

## Appendix 'A'

# Treasury Management Update

Quarter 3 Report 2023/24  
ended 31 December 2023

---

East Lindsey District Council

---

# 1 Treasury Management Update

## Quarter Ended 31 December 2023

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

# 2 Economic Update (Commentary by Link Group)

The first three quarters of 2023/24 saw:

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

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

However, the rise in the flash composite activity Purchasing Managers Index (PMI), from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement

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

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

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

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

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

The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient

labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

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

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

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

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

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

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

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

-----1 Year   - - 5 Year   - . 10 Year   - - 25 Year   — 50 Year   — 50 year target %

### MPC meetings 2 November and 14 December 2023

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

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

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

### 3. Interest rate forecasts

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The Public Works Loan Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points (bps)) which has been accessible to most authorities since 1 November 2012.

20 yr PWLB	3.30	3.30	3.10	4.30	4.10	4.30	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

20 yr PWLB	3.40	3.20	3.10	4.30	4.10	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

20 yr PWLB	5.50	5.40	5.20	5.10	4.90	4.70	4.50	4.30	4.20	4.00	3.90	3.80	3.60	3.50
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	3.50

20 yr PWLB	5.50	5.30	5.20	5.10	4.90	4.80	4.60	4.40	4.20	4.00	3.90	3.80	3.60	3.50
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.60	3.50	3.40	3.40	3.40

50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10
------------	------	------	------	------	------	------	------	------	------	------	------	------

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

#### A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

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

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing a little better at this stage of the economic cycle than may

have been expected. Nonetheless, with approximately 400,000 households per quarter facing a mortgage interest reset at higher levels than their current rate, the economy will face on-going headwinds from that source, in addition to lower income households having to spend disproportionately on essentials such as food, energy and rent payments.

## PWLB BORROWING RATES

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

### **The balance of risks to the UK economy: -**

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening by 0.5%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.



- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher.
- Projected **gilt issuance, inclusive of natural maturities and Quantitative Techniques (QT)**, could be too much for the markets to comfortably digest without higher yields compensating.

*End of Link Group Commentary*

## 4 Annual Investment Strategy

The Treasury Management Strategy Statement for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 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 following chart and the interest rate forecasts in section 3, rates have remained elevated during 2023/24 but are now expected to have peaked.

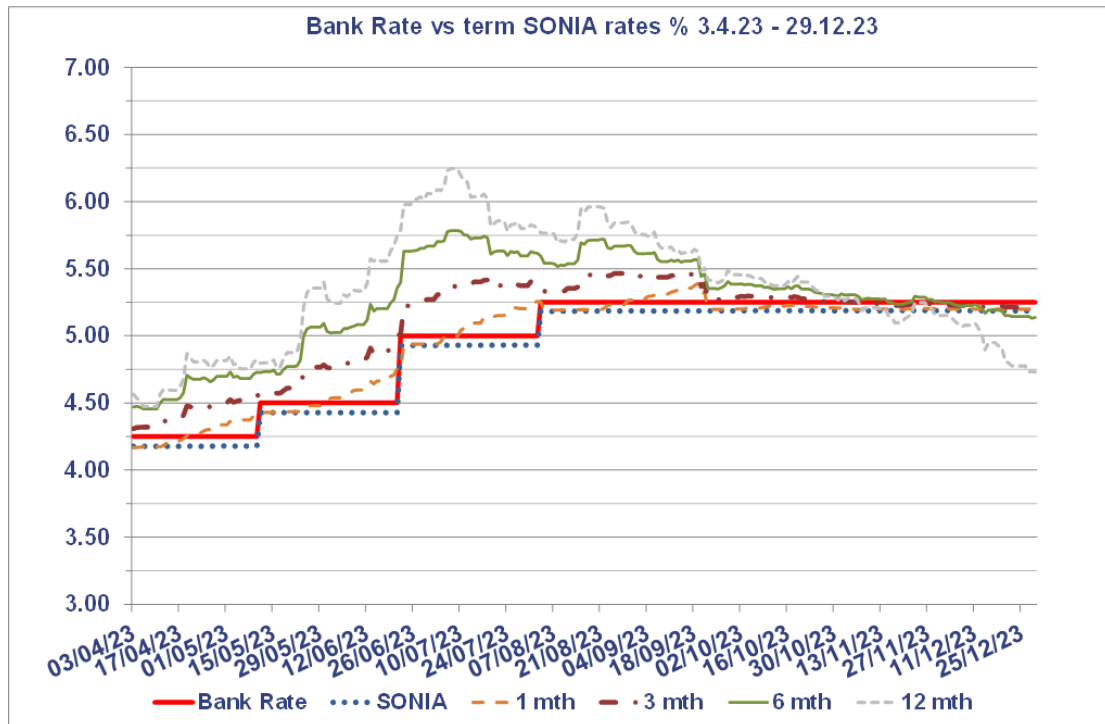
**Creditworthiness** - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

