Appendix ‘A’

Treasury Management Update

Mid-Year Report 2024/25
ended 30 September 2024

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.

Accordingly, treasury management is defined as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

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 (TMSS) - 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 2024/25 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 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of any debt rescheduling undertaken during 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

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

3.1 Economics Update

- The third quarter of 2024 (July to September) saw:

  - Gross Domestic Product (GDP) growth stagnating in July following downwardly revised Q2 figures (0.5% quarter on quarter (q/q));
  - A further easing in wage growth as the headline 3 month year on year (myy) rate (including bonuses) fell from 4.6% in June to 4.0% in July;
  - Consumer Price Index (CPI) inflation hitting its target in June before edging above it to 2.2% in July and August;

- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index (PMI), from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30 October will be more meaningful.

- The 1.0% month on month (m/m) jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the Office of National Statistics reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.

- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months and the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

- The Bank initiated its loosening cycle in August with a 25 basis points (bps) rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the European Central Bank (ECB) more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank’s August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US Standard & Poors (S&P) 500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors’ faith in Artificial Intelligence.

MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

- On 9 May, the Bank of England’s Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20 June.

- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey’s tone with its emphasis on “gradual” reductions over time.

- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the Federal Open Market Committee (FOMC), but this came to nothing.

- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

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 latest forecast on 28 May sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

Our Public Works Loan Board (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	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

End of Link Group Commentary

4 Treasury Management Strategy and Annual Investment Strategy Update

The Treasury Management Strategy Statement for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 4 March 2024.

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 2024/25	Original £'000	Latest Approved Prudential Indicator £'000
Authorised Limit	18,000	18,000
Operational Boundary	15,000	15,000
Capital Financing Requirement	18,671	18,707

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	**2024/25 Approved Budget £'000**	**2024/25 Latest Revised Budget £'000**	**Actual Expenditure As At 31/08/24 £'000**	**2024/25 Estimated Outturn £'000**
Towns Fund Projects	17,325	17,325	1,374	15,077
UKSPF Projects	526	526	263	526
LUF Projects	14,571	14,571	2,213	2,905
Other Projects	3,323	2,367	546	1,958
Grand Total	**35,745**	**34,789**	**4,396**	**20,466**

A full breakdown of this capital expenditure can be found at **Appendix A1** at the back of this report.

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	2024/25 Approved Budget £'000	2024/25 Latest Revised Budget £'000	Actual Expenditure As At 31/08/24 £'000	2024/25 Estimated Outturn £'000
Total capital expenditure	**35,745**	**34,789**	**4,396**	**20,466**
Financed by:				
External Grants	(32,603)	(31,994)	(4,298)	(17,882)
Capital reserve	(2,511)	(2,263)	(50)	(2,268)
Other reserve - Housing	(57)	(57)	0	0
Other reserve – Repairs & Renewals	(7)	0	0	0
Other reserve – COVID 19	(44)	(44)	(35)	(44)
Total financing	**(35,222)**	**(34,358)**	**(4,383)**	**(20,194)**
Borrowing requirement	**523**	**431**	**13**	**272**

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

	2024/25 Approved Budget £'000	2024/25 Latest Revised Budget £'000	Actual Expenditure As At 31/08/24 £'000	2024/25 Estimated Outturn Limit £'000
Prudential Indicator – Capital Financing Requirement				
Total CFR	18,799	18,707	18,418	18,548
Net movement in CFR	394	302	13	143
Prudential Indicator – the Operational Boundary for external debt				
Borrowing	10,000	10,000	1,000	10,000
Other long-term liabilities*	5,000	5,000	0	5,000
Total debt (year end position)	**15,000**	**15,000**	**1,000**	**15,000**

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 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2024/25 Original Estimate £'000	2024/25 Latest Approved Budget £'000	Actual Expenditure As At 31/08/24 £'000	2024/25 Estimated Outturn £'000
Borrowing	1,000	1,000	1,000	1,000
Other long-term liabilities	0	0	0	0
Total debt	**1,000**	**1,000**	**1,000**	**1,000**
CFR* (year end position)	**18,799**	**18,707**	**18,418**	**18,548**

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	2024/25 Original Limit £'000	2024/25 Latest Approved Limit £'000	Actual Borrowing As At 30/08/24 £'000	2024/25 Estimated Outturn Limit £'000
Borrowing	13,000	13,000	1,000	13,000
Other long-term liabilities	5,000	5,000	0	5,000
Total	18,000	1,000	1,000	18,000

6. Borrowing

The Council's capital financing requirement (CFR) for 2024/25 is £18.707m. 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 £1m and had utilised £17.418m of cash flow funds in lieu of borrowing as at 30 September 2024. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if gilt yields remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

No new borrowing was undertaken during the quarter ended 30 September 2024.

