



Treasury Management Outturn Report to 31 March 2025

Cyngor Bwrdeistref Sirol



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 for 2024-25 was approved by Council on 28 February 2024.
- Inflation, at 31 March 2025, measured by the Consumer Prices Index (CPI), continued to stay above the Bank of England's target of 2% at 2.6%, down from 2.8% in the previous month.
- The Bank of England base rate was reduced to 4.50% in February and remained at this rate as at 31 March 2025.
- £5 million long-term debt was taken out during the period with Public Works Loan Board (PWLB). On the 31 March 2025 £5.58 million of PWLB debt was repaid. Interest rates on long term-debt remain unchanged at an average of 4.73%.
- Total external borrowing at 31 March 2025 was £98.80 million, a reduction of £0.81 million from the previous quarter due to the scheduled repayment of a PWLB loan of £5.58 million, offset by an additional short term PWLB loan of £5 million, and a slight reduction of £0.23m of Salix debt.
- Total investments as at 31 March 2025 were £36.75 million, a reduction of £6.15 million from the previous quarter and a £13.25 million reduction from 1 April 2024.
- Average interest rates on investments as at 31 March 2025 was 4.39%, a reduction from 31 March 2024 of 5.02% as a result of reductions in the bank rate and associated returns on short term investments.
- 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. The Council took out new borrowing during the year for cash flow purposes. The liability benchmark (Chart 1) suggests that the Council may need new borrowing of up to £61 million during 2025-26, and a further £20m 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. Short term borrowing of £5m was taken out at the end of January 2025 with a duration of 3 months, and a further £5m was borrowed from the PWLB in February 2025 for a duration of 16 months.
- 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 CIPFA TM Code sets out that it is not prudent to invest purely for financial return and the PWLB have set a lending requirement that Councils do not invest purely for financial return in order to be able to access borrowing from the PWLB.

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

Both the UK and US elected new governments during the period, whose policy decisions impacted the economic outlook. The Chancellor of the Exchequer delivered her Spring Statement in March 2025, following her Budget in October 2024. Based on the plans announced, the Office for Budget Responsibility downgraded its predictions for UK growth in 2025 to 1% from 2%. The market reaction to the Spring Statement

was more muted compared to the Budget, with very recent market turbulence being driven more by US trade policy decisions and President Trump.

After revising its interest rate forecast in November following the Budget, the Council's treasury management advisor, Arlingclose, maintained its stance that Bank Rate will fall to 3.75% in 2025.

UK annual Consumer Price Index (CPI) inflation remained above the 2% Bank of England target in the later part of the period. The Office for National Statistics reported headline consumer prices at 2.6% in March 2025, down from 2.8% in the previous month and below expectations.

The Bank of England's Monetary Policy Committee held Bank Rate at 4.5% at its March 2025 meeting, having reduced it in February from 4.75%. At the March Monetary Policy Committee meeting, members voted 8-1 to maintain Bank Rate at 4.5%, with only one member preferring another 25 basis points cut.

The February Monetary Policy Report showed the BoE expected GDP growth in 2025 to be significantly weaker compared to the November Report. GDP is forecast to rise by 0.1% in Quarter 1 (January – March) 2025. The outlook for CPI inflation showed it remaining above the MPC's 2% target throughout 2025. It is expected to hit around 3.5% by June before peaking at 3.7% in Quarter 3 (July – September) 2025 and then easing towards the end of the year but staying above the 2% target. The unemployment rate was expected to rise steadily to around 4.75% by the end of the forecast horizon, above the assumed medium-term equilibrium unemployment rate of 4.5%.

Arlingclose, the authority's treasury adviser, maintained its view that Bank Rate would continue to fall throughout 2025. From the cuts in August and November 2024 and February 2025, which took Bank Rate to 4.50%, they predicted that May would be the likely month for the next reduction (which indeed the Monetary Policy Committee did reduce interest rates to 4.25%), with other cuts following in line with Monetary Policy Report months 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 March 2025 are set out in Table 1 below. The Council held £98.80 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 Quarter 4 in January for 3 months from Brentwood Borough Council, maturing 30 April 2025 and £5 million from PWLB over a slightly longer period in February 2025, maturing in June 2026.

At 31 March 2025 the Council had £36.75 million of investments for treasury management purposes and £4.89 million of investments for commercial purposes.

