Appendix ‘A’

Treasury Management Update

Quarter 1 Report 2023/24
ended 30 June 2023

Boston Borough Council

1 Treasury Management Update

Quarter Ended 30 June 2023

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

2 Economic Update (Commentary by Link Group)

The first quarter of 2023/24 saw:

- A 0.2% month on month (m/m) rise in real GDP in April, partly due to fewer strikes;
- Consumer Price Index (CPI) inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
- Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
- A tighter labour market in April, as the 3 month year on year (myy) growth of average earnings rose from 6.1% to 6.5%;
- Interest rates rise by a further 75 basis points (bps) over the quarter, taking Bank Rate from 4.25% to 5.00%;
- 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.

The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real Gross Domestic Product (GDP) in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.

The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May to a three-month low of 52.8 in June (>50 points to expansion in the economy, <50 points to contraction) was worse than the consensus forecast of 53.6. Both the services and manufacturing PMIs fell. The decline in the services PMI was bigger (from 55.2 to 53.7), but it remains consistent with services activity expanding by an annualised 2%. The fall in the manufacturing PMI was smaller (from 47.1 to 46.2), but it is consistent with the annual rate of manufacturing output falling from -

0.8% in April to around -5.0%. At face value, the composite PMI points to the 0.1% quarter on quarter (q/q) rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.

Meanwhile, the 0.3% m/m rise in retail sales volumes in May was far better than the consensus forecast of a 0.2% m/m decline and followed the robust 0.5% m/m rise in April. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% m/m jump in non-store sales, due to people stocking up on outdoor-related goods. But department stores also managed to squeeze out a 0.6% m/m rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected. In addition, the Growth from Knowledge (GfK) measure of consumer confidence rebounded from -27 to a 17 month high of -24 in June.

The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Our central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Our colleagues at Capital Economics estimate that around 60% of the drag on real activity from the rise in rates has yet to bite, and the drag on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.

The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment rose from +182,000 in March to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%.

The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) probably had a lot to do with it too. The 3myy rate of average earnings growth reaccelerated from 6.1% to 6.5% (consensus 6.1%) and UK wage growth remains much faster than in the US and the Euro-zone. In addition, regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank's forecast for it to fall below 7.0%. Overall, the loosening in the labour market appears to have stalled in April and regular private sector wage growth was well above the Bank's forecast.

CPI inflation stayed at 8.7% in May (consensus 8.4%) and, perhaps more worryingly, core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.

This suggests the Bank may have more work to do than the Fed or European Central Bank (ECB). Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the Monetary Policy Committee's (MPC) decision to step up the pace of hiking from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.

That said, the Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". Moreover, the Committee did not strengthen its forward guidance that any further rate hikes would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. We still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, we think rates are more likely to peak between 5.50-6.00%. Our forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.

Growing evidence that UK price pressures are becoming increasingly domestically generated has driven up market interest rate expectations and at one point pushed the 10-year gilt yield up to 4.49% in late June, very close to its peak seen after the "mini-budget". Yields have since fallen slightly back to 4.38%. But growing expectations that rates in the UK will remain higher for longer than in the US mean they are still more than 70 bps above US yields. While higher interest rates are priced into the markets, the likely dent to the real economy from the high level of interest rates is not. That's why we think there is scope for market rate expectations to fall back in 2024 and why we expect the 10-year Public Works Loan Board (PWLB) Certainty Rate to drop back from c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.

The pound strengthened from $1.24 at the start of April to a one-year high at $1.26 in early May, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to $1.23 at the end of May, before rising again to $1.28 in the middle of June as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB to tame domestic inflation. However, sterling's strong run may falter because more hikes in the near term to combat high inflation are likely to weaken growth (and, hopefully, at some point inflation too) to such a degree that the policy rate will probably be brought back down, potentially quite quickly, as the economic cycle trends downwards decisively. This suggests that additional rate hikes are unlikely to do much to boost the pound.

In early April, investors turned more optimistic about global GDP growth, pushing up UK equity prices. But this period of optimism appears to have been short-lived. The FTSE 100 has fallen by 4.8% since 21st April, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17th March. Despite the recent resilience of economic activity, expectations for equity earnings have become a bit more downbeat. Nonetheless, further down the track, more rate cuts than markets anticipate should help the FTSE 100 rally.

MPC meetings 11 May and 22 June 2023

On 11 May, the Bank of England's Monetary Policy Committee increased Bank Rate by 25 basis points to 4.50%, and on 22 June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.

Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank's inflation models being "broken" is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.

