Appendix 'A'

Treasury Management Update

Quarter 3 Report 2021/22
ended 31 December 2021

Boston Borough Council

1 Treasury Management Update

Quarter Ended 31 December 2021

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

2 Economic Update (commentary from Link Group)

UK - MPC meeting 16th December 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.
- On 10th December we learnt of the disappointing 0.1% m/m rise in GDP in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.
- On 14th December, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme ended on 3oth September, (about one million people were still on furlough), was smaller and shorter than the Bank of England had feared: unemployment did not increase hugely in October. Indeed, vacancies rose to a record 1.219m in the three months to November showing there were acute shortages of labour.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron in late November potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to

cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- On 15th December we had the CPI inflation figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).
- Other elements of inflation are also transitory e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues have reduced during the second half of 2021 and are likely to clear during 2022 when prices would be expected to subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.
- The Government has stepped in with some fiscal support for the economy, targeted mainly at the hospitality sector. Due to the huge cost of such support to date, it is likely to remain being limited and targeted on narrow sectors. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!
- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a surprise increase in Bank Rate from 0.10% to 0.25%. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".
- On the other hand, it did also comment that "the Omicron variant is likely to weigh on near-term activity". But it stressed that at the November meeting it had said it <u>would</u> raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references in December to inflation being expected to be below the 2% target in two years' time, which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a "modest tightening" in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about <u>raising interest rates two or three times in 2022 to 0.75% or 1.00%.</u>
- In as much as a considerable part of the inflationary pressures at the current time are indeed transitory, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).
- The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- COVID-19 vaccines. These have been the game changer which had enormously boosted confidence that life in the UK could largely return to normal during the second half of 2021 after a third wave of the virus threatened to overwhelm hospitals in the spring. The bursting onto the scene of the Omicron mutation at the end of November had threatened to cancel the Christmas holidays, but the Government decided not to impose more severe restrictions in the hope that this mild, but highly contagious variant, would not overwhelm hospitals. The big question is whether further mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

US. See comments below on US treasury yields.

EU. The ECB joined with the Fed by also announcing on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. Although headline inflation reached 4.9% in November, over half of that was due to energy but oil and gas prices are expected to fall sharply after the winter. As overall inflation will fall back sharply during 2022, it is likely that the ECB will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below its target rate of 2% despite all the ECB's major programmes of monetary easing by cutting rates into negative territory and providing QE support.

China. The pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future; this strategy poses a potential renewed threat to world supply chains. The People's Bank of China made a start in December 2021 on cutting its key interest rate to encourage flagging economic growth.
Japan. 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus cases have plunged. However, Omicron could reverse the success of 2021 in combating Covid. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon.
World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

3. Interest rate forecasts

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 20th December is compared below to the last forecast (29th September) in the previous quarter. A comparison of these forecasts shows that PWLB rates have fallen, more so in the longer maturities, and show a speed up in the rate of increase in Bank Rate as inflation is now posing a greater risk. Some of the fall in PWLB rates during December was probably due to window dressing by pension and investment funds preparing their finances for the year and quarter end position for 2021 on 31st December: it was therefore expected that part of those falls would be unwound in the new year.

Link Group Interest Rate View	20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Link Group Interest Rate View	29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

Additional notes by Link on this forecast table: -

- LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged until it raised it from 0.10% to 0.25% at the MPC meeting of 16th December 2021.

A summary overview of the future path of Bank Rate

- In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak between 5 and 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- However, rising gas and electricity prices last October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflationary pressures.
- On the other hand, consumers are sitting on around £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next downturn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid mutations remain a major potential downside threat in all three years as we ARE likely to get further mutations. How

quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?

- Purchases of gilts under QE ended in December 2021. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with whatever the new news is.

<u>Forecasts for PWLB rates and gilt and treasury yields</u>

The current PWLB rates are set as margins over gilt yields as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show a steady, but slow, rise in both Bank Rate and PWLB rates during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

Upside risk to gilt yield forecasts. While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant upward risk exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

US treasury yields. During 2020, US President Biden and the Democratic party pushed through a huge programme of fiscal stimulus and are still trying to get another major package approved – the American Families Plan; this is still caught up in political haggling. Financial markets were alarmed that all this stimulus was happening at a time when:-

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.

2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its 15th December meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period, all other things being equal. It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

Downside risk to gilt yield forecasts. There are also possible downside risks from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the

"moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks - on-going global power influence struggles between Russia/China/US/Iran.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going <u>above</u> a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
- <u>*For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.*</u>
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly

expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

4 Annual Investment Strategy

The Treasury Management Strategy Statement for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 1st March 2021. 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. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in section 3, it is currently impossible to earn the level of interest rates commonly seen in previous decades. However, rates have improved during quarter 3 of 21/22 and are expected to improve further as Bank Rate continues to increase over the next two years.

