Treasury Management
Quarterly Report to 31 December 2024

Cyngor Bwrdeistref Sirol Pen-y-bont ar Ogwr
BRIDGEND County Borough Council

EXECUTIVE SUMMARY

- Treasury Management is the management of the Council's cash flows on a day-to-day basis and is carried out in accordance with legislation and Codes of Practice.
- The Treasury Management Strategy was approved by Council on 28 February 2024.
- Inflation, measured by the Consumer Prices Index (CPI), unexpectedly slowed in December 2024 taking the rate to 2.5%, down from 2.6% in November.
- The Bank of England base rate was reduced to 4.75% in November 2024 from the previous 5%.
- No new long-term debt was taken out during the period, and no debt was rescheduled during the period. Interest rates on long term-debt remain unchanged at an average of 4.69%.
- Total external borrowing at 31 December 2024 was £99.38 million, a reduction of £0.02 million from the previous quarter due to scheduled repayments of Salix loans.
- Total investments as at 31 December 2024 were £42.90 million, a reduction of £2.1 million from the previous quarter and a £7.10 million reduction from 1 April 2024.
- Average interest rates on investments as at 31 December 2024 was 4.70%, a reduction from 31 March 2024 of 5.02%.
- The Council's investments are split across a number of counterparties, including local authorities, money market funds and banks.
- Investments are made on the basis of security, liquidity and, only then, return, commensurate with the security and liquidity of the investment.
- Due to the current level of reserves, the Council is able to use short-term resources to fund capital expenditure in lieu of external borrowing. However, this is only a short-term position and, whilst the liability benchmark (Chart 1) suggests that the Council may not need new borrowing in the current financial year, it is likely that potentially up to £34 million of new borrowing will be required during 2025-26, and a further £7m in 2026-27.
- The Council may need to borrow for cash flow purposes. This may be short-term borrowing (less than 12 months) to manage day-to-day operational cash flow, or the Council may take out longer duration debt where there is a borrowing requirement or where it would be cost effective to do so. The Council did not have any such borrowing as at 31 December 2024 but may need to do so in the final quarter.
- Council approved a change to the method of setting aside resources to repay debt, known as Minimum Revenue Provision (MRP), on 23 October 2024. The impact of this change has been reflected within this report as it affects the Capital Financing Requirement.
- The Council has operated within the approved limits set out in the Treasury Management Strategy 2024-25.

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

The Chancellor of the Exchequer delivered her Autumn Budget at the end of October 2024. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term.

UK annual Consumer Price Index (CPI) inflation remained above the Bank of England's 2% target during the period. The Office for National Statistics reported headline consumer prices dropped to 2.5% in December 2024, down from 2.6% in the previous month.

The Bank of England Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25 basis point cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%. Economic growth remains a concern as the Bank of England downgraded its Q4 GDP forecast from 0.3% to 0.0%.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would continue to fall from the 5.25% peak. From the first cut in August 2024, followed by the next in November which took Bank Rate to 4.75%, February 2025 is deemed the likely month for the next reduction, with other cuts following steadily to take Bank Rate down to around 3.75% by the end of 2025.

3.0 EXTERNAL DEBT AND INVESTMENT POSITION

The Council's external debt and investments at 31 December 2024 are set out in Table 1 below. The Council held £99.38 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 2025)
- £2.51 million of Salix interest-free loans

The Council borrowed £5 million for short term cash flow purposes in March 2024, which was repaid in May 2024.

At 31 December 2024 the Council had £42.90 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 December 2024

Investments for Treasury Purposes	Principal as at 31/03/2024 £m	Principal as at 31/12/2024 £m	Average Rate 31/12/2024 %
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)	2.74	2.51	NIL
Short Term Borrowing	5.00	NIL	NIL
Total External Borrowing	**104.61**	**99.38**	**4.69***
Other Long Term Liabilities			
Private Finance Initiative (PFI)**	12.97	12.22	
IFRS 16 Leases	NIL	2.85	
Total Other Long Term Liabilities	**12.97**	**15.07**	
Total Gross Debt	**117.58**	**114.45**	
Investments for treasury management purposes			
DMO	NIL	3.00	4.70
Local Authorities	44.00	10.00	5.60
Money Market Funds (instant access)	NIL	22.00	4.76
Banks	6.00	7.90	3.38
Total Treasury Investments	**50.00**	**42.90**	**4.70**
Net Debt	**67.58**	**71.55**	

Investments for Commercial Purposes	Fair Value as at 31/03/2024 £m	Anticipated return 31/3/2025 £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 9.25 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 below 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 can be called at 2 intervals in the year July and January however it is currently unlikely in the current interest climate. The option was not exercised on 22 January 2025.

