APPENDIX 'A'

Annual Treasury Management Review 2023/24

For approval by Council on 16 September 2024 following scrutiny by Audit and Governance Committee
on 8 July 2024

APPENDIX 'A'

ANNUAL TREASURY MANAGEMENT REVIEW 2023/24

1. INTRODUCTION

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2023/24 the following reports have been submitted:

- an annual treasury strategy in advance of the year (Council 6 March 2023)
- a mid year treasury update report (Audit and Governance 20 November 2023 and Council 15 January 2024)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, this Council has received quarterly treasury management update reports on 25 September 2023 and 18 March 2024 which were received by the Audit and Governance Committee.

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

This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Governance Committee. Member training on treasury management has been undertaken during the year and further external training will be provided in the 2024/25 financial year.

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

2. THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2023/24

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

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

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

The following table summarises actual capital expenditure and how this was financed. Full details of the 2023/24 expenditure can be found at **Appendix 'A1'.**

£'000 General Fund	2022/23 Actual	2023/24 Approved Budget	2023/24 Actual
Capital expenditure	3,747	8,602	5,939
Financed in year	(3,747)	(1,791)	(4,160)
Unfinanced capital expenditure	0	6,811	1,779

3. THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2023/24 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

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

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

The total CFR can also be reduced by:

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

The Council's 2023/24 MRP Policy, (as required by Department for Levelling Up, Housing and Communities (DLUHC) Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 6 March 2023.

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

CFR (£'000)	**31 March 2023 Actual**	**31 March 2024 Estimate**	**31 March 2024 Actual**
Opening CFR Balance	20,088	20,243	17,211
Add Unfinanced Capital Expenditure	0	959	1,779
Minimum Revenue Provision	(2,877)	(30)	(585)
Total CFR	17,211	21,172	18,405

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

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2023 Actual £000's	**31 March 2024 Estimate £000's**	**31 March 2024 Actual £000's**
Gross Borrowing Position	16,449	16,449	1,000
CFR	17,211	21,172	18,405

The authorised limit - the authorised limit is the "affordable borrowing limit" required by S3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2023/24 the Council has maintained gross borrowing within its authorised limit.

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

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

	2023/24
Authorised limit	£28m
Maximum gross borrowing position	£16.4m
Operational boundary	£25m
Average gross borrowing position	£9.1m
Financing costs as a proportion of net revenue stream	-23.46%

4. TREASURY POSITION AS AT 31 MARCH 2024

The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2023/24 the Council's treasury position including accrued interest was as follows:

	31/3/23 Principal & Accrued Interest £000's	**Rate/ Return %**	**Average Life In Years**	**31/3/24 Principal & Accrued Interest £000's**	**Rate/ Return %**	**Average Life In Years**
Fixed Rate External & PWLB borrowing	16,449	3.92	44.67	1,000	11.125	26.87
CFR	17,211			18,405		
Over/(under) borrowing	(762)			(17,405)		
Total investments (including Cash and Cash Equivalents)	(37,021)	3.75	0.65	(44,495)	5.12	0.52
Net investments	(20,572)			(43,495)		

Investments and Cash and Cash Equivalents held as at 31 March 2024 including accrued interest were as follows:

INVESTMENT PORTFOLIO	**Actual 31/03/23 £000's**	**Actual 31/03/23 %**	**Actual 31/03/24 £000's**	**Actual 31/03/24 %**
Treasury Investments				
Banks	14,625	71	15,264	52
Local Authorities	-	-	9,076	31
Total managed in house	**14,625**	**71**	**24,340**	**83**
Money Market Funds	5,912	29	5,026	17
Total managed externally	**5,912**	**29**	**5,026**	**17**
Total Treasury Investments	**20,537**	**100**	**29,366**	**100**
Non Treasury Investments				
Property Funds	16,484	100	15,129	100
Total Non Treasury Investments	**16,484**	**100**	**15,129**	**100**

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

SUMMARY	**Actual 31/03/23 £000's**	**Actual 31/03/23 %**	**Actual 31/03/24 £000's**	**Actual 31/03/24 %**
Total Treasury Investments	20,537	55	29,366	66
Total Non Treasury Investments	16,484	45	15,129	34
Total of all Investments	**37,021**	**100**	**44,495**	**100**

The maturity structure of the investment portfolio was as follows:

