Appendix 'A'

Treasury Management Update

Quarter 3 Report 2023/24
ended 31 December 2023

South Holland 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 provided by Link Group)

The third quarter 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, 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 Purchasing Managers' Index (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.

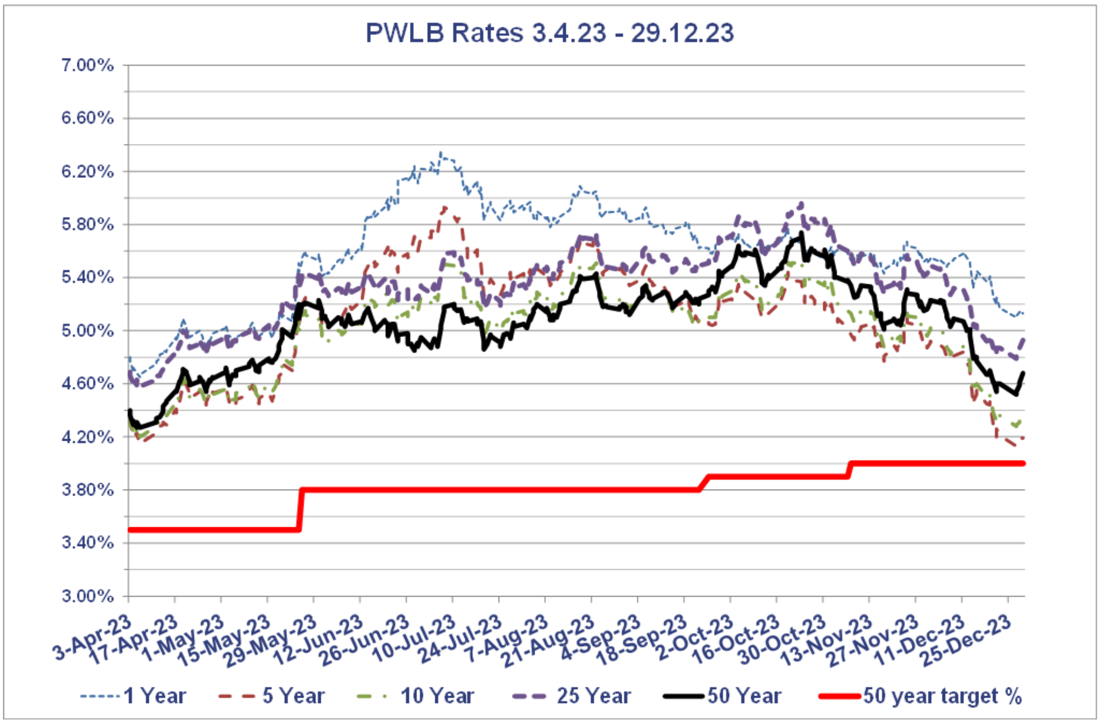
Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest 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 Public Works Loan Board (PWLB) rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.



MPC meetings 2 November and 14 December 2023

On 2 November, the Bank of England's Monetary Policy Committee (MPC) 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 has kept short-term rates in the range of 5.25%-5.50%, whilst the European Central Bank 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 advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points (bps)) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	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

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	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

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

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

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

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 7 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 Tightening (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 2 March 2023. 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, 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 chart below and the interest rate forecasts in section 2 and 3, investment rates have remained elevated during 2023/24 but are now expected to have peaked.

