3.0 TREASURY MANAGEMENT

Overview

3.1 This section of the report presents details of the Council's Treasury Management Activity during Q1 2023/24, changes to the Approved Lending List and other current policy issues and considerations.

3.2 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Council's borrowing, cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Council has adopted the Code and complies with its requirements.

3.3 The CIPFA Code of Practice for Treasury Management recommends that Members should be informed of Treasury Management activities at least twice a year but preferably quarterly. This report ensures, therefore, that the Council is adopting Best Practice in accordance with CIPFA's Code of Practice.

Economic Update

3.4 The Council's treasury advisors, Link Group, summarised the key points associated with economic activity in Q1 2023/24 up to 30 June 2023**:**

- a 0.2% m/m rise in real GDP in April, partly due to fewer strikes;
- CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
- core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
- a tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%; and
- interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%.

A more detailed economic commentary on developments during Q1 2023/24 is included in **Appendix E.**

Interest Rate Forecasts

3.5 The current interest rate forecasts (26 June 2023) of Link Group are as follows

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

* PWLB Rates are shown net of certainty rate 0.2% discount

The above forecast reflects a view that the MPC will continue to increase interest rates to reduce inflation. This has happened to a degree, especially as it moved to a more aggressive 0.5% rise in June but, with inflation remaining elevated, it is anticipated that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.

It is expected that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.

In the longer term, it is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are over.

In the upcoming months, the forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the on-going conflict between Russia and Ukraine and economic issues in China.

Annual Investment Strategy

3.6 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 22 February 2023. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.7 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

3.8 The approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2023.

3.9 The investment activity up to Q1 2023/24 was as follows:

- Balance invested at 30 June 2023: £573.6m
- Average Daily Balance 2023/24 up to 30 June 2023: £563.4m
- Average Interest Rate Achieved up to 30 June 2023: 4.29%

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 grant and progress on the capital programme.

3.10 The average return to Q1 2023/24 compares with the backward looking SONIA rates as follows:

- 4.93% 7 day
- 4.94% 1 month
- 5.27% 3 months
- 5.67% 6 months
- 6.06% 12 months

3.11 It is also a key requirement of the CIPFA Code of Practice that annual Treasury Management Strategies should be kept under constant review throughout the year and reported to Members as appropriate. Although there continues to be uncertainty in the financial and banking market, both globally and in the UK, **it is considered that the Strategy approved in February 2023 is still fit for purpose in the current economic climate**. No changes are therefore considered necessary to the Strategy at this stage.

Approved Lending List

3.12 The Approved Lending List as at 30 June 2023 is attached as **Appendix B** with changes made during Q1 2023/24 being reported in **Appendix C**.

Debt and borrowing

3.13 The Council's external debt outstanding at 30 June 2023 and forecast position for 2023/24 is as follows:-

Detail	PWLB		Money Market Loans		Total	
	£m	%	£m	%	£m	%
At 31 March 2023	**355.8**	**3.73**	**24.0**	**4.04**	**379.8**	**3.75**
Loan Repayments	0.6		0.0		0.6	
New Loans Taken	0.0		0.0		0.0	
= Loans Outstanding at 30 June 2023	**355.2**	**3.73**	**24.0**	**4.04**	**379.2**	**3.75**
Further Scheduled In Year Repayments	1.5		0.0		1.5	
Forecast Additional Loans to be Taken	0.0		0.0		0.0	
= Estimated Loans Outstanding at 31 March 2023	**353.7**	**3.74**	**24.0**	**4.05**	**377.7**	**3.76**

3.14 Any change to the forecast debt outstanding by the end of 2023/24 will be largely determined by whether the borrowing requirement for 2023/24 is ultimately financed by external borrowing or internal borrowing.

3.15 Based on the Q1 Capital Plan update the total external borrowing requirement for 2023/24 is currently forecast to be:-

Detail	£m
2023/24 Borrowing Requirement	
Borrowing Requirement	35.3
Less Company Loans advanced in year to be Repaid	
Revenue Provision for Debt Repayment (MRP)	-15.0
Refinance 2022/23 PWLB Loan Repayments	2.1
= Total 2023/24 Borrowing Requirement	**22.4**

3.16 A value for money assessment would therefore indicate that value could be best obtained by avoiding/delaying new borrowing and continuing to use internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term revenue savings and produce other benefits, but is not risk free.

