

Agenda Item 15
Report NPA25/26-06

Report to **South Downs National Park Authority**
Date **8 July 2025**
By **Interim Chief Finance Officer**
Title of Report **Budget Monitoring Report: Provisional Outturn 2024-25**
Decision

Recommendation: The Authority is recommended to:

- 1. Note the provisional revenue outturn position of a net £0.731m below budget variance for the 2024/25 financial year.**
 - 2. Approve the revenue budget carry forward requests from 2024/25 to 2025/26 of £0.870m as set out in Appendix 2.**
 - 3. Approve the Capital variations as detailed in Appendix 3.**
 - 4. Approve the proposed of the below budget variance as detailed in paragraph 3.7.**
 - 5. Approve the release of £0.305m of funding for capital to funding for revenue to support the general reserve as set out in paragraphs 3.8-3.10.**
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1. Introduction

- 1.1** The South Downs National Park Authority (the Authority) approved the revenue and capital budget for the 2024/25 financial year on the 28 March 2024. In accordance with financial procedures, reports on the Authority's projected income and expenditure compared with the budget shall be submitted at least quarterly to Policy & Resources Committee. This report sets out the Authority's provisional outturn position for the financial year 2024/25 which must be considered by the full Authority which has responsibility for approving transfers to or from reserves, approving capital programme variations, and approving carry forward requests.
- 1.2** The Treasury Management Policy Statement and Annual Investment Strategy were also approved by the Authority at its meeting on 28 March 2024. In accordance with financial procedures, the Authority (normally through the Policy & Resources Committee) shall receive quarterly treasury management update reports. This report provides an overview of the current economic and treasury management provisional outturn position for the financial year 2024/25.

2. Policy Context

- 2.1** The revenue and capital budget are developed to align with the Partnership Management Plan and Corporate Plan priorities. The budget monitoring process reports on variances against approved budgets to identify changes and resource requirements at the earliest opportunity.

3. Issues for consideration

Provisional 2024/25 Revenue Outturn

- 3.1 The provisional 2023/24 revenue outturn position is a net below budget variance of (£0.731m) subject to the approval of carry forward requests (including Multi-Year Projects), which represents approximately 5.51% of the revised service net budget.

2024/25 Month 9 Variance £'000	Directorate	2024/25 Budget Outturn £'000	2024/25 Actuals Outturn £'000	Forecast Variance Outturn £'000	Forecast Variance Outturn %
101	Corporate Services	4,284	3,802	(482)	(11.24%)
280	Seven Sisters Country Park	(41)	345	386	(940.15%)
(102)	Countryside Policy and Management	2,563	2,388	(175)	(6.81%)
(301)	Planning	3,884	3,437	(447)	(11.52%)
0	Strategic Projects	1,956	1,956	(0)	0.00%
(22)	Total Directorate Budgets	12,646	11,928	(718)	(5.68%)
(137)	National Park Grant	(10,736)	(10,736)	0	0.00%
0	Contribution to/from Reserves	(1,910)	(1,923)	(13)	0.00%
(159)	Total Authority Budget	0	(731)	(731)	

- 3.2 The provisional outturn position represents a movement of (£0.572m) from the month 9 forecast variance of (£0.159m) below budget reported to Policy & Resources Committee. The key movements are detailed at **Appendix 1**.

Budget Carry Forwards

- 3.3 The provisional outturn position assumes approval of budget carry forward requests totalling £0.870m. Budget carry forward approval is required for both un-ringfenced grant funded budgets and non-grant funded budgets in accordance with current financial accounting requirements and Financial Regulations and Procedures. A list of budget carry forwards requests is provided at **Appendix 2** to this report. Requests have been reviewed based on the following criteria:
- The nature of the budget, i.e. does it relate to an existing project, grant income or contractual commitment?
 - Does expenditure relate to an existing initiative in progress (e.g. timing/delays/year-end cut off)?
 - Whether there is a clear contractual commitment/spending plan in place.
 - Whether expenditure can be funded from future years' budgets.
- 3.4 Note that some carry forward requests relate to projects or commitments that are likely to run over more than one financial year. These carry forwards are designated as multi-year Projects.
- 3.5 The Senior Leadership Team (SLT) have robustly reviewed all requests. The requests proposed in this report are endorsed by SLT. It should be noted that if any further carry forward requests are not approved; this will increase the below budget variance and increase the year-end contribution to reserves as well as potentially impacting service delivery.

