Ashfield
DISTRICT COUNCIL

Report to:	**AUDIT COMMITTEE**
Date:	**28TH NOVEMBER 2024**
Heading:	**TREASURY MANAGEMENT MID YEAR REPORT 2024/25**
Portfolio Holder:	**EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN**
Ward/s:	**ALL**
Key decision:	**NO**
Subject to call-in:	**NO**

Purpose of report

This mid-year report has been written to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and covers the following:

- An economic update for the 2024/25 financial year as at 30 September 2024;
- The Council's capital position (including prudential indicators);
- The Council's investment portfolio for 2024/25;
- The Council's borrowing position for 2024/25

Recommendation(s)

1) To endorse proposed changes, for agreement by Cabinet, to the 2024/25 Prudential Indicators following in year changes to the 2024/25 Capital Programme, and
2) To note contents of the report.

Reasons for Recommendation(s)

In accordance with the Council's Financial Regulations Cabinet are responsible for the implementation and regular monitoring of Treasury Management policies and practices and are to receive, as a minimum, each year reports setting out the Annual Treasury Management Strategy and Plan for the coming year; a mid-year review and an annual Treasury Management Performance Report. The Audit Committee has responsibility for ensuring effective scrutiny of the Treasury Management Strategy and policies.

Alternative Options Considered

None – required in accordance with the Council's Financial Regulations.

Detailed Information

1 Background

1.1 The Council aims to operate a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending commitments. This management of longer-term cash may involve arranging long or short-term loans, or the use of longer-term cash flow surpluses, and on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, 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."

2 Economics and interest rates to date and the outlook for 2024/25

2.1 This section is based on information provided in a briefing from the Council's Treasury Management advisors. The latest update was produced at a point in time, shortly prior to the Chancellor's budget on 30 October 2024. It uses a number of terms and abbreviations which are explained in a glossary towards the end of this report.

The first half of 2024/25 saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q).
- A further easing in wage growth as the headline 3 month yy rate (including bonuses) fell from 4.6% in June to 4.0% in July.
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August.
- Core CPI inflation increasing from 3.3% in July to 3.6% in August.
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting.
- 10-year gilt yields falling to 4.0% in September.

2.2 The economy’s stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September’s composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England’s view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% between July and September. Additionally, the services PMI future activity balance showed an upturn in September, although readings after the Chancellor’s announcements at the Budget on 30th October 2024 will be more meaningful.

2.3 The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

2.4 The government’s plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government’s plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. It is expected GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026. [The budget has subsequently proposed tax rises of circa £40bn, but the full impact of this on the projections set out here has yet to be confirmed.]

2.5 The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

2.6 Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

2.7 CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

2.8 The Bank initiated its loosening cycle in August 2024 with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

2.9 Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties in the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of missile attacks in the region. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, the central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

3 The Council's Capital Position (including Prudential Indicators)

Prudential Indicators

3.1 Capital Programme

3.1.1 Table 1 below shows the revised estimates for capital expenditure considering the changes since the Capital Programme was agreed by Council on 16th September 2024.

Table 1 – Capital Programme 2024/25

Capital Expenditure by Service	2024/25 Original Estimate £m	2024/25 Revised Estimate £m
General Fund	52,970	69,686
Area Schemes	413	489
HRA - Decent Homes	15,291	11,039
HRA – Other	6,769	8,738
Total capital expenditure	**75,443**	**89,952**

3.1.2 The main reasons for the increase in the General Fund capital expenditure is slippage from the 2023/24 programme and new projects approved for 2024/25.

3.1.3 Table 2 below draws together the main treasury management strategic elements of the capital expenditure plans (above), highlighting the original and the revised estimated financing arrangements of this capital expenditure.

Table 2 – Capital Expenditure Funding

Capital Expenditure	2024/25 Original Estimate £m	2024/25 Revised Estimate £m
Total capital expenditure	**75,443**	**89,852**
Financed by:		
Capital receipts	1,604	2,845
Capital grants	37,828	44,221
Capital reserves	18,515	17,461
Total financing	**57,947**	**64,526**
Borrowing requirement	**17,496**	**25,426**

3.1.4 The borrowing requirement for 2024/25 has increased largely because of the expenditure slippage from 2023/24, which was largely funded by borrowing.