3.17 This Internal capital financing option will therefore continue to be actively adopted on an ongoing basis in order to achieve short term revenue savings and mitigate the credit risk incurred by holding investments in the market.

3.18 New external borrowing rates (fixed interest maturity rates from the PWLB reflecting the 0.2% 'certainty discounts') during Q1 2023/24 were as follows:-

FINANCIAL YEAR TO QUARTER ENDED 30/6/2023						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.00	4.93	4.94	5.27	5.67	6.06
High Date	22/06/2023	30/06/2023	29/06/2023	30/06/2023	30/06/2023	30/06/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.44	4.37	4.46	4.66	4.90	5.08
Spread	0.75	0.75	0.77	0.96	1.21	1.59

3.19 No debt repayment or rescheduling exercises have been affected to date in 2023/24 or are in the pipeline but the situation continues to be monitored to identify any opportunities that may arise. Such opportunities, however, have been limited in the current economic climate and structure of interest rates.

Treasury and Prudential Indicators

3.20 It is a statutory duty for the Council to determine and keep under review its *Affordable Borrowing Limits*.

3.21 During the quarter ended 30 June 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24. The Corporate Direct - Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

3.22 The prudential and treasury Indicators are shown in Appendix F.

Impact of Treasury Management Activities on the Revenue Budget

3.23 Based on the Treasury Management activity at Q1 2023/24 and a forecast for the remainder of the year, the revenue impact is as follows:

Interest rates have been higher than originally forecast due to recent increases in base rate. Returns will reviewed in advance of Q2 as uncertainties over inflation continue.

The forecast outturn for interest paid on long term borrowing is £14.9m.

The forecast outturn for the Minimum Revenue Provision (MRP) is £15.0m.

Capital Strategy

3.24 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2023/24, approved in February 2023. The Capital Strategy sets out how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.25 Alternative non-treasury investments are considered as part of the Capital Strategy. Given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, all investments are subject to consideration and where necessary recommendations of the Commercial Investment Board.

3.26 The alternative investments considered by the Commercial Investment Board are as follows:

Type of Investment	Maximum Limit £m	Invested as at 30/06/2023 £m	Rate of Return %
Alternative Treasury Instruments			
Money Market Funds	20.0	0.0	0.00
Enhanced Cash Funds	20.0	0.0	0.00
Certificates of Deposit (CDs)	20.0	0.0	0.00
Property Funds	20.0	15.9	1.91
Total Alternative Treasury Instruments	**80.0**	**15.9**	**1.91**
Alternative Investments			
Loans to Council Companies			
- Yorwaste	25.0	3.7	9.00
- Brierley		1.5	11.00
- First North Law		0.1	8.00
- NY Highways		11.0	11.50
- Broadacres Housing Association		33.6	4.30
- Bracewell Housing Ltd		0.7	10.50
- Selby & District Housing Trust		2.7	4.20
Total Loans to Council Companies	**25.0**	**62.2**	**7.03**
Other Alternative Investments			
Spend to Save	5.0	0.0	0.00
Loans to Housing Associations	10.0	0.0	0.00
Local Economic Growth Projects	15.0	0.0	0.00
Solar Farm (or similar) Projects	5.0	0.0	0.00
Commercial Investments	20.0	13.6	4.61
Total Other Alternative Investments	**45.0**	**13.6**	**4.61**
Total Alternative Investments*	**60.0**	**75.8**	**6.59**

* Total Alternative Investments capped at £60m

3.27 The position on Property Funds at 30 June is as follows:-

In Year Performance

			In Year Performance Q1 2023/24			
Fund	Bwd Investment Valuation	Valuation as at 30/06/23	Capital Gain / (Loss)		Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	5,095.6	5,043.3	(52.3)	-1.0	35.1	1.8
Threadneedle	4,791.2	4,798.7	7.5	0.2	55.8	2.9
Hermes	1,921.2	1,897.1	(24.1)	-1.3	2.5	0.8
Fidelity	2,864.1	2,811.2	(52.9)	-1.8	32.8	1.1
Total	14,672.1	14,550.3	(121.8)	-0.8	126.2	1.9

