Treasury Management
Half Year Report to 30 September 2025

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 for 2025-26 was approved by Council on 26 February 2025.
- Inflation as measured by the Consumer Price Index (CPI) continued to stay above the Bank of England's target of 2% at 3.8% in September, a slight rise from 3.6% in June 2025.
- The Bank of England base rate was reduced to 4.0% in August and remained unchanged in their September meeting.
- Total external borrowing at 30 September 2025 was £95.82 million, a slight reduction from the previous quarter of £98.61 million due to repayment of £2.79m long-term Public Works Loan Board (PWLB) borrowing.
- Total investments at 30 September 2025 were £64.95 million, a slight increase from £64 million at the previous quarter.
- Average interest rates on investments as at 30 September 2025 were 3.77%, a reduction from those at 30 June 2025 of 4.08%. This reduction is as expected given the reduction in the Bank of England base rate.
- The Council's investments are diversified across a number of institutions, including Money Market Funds, Debt Management Office and banks. Security of the Council's cash resources is always the primary factor when investing cash resources.
- Based on the approved capital programme the Council may need to borrow long term during 2025-26, however, this is dependent on the actual expenditure incurred on capital projects and the use of earmarked reserves. In the short term the Council uses the cash available from earmarked reserves to finance capital expenditure, known as internal borrowing. This is prudent whilst the Council has resources available, but these will need to be replaced with borrowing as the reserves are used.
- The liability benchmark indicates the Council may need to borrow up to £18 million during 2025-26, but this will be closely monitored during the year to ensure borrowing is taken when necessary.
- The Council has operated within the approved limits set out in the Treasury Management Strategy 2025-26.

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

UK headline consumer price inflation (CPI) increased slightly over the quarter, rising from an annual rate of 3.6% in June to 3.8% in September, well above the Bank of England's 2% target. The core measure of inflation (excluding energy, food, alcohol and tobacco) also increased, from 3.4% to 3.5% over the same period.

Data released during the period showed the UK economy expanded by 0.3% in the second quarter of the calendar year, following an increase of 0.7% in the first quarter. UK Gross Domestic Product (GDP) was revised upwards to 1.4% year on year in the final version of the Quarter 2 2025 GDP Report.

Labour market data continued to soften throughout the period, with the unemployment rate rising and earnings growth easing. In addition, the employment rate rose while the economic inactivity rate and number of vacancies fell.

Having started the financial year at 4.5%, the Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 4.25% in May with a further reduction of 0.25% to 4.00% in August after an unprecedented second round of voting. The final 5-4 vote was for a 0.25% cut, with the majority wanting no change. In September, seven MPC members voted to hold rates while two preferred a 0.25% cut. The committee's views still differ on whether the upside risks from inflation expectations and wage setting outweigh downside risks from weaker demand and growth. The committee is next due to meet on 6 November 2025.

The August Bank of England's Monetary Policy Report highlighted that after peaking in Quarter 3 2025, inflation is projected to fall back to its target of 2% by mid-2027, helped by increasing spare capacity in the economy and the ongoing effects from past tighter policy rates. GDP is expected to remain weak in the near-term while over the medium term outlook will be influenced by domestic and global developments.

Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would be cut further as the Bank of England focused on weak GDP growth more than higher inflation. One more cut is currently expected during 2025-26, taking Bank Rate to 3.75%. The risks to the forecast are balanced in the near-term but weighted to the downside further out as weak consumer sentiment and business confidence and investment continue to constrain growth. There is also considerable uncertainty around the autumn Budget and the impact this will have on the outlook.

3.0 EXTERNAL DEBT AND INVESTMENT POSITION

The Council's external debt and investments at 30 September 2025 is set out in Table 1 below. The Council held £95.82 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 July 2025)
- £2.32 million of Salix interest-free loans

The Council borrowed £5 million from the PWLB in February 2025 over a 16-month period for cash flow purposes and to replace a £5m PWLB long term loan that was repaid on 31 March 2025.

