Appendix ‘A’

# Treasury Management Update

## Mid Term Report 2024/25
## ended 30 September 2024

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East Lindsey District Council

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# 1 Background

## 1.1 Capital Strategy

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

## 1.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

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

# 2 Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021). The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement (TMSS) - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year. Quarterly reports are also required for the periods ending April to June and October to December but may be assigned to a designated committee or panel as deemed appropriate to meet the Treasury Management governance and scrutiny aspects of the Council.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit and Governance Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2024/25 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of any debt rescheduling undertaken during 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

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

### 3.1 Economics Update

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

  - Gross Domestic Product (GDP) growth stagnating in July following downwardly revised Q2 figures (0.5% quarter on quarter (q/q));
  - A further easing in wage growth as the headline 3 month year on year (myy) rate (including bonuses) fell from 4.6% in June to 4.0% in July;
  - Consumer Price Index (CPI) inflation hitting its target in June before edging above it to 2.2% in July and August;
  - Core CPI inflation increasing from 3.3% in July to 3.6% in August;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 3.2 Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates.

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

Our Public Works Loan Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1 November 2012.

| Link Group Interest Rate View | 28.05.24 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 | Mar-27 |
| BANK RATE | 4.50 | 4.00 | 3.50 | 3.25 | 3.25 | 3.25 | 3.25 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | 4.50 | 4.00 | 3.50 | 3.30 | 3.30 | 3.30 | 3.30 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | 4.40 | 3.90 | 3.50 | 3.30 | 3.30 | 3.30 | 3.30 | 3.10 | 3.10 | 3.20 |
| 12 month ave earnings | 4.30 | 3.80 | 3.50 | 3.40 | 3.40 | 3.40 | 3.40 | 3.20 | 3.30 | 3.40 |
| 5 yr PWLB | 4.50 | 4.30 | 4.10 | 4.00 | 3.90 | 3.90 | 3.90 | 3.90 | 3.90 | 3.80 |
| 10 yr PWLB | 4.60 | 4.40 | 4.30 | 4.10 | 4.10 | 4.10 | 4.00 | 4.00 | 4.00 | 3.90 |
| 25 yr PWLB | 5.00 | 4.80 | 4.70 | 4.50 | 4.50 | 4.40 | 4.40 | 4.40 | 4.30 | 4.30 |
| 50 yr PWLB | 4.80 | 4.60 | 4.50 | 4.30 | 4.30 | 4.20 | 4.20 | 4.20 | 4.10 | 4.10 |

*End of Link Group Commentary*

# 4 Treasury Management Strategy and Annual Investment Strategy Update

The Treasury Management Strategy Statement for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 28 February 2024.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

| Prudential Indicator 2024/25 | Original £'000 | Latest Approved Prudential Indicator £'000 |
|---|---|---|
| Authorised Limit | 29,000 | 29,000 |
| Operational Boundary | 25,000 | 25,000 |
| Capital Financing Requirement | 19,067 | 19,078 |

# 5 The Council’s Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council’s capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

## 5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

| Capital Expenditure | 2024/25 Approved Budget £’000 | 2024/25 Latest Revised Budget £’000 | Actual Expenditure As At 31/08/24 £’000 | 2024/25 Estimated Outturn £’000 |
|---|---|---|---|---|
| Towns Fund Total | 33,599 | 33,599 | 8,505 | 33,599 |
| UKSPF Projects | 2,101 | 2,101 | 461 | 2,101 |
| LUF Projects | 7,903 | 7,903 | 239 | 2,700 |
| Non Towns Fund Total | 33,279 | 33,343 | 4,862 | 24,550 |
| **Grand Total** | **76,882** | **76,946** | **14,067** | **62,950** |

