Appendix 'A'

Treasury Management Update

Mid Term Report 2023/24
ended 30 September 2023

Boston Borough Council

1 Background

1.1 Capital Strategy

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

1.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

2 Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during

the previous year. Quarterly reports are also required for the periods ending April to June and October to December but may be assigned to a designated committee or panel as deemed appropriate to meet the Treasury Management governance and scrutiny aspects of the Council.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit and Governance Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2023/24 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2023/24;
- A review of the Council's borrowing strategy for 2023/24;
- A review of any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24.

3 Economics and Interest Rates (Commentary provided by Link Group)

3.1 Economics Update

- The first half of 2023/24 saw:

  - Interest rates rise by a further 100 basis points (bps), taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium, and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% month on month (m/m) decline in real Gross Domestic Product (GDP) in July, mainly due to more strikes.
  - Consumer Price Index (CPI) inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3 month year on year (myy) growth of average earnings rose to 7.8% in August, excluding bonuses).

- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% quarter on quarter (q/q) rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.

- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. With CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. While the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in

July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and in the Eurozone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five Monetary Policy Committee (MPC) members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2 November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17 August to 4.44% on 29 September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).

- The pound weakened from its cycle high of $1.30 in the middle of July to $1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.

- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31 August to 7,608 on 29 September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21 April the FTSE 100 stood at 7,914.

3.2 Interest rate forecasts

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

The latest forecast on 25 September sets out a view that short, medium 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.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

End of Link Group Commentary

4 Treasury Management Strategy and Annual Investment Strategy Update

The Treasury Management Strategy Statement for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 6 March 2023.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2023/24	**Original £'000**	**Latest Approved Prudential Indicator £'000**
Authorised Limit	28,000	28,000
Operational Boundary	25,000	25,000
Capital Financing Requirement	21,172	18,141

5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2023/24 Original Budget £'000	2023/24 Latest Approved Budget £'000	Actual Expenditure As At 30/09/23 £'000	2023/24 Estimated Outturn £'000
Non Towns Fund Total	14,459	16,375	970	7,138
Towns Fund Total	18,871	19,442	618	5,088
Grand Total	**33,330**	**35,817**	**1,588**	**12,226**

The revised capital budget as at Q2 was £36.177m, derived from the combination of the 2023/24 approved budget of £33.33m, 2022/23 slippage or accelerated spend of £2.427m and recent net changes to approved budget of £0.102m.

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision (MRP)). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2023/24 Original Budget £'000	2023/24 Latest Approved Budget £'000	Actual Expenditure As At 30/09/23 £'000	2023/24 Estimated Outturn £'000
Total capital expenditure	**33,330**	**35,817**	**1,588**	**12,226**
Financed by:				
Capital receipts	0	0	0	0
Capital grants	28,112	30,316	1,504	6,784
Capital reserves	4,259	4,542	49	4,483
Revenue	0	0	0	0
Total financing	**32,371**	**34,858**	**1,553**	**11,267**
Borrowing requirement	**959**	**959**	**35**	**959**

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for external debt

	2023/24 Original Estimate £'000	2023/24 Latest Approved Budget £'000	Actual Expenditure As At 30/09/23 £'000	2023/24 Estimated Outturn Limit £'000
Prudential Indicator – Capital Financing Requirement				
Total CFR	21,172	18,141	17,247	18,141
Net movement in CFR	929	929	0	929
Prudential Indicator – the Operational Boundary for external debt				
Borrowing	22,000	22,000	16,449	22,000
Other long-term liabilities*	3,000	3,000	0	3,000
Total debt (year end position)	**25,000**	**25,000**	**16,449**	**25,000**

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2023/24 Original Estimate £'000	2023/24 Latest Approved Budget £'000	Actual Expenditure As At 30/09/23 £'000	2023/24 Estimated Outturn £'000
Borrowing	16,449	16,449	16,449	16,449
Other long-term liabilities	0	0	0	0
Total debt	**16,449**	**16,449**	**16,449**	**16,449**
CFR* (year end position)	**21,172**	**18,141**	**17,247**	**18,141**

