

Treasury Strategy Statement and Annual Investment Strategy

Mid-year Review Report

Cambridgeshire Police And Crime Commissioner
2026/27

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1 Background

1.1 Treasury Management

The Police and Crime Commissioner for Cambridgeshire (the Commissioner) operates 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.

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

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."

1.2 CIPFA Consultation on Treasury Management and Prudential Codes of Practice

The Chartered Institute of Public Finance and Accountancy is currently consulting local authorities in respect of potential changes to the Codes. At this juncture, the focus seems to primarily be on the Non-Treasury investment aspects of local authority activity. Officers will provide an update on any material developments/changes in due course.

2 Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Commissioner's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Commissioner will seek to achieve those policies and objectives.
3. Receipt by the Commissioner of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Commissioner of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Commissioner of the role of scrutiny of treasury management strategy and policies to a specific named body. The named body delegated by the Commissioner is

the Police Accountability Board with reports also being presented to the Joint Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Commissioner's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Commissioner's investment portfolio for the first part of the financial year;
- A review of the Commissioner's borrowing strategy for the first part of the financial year;
- A review of any debt rescheduling undertaken during the first part of the financial year;
- A review of compliance with Treasury and Prudential Limits for the first part of the financial year.

Recommendations

There are no revisions required for the Treasury Strategy so the Police Accountability Board is asked to recommend that the Commissioner notes the report and the treasury activity.

3 Economics and interest rates

3.1 Economic update

Appendix 1 provides a more detailed economic analysis, however, for the first half of 2026/27:

- GDP growth remained modest rather than recessionary. UK Q2 GDP was expected to confirm 0.4% quarter-on-quarter growth, but momentum softened in September: the composite Purchasing Manager's Index (PMI) fell from 52.5 to 51.7. Weak consumer confidence, retail activity and tighter fiscal conditions point to a subdued outlook.
- Average earnings growth eased. By September, regular pay growth was 3.5%, while total earnings growth fell from 4.2% to 3.9%. Employment weakened, vacancies fell to a five-year low, and the labour market was described as "low hire, low fire", limiting the risk of a wage-price spiral.
- Consumer Price Index (CPI) inflation rose through the period, reaching 3.1% in August, up from 2.9% in July. Energy prices and the Middle East conflict were the main drivers; MUFG Corporate Markets, the PCC's treasury advisor, expected CPI to exceed 4% in early 2027 if higher oil, gas and electricity costs persisted.
- Bank Rate was unchanged at 3.75% at September's MPC meeting, but the stance became more hawkish: the vote was 6–3, with three members supporting an immediate increase. MUFG's central forecast was a 25 basis points (bp) rise to 4.0% in the November or December meeting, followed by reductions from the second half of 2027 as inflation falls and weak growth takes hold.
- 10-year Gilt yields rose over the April–September period. They increased between March and June as energy prices and inflation expectations reduced the prospect of Bank Rate cuts, then rose further between June and September on persistent inflation, elevated energy costs and fiscal uncertainty. The webinar's September market curve showed the 10-year gilt yield at about 4.78% on 4 September; by 28 September, the 10-year Public Works Loan Board (PWLB) Certainty Rate was 6.18%,

implying a gilt yield of around 5.38% before the 80bp Public Works Loan Board (PWLB) margin.

Overall, the period saw weak but positive UK growth, easing wage pressure, renewed inflation from energy costs, a more hawkish Bank of England, and higher long-term borrowing costs. The main risk was that inflation and gilt yields stayed elevated despite a softening labour market and weak household demand.

3.2 Interest rate forecast

The Commissioner has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Commissioner to formulate a view on interest rates.

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

MUFG Corporate Markets' latest forecast on 21 September sets out a view that short, medium and long-dated interest rates will eventually fall back over the next year or two, although in the near-term there is an anticipated increase in Bank Rate to 4% given the upward influences on inflation primarily emanating from energy price shocks driven by events in the Middle East. The challenging UK fiscal backdrop provides some further upside risks to the medium to longer part of the curve, which has also been revised higher in the near-term.

