APPENDIX 'A'

Boston Borough Council

Annual Treasury Management Review 2021/22

For scrutiny by Audit and Governance Committee
on 18th July 2022

ANNUAL TREASURY MANAGEMENT REVIEW 2021/22

1. INTRODUCTION

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the following reports have been submitted:

- an annual treasury strategy in advance of the year (Council 1st March 2021)
- a mid year (minimum) treasury update report (Audit and Governance 8th November 2021)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, this Council has received quarterly treasury management update reports on 20 September 2021 and 28 March 2022 which were received by the Audit and Governance Committee.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee. Member training on treasury management has not been undertaken during the year however property fund manager presentations have been provided during the year in order to support Members' scrutiny role.

The Treasury Management function is administered by Public Sector Partnership Services Ltd on behalf of the Council.

2. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2021/22

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators.

The following table summarises actual capital expenditure and how this was financed. Full details of the 2021/22 expenditure can be found at **Appendix 'A1'.**

£'000 General Fund	2020/21 Actual	2021/22 Approved Budget	2021/22 Actual
Capital expenditure	3,437	5,593	2,047
Financed in year	(3,437)	(5,593)	(2,047)
Unfinanced capital expenditure	0	0	0

3. THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

Reducing the CFR – the Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2021/22 MRP Policy, (as required by Ministry of Housing, Communities and Local Government (MHCLG) Guidance), was approved as part of the Treasury Management Strategy Report for 2021/22 on 1st March 2021.

The Council's CFR is shown below, and represents a key prudential indicator.

CFR (£'000)	31 March 2021 Actual	31 March 2022 Estimate	31 March 2022 Actual
Opening CFR Balance	20,369	20,304	20,304
Add Unfinanced Capital Expenditure	0	0	0
Minimum Revenue Provision	(65)	(15)	(30)
Total CFR	20,304	20,289	20,274

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2021 Actual £000's	31 March 2022 Estimate £000's	31 March 2022 Actual £000's
Gross Borrowing Position	16,449	16,449	16,449
CFR	20,304	20,289	20,274

The authorised limit - the authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2021/22
Authorised limit	£25m
Maximum gross borrowing position	£16.4m
Operational boundary	£22m
Average gross borrowing position	£16.4m
Financing costs as a proportion of net revenue stream	-4.50%

4. TREASURY POSITION AS AT 31 MARCH 2022

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2021/22 the Council's treasury position including accrued interest was as follows:

	31/3/21 Principal & Accrued Interest £000's	**Rate/ Return %**	**Average Life In Years**	**31/3/22 Principal & Accrued Interest £000's**	**Rate/ Return %**	**Average Life In Years**
Fixed Rate External & PWLB borrowing	16,449	3.92	46.67	16,449	3.92	45.67
CFR	20,304			20,274		
Over/(under) borrowing	(3,855)			(3,825)		
Total investments (including Cash and Cash Equivalents)	(37,360)	1.82	0.62	(47,213)	1.68	0.55
Net investments	(20,911)			(30,764)		

Investments and Cash and Cash Equivalents held as at 31st March 2022 including accrued interest were as follows:

INVESTMENT PORTFOLIO	**Actual 31/03/21 £000's**	**Actual 31/03/21 %**	**Actual 31/03/22 £000's**	**Actual 31/03/22 %**
Treasury Investments				
Banks	14,699	83	21,754	88
Local Authorities	-	-	-	-
Total managed in house	**14,699**	**83**	**21,754**	**88**
Money Market Funds	3,000	17	3,001	12
Total managed externally	**3,000**	**17**	**3,001**	**12**
Total Treasury Investments	**17,699**	**100**	**24,755**	**100**
Non Treasury Investments				
Property Funds	19,661	100	22,458	100
Total Non Treasury Investments	**19,661**	**100**	**22,458**	**100**

Note: The value of Property Fund investments have increased during the financial year. No new investments have been made in this investment type in 2021/22.

