Appendix A

Treasury Management
Outturn Report to 31 March 2024

Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr

BRIDGEND County Borough Council

1.0 INTRODUCTION

Treasury management activities are the *'management of the organisation's borrowing, investments and cash flows, including 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.'* (Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (2021) (CIPFA TM Code).

The definition of 'Investments' includes:

- Treasury Management investments (held for the prudent management of financial affairs), and
- non-Treasury Investments, undertaken as part of a Capital Strategy either in the course of provision of services; or made for commercial reasons purely to make a financial gain. These are managed outside of normal treasury management activity.

The Council carries out its treasury management function in accordance with the CIPFA TM Code and the legal obligation under the Local Government Act 2003 to have regard to both the CIPFA TM Code and Welsh Government Guidance.

The Council has an integrated Treasury Management Strategy where borrowing and investments are managed in accordance with best professional practice, which is assessed either from internal expertise or consultation with our external advisers. The Council will look to borrow money if needed to either meet short term cash flow needs or to fund capital schemes approved within the capital programme. Therefore, any actual loans taken are not generally associated with particular items of expenditure or assets.

The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer. The Governance and Audit Committee are responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies and regular reports will be presented to the Committee for their consideration.

2.0 ECONOMIC CONTEXT

At the start of the 2023-24 financial year the rate of UK inflation (CPI) was at 8.7%. Over the year there was a steady decline in the figure, standing still between months on a few occasions with a slight upturn of 0.1% between November 2023 and December 2023, finally ending the year at 3.2%. This was still above the Bank of England's 2% target. The latest core measure of CPI i.e. excluding food and energy, rose by 4.7% in the 12 months to March 2024.

The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for July 2023 to Sept 2023 and October 2023 to December 2023. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data available, the Office for National Statistics reported a rebound in activity with the economy expanding 0.2% in January 2024. The forecast from the first Quarter of 2024 (January 2024 to March 2024 predicted growth of 0.6%, in June 24 this figure turned out to be higher at 0.7%. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% May to July 2023. The same month July 2023, saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January 2024 and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast at that point.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. The vote at the March MPC meeting was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

In the Bank's quarterly Monetary Policy Report released in August 2023 the near-term projection for services price inflation was revised upwards, goods price inflation was widespread across products, indicating stronger domestic inflationary pressure with second-round effects in domestic prices and wages likely taking longer to unwind than they did to emerge. In the February 2024 quarterly Monetary Policy Report the Bank's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in second half of 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices, these effects would hold inflation slightly above target for much of the forecast horizon.

Following this MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the second half of 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October they started declining again before falling sharply in December as falling inflation and dovish central bank attitudes caused financial markets to expect cuts in interest rates in 2024.

When it emerged in January that inflation was stickier than expected and the Bank of England and the US Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 50+ basis higher than when it started.

Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% (28th March 2024). The Sterling Overnight Rate (SONIA) averaged 4.96% over the period to 31st March.

In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

Earlier in the period, S&P ratings agency revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable, Handelsbanken's outlook to negative, downgraded five local authorities, and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment. Fitch revised United Overseas Bank (UOB) and Bank of Montreal (BMO) outlooks to stable.

In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.

Heightened market volatility is expected to remain a feature, at least in the near term, and credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

3.0 EXTERNAL DEBT AND INVESTMENT POSITION

The Council's external debt and investments at 31 March 2024 is set out in Table 1 below. The Council held £99.61 million of Long Term Borrowing comprising:

- Public Works Loan Board (PWLB - UK government) at fixed rates and duration
- Lender's Option Borrower's Option (LOBO) which may be rescheduled ahead of their maturity of 22 July 2054 (no call was made in January 2024)
- £2.74 million of Salix interest-free loans

The Council borrowed £5 million for short-term cash flow purposes, for a period of 2 months, from 22nd March 2024.

As at 31st March 2024 the Council had £50 million of investments for treasury management purposes and £4.99 million of investments for commercial purposes.