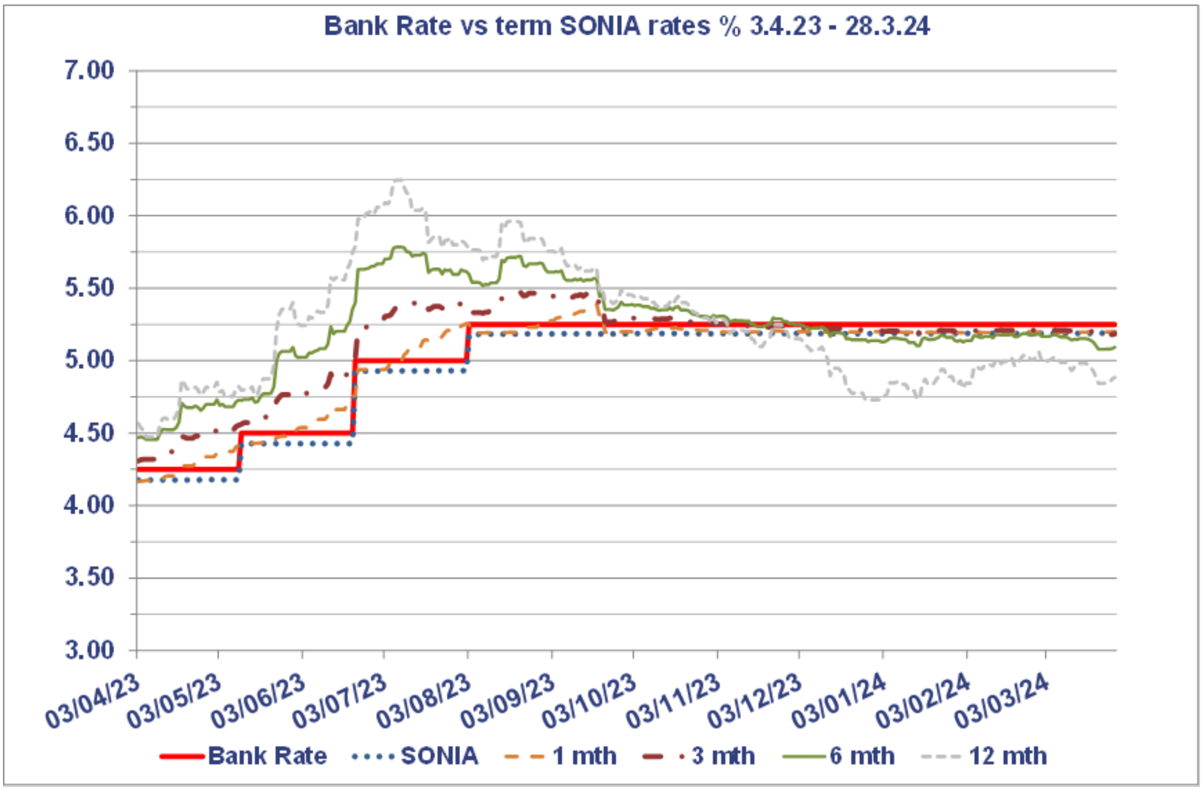
	2022/23 Actual £'000	**2023/24 Actual £'000**
Investments		
Longer than 1 year	16,484	15,129
Under 1 year	20,537	29,366
Total	37,021	44,495

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

	31/3/23 Actual £'000	31/3/24 Actual £'000
Fixed rate	14,220 (38%)	23,705 (53%)
Variable rate	22,801 (62%)	20,790 (47%)

5. THE STRATEGY FOR 2023/24

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



Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.

The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.

While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.2 Borrowing strategy and control of interest rate risk

During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>4%) and has focused on a policy of internal borrowing.

