GMCA GREATER MANCHESTER COMBINED AUTHORITY

Audit Committee

Date: 22 October 2024

Subject: Quarterly Treasury Management Update – 30 June 2024

Report of: Steve Wilson, Treasurer

Purpose of Report

To update Members on treasury management activities during the first quarter of 2024/25.

Recommendations:

Members are requested to:

1. Note the report on treasury activities during the first quarter of 2024/25 and the forecast prudential and treasury indicators in Appendix 1.

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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, GMCA 22 March 2024]

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?

N/A

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

1. Introduction/Background

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Authority is implementing best practice in accordance with the Code.

2. Economics update

2.1 The first quarter of 2024/25 saw:

a) Gross Domestic Product (GDP) growth flatlining in April 2024 following positive Q4 2023/24 growth figures of 0.7% q/q.

b) A stalling in the downward trend in wage growth, with the headline 3myy rate staying at 5.9% in April 2024.

c) Consumer Price Index (CPI) inflation falling from 2.3% in April 2024 to 2.0% in May 2024.

d) Core CPI inflation decreasing from 3.9% in April 2024 to 3.5% in May 2024.

e) The Bank of England holding rates at 5.25% in May 2024 and June 2024.

f) 10-year gilt yields climbing to 4.35% in April 2024, before closing out at 4.32% in May 2024.

2.2 The news that the economy grew by 0.7% q/q in Q4 2023/24 confirmed that it moved out of its very mild technical recession that prevailed at the back end of 2023. However, data released for April 2024 and May 2024 so far shows a slight stalling in the recovery, with GDP data for April 2024 coming out at 0.0% m/m, as inclement weather weighed on activity. Moreover, the fall in the composite Purchasing Manager Index output balance from 53.0 in May 2024 to 51.7 in June 2024 confirms tepid growth.

2.3 On a more positive note, the 2.9% m/m increase in retail sales volumes in May 2024 more than reversed the 1.8% m/m drop in April 2024 as rainfall returned to seasonal norms. The strength was broad-based across the retail sector, including online, (+5.9% m/m) suggesting an underlying strengthening in sales beyond weather effects. With inflation falling back to target, Bank Rate likely to be reduced soon and with consumer confidence improving, retail sales may well continue to strengthen.

2.4 Stronger consumer spending, as low inflation allows households' real incomes to strengthen and the drag from higher interest costs fades, suggests that real consumption will strengthen substantially over the next two years. However, investment will only make a modest contribution to GDP growth. With the industrial sector still 12% smaller than in 2019, excess capacity will continue to cap the need for industrial firms to invest. But improving business sentiment should raise investment by services' firms. Further, a fall in mortgage rates should trigger a recovery in residential investment. Overall, strong consumer spending is likely to be the backbone of GDP growth, along with government consumption. Our colleagues at Capital Economics forecast that following GDP growth of 1.0% in 2024, activity will continue to surprise to the upside with GDP growth of 1.5% for both 2025 and 2026 (consensus forecasts are 1.2% and 1.4% respectively).

2.5 Nonetheless, the on-going stickiness of wage growth in April 2024 will be a lingering concern for the Bank of England. The 3myy rate of average earnings growth stayed at 5.9% in April 2024 (consensus 5.7%), whilst the more timely 3m annualised rate rebounded from 5.9% to 9.3%. This stickiness partly reflected April 2024's 9.8% increase in the minimum wage. This leaves the Bank of England's forecast for a fall back in regular private sector pay growth from 5.8% in April 2024 to 5.1% in June 2024 looking a challenge.

2.6 Despite the stickiness of wage growth in April 2024, sharp falls in employment and a move up in unemployment suggests that wage growth will soon be back on a downward path. The 139,000 fall in employment in the three months to April 2024 was accompanied by a rise in the unemployment rate from 4.3% to 4.4%. This was the fourth increase in a row and took it to its highest level since September 2021. The rise would have been larger were it not for the 132,000 increase in inactivity in the three months to April 2024 as the UK's disappointing labour market participation performance since the pandemic continued. The vacancies data also paint a picture of a slowly cooling labour market. The number of job vacancies fell from an upwardly revised 908,000 to 904,000, leaving vacancies 31% below the peak in May 2022, but 11% above the pre-pandemic level.