At 30 September 2025 the Council had £64.95 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 30 September 2025

Investments for Treasury Purposes	Principal as at 31/03/2025 £m	Principal as at 30/09/2025 £m	Average Rate 30/09/2025 %
External Long Term Borrowing			
Public Works Loan Board (PWLB)	77.04	74.25	4.75
Lenders Option Borrowers Option (LOBO)	19.25	19.25	4.65
Salix Loans (Interest Free)	2.51	2.32	NIL
Short Term Borrowing	5.00	NIL	NIL
Total External Borrowing	**103.80**	**95.82**	**4.73***
Other Long Term Liabilities			
Private Finance Initiative**	11.97	11.43	
IFRS 16 Leases	3.69	3.69	
Total Other Long Term Liabilities	**15.66**	**15.12**	
Total Gross Debt	**119.46**	**110.94**	
Investments for treasury management purposes			
Debt Management Office	18.00	33.50	3.96
Money Market Funds (instant access)	12.75	23.50	4.06
Banks	6.00	7.95	2.72
Total Treasury Investments	**36.75**	**64.95**	**3.77**
Net Debt	**82.71**	**45.99**	

Investments for Commercial Purposes	Fair Value as at 31/03/2025 £m	Anticipated return 31/03/2026 £m
Investments	4.890	0.458

** Excluding Salix loans which are interest free and Short Term borrowing*
*** (PFI) arrangement for the provision of a Secondary School in Maesteg 8 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 called sooner than this, the next call date being 22 January 2026.

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 forecast MRP for 2025-26 as set out in the Capital Strategy is

£4.624 million, which includes supported and unsupported borrowing, the PFI for Maesteg School and leases recognised on the balance sheet as from 1 April 2024.

Liability benchmark

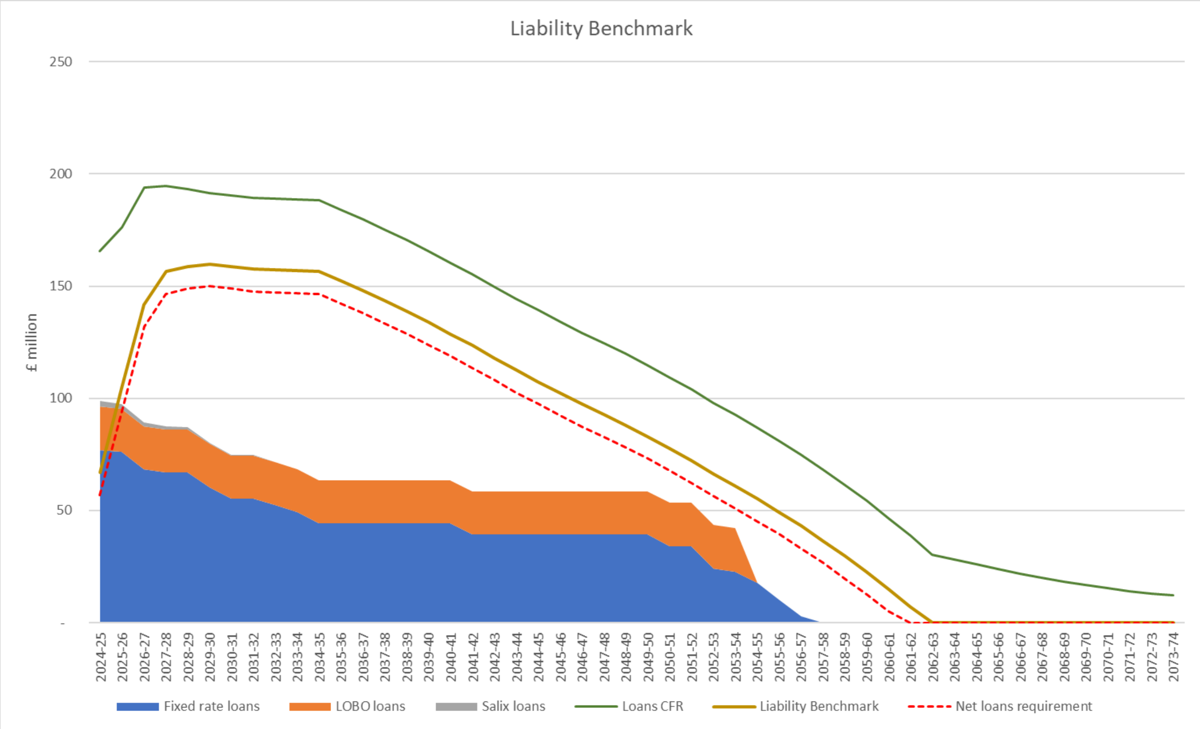
The liability benchmark is a tool which helps to assess the lowest level of borrowing the Council needs, taking into account available cash resources to fund capital expenditure in the short term. A minimum level of investments is factored into the calculation, set at £10 million, which are held as reasonably 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 usable 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 2025 actual £m	31 March 2026 estimate (TMS) £m	31 March 2026 forecast £m	31 March 2027 forecast £m	31 March 2028 forecast £m
Capital Financing Requirement	181.09	183.22	190.40	206.75	206.06
Less: Other debt liabilities	(15.65)	(15.12)	(14.36)	(12.97)	(11.50)
Loans Capital Financing Requirement	***165.44***	***168.10***	***176.04***	***193.78***	***194.56***
Less: Balance Sheet Resources	(108.44)	(58.52)	(81.67)	(61.97)	(48.13)
Plus: Liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	**67.00**	**119.58**	**104.37**	**141.81**	**156.43**

