3.0 **TREASURY MANAGEMENT**

Overview

3.1 This section of the report presents details of the Council's Treasury Management Activity during Q3 2024/25, changes to the Approved Lending List and other current policy issues and considerations.

3.2 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Council's borrowing, cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Council has adopted the Code and complies with its requirements.

3.3 The CIPFA Code of Practice for Treasury Management recommends that Members should be informed of Treasury Management activities at least twice a year but preferably quarterly. This report ensures, therefore, that the Council is adopting Best Practice in accordance with CIPFA's Code of Practice.

Economic Update

3.4 The Council's treasury advisors, Link Group, summarised the key points associated with economic activity in Q3 2024/25 up to 31 December 2024**:**

- GDP growth contracting in October following no growth in the quarter ending September;
- CPI increase to 2.6% in November;
- Core CPI inflation increasing from 3.3% in October to 3.5% in November;
- The Bank of England cut interest rates from 5.0% to 4.75% in November and decision to hold in December;
- 10-year gilt yields starting at 3.94% in October before finishing at 4.57% at the end of December;
- Bank rate likely to be reduced to 4.5% by March. Further cuts are still expected but these are likely to more moderate than previously forecast mainly due to stubborn inflation.

A more detailed economic commentary on developments during Q3 2024/25 is included in **Appendix E.**

Interest Rate Forecasts

3.5 The current interest rate forecasts (11 November 2024) of Link Group are as follows

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

* PWLB Rates are shown net of certainty rate 0.2% discount

The latest forecast, updated on 11th November, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of a stubbornly robust economy and a tight labour market as well as the size of gilt assurance.

Annual Investment Strategy

3.6 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by the Council on 21 February 2024. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.7 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

3.8 The approved limits within the Annual Investment Strategy were not breached during the quarter ended 31 December 2024.

3.9 The investment activity up to Q3 2024/25 was as follows:

- Balance invested at 31 December 2024 : £600.9m
- Average Daily Balance 2024/25 up to 31 December 2024: £682.6m
- Average Interest Rate Achieved up to 31 December 2024: 5.23%

These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grant and progress on the capital programme.

3.10 The average return to Q3 2024/25 compares with the backward looking SONIA rates as follows:

- 5.02% 7 day
- 5.05% 1 month
- 5.12% 3 months
- 5.20% 6 months
- 5.25% 12 months

3.11 It is also a key requirement of the CIPFA Code of Practice that annual Treasury Management Strategies should be kept under constant review throughout the year and reported to Members as appropriate. Although there continues to be uncertainty in the financial and banking market, both globally and in the UK, it is considered that the Strategy approved in February 2024 is still fit for purpose in the current economic climate. No changes are therefore considered necessary to the Strategy at this stage.

Approved Lending List

3.12 The Approved Lending List as at 31 December 2024 is attached as **Appendix B** with changes made during Q3 2024/25 being reported in **Appendix C**.

Debt and borrowing

3.13 The Council's external debt outstanding at 31 December 2024 and forecast position for 2024/25 is as follows:-

Detail	PWLB		Money Market Loans		Total	
	£m	%	£m	%	£m	%
At 31 March 2024	**353.7**	**3.74**	**24.0**	**4.04**	**377.7**	**3.76**
Loan Repayments	0.9		5.0		5.9	
New Loans Taken	0.0		0.0		0.0	
= Loans Outstanding at 31 December 2024	**352.8**	**3.74**	**19.0**	**4.12**	**371.8**	**3.77**
Further Scheduled In Year Repayments	0.7		0.0		0.7	
Forecast Additional Loans to be Taken	0.0		0.0		0.0	
= Estimated Loans Outstanding at 31 March 2025	**352.1**	**3.74**	**19.0**	**4.12**	**371.1**	**3.76**

3.14 Any change to the forecast debt outstanding by the end of 2024/25 will be largely determined by whether the borrowing requirement for 2024/25 is ultimately financed by external borrowing or internal borrowing.