Creditworthiness - Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

Investment Counterparty Criteria - The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirement of the treasury management function.

Credit Default Swap (CDS) prices - Although CDS prices (these are market indicators of credit risk) for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

<u>Investment performance year to date as at 31 December 2021 –</u>

The Council's 2021/22 budget for investment income was £801k. At the end of Dec 2021 investment income earned was estimated to be approximately £583.8k which was £16.9k below the profiled budget.

The average level of funds available for investment purposes during the third quarter of the financial year was £25.2m.

Treasury investments achieved an average rate of 0.96% compared to the benchmark average 3 month London Interbank Bid Rate (LIBID) rate of 0.039%.

Property fund investments achieved an estimated average net rate of 3.43%.

The combined rate achieved on all investments was estimated to be approximately 1.703%.

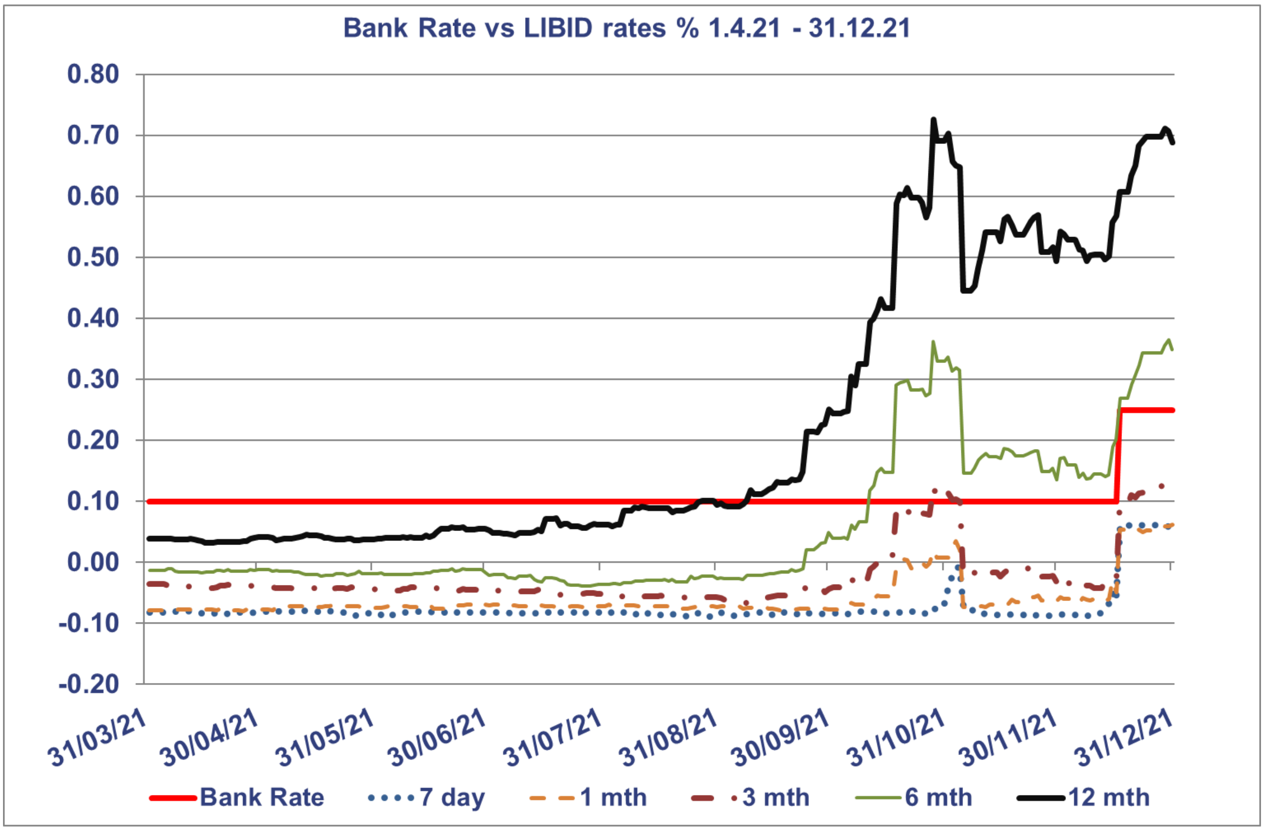
The outturn for investment income for 2021/22 is estimated to be £22.6k below the budget based on current projections. This figure may change depending on the returns achieved on property funds.

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

The following table provides details of the cash investments held by the Council at 31 December 2021. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis. 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 B C's own resources.