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.



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 30 September 2025 the Council held £95.82 million of Long-Term Borrowing, £93.50 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), and this was the case when the Council borrowed £5 million for duration of 16 months in February 2025. 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. Given the anticipated level of expenditure within the capital programme over the current and next financial years, it is likely that new borrowing will be required to replace these maturing 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

	2025-26 £ million	2026-27 £ million	2027-28 £ million
Value of maturing debt	0.918	7.790	1.395

The £0.918 million due for repayment during 2025-26 will be maturing at the end of the current financial year, 31 March 2026. There will be £7.790 million maturing next financial year, 2026-27, £5 million due for repayment on 5 June 2026 and £2.790 million on 31 March 2027. As noted above the Council is likely to need to borrow during 2025-26 which will replace these maturing loans.

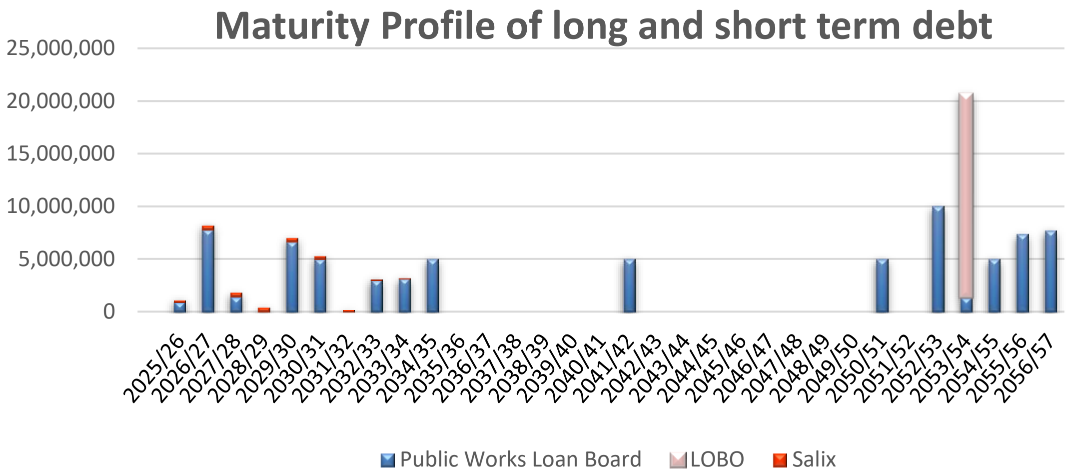
Maturity structure of borrowing

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 repayable in 2025-26.

Table 4: Maturity Structure of Borrowing 2025-26

Maturity structure of borrowing	Upper limit	lower limit	£ million	As at 30 September 2025
Under 12 months	50%	0%	25.56	26.68%
12 months and within 24 months	25%	0%	3.18	3.32%
24 months and within 5 years	25%	0%	9.08	9.47%
5 years and within 10 years	40%	0%	16.61	17.33%
10 years and within 20 years	50%	0%	5.00	5.22%
20 years and above	60%	25%	36.39	37.98%

As can be seen from the table the maturity structure remains within the limits approved as part of the Treasury Management Strategy 2025-26. The following chart provides the maturity profile of the Council's long term debt.