3.15 Based on the Q3 Capital Plan update the total external borrowing requirement for 2024/25 is currently forecast to be:-

Detail	£m
2024/25 Borrowing Requirement Borrowing	
Capital Plan Borrowing Requirement	16.7
Adjustment for Company Loans	-5.5
Revenue Provision for General Fund Debt Repayment (MRP)	-15.1
Revenue Provision for HRA Debt Repayment (MRP)	-1.2
External Borrowing Loan Repayments	-6.6
= Total 2024/25 Borrowing Requirement	**-11.7**

3.16 A value for money assessment would therefore indicate that value could be best obtained by avoiding/delaying new borrowing and continuing to use internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term revenue savings and produce other benefits, but is not risk free.

3.17 This Internal capital financing option will therefore continue to be actively adopted on an ongoing basis in order to achieve short term revenue savings and mitigate the credit risk incurred by holding investments in the market.

3.18 New external borrowing rates (fixed interest maturity rates from the PWLB reflecting the 0.2% ‘certainty discounts’) during Q3 2024/25 were as follows:-

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
31/12/2024	5.20%	5.12%	5.43%	5.91%	5.68%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.16%	5.44%	5.92%	5.69%
High date	29/05/2024	19/12/2024	19/12/2024	19/12/2024	27/12/2024
Average	5.22%	4.80%	4.96%	5.43%	5.21%
Spread	0.83%	0.85%	0.92%	0.84%	0.81%

3.19 In September 2024, upon receipt of a proposed notification to increase the Interest Charge on one of the Council’s £5m Market Loans, a decision was taken by the Assistant Director of Resources, to repay this Loan, following advice from the Council’s Treasury Advisors, Link Group. In addition, discussions with Link Group has also identified an opportunity to repay an additional £4m market loan which will potentially result in a further repayment before 31 March 2026. Further opportunities for Debt Restructuring will also continue to be closely monitored.

Treasury and Prudential Indicators

3.20 It is a statutory duty for the Council to determine and keep under review its Affordable Borrowing Limits.

3.21 During the quarter ended 31 December 2024, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2024/25. The Corporate Direct - Resources reports that no difficulties are envisaged for the current or future years in complying with these indicators.

3.22 The prudential and treasury Indicators are shown in Appendix F.

Impact of Treasury Management Activities on the Revenue Budget

3.23 Based on the Treasury Management activity at Q3 2024/25 and a forecast for the remainder of the year, the revenue impact is as follows:

At the close of Q3, the total Interest and Dividends forecast to be received at the end of the year is £34.7m, £4.3m in excess of budget. This variance has been primarily driven by the Cash Balances that have been invested over the year as part of the Treasury Pool, which have exceeded budgeted expectations. This is due to slippage on the council's Capital Programme, meaning funds are being held for longer. Further, Interest rates over the quarter have been higher than expectations at the time the budgets were set, with a base rate of 4.50% now anticipated in March 2025, which compares to 4.00% at the time budgets were set, and as was anticipated in Q2.

The forecast outturn for interest paid on long term borrowing is £14.1m, comprising of £10.8m General Fund Debt, and £3.3m HRA Debt

The forecast outturn for the Minimum Revenue Provision (MRP) is £15.1m.

Capital Strategy

3.24 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2024/25, approved in February 2024. The Capital Strategy sets out how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.25 Alternative non-treasury investments are considered as part of the Capital Strategy. Given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, all investments are subject to consideration and where necessary recommendations of the Commercial Investment Board.