It is noted that the broader market sentiment has focussed on Bank Rate increasing to a peak between 4.5% and 4.75%, but the central view of MUFG Corporate Markets is that a backdrop of a significant increase of 20%+ in the energy price cap likely in January, and with mortgage rates also shifting upwards, households are unlikely to be able to support the economy as strongly as they have done so in the first half of the financial year.

MUFG Corporate Markets Interest Rate View 21.09.26												
	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29	Jun-29	Sep-29
BANK RATE	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	4.00	3.80	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.20	4.10	4.00	3.80	3.70	3.50	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.70	3.70	3.70	3.70	3.70
5 yr PWLB	5.60	5.60	5.30	5.10	4.70	4.50	4.50	4.40	4.40	4.30	4.30	4.30
10 yr PWLB	6.00	5.90	5.60	5.40	5.00	4.80	4.80	4.70	4.70	4.60	4.60	4.60
25 yr PWLB	6.50	6.40	6.10	5.90	5.60	5.30	5.30	5.30	5.30	5.30	5.20	5.20
50 yr PWLB	6.10	6.10	5.80	5.50	5.30	5.10	5.00	5.00	5.00	5.00	4.90	4.90

4 Treasury Management and Annual Investment Strategy Update

There are no policy changes to the Treasury Management Strategy Statement (TMSS) for 2025/26; the details in this report update the position in the light of the economic conditions and budgetary changes already approved.

Prudential Indicator	**2026/27 Original £m**	**2026/27 Revised £m**
Authorised Limit	86.0	86.0
Operational Boundary	74.8	74.8
Capital Financing Requirement	68.0*	62.7

**original CFR as per the forecast provided in the TMSS AIS 2025/26*

The revised CFR shows a decrease primarily due to the reduced expectation within the capital programme (see 5.1).

5 The Commissioner's Capital Position

5.1 Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The position shown below is data reported at the end of period 5, 2026:

	Original 2026/27 Capital Programme £000	Revised 2026/27 Capital Budget* £000	Actual & Committed 2026/27* £000	Full Year Forecast 2026/27* £000
Capital Payments:-				
Land & Buildings	5,675	**6,447**	1,597	**6,439**
Fleet	1,800	**1,835**	1,828	**1,835**
IT & Communications	2,768	**2,529**	1,128	**2,212**
Other Projects & Collaboration	1,363	**1,363**	214	**1,089**
Major Projects Contingency	400	**304**		**304**
Approval from Chief Delegated Budget	100	**100**	-	**100**
TOTAL	**12,106**	**12,578**	**4,767**	**11,979**

** the revised capital budget includes agreed in year programme amendments.*

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

	Original 2026/27 Capital Programme £000	Revised 2026/27 Capital Budget £000	Actual & Committed 2026/27 £000	Full Year Forecast 2026/27 £000
Capital Financing:-				
Capital Grants	-	**-**	-	**-**
Carry Forward Reserve	-	**472**	-	**472**
Taser Reserve	280	**280**		**172**
RCCO (From Collab Veh recharges	540	**540**	540	**580**
RCCO's/POCA Reserve	3,800	**3,800**	3,800	**3,800**
ESN Reserve	105	**105**	-	**105**
Capital Receipt Reserve	7,381	**7,381**	427	**6,850**
Borrowing	-	**-**	-	**-**
TOTAL	**12,106**	**12,578**	**4,767**	**11,979**

The borrowing required increases the underlying indebtedness of the Commissioner by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR) and External Debt

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period.

Capital Financing Requirement and External Debt	2026/27 Original Estimate £m	2026/27 Current Position £m	2026/27 Revised Estimate £m
Total CFR	68.0	62.7	62.7
Net movement in CFR	**(2.2)**	**(2.2)**	**(2.2)**
Borrowing	45.0	39.6	36.0
Other long-term liabilities*	0.0	0.0	0.0
Total debt (year-end position)	**45.0**	**39.6**	**36.0**

** Includes finance leases*

The Original Estimate figures are those published in the TMSS for 2026/27, prior to end of year actuals. The Current Position shows the current levels of debt alongside the CFR, which has not changed from the closing position of prior financial year. The revised estimate of CFR is based on the forecast capital expenditure as at period 5.