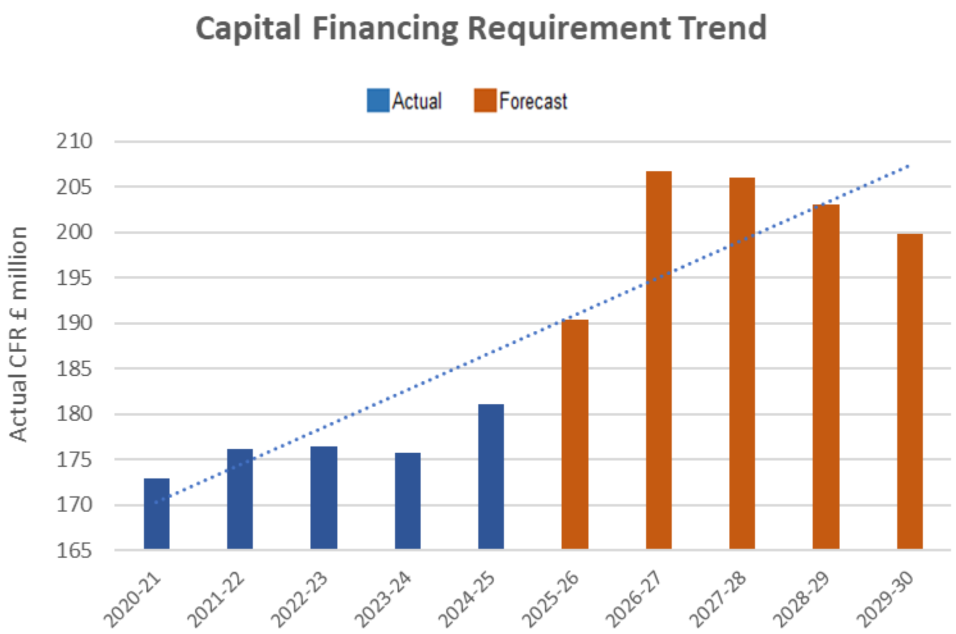
All the LOBO loans are subject to the lender having the right to change the rate of interest payable during the financial year at either of two trigger points in January and July, with the Council having the right to refuse the change, triggering early repayment and the need to re-finance. This is a manageable risk should repayment be needed during the current financial year as the Council has sufficient cash funds available in the short term, but would, however, need to consider taking out new debt to replace these loans during the current financial year. These loans were not called at the July call date, and the next call date is 22 January 2026.

Table 5: LOBO loans

Commencement date	Loan value £m	Potential repayment date	Option frequency	Full term maturity
22 January 2004	4.00	22 January 2026	6 months	22 January 2054
22 January 2004	5.00	22 January 2026	6 months	22 January 2054
22 January 2004	10.25	22 January 2026	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. Internal borrowing is estimated to be £78.55 million as at 31 March 2026. 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 2026 is £190.40 million, external borrowing £97.49 million and other long term debt liabilities £14.36 million, which is primarily the PFI Maesteg School scheme plus the lease commitments of right of use assets.

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 and following year assuming capital expenditure is incurred as currently anticipated. The CFR in future years shows a marginal reduction, however, this is on the assumption that there will be no new schemes added to the capital programme 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 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, 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 30 September 2025, the Council held £64.95 million of investments, with a weighted average return (based on the rate of return of each investment over the 3 month period) of 4.08% (£64 million at 4.20% as at 30 June 2025). This compares to the average interest rate of investments as at 30 September 2025 of 3.77%, as shown in Table 1 and indicates that returns are falling, as expected when the Bank of England base rate reduces.

Table 6 below shows the investment profile as at 30 September 2025.

Table 6: Investments by counterparty type

Investment Category	Balance 1 April 2025 £m	Investments made in period £m	Investments repaid in period £m	Balance 30 Sept 2025 £m	Weighted interest rate 1 July 2025 to 30 Sept 2025 %
Government DMO	18.00	311.50	(296.00)	33.50	4.16
Money Market Funds	12.75	23.00	(12.25)	23.50	4.25
Banks (instant access/notice accounts)	6.00	22.00	(20.05)	7.95	3.18
TOTAL	**36.75**	**356.50**	**(328.30)**	**64.95**	**4.08**

The following should be noted:

- During the period to 30 September 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 2025 to 30 September 2025.