3.26 The alternative investments considered by the Commercial Investment Board are as follows:

Type of Investment	Invested as at 31/12/2024 £m	Rate of Return %
Alternative Treasury Instruments		
Money Market Funds	0.0	0.00
Enhanced Cash Funds	0.0	0.00
Certificates of Deposit (CDs)	0.0	0.00
Property Funds	15.9	3.7
Total Alternative Treasury Instruments	**15.9**	**3.7**
Alternative Investments		
Loans to Council Companies		
- Yorwaste	3.7	8.75
- Brierley	22.5	10.75
- First North Law	0.1	8.75
- NY Highways	9.5	11.25
- Broadacres Housing Association	33.6	4.30
- Bracewell Housing Ltd	0.7	10.25
- Align Property Services	0.5	10.75
Total Loans to Council Companies	**70.6**	**7.63**
Other Alternative Investments		
Spend to Save	0.0	0.00
Loans to Housing Associations	0.0	0.00
Local Economic Growth Projects	0.0	0.00
Solar Farm (or similar) Projects	0.0	0.00
Commercial Investments	28.7	4.78
Total Other Alternative Investments	**28.7**	**4.78**
Total Alternative Investments	**115.2**	**6.25**

3.27 The position on Property Funds at 31 December is as follows:-

In Year Performance

			In Year Performance Q3 2024/25			
Fund	Bwd Investment Valuation	Valuation as at 31/12/24	Capital Gain / (Loss)		Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	4,760.3	4,798.1	37.8	0.8%	131.6	3.2%
Threadneedle	4,559.5	4,714.4	154.9	3.4%	148.1	3.9%
Hermes	1,777.9	1,806.7	28.8	1.6%	61.0	3.9%
Fidelity	2,633.4	2,749.7	116.3	4.4%	95.1	4.3%
Total	13,731.1	14,068.9	337.8	2.5%	435.8	3.7%

Total Fund Performance

Fund	Investment £k	Valuation as at 31/12/2024	Total Performance			
			Capital Gain / (Loss)		Forecasted Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	5,505.5	4,798.1	-707.4	-12.8%	703.8	12.8%
Threadneedle	5,366.3	4,714.4	-651.9	-12.1%	946.4	17.6%
Hermes	2,000.0	1,806.7	-193.3	-9.7%	362.9	18.1%
Fidelity	3,000.0	2,749.7	-250.3	-8.3%	643.2	21.4%
Total	15,871.8	14,068.9	-1,083.0	-12.7%	2,656.3	16.7%

3.28 While Property Funds continue to provide a revenue return as noted in the table above, the funds have experienced some capital losses.

3.29 Property funds are long term investments and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss, funds will be set aside to ensure there is no impact on the General Fund until units in the funds are sold.

3.30 As outlined in the Q1 and Q2 Treasury Reports, notifications have been received during the course of the year that dealing in Shares of the Federated Hermes Property Unit Trust and the Fidelity UK Real Estate Fund had been temporarily suspended due to a large Quantum of redemption notices received.

Both measures were implemented by the Fund Manager to secure the best interests of all investors of the Fund, and to allow the Fund Manager to effectively work through the existing redemption queue.

The Fidelity suspension was lifted during the course of Q3, and is further anticipating a large top-up by a current investor in the coming weeks. The Hermes suspension remains ongoing, however, and we will continue to engage with the Fund Manager and the Council's Treasury Advisors with regards to future developments

3.31 Given the volatility and risk within the market, all property funds will be reviewed in terms of their strategies to mitigate risk within their portfolios, in the context of the longer term nature of these investments. Should any changes to these investments be considered necessary, these will be reported to the Executive and to Council if required.

3.32 The position on Commercial Property investments and Alternative Property Investments at 31 December 2024 is as follows:-

Commercial Properties			Performance		
Property	Investment £k	Valuation as at 31/03/24	Total Capital Gain / (Loss)		Forecasted Return
	£000	£000	£000	%	%
Bank Unit in Stafford Town Centre	876.0	719.0	(157.5)	(17.9)	6.1
Co-op Store in Somercotes	1,497.3	1,270.0	(277.3)	(15.2)	6.0
Total	2,373.3	1,989.0	(384.4)	(16.2)	6.0

Alternative Property Investments			Performance		
Property	Investment £k	Valuation as at 31/03/24	Total Capital Gain / (Loss)		Forecasted Return
	£000	£000	£000	%	%
Harrogate Royal Baths	9,504.0	6,520.0	(2,984.0)	(31.4)	1.7
Scarborough Travelodge	14,828.0	15,300.0	472.0	3.2	7.8
Shopping centre – Harrogate	1,550.0	2,080.0	530.0	34.2	-6.1*
Secondary industrial land - Harrogate	410.0	352.0	(58.0)	(14.2)	0.2
Total	26,292.0	24,252.0	(2,040.0)	(7.8)	4.7

*under the terms of the agreement, no payments are due to the council in 24/25 due to the financial performance of the property at this time. A review is currently ongoing with the view to rectify this situation in upcoming financial years.

