Appendix 'A'

Treasury Management Update

Quarter 3 Report 2022/23
ended 31 December 2022

East Lindsey District Council

1 Treasury Management Update

Quarter Ended 31 December 2022

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

2 Economic Update

The third quarter of 2022 saw:

- A 0.5% m/m rise in Gross Domestic Product (GDP) in October, mostly driven by the reversal of bank holiday effects;
- Signs of economic activity losing momentum as households increased their savings
- Consumer Price Index (CPI) inflation fall to 10.7% in November after peaking at 11.1% in October;
- A small loosening in the labour market which pushed the unemployment rate up to 3.7% in October;
- Interest rates rise by 125 basis points (bps) over Q4 2022, taking Bank Rate to 3.50%;
- Reduced volatility in UK financial markets but a waning in global risk appetite.

GDP fell by 0.3% quarter on quarter (q/q) in Q3 2022 (ending 30th September), which probably marked the start of the UK recession. About half of that decline was the effects of the extra bank holiday in September for the Queen’s funeral. The unwinding of those bank holiday effects meant that GDP rebounded in October and explained at least 0.3 percentage points (ppts) of the 0.5% month on month (m/m) rise. Accordingly, if GDP were to avoid falls of more than 0.2% m/m in November and December, then GDP over Q4 as a whole could avoid a contraction, which would prevent a recession in 2022.

However, at 49.0 in December, the flash composite activity Purchasing Managers’ Index (PMI) stayed below the “boom-bust” level of 50 and pointed to a small 0.1% q/q contraction in GDP in Q4. Consumer confidence was -42 in December and stayed close to its record low of -49 in September. Strike action could be another small drag and may mean that GDP is 0.0% to 0.5% lower than otherwise in December. GDP is projected to contract marginally in Q4 by around 0.1% q/q.

Meanwhile, the 0.4% m/m fall in retail sales volumes in November only reversed some of the 0.9% m/m rise in October. That left sales volumes 4.5% below their level at the start of the year. Indeed, the rise in the household saving rate from 6.7% in Q2 to 9.0% in Q3 implied that higher interest rates are encouraging households to save more. A larger-than-usual £6.2bn rise in cash in household bank accounts in October may imply households have started to increase their precautionary savings.

There were signs that the labour market was loosening gradually going into the final quarter of 2022. Although employment in the three months to October rose by 27,000, the fall in the composite PMI employment balance in December took it into contractionary territory and suggests that labour demand will cool. Meanwhile, labour supply improved as inactivity fell by 76,000 in the three months to October. That helped drive a rise in the unemployment rate from 3.6% in September to 3.7% in October. The number of job vacancies in November fell for the sixth consecutive month and were 18% below their peak in May.

Crucially, though, wage growth remained resilient. Average earnings growth, excluding bonuses, grew by 0.7% m/m in October, above the 2022 monthly average of 0.5% m/m. That drove the 3myy rate up to 6.2%, well above the rates of 3-3.5% consistent with inflation at its 2% target. Wage growth is likely to slow gradually in the coming months as the labour market loosens further but if extensive strike action is successful in achieving large pay increases, then wage growth could be a bit stronger for longer.

CPI inflation peaked in October at a 41-year high of 11.1% and fell to 10.7% in November. Goods price inflation, which is driven largely by global factors, has peaked. The sharp rises in energy prices in 2022 mean that energy price inflation will fall sharply in 2023. Meanwhile, the large fall in agricultural prices since May means that food price inflation should start to decline soon. What's more, upward pressure on goods price inflation from global supply shortages is fading quickly.

Domestic inflation pressures also eased in Q4. The 0.2% m/m rise in core CPI inflation in November was the smallest monthly gain since August 2020 and drove a fall in core CPI inflation from 6.5% in October to 6.3% in November. Services CPI inflation was stable at 6.3% in November despite the resilience of wage growth. And the easing of price expectations in the Bank of England's Decision Maker Panel survey in November suggests that inflation may become less persistent.

