GMCA GREATER MANCHESTER COMBINED AUTHORITY

Audit Committee

Date: 23 July 2025

Subject: Annual Treasury Management Review 2024/25

Report of: Chief Group Finance Officer, Steve Wilson

Purpose of Report

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2024/25 the minimum reporting requirements were that the Full Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Authority 22 March 2024)
- a mid-year, (minimum), treasury update report (Authority 22 January 2025)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, this Authority has received quarterly treasury management update reports on the following dates 22 October 2024 and 19 March 2025 which were received by the Audit Committee.

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

This Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the Full Authority. Member training on treasury management issues was undertaken on 17 January 2024 in order to support Members' scrutiny role.

Recommendations:

The Audit Committee is requested to:

1. Note the annual treasury management report for 2024/25 and recommend it's approval by the Authority.

Contact Officers

Name of key contact Officer and email address to be included

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Report authors must identify which paragraph relating to the following issues:

Equalities Impact, Carbon and Sustainability Assessment:

N/A

Risk Management

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

Legal Considerations

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

Financial Consequences – Revenue

Financial consequences are contained in the body of the report.

Financial Consequences – Capital

Financial consequences are contained in the body of the report.

Number of attachments to the report

None

Comments/recommendations from Overview & Scrutiny Committee

N/A

Background Papers

GMCA 22 March 2024 Meeting Treasury Management Strategy 24/25 GMCA Part A Report Template

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution

No

Exemption from call in

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?

N/A

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

1. Executive Summary

1.1 During 2024/25, the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators can be found in the main body of the report.

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

2. Introduction and Background

2.1 This report summarises the following:

a) Capital activity during the year;

b) Impact of this activity on the Authority's underlying indebtedness, (the Capital Financing Requirement);

c) The actual prudential and treasury indicators;

d) Overall treasury position identifying how the Authority has borrowed in relation to this indebtedness, and the impact on investment balances;

e) Summary of interest rate movements in the year;

f) Detailed debt activity; and

g) Detailed investment activity.

3. The Authority's Capital Expenditure and Financing

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

a) Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or

b) If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

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

	2023/24 Actual £m	2024/25 Budget £m	2024/25 Actual £m
Capital expenditure	566.318	722.758	624.229
Financed in year	(402.376)	(567.268)	(476.986)
Unfinanced capital expenditure	163.942	155.490	147.243

4. The Authority's Overall Borrowing Need

4.1 The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's indebtedness. The CFR results from the capital activity of the Authority and resources used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.2 Part of the Authority's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Authority's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board (PWLB), or the money markets), or utilising temporary cash resources within the Authority.

4.3 Reducing the CFR – the Authority's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

4.4 The total CFR can also be reduced by:

a) the application of additional capital financing resources, (such as unapplied capital receipts); or

b) charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

4.5 The Authority's 2024/25 MRP Policy, (as required by Ministry for Housing, Communities and Local Government (MHCLG) Guidance), was approved as part of the Treasury Management Strategy Report for 2024/25 on 22 March 2024.

4.6 The Authority's CFR for the year is shown below and represents a key prudential indicator. It includes Private Finance Initiative (PFI) and leasing schemes on the balance sheet, which increase the Authority's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR	2023/24 Actual £m	2024/25 Budget £m	2024/25 Actual £m
Opening Balance	2,345.973	2,474.652	2,415.056
Add unfinanced capital expenditure (as above)	163.942	155.490	147.243
Less MRP/ VRP	(93.656)	(101.347)	(95.225)
Less PFI and finance lease repayments	(1.205)	(1.078)	(1.092)
Closing Balance	2,415.054	2,527.717	2,465.982

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

4.8 Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	2023/24 Actual £m	2024/25 Budget £m	2024/25 Actual £m
Gross borrowing position	1,396.182	1,486.321	1,445.998
CFR	2,415.054	2,527.717	2,465.982
Under/ over funding of CFR	(1018.872)	(1,041.396)	(1,019.984)

4.9 The authorised limit - the authorised limit is the ‘affordable borrowing limit’ required by s3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Authority has maintained gross borrowing within its authorised limit.