Table 1: Council's external debt and investment position as of 31 March 2024

Investments for Treasury Purposes	Principal as at 31/03/2023 £m	Principal as at 31/03/2024 £m	Average Rate 31/03/2024 %
External Long Term Borrowing			
Public Works Loan Board (PWLB)	77.62	77.62	4.70
Lenders Option Borrowers Option (LOBO)	19.25	19.25	4.65
Salix Loans (Interest Free)	3.06	2.74	NIL
Short Term Borrowing	NIL	5.00	**6.6**
Total External Borrowing	**99.93**	**104.61**	**4.78***
Other Long Term Liabilities			
Private Finance Initiative**	13.90	12.97	
Other Long Term Liabilities	0.23	-	
Total Other Long Term Liabilities	**14.13**	**12.97**	
Total Gross Debt	**114.06**	**117.58**	
Investments for treasury management purposes			
Debt Management Office	7.50	NIL	NIL
Local Authorities	53.00	44.00	5.22
Money Market Funds (instant access)	NIL	NIL	NIL
Banks	14.00	6.00	3.57
Total Treasury Investments	**74.50**	**50.00**	**5.02**
Net Debt	**39.56**	**67.58**	

Investments for Commercial Purposes	Fair Value as at 31/03/2024 £m	Actual return 31/03/2024 £m
Investments	4.990	0.459

** Excluding Salix loans which are interest free and Short Term borrowing*
*** (PFI) arrangement for the provision of a Secondary School in Maesteg 10 years remaining term*

The current profile of repayment of the Council's long-term debt is set out in the Liability Benchmark chart below. The table assumes that the Public Works Loan Board and Lender's Option Borrower's Option loans will be repayable on their maturity date. However, although shown as maturing in 2054 the £19.25 million of Lender's Option Borrower's Option loans may be rescheduled at their next maturity date of 22 July 2024.

PWLB lending criteria requires that the Council does not invest purely for financial return if it wishes to access any new PWLB borrowing. The CIPFA TM Code sets out that it is not prudent for local authorities to invest for financial return.

All borrowing by the Council is as a single pool of debt rather than having loans specific to individual schemes. Where a Council finances capital expenditure by debt, it must put aside revenue to repay that debt in later years, known as Minimum Revenue Provision (MRP). The MRP set aside for 2023-24 was £6.5 million, including MRP on supported and unsupported borrowing and the PFI for Maesteg School.

Liability benchmark

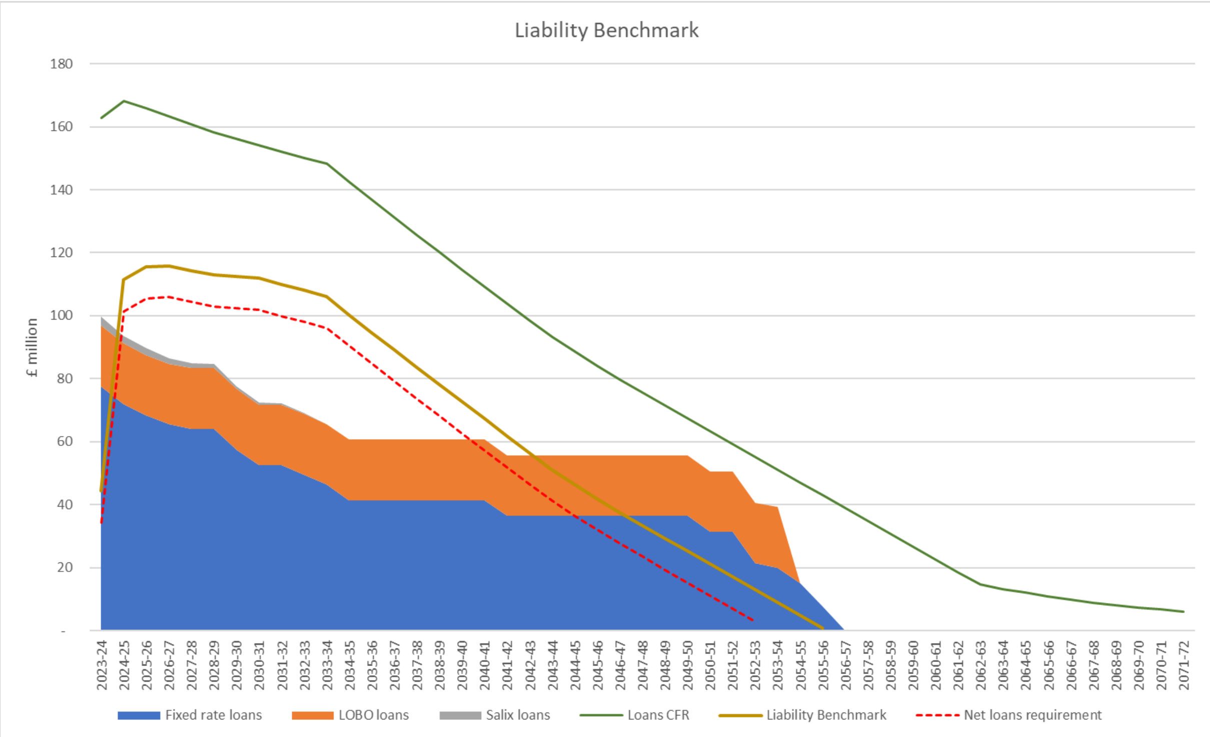
The liability benchmark is a tool which helps to assess the lowest level of borrowing the Council needs, taking into account available cash resources to fund capital expenditure in the short term. A minimum level of investments is factored into the calculation, set at £10 million, which are held as reasonably liquid to ensure the Council has available cash resources to meet day-to-day cash flow requirements. Forecast borrowing needs are based on capital expenditure estimates and available useable reserves. The underlying need to borrow to fund capital expenditure (known as the Capital Financing Requirement or CFR) is the amount of capital expenditure which is not funded via grants, capital receipts or contributions from revenue and earmarked reserves.