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). Council approved a change to the MRP Policy at its meeting of 23 October 2024, to move from a straight line method of calculation of MRP to an annuity method. The annuity method of calculating MRP will result in lower MRP charges in earlier years and higher charges in later years. However, when considering the total cost of MRP plus interest charges, the annuity method provides a more even cost each year. It is also considered more prudent as it takes into account the time value of money, so reflects the impact of having £100 now as being more valuable than £100 in one years' time.

Liability benchmark

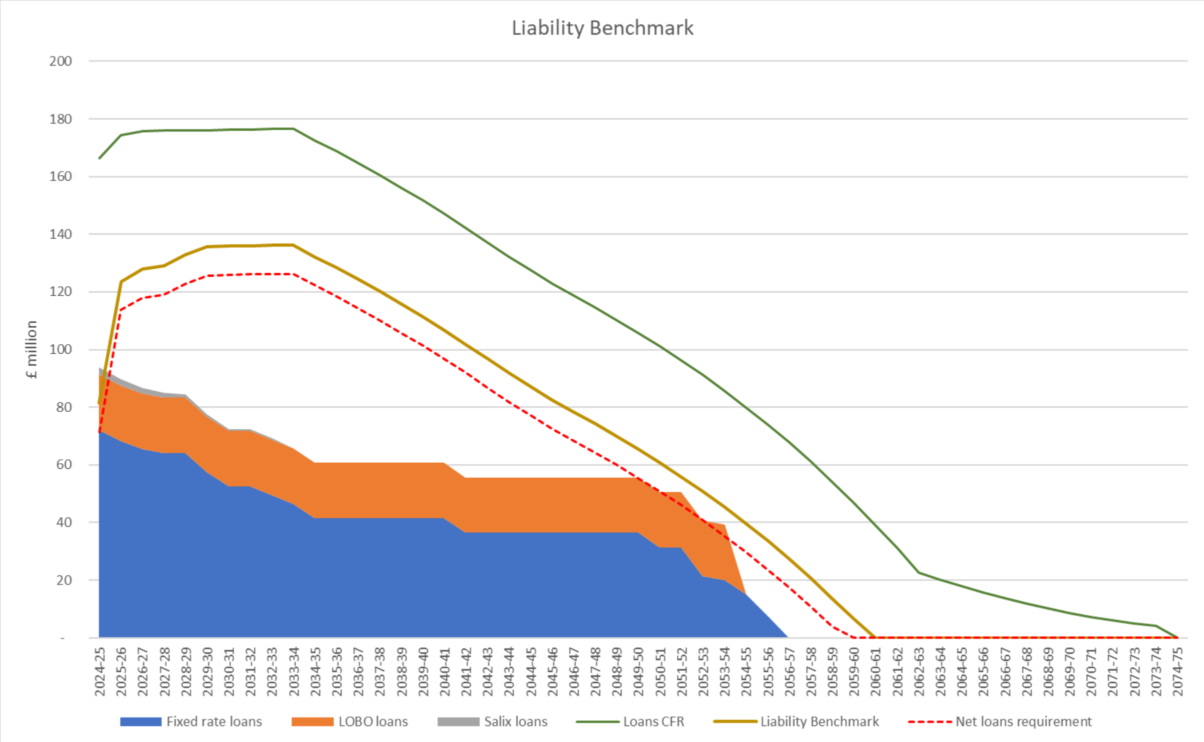
The liability benchmark is a tool which helps to assess the lowest level of borrowing the Council needs, taking into account available cash resources to fund capital expenditure in the short term. A minimum level of investments is factored into the calculation, set at £10 million, which are held as reasonably 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 therein. Any new schemes which require debt financing will increase the CFR and loans requirement.

Table 2: Liability benchmark

	31 March 2024 actual £m	31 March 2025 estimate (TMS) £m	31 March 2026 forecast £m	31 March 2027 forecast £m	31 March 2028 forecast £m
Capital Financing Requirement	175.72	181.30	188.08	188.23	187.02
Less: Other debt liabilities	(12.97)	(14.98)	(13.74)	(12.42)	(11.12)
Loans Capital Financing Requirement	***162.75***	***166.33***	***174.34***	***175.81***	***175.90***
Less: Balance Sheet Resources	(128.35)	(98.59)	(60.67)	(57.88)	(56.96)
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	**44.40**	**77.74**	**123.67**	**127.93**	**128.94**

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 borrow long term in 2025-26 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, the 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 December 2024 the Council held £99.38 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.