4.10 The operational boundary – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

4.11 Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2024/25
Authorised limit	2,741.225
Maximum gross borrowing position during the year	1,417.353
Operational boundary	2,622.858
Average gross borrowing position	1,327.854
Financing costs as a proportion of net revenue stream	7.3%

5. Treasury Position as of 31 March 2025

5.1 The Authority’s treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices. At the end of 2024/25 the Authority's treasury position, (excluding borrowing by PFI and finance leases) was as follows:

Debt Portfolio	31 March 2024 Principal £m	Rate/ Return %	Average Life Years	31 March 2025 Principal £m	Rate/ Return %	Average Life Years
PWLB	508.814	4.76	14	476.019	4.86	14
Market	849.233	2.83	16	813.302	2.80	15
Temporary	5.137	0.00	0	128.032	5.88	0
Total external borrowings	**1,363.184**	**3.55**	**15**	**1,417.353**	**3.78**	**14**
PFI Liability	32.998			28.645		
Total debt	**1,396.182**			**1,445.998**		
CFR	2,415.054			2,465.982		
Over/ (Under) borrowing	(1,018.872)			(1,019.984)		
Total cash and investments	264.365	5.79	0	165.680	4.41	0
Net Debt	**(754.507)**			**(854.304)**		

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

	2023/24 Actual £m	2024/25 Actual £m
Under 12 months	88.863	196.560
12 months and within 24 months	44.115	52.585
24 months and within 5 years	192.311	356.993

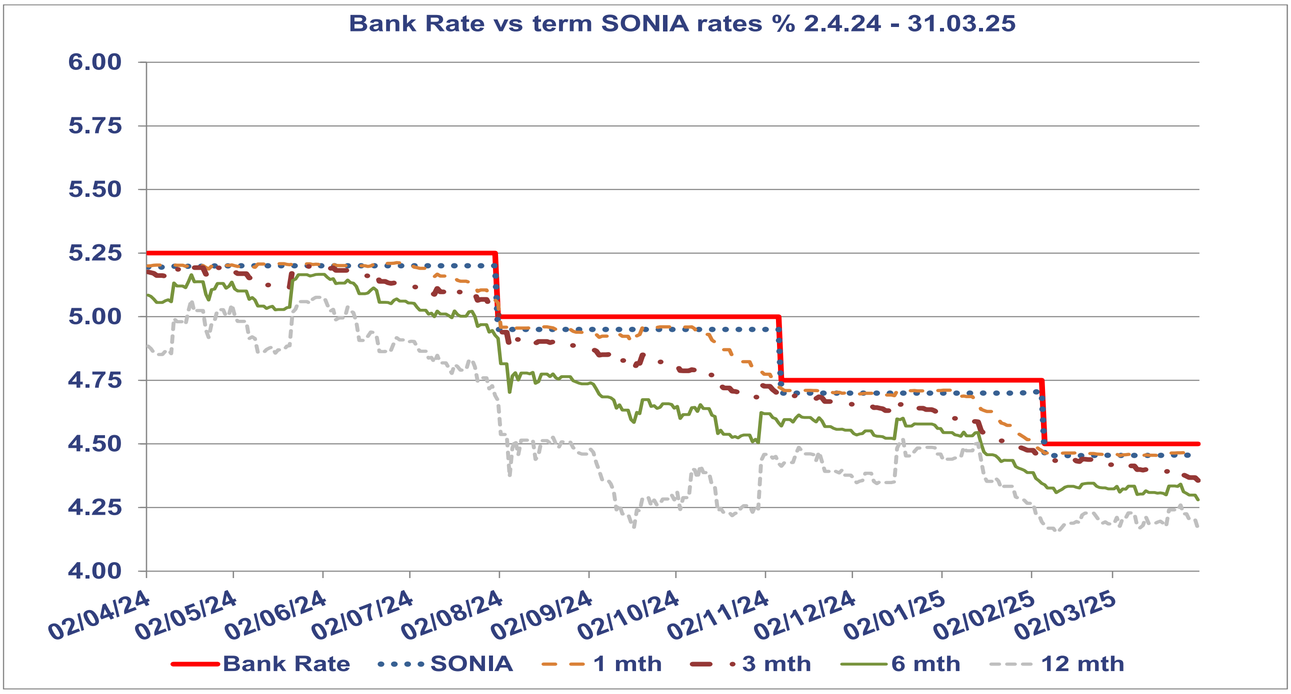
	2023/24 Actual £m	2024/25 Actual £m
5 years and within 10 years	387.175	188.389
10 years and within 20 years	482.812	464.650
20 years and within 30 years	63.731	54.000
30 years and within 40 years	49.176	49.176
40 years and within 50 years	55.000	55.000