Provisional 2024/25 Capital Forecast

- 3.6 There is a zero-forecast variance on the capital programme at outturn, however, this is subject to the recommended reprofiling and variations against several projects. A summary

of the capital programme, including these variations, is provided at **Appendix 3** to this report.

Capital Project	2024/25 Outturn Original Budget	2024/25 Outturn Actual	2024/25 Outturn Variance
	£'000	£'000	£'000
Vehicle Purchase	67	67	-
National Park Signage Project Phase 2	15	14	(1)
South Downs Centre Cladding	80	78	(2)
SD Memorial Hall AV Equipment	35	36	1
IT Infrastructure	175	155	(20)
Seven Sisters Reed Bed	578	467	(111)
New Barn Cottage Improvement Works	25	17	(8)
SSCP Car Park Improvement Works	50	3	(47)
Total Capital Budget	1,025	837	(188)

Impact on Reserves and Implications for the Medium-Term Financial Strategy (MTFS)

- 3.7 The Authority's approved MTFS sets out resource assumptions and projections over a 5-year term. The provisional below budget revenue position of (£0.731m) will have a favourable impact on the Authority's reserves position. Following discussions at SLT it has been agreed that the full amount be held in the general reserves balance, allowing the authority to take stock of the impact of the spending review, Local Government Reform and Devolution whilst maintaining a degree of financial resilience in the process.
- 3.8 A number of capital programmes were agreed to be funded from the 2023/24 revenue carry forward in November 2024 P&R Committee to support ongoing projects including:
- New Barn Cottage £0.180m
 - SSCP Car Park £0.050m
 - Stock Condition Surveys £0.075m
- 3.9 The Defra Capital Allocation in 2025/26 will allow us to fund these projects from the new capital source, allowing the release of these sums back into revenue, should the Board agree. This would support the Authority's unrestricted general reserve.
- 3.10 An alternative use could be to retain these sums in a capital reserve to underwrite the risks associated with possible late delivery of the capital programme, given the uncertainty about continuing Defra capital funding. However, given the processes in place to manage the delivery of the capital programme and that some costs associated with delivering the capital programme cannot be funded from capital funds, for example surveys and feasibility studies, retaining these funds in a revenue reserve to support these costs as well as any potential limited project over-run, would lessen the risk carried by the revenue budget in 2025/26. Therefore, it is recommended that the £0.305m of funding for capital set out above be released to funding for revenue to support the general reserve.

Treasury Management Overview and Position

- 3.11 The 2024/25 Treasury Management Strategy (which includes the Annual Investment Strategy) was approved by full Authority on 28 March 2024. This section of the outturn report provides an update to the Authority on the performance against the treasury strategy and indicators. An overview of the economic landscape during 2024/25 is provided by Brighton & Hove City Council's Treasury Advisors, MUFG (previously Link Asset Services), at **Appendix 5**.

