

Treasury Management Update

Quarter 3 Report 2024/25
ended 31 December 2024

East Lindsey District Council

1 Treasury Management Update

Quarter Ended 31 December 2024

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 provided by MUFG Corporate Markets (previously Link Group))

The third quarter of 2024/25 saw:

- Gross Domestic Product (GDP) growth contracting by 0.1% month on month (m/m) in October following no growth in the quarter ending September;
- The 3 month year on year (myy) rate of average earnings growth increase from 4.4% in September to 5.2% in October;
- Consumer Price Index (CPI) inflation increase to 2.6% in November;
- Core CPI inflation increase from 3.3% in October to 3.5% in November;
- The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
- 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget.)

This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive

month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% quarter on quarter (q/q) in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.

After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term - combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024.

The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years - and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1.75% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.

The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

The FTSE 100 started off this quarter at 8,276, before finishing at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

Monetary Policy Committee (MPC) meetings 7 November and 18 December 2024

On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.

The MPC again stated that “a gradual approach” to rate cuts “remains appropriate” and that policy will “remain restrictive for sufficiently long”.

3. Interest rate forecasts

The Council has appointed MUFGB as its treasury advisors 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. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

The latest forecast, updated on 11 November, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the MPC on 7 November, we significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% year on year (y/y) by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government’s policies lead

to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank’s Quarterly Monetary Policy Reports (February, May, August and November). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.

Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of 2025, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

Moreover, Donald Trump’s victory in the US President election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of any further tax cuts and an expansion of the current US budget deficit.

Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound.

In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect MUFG’s Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, domestically and globally, but also by the market’s appetite for significant gilt issuance (£200bn+ for each of the next few years).

As noted at the MUFG November Strategic Issues webinars, there is upside risk to that part of our forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Money market forecasts are based on expected average earnings by local authorities for 3 to 12 months.

The MUFG 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.

End of MUFG Commentary

4 Annual Investment Strategy

The Treasury Management Strategy Statement 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; 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 MUFG 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 relatively elevated during the third quarter of 2024/25 but are expected to fall back in due course if inflation falls through 2025 and the MPC loosens monetary policy more substantially.

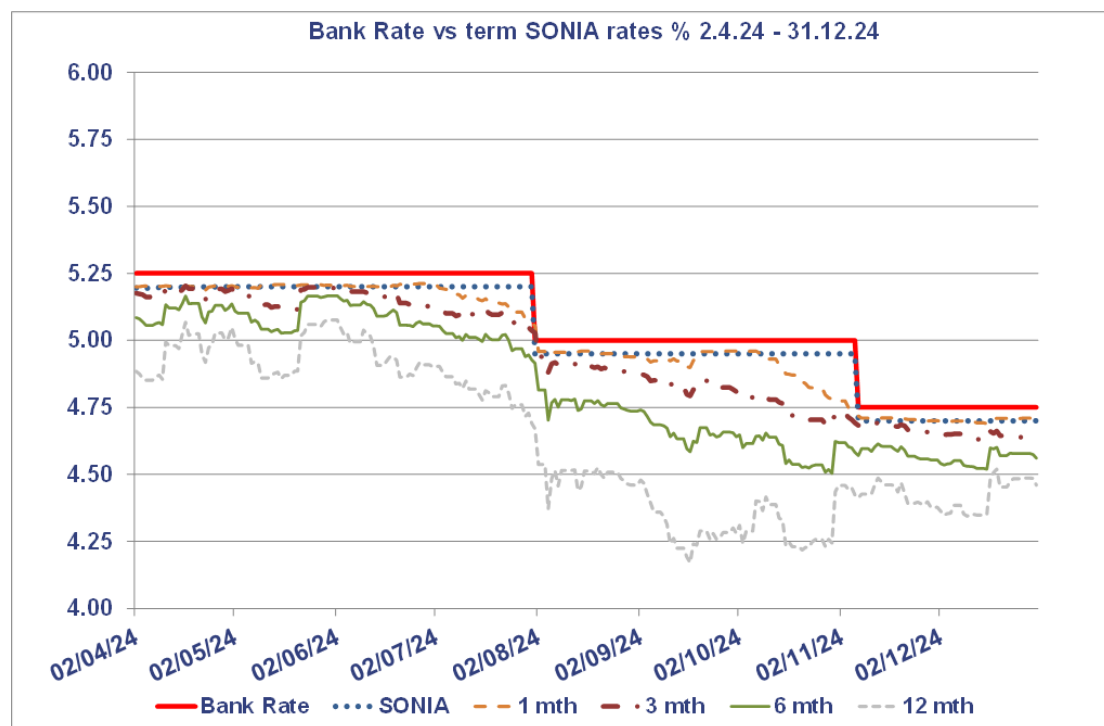
Creditworthiness - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment Counterparty Criteria - 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.