Table 2 below shows the Capital Financing Requirement and the calculation of the liability benchmark. It is important to note that the graph is based on the current approved capital programme and the borrowing associated therewith. Any new schemes which require debt financing will increase the CFR and loans requirement.

Table 2: Liability benchmark

	31 March 2023 actual £m	31 March 2024 estimate (TMS) £m	31 March 2024 actual £m	31 March 2025 forecast £m	31 March 2026 forecast £m
Capital Financing Requirement	176.21	184.81	175.72	183.26	179.66
Less: Other debt liabilities	(13.90)	(12.97)	(12.97)	(15.12)	(13.90)
Loans Capital Financing Requirement	***162.31***	***171.83***	***162.75***	***168.14***	***165.77***
Less: Balance Sheet Resources	(139.06)	(84.14)	(128.35)	(66.81)	(60.25)
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	**33.25**	**97.69**	**44.40**	**111.33**	**115.51**

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its **current** capital plans while keeping treasury investments at the minimum level to manage day-to-day cash flow.



It is forecast that the Council may need to consider borrowing long term in 2024-25 although this is based on a number of assumptions including the forecast capital programme expenditure and the level and use of reserves.

The Section 151 Officer will monitor and update the liability benchmark assumptions on an on-going basis and report any significant changes within the treasury management monitoring reports to Cabinet, Governance and Audit Committee and Council as appropriate. This could be as a result of changes in the level of usable reserves at year end, slippage within the Capital Programme or changes within the working capital assumptions which may affect the Council's need to take new long-term borrowing.

4.0 BORROWING

As at 31 March 2024 the Council held £99.61 million of Long-Term Borrowing, £96.87 million of which is fixed long term loans as part of its strategy for funding previous years' capital programmes.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB). This was the source of funding the last time the Council took long-term borrowing of £5 million in March 2012. The Council will however consider long term loans from other sources including banks, pension funds and other local authorities if appropriate. The Council will also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA TM Code.

The Council has loans from PWLB maturing within the next 3 financial years that it will need to repay. As noted above the Council may need to take out new borrowing, which may in part replace these maturing PWLB loans. The value of the loans due to be repaid over the next 3 years is shown in Table 3.

Table 3: Value of PWLB maturing debt

	2024-25 £ million	2025-26 £ million	2026-27 £ million
Value of maturing debt	5.580	3.709	2.790