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	**2023/24 Original Limit £'000**	**2023/24 Latest Approved Limit £'000**	**Actual Borrowing As At 30/09/23 £'000**	**2023/24 Estimated Outturn Limit £'000**
Borrowing	25,000	25,000	16,449	25,000
Other long-term liabilities	3,000	3,000	0	3,000
Total	28,000	28,000	16,449	28,000

6 Borrowing

The Council's capital financing requirement (CFR) for 2023/24 is £18.141m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.4 shows the Council had borrowings of £16.449m and had utilised £1.692m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if further upside risk to gilt yields prevails.

The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

No new borrowing was undertaken during the quarter ended 30 September 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**

Annual 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.

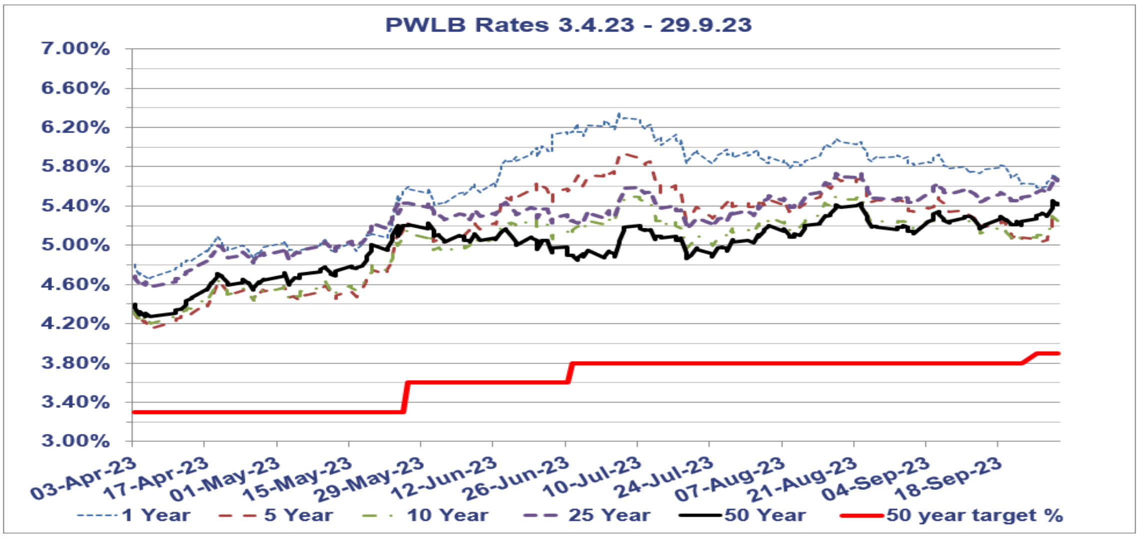
On 9 October 2023 the Council prematurely repaid the £15.449m of external borrowing to the Public Works Loan Board. As this transaction falls into Quarter 3, the financial implications of this decision will be reflected in the Quarter 3 Treasury Update Report submitted to the Audit and Governance Committee.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 29 September 2023

Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28 September.

We forecast rates to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and we forecast 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.



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

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate (General Fund (GF))** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **PWLB Certainty Rate (Housing Revenue Account (HRA))** is gilt plus 40bps (G+40bps)

The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

7. Debt Rescheduling

Debt rescheduling opportunities have increased over the course of the past six months however, no debt rescheduling was undertaken in the first half of the financial year.

On 9 October 2023 the Council prematurely repaid the £15.449m of external borrowing to the Public Works Loan Board.

8. Compliance with Treasury and Prudential Limits

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 half year ended 30 September 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) & S151 Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

9. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 6 March 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness
Following the Government's fiscal event on 23 September 2022, both Standard & Poors (S&P) and Fitch placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in the first half of 2023/24.