Credit Default Swap prices - For UK banks, and international banks these have remained low, and 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 2024

The graph below shows that during the three quarters of the financial year rates have been relatively flat over all time periods.



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 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 Account	UK	42,550	N/A	Instant	N/A	0.00%
Barclays Bank	UK	4,427,068	N/A	Instant	Variable	3.95%
Handelsbanken Plc	Sweden	6,834	N/A	Instant	Variable	4.20%
CCLA Money Market Fund	Various	7,260,000	N/A	Instant	Variable	4.75%
UK Debt Management Office	UK	3,400,000	30/12/24	06/01/25	Fixed	4.70%
Surrey County Council	UK	2,000,000	05/12/24	24/01/25	Fixed	5.35%
Great Yarmouth Council	UK	2,500,000	16/02/24	14/02/25	Fixed	6.00%
Harlow District Council	UK	2,000,000	19/12/24	28/02/25	Fixed	5.55%
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%
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%
The Moray Council	UK	2,000,000	28/11/24	27/11/25	Fixed	5.35%
TOTAL		51,636,452				

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

At Quarter 2 the level of investments was £61.6m.

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

Loan	Amount	Start Date	Agreed Repayment Terms	Yield
Caravan Sales Loan	272,600	01/07/2020	31/03/2036	4.00%
Caravan Hire Fleet Loan	268,952	01/07/2020	31/03/2037	4.00%
Caravan Hire Fleet Expansion Loan	720,000 <u>380,000</u> 1,100,000	15/02/2021 07/02/2022	£200k per annum from 31/03/2038 and final payment of £300k on 31/03/2042	4.00% 4.00%
Housing Development Loan	500,000 <u>500,000</u> 1,000,000	30/06/2021 16/11/2021	£200k per annum from 31/03/2025	4.00% 4.00%
Cash Flow Loans	500,000 200,000 300,000 <u>250,000</u> 1,250,000	20/01/2022 19/05/2022 12/07/2022 20/09/2022	£200k per annum from 31/03/2030 and final payment of £250k on 31/03/2035	4.00% 4.00% 4.00% 4.00%
TOTAL	3,891,552			

Interest earned on these loans in the current financial year to 31 December 2024 is £117,280.

Maturity profile of investment

A breakdown of the maturity structure of investments on 31 December 2024 is as follows:

Period to Maturity	Amount (£)	% of Portfolio
Instant Access	11,736,452	15%
Less than one month	5,400,000	7%
One to three months	7,500,000	9%
Three to six months	17,000,000	21%
Six to nine months	8,000,000	10%
Nine months to a year	2,000,000	3%
InvestEL	3,891,552	5%
>12 Months	23,602,538	30%
TOTAL	79,130,542	100%

Property Fund Investments

The Council has purchased property fund units and the tables below provide 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>
	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	<u>813,680</u>	<u>(5,659)</u>	<u>(0.70)</u>	<u>808,021</u>
	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	<u>1,267,037</u>	<u>42,855</u>	<u>3.38</u>	<u>1,309,892</u>
	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	105,107	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

The following table provides the fair value and performance information of the property fund investments on 31 December 2024 and projected outturns for the year.