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

## 5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision (MRP)). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

| Capital Expenditure | 2024/25 Approved Budget £'000 | 2024/25 Latest Revised Budget £'000 | Actual Expenditure As At 31/08/24 £'000 | 2024/25 Estimated Outturn £'000 |
|---|---|---|---|---|
| **Total capital expenditure** | **76,882** | **76,946** | **14,067** | **62,950** |
| **Financed by:** | | | | |
| Capital receipts | 0 | 0 | 0 | 0 |
| Capital grants | 59,849 | 59,849 | 12,605 | 46,878 |
| Reserves | 15,492 | 15,545 | 1,461 | 14,520 |
| Revenue | 0 | 0 | 0 | 0 |
| **Total financing** | **53,665** | **75,394** | **14,066** | **61,398** |
| **Borrowing requirement** | **1,541** | **1,552** | **0** | **1,552** |

## 5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The following table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

### Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement after taking account of the £1.594m voluntary and minimum revenue provision made as part of the 2023/24 final accounts process.

### Prudential Indicator – the Operational Boundary for external debt

| | 2024/25 Original Estimate £'000 | 2024/25 Latest Approved Budget £'000 | Actual Position As At 31/08/24 £'000 | 2024/25 Estimated Outturn Limit £'000 |
|---|---|---|---|---|
| **Prudential Indicator – Capital Financing Requirement** | | | | |
| Total CFR | 19,067 | 19,078 | 17,526 | 19,078 |
| Net movement in CFR | 1,541 | 1,552 | 0 | 1,552 |
| **Prudential Indicator – the Operational Boundary for external debt** | | | | |
| Borrowing | 20,000 | 20,000 | 0 | 20,000 |
| Other long-term liabilities* | 5,000 | 5,000 | 0 | 5,000 |
| **Total debt (year end position)** | **25,000** | **25,000** | **0** | **25,000** |

## 5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years.

| | 2024/25 Original Estimate £'000 | 2024/25 Latest Approved Budget £'000 | Actual Position As At 31/08/24 £'000 | 2024/25 Estimated Outturn £'000 |
|---|---|---|---|---|
| Borrowing | 0 | 0 | 0 | 0 |
| Other long-term liabilities | 0 | 0 | 0 | 0 |
| **Total debt** | **0** | **0** | **0** | **0** |
| **CFR* (year end position)** | **19,067** | **19,078** | **17,526** | **19,078** |

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

| **Authorised limit for external debt** | **2024/25 Original Limit £'000** | **2024/25 Latest Approved Limit £'000** | **Actual Borrowing As At 30/09/24 £'000** | **2024/25 Estimated Outturn Limit £'000** |
|---|---|---|---|---|
| Borrowing | 24,000 | 24,000 | 0 | 24,000 |
| Other long-term liabilities | 5,000 | 5,000 | 0 | 5,000 |
| Total | 29,000 | 29,000 | 0 | 29,000 |

The Council's capital financing requirement (CFR) for 2024/25 as at 31 August is £17.526m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The tables in paragraph 5.4 show the Council had no external borrowing and had utilised £17.526m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if gilt yields remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