The Chancellor's Autumn Statement on 17th November succeeded in restoring the government's fiscal credibility in the eyes of the financial markets without deepening the recession. The total fiscal consolidation package of £54.9bn (1.8% of GDP) in 2027/28 made the outlook for fiscal policy much tighter than at the beginning of Q4. The package was heavily backloaded, with net handouts of £3.8bn (0.15% of GDP) in 2023/24 and £0.3bn (0.01% of GDP) in 2024/25, and most of the tightening kicking in after 2024/25. The largest fiscal support was the extension of the Energy Price Guarantee for another 12 months, until April 2024, although at a higher price cap of £3,000 from April 2023 rather than £2,500. At the same time, Chancellor Hunt loosened the fiscal rules by requiring debt as a percentage of GDP to be falling in five years' time, rather than three.

The Office of Budget Responsibility (OBR) estimated that the Chancellor will meet this new rule with a slim £9.2bn (0.3% of GDP) to spare.

With fiscal policy now doing much less to fan domestic inflation pressures, we think Bank Rate will peak at 4.50%, or at least close to that figure. Despite stepping up the pace of policy tightening to a 75-basis point (bps) rate hike in November, taking Bank Rate from 2.25% to 3.00%, the Monetary Policy Committee's (MPC) communication was dovish. The MPC pushed back heavily against market rate expectations, which at the time were for Bank Rate to peak at 5.25%. The Bank's new forecasts predicted a deeper and longer recession than the analyst consensus, of eight quarters and with a peak-to-trough fall in real GDP of 2.9%.

The Bank sounded dovish again in December when it slowed the pace of tightening with a 50bps rate rise, from 3.00% to 3.50%. Two members, Dhingra and Tenreyro, voted to leave rates unchanged, judging that the current level of Bank Rate was sufficient to bring inflation back to target. That said, the rest of the MPC appeared to suggest that further rate hikes would be necessary. We expect that the majority of the MPC will need to see stronger signs that activity is slowing, the labour market is loosening, and wage growth is slowing before stopping rate rises. As such, we expect that the MPC will deliver three further rate hikes in February, March and May, taking Bank Rate to a peak of 4.50% but with the pace of increase reducing to 25bps in March and May.

Gilt yields have fallen sharply since their highs following the "mini-budget" on 23 September as government fiscal credibility has been largely restored with the resignation of Truss-Kwarteng and the fiscal consolidation package announced at the Autumn Statement on 17 November. Indeed, the 10-year yield fell from a peak of 4.55% to about 3.60% now, while the 30-year yield fell from 5.10% to 3.90%. Admittedly, yields rose by around 50bps in December, partially on the back of a global rise in yields. But if we are right in thinking Bank Rate will fall back in 2024 and 2025 then gilt yields will probably fall over the next two years, with the 10-year yield slipping from around 3.60% now to 3.30% by the end of 2023 and to 2.80% by the end of 2024.

Lower volatility in gilt markets in Q4 meant that the Bank of England was able to stop its purchases of long-term gilts for financial stability reasons as planned on 14th October. It was also able to begin active gilt sales in November, albeit with a focus on shorter dated gilts. So far quantitative tightening has had little influence on short-term money markets. But as it is still an experiment, the risk of a widespread tightening in financial conditions remains.

The restoration of fiscal credibility boosted the pound and the FTSE 100 early in Q4. While much of the benefit passed in the first half of Q4, sterling continued to rally against a softer dollar. Our colleagues at Capital Economics do not think that the global recession is fully priced into markets, and so expect a further fall in risk appetite to boost safe haven demand for the dollar and weigh on the pound. They are expecting the pound to fall from $1.19 now to $1.10 in mid-2023, before climbing to

$1.15 by the end of 2023 as the prospect of lower interest rates and a recovery in global economic growth buoys equity prices.

Through December, the rally in the FTSE 100 petered out as investors have become increasingly concerned by the prospect of a global recession. However, the relatively dovish tone of the Bank of England, compared to the Federal Reserve and the European Central Bank (ECB) meant that UK equities held up better than other developed market indices. Indeed, at 7,452 at the December month end, the FTSE 100 is only marginally below its peak of 7,568 on 5th December, while the Standard & Poors 500 is around 4% lower over the same period. Nevertheless, there is a great deal of uncertainty as to which direction markets will move in 2023 and at what pace. Continued volatility is anticipated.

