GMCA GREATER MANCHESTER COMBINED AUTHORITY

Date: 27 September 2024

Subject: Annual Treasury Management Review 2023/24

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

Purpose of Report

This 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 2023/24. 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 2023/24 the minimum reporting requirements were that the Full Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Authority 24 March 2023)
- a mid-year, (minimum), treasury update report (Authority 24 November 2023)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, this Authority has received quarterly treasury management update reports on the following dates 20 September 2023 and 24 January 2024 which were received by the Audit Committee.

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 17 January 2024 in order to support Members' scrutiny role.

Recommendations:

The GMCA is requested to:

Note the annual treasury management report for 2023/24.

Contact Officers

Name of key contact Officer and email address to be included

Steve Wilson

Treasurer

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Claire Postlethwaite

Director of Operational Finance

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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 Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Authority has established good practice in relation to treasury management.

Legal Considerations

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

Financial Consequences – Revenue

Financial consequences are contained in the body of the report.

Financial Consequences – Capital

Financial consequences are contained in the body of the report.

Number of attachments to the report

None

Comments/recommendations from Overview & Scrutiny Committee

N/A

Background Papers

GMCA 24 March 2023 Meeting Treasury Management Strategy Statement 2023/24

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

Bee Network Committee

N/A

Overview and Scrutiny Committee

N/A

1. Executive Summary

1.1 During 2023/24, the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators can be found in the main body of the report.

1.2 The Treasurer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

2. Introduction and Background

2.1 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.

3. The Authority's Capital Expenditure and Financing

3.1 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.

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

	2022/23 Actual £m	2023/24 Budget £m	2023/24 Actual £m
Capital expenditure	433.390	629.334	566.318
Financed in year	(358.800)	(451.790)	(402.376)
Unfinanced capital expenditure	74.590	177.544	163.942

4. The Authority's Overall Borrowing Need

4.1 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 2023/24 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.

4.2 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.

4.3 **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.

4.4 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).

4.5 The Authority's 2023/24 MRP Policy, (as required by Department for Levelling Up, Housing and Communities (DLUHC) Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 24 March 2023.

4.6 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	**2022/23 Actual £m**	**2023/24 Budget £m**	**2023/24 Actual £m**
Opening Balance	2,360.238	2,407.841	2,345.973
Add unfinanced capital expenditure (as above)	74.590	177.544	163.942
Less MRP/ VRP	(87.712)	(98.014)	(93.656)
Less PFI and finance lease repayments	(1.143)	(1.205)	(1.205)
Closing Balance	2,345.973	2,486.166	2,415.054

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

4.8 **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 (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) 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 2023/24. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	2022/23 Actual £m	2023/24 Budget £m	2023/24 Actual £m
Gross borrowing position	1,452.072	1,490.674	1,396.182
CFR	2,345.973	2,486.166	2,415.054
Under/ over funding of CFR	(893.901)	(995.492)	(1,018.872)

4.9 **The authorised limit** - the authorised limit is the 'affordable borrowing limit' required by s3 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 2023/24 the Authority has maintained gross borrowing within its authorised limit.

4.10 **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.

4.11 **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.

	2023/24
Authorised limit	2,771.458
Maximum gross borrowing position during the year	1,431.438
Operational boundary	2,652.122
Average gross borrowing position	1,408.763
Financing costs as a proportion of net revenue stream	14.5%

5. Treasury Position as of 31 March 2024

5.1 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 2023/24 the Authority's treasury position, (excluding borrowing by PFI and finance leases) was as follows:

Debt Portfolio	31 March 2023 Principal £m	Rate/ Return %	Average Life Years	31 March 2024 Principal £m	Rate/ Return %	Average Life Years
PWLB	527.601	4.71	15	508.814	4.76	14
Market	847.526	2.85	19	849.233	2.83	16
Temporary	40.269	0.00	0	5.137	0.00	0
Total external borrowings	**1,415.396**	**3.46**	**17**	**1,363.184**	**3.55**	**15**
PFI Liability	36.676			32.998		
Total debt	**1,452.072**			**1,396.182**		
CFR	2,345.973			2,415.054		
Over/ (Under) borrowing	(893.901)			(1,018.872)		
Total cash and investments	246.710	4.10	0	264.365	5.79	0
Net Debt	**(647.191)**			**(754.507)**		

