



Report for: Cabinet

| | |
|-------------------------------------|--|
| Date of Meeting: | 25 July 2024 |
| Subject: | Treasury Management Annual Outturn Report for 2023-24 |
| Key Decision: | No |
| Responsible Officer: | Sharon Daniels, Strategic Director of Finance |
| Portfolio Holder: | Councillor David Ashton – Portfolio Holder for Finance and Highways |
| Exempt: | No |
| Decision subject to Call-in: | Yes |
| Wards affected: | All Wards |
| Enclosures: | Appendix 1 Link Group Economic Commentary Appendix 2 Borrowing Rate Summary 2023/24 Appendix 3 Investment by Counterparty at 31 March 2024 |

Section 1 – Summary and Recommendations

This report sets out the Treasury Management Outturn position for 2023/24.

Recommendations:

Cabinet is requested to:

1. Note the Treasury Management outturn position for 2023/24.

Reason: (for recommendations)

2. To promote effective financial management and comply with regulations issued under the Local Government Act 2003, the CIPFA Code of Practice on Treasury Management, and the CIPFA Prudential Code for Capital Finance, along with meeting the requirements of the Council's Financial Regulations.
3. To keep Members informed of Treasury Management activities and performance for 2023/24.

Section 2 – Report

1.0 Background

1.1 The purpose of this report is to present the Council's Annual Treasury Management outturn position for 2023/24 in accordance with the Council's Treasury Management Practices and in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) as the treasury management function.

1.2 Treasury management comprises:

- Managing the Council's borrowing to ensure funding of the Council's current and future Capital Programme is at optimal cost;
- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

1.3 The annual revenue budget includes the revenue costs that flow from capital financing decisions. Under the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code, increases in capital expenditure should be limited to levels whereby increases in interest

charges and running costs are affordable within the Council's revenue account.

- 1.4 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation to ensure the security and liquidity of the Council's treasury investments.
- 1.5 The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of the CIPFA Treasury Management Code of Practice.

2.0 **Reporting Requirements**

- 2.1 The Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Treasury Management Strategy Statement Report – The first, and most important report is presented to the Council in February and covers:

- The Treasury Management Strategy Statement (TMSS), which details how the investments and borrowings for capital expenditure are to be organised, including Treasury Limits and Prudential Indicators.
- The Annual Investment Strategy which forms part of the TMSS, (the parameters on how investments are to be managed).
- the MRP Policy (how capital expenditure is charged to revenue over time).

The 2023/24 TMSS was presented to Council on 23rd February 2023.

Mid-Year Review Report – This is presented to Cabinet in December/January and updates Members on the Treasury Management activity of the Authority within within the context of the approved TMSS. This also includes progress of the Capital Programme and reporting on Prudential Indicators to give assurance that the treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

The 2023/24 Mid-Year Report was presented to Cabinet on 5th December 2023

Treasury Management Outturn Report – This report, typically presented to Cabinet in June/July, provides a review of the treasury management activity over the financial year and includes details of a selection of actual Prudential and Treasury Indicators and actual

treasury operations compared to the estimates originally included within the TMSS.

This report fulfills this reporting requirement which is specified in section C93 (ii) in the Financial Regulations.

- 2.2 **Scrutiny** – The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet / Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS). The Council has complied with the CIPFA Treasury Management Code of Practice to the extent that all Treasury Management reports have been scrutinised, though the efficient conduct of the Council’s business may require consideration by GARMS subsequent to consideration by Cabinet/Council due to the practicalities of the committee timetable.
- 2.3 The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

3.0 **Matters covered in the Report**

- 3.1 The Treasury Management Outturn Report for 2023/24 includes a summary of the actual positions in respect of the Authority’s:
- Capital Expenditure, Financing and Limits
 - Treasury Position as at 31st March 2024
 - Summary of 2023/24 Strategy
 - Economic update for 2023/24 (Appendix 1)
 - Borrowing Rate Summary for 2023/24 (Appendix 2)
 - Investment by Counterparty (Appendix 3)

4.0 **Options considered**

- 4.1 The report is in accordance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

5.0 **Treasury Management Outturn Report 2023/24**

- 5.1. The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by Council in February 2023. It stated that for the next three years the Capital Programme would continue to be funded from grants and revenue resources but that substantial borrowing would also be required.

