3.0 **TREASURY MANAGEMENT**

Overview

3.1 This section of the report presents details of the Council's Treasury Management Activity during Q1 2024/25, 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 2024/25 up to 30 June 2024**:**

- GDP growth flatlining in April following positive Q4 2023/24 growth figures of 0.7% quarter on quarter;
- CPI inflation falling from 2.3% in April to 2.0% in May;
- Core CPI inflation decreasing from 3.9% in April to 3.5% in May;
- The Bank of England holding rates at 5.25% in May and June;
- 10-year gilt yields climbing to 4.35% in April, before closing out at 4.32% in May;
- Bank rate likely to be reduced soon in line with falling inflation.

A more detailed economic commentary on developments during Q1 2024/25 is included in **Appendix E.**

Interest Rate Forecasts

3.5 The interest rate forecasts (28 May 2024) of Link Group are as follows

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

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

3.6 The latest forecast received, updated on 28th May, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of a stubbornly robust economy and a tight labour market.

3.7 August has seen the first reduction in bank base rate to 5% - a month ahead of forecast. 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.

Annual Investment Strategy

3.8 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 21 February 2024. It sets out the Council's investment priorities as being:

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

3.9 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.

3.10 The approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2024.

3.11 The investment activity up to Q1 2024/25 was as follows:

- Balance invested at 30 June 2024 : £653.6m
- Average Daily Balance 2024/25 up to 30 June 2024: £645.1m
- Average Interest Rate Achieved up to 30 June 2024: 5.44%

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.

3.12 The average return to Q1 2024/25 compares with the backward-looking Sterling Overnight Index Average (SONIA) rates as follows:

- 5.20% 7 day
- 5.21% 1 month
- 5.23% 3 months
- 5.26% 6 months
- 5.21% 12 months

3.13 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 2024 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

3.14 The Approved Lending List as at 30 June 2024 is attached as **Appendix B** with changes made during Q1 2024/25 being reported in **Appendix C**.

Debt and borrowing

3.15 The Council's external debt outstanding at 30 June 2024 and forecast position for 2024/25 is as follows:-

Detail	PWLB		Money Market Loans		Total	
	£m	%	£m	%	£m	%
At 31 March 2024	**353.7**	**3.74**	**24.0**	**4.04**	**377.7**	**3.76**
Loan Repayments	0.1		0.0		0.1	
New Loans Taken	0.0		0.0		0.0	
= Loans Outstanding at 30 June 2024	**353.6**	**3.74**	**24.0**	**4.04**	**377.6**	**3.77**
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 2025	**352.1**	**3.74**	**24.0**	**4.04**	**372.1**	**3.76**

3.16 Any change to the forecast debt outstanding by the end of 2024/25 will be largely determined by whether the borrowing requirement for 2024/25 is ultimately financed by external borrowing or internal borrowing.

3.17 Based on the Q1 Capital Plan update the total external borrowing requirement for 2024/25 is currently forecast to be:-

Detail	£m
2024/25 Borrowing Requirement	
Borrowing Requirement	27.5
Less Company Loans advanced in year to be Repaid	-0.2
Revenue Provision for Debt Repayment (MRP)	-14.7
Refinance 2024/25 PWLB Loan Repayments	6.6
= Total 2024/25 Borrowing Requirement	**19.2**

3.18 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.

3.19 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.

3.20 New external borrowing rates (fixed interest maturity rates from the PWLB reflecting the 0.2% 'certainty discounts') during Q1 2024/25 were as follows:-

FINANCIAL YEAR TO QUARTER ENDED 30/06/2024						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.25	5.20	5.21	5.20	5.17	5.08
High Date	02/04/2024	03/05/2024	27/06/2024	17/04/2024	31/05/2024	30/05/2024
Low	5.25	5.19	5.19	5.11	5.03	4.85
Low Date	02/04/2024	04/04/2024	23/04/2024	17/05/2024	16/05/2024	05/04/2024
Average	5.25	5.20	5.20	5.17	5.10	4.96
Spread	0.00	0.01	0.02	0.09	0.14	0.23

3.21 No debt repayment or rescheduling exercises have been affected to date in 2024/25, but the situation continues to be monitored to identify any opportunities that may arise. While such opportunities are limited in the current economic climate, changes in interest rate forecasts may offer potential opportunities to restructure or repay market (non-PWLB) loans and as such a review will be undertaken in Q2 in conjunction with Treasury Management consultants, Link Group.