Pooled Investment Fund (Revenue Expenditure)

Financial Institution	Purchase Cost (£)	Q3 Budgeted Net Revenue 2024/25 (£ & %)	Q3 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	120,546 4.00%	130,891 4.34%	159,998 4.00%	170,342 4.26%	3,826,846	(173,105) (4.33%)	62,057 1.65%	5.91%

Property Funds (Capital Expenditure)

Financial Institution	Purchase Cost (£)	Q3 Budgeted Net Revenue 2024/25 (£ & %)	Q3 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	47,869 4.00%	45,770 3.82%	192,002 4.00%	189,902 3.96%	4,277,758	(522,279) (10.88%)	(37,179) (0.86%)	3.10%
Threadneedle Property Unit Trust	4,798,987	47,858 4.00%	37,118 3.10%	191,960 4.00%	181,219 3.78%	4,012,599	(786,388) (16.39%)	55,995 1.42%	5.20%
BlackRock UK Property Fund	4,800,032	47,869 4.00%	41,765 3.49%	192,001 4.00%	185,898 3.87%	4,192,149	(607,883) (12.66%)	14,919 0.36%	3.85%
M&G Investments UK Property Fund (after distribution payments)	403,531	4,024 4.00%	4,024 4.00%	16,141 4.00%	16,141 4.00%	564,117	160,586 N/A	(14,854) N/A	N/A
AEW UK Core Property Fund	4,800,000	47,869 4.00%	47,868 4.00%	192,000 4.00%	192,000 4.00%	4,176,654	(623,346) (12.99%)	57,938 1.41%	5.41%
TOTAL	19,602,587	590,763	515,125	784,104	708,466	17,301,016	(2,301,571)	154,557	
Adjustment for 2023/24 Accrual			(24,238)		(24,238)				
TOTAL REVENUE & CAPITAL FUNDS	23,602,538	711,309	621,778	944,102	854,570	21,127,862	(2,474,676)	216,614	

The overall change in the combined Net Asset Values for all funds during the first three quarters of 2024/25 has been an increase of £216,614 compared to a reduction of £71,856 at Quarter 2.

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

The movement in fair value of the Capital Funds gets charged to the revenue account and reversed out through the MIRS to the capital adjustment account each year end so there is no bottom-line impact.

Property Fund Dividends

An analysis of dividend distributions received since the purchase of the property funds to 31 December 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	130,891	2,159	1,136,986
Schroder UK Real Estate Fund	1,175,284	136,249	(1,406)	1,310,127
Threadneedle Property Unit Trust	1,121,628	131,712	(3,470)	1,249,870
BlackRock UK Property Fund	818,458	114,439	714	933,611
M&G Investments UK Property Fund (excluding liquidation distributions)	679,584	12,161	0	691,745
AEW UK Core Property Fund	1,062,580	120,564	(22,235)	1,160,909
Total Revenue	5,861,470	646,016	(24,238)	6,438,248

The M&G UK Property fund is liquidating its assets and therefore their fund valuation is reducing as repayments are made. Of the £4.8m originally invested, M&G have now paid East Lindsey DC distribution payments totalling £4,396,469 as of 31 December 2024, from the asset sale proceeds leaving a book value of £403,531 outstanding.

Summary of Investment Income Received Against Budget and Forecast Outturn

The table below provides a comparison of investment income received against budget at Quarter 1 and a forecast outturn position for the year. This table also includes the 2024/25 allocation of the discount received on premature repayment of borrowing.

Investment Type	2024/25 Budget Quarter 3	2024/25 Actual Quarter 3	2024/25 Variance Quarter 3	2024/25 Annual Budget	2024/25 Forecast Outturn	2024/25 Forecast Variance
Treasury Investments						
Gross Interest	(1,355,786)	(2,550,311)	(1,194,525)	(1,799,498)	(3,113,006)	(1,313,508)
Brokers Fees	<u>15,068</u>	<u>3,554</u>	<u>(11,514)</u>	<u>20,000</u>	<u>10,000</u>	<u>(10,000)</u>
Net Position	(1,340,718) <i>(5.075%)</i>	(2,546,757) <i>(5.298%)</i>	(1,206,039) <i>(0.223%)</i>	(1,779,498)	(3,103,006)	(1,323,508)
<u>Property Funds</u>						
Gross Distributions	(861,995)	(753,496)	108,499	(1,144,102)	(1,035,603)	108,499
Less Management Fees	<u>150,685</u>	<u>131,719</u>	<u>(18,966)</u>	<u>200,000</u>	<u>181,033</u>	<u>(18,967)</u>
Net Distributions	(711,310) <i>(4.000%)</i>	(621,777) <i>(3.633%)</i>	89,533 <i>0.367%</i>	(944,102)	(854,570)	89,532
M&G Property Fund Liquidation Distributions <i>(to be used for MRP Contributions as the original capital purchase was unfinanced)</i>	0	0	0	0	0	0
Total Net Income	(2,052,028) <i>(4.531%)</i>	(3,168,534) <i>(4.849%)</i>	(1,116,506) <i>(0.318%)</i>	(2,723,600)	(3,957,576)	(1,233,976)
Premature Repayment of Borrowing Discount Allocated to Revenue	(628,676)	(628,676)	0	(834,425)	(834,425)	0
Overall Net Position	(2,680,704)	(3,797,210)	(1,116,506)	(3,558,025)	(4,792,001)	(1,233,976)

