
- Liquidity
- 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 chart below and the interest rate forecasts in section 3, investment rates have started to taper downwards during the final quarter of 2025 and are expected to fall back further if inflation falls through 2026 and the MPC loosens monetary policy further.

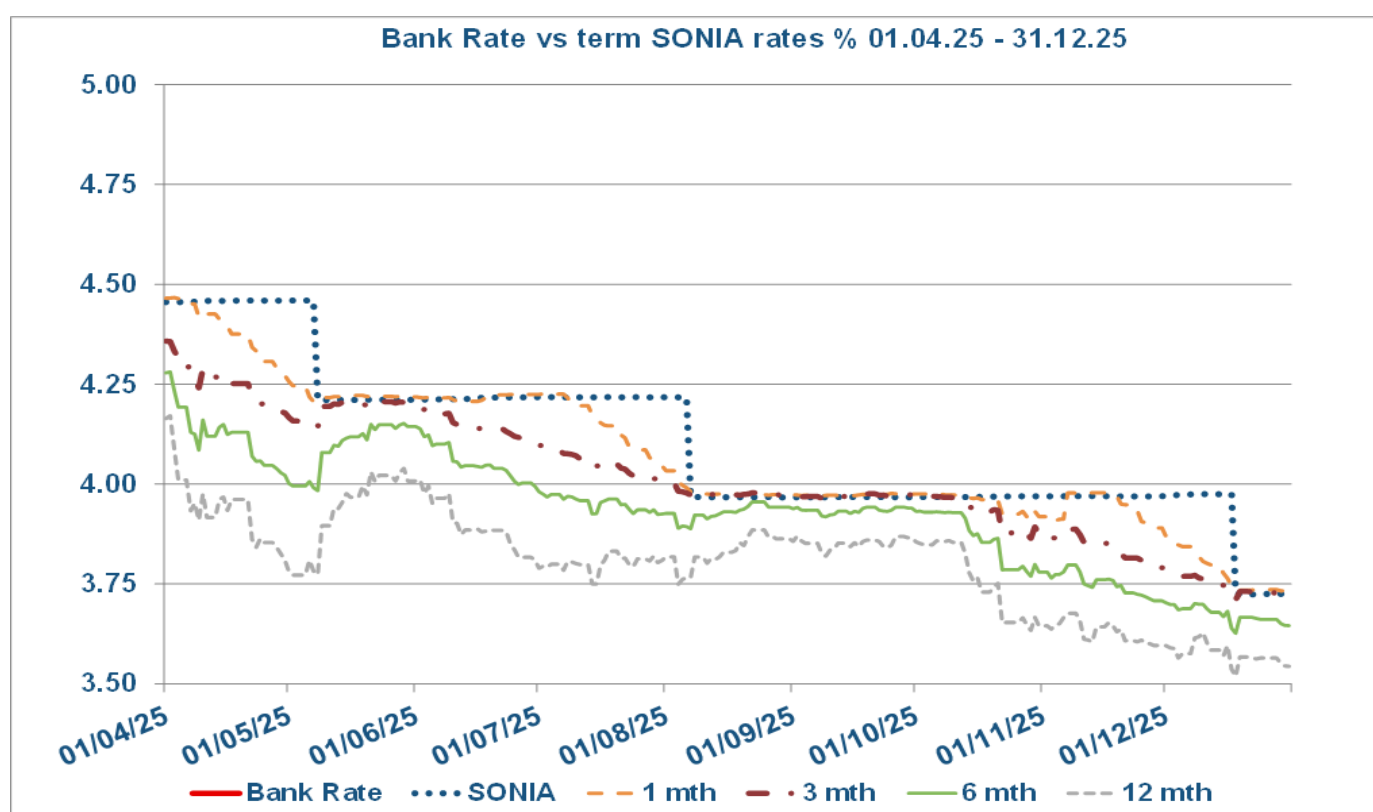
Creditworthiness - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

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 31 December 2025

The following graph below shows that during the first three quarters 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 SHDC'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 %
Lloyds Bank	UK	882,904	N/A	Call	N/A	3.65%
CCLA Money Market Fund*	Various	4,000,000	N/A	Call	N/A	3.85%
Handelsbanken	Sweden	10,125	N/A	Call	N/A	2.95%
Gloucester City Council	UK	2,000,000	15/04/25	15/01/26	Fixed	4.60%
ANZ (London)	Australia	2,500,000	21/07/25	21/01/26	Fixed	4.48%
Great Yarmouth Council	UK	1,500,000	23/12/25	23/01/26	Fixed	4.50%
Wrexham County Borough Council	UK	2,000,000	25/09/25	26/01/26	Fixed	4.50%
Lancashire County Council	UK	2,000,000	29/09/25	29/01/26	Fixed	4.30%
The Highland Council	UK	3,000,000	22/09/25	18/02/26	Fixed	4.35%
Eastbourne Borough Council	UK	2,500,000	19/11/25	19/02/26	Fixed	4.17%
Aberdeen City Council	UK	2,000,000	01/10/25	25/02/26	Fixed	4.50%
South Lanarkshire Council	UK	2,000,000	03/11/25	02/03/26	Fixed	4.28%
PCC for Hertfordshire	UK	2,000,000	29/08/25	29/05/26	Fixed	4.15%
East Ayrshire Council	UK	2,500,000	02/06/25	01/06/26	Fixed	4.65%
Blackpool Borough Council	UK	2,000,000	19/06/25	18/06/26	Fixed	4.60%
Chorley Borough Council	UK	2,500,000	04/08/25	03/08/26	Fixed	4.30%
Broxbourne Borough Council	UK	2,000,000	22/12/25	22/09/26	Fixed	4.58%
Blaenau Gwent County Borough Council	UK	2,000,000	27/11/25	26/11/26	Fixed	4.60%
Basildon Borough Council	UK	2,000,000	01/12/25	30/11/26	Fixed	4.55%
TOTAL		39,393,029				