Treasury and Prudential Indicators

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

3.23 During the quarter ended 30 June 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Corporate Direct - Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

Impact of Treasury Management Activities on the Revenue Budget

3.25 Based on the Treasury Management activity at Q1 2024/25 and a forecast for the remainder of the year, the revenue impact is as follows:

- Interest rates over the quarter have fallen in line with expectations at the time the budgets were set. Similarly, Council cash balances invested as part of the Treasury Pool have further been in line with budgeted expectations. As such, as at the close of Q1, the total Interest and Dividends forecast to be received at the end of the year is £30.4m. Returns will reviewed in advance of Q2, as further announcements on Base Rate are made by the Monetary Policy Committee

- The forecast outturn for interest paid on long term borrowing is £14.1m, comprising of £10.8m General Fund Debt, and £3.3m HRA Debt

- The forecast outturn for the Minimum Revenue Provision (MRP) is £14.8m.

Capital Strategy

3.26 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2024/25, approved in February 2024. 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.

3.27 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.

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

Type of Investment	Invested as at 30/06/2024 £m	Rate of Return %
Alternative Treasury Instruments		
Money Market Funds	0.0	0.00
Enhanced Cash Funds	0.0	0.00
Certificates of Deposit (CDs)	0.0	0.00
Property Funds	15.9	3.8
Total Alternative Treasury Instruments	**15.9**	**3.8**
Alternative Investments		
Loans to Council Companies		
- Yorwaste	3.7	9.25
- Brierley	19.5	11.25
- First North Law	0.1	9.25
- NY Highways	9.5	11.75
- Broadacres Housing Association	33.6	4.30
- Bracewell Housing Ltd	0.2	10.75
- Align Property Services	0.5	11.25
Total Loans to Council Companies	**67.1**	**7.72**

Other Alternative Investments		
Spend to Save	0.0	0.00
Loans to Housing Associations	0.0	0.00
Local Economic Growth Projects	0.0	0.00
Solar Farm (or similar) Projects	0.0	0.00
Commercial Investments	28.4	4.53
Total Other Alternative Investments	**28.4**	**4.53**
Total Alternative Investments*	**111.4**	**6.35**

* Total Alternative Investments capped at £60m

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

In Year Performance

			In Year Performance Q1 2024/25			
Fund	Bwd Investment Valuation	Valuation as at 30/06/24	Capital Gain / (Loss)		Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	4,760.3	4,777.4	17.1	0.4%	48.3	3.2%
Threadneedle	4,559.5	4,624.0	64.5	1.4%	43.1	4.3%
Hermes	1,777.9	1,776.7	-1.2	-0.1%	17.0	3.4%
Fidelity	2,633.4	2,609.1	-24.3	-0.9%	32.0	4.2%
Total	13,731.1	13,787.2	56.1	0.4%	140.4	3.8%

Total Fund Performance

			Total Performance			
Fund	Investment £k	Valuation as at 30/06/2024	Capital Gain / (Loss)		Forecasted Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	5,505.5	4,777.4	-728.1	-13.2%	620.5	11.3%
Threadneedle	5,366.3	4,624.0	-742.3	-13.8%	841.4	15.7%
Hermes	2,000.0	1,776.7	-223.3	-11.2%	318.9	15.9%
Fidelity	3,000.0	2,609.1	-390.9	-13.0%	580.1	19.3%
Total	15,871.8	13,787.2	-2,084.6	-13.1%	2,360.9	14.9%

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

3.31 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.

3.32 During Q1 notification was received that dealing in Shares of the Fidelity UK Real Estate Fund had been temporarily suspended, due to a high value redemption notice that had been received, amounting to 22% of the Fund's Net Asset Value. This measure was implemented by the Fund Manager to secure the best interests of all investors of the Fund, and to allow the Fund Manager to effectively work through the existing redemption queue. This suspension remains ongoing, and we will continue to engage with the Fund Manager and the Council's Treasury Advisors with regards to future developments.