2.7 The fall in CPI inflation in May 2024 back to the Bank's 2% target for the first time since July 2021 will have come as welcome news to the Bank. Furthermore, with CPI inflation of 3.3% in the United States (US) and 2.6% in the Euro-zone in May 2024, the UK appears to have won the race to get CPI inflation back to 2.0%. A further easing in food inflation from 2.8% in April 2024 to 1.6% in May 2024 played a part in the fall in overall CPI inflation and with food producer price inflation at just 0.2% in May 2024, food price inflation will probably soon fall to zero.

2.8 The core rate also fell back from 3.9% to 3.5%. Within that, core goods CPI inflation slipped below zero for the first time since October 2016. As expected, clothing/footwear, recreation/culture and restaurants/hotels categories inflation declined, reflecting base effects from big increases in May 2023. While services inflation fell from 5.9% to 5.7%, this decline was smaller than the Bank of England expected (forecast 5.3%). And the timelier three-month annualised rate of services prices has rebounded from 8.5% to 9.2%. This suggests that the persistence in domestic inflation that the Bank is worried about is fading more slowly than it thought. Even so, there is scope for inflation to fall further.

2.9 There was little chance that the Bank would cut rates at its June 2024 meeting, given upside surprises on services CPI inflation and wage growth. But several developments implied a rate cut is getting closer (August 2024?). First, two members of the Monetary Policy Committee (MPC), Ramsden and Dhingra voted again to reduce rates immediately to 5.00%. Second, despite the recent run of stronger inflation and activity, the minutes noted “indicators of inflation persistence had continued to moderate” and that a range of indicators suggest pay growth had continued to ease. And there was new wording that members of the MPC will consider all the information available and how this affects the assessment that the risks from inflation persistence are receding “as part of the August 2024 forecast round”.

2.10 Throughout the quarter there was a degree of volatility in the gilt market and, by way of example, the 10-year gilt yield rose from 4.05% on 2 April 2024 to finish at 4.15% on 28 June 2024 but it has exceeded 4.30% on several occasions. Overall, investors judged that interest rates will need to remain high for longer to keep inflation around the 2.0% target.

2.11 Meanwhile, the Financial Times Stock Exchange (FTSE) 100 broke through the 8,000 mark in April 2024 for the first time since its brief three-day flutter in February 2023 and reached a record closing high of 8,446 on 15 May 2024. However, by the end of the quarter, despite AI-fuelled rises in the US S&P500, it finished rather tamely and had fallen back to 8,164. Arguably, significant interest rate cuts and an on-going UK economic recovery will be required for a further resurgence to take hold.

2.14 MPC meetings 9 May 2024 and 20 June 2024

a) On 9 May 2024, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20 June 2024.

b) Nonetheless, with UK CPI inflation now back at 2% and set to fall further over the coming months, Ramsden and Dhingra – who voted again to reduce rates immediately to 5.00% in June 2024 – may shortly be joined by some members in the no-change camp, for whom the June 2024 decision was "finely balanced" as the upside news on services price inflation was more likely to be a reflection of one-off effects and volatile components rather than factors that would push up "medium-term inflation".

c) Of course, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July 2024, whilst the European Central Bank (ECB) looks likely to raise its Deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

3. Interest rate forecasts

3.1 The Authority has appointed Link Group as its treasury advisors and part of their service is to assist the Authority 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 bps) which has been accessible to most authorities since 1 November 2012.

3.2 The latest forecast, updated on 28 May 2024, 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 a stubbornly robust economy and a tight labour market.

3.3 The General Election is not expected to have a significant impact on UK monetary policy. There is minimal leeway for further tax cuts or added spending without negatively impacting market sentiment. It may even be the case that the Bank of England will steer clear of an August 2024 rate cut – should that be supported by the inflation data – in favour of weighing up fiscal policy implications and market sentiment in the aftermath of the election.

3.4 Accordingly, Link's central case is still for a rate cut before the end of September 2024, but they are not committed to whether it will be in August 2024 or September 2024. Thereafter, the path and speed of rate cuts is similar to that which they previously forecast, with Bank Rate eventually falling to a low of 3% by H2 2026.

