

Appendix 'A'

Treasury Management Update

Quarter 1 Report 2023/24
ended 30 June 2023

East Lindsey District Council

1 Treasury Management Update

Quarter Ended 30 June 2023

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

2 Economic Update (Commentary by Link Group)

The first quarter of 2023/24 saw:

- A 0.2% month on month (m/m) rise in real GDP in April, partly due to fewer strikes;
- Consumer Price Index (CPI) inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
- Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
- A tighter labour market in April, as the 3 month year on year (myy) growth of average earnings rose from 6.1% to 6.5%;
- Interest rates rise by a further 75 basis points (bps) over the quarter, taking Bank Rate from 4.25% to 5.00%;
- 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.

The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real Gross Domestic Product (GDP) in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.

The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May to a three-month low of 52.8 in June (>50 points to expansion in the economy, <50 points to contraction) was worse than the consensus forecast of 53.6. Both the services and manufacturing PMIs fell. The decline in the services PMI was bigger (from 55.2 to 53.7), but it remains consistent with services activity expanding by an annualised 2%. The fall in the manufacturing PMI was smaller (from 47.1 to 46.2), but it is consistent with the annual rate of manufacturing output falling from -0.8% in April to around -5.0%. At face value, the composite PMI points to

the 0.1% quarter on quarter (q/q) rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.

Meanwhile, the 0.3% m/m rise in retail sales volumes in May was far better than the consensus forecast of a 0.2% m/m decline and followed the robust 0.5% m/m rise in April. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% m/m jump in non-store sales, due to people stocking up on outdoor-related goods. But department stores also managed to squeeze out a 0.6% m/m rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected. In addition, the Growth from Knowledge (GfK) measure of consumer confidence rebounded from -27 to a 17 month high of -24 in June.

The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Our central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Our colleagues at Capital Economics estimate that around 60% of the drag on real activity from the rise in rates has yet to bite, and the drag on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.

The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment rose from +182,000 in March to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%.

The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) probably had a lot to do with it too. The 3myy rate of average earnings growth reaccelerated from 6.1% to 6.5% (consensus 6.1%) and UK wage growth remains much faster than in the US and the Euro-zone. In addition, regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank's

forecast for it to fall below 7.0%. Overall, the loosening in the labour market appears to have stalled in April and regular private sector wage growth was well above the Bank's forecast.

CPI inflation stayed at 8.7% in May (consensus 8.4%) and, perhaps more worryingly, core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.

This suggests the Bank may have more work to do than the Fed or European Central Bank (ECB). Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the Monetary Policy Committee's (MPC) decision to step up the pace of hiking from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.

That said, the Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". Moreover, the Committee did not strengthen its forward guidance that any further rate hikes would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. We still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, we think rates are more likely to peak between 5.50-6.00%. Our forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.

Growing evidence that UK price pressures are becoming increasingly domestically generated has driven up market interest rate expectations and at one point pushed the 10-year gilt yield up to 4.49% in late June, very close to its peak seen after the "mini-budget". Yields have since fallen slightly back to 4.38%. But growing expectations that rates in the

UK will remain higher for longer than in the US mean they are still more than 70 bps above US yields. While higher interest rates are priced into the markets, the likely dent to the real economy from the high level of interest rates is not. That's why we think there is scope for market rate expectations to fall back in 2024 and why we expect the 10-year Public Works Loan Board (PWLB) Certainty Rate to drop back from c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.

The pound strengthened from \$1.24 at the start of April to a one-year high at \$1.26 in early May, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to \$1.23 at the end of May, before rising again to \$1.28 in the middle of June as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB to tame domestic inflation. However, sterling's strong run may falter because more hikes in the near term to combat high inflation are likely to weaken growth (and, hopefully, at some point inflation too) to such a degree that the policy rate will probably be brought back down, potentially quite quickly, as the economic cycle trends downwards decisively. This suggests that additional rate hikes are unlikely to do much to boost the pound.