Total Fund Performance

Fund	Investment £k	Valuation as at 30/06/2023	Total Performance			
			Capital Gain / (Loss)		Forecasted Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	5,505.5	5,043.3	(462.2)	-8.4	443.2	8.1
Threadneedle	5,366.3	4,798.7	(567.6)	-10.6	608.4	11.3
Hermes	2,000.0	1,897.1	(102.9)	-5.1	236.1	11.8
Fidelity	3,000.0	2,811.2	(188.8)	-6.3	452.8	15.1
Total	15,871.8	14,550.3	(1,321.5)	-8.3	1,740.5	11.0

3.28 While Property Funds continue to provide a revenue return as noted in the table above, the funds have experienced some capital losses.

3.29 Property funds are long term investments and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss, funds will be set aside to ensure there is no impact on the General Fund until units in the funds are sold.

3.30 Given the volatility and risk within the market, all property funds will be reviewed in terms of their strategies to mitigate risk within their portfolios, in the context of the longer term nature of these investments. Should any changes to these investments be considered necessary, these will be reported to the Executive and to Council if required.

3.31 The position on Commercial Property investments at 30 June 2023 is as follows:-

Property	Investment £k	Valuation as at 31/03/23	Performance		
			Total Capital Gain / (Loss)		Forecasted Return
	£000	£000	£000	%	%
Harrogate Royal Baths	9,504.0	7,000.0	(2,504.0)	(26.3)	1.00
Bank Unit in Stafford Town Centre	876.0	790.0	(86.0)	(9.8)	5.75
Co-op Store in Somercotes	1,497.3	1290.0	(207.3)	(13.8)	5.06
Shopping centre – Harrogate	925.0	925.0	0.0	0.0	3.07
Secondary industrial land - Harrogate	792.0	792.0	0.0	0.0	6.58
Total	13,594.3	10,797.0	(2,797.3)	(23.6)	4.61

3.32 The value of Commercial Property investments will continue to be assessed as markets recover from the impact of Covid-19. Commercial Property is a long term investment and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss funds will be set aside to ensure that there is no impact on the General Fund at the point of any future sale.

3.33 The Council continues to review potential commercial investments, but will now consider any potential investment opportunities alongside the implications for PWLB borrowing going forward, however, the 2023/24 Capital Plan does not include any plans to purchase commercial assets primarily for yield.

Other Loans

3.34 The County Council has also provided the following loan facilities:-

Lender	Date Advanced	Original Loan	Interest Rate	Loan Outstanding as at 31/12/22	Revenue Return (as at 31/12/22)	
		£000	%	%	£000	%
Ryedale Learning Trust	Feb-21	1,455.0	6.60	1,326.8	41.6	3.14

3.35 Ryedale Learning Trust

The Ryedale Federation of four schools (Ryedale School, Helmsley CPS, Sinnington CPS and Kirkbymoorside CPS) converted to a new Multi Academy Trust, The Ryedale Learning Trust, in February 2021. As part of the conversion process, a novation was agreed to transfer the school loans currently in place with the federated schools to the Multi Academy Trust on commercial terms.

Local authorities are prohibited from using resources to financially support academy schools by regulation and, consequently, the loan was funded from General Reserves (not Schools Block Reserves) at a commercial rate of 3.1% + Base Rate. The loan is to be repaid in line with an agreed schedule and fully repaid by 2032/33.

Other Treasury Management Development and Issues

3.36 The DLUHC has issued the Consultation on Local Government capital risk mitigation measures in the Levelling Up and Regeneration Bill (LUR Bill) in July 2023. The LUR Bill was introduced in May 2022 and sets out four risk metrics for local authorities in England, which, if breached would mean the authority comes into scope of the new powers which provide the government with the flexibility to intercede where it is appropriate to do so. The detailed methods of calculation are to be included in regulations, reflecting the fact that specific risks evolve and emerge, and the consultation is now seeking views on appropriate calculations which give a reasonable reflection of an authority's level of risk for that metric. The consultation will last for 10 weeks.

RECOMMENDATIONS

3.37 That Executive

i. notes the position on the Council's Treasury Management activities during the first quarter of 2023/24

ii. refers this report to the Audit Committee for their consideration as part of the overall monitoring arrangements for Treasury Management.