SUMMARY	**Actual 31/03/21 £000's**	**Actual 31/03/21 %**	**Actual 31/03/22 £000's**	**Actual 31/03/22 %**
Total Treasury Investments	17,699	47	24,755	52
Total Non Treasury Investments	19,661	53	22,458	48
Total of all Investments	**37,360**	**100**	**47,213**	**100**

The maturity structure of the investment portfolio was as follows:

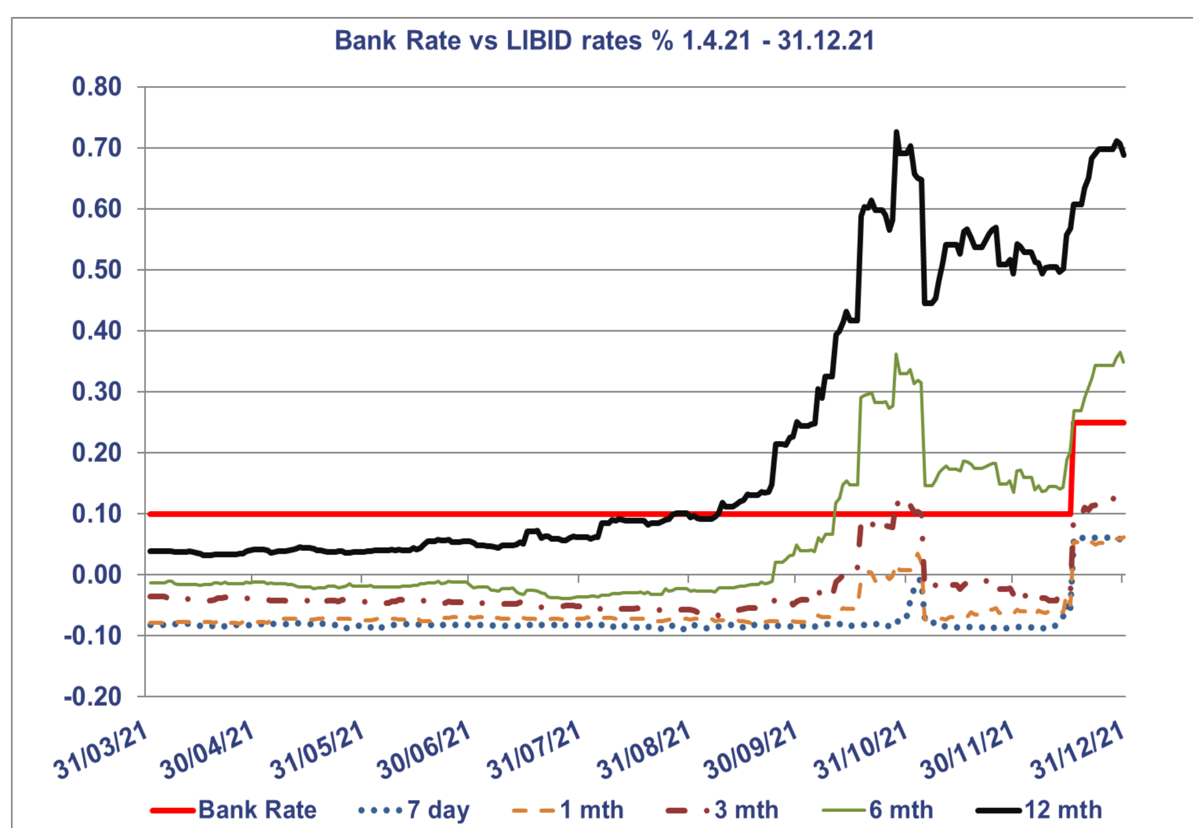
	2020/21 Actual £'000	**2021/22 Actual £'000**
Investments		
Longer than 1 year	19,661	22,458
Under 1 year	17,699	24,755
Total	37,360	47,213

The exposure to fixed and variable rates on investments was as follows:

	31/3/21 Actual £'000	31/3/22 Actual £'000
Fixed rate	0 (0%)	0 (0%)
Variable rate	37,360 (100%)	47,213 (100%)

