| Agenda Item | 9.a |
|---|---|
| Report No | RES/24/24 |

# The Highland Council

**Committee:** Corporate Resources

**Date:** 11 September 2024

**Report Title:** Annual Treasury Management Report – 2023/24

**Report By:** Head of Corporate Finance

## 1. Purpose/Executive Summary

1.1 This report on treasury management for the financial year 2023/24 is prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Code of Practice on Treasury Management in Local Authorities.

1.2 The report highlights the Council's treasury management activities undertaken, provides a commentary on the year and compares activity to the expected activities contained in the annual Treasury Strategy Statement and Investment Statement which was approved by Highland Council on 9 March 2023.

1.3 The Prudential Code also requires the Council to report the actual prudential indicators after the financial year end and these are shown in **Appendix 1.**

1.4 This annual report reflects continued gradual increases in the Bank of England interest rates over the report period, with the objective of achieving the Bank of England target inflation rates. The report provides context on how wider economic factors have impacted treasury activity during the year.

## 2. Recommendations

2.1 Members are asked to:

i. **Consider** and **note** the Annual Treasury Management report for 2023/24.

## 3. Implications

3.1 **Resource:** Resource implications are set out within the report, reflect the cost of borrowing to fund the capital programme and are covered in Section 7. The report reflects the resource implications of decisions previously made regarding capital investment, and treasury activity to support that. While by its nature, this annual report is backwards looking, the context and prudential indicators are also of relevance to the Council looking forward, given the long-term implications that arise from borrowing and investment.

3.2 **Legal:** There are no specific Legal implications arising from this report. All treasury activity is undertaken in line with relevant legislation, regulation, and polices/strategies. Section 5 provides further information on relevant context.

3.3 **Risk:** Risk implications are described in further detail in Section 9 of this report. Risk management is of particular importance regarding treasury management, and the Council's Treasury Management Strategy Statement and Investment Statement, is comprehensive in the description of risk and how these are mitigated/managed through that Strategy.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** There are no Health and Safety implications arising as a direct result of this report.

3.5 **Gaelic:** There are no Gaelic implications arising as a direct result of this report.

## 4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is a monitoring and update report and therefore an impact assessment is not required.

## 5. Background

5.1 The Local Government in Scotland Act 2003 (the Act) and supporting regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The CIPFA Code of Practice on Treasury Management (November 2009) was adopted by the Council on 4 March 2010.

5.2 The Code was further updated in December 2017 and then in December 2021. The new requirements of the 2021 revised Treasury Management and Prudential codes were adopted in the 2023/24 TMSS, agreed by Council in March 23. The Council fully complies with the Code requirements.

5.3 The primary requirements of the Treasury Management Code are the:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the way in which the Council will seek to achieve those policies and objectives.
- Receipt by the Council of an Annual Strategy Report for the year ahead, a mid–year report and an Annual Review Report of the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management policies to a specific named body, which in this Council is the Corporate Resources Committee.

5.4 Treasury Management is defined as: "*The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*".

5.5 This report sets out:

- An overview of the strategy agreed for 2023/24 considering the economy and interest rates position for the year and incorporating the professional views of the Council's external treasury management advisors (Section 6)
- Performance measurement for the year including the Council's treasury position as at 31 March 2024 compared to the previous financial year (Section 7)
- A summary of treasury decisions taken and effects on the revenue budget (Section 8)
- A commentary on performance and risk (Section 9)
- A review of compliance with the Council's procedures and Prudential Indicators (Sections 10 and 11)

## 6. The Strategy Agreed For 2023/24

6.1 The 23/24 TMSS was agreed in March 2023, prepared with the backdrop that the Bank Rate would include two increases, one in March 2023 to 4.25%, then June of 2023 to 4.50%. The expectation for rates was that there was to be a steady, but slow, decline in both Bank Rate and gilt yields during the forecast period to March 2026, though it was forecast there was likely be exceptional volatility and unpredictability during this forecast period. It was forecast that variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

6.2 The treasury strategy was to continue to use short-term borrowing to fund the capital programme but to consider a strategy of de-risking by taking long term market or PWLB borrowing with the aim of mitigating the risk of increased borrowing cost as interest rates start to rise.

6.3 The narrative in Sections 6.3 to 6.9 of this report reflects the view of Link Group, the Council's treasury advisor at April 2024.

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

6.4 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid, then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

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

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

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

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- HRA Borrowing rate is gilt plus 40 40bps (G+40bps)

6.8 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England’s 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

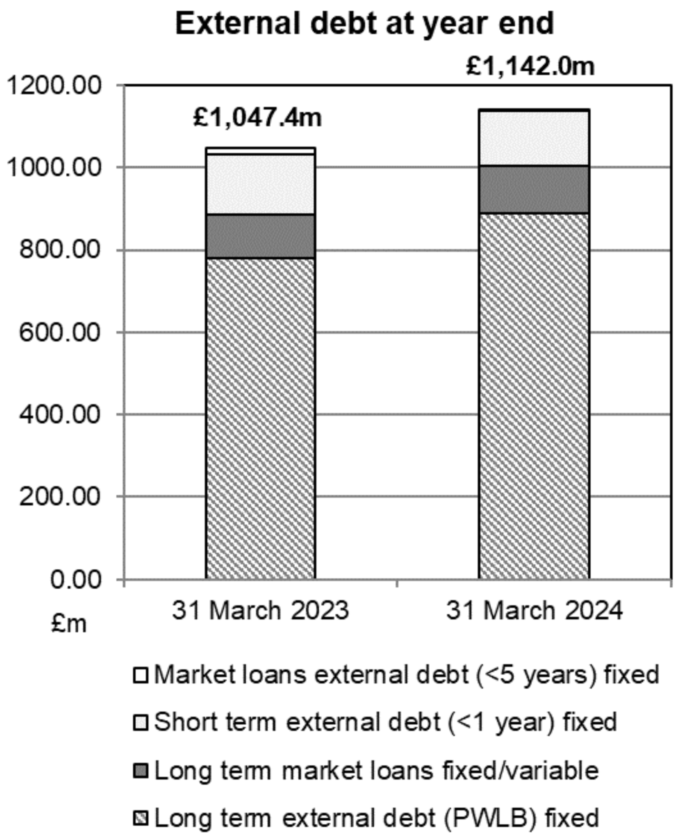
6.9 The Bank of England is also embarking on a process of Quantitative Tightening. The Bank’s original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