3.33 Commercial Property is a long term investment and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future loss funds will be set aside to ensure that there is no impact on the General Fund at the point of any future sale.

3.34 The Council continues to review potential commercial investments, but will now consider any potential investment opportunities alongside the implications for PWLB borrowing going forward, however, the 2024/25 Capital Plan does not include any plans to purchase commercial assets primarily for yield.

Other Loans

3.35 The Council has also provided the following loan facilities:-

Lender	Date Advanced	Original Loan	Interest Rate	Loan Outstanding as at 31/12/24	Revenue Return (as at 31/12/24)	
		£000	%	%	£000	%
Ryedale Learning Trust	Feb-21	1,455.0	8.10	520.3	49.3	5.67
Settle Pool	Sep-22	135.0	6.00	92.0	4.6	6.2

3.36 Arete Learning Trust

The Ryedale Federation of four schools (Ryedale School, Helmsley CPS, Sinnington CPS and Kirkbymoorside CPS) converted to a new Multi Academy Trust, The Ryedale Learning Trust, in February 2021. As part of the conversion process, a novation was agreed to transfer the school loans currently in place with the federated schools to the Multi Academy Trust on commercial terms. Ryedale Learning Trust subsequently merged with Areté Learning Trust in April 2024 and the loans were novated once again. In September 2024 Areté Learning Trust made a one-off loan repayment for £500k thereby reducing the amount owed to the council.

Local authorities are prohibited from using resources to financially support academy schools by regulation and, consequently, the loan was funded from General Reserves (not Schools Block Reserves) at a commercial rate of 3.1% + Base Rate. The loan is to be repaid in line with an agreed schedule and fully repaid by 2032/33.

3.37 Settle Pool

Settle Area Swimming Pool is a charity run swimming pool, service the local Settle area. In December 2023, discussions with the charity operating the pool led to a revision of the payment plan on the Long Term Loan provided by the council to support the operation of the pool. The revised arrangement has been provided at a commercial rate of 6%, and schedules the loan to be fully repaid by 2032/33.

RECOMMENDATIONS

3.38 That Executive

i. notes the position on the Council’s Treasury Management activities during the second quarter of 2024/25

ii. refers this report to the Audit Committee for their consideration as part of the overall monitoring arrangements for Treasury Management.

