Appendix ‘A’

Treasury Management Update

Quarter 3 Report 2023/24
ended 31 December 2023

Boston Borough Council

1 Treasury Management Update

Quarter Ended 31 December 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 three quarters of 2023/24 saw:

- A 0.3% month on month (m/m) decline in real Gross Domestic Product (GDP) in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30 September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%.
- A sharp fall in wage growth, with the headline 3 month year on year (myy) rate declining from 8.0% in September to 7.2% in October, although the Office for National Statistics "experimental" rate of unemployment has remained low at 4.2%.
- Consumer Price Index (CPI) inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November.
- Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022.
- The Bank of England holding rates at 5.25% in November and December.
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

The revision of GDP data in Q2 to a 0.1% quarter on quarter (q/q) fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.

However, the rise in the flash composite activity Purchasing Managers Index (PMI), from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.

The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.

Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with only marginal falls showing year on year on the Halifax (-1%) and Nationwide (-1.8%) indices. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

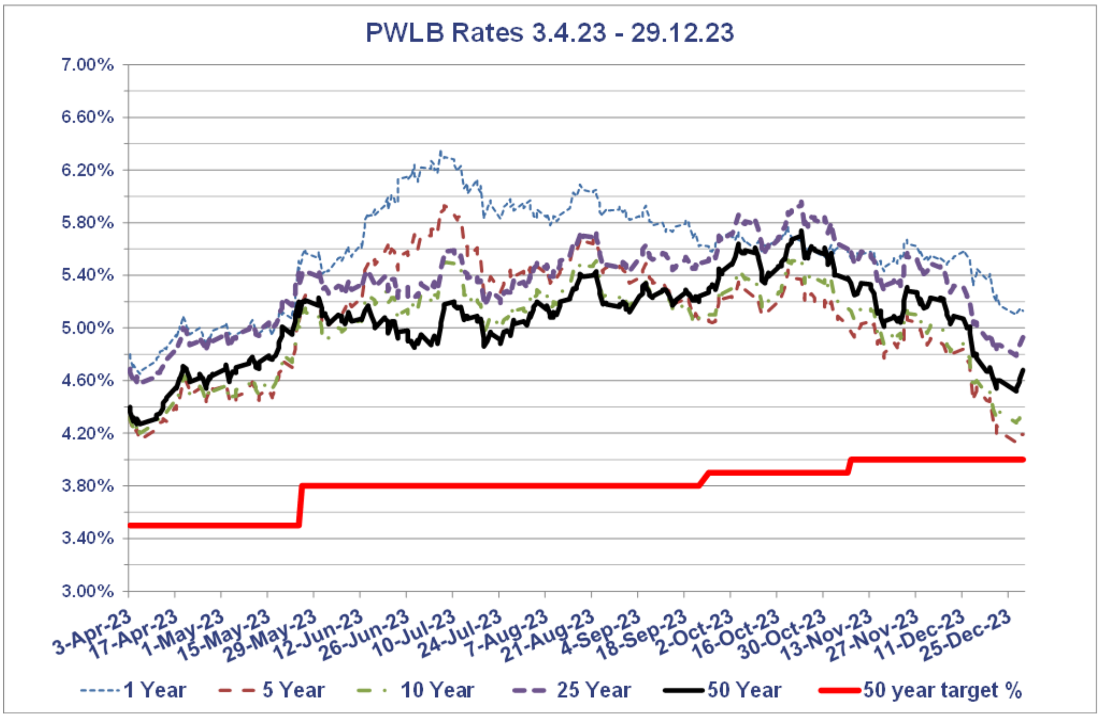
Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.

The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% at the time of writing, with further declines likely if the falling inflation story is maintained.

Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.

The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.



MPC meetings 2 November and 14 December 2023

On 2 November, the Bank of England's Monetary Policy Committee voted to keep Bank Rate on hold at 5.25%, and on 14 December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.

Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

In addition, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has kept short-term rates in the range of 5.25%-5.50%, whilst the European Central Bank (ECB) has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

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 Public Works Loan Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points (bps)) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	07.11.23												
	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	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

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

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

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 7th November and reflected a view that the MPC would be keen to underpin its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are unequivocally supportive of such a move, and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.

Naturally, timing on this matter 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.

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 Gaza and Israel.

On the positive side, consumers are still anticipated to be sitting on some 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 a little better at this stage of the economic cycle than may have been expected. Nonetheless, with approximately 400,000 households per quarter facing a mortgage interest reset at higher levels than their current rate, the economy will face on-going headwinds from that source, in addition to lower income households having to spend disproportionately on essentials such as food, energy and rent payments.