6.0 The Council's Capital Expenditure and Financing

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

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.2. The actual capital expenditure forms one of the required prudential indicators. Tables 1 and 2 below show the actual capital expenditure for 2023/24 against that budgeted and how this was financed.

Table 1: Capital Expenditure

| Capital Expenditure | 2022/23 Actual £'000 | 2023/24 Actual £'000 |
|----------------------------------|----------------------------|----------------------------|
| Resources Directorate | 3,641 | 2,948 |
| People's Directorate | 3,265 | 16,070 |
| Place Directorate | 18,482 | 21,357 |
| Total General Fund | 25,388 | 40,375 |
| Housing Revenue Account (HRA) | 14,988 | 23,843 |
| Total Capital Expenditure | 40,376 | 64,218 |

Table 2: Financing of Capital Expenditure (In Year)

| Finance of Capital Expenditure | 2022/23 Actual £'000 | 2023/24 Actual £'000 |
|--|----------------------------|----------------------------|
| General Fund (GF) | | |
| Capital receipts | 3,541 | 3,252 |
| Capital Grants | 6,593 | 20,142 |
| BCiL | 3,477 | 2,153 |
| NCiL | 209 | 113 |
| Section106 | 613 | 223 |
| Revenue | 0 | 27 |
| Total External Funding | 14,433 | 25,910 |
| Unfinanced Capital Expenditure (GF) | 10,955 | 14,465 |
| Total GF Funding | 25,388 | 40,375 |
| Housing Revenue Account (HRA) | | |
| Capital receipts | 1,761 | 1,335 |
| Capital Grants | 1,400 | 2,596 |
| Section106 | 419 | 1488 |
| Revenue | 7,621 | 6,367 |
| Total External Funding | 11,201 | 11,786 |

| | | |
|---|---------------|---------------|
| Unfinanced Capital Expenditure (HRA) | 3,787 | 12,058 |
| Total HRA Funding | 14,988 | 23,844 |
| | | |
| Total General Fund & HRA Funding | 40,376 | 64,219 |
| Total External Funding | 25,634 | 37,696 |
| Total Unfinanced Capital Expenditure | 14,742 | 26,523 |

6.3. Further details of the capital expenditure position are included within the Revenue and Capital Outturn Report 2023/24 to be reported to Cabinet 25th July 2024.

7.0 The Councils Overall Borrowing Need

7.1. The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This is the total historic outstanding capital expenditure incurred by the Council, which has yet to be paid for by either revenue or capital resources such as grant or other external funding. The CFR increases within any net financing need for the year and reduces through the application of resources, including an annual charge to the revenue budget, the Minimum Revenue Provision (MRP).

7.2. The Council 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 non-HRA borrowing need, (there is no statutory requirement to reduce the HRA CFR).

7.3. Total CFR can also be reduced by the application of additional capital financing resources, (such as unapplied capital receipts or charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP) to repay debt). The Council does not reduce CFR by VRP.

Table 3: Capital Financing Requirement (CFR)

| Capital Financing Requirements (CFR) | 2022/23 Actual £'000 | 2023/24 Draft Actual £'000 |
|---|-------------------------------------|---|
| General Fund CFR | | |
| Opening Balance | 440,926 | 427,771 |
| Add unfinanced capital expenditure (from Table 2) | 10,955 | 14,465 |
| Less MRP | (22,717) | (22,668) |
| Less PFI & Finance lease payments | (1,393) | (1,246) |
| Total General Fund CFR | 427,771 | 418,322 |
| Housing Revenue Account (HRA) CFR | | |
| Opening Balance | 145,862 | 149,230 |
| Add unfinanced capital expenditure (as above) | 3,368 | 12,058 |
| Less HRA PFI & Finance lease payments | - | - |
| Total HRA CFR | 149,230 | 161,288 |

| | | |
|--|----------------|----------------|
| Total Capital Financing Requirement | 577,001 | 579,610 |
|--|----------------|----------------|

Gross Debt and the CFR

- 7.4. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council ensures that its gross external debt (borrowing plus other long-term liabilities such as PFI and Finance Leases) does not, except in the short term, exceed the total CFR.
- 7.5. Table 4 below highlights the Council's under borrowing position which is the gross debt position for 2023/24 of £430.9m (loans, PFI and finance leases) against the CFR in 2023/24 of £579.6m confirming that the Council complied with this Prudential Indicator and stayed within it's CFR. The Council's under borrowing position at the end of 2023/24 was £148.7m (2022/23 £144.9m).