6.10 Further information on the economy and interest rates during the year can be found at **Appendix 2**.

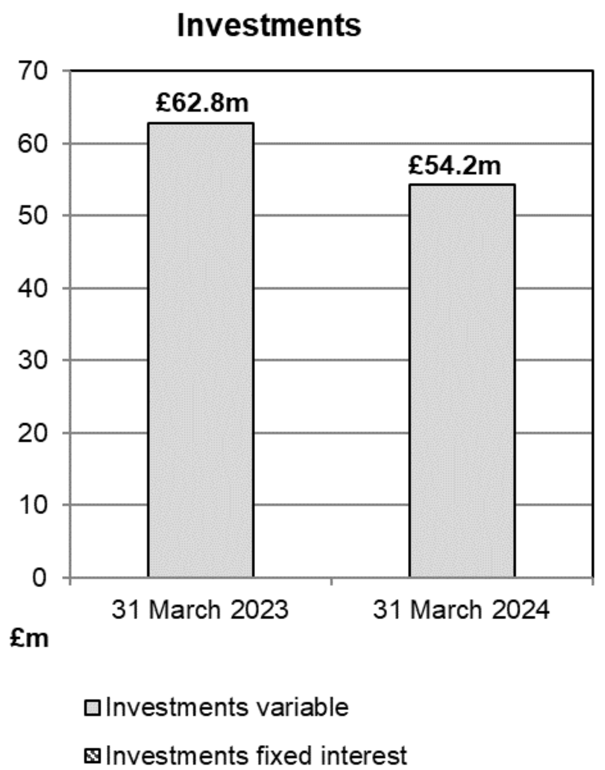
## 7. Performance Measurement

7.1 The treasury position at the 31 March 2024 compared with the previous year is shown in the graphs below.

7.1.1


External debt at year end
£1,142.0m
£1,047.4m
1200.00
1000.00
800.00
600.00
400.00
200.00
0.00
£m
31 March 2023
31 March 2024
Market loans external debt (<5 years) fixed
Short term external debt (<1 year) fixed
Long term market loans fixed/variable
Long term external debt (PWLB) fixed

7.1.2


Investments
70
60
50
40
30
20
10
0
£62.8m
£54.2m
31 March 2023
31 March 2024
£m
Investments variable
Investments fixed interest

7.1.3

| Average interest rates comparison | 31/03/23 | 31/03/24 |
|---|---|---|
| Short term external debt (<1 year) fixed | 3.39% | 5.61% |
| Short term external debt (<1 year) notice | 4.25% | Nil |
| Market loans fixed/variable | 4.45% | 4.68% |
| Long term external debt (PWLB) fixed | 3.78% | 3.88% |
| **Total debt** | **3.81%** | **4.16%** |
| Investments fixed interest | Nil | Nil |
| Investments variable | 4.12% | 5.26% |
| **Total investments** | **4.12%** | **5.26%** |

7.2 The figures show an increase in the average interest rate on external debt borrowings from 3.81% at March 2023 to 4.16% at March 2024 which is due to the increase in the average rate for short-term borrowing which has increased alongside interest rates. The investment return for 2023/24 was higher than the previous year following the bank rate increases (during 2023, 11 May 4.50%, 22 June 5.00%, 3 August 5.25%).

7.3 Between November 2023 and March 2024, there was £110.0m of PWLB borrowing undertaken with an average rate of 4.89%. Details of all PWLB long-term borrowing undertaken and repaid, are in **Appendix 3** and all external borrowing is in **Appendix 4.** The average rate for fixed temporary loans at 31 March 2023 was 5.61% (31 March 2023, 3.39%).

## 8. Treasury Decisions Taken and Revenue Effects

Borrowing requirement and debt

8.1 The Council undertakes capital expenditure on long-term assets which is funded as follows:

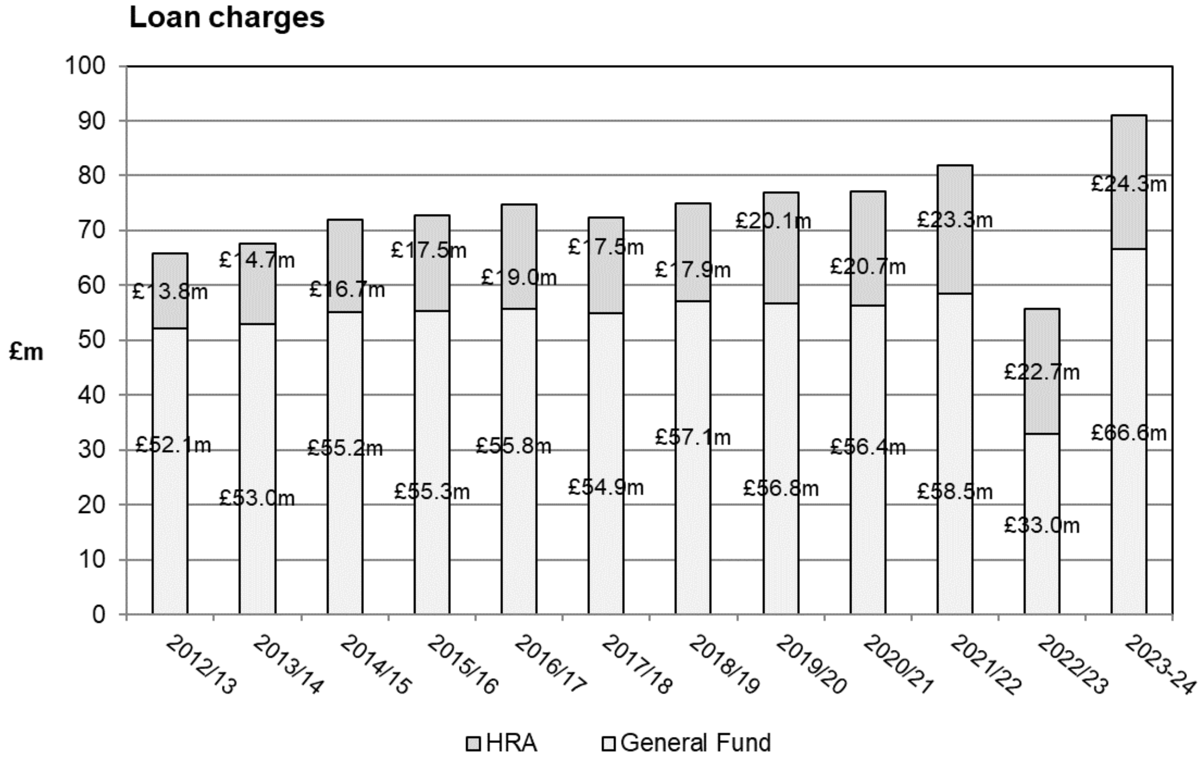
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council’s borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, or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