Investment Portfolio	**2023/24 Actual £m**	**2023/24 Actual %**	**2024/25 Actual £m**	**2024/25 Actual %**
Treasury investments				
Banks	21.605	8.2	11.000	6.6
Local Authorities	140.000	53.0	0.000	0.0
DMO	102.760	38.8	154.680	93.4
Total treasury investments	**264.365**	**100.0**	**165.680**	**100.0**
Non-Treasury investments				
Loans	132.250	76.4	151.049	76.8
Equity	40.839	23.6	45.652	23.2
Total non-treasury investments	**173.089**	**100.0**	**196.701**	**100.0**
Treasury investments	264.365	60.4	165.680	45.7
Non-Treasury investments	173.089	39.6	196.701	54.3
Total investments	**437.454**	**100.0**	**362.381**	**100.0**

6. The Strategy for 2024/25

6.1 Investment strategy and control of interest rate risk

Investment Benchmarking Data – Sterling Overnight Index Averages (Term) 2024/25



	Bank Rate	SONIA	1 month	3 months	6 months	12 months
High	5.25	5.20	5.21	5.20	5.17	5.08
High Date	2 April 2024	3 May 2024	27 June 2024	17 April 2024	31 May 2024	30 May 2024
Low	4.50	4.45	4.45	4.36	4.28	4.15
Low Date	6 February 2025	12 February 2025	4 March 2025	31 March 2025	31 March 2025	10 February 2025
Average	4.95	4.90	4.88	4.82	4.72	4.54
Spread	0.75	0.75	0.76	0.85	0.89	0.93

6.1.1 Investment returns remained robust throughout 2024/25 with Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

6.1.2 Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes is Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

6.1.3 As of early April 2025, market sentiment has been heavily influenced of late by President Trump's wide-ranging trade tariffs policy. Commentators anticipate a growing risk of a Unites States (US) recession, whilst UK Gross Domestic Product (GDP) is projected by the Office for Budget Responsibility to remain tepid, perhaps achieving 1% GDP growth in 2025/26.

6.1.4 Looking back to 2024/25, investors were able to achieve returns in excess of 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% - 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of "laddered investments" paid off.

6.1.5 That is not to say that investment choices were straight-forward. Concerns over rising inflation after the Autumn Statement in October led to reduced expectations for Bank Rate to fall. Indeed, the Consumer Price Indexation (CPI) measure of inflation is expected to reach c3.75% by the autumn of 2025, which could provide for some presentational issues for a Bank whose primary mandate is to ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March 2025, only two further rate cuts were priced into the market for 2025 (4% at December 2025). A week later and sentiment has changed dramatically in the wake of the equity market sell-off to the extent that markets now expect three Bank Rate reductions between May 2025 and December 2025 (Bank Rate to fall to 3.75%).

6.2 Borrowing strategy and control of interest rate risk

6.2.1 During 2024/25, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2025 and 2026 in the light of economic growth concerns and the eventual dampening of inflation. The Authority has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

6.2.2 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Group Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

a) if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around a relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

b) if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

6.2.3 Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts, updated from November 2024 onwards, look more realistic.