Of course, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Markets Committee (FOMC) has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the ECB looks likely to raise its deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

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 1 November 2012.

The latest forecast, made on 26 June, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, against a backdrop of a stubbornly robust economy and a tight labour market.

You will note that current forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Link Group Interest Rate View	24.05.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

The Link forecast 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.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

Our central forecast for interest rates was previously updated on 25 May and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened to a degree, especially as it moved to a more aggressive 0.5% hike in June but, with inflation remaining elevated, we anticipate that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.

Moreover, we also still anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but timing on this will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our current judgment is that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine and whether there are any further implications for Russia itself following the recent aborted mutiny by the Wagner group.

On the positive side, consumers are still estimated to be sitting on excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB BORROWING RATES

Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since our previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%.

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields we have seen of late).

- **The Bank of England** increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

- **A broadening of banking sector fragilities**, which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- Despite the recent tightening by 0.5%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.

- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

End of Link Group Commentary

4 Annual Investment Strategy

The Treasury Management Strategy Statement for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 6 March 2023. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity;
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the 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, rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.

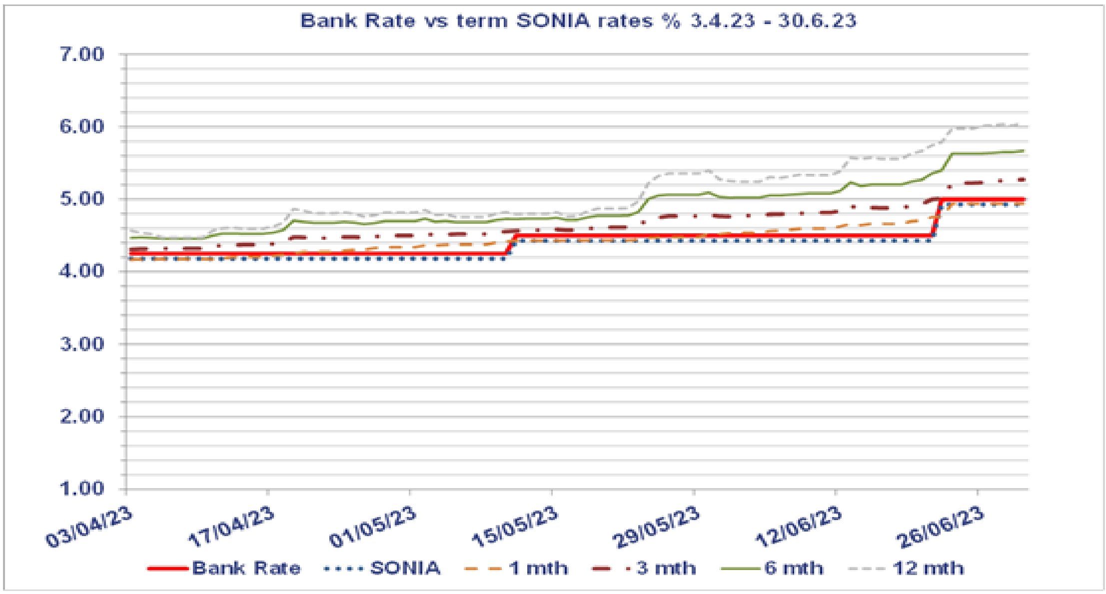
Creditworthiness - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment Counterparty Criteria - 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 prices - For UK banks, these have retreated from the spikes caused by the Truss / Kwarteng policy approach in September. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment performance year to date as at 30 June 2023

The graph below shows that longer term investment rates in the market rose during the first quarter of the financial year because of the increase in the Bank of England Base Rate and expectations of further increases.



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

Because the Council collects money on behalf of other organisations which are paid out at future dates (e.g. Council Tax and Business Rates) the value of investments held at any point in time does not represent the value of Boston BC's own resources.

The following table provides details of the cash investments held by the Council on 30 June 2023. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis.