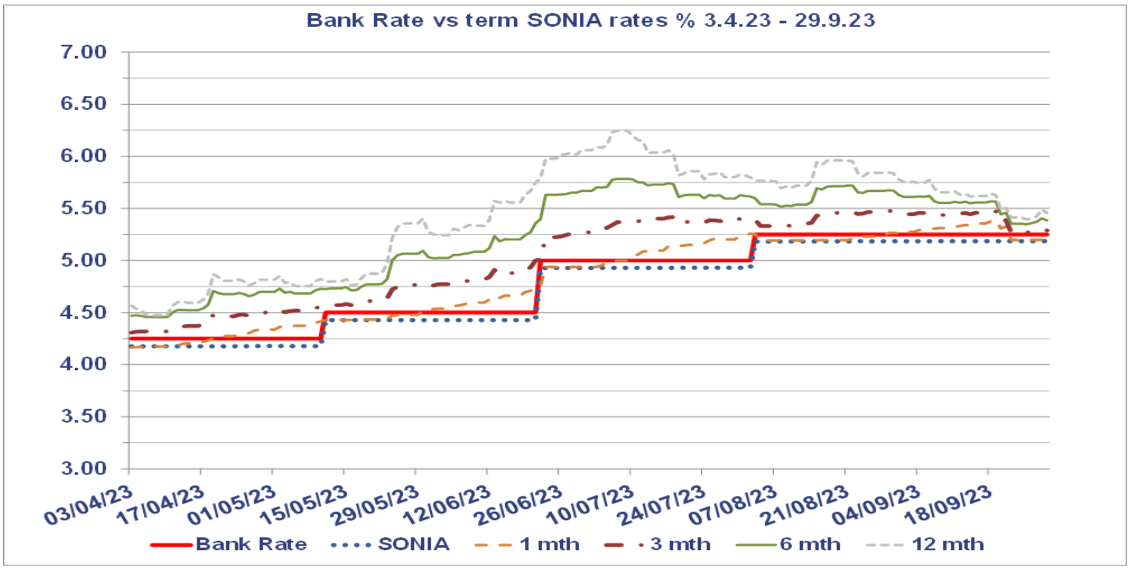
Investment Counterparty Criteria
The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirement of the treasury management function.

Credit Default Swap prices
It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment Balances
The average level of funds available for investment purposes during the first half of the financial year was £47.6m.

Investment performance year to date as at 30 September 2023

The graph below shows that longer term investment rates in the market rose during the first half 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 treasury investments held by the Council on 30 September 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.

`APPENDIX A`

Financial Institution	Country	Amount (£)	Start Date	Maturity Date	Fixed/ Variable	Yield %
HSBC Bank	UK	840,000	N/A	Call	Variable	0.50%
CCLA Money Market Fund *	N/A	6,650,000	N/A	Call	Variable	5.20%
UK Debt Management Office	UK	2,300,000	28/09/23	02/10/23	Fixed	5.17%
UK Debt Management Office	UK	2,300,000	29/09/23	02/10/23	Fixed	5.17%
Goldman Sachs	UK	3,000,000	07/07/23	06/10/23	Fixed	5.52%
Bank of Montreal	Canada	3,000,000	07/11/22	06/11/23	Fixed	4.80%
Rabobank	Netherlands	3,000,000	14/11/22	14/11/23	Fixed	4.68%
Lloyds Bank	UK	3,000,000	10/07/23	11/12/23	Fixed	5.95%
Credit Industrial et Commercial	France	3,000,000	12/01/23	12/01/24	Fixed	4.71%
Toronto Dominion Bank	Canada	2,000,000	06/04/23	05/04/24	Fixed	5.10%
Skandinaviska Enskilda Banken AB	Sweden	3,000,000	05/05/23	03/05/24	Fixed	5.23%
National Australia Bank	Australia	3,000,000	27/06/23	24/05/24	Fixed	6.35%
UBS Bank	Switzerland	3,000,000	13/07/23	12/07/24	Fixed	6.69%
DNB Bank	Norway	2,000,000	31/08/23	30/08/24	Fixed	6.18%
TOTAL		**40,090,000**				

