Greater Manchester Combined Authority

Date: 29 September 2023

Subject: Annual Treasury Management Outturn 2022/23

Report of: Councillor David Molyneux, Portfolio Lead for Resources and Steve Wilson, Treasurer

Purpose of Report

The Combined Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2022/23 the minimum reporting requirements were that the full Authority should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year, (minimum), treasury update report
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

This Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Authority. Member training on treasury management issues was undertaken during the year on 22 June 2022 in order to support Members' scrutiny role.

Recommendations:

The Authority is requested to:

a) Approve the report.

Contact Officers

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Report authors must identify which paragraph relating to the following issues:

Equalities Impact, Carbon and Sustainability Assessment:

N/A

Risk Management

There are considerable risks to the security of the GMCA's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The GMCA has established good practice in relation to Treasury Management.

Legal Considerations

This report fulfils the statutory requirements to have the necessary prudential indicators to be included in a Treasury Management Strategy.

Financial Consequences – Revenue

Financial revenue consequences are contained within the body of the report.

Financial Consequences – Capital

Financial capital consequences are contained within the body of the report.

Number of attachments to the report:

None

Comments/recommendations from Overview & Scrutiny Committee

N/A.

Background Papers

Treasury Management Strategy Statement 2022/23, GMCA 11 February 2022

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution

No

Exemption from call in

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency? No

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

Annual Treasury Management Outturn 2022/23

1. Introduction and Background

1.1 This report summarises the following:

a) Capital activity during the year;

b) Impact of this activity on the Authority's underlying indebtedness, (the Capital Financing Requirement);

c) The actual prudential and treasury indicators;

d) Overall treasury position identifying how the Authority has borrowed in relation to this indebtedness, and the impact on investment balances;

e) Summary of interest rate movements in the year;

f) Detailed debt activity; and

g) Detailed investment activity.

2. The Authority's Capital Expenditure and Financing

2.1 The Authority undertakes capital expenditure on long-term assets. These activities may either be:

a) Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or

b) If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2021/22 Actual	2022/23 Budget	2022/23 Actual
Capital expenditure	**526.924**	**438.555**	**433.390**
Financed in year	(429.011)	(265.058)	(358.800)
Unfinanced capital expenditure	**97.912**	**173.497**	**74.590**

3. The Authority's Overall Borrowing Need

3.1 The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's indebtedness. The CFR results from the capital activity of the Authority and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 Part of the Authority's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Authority's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Authority.

3.3 **Reducing the CFR** – the Authority's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

3.4 The total CFR can also be reduced by:

a) the application of additional capital financing resources, (such as unapplied capital receipts); or

b) charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

3.5 The Authority's 2022/23 MRP Policy, (as required by the Department for Levelling Up, Housing and Communities (DLUHC) Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 11 February 2022.

3.6 The Authority's CFR for the year is shown below, and represents a key prudential indicator. It includes Private Finance Initiative (PFI) and leasing schemes on the balance sheet, which increase the Authority's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR (£m)	2021/22 Actual	2022/23 Budget	2022/23 Actual
Opening balance	2,345.059	2,404.273	2,360.238
Add unfinanced capital expenditure (as above)	97.912	173.497	74.590
Less MRP/VRP and other repayments	(82.734)	(97.481)	(88.855)
Closing balance	2,360.238	2,480.289	2,345.973

3.7 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

3.8 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

£m	2021/22 Actual	2022/23 Budget	2022/23 Actual
Gross borrowing position (including PFI liability)	1,466.667	1,421.681	1,452.072
CFR	2,360.238	2,480.289	2,345.973
(Under) / over funding of CFR	(893.571)	(1,058.608)	(893.901)

3.9 **The authorised limit -** the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Authority has maintained gross borrowing within its authorised limit.