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

**Credit Default Swap prices** - For UK banks, there are no underlying negative themes. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

**Investment performance year to date as at 31 December 2023**

The graph below shows that longer term investment rates in the market rose during the first quarter of the financial year because of the increase in the Bank of England Base Rate and expectations of further increases. Since July the longer term rates have been on a falling trend due to the expectations of further base rate raises diminishing.



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

Because the Council collects money on behalf of other organisations which are paid out at future dates (e.g. Council Tax and Business Rates) the value of investments held at any point in time does not represent the value of ELDC's own resources.

The following table provides details of the cash investments held by the Council on 31 December 2023. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis.

‘APPENDIX A’

Financial Institution	Country	Amount (£)	Start Date	Maturity Date	Fixed/ Variable	Yield (%)
Barclays Current A/C Current Account	UK	40,023	N/A	Instant Access	N/A	0.00%
Barclays Bank	UK	795,702	N/A	Instant Access	Variable	4.45%
Handelsbanken Plc	Sweden	6,581	N/A	Instant Access	Variable	4.45%
CCLA Money Market Fund	Various*	5,100,000	N/A	Instant Access	Variable	5.29%
UK Debt Management Office	UK	2,700,000	27/12/23	02/01/24	Fixed	5.19%
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%
Close Brothers	UK	5,000,000	24/11/23	24/05/24	Fixed	5.60%
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%
UBS	Switzerland	5,000,000	13/07/23	12/07/24	Fixed	6.69%
DNB Bank ASA	Norway	5,000,000	31/08/23	30/08/24	Fixed	6.18%
City of Stoke-on-Trent Council	UK	3,000,000	21/12/23	20/12/24	Fixed	5.60%
<b>TOTAL</b>		<b>66,642,306</b>				

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

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

<b>Loan</b>	<b>Amount</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Yield</b>
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>	07/02/22	07/02/42	4.00%
	1,100,000			
Housing Development Loan	500,000	30/06/21	31/03/24	4.00%
	<u>500,000</u>	16/11/21	31/03/24	4.00%
	1,000,000			
Cash Flow Loans	500,000	20/01/22	31/03/24	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>	20/09/22	20/09/24	4.00%
	1,250,000			
<b>TOTAL</b>	<b>3,891,552</b>			

Interest earned on these loans in the current financial year to 31 December 2023 is £118,019.

## 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	<u>694,860</u>	<u>1,033</u>	<u>0.15</u>	<u>695,893</u>
	<b>TOTAL</b>		<b>3,893,003</b>	<b>106,948</b>	<b>2.75</b>

### 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	<u>813,680</u>	<u>(5,659)</u>	<u>(0.70)</u>	<u>808,021</u>
	<b>TOTAL</b>		<b>4,819,418</b>	<b>(19,381)</b>	<b>(0.40)</b>
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	<u>1,267,037</u>	<u>42,855</u>	<u>3.38</u>	<u>1,309,892</u>
	<b>TOTAL</b>	<b>4,653,444</b>	<b>145,543</b>	<b>3.13</b>	<b>4,798,987</b>
BlackRock UK Property Fund	28/09/18	<b>4,734,550</b>	<b>65,482</b>	<b>1.38</b>	<b>4,800,032</b>
M&G Investments UK Property Fund (after repayments)	14/09/18	<b>768,871</b>	<b>105,707</b>	<b>2.25</b>	<b>874,578</b>
AEW UK Core Property Fund	31/10/18	<b>4,505,538</b>	<b>294,462</b>	<b>6.54</b>	<b>4,800,000</b>
<b>TOTAL</b>		<b>19,481,821</b>	<b>591,813</b>		<b>20,073,634</b>