8.2 The total net capital expenditure for 2023/24 was £118.3m (General Fund £75.2m and HRA £43.1m) against planned net capital expenditure of £97.4m (General Fund £77.5m and HRA £19.9m). Reasons for variations in Service and project capital expenditure for the year are reported to Committees as part of the final 2023/24 out-turn capital monitoring process. Details of gross and net capital spend for the year and the borrowing requirement against the estimated position are in **Appendix 1**.

8.3 There has been an increase in external debt of £94.6m which is reflected of approved capital investment plans and the associated borrowing requirements (see graph at Section 7.1.1). The total borrowing is less than the capital financing requirement and more information on this is at Section 11.2.

8.4 In terms of the impact on revenue budgets, increased capital expenditure generally increases the level of loan charges the Council incurs. In 2023/24 loan charges were much higher than 2022/23 as in the previous financial year the Council used financial flexibilities set out by Scottish Government finance circular 5-22, to take a Loans Fund Principal Repayment ‘holiday’. The increased level of loan charges in 2023/24 reflect increased levels of capital expenditure. The graph below shows the changes in loans charges over the last 11 years.

8.4.1




8.5 Due to the level of capital expenditure, financing costs (loan charges) are a significant proportion of the Council’s net revenue stream. The ratio of financing costs to net revenue stream for the general fund including PPP/NPD* is 12.1% (estimate 13.6%) and 38.4% for HRA (estimate 39.0%) (**Appendix 1**, indicator 4). The reason for the general fund ratio being lower is due to loan charges being lower than forecast. The HRA ratio is marginally lower than original indicator due to HRA loan charges being lower than forecast.

* For Prudential Indicator reporting, and compliance with the Prudential Code, the relevant ratio consists of capital programme financing costs (borrowing) **plus** the financing costs associated with the Council’s Schools PPP and related contracts. This is a different measurement base than the new local prudential indicator agreed by Council in May 2024 which relates only to General Fund capital programme financing and excludes PPP/NPD financing costs. For reference, that agreed local indicator was a 10% cap, and for context the equivalent actual ratio for 2023/24 9.6%.

8.6 The reason for 2023/24 loan charges being significantly higher than 2022/23 is due to the one-off credit (loans principal repayment “holiday”) to the 2022/23 position which was the result of using loans fund flexibilities to defer the statutory repayment of debt in 2022/23 as permitted by legislation, an approach and agreed by the Council in March 2023. Further information on this was included in the Council’s annual accounts 2022/23.

8.7 Rescheduling

There was no rescheduling completed during 2023/24. While refinancing rates were closely monitored throughout the year no significant opportunities arose to make savings due to breakage costs.

8.8 A summary of outstanding deferred revenue costs attributable to debt rescheduling exercises undertaken in years to date, is provided in the table below. These represent early debt repayment costs (premiums) and discounts, associated with debt rescheduling. It is accounting practice for these to be written off over the periods of the new loans taken as part of the rescheduling and included as part of the annual loan charges.

| | **Outstanding 31 Mar 2023** | **Incurred 2023/24** | **Written off 2023/24** | **Outstanding 31 Mar 2024** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Premiums | 19,575 | - | (1,993) | 17,582 |
| Discounts | (6,687) | - | 37 | (6,650) |
| Net Deferred Revenue Costs | 12,888 | - | (1,956) | 10,932 |

8.9 Overall performance

The Council's average borrowing and investment rate (loans fund rate) for the year was 4.01% compared to 3.46% in 2022/23 with capital expenditure and maturities being funded using £110m of PWLB borrowing and short-term borrowing.

8.10 Revenue effect: Due to the above Loans Fund Principal Repayment 'holiday' and capital expenditure being lower than forecast, the final position shows an underspend for the General Fund loans charges (£3.7m) and an underspend for HRA (£1.9m) compared to budget for the year. The underspend was also in part due to an element of 'time-lag' in relation to the impact of rising interest rates on borrowing costs e.g. 2023/24 will reflect part-year costs of borrowing undertaken during the year, the full effect of which may not impact until 2024/25. Given interest rates remain high in relative terms, and the Council remains committed to ongoing capital investment and borrowing to support that, any underspend against loan charges in 2023/24 is assumed to be short-term in nature.

8.11 Investments held by the Council

The Council's investment policy is governed by the Scottish Government Investment Regulations, which were adopted in the Annual Investment Strategy 2010/11 and approved by the Council on 24 June 2010. This policy sets out the approach for choosing investment categories and counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

8.12 The Council's policy states the maximum investment period is 2 years. However, during 2023/24 deposits were placed for periods of 1 year or less than 1 year to reflect credit risk.