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.

The following table provides a comparison of budgeted borrowing costs and the outturn position for the year.

Borrowing Type	2024/25 Budget Period 6	2024/25 Actual Period 6	2024/25 Annual Budget	2024/25 Forecast Outturn
State Street LOBO	55,777	55,777	111,250	111,250
Total Borrowing Costs	**55,777**	**55,777**	**111,250**	**111,250**

PWLB maturity certainty rates (gilts plus 80bps) year to date to 29 September 2024

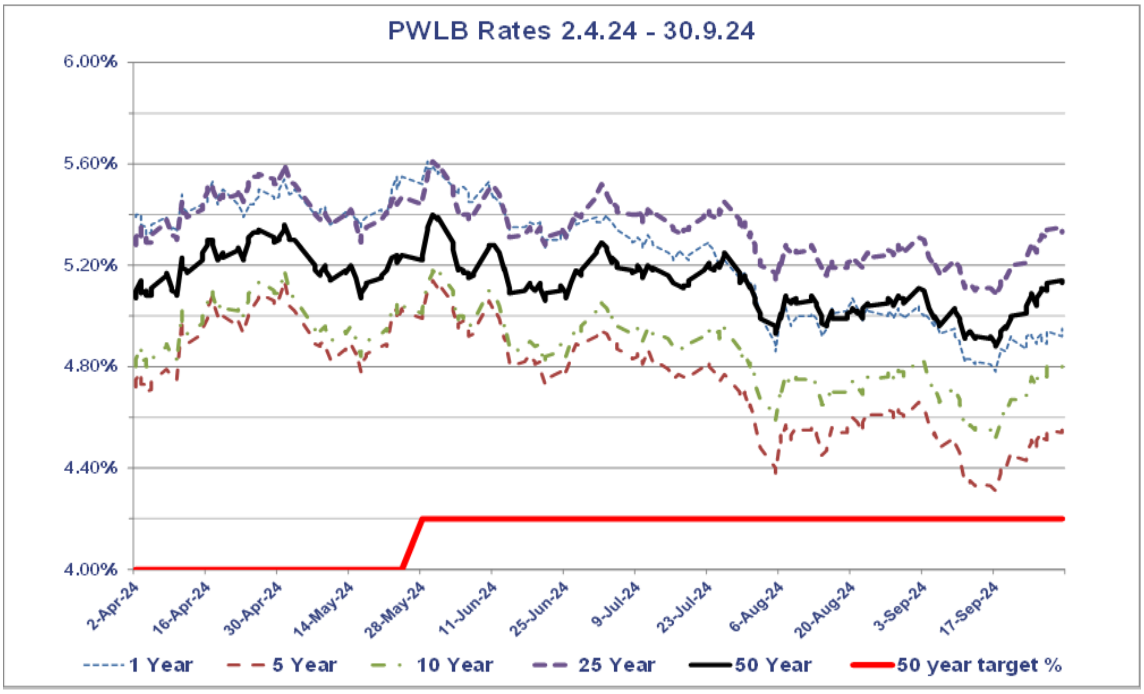
Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

Where there was some movement downwards, this came in the shorter part of the curve as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, although the continued stickiness of inflation and the prevailing tight labour market is a concern for those looking for more sizeable falls ahead.

At the beginning of April, the 5-year certainty rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%. May saw yields at their highest across the whole curve.

Conversely, 17 September saw the low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

At this juncture, the forecast is for rates to fall back over the next two to three years as inflation dampens, although there is upside risk to our Bank Rate forecast at present. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, however, and we forecast 50-year rates to stand at 4.20% by the end of September 2026. The major caveats are that there is considerable gilt issuance to be digested by the market over the next couple of years, and geo-political uncertainties – which are generally negative for inflation prospects – abound in Eastern Europe and the Middle East, in particular.



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

No debt repayments or rescheduling have been undertaken to date in the current financial year.

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 2024 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

On 20 May 2024 the limit of £7.5m with the CCLA Money Market Fund was breached by £150k and was corrected on 21 May 2024. Internal processes have been reviewed to ensure further breaches do not occur again.

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 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 4 March 2024. 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, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness
The UK's sovereign rating has proven robust through the first half of 2024/25. The new Labour Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 30 October 2024.