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

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

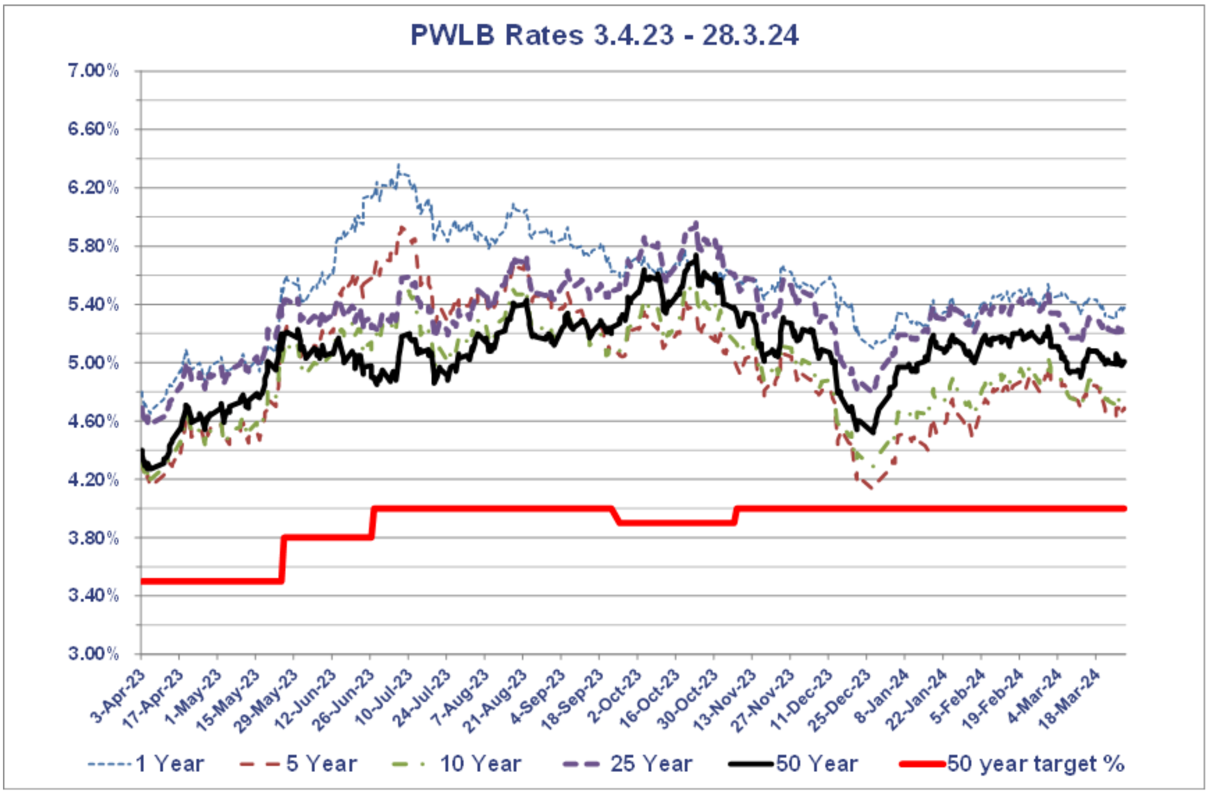
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the Consumer Price Index (CPI) measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages, and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

Forecasts at the time of approval of the treasury management strategy report for 2023/24 were as follows:

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20



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

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

Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.

At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (bps) (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60 basis points (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the CPI measure) moves below the Bank of England's 2% target.

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

The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

6. BORROWING OUTTURN

Treasury borrowing – The Council has not undertaken any new Treasury borrowing during the 2023/24 financial year.

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

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

Rescheduling – On 9 October 2023 the Council repaid its £15.449m borrowing with PWLB. Based on market rates at the time the Council received a discount of £6.417m resulting in an actual payment of £9.032m. Under accounting regulations this discount is allocated to revenue over a 10 year period.

Following the decision to prematurely repay the PWLB borrowing, the outturn for interest paid on all borrowing for 2023/24 was £311,387 compared to the original budget of £493,640. This is a budget saving of £182,253.

7. INVESTMENT OUTTURN FOR 2023/24

Investment Policy – the Council's investment policy is governed by DHLUC investment guidance, which was been implemented in the annual investment strategy approved by the Council on 6 March 2023. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.

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

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

Balance Sheet Resources (£'000)	**31 March 2023**	**31 March 2024**
General Fund Balance	2,000	2,000
Earmarked reserves	14,325	13,794
Usable capital receipts	275	275
Capital Grants Unapplied	5,597	15,516
Boston Town Area Committee	328	207
Total	**22,525**	**31,792**

The Council held average treasury investment balances of £30.3m which were internally managed, achieving an average rate of return of 5.20% compared with the average 3 Month Sterling Overnight Index Average (SONIA) rate of 5.12%.

The Council also held average non-treasury investment balances of £17.7m at cost which were externally managed. These balances were held in property funds and achieved estimated net average returns of 4.13%.

The combined rate of return on all investments averaged 4.81%.

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

	2023/24 Annual Budget	2023/24 Outturn	2023/24 Variance
Treasury Investment Income	(818,000)	(1,574,663)	(756,663)
Property Funds Income Gross Distributions Less Management Fees Net Distributions	 (814,000) 170,000 (644,000)	 (913,867) 181,775 (732,092)	 (99,867) 11,775 (88,092)
M&G Property Fund Liquidation Distributions (*Used for Minimum Revenue Provision Contributions as the original capital purchase was unfinanced capital expenditure)*	0	(551,465)	(551,465)
Premature Repayment of Borrowing Discount Allocated to Revenue	0	(641,743)	(641,743)
Less: Total Borrowing Costs	493,640	311,387	(182,253)
Overall Net Position	**(968,360)**	**(3,188,576)**	**(2,220,216)**

Further details of property fund investments held by the Council and the 2023/24 performance is shown in **Paragraph 9.2** of this report**.**

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

UK. Economy.