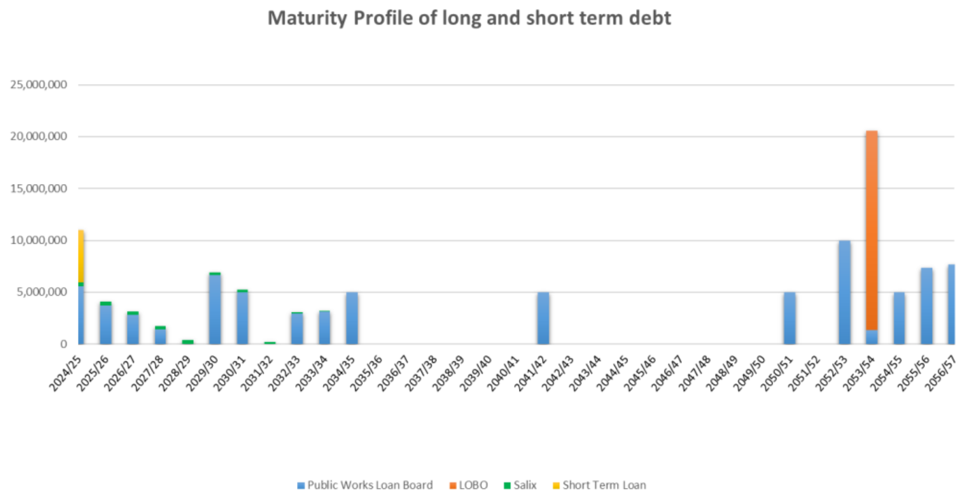
Maturity structure of borrowing

The maturity structure of borrowing indicator is set to control the Council's exposure to refinancing risk with respect to the maturity of the Council's external borrowing. The limits are set to avoid having large amounts of debt maturing in a short space of time. and is the amount of projected borrowing maturing in each period as a percentage of total projected borrowing. Where the maturity date of borrowing is unknown, as in the case of LOBO loans, the maturity should normally be determined by reference to the earliest date at which the lender can require repayment. The £19.25 million of LOBO loans has therefore been included in the 'Under 12 months' category. The table also includes short-term borrowing of £5 million in March 2024.

Table 4: Maturity Structure of Borrowing

Maturity structure of borrowing	Upper limit	lower limit	£ million	As at 31 March 2024
Under 12 months	50%	0%	24.64	23.56%
12 months and within 24 months	25%	0%	8.74	8.35%
24 months and within 5 years	25%	0%	6.20	5.93%
5 years and within 10 years	40%	0%	15.50	14.82%
10 years and within 20 years	50%	0%	13.14	12.56%
20 years and above	60%	25%	36.38	34.78%

As can be seen from the table the maturity structure remains within the limits approved as part of the Treasury Management Strategy 2023-24. The following chart provides the maturity profile of the Council's long-term debt.



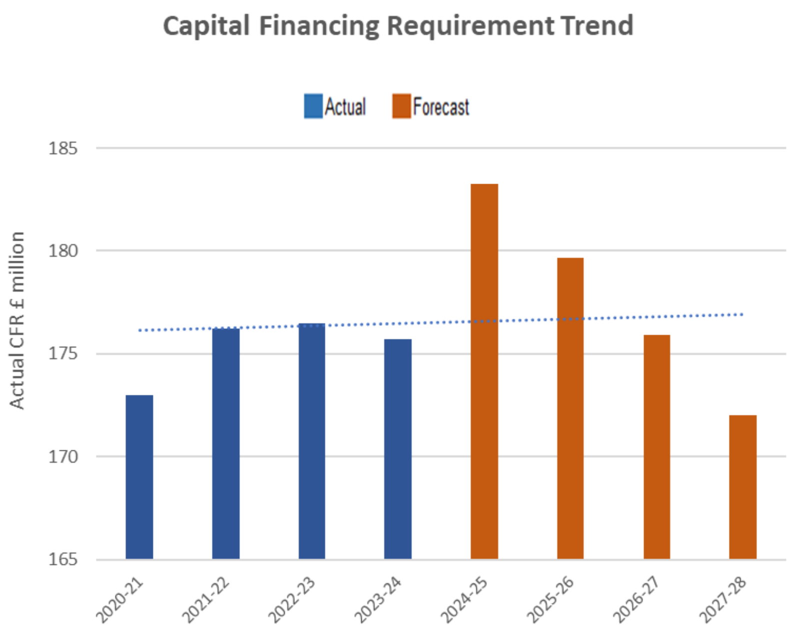
None of the LOBO loans have had to be repaid during the period to 31 March 2024. All the LOBO loans are subject to the lender having the right to change the rate of interest payable during the financial year at either of two trigger points in January and July, with the Council having the right to refuse the change, triggering early repayment and the need to re-finance. This is a manageable risk should repayment be needed during the current financial year as the Council has sufficient funds available in the short term, though would need to consider future borrowing to replace the repaid loans, in line with net loans requirement and liability benchmark in Table 2.