In early April, investors turned more optimistic about global GDP growth, pushing up UK equity prices. But this period of optimism appears to have been short-lived. The FTSE 100 has fallen by 4.8% since 21st April, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17th March. Despite the recent resilience of economic activity, expectations for equity earnings have become a bit more downbeat. Nonetheless, further down the track, more rate cuts than markets anticipate should help the FTSE 100 rally.

MPC meetings 11 May and 22 June 2023

On 11 May, the Bank of England's Monetary Policy Committee increased Bank Rate by 25 basis points to 4.50%, and on 22 June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.

Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank's inflation models being "broken" is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.

Of course, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Markets Committee (FOMC) has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the ECB looks likely to raise its deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

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 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 26 June, 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, against a backdrop of a stubbornly robust economy and a tight labour market.

You will note that current forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

Link Group Interest Rate View 26.06.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Link Group Interest Rate View 24.05.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

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 previously updated on 25 May 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 to a degree, especially as it moved to a more aggressive 0.5% hike in June but, with inflation remaining elevated, we anticipate that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.

Moreover, we also still anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but timing on this will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Our current judgment is that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine and whether there are any further implications for Russia itself following the recent aborted mutiny by the Wagner group.

On the positive side, consumers are still estimated to be sitting on excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings 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

Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since our previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%.

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 we have seen of late).
- **The Bank of England** increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.
- **A broadening of banking sector fragilities**, which have been successfully addressed in the near-term by central banks and the market

generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

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

- Despite the recent tightening by 0.5%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.
- 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 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 1 March 2023. 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 quarter of 2023/24 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,

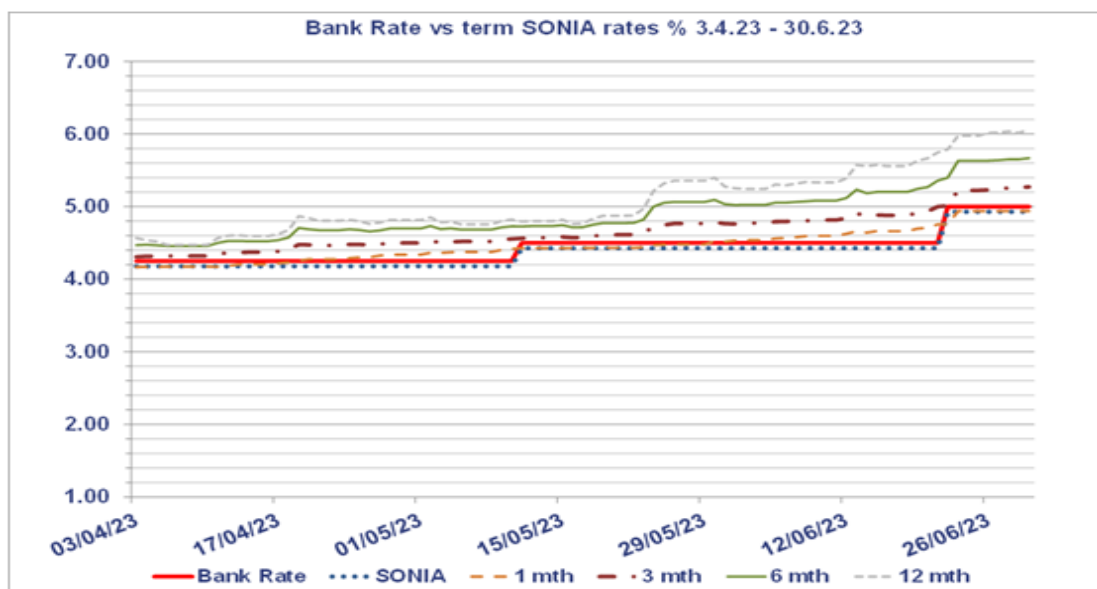
and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

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. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment performance year to date as at 30 June 2023

The graph below shows that longer term investment rates in the market rose during the first quarter of the financial year because of the increase in the Bank of England Base Rate and expectations of further increases.