3.5 However, given the increased uncertainty surrounding Link's central gilt market forecasts, and the significant issuance that will be on-going from several of the major central banks, it has marginally increased its PWLB forecasts by c20 to 30 basis points across the whole curve since the previous quarter.

3.6 In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect Link'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 Link March 2024 Strategic Issues webinars, there is upside risk to that part of their forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

Link Group Interest Rate View 28 May 2024

	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

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

3.8 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.

4. Annual Investment Strategy

4.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Authority on 22 March 2024. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Authority's investment priorities as being:

a) Security of capital

b) Liquidity

c) Yield

4.2 The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Authority'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.

4.3 As shown by the charts below and the interest rate forecasts in section 2, investment rates have remained elevated during the first quarter of 2024/25 but are expected to fall back through the second half of 2024 as inflation reduces and the MPC starts to loosen monetary policy.

4.4 Creditworthiness

4.4.1 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.

4.5 Investment counterparty criteria

4.5.1 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management.

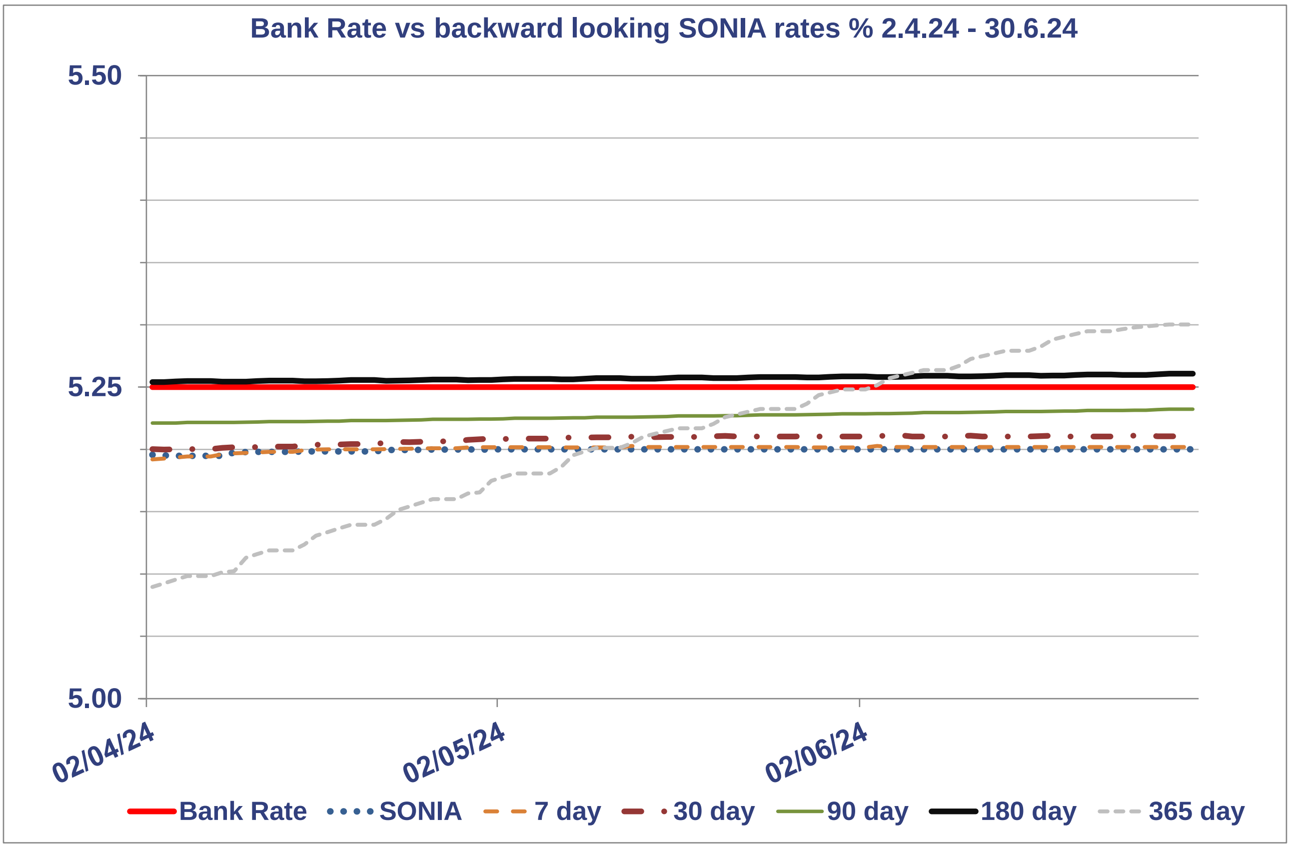
4.6 CDS prices

4.6.1 For UK 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.

4.7 Investment balances

4.7.1 The average level of funds available for investment purposes during the quarter was £342m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

4.8 Investment performance year to date as of end-June 2024



	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.20	5.20	5.21	5.23	5.26	5.30
High Date	2 April 2024	3 May 2024	13 May 2024	26 June 2024	28 June 2024	28 June 2024	28 June 2024
Low	5.25	5.20	5.20	5.21	5.23	5.26	5.21
Low Date	2 April 2024	4 April 2024	2 April 2024	3 April 2024	2 April 2024	2 April 2024	2 April 2024

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
Average	5.25	5.20	5.20	5.21	5.23	5.26	5.21
Spread	0.00	0.01	0.01	0.01	0.01	0.01	0.21

4.8.1 The Authority achieved an average rate of 5.37% which outperformed the average backward looking SONIA rate by 17 bps. The Authority's budgeted investment return for 2024/25 is £2.257m, and performance for the year to date is £4.263m above budget

4.9 Approved limits

4.9.1 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2024.