* 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 distributions)	14/09/18	**646,921**	**88,020**	**2.25**	**734,941**
AEW UK Core Property Fund	31/10/18	**3,745,319**	**254,681**	**6.80**	**4,000,000**
TOTAL		**17,251,894**	**472,813**	**2.30**	**17,724,707**

The following table provides details in relation to the performance and valuation of these funds on 30 September 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	73,779	3.08%	4,144,974	(355,032)	(7.89%)	(113,672)	(2.67%)	0.41%
Schroder UK Real Estate Fund	4,250,006	75,730	3.63%	3,754,976	(495,030)	(11.65%)	(203,956)	(5.15%)	(1.52%)
Threadneedle Property Unit Trust	4,239,754	92,605	4.68%	3,651,644	(588,110)	(13.87%)	(46,195)	(1.25%)	3.43%
M&G Investments UK Property Fund (After Distribution Payments)	734,941	31,155	N/A	816,409	81,468	N/A	(33,452)	N/K	N/K
AEW UK Core Property Fund	4,000,000	68,338	3.95%	3,480,829	(519,171)	(12.98%)	19,597	0.57%	4.52%
TOTAL	**17,724,707**	**341,607**		**15,848,832**	**(1,875,875)**		**(377,678)**		

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 September 2023 can be found in the table below:

Financial Institution	**Actual Net Dividend Distributions Received Pre 2023/24 (£)**	**Original Estimated Net Distribution 2023/24 (£)**	**Net Revenue Distributions Received 2023/24 (£)**	**Total Net Distributions Received Since Purchase (£)**
BlackRock UK Property Fund	664,402	81,041	73,779	738,181
Schroder UK Real Estate Fund	641,271	76,539	75,730	717,001
Threadneedle Property Unit Trust	810,274	76,354	92,605	902,879
M&G Investments UK Property Fund	489,440	16,030	31,155	520,595
AEW UK Core Property Fund	737,521	72,036	68,338	805,859
Total Revenue	**3,342,908**	**322,000**	**341,607**	**3,684,515**

The M&G UK Property fund is liquidating its assets and therefore their fund valuation is reducing as repayments are made. The Council originally invested £4m in the fund and M&G have now paid Boston BC distribution payments totalling £3.265m as at 30 September 2023 from the asset sale proceeds. This leaves a purchase cost of £735k remaining and the net asset value of the fund on 30 September 2023 was £816k.

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

Period to Maturity	**Amount (£)**	**% of Portfolio**
Less than one week	15,090,000	26%
Less than one month	0	0%
One to three months	9,000,000	15%
Three to six months	3,000,000	5%
Six to nine months	8,000,000	14%
Nine months to a year	5,000,000	9%
>12 Months	17,724,707	31%
TOTAL	**57,814,707**	**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 Q2 Budget (£)	2023/24 Profiled Q2 Actual (£)	2023/24 Annual Budget (£)	2023/24 Projected Outturn (£)	2023/24 Variance (£)
Treasury Investments	409,000	735,518	818,000	1,668,000	850,000
Property Funds					
Gross Distributions	407,000	431,783	814,000	836,704	22,704
Less Management Fees	(85,000)	(90,176)	(170,000)	(174,704)	(4,704)
Net Distributions	322,000	341,607	644,000	662,000	18,000
Total Net Income	**731,000**	**1,077,125**	**1,462,000**	**2,330,000**	**868,000**

The Council's 2023/24 budget for investment income is £1.462m. At the end of September 2023 investment income earned was estimated to be approximately £1.077m, which was £346k above the profiled budget on a straight line basis.

Treasury investments achieved an average rate of 4.913% (Q1 4.443%) compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 5.024% (Q1 4.654%). Property fund investments achieved an average rate of 3.839% (Q1 4.022%).

The combined rate achieved on all investments is estimated to be 4.512% (Q1 4.261%).

The combined outturn for investment income for 2023/24 is forecast to be £2.33m (Q1 £2.016m) which is £868k above budget compared with £554k as at Q1.

The higher level 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.