Based on current forecasts the anticipated need to borrow during 2025-26 is £34 million with further borrowing of £7 million in 2026-27. The gap between the shaded area and the brown line in the Liability Benchmark (Chart 1) above is the forecast need to borrow.

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 Treasury Management Code.

The Council has loans from PWLB maturing within the next 3 financial years that it will need to repay. 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

The £5.58 million for 2024-25 is due for repayment on 31 March 2025. As noted above the Council may need to borrow during 2025-26 which would replace maturing loans, and may have a short term cash flow need to borrow towards the end of 2024-25.

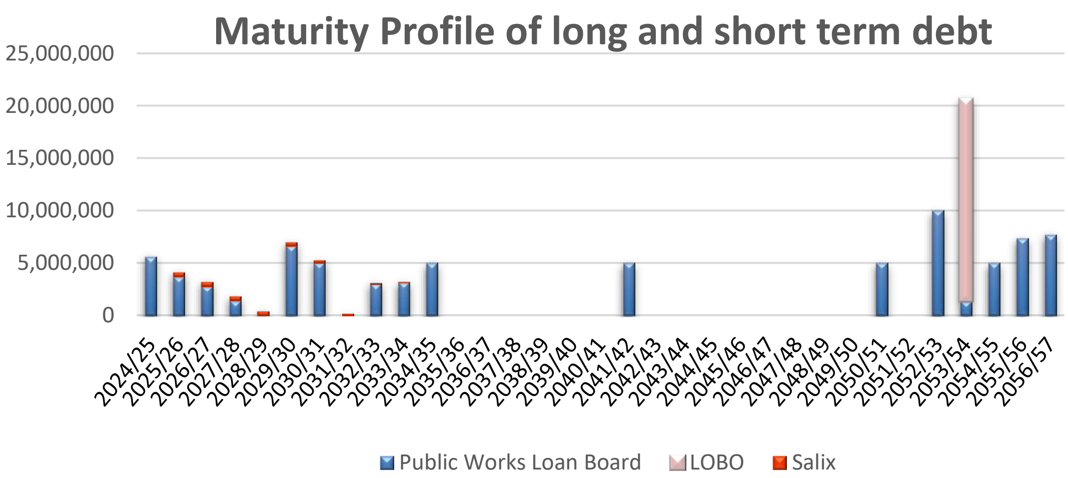
Maturity structure of borrowing

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. This table also reflects the PWLB repayable in 2024-25.

Table 4: Maturity Structure of Borrowing 2024-25

Maturity structure of borrowing	Upper limit	lower limit	£ million	As at 31 Dec 2024
Under 12 months	50%	0%	28.02	28.19%
12 months and within 24 months	25%	0%	1.31	1.32%
24 months and within 5 years	25%	0%	5.29	5.33%
5 years and within 10 years	40%	0%	23.38	23.52%
10 years and within 20 years	50%	0%	5.00	5.03%
20 years and above	60%	25%	36.38	36.61%
Total	**-**	**-**	**99.38**	**100%**

As can be seen from the table above the maturity structure remains within the limits approved as part of the Treasury Management Strategy 2024-25. The following chart provides the maturity profile of the Council's debt. The chart shows that the Council's long term debt is well spread with a manageable maturity structure, with no single year having a disproportionately high level of debt repayment.