- 3.12 The Authority's investment portfolio of £16.000m as at 31 March 2025 is made up of the following:
- £1.500m sustainable fixed deposit held with Standard Chartered Bank;
 - £1.500m fixed deposit held with Goldman Sachs International Bank
 - £3.000m fixed deposit held with Lloyds Corporate Markets
 - £10.000m fixed deposits with other local authorities
- 3.13 The table at **Appendix 5** summarises the performance of these investments to 31 March 2025. The actual average interest rate earned in quarter 4 was 5.17% (compared to 5.57% average for quarter 4 2023/24). Investment returns remained substantially above benchmark rates in the quarter as investments were made in advance of expected interest rate reductions, as well as liquid investments in BHCC holding their rates for an extended period following a Bank of England base rate reduction.
- 3.14 The average rate for the 2024/25 financial year was 5.36% (compared to 5.01% in 2023/24). The Authority uses the Sterling Overnight Index Average (SONIA) as a benchmark against its investment performance. The average benchmark rate for the year was 4.90%. The investment rate therefore over-performed the benchmark by 0.46%. Investment rate returns have reduced during the year to reflect the falling interest rate environment, however, the authority managed to maintain value by locking into fixed deposits and benefiting from above benchmark yields from its liquid investments.
- 3.15 The security of the Authority's investment portfolio has been monitored during the year, to assess the risk of loss. These risks were assessed using the financial standing of the groups invested in, the length of each investment, and the historic default rates. The investment strategy sets an allowable risk level of 0.050% (i.e. that there is a 99.950% probability that the Authority will get its investments back). The actual indicator ranged between 0.014% and 0.024% during the year. The indicator remains well within limits and the parameters for the Annual Investment Strategies have been met in full during the year to date with no breaches.
- 3.16 The 2024/25 Capital Strategy identified no long-term borrowing need for the Authority. The Authority's cumulative ongoing borrowing need to date is expected to continue to be met internally. Short term borrowing was undertaken during the year from Brighton and Hove City Council to manage temporary cash flow requirements towards the end of the financial year, with a balance of £0.907m at the 31 March. The Authority's cash flow will continue to be closely monitored to reduce the need for temporary borrowing in the future.
- 3.17 The below tables show the Prudential Indicators that were agreed as part of the 2024/25 Treasury Management Strategy as actual indicators for the year.
- 3.18 The Capital Financing Requirement (CFR) is the cumulative unfinanced capital spend. There is no long-term external borrowing, and therefore the CFR remains 100% funded through internal borrowing.

Capital Financing Requirement - Underlying borrowing need*	Original Estimate 2024/25 £'000	2024/25 Actual £'000
Opening Balance	1,230	1,221
New Borrowing Requirement	0	0
Minimum Revenue Provision	(29)	(19)
Closing Balance – underlying borrowing	1,201	1,202
External Long-term Borrowing	-	0
External Long-term borrowing as a % of CFR	-	0%

- 3.19 The below table shows the borrowing limits agreed for 2024/25. All borrowing limits have been adhered to for the year. The authorised limit is the maximum external debt that the Authority can enter into. This limit can only be revised by agreement of Full Authority. The operational boundary is the limit that the external debt is not expected to exceed during the year.

2024/25 Borrowing Limits	Authorised Limit £'000	Operational Boundary £'000
Indicator set	2,500	2,200
Maximum borrowing outstanding during 2024/25	907	907
Variance	1,593	1,293

4. Options & cost implications

- 4.1 By continuously identifying and explaining variances against budgets, the Authority can identify risks, changes, and new resource requirements at the earliest opportunity. A below budget variance at the end of the financial year increases reserve levels and has implications for the Medium-Term Financial Strategy of the Authority.

5. Next steps

- 5.1 Annual budgets are approved by the National Park Authority (NPA). Budget monitoring is a key component of the Authority's overall performance monitoring and control framework and is reported at least quarterly to the Policy & Resources Committee.

6. Other implications

Implication	Yes*/No
Will further decisions be required by another committee/full authority?	No
Does the proposal raise any Resource implications?	Yes. The provisional budget variance will result in contributions to the Authority's financial reserves. This has implications for the Medium-Term Financial Strategy of the Authority as it impacts on the future resource assumptions and financial projections. The resource implications have been covered within the main body of the report.
How does the proposal represent Value for Money?	The proposed carry forwards ensure delivery of initiatives already approved and committed. Internal controls and governance are in place to ensure the economical, efficient and effective use of resources
Which PMP Outcomes/ Corporate plan objectives does this deliver against	None
Links to other projects or partner organisations	Yes. CIL-related schemes and many other projects are delivered in association with partners.
How does this decision contribute to the Authority's climate change objectives	The report includes positive action to ensure finance is available for climate change, biodiversity, and nature recovery.
Are there any Social Value	No

Implication	Yes*/No
implications arising from the proposal?	
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	There are no implications arising directly from this report. The Authority's equality duty shall be considered in respect of all expenditure and programmes undertaken by the National Park Authority.
Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the proposal?	No
Are there any Health & Safety implications arising from the proposal?	No
Are there any Data Protection implications?	No

7. Risks Associated with the Proposed Decision

- 7.1 There are no risks directly associated with this report. Finance and Budget risks are monitored closely and are included in the Authority's Corporate Risk Register (Risk 02).