Table 4: Gross Debt and CFR

| Capital Financing Requirements (CFR) | 2022/23 Actual £'000 | 2023/24 Draft Actual £'000 |
|---|-------------------------------------|---|
| General Fund | 427,772 | 418,322 |
| HRA | 149,230 | 161,288 |
| Total CFR | 577,001 | 579,610 |
| Gross Debt | 432,125 | 430,879 |
| Under/(Over) Borrowing | 144,876 | 148,731 |

Financing Costs to Net Revenue Stream

- 7.6. This Prudential 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. The actual financing costs as a proportion of net revenue stream for 2023/24 compared to 2022/23 is included within table 5 below.

Table 5: Financing costs as a proportion of net revenue stream

| Ratio of financing costs to net revenue stream % | 2022/23 Actual | 2023/24 Draft Actual |
|---|---------------------------|---------------------------------|
| General Fund | 19% | 16% |
| HRA | 20% | 19% |
| Total CFR | 20% | 17% |

The Authorised Limit

- 7.7. The Authorised Limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.
- 7.8. The Authorised Limit for 2023/24 was originally set as part of the 2023/24 TMSS at a total of £698m for borrowing and other long term liabilities. In light of the revised capital programme, as part of the 2024/25 TMSS which went to Cabinet in February 2024, the 2023/24

Authorised Limit was revised to £702m consisting of £680m (borrowing) and £25m (other long term liabilities).

- 7.9. With a gross borrowing figure of £430.9m, table 6 below demonstrates that during 2023/24, the Council has maintained gross borrowing within its Authorised Limit.

Table 6: Authorised Limit

| Authorised Limit £'000 Set as part of: | 2023/24 2023/24 TMSS | 2023/24 2024/25 TMSS |
|---|---------------------------------|---------------------------------|
| Borrowing | 674,115 | 677,159 |
| Other Long Term Liabilities | 23,471 | 24,875 |
| Total | 697,586 | 702,034 |

The Operational Boundary

- 7.10. The Operational Boundary is the expected borrowing position of the Council 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.

- 7.11. The Operational Boundary for 2023/24 was originally set as part of the 2023/24 TMSS at a total of £658m. This was revised to reflect the revised capital programme as part of the 2024/25 TMSS to £622m, consisting of £647m (borrowing) and £15m (other long term liabilities).

- 7.12. With a gross borrowing figure of £430.9m, table 7 below demonstrates that during 2023/24 the Council has maintained gross borrowing within its Operational Boundary Limit.

Table 7: Operational Boundary

| Operational Boundary £'000 Set as part of: | 2023/24 2023/24 TMSS | 2023/24 2024/25 TMSS |
|---|---------------------------------|---------------------------------|
| Borrowing | 644,115 | 647,159 |
| Other Long Term Liabilities | 13,471 | 14,875 |
| Total | 657,586 | 662,034 |

8.0 Treasury Position as at 31 March 2024

- 8.1. As demonstrated in table 4, no additional external borrowing was undertaken during 2023/24. The Council maintained an internal borrowing strategy same as the last couple of years, forgoing lost investment income on investments to use its cash balances to temporarily fund capital expenditure and avoid external borrowing costs. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure.

- 8.2. The Council's underlying need to borrow, measured by the increase in the Capital Financing Requirement, showed a small increase of £2.6m over the period (£577m increasing to £579m).
- 8.3. The loans portfolio £417.3m remained the same in 2023/24, comprising £343.4m of PWLB loans and £73.8m of Market loans, and at the 31st March 2024 the portfolio was running at an average interest rate of 3.45% and an average life of 34 years.