PWLB BORROWING RATES

As illustrated in the charts in section 1, gilt yields have endured a volatile nine months with yields rising significantly on the back of inflation concerns before retracing much of those increases in November and December. With the market now anticipating rate cuts by H2 2024, the short and medium parts of the curve are now close to where they started 2023/24, but the longer part of the curve is still a little higher. At the time of writing there is c50 basis points difference between the 5 and 50 year parts of the curve.

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, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent 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, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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 pre-election 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.

- Projected **gilt issuance, inclusive of natural maturities and Quantitative Techniques (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 following chart and the interest rate forecasts in section 3, rates have remained elevated during 2023/24 but are now expected to have peaked.

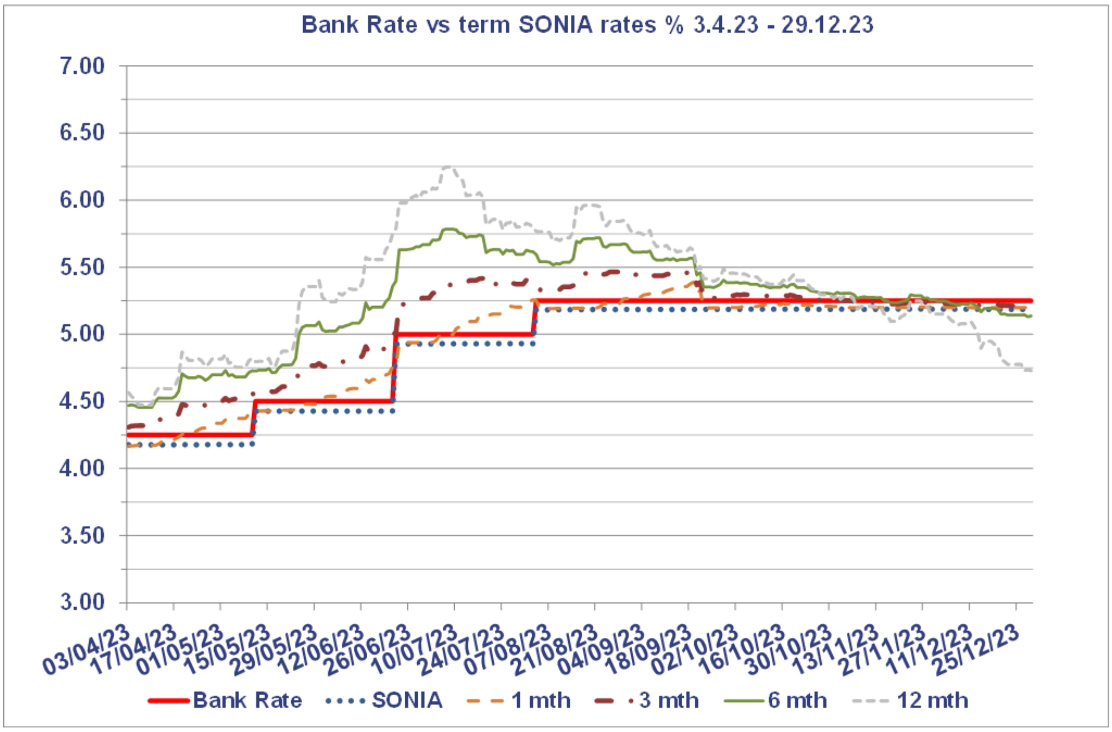
Creditworthiness - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

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, there are no underlying negative themes. 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 31 December 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. Since July the longer term rates have been on a falling trend due to the expectations of further base rate raises diminishing.



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 31 December 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	290,000	N/A	Call	Variable	0.50%
CCLA Money Market Fund *	N/A	5,400,000	N/A	Call	Variable	5.29%
UK Debt Management Office	UK	2,300,000	28/12/23	04/01/24	Fixed	5.19%
Credit Industrial et Commercial	France	3,000,000	12/01/23	12/01/24	Fixed	4.71%
City of Stoke -On-Trent Council	UK	3,000,000	11/12/23	11/03/24	Fixed	5.60%
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%
DNB Bank	Norway	1,000,000	06/11/23	04/11/24	Fixed	5.72%
TOTAL		**27,990,000**				