3.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

3.11 **Actual financing costs as a proportion of net revenue stream -** this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2022/23
Authorised limit	£2,773.153m
Maximum gross borrowing position during the year	£1,457.954m
Operational boundary	£2,647.101m
Average gross borrowing position	£1,429.395m
Financing costs as a proportion of net revenue stream	9.2%

4. Treasury Position as at 31 March 2023

4.1 The Authority's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices. At the end of 2022/23 the Authority's treasury position was as follows:

DEBT PORTFOLIO	31 March 2022 Principal	Rate/ Return	Average Life yrs	31 March 2023 Principal	Rate/ Return	Average Life yrs
PWLB	£546.199m	4.64%	16	£527.601m	4.71%	15
Market	£859.419m	2.81%	20	£847.526m	2.85%	19
Temporary	£20.291m	0.00%	0	£40.269m	0.00%	0
Total external borrowings	**£1,425.909m**	**3.51%**	**18**	**£1,415.396m**	**3.46%**	**17**
PFI liability	£40.759m			£36.676m		
Total debt	**£1,466.667m**			**£1,452.072m**		
CFR	**£2,360.238m**			**£2,345.973m**		
Over / (under) borrowing	**(£893.571m)**			**(£893.901m)**		
Total cash and investments	**£244.934m**	**0.28%**	**0**	**£246.710m**	**4.10%**	**0**
Net debt	**(£648.583m)**			**(£647.191m)**		

4.2 The maturity structure of the external debt portfolio was as follows:

£m	**2021/22 actual**	**2022/23 actual**
Under 12 months	£87.175m	£113.952m
12 months and within 24 months	£38.696m	£46.477m
24 months and within 5 years	£143.177m	£152.791m
5 years and within 10 years	£378.592m	£362.219m
10 years and within 20 years	£457.099m	£480.302m
20 years and within 30 years	£161.993m	£102.979m
30 years and within 40 years	£69.176m	£66.676m
40 years and within 50 years	£90.000m	£90.000m

4.3 The maturity structure of the investment portfolio was as follows:

INVESTMENT PORTFOLIO	**31 March 2022 Actual £m**	**31 March 2022 Actual %**	**31 March 2023 Actual £m**	**31 March 2023 Actual %**
Treasury Investments				
Banks	13.358	5.4%	9.550	3.8%
Local authorities	171.000	69.6%	85.000	33.7%
DMADF (HM Treasury)	61.300	25.0%	157.740	62.5%
TOTAL TREASURY INVESTMENTS	**245.658**	**100.0%**	**252.290**	**100.0%**

Non-Treasury Investments				
Third Party Loans	217.387	84.2%	218.864	83.8%
Equity	40.766	15.8%	42.286	16.2%
TOTAL NON-TREASURY INVESTMENTS	**258.153**	**100.0%**	**261.150**	**100.0%**
Treasury Investments	245.658	48.8%	252.290	49.1%
Non-Treasury Investments	258.153	51.2%	261.150	50.9%
TOTAL OF ALL INVESTMENTS	**503.811**	**100.0%**	**513.440**	**100.0%**