8.13 The Council maintained an average end of month balance of £78.6m of internally managed funds which earned a weighted average rate of return of 5.01% and rate at 31 March 2024 of 5.26%. The comparable performance indicator is the average 7-day SONIA rate (Sterling Overnight Index Average - is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors), which was

4.96% for 2023/24. No institutions in which investments were made showed any difficulty in repaying the investment and interest in full during the year.

## 9. Performance and Risk

9.1 In the Council's debt portfolio as of 31 March 2024, 77.9% (£889.2m) of the total gross debt is at fixed long-term rates with the PWLB.

9.2 All major borrowing and capital financing requirement (CFR) decisions taken by officers were discussed with the Council's external treasury management advisors.

9.3 Returns on the Council's investments are predominantly determined by short-term variable rates. Whilst this can introduce an element of volatility to returns, it is minimal in terms of the total debt portfolio. Risk, in relation to the potential loss of principal, is minimised through the Council's restricted lending list (using a diversified list of counterparties and based on credit assessment).

9.4 The Council uses several Money Market brokers to facilitate short-term borrowing and investment deals. This ensures competitive market rates are obtained. All brokers charged the same level of commission per transaction and performed satisfactorily. In addition, the Council's treasury management officers have direct lines to some major banks to facilitate direct investment with suitably rated institutions.

9.5 Short term borrowing decreased from £138.0m (31/03/23) to £133.0m (31/03/24) though levels of short-term borrowing are likely to remain high to achieve cost savings depending on rates. However, to mitigate exposure to interest rate risk, PWLB rates will be monitored, and longer-term borrowing undertaken where rates are favourable.

## 10. Compliance with the Council's Procedures and Prudential Indicators

10.1 The Council complied with its internal procedures and the requirements of the CIPFA Code of Practice on Treasury Management. The Council is bound by best practice requirements, which involve limits to be set and adhered to in relation to short-term borrowing and exposure to variable interest rates and complied with these throughout the year (**Appendix 1**, indicator 10).

## 11. The Prudential Code – Indicators

11.1 The Council is required by the Prudential Code to report the actual treasury position compared to the prudential indicators at the year-end. **Appendix 1** provides details of all the mandatory, estimated and actual prudential indicators for the year 2023/24.

11.2 <u>Capital Financing Requirement (CFR)</u>

The CFR represents the accumulated net capital expenditure which the Council requires to fund by way of long-term borrowing and other capital financing, until the capital projects, comprising the CFR, are fully written off to revenue (mainly by way of annual loan charges).

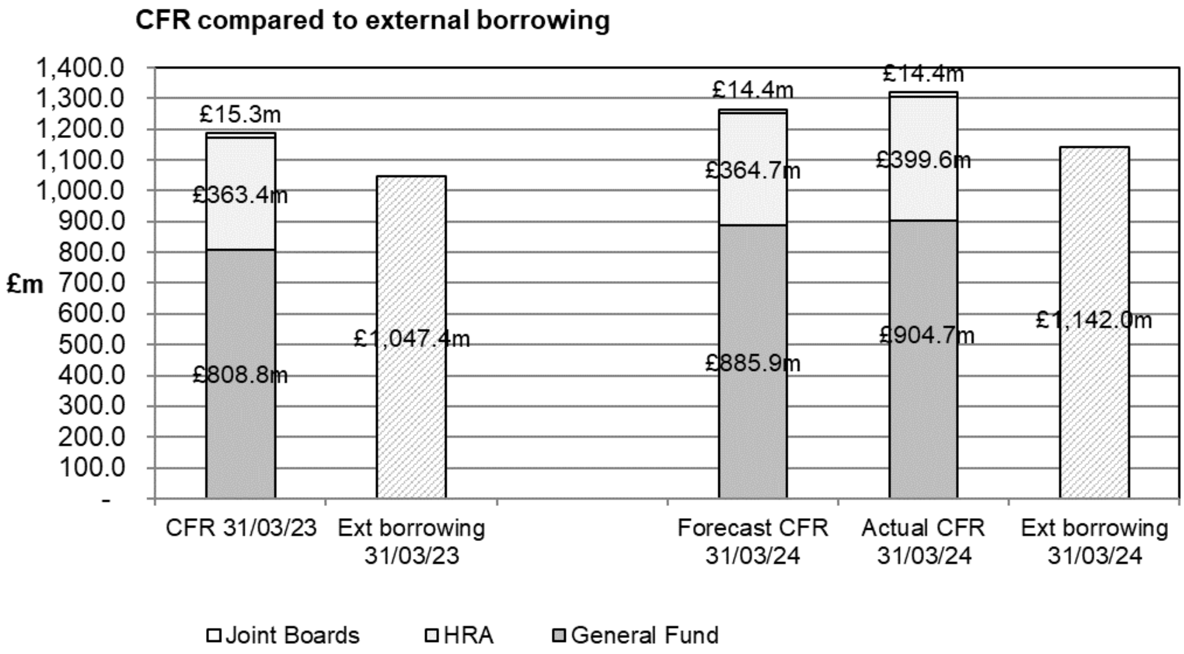
11.3 In recent years the Council has been in a position whereby its CFR is greater than its long-term borrowing. This results from the Council using internal cash sources, as well as long-term borrowing to finance the CFR. The use of internal cash sources can represent a more effective and low-cost option for financing, compared to long-term borrowing.

11.4 However, the Council must keep the CFR and long-term borrowing position under regular review, as the use of internal cash sources can result in increased re-financing risk i.e., if internal cash sources are utilised, and the Council has no choice but to borrow, and not necessarily at a time of its choosing, borrowing costs could be impacted.

11.5 The CFR is kept under regular review, and in recent years part of the annual treasury strategy has been to take steps to manage the CFR versus long-term borrowing position to an acceptable level. As shown in the graph below the difference between CFR and external borrowing stood at £176.7m at 31 March 2024. This position will be kept under regular review as part of the Council's on-going treasury management.