MPC meetings 3 November and 15 December 2022

On 3 November, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 75 basis points to 3.00%, and on 15 December moved rates up a further 50 basis points to 3.50%. The later increase reflected a split vote – six members voting for a 50 basis points increase, one for 75 basis points and two for none.

Nonetheless, the UK government appears more settled now, with Rishi Sunak as Prime Minister, and Jeremy Hunt as Chancellor. Having said that, a multitude of strikes across several public services and the continued cost-of-living squeeze is going to make for a difficult backdrop to maintain fiscal rectitude without pushing the economy into anything worse than a mild recession.

Of course, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has led with increases of 425 basis points in 2022 and is expected to increase rates further in 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan (although the Bank of Japan has "tightened" its policy by widening the accepted yield levels for 10yr Japanese Government Bonds, from 0.25% to 0.5% on 20 December). Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.

What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

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 bps) which has been accessible to most authorities since 1 November 2012.

The latest forecast, made on 19 December, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government's priority is the establishment and maintenance of fiscal rectitude. In addition, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View	19.12.22												
	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	4.20	4.20	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	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

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

LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

Our central forecast for interest rates was most recently updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be 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.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

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 the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB BORROWING RATES

The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

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

The balance of risks to the UK economy: -

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

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

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

- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

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

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

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in the light of the cost-of-living squeeze.

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

- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.

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

End of Link Group Commentary

4 Annual Investment Strategy

The Treasury Management Strategy Statement for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 2 March 2022. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

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

As shown by the interest rate forecasts in section 3, rates have improved dramatically during the first three quarters of 2022/23 and are expected to improve further as Bank Rate continues to increase over the next few months.

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

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

Credit Default Swap prices - For UK banks, these have retreated from the spikes caused by the Truss / Kwarteng policy approach in September. Even so, as wider rate markets have increased and concerns over the economic outlook (both domestic and international) have grown, so prices in general are now higher than they were at the start of the financial year. However, the changes do not leave prices 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. **Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances**.

<u>Investment performance year to date as at 31 December 2022 –</u>

The Council’s 2022/23 budget for investment income is £1.3m. At the end of December 2022 investment income earned was estimated to be approximately £1.72m, which was £750k above the profiled budget on a straight line basis. This figure is still an estimate as the actual returns on all property funds to December 2022 are not likely to be known until late March 2023.

The average level of funds available for investment purposes during the first three quarters of the financial year was £68.3m excluding property fund investments.

Treasury investments achieved an average rate of 1.98% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 2.284%.

Property fund investments are estimated to have achieved an average net rate of 3.393%.

The combined rate achieved on all investments is estimated to be approximately 2.44%.

The outturn for investment income for 2022/23 is forecast to be £2.6m.

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

The following table provides details of the cash investments held by the Council at 31 December 2022. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis.

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 ELDC’s own resources.