4.4 The treasury investments held as at 31 March 2023 compared to our counterparty list are as below:

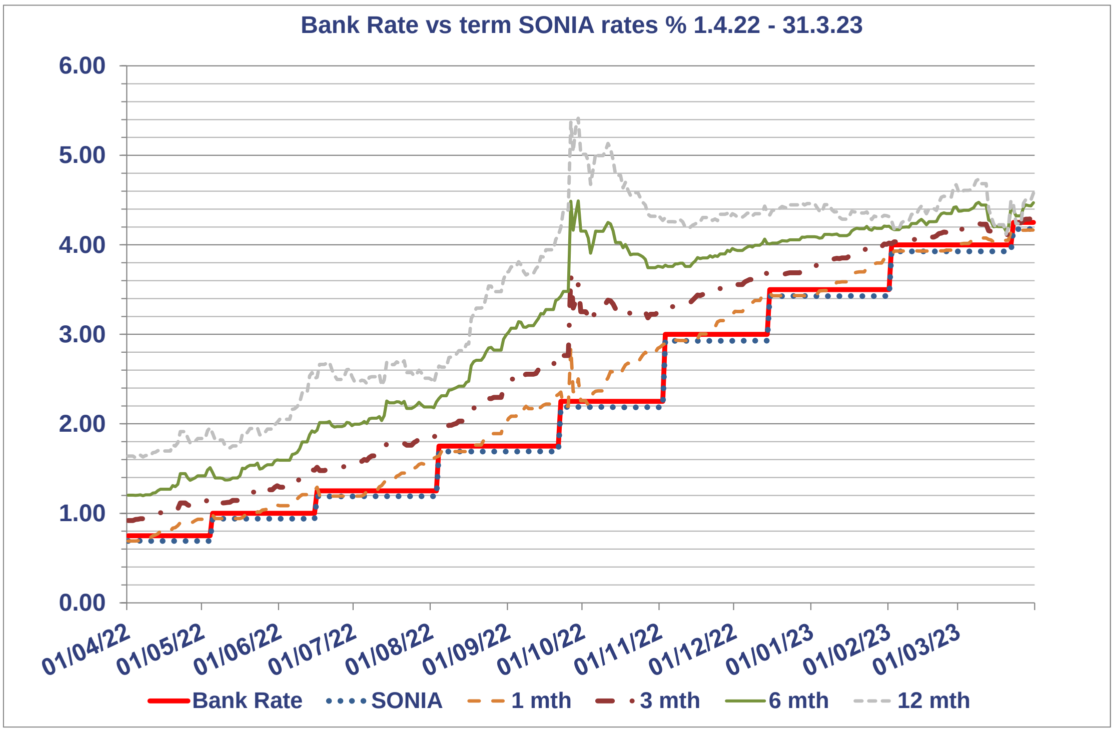
Borrower	Principal	Interest Rate	Start Date	Maturity Date	Lowest LT/ Fund Rating	Historic Risk of Default	Expected Credit Loss
Barclays Bank	£9,550,000	3.80%		Call	A	0.000%	£12
Bracknell Forest Borough Council	£5,000,000	4.65%	20 March 2023	3 April 2023	AA-	0.000%	£0
Debt Management Office	£157,740,000	4.05%	31 March 2023	3 April 2023	AA-	0.000%	£0
Surrey County Council	£10,000,000	4.15%	20 June 2022	5 April 2023	AA-	0.000%	£0

Borrower	Principal	Interest Rate	Start Date	Maturity Date	Lowest LT/ Fund Rating	Historic Risk of Default	Expected Credit Loss
PCC for West Yorkshire	£10,000,000	4.65%	20 March 2023	5 April 2023	AA-	0.000%	£0
Eastleigh Borough Council	£15,000,000	4.25%		Call7	AA-	0.000%	£0
Eastleigh Borough Council	£5,000,000	4.25%		Call7	AA-	0.000%	£0
Manchester City Council	£30,000,000	4.20%	15 March 2023	14 April 2023	AA-	0.001%	£0
Leeds City Council	£10,000,000	4.50%	29 March 2023	3 August 2023	AA-	0.008%	£0
Total	**£252,290,000**	**4.13%**				**0.001%**	**£12**