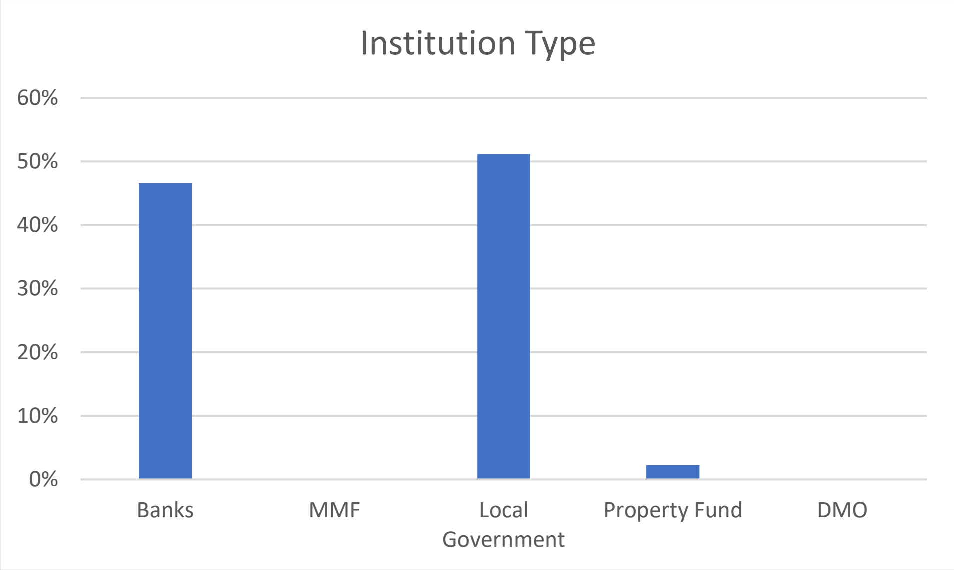
TREASURY MANAGEMENT APPENDICES

Analysis of loans outstanding as at 31 December 2024

Actual Loans Outstanding – Summarised by Organisation	£m
Local Authority	314.5
Santander	62.0
Goldman Sachs	15.0
National Westminster	5.0
Helaba	40.0
National Bank of Canada	25.0
DBS	40.0
Sumitomo Mitsui BCE	60.0
Handelsbanken	10.0
Barclays	9.4
Bank of Scotland	20.0
Total	**600.9**

Other Bodies	31-Dec-24		31-Mar-24	
	£m	%	£m	%
NY Pension Fund	21.9		2.1	0.4
NY Fire and Rescue Authority	10.8		1.2	0.2
Yorkshire Dales National Park	4.4		4.8	0.9
North York Moors National Park	7.5		8.0	1.5
Peak District National Park	7.3		9.1	1.7
Align Property Services	0.6		0.0	0.0
First North Law	0.1		0.0	0.0
National Parks England	0.5		0.3	0.1
Align Property Partners	1.6		2.7	0.5
NYnet Limited	16.6		14.0	7.9
Y&NY Combined Authority	30.0		0.0	0.0
Total Other Bodies	101.3	16.9	42.2	7.9
Cash Balances held by NYC	499.5	83.1	491.0	92.1
Total Investment	**600.8**	**100.0**	**533.2**	**100.0**

Rates as at 31 December 2024	%
Bank Rate	4.75
Investment Rates	
- NYC overnight (on call)	4.30
- 1 month	5.00
- 6 months	4.83
- 1 year	4.63
- Government Debt Management Office Account	4.70


Institution Type
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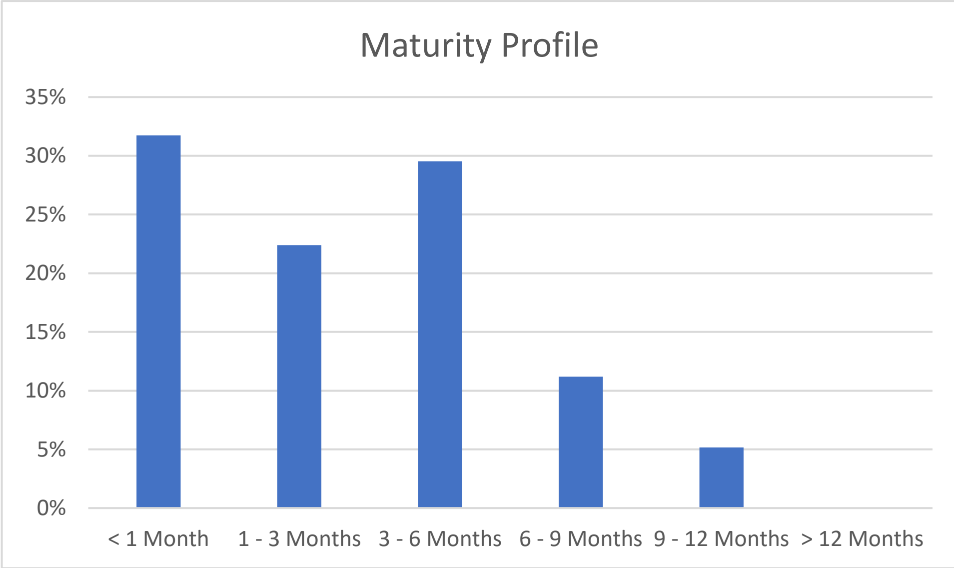
50%
40%
30%
20%
10%
0%
Banks
MMF
Local Government
Property Fund
DMO