* 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 £25.0m.

Welland Homes

In addition to the above loans the Council has made loans to Welland Homes, a Housing Company wholly owned by the Council, as follows:

Loan	Amount (£)	Maturity Date	Rate
Green Lane & Walters Close, Spalding	1,341,642.80	17/03/47	3.50%
Parkside Crescent, Spalding	884,278.05	07/05/49	3.50%
London Road, Long Sutton	466,771.00	02/10/48	3.50%
Bentley Court, Spalding	555,548.27	02/08/49	3.50%
Northon's Lane, Holbeach	490,077.55	29/03/51	3.50%
Homefields, Crowland (Phase 1)	1,104,337.16	29/03/53	5.25%
Walnut Close, Sutton St James	609,612.14	25/04/53	5.25%
Homefields, Crowland (Phase 2)	391,915.00	19/10/53	5.84%
Primus Close, Moulton Chapel	701,913.33	05/12/54	5.25%
TOTAL	6,546,095.30		

Interest earned on these loans in the current financial year to 31 December 2025 is £211,382. In addition to the interest, the Council has received a dividend of £65,953 from the Company.

Maturity Structure of Investments

A breakdown of the maturity structure of investments on 31 December 2025 is as follows:

Period to Maturity	Amount (£)	% of Portfolio
Less than one week	4,893,029	10%
Less than one month	10,000,000	22%
One to three months	9,500,000	21%
Three to six months	6,500,000	14%
Six to nine months	4,500,000	10%
Nine months to a year	4,000,000	9%
>12 Months	6,546,095	14%
TOTAL	45,939,124	100%

Return on Investments

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

Category	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
Interest Received GF	(580,983)	(1,003,672)	(422,689)	(771,100)	(1,297,452)	(526,352)
Interest Received HRA	(246,400)	(484,225)	(237,825)	(327,000)	(633,958)	(306,958)
TOTAL	(827,383) (4.330%)	(1,487,897) (4.560%)	(660,514) (0.23%)	(1,098,100) (4.330%)	(1,931,410)	(833,310)

Treasury investments achieved an average rate of 4.611% and interest on Welland Homes loans achieved an average rate of 4.286%. The combined rate achieved on all investments was 4.560%.

On 31 December 2025 there was a favourable variance of £660,514 and the forecast outturn was a favourable variance of £833,310.

Long Term Equity Investments

The following table provides details relating to the Council's equity investments which are valued at "fair value" in accordance with proper accounting practice.

Entity	Equity at Cost (£)	Equity at Fair Value 31/03/25 (£)
Welland Homes at 31/03/25	3,718,694	4,828,602
South Holland Local Housing Community Interest Company	100	1,249,643
UK Municipal Bond Agency	50,000	0
TOTAL	3,768,794	6,078,245

5. Borrowing

The Council has £67.456m of external PWLB borrowing as per the table below.

Entity	Amount (£)	Start Date	Maturity Date	Rate
Public Works Loan Board	67,456,000	28/03/2012	28/03/2062	3.48%