5.2 The maturity structure of the debt portfolio was as follows:

	2022/23 Actual £m	2023/24 Actual £m
Under 12 months	113.952	88.863
12 months and within 24 months	46.477	44.115
24 months and within 5 years	152.791	192.311
5 years and within 10 years	362.219	387.175

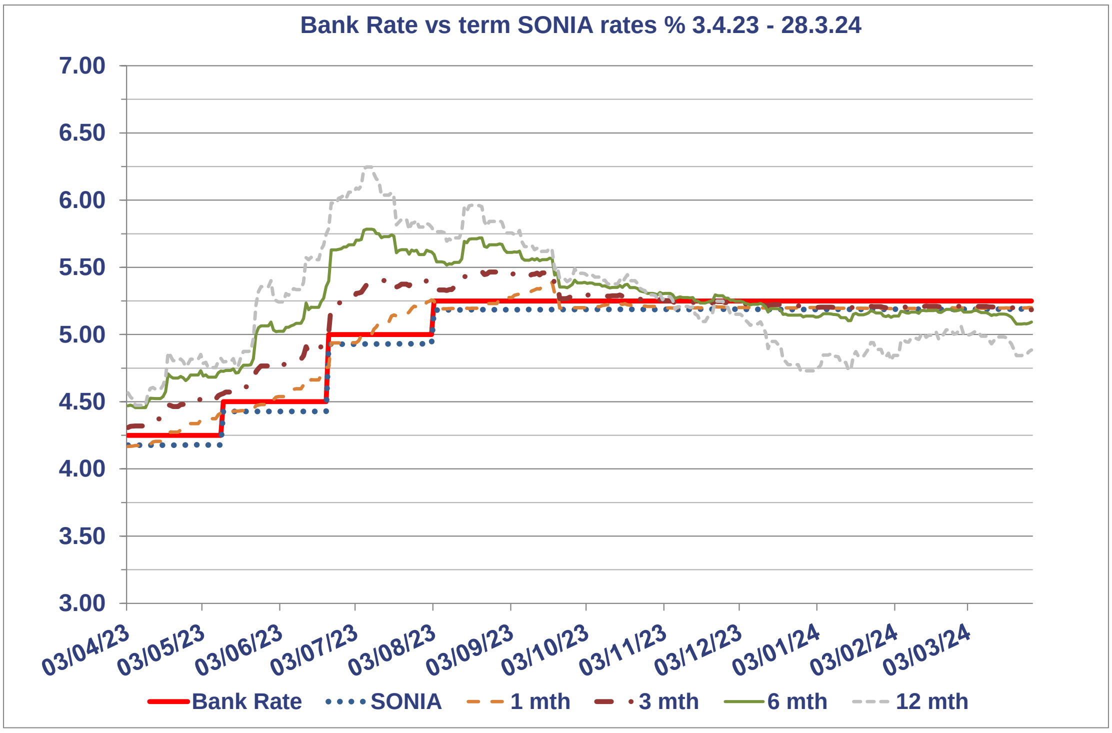
	2022/23 Actual £m	2023/24 Actual £m
10 years and within 20 years	480.302	482.812
20 years and within 30 years	102.979	63.731
30 years and within 40 years	66.676	49.176
40 years and within 50 years	90.000	55.000

Investment Portfolio	2022/23 Actual £m	2022/23 Actual %	2023/24 Actual £m	2023/24 Actual %
Treasury investments				
Banks	9.550	3.8	21.605	8.2
Local Authorities	85.000	33.7	140.000	53.0
DMO	157.740	62.5	102.760	38.8
Total treasury investments	**252.290**	**100.0**	**264.365**	**100.0**
Non-Treasury investments				
Loans	218.864	83.8	132.250	76.4
Equity	42.286	16.2	40.839	23.6
Total non-treasury investments	**261.150**	**100.0**	**173.089**	**100.0**
Treasury investments	252.290	49.1	264.365	60.4
Non-Treasury investments	261.150	50.9	173.089	39.6
Total investments	**513.440**	**100.0**	**437.454**	**100.0**