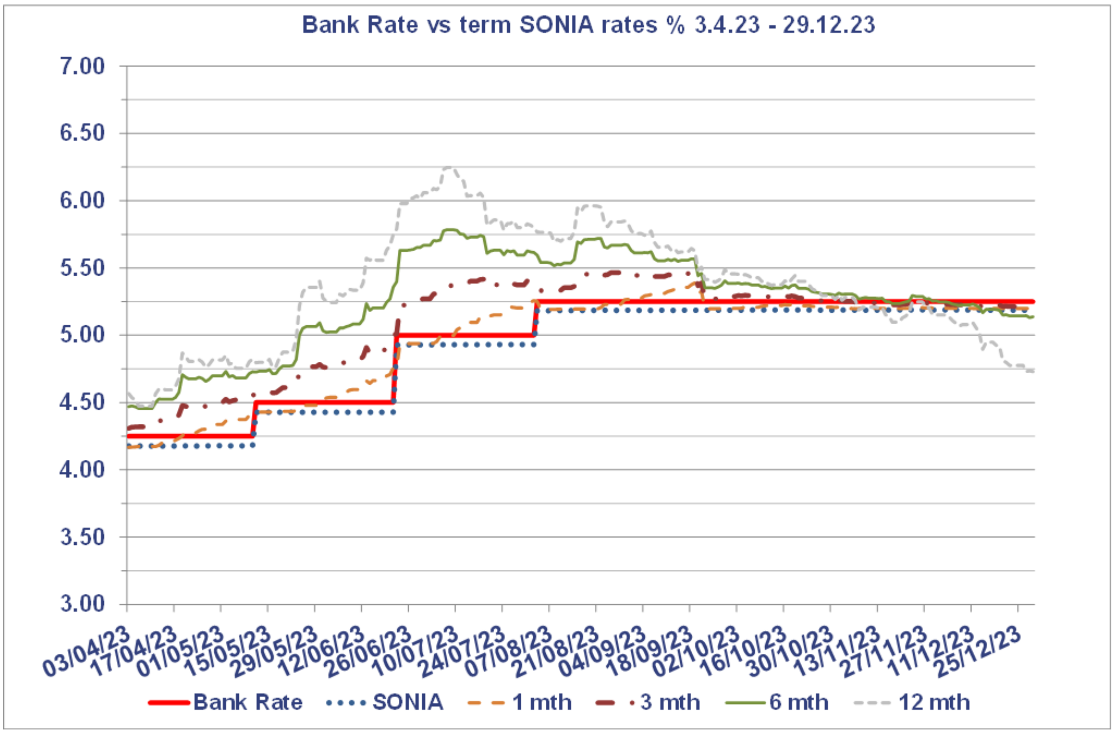
Creditworthiness - There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

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 (CDS) 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 following graph 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.



The Council's 2023/24 budget for investment income is £1.861m split £1.184m General Fund (GF) and £677k Housing Revenue Account (HRA). At the end of December 2023 investment income earned was estimated to be approximately £1.821m split £1.143m GF and £678k HRA (previously £1.169m split £735k GF and £434k HRA), which was £419k above the profiled budget on a straight line basis split £251k GF and £168k HRA (previously £238k split £143k GF and £95k HRA).

The average level of funds available for investment purposes during the first three quarters of the financial year was £47.8m including the loans to Welland Homes which are classified as long-term debtors.

Treasury investments achieved an average rate of 5.184% (previously 4.966%) compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 5.100% (previously 5.024%).

The Welland Homes loans were issued at an average rate of 3.967% (previously 3.887%).

The combined rate achieved on all investments is estimated to be approximately 5.056% (previously 4.858%).

The outturn for investment income for 2023/24 is forecast to be £2.357m (previously £2.260m) split £1.481m (previously £1.423m) GF and £876k (previously £837k) HRA. This is a combined total of £496k above budget compared with £399k previously reported as at the end of September. This increase in the predicted outturn is due to revised information being received relating to the profiled capital spend.

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 SHDC'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.

Financial Institution	**Country**	**Amount (£)**	**Fixed/ Variable**	**Start Date**	**Maturity Date**	**Yield %**
Lloyds Bank	UK	2,027,735	N/A	Call	Variable	5.15%
CCLA Money Market Fund	Various	3,800,000	N/A	Call	Variable	5.29%
Handelsbanken	Sweden	9,441	N/A	Call	Variable	4.45%
Credit Industrial et Commercial	France	2,000,000	12/01/23	12/01/24	Fixed	4.71%
ANZ Bank	Australia	2,000,000	08/11/23	19/02/24	Fixed	5.46%
Credit Agricole CIB	France	3,000,000	01/03/23	27/02/24	Fixed	4.82%
City of Stoke-On-Trent Council	UK	3,000,000	11/12/23	11/03/24	Fixed	5.60%
Rabobank	Netherlands	3,000,000	02/06/23	31/05/24	Fixed	5.63%
National Australia Bank	Australia	3,000,000	27/06/23	24/05/24	Fixed	6.35%
UBS	Switzerland	5,000,000	13/07/23	12/07/24	Fixed	6.69%
DNB Bank ASA	Norway	4,000,000	31/08/23	30/08/24	Fixed	6.18%
Toronto Dominion	Canada	5,000,000	06/10/23	04/10/24	Fixed	5.89%
DNB Bank ASA	Norway	1,000,000	06/11/23	04/11/24	Fixed	5.72%
TOTAL		**36,837,176**				

Welland Homes

In addition to the above loans the Council has made loans to Welland Homes, a Housing Company wholly owned by the Council, as follows:

Loan	Amount (£)	Issue Date	Maturity Date	Rate
Green Lane & Walters Close, Spalding	408,851.00	20/03/17		
	389,768.37	10/05/17		
	543,023.43	17/05/17		
	1,341,642.80		17/03/47	3.50%
Parkside Crescent, Spalding	187,675.67	29/03/18		
(initially a development loan at	18,944.78	23/05/18		
5.50% until completed, now 3.5%)	36,844.08	19/06/18		
	28,930.75	17/07/18		
	98,247.92	24/08/18		
	114,596.66	19/09/18		
	100,010.41	23/10/18		
	98,160.13	22/11/18		
	103,037.06	21/12/18		
	50,833.29	11/01/19		
	154,096.72	20/02/19		
	80,245.80	22/03/19		
	50,178.89	12/04/19		
	62,346.40	22/05/19		
	142,858.40	07/06/19		
	21,723.09	25/02/21		
	1,348,730.05			
Transferred to Equity	(464,452.00)	07/05/19		
	884,278.05		07/05/49	3.50%
London Road, Long Sutton	**466,771.00**	12/02/19	02/10/48	3.50%
Bentley Court, Spalding	523,107.55	20/08/19		
	32,440.72	20/01/20		
	555,548.27		02/08/49	3.50%
Northon's Lane, Holbeach	461,791.15	29/03/21		
	28,286.40	18/11/21		
	490,077.55		29/03/51	3.50%
Homefields, Crowland (Phase 1)	1,045,130.10	30/03/23		
	59,207.06	11/08/23		
	1,104,337.16		29/03/53	5.25%
Walnut Close, Sutton St James	**560,227.00**	18/10/23	25/04/53	5.25%
Homefields, Crowland (Phase 2)	**391,915.00**	30/10/23	19/10/53	5.84%
TOTAL	**5,794,796.83**			

Interest earned on these loans in the current financial year to 31 December 2023 is £151,131.

Long Term Equity Investments

The following table provides details relating to the Council's equity investments which are valued at "fair value" in accordance with proper accounting practice.

Entity	**Equity at Cost (£)**	**Equity at Fair Value 31/03/23 (£)**
Welland Homes	2,772,318	4,199,348
Welland Homes (*post 31/03/23 figures shown at cost)	566,603	*566,603
South Holland Local Housing Community Interest Company	100	1,163,111
UK Municipal Bond Agency	50,000	0
TOTAL	**3,389,021**	**5,929,062**

5 Borrowing

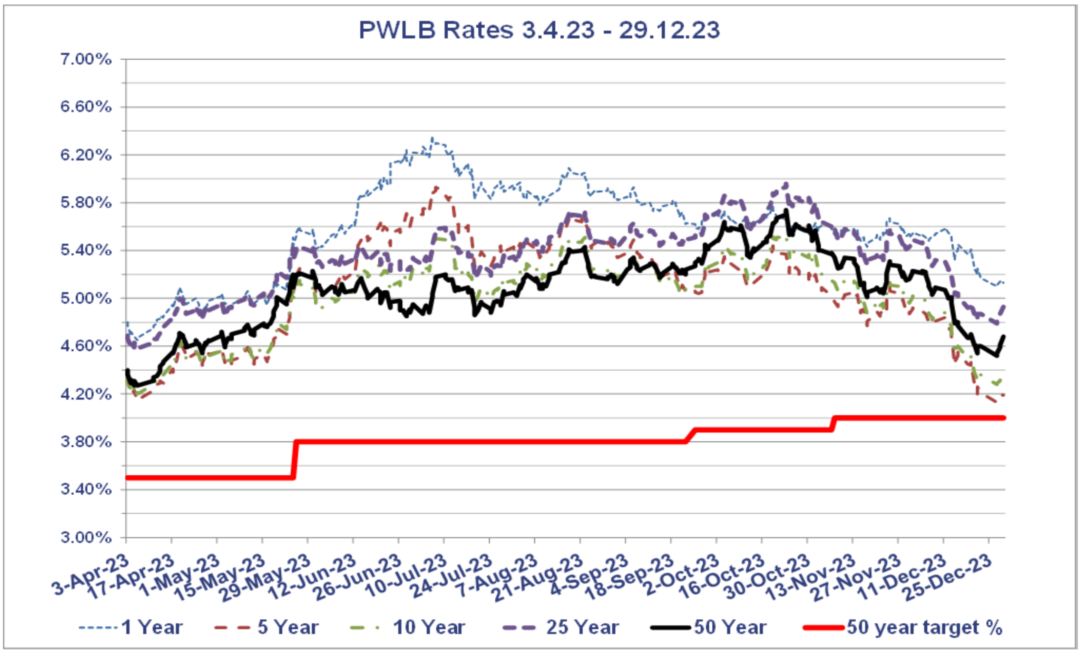
No new borrowing was undertaken during the quarter ended 31 December 2023.