5. THE STRATEGY FOR 2021/22

5.1 Investment strategy and control of interest rate risk



Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more

liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

5.2 Borrowing strategy and control of interest rate risk

During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks*:*

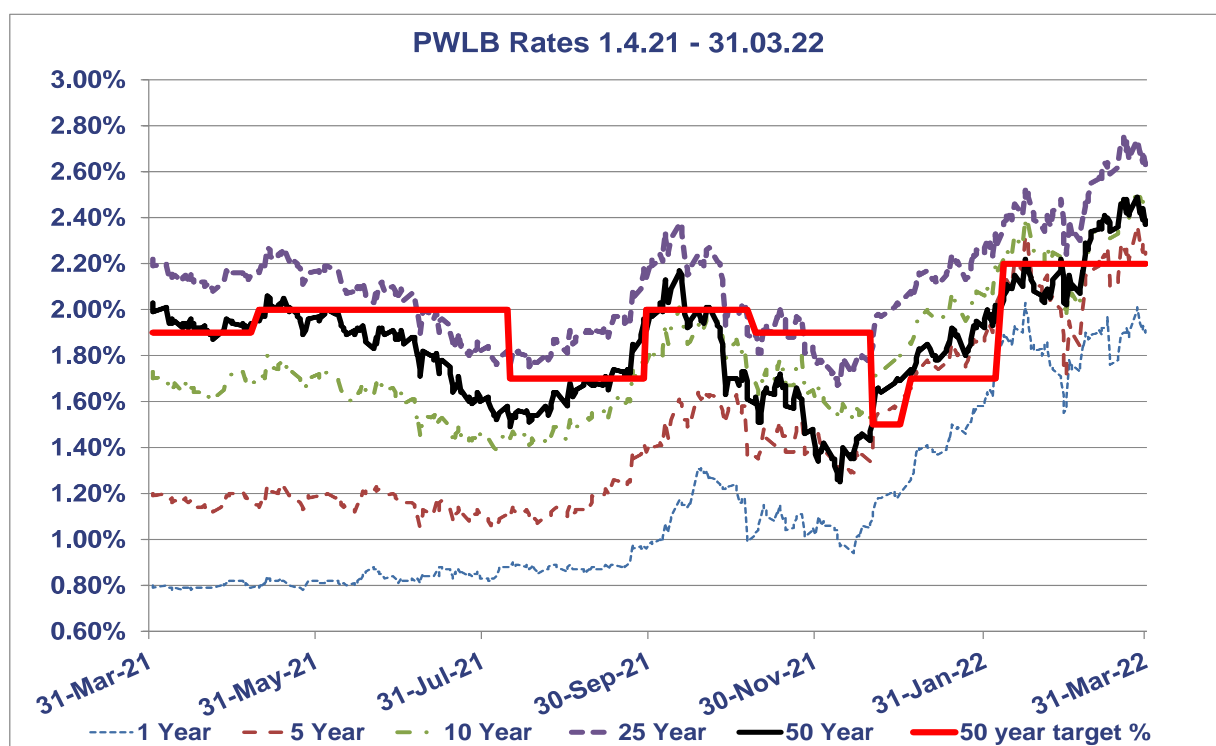
- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

Interest rate forecasts in the table below expected only gradual rises in medium and longer term fixed borrowing rates during 2021/22 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Group Interest Rate View	7.2.22												
	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	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40



PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are 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)

There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

6. Borrowing Outturn

Treasury borrowing – The Council has not undertaken Treasury borrowing during the financial year 2021-22.

Non-Treasury borrowing – In December 2018 & March 2019 the Council borrowed £15.449m from the Public Works Loan Board at an average fixed rate of 2.475%. This borrowing is for a period of 50 years and the loans are maturity loans meaning the £15.449m principal will be repayable after the 50 year period. This borrowing incurred interest charges of £382,388 during 2021/22.

