

### Economic Background and Borrowing Update

#### Economic Background

The third quarter of 2025/26 saw:

- A -0.1% m/m change in real GDP in October, leaving the economy no bigger than at the start of April.
- The 3myy rate of average earnings growth excluding bonuses fall to 4.6% in October, having been as high as 5.5% earlier in the financial year.
- CPI inflation fall sharply from 3.6% to 3.2% in November, with core CPI inflation easing to 3.2%.
- The Bank of England cut interest rates from 4.00% to 3.75% in December, after holding in November.
- The 10-year gilt yield fluctuate between 4.4% and 4.7%, ending the quarter at 4.5%.

From a GDP perspective, October's disappointing -0.1% m/m change in real GDP suggests that growth slowed to around 1.4% in 2025 as a whole.

Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK rose from 51.2 in November to 52.1 in December, suggesting the economy may be benefitting somewhat from pre-Budget uncertainty fading. This may also reflect a diminishing drag from weak overseas demand. While the services PMI rose from 51.3 to 52.1, the improvement in the manufacturing output balance from 50.3 to 51.8 was larger. Indeed, the manufacturing sector has been more exposed to the recent weakness of external demand and has lagged the services sector since the end of last year.

Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. Nonetheless, the 0.1% m/m fall in retail sales volumes in November built on the 0.9% m/m drop in October, suggesting the longer-lasting effects of weak employment and slowing wage growth are impacting. Moreover, the decline in the GfK measure of consumer confidence from -17 in October to -19 in November suggests that consumers are not that optimistic at present.

Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare.

After the Budget, public net sector borrowing of £11.7bn in November was comfortably below last November's figure of £13.6bn and was the lowest November borrowing figure since 2021, mainly due to tax receipts being £5.4bn higher, largely because of the hike in employer NICs in April 2025. Cumulative borrowing in the first eight months of 2025/26 was still £10bn above last year's total. However, lower inflation and a disposal of assets ahead of the Budget should mean borrowing in 2025/26 comes in below last year's total.

A looser labour market is driving softer wage pressures. The 3myy growth rate of average earnings including bonuses eased from 4.9% in September to 4.7% in October. And excluding bonuses, the 3myy rate slowed from 4.7% to 4.6%. Regular private sector pay growth continued to slow from 4.2% to 3.9%. That left it broadly on track to meet the Bank's end of December prediction of 3.5%.

CPI inflation fell sharply in November, easing from 3.6% in October to 3.2%. This was the third consecutive softer-than-expected inflation outturn and suggests that disinflation is well underway. There was a widespread easing in price pressures with inflation slowing in 10 of the 12 main categories. Core inflation fell from 3.4% to 3.2% and services inflation dipped from 4.5% to 4.4%. However, a great deal will depend on the adjustments to regulated and indexed prices scheduled for next April.

The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further significant jump in value. The stock market hit new record highs above 9,900 in Mid-November, driven by a global rebound on hopes of a US government-shutdown resolution, expectations of a December rate-cut, and strong corporate earnings.

## **A summary overview of the future path of Bank Rate**

There were two Monetary Policy Committee (MPC) meetings in the third quarter of the financial year. At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

## 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 third quarter of 2025/26 and have not been previously breached. The schedule at Appendix C details the Prudential Borrowing approved and utilised to date.

No new external borrowing has currently been undertaken to date in 2025/26.

The Council had not undertaken any new borrowing for a number of years until 2024/25, and had been utilising cash balances to internally “borrow” for prudential borrowing schemes. This had enabled the Council to benefit from increased interest costs compared to the returns that could be generated on the cash balances. This approach has been effective during a period where the Council has held significant cash balances.

Cash balances have now reduced as a result of reduced levels of reserves being held and loans continuing to reach their maturity dates. Therefore, it has been necessary over the last 18 months to secure additional borrowing to reduce the under-borrowed position.

Throughout the first nine months, markets have reacted to Government fiscal messaging, yields rising when concerns emerged over the ability of the Government to keep net spending under control ahead of the 26 November Budget, and then easing back to rates similar to those at the start of the financial year once markets felt reassured by the steps the Chancellor had taken to manage public spending and to also bolster her fiscal headroom.

Accordingly, 1-year PWLB Certainty rates started the financial year at 4.82% and finished 2025 at 4.37%, whilst the 5-year part of the curve started at 4.94% and finished at 4.78%. Rates never got above 5% throughout the nine months under review.

The table below shows the high/low/average PWLB rates for the first nine months of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2025	4.82%	4.94%	5.38%	5.95%	5.63%
31/12/2025	4.37%	4.78%	5.34%	5.95%	5.71%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Low date	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
High	4.84%	4.99%	5.62%	6.41%	6.14%
High date	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
Average	4.52%	4.81%	5.38%	6.08%	5.82%
Spread	0.48%	0.37%	0.45%	0.63%	0.68%