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, Eurozone (EZ) and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

	UK	**Eurozone**	**US**
Bank Rate	5.25%	4%	5.25%-5.50%
GDP	-0.3%q/q Q4 (-0.2%y/y Feb)	+0.0%q/q Q4 (0.1%y/y)	2.0% Q1 Annualised
Inflation	3.4%y/y (Feb)	2.4%y/y (Mar)	3.2%y/y (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no Monetary Policy Committee (MPC) members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative Gross Domestic Product (GDP) growth of -0.3% while year on year (y/y) growth was also negative at -0.2%.

But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in

2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

USA Economy.

Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen $16 trillion balance sheet at some point. Just because the $ is the world’s foremost reserve currency (China owns over $1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025 but how many and when?

EZ Economy

Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.

9. OTHER ISSUES

9.1 IFRS 9 fair value of investments – When producing the 2023/24 financial statements the Council has adhered to this accounting standard. This standard prescribes the way financial instruments are valued in the accounts and also how risk is measured and accounted for.

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

Fund	Date of Purchase	Net Asset Value at Date of Purchase £	Premium/ (Discount) on Purchase £	Premium/ (Discount) on Purchase %	Total Cost £
Black Rock UK Property Fund	05/08/16 30/12/16 28/09/18 **TOTAL**	255,085 255,085 3,945,592 **4,455,762**	(5,102) (5,103) 54,449 **44,244**	(2.00) (2.00) 1.38 **0.99**	249,983 249,982 4,000.041 **4,500,006**
Schroder UK Real Estate Fund	05/08/16 03/09/18 **TOTAL**	250,000 4,020,006 **4,270,006**	- (20,000) **(20,000)**	- (0.50) **(0.47)**	250,000 4,000,006 **4,250,006**
Threadneedle Property Unit Trust	31/08/16 31/08/18 28/09/18 31/10/18 **TOTAL**	263,549 2,902,441 483,966 483,930 **4,133,886**	(13,177) 86,572 16,116 16,357 **105,868**	(5.00) 2.98 3.33 3.38 **2.56**	250.372 2,989,013 500,082 500,287 **4,239,754**
M&G Investments UK Property Fund (less distributions)	14/09/18	**248,257**	**88,020**	**2.25**	**336,277**
AEW UK Core Property Fund	31/10/18	**3,745,319**	**254,681**	**6.80**	**4,000,000**
TOTAL		**16,853,230**	**472,813**	**2.30**	**17,326,043**

APPENDIX 'A'

The table below provides an analysis of the revenue returns (dividend distributions) received during the financial year and an analysis of the change in the Net Asset Values of each fund since purchase and also during the 2023/24 financial year.

Financial Institution	Purchase Cost (£)	Net Revenue Received 2023/24 (£)	Annualised Distribution Yield 2023/24 (%)	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	Total Gain/ (Loss) Since Purchase (%)	Annual Capital Gain/ (Loss) (£)	Annual Capital Gain/ (Loss) (%)	Annual 2023/24 Combined Return
BlackRock UK Property Fund	4,500,006	145,567	3.18%	3,978,526	(521,480)	(11.59%)	(280,121)	(6.58%)	(3.40%)
Schroder UK Real Estate Fund	4,250,006	167,915	3.98%	3,592,904	(657,102)	(15.46%)	(366,028)	(9.25%)	(5.27%)
Threadneedle Property Unit Trust	4,239,754	205,425	4.72%	3,519,024	(720,730)	(17.00%)	(178,816)	(4.84%)	(0.12%)
M&G Investments UK Property Fund (Less Distributions)	336,277	45,502	N/K	482,476	146,199	N/K	31,278	N/K	N/K
AEW UK Core Property Fund	4,000,000	167,683	4.36%	3,432,263	(567,737)	(14.19%)	(28,969)	(0.84%)	3.52%
TOTAL	**17,326,043**	**732,092**		**15,005,193**	**(2,320,850)**		**(822,656)**		

The total net unrealised losses on the capital property funds during 2023/24 was £822,656. The total cumulative net unrealised losses on the capital property funds now stands at £2,320,850.

The M&G property fund has now paid a cumulative total of £3,663,724 in respect of property sales. This receipt has been used to finance the minimum revenue provision charge which reduces the historic unfinanced capital expenditure.

A cumulative minimum revenue provision of £215k has been made in respect of the Council's remaining property fund investments.