11.6 In order to ensure that over the medium-term borrowing net of investments will only be for a capital purpose, net borrowing should not, except in the short term, exceed the CFR for 2023/24. The graph below shows that the Council has complied with this requirement.

11.6.1




11.7 <u>Borrowing Limits</u>

The Council is required to agree an Authorised Limit for borrowing for the year. This figure provides for estimated contingencies which may require to be funded in the year in addition to planned capital expenditure.

11.8 The Operational Boundary, also approved by the Council in compliance with the Code, 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.

11.9 During 2023/24 the Council complied with both the Authorised Limit and Operational Boundaries and the maximum is reported at **Appendix 1**, indicators 5 and 6.

Designation: Head of Corporate Finance

Date: 21 August 2024

Author: Mairi MacCallum, Treasury Officer

Background Papers: Treasury system and financial ledger reports

Appendices:

Appendix 1: Estimated and Actual Treasury Position and Prudential Indicators
Appendix 2: Economic update provided by the Council's Treasury Advisor (Link Group), April 2024
Appendix 3: PWLB Borrowing undertaken and borrowing repaid 2023/24
Appendix 4: External Borrowing at 31 March 2024

**Appendix 1**

**Estimated and Actual Treasury Position and Prudential Indicators**

| | | 2023/24 Indicator £m | 2023/24 Actual £m |
|---|---|---|---|
| 1 | **Capital expenditure** | | |
| | **Gross capital expenditure** | | |
| | General Fund including PPP/NPD | 138.5 | 154.3 |
| | Housing Revenue Account | 49.4 | 66.8 |
| | **Total gross capital expenditure** | **187.9** | **221.1** |
| | **Income** | | |
| | General Fund | (44.8) | (79.1) |
| | HRA | (17.4) | (23.7) |
| | **Total income** | **(62.2)** | **(102.8)** |
| | **Net capital expenditure** | | |
| | General Fund | 93.7 | 75.2 |
| | HRA | 32.0 | 43.1 |
| | **Total net capital expenditure** | **125.7** | **118.3** |
| | **Loan charge instalments** | | |
| | General Fund | (36.0) | (32.7) |
| | HRA | (12.1) | (8.7) |
| | **Total instalments** | **(48.1)** | **(41.4)** |
| | **Net borrowing for new capital expenditure** | | |
| | General Fund | 57.7 | 42.5 |
| | HRA | 19.9 | 34.4 |
| | **Total net borrowing for new capital expenditure** | **77.6** | **76.9** |
| 2 | **Capital Financing Requirement (CFR) at 31 March** | | |
| | General Fund excluding PPP/NPD | 885.9 | 904.7 |
| | Housing Revenue Account | 364.7 | 399.6 |
| | PPP/NPD | 123.3 | 126.9 |
| | **Sub-total (as per HC annual accounts)** | **1,373.9** | **1,431.2** |
| | Joint Boards | 14.4 | 14.4 |
| | **Total** | **1,388.3** | **1,445.6** |
| | **Sub-total excluding PPP/NPD** | **1,265.0** | **1,318.7** |

| | | 2023/24 Indicator £m | 2023/24 Actual £m |
|---|---|---|---|
| 3 | **Treasury Position at 31 March** | | |
| | Borrowing – Long term | 919.4 | 1,009.0 |
| | Borrowing – Short term | 245.6 | 133.0 |
| | Other Long-Term Liabilities (PPP) | 123.3 | 126.9 |
| | **Total Debt** | **1,288.3** | **1,268.9** |
| | Investments | (50.0) | (54.2) |
| | **Net Borrowing** | **1,238.3** | **1,214.7** |
| 4 | **Ratio of financing costs to net revenue stream** | | |
| | General Fund including PPP | 13.6% | 12.1% |
| | Housing Revenue Account | 39.0% | 38.4% |
| | | **Limit** | **Maximum** |
| 5 | **Authorised Limit for Borrowing** | 1,284.4 | 1,142.0<br>March 24 |
| 6 | **Operational Boundary for Borrowing** | 1,184.4 | 1,142.0<br>March 24 |
| 7 | **Interest rate exposures of debt net of investments** | | |
| | Upper Limit (Fixed) | 1,265.0 | 1,105.5<br>March 2024 |
| | Upper Limit (Variable) | 442.7 | 17.8<br>March 2024 |
| 8 | **Maturity structure of fixed rate borrowing** | | |
| | Under 12 months | 30.0% | 17.9%<br>March 2024 |
| | 12 months to 2 years | 30.0% | 3.6%<br>March 2024 |
| | 2 years to 5 years | 40.0% | 10.4%<br>June 2023 |
| | 5 years to 10 years | 50.0% | 8.6%<br>March 2024 |
| | 10 years and above | 100.0% | 66.8%<br>Sept 2023 |
| 9 | **Upper limit for the maturing of investments made for periods longer than 364 days (against maximum position**) | £20.0m | Nil |
| 10 | **Short term borrowing (net of investments) as a % of outstanding long-term debt (maximum position)** | 25.0% | 12.8%<br>June 2023 |
| | **Variable interest debt (net of investments) as a % of outstanding long-term debt (maximum position)** | 35.0% | 3.6%<br>Sept 2023 |

**Appendix 2**

**Economic update provided by the Council's Treasury Advisor (Link Group), April 2024**

**UK**

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% | 4.25%-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) | 2.4% (Feb) | 3.2% (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?