** 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	**640,796**	**88,020**	**2.25**	**728,816**
AEW UK Core Property Fund	31/10/18	**3,745,319**	**254,681**	**6.80**	**4,000,000**
TOTAL		**17,245,769**	**472,813**	**2.30**	**17,718,582**

The following table provides details in relation to the performance and valuation of these funds as at 31 December 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	109,833	3.12%	4,022,168	(477,838)	(10.62%)	(236,479)	(5.55%)	(2.43%)
Schroder UK Real Estate Fund	4,250,006	123,367	3.94%	3,620,220	(629,786)	(14.82%)	(338,713)	(8.56%)	(4.62%)
Threadneedle Property Unit Trust	4,239,754	140,804	4.60%	3,548,433	(691,321)	(16.31%)	(149,406)	(4.04%)	0.56%
M&G Investments UK Property Fund (after distributions)	728,816	40,372	N/A	890,968	162,152	N/A	47,231	N/K	N/K
AEW UK Core Property Fund	4,000,000	118,822	4.48%	3,430,560	(569,440)	(14.24%)	(30,673)	(0.89%)	3.59%
TOTAL	**17,718,582**	**533,198**		**15,512,349**	**(2,206,233)**		**(708,040)**		

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 31 December 2023 can be found in the table below:

Financial Institution	**Actual Net Revenue Distributions Received Pre 2023/24**	**Original Budgeted Net Revenue Distribution 2023/24**	**Estimated Net Revenue Dividend Distributions Received 2023/24**	**Total Net Revenue Distributions Received Since Purchase**
BlackRock UK Property Fund	664,402	121,800	109,833	774,235
Schroder UK Real Estate Fund	641,271	115,032	123,367	764,638
Threadneedle Property Unit Trust	810,274	114,755	140,804	951,078
M&G Investments UK Property Fund	489,440	24,028	40,372	529,812
AEW UK Core Property Fund	737,521	108,265	118,822	856,343
Total Revenue	**3,342,908**	**483,880**	**533,198**	**3,876,106**

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 £3,271,184 as at 31 December 2023, from the asset sale proceeds leaving a balance of £728,816.

A breakdown of the maturity structure of investments on 31 December 2023 is as follows:

Period to Maturity	**Amount (£)**	**% of Portfolio**
Less than one week	7,990,000	17%
Less than one month	3,000,000	7%
One to three months	3,000,000	7%
Three to six months	8,000,000	17%
Six to nine months	5,000,000	11%
Nine months to a year	1,000,000	2%
>12 Months	17,718,582	39%
TOTAL	**45,708,582**	**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 Q3 Budget	2023/24 Profiled Q3 Actual	2023/24 Annual Budget	2023/24 Projected Outturn
Treasury Investments	(614,617)	(1,154,152)	(818,000)	(1,519,135)
Property Funds				
Gross Distributions	(611,612)	(673,949)	(814,000)	(875,029)
Less Management Fees	127,732	140,751	170,000	182,746
Net Distributions	(483,880)	(533,198)	(644,000)	(692,283)
Total Net Income	**(1,098,497)**	**(1,687,350)**	**(1,462,000)**	**(2,211,418)**

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.

Treasury investments achieved an average rate of 5.09% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 5.10% and property fund investments achieved an average rate of 3.99%. The combined rate achieved on all investments was 4.68%.
The projected outturn has increased to £2.211m. This is mainly due to further slippage in capital expenditure.

To compensate for the reduction in investment income resulting from the repayment of £15.449m of PWLB borrowing, the Council will allocate to revenue the discount received over a 10 year period. This will result in a credit to revenue in 2023/24 of £305,297.

5 Borrowing

The Council repaid its £15.449m of external borrowing with the PWLB on 9 October 2023 and in doing so received a discount of £6,417,430. Under accounting regulations this discount must be allocated to revenue over a 10 year period.

No new borrowing was undertaken during the quarter ended 31 December 2023.