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Appendices

1. 2024/25 Revenue Key Variance by Service Area – Explanation of Movements since last Quarter (Q3/Month 9)
2. 2024/25 Carry Forward Requests
3. 2024/25 Provisional Outturn Capital Forecast
4. 2024/25 Provisional Outturn Reserves Position
5. 2024/25 Treasury Management Performance

SDNPA Consultees

Chief Executive; Director of Planning; Director of Growth and Business Development; Director of Landscape and Strategy; Head of Governance and Monitoring Officer; Legal Services, Head of Finance and Corporate Services

External Consultees

None

Background Documents

Information in this report is taken from audited Financial Management Information Systems maintained by the Corporate

Financial Services provider, Brighton & Hove City Council. This report is presented in accordance with the Authority's Financial Regulations and Standard Financial Procedure.

2024/25 Revenue Key Variance by Service Area – Explanation of Movements since last Quarter (Q3/Month 9)

Service	Variance Month 9 £'000	Variance Outturn £'000	Movement £'000	Explanation of Main Movements
Corporate Services	101	(482)	(583)	Investment Income £162k favourable at year end, £44k salary costs, £111k savings on contracted services (inc Finance, MO, IT), Consultancy fees £64k. Other minor variances inc Hospitality, Subscriptions, discretionary grants. Allocation of National Park Grant at quarter 4 end.
Seven Sisters Country Park	280	386	106	Costs associated from writing out debt from SDCO to SDNPA on dormancy of SDCO Ltd.
Countryside Policy and Management	(102)	(175)	(73)	Overachieved external income, vacancy savings. Allocation of National Park Grant balance at quarter 4 end.
Planning	(301)	(447)	(146)	Lower activity on S101 contracts.
Strategic Projects	0	(0)	(0)	
Total Directorate Budgets	(22)	(718)	(696)	
National Park Grant	(137)	0	137	Allocated at Q4 end.
Contribution to/from Reserves	0	(13)	(13)	Year end accounting adjustments
Total Authority Budget	(159)	(731)	(571)	

2024/25 Revenue Key Variance by Service Area – Explanation of Main Variances

2024/25 Variance Outturn £'000	Service Area	Explanation of Main Variances
(200)	Corporate Services	£161k Interest earned in excess of (amended) budget notified at quarter end, £79k LA payments for Finance, £15k MO fees, Additional Grant income £8k,
(40)	Central Admin Team	Salary savings due to vacancies in year.
(6)	HR and apprentices	Minor variances
(18)	IDOX team	Salary savings and HMLR Grant
(37)	IT	Support contracts, mobile phones, internet costs
(91)	Property Services	Decorations and general repairs £40k, business rates £23k, Utilities £26k
(25)	CEO	Unspent grants to voluntary bodies
(18)	Governance	Hospitality and internet costs
(47)	Marketing and Comms	Salary savings
(482)	Total Corporate Services Variance	
(98)	Car Parking	Unbudgeted in year
544	Core	£424k contribution to bad debt provision, under recovered core costs and service charge.
(7)	Events	Unbudgeted in year
23	Food	Unbudgeted in year
(11)	Holiday cottages	Unbudgeted in year
(74)	Landscapes	Countryside stewardship received later in year
9	Visitor Centre	Unbudgeted in year
386	Seven Sisters Country Park Variance	
6	Central Area	Salaries and Consultancy costs partially offset by additional income
(63)	Eastern Area	£20k salary savings, £20k increased Miscellaneous income, staff secondment income
(14)	Western Area	Materials savings
(49)	Director of Corporate Strategy	Salary savings
(55)	Research and Performance	£8k salary savings, £14k savings on payments to other bodies