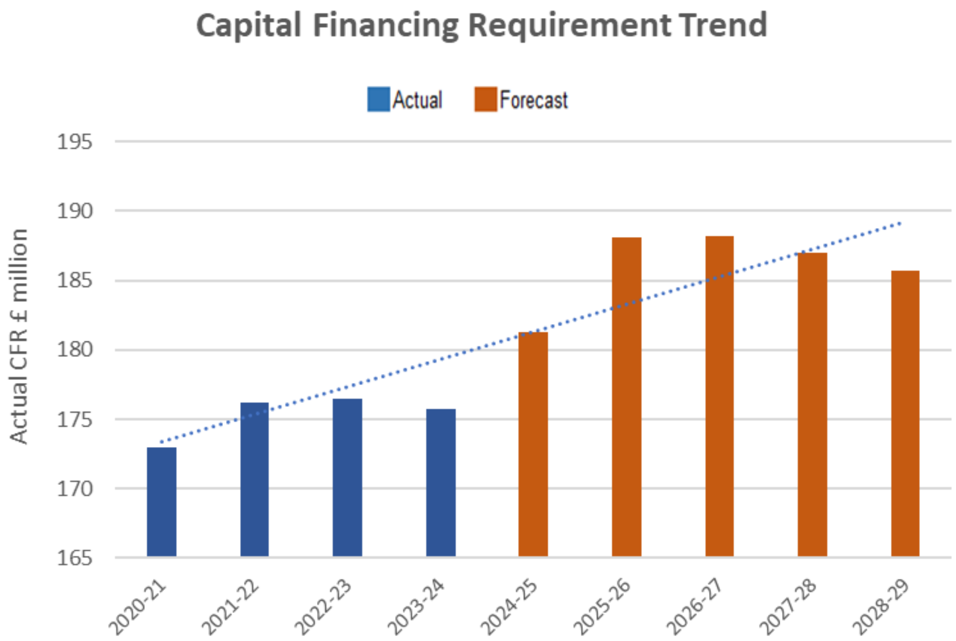
All the LOBO loans are subject to the lender having the right to change the rate of interest payable during the financial year at either of two trigger points - January and July, with the Council having the right to refuse the change, triggering early repayment and the need to re-finance. This is a manageable risk should repayment be needed during the current financial year as the Council has sufficient funds available in the short term, but would, however, need to consider taking out new debt to replace these loans during the financial year. These loans were not called in January 2025.

Table 5: LOBO loans

Commencement date	Loan value £m	Potential repayment date	Option frequency	Full term maturity
22 January 2004	4.00	22 July 2025	6 months	22 January 2054
22 January 2004	5.00	22 July 2025	6 months	22 January 2054
22 January 2004	10.25	22 July 2025	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 current year's estimated level of internal borrowing is £72.61 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 forecast CFR as at 31 March 2025 is £181.30 million, external borrowing forecast at 31 March 2025 is £93.71 million and other long term debt liabilities forecast to be £14.98 million, which is primarily the PFI Maesteg School scheme plus the lease commitments of right of use assets. These leases are included in line with the requirements of International Financial Reporting Standard 16 (IFRS16) which requires that right of use assets and the equivalent lease liabilities are recognised on the balance sheet as from 1 April 2024.

The chart below shows the trend in the CFR based on **current** capital commitments within the capital programme reported at quarter 3 – 2024-25. The CFR is anticipated to increase in the current year assuming capital expenditure is incurred as currently anticipated. Due to the increase in forecast capital expenditure and borrowing in the capital programme, the CFR is expected to further increase in 2025-26 before reducing from 2026-27. This is on the assumption that there will be no new schemes in future which require debt financing. If new schemes are added which require debt finance, 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 the 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 (MIFID 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 December 2024 the Council held £42.90 million of investments, with a weighted average return over the period of 4.86% (£45.00 million at 5.13% as at 30 September 2024).

Table 6 below shows the investment profile as at 31 December 2024.

Table 6: Investments by counterparty type

Investment Category	Balance 1 April 2024 £m	Investments made in period £m	Investments repaid in period £m	Balance 31 Dec 2024 £m	Weighted interest rate 1 April 2024 to 31 Dec 2024 %
Government DMO	0.00	277.00	(274.00)	3.00	4.90
Local Authorities	44.00	0.00	(34.00)	10.00	4.88
Money Market Funds	NIL	98.85	(76.85)	22.00	5.04
Banks (instant access/notice accounts)	6.00	34.00	(32.10)	7.90	3.94
TOTAL	**50.00**	**409.85**	**(416.95)**	**42.90**	**4.86**

The following should be noted:

- During the period to 31 December 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 2024 to 31 December 2024.

The overall interest receivable from treasury investments for the period 1 April 2024 to 31 December 2024 was £3.27 million. Interest rates have continued to fall from their peak of 5.25%, from the first cut in August 2024 followed by another cut in November 2024 taking the Bank Rate to 4.75%. 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. All investments as at 31 December 2024 were short term of less than one year duration.