The revised figure for borrowing is the current debt (£39.6m) with the expectation of reducing the re-financing of loan maturity in March by £3m, however, the ability to do this will be dependent on the developing cash outlook. The potential of large-scale capital receipts in this financial year may afford the removal of the re-financing altogether. This is being monitored and plans will develop dynamically alongside the evolving position.

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2026/27 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Commissioner has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

** The management of transferred debt should be excluded from net borrowing.*

Operational Boundary for external debt	2026/27 Original Indicator £m	2026/27 Revised Indicator £m
Borrowing Limit	74.7	74.7
Other long-term liabilities*	0.1	0.1
Total debt	**74.8**	**74.8**
CFR* (year-end position)	**68.0**	**62.7**
Borrowing Expected	45.0	39.0

** Includes finance leases*

The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with the Operational Boundary prudential indicator.

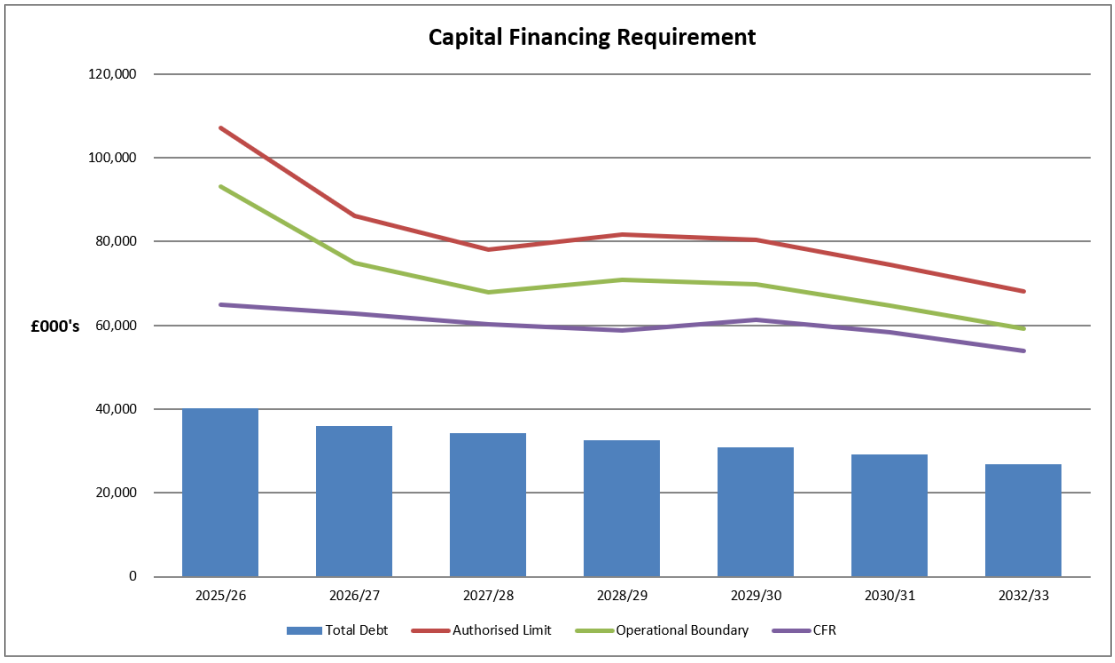
A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and is set and revised by the Commissioner. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with the Authorised Limit prudential indicator.

Authorised limit for external debt	**2026/27 Original Indicator £m**	**2026/27 Revised Indicator £m**
Borrowing Limit	85.8	85.8
Other long-term liabilities*	0.2	0.2
Total	**86.0**	**86.0**
CFR	68.0	62.7
Borrowing Expected	45.0	39.0

** Includes on balance sheet PFI schemes and finance leases etc.*

The below graph provides a visualisation of the expected level of debt and CFR against which the limits are set.



6 Borrowing

The Commissioner's capital financing requirement (CFR) for 2026/27 is forecast at £62.7m. The CFR denotes the Commissioner's underlying need to borrow for capital purposes. If the CFR is positive the Commissioner may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table at 5.3 shows the Commissioner has revised year end borrowings, including finance leases, of £36.0m and is forecast for an under-borrowed position of £26.7m.