In addition to this borrowing, the Council has a £1m loan from State Street Nominees Ltd at a rate of 11.125% which matures in 2061. Interest on this loan was therefore £111,250.

Borrowing in Advance of Need - The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Rescheduling – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. INVESTMENT OUTTURN FOR 2021/22

Investment Policy – the Council's investment policy is governed by DHLUC guidance, which was been implemented in the annual investment strategy approved by the Council on 1st March 2021. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£'000)	**31 March 2021**	**31 March 2022**
Balances	2,000	2,000
Earmarked reserves	18,679	16,612
Usable capital receipts	239	694
Total	**20,918**	**19,306**

The Council held average treasury investment balances of £23.5m which were internally managed, achieving an average rate of return of 0.133% compared with the average 3 Month Sterling Overnight Index Average (SONIA) rate of 0.087%.

The Council also held average non-treasury investment balances of £21m at cost which were externally managed. These balances were held in property funds and achieved estimated net average returns of 3.54%.

The combined rate of return on all investments averaged 1.74%.

The Council's 2021/22 original budget for investment income was £820k. At the end of the financial year net investment interest earned was £775k which was £45k below the profiled budget. Treasury investments earned £31k and property fund investments £744k.

Full details of property fund investments held by the Council and the 2021/22 performance is shown in Section 9 of this report**.**

8. THE ECONOMY AND INTEREST RATES (Commentary provided by Link Group)

UK. Economy. Over the last two years, 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 at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The **UK** economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA. The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a

further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

EU. With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said "we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation."

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a "technical" recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; however, 2021 has seen the economy negatively impacted by political policies that have focussed on constraining digital services, restricting individual freedoms, and re-establishing the power of the One-Party state. With the recent outbreak of Covid-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

Japan. The Japanese economic performance through 2021/22 is best described as tepid. With a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

World growth. World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, 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 (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

Central banks’ monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

9. OTHER ISSUES

IFRS 9 fair value of investments – When producing the 2021/22 financial statements the Council has adhered to this accounting standard. This standard prescribes the way financial instruments are valued in the accounts and also how risk is measured and accounted for as follows:

- The valuation of investments previously valued under the available for sale category e.g. equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

- Expected credit loss model. Whilst this should not be material for most treasury investments such as bank deposits, this is likely to be problematic for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS9, the Government introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

APPENDIX 'A'

Non Treasury Investments : Property Funds – The Council owns investments in commercial property funds and a breakdown of the initial purchase cost is shown in the following table:

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**

APPENDIX ‘A’

The table below provides an analysis of the revenue returns (dividend distributions) received during the financial year and an analysis of the change in the Net Asset Values of each fund since purchase and also during the 2021/22 financial year.

Financial Institution	Purchase Cost (£)	Estimated Revenue Received 2021/22 (£)	Projected Annualised Distribution Yield 2021/22	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	Annual 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	135,025	2.95% Estimate	5,191,286	691,280	787,809	14.81%	17.76%
Schroder UK Real Estate Fund	4,250,006	142,395	3.22% Estimate	4,903,231	653,225	648,380	15.23%	18.45%
Threadneedle Property Unit Trust	4,239,754	169,123	3.96% Estimate	4,476,361	236,607	646,040	16.87%	20.83%
M&G Investments UK Property Fund	4,000,000	115,993	2.49% Estimate	3,699,460	(300,540)	221,662	6.37%	8.86%
AEW UK Core Property Fund	4,000,000	181,001	3.49% Estimate	4,065,606	65,606	539,619	15.30%	18.79%
TOTAL	**20,989,766**	**743,537**		**22,335,944**	**1,346,178**	**2,843,510**		

The cumulative unrealised losses on the M&G Investments UK Property Fund of £300,540 have been transferred to the Pooled Investment Funds Adjustment Account in accordance with statutory override SI2018/1207.

The total unrealised gains on the capital property funds during 2021/22 was £1,646,718.

The total cumulative net unrealised gains/losses on the capital property funds stands at £1,346,178.

A cumulative minimum revenue provision of £115k has been made in respect of the Council's property fund investments.