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

**PWLB maturity certainty rates (gilts plus 80bps) year to date to 30 September 2024**

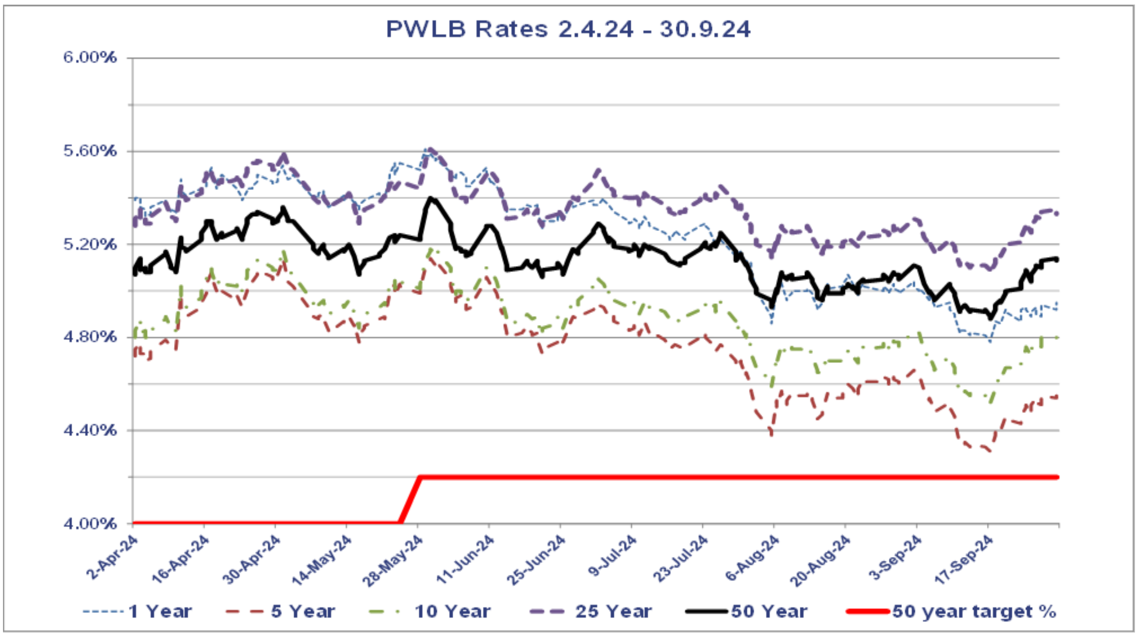
Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

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

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

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

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



The current PWLB rates are set as margins over gilt yields as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate (General Fund (GF))** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
- **PWLB Certainty Rate (Housing Revenue Account (HRA))** is gilt plus 40bps (G+40bps)

The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

## 7. Debt Rescheduling

As the Council has no external borrowing this is not applicable at the moment.

## 8. Compliance with Treasury and Prudential Limits

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

During the half year ended 30 September 2024 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement.

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

## 9. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 28 February 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

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

**Creditworthiness**

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

**Investment Counterparty Criteria**

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

**Credit Default Swap prices**

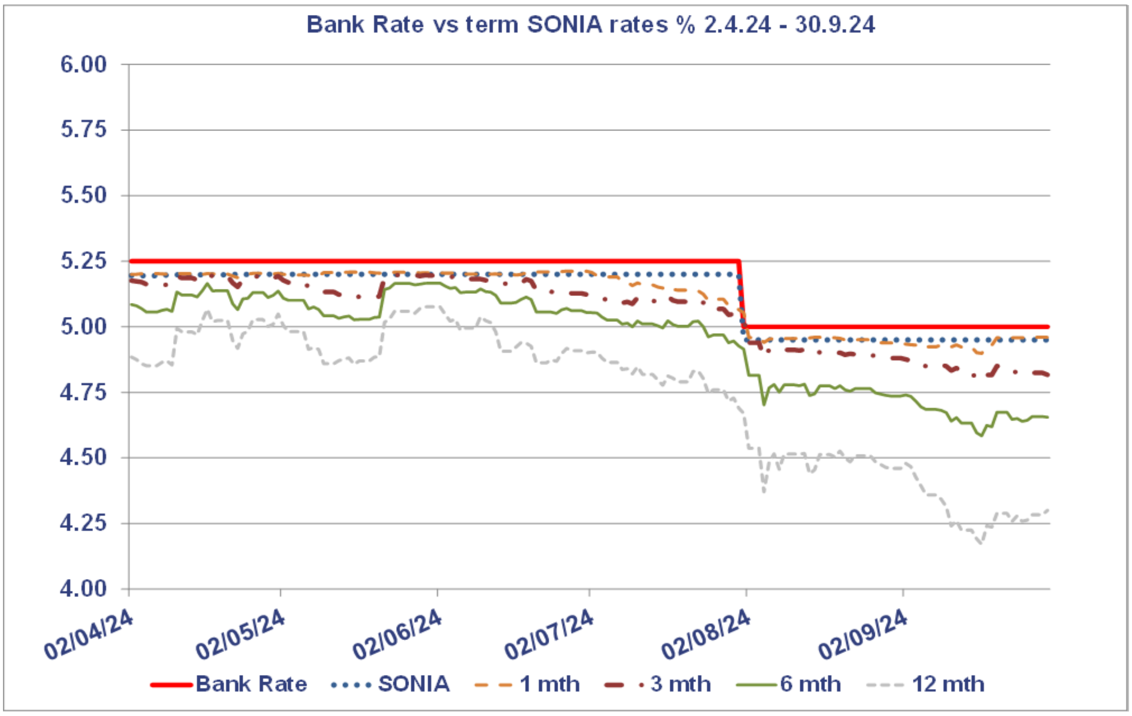
It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

**Investment Balances**

The average level of funds invested during the first half of the financial year was £89.3m (Q1 £88.7m).