Maturity Profile
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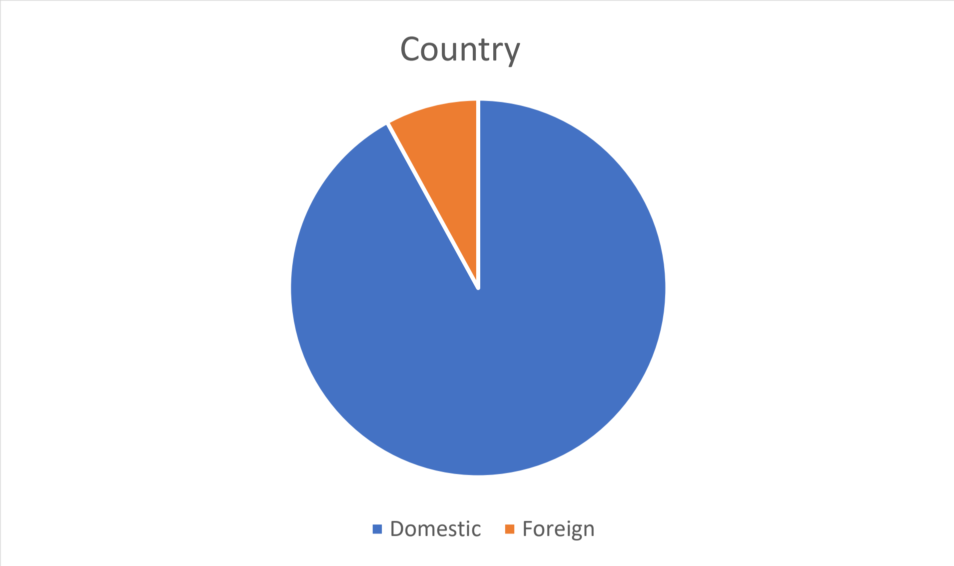
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Domestic
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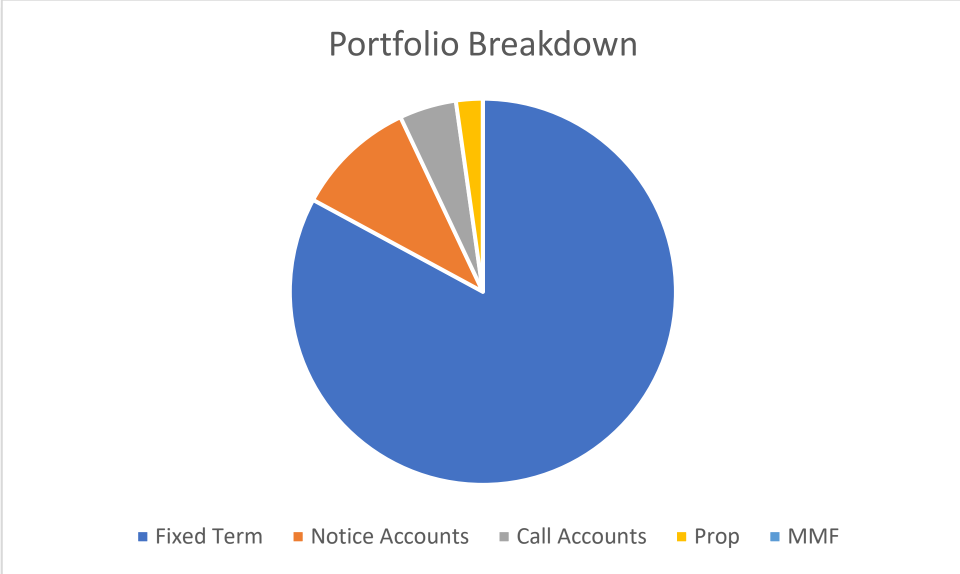