Table 1: Council's external debt and investment position as of 31 March 2025

Investments for Treasury Purposes	Principal as at 31/03/2024 £m	Principal as at 31/03/2025 £m	Average Rate 31/03/2025 %
External Long Term Borrowing			
Public Works Loan Board (PWLB)	77.62	77.04	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	5.00	5.50
Total External Borrowing	104.61	103.80	4.73*
Other Long Term Liabilities			
Private Finance Initiative (PFI)**	12.97	11.97	
IFRS 16 Leases	NIL	3.69	
Total Other Long Term Liabilities	12.97	15.66	
Total Gross Debt	117.58	119.46	
Investments for treasury management purposes			
DMO	NIL	18.00	4.45
Local Authorities	44.00	NIL	NIL
Money Market Funds (instant access)	NIL	12.75	4.52
Banks	6.00	6.00	3.93
Total Treasury Investments	50.00	36.75	4.39
Net Debt	67.58	82.71	

Investments for Commercial Purposes	Fair Value as at 31/03/2024 £m	Return 31/3/2025 £m
Investments	4.890	0.457

* 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 undertaken 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 results 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

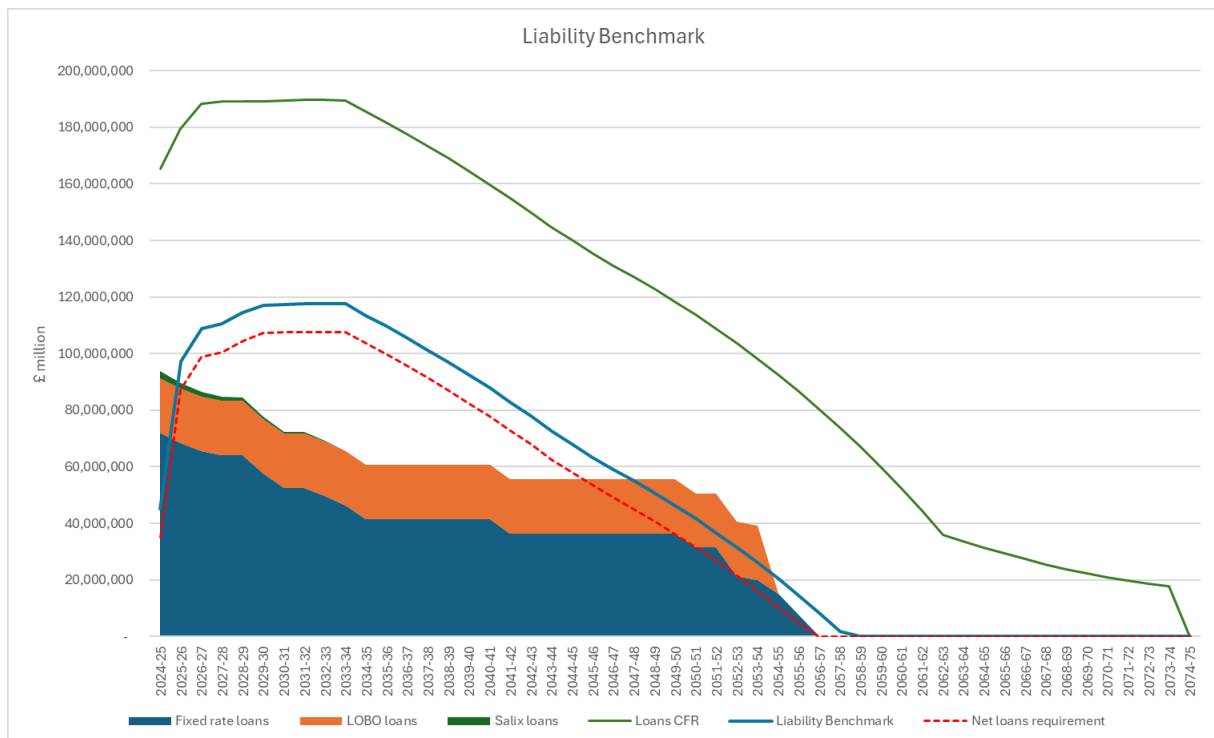
The liability benchmark is a tool which helps to assess the lowest level of borrowing the Council needs, taking into account available cash resources to fund capital expenditure in the short term. A minimum level of investments is factored into the calculation, set at £10 million, which are held as reasonably 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	31 March 2025 estimate (TMS)	31 March 2025 actual	31 March 2026 forecast	31 March 2027 forecast
	£m	£m	£m	£m	£m
Capital Financing Requirement	175.72	181.30	181.09	193.82	201.29
Less: Other debt liabilities	(12.97)	(14.98)	(15.77)	(14.56)	(13.25)
Loans Capital Financing Requirement	162.75	166.33	165.32	179.27	188.04
Less: Balance Sheet Resources	(128.35)	(98.59)	(130.25)	(92.33)	(89.54)
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	44.40	77.74	45.07	96.93	108.50