TREASURY MANAGEMENT APPENDICES

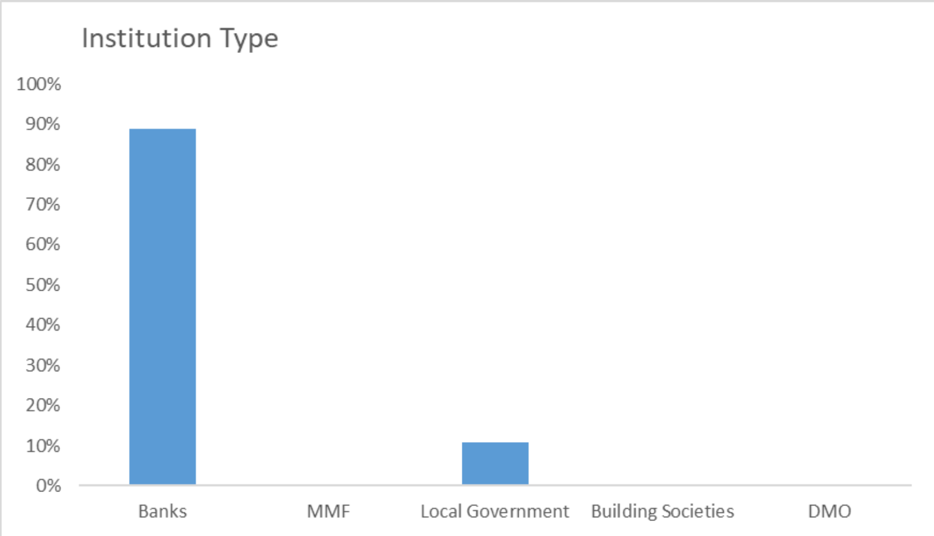
Appendix A	Analysis of investments placed as at 30 June 2023
Appendix B	Approved Lending List with counterparty limits
Appendix C	Changes to the Approved Lending List during Q1 2023/24
Appendix D	Treasury Management Monitoring and Reporting Arrangements 2023/24
Appendix E	Detailed Economic Commentary on Developments during Q1 2023/24
Appendix F	Treasury and Prudential Indicators

Analysis of loans outstanding as at 30 June 2023

Actual Loans Outstanding – Summarised by Organisation	
	£m
Local Authority	62.5
Santander	42.0
Standard Chartered	65.0
Goldman Sachs	76.0
National Westminster	55.0
Helaba	25.0
DBS	25.0
Sumitomo Mitsui BCE	75.0
Handelsbanken	70.0
Barclays	42.1
Bank of Scotland	30.0
Furness Building Society	1.0
National Bank of Canada	5.0
	573.6

Other Bodies	30-Jun-23		31-Mar-23	
	£m	%	£m	%
NY Pension Fund	-14.7		1.8	0.3
NY Fire and Rescue Authority	6.7		7.2	1.3
Richmondshire DC	0.0		7.8	1.4
Yorkshire Dales National Park	4.6		4.0	0.7
North York Moors National Park	6.0		6.4	1.1
Peak District National Park	8.0		7.5	1.3
Selby District Council	0.0		77.9	13.9
National Parks England	0.4		0.2	0.0
Align Property Partners	1.9		1.9	0.3
NYnet Limited	12.7		11.7	2.1
Total Other Bodies	25.6	4.5	126.4	22.6
Cash Balances held by NYC	548.0	95.5		
Cash Balances held by NYCC			315.9	56.4
Cash Balances held by Legacy Councils			118.3	21.1
Total Investment	**573.6**	**100.0**	**560.1**	**100.0**