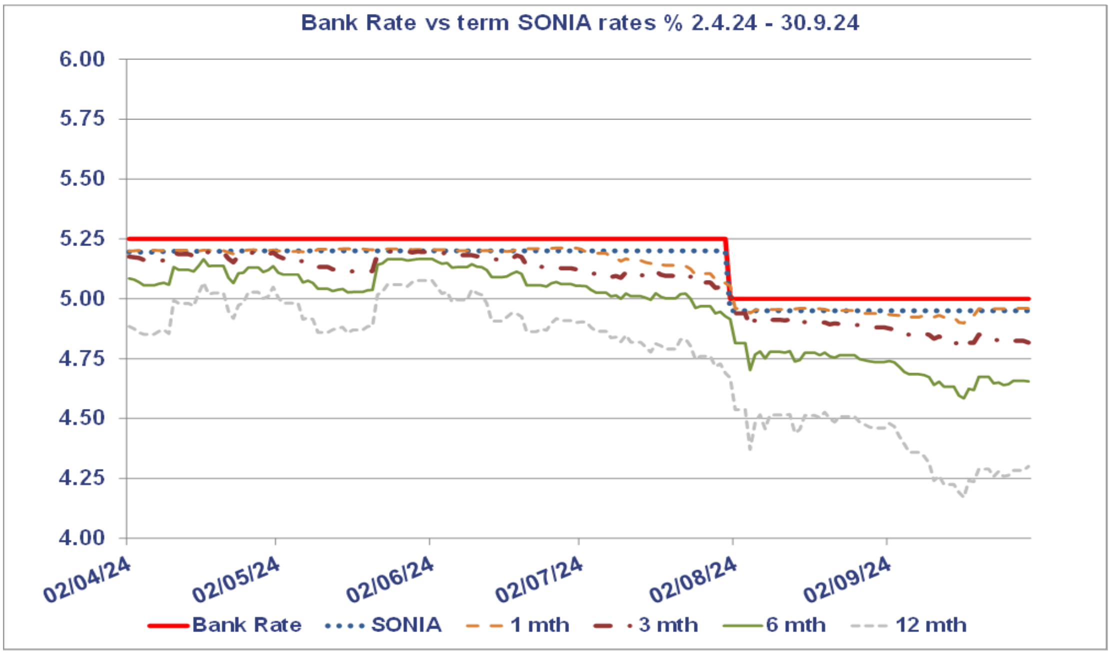
Investment Counterparty Criteria
The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirement of the treasury management function.

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 invested during the first half of the financial year was £48m (Q1 £48m).

Investment performance year to date as at 30 September 2024

The graph below shows that longer term investment rates in the market fell during the first half of the financial year because of the reduction in the Bank of England Base Rate and expectations of further reductions.



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 BBC's own resources.

The following table provides details of the cash investments held by the Council on 30 September 2024. 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 Current Account	UK	255,356	N/A	Instant Access	N/A	N/A
CCLA Money Market Fund	N/A	7,500,000	N/A	Instant Access	Variable	4.99%
UK Debt Management Office	UK	2,300,000	30/09/24	01/10/24	Fixed	4.94%
UK Debt Management Office	UK	1,600,000	27/09/24	04/10/24	Fixed	4.94%
Blaenau Gwent CBC	UK	2,000,000	26/07/24	28/10/24	Fixed	5.25%
DNB Bank	Norway	1,000,000	06/11/23	04/11/24	Fixed	5.72%
Goldman Sachs	UK	2,000,000	17/05/24	18/11/24	Fixed	5.275%
DZ Bank	Germany	2,000,000	27/08/24	27/11/24	Fixed	4.99%
Wrexham County BC	UK	3,000,000	25/01/24	24/01/25	Fixed	5.70%
National Westminster	UK	2,000,000	19/08/24	19/02/25	Fixed	4.87%
CIC	France	3,000,000	03/05/24	02/05/25	Fixed	5.33%
Canterbury City Council	UK	2,000,000	21/05/24	21/05/25	Fixed	5.25%
UBS Bank	Switzerland	3,000,000	12/07/24	11/07/25	Fixed	5.18%
TOTAL		**31,655,356**				

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

For comparison purposes, the level of investments at Quarter 1 was £29.5m.

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	**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**

The following table provides details in relation to the performance and valuation of these funds as at 30 September 2024.