(175)	Countryside Policy and Management Variance	
(27)	Director of Planning	Consultancy Fees underspent
(141)	Performance and Technical Manager	Lower activity on Contracted Services with hosts
(106)	Planning Development Management	Staff vacancies
(173)	Planning Policy	Consultancy fees £98k, payments to other LA's £46k, additional Defra grant £27k
(447)	Planning Variance	

2024/25 Carry Forward Requests

Amount £'000	Service Area	Type	Description
48	Countryside Western Area	Contractual	Although held by the SDNPA, these are funds raised by the farm clusters (when they were receiving external facilitation funding support, but did not have the administrative structures in place to hold them). Pressures relating to managing the FiPL programme in 24/25, led to a delay in spend with commitments in place to spend in 2025/26.
40	Countryside Western Area	Project	MVP Surveys – ongoing work to resolve impact assessment on river in Meon Valley. Delayed due to partnership information requests.
18	Countryside Eastern Area	Contractual	Co-Op funding (via Trust) connectivity work – ongoing project with deferred timescales.
4	Countryside Eastern Area	Project	Aviva credit for stolen tipper trailer capital spend next year – replacement of kit.
110	Total Countryside and Policy Management Carry Forwards		
25	Research & Performance	Contractual	Learning Outreach and Volunteering – deliver site engagement using residue of funds received in year.
20	Research & Performance	Contractual	Performance and Projects incomplete butterfly surveys delayed delivery from contractor.
8	Research & Performance	Contractual	Delivery of support contract over a 5-year period budget to be carried forward to match the profile of spend. This will bridge the budget gap in 2025/26.
85	Planning Policy	Project	To deliver the Local Plan a further £85k required to fund costs during 2025/26 with £163k already budgeted for.
176	Planning Policy	Contractual	Spend is for s101 agreements with host authorities – actual amount is determined by number of applications processed by each authority which is not predictable. Less applications in 24/25 resulting in underspend. - delayed activity resulting in service occurring in 2025/26.
314	Total Planning Carry Forwards		

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230	Corporate Strategy	Project	Direct Revenue Funding (DRF) to be carried forward to fund future capital works at Seven Sisters Car Park and New Barn.
230	Total Property Services Carry Forwards		
116	Strategic Projects	Project	Midhurst Shoring Up Works. Uncertainty remains regarding the liability on SDNPA, is considered an agency arrangement where costs would be covered by the insurance company. Budget in place to mitigate risk during the final stages of negotiation.
53	Strategic Projects	Project	Wealden Heaths - The sum represents an underspent in Staff Costs for the previous year and a resulting reduction in the project's engagement and event activities. Target to update branding during this year not archived due to changes in staff.
47	Strategic Projects	Project	Forestry Partnership – Trust and Estee Lauder funds to support development of nature-based solutions work including the woodland carbon platform.
216	Total Strategic Projects Carry Forwards		

2024/25 Provisional Outturn Capital Forecast

Capital Project	2024/25 Outturn Original Budget	2024/25 Outturn Variation	2024/25 Outturn Adjusted Budget	2024/25 Outturn Actual	2024/25 Outturn Variance	2024/25 Outturn Variance
	£'000	£'000	£'000	£'000	£'000	%
Vehicle Purchase	67	-	67	67	-	0.0%
National Park Signage Project Phase 2	15	(1)	14	14	-	0.0%
South Downs Centre Cladding	80	(2)	78	78	-	0.0%
SD Memorial Hall AV Equipment	35	1	36	36	-	0.0%
IT Infrastructure	175	(20)	155	155	-	0.0%
Seven Sisters Reed Bed	578	(111)	467	467	-	0.0%
New Barn Cottage Improvement Works	25	(8)	17	17	-	0.0%
SSCP Car Park Improvement Works	50	(47)	3	3	-	0.0%
Total Capital Budget	1,025	(188)	837	837	-	0.0%