3.2 Capital Financing Requirement, Operational Boundary and Authorised Limit

3.2.1 Any changes to borrowing in the Capital Programme affect the Capital Financing Requirement (CFR). The CFR represents the Council's underlying need to borrow for capital expenditure. The CFR increases by the amount of capital expenditure funded by borrowing and reduces by making revenue charges for the repayment of debt (the Minimum Revenue Provision).

Table 3 – Capital Financing Requirement (CFR)

	2024/25 Original Estimate £m	2024/25 Revised Estimate (Adjusted for Slippage) £m
Prudential Indicator – Capital Financing Requirement		
CFR Non-Housing	108.878	110.779
CFR – Housing	80.061	80.061
Total CFR	188.939	190.840
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	191.000	193.340
Other Long Term Liabilities		
Total debt 31st March	191.000	193.340
Prudential Indicator – the Authorised Limit for external debt		
Borrowing	250.000	255.000
Other Long Term Liabilities		
Total debt 31st March	250.000	255.000

3.2.2 There have been numerous small changes to the Financing of the Capital Programme since the Capital Financing Requirement Indicator was set for 2024/25.

3.3 Estimate of ratio of financial cost to net revenue stream for the current year split between the Housing Revenue Account and General Fund

3.3.1 For the HRA this is calculated by dividing the HRA capital financing costs by the total estimated Council Dwelling Income. For the General Fund this is calculated by dividing the General Fund capital financing costs by the estimated Council Tax Receipt plus Central Government Grants.

Table 4 - Estimate of ratio of financial cost to net revenue stream

	Original 2024/25 Estimate %	Revised 2024/25 Estimate %
Housing Revenue Account	8.22	7.31
Non HRA (General Fund)	25.85	23.19

3.3.2 The Housing Revenue Account revised estimate is lower due to interest receivable being higher than originally forecast. The Non HRA (General Fund) has reduced due to slippage on the Capital Programme delaying the Minimum Revenue Provision charge.

3.4 Estimate of the Incremental impact of capital investment decisions on the Council Tax and Rent Levels

3.4.1 These indicators have been prepared using the revised Capital Programme, approved by Council on 16th September 2024. For the General Fund this is calculated by dividing the estimated capital financing costs by the estimated Council Tax Band D equivalents. There is no borrowing planned for the Housing Revenue Account (HRA) therefore these ratios are nil. If in future years, there was to be HRA borrowing, the ratio would be calculated by dividing the estimated capital financing costs by the estimated number of council dwellings.

Table 5 - Incremental impact of capital investment decisions on the Council Tax and Rent Levels

	Original 2024-25 Estimate £	Revised 2024-25 Estimate £
General Fund (Band D)	32.43	35.15
HRA (52 Weeks)	0	0

3.4.2 The incremental impact of capital investment on the General Fund is higher due to slippage on the 2023/24 Capital Programme increasing the MRP charge in 2024/25.

4. Prudential Indicators for Treasury Management

4.1 Interest rate exposure

4.1.1 Local authorities are required to set limits for the upper limits on exposure to the effects of changes in interest rates. The indicators relate to both fixed and variable rate interest and are net of any investments.

4.1.2 Depending on the level of interest rates and their expected movement in the year, the Council may take up all of its new borrowings in the form of either fixed or variable rate debt. The figures in Table 6 compare the Actual level of debt to the operational boundary which is the prudent limit for debt. This is split between exposure to fixed and variable interest rates.

Table 6 - Interest Rate Exposure

Principal Outstanding	2024/2025 Original £m	2024/2025 30th September 2024 Actual £m
Fixed Rates	250.0	255.0
Variable Rates (No more than 40% of the operational boundary).	100.0	102.0

4.2 Maturity Structure of borrowing

4.2.1 The Council is required to set both lower and upper limits for the maturity structure of its borrowing. This indicator relates only to fixed rate debt and is therefore a measure of the longer-term exposure to interest rate risk.