**EU**

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

**Appendix 3 – PWLB Borrowing undertaken and borrowing repaid 2023/24**

**PWLB Borrowing undertaken during 2023/24**

| **Month undertaken** | **Amount £m** | **Purpose of borrowing** | **Duration (Y)** | **Rate %** |
|---|---|---|---|---|
| November 23 | 20.0 | Capital Programme | 11.5 | 4.38 |
| December 23 | 10.0 | Capital Programme | 1.5 | 5.11 |
| December 23 | 10.0 | Capital Programme | 5.5 | 3.98 |
| January 24 | 5.0 | Capital Programme | 1.0 | 4.84 |
| January 24 | 5.0 | Capital Programme | 1.0 | 4.96 |
| February 24 | 5.0 | Capital Programme | 1.0 | 4.96 |
| February 24 | 5.0 | Capital Programme | 1.0 | 4.92 |
| February 24 | 10.0 | Capital Programme | 5.5 | 4.71 |
| March 24 | 10.0 | Capital Programme | 1.0 | 5.38 |
| March 24 | 10.0 | Capital Programme | 1.0 | 5.33 |
| March 24 | 10.0 | Capital Programme | 1.0 | 5.36 |
| March 24 | 10.0 | Capital Programme | 1.0 | 5.34 |
| **Total** | **110.0** | | | |

**There were no PWLB repayments made during 2023/24**

## Appendix 4 – External Borrowing at 31 March 2024

## Short term external debt (< 1 year) fixed and Notice

| Deal Ref | Start Date | Maturity Date | Counterparty | Profile | Rate | Principal O/S (£) |
|---|---|---|---|---|---|---|
| T503481 | 25/05/23 | 17/05/24 | Oxfordshire County Council | Maturity | 4.70% | 3,000,000.00 |
| T503485 | 28/07/23 | 01/07/24 | Oxfordshire County Council | Maturity | 5.80% | 5,000,000.00 |
| T503486 | 13/10/23 | 11/10/24 | Renfrewshire Council | Maturity | 5.80% | 5,000,000.00 |
| T503488 | 10/10/23 | 25/09/24 | Oxfordshire County Council | Maturity | 5.75% | 5,000,000.00 |
| T503490 | 13/10/23 | 08/10/24 | North Somerset District Council | Maturity | 5.55% | 5,000,000.00 |
| T503491 | 25/10/23 | 23/10/24 | East Sussex County Council | Maturity | 5.65% | 5,000,000.00 |
| T503492 | 09/11/23 | 06/11/24 | South Oxfordshire District Council | Maturity | 5.65% | 4,000,000.00 |
| T503493 | 30/10/23 | 29/04/24 | Edinburgh City Council | Maturity | 5.55% | 5,000,000.00 |
| T503494 | 25/10/23 | 16/10/24 | Oxfordshire County Council | Maturity | 5.70% | 7,000,000.00 |
| T503495 | 08/11/23 | 08/05/24 | Newcastle upon Tyne City Council | Maturity | 5.55% | 5,000,000.00 |
| T503496 | 02/11/23 | 30/10/24 | West Yorkshire Combined Authority | Maturity | 5.62% | 5,000,000.00 |
| T503497 | 30/11/23 | 01/11/24 | West Yorkshire Combined Authority | Maturity | 5.62% | 5,000,000.00 |
| T503498 | 04/12/23 | 04/09/24 | Derbyshire Dales District Council | Maturity | 5.55% | 2,000,000.00 |
| T503499 | 17/11/23 | 13/11/24 | Sheffield City Council | Maturity | 5.55% | 10,000,000.00 |
| T503500 | 04/12/23 | 04/06/24 | Derbyshire Dales District Council | Maturity | 5.52% | 2,000,000.00 |
| T503501 | 01/12/23 | 03/06/24 | Merseyside Fire and Rescue Authority | Maturity | 5.60% | 2,000,000.00 |
| T503502 | 15/12/23 | 16/09/24 | Cornwall Council | Maturity | 5.75% | 5,000,000.00 |
| T503503 | 15/12/23 | 17/06/24 | Dumfries and Galloway Council | Maturity | 5.65% | 5,000,000.00 |
| T503504 | 09/01/24 | 11/11/24 | West Yorkshire Combined Authority | Maturity | 5.65% | 5,000,000.00 |
| T503505 | 17/01/24 | 19/08/24 | Comhairle nan Eilean Siar | Maturity | 5.60% | 5,000,000.00 |
| T503506 | 10/01/24 | 10/07/24 | Royal Borough of Kingston upon Thames | Maturity | 5.55% | 5,000,000.00 |
| T503507 | 12/01/24 | 12/07/24 | Castle Point Borough Council | Maturity | 5.55% | 5,000,000.00 |
| T503508 | 22/01/24 | 20/01/25 | London Borough of Islington | Maturity | 5.50% | 5,000,000.00 |
| T503509 | 26/01/24 | 25/10/24 | South Kesteven District Council | Maturity | 5.52% | 3,000,000.00 |
| T503510 | 08/02/24 | 08/01/25 | Tyne And Wear Integrated Transport Authority | Maturity | 5.65% | 5,000,000.00 |
| T503511 | 11/03/24 | 03/03/25 | Somerset Pension Fund | Maturity | 5.65% | 5,000,000.00 |
| T503512 | 05/03/24 | 05/11/24 | Portsmouth City Council | Maturity | 5.75% | 5,000,000.00 |
| T503473 | 04/04/23 | 03/04/24 | Warwickshire County Council | Maturity | 4.55% | 5,000,000.00 |
| | | | | Average Rate | 5.61% | 133,000,000.00 |

## Long term market loans fixed/variable (Lender Option Borrower Option)

| Deal Ref | Start Date | Maturity Date | Counterparty | Profile | Rate | Principal O/S (£) |
|---|---|---|---|---|---|---|
| M290045 | 30/09/02 | 30/09/42 | Bank of Scotland plc | Maturity | 4.50% | 5,000,000.00 |
| M240007 | 12/12/90 | 12/12/50 | Nortrust Nominees | Maturity | 11.13% | 1,000,000.00 |
| M290051 | 26/10/04 | 26/10/54 | Dexia Public Finance Bank | Maturity | 4.34% | 8,750,000.00 |
| M290046 | 14/03/03 | 16/03/65 | Dexia Public Finance Bank | Maturity | 4.40% | 10,000,000.00 |
| M290047 | 14/03/03 | 16/03/65 | Dexia Public Finance Bank | Maturity | 4.40% | 11,740,000.00 |
| | | | | Average rate | 4.58% | 36,490,000.00 |