Portfolio Breakdown
Fixed Term
Notice Accounts
Call Accounts
Prop
MMF

Appendix B

APPROVED LENDING LIST Q3

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £40m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	90.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	90.0	100 days	-	-
Barclays Bank UK PLC (RFB)	GBR		6 months		
Bank of Scotland PLC (RFB)	GBR	80.0	365 days	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	80.0	6 months	-	-
Sumitomo Mitsui	GBR	80.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handlesbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	3 months	-	-
Coventry Building Society	GBR	40.0	6 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	365 days	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	40.0	365 days	-	-
DBS (Singapore)	SING	40.0	365 days	-	-
Bayerische Landesbank	GER	40.0	365 days	-	-
National Bank of Canada	CAN	40.0	6 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		30.0	365 days	5.0	5 years
Police / Fire Authorities		30.0	365 days	5.0	5 years
National Park Authorities		30.0	365 days	5.0	5 years
Other Deposit Takers					

Money Market Funds	40.0	n/a liquid	-	-
Property Funds	5.0	365 days	5.0	10 years
UK Debt Management Account	150.0	365 days	-	-

* Based on data 31 December 2024

Appendix C

CHANGES TO THE APPROVED LENDING LIST DURING Q3

There has been one change to the lending list during Q3.

Organisation	Original Investment Limit / Term	Date Amended	Revised Investment Limit / Term	Reason
Bank of Scotland PLC	6 months	21/11/2024	365 days	Fitch - consistent profitability and conservative risk profile
Lloyds Bank PLC	6 months	21/11/2024	365 days	As above

It should be noted, however, that changes can be made on a daily basis in reaction to market sentiment, with maximum investment durations being adjusted accordingly.

Maximum investment durations for other organisations may have, therefore, been changed during this quarter, but have since returned to the level at 1 April 2024.

Treasury Management and Reporting Arrangements

The current monitoring and reporting arrangements in relation to Treasury Management activities are as follows:

(a) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets out the Council's **Treasury Management and Investment Strategy and Policy** for the forthcoming financial year. For 2024/25 this report was submitted to Executive on 23 January 2024 followed by Full Council on 21 February 2024;

(b) an annual report to Executive and Full Council as part of the Budget/MTFS process that sets the various **Prudential Indicators** (submitted to Executive on 23 January 2024 and Full Council on 21 February 2024)

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year. The outturn reports for 2023/24 were submitted to Executive on 28 May 2024;

(d) a quarterly report on Treasury Management to the Executive (this report) as part of the **Quarterly Performance Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Resources, the Corporate Affairs Portfolio Holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) reports on proposed changes to the Council's Treasury Management activities are submitted to the **Audit Committee** for consideration and comment. A copy of this report is also provided to Audit Committee Members.

Appendix E

Detailed Economic Commentary on Developments during Q3 2024/25

Economic Background - UK

The first quarter of 2024/25 saw:

- GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
- The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
- CPI inflation increase to 2.6% in November;
- Core CPI inflation increase from 3.3% in October to 3.5% in November;
- The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
- 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, Capital Economics forecast for GDP growth in 2025 to 1.3%.

After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. The bigger-than-expected 0.7% m/m fall in retail sales in October suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter.

The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years.

The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining. The MPC again stated that "a gradual approach" to rate cuts "remains appropriate" and that policy will "remain restrictive for sufficiently long".

Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

Appendix F

Prudential and Treasury Indicators for 2024-25 as of 31 December 2024

Capital Expenditure

	2024/25 TM Strategy £m	2024/25 Forecast £m
New Capital Expenditure	274.8	232.1
New Finance Leases and PFI	0.0	0.0
Total Capital Expenditure	**274.8**	**232.1**
Financed by		
- Capital grants and contributions	200.8	162.5
- Direct Revenue Funding	52.1	49.7
- Capital receipts	18.0	3.2
Capital Borrowing Requirement	**3.7**	**16.7**

Capital Financing Requirement (CFR)