Table 8: Borrowing Portfolio

| Borrowing Portfolio £'000 | 31-Mar-23 | | | 31-Mar-24 | | |
|------------------------------|----------------|------------------|--------------------|----------------|------------------|--------------------|
| | Principal | Average Rate (%) | Average Life (yrs) | Principal | Average Rate (%) | Average Life (yrs) |
| PWLB | 343,461 | 3.44 | 34.41 | 343,461 | 3.43 | 33.56 |
| Market | 73,800 | 3.53 | 39.56 | 73,800 | 3.53 | 38.71 |
| Total | 417,261 | 3.45 | 35.32 | 417,261 | 3.45 | 34.47 |

- 8.4. The maturity structure of the debt portfolio remained within the Prudential Indicator limits set as part of the 2023/24 Treasury Management Strategy. The maturity structure table below includes one Lenders Option Borrowers Option (LOBO) market loan at its next call date, which is the earliest date the lender can require repayment. The table reflects this position in respect of the maturity profile of the debt portfolio.

Table 9: Maturity Structure of Borrowing

| Maturity structure of borrowing | Lower | Upper | Actual 31.03.23 | Actual 31.03.24 |
|---------------------------------|-------|-------|-----------------|-----------------|
| Under 12 months | 0% | 40% | 5% | 5% |
| 12 months to 2 years | 0% | 30% | 0% | 0% |
| 2 years to 5 years | 0% | 30% | 1% | 2% |
| 5 years to 10 years | 0% | 40% | 6% | 6% |
| 10 years and above | 30% | 100% | 88% | 87% |

- 8.5. Appendix 2 provides a summary of PWLB maturity loan certainty rates across 2023/24 over various durations from 1-50 years.

Investment Outturn

- 8.6. The Council made investments throughout 2023/24 in accordance with the Treasury Management Strategy approved by Full Council in February 2023.
- 8.7. Due to the internal borrowing strategy being undertaken by the Council, cash balances continued to be held on a short term basis for liquidity purposes, in Money Market Funds and banks throughout 2023/24.
- 8.8. Investment returns picked up throughout the course of 2023/24 as central banks including the Bank of England, realised that inflationary

pressures were not transitory, and that tighter monetary policy was called for.

- 8.9. The expectation for interest rates within the treasury management strategy for 2023/24 (table 10) was based on suggested gradual rises with forecast for Bank Rate expected to peak at 4.5%. However the continued rise in inflation resulted in Bank of England keeping rates much higher than initial forecast figures at 5.25%.

Table 10: Link Asset Services Interest Rate Forecast 2022-2026 (TMSS 2023/24)

| Link Group Interest Rate View | 19.12.22 | | | | | | | | | | | | |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
| BANK RATE | 3.50 | 4.25 | 4.50 | 4.50 | 4.50 | 4.00 | 3.75 | 3.50 | 3.25 | 3.00 | 2.75 | 2.50 | 2.50 |
| 3 month ave earnings | 3.60 | 4.30 | 4.50 | 4.50 | 4.50 | 4.00 | 3.80 | 3.30 | 3.00 | 3.00 | 2.80 | 2.50 | 2.50 |
| 6 month ave earnings | 4.20 | 4.50 | 4.60 | 4.50 | 4.20 | 4.10 | 3.90 | 3.40 | 3.10 | 3.00 | 2.90 | 2.60 | 2.60 |
| 12 month ave earnings | 4.70 | 4.70 | 4.70 | 4.50 | 4.30 | 4.20 | 4.00 | 3.50 | 3.20 | 3.10 | 3.00 | 2.70 | 2.70 |
| 5 yr PWLB | 4.20 | 4.20 | 4.20 | 4.10 | 4.00 | 3.90 | 3.80 | 3.60 | 3.50 | 3.40 | 3.30 | 3.20 | 3.10 |
| 10 yr PWLB | 4.30 | 4.40 | 4.40 | 4.30 | 4.10 | 4.00 | 3.90 | 3.80 | 3.60 | 3.50 | 3.40 | 3.30 | 3.30 |
| 25 yr PWLB | 4.60 | 4.60 | 4.60 | 4.50 | 4.40 | 4.20 | 4.10 | 4.00 | 3.90 | 3.70 | 3.60 | 3.50 | 3.50 |
| 50 yr PWLB | 4.30 | 4.30 | 4.30 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.50 | 3.30 | 3.20 | 3.20 |

- 8.10. The investment portfolio remained highly liquid throughout 2023/24. Investments balances decreased from £79.4m in 2022/23 to £74m, while the average rate of interest saw a considerable increase from 0.81% as at 31st March 2023 to 4.41% as at 31st March 2024 due to increase in the Bank Rate mentioned in Paragraph 8.9 above. Table 11 below shows the split of investments categorised by type at 31 March 24 and the previous year.