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 will likely 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 March 2025 the Council held £98.80 million of Long-Term Borrowing, £96.29 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 £61 million with further borrowing of £20 million in 2026-27. This includes the need to refinance borrowing to be repaid during 2025-26 and 2026-27 of £11.5 million. The gap between the shaded area and the blue 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), and this was the source for the most recent borrowing of £5 million taken out on 6 February 2025. The Council will always 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. 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

	2025-26 £ million	2026-27 £ million	2027-28 £ million
Value of maturing debt	3.709	7.790	1.395

£5.58 million for 2024-25 was repaid on 31 March 2025. As noted above the Council may need to borrow during 2025-26 which would replace maturing loans.

Maturity structure of borrowing

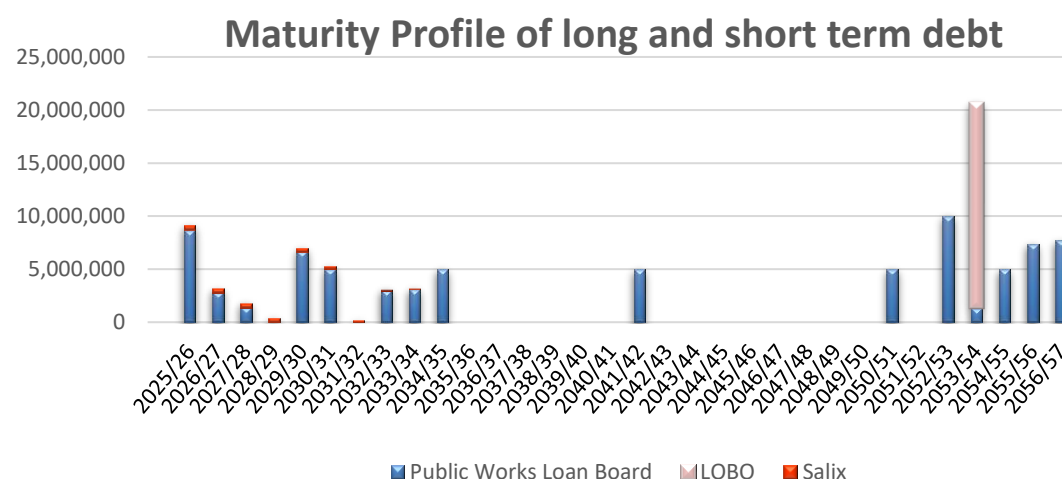
The maturity structure of borrowing indicator is set to control the Council's exposure to refinancing risk with respect to the maturity of the Council's external borrowing. The limits are set to avoid having large amounts of debt maturing in a short space of time and is the amount of projected borrowing 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 loans repayable in 2025-26.

Table 4: Maturity Structure of Borrowing

Maturity structure of borrowing	Upper limit	lower limit	£ million	As at 31 Mar 2025
Under 12 months	50%	0%	23.35	23.64%
Over 12 months and within 24 months	25%	0%	8.18	8.28%
Over 2 years and within 5 years	25%	0%	9.14	9.25%
Over 5 years and within 10 years	40%	0%	16.74	16.94%
Over 10 years and within 20 years	50%	0%	5.00	5.06%
20 years and above	60%	25%	36.39	36.83%
Total	-	-	98.80	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.