4.2.2 Table 7 shows the proposed lower and upper limits, given the current structure of the Council's debt portfolio:

Table 7 - Maturity Structure of Debt

Maturity Structure of Fixed Rate Borrowing	Actual Position for 30/09/2024	Lower Limit %	Upper Limit %
Under 12 Months	1.42%	0%	5%
Under 24 Months	4.59%	0%	10%
Under 5 years	6.95%	0%	20%
Under 10 Years	24.34%	0%	25%
Under 20 Years	30.13%	0%	40%
Under 30 Years	35.93%	0%	50%

Under 40 Years	77.99%	0%	80%
Under 50 Years	100%	0%	100%
50 Years and Above	0	0%	0%

4.2.3 None of the above limits have been exceeded.

4.3 Principal sums invested for more than 364 days

4.3.1 Where a local authority invests or plans to invest for periods of more than 364 days it must set an upper limit for each year for the maturity of such investments. The purpose of setting this limit is to contain any exposure to losses, which might arise in the event of having to seek early repayment of the investment and / or adverse movements in shorter-term interest rates.

4.3.2 The strategy for 2024/25 set a limit of a maximum of £5m in each of the next three years to be placed in longer-term investments. The Authority currently does not have any long-term investments.

5. Investment Portfolio 2024/25

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital, liquidity and to obtain an appropriate level of return, which is consistent with the Council's risk appetite. Table 8 provides a summary of the Council's total investments as at 30th September 2024.

Table 8 – Summary of Investments

Borrower	Balance at 30/09/24 £000
Call Accounts	1,550
Money Market Funds	20,000
Fixed Term Deposits	39,750
Total	**61,300**

5.2 Call Accounts

5.2.1 In total, the Council held £1.550m of call account investments (see table 9 below) as of 30 September 2024 (£0.481m on 31 March 2024) and the average investment portfolio yield for all investments in the first six months of the year is 4.11%.

Table 9 – Call Accounts

Borrower	Balance at 30/09/24 £000
Barclays Bank	1,444
Handelsbanken	106
Total	**1,550**

5.3 Notice Accounts

5.3.1 Notice accounts are deposits with financial institutions which are invested for a fixed period of time e.g. 90 days or 180 days. During this time period the Council is not able to withdraw any deposits until the end of the notice period. The Council currently has nil balance in notice accounts.

5.4 Money Market Funds

5.4.1 The Council currently has four Low Volatility Net Asset Value (LVNAV) Money Market Funds. This means that the value of the shares that the Council holds in these funds may go down as well as up. However, it is unlikely that there will be a change in the price of the Money Market Fund shares between the prices paid and monies received when the shares are sold.

Table 10 – Money Market Funds

Borrower	Balance at 30/09/24 £000's
Aberdeen Standard Liquidity	5,000
Insight Investments	5,000
Federated Hermes	5,000
Aviva	5,000
Total	**20,000**

The average interest rate for Money Market Funds (MMFs) is 5.15% which has generated MMF interest of £505k for the first half of the financial year.

5.5 Fixed Term Deposits

5.5.1 At the end of September 2024, the Council had £39.7m in fixed term deposits with Uttlesford District Council, Gloucester City Council, Halton Borough Council, Landesbank Hessen Thuringen, Powys County Council, Cheltenham Borough Council and the UK Government Debt Management Office (DMO). This compares to £26m as at the 31st March 2024. There have been multiple term deposits with the DMO, for various periods between 1st April and 30th September 2024, represented by the level of new investments and repayments in the table below.

Table 11 – Fixed Term Deposits

Opening Balance £000's	New Investments £000's	Repayments £000's	Closing Balance £000's
26,500	219,000	205,750	39,750

5.5.2 The comparison below shows the performance of these fixed term deposit investments against the current Sterling Overnight Index Average (SONIA) rate.

Table 12 – Fixed Term Deposits Comparison to Bank of England Base Rate

SONIA Rate as of 30th September	Average SONIA rate 1st April 2024 to 30th September 2024	Council Performance	Investment Interest Earned £000's
4.95%	5.09%	5.32%	1,472

5.6 Interest Receivable Budget

5.6.1 The Council's budgeted investment return for 2024/25 is £1,000k and performance for the half year to 30 September 2024 is £1,447m, which comprises £938k from term deposits, £494K from Money Market Funds and £15k from call deposits. The estimated full year outturn is expected to be approximately £2,850k. The main reasons for the increase are when the budget was estimated for 2024/25 it was expected the Bank of England Base Rate would decline from 5.25%. It remained at 5.25% until August 2024. The higher rates have been fixed in to investments during the year and investment balances are higher partly due to capital programme slippage and greater working capital.

