APPENDIX 'A'

Annual Treasury Management Review 2022/23

For scrutiny by Audit and Governance Committee
on 13th July 2023

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ANNUAL TREASURY MANAGEMENT REVIEW 2022/23

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 2022/23. 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 2022/23 the following reports have been submitted:

- an annual treasury strategy in advance of the year (Council 7th March 2022)
- a mid year (minimum) treasury update report (Audit and Governance 5th December 2022)
- 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 19th September 2022 and 13th March 2023 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 2022/23

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 2022/23 expenditure can be found at **Appendix 'A1'.**

£'000 General Fund	2021/22 Actual	2022/23 Approved Budget	2022/23 Actual
Capital expenditure	2,039	6,210	3,747
Financed in year	(2,039)	(6,210)	(3,747)
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 2022/23 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 2022/23 MRP Policy, (as required by Department for Levelling Up, Housing and Communities (DLUHC) Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 7th March 2022.

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

CFR (£'000)	**31 March 2022 Actual**	**31 March 2023 Estimate**	**31 March 2023 Actual**
Opening CFR Balance	20,304	20,088	20,088
Add Unfinanced Capital Expenditure	0	0	0
Minimum Revenue Provision	(216)	(15)	(2,877)
Total CFR	20,088	20,073	17,211

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 (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) 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 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2022 Actual £000's	**31 March 2023 Estimate £000's**	**31 March 2023 Actual £000's**
Gross Borrowing Position	16,449	16,449	16,449
CFR	20,088	20,073	17,211

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 2022/23 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.

	2022/23
Authorised limit	£28m
Maximum gross borrowing position	£16.4m
Operational boundary	£25m
Average gross borrowing position	£16.4m
Financing costs as a proportion of net revenue stream	-3.28%

4. TREASURY POSITION AS AT 31st MARCH 2023

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 2022/23 the Council's treasury position including accrued interest was as follows:

	31/3/22 Principal & Accrued Interest £000's	**Rate/ Return %**	**Average Life In Years**	**31/3/23 Principal & Accrued Interest £000's**	**Rate/ Return %**	**Average Life In Years**
Fixed Rate External & PWLB borrowing	16,449	3.92	45.67	16,449	3.92	44.67
CFR	20,088			17,211		
Over/(under) borrowing	(3,639)			(762)		
Total investments (including Cash and Cash Equivalents)	(47,213)	1.68	0.55	(37,021)	3.75	0.65
Net investments	(30,764)			(20,572)		

Investments and Cash and Cash Equivalents held as at 31st March 2023 including accrued interest were as follows:

INVESTMENT PORTFOLIO	Actual 31/03/22 £000's	Actual 31/03/22 %	Actual 31/03/23 £000's	Actual 31/03/23 %
Treasury Investments				
Banks	21,754	88	14,625	71
Local Authorities	-	-	-	-
Total managed in house	**21,754**	**88**	**14,625**	**71**
Money Market Funds	3,001	12	5,912	29
Total managed externally	**3,001**	**12**	**5,912**	**29**
Total Treasury Investments	**24,755**	**100**	**20,537**	**100**
Non Treasury Investments				
Property Funds	22,458	100	16,484	100
Total Non Treasury Investments	**22,458**	**100**	**16,484**	**100**

The value of property fund investments have decreased during the financial year and a detailed analysis is provided at **paragraph 9.2**.

SUMMARY	Actual 31/03/22 £000's	Actual 31/03/22 %	Actual 31/03/23 £000's	Actual 31/03/23 %
Total Treasury Investments	24,755	52	20,537	55
Total Non Treasury Investments	22,458	48	16,484	45
Total of all Investments	**47,213**	**100**	**37,021**	**100**

The maturity structure of the investment portfolio was as follows:

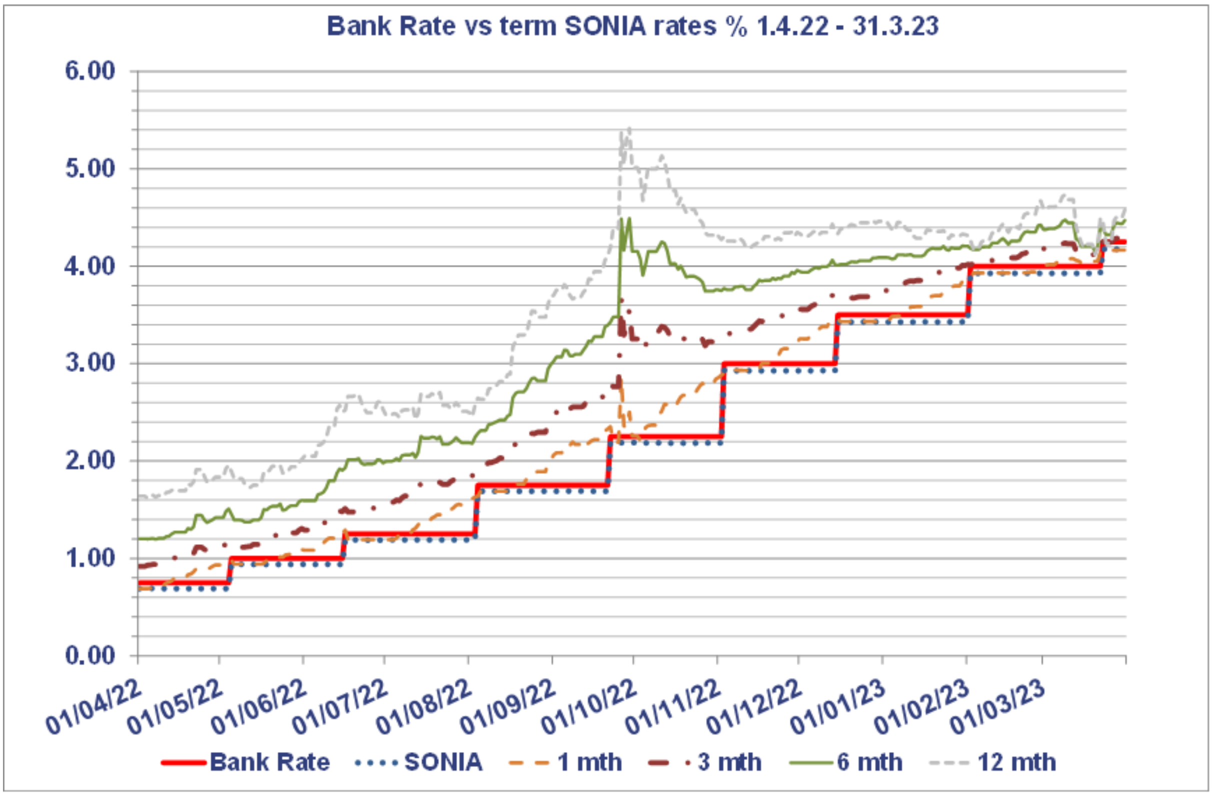
	2021/22 Actual £'000	2022/23 Actual £'000
Investments		
Longer than 1 year	22,458	16,484
Under 1 year	24,755	20,537
Total	47,213	37,021

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

	31/3/22 Actual £'000	31/3/23 Actual £'000
Fixed rate	0 (0%)	14,220 (38%)
Variable rate	47,213 (100%)	22,801 (62%)

5. THE STRATEGY FOR 2022/23

5.1 Investment strategy and control of interest rate risk (commentary provided by Link Group)



Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for further increases in 2023/24.

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a poor Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

In the meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

Nonetheless, 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 Great Financial Crisis of 2008/09. 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.

5.2 Borrowing strategy and control of interest rate risk

During 2022/23, 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 initially low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry generally remained in place 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. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal borrowing.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been 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.

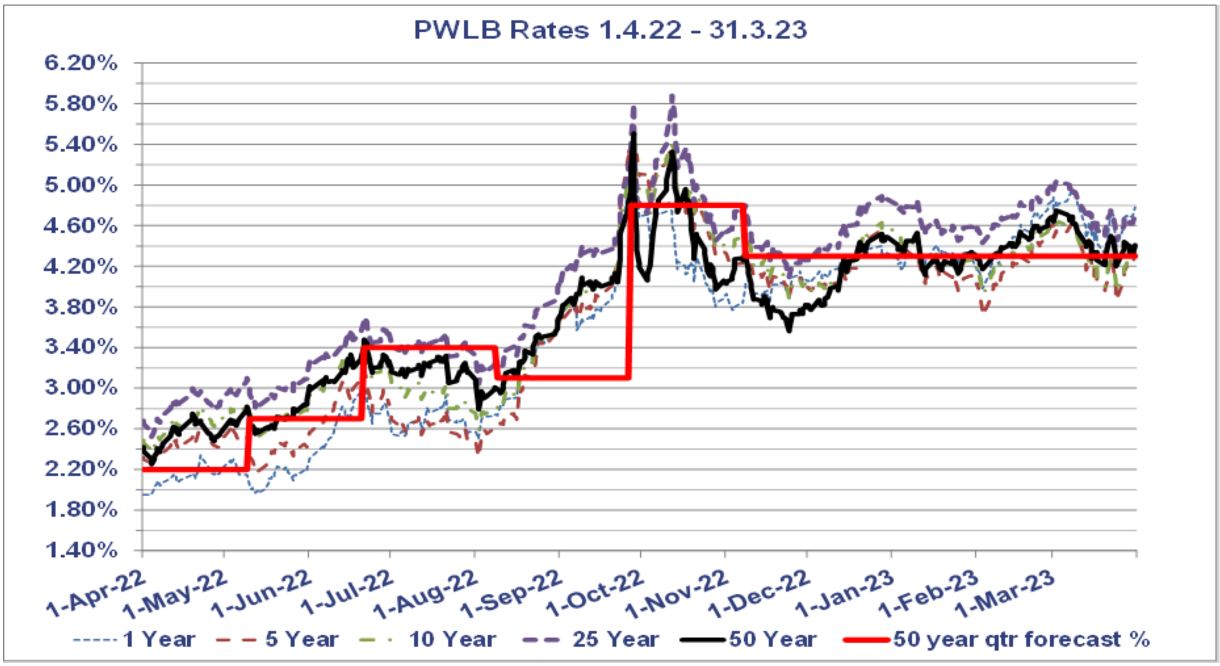
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks*:*