`APPENDIX A`

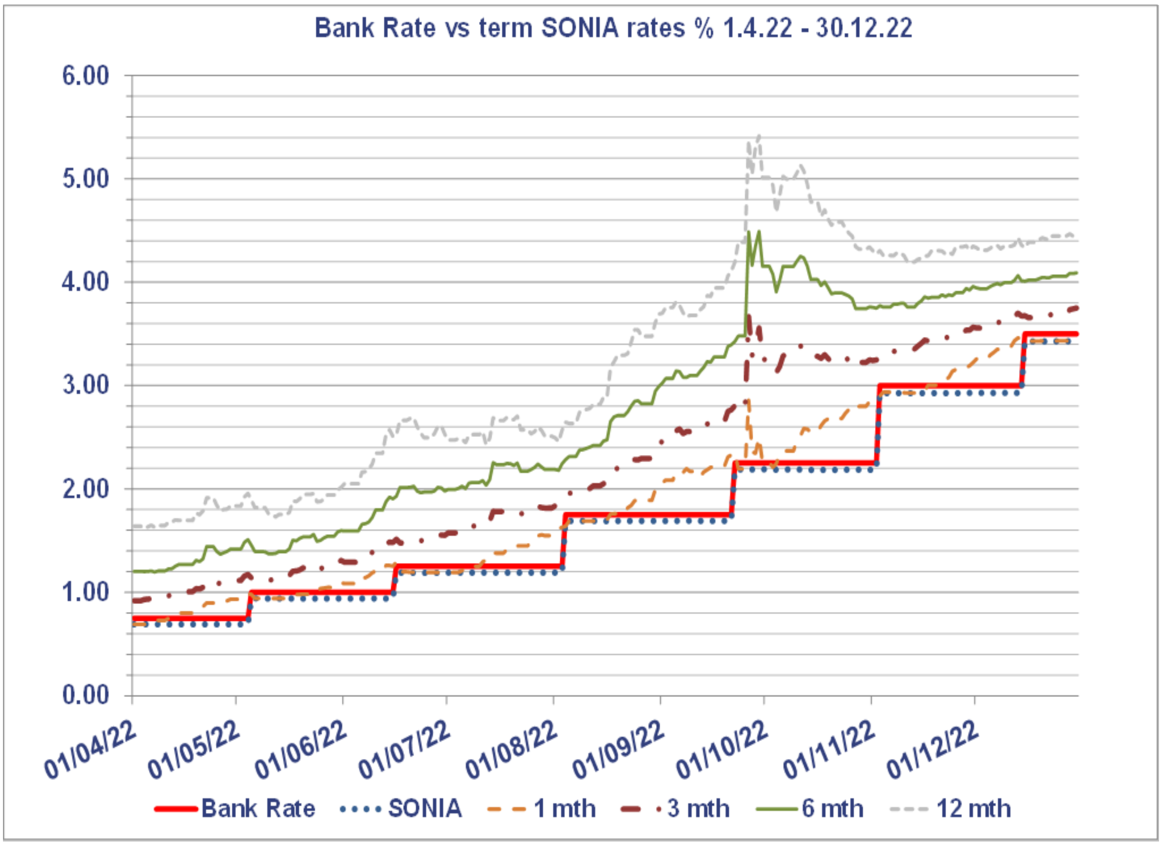
Financial Institution	**Country**	**Amount (£)**	**Fixed/ Variable**	**Start Date**	**Maturity Date**	**Yield**
Barclays Bank Current Account	UK	107,694	N/A	Call	N/A	0.00%
Barclays Bank	UK	3,410,419	Variable	Call	N/A	3.25%
Handelsbanken Plc	Sweden	6,352	Variable	Call	N/A	3.30%
CCLA Money Market Fund	N/A	7,500,000	Variable	Call	N/A	3.31%
UK Debt Management Office	UK	7,300,000	Fixed	28/12/22	03/01/23	3.14%
Credit Industriel et Commercial	France	5,000,000	Fixed	01/09/22	01/03/23	3.20%
Goldman Sachs	UK	5,000,000	Fixed	10/10/22	11/04/23	4.30%
Lloyds Bank	UK	5,000,000	Fixed	17/10/22	17/04/23	4.50%
Helaba Bank	Germany	5,000,000	Fixed	16/08/22	16/05/23	2.95%
Australia & New Zealand Bank	Australia	5,000,000	Fixed	16/08/22	16/05/23	2.98%
Close Brothers	UK	5,000,000	Fixed	24/11/22	24/05/23	4.00%
Rabobank	Netherlands	5,000,000	Fixed	31/08/22	31/05/23	3.53%
First Abu Dhabi Bank	United Arab Emirates	2,500,000	Fixed	28/07/22	28/07/23	2.93%
DNB Bank ASA	Norway	5,000,000	Fixed	31/08/22	31/08/23	3.90%
National Westminster Bank	UK	5,000,000	Fixed	09/11/22	09/11/23	4.40%
Toronto Dominion Bank	Canada	5,000,000	Fixed	22/12/22	21/12/23	4.85%
TOTAL		**70,824,465**				

In addition to the above loans the Council has made loans to Invest EL as follows:

Loan	**Amount**	**Duration**	**Rate**
Caravan Sales Loan	272,600	10 Year	4.00%
Caravan Hire Fleet Loan	268,952	10 Year	4.00%
Caravan Fleet Expansion Loan	1,100,000	20 Year	4.00%
Housing Development Loan	1,500,000	2 Year	4.00%
Cash Flow Loans	1,250,000	Short Term	4.00%
TOTAL	**4,391,552**		

Interest earned on these loans in the current financial year to 31 December 2022 is £123,230.

The graph below shows that longer term investment rates rose during the first half of the financial year but have levelled out since October 2022.



