Appendix D

Economic Background and Borrowing Update

Economic Background

The fourth quarter of 2023/24 saw:

- A 0.3% m/m decline in real GDP in Quarter 4;
- The labour market loosened in January and surveys suggest that further falls in wage growth are projected;
- Widespread falls in core inflation and services inflation in February with a baseline figure of 3.4% which is the lowest since September 2021;
- The Bank of England holding rates at 5.25% in March;
- The relative fall in UL market rate expectations has further reduced two-year gilt yields.

The UK economy expanded 0.2% m/m in January, following a 0.1% contraction in December and matching market expectations. This pushed the economy into a technical recession as GDP fell 0.3% in the three months to December following a fall of 0.1% in the previous quarter.

Services output rose by 0.2% with strong retail trade and construction output rebounded by 1.1% after a poor December. However, industrial output fell by 0.2% in January after a 0.6% rise in December. Elsewhere, the UK's trade deficit widened to £3.129 billion in January, after a three-month low in December, driven by a 1.4% rise in imports, compared to a 0.7% rise in exports.

The Chancellor of the Exchequer, Jeremy Hunt, presented his 2024 Spring Budget. It aimed to boost the economy following the weaker performance in the second half of 2023 and ahead of the expected general election later this year. One key point was the 2p cut in National Insurance Contributions following on from the cut in the previous Autumn Statement to reduce tax burdens and support household finances.

The UK recorded a fall in 21,000 jobs in the three months prior to January, below market expectations of a 10,000 increase and following a 72,000 growth in the prior period. This was the first fall in job creation since September 2023. Meanwhile, average weekly earnings (including bonuses) in the UK increased 5.6% y/y in the three months to January, the least since July 2022, and slightly below market expectations of 5.7%. The unemployment rate edged up to 3.9% between November 2023 and January, just above the previous quarter increase of 3.8% and slightly above market expectations of no change.

The monthly Consumer Price Index (CPI) fell by 0.6% but the headline annual rate remained unchanged at 4.0% in January. The monthly CPI rose by 0.6% in February, reversing the 0.6% fall in January. However base effects meant that the deadline annual rate dropped to 3.4% in February, reaching its lowest level since September 2021. The rate of price pressures declined significantly for food and nonalcoholic beverages, and restaurants and hotels, while there was also a slowdown in miscellaneous goods and services. Costs also fell at a slower pace for both housing and utilities and transport. The annual core inflation rate, excluding food and energy, fell to 4.5 % from 5.1% the prior month.

A summary overview of the future path of Bank Rate

The Bank of England's Monetary Policy Committee (MPC) left the Bank Rate unchanged, at 5.25%, for a fifth consecutive meeting in March, as widely expected by markets. The voting split was revised in comparison to the previous meeting vote in February, as all but one member of the MPC voted to leave rates unchanged versus the one vote for an immediate rate cut. For the first time since September 2021, no member voted for rate hike. Despite the sign of potential easing in rates later this year, the warning to markets remained on reining in expectations on the starting point and pace of future rate cuts, as Governor Bailey urged caution that the MPC was "not yet at the point where we can cut interest rates".

Borrowing

It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy. A list of the approved limits is shown in Appendix B. The Prudential Indicators were not breached during the fourth quarter of 2023/24 and have not been previously breached. The schedule at Appendix C details the Prudential Borrowing approved and utilised to date.

Despite medium and long term borrowing being an approved part of the Treasury Management Strategy approved by Council, the high levels of cash balances (peaking at more than £150m) held by the Council since the Covid-19 Pandemic of 2020 has prevented the necessity of any borrowing activity for several years. The Council has been utilising cash balances to internally "borrow" for prudential borrowing schemes. This has enabled the Council to benefit from saving on interest costs compared to the returns that could be generated on the cash balances. This approach is effective during periods where the Council holds significant cash balances.

As cash balances have reduced, as expected and following reductions in grant funding, loans reaching maturity and changes in spend activity, opportunities taken to defer external borrowing and utilise cash balances to borrow internally (saving money in the short term on external interest costs) will now be reviewed over the coming twelve months.

Initially, borrowing of £30million was agreed for a 12 month period during the last quarter. Given that the bank rate is current at 5.25% and PWLB rates are still high, it was decided that this loan would only be taken out for a period of 12 months, as it is expected that interest rates will be lower in 12 months' time if the Bank rate is reduced as projected. It is anticipated that a full review of the Council's borrowing levels will be performed in 2024/25.

PWLB rates increased overall in the quarter with increases in January and February being partially offset by reductions during. The table below shows the high/low/average PWLB rates for the fourth quarter.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	5.37%	4.44%	4.72%	5.23%	4.97%
Date	02/01/2024	02/01/2024	02/01/2024	02/01/2024	02/01/2024
High	5.74%	5.17%	5.26%	5.67%	5.44%
Date	29/02/2024	29/02/2024	29/02/2024	29/02/2024	29/02/2024
Average	5.58%	4.86%	5.02%	5.49%	5.26%
Spread	0.37%	0.73%	0.54%	0.44%	0.47%