The following table provides details in relation to the performance and valuation of these funds as at 31 December 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	121,943	3.90%	3,783,594	(216,357)	(5.41%)	(236,945)	(5.89%)	(1.99%)

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	141,908	4.19%	4,347,742	(452,295)	(9.42%)	(406,781)	(8.56%)	(4.37%)
Threadneedle Property Unit Trust	4,798,987	159,808	4.62%	3,989,671	(809,316)	(16.86%)	(167,984)	(4.04%)	0.58%
BlackRock UK Property Fund	4,800,032	115,523	3.05%	4,223,052	(576,980)	(12.02%)	(248,289)	(5.55%)	(2.50%)
M&G Investments UK Property Fund (after distribution payments)	874,578	47,177	N/A	1,069,162	194,584	N/A	56,677	N/A	N/A
AEW UK Core Property Fund	4,800,000	142,586	4.48%	4,116,671	(683,329)	(14.24%)	(36,808)	(0.89%)	3.59%
<b>TOTAL</b>	<b>20,073,634</b>	<b>607,002</b>		<b>17,747,226</b>	<b>(2,327,336)</b>		<b>(803,185)</b>		

The movement in fair value of the funds gets charged to the revenue account and reversed out through the Movement In Reserves Statement to the capital adjustment account each year end so there is no bottom line impact.

An analysis of dividend distributions received since the purchase of the property funds to 31 December 2023 can be found in the table below:

<b>Financial Institution</b>	<b>Actual Net Dividend Distributions Received Pre 2023/24</b>	<b>Original Budgeted Net Distribution 2023/24</b>	<b>Net Dividend Distributions Received 2023/24</b>	<b>Total Net Distributions Received Since Purchase</b>
Federated Hermes Property Unit Trust	858,931	108,179	121,943	980,874
Schroder UK Real Estate Fund	974,564	129,817	141,908	1,116,472
Threadneedle Property Unit Trust	898,132	129,789	159,808	1,057,940
BlackRock UK Property Fund	666,885	129,817	115,523	782,408
M&G Investments UK Property Fund (excluding liquidation distributions)	619,017	28,811	47,177	666,194
AEW UK Core Property Fund	879,676	129,815	142,586	1,022,262
<b>Total Revenue</b>	<b>4,897,205</b>	<b>656,228</b>	<b>728,945</b>	<b>5,624,150</b>

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 £3,925,422 of the original £4.8m originally invested as of 31 December 2023, from the asset sale proceeds.

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

<b>Period to Maturity</b>	<b>Amount (£)</b>	<b>% of Portfolio</b>
Less than one week	8,642,306	9%
Less than one month	-	0%
One to three months	10,000,000	11%
Three to six months	35,000,000	37%
Six to nine months	10,000,000	11%
Nine months to a year	3,000,000	3%
InvestEL	3,891,552	4%
>12 Months	24,073,585	25%
<b>TOTAL</b>	<b>94,607,443</b>	<b>100%</b>

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

<b>Investment Type</b>	<b>2023/24 Profiled Q3 Budget</b>	<b>2023/24 Profiled Q3 Actual</b>	<b>2023/24 Annual Budget</b>	<b>2023/24 Projected Outturn</b>
Treasury Investments	(1,502,732)	(2,838,123)	(2,000,000)	(3,724,167)
InvestEL	(148,485)	(118,019)	(197,620)	(156,828)
<b>Property Funds</b>				
Gross Distributions	(806,501)	(951,107)	(1,073,380)	(1,161,418)
Less Management Fees	<u>150,273</u> (656,228)	<u>222,162</u> (728,945)	<u>200,000</u> (873,380)	<u>216,404</u> (945,014)
Net Distributions				
<b>Total Net Income</b>	<b>(2,307,445)</b>	<b>(3,685,087)</b>	<b>(3,071,000)</b>	<b>(4,826,009)</b>

Treasury investments achieved an average rate of 5.03% (previously 4.84%) compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 5.10% (previously 5.02%). InvestEL loans achieved a rate of 4.00% and property fund investments achieved an average rate of 4.03% (previously 3.96%). The combined rate achieved on all investments was 4.76% (previously 4.60%).