Treasury investments achieved an average rate of 5.298% (Q2 5.378%) and property fund investments achieved an average rate of 3.633% (Q2 3.647%). The combined rate achieved on all investments was 4.849% (Q2 4.920%).

On 31 December 2024 there was a favourable variance of £1,116,506 (Q2 £815,349) and the forecast outturn was a favourable variance of £1,233,976 (Q2 £1,185,949).

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 and later spend for the 2024/25 capital programme.

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5 Borrowing

The Council had no external borrowing on 31 December 2024.

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

Medium and longer-dated gilt yields, and therein PWLB rates, have moved significantly higher over the course of the financial year, culminating in long-term rates approaching levels last seen in 1998. The rise in medium to long-term yields has arisen because of several factors. Namely, the inflation outlook has become stickier than the market anticipated earlier in the year, with wages remaining somewhat elevated (currently increases are c5% y/y) and the labour market tight (unemployment a little above 4% and job vacancies more than 800,000).

Moreover, the Government has not fully convinced the markets that the UK economy is about to undergo a material increase in productivity and growth. The quarter ending 30 September saw UK GDP stagnate and the prospects for 2025 are somewhat opaque at present. With the UK public finances seemingly under pressure too (as of 7 January, it is estimated that the Chancellor's October Budget contingency is less than £1bn following the recent rise in gilt yields), and historic buyers of longer-dated gilts – pension funds and insurance companies – targeting shorter-dated maturities of late, it is not that great a surprise that yields have risen in the longer dates even as the Debt Management Office has sought to issue debt with shorter durations than might normally have been the case.

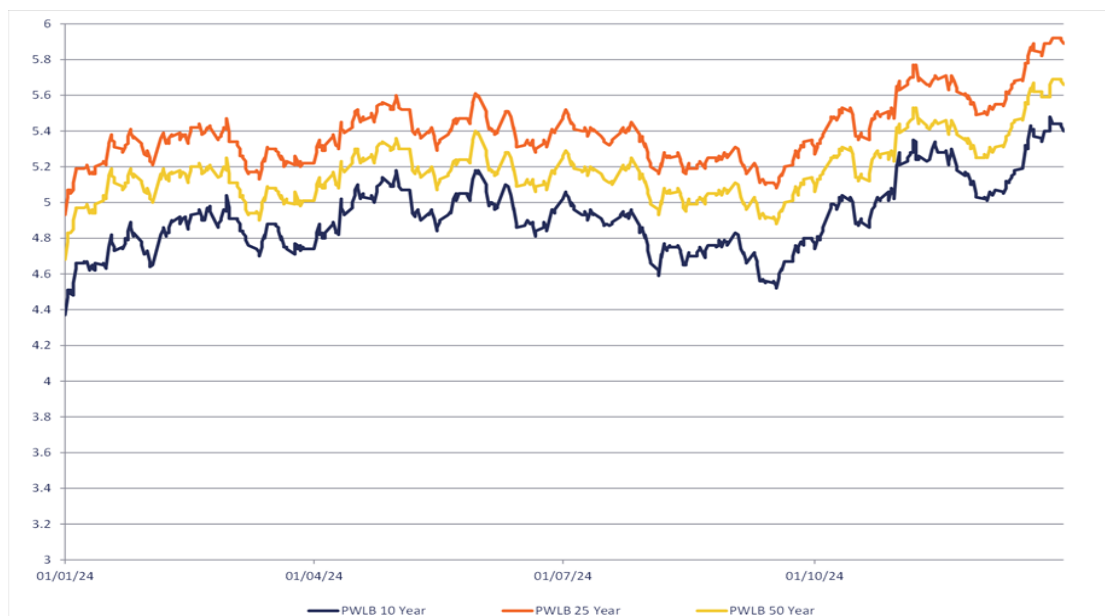
There is also anecdotal evidence that hedge funds, who are not long-term holders of long-dated debt issuance, as a rule, may be more active in this part of the market than has normally been the case. Their presence, arguably, adds volatility to the equation. Consequently, and pulling all these factors together, and it is

clear that any signs of public finance weakness could lead to elevated yields from time to time.