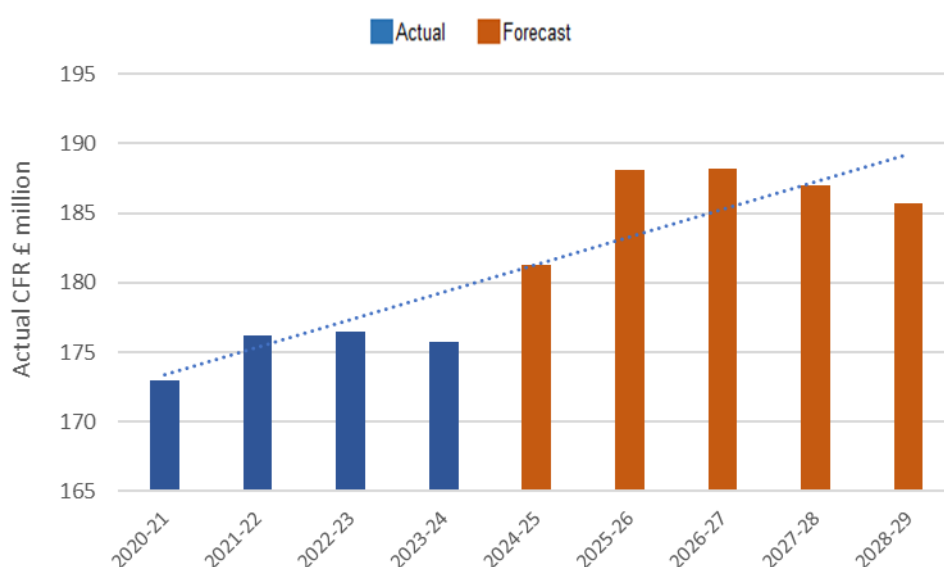
The LOBO loans are subject to the lender having the right to change the rate of interest payable during the financial year at either of two trigger points - January and July, with the Council having the right to refuse the change, triggering early repayment and the need to re-finance. Whilst the Council currently has sufficient funds to repay these loans and so the refinancing risk is manageable, it will, however, need to consider taking out new debt to replace these loans in future.

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.

Capital Financing Requirement Trend

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 subject to Council 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 2025 the Council held £36.75 million of investments, with a weighted average return over the period of 4.81%.

Table 6 below shows the investment profile as at 31 March 2025.

Table 6: Investments by counterparty type

Investment Category	Balance 1 April 2024	Investments made in period	Investments repaid in period	Balance 31 March 2025	Weighted interest rate 1 April 2024 to 31 March 2025
	£m	£m	£m	£m	%
Government DMO	0.00	427.25	(409.25)	18.00	4.71
Local Authorities	44.00	0.00	(44.00)	0.00	4.91
Money Market Funds	NIL	112.35	(99.60)	12.75	4.93
Banks (instant access/notice accounts)	6.00	49.10	(49.10)	6.00	3.83
TOTAL	50.00	588.70	(601.95)	36.75	4.81

The following should be noted:

- During the period to 31 March 2025 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 March 2025.

The overall interest receivable from treasury investments for the period 1 April 2024 to 31 March 2025 was £4.337 million. Interest rates have continued to fall from their peak of 5.25%, from the first cut in August 2024 followed by a number of further cuts, the latest being in February 2025 taking the Bank Rate to 4.50%, which it was as at 31 March 2025. 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 as necessary. All investments as at 31 March 2025 were short term of less than one year duration and Table 7 shows the actual value of principal invested beyond 1 year as £Nil.

Table 7: Sums invested for periods longer than a year

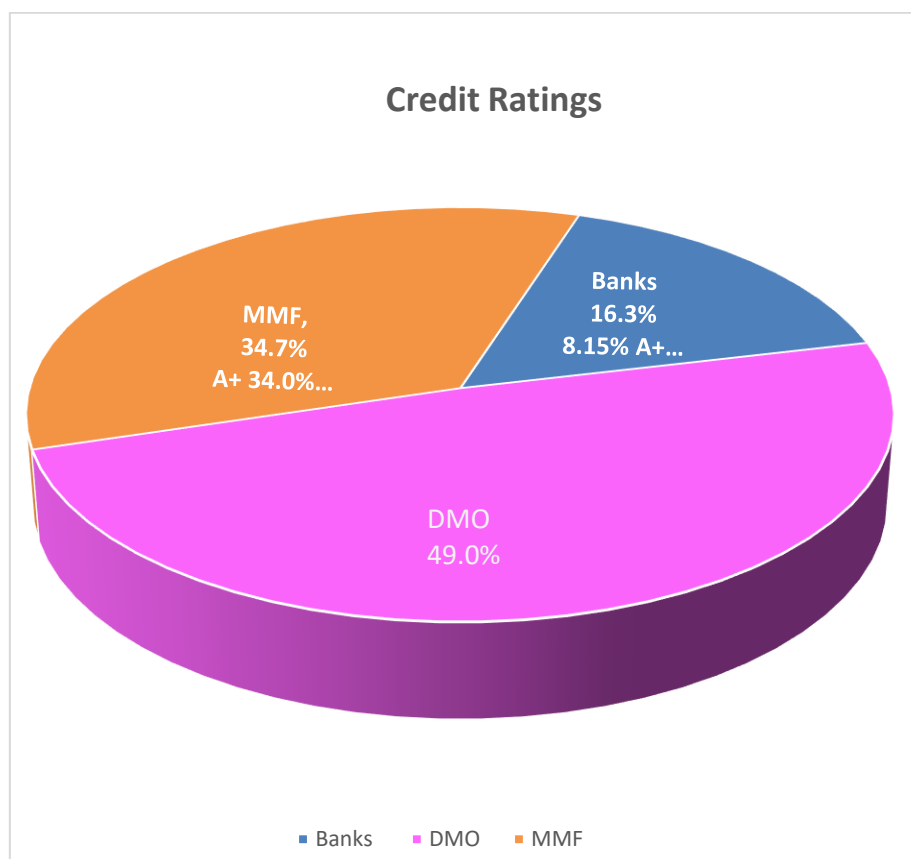
Price risk indicator	TMS 2024-25 £m	Actual £m
Limit on principal invested beyond financial year end	15	NIL