4.9.2 A full list of investments held as of 30 June 2024 is in Appendix 2.

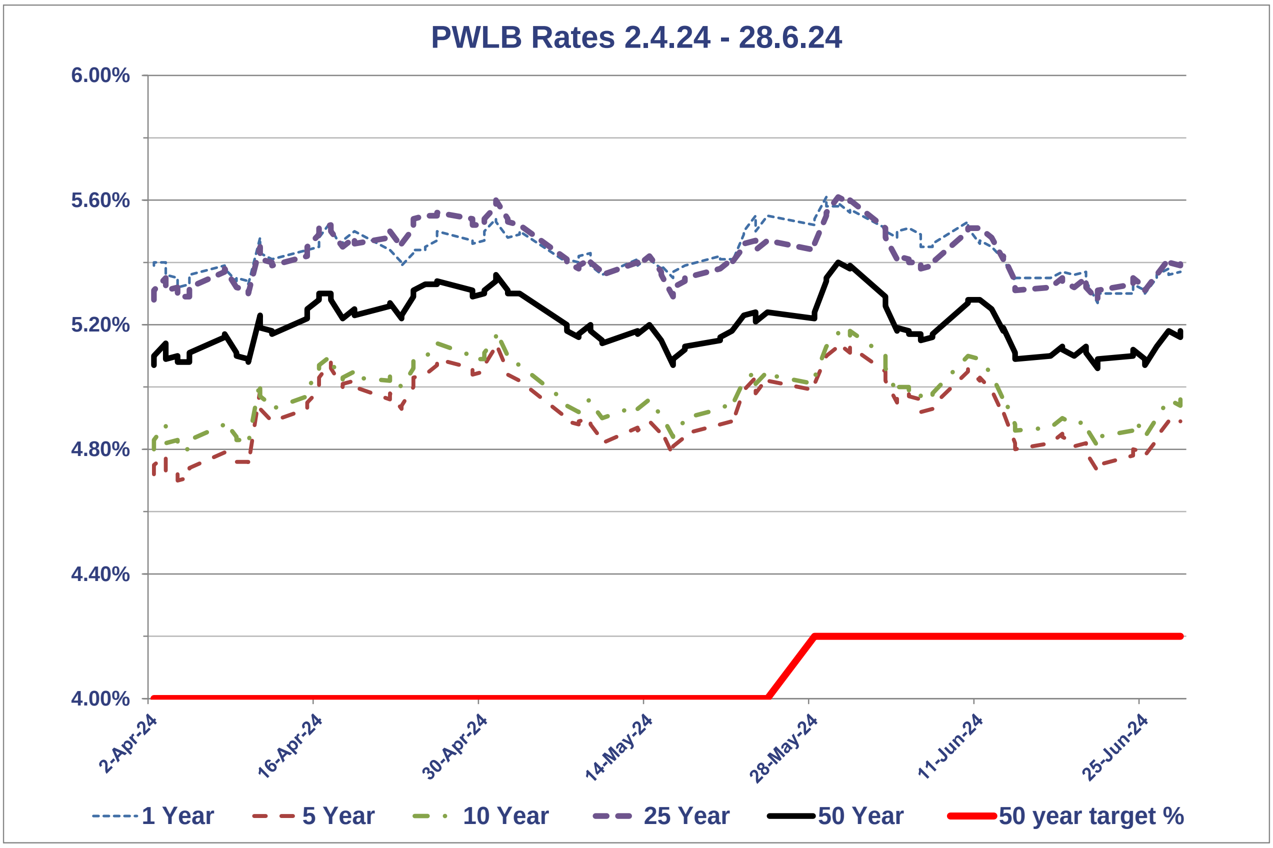
5. Borrowing

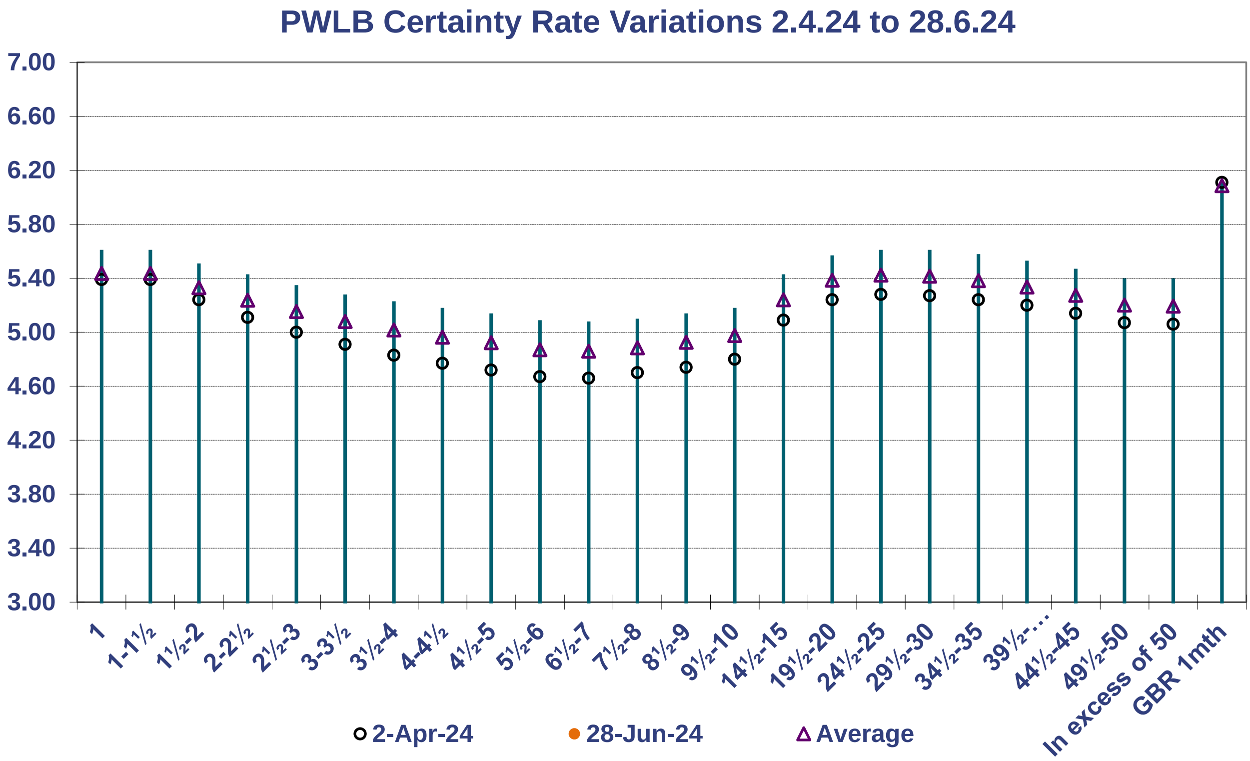
5.1 No borrowing was undertaken during the quarter ended 30 June 2024. It is anticipated that borrowing will be undertaken during this financial year.