Additionally, US Treasury yields have also risen prior to Donald Trump’s inauguration as US President on 20 January. Markets are nervous as to what the effect of deportation, tariff and tax-cutting policies will have on inflation. Given the impact US markets have globally, this is another contributing factor to the near-term rise in UK yields. The hope is that when the “unknowns” become known, markets will behave in a calmer fashion and yields fall back. But that is not certain.

Public Works Loan Board (PWLB) Borrowing Rates

The 50 year PWLB certainty rate was 5.66% as of 31 December 2024 compared with 5.13% at the end of Quarter 2.



6 Compliance with Treasury and Prudential Indicators

The prudential and treasury Indicators are shown in **Appendix 1A**.

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 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.

Treasury Indicators and Prudential Indicators for 2024/25 as of 31 December 2024

Treasury Indicators	2024/25 Budget £'000	Revised as at Quarter 3 £'000	31/03/24 Actual £'000
Authorised limit for external debt	29,000	29,000	44,000
Operational boundary for external debt	25,000	25,000	38,000
Gross external debt	0	0	0
Investments	(42,561)	(79,088)	(84,151)
Net investments	(42,561)	(79,088)	(84,151)
Upper limit for principal sums invested over 365 days:			
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
2028/29	10,000	10,000	0

Prudential Indicators	2024/25 Budget £'000	Revised as at Quarter 3 £'000	31/03/24 Actual £'000
Capital expenditure:			
Non Towns Fund	22,346	23,161	9,432
Towns Fund	23,650	30,878	17,141
UKSPF projects	1,937	2,351	490
LUF Projects	<u>7,177</u>	<u>1,017</u>	<u>144</u>
TOTAL	55,110	57,407	27,207
Capital Financing Requirement (CFR):	20,049	20,196	17,825
Annual change in CFR:	1,404	2,371	(1,295)
In year borrowing requirement:	1,445	2,414	299
Ratio of financing costs to net revenue stream:	(10.05%)	(13.49%)	(10.93%)

General Fund Capital Expenditure 2024/25

2024/25 Capital Programme and Forecast Outturn						
Scheme	Approved Budget 2024/25	Changes to approved budget	Revised Budget 2024/25	Actual December 2024/25	Forecast Outturn 2024/25	Variance (under)/ over
	£000	£000	£000	£000	£000	£000
Capitalised Planned Enhancements	537	-	537	103	312	(225)
Car Park Resurfacing	187	-	187	33	187	-
Disabled Facilities Grants	2,652	1,106	3,758	1,632	3,758	-
Community Housing Fund	647	(645)	2	2	2	-
Kingfisher Enhancements	132	-	132	49	132	-
3G Football Pitch	160	(160)	-	-	-	-
IT Investment	270	(4)	266	103	266	-
Neighbourhoods Vehicles	1,436	-	1,436	1,180	1,436	-
Green Homes Grant	676	(632)	44	44	44	-
Sustainable Warmth	15,078	(6,578)	8,500	3,913	7,310	(1,190)
Decarbonisation of Assets	1,591	-	1,591	-	1,591	-
CDF – Phase 2	2,537	-	2,537	476	2,037	(500)
CDF – Pier Transformation	4,037	(3,637)	400	-	400	-
Horncastle Industrial Estate	400	-	400	-	400	-
Neighbourhoods Growth	100	-	100	-	100	-
Environmental Health	66	-	66	24	66	-
Sutton on Sea Paddling Pool	400	-	400	24	400	-
District EV Charging Point	71	-	71	-	71	-
Local Authority Housing Fund	2,899	(1,399)	1,500	747	1,500	-
PSPS Investment	181	-	181	-	181	-
Pool Car Renewal	47	-	47	47	47	-
Regional Skills Pilot	44	-	44	23	44	-
Community Building Decarbonisation Pilot	125	(111)	14	-	14	-
Swimming Pool Support Fund	336	-	336	336	336	-
Affordable Housing	378	-	378	-	378	-
Unit 4 Implementation	50	-	50	-	50	-
Homelessness Prevention Team Vehicle	25	-	25	-	25	-
Uniform	-	98	98	-	98	-
Accommodation Pods	-	61	61	-	61	-
Total Projects (Excl. Towns Funds, UKSPF & LW:C&HP)	35,062	(11,901)	23,161	8,736	21,246	(1,915)
Towns Fund - Mablethorpe Leisure and Learning Hub	3,654	(166)	3,488	3,308	3,308	(180)
Towns Fund - Sutton on Sea Colonnade	6,307	(561)	5,746	3,969	5,746	-
Towns Fund - Sutton on Sea Colonnade Further Works	600	(510)	90	4	90	-
Towns Fund - Skegness Foreshore	2,332	-	2,332	570	2,332	-