3.33 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.

3.34 The position on Commercial Property investments and Alternative Property Investments at 30 June 2024 is as follows:-

Commercial Properties			Performance		
Property	Investment £k	Valuation as at 31/03/24*	Total Capital Gain / (Loss)		Forecasted Return
	£000	£000	£000	%	%
Bank Unit in Stafford Town Centre	876.0	790.0	(86.0)	(9.8)	6.0
Co-op Store in Somercotes	1,497.3	1,290.0	(207.3)	(13.9)	6.0
Total	2,373.3	2,080.0	(293.3)	(12.4)	6.0

Alternative Property Investments			Performance		
Property	Investment £k	Valuation as at 31/03/24*	Total Capital Gain / (Loss)		Forecasted Return
	£000	£000	£000	%	%
Harrogate Royal Baths	9,504.0	7,000.0	(2,504.0)	(26.3)	1.85
Scarborough Travelodge	14,828.0	13,250.0	(1,578.0)	(10.6)	5.96
Shopping centre – Harrogate	925.0	925.0	0.0	0.0	7.24
Secondary industrial land - Harrogate	792.0	792.0	0.0	0.0	4.04
Total	26,049.0	21,967.0	(4,082.0)	(15.7)	4.53

*Asset Valuations as at 31/03/2024 currently pending. Values shown in Q1 report are the valuations as at 31/03/2023

3.35 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 have been set aside to ensure that there is no impact on the General Fund at the point of any future sale.

3.36 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 2024/25 Capital Plan does not include any plans to purchase commercial assets primarily for yield.

Other Loans

3.37 The Council has also provided the following loan facilities:-

Lender	Date Advanced	Original Loan	Interest Rate	Loan Outstanding as at 30/06/24	Revenue Return (as at 30/06/20)	
		£000	%	%	£000	%
Ryedale Learning Trust	Feb-21	1,455.0	6.60	1,064	60.3	5.67
Settle Pool	Sep-22	135.0	6.00	101.2	5.0	6.0

3.38 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.

3.39 Settle Pool

Settle Area Swimming Pool is a charity run swimming pool, service the local Settle area. In December 2023, discussions with the charity operating the pool let to a revision of the payment plan on the Long Term Loan provided by the council to support the operation of the pool. The revised arrangement has been provided at a commercial rate of 6%, and schedules the loan to be fully repaid by 2032/33.

RECOMMENDATIONS

3.40 That Executive

i. notes the position on the Council's Treasury Management activities during the first quarter of 2024/25