Rates as at 30 June 2023	
	%
Bank Rate	5.00
Investment Rates	
- NYCC overnight (on call)	4.55
- 1 month	5.00
- 6 months	5.80
- 1 year	6.00
- Government Debt Management Office Account	5.00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80%
70%
60%
50%
40%
30%
20%
10%
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Banks
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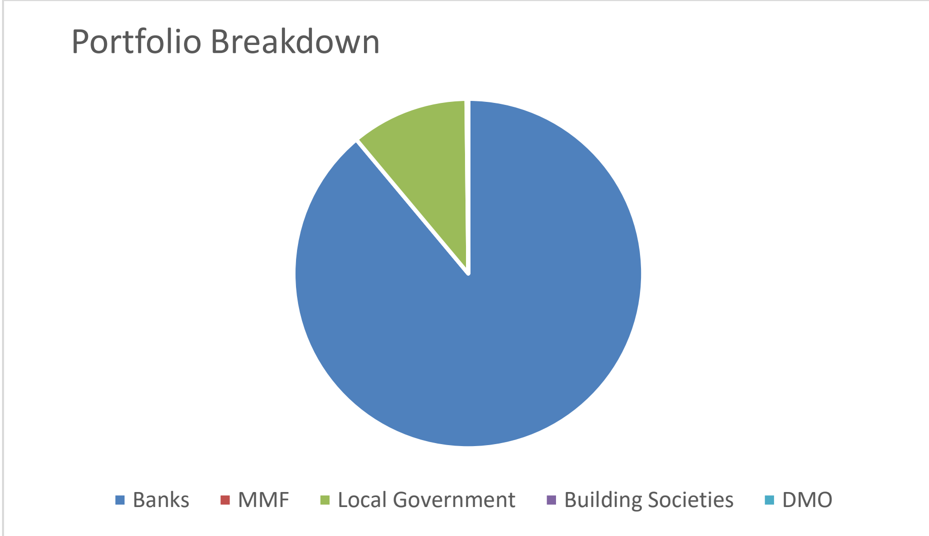
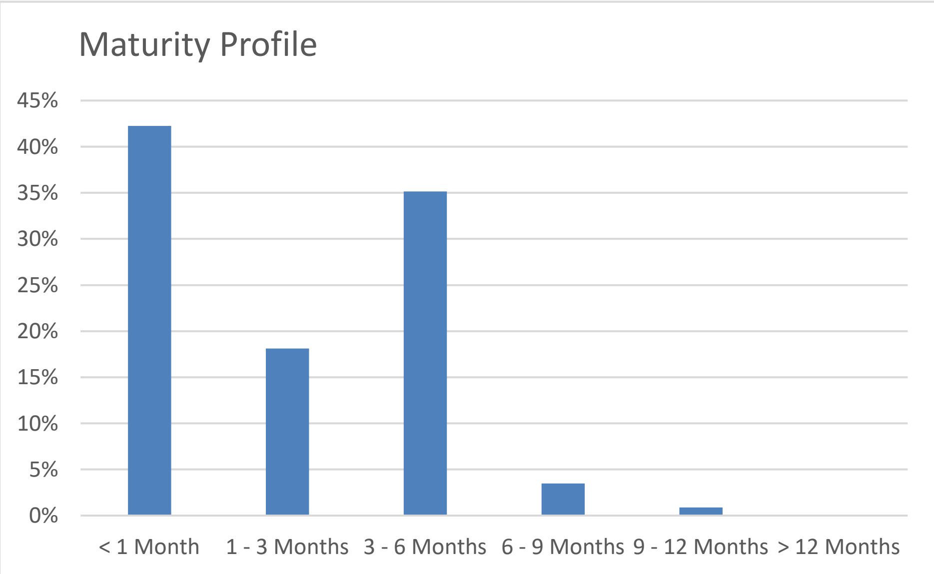
Local Government
Building Societies
DMO


Portfolio Breakdown
Banks
MMF
Local Government
Building Societies
DMO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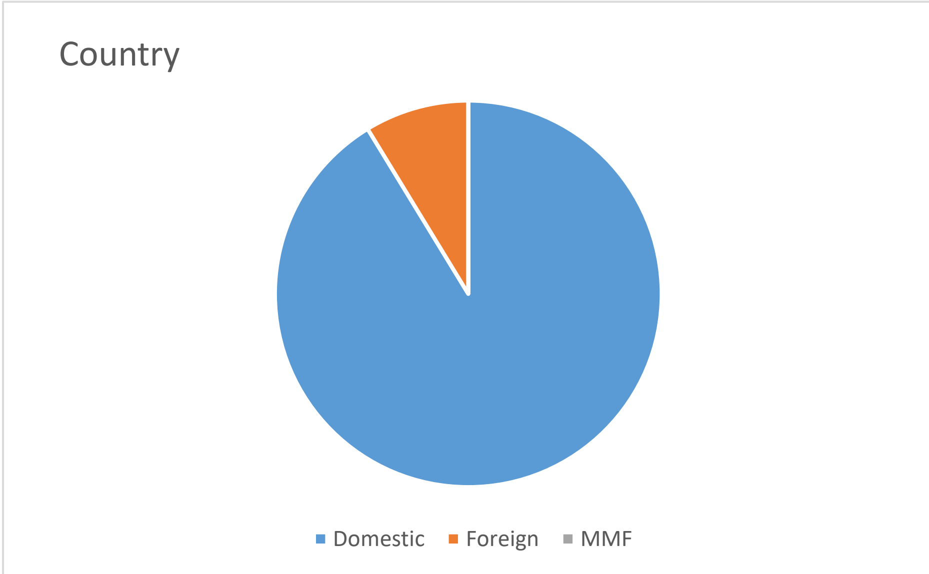