The overall interest receivable from treasury investments for the period 1 April 2025 to 30 September 2025 was £1.292 million. There has been a slow and gradual reduction to interest rates since they reached their peak of 5.25% in July 2024, with 5 reductions of 0.25% each since then, bringing the current rate to 4.00%. 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 30 September 2025 were short term of less than one year duration, as shown in Table 7 below.

Table 7: Sums invested for periods longer than a year

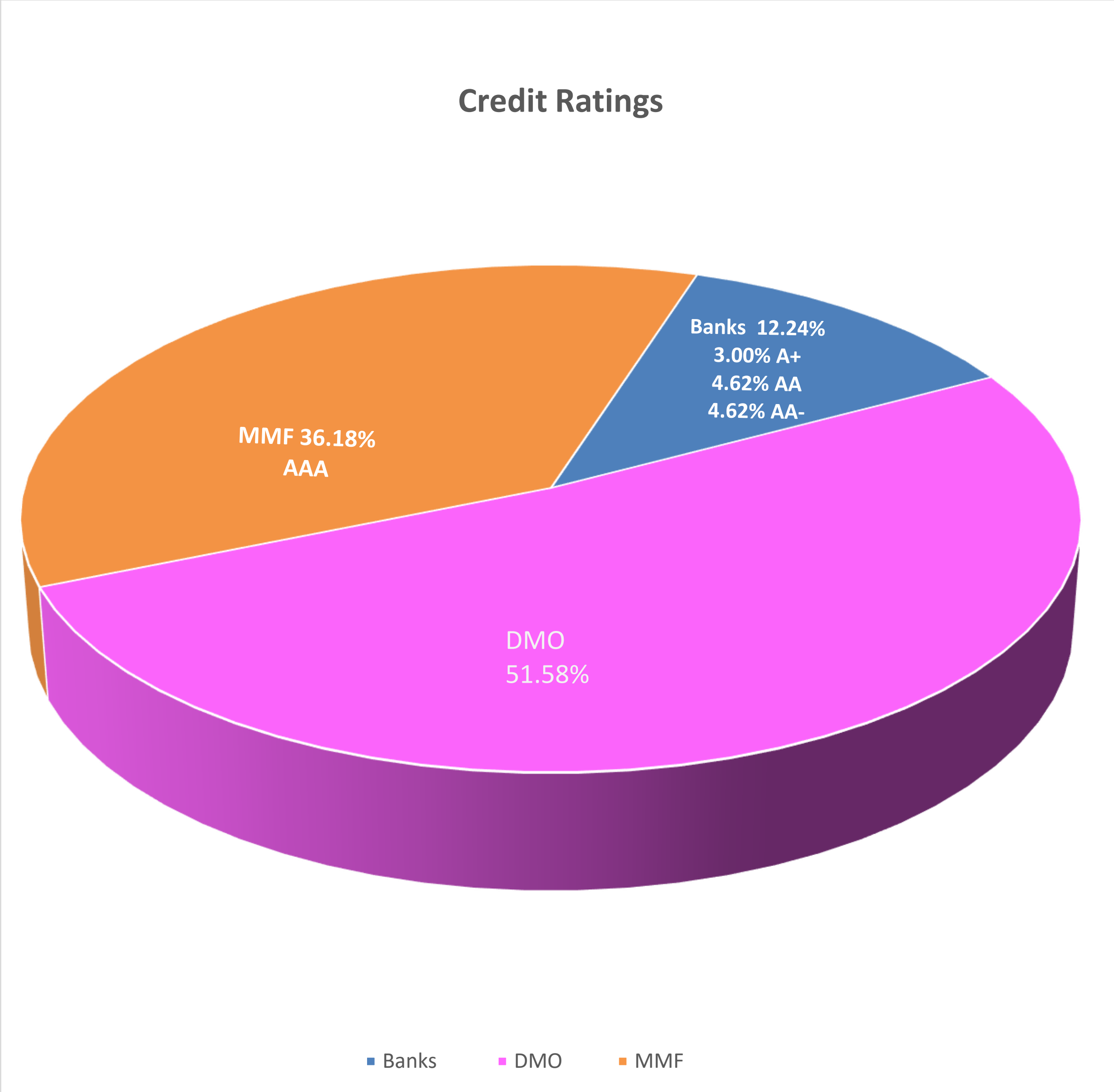
Price risk indicator	TMS 2025-26 £m	Actual £m	Full term maturity
Limit on principal invested beyond financial year end	10	NIL	NIL