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.

The forecast outturn has decreased to £4.826m from £4.863m, a reduction of £37k since Quarter 2. This is due to the Council having lower investment balances during Q3 following the repayment of the £20m PWLB borrowing at a discount of £8.344m.

To compensate for the reduction in investment income resulting from the repayment of £20m of PWLB borrowing, the Council will allocate to revenue the discount received over a 10 year period. This will result in a credit to revenue in 2023/24 of £397,780.

## 5 Borrowing

The Council repaid its £20m of external borrowing with the PWLB on 9 October 2023 and in doing so received a discount of £8.344m. Under accounting regulations this discount must be allocated to revenue over a 10 year period.

The Council borrowed £10m for cash flow purposes during October and this has now been repaid.



The following table provides a comparison of borrowing costs and an estimate of the outturn position for the year against the original budget.

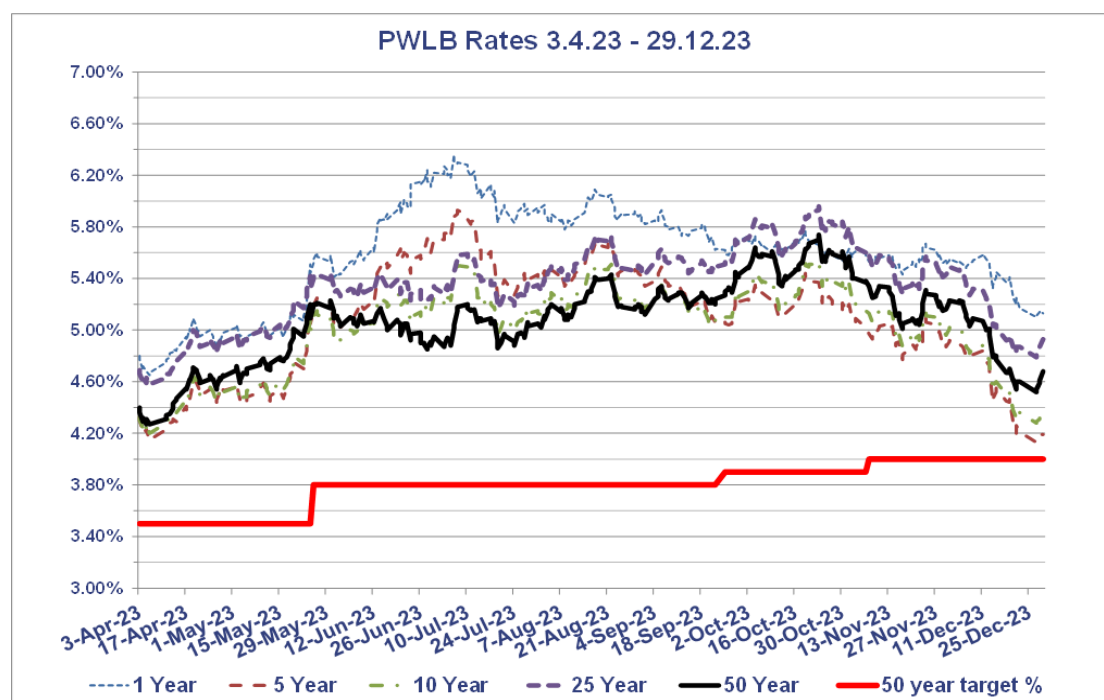
Borrowing Type	2023/24 Profiled Q3 Budget	2023/24 Quarter 3 Actual	2023/24 Annual Budget	2023/24 Forecast Outturn
Public Works Loan Board	371,438	257,981	493,000	257,981
Temporary Borrowing for Cash Flow Purposes	0	26,718	0	26,718
Brokers Fees	0	419	0	504
<b>Total Borrowing Costs</b>	<b>371,438</b>	<b>285,118</b>	<b>493,000</b>	<b>285,203</b>

Following the decision to prematurely repay the PWLB borrowing, the outturn for interest paid and fees on all borrowing for 2023/24 is now £285,203 compared to the original budget of £493,000. This is a budget saving of £207,797.

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

Gilt yields and PWLB rates were on a rising trend from April through to October but dropped back significantly in November and December.