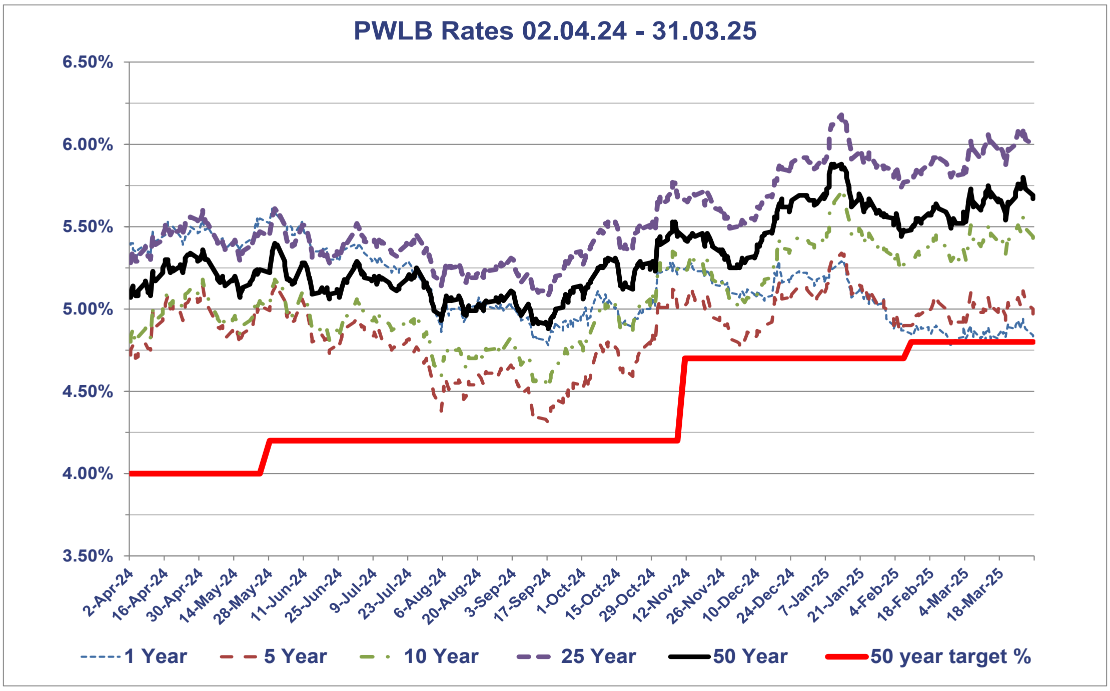
6.2.4 At the start of April 2025, following the introduction of President Trump’s trade tariffs policies, the market expected Bank Rate to fall to 3.75% by the end of December 2025, putting down the 5-10 year parts of the curve too.

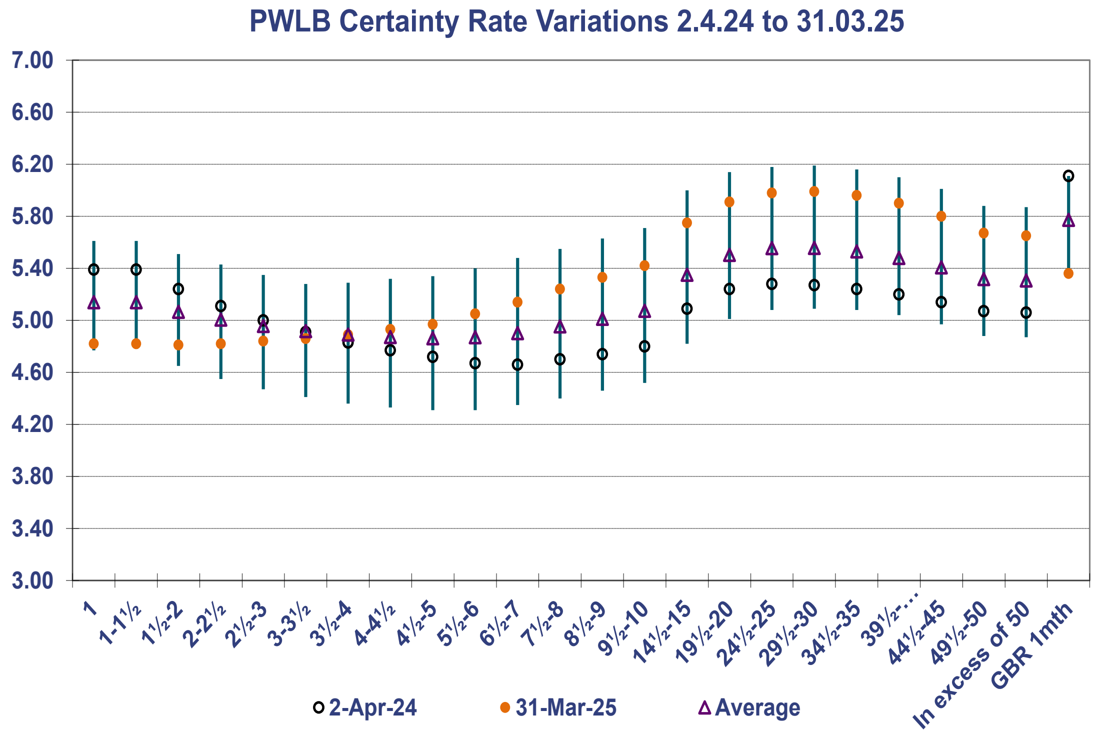
6.2.5 This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

6.2.6 Forecasts at the time of approval of the treasury management strategy report for 2024/25 were as follows:

	Mar-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	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earning	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earning	5.20	5.10	4.60	410	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earning	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

6.2.7 PWLB Rates 2024/25





6.2.8 High/ Low/ Average PWLB rates for 2024/25

	1 Year	5 Year	10 year	25 year	50 Year
Low	4.77%	4.31%	4.52%	5.08%	4.88%
Date	26 February 2025	17 September 2024	17 September 2024	17 September 2024	17 September 2024
High	5.61%	5.34%	5.71%	6.18%	5.88%
Date	29 May 2024	13 January 2025	13 January 2025	13 January 2025	09 January 2025
Average	5.14%	4.86%	5.07%	5.56%	5.32%
Spread	0.84%	1.03%	1.19%	1.10%	1.00%

6.2.9 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.