Table 7: Sums invested for periods longer than a year

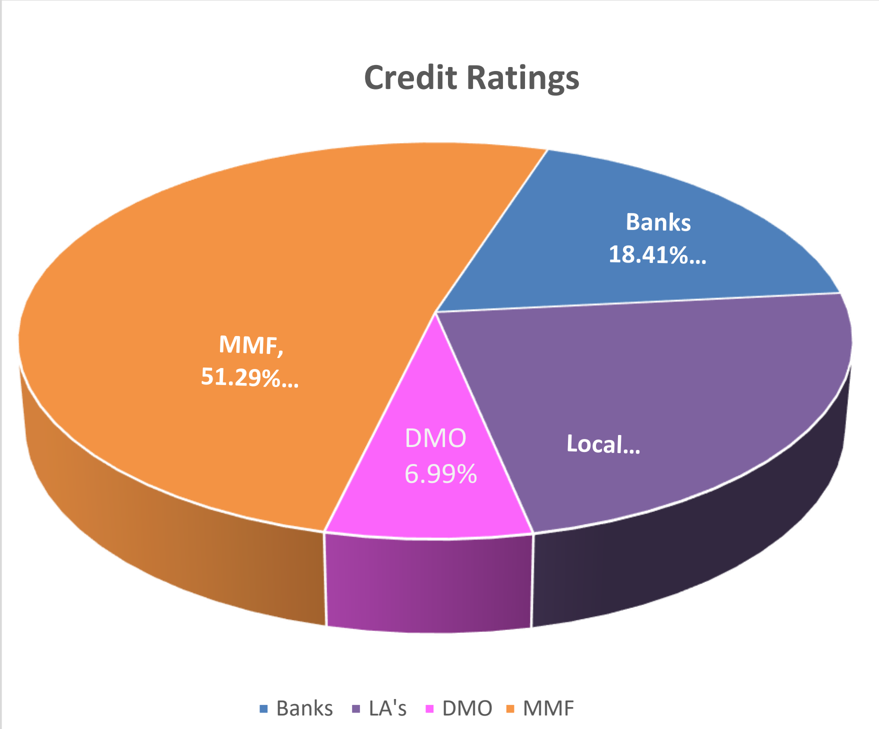
Price risk indicator	TMS 2024-25 £m	Actual £m	Full term maturity
Limit on principal invested beyond financial year end	15	NIL	NIL

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	TOTAL £m
Local Authorities			10.00	10.00
Debt Management Office		3.00		3.00
Money Market Funds	22.00			22.00
Banks	7.90			7.90
Total	**29.90**	**3.00**	**10.00**	**42.90**

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. The Council held £3 million with the Debt Management Office at 31 December 2024 which is the Executive Agency of the UK Treasury 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 December 2024.

Table 9: Interest Rate Exposure

Interest rate risk indicator	£ million
One year revenue impact of a 1% rise in interest rates	(0.109)
One year revenue impact of a 1% fall in interest rates	0.301

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 2024 to 31 December 2024 is shown below.

Table 10: Interest

	01 April – 31 December 2024 £ million
Interest expenditure payable on long term borrowing	2.455
Interest income received in period	(3.271)
Net interest cost	(0.816)

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. 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**
Anticipated annual return 2024-25	**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 accordance with Welsh Government Investment Guidance these are to 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	
	Very strong	AA+		Aa1		AA+	
		AA	F1+	Aa2	P-1	AA	A-1+
		AA-		Aa3		AA-	
	Strong	A+		A1		A+	
		A	F1	A2		A	A-1
		A-		A3		A-	A-2
	Adequate	BBB+	F2	Baa1	P-2	BBB+	
		BBB		Baa2		BBB	
		BBB-	F3	Baa3	P-3	BBB-	A-3
SPECULATIVE GRADE	Speculative	BB+		Ba1		BB+	
		BB		Ba2		BB	
		BB-	B	Ba3		BB-	B
	Very speculative	B+		B1		B+	
		B		B2		B	
		B-		B3	Not Prime (NP)	B-	
	Vulnerable	CCC+		Caa1		CCC+	
		CCC		Caa2		CCC	
		CCC-	C	Caa3		CCC-	C
		CC		Ca		CC	
		C				C	
	Defaulting	D	D	C		D	D

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

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

As expected, the MPC held Bank Rate at 4.75% in December, although, with a 6 – 3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.

The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.

UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.

Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.

CPI inflation rates have risen since the half yearly report, due to higher energy prices and less favourable base effects. The current CPI rate of 2.5% has reduced slightly since November but could rise again in Q1 2025. The Bank of England estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.

The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.