- 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 were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the Consumer Price Index (CPI) measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

Link Group Interest Rate View	8.11.21													
	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	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	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	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50



PWLB rates are based on gilt (UK Government bonds) yields through HM 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. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned 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.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Federal Open Market Committee (FOMC), European Central Bank (ECB) and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

At the close of the day on 31st March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

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)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the CPI measure) moves closer to the Bank of England’s 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng “fiscal experiment” in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank’s original £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 any new Treasury borrowing during the financial year 2022-23.

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 2022/23.

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 £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 2022/23

Investment Policy – the Council's investment policy is governed by DHLUC investment guidance, which was been implemented in the annual investment strategy approved by the Council on 7th March 2022. 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 2022**	**31 March 2023**
General Fund Balance	2,000	2,000
Earmarked reserves	17,049	14,339
Usable capital receipts	275	275
Capital Grants Unapplied	3,353	5,584
Boston Town Area Committee	302	328
Total	**22,979**	**22,526**

The Council held average treasury investment balances of £26.9m which were internally managed, achieving an average rate of return of 2.00% compared with the average 3 Month Sterling Overnight Index Average (SONIA) rate of 2.72%.

The Council also held average non-treasury investment balances of £18.2m at cost which were externally managed. These balances were held in property funds and achieved estimated net average returns of 3.39%.

The combined rate of return on all investments averaged 2.56%.

Analysis of actual interest received in comparison with the original budget is shown in the table below:

	Budget £000's	**Actual £000's**	**Variance £000's**
Treasury Investments	51	534	483
Property Fund Income	909	793	(116)
Property Fund Management Fees	(212)	(182)	30
Net Income From Investments	748	1,145	397

This table excludes the £2.656m revenue income received relating to the M&G property fund liquidation process.

Further details of property fund investments held by the Council and the 2022/23 performance is shown in **Paragraph 9.2** of this report**.**

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

UK. Economy.

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK Gross Domestic Product (GDP) deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the Monetary Policy Committee (MPC) will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the International Labour Organisation unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US Standard & Poors (S&P) 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

9. OTHER ISSUES

9.1 IFRS 9 fair value of investments – When producing the 2022/23 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.

9.2. 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 (less distributions)	14/09/18	**799,722**	**88,020**	**2.25**	**887,742**
AEW UK Core Property Fund	31/10/18	**3,745,319**	**254,681**	**6.80**	**4,000,000**
TOTAL		**17,404,695**	**472,813**	**2.30**	**17,877,508**

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 2022/23 financial year.

Financial Institution	Purchase Cost (£)	Net Revenue Received 2022/23 (£)	Annualised Distribution Yield 2022/23 (%)	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	Total Gain/ (Loss) Since Purchase (%)	Annual Capital Gain/ (Loss) (£)	Annual Capital Gain/ (Loss) (%)	Annual 2022/23 Combined Return
BlackRock UK Property Fund	4,500,006	129,145	2.87%	4,258,646	(241,360)	(5.36%)	(932,639)	(17.97%)	(15.10%)
Schroder UK Real Estate Fund	4,250,006	162,576	3.76%	3,958,932	(291,074)	(6.84%)	(944,298)	(19.26%)	(15.50%)
Threadneedle Property Unit Trust	4,239,754	173,878	4.10%	3,697,839	(541,915)	(12.78%)	(778,522)	(17.39%)	(13.29%)
M&G Investments UK Property Fund (Less Distributions)	887,742	30,878	3.50%	1,002,663	114,921	2.87% (based on original £4m investment)	(40,785)	N/A	N/A
AEW UK Core Property Fund	4,000,000	114,553	2.86%	3,461,233	(538,767)	(13.47%)	(604,374)	(14.87%)	(12.01%)
TOTAL	**17,877,508**	**611,030**		**16,379,313**	**(1,498,195)**		**(3,300,618)**		

The total net unrealised losses on the capital property funds during 2022/23 was £3,300,618. The total cumulative net unrealised losses on the capital property funds now stands at £1,498,195.