Table 5: LOBO loans

Commencement date	Loan value £m	Potential repayment date	Option frequency	Full term maturity
22 January 2004	4.00	22 July 2024	6 months	22 January 2054
22 January 2004	5.00	22 July 2024	6 months	22 January 2054
22 January 2004	10.25	22 July 2024	6 months	22 January 2054

In accordance with the Treasury Management Strategy, the Council is internally borrowing, which is when it uses temporary cash balances it holds in the short term instead of undertaking external borrowing. The level of internal borrowing as at 31 March 2024 was £58.14 million. This is shown by the Council's Capital Financing Requirement (CFR) net of its external level of debt including other long term debt liabilities. The Council's CFR as at 31 March 2024 was £175.72 million, external borrowing £104.61 million and other long term debt liabilities of £12.97 million, which is the PFI Maesteg School scheme.

The chart below shows the trend in the CFR based on **current** capital commitments within the approved capital programme. The CFR is anticipated to increase in the current year assuming capital expenditure is incurred as currently anticipated. The CFR in future years shows a reduction, however, this is on the assumption of no new schemes which require debt financing. If new schemes requiring debt financing are added, the CFR will continue to increase.



5.0 TREASURY INVESTMENTS

The Council holds treasury investments as a result of temporary cash balances arising from its day-to-day activities. The management of the day-to-day cash requirements of the Council is undertaken in-house with advice from Arlingclose, the Council's Treasury Management advisors. This may involve temporary borrowing to meet cash-flow needs or temporary lending of surplus funds. Investment balances can fluctuate daily and arise as a result of a range of circumstances, including timing differences of revenue and capital cash flows, reserves and other balances held for future use.

Investments are made in institutions approved by Council as part of its Treasury Management Strategy and in accordance with investment guidelines issued by the Welsh Government. As part of the Markets and Financial Instruments Directive II, the Council elected for 'professional' status, which covers national and regional governments and public bodies. The categories of investments the Council can invest in can be changed with any proposed changes being presented to Council for approval.

Treasury investments are made primarily on the basis of ensuring security of the funds invested, whilst managing liquidity, and only then considering a commensurate return on the investment. As at 31 March 2024 the Council held £50 million of investments, with a weighted average return of 5.02.% (£64.50 million at 4.35% as at 31 December 2023). Table 6 below shows the investment profile as at 31 March 2024.

Table 6: Investments by counterparty type

Investment Category	Balance 1 April 2023 £m	Investments made in period £m	Investments repaid in period £m	Balance 31 March 2024 £m	Weighted interest rate 1 April 2023 to 31 March 2024 %
Government DMO	7.50	349.90	(357.40)	0.00	5.04
Local Authorities	53.00	44.00	(53.00)	44.00	4.30
Money Market Funds	-	129.60	(129.60)	NIL	4.98
Banks (fixed maturity dates)	3.00	27.00	(30.00)	NIL	4.92
Banks (instant access/notice accounts)	11.00	71.70	(76.70)	6.00	3.89
TOTAL	**74.50**	**622.20**	**(646.70)**	**50.00**	**4.50**

The following should be noted:

- During the period to 31 March 2024 all investments made were in line with the approved counterparties within the Treasury Management Strategy.
- Investments are diversified over a number of organisations across different sectors, demonstrating a diversified investment portfolio.
- All investments are in sterling and are rated A- and above as per the approved criteria or with a public body.
- The weighted average rates are for all investments made during 1 April 2023 to 31 March 2024.

The overall interest receivable from treasury investments for the period 1 April 2023 to 31 March 2024 was £5.108 million. Although interest rates are expected to have reached their peak, the returns on new investments may vary as there will be a time lag on the overall average rates for existing investments until historic investments mature and monies are reinvested. The Council will continue to take a cautious approach to investing to ensure as its primary concern the security of any investments made. The risk of default for investments held is considered negligible.

All investments longer than 364 days will be made with a cautious approach to cash flow requirements and advice from the Council's Treasury Management advisors will be sought as necessary. The Treasury Management Strategy 2023-24 reduced the maximum duration for new investments to local authorities from 25 years (as grouped with other government agencies) to 2 years. All investments as at 31 March 2024 were short term of less than one year duration.