**Investment performance year to date as at 30 September 2024**

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



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

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

The following table provides details of the cash investments held by the Council on 30 September 2024. Note this represents the position at this one point in time. The peaks and troughs in cash flow are managed on a daily basis.

| Financial Institution | Country | Amount (£) | Start Date | Maturity Date | Fixed/ Variable | Yield (%) |
|---|---|---|---|---|---|---|
| Barclays Current A/C | UK | 24,049 | N/A | Instant Access | N/A | 0.00% |
| Barclays Bank | UK | 2,590,017 | N/A | Instant Access | Variable | 4.20% |
| Handelsbanken Plc | Sweden | 6,764 | N/A | Instant Access | Variable | 4.20% |
| CCLA Money Market Fund | Various | 7,500,000 | N/A | Instant Access | Variable | 4.99% |
| Blaenau Gwent Council | UK | 3,000,000 | 26/07/24 | 28/10/24 | Fixed | 5.25% |
| Uttlesford DC | UK | 3,000,000 | 07/05/24 | 07/11/24 | Fixed | 5.35% |
| North Ayrshire Council | UK | 3,000,000 | 10/05/24 | 11/11/24 | Fixed | 5.30% |
| Goldman Sachs Bank | UK | 3,000,000 | 17/05/24 | 18/11/24 | Fixed | 5.27% |
| Aberdeen City Council | UK | 3,000,000 | 05/02/24 | 05/12/24 | Fixed | 5.55% |
| LB of Barking & Dagenham | UK | 3,000,000 | 19/06/24 | 19/12/24 | Fixed | 5.25% |
| City of Stoke-on-Trent Council | UK | 3,000,000 | 21/12/23 | 20/12/24 | Fixed | 5.60% |
| Great Yarmouth Council | UK | 2,500,000 | 16/02/24 | 14/02/25 | Fixed | 6.00% |
| ANZ Bank | Australia | 3,000,000 | 03/06/24 | 03/03/25 | Fixed | 5.38% |
| PCC for Merseyside | UK | 3,000,000 | 03/05/24 | 02/05/25 | Fixed | 5.30% |
| Rushmoor BC | UK | 3,000,000 | 14/05/24 | 14/05/25 | Fixed | 5.30% |
| South Cambridgeshire Council | UK | 3,000,000 | 20/05/24 | 19/05/25 | Fixed | 5.25% |
| Canterbury City Council | UK | 3,000,000 | 21/05/24 | 21/05/25 | Fixed | 5.25% |

| Financial Institution | Country | Amount (£) | Start Date | Maturity Date | Fixed/ Variable | Yield (%) |
|---|---|---|---|---|---|---|
| CIC Bank | France | 5,000,000 | 03/06/24 | 02/06/25 | Fixed | 5.36% |
| South Ayrshire Council | UK | 3,000,000 | 10/07/24 | 09/07/25 | Fixed | 5.20% |
| UBS | Switzerland | 5,000,000 | 12/07/24 | 11/07/25 | Fixed | 4.94% |
| **TOTAL** | | **61,620,830** | | | | |

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

For comparison purposes, the level of investments at Quarter 1 was £57,685,773.