6. The Strategy for 2023/24

6.1 Investment strategy and control of interest rate risk

Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2023/24



	Bank Rate	SONIA	1 month	3 months	6 months	12 months
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	3 August 2023	28 March 2024	19 September 2023	30 August 2023	7 July 2023	7 July 2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	3 April 2023	4 April 2023	3 April 2023	3 April 2023	6 April 2023	6 April 2023
Average	5.03	4.96	5.02	5.13	5.23	5.25
Spread	1.00	1.01	1.22	1.17	1.33	1.77

6.1.1 Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

6.1.2 Starting April 2023 at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August 2024. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.

6.1.3 The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, 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.

6.1.4 With bond markets selling off, United Kingdom (UK) equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November 2023 and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March 2024.

6.1.5 While the Authority has taken a prudent approach to investing surplus monies, 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 Global Financial Crisis of 2008/09. 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.

6.2 Borrowing strategy and control of interest rate risk

6.2.1 During 2023/24, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), 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 although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened. The Authority has sought to minimise the taking on of long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing.

6.2.2 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 a 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 the stickiness of inflation in the major developed economies, 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.

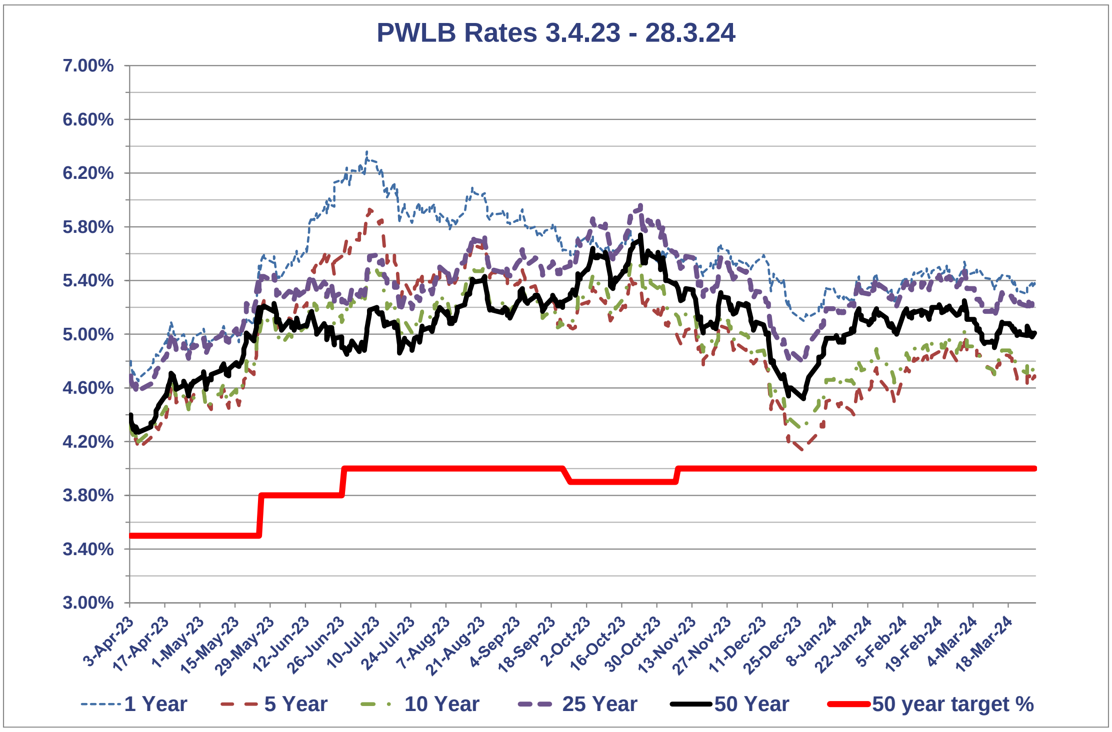
6.2.3 Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