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	TOTAL £m
Government DMO	-	29.50	4.00	-	33.50
Money Market Funds	23.50	-	-	-	23.50
Banks	7.95	-	-	-	7.95
Total	**31.45**	**29.50**	**4.00**	**0.00**	**64.95**

The pie chart below summarises the distribution of the Council's investments by credit ratings. The DMO are 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 30 September 2025.

Table 9: Interest Rate Exposure

Interest rate risk indicator	£ million
One year revenue impact of a 1% rise in interest rates	(0.4.29)
One year revenue impact of a 1% fall in interest rates	0.621

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 payable on borrowings excluding other long term liabilities (PFI and lease interest), and interest income due for the period 1 April 2025 to 30 September 2025 is shown below.

Table 10: Interest

	01 April 2025 – 30 September 2025 £ million
Interest expenditure payable on long term borrowing	0.591
Interest income receivable in period	(1.292)
Net interest cost	(0.701)

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	3.070
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**
Anticipated annual return 2025-26	**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 addition, the value of these investments has increased from the previous year.

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

Schedule A – Credit Rating Equivalence Table

Credit Rating Equivalence Table

Grade	Description	Fitch Long	Fitch Short	Moody's Long	Moody's Short	Standard & Poor's Long	Standard & Poor's 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+		A1		A+	A-1
		A	F1	A2		A	
		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+	B	Ba1	Not Prime (NP)	BB+	B
		BB		Ba2		BB	
		BB-		Ba3		BB-	
	Very speculative	B+		B1		B+	
		B		B2		B	
		B-		B3		B-	
	Vulnerable	CCC+	C	Caa1		CCC+	C
		CCC		Caa2		CCC	
		CCC-		Caa3		CCC-	
		CC		Ca		CC	
		C				C	
	Defaulting	D	D	C		D	D

Schedule B – Arlingclose Economic & Interest Rate Forecast – September 2025

	Current	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-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	4.00	3.75	3.75	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	4.01	3.80	3.75	3.80	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	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.10	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Downside risk	0.00	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.95	-1.00	-1.05	-1.05	-1.05	-1.05
10yr gilt yield													
Upside risk	0.00	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.68	4.50	4.45	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40
Downside risk	0.00	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.95	-1.00	-1.05	-1.05	-1.05	-1.05
20yr gilt yield													
Upside risk	0.00	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.37	5.20	5.10	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Downside risk	0.00	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.90	-0.90	-0.90	-0.90	-0.90	-0.90
50yr gilt yield													
Upside risk	0.00	0.65	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.87	4.80	4.75	4.65	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.70
Downside risk	0.00	-0.65	-0.70	-0.75	-0.80	-0.85	-0.90	-0.90	-0.90	-0.90	-0.90	-0.90	-0.90

- The Bank of England’s Monetary Policy Committee voted 7-2 to maintain Bank Rate at 4.0% in September, in line with market expectations. While continuing to signal the expectation of “gradual and careful” policy easing, the Monetary Policy Committee minutes also emphasised some committee members’ concerns about second round inflation effects. The shift in the committee’s focus over the past few months has increased uncertainty over the timing of the next rate cut.
- The committee’s sensitivity to higher inflation is partly offsetting the effect of the weak economic environment on Bank Rate expectations. However, our external advisors continue to forecast one more 25bps rate cut in Q4 2025 to 3.75%, while recognising that uncertainty over the timing of this move has increased.
- Inflation remained at 3.8% in August, but the expectation is for the Consumer Price Index (CPI) rate to peak around 4% this month and remain elevated into next year. The rise is largely the result of higher food and regulated prices, and labour costs. Services inflation remains elevated but has eased recently. Inflation expectations have picked up, but this is likely largely the result of the noticeable rise in food prices.
- Long-term gilt yields remain elevated for various reasons, both domestic and international. These issues may not be resolved quickly, but the UK Budget will be a key market driver.