Property Fund Investments

The Council has purchased property fund units and the table below provides a breakdown in relation to the purchase of these units:

Pooled Investment Fund (Revenue Expenditure)

Fund	Net Asset Value at Date of Purchase £	Premium/ (Discount) on Purchase £	Premium/ (Discount) on Purchase %	Total Cost £
Hermes Property Unit Trust	**3,893,003**	**106,948**	**2.75**	**3,999,951**

Property Funds (Capital Expenditure)

Fund	Net Asset Value at Purchase £	Premium/ (Discount) on Purchase £	Premium/ (Discount) on Purchase %	Total Cost £
Schroder UK Real Estate Fund	4,819,418	(19,381)	(0.40)	4,800,037
Threadneedle Property Unit Trust	4,653,444	145,543	3.13	4,798,987
BlackRock UK Property Fund	4,734,550	65,482	1.38	4,800,032
M&G Investments UK Property Fund	1,029,800	105,707	2.25	1,135,507
AEW UK Core Property Fund	4,505,538	294,462	6.54	4,800,000
TOTAL	**19,742,750**	**591,813**		**20,334,563**

The following table provides details in relation to the performance and valuation of these funds as at 31 December 2022.

Pooled Investment Fund (Revenue Expenditure)

Financial Institution	Purchase Cost (£)	Estimated Revenue Received 2022/23 (£)	Projected Annualised Distribution Yield 2022/23	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	2022/23 Gain/ (Loss) (£)	2022/23 Annualised Fund Capital Gain/(Loss) Since 1/4/22	2022/23 Estimated Combined Return	VRP
Federated Hermes Property Unit Trust	**3,999,951**	**99,207**	3.28% Estimate	**4,038,717**	**38,766**	**(744,026)**	(20.65%)	(17.37%)	N/A

Property Funds (Capital Expenditure)

Financial Institution	Purchase Cost Less Repaid Capital (£)	Estimated Revenue Received 2022/23 (£)	Projected Annualised Distribution Yield 2022/23	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	Quarterly Gain/ (Loss) (£)	2022/23 Annualised Fund Capital Gain/(Loss) Since 1/4/22	2022/23 Estimated Combined Return	VRP
Schroder UK Real Estate Fund	4,800,037	145,548	3.94% Estimate	4,881,368	81,331	(1,007,231)	(22.70%)	(18.76%)	0
Threadneedle Property Unit Trust	4,798,987	147,296	4.08% Estimate	4,218,174	(580,813)	(814,811)	(21.49%)	(17.41%)	0
BlackRock UK Property Fund	4,800,032	102,014	2.84% Estimate	4,508,638	(291,394)	(941,923)	(22.94%)	(20.10%)	0
M&G Investments UK Property Fund (after distribution payments)	1,135,507	27,705	3.12% Estimate	1,265,722	130,215	(56,632)	N/A	N/A	(360,649)
AEW UK Core Property Fund	4,800,000	109,221	3.02% Estimate	4,191,991	(608,009)	(676,853)	(18.41%)	(15.39%)	0
TOTAL	**20,334,563**	**531,784**		**19,065,893**	**(1,268,670)**	**(750,220)**			

The Projected Annualised Distribution Yield is the projected yield for the year based on dividends already received during the current financial year.

The 2022/23 Annualised Fund Capital Gain/Loss is the projected gain/loss in the capital value of the fund since the start of the financial year calculated by reference to the change in the Net Asset Value from 31 March 2022 to the period end.

The estimated combined return is the total of the Projected Dividend Distribution Yield and the Annualised Fund Capital Gain/Loss.

Please note that this is the position as at 31 December 2022 and the capital values will fluctuate year on year.

An analysis of dividend distributions received since the purchase of the property funds to 31 December 2022 can be found in the table below:

Financial Institution	Actual Dividend Distributions Received Pre 2022/23	Original Budgeted Distribution for 2022/23	Estimated Dividend Distributions Received 2022/23	Total Distributions Received Since Purchase
Federated Hermes Property Unit Trust	727,525	97,040	99,207	826,732
Schroder UK Real Estate Fund	779,317	116,450	145,548	924,865
Threadneedle Property Unit Trust	703,245	161,982	147,296	850,541
BlackRock UK Property Fund	531,654	119,343	102,014	633,668
M&G Investments UK Property Fund	581,963	134,532	27,705	609,668
AEW UK Core Property Fund	742,212	162,378	109,221	851,433
Total Revenue	**4,065,916**	**791,725**	**630,991**	**4,696,907**

5 Borrowing

No new borrowing was undertaken during the quarter ended 31 December 2022 and the table below shows the Councils external borrowing position at the quarter end.