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
Debt Management Office		18.00		18.00
Money Market Funds	12.75			12.75
Banks	6.00			6.00
Total	18.75	18.00		36.75

The pie chart below summarises the distribution of the Council's investments by credit ratings. The Council held £18 million with the Debt Management Office at 31 March 2025 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 March 2025.

Table 9: Interest Rate Exposure

Interest rate risk indicator	£ million
One year revenue impact of a 1% rise in interest rates	(0.159)
One year revenue impact of a 1% fall in interest rates	0.352

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 March 2025 is shown below.

Table 10: Interest

	01 April 2024 – 31 March 2025 £ million
Interest expenditure payable on long term borrowing	(6.100)
Interest income received in period	4.771
Net interest cost	(1.329)

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. 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 wholly 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 Asset Value	£ million
Bridgend Science Park - Units 1 & 2	3.070
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	4.890
Actual return 2024-25	0.458

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

Schedule B – Arlingclose Economic & Interest Rate Forecast –25 March 2025

	Current	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
Official Bank Rate													
Upside risk	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	4.50	4.25	4.00	3.75	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	-0.75	-1.00	-1.00	-1.00	-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	0.50	0.50	0.50	0.50	0.50
Central Case	4.90	4.35	4.10	3.85	3.85	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	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.33	4.25	4.15	4.05	3.95	3.95	3.95	4.00	4.05	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.95	-1.00	-1.05	-1.10
10yr gilt yield													
Upside risk	0.00	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.70	4.50	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.95	-1.00	-1.05	-1.10
20yr gilt yield													
Upside risk	0.00	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.22	4.95	4.85	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
Downside risk	0.00	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.90	-0.90	-0.90	-0.90
50yr gilt yield													
Upside risk	0.00	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.65	4.55	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45
Downside risk	0.00	-0.55	-0.60	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.90	-0.90	-0.90	-0.90

Choosing to leave monetary policy unchanged in March, the Monetary Policy Committee (MPC) continues to walk the fine line between supporting an economy struggling to expand and counterbalancing rising inflation, amid increasing uncertainties due to fiscal and political uncertainty.

The messaging in the minutes was somewhat more hawkish. The 8-1 voting split and mentions of both elevated inflation commuting into second round effects and the need for policy to remain restrictive for as long as necessary suggests growing concerns on the inflationary front.

UK GDP growth is broadly flat. There appears little impetus in private sector activity, particularly in the manufacturing sector, but the upcoming boost arising from government spending should lift growth during 2025.

The MPC noted that weaker growth reflects both slower demand and supply; the household saving ratio remains elevated and consumer confidence is low, while business investment is being held back by rising employment costs and global uncertainties.

Private sector wage growth and services inflation remain elevated but underlying shorter-term wage pressures have eased and pay growth expectations remain steady just under 4%. Employment has peaked and employment growth is likely to remain weak over the near term.

CPI inflation rates are expected to rise during 2025-26. There are signs that business and household inflation expectations are already rising, possibly related

to rising food prices or fears around global trade wars, prompting a more hawkish attitude from the MPC.

Bond yields have been relatively volatile but have generally tracked upwards due to uncertainty and possible inflationary effects arising from the new US administration's fiscal, trade and foreign policy. One of the outcomes of US policy is a need for increased European defence spending, which is likely to lead to stronger growth and higher bond issuance.

The UK government is also facing fiscal credibility issues, with weaker growth forecasts and higher borrowing costs increasing the need for remedial fiscal policy, supporting an economy struggling to expand and counterbalancing rising inflation, amid increasing uncertainties due to fiscal and political uncertainty.