Capital Project Variation	Variation Type	Value	Description
National Park Signage Project Phase 2	Variance	(1)	Minimal variance – ongoing project into 2025-26 for renewal of all NP signs.
South Downs Centre Cladding	Variance	(2)	Minimal variance – project complete.
SD Memorial Hall AV Equipment	Variance	1	Minimal variance for hardware.
IT Infrastructure	Variance	(20)	Underspent – savings on equipment in year – replacement switches actioned 25-26.
Seven Sisters Reed Bed	Variance	(111)	Underspend – remaining costs of the project are expected to be £13k and relate to the retention. Budget to be managed in the first TBM report of 2025/26.
New Barn Cottage Improvement Works	Variance	(8)	Ongoing project with additional funding agreed in 24-25 and 25-26. To be complete August 25.
SSCP Car Park Improvement Works	Variance	(47)	Feasibility work being carried out currently.

2024/25 Provisional Outturn Reserves Position

Reserve Type & Title	Purpose of Reserve	2024/25 Month 9 £'000	Movement Between Reserves £'000	Contribution to/from Reserves £'000	2024/25 Outturn £'000
Approved Risk Reserves					
Working Balance (Minimum)	Working Balance	595		77	672
Working Balance (MTFS)	Working Balance	80		711	791
Planning Reserve	To fund unforeseen planning inquiries, changes to future delegation arrangements, significant income falls and support for neighbourhood plans	358			358
Earmarked Reserves					
Partnership Management Plan Reserve	To fund outcomes identified in the Partnership Management Plan	216			216
Strategic Fund	Reserve to hold unspent Strategic Fund Allocations	303		77	380
Affordable Housing	Funds to implement an Affordable Housing Strategy within the NP	161			161
Invest to Save	To Support future schemes to save money in future years	1,156		(140)	1,016
Trading Company Borrowing Reserve	To allow the company to borrow funds to purchase assets to allow operations at SSCP to begin	220			220
Climate Change Fund Reserve	Funds to support the Authority becoming a 'net zero organisation by 2030	42			42
Nature Based Solutions (Green Finance) Reserve	Funds to support the management of nature recovery funded from income received in previous years	176		321	497
Funds held in lieu of Agreements					
South Downs Way	Funding transferred from South Downs Joint Committee	20			20
Section 106 Receipts Reserve		339			339

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Section 106 interest on statutory receipts	Receipts primarily used to develop infrastructure within the National Park	428		157	585
Community Infrastructure Levy Reserve*	Receipts to fund infrastructure in development areas	7,826		(16)	7,810
Capital (Timing) Reserves)					
Capital Receipts	Proceeds from disposal of assets available for use on capital expenditure	34		5	39
Estates Management Reserve	To support refurbishment of area offices	50			50
Vehicle Repairs and Renewals	To fund purchase of replacement vehicles	30		(25)	5
Total Reserves Balances		12,034	0	1,167	13,201

* The value of the Community Infrastructure Levy reserve represents amounts receivable in accordance with Financial Regulations and the Town and County Planning Act 1990. The reserve value may not represent the value of actual income received due to agreed payment terms and profile of payments for some developments.

1.27 in early April 2025.

2024/25 Treasury Management Performance

Average Interest rate achieved on Investments compared to Benchmark

Average amount invested (weighted by amount per day)