	2024/25 TM Strategy			2024/25 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m	Borrowing £m	Other Long Term Liabilities £m	Total £m
Total CFR	**578.2**	**160.6**	**738.8**	**576.9**	**163.8**	**740.7**
Net Financing need for year	**3.7**	**0.0**	**3.7**	**16.7**	**0.0**	**16.7**
MRP	**-16.5**	**-5.5**	**-22.0**	**-16.2**	**-5.4**	**-21.6**
Movement in CFR	**-12.8**	**-5.5**	**-18.3**	**0.5**	**-5.4**	**4.9**

***Total Long Term Liabilities CFR contains an in-year accounting adjustment for PFI and Finance Leases, driven by a change in accounting regulations under IFRS16**

Authorised Limit, Operational Boundary and Actual Debt

	2024/25 TM Strategy			2024/25 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m	Borrowing £m	Other Long Term Liabilities £m	Total £m
Authorised Limit	449.8	211.0	660.8	447.7	208.8	656.5
Operational Boundary	427.7	205.6	633.3	427.7	208.8	636.5
External Debt	371.1	160.6	531.7	371.1	163.8	534.9

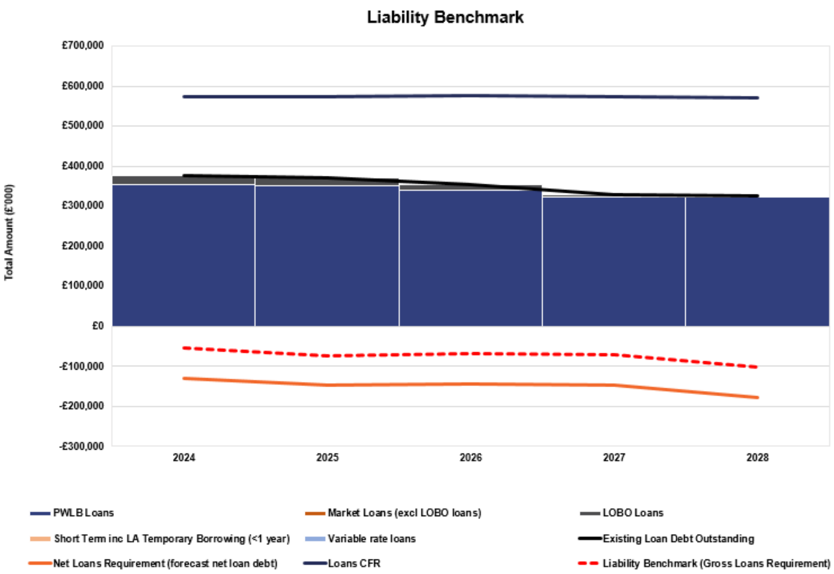
Gross Debt and the CFR

	2024/25 TM Strategy			2024/25 Forecast		
	Borrowing £m	Other Long Term Liabilities £m	Total £m	Borrowing £m	Other Long Term Liabilities £m	Total £m
CFR	578.2	160.6	738.8	576.9	163.8	740.7
Gross Borrowing	371.1	160.6	531.7	371.1	163.8	534.9
Under / (over) borrowing	207.1	0.0	207.1	205.8	0.0	205.8

Ratios

	2024/25 TM Strategy %	2024/25 Forecast %
Financing costs to net revenue stream (Non-HRA)	3.06	2.77
Financing costs to net revenue stream (HRA)	13.62	7.96
Net income from commercial and service investments to net revenue stream	0.79	0.93

Liability Benchmark



Maturity Structure of Borrowing

	2024/25 Forecast		
	Lower Limit %	Upper Limit %	Forecast %
Under 12 months	0	15	2
12 months to 2 years	0	15	4
2 years to 5 years	0	15	8
5 years to 10 years	0	25	15
10 years to 20 years	0	25	11
20 years to 30 years	0	45	40
30 years to 40 years	0	45	16
40 years to 50 years	0	45	4

Limits for Long Term Treasury Management Investments

	2024/25 Forecast	
	Limit £m	Forecast £m
Limit on investments > 1 year	60.0	0.0