Financial Institution	**Country**	**Amount (£)**	**Start Date**	**Maturity Date**	**Fixed/ Variable**	**Yield %**
HSBC Bank	UK	600,000	N/A	Instant Access	Variable	0.50%
CCLA Money Market Fund *	Various	7,050,000	N/A	Instant Access	Various	4.78%
UK Debt Management Office	UK	6,000,000	30/06/23	04/07/2023	Fixed	4.88%
Helaba Bank	Germany	3,000,000	23/09/22	22/09/2023	Fixed	4.305%
Bank of Montreal	Canada	3,000,000	02/11/22	06/11/2023	Fixed	4.80%
Rabobank	Netherlands	3,000,000	14/11/22	14/11/2023	Fixed	4.68%
Credit Industriel et Commercial	France	3,000,000	12/01/23	12/01/2024	Fixed	4.71%
Toronto Dominion	Canada	2,000,000	06/04/23	05/04/2024	Fixed	5.10%
Skandinaviska Enskilda Banken AB	Sweden	3,000,000	05/05/23	03/05/2024	Fixed	5.23%
National Australia Bank	Australia	3,000,000	27/06/23	24/05/2024	Fixed	6.35%
TOTAL		**33,650,000**				

** The CCLA (Church, Charities and Local Authorities) Money Market Fund is domiciled in the UK but invests funds deposited globally.*

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 (after repayments)	14/09/18	**663,259**	**88,020**	**2.25**	**751,279**
AEW UK Core Property Fund	31/10/18	**3,745,319**	**254,681**	**6.80**	**4,000,000**
TOTAL		**17,268,232**	**472,813**	**2.30**	**17,741,045**

The following table provides details in relation to the performance and valuation of these funds as at 30 June 2023.

Financial Institution	Purchase Cost (£)	Estimated Net Revenue Received 2023/24 (£)	Projected Annualised Distribution Yield 2023/24 (%)	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	Total Gain/ (Loss) Since Purchase (%)	2023/24 Capital Gain/(Loss) Since 31/3/23 (£)	2023/24 Capital Gain/(Loss) Since 31/3/23 (%)	2023/24 Combined Annual Return (%)
BlackRock UK Property Fund	4,500,006	36,717	3.06%	4,215,004	(285,002)	(6.33%)	(43,642)	(1.02%)	(2.04%)
Schroder UK Real Estate Fund	4,250,006	36,306	3.57%	3,829,821	(420,185)	(9.89%)	(129,111)	(3.26%)	(0.31%)
Threadneedle Property Unit Trust	4,239,754	54,133	4.68%	3,703,666	(536,088)	(12.64%)	5,826	0.16%	4.84%
M&G Investments UK Property Fund (after distributions)	751,279	22,461	N/A	851,529	100,250	N/A	(14,670)	N/A	N/A
AEW UK Core Property Fund	4,000,000	28,592	3.60%	3,491,622	(508,378)	(12.71%)	30,389	0.88%	4.48%
TOTAL	**17,741,045**	**178,209**		**16,091,642**	**(1,649,403)**		**(151,208)**		

The movement in fair value of the funds gets charged to the revenue account and reversed out through the Movement In Reserves Statement to the capital adjustment account each year end so there is no bottom line impact.

An analysis of dividend distributions received since the purchase of the property funds to 30 June 2023 can be found in the table below:

Financial Institution	Actual Net Dividend Distributions Received Pre 2023/24	Original Budgeted Net Distribution 2023/24	Net Dividend Distributions Received 2023/24	Total Net Distributions Received Since Purchase
BlackRock UK Property Fund	664,402	40,279	36,717	701,119
Schroder UK Real Estate Fund	641,271	38,041	36,306	677,577
Threadneedle Property Unit Trust	810,274	37,949	54,133	864,407
M&G Investments UK Property Fund	489,440	7,946	22,461	511,901
AEW UK Core Property Fund	737,521	35,803	28,592	766,113
Total Revenue	**3,342,908**	**160,018**	**178,209**	**3,521,117**

The M&G UK Property fund is liquidating its assets and therefore their fund valuation is reducing as repayments are made. M&G have now paid Boston BC distribution payments totalling £3,248,722 as at 30 June 2023, from the asset sale proceeds.

A breakdown of the maturity structure of investments on 30 June 2023 is as follows:

Period to Maturity	Amount (£)	% of Portfolio
Less than one week	13,650,000	26%
Less than one month	0	0%
One to three months	3,000,000	6%
Three to six months	6,000,000	12%
Six to nine months	3,000,000	6%
Nine months to a year	8,000,000	16%
>12 Months	17,741,045	34%
TOTAL	**51,391,045**	**100%**

The following table provides a comparison of investment income received and an estimate of the outturn position for the year against the original budget.