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 ELDC’s own resources.

The following table provides details of the cash investments held by the Council on 30 June 2023. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis.

‘APPENDIX A’

Financial Institution	Country	Amount (£)	Start Date	Maturity Date	Fixed/ Variable	Yield (%)
Barclays Current A/C Current Account	UK	54,214	N/A	Instant Access	N/A	0.00%
Barclays Bank	UK	642,288	N/A	Instant Access	Variable	4.25%
Handelsbanken Plc	Sweden	6,373	N/A	Instant Access	Variable	4.45%
CCLA Money Market Fund	Various	3,000,000	N/A	Instant Access	Variable	4.78%
Standard Chartered Bank	UK	5,000,000	13/01/23	13/07/23	Fixed	4.24%
First Abu Dhabi Bank	Abu Dhabi	2,500,000	28/07/22	28/07/23	Fixed	2.93%
DNB Bank ASA	Norway	5,000,000	31/08/22	31/08/23	Fixed	3.90%
Lloyds Bank	UK	5,000,000	25/04/23	25/10/23	Fixed	4.92%
National Westminster Bank	UK	5,000,000	09/11/22	09/11/23	Fixed	4.40%
Close Brothers	UK	5,000,000	24/05/23	24/11/23	Fixed	5.00%
Toronto Dominion Bank	Canada	5,000,000	22/12/22	21/12/23	Fixed	4.85%
Credit Agricole	France	5,000,000	11/05/23	12/02/24	Fixed	5.11%
Australia & New Zealand Bank	Australia	5,000,000	16/05/23	16/02/24	Fixed	5.02%
Skandinaviska Enskilda Banken	Sweden	5,000,000	14/04/23	12/04/24	Fixed	5.04%
Credit Industriel et Commercial	France	5,000,000	26/04/23	25/04/24	Fixed	5.30%
DZ Bank	Germany	5,000,000	16/05/23	14/05/24	Fixed	5.12%
National Australia Bank	Australia	5,000,000	27/06/23	24/05/24	Fixed	6.35%
Rabobank	Netherlands	5,000,000	02/06/23	31/05/24	Fixed	5.63%
Bank of Montreal	Canada	5,000,000	09/06/23	07/06/24	Fixed	5.72%
TOTAL		76,202,875				

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

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

Loan	Amount	Start Date	Maturity Date	Yield
Caravan Sales Loan	272,600	01/07/20	In Perpetuity	4.00%
Caravan Hire Fleet Loan	268,952	01/07/20	01/07/30	4.00%
Caravan Hire Fleet Expansion Loan	720,000	15/02/21	14/02/41	4.00%
	<u>380,000</u> 1,100,000	07/02/22	07/02/42	4.00%
Housing Development Loan	500,000	30/06/21	30/06/23	4.00%
	<u>500,000</u> 1,000,000	16/11/21	16/11/23	4.00%
Cash Flow Loans	500,000	20/01/22	20/01/24	4.00%
	200,000	19/05/22	19/05/24	4.00%
	300,000	12/07/22	12/07/24	4.00%
	<u>250,000</u> 1,250,000	20/09/22	20/09/24	4.00%
TOTAL	3,891,552			

Interest earned on these loans in the current financial year to 30 June 2023 is £39,549.

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	Date of Purchase	Net Asset Value at Date of Purchase £	Premium/ (Discount) on Purchase £	Premium/ (Discount) on Purchase %	Total Cost £
Hermes Property Unit Trust	24/06/16	1,621,443	48,643	3.00	1,670,086
	30/09/16	234,555	5,435	2.32	239,990
	26/01/17	556,376	33,547	6.03	589,923
	02/10/17	344,460	9,087	2.64	353,547
	28/11/17	248,899	5,686	2.28	254,585
	26/12/17	192,410	3,517	1.83	195,927
	26/04/19	694,860	1,033	0.15	695,893
	TOTAL		3,893,003	106,948	2.75