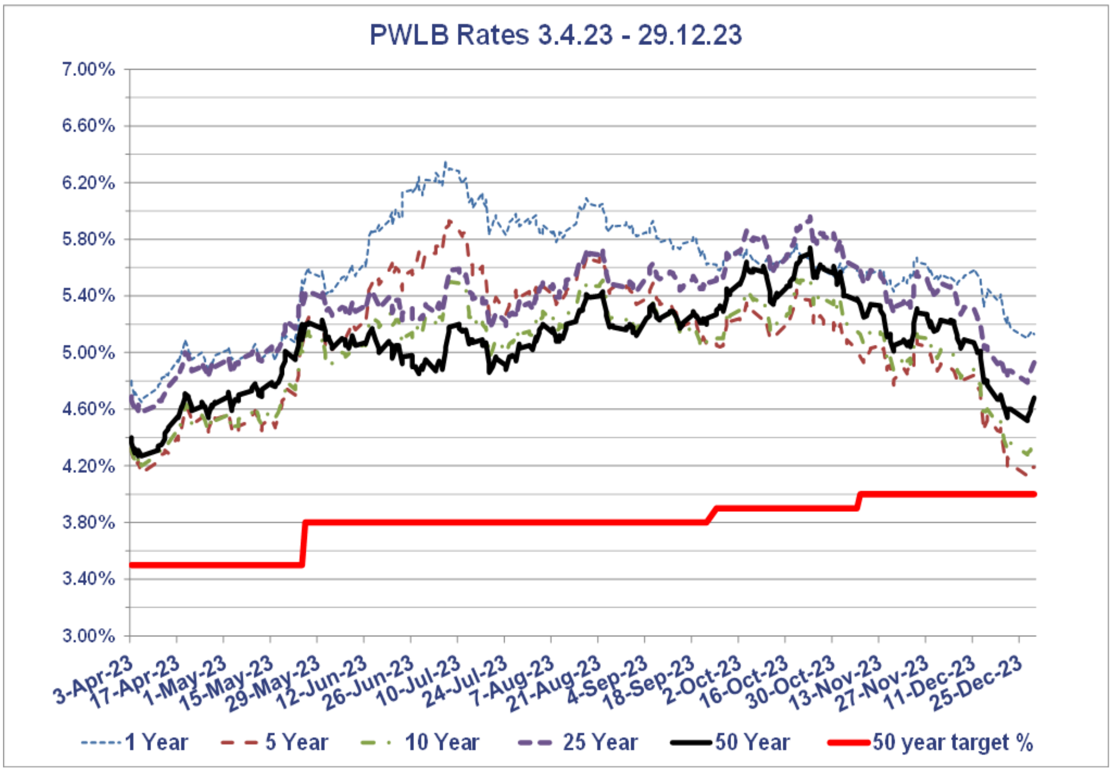
Fixed interest costs for 2023/24 on the PWLB borrowing is £200,099.

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 from April through to October but dropped back significantly in November and December.

The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.50% (the lowest forecast rate within a two-year time horizon), increasing to a peak of 4.00% in November. With rates elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.



6 Debt Rescheduling

The Council repaid its £15.449m PWLB borrowing on 9 October 2023.

There is currently no value to be had by repaying the State Street LOBO loan as a large premium would be payable.

7 Summary of the Net Position Against Budget and Forecast Outturn

The following table below provides an analysis of the net position following the decision to repay the PWLB borrowing and takes account the discount which must be allocated to revenue over a ten year period in accordance with proper accounting practice.

	2023/24 Profiled Q3 Budget	2023/24 Quarter 3 Actual	2023/24 Annual Budget	2023/24 Forecast Outturn	2023/24 Variance
Net Investment Income	(1,098,497)	(1,687,350)	(1,462,000)	(2,211,418)	(749,418)
Premature Repayment of Borrowing Discount Allocated to Revenue	0	(147,689)	0	(305,927)	(305,927)
Less: Total Borrowing Costs	367,141	343,060	493,640	311,349	(182,291)
Overall Net Position	**(731,356)**	**(1,491,979)**	**(968,360)**	**(2,205,996)**	**(1,237,636)**

On 31 December 2023 it can be seen from the table that the forecast net position is £1,237,636 above budget based on current estimated outturns. This compares with £1,171,218 on 31 October 2023.

8 Compliance with Treasury and Prudential Indicators

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement.

During the quarter ended 31 December 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.