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



## 6 Debt Rescheduling

The Council repaid its £20m of PWLB borrowing on 9 October 2023.

## 7 Summary of the Net Position Against Budget and Forecast Outturn

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

	<b>2023/24 Profiled Q3 Budget</b>	<b>2023/24 Quarter 3 Actual</b>	<b>2023/24 Annual Budget</b>	<b>2023/24 Forecast Outturn</b>	<b>2023/24 Variance</b>
Net Investment Income	(2,307,445)	(3,685,087)	(3,071,000)	(4,826,009)	(1,755,009)
Premature Repayment of Borrowing Discount Allocated to Revenue	0	(192,032)	0	(397,780)	(397,780)
Less: Total Borrowing Costs	371,438	285,118	493,000	285,203	(207,797)
<b>Overall Net Position</b>	<b>(1,936,007)</b>	<b>(3,592,001)</b>	<b>(2,578,000)</b>	<b>(4,938,586)</b>	<b>(2,360,586)</b>

On 31 December 2023 it can be seen from the table above that the overall forecast net position after borrowing costs is £2,360,586 above budget based on current estimated outturns. This compares with £1,792,000 on 30 September 2023.

## 8 Compliance with Treasury and Prudential Indicators

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

During the quarter ended 31 December 2023 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

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

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

Treasury Indicators	2023/24 Budget £'000	Revised as at Quarter 3 £'000	31/03/23 Actual £'000
Authorised limit for external debt	44,000	44,000	44,000
Operational boundary for external debt	38,000	38,000	38,000
Gross external debt	20,000	0	20,000
Investments	(94,161)	(94,607)	(80,256)
Net investments	(74,161)	(94,607)	(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 3 £'000	31/03/23 Actual £'000
Capital expenditure:			
Non Towns Fund	8,445	22,358	11,688
Towns Fund	<u>38,543</u>	<u>25,700</u>	<u>4,547</u>
TOTAL	46,988	48,058	16,235
Capital Financing Requirement (CFR):	24,657	19,307	20,602
Annual change in CFR:	(842)	(1,295)	(4,898)
In year borrowing requirement:	658	205	0
Ratio of financing costs to net revenue stream:	(8.27%)	(14.71%)	(1.49%)

## General Fund Capital Expenditure 2023/24

2023/24 Capital Programme and Q3 Forecast Outturn							
Scheme	Approved Budget 2023/24 £000	Changes to approved budget £000	Slippage to Future Years £000	Revised 23/24 £000	Actual December 23 £000	Forecast Outturn 2023/24 £000	Variance (under)/over £000
<b>Non-Towns Fund Projects</b>							
Disabled Facilities Grants	2,039	-	(217)	1,822	1,253	1,822	-
Community Housing Fund	653	-	(646)	7	-	7	-
Capitalised Planned Enhancements	352	(252)	-	100	6	100	-
Car Park Resurfacing	430	(180)	-	250	49	250	-
Public Sector Hub	100	(25)	-	75	75	75	-
Kingfisher Enhancement	104	-	(60)	44	44	44	-
3G Football Pitch Project	171	-	(121)	171	11	50	-
Changing Places Toilets	300	(183)	(75)	42	42	42	-
Environmental Services: Vehicle Requirements	719	-	-	719	288	719	-
PSPS Investment	181	-	-	181	-	181	-
Case Management System	78	-	(72)	6	6	6	-
IT for Hub	122	(22)	-	100	82	100	-
IT Investment	235	(156)	-	79	69	79	-
IT Infrastructure Refresh Projects (Laptop, mobile etc)	209	(73)	-	136	105	136	-
Green Homes Grant	1,791	-	-	1,791	162	1,791	-
Climate Change Projects	11,071	-	-	11,071	3,163	11,071	-
Decarbonisation of Assets	1,500	-	(1,500)	-	-	-	-
Local Energy Advice Demonstrator	145	-	-	145	80	145	-
District EV Charging Points	153	-	-	153	-	153	-
Cultural Development Fund – Phase 2	94	-	-	94	-	94	-
Cultural Development Fund – Pier Transformation	440	-	-	440	-	440	-
<b>Total Non-Towns Fund Projects</b>	<b>20,899</b>	<b>2,225</b>	<b>(2,691)</b>	<b>20,433</b>	<b>5,435</b>	<b>20,433</b>	<b>-</b>