6. Borrowing

6.1 The have been no borrowing activities undertaken during the year to 30 September 2024 as summarised below:

Table 13 – Council's borrowing activities to 30th September 2024

Type of Loan	As at 31 March 2024 £'000	Borrowed £'000	Repaid £'000	As at 30 Sept 2024 £'000
Fixed PWLB	56,309	0	0	56,309
Private Placement Loans – LOBO	15,000	0	0	15,000
Private Placement Loans – Fixed	15,000	0	0	15,000
Total External Debt	**86,309**	**0**	**0**	**86,309**

7. Investment Properties

7.1 As of the 1st of April 2024 the Council had spent £61.810m on investment properties. These investment properties are expected to generate £4.551m gross rental income per annum which is a gross yield of 7.4%. The CFR and therefore MRP charges have increased as result of activity in investment properties.

Glossary of Terms

bps
Basis points - 1 basis point equals 1/100 of 1% or 0.01%.

Call Accounts
Is a bank account for investment funds it has no fixed deposit period, provides instant access to funds, and allows unlimited withdrawals and deposits.

Consumer Price Index (CPI)
The official measure of inflation of consumer prices of the United Kingdom.

Federal Reserve (Fed)
The central banking system of the United States of America.

Gross Domestic Product (GDP)
This is the monetary value of all the finished goods and services produced by a country within its borders in a specific time period, usually a year.

Gilts
Gilts are UK Government Bonds which offer a very low risk of default and a corresponding low rate of return.

LIBID
The London Interbank Bid Rate, that is, the interest rate at which banks bid to take short-term deposits from other banks.

m/m
The change from the previous month.

Monetary Policy Committee (MPC)
This is a committee of the Bank of England which decides the official interest rate in the UK (the Bank of England Base Rate) and also directs other monetary policy such as quantitative easing and forward guidance.

Public Works Loan Board (PWLB)
The PWLB is a statutory body operating within the UK Debt Management Office to lend money from the National Loan Fund to local authorities and to collect the repayments.

q/q
The change from the previous quarter.

Quantitative Easing (QE)
An unconventional form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This process aims to directly increase private sector spending in the economy and return inflation to target.

SONIA
SONIA (Sterling Overnight Index Average) is the effective overnight interest rate for unsecured transactions in the British sterling market.

y/y
The change from the previous year.

Implications

Corporate Plan:

Effective treasury management and investment in properties is providing an income stream to support delivery of the key services within the Corporate Plan.

Legal:

Requirement to adhere to the CIPFA Prudential Code. Ensures compliance with Financial Regulations. [RLD 19/11/2024]

Finance: None arising from this report. [PH 11/11/24]

Budget Area	Implication
General Fund – Revenue Budget	No significant implications.
General Fund – Capital Programme	No significant implications.
Housing Revenue Account – Revenue Budget	No significant implications.
Housing Revenue Account – Capital Programme	No significant implications.

Risk:

Risk	Mitigation
Risk that the investment properties become void or fall in value.	Spread of assets within the portfolio and a reserve to cushion any void periods.

Human Resources:

There are no direct HR implications contained in the report. [KH 05/11/2024]

Equalities:

No implications.

Other Implications:

No implications.

Reason(s) for urgency

Not Applicable.

Reason(s) for exemption

Not Applicable.

Background Papers

Link Asset Services – Treasury Management Strategy Statement and Annual Investment Strategy - Mid-Year Review Report 2024/25

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Appendix 1

Economics and interest rates

Provided by Link Group

1.1 Economics Update

- The third quarter of 2024 (July to September) saw:
  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q);
  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
  - Core CPI inflation increasing from 3.3% in July to 3.6% in August;
  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
  - 10-year gilt yields falling to 4.0% in September.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an upturn in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. It is expected GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England

is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.
- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of missile attacks in the region. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.
- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.
- Looking at gilt movements in the first half of 2024/25, you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.

- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

1.2 Interest Rate Forecasts

The Authority has appointed Link Group as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

Our latest forecast on 28 May sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10