5. The Strategy for 2022/23

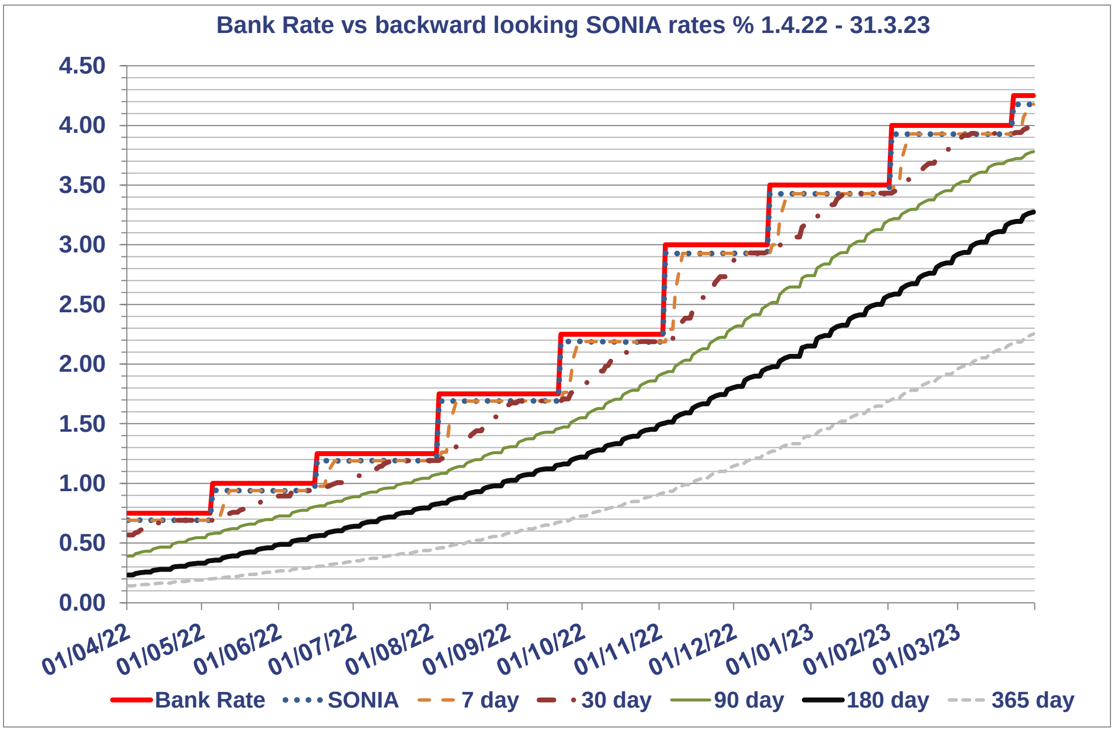
5.1 Investment strategy and control of interest rate risk

5.1.1 Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2022/23



	Bank Rate	SONIA	1 month	3 month	6 month	12 month
High	4.25	4.18	4.17	4.30	4.49	5.41
High Date	23 March 2023	31 March 2023	31 March 2023	31 March 2023	29 September 2022	29 September 2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	1 April 2022	28 April 2022	1 April 2022	1 April 2022	7 April 2022	4 April 2022
Average	2.30	2.24	2.41	2.72	3.11	3.53
Spread	3.50	3.49	3.48	3.38	3.29	3.79

5.1.2 Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2022/23



	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.25	4.18	4.18	4.00	3.78	3.27	2.25
High Date	23 March 2023	31 March 2023	31 March 2023	31 March 2023	31 March 2023	31 March 2023	31 March 2023
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	1 April 2022	28 April 2022	29 April 2022	1 April 2022	1 April 2022	1 April 2022	1 April 2022
Average	2.30	2.24	2.20	2.09	1.81	1.42	0.90
Spread	3.50	3.49	3.49	3.43	3.39	3.04	2.11

5.1.3 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

5.1.4 Starting April 2022 at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

5.1.5 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

5.1.6 With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

5.1.7 Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

5.1.8 Nonetheless, while the Authority has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/9. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.2 Borrowing strategy and control of interest rate risk

5.2.1 During 2022/23, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the CFR), was not fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

5.2.2 A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Authority sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing.