The table below provides details of the 2021/22 budget for property fund distributions and borrowing costs along with the provisional returns received for the year. The final column shows the total distributions since the property funds were purchased.

Financial Institution	Actual Dividend Distribution Received Pre 2021/22	Dividend Distribution Budget 2021/22	Dividend Distribution Received 2021/22	Total Distribution Received Since Purchase
Schroder UK Real Estate Fund	336,300	159,997	142,395	478,695
Threadneedle Property Unit Trust	467,273	159,998	169,123	636,396
BlackRock UK Property Fund	400,232	178,005	135,025	535,257
M&G Investments UK Property Fund	342,569	120,000	115,993	458,562
AEW UK Core Property Fund	441,967	144,000	181,001	622,968
Total Revenue	**1,988,341**	**762,000**	**743,537**	**2,731,878**
Borrowing Costs	(903,772)	(382,389)	(382,389)	(1,286,161)
Net Revenue Position	**1,084,569**	**379,611**	**361,148**	**1,445,717**

It can be seen from the table above that the net revenue distribution received by the Council during 2021/22 was £743,537. The cumulative net distribution since purchase has now increased to £1,445,717.

APPENDIX 'A1'

2021/22 Capital Programme and Outturn

Table 4 – 2021/22 Capital Programme and Q4 Outturn Expenditure									
	Capital Programme 2020/21			Funding of the Capital Programme					
Scheme	Approved Budget 2021/22 £000	Actual 2021/22 £000	Variance (Under)/over £000	External Grants £000	Revenue Funding £000	Other Reserves £000	Capital Reserve £000	Capital Receipts £000	Total £000
Disabled Facilities Grants	949	778	(171)	778					**778**
Housing Strategy	56	-	(56)						**-**
Noise Monitoring Equipment	10	10	-				10		**10**
Resurfacing and Footpath Improvements	82	12	(70)				12		**12**
Town Centre Heritage Scheme (PSICA 2)	1,397	154	(1,243)	92		62			**154**
Multi Use Games Area	23	6	(17)	6					**6**
Information Technology Refresh	200	187	(13)			187			**187**
ICT Finance Upgrade via PSPS	634	362	(272)				362		**362**
Ford Transit Tipper Van 2.0 TDCi x 2	22	-	(22)						**-**
Refuse Vehicle	170	172	2				172		**172**
Ransomes Mower	20	-	(20)						**-**
Ford Vans x 2	23	-	(23)						**-**

APPENDIX 'A1'

Table 4 – 2021/22 Capital Programme and Q4 Outturn Expenditure									
	Capital Programme 2020/21			Funding of the Capital Programme					
Scheme	Approved Budget 2021/22 £000	Actual 2021/22 £000	Variance (Under)/over £000	External Grants £000	Revenue Funding £000	Other Reserves £000	Capital Reserve £000	Capital Receipts £000	Total £000
Recycling Bin Purchase	24	28	4				28		**28**
Total Non-Towns Fund Schemes	**3,610**	**1,709**	**(1,901)**	**876**	**-**	**249**	**584**	**-**	**1,709**
Boston Town Deal – Accelerated Funding	400	148	(252)	148					**148**
Towns Fund – Leisure	-	86	86	86					**86**
Towns Fund – Mayflower	108	6	(102)	6					**6**
Towns Fund – St Botolph's Library	228	6	(222)	6					**6**
Towns Fund – Centre for Food and Fresh Produce Logistics	401	18	(383)	18					**18**
Towns Fund – Blenkin Memorial Hall	808	62	(746)	62					**62**
Towns Fund – Healing the High Street	35	6	(29)	6					**6**
Towns Fund – Boston Station	3	6	3	6					**6**
Total Towns Fund Schemes	**1,983**	**338**	**(1,645)**	**338**	**-**	**-**	**-**	**-**	**338**
Total	**5,593**	**2,047**	**(3,546)**	**1,214**	**-**	**249**	**584**	**-**	**2,047**