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

6.2.11 Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in September 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c5% - 6% with the exception of the slightly cheaper shorter dates.

6.2.12 At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

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

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

6.2.14 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves lower.

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

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

7. Borrowing Outturn

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

7.1.2 The following temporary borrowing was undertaken within 24/25 to manage cash flow fluctuations:

Counterparty	Amount (£)	Interest Rate (%)	Start Date	Maturity Date
Tameside MBC	10,000,000	5.40	20/12/2024	08/01/2025
Greater Manchester Pension Fund	10,000,000	5.40	20/12/2024	08/01/2025
Birmingham City Council	20,000,000	6.15	28/03/2025	14/04/2025
Coventry City Council	10,000,000	6.25	31/03/2025	14/04/2025
Derby City Council	3,000,000	6.25	31/03/2025	14/04/2025
Greater Manchester Pension Fund	75,000,000	5.65	14/03/2025	17/04/2025
London Borough of Redbridge	5,000,000	6.15	28/03/2025	22/04/2025
London Borough of Redbridge	5,000,000	6.35	31/03/2025	14/04/2025
PCC Merseyside	2,000,000	6.15	31/03/2025	14/04/2025
Rhondda Cynon Taf County Borough Council	7,000,000	6.25	20/03/2025	07/04/2025
Total	**147,000,000**			

7.2 Borrowing in advance of need

7.2.1 The Authority has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

7.3 Rescheduling

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

8. Investment Outturn

8.1 Investment Policy – the Authority's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Authority on 13 March 2024. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

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

8.3 Resources – the Authority's cash balances comprise revenue and capital resources and cash flow monies. The Authority's core cash resources comprised as follows:

Balance Sheet Resources	2023/24 £m	2024/25 £m
Balances	44.937	44.944
Earmarked reserves	570.641	515.931
Provisions	20.208	23.691
Usable capital receipts	169.007	189.012
Total	**804.793**	**773.578**

Investments held by the Authority

- The Authority maintained an average balance of £376.741m of internally managed funds.
- The internally managed funds earned an average rate of return of 5.05%.
- The comparable performance indicator is the average Overnight Sterling Overnight Index Average (SONIA) rate which was 4.89%.
- Total investment income was £19.104m compared to a budget of £2.257m.

9. The Economy and Interest Rates

9.1 UK Economy

9.1.1 UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% y/y (April 2024), the CPI measure of inflation briefly dipped to 1.7% y/y in September 2024 before picking up pace again in the latter months. The latest data shows CPI rising by 2.8% y/y (February 2025), but there is a strong likelihood that figure will increase to at least 3.5% by the Autumn of 2025.

9.1.2 Against that backdrop, and the continued lack of progress in ending the Russian invasion of Ukraine, as well as the potentially negative implications for global growth as a consequence of the implementation of US tariff policies by US President Trump in April 2025, Bank Rate reductions have been limited. Bank Rate at 31 March 2025 was 4.50%, despite the Office for Budget Responsibility reducing its 2025 GDP forecast for the UK economy to only 1% (previously 2% in October 2024).

9.1.3 Moreover, borrowing has becoming increasingly expensive in 2024/25. Gilt yields rose significantly in the wake of the Chancellor's Autumn Statement, and the loosening of fiscal policy, and have remained elevated ever since, as dampened growth expectations and the minimal budget contingency (<£10bn) have stoked market fears that increased levels of borrowing will need to be funded during 2025.