5.2.3 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

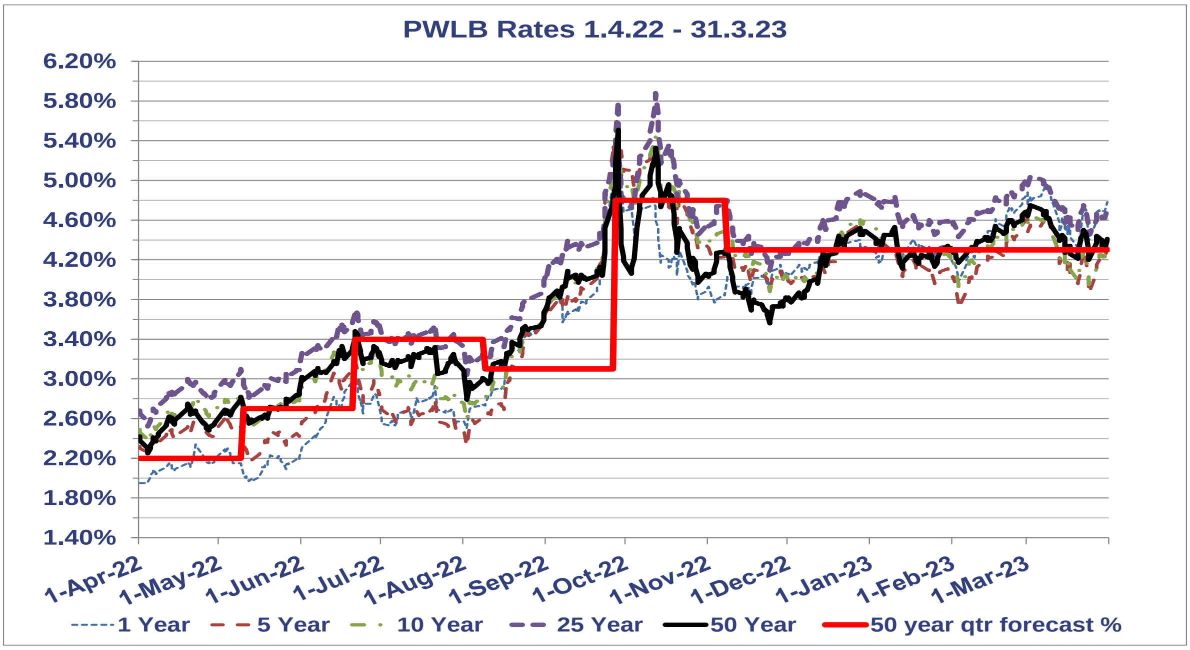
5.2.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasurer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

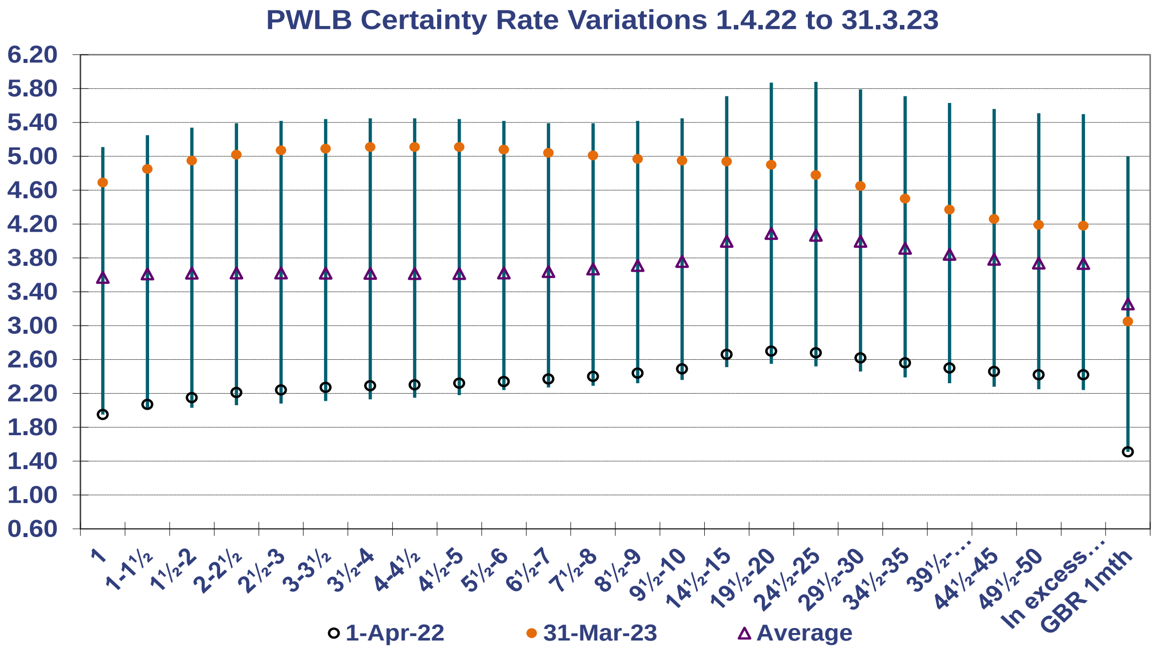
a) if it had been felt that there was a significant risk of a sharp fall in long and short-term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