The Council has borrowings of £67.456m at a fixed rate of 3.48% in respect of the Housing Revenue Account self-financing settlement. Interest costs for 2023/24 on this fixed rate borrowing are £2,347,469.

Further borrowing may be undertaken at the end of this financial year but this will be kept under 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. HRA borrowing is 0.4% lower than the Certainty Rate.



6 Debt Rescheduling

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

7 Compliance with Treasury and Prudential Indicators

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

During the quarter ended 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	91,000	91,000	91,000
Operational boundary for external debt	87,000	87,000	87,000
Gross external debt	67,456	67,456	67,456
Investments at cost (including Welland Homes Loans)	(46,385)	(46,021)	(48,104)
Net borrowing	21,071	21,435	19,352

Upper limit for principal sums invested over 365 days:			
2023/24	5,000	5,000	0
2024/25	5,000	5,000	0
2025/26	5,000	5,000	0
2026/27	5,000	5,000	0
2027/28	5,000	5,000	0

Prudential Indicators	31/03/23 Actual £'000	2023/24 Budget £'000	Revised Budget as at Quarter 3 £'000
Capital expenditure:			
General Fund	14,693	24,320	8,865
HRA	6,953	14,206	23,897
TOTAL	21,646	38,526	32,762
Capital Financing Requirement (CFR):			
General Fund	11,187	16,062	14,887
HRA	68,427	68,427	68,427
TOTAL	79,614	84,489	83,314
Annual change in CFR:			
General Fund	2,483	4,302	3,700
HRA	0	0	0
TOTAL	2,483	4,302	3,700
In year borrowing requirement:			
General Fund	2,620	4,625	3,934
HRA	0	0	0
TOTAL	2,620	4,625	3,934
Ratio of financing costs to net revenue stream:			
General Fund	(6.80%)	(6.17%)	(7.74%)
HRA	43.92%	32.88%	31.71%
TOTAL	23.57%	13.88%	12.52%

General Fund Capital Expenditure 2023/24

Scheme	Approved Budget 2023/24	Changes to approved budget	Slippage to Future Years	Revised 23/24	Actual December 2023	Forecast Outturn 2023/24	Variance (under)/over
	£000	£000	£000	£000	£000	£000	£000
Non UKSPF & LUF Projects							
ICT	620	(382)	(30)	208	148	208	-
Footway Lighting	105	-	(13)	92	47	92	-
Car Park Resurfacing	85	-	(73)	12	11	12	-
Capital Acquisitions re Growth and Commercialisation	1,260	69	(29)	1,300	1,143	1,300	-
Rough Sleeping Accommodation Programme (RSAP)	21	(17)	-	4	4	4	-
Neighbourhoods	756	(57)	(80)	619	510	619	-
Disabled Facilities Grants – Private Sector Housing	772	-	(21)	751	360	751	-
Decent Homes Unfit and Disrepair – Housing	150	-	(75)	75	-	75	-
Welland Homes	3,976	-	(1,110)	2,866	1,578	2,866	-
Disabled Facilities Grants – Private Sector Housing – Discretionary Better Care Additional Payments	250	-	(245)	5	-	5	-
Industrial Units	63	(13)	(50)	-	-	-	-
Council Offices Priory Road – Boiler	42	-	(10)	32	-	32	-
South Holland Centre – Boiler	65	-	-	65	97	97	32
Spalding Gateway Public Realm Project	283	-	-	283	-	283	-
Assets and Property – Castle Sports	96	-	(18)	78	9	78	-
Assets and Property – Moulton Park & New Sheep Market	300	-	(128)	172	17	172	-
Spalding Cemetery	25	-	(25)	-	-	-	-
Ayscoughfee Projects	49	(34)	(15)	-	-	-	-
West Marsh Road Depot Projects	36	-	-	36	7	36	-
Homelessness	31	-	(31)	-	-	-	-
Next Steps Accommodation Programme (NSAP)	46	(46)	-	-	-	-	-
Changing Places	65	-	-	65	36	65	-
Ayscoughfee Tennis Court Refurbishment	116	-	-	116	124	124	8
Local Authority Housing Fund	738	-	-	738	-	738	-
Car Park Machines	-	63	-	63	-	63	-
Total Non UKSPF & LUF	**9,950**	**(417)**	**(1,953)**	**7,580**	**4,091**	**7,620**	**40**