2023/24 Capital Programme and Q3 Forecast Outturn							
Scheme	Approved Budget 2023/24 £000	Changes to approved budget £000	Slippage to Future Years £000	Revised 23/24 £000	Actual December 23 £000	Forecast Outturn 2023/24 £000	Variance (under)/over £000
<b>Towns Fund Projects</b>							
Towns Fund - Mablethorpe Leisure and Learning Hub	10,481	1,920	-	12,401	6,525	12,401	-
Towns Fund - Sutton on Sea Colonnade	6,474	1,300	(5,797)	1,977	402	1,977	-
Towns Fund - Skegness Foreshore	2,964	-	(2,654)	310	30	310	-
Towns Fund - Skegness Railway Station	2,686	-	(2,586)	100	68	100	-
Towns Fund - Skegness Town Centre Transformation	643	-	-	643	231	643	-
Towns Fund - Skegness Learning Campus	8,072	-	(6,758)	1,314	-	1,314	-
Towns Fund - Skegness Cultural	1,226	280	-	1,506	-	1,506	-
Towns Fund - Skegness Multi-User Trail	223	-	-	223	-	223	-
Towns Fund - Mablethorpe Campus for Future Living	4,871	-	-	4,871	3,098	4,871	-
Towns Fund - Mablethorpe Sandilands	1,980	-	-	1,980	59	100	(1,880)
Towns Fund - Mablethorpe Mobi hub	275	573	(798)	50	21	50	-
Towns Fund - Mablethorpe High Street	464	(573)	434	325	21	325	-
Town Fund – Contingency this has been allocated	3,500	(3,500)	-	-	-	-	-
<b>Total Towns Fund</b>	<b>43,859</b>	<b>-</b>	<b>(18,159)</b>	<b>25,700</b>	<b>10,455</b>	<b>23,820</b>	<b>(1,880)</b>
<b>UKSPF &amp; LUF</b>							
UKSPF	727	-	(376)	351	136	351	-
UKSPF - RP	800	-	(96)	704	22	704	-
<b>Total UKSPF</b>	<b>1,527</b>	<b>-</b>	<b>(472)</b>	<b>1,055</b>	<b>158</b>	<b>1,055</b>	<b>-</b>
LUF: Spilsby Sessions House	1,337	-	(1,007)	1,337	62	330	-
LUF: Alford Manor House	1,092	-	(823)	269	-	269	-
LUF: Alford Windmill	1,098	-	(827)	271	-	271	-
<b>Total LUF</b>	<b>3,527</b>	<b>-</b>	<b>(2,657)</b>	<b>870</b>	<b>62</b>	<b>870</b>	<b>-</b>
<b>Grand Total – All Projects</b>	<b>69,812</b>	<b>2,225</b>	<b>(23,979)</b>	<b>48,058</b>	<b>16,110</b>	<b>46,178</b>	<b>(1,880)</b>

The revised capital budget as at Q3 is £48.052m, derived from the combination of the 2023/24 approved budget of £69.812m, slippage into future years of £23.979m, and other changes to approved budgets of £2.225m.

The Town's Fund projects represent most of the total revised capital budget for 2023-24 at £25.700m (53%). The other projects make up £22.358m (47%) of total revised capital budget.

The overall expenditure forecast as at Q3 is showing an underspend of £1.880m.

### Funding of Capital Expenditure

All Projects	Approved Budget 2023/24	Revised Budget 2023/24	Full year forecast	Variance
	£000	£000	£000	£000
Capital Reserve	(1,064)	(718)	(718)	-
External Grants	(57,275)	(37,295)	(35,415)	1,880
Other Reserve - Economic Growth	(8,100)	(9,029)	(9,029)	-
Other Reserve - Technology	(325)	(22)	(22)	-
Other Reserve - Repair & Replacement	(890)	(789)	(789)	-
Other Reserve - New Initiative/Contingency Reserve	(1,500)	-	-	-
Internal Borrowing	(658)	(205)	(205)	-
<b>Totals</b>	<b>(69,812)</b>	<b>(48,058)</b>	<b>(46,178)</b>	<b>1,880</b>