The Commissioner's treasury advisors, MUFG, provide an outlook on borrowing costs as shown in Appendix 2, where it is expected that rates will continue declining, albeit slower than originally

expected over the next two years, however, there continues to be upside risks to the Bank Rate forecast. Borrowing rates continue to be elevated, following the gilt market pricing; whilst decline is expected to be forthcoming, volatility will prevail influenced predominantly by ongoing global conflicts and coupled with the Government's attempts to assure markets of its debt financing.

7 Debt Rescheduling

Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. No debt rescheduling has been undertaken to date in the current financial year as the current debt structure for the Commissioner does not yet provide benefit.

8 Compliance with Treasury and Prudential Limits

It is a statutory duty for the Commissioner to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2026, the Commissioner has operated within the treasury and prudential indicators set out in the Commissioner's Treasury Management Strategy Statement for 2026. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Commissioner's Treasury Management Practices.

9 Annual Investment Strategy

In accordance with the CIPFA Treasury Management Code of Practice, it is the Commissioner's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Commissioner's risk appetite.

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 the MUFG suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness - The UK's sovereign rating has proven robust through the first half of 2026/27.

Investment Counterparty criteria - The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Credit Default Swap prices - It is noted that sentiment in the current climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances - The average level of funds available for investment purposes during the half of the year was £33.9m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and grant receipts, payroll payments and progress on the capital programme.

TREASURY PORTFOLIO				
	31 March 2026		30 September 2026	
Treasury Investments	**£000**	**%**	**£000**	**%**
Banks (UK)	5,160	82%	21,335	90%
Banks (Rest of World)	0	0%	0	0%
Local Authorities	0	0%	0	0%
DMADF (H.M. Treasury)	0	0%	0	0%
Money Market Funds	1,140	18%	2,240	10%
Certificates of Deposit	0	0%	0	0%
Total Managed In-house	**6,300**	**100%**	**23,575**	**100%**
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total Managed Externally	**0**	**0%**	**0**	**0%**
Total Treasury Investments	**6,300**	**100%**	**23,575**	**100%**
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	40,224	100%	39,627	100%
Total External Borrowing	**40,224**	**100%**	**36,627**	**100%**
Net Treasury Investments / (Borrowing)	**(33,924)**		**(16,052)**	

The Commissioner held an investment portfolio of £23.6m as at 30th September 2026 (£6.3m at 31st March 2026) with:

- Weighted Average Rate of Return 3.99%,
- Weighted Average Maturity 59 days
- Weighted Average Total Term 122 days

The Commissioner's budgeted investment return for 2026/27 is £750,000, and performance for the first half of the year is £280,000. The projection for the full year currently shows an outturn of £1,025,000, however, keeping cash balances low to minimise debt level will put downward pressure on this.

Approved limits - Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the half year ended 30th September 2026.

10 Conclusion

Overall, treasury management activity during the first half of 2026/27 has remained prudent and compliant with the approved Treasury Management Strategy. Investment decisions have continued to prioritise security and liquidity, while achieving an appropriate return within the Commissioner's risk appetite. Average investment balances were £33.9m, with the portfolio standing at £23.6m at 30 September 2026 and generating a weighted average return of 3.99%. Investment income is currently forecast at £1.025m for the full year, ahead of the £0.750m budget, although the final outturn will depend on future cash balances and the extent to which available funds are used to reduce borrowing.

The interest-rate outlook remains uncertain with strong support to raise rate to 4.00% in coming months. After which, Bank Rate is expected to decline gradually as inflationary pressures ease, but the timing and extent of reductions remain subject to inflation, wage growth, gilt-market volatility

and wider geopolitical and fiscal risks. This supports maintaining flexibility in both investment maturities and borrowing decisions, rather than committing funds or refinancing debt prematurely.

Cash flow has remained sufficiently robust to meet operational requirements and support investment activity. The £12m loan maturing in March 2027 will be refinanced only to the extent required, reducing debt where practicable and making appropriate use of internal resources to minimise external borrowing costs.