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

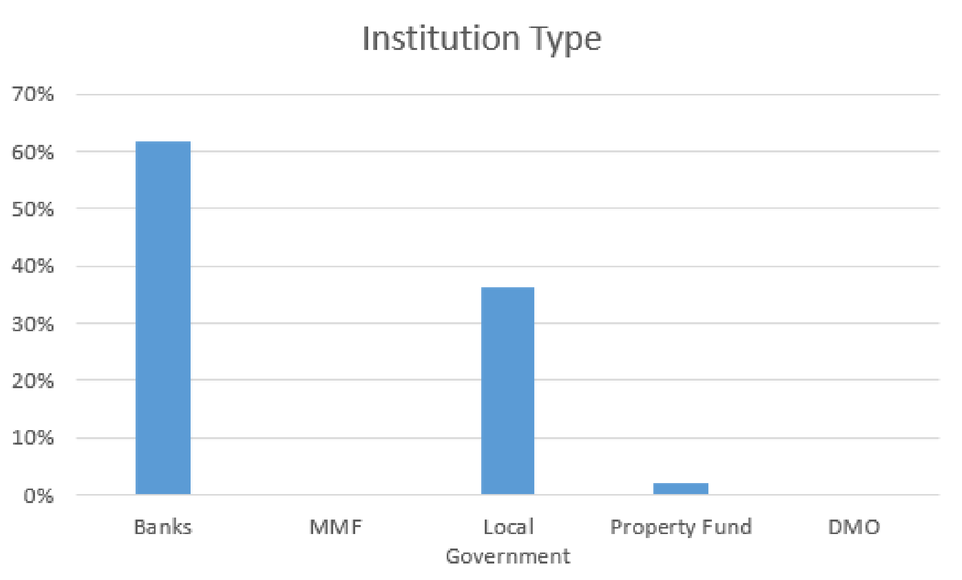
TREASURY MANAGEMENT APPENDICES

Analysis of loans outstanding as at 30 June 2024

Actual Loans Outstanding – Summarised by Organisation	
	£m
Local Authority	264.5
Santander	62.0
Goldman Sachs	80.0
National Westminster	5.0
Helaba	20.0
National Bank of Canada	25.0
DBS	20.0
Sumitomo Mitsui BCE	80.0
Handelsbanken	10.0
Barclays	42.0
Bank of Scotland	45.0
Total	**653.6**

Other Bodies	30-Jun-24		31-Mar-24	
	£m	%	£m	%
NY Pension Fund	-2.0		2.1	0.4
NY Fire and Rescue Authority	4.6		1.2	0.2
Yorkshire Dales National Park	5.1		4.8	0.9
North York Moors National Park	8.4		8.0	1.5
Peak District National Park	9.3		9.1	1.7
Align Property Services	-0.2		0.0	0.0
National Parks England	0.4		0.3	0.1
Align Property Partners	3.1		2.7	0.5
NYnet Limited	19.6		14.0	7.9
Y&NY Combined Authority	30.0		0.0	0.0
Total Other Bodies	78.3	12.0	42.2	7.9
Cash Balances held by NYC	575.3	88.0	491.0	92.1
Total Investment	**653.6**	**100.0**	**533.2**	**100.0**