	Investment in BHCC	Investment in Goldman Sachs (average)	Investment in Lloyds (average)	Investment in other LA's	Investment in Standard Chartered (average)	Benchmark rate	Average for period
M1-4	5.30%	5.16%	5.20%	5.83%	6.29%	5.20%	5.62%
M4-6	4.96%	5.17%	5.06%	5.77%	5.34%	5.08%	5.34%
M7-9	4.65%	5.17%	5.05%	5.51%	4.75%	5.01%	5.12%
M10-12	4.64%	5.16%	4.98%	5.31%	4.75%	4.55%	5.17%
Amount Invested £'000							
M1-4	3,024	934	1,684	5,197	1,500		12,340
M4-6	3,227	1,500	3,959	6,000	1,549		16,235
M7-9	2,123	1,500	4,500	4,587	1,500		14,210
M10-12	325	1,500	3,267	9,556	1,500		16,148
Investment Income £							
M1-4	53,604	16,132	29,265	101,285	31,536		231,822
M4-6	26,760	12,948	33,459	57,825	13,825		144,817
M7-9	24,896	19,528	57,242	63,696	17,959		183,320
M10-12	3,721	19,103	40,153	125,178	17,568		205,724

Economic Overview - Provided by MFUG April 2025

UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% y/y (April), the CPI measure of inflation briefly dipped to 1.7% y/y in September before picking up pace again in the latter months. The latest data shows CPI rising by 2.8% y/y (February), but there is a strong likelihood that figure will increase to at least 3.5% by the Autumn of 2025.

Against that backdrop, and the continued lack of progress in ending the Russian invasion of Ukraine, as well as the potentially negative implications for global growth as a consequence of the implementation of US tariff policies by US President Trump in April 2025, Bank Rate reductions have been limited. Bank Rate currently stands at 4.5%, despite the Office for Budget Responsibility reducing its 2025 GDP forecast for the UK economy to only 1% (previously 2% in October).

Moreover, borrowing has becoming increasingly expensive in 2024/25. Gilt yields rose significantly in the wake of the Chancellor's Autumn Statement, and the loosening of fiscal policy, and have remained elevated ever since, as dampened growth expectations and the minimal budget contingency (<£10bn) have stoked market fears that increased levels of borrowing will need to be funded during 2025.

The table below provides a snapshot of the conundrum facing central banks: inflation pressures remain, labour markets are still relatively tight by historical comparisons, and central banks are also having to react to a fundamental re-ordering of economic and defence policies by the US administration.

	UK	Eurozone	US
Bank Rate	4.50%	2.5%	4.25%-4.5%
GDP	0.1%q/q Q4 (1.1%y/y)	+0.1%q/q Q4 (0.7%y/y)	2.4% Q4 Annualised
Inflation	2.8%y/y (Feb)	2.3%y/y (Feb)	2.8%y/y (Feb)
Unemployment Rate	4.4% (Jan)	6.2% (Jan)	4.1% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 4.5% by a vote of 8-1, but suggesting further reductions would be gradual. The Bank of England was always going to continue its cut-hold-cut-hold pattern by leaving interest rates at 4.50% but, in the opposite of what happened at the February meeting, the vote was more hawkish than expected. This suggested that as inflation rises later in the year, the Bank cuts rates even slower, but the initial impact of President Trump's tariff policies in April 2025 on the financial markets underpin our view that the Bank will eventually reduce rates to 3.50%.

Having said that, the Bank still thinks inflation will rise from 2.8% in February to 3¾% in Q3. And while in February it said "inflation is expected to fall back thereafter to around the 2% target", this time it just said it would "fall back thereafter". That may be a sign that the Bank is getting a bit more worried about the "persistence in domestic wages and prices, including from second-round effects". Accordingly, although we expect a series of rate cuts over the next year or so, that does not

contradict the Bank taking “a gradual and careful” approach to cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

From a fiscal perspective, the increase in businesses’ national insurance and national minimum wage costs from April 2025 is likely to prove a headwind, although in the near-term the Government’s efforts to provide 300,000 new homes in each year of the current Parliament is likely to ensure building industry employees are well remunerated, as will the clamp-down on immigration and the generally high levels of sickness amongst the British workforce. Currently wages continue to increase at a rate close to 6% y/y. The MPC would prefer a more sustainable level of c3.5%.

As for equity markets, the FTSE 100 has recently fallen back to 7,700 having hit an all-time intra-day high 8,908 as recently as 3rd March. The £ has also endured a topsy-turvy time, hitting a peak of \$1.34 before dropping to \$1.22 in January and then reaching \$1.27 in early April 2025.