Financial Institution	Purchase Cost (£)	Q2 Budgeted Net Revenue 2024/25 (£ & %)	Q2 Estimated Net Revenue (£ & %)	2024/25 Budgeted Net Revenue 2024/25 (£ & %)	2024/25 Estimated Outturn Net Revenue (£ & %)	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£ & %)	Capital Gain/(Loss) Since 31/03/24 (£ & %)	2024/25 Combined Annual Return (%)
BlackRock UK Property Fund	4,500,006	90,247 4.00%	75,147 3.33%	180,000 4.00%	164,900 3.66%	3,997,809	(502,197) (11.16%)	19,284 0.48%	3.81%
Schroder UK Real Estate Fund	4,250,006	85,233 4.00%	76,373 3.58%	170,000 4.00%	161,141 3.79%	3,567,410	(682,596) (16.06%)	(25,495) (0.71%)	2.87%
Threadneedle Property Unit Trust	4,239,754	85,027 4.00%	75,890 3.57%	169,590 4.00%	160,453 3.78%	3,597,403	(642,351) (15.15%)	78,379 2.23%	5.80%
M&G Investments UK Property Fund (After Distribution Payments)	336,277	14,640 4.00%	6,744 4.00%	29,200 4.00%	13,451 4.00%	428,643	92,366 N/A	(53,832) N/K	N/K
AEW UK Core Property Fund	4,000,000	80,219 4.00%	66,156 3.30%	160,000 4.00%	145,937 3.65%	3,444,476	(555,524) (13.89%)	12,212 0.36%	3.66%
TOTAL	**17,326,043**	**355,366**	**299,310**	**708,790**	**645,882**	**15,035,741**	**(2,290,302)**	**30,548**	
Adjustment for 2023/24 Accrual	-	-	(22,284)	-	(22,284)	-	-	-	-
GRAND TOTAL	**17,326,043**	**355,366**	**278,026**	**708,790**	**623,598**	**15,035,741**	**(2,290,302)**	**30,548**	

The overall change in the combined Net Asset Values for all funds during Quarter 2 has been a reduction of £38,404 compared to an increase of £68,956 in Quarter 1.

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 2024 can be found in the table below:

Financial Institution	Actual Net Dividend Distributions Received Pre 2024/25	Net Dividend Distributions Received 2024/25	Adjustment For 2023/24 Accrual	Total Net Distributions Received Since Purchase
BlackRock UK Property Fund	809,969	75,147	645	885,761
Schroder UK Real Estate Fund	809,186	76,373	(1,171)	884,388
Threadneedle Property Unit Trust	1,015,699	75,890	(3,229)	1,088,360
M&G Investments UK Property Fund	534,942	6,744	-	541,686
AEW UK Core Property Fund	905,204	66,156	(18,529)	952,831
Total Revenue	**4,075,000**	**300,310**	**(22,284)**	**4,353,026**

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 £3,663,724 as at 30 September 2024, from the asset sale proceeds leaving a balance of £336,276.

A breakdown of the maturity structure of investments on 30 September 2024 is as follows:

Period to Maturity	Amount (£)	% of Portfolio
Instant Access	7,755,356	16%
Less than one month	5,900,000	12%
One to three months	5,000,000	10%
Three to six months	5,000,000	10%
Six to nine months	5,000,000	10%
Nine months to a year	3,000,000	6%
>12 Months	17,326,043	36%
TOTAL	**48,981,399**	**100%**

Summary of Investment Income Received Against Budget and Forecast Outturn

The table below provides a comparison of investment income received against budget at Quarter 2 and a forecast outturn position for the year.

Investment Type	**2024/25 Budget Quarter 2**	**2024/25 Actual Quarter 2**	**2024/25 Variance Quarter 2**	**2024/25 Annual Budget**	**2024/25 Forecast Outturn**	**2024/25 Forecast Variance**
Treasury Investments						
Gross Interest	(445,076)	(839,619)	(394,543)	(887,720)	(1,331,813)	(444,093)
Brokers Fees	5,014	3,263	(1,751)	10,000	10,000	0
Net Position	(440,062)	(836,356)	(396,294)	(877,720)	(1,321,813)	(444,093)
	(5.075%)	*(5.432%)*	(0.357%)			
Property Funds						
Gross Distributions	(440,599)	(344,709)	95,890	(878,790)	(773,164)	105,626
Less Management Fees	85,233	66,683	(18,550)	170,000	149,567	(20,433)
Net Distributions	(355,366)	(278,026)	77,340	(708,790)	(623,597)	85,193
	(4.000%)	*(3.457%)*	*0.543%*			
M&G Property Fund Liquidation Distributions (*to be used for MRP Contributions as the original capital purchase was unfinanced*)	0	0	0	0	0	0
Total Net Income	**(795,428)** ***(4.531%)***	**(1,114,382)** ***(4.720%)***	**(318,954)** ***(0.189%)***	**(1,586,510)**	**(1,945,410)**	**(358,900)**

At 30 September 2024 there was a favourable variance of £318,954 (Q1 £169,771) and the forecast outturn was a favourable variance of £358,900 (Q1 £323,641).