b) if it had been felt that there was a significant risk of a much sharper rise in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the United States (US) and United Kingdom (UK), an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.2.5 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August 2022 it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the Consumer Price Index (CPI) measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

5.2.6 PWLB Rates 2022/23





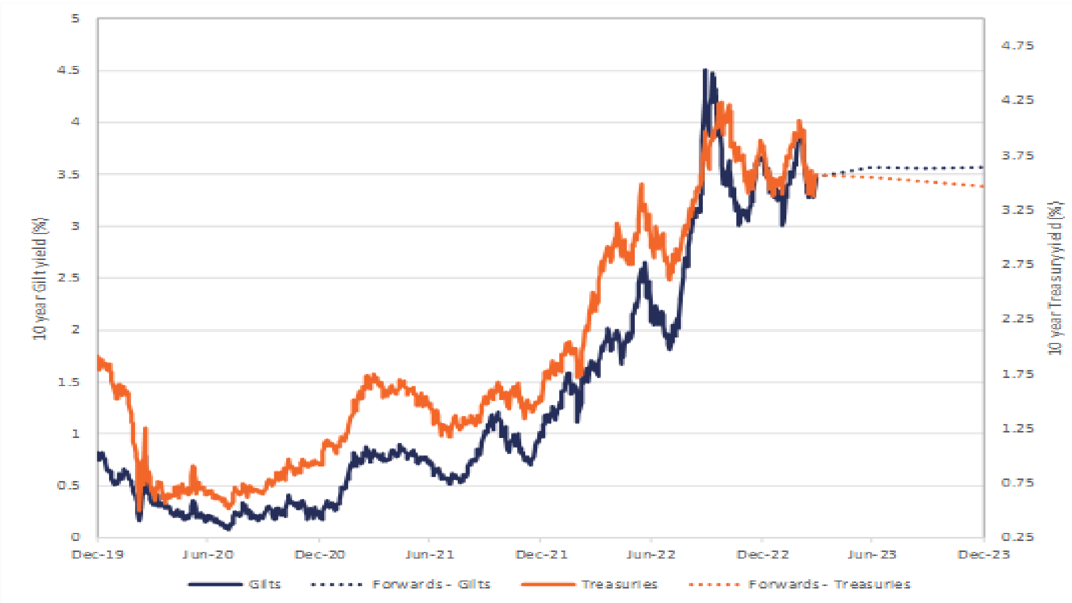
5.2.7 High/ Low/ Average PWLB Rates for 2022/23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	1 April 2022	13 May 2022	4 April 2022	4 April 2022	4 April 2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28 September 2022	28 September 2022	12 October 2022	12 October 2022	28 September 2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

5.2.8 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the European Union (EU) would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

5.2.9 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Federal Open Market Committee (FOMC), European Central Bank (ECB) and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

5.2.10 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.



5.2.11 At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6 to 7.5 years being the lowest yield.

5.2.12 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

a) **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)

b) **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

c) **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

5.2.13 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the CPI measure) moves closer to the Bank of England's 2% target.

5.2.14 As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

5.2.15 The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

6. Borrowing Outturn

6.1 Treasury Borrowing

6.1.1 Due to investment concerns, both counterparty risk and comparatively low investment returns, no borrowing was undertaken during the year.