In summary, the Commissioner remains well positioned to manage the balance between investment return, liquidity and borrowing costs. Treasury and prudential limits have been observed, no changes to the approved strategy are required at this stage, and activity will continue to be managed flexibly in response to movements in interest rates, cash flow and the capital programme.

Appendix 1 – Economic Overview

The first half of 2026/27 saw:

The first half of 2026/27 (April to September) saw:

- Continued resilience in the face of the ongoing energy shock, with real GDP up 0.4% m/m in July, following on from GDP of 0.5% q/q (1.4% y/y) for the quarter ending 30 June 2026.
- The 3myy rate of average earnings growth excluding bonuses remained stable throughout the period under review, initially stagnating at 3.4% in April and more latterly holding steady at 3.5% in July.
- CPI inflation stuck at 2.8% in May, but is now ticking upwards, standing at 3.1% in August and forecast to rise to 4.3% by January 2027.
- The Bank of England left interest rates unchanged at 3.75% although it intimated in its September meeting that rates will be hiked in November or December if a resolution to the conflict in the Middle East is not forthcoming before then.
- The 10-year gilt yield fluctuated between 5.43% and 4.69%, ending September at 5.43%.

The economy has continued to surprise to the upside, with real GDP growth of 0.6% q/q for the period January to March, followed by a resilient 0.5% q/q rise through to the end of June. That has been followed by another strong monthly increase of 0.4% m/m in July. That marked the biggest rise since the Middle East conflict started and suggests the resilience of the economy in the first half of the year continued into the early stages of the second half. That rise in July was broad-based with services output up by 0.4% m/m, industrial production 0.2% m/m higher and construction output rising by 0.1% m/m. The Office for National Statistics also noted that businesses reported stronger activity related to AI and cloud computing.

If real GDP were flat in both August and September, a further healthy rise of 0.6% q/q is anticipated. However, the economy's prolonged resilience is unlikely to last as the drag from rising energy prices (the January energy cap is projected to increase by c20%) and borrowing costs will be felt before long.

The fall in the composite Purchasing Manager Index (PMI) from 49.7 in May to a 14-month low of 49.4 in June was entirely driven by services activity. Indeed, the services activity PMI fell from 49.3 to a 41-month low of 48.7 due to rising costs and political uncertainty weighing on consumer confidence. That weakness was partly offset by a rise in the manufacturing output for a third consecutive month but that was due to fears of shortages causing businesses to build stocks. Overall, the composite PMI suggested the strong start to the year would be followed by tepid growth at best.

By September, the composite PMI stood at 52.0. While this was still indicative of expanding activity, it was weaker than August's 52.5 and the lowest level in three months, suggesting the latest leap in energy prices and the prospect of another tax-raising Autumn Budget are weighing on activity. Within the composite report, employment contracted (i.e., a reading below 50) for the twenty-fourth consecutive month while higher fuel and payroll costs contributed to the sharpest rise in prices charged since May. The services PMI fell from 52.5 to 52.1, reportedly due to subdued domestic economic conditions and ongoing geopolitical uncertainty. Meanwhile, weak consumer demand constrained production, bringing the manufacturing output subcomponent balance down from 52.1 to a six-month low of 51.5. The press release also noted that weaker consumer demand was partly offset by AI investment and greater defence spending.

Retail sales volumes were up in every major category except "other stores" and fuel in August, leaving the headline figure up 0.5% m/m. That fully reversed the 0.5% m/m decline in July and left the level of retail sales 2.4% higher than last August. Even if retail sales volumes were flat in September, volumes for the quarter as a whole would still rise by 0.5% q/q, higher than the 0.2% q/q rise in the previous quarter. August's figure suggests that other factors are offsetting the drag on real incomes from higher energy prices and borrowing costs, or that households remain able and willing to reduce their saving rate to sustain recent spending growth. That said, with inflation yet to peak, the biggest drag on households' real income has yet to come.

The public finances have been challenged for several months now. Public sector net borrowing of £23.3bn in May was above the Office for Budget Responsibility's (OBR's) forecast of £17.7bn and £5.4bn above the corresponding figure last year. The weak performance in May was mainly due to the strength of government spending, as the rise in Retail Prices Index inflation in March meant debt interest payments were £4.1bn higher than in May 2025, £3.3bn higher than the OBR anticipated in March and the highest in any May on record. Tax receipts of £85.5bn were also below OBR predictions.