Investment Type	2023/24 Profiled Q1 Budget	2023/24 Profiled Q1 Actual	2023/24 Annual Budget	2023/24 Projected Outturn
Treasury Investments	203,383	258,200	818,000	1,354,975
Property Funds				
Gross Distributions	202,388	225,282	814,000	835,843
Less Management Fees	(42,268)	(47,073)	(170,000)	(174,562)
Net Distributions	160,120	178,209	644,000	661,281
Total Net Income	**363,503**	**436,409**	**1,462,000**	**2,016,256**

Treasury investments achieved an average rate of 4.44% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 4.65% and property fund investments achieved an average rate of 4.02%. The combined rate achieved on all investments was 4.26%.

The higher levels of investment income compared to the original budget is due to increased balances available for investment resulting from additional grant money being received and recent rises in interest rates on new investments.

5 Borrowing

No new borrowing was undertaken during the quarter ended 30 June 2023 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**

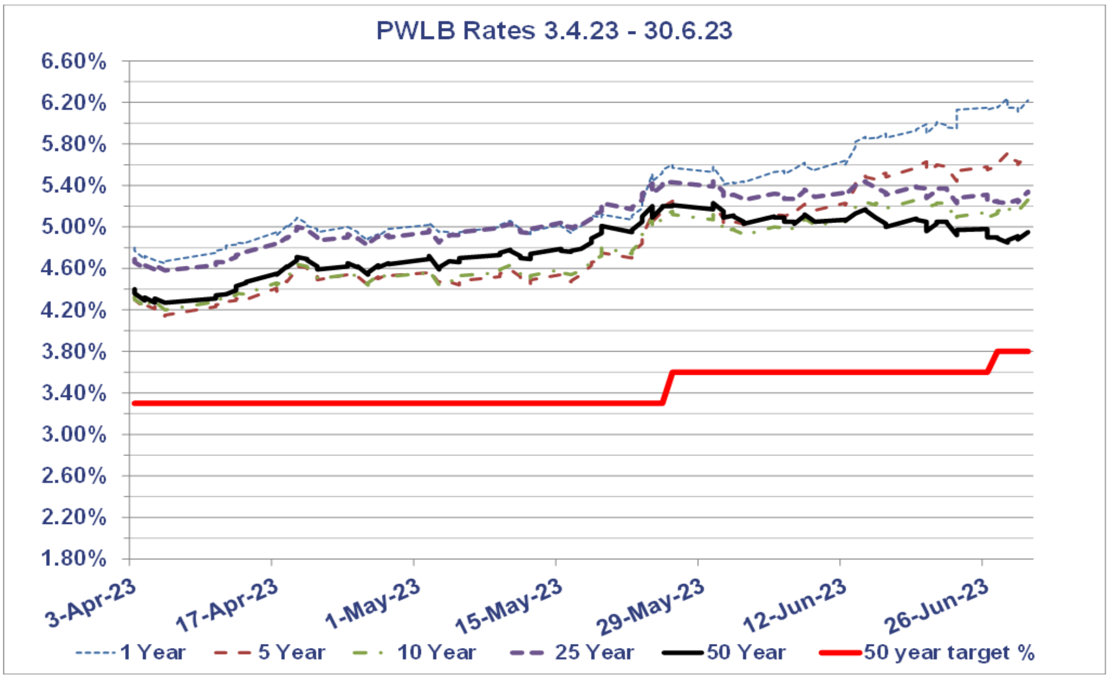
Fixed interest costs for 2023/24 on this borrowing are £382,388.

In addition to the PWLB loans above the Council has a £1m Lender Option Borrower Option (LOBO) loan with State Street Nominees at a rate of 11.125% which is due to mature in 2051. Interest costs for 2023/24 on this borrowing are £111,250.

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 rising trend between 1 April and 30 June.

The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.30% before increasing to a peak of 3.80% in June. As can be seen, with rates elevated across the whole of the curve, it is advised not to borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable. From 15 June 2023 HRA borrowing is 0.4% lower than the Certainty Rate.



6 Debt Rescheduling

Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

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 30 June 2023 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

The Deputy Chief Executive (Corporate Development) & S151Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

Treasury Indicators and Prudential Indicators for 2023/24 as of 30 June 2023

Treasury Indicators	2023/24 Budget £'000	Revised as at Quarter 1 £'000	31/03/23 Actual £'000
Authorised limit for external debt	28,000	28,000	28,000
Operational boundary for external debt	25,000	25,000	25,000
Gross external debt	16,449	16,449	16,449
Investments	(29,739)	(51,391)	(37,021)
Net investments	(13,290)	(34,942)	(20,572)

Upper limit for principal sums invested over 365 days:			
2023/24	10,000	10,000	0
2024/25	10,000	10,000	0
2025/26	10,000	10,000	0
2026/27	10,000	10,000	0
2027/28	10,000	10,000	0