- 8.11. The Council's investment income budget for 2023/24 was £1.1m while actual income was £4.2m. This includes income of £1.14m from the £15m loan to the West London Waste Authority which the Council approved in July 2013 to finance the cost of a new energy waste plant. The term of the loan is 25 years at an interest rate of 7.604%. Loan balance when the plant was live was £16.89m which included interest accrued from 2013 to 2016. The loan balance at 31 March 2024 was £14.54m (2022/23 £14.91).

Table 11: Treasury Investment Portfolio at 31 March.

| Investment Portfolio | 31-Mar-23 | | | 31-Mar-24 | | |
|----------------------|-----------------|------------------|---------------------|-----------------|------------------|---------------------|
| | Principal £'000 | Average Rate (%) | Average Life (days) | Principal £'000 | Average Rate (%) | Average Life (days) |
| MMF | 1,651 | 3.95 | 1 | 40,008 | 5.24 | 1 |
| Banks | 48,743 | 2.01 | 3 | 26,121 | 4.69 | 1 |
| UK Government | 29,000 | 3.99 | 7 | 7,900 | 5.19 | 5 |
| Total | 79,394 | 2.77 | 5 | 74,029 | 5.04 | 1 |

9.0 Procurement Implications

- 9.1. There are no procurement implication arising from this report.

10.0 Legal Implications

- 10.1. The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

11.0 Financial Implications

- 11.1. In addition to supporting the Council's revenue and capital programmes, the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget.
- 11.2. There was a net underspend of £5.672m in Treasury Management. This is primarily as a result of additional interest income of £3.083m owing to favourable interest rates throughout 2023/24 and an underspend of £2.788m on third party loan interest budget. These was partially offset by a minor overspend on Minimum Revenue Provision (MRP).

12.0 Equalities implications / Public Sector Equality Duty

- 12.1. There are no direct equalities impact. Compliance with s.149 of the Equality Act is integral to all aspects of decision-making.

13.0 Council Priorities

- 13.1. This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Sharon Daniels

Signed by the Chief Financial Officer

Date: 02/07/2024

Statutory Officer: Caroline Eccles

Signed on behalf of the Monitoring Officer

Date: 02/07/2024

Chief Officer: Sharon Daniels

Signed by the Corporate Director

Date: 02/07/2024

Head of Procurement: Nimesh Mehta

Signed by Head of Procurement

Date: 04/07/2024

Has the Portfolio Holder(s) been consulted? Yes

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

EqIA carried out: NO

This report and contents has no direct equalities impact.

Section 4 - Contact Details and Background Papers

Contact: Miriam Adams, Interim Head of Treasury and Pensions

Direct Telephone 0208 3964241, miriam.adams@harrow.gov.uk

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee: NO

Appendix 1: Link Group Economic Commentary

UK. Economy - 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.

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.

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 (Feb) | 2.4%/y/y (Mar) | 3.2%/y/y (Feb) |
| Unemployment Rate | 3.9% (Jan) | 6.4% (Feb) | 3.9% (Feb) |

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no 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".

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 GDP growth of -0.3% while y/y growth was also negative at -0.2%.

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 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.

Shoppers largely shrugged off the unusually wet weather in February, 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.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March 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.

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.

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.

USA. - 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.