Treasury investments achieved an average rate of 5.432% (Q1 5.500%) and property fund investments achieved an average rate of 3.457% (Q1 3.548%). The combined rate achieved on all investments was 4.796% (Q1 4.683%).

The higher level of investment income achieved compared to the original budget is due to interest rates in the market being higher than the budgeted return for 2024/25 and balances available for investment being higher due to slippage in the 2023/24 capital programme.

The following table 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.

	2024/25 Budget Quarter 2	2024/25 Actual Quarter 2	2024/25 Variance Quarter 2	2024/25 Annual Budget	2024/25 Forecast Outturn	2024/25 Forecast Variance
Net Investment Income	(795,428)	(1,114,382)	(318,954)	(1,586,510)	(1,945,410)	(358,900)
Premature Repayment of Borrowing Discount Allocated to Revenue	(321,751)	(321,751)	0	(641,743)	(641,743)	0
Total Borrowing Costs	55,777	55,777	0	111,250	111,250	0
Overall Net Position	**(1,061,402)**	**(1,380,356)**	**(318,954)**	**(2,117,003)**	**(2,475,903)**	**(358,900)**

At 30 September 2024 there was a favourable variance of £318,954 (Q1 £169,771) and the forecast outturn was a favourable variance of £358,900 (Q1 £323,641).

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 2024/25 and Quarter 2 Forecast Outturn

Scheme	Approved Budget 2024/25 £'000	Changes to approved budget £'000	Revised budget £'000	Actual August 24 £'000	Forecast Outturn 2024/25 £'000	Variance (under)/ over £'000
Disabled Facilities Grants	1,234	0	1,234	332	1,036	-198
Multi Use Games Area (Controlling Migration Funding)	0	0	0	0	0	0
Resurfacing & footpath improvements	45	0	45	50	50	5
Town Centre Heritage Scheme	973	-857	116	116	116	0
Vehicle Replacements	311	0	311	0	311	0
Housing Strategy	57	0	57	0	0	-57
Information Technology Infrastructure Refresh	307	0	307	13	148	-159
Neighbourhood Vehicle Replacements	56	0	56	0	56	0
Bin Lift Safety Upgrade	7	-7	0	0	0	0
Markets Regeneration	44	0	44	35	44	0
ICT - Revenues & Benefits	92	-92	0	0	0	0
ICT - Relocate Server Room to SHDC	120	0	120	0	120	0
Pool Cars	68	0	68	0	68	0
Fly-tipping Intervention	9	0	9	0	9	0
Total Projects (Excl Towns Funds, UKSPF & LUF)	**3,323**	**-956**	**2,367**	**546**	**1,958**	**-409**
Towns Fund – Leisure	4,028	0	4,028	97	4,028	0
Towns Fund – Mayflower	9,248	0	9,248	1,070	7,000	-2,248
Towns Fund – St Botolph's Library	69	0	69	12	69	0
Towns Fund - Healing the High St (incl. Shodfriars)	1,712	0	1,712	43	1,712	0
Towns Fund - Boston Station	2,268	0	2,268	152	2,268	0
Total Towns Fund	**17,325**	**0**	**17,325**	**1,374**	**15,077**	**-2,248**
UKSPF (Capacity building projects for local groups)	323	0	323	223	323	0
UKSPF Rural (Community projects aimed at reducing the cost of living)	203	0	203	40	203	0
Total UKSPF	**526**	**0**	**526**	**263**	**526**	**0**
LUF – Civic Hub	887	0	887	3	5	-882
LUF – Crown House	7,158	0	7,158	1,997	2,000	-5,158
LUF – Public Realm	6,526	0	6,526	213	900	-5,626
Total LUF	**14,571**	**0**	**14,571**	**2,213**	**2,905**	**-11,666**
Total (including new items)	**35,745**	**-956**	**34,789**	**4,396**	**20,466**	**-14,323**
Internal Borrowing	-523	92	-431	-13	-272	159
External Grants	-32,603	609	-31,994	-4,298	-17,882	14,112
Capital Reserve	-2,511	248	-2,263	-50	-2,268	-5
Other Reserve – Housing	-57		-57	0	0	57
Other Reserve – Repairs and Renewals	-7	7	0	0	0	0
Other Reserve – COVID-19 Reserve	-44		-44	-35	-44	0
Total Financing	**-35,745**	**956**	**-34,789**	**-4,396**	**-20,466**	**14,323**