10. Changes in Risk Appetite

The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

It is reported that there has been no change in risk appetite during the first half of the financial year. This will be kept under review when considering global markets and forecasts for interest rates.

Capital Programme 2023/24 and Quarter 2 Forecast Outturn

Table 5 – 2023/24 Capital Programme and Q2 Forecast Outturn							
Scheme	Approved Budget 2023/24 £000	22/23 Slippage/ accelerated spend (-) £000	Changes to approved budget £000	Revised Budget 23/24 £000	Actual September 23 £000	Forecast Outturn 2023/24 £000	Variance (under)/over £000
Disabled Facilities Grant	630	-	-	630	177	630	-
Housing Stock Modelling Condition Survey	55	-	(22)	33	-	33	-
Housing Strategy Costs- Waterloo Housing, 80 new affordable homes	59	-	-	59	-	-	(59)
Multi Use Games Area (Controlling Migration Funding)	-	17	-	17	-	17	-
Resurfacing & footpath improvements	-	28	-	28	-	28	-
Vehicle Replacement - Grounds Maintenance - Mowers x 3	56	255	-	311	-	311	-
Changing Place	-	300	-	300	212	300	-
Town Centre Heritage Scheme	-	1,161	-	1,161	42	449	(712)
Information Technology Infrastructure Refresh	120	-	-	120	35	120	-
IT Refresh	96	-	-	96	-	96	-
Telephony	49	-	-	49	49	49	-
Car Park Machines	200	-	-	200	-	200	-
Local Authority Housing Fund	1,530	-	124	1,654	4	1,654	-
Total Projects (Excl Towns Funds, UKSPF & LUF)	**2,795**	**1,761**	**102**	**4,658**	**519**	**3,887**	**(771)**
Towns Fund - Leisure	5,442	203	-	5,645	182	1,535	(4,110)
Towns Fund - Mayflower	8,467	59	-	8,526	12	1,102	(7,424)
Towns Fund - St Botolph's Library	0	124	-	124	55	124	0
Towns Fund - Centre for Food & Fresh Produce Logistics	702	(192)	-	510	245	456	(54)
Towns Fund - Healing the High St (incl. Shodfriars)	2,334	(58)	-	2,276	40	760	(1,516)
Towns Fund - Boston Station	1,926	435	-	2,361	84	1,111	(1,250)
Total Towns Fund Projects	**18,871**	**571**	**0**	**19,442**	**618**	**5,088**	**(14,354)**
UKSPF (Capacity building projects for local groups)	107	53	-	160	-	160	-
UKSPF Rural (Community projects aimed at reducing the cost of living)	200	-	-	200	-	200	-
Total UKSPF Projects	**307**	**53**	**0**	**360**	**0**	**360**	**0**
LUF - Civic Hub	890	-	-	890	-	890	-
LUF - CROWN HOUSE	4,397	-	-	4,397	451	1,501	(2,896)
LUF - Public Realm	6,070	-	-	6,070	-	500	(5,570)
Total LUF Projects	**11,357**	**-**	**-**	**11,357**	**451**	**2,891**	**(8,466)**
Grand Total	**33,330**	**2,385**	**102**	**35,817**	**1,588**	**12,226**	**(23,591)**

`APPENDIX A2`

Funding of Capital Expenditure 2023/24

All Projects	Approved Budget 2023/24 £'000	Revised Budget Plus Slippage/ accelerated spend (-) 2023/24 £'000	Full year forecast £'000	Variance £'000
Capital Grants	(28,057)	(30,283)	(6,751)	23,532
Capital Reserve	(4,000)	(4,283)	(4,283)	-
Transformation Reserve	(200)	(200)	(200)	-
RR Reserve	-	-	-	-
IT Reserve	-	-	-	-
Housing Reserve	(59)	(59)	-	59
Internal Borrowing	(120)	(120)	(120)	-
Internal Borrowing - Housing	(839)	(839)	(839)	-
External Grants	(55)	(33)	(33)	-
Totals	**(33,330)**	**(35,817)**	**(12,226)**	**23,591**