## Market loans fixed

| Deal Ref | Start Date | Maturity Date | Counterparty | Profile | Rate | Principal O/S (£) |
|---|---|---|---|---|---|---|
| M290050 | 03/08/04 | 03/02/65 | Barclays Bank plc | Maturity | 5.05% | 11,900,000.00 |
| M290048 | 02/12/03 | 02/12/65 | Barclays Bank plc | Maturity | 5.00% | 25,200,000.00 |
| M290049 | 02/12/03 | 02/12/65 | Barclays Bank plc | Maturity | 5.00% | 25,000,000.00 |
| M290052 | 23/03/06 | 23/03/66 | Barclays Bank plc | Maturity | 3.80% | 16,216,000.00 |
| M290065 | 10/03/21 | 10/03/25 | Torbay Council | Maturity | 4.20% | 5,000,000.00 |
| | | | | Average rate | 4.73% | 83,316,000.00 |

## Long term external debt (PWLB) fixed

| Deal Ref | Start Date | Maturity Date | Counterparty | Profile | Rate | Principal O/S (£) |
|---|---|---|---|---|---|---|
| P366831 | 25/06/21 | 31/03/71 | PWLB | Maturity | 1.91% | 5,000,000.00 |
| P431937 | 04/11/21 | 30/09/71 | PWLB | Maturity | 1.63% | 25,000,000.00 |
| P438539 | 16/11/21 | 30/09/71 | PWLB | Maturity | 1.51% | 10,000,000.00 |
| P448434 | 03/12/21 | 31/03/71 | PWLB | Maturity | 1.46% | 10,000,000.00 |
| P450404 | 08/12/21 | 31/03/61 | PWLB | Maturity | 1.49% | 25,000,000.00 |
| P450406 | 08/12/21 | 31/03/71 | PWLB | Maturity | 1.35% | 25,000,000.00 |
| P552574 | 26/09/22 | 30/09/26 | PWLB | Maturity | 3.89% | 20,000,000.00 |
| P678606 | 28/11/23 | 30/09/35 | PWLB | EIP | 4.38% | 20,000,000.00 |
| P681158 | 07/12/23 | 02/06/25 | PWLB | Maturity | 5.11% | 10,000,000.00 |
| P685814 | 21/12/23 | 30/09/29 | PWLB | Maturity | 3.98% | 10,000,000.00 |
| P694373 | 22/01/24 | 22/01/25 | PWLB | Maturity | 4.84% | 5,000,000.00 |
| P697380 | 31/01/24 | 31/01/25 | PWLB | Maturity | 4.96% | 5,000,000.00 |
| P698326 | 02/02/24 | 02/02/25 | PWLB | Maturity | 4.96% | 5,000,000.00 |
| P698643 | 05/02/24 | 05/02/25 | PWLB | Maturity | 4.92% | 5,000,000.00 |
| P704297 | 22/02/24 | 30/03/30 | PWLB | Maturity | 4.71% | 10,000,000.00 |
| P707835 | 04/03/24 | 04/03/25 | PWLB | Maturity | 5.38% | 10,000,000.00 |
| P501784 | 11/12/12 | 30/09/27 | PWLB | Maturity | 3.19% | 10,000,000.00 |
| P454211 | 30/03/84 | 30/09/33 | PWLB | Maturity | 10.25% | 700,000.00 |
| P464213 | 25/03/88 | 30/09/37 | PWLB | Maturity | 9.13% | 702,319.85 |
| P468141 | 01/03/90 | 30/09/24 | PWLB | Maturity | 10.88% | 800,000.00 |
| P474785 | 14/10/94 | 30/09/54 | PWLB | Maturity | 8.88% | 1,000,000.00 |
| P474807 | 24/10/94 | 30/09/51 | PWLB | Maturity | 8.63% | 1,000,000.00 |
| P474808 | 24/10/94 | 30/09/52 | PWLB | Maturity | 8.63% | 1,000,000.00 |
| P474817 | 26/10/94 | 30/09/53 | PWLB | Maturity | 8.63% | 1,000,000.00 |
| P474818 | 26/10/94 | 30/09/54 | PWLB | Maturity | 8.63% | 1,000,000.00 |
| P475052 | 26/01/95 | 30/09/48 | PWLB | Maturity | 8.75% | 500,000.00 |
| P475184 | 16/02/95 | 30/09/45 | PWLB | Maturity | 8.630% | 500,000.00 |
| P475185 | 16/02/95 | 30/09/44 | PWLB | Maturity | 9.00% | 500,000.00 |