Property Funds (Capital Expenditure)

Fund	Date of Purchase	Net Asset Value at Date of Purchase £	Premium/ (Discount) on Purchase £	Premium/ (Discount) on Purchase %	Total Cost £
Schroder UK Real Estate Fund	07/07/16	2,021,637	(25,629)	(1.27)	1,996,008
	07/10/16	505,375	(6,373)	(1.26)	499,002
	01/12/17	1,478,726	18,280	1.24	1,497,006
	07/09/18	813,680	(5,659)	(0.70)	808,021
	TOTAL		4,819,418	(19,381)	(0.40)
Threadneedle Property Unit Trust	31/08/18	2,902,441	86,572	2.98	2,989,013
	28/09/18	483,966	16,116	3.33	500,082
	31/10/18	1,267,037	42,855	3.38	1,309,892
	TOTAL	4,653,444	145,543	3.13	4,798,987
BlackRock UK Property Fund	28/09/18	4,734,550	65,482	1.38	4,800,032
M&G Investments UK Property Fund (after repayments)	14/09/18	795,827	105,707	2.25	901,534
AEW UK Core Property Fund	31/10/18	4,505,538	294,462	6.54	4,800,000
TOTAL		19,508,777	591,813		20,100,590

The following table provides details in relation to the performance and valuation of these funds as at 30 June 2023.

Pooled Investment Fund (Revenue Expenditure)

Financial Institution	Purchase Cost (£)	Estimated Revenue Received 2023/24 (£)	Estimated Annual Distribution Yield 2023/24 (%)	Net Asset Value (£)	Total Gain/(Loss) Since Purchase (£)	Total Gain/(Loss) Since Purchase (%)	2023/24 Capital Gain/(Loss) Since 31/3/23 (£)	2023/24 Capital Gain/(Loss) Since 31/3/23 (%)	2023/24 Combined Annual Return (%)
Federated Hermes Property Unit Trust	3,999,951	43,625	3.60%	4,018,032	18,080	0.45%	(2,507)	(0.06%)	3.54%

At the year end the movement in fair value of the fund gets charged to the revenue account. There is currently a statutory override which has been extended to 31 March 2025 which allows for movements in fair value on pooled investments funds to be reversed out through the Movement In Reserves Statement so there is no bottom line impact.

Property Funds (Capital Expenditure)

Financial Institution	Purchase Cost (£)	Estimated Revenue Received 2023/24 (£)	Estimated Annualised Distribution Yield 2023/24 (%)	Net Asset Value (£)	Total Gain/(Loss) Since Purchase (£)	Total Gain/(Loss) Since Purchase (%)	2023/24 Capital Gain/(Loss) Since 31/3/23 (£)	2023/24 Capital Gain/(Loss) Since 31/3/23 (%)	2023/24 Combined Annual Return (%)
Schroder UK Real Estate Fund	4,800,037	43,602	3.80%	4,599,465	(200,572)	(4.18%)	(155,058)	(3.26%)	0.54%
Threadneedle Property Unit Trust	4,798,987	61,455	4.70%	4,164,206	(634,781)	(13.23%)	6,551	0.16%	4.86%
BlackRock UK Property Fund	4,800,032	38,525	2.98%	4,425,520	(374,512)	(7.80%)	(45,822)	(1.02%)	1.96%
M&G Investments UK Property Fund (after distribution payments)	901,534	26,953	N/A	1,021,835	120,301	N/A	(17,605)	N/A	N/A
AEW UK Core Property Fund	4,800,000	34,310	3.60%	4,189,946	(610,054)	(12.71%)	36,467	0.88%	4.48%
TOTAL	20,100,590	204,845		18,400,972	(1,699,618)		(175,467)		

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 June 2023 can be found in the table below:

Financial Institution	Actual Net Dividend Distributions Received Pre 2023/24	Original Budgeted Net Distribution 2023/24	Net Dividend Distributions Received 2023/24	Total Net Distributions Received Since Purchase
Federated Hermes Property Unit Trust	858,931	35,803	43,625	902,556
Schroder UK Real Estate Fund	974,564	42,964	43,602	1,018,166
Threadneedle Property Unit Trust	898,132	42,955	61,455	959,587
BlackRock UK Property Fund	666,885	42,964	38,525	705,410
M&G Investments UK Property Fund (excluding liquidation distributions)	619,017	9,502	26,953	645,970
AEW UK Core Property Fund	879,676	42,964	34,310	913,986
Total Revenue	4,897,205	217,152	248,470	5,145,675

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 east Lindsey DC distribution payments totalling £3,898,466 as of 30 June 2023, from the asset sale proceeds.

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

Period to Maturity	Amount (£)	% of Portfolio
Less than one week	3,702,875	3%
Less than one month	7,500,000	7%
One to three months	5,000,000	5%
Three to six months	20,000,000	19%
Six to nine months	10,000,000	10%
Nine months to a year	30,000,000	29%
InvestEL	3,891,552	4%
>12 Months	24,264,297	23%
TOTAL	104,358,724	100%

The following table provides a comparison of investment income received and an estimate of the outturn position for the year against the original budget.

Investment Type	2023/24 Profiled Q1 Budget	2023/24 Profiled Q1 Actual	2023/24 Annual Budget	2023/24 Projected Outturn
Treasury Investments	497,268	773,534	2,000,000	3,427,985
InvestEL	49,135	39,549	197,620	156,828
Property Funds				
Gross Distributions	266,879	305,368	1,073,380	1,114,435
Less Management Fees	<u>(49,727)</u>	<u>(56,898)</u>	<u>(200,000)</u>	<u>(207,650)</u>
Net Distributions	217,152	248,470	873,380	906,785
Total Net Income	763,555	1,061,553	3,071,000	4,491,598

Treasury investments achieved an average rate of 4.42% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 4.65%. InvestEL loans achieved a rate of 4.00% and property fund investments achieved an average rate of 4.14%. The combined rate achieved on all investments was 4.34%.

The higher levels of investment income compared to the original budget is due to increased balances available for investment resulting from additional grant money being received and recent rises in interest rates on new investments.

5 Borrowing

No new borrowing was undertaken during the quarter ended 30 June 2023 and the table below shows the Councils external borrowing for property funds 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

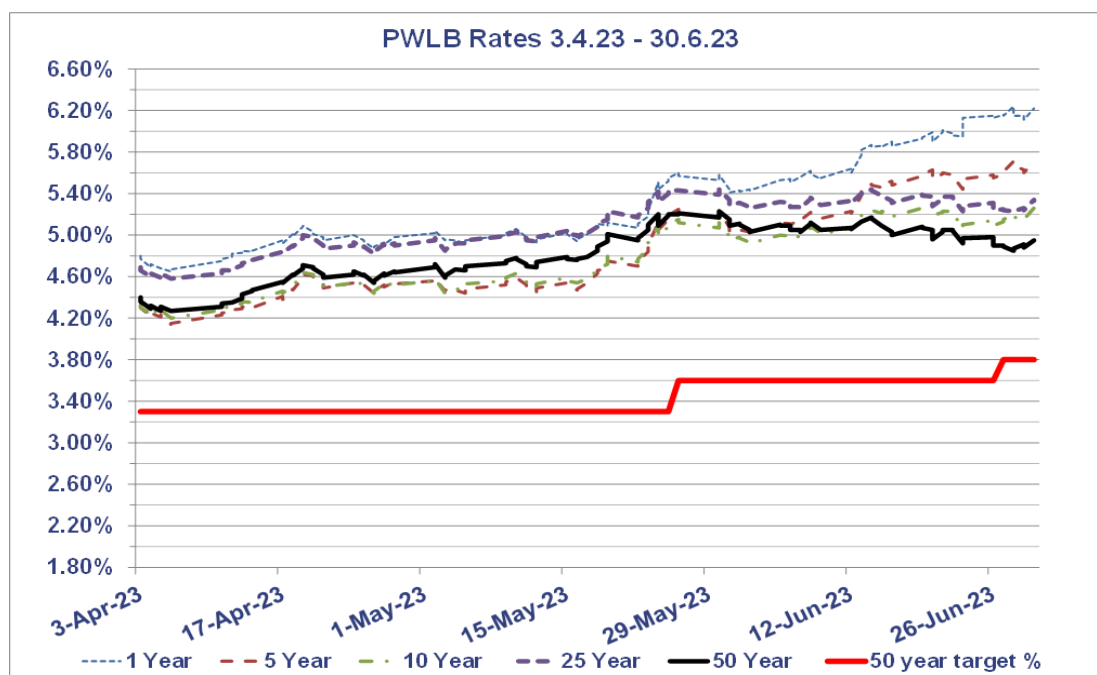
Fixed interest costs for 2023/24 on this borrowing are £493k.