Rates as at 30 June 2024	
	%
Bank Rate	5.25
Investment Rates	
- NYC overnight (on call)	4.8
- 1 month	5.19
- 6 months	5.03
- 1 year	4.96
- Government Debt Management Office Account	5.19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Property Fund
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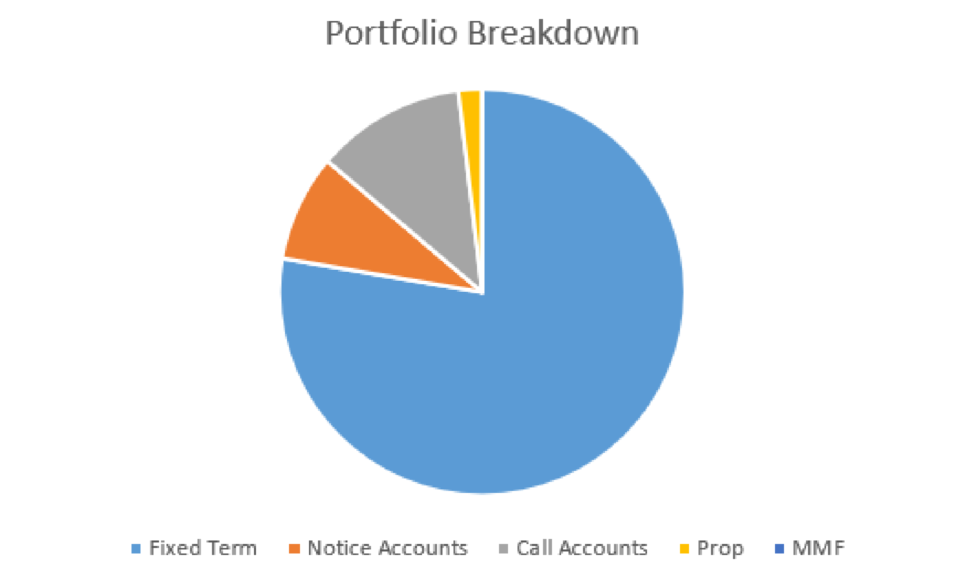
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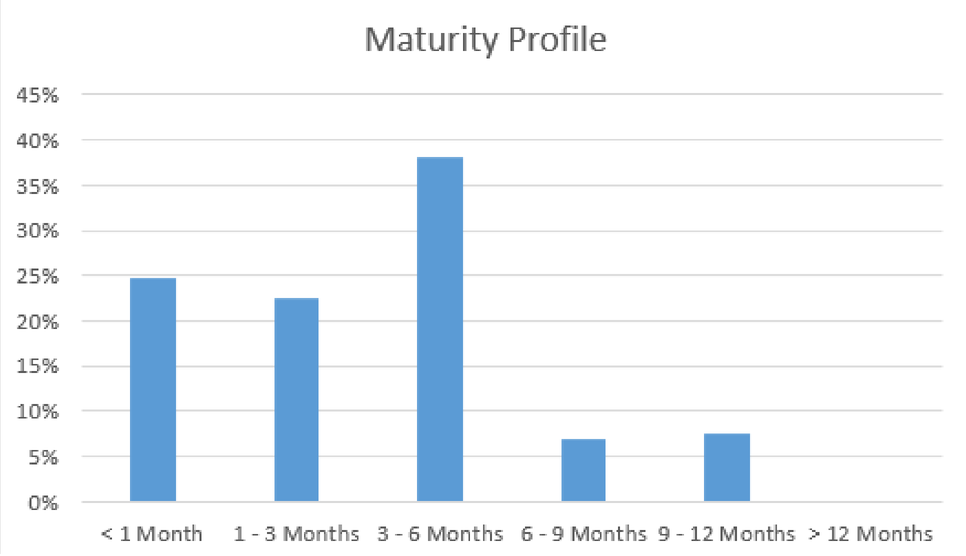
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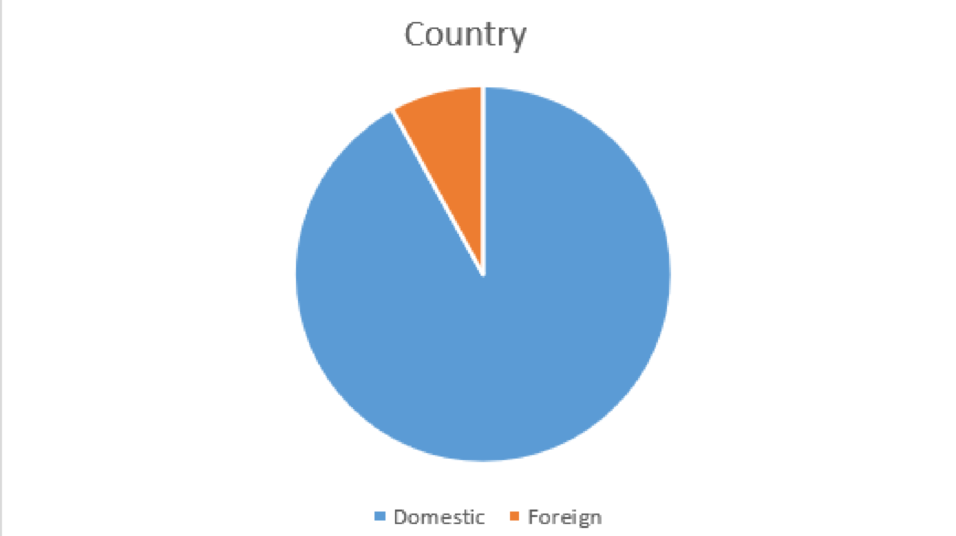

Country
Domestic
Foreign

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 2024

Appendix C

CHANGES TO THE APPROVED LENDING LIST DURING Q1

There have been no changes to the Lending List from the 1 April 2024.

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 2024.

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 2024/25 this report was submitted to Executive on 23 January 2024 followed by Full Council on 21 February 2024;

(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 23 January 2024 and Full Council on 21 February 2024)

(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 2023/24 were submitted to Executive on 28 May 2024;

(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 2024/25

Economic Background - UK

The first quarter of 2024/25 saw:

- GDP growth flatlining in April following positive Q4 2023/24 growth figures of 0.7% q/q.
- A stalling in the downward trend in wage growth, with the headline 3myy rate staying at 5.9% in April.
- CPI inflation falling from 2.3% in April to 2.0% in May.
- Core CPI inflation decreasing from 3.9% in April to 3.5% in May.
- The Bank of England holding rates at 5.25% in May and June.
- 10-year gilt yields climbing to 4.35% in April, before closing out at 4.32% in May.