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<br>380,000<br>1,100,000 | 15/02/21<br>07/02/22 | 14/02/41<br>07/02/42 | 4.00%<br>4.00% |
| Housing Development Loan | 500,000<br>500,000<br>1,000,000 | 30/06/21<br>16/11/21 | 31/03/25<br>31/03/25 | 4.00%<br>4.00% |
| Cash Flow Loans | 500,000<br>200,000<br>300,000<br>250,000<br>1,250,000 | 20/01/22<br>19/05/22<br>12/07/22<br>20/09/22 | 31/03/25<br>31/03/25<br>31/03/25<br>31/03/25 | 4.00%<br>4.00%<br>4.00%<br>4.00% |
| **TOTAL** | **3,891,552** | | | |

Interest earned on these loans in the current financial year to 30 September 2024 is £78,044.

**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** | **3,999,951** |

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)** | **4,800,037** |
| 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 | **297,824** | **105,707** | **2.25** | **403,531** |
| AEW UK Core Property Fund | 31/10/18 | **4,505,538** | **294,462** | **6.54** | **4,800,000** |
| **TOTAL** | | **19,010,774** | **591,813** | | **19,602,587** |

## **Property Fund Investments as of 30 September 2024**

Pooled Investment Fund (Revenue Expenditure)

| **Financial Institution** | **Purchase Cost (£)** | **Q2 Budgeted Net Revenue 2024/25 (£ & %)** | **Q2 Estimated Net Revenue (£ & %)** | **2024/25 Budgeted Net Revenue 2024/25 (£ & %)** | **2024/25 Estimated Outturn Net Revenue (£ & %)** | **Net Asset Value (£)** | **Total Gain/ (Loss) Since Purchase (£ & %)** | **Capital Gain/(Loss) Since 31/03/24 (£ & %)** | **2024/25 Combined Annual Return (%)** |
|---|---|---|---|---|---|---|---|---|---|
| Federated Hermes Property Unit Trust | **3,999,951** | **80,218**<br>**4.00%** | **88,651**<br>**4.42%** | **159,998**<br>**4.00%** | **168,431**<br>**4.21%** | **3,665,122** | **(334,829)**<br>**(8.37%)** | **(99,667)**<br>**(2.65%)** | **1.77%** |

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 (£) | Q2 Budgeted Net Revenue 2024/25 (£ & %) | Q2 Estimated Net Revenue (£ & %) | 2024/25 Budgeted Net Revenue 2024/25 (£ & %) | 2024/25 Estimated Outturn Net Revenue (£ & %) | Net Asset Value (£) | Total Gain/ (Loss) Since Purchase (£ & %) | Capital Gain/(Loss) Since 31/03/24 (£ & %) | 2024/25 Combined Annual Return (%) |
|---|---|---|---|---|---|---|---|---|---|
| Schroder UK Real Estate Fund | 4,800,037 | 96,264<br>4.00% | 90,722<br>3.77% | 192,002<br>4.00% | 186,460<br>3.88% | 4,284,319 | (515,718)<br>(10.74%) | (30,618)<br>(0.71%) | 3.06% |
| Threadneedle Property Unit Trust | 4,798,987 | 96,243<br>4.00% | 85,502<br>3.55% | 191,960<br>4.00% | 181,219<br>3.78% | 4,044,730 | (754,257)<br>(15.72%) | 88,126<br>2.23% | 5.78% |
| BlackRock UK Property Fund | 4,800,032 | 96,263<br>4.00% | 79,164<br>3.29% | 192,001<br>4.00% | 174,902<br>3.64% | 4,197,477 | (602,555)<br>(12.55%) | 20,247<br>0.48% | 3.77% |
| M&G Investments UK Property Fund (after distribution payments) | 403,531 | 8,093<br>4.00% | 8,093<br>4.00% | 16,141<br>4.00% | 16,141<br>4.00% | 514,372 | 110,841<br>N/A | (64,599)<br>N/A | N/A |
| AEW UK Core Property Fund | 4,800,000 | 96,263<br>4.00% | 79,387<br>3.30% | 192,000<br>4.00% | 175,124<br>3.65% | 4,133,371 | (666,629)<br>(13.89%) | 14,655<br>0.36% | 3.66% |
| **TOTAL** | **19,602,587** | **393,126** | **342,868** | **784,104** | **733,846** | **17,174,269** | **(2,428,318)** | **27,811** | |
| Adjustment for 2023/24 Accrual | | | **(23,186)** | | **(23,186)** | | | | |
| **TOTAL REVENUE & CAPITAL FUNDS** | **23,602,538** | **473,344** | **408,333** | **944,102** | **879,091** | **20,839,391** | **(2,763,147)** | **(71,856)** | |

The overall change in the combined Net Asset Values for all funds during the first half of 2024/25 has been a reduction of £71,856 compared to an increase of 82,461 at Quarter 1.