The M&G property fund has now paid a cumulative total of £3,112,258 in respect of property sales. This receipt has been used to finance the minimum revenue provision charge which reduces the historic unfinanced capital expenditure by a corresponding amount.

A cumulative minimum revenue provision of £165k has been made in respect of the Council's remaining property fund investments.

The table below provides details of the 2022/23 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 Net Dividend Distribution Received Pre 2022/23**	**Net Dividend Distribution Budget 2022/23**	**Net Dividend Distribution Received 2022/23**	**Total Net Distribution Received Since Purchase**
Schroder UK Real Estate Fund	478,695	118,065	162,576	641,271
Threadneedle Property Unit Trust	636,396	131,400	173,878	810,274
BlackRock UK Property Fund	535,257	177,680	129,145	664,402
M&G Investments UK Property Fund	458,562	156,500	30,878*	489,440
AEW UK Core Property Fund	622,968	113,355	114,553	737,521
Total Revenue	**2,731,878**	**697,000**	**611,030**	**3,342,908**
Borrowing Costs	(1,286,161)	(382,389)	(382,389)	(1,668,550)
Net Revenue Position	**1,445,717**	**314,611**	**228,641**	**1,674,358**

** Excludes revenue distributions relating to the sale of fund assets as part of the liquidation process.*

It can be seen from the table above that the net revenue distribution received by the Council during 2022/23 was £228,641. The cumulative net distribution since purchase has now increased to £1,674,358.

The statutory guidance in relation to Minimum Revenue Provision on unfinanced capital expenditure is current under review. The Council's property fund investments will be kept under review in light of this amended guidance when it is released. The effective date of the amended guidance is expected to be 1st April 2024.

9.3. Changes in Risk Appetite

During the year surplus cash was switched from call accounts and notice accounts to a longer duration up to one year. This was to take advantage of the higher yields available and to maximise returns in a rising interest rate environment.

APPENDIX 'A1'

2022/23 Capital Programme and Outturn Expenditure

Scheme	Capital Programme 2022/23 Approved Budget 2022/23 £000's	Actual 2022/23 £000's	Variance (Under)/over £000's	Funding of the Capital Programme External Grants £000's	Revenue Funding £000's	Other Reserves £000's	Capital Reserve £000's	Capital Receipts £000's	Total £000's
Disabled Facilities Grants	451	663	212	663					**663**
Housing Strategy	56	58	2			58			**58**
Resurfacing and Footpath Improvements	70	42	(28)				42		**42**
Vehicle Replacement Programme	278	23	(255)				23		**23**
Multi Use Games Area	17		(17)						**0**
Information Technology Refresh	183	55	(128)				55		**55**
ICT Finance Upgrade via PSPS		142	142				142		**142**
Changing Places	370		(370)						**0**
CCTV - Safer Streets Fund	278	254	(24)	254					**254**
UKSPF	53		(53)						**0**
Bartec / goss integration		28	28				28		**28**
PSICA		25	25	25					**25**
Gmlc Refurbishment		12	12				12		**12**
Total Non-Towns Fund Projects	**1,756**	**1,302**	**(454)**	**942**	**0**	**58**	**302**	**0**	**1,302**
Boston Town Deal – Accelerated Funding	252	0	(252)	0					**0**
Leisure	566	363	(203)	363					**363**
Town Centre Heritage Scheme	1,285	99	(1,186)	99					**99**
Mayflower	700	641	(59)	641					**641**
St Botolph's Library	227	103	(124)	103					**103**
Centre for Food and Fresh Produce Logistics	40	232	192	232					**232**
Blenkin Memorial Hall	802	802	0	802					**802**
Healing the High Street	65	123	58	123					**123**
Boston Station	517	82	(435)	82					**82**
Total Towns Fund Projects	**4,454**	**2,445**	**(2,009)**	**2,445**	**0**	**0**	**0**	**0**	**2,445**
Grand Total	**6,210**	**3,747**	**(2,463)**	**3,387**	**0**	**58**	**302**	**0**	**3,747**