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

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

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

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

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

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

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

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

Throughout the quarter there was a degree of volatility in the gilt market and, by way of example, the 10-year gilt yield rose from 4.05% on 2nd April to finish at 4.15% on 28th June but it has exceeded 4.30% on several occasions. Overall, investors judged that interest rates will need to remain high for longer to keep inflation around the 2.0% target.
Meanwhile, the FTSE 100 broke through the 8,000 mark in April for the first time since its brief three-day flutter in February last year and reached a record closing high of 8,446 on 15th May. However, by the end of the quarter, despite AI-fuelled rises in the US S&P500, it finished rather tamely and had fallen back to 8,164. Arguably, significant interest rate cuts and an on-going UK economic recovery will be required for a further resurgence to take hold.

Prudential and Treasury Indicators for 2024-25 as of 30 June 2024

Capital Expenditure

	2024/25 Forecast £m	2023/24 Actual £m
New Capital Expenditure	330.8	178.2
New Finance Leases and PFI	0.0	0.0
Total Capital Expenditure	**330.8**	**178.2**
Financed by		
- Capital grants and contributions	234.6	108.2
- Direct Revenue Funding	63.9	40.6
- Capital receipts	5.1	5.6
Capital Borrowing Requirement	**27.2**	**23.8**

Capital Financing Requirement (CFR)

	2024/25 Forecast			2023/24 Actual		
	Borrowing £m	Other Long Term Liabilities £m	Total £m	Borrowing £m	Other Long Term Liabilities £m	Total £m
Total CFR	**592.1**	**160.6**	**752.6**	**580.9**	**166.0**	**746.9**
Net Financing need for year	27.3	0.0	27.3			
MRP	-16.1	-5.5	-21.6			
Movement in CFR	**11.2**	**-5.5**	**5.7**			

Authorised Limit, Operational Boundary and Actual Debt

	2024/25 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m
Authorised Limit	449.8	211.0	660.8
Operational Boundary	427.7	205.6	633.3
External Debt	371.1	160.6	531.7

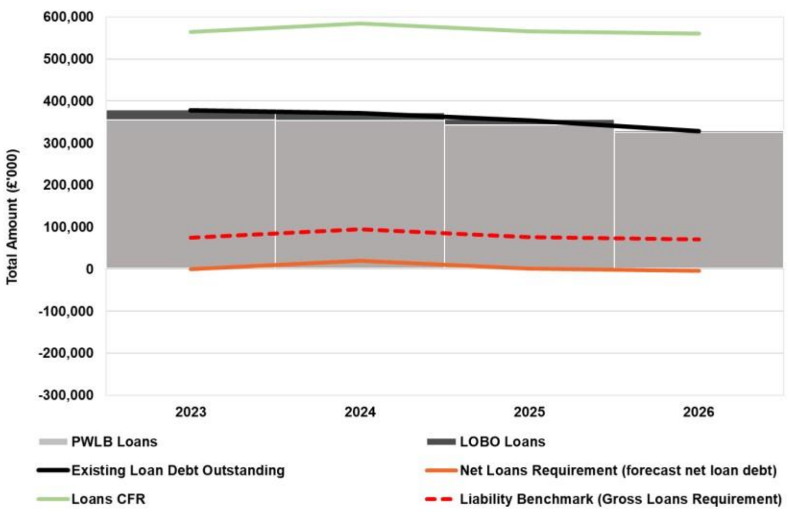
Gross Debt and the CFR

	2024/25 Forecast Borrowing £m	Other Long Term Liabilities £m	Total £m
CFR	592.1	160.6	752.6
Gross Borrowing	371.1	160.6	531.7
Under / (over) borrowing	221.0	0.0	221.0

Ratios

	2024/25 Forecast %
Financing costs to net revenue stream	5.7
Net income from commercial and service investments to net revenue stream	0.8

Liability Benchmark



Maturity Structure of Borrowing

	2024/25 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

	2024/25 Forecast	
	Limit £m	Forecast £m
Limit on investments > 1 year	60.0	0.0