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 June.

The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.30% before increasing to a peak of 3.80% in June. As can be seen, with rates elevated across the whole of the curve, it is advised not to borrow long-term unless the Authority wants certainty of rate and judges the

cost to be affordable. From 15 June 2023 HRA borrowing is 0.4% lower than the Certainty Rate.



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 30 June 2023 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

The Deputy Chief Executive (Corporate Development) & S151 Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

Treasury Indicators and Prudential Indicators for 2023/24 as of 30 June 2023

Treasury Indicators	2023/24 Budget £'000	Revised as at Quarter 1 £'000	31/03/23 Actual £'000
Authorised limit for external debt	44,000	44,000	44,000
Operational boundary for external debt	38,000	38,000	38,000
Gross external debt	20,000	20,000	20,000
Investments	(94,161)	(104,359)	(80,256)
Net investments	(74,161)	(84,359)	(60,256)
Upper limit for principal sums invested over 365 days:			
2023/24	10,000	10,000	0
2024/25	10,000	10,000	0
2025/26	10,000	10,000	0
2026/27	10,000	10,000	0
2027/28	10,000	10,000	0

Prudential Indicators	2023/24 Budget £'000	Revised as at Quarter 1 £'000	31/03/23 Actual £'000
Capital expenditure:			
Non Towns Fund	8,445	25,315	11,688
Towns Fund	<u>38,543</u>	<u>41,086</u>	<u>4,547</u>
TOTAL	46,988	66,401	16,235
Capital Financing Requirement (CFR):	24,657	19,760	20,602
Annual change in CFR:	(842)	(842)	(4,898)
In year borrowing requirement:	658	658	0
Ratio of financing costs to net revenue stream:	(8.27%)	(11.91%)	(1.49%)

General Fund Capital Expenditure 2023/24

Table 4 – 2023/24 Capital Programme and Q1 Forecast Outturn							
Scheme	Approved Budget 2023/24 £000	22/23 Slippage/ accelerated spend (-) £000	Changes to approved budget £000	Revised 23/24 £000	Actual June 23 £000	Forecast Outturn 2023/24 £000	Variance (under)/over £000
Non-Towns Fund Projects							
Disabled Facilities Grants ¹	1,562	-	477	2,039	370	2,039	-
Community Housing Fund	-	653	-	653	-	5	(648)
Capitalised Planned Enhancements	200	62	-	262	-	262	-
Car Park Resurfacing	250	50	-	300	47	300	-
Public Sector Hub	-	186	-	186	71	186	-
Kingfisher Enhancement	-	104	-	104	7	104	-
3g Football Pitch Project	-	171	-	171	-	171	-
Pride in East Lindsey	-	46	-	46	-	46	-
Changing Places Toilets	-	300	-	300	34	300	-
Environmental Services: Vehicle Requirements ²	82	27	610	719	-	719	-
PSPS Investment	-	181	-	181	-	181	-
Case Management System	-	78	-	78	-	78	-
IT for Hub	-	22	100	122	11	122	-
IT Investment	100	135	-	235	-	235	-
IT Infrastructure Refresh Projects (Laptop, mobile etc)	209	-	-	209	61	183	(25)
Storage and Servers	-	12	-	12	12	12	-
Green Homes Grant	-	1791	-	1791	23	1791	-
Climate Change Projects	-	4,471	6,600	11,071	901	11,071	-
Decarbonisation of Assets	1,500	-	-	1,500	-	1,500	-
District EV Charging Points	-	-	153	153	-	153	-
Cultural Development Fund – Phase 2	-	-	94	94	-	94	-
Cultural Development Fund – Pier Transformation	-	-	440	440	-	440	-
Total Non-Towns Fund Projects	3,903	8,289	8,474	20,666	1,537	19,992	(673)