Treasury Indicators and Prudential Indicators for 2023/24 as of 31 December 2023

Treasury Indicators	2023/24 Budget £'000	Revised as at Quarter 3 £'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	1,000	16,449
Investments	(29,739)	(45,709)	(37,021)
Net investments	(13,290)	(44,942)	(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 3 £'000	31/03/23 Actual £'000
Capital expenditure:			
Non Towns Fund	14,459	5,984	1,302
Towns Fund	18,871	2,558	2,445
TOTAL	33,330	8,542	3,747
Capital Financing Requirement (CFR):	21,172	18,937	17,211
Annual change in CFR:	929	1,726	(2,877)
In year borrowing requirement:	959	1,791	0
Ratio of financing costs to net revenue stream:	(8.45%)	(8.14%)	(3.28%)

`APPENDIX A2`

Capital Programme 2023/24 and Quarter 3 Forecast Outturn

Table 5 – 2023/24 Capital Programme and Q3 Forecast Outturn							
Scheme	Approved Budget 2023/24 £000	Changes to approved budget £000	Slippage to Future Years £000	Revised Budget 23/24 £000	Actual December 23 £000	Forecast Outturn 2023/24 £000	Variance (under)/over £000
Disabled Facilities Grant	630	-	(150)	480	305	480	-
Housing Stock Modelling Condition Survey	33	-	-	33	-	33	-
Housing Strategy Costs-Waterloo Housing, 80 new affordable homes	59	-	(59)	-	-	-	-
Multi Use Games Area (Controlling Migration Funding)	17	(17)	-	-	-	-	-
Resurfacing & footpath improvements	28	(28)	-	-	-	-	-
Vehicle Replacement - Grounds Maintenance - Mowers x 3	311	-	(311)	-	-	-	-
Changing Places	300	(88)	-	212	212	212	-
Town Centre Heritage Scheme	1,161	-	-	1,161	56	1,161	-
Information Technology Infrastructure Refresh	120	-	(55)	65	30	65	-
IT Refresh	96	(52)	-	44	39	44	-
Telephony	49	-	-	49	49	49	-
Car Park Machines	200	-	-	200	167	200	-
Local Authority Housing Fund	1,654	1,143	-	2,797	1,249	2,797	-
Total Projects (Excl Towns Funds, UKSPF & LUF)	**4,658**	**958**	**(575)**	**5,041**	**2,107**	**5,041**	**-**
Towns Fund - Leisure	6,220	-	(5,870)	350	216	350	-
Towns Fund - Mayflower	8,526	-	(7,416)	1,110	12	1,110	-
Towns Fund - St Botolph's Library	124	-	-	124	55	124	-
Towns Fund - Centre for Food & Fresh Produce Logistics	510	-	-	510	246	510	-
Towns Fund - Healing the High St (incl. Shodfriars)	1,701	-	(1,357)	344	40	344	-
Towns Fund - Boston Station	2,361	-	(2,241)	120	99	120	-
Total Towns Fund Projects	**19,442**	**-**	**(16,884)**	**2,558**	**668**	**2,558**	**-**
UKSPF (Capacity building projects for local groups)	160	-	-	160	56	160	-
UKSPF Rural (Community projects aimed at reducing the cost of living)	200	-	-	200	5	200	-
Total UKSPF Projects	**360**	**-**	**0**	**360**	**61**	**360**	**-**
LUF - Civic Hub	890	-	(690)	200	-	200	-
LUF - CROWN HOUSE	4,397	-	(4,134)	263	263	263	-
LUF - Public Realm	6,070	-	(5,950)	120	-	120	-
Total LUF Projects	**11,357**	**-**	**(10,774)**	**583**	**263**	**583**	**-**
Grand Total	**35,817**	**958**	**(28,233)**	**8,542**	**3,099**	**8,542**	**-**

The revised capital budget as at Q3 was £8.542m, derived from the combination of the 2023/24 approved budget of £33.330m, new in-year approved spend, decommitted spend and slippage into future years. The overall expenditure as at Q3 is £3.099m.

The Towns Fund projects represent the largest specific group at £2.558m, 30% of total revised capital budget followed by Levelling Up Fund (LUF) £0.583m which represents 7%. Others make up the remaining £5.401m, 63% of total revised capital budget.

The overall expenditure forecast as at Q3 is showing spend at £8.542m after significant slippage into future years.

Capital Programme 2023/24 and Quarter 3 Forecast Outturn

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	(30,283)	(6,270)	(6,270)	-
Capital Reserve	(4,283)	(241)	(241)	-
Transformation Reserve	(200)	(200)	(200)	-
RR Reserve	-	(7)	(7)	-
IT Reserve	-	-	-	-
Housing Reserve	(59)	-	-	-
Internal Borrowing	(120)	(158)	(158)	-
Internal Borrowing - Housing	(839)	(1,633)	(1,633)	-
External Grants	(33)	(33)	(33)	-
Totals	**(35,817)**	**(8,542)**	**(8,542)**	**-**