Towns Fund - Skegness Railway Station	2,564	-	2,564	717	2,564	-
Towns Fund - Skegness Town Centre Transformation	1,168	-	1,168	231	1,168	-
Towns Fund - Skegness Learning Campus	9,124	-	9,124	4,212	9,124	-
Towns Fund - Mablethorpe Campus for Future Living	2,520	(133)	2,387	899	2,387	-
Towns Fund - Mablethorpe Mobi hub	1,851	(1,751)	100	18	100	-
Towns Fund - Mablethorpe High Street	105	-	105	11	105	-
Towns Fund - Mablethorpe Sandilands	1,915	-	1,915	90	1,915	-
Towns Fund – Skegness Multi-User Trail	217	-	217	-	-	(217)
Towns Fund – Skegness Cultural	1,642	-	1,642	1,331	1,642	-
Total Towns Funds	33,999	(3,121)	30,878	15,360	30,481	(397)
UKSPF	751	-	751	491	751	-
UKSP – Rural	1,350	-	1,350	609	1,350	-
Community Reserve Fund	250	-	250	250	250	-
Total UKSPF	2,351	-	2,351	1,350	2,351	-
Spilsby Sessions House	4,871	(4,271)	600	431	600	-
Alford Manor House	1,962	(1,662)	300	181	300	-
Alford Windmill	1,070	(953)	117	117	117	-
Total Lincolnshire Wolds: Culture & Heritage Programme	7,903	(6,886)	1,017	729	1,017	-
Grand Total – All Projects	79,315	(21,908)	57,407	26,175	55,095	(2,312)

The revised capital budget as at Q3 is £57.407m, with an estimated outturn of £55.095m, forecast variances are indicated in the final column.

Grant Funded projects represent most of the total revised capital budget for 2024-25 at £43.266m (75%). The other projects make up £14.140m (25%) of total revised capital budget.

The overall expenditure as at Q3 is showing spend of £26.225m, this will continue to be closely monitored as the year progresses.

Funding of Capital Expenditure

All Projects	Approved Budget 2024/25	Revised Budget 2024/25	Forecast Outturn 2024/25	Variance
	£000	£000	£000	£000
Capital Reserve	(4,013)	(3,503)	(3,503)	-
Capital Receipts	-	(2,500)	(2,500)	-
Other Reserve - Economic Growth	(8,784)	(3,275)	(3,095)	180
Other Reserve - Housing	(647)	(63)	(63)	-
Other Reserve - Repair & Replacement	(1,544)	(66)	(66)	-
Other Reserve - Technology	(72)	(72)	(72)	-
Other Reserve – Carbon Reduction	(1,000)	-	-	-
Other Reserve – Corporate Priorities	(650)	(650)	(650)	-
Other Reserve – New Initiative/Contingency Reserve	(220)	(1,220)	(1,220)	-
Other Reserve – S106	(378)	(378)	(378)	-
External Grants	(60,909)	(43,266)	(41,359)	1,907
Internal Borrowing	(1,098)	(2,414)	(2,189)	225
Totals	(79,315)	(57,407)	(55,095)	2,312