More recently, public sector net borrowing of £18.3 billion in August was once again higher than the OBR's forecast of £14.8 billion. It also marked the second highest August borrowing figure since records began in 1993. At £12.4 billion, current borrowing (i.e., excluding investments) which is important for the Chancellor's fiscal mandate, was also above the OBR's forecast of £10.4 billion. Higher central government tax receipts were not enough to offset the effect of higher government spending. Central government expenditure overshot the OBR's forecast by £2.3 billion, partly due to higher inflation pushing up debt interest payments and government spending on public services.

Regarding employment, the latest PAYE employment figure for August saw a 26,000 fall, leaving employment 95,000 lower than before the start of the Iran War in February and 0.5% lower than a year ago. The number of job vacancies continued to fall, edging down from 706,000 in the three months to July to 702,000 in the three months to August. While alternative measures of employment show a slightly stronger picture, the unemployment rate stayed at 4.9% in July for the fourth consecutive month.

That recent further weakening of the labour market continues to weigh on pay growth. The 3myy growth rate of average earnings including bonuses eased from 4.2% in June to 3.9% in July entirely off the back of a slowdown in private sector bonus growth. By contrast, a jump in public sector bonus growth meant that total public sector pay growth rose from 6.2% to 6.6%. The timelier HMRC median PAYE measure of pay tells a similar story, with the 3myy growth rate falling from 4.5% in July to a seven-month low of 4.1% in August. That points to a further fall in average earnings growth from 3.9% to around 3.6%.

The knock-on impact from surging energy prices is now being felt, pushing CPI inflation up from 2.9% in July to 3.1% in August. That increase was entirely due to the 6.9% m/m rise in fuel prices, which lifted annual fuel inflation from 15.3% to 23.0%. Even so, higher energy costs do not yet seem to be boosting other items of the CPI just yet. For example, food and drink inflation stayed at 1.3%. That said, the combination of the current levels of energy prices, with brent crude still around $100pb, and the eventual "first-round" effect of businesses passing on some of their higher energy costs will likely result in CPI inflation rising to around 3.6% in September and to a peak of about 4.3% in January based on forecasts from Capital Economics.

Regarding Bank Rate, the Bank of England will want to steer clear of allegations of taking too long to act as inflation picks up, and in September intimated that despite a 6-3 vote against increasing Bank Rate to 4%, four of the majority who voted for no change are minded to vote for a rate hike in November or December if the conflict in the Middle East remains unresolved.

April through to September brought more volatility for the gilt market. For example, after ending March at 4.92%, the 10-year Gilt shot up to 5.18% in mid-May, its highest level since 2008. Its movement since has reflected sentiment in the Middle East, falling back to 4.7% in June but finishing September at 5.43% as US/Iran relations remain sour.

The FTSE 100 started April below 10,200, below its record high of around 10,900 in late February. Nonetheless, the index surged to just shy of that level in late July. More recently, it has struggled, ending September at 10,606. Moreover, it materially underperformed the broader more domestic-focused FTSE 250 and most other international indices over this period, weighed down by weightings towards energy, mining, financials and pharmaceuticals and lack of exposure to tech stocks which generally outperformed globally.

MPC meetings: 30 April, 18 June, 30 July, 17 September 2026

There were four Monetary Policy Committee (MPC) meetings held in the first half of the financial year. In April, the Committee voted 8-1 to keep rates at 3.75%, with one dissenter voting for 4%. By June, the split had become 7-2, with concerns that rising energy prices, emanating from the conflict in the Middle East, would lift inflation and potentially give rise to second round inflation effects reflected in higher wages.

As the year has progressed, the split has grown further. The July and September meetings both recorded a 6-3 split, with Greene, Mann and Pill voting for a hike in rates to 4% at both meetings. As noted, several other members of the committee have intimated that they are likely to vote for an increase in November or December if there is no resolution to the conflict in the Middle East.

Appendix 2 – Borrowing Cost Outlook