Financial Institution	Amount (£)	Start Date	Maturity Date	Yield
HSBC Bank	10,505,000	31/12/2021	Instant Access	0.01%
CCLA Money Market Fund	3,000,000	31/12/2021	Instant Access	0.13%
Barclays Bank	3,000,000	31/12/2021	95-day notice	0.15%
Lloyds Bank	3,000,000	31/12/2021	95-day notice	0.05%
Santander	3,000,000	31/12/2021	95-day notice	0.40%
Bank of Scotland	2,000,000	31/12/2021	175-day notice	0.06%
TOTAL	**24,505,000**			

The graph below shows that longer term investment rates were on a rising trend for the third quarter of the financial year. This was due to the expectation of a Bank of England Base rate rise that eventually came in Mid Dec 2021.



The Council has purchased property fund units and the table below provides a breakdown in relation to the purchase of these units:

Fund	Date of Purchase	Net Asset Value at Date of Purchase £	Premium/ (Discount) on Purchase £	Premium/ (Discount) on Purchase %	Total Cost £
Black Rock UK Property Fund	05/08/16 30/12/16 28/09/18 **TOTAL**	255,085 255,085 3,945,592 **4,455,762**	(5,102) (5,103) 54,449 **44,244**	(2.00) (2.00) 1.38 **0.99**	249,983 249,982 4,000.041 **4,500,006**
Schroder UK Real Estate Fund	05/08/16 03/09/18 **TOTAL**	250,000 4,020,006 **4,270,006**	- (20,000) **(20,000)**	- (0.50) **(0.47)**	250,000 4,000,006 **4,250,006**
Threadneedle Property Unit Trust	31/08/16 31/08/18 28/09/18 31/10/18 **TOTAL**	263,549 2,902,441 483,966 483,930 **4,133,886**	(13,177) 86,572 16,116 16,357 **105,868**	(5.00) 2.98 3.33 3.38 **2.56**	250.372 2,989,013 500,082 500,287 **4,239,754**
M&G Investments UK Property Fund	14/09/18	**3,911,980**	**88,020**	**2.25**	**4,000,000**

AEW UK Core Property Fund	31/10/18	**3,745,319**	**254,681**	**6.80**	**4,000,000**
TOTAL		**20,516,953**	**472,813**	**2.30**	**20,989,766**

The following table provides details in relation to the performance and valuation of these funds as at 31st December 2021

Financial Institution	Purchase Cost (£)	Estimated Revenue Received 2021/22 (£)	Projected Annualised Distribution Yield 2021/22	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	Monthly Gain/ (Loss) (£)	2021/22 Annualised Fund Capital Gain/(Loss) Since 1/4/21	2021/22 Estimated Combined Return
BlackRock UK Property Fund	4,500,006	97,875	2.90% Estimate	4,896,936	396,929	138,944	14.91%	17.81%
Schroder UK Real Estate Fund	4,250,006	105,188	3.30% Estimate	4,710,110	460,104	144,772	14.20%	17.50%
Threadneedle Property Unit Trust	4,239,754	118,289	3.72% Estimate	4,339,440	99,686	138,170	17.69%	21.41%
M&G Investments UK Property Fund	4,000,000	97,800	3.26% Estimate	3,883,123	(116,877)	172,724	15.47%	18.73%
AEW UK Core Property Fund	4,000,000	148,200	4.94% Estimate	3,954,558	(45,442)	114,456	16.13%	21.07%
TOTAL	**20,989,766**	**567,352**		**21,784,167**	**794,400**	**709,066**		

The Projected Annualised Distribution Yield is the projected yield for the year based on dividends already received during the current financial year.

The 2021/22 Annualised Fund Capital Gain/Loss is the projected gain/loss in the capital value of the fund since the start of the financial year calculated by reference to the change in the Net Asset Value from 31 March 2021 to the period end.

The estimated combined return is the total of the Projected Dividend Distribution Yield and the Annualised Fund Capital Gain/Loss.

Please note that this is the position as of 31 December 2021 and the capital values will fluctuate year on year.