6.2 Borrowing in advance of need

6.2.1 The Authority has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

6.3 Rescheduling

6.3.1 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn

7.1 Investment Policy

7.1.1 The Authority's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Authority on 11 February 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

7.1.2 The investment activity during the year conformed to the approved strategy with one exception, and the Authority had no liquidity difficulties. The Authority placed an investment with Manchester Council on 15 March 2023 for one month. The amount invested was £30m which was higher than the £25m limit. This investment had prior approval of the Treasurer.

7.2 Resources

7.2.1 The Authority's cash balances comprise revenue and capital resources and cash flow monies. The Authority's core cash resources comprised as follows:

Balance Sheet Resources (£m)	31 March 2022	31 March 2023
Balances	45.115	44.958
Earmarked reserves	497.677	579.972
Provisions	19.159	16.662
Usable capital receipts	68.572	76.193
Total	**630.523**	**717.785**

7.2.2 Investments held by the Authority

a) The Authority maintained an average balance of £366.022m of internally managed funds.

b) The internally managed funds earned an average rate of return of 1.97%.

c) The comparable performance indicator is the 7 days backward looking SONIA uncompounded, which was 2.2254%.

d) Total investment income was £7.253m compared to a budget of £2.675m

8. The Economy and Interest Rates

8.1 UK Economy

8.1.1 Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

8.1.2 Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, Eurozone (EZ) and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	EZ	US
Bank Rate	4.25%	3%	4.75%-5%
Gross Domestic Product (GDP)	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

8.1.3 Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January 2023 saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December 2022. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

8.1.4 Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October 2022, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

8.1.5 The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June 2022. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the

Monetary Policy Committee (MPC) will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

8.1.6 Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

8.1.7 In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September 2022 and October 2022. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17 November 2022 gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

8.1.8 As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the International Labour Organisation (ILO) unemployment rate unchanged at 3.7% in January 2023. Also, while the number of job vacancies fell for the ninth consecutive month in February 2023, they remained around 40% above pre-pandemic levels.

8.1.9 Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

8.1.10 The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23.

Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

8.1.11 As for equity markets, the Financial Times Stock Exchange (FTSE) 100 started 2023 strongly, rising to a record high of 8,014 on 20 February 2023, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March 2023. The fall in the FTSE 100 was bigger than the drop in the US Standard & Poor (S&P) 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20 February 2023, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

8.2 US

8.2.1 The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

8.2.2 In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

8.2.3 As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

8.3 EU

8.3.1 Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

9. Non-Treasury Management Investments

9.1 The Authority's non-treasury management investments are managed by the Core Investment team.

9.2 The Housing Investment Fund is to be invested into housing schemes to create new homes. The £300m Fund, of which £180m is currently drawn, was created by a loan from central government of which 80% is underwritten by the Authority. It is on track to achieve its target of delivering 10,000 new homes across GM and has been recycled twice. The Fund will close to new commitments in 2025 with a runoff to 2028.

9.3 £70m of Core Funds which was originally sourced from regional Regional Growth Fund and Growing Places Fund monies in 2011/12 and 2012/13. The Fund is invested across business and commercial property as debt or equity and can be recycled and retained for a similar purpose. The fund has to date created and supported 9,345 jobs.

9.4 There are three European Regional Development Fund (ERDF) investments. Evergreen 1 was established under the 2007-13 ERDF Operational Programme and consists of £60m commercial property debt focussed on office buildings, infrastructure and industrial developments. Evergreen 2 was established under the 2014-20 ERDF Operational Programme and consists of £45m of commercial property debt focussed on research and innovation office/laboratory space and energy efficiency in buildings. The Low Carbon Fund was established under the 2014-20 ERDF Operational Programme and is aimed at renewable energy generation and distribution of assets. These funds are managed by an external fund manager.

9.5 There are two Life Sciences Funds managed by external fund managers. Fund 1 is an investment of £10m in a total fund of £31m and is now closed to new investments. Fund 2 is an investment of £10m in a total fund of up to £25m.

Appendix 1: Approved countries for investments as at 31 March 2023

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**