Country
Domestic
Foreign
MMF

Appendix B

APPROVED LENDING LIST Q1

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £40m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	90.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	90.0	100 days	-	-
Barclays Bank UK PLC (RFB)	GBR		6 months		
Bank of Scotland PLC (RFB)	GBR	80.0	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	80.0	6 months	-	-
Sumitomo Mitsui	GBR	80.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handlesbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	3 months	-	-
Coventry Building Society	GBR	40.0	6 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	365 days	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	40.0	365 days	-	-
DBS (Singapore)	SING	40.0	365 days	-	-
Bayerische Landesbank	GER	40.0	6 months	-	-
National Bank of Canada	CAN	40.0	6 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		30.0	365 days	5.0	5 years
Police / Fire Authorities		30.0	365 days	5.0	5 years
National Park Authorities		30.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		40.0	n/a liquid	-	-
Property Funds		5.0	365 days	5.0	10 years
UK Debt Management Account		150.0	365 days	-	-

* Based on data 30 June 2023

Appendix C

CHANGES TO THE APPROVED LENDING LIST DURING Q1

There have been no changes to the Lending List from the 1 April 2023.

Organisation	Original Investment Limit / Term	Date Amended	Revised Investment Limit / Term	Reason

It should be noted, however, that changes can be made on a daily basis in reaction to market sentiment, with maximum investment durations being adjusted accordingly.

Maximum investment durations for other organisations may have, therefore, been changed during this quarter, but have since returned to the level at 1 April 2023.

Appendix D

Treasury Management and Reporting Arrangements

The current monitoring and reporting arrangements in relation to Treasury Management activities are as follows:

(a) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets out the Council's **Treasury Management and Investment Strategy and Policy** for the forthcoming financial year. For 2023/24 this report was submitted to Executive on 24 January 2023 followed by Full Council on 22 February 2023;

(b) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets the various **Prudential Indicators** (submitted to Executive on 24 January 2023 and Full Council on 22 February 2023)

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year. The outturn reports for 2022/23 were submitted to Executive on 30 June 2023;

(d) a quarterly report on Treasury Management to the Executive (this report) as part of the **Quarterly Performance Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Resources, the Corporate Affairs Portfolio Holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) reports on proposed changes to the Council's Treasury Management activities are submitted to the **Audit Committee** for consideration and comment. A copy of this report is also provided to Audit Committee Members.

Appendix E

Detailed Economic Commentary on Developments during Q1 2023/24

Economic Background - UK

The first quarter of 2023/24 saw:

- A 0.2% m/m rise in real GDP in April, partly due to fewer strikes;
- CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
- Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
- A tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%;
- Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
- 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.

The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.

Meanwhile, a rise in retail sales volumes in May was far better than the forecasted decline and followed the robust rise in April. Some of the rise was due to the warmer weather, however, department stores also managed a rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected.

The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government financial support reduces, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024.

The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment rose from +182,000 in March to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%

The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) probably contributed and UK wage growth remains much faster than in the US and the Euro-zone. Overall, the loosening in the labour market appears to have stalled in April and regular private sector wage growth was well above the Bank's forecast.

CPI inflation stayed at 8.7% in May and core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.

This suggests the Bank may have more work to do than the Fed or ECB. Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the MPC's decision to step up the pace of increases from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.