Prudential Indicators	2023/24 Budget £'000	Revised Budget as at Quarter 1 £'000	31/03/23 Actual £'000
Capital expenditure:			
Non Towns Fund	14,459	16,433	1,302
Towns Fund	18,871	19,442	2,445
TOTAL	33,330	35,875	3,747
Capital Financing Requirement (CFR):	21,172	18,140	17,211
Annual change in CFR:	929	929	(2,877)
In year borrowing requirement:	959	959	0
Ratio of financing costs to net revenue stream:	(8.45%)	(13.45%)	(3.28%)

Capital Programme 2023/24 and Quarter 1 Forecast Outturn

Scheme	Approved Budget 2023/24 £000	2022/23 Slippage/ accelerated spend (-) £000	Changes to approved budget £000	Revised Budget 2023/24 £000	Actual June 2023 £000	Forecast Outturn 2023/24 £000	Variance (under)/over £000
Disabled Facilities Grant	630	0	0	630	20	630	0
Housing Stock Modelling Condition Survey	55	0	(22)	33	0	33	0
Housing Strategy Costs- Waterloo Housing, 80 new affordable homes	59	(2)	0	57	0	0	(57)
Multi Use Games Area (Controlling Migration Funding)	0	17	0	17	0	17	0
Resurfacing & footpath improvements	0	28	0	28	0	28	0
Vehicle Replacement - Grounds Maintenance - Mowers x 3	56	255	0	311	0	311	0
Changing Place	0	300	0	300	62	300	0
Town Centre Heritage Scheme	0	1,186	0	1,186	17	449	(737)
Information Technology Infrastructure Refresh	120	35	0	155	0	155	0
IT Refresh	96	0	0	96	0	96	0
Telephony	49	0	0	49	0	49	0
Car Park Machines	200	0	0	200	0	200	0
Local Authority Housing Fund	1,530	0	124	1,654	0	1,654	0
Total Projects (Excl Towns Funds, UKSPF & LUF)	**2,795**	**1,819**	**102**	**4,716**	**99**	**3,922**	**(794)**
Towns Fund - Leisure	5,442	203	0	5,645	100	1,506	(4,139)
Towns Fund - Mayflower	8,467	59	0	8,526	11	5,115	(3,411)
Towns Fund - St Botolphs Library	0	124	0	124	0	124	0
Towns Fund - Centre for Food & Fresh Produce Logistics	702	(192)	0	510	96	210	(300)
Towns Fund - Healing the High St (incl Shodfriars)	2,334	(58)	0	2,276	19	499	(1,777)
Towns Fund - Boston Station	1,926	435	0	2,361	58	1,180	(1,181)
Total Towns Fund Projects	**18,871**	**571**	**0**	**19,442**	**284**	**8,634**	**(10,808)**
UKSPF (Capacity building projects for local groups)	107	53	0	160	0	160	0
UKSPF Rural (Community projects aimed at reducing the cost of living)	200	0	0	200	0	200	0
Total UKSPF Projects	**307**	**53**	**0**	**360**	**0**	**360**	**0**
LUF - Civic Hub Forecast unrealistic	890	0	0	890	0	890	0
LUF - CROWN HOUSE Forecast unrealistic	4,397	0	0	4,397	0	1,501	(2,896)
LUF - Public Realm Forecast unrealistic	6,070	0	0	6,070	0	500	(5,570)
Total LUF Projects	**11,357**	**0**	**0**	**11,357**	**0**	**2,891**	**(8,466)**
Grand Total	**33,330**	**2,443**	**102**	**35,875**	**383**	**15,807**	**(20,068)**

`APPENDIX A2`

Funding of Capital Expenditure 2023/24

Funding of Capital Expenditure	Approved Budget 2023/24 £'000	Revised Budget Plus Slippage/ accelerated spend (-) 2023/24 £'000	Forecast Outturn 2023/24 £'000	Variance £'000
Capital Grants	(28,057)	(29,866)	(14,048)	7,352
Capital Reserve	(4,000)	(4,630)	(444)	4,186
Transformation Reserve	(200)	(200)	(200)	0
RR Reserve	0	(7)	0	7
IT Reserve	0	0	0	0
Housing Reserve	(59)	(57)	0	57
Internal Borrowing	(120)	(120)	(120)	0
Internal Borrowing - Housing	(839)	(962)	(962)	0
External Grants	(55)	(33)	(33)	0
Totals	**(33,330)**	**(35,875)**	**(15,807)**	**11,602**