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

An analysis of dividend distributions received since the purchase of the property funds to 30 September 2024 can be found in the table below:

| Financial Institution | Actual Net Dividend Distributions Received Pre 2024/25 | Net Dividend Distributions Received 2024/25 | Adjustment For 2023/24 Accrual | Total Net Distributions Received Since Purchase |
|---|---|---|---|---|
| Federated Hermes Property Unit Trust | 1,003,936 | 88,651 | 2,165 | 1,094,752 |
| Schroder UK Real Estate Fund | 1,175,284 | 90,722 | (1,406) | 1,264,600 |
| Threadneedle Property Unit Trust | 1,121,628 | 85,502 | (3,470) | 1,203,660 |
| BlackRock UK Property Fund | 818,458 | 79,164 | 1,760 | 899,382 |
| M&G Investments UK Property Fund (excluding liquidation distributions) | 679,584 | 8,093 | 0 | 687,677 |
| AEW UK Core Property Fund | 1,062,580 | 79,387 | (22,235) | 1,119,732 |
| **Total Revenue** | **5,861,470** | **431,519** | **(23,186)** | **6,269,732** |

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 £4,396,469 as of 30 September 2024 from the asset sale proceeds leaving a balance of £403,531.

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

| Period to Maturity | Amount (£) | % of Portfolio |
|---|---:|---:|
| Instant Access | 10,100,773 | 11% |
| Less than one month | 3,000,000 | 3% |
| One to three months | 18,000,000 | 20% |
| Three to six months | 5,500,000 | 6% |
| Six to nine months | 17,000,000 | 19% |
| Nine months to a year | 8,000,000 | 9% |
| InvestEL | 3,891,552 | 5% |
| >12 Months | 23,602,538 | 27% |
| **TOTAL** | **89,094,863** | **100%** |

## Summary of Investment Income Received Against Budget and Forecast Outturn

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

| Investment Type | 2024/25 Budget Quarter 2 | 2024/25 Actual Quarter 2 | 2024/25 Variance Quarter 2 | 2024/25 Annual Budget | 2024/25 Forecast Outturn | 2024/25 Forecast Variance |
|---|---|---|---|---|---|---|
| Treasury Investments | | | | | | |
| Gross Interest | (902,214) | (1,776,102) | (873,888) | (1,799,498) | (3,050,459) | (1,250,961) |
| Brokers Fees | 10,027 | 3,554 | (6,473) | 20,000 | 20,000 | 0 |
| Net Position | (892,187) | (1,772,548) | (880,361) | (1,779,498) | (3,030,459) | (1,250,961) |
| | *(5.075%)* | *(5.378%)* | (0.303%) | | | |
| Property Funds | | | | | | |
| Gross Distributions | (573,618) | (494,834) | 78,784 | (1,144,102) | (1,065,318) | 78,784 |
| Less Management Fees | 100,274 | 86,502 | (13,772) | 200,000 | 186,228 | (13,772) |
| Net Distributions | (473,344) | (408,332) | 65,012 | (944,102) | (879,090) | 65,012 |
| | *(4.000%)* | *(3.647%)* | *0.353%* | | | |
| M&G Property Fund Liquidation Distributions (*to be used for MRP Contributions as the original capital purchase was unfinanced*) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Net Income** | **(1,365,531)** ***(4.531%)*** | **(2,180,880)** ***(4.920%)*** | **(815,349)** ***(0.389%)*** | **(2,723,600)** | **(3,909,549)** | **(1,185,949)** |
| Premature Repayment of Borrowing Discount Allocated to Revenue | (418,356) | (418,356) | 0 | (834,425) | (834,425) | 0 |
| **Overall Net Position** | **(1,783,887)** | **(2,599,236)** | **(815,349)** | **(3,558,025)** | **(4,743,974)** | **(1,185,949)** |

Treasury investments achieved an average rate of 5.378% (Q1 5.493%) and property fund investments achieved an average rate of 3.647% (Q1 3.525%). The combined rate achieved on all investments was 4.920% (Q1 4.969%).