However, the Bank has not committed to raising rates again or suggested that 50bps rises will continue. The bank stated "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". Moreover, the Committee did not strengthen its forward guidance that any further rate increases would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. Forecasts suggest that the rise in rates may weaken the economy sufficiently to push it into recession. Consequently, instead of rising to between 6.00%-6.25%, as is currently priced in by markets, Link Group forecast that rates are more likely to peak between 5.50-6.00%. The forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.

The pound strengthened from the start of April to a one-year high at $1.26 in early May, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to $1.23 at the end of May, before rising again to $1.28 in the middle of June as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB in order to tame domestic inflation.

On 11 May 2023, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 25 basis points to 4.50%, and on 22nd June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.

Nonetheless, with UK inflation significantly higher than in other G7 countries.

The US FOMC has already increased short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the 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.

Prudential and Treasury Indicators for 2023-24 as of 30 June 2023

Capital Expenditure

	2023/24 Forecast £m	2022/23 Actual £m
New Capital Expenditure	353.9	183.6
New Finance Leases and PFI	0.0	0.0
Total Capital Expenditure	**353.9**	**183.6**
Financed by		
- Capital grants and contributions	221.2	97.3
- Direct Revenue Funding	77.4	40.4
- Capital receipts	20.0	22.7
Capital Borrowing Requirement	**35.3**	**23.2**

Capital Financing Requirement (CFR)

	2023/24 Forecast			2022/23 Actual		
	Borrowing £m	Other Long Term Liabilities £m	Total £m	Borrowing £m	Other Long Term Liabilities £m	Total £m
Total CFR	**584.9**	**140.0**	**724.9**	**564.6**	**143.6**	**708.2**
Net Financing need for year	35.3	0.0	35.3			
MRP	-15.0	-3.7	-18.6			
Movement in CFR	**20.3**	**-3.7**	**16.6**			

Authorised Limit, Operational Boundary and Actual Debt

	2023/24 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m
Authorised Limit	639.2	140.0	779.1
Operational Boundary	619.2	140.0	759.1
External Debt	377.7	140.0	517.7

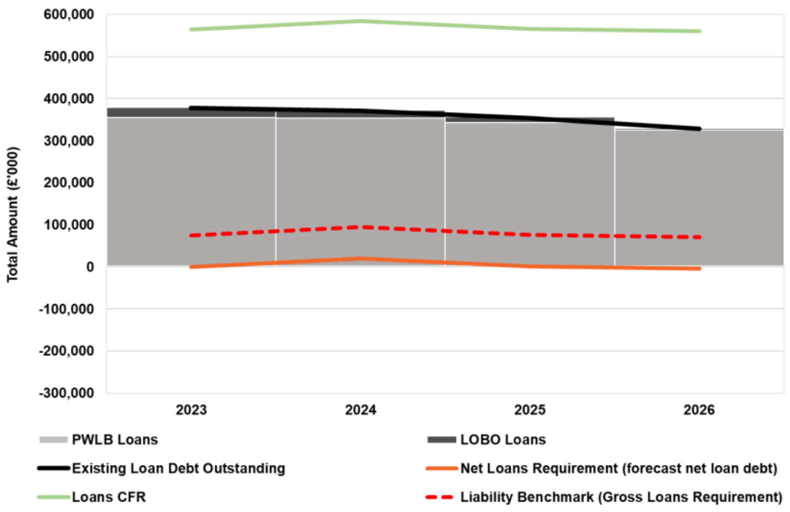
Gross Debt and the CFR

	2023/24 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m
CFR	584.9	140.0	724.9
Gross Borrowing	377.7	140.0	517.7
Under / (over) borrowing	207.2	0.0	207.2

Ratios

	2023/24 Forecast %
Financing costs to net revenue stream	4.9
Net income from commercial and service investments to net revenue stream	-2.1

Liability Benchmark



Maturity Structure of Borrowing

	2023/24 Forecast Lower Limit %	Upper Limit %	Forecast %
Under 12 months	0	15	2
12 months to 2 years	0	15	4
2 years to 5 years	0	15	8
5 years to 10 years	0	25	15
10 years to 20 years	0	25	11
20 years to 30 years	0	45	40
30 years to 40 years	0	45	16
40 years to 50 years	0	45	4

Limits for Long Term Treasury Management Investments

	2023/24 Forecast Limit £m	Forecast £m
Limit on investments > 1 year	60.0	0.0