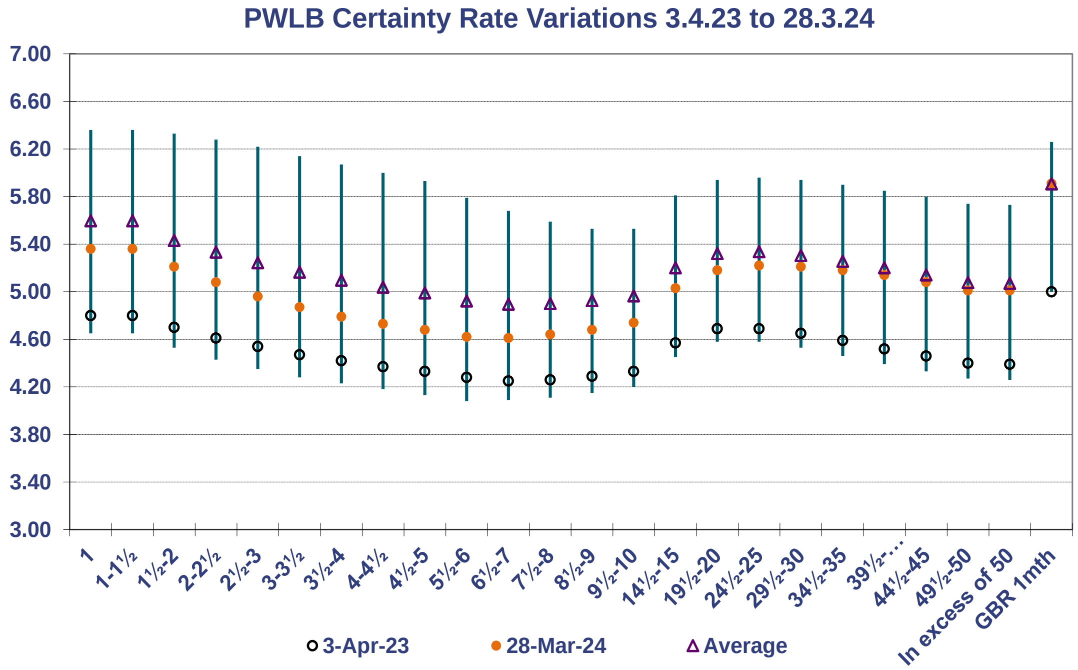
6.2.4 By January 2024 it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the Consumer Prices Index (CPI) measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

6.2.5 Forecasts at the time of approval of the treasury management strategy report for 2023/24 were as follows:

	Mar-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	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earning	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earning	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earning	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

6.2.6 PWLB Rates 2023/24





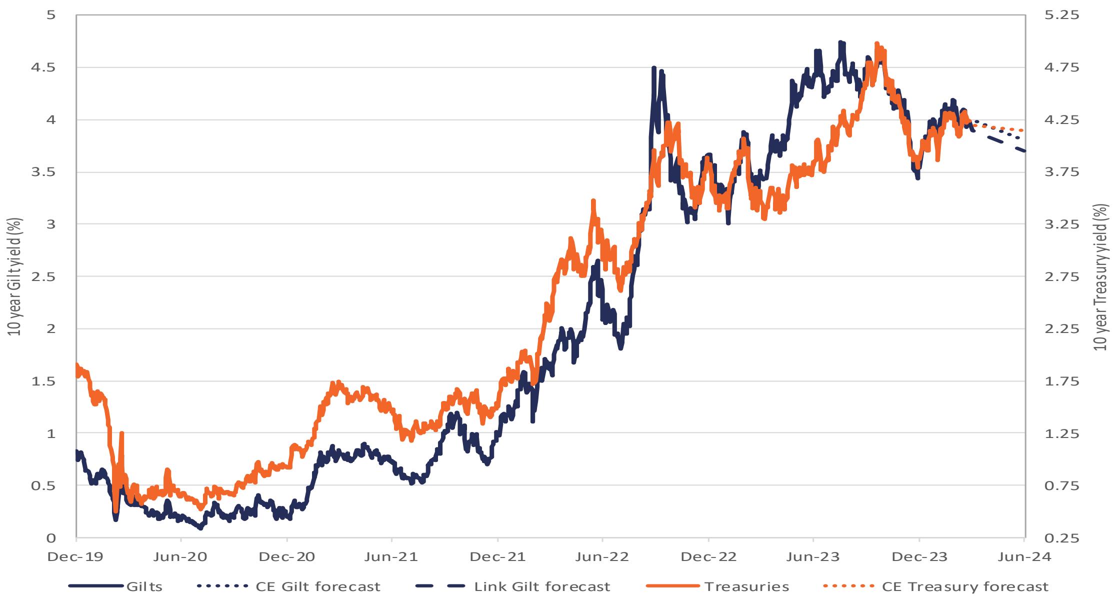
6.2.7 High/ Low/ Average PWLB rates for 2023/24