The expected outturn for investment income has increased to £3.91m from £3.74m, an increase of £17k since Quarter 1. This gives an estimated surplus above budget of £1.186m.

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

## 10. Changes in Risk Appetite

The 2021 CIPFA Codes and guidance notes place importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

It is reported that there has been no change in risk appetite during the first half of the financial year. This will be kept under review when considering global markets and forecasts for interest rates.

## General Fund Capital Expenditure and Financing 2024/25

| Scheme | Approved Budget 2024/25 £'000 | Changes to approved budget £'000 | Revised 2024/25 £'000 | Actual August 24 £'000 | Forecast Outturn 2024/25 £'000 | Variance (under)/ over £'000 |
|---|---|---|---|---|---|---|
| Capitalised Planned Enhancements | 526 | 11 | 537 | 67 | 537 | 0 |
| Car Park Resurfacing | 187 | 0 | 187 | 5 | 187 | 0 |
| Disabled Facilities Grants | 2,652 | 0 | 2,652 | 878 | 2,652 | 0 |
| Community Housing Fund | 647 | 0 | 647 | 2 | 2 | -645 |
| Kingfisher Enhancements | 117 | 0 | 117 | 31 | 117 | 0 |
| 3G Football Pitch | 160 | 0 | 160 | 0 | 0 | -160 |
| Changing Places | 32 | 0 | 32 | 0 | 32 | 0 |
| IT Investment | 270 | 0 | 270 | 82 | 270 | 0 |
| Neighbourhoods Vehicles | 1151 | 67 | 1,218 | 517 | 1,218 | 0 |
| Green Homes Grant | 676 | 0 | 676 | 0 | 676 | 0 |
| Sustainable Warmth | 15,078 | 0 | 15,078 | 2058 | 7,310 | -7768 |
| Decarbonisation of Assets | 1,591 | 0 | 1,591 | 0 | 1,371 | -220 |
| CDF – Phase 2 | 2,537 | 0 | 2,537 | 464 | 2,537 | 0 |
| CDF – Pier Transformation | 4,037 | 0 | 4,037 | 0 | 4,037 | 0 |
| Horncastle Industrial Estate | 400 | 0 | 400 | 0 | 400 | 0 |
| Neighbourhoods Growth | 100 | 0 | 100 | 0 | 100 | 0 |
| Environmental Health | 66 | 0 | 66 | 14 | 66 | 0 |
| Sutton on Sea Paddling Pool | 400 | 0 | 400 | 0 | 400 | 0 |
| District EV Charging Point | 71 | 0 | 71 | 0 | 71 | 0 |
| Local Authority Housing Fund | 1832 | 0 | 1,832 | 743 | 1,832 | 0 |
| PSPS Investment | 181 | 0 | 181 | 0 | 181 | 0 |
| Bin Lift Safety Upgrade | 14 | -14 | 0 | 0 | 0 | 0 |
| Pool Car Renewal | 49 | 0 | 49 | 0 | 49 | 0 |
| Regional Skills Plan Pilot | 44 | 0 | 44 | 0 | 44 | 0 |
| Community Building Decarbonisation Pilot | 125 | 0 | 125 | 0 | 125 | 0 |
| Swimming Pool Support Fund | 336 | 0 | 336 | 0 | 336 | 0 |
| **Total Projects (Excl. Towns Funds, UKSPF & LW:C&HP)** | **33,279** | **64** | **33,343** | **4,861** | **24,550** | **-8,793** |