An analysis of dividend distributions received and borrowing costs incurred since the purchase of the property funds to 31 December 2021 can be found in the table below:

Financial Institution	**Actual Dividend Distributions Received Pre 2021/22**	**Original Budgeted Distribution for 2021/22**	**Estimated Dividend Distributions Received 2021/22**	**Total Distributions Received Since Purchase**
BlackRock UK Property Fund	400,232	119,998	97,875	498,107
Schroder UK Real Estate Fund	336,300	119,998	105,188	441,488
Threadneedle Property Unit Trust	467,273	133,504	118,289	585,562
M&G Investments UK Property Fund	342,569	90,000	97,800	440,369
AEW UK Core Property Fund	441,967	108,000	148,200	590,167
Total Revenue	**1,988,341**	**571,500**	**567,352**	**2,555,693**
Borrowing Costs	(903,772)	(286,792)	(286,792)	(1,190,564)
Net Revenue Position	**1,084,569**	**284,708**	**280,560**	**1,365,129**

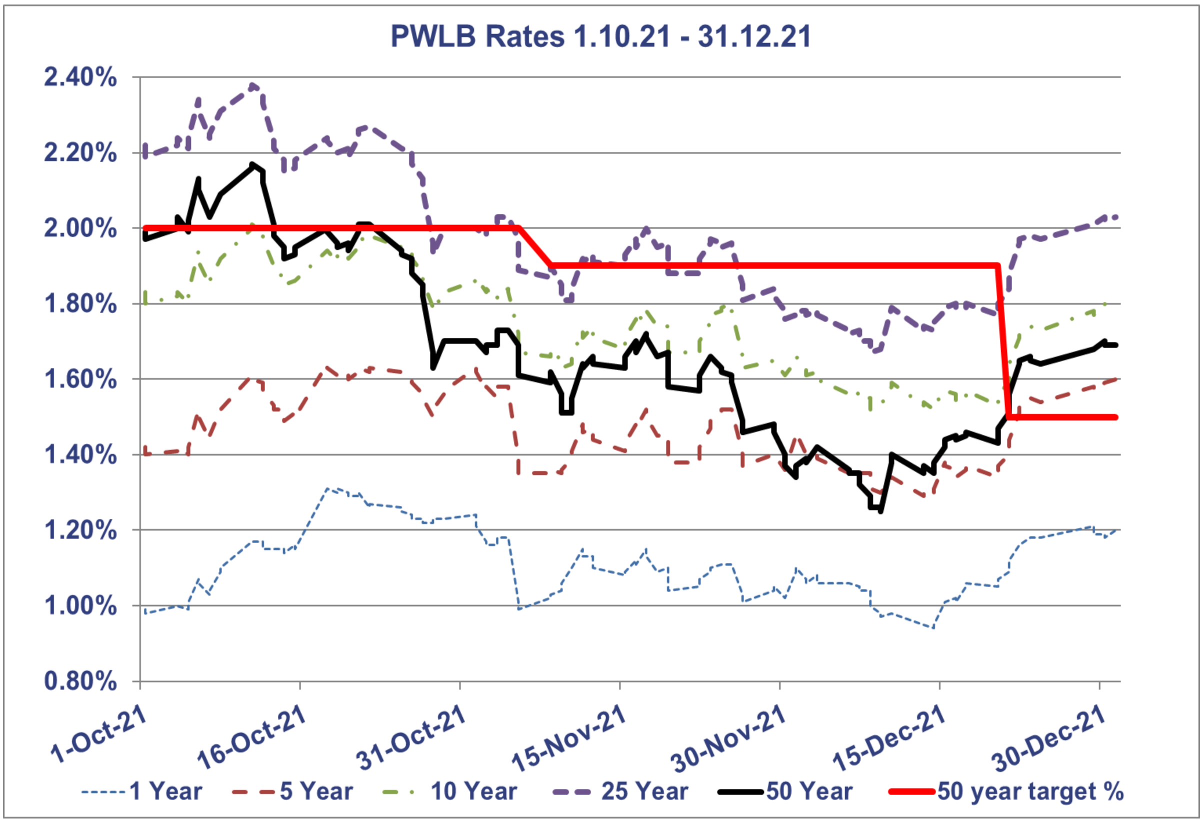
5 Borrowing

No new borrowing was undertaken during the quarter ended 31 December 2021 and the table below shows the Councils external borrowing position at the quarter end.

Entity	**Amount (£)**	**Start Date**	**Maturity Date**	**Rate**
Public Works Loan Board	10,000,000	10/12/2018	10/12/2068	2.54%
Public Works Loan Board	4,000,000	13/12/2018	13/12/2068	2.42%
Public Works Loan Board	1,449,000	27/03/2019	27/03/2069	2.18%
TOTAL	**15,449,000**			**2.475% Average**

It is anticipated that further borrowing will not be undertaken during this financial year, but this may be subject to review.

Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September before falling again during quarter 3 until rising once more in the last ten days of the year. The 50 year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August, returned to 2.00% at the end of September until falling to 1.90% in early November and then falling again to 1.50% in December.



The projected outturn for borrowing costs for 2021/22 is £494k.

6 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

7 Compliance with Treasury and Prudential Indicators

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 2021 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.