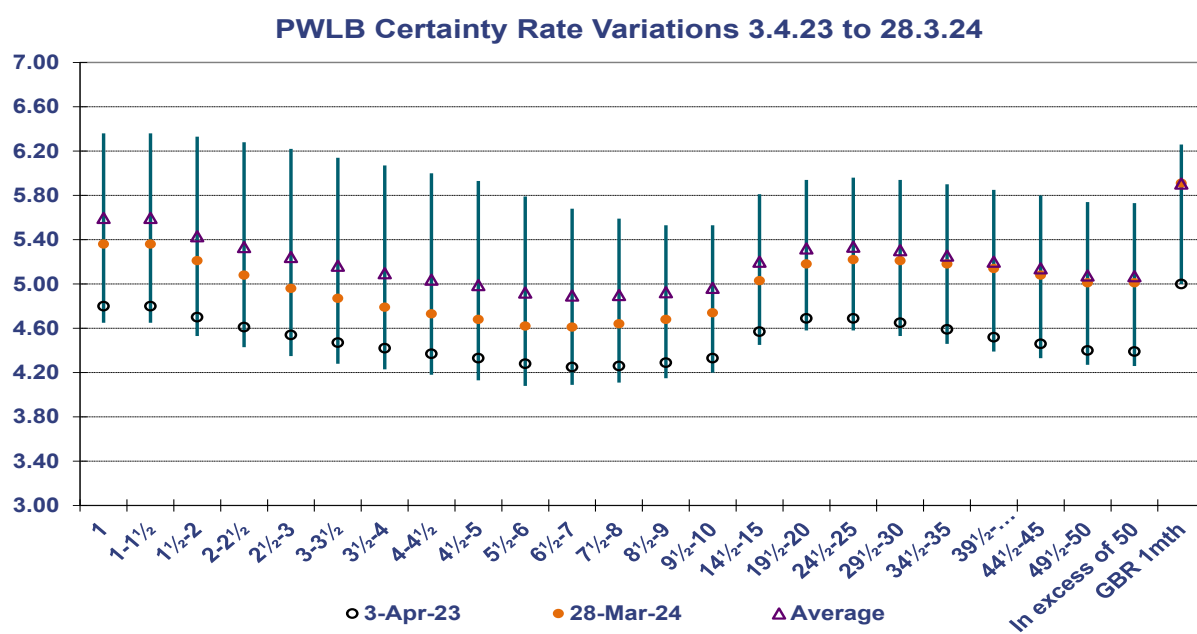
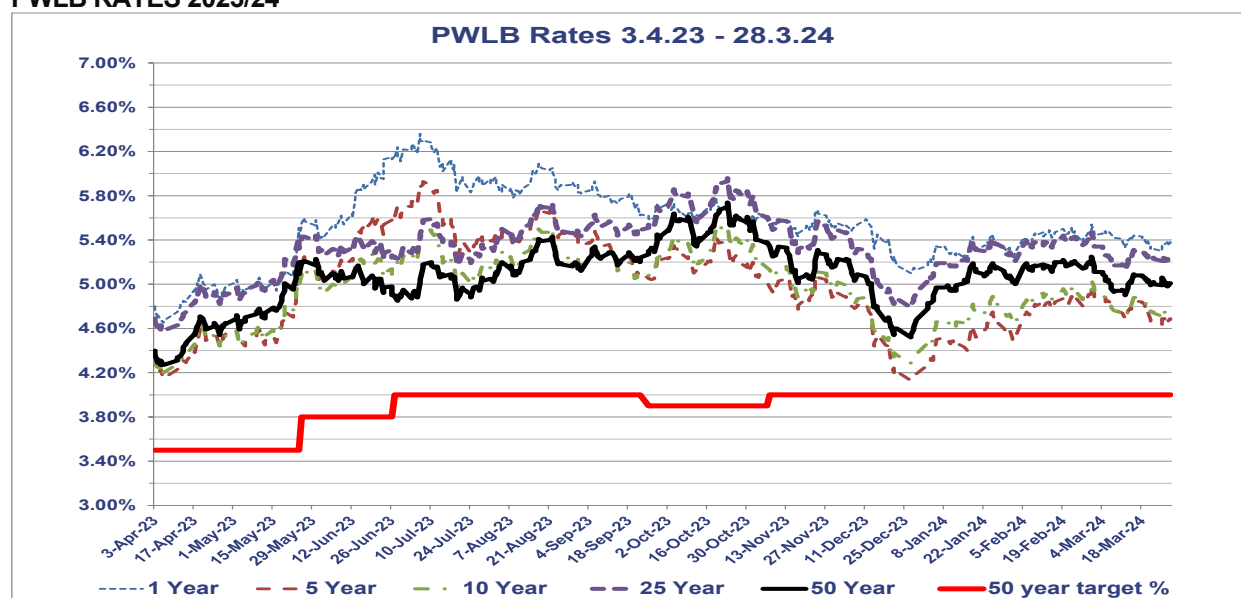
In addition, the Fed will want to shrink its swollen \$16 trillion balance sheet at some point. Just because the \$ is the world's foremost reserve currency (China owns over \$1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury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

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?

Euro Zone. Economy - 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.