Table 7: Sums invested for periods longer than a year

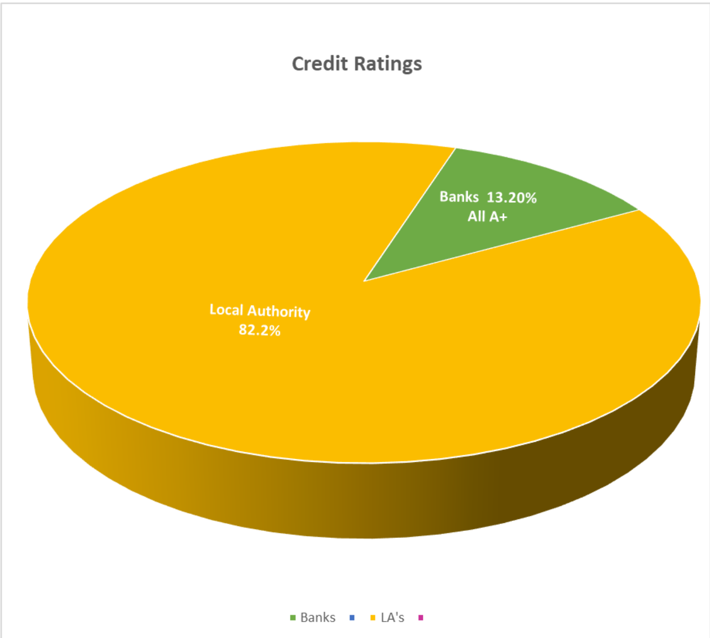
Price risk indicator	TMS 2023-24 £m	Actual £m	Full term maturity
Limit on principal invested beyond financial year end	15	NIL	NIL

The below table details the Council's investments by counterparty and maturity profile.

Table 8: Investments by maturity

Counterparty Category	Instant Access £m	Deposits maturing within 1 month £m	Deposits maturing within 2-3 months £m	Deposits maturing within 4-12 months £m	Deposits maturing after 12 months £m	TOTAL £m
Government DMO	-	-	-	-	-	-
Local Authorities	-	5.00	4.00	35.00	-	44.00
Money Market Funds	-	-	-	-	-	-
Banks	6.00	-	-	-	-	6.00
Total	**5.50**	**7.00**	**18.00**	**34.00**	**-**	**50.00**

The pie chart below summarises the distribution of the Council's investments by credit ratings. Most local authorities do not have credit ratings but are considered secure investment counterparties. Although the council did not have deposits with the Government DMO at 31 March 2024 it did use the facility during the period. The DMO is the UK government and rated AA.



6.0 INTEREST RATE EXPOSURES

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. Short term and variable rate loans expose the Council to the risk of short-term interest rate rises and are therefore subject to the Treasury Management indicator below.

The following Table is based on investments at 31 March 2024.

Table 9: Interest Rate Exposure

Interest rate risk indicator	£ million
One year revenue impact of a 1% rise in interest rates	(0.307)
One year revenue impact of a 1% fall in interest rates	0.500

It is important to note that this is an indicator, not a limit. It is calculated at a point in time on the assumption that maturing loans and investments would be replaced at rates 1% higher or lower than they are currently, and that the treasury investment and borrowing portfolios remain unchanged over the next 12 months, which in practice is not the case. The figure for the 1% fall in interest rates indicator is not the same figure as the 1% increase (but reversed) as the borrowing relates to variable LOBO loans where it is assumed that the lender would only exercise their option if there was an increase in interest rates. All other borrowing does not have a rate reset in the next year and is with the PWLB at fixed rates.

A comparison of interest expenditure and income due for the period 1 April 2023 to 31 March 2024 is shown below.

Table 10: Interest

	01 April 2023 – 31 March 2024 £ million
Interest expenditure payable on long term borrowing	4.528
Other Interest expenditure payable	1.353
Total Interest Payable	5.881
Interest income received in period	(5.108)
Net interest cost	0.773

7.0 NON-TREASURY INVESTMENTS

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activities include investments in subsidiaries and investments in property. A schedule of the Council's existing non-treasury investments (currently limited to owned property) is set out in Table 11 below. Recent PWLB guidance requires that local authorities should review their investment portfolio if they wish to secure PWLB borrowing but does not require the local authority to sell existing investment assets. This category covers non-financial assets held primarily or partially to generate a profit, primarily investment property. These assets are valued on an annual basis to reflect market conditions and the current value at the time they are valued, otherwise known as Fair Value, which provides security of their value and continued benefit to the Council.

Table 11: Non-treasury investments

Non-treasury investments	£ million
Bridgend Science Park - Units 1 & 2	3.170
Waterton Cross Land	0.560
Brynmenyn Industrial Estate Plot 53	0.675
Village Farm Plots 32,119 & 120	0.385
Tyrewise Bridgend	0.200
Total at Fair Value	**4.990**
Annual return 2023-24	**0.459**

The Council considers that the scale of its investment properties is proportionate to the resources of the Council as the investment represents less than 1% of its total long-term assets. In addition, the value of these investments has increased from the previous year.