| Deal Ref | Start Date | Maturity Date | Counterparty | Profile | Rate | Principal O/S (£) |
|---|---|---|---|---|---|---|
| P476150 | 29/06/95 | 31/03/45 | PWLB | Maturity | 8.38% | 1,000,000.00 |
| P476656 | 30/11/95 | 30/09/55 | PWLB | Maturity | 8.00% | 1,000,000.00 |
| P476790 | 21/12/95 | 30/09/55 | PWLB | Maturity | 7.880% | 4,000,000.00 |
| P476823 | 21/12/95 | 30/09/55 | PWLB | Maturity | 7.880% | 1,000,000.00 |
| P476824 | 21/12/95 | 30/09/55 | PWLB | Maturity | 7.880% | 1,000,000.00 |
| P477578 | 02/05/96 | 31/03/56 | PWLB | Maturity | 8.380% | 10,000,000.00 |
| P477622 | 08/05/96 | 31/03/56 | PWLB | Maturity | 8.380% | 10,000,000.00 |
| P477985 | 30/08/96 | 31/03/56 | PWLB | Maturity | 8.25% | 3,000,000.00 |
| P478594 | 11/12/96 | 30/09/31 | PWLB | Maturity | 7.75% | 11,135,901.00 |
| P479272 | 01/05/97 | 31/03/27 | PWLB | Maturity | 7.75% | 25,000,000.00 |
| P479704 | 17/07/97 | 31/03/27 | PWLB | Maturity | 7.00% | 25,000,000.00 |
| P480402 | 13/01/98 | 30/09/27 | PWLB | Maturity | 6.130% | 5,000,000.00 |
| P488282 | 02/12/03 | 30/09/33 | PWLB | Maturity | 5.00% | 3,600,000.00 |
| P492695 | 15/01/07 | 31/03/52 | PWLB | Maturity | 4.25% | 13,500,000.00 |
| P492696 | 15/01/07 | 31/03/53 | PWLB | Maturity | 4.25% | 23,300,000.00 |
| P492697 | 15/01/07 | 31/03/54 | PWLB | Maturity | 4.25% | 20,000,000.00 |
| P493070 | 08/03/07 | 31/03/54 | PWLB | Maturity | 4.25% | 8,600,000.00 |
| P493071 | 08/03/07 | 30/09/53 | PWLB | Maturity | 4.25% | 5,000,000.00 |
| P493425 | 05/07/07 | 30/09/56 | PWLB | Maturity | 4.80% | 60,000,000.00 |
| P493626 | 02/08/07 | 30/09/54 | PWLB | Maturity | 4.55% | 10,000,000.00 |
| P493835 | 23/08/07 | 30/09/54 | PWLB | Maturity | 4.45% | 5,000,000.00 |
| P497853 | 06/09/10 | 31/03/60 | PWLB | Maturity | 4.03% | 10,000,000.00 |
| P498092 | 13/10/10 | 31/03/59 | PWLB | Maturity | 4.09% | 10,000,000.00 |
| P499029 | 27/09/11 | 30/09/25 | PWLB | Maturity | 3.92% | 20,000,000.00 |
| P499165 | 23/11/11 | 30/09/30 | PWLB | Maturity | 3.93% | 20,000,000.00 |
| P501895 | 26/02/13 | 25/07/32 | PWLB | Maturity | 3.94% | 15,000,000.00 |
| P501996 | 15/03/13 | 31/03/30 | PWLB | Maturity | 3.70% | 7,500,000.00 |
| P502022 | 22/03/13 | 31/03/30 | PWLB | Maturity | 3.58% | 7,500,000.00 |
| P502832 | 07/02/14 | 31/03/34 | PWLB | Maturity | 4.17% | 10,000,000.00 |
| P502887 | 05/03/14 | 30/09/57 | PWLB | Maturity | 4.20% | 20,000,000.00 |
| P502921 | 18/03/14 | 30/09/63 | PWLB | Maturity | 4.19% | 20,000,000.00 |
| P503301 | 12/09/14 | 31/03/64 | PWLB | Maturity | 3.95% | 20,000,000.00 |
| P503717 | 05/02/15 | 31/03/63 | PWLB | Maturity | 2.84% | 20,000,000.00 |
| P503806 | 10/03/15 | 30/09/34 | PWLB | Maturity | 3.30% | 10,000,000.00 |
| P508923 | 25/03/19 | 30/09/28 | PWLB | Maturity | 1.90% | 7,500,000.00 |
| P509002 | 28/03/19 | 30/09/28 | PWLB | Maturity | 1.82% | 7,500,000.00 |
| P509289 | 30/05/19 | 31/03/69 | PWLB | Maturity | 2.19% | 5,000,000.00 |
| P509312 | 04/06/19 | 30/09/61 | PWLB | Maturity | 2.18% | 5,000,000.00 |
| P509372 | 18/06/19 | 31/03/69 | PWLB | Maturity | 2.11% | 5,000,000.00 |
| P509461 | 04/07/19 | 31/03/62 | PWLB | Maturity | 2.10% | 10,000,000.00 |
| P509495 | 08/07/19 | 31/03/69 | PWLB | Maturity | 2.01% | 5,000,000.00 |
| P509506 | 09/07/19 | 30/09/68 | PWLB | Maturity | 2.03% | 5,000,000.00 |
| P509629 | 08/08/19 | 31/03/69 | PWLB | Maturity | 1.94% | 20,000,000.00 |
| P509636 | 09/08/19 | 31/03/66 | PWLB | Maturity | 1.84% | 10,000,000.00 |
| P509723 | 19/08/19 | 31/03/68 | PWLB | Maturity | 1.74% | 10,000,000.00 |
| P509848 | 05/09/19 | 31/03/67 | PWLB | Maturity | 1.58% | 10,000,000.00 |
| P712677 | 19/03/24 | 19/03/25 | PWLB | Maturity | 5.33% | 10,000,000.00 |
| P715356 | 27/03/24 | 27/03/25 | PWLB | Maturity | 5.36% | 10,000,000.00 |

| Deal Ref | Start Date | Maturity Date | Counterparty | Profile | Rate | Principal O/S (£) |
|---|---|---|---|---|---|---|
| P715818 | 28/03/24 | 01/04/25 | PWLB | Maturity | 5.34% | 10,000,000.00 |
| P169721 | 11/03/20 | 30/09/69 | PWLB | Maturity | 2.07% | 5,000,000.00 |
| P175073 | 24/03/20 | 30/09/69 | PWLB | Maturity | 1.48% | 29,800,000.00 |
| PW507215 | 05/04/18 | 30/09/67 | PWLB | Maturity | 2.27% | 25,000,000.00 |
| PW507444 | 31/05/18 | 31/03/67 | PWLB | Maturity | 2.25% | 10,000,000.00 |
| P505126 | 21/06/16 | 31/03/64 | PWLB | Maturity | 2.51% | 25,000,000.00 |
| P479824 | 07/08/97 | 31/03/24 | PWLB | Maturity | 6.88% | 8,793,583.00 |
| P479831 | 07/08/97 | 31/03/24 | PWLB | Maturity | 7.14% | 766,648.00 |
| | | | | | 3.88% | 889,198,451.85 |
| **External borrowing average rate and total** | | | | | **4.16%** | **1,142,004,451.85** |