Appendix 2: Borrowing Rate Summary 2023/24

PWLB RATES 2023/24



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 | 06/04/2023 | 27/12/2023 | 06/04/2023 | 06/04/2023 | 05/04/2023 |
| High | 6.36% | 5.93% | 5.53% | 5.96% | 5.74% |
| Date | 06/07/2023 | 07/07/2023 | 23/10/2023 | 23/10/2023 | 23/10/2023 |
| Average | 5.54% | 4.99% | 4.97% | 5.34% | 5.08% |
| Spread | 1.71% | 1.80% | 1.33% | 1.38% | 1.47% |

Appendix 3: Investment by Counterparty

Investment List at 31 March 2024

| Investments at 31 March 2024 | Principal £'000 | Interest Rate £'000 | Start Date | Maturity Date | Lowest LT Fund Rating |
|---|--------------------|---------------------------|---------------|------------------|--------------------------|
| Money Market Funds (MMF) | | | | | |
| Deutsche Managed Sterling Fund (Reserved) | 20,000 | 5.27% | | MMF | AAAm |
| Fidelity Institutional Liquidity Sterling Fund (Class A) | 8 | 5.24% | | MMF | AAAm |
| Royal London Sterling Liquidity Money Market Fund (Y Dist.) | 20,000 | 5.22% | | MMF | AAAm |
| Total Money Market Funds | 40,008 | | | | |
| Banks | | | | | |
| Handelsbanken Plc | 238 | 3.00% | | Call Account | AA- |
| Lloyds Bank Plc (RFB) | 19,954 | 5.14% | | Call Account | A+ |
| The Royal Bank of Scotland Plc (RFB) | 5,929 | 3.25% | | Call Account | A+ |
| Total Banks | 26,121 | | | | |
| Debt Management Office (DMO) | | | | | |
| DMO 1 | 2,700 | 5.19% | 26/03/2024 | 03/04/2024 | AA- |
| DMO 2 | 2,300 | 5.19% | 28/03/2024 | 03/04/2024 | AA- |
| DMO 3 | 2,900 | 5.19% | 28/03/2024 | 06/04/2024 | AA- |
| Total DMO | 7,900 | | | | |
| Total Investments at 31 March 2024 | 74,029 | 5.04% | | | |

Investments at 31 March 2023

| Investments at 31 March 2023 | Principal £'000 | Interest Rate £'000 | Start Date | Maturity Date | Lowest LT Fund Rating |
|--|--------------------|---------------------------|---------------|-------------------------------|--------------------------|
| Money Market Funds (MMF) | | | | | |
| Deutsche Managed Sterling Fund (Reserved) | 1,644 | 3.95% | | MMF | AAAm |
| Fidelity Institutional Liquidity Sterling Fund (Class A) | 7 | 4.10% | | MMF | AAAm |
| Total Money Market Funds | 1,651 | | | | |
| Banks | | | | | |
| Handelsbanken Plc | 11,107 | 1.70% | | Call Account | AA- |
| Lloyds Bank Plc (RFB) | 10,961 | 4.16% | | Call Account | A+ |
| The Royal Bank of Scotland Plc (RFB) | 26,506 | 1.25% | | Call Account | A+ |
| Lloyds Bank Plc (RFB) | 169 | 1.85% | | 32 Day Notice Call Account | A+ |
| Total Banks | 48,743 | | | | |
| Debt Management Office (DMO) | | | | | |
| DMO 1 | 3,500 | 3.87% | 17/03/2023 | 04/04/2023 | AA- |
| DMO 2 | 5,000 | 4.05% | 27/03/2023 | 04/04/2023 | AA- |
| DMO 3 | 5,000 | 3.90% | 21/03/2023 | 05/04/2023 | AA- |
| DMO 4 | 4,000 | 4.00% | 23/03/2023 | 06/04/2023 | AA- |
| DMO 5 | 3,000 | 4.05% | 28/03/2023 | 06/04/2023 | AA- |
| DMO 6 | 4,000 | 4.05% | 29/03/2023 | 11/04/2023 | AA- |
| DMO 7 | 2,500 | 4.05% | 30/03/2023 | 12/04/2023 | AA- |
| DMO 8 | 2,000 | 4.05% | 31/03/2023 | 13/04/2023 | AA- |
| Total DMO | 29,000 | | | | |
| Total Investments at 31 March 2023 | 79,394 | 2.77% | | | |