Table 4 – 2023/24 Capital Programme and Q1 Forecast Outturn							
Scheme	Approved Budget 2023/24	22/23 Slippage/ accelerated spend (-)	Changes to approved budget	Revised 23/24	Actual June 23	Forecast Outturn 2023/24	Variance (under)/over
	£000	£000	£000	£000	£000	£000	£000
Towns Fund Projects							
Towns Fund - Mablethorpe Leisure and Learning Hub	10,725	(244)	-	10,481	2,050	3,928	(6,554)
Towns Fund - Sutton on Sea Colonnade	3,579	2,295	600	6,474	9	1,600	(4,874)
Towns Fund - Skegness Foreshore	200	(113)	-	87	-	87	-
Towns Fund - Skegness Railway Station	2,317	369	-	2,686	25	1,774	(912)
Towns Fund - Skegness Town Centre Transformation	1,050	(407)	-	643	215	600	(43)
Towns Fund - Skegness Learning Campus	8,170	(98)	-	8,072	-	2,628	(5,444)
Towns Fund - Skegness Cultural	1,137	89	-	1,226	-	178	(1,048)
Towns Fund - Skegness Multi-User Trail	-	223	-	223	-	-	(223)
Towns Fund - Skegness Police Training Centre	-	-	-	-	-	-	-
Towns Fund - Mablethorpe Campus for Future Living	5,137	(162)	-	4,975	777	4,527	(448)
Towns Fund - Mablethorpe Sandilands	1,980	-	-	1,980	-	792	(1,188)
Towns Fund - Mablethorpe Mobi hub	277	(2)	-	275	13	161	(114)
Towns Fund - Mablethorpe High Street	471	(7)	-	464	8	464	-
Town Fund – Contingency this has been allocated	3,500	-	-	3,500	-	3,500	-
Total Towns Fund	38,543	1,943	600	41,086	3,097	20,239	(20,848)
UKSPF & LUF							
UKSPF	215	108	-	323	-	323	-
UKSPF - RP	800	-	-	800	-	800	-
Total UKSPF	1,015	108	-	1,123	-	1,123	-
LUF : Spilsby Sessions House	1,337	-	-	1,337	-	1,337	-
LUF : Alford Manor House	1,092	-	-	1,092	-	1,092	-
LUF : Alford Windmill	1,098	-	-	1,098	-	1,098	-
Total LUF	3,527	-	-	3,527	-	3,527	-
Grand Total – All Projects	46,988	10,340	9,074	66,402	4,634	44,881	(21,521)

Funding

All Projects	Original Budget	Revised Budget Plus Slippage 2023/24	Full year forecast	Variance
	£000	£000	£000	£000
Capital Reserve	(225)	(930)	(930)	-
External Grants	(36,323)	(53,953)	(35,268)	18,685
Other Reserve - Economic Growth	(8,100)	(8,100)	(5,289)	2,811
Other Reserve - Technology	(100)	(325)	(300)	25
Other Reserve - Repair & Replacement	(82)	(936)	(936)	-
Other Reserve - New Initiative/Contingency Reserve	(1,500)	(1,500)	(1,500)	-
Internal Borrowing	(658)	(658)	(658)	-
Totals	(46,988)	(66,402)	(44,881)	21,521