5.2 PWLB maturity Certainty Rates 1 April to 30 June 2024

5.2.1 Gilt yields and PWLB rates remained relatively stable between 1 April 2024 and 30 June 2024. Having said that, the spread between the low and high points during the quarter was between 0.3% and 0.45% across the curve.

5.2.2 The 50-year PWLB Certainty Rate target for new long-term borrowing (the low point of our forecast on a two-year timeline) started 2024/25 at 4.00% and increased to 4.20% on 28 May 2024. As can be seen, with rates remaining 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.


PWLB Rates 2.4.24 - 28.6.24
6.00%
5.60%
5.20%
4.80%
4.40%
4.00%
2-Apr-24
16-Apr-24
30-Apr-24
14-May-24
28-May-24
11-Jun-24
25-Jun-24
1 Year
5 Year
10 Year
25 Year
50 Year
50 year target %


PWLB Certainty Rate Variations 2.4.24 to 28.6.24
7.00
6.60
6.20
5.80
5.40
5.00
4.60
4.20
3.80
3.40
3.00
1
1-1½
1½-2
2-2½
2½-3
3-3½
3½-4
4-4½
4½-5
5½-6
6½-7
7½-8
8½-9
9½-10
14½-15
19½-20
24½-25
29½-30
34½-35
39½-…
44½-45
49½-50
In excess of 50
GBR 1mth
2-Apr-24
28-Jun-24
Average

High/ Low/ Average PWLB Rates for 2 April 2024 – 28 June 2024

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	5.27%	4.70%	4.80%	5.28%	4.27%
Date	21 June 2024	4 April 2024	2 April 2024	2 April 2024	21 June 2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
Date	29 May 2024	1 May 2024	1 May 2024	30 May 2024	30 May 2024
Average	5.43%	4.92%	4.98%	5.42%	5.20%
Spread	0.34%	0.44%	0.38%	0.33%	0.34%

6. Debt rescheduling

6.1 Debt rescheduling opportunities have remained a possibility in the current quarter for those authorities with significant surplus cash and a flat or falling Capital Financing Requirement in future years.

6.2 In May 2024, the Authority repaid a £10m Lender Option, Borrower Option (LOBO) loan to FMS Wertmanagement AoR after notification from the lender that the interest rate would rise from 4.26% to 6.35%.

7. Compliance with Treasury and Prudential Limits

7.1 The prudential and treasury Indicators are shown in Appendix 1.

7.2 It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. During the quarter ended 30 June 2024, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2024/25. The Treasurer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

7.3 All treasury management operations have also been conducted in full compliance with the Authority's Treasury Management Practices.

APPENDIX 1: Prudential and Treasury Indicators for 2024/25 as at 30 June 2024

Treasury Indicators	2024/25 Budget	2024/25 Forecast
Authorised limit for external debt	£2,683.021m	£2,716.710m
Operational boundary for external debt	£2,556.622m	£2,599.413m
Gross external debt as at 31 March 2025	£1,344.134m	£1,402.966m
Investments as at 31 March 2025	£50.000m	£50.000m
Net borrowing as at 31 March 2025	£1,294.134m	£1,352.966m

Prudential Indicators	2024/25 Budget	2024/25 Forecast
Capital expenditure	£722.758m	£685.755m
Capital Financing Requirement (CFR)	£2,527.977m	£2,512.777m
Annual change in CFR	£53.325m	£97.721m
In year borrowing requirement	£155.750m	£100.000m
Ratio of financing costs to net revenue stream	15.4%	8.6%

APPENDIX 2: Investment Portfolio

Investments held as of 30 June 2024 compared to our counterparty list:

Institution	Instrument Type	Start	Maturity	Yield	Principal
Barclays Bank PLC (NRFB)	Call (Instant Access)			4.65%	£6,940,000
TfGM	Call (Instant Access)			0.00%	£37,048,000
Debt Management Office	Fixed Term Deposit	26/06/2024	01/07/2024	5.19%	£19,200,000
Aberdeen City Council	Fixed Term Deposit	14/06/2024	30/09/2024	5.30%	£5,000,000
Aberdeenshire Council	Fixed Term Deposit	29/04/2024	29/08/2024	5.40%	£5,000,000
Blackpool Council	Fixed Term Deposit	30/04/2024	31/07/2024	5.45%	£13,000,000
Blackpool Council	Fixed Term Deposit	26/06/2024	30/09/2024	5.30%	£10,000,000
Bury MBC	Fixed Term Deposit	24/06/2024	24/09/2024	5.25%	£10,000,000
Central Bedfordshire Council	Fixed Term Deposit	17/06/2024	17/09/2024	5.25%	£10,000,000
Central Bedfordshire Council	Fixed Term Deposit	24/06/2024	30/08/2024	5.25%	£5,000,000
Cheltenham Borough Council	Fixed Term Deposit	21/06/2024	23/09/2024	5.25%	£5,000,000
Cheshire East Council	Fixed Term Deposit	19/04/2024	19/07/2024	5.50%	£10,000,000
Cornwall County Council	Fixed Term Deposit	10/06/2024	01/07/2024	5.25%	£15,000,000
Cornwall County Council	Fixed Term Deposit	10/06/2024	12/08/2024	5.25%	£5,000,000
Kingston upon Hull City Council	Fixed Term Deposit	08/04/2024	08/07/2024	5.30%	£10,000,000
North Tyneside MBC	Fixed Term Deposit	03/06/2024	03/07/2024	5.30%	£5,000,000
Plymouth City Council	Fixed Term Deposit	11/04/2024	11/07/2024	5.40%	£5,000,000
South Yorkshire Fire & Rescue	Fixed Term Deposit	18/03/2024	01/08/2024	6.65%	£5,000,000
Stockport MBC	Fixed Term Deposit	05/06/2024	02/09/2024	5.25%	£5,000,000
Stockport MBC	Fixed Term Deposit	24/06/2024	16/09/2024	5.25%	£15,000,000
Suffolk County Council	Fixed Term Deposit	28/06/2024	30/09/2024	5.28%	£5,000,000
Surrey County Council	Fixed Term Deposit	27/06/2024	27/11/2024	5.25%	£10,000,000
Telford & Wrekin Council	Fixed Term Deposit	24/06/2024	30/09/2024	5.30%	£5,000,000
Lloyds Bank PLC (RFB)	Fixed Term Deposit	18/04/2024	18/07/2024	5.28%	£6,500,000
Lloyds Bank PLC (RFB)	Fixed Term Deposit	07/06/2024	07/08/2024	5.29%	£7,500,000
Lloyds Bank PLC (RFB)	Fixed Term Deposit	07/06/2024	07/10/2024	5.25%	£7,500,000
SMBC Bank International PLC	Fixed Term Deposit	31/05/2024	31/07/2024	5.36%	£5,000,000
SMBC Bank International PLC	Fixed Term Deposit	31/05/2024	30/08/2024	5.36%	£5,000,000
SMBC Bank International PLC	Fixed Term Deposit	31/05/2024	30/09/2024	5.33%	£8,800,000
Banks and Local Authorities					**£261,488,000**
MMF CCLA	Money Market Fund			5.21%	£5,620,000
MMF Aviva	Money Market Fund			5.24%	£25,000,000
MMF Federated Investors (UK)	Money Market Fund			5.22%	£25,000,000
MMF Aberdeen	Money Market Fund			5.22%	£25,000,000
Money Market Funds					**£80,620,000**
Total					**£342,108,000**

APPENDIX 3: Approved countries for investments as of 30 June 2024

Based on lowest available rating

AAA

a) Australia
b) Denmark
c) Germany
d) Netherlands
e) Norway
f) Singapore
g) Sweden
h) Switzerland

AA+

a) Canada
b) Finland
c) U.S.A.

AA

a) Abu Dhabi (UAE)
b) Qatar

AA-

a) Belgium
b) France
c) U.K.