Projects							
UKSPF & LUF							
UKSPF	131	435	-	566	413	566	-
Total UKSPF	**131**	**435**	**-**	**566**	**413**	**566**	**-**
South Holland Health and Wellbeing Hub	17,000	-	(16,281)	719	159	719	-
Total LUF	**17,000**	**-**	**(16,281)**	**719**	**159**	**719**	**-**
Grand Total – All Projects	**27,081**	**18**	**(18,234)**	**8,865**	**4,663**	**8,905**	**40**

Financing of General Fund Capital Expenditure 2023/24

General Fund Capital Programme Financing				
All Projects	**Approved Budget 2023/24** £000	**Revised Budget 2023/24** £000	**Full year forecast 2023/24** £000	**Variance 2023/24** £000
Replacement and Refurbishment Reserve	(75)	(65)	(105)	(40)
Investment and Growth Reserve	(1,439)	(741)	(741)	-
Grants	(18,883)	(2,698)	(2,698)	-
Internal Borrowing – Environmental Services Vehicles	(567)	(510)	(510)	-
Internal Borrowing/MRP/Future Needs	(182)	(53)	(53)	-
Internal Borrowing – Unfinanced	(537)	(505)	(505)	-
S106	(237)	(237)	(237)	-
Spalding Special Reserve	(25)	-	-	-
Welland Homes/Internal Borrowing	(3,976)	(2,866)	(2,866)	-
Capital Receipts	(1,160)	(1,190)	(1,190)	
Totals	**(27,081)**	**(8,865)**	**(8,905)**	**(40)**

Housing Revenue Account Capital Expenditure 2023/24

Detail of Expenditure	Revised Budget 23/24 £000	Actual December 2023 £000	Forecast Outturn 2023/24 £000	Variance (under)/over £000
Central Heating	945	741	945	-
Kitchen/Bathroom	1,495	817	1,495	-
Renewable Energy	2,845	179	2,845	-
Smoke Alarms	210	154	300	90
Electrical Upgrades	96	176	226	130
Roofs and Gutters	888	770	888	-
Doors and Windows	908	-	778	(130)
Flat Entrance Doors Sheltered Schemes	482	72	482	-
Chimneys	196	63	135	(61)
Paths and Drives	36	66	71	35
Boundary Walls	90	-	40	(50)
Fees	219	-	215	(4)
Sewerage Treatment Plant	801	192	575	(226)
The Square	1,277	234	400	(877)
Car Parks	167	-	67	(100)
Community Centre Refurbishment	75	-	75	-
Booking System for Community Centres and Guest Rooms	15	-	18	3
ICT Strategy / Infrastructure	268	119	176	(92)
Replacement Laptops	78	-	26	(52)
Major Adaptions	600	255	365	(235)
Sheltered Alarm Upgrade	816	67	126	(690)
Housing Repairs Vehicles	150	-	-	(150)
Wignal’s Gate S106	965	836	846	(119)
Albion Street Crowland	9	-	-	(9)
Northon’s Lane, Holbeach	1,257	190	776	(481)
Jubilee Way, Gosberton	1,349	715	1,303	(46)
Pheasant Street, Holbeach	811	769	794	(17)
Primus Close, Moulton Chapel	392	3	3	(389)
Beihler Avenue, Weston	2,190	1,724	2,130	(60)
Cobgate, Whaplode	954	2	911	(43)
Colbeach Lane, Surfleet	1,513	3	1,466	(47)
LAHF Frogmore Lane, Holbeach	240	-	232	(8)
LAHF Tulip Fields, Holbeach	1,073	-	998	(75)
Scheme Subject to detailed approval	487	-	-	(487)
Total	**23,897**	**8,147**	**19,707**	**(4,190)**

Financing of Housing Revenue Account Capital Expenditure 2023/24

Type of Financing	Revised Budget 23/24 £000	Actual December 2023 £'000	Forecast Outturn 2023/24 £'000	Variance (under)/over £'000
Capital Receipts	(1,238)	(909)	(1,238)	-
Grants and Contributions	(1,973)	(90)	(1,914)	59
Major Repairs Reserve	(5,024)	(2,730)	(5,132)	(108)
Direct Revenue Financing	(15,662)	(4,418)	(1,423)	14,239
External Borrowing	-	-	(10,000)	(10,000)
Total	**(23,897)**	**(8,147)**	**(19,707)**	**(4,190)**