The table below provides details of the 2023/24 budget for property fund distributions and borrowing costs along with the returns received for the year. The final column shows the total distributions since the property funds were purchased.

Financial Institution	**Actual Net Dividend Distribution Received Pre 2023/24**	**Net Dividend Distribution Budget 2023/24**	**Net Dividend Distribution Received 2023/24**	**Total Net Distribution Received Since Purchase**
Schroder UK Real Estate Fund	641,271	153,000	167,915	809,186
Threadneedle Property Unit Trust	810,274	153,000	205,425	1,015,699
BlackRock UK Property Fund	664,402	162,000	145,567	809,969
M&G Investments UK Property Fund	489,440	32,000	45,502*	534,942
AEW UK Core Property Fund	737,521	144,000	167,683	905,204
Total Revenue	**3,342,908**	**644,000**	**732,092**	**4,075,000**
Borrowing Costs	1,668,550	382,389	200,137	1,868,687
Net Revenue Position	**1,674,358**	**261,611**	**531,955**	**2,206,313**

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

It can be seen from the table above that the net revenue distribution received by the Council during 2023/24 was £261,611. The cumulative net distribution since purchase has now increased to £2,206,313.

The statutory guidance in relation to Minimum Revenue Provision on unfinanced capital expenditure has recently changed. The Council's property fund investments will be reviewed in light of this amended guidance and be subject to a separate report. The effective date of the new guidance is 1 April 2025.

9.3. Changes in Risk Appetite

There has been no change to the Councils risk appetite during the 2023/24 financial year and investments have been made throughout the year in accordance with the Council's agreed investment criteria approved by Council.

APPENDIX 'A1'

2023/24 Capital Programme, Outturn Expenditure and Funding

Capital Programme 2023/24				Funding of the Capital Programme					
Scheme	Revised Budget 23/24	Actual 23/24	Variance (under)/over	External Grants	Revenue Funding	Internal Borrowing	Other Reserves	Capital Reserve	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Disabled Facilities Grant	480	582	102	582					**582**
Housing Stock Modelling Condition Survey	33	-	(33)						**-**
Multi Use Games Area (Controlling Migration Funding)	17	-	(17)						**-**
Resurfacing & footpath improvements	28	-	(28)						**-**
Changing Places	212	212	-	158				54	**212**
Town Centre Heritage Scheme	1,161	188	(973)	188					**188**
Information Technology Infrastructure Refresh	65	85	20			85			**85**
IT Refresh	44	47	3			47			**47**
Telephony	49	49	-			49			**49**
Car Park Machines	200	167	(33)				167		**167**
Local Authority Housing Fund	2,797	2,554	(243)	956		1,598			**2,554**
Christmas Decorations	65	65	-	50	15				**65**
Total Projects (Excl Towns Funds, UKSPF & LUF)	**5,151**	**3,949**	**(1,202)**	**1,934**	**15**	**1,779**	**167**	**54**	**3,949**
Towns Fund - Leisure	350	322	(28)	322					**322**
Towns Fund - Mayflower	1,110	12	(1,098)	12					**12**
Towns Fund - St Botolph's Library	124	55	(69)	55					**55**
Towns Fund - Centre for Food & Fresh Produce Logistics	510	702	192	702					**702**
Towns Fund - Healing the High St (incl. Shodfriars)	344	231	(113)	231					**231**
Towns Fund - Boston Station	120	126	6	126					**126**
Total Towns Fund Projects	**2,558**	**1,448**	**(1,110)**	**1,448**	**-**	**-**	**-**	**-**	**1,448**

APPENDIX 'A1'

Capital Programme 2023/24				Funding of the Capital Programme					
Scheme	Revised Budget 23/24 £000	Actual 23/24 £000	Variance (under)/over £000	External Grants £000	Revenue Funding £000	Internal Borrowing £000	Other Reserves £000	Capital Reserve £000	Total £000
UKSPF (Capacity building projects for local groups)	160	116	(44)	116					**116**
UKSPF Rural (Community projects aimed at reducing the cost of living)	150	150	-	150					**150**
Total UKSPF Projects	**310**	**266**	**(44)**	**266**	**-**	**-**	**-**	**-**	**266**
LUF - Civic Hub	200	3	(197)	3					**3**
LUF - Crown House	263	265	2	265					**265**
LUF - Public Realm	120	8	(112)	8					**8**
Total LUF Projects	**583**	**276**	**(307)**	**276**	**-**	**-**	**-**	**-**	**276**
Grand Total	**8,602**	**5,939**	**(2,663)**	**3,924**	**15**	**1,779**	**167**	**54**	**5,939**