APPENDIX `A1`

| Scheme | Approved Budget 2024/25 £'000 | Changes to approved budget £'000 | Revised 2024/25 £'000 | Actual August 24 £'000 | Forecast Outturn 2024/25 £'000 | Variance (under)/ over £'000 |
|---|---|---|---|---|---|---|
| Towns Fund – Mablethorpe Leisure and Learning | 3654 | 0 | 3,654 | 3303 | 3,654 | 0 |
| Towns Fund – Sutton on Sea Colonnade | 6,102 | 0 | 6,102 | 1979 | 6,102 | 0 |
| Towns Fund – Sutton on Sea Colonnade Further Works | 600 | 0 | 600 | 0 | 600 | 0 |
| Towns Fund – Skegness Foreshore | 2,332 | 0 | 2,332 | 231 | 2,332 | 0 |
| Towns Fund – Skegness Railway Station | 2,564 | 0 | 2,564 | 241 | 2,564 | 0 |
| Towns Fund – Skegness Town Centre Transformation | 1168 | 0 | 1,168 | 231 | 1,168 | 0 |
| Towns Fund – Skegness Learning Campus | 9,124 | 0 | 9,124 | 1721 | 9,124 | 0 |
| Towns Fund – Mablethorpe Campus for Future Living | 2,520 | 0 | 2,520 | 587 | 2,520 | 0 |
| Towns Fund – Mablethorpe Mobihub | 1851 | 0 | 1,851 | 1 | 1,851 | 0 |
| Towns Fund – Mablethorpe High Street | 105 | 0 | 105 | 11 | 105 | 0 |
| Towns Fund – Mablethorpe Sandilands | 1915 | 0 | 1,915 | 90 | 1,915 | 0 |
| Towns Fund – Skegness Multi-User Trail | 217 | 0 | 217 | 2 | 217 | 0 |
| Towns Fund – Skegness Cultural | 1447 | 0 | 1,447 | 108 | 1,447 | 0 |
| **Total Towns Fund** | **33,599** | **0** | **33,599** | **8,505** | **33,599** | **0** |
| UKSPF | 751 | 0 | 751 | 306 | 751 | 0 |
| UKSPF – Rural | 1350 | 0 | 1,350 | 155 | 1,350 | 0 |
| **Total UKSPF** | **2,101** | **0** | **2,101** | **461** | **2,101** | **0** |
| LUF: Spilsby Sessions House | 4,871 | 0 | 4,871 | 100 | 1,500 | -3371 |
| LUF: Alford Manor House | 1,962 | 0 | 1,962 | 81 | 600 | -1362 |
| LUF: Alford Windmill | 1070 | 0 | 1,070 | 58 | 600 | -470 |
| **Total LUF** | **7,903** | **0** | **7,903** | **239** | **2,700** | **-5,203** |
| | | | | | | |
| **Total (including new items)** | **76,882** | **64** | **76,946** | **14,066** | **62,950** | **-13,996** |
| | | | | | | |
| Capital Reserve | -4,012 | 14 | -3,998 | -103 | -3,998 | 0 |
| Other Reserve – Economic Growth | -8,384 | 0 | -8,384 | -825 | -8,384 | 0 |
| Other Reserve – Housing | -647 | 0 | -647 | -2 | -2 | 645 |
| Other Reserve – Repair & Replacement | -757 | -67 | -824 | -531 | -664 | 160 |
| Other Reserve – Technology | -72 | 0 | -72 | 0 | -72 | 0 |
| Other Reserve – Carbon Reduction | -1,000 | 0 | -1,000 | 0 | -1,000 | 0 |
| Other Reserve – Corporate Priorities | -400 | 0 | -400 | 0 | -400 | 0 |
| Other Reserve – New Initiative/Contingency Reserve | -220 | 0 | -220 | 0 | 0 | 220 |
| External Grants | -59,849 | 0 | -59,849 | -12605 | -46,878 | 12971 |
| Internal Borrowing | -1,541 | -11 | -1,552 | 0 | -1,552 | 0 |
| **Total Financing** | **-76,882** | **-64** | **-76,946** | **-14,066** | **-62,950** | **13,996** |