9.1.4 The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies by the US administration.

	UK	Eurozone	US
Bank Rate	4.50%	2.5%	4.25%-4.5%
GDP	-0.1%q/q Q4 (1.1%y/y)	+0.1%q/q Q4 (0.7%y/y)	2.4% Q4 Annualised
Inflation	2.8%y/y (February 2025)	2.3%y/y (February 2025)	2.8%y/y (February 2025)
Unemployment Rate	4.4% (January 2025)	6.2% (January 2025)	3.9% (February 2024)

9.1.5 The Bank of England sprung no surprises in their March 2025 meeting, leaving Bank Rate unchanged at 4.5% by a vote of 8-1, but suggesting further reductions would be gradual. The Bank of England was always going to continue its cut-hold-cut-hold pattern by leaving interest rates at 4.50% but, in the opposite of what happened at the February 2025 meeting, the vote was more hawkish than expected. This suggested that as inflation rises later in the year, the Bank cuts rates even slower, but the initial impact of President Trump's tariff policies in April 2025 on the financial markets underpin our view that the Bank will eventually reduce rates to 3.50%.

9.1.6 Having said that, the Bank still thinks inflation will rise from 2.8% in February 2025 to 3¾% in Q3. And while in February 2025 it said "inflation is expected to fall back thereafter to around the 2% target", this time it just said it would "fall back thereafter". That may be a sign that the Bank is getting a bit more worried about the "persistence in domestic wages and prices, including from second-round effects". Accordingly, although we expect a series of rate cuts over the next year or so, that does not contradict the Bank taking "a gradual and careful" approach to cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

9.1.7 From a fiscal perspective, the increase in businesses' national insurance and national minimum wage costs from April 2025 is likely to prove a headwind, although in the near-term the Government's efforts to provide 300,000 new homes in each year of the current Parliament is likely to ensure building industry employees are well remunerated, as will the clamp-down on immigration and the generally high levels of sickness amongst the British workforce. Currently wages continue to increase at a rate close to 6% y/y. The Monetary Policy Committee (MPC) would prefer a more sustainable level of c3.5%.

9.1.8 As for equity markets, the Financial Times Stock Exchange (FTSE) 100 has recently fallen back to 7,700 having hit an all-time intra-day high 8,908 as recently as 3 March 2025. The £ has also endured a topsy-turvy time, hitting a peak of $1.34 before dropping to $1.22 in January 2025 and then reaching $1.27 in early April 2025.

9.2 United States of America (USA) Economy

9.2.1 Despite the markets willing the FOMC to repeat the rate cut medicine of 2024 (100 basis points in total), the Fed Chair, Jay Powell, has suggested that the Fed. Funds Rate will remain anchored at 4.25%-4.5% until inflation is under control, and/or the economy looks like it may head into recession as a consequence of President Trump's tariff policies.

9.2.2 Inflation is close to 3% and annualised growth for Q4 2024 was 2.4%. With unemployment just above 4%, and tax cuts in the pipeline, the FOMC is unlikely to be in a hurry to cut rates, at least for now.

9.3 EZ Economy

9.3.1 The Eurozone economy has struggled throughout 2024 and is flat lining at present, although there is the promise of substantial expenditure on German defence/infrastructure over the coming years, which would see a fiscal loosening. France has struggled against a difficult political backdrop, but with a large budget deficit it is difficult to see any turn-around in economic hopes in the near-term.

9.3.2 With GDP currently below 1% in the Euro-zone, the ECB is likely to continue to cut rates, although the headline inflation rate is still above 2% (2.3% February 2025). Currently at 2.5%, a further reduction in the Deposit Rate to at least 2% is highly likely.

10.0 IFRS 16

10.1.1 As Members are aware the Authority will be implementing International Financial Reporting Standard (IFRS) 16 with an effective date of 1 April 2024. This standard changes how leases are treated by removing the distinction between operating and finance leases, instead creates assets where there is a right to use and liabilities for the outstanding lease payments. This introduction of right of use assets and associated liabilities will increase the Authority's Capital Financing Requirement and the authorised debt limits. At the time of writing, the valuation of those leases is not yet complete, and a further report will be brought to Members with revised figures once this work has been finished.

Appendix 1: Investment Portfolio

Investments held as of 31 March 2025:

Organisation Type	Institution	Instrument Type	Start	Maturity	Yield	Principal (£)
AAA rated and Government backed securities	Debt Management Office	Fixed Term Deposit	31-Mar-25	01-Apr-25	4.45%	154,680,000
Banks	Barclays Bank PLC (NRFB)	Call (Instant Access)			3.90%	11,000,000
Total						**165,680,000**

Appendix 2: Approved countries for investments as of 31 March 2025

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody’s and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- USA

AA

- Abu Dhabi (United Arab Emirates)
- Qatar

AA-

- Belgium
- France
- **UK**