In accordance with Welsh Government Investment Guidance, these are be classified as non-treasury investments.

Schedule A – Credit Rating Equivalence Table

Credit Rating Equivalence Table

	Description	Fitch Long	Fitch Short	Moody's Long	Moody's Short	Standard & Poor's Long	Standard & Poor's Short
INVESTMENT GRADE	Extremely strong	AAA		Aaa		AAA	
		AA+	F1+	Aa1		AA+	A-1+
	Very strong	AA		Aa2	P-1	AA	
		AA-		Aa3		AA-	
		A+		A1		A+	A-1
	Strong	A	F1	A2		A	
		A-		A3		A-	A-2
		BBB+	F2	Baa1	P-2	BBB+	
	Adequate	BBB		Baa2		BBB	
		BBB-	F3	Baa3	P-3	BBB-	A-3
SPECULATIVE GRADE		BB+		Ba1		BB+	
	Speculative	BB		Ba2		BB	
		BB-		Ba3		BB-	B
		B+	B	B1		B+	
	Very speculative	B		B2		B	
		B-		B3	Not Prime (NP)	B-	
		CCC+		Caa1		CCC+	
		CCC		Caa2		CCC	
	Vulnerable	CCC-	C	Caa3		CCC-	C
		CC		Ca		CC	
		C				C	
	Defaulting	D	D	C		D	D

Schedule B – Arlingclose Economic & Interest Rate Forecast – May 2024

	Current	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.25	5.25	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00
Central Case	5.40	5.30	5.15	4.80	4.30	3.80	3.30	3.05	3.10	3.10	3.15	3.15	3.15
Downside risk	0.00	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.75	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.04	3.95	3.85	3.75	3.60	3.50	3.40	3.40	3.40	3.40	3.45	3.50	3.55
Downside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.75	0.85	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.10	4.05	4.00	3.85	3.75	3.70	3.70	3.70	3.70	3.75	3.80	3.80
Downside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.75	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.60	4.50	4.40	4.35	4.25	4.25	4.20	4.20	4.20	4.20	4.25	4.30	4.35
Downside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.75	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.20	4.10	4.00	3.95	3.85	3.85	3.80	3.80	3.80	3.80	3.85	3.90	3.95
Downside risk	0.00	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

• The Bank of England is now biased towards reductions in Bank Rate, and the upcoming data will determine the timing of the start of the easing cycle and its extent. The UK economy started the year stronger than expected, and wage growth, core and services inflation remain high, so there remains uncertainty around the start of the cycle, but it will be a surprise not to see one cut this summer.

• In May, the MPC continued its dovish tilt. Another committee member, Dave Ramsden joined Swati Dhingra in voting for a rate cut. For the remaining seven members the focus remains on the persistence of inflation, specifically in wages and services.

• UK GDP growth rebounded in Q1 2024 after the technical recession in H2 2023. Survey data suggests that this recovery continued in April, but the UK economy remains relatively weak, with GDP only 0.2% higher in Q1 compared to a year ago and consumer spending barely growing.

• Employment has started to decline, although vacancy levels stabilised suggesting that demand for new labour remains relatively resilient. Anecdotal evidence suggests lower pay growth, and we expect unemployment to rise, which will lead to some deterioration in consumer sentiment. Household and business spending will therefore remain relatively soft. Stronger demand in Q1, however, raises some upside risks to this view.

• Inflation rates will move lower over the next 12 months. The headline CPI rate for April will be at or below the 2% target. There are upside risks from geo-political issues and now stronger domestic activity. With policymaker fears around the persistence of underlying inflationary pressure, particularly services inflation, we believe Bank Rate will remain unchanged until August and initially reduce slowly.

• The MPC minutes suggest that some committee members may not need to see much more evidence on falling inflation before changing their minds, so there is certainly a chance of an earlier rate cut in June.

• We expect that the continuation of restrictive monetary policy will bear down on activity and will require substantial loosening in 2025 to boost activity and inflation.

• Global bond yields will remain volatile and investors' positioning for the timing of US monetary loosening will continue to influence movements in gilt yields. Moreover, there is a heightened risk of fiscal policy, credit events and/or geo-political events causing substantial volatility in yields.