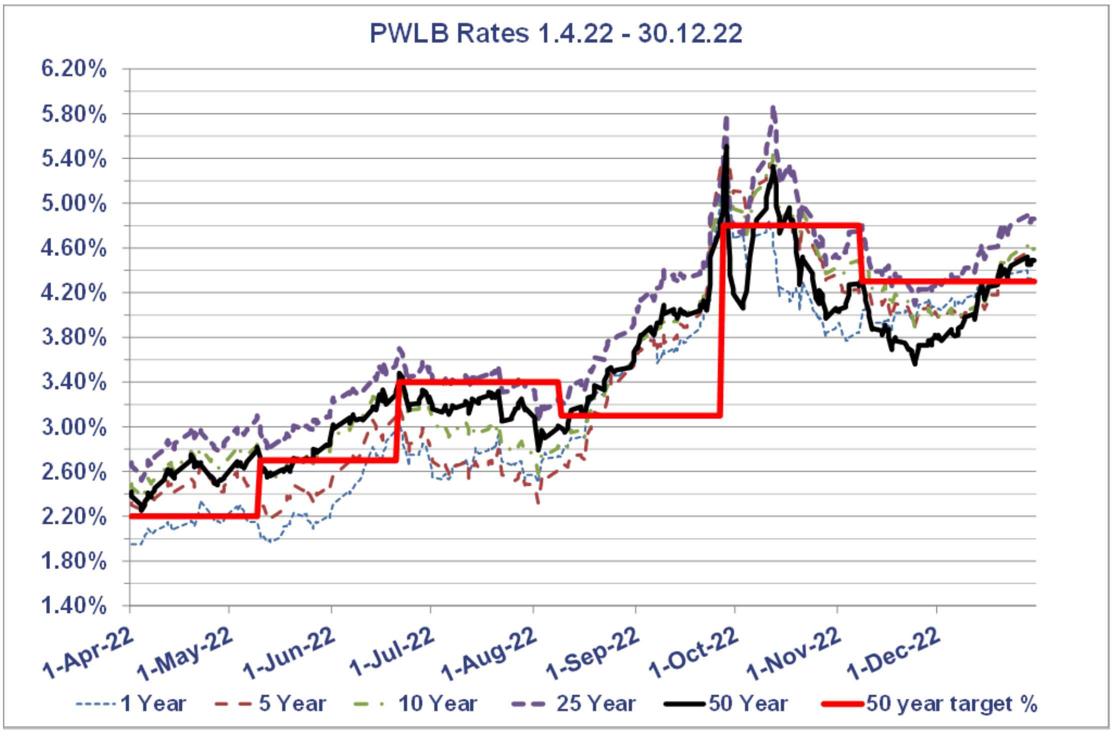
Entity	Amount (£)	Start Date	Maturity Date	Rate
Public Works Loan Board	10,000,000	10/12/2018	10/12/2068	2.54%
Public Works Loan Board	10,000,000	13/12/2018	13/12/2068	2.39%
TOTAL	**20,000,000**			**2.465% Average**

Interest costs for 2022/23 on this fixed rate borrowing are £493,000.

It is anticipated that further borrowing will not be undertaken during this financial year but this may be subject to review.

Gilt yields and PWLB rates were on a rising trend between 1 April and 30 September but have fallen back from their September peaks in Q3.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to a peak of 4.80% in September and then latterly reducing to 4.30% in November.



6 Debt Rescheduling

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

7 Compliance with Treasury and Prudential Indicators

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

During the quarter ended 31 December 2022 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

On 14 December 2022 Council approved a change to the investment criteria of the Council due to higher levels of cash balances resulting from government grants received in advance. This change saw an increase in the maximum amount that can be invested in any particular sovereign country from £5m to £10m. The individual bank or group limit remains at £5m.