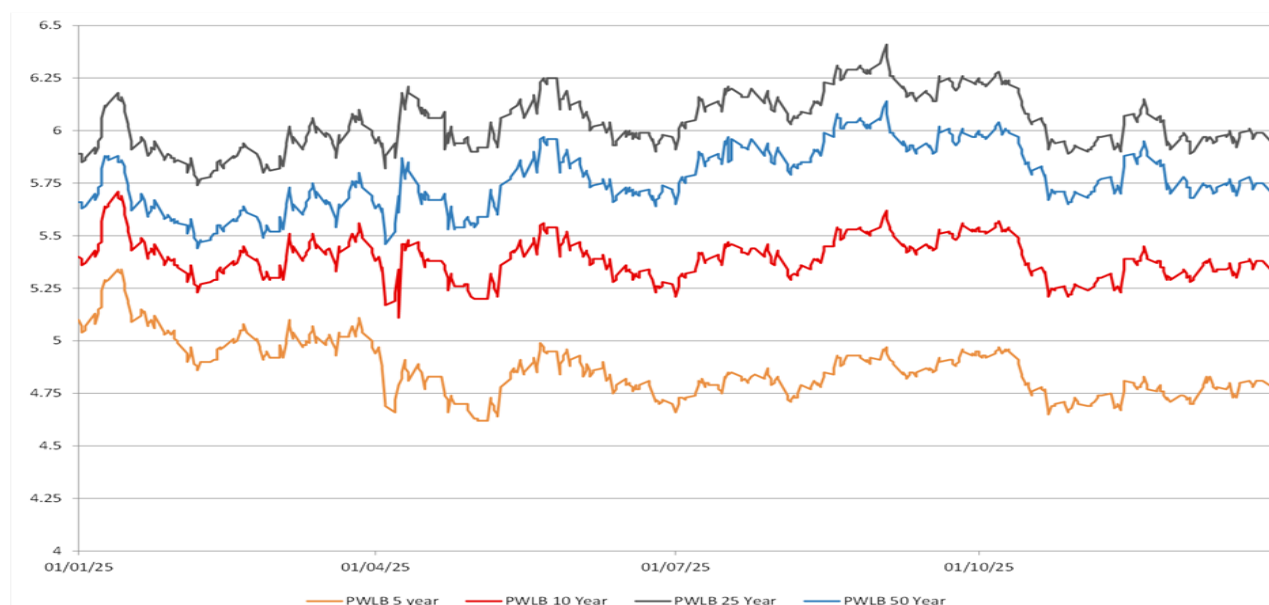
The Council has also budgeted to borrow an additional £10m HRA borrowing from 1 September 2025. As of 31 December 2025, this borrowing has not been taken due to additional capital grant money being received. Discussions will continue with the S151 Officer to agree the way forward on the timing of new borrowing.

The following table provides an analysis of borrowing costs as at Q3:

Category	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
Interest Payable HRA	1,909,024	1,768,641	(140,383)	2,591,414	2,347,469	(243,945)

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. Debt Rescheduling

Debt rescheduling opportunities have remained a possibility in the current quarter for those authorities with significant surplus cash and a flat or falling Capital Financing Requirement (CFR) in future years. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

7. Net Treasury Position

The following table provides an analysis of the net treasury position as at Quarter 3 and the projected outturn for the year:

Category	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
GF Interest Received	(580,983)	(1,003,672)	(422,689)	(771,100)	(1,297,452)	(526,352)
HRA Interest Received	(246,400)	(484,225)	(237,825)	(327,000)	(633,958)	(306,958)
HRA Interest Paid	<u>1,909,024</u>	<u>1,768,641</u>	<u>(140,383)</u>	<u>2,591,414</u>	<u>2,347,469</u>	<u>(243,945)</u>
HRA Net Position	1,662,624	1,284,416	(378,208)	2,264,414	1,713,511	(550,903)
Total Net Position	1,081,641	280,744	(800,897)	1,493,314	416,059	(1,077,255)

At Quarter 3 the net treasury position shows a combined favourable variance of £800,897 and the forecast outturn is a favourable variance of £1,077,255.

Compliance with Treasury and Prudential Indicators

The prudential and treasury Indicators are shown in the tables at Appendix 1A.

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 Position as at Quarter 3 £'000
Authorised limit for external debt	115,000	115,000	115,000
Operational boundary for external debt	111,000	111,000	111,000
Gross external debt	67,456	77,456	67,456
Investments at cost (excluding equity investments)	(38,233)	(28,770)	(45,939)
Net borrowing	29,223	48,686	21,517
Upper limit for principal sums invested over 365 days:			
2025/26	0	5,000	5,000
2026/27	0	5,000	5,000
2027/28	0	5,000	5,000
2028/29	0	5,000	5,000
2029/30	0	5,000	5,000

Prudential Indicators	31/03/25 Actual £'000	2025/26 Budget £'000	Revised 2025/26 Budget as at Quarter 3 £'000
Capital expenditure:			
General Fund	4,830	15,184	13,230
HRA	<u>14,816</u>	<u>13,401</u>	<u>20,356</u>
TOTAL	19,646	28,585	33,586
Capital Financing Requirement (CFR):			
General Fund	16,351	18,985	17,209
HRA	<u>68,427</u>	<u>72,699</u>	<u>75,029</u>
TOTAL	84,778	91,684	92,238
Annual change in CFR:			
General Fund	1,062	2,634	858
HRA	<u>0</u>	<u>4,272</u>	<u>6,602</u>
TOTAL	1,062	6,906	7,460
In year borrowing requirement:			
General Fund	1,427	3,084	1,308
HRA	<u>0</u>	<u>4,272</u>	<u>6,602</u>
TOTAL	1,427	7,356	7,910
Ratio of financing costs to net revenue stream:			
General Fund	(7.12%)	(1.87%)	(2.76%)
HRA	39.93%	34.15%	30.19%