	1 Year	5 Year	10 year	25 year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	6 April 2023	27 December 2023	6 April 2023	6 April 2023	5 April 2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	6 July 2023	7 July 2023	23 October 2023	23 October 2023	23 October 2023
Average	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

6.2.8 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 United States (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.

6.2.9 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 levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

6.2.10 Graph of 10-year UK gilt yields v. US treasury yields (inclusive of Link's and Capital Economics' forecasts)



6.2.11 Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.

6.2.12 At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

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

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

6.2.14 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 falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target.

6.2.15 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.

6.2.16 The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually 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, and high in historic terms, is an unknown at the time of writing.

7. Borrowing Outturn

7.1 Due to the elevated cost of borrowing long-term, no borrowing was undertaken during the year.

7.2 Borrowing in advance of need

7.2.1 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.

7.3 Rescheduling

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

8. Investment Outturn

8.1 **Investment Policy** – 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 24 March 2023. 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.).

8.2 The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

8.3 **Resources** – 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	2022/23 £m	2023/24 £m
Balances	44.958	44.937
Earmarked reserves	579.972	570.641
Provisions	16.662	20.208
Usable capital receipts	76.193	169.007
Total	**717.785**	**804.793**

Investments held by the Authority

- The Authority maintained an average balance of £392.034m of internally managed funds.
- The internally managed funds earned an average rate of return of 5.06%.
- The comparable performance indicator is the average Overnight SONIA rate which was 4.96%.
- Total investment income was £18.893m compared to a budget of £2.257m.

9. The Economy and Interest Rates

9.1 UK Economy

9.1.1 Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

9.1.2 Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

9.1.3 UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

	UK	**Eurozone**	**US**
Bank Rate	5.25%	4%	5.25%-5.5%
GDP	-0.3%q/q Q4 (-0.2%y/y)	+0.0%q/q Q4 (0.1%y/y)	2.0% Q1 Annualised
Inflation	3.4%y/y (February 2024)	2.4%y/y (March 2024)	3.2%y/y (February 2024)
Unemployment Rate	3.9% (January 2024)	6.4% (February 2024)	3.9% (February 2024)

9.1.4 The Bank of England sprung no surprises in their March 2024 meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no Monetary Policy Committee (MPC) members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that 'the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures', conversely it noted that key indicators of inflation persistence remain elevated and policy will be ‘restrictive for sufficiently long’ and ‘restrictive for an extended period’.

9.1.5 Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative Gross Domestic Product (GDP) growth of -0.3% while y/y growth was also negative at -0.2%.

9.1.6 But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April 2024 and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

9.1.7 Shoppers largely shrugged off the unusually wet weather in February 2024, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

9.1.8 From a fiscal perspective, the further cuts to national insurance tax (from April 2024) announced in the March 2024 Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

9.1.9 As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

9.1.10 Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

9.2 United States of America (USA) Economy

9.2.1 Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

9.2.2 In addition, the Fed will want to shrink its swollen $16 trillion balance sheet at some point. Just because the $ is the world's foremost reserve currency (China owns over $1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

9.2.3 As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025…but how many and when?

9.3 EZ Economy

9.3.1 Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June 2024 rate cut from the current 4% looks probable.

Appendix 1: Investment Portfolio

Investments held as of 31 March 2024:

Organisation Type	Institution	Instrument Type	Start	Maturity	Yield	Principal
AAA rated and Government backed securities	Debt Management Office	Fixed Term Deposit	28-Mar-24	02-Apr-24	5.19%	102,760,000
Banks	Barclays Bank PLC (NRFB)	Call (Instant Access)			4.65%	5,105,000
Banks	Lloyds Bank Plc (RFB)	Certificate of Deposit	06-Oct-23	05-Apr-24	5.57%	10,000,000
Banks	Lloyds Bank Plc (RFB)	Fixed Term Deposit	18-Oct-23	18-Apr-24	5.63%	6,500,000
Joint Fire and Civil Defence	South Yorkshire Fire & Rescue Service	Fixed Term Deposit	18-Mar-24	01-Aug-24	6.65%	5,000,000
Local Authority	Bolton Metropolitan Borough Council	Fixed Term Deposit	18-Mar-24	18-Jun-24	6.60%	5,000,000
Local Authority	Chelmsford City Council	Fixed Term Deposit	19-Feb-24	02-Apr-24	5.60%	5,000,000
Local Authority	Cheltenham Borough Council	Fixed Term Deposit	19-Feb-24	14-May-24	6.15%	5,000,000
Local Authority	Cheltenham Borough Council	Fixed Term Deposit	19-Feb-24	21-May-24	6.15%	5,000,000
Local Authority	Dundee City Council	Fixed Term Deposit	28-Feb-24	29-Apr-24	6.25%	10,000,000
Local Authority	Fife Council	Fixed Term Deposit	28-Mar-24	29-Apr-24	6.50%	5,000,000
Local Authority	Greater London Authority	Fixed Term Deposit	28-Mar-24	11-Apr-24	7.00%	10,000,000
Local Authority	Lancashire County Council	Fixed Term Deposit	20-Dec-23	22-Apr-24	5.90%	5,000,000
Local Authority	Liverpool City Council	Fixed Term Deposit	22-Mar-24	03-May-24	6.40%	5,000,000
Local Authority	Liverpool City Council	Fixed Term Deposit	27-Mar-24	28-May-24	6.60%	10,000,000
Local Authority	London Borough of Barking & Dagenham	Fixed Term Deposit	18-Mar-24	18-Jun-24	6.60%	5,000,000

Organisation Type	Institution	Instrument Type	Start	Maturity	Yield	Principal
Local Authority	Luton Borough Council	Fixed Term Deposit	19-Feb-24	02-Apr-24	5.60%	5,000,000
Local Authority	Moray Council	Fixed Term Deposit	19-Jan-24	19-Apr-24	5.60%	5,000,000
Local Authority	Oldham Metropolitan Borough Council	Fixed Term Deposit	07-Feb-24	07-May-24	5.80%	10,000,000
Local Authority	Oldham Metropolitan Borough Council	Fixed Term Deposit	14-Mar-24	14-Jun-24	6.60%	5,000,000
Local Authority	Oldham Metropolitan Borough Council	Fixed Term Deposit	20-Mar-24	20-Jun-24	6.60%	5,000,000
Local Authority	Peterborough City Council	Fixed Term Deposit	22-Jan-24	05-Apr-24	5.45%	10,000,000
Local Authority	Stockport Metropolitan Borough Council	Fixed Term Deposit	13-Mar-24	15-Apr-24	6.20%	5,000,000
Local Authority	Stockport Metropolitan Borough Council	Fixed Term Deposit	26-Mar-24	03-May-24	6.50%	10,000,000
Local Authority	Surrey County Council	Fixed Term Deposit	27-Mar-24	27-Jun-24	7.00%	10,000,000
Total						**264,365,000**

Appendix 2: Approved countries for investments as of 31 March 2024

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
- USA

AA

- Abu Dhabi (United Arab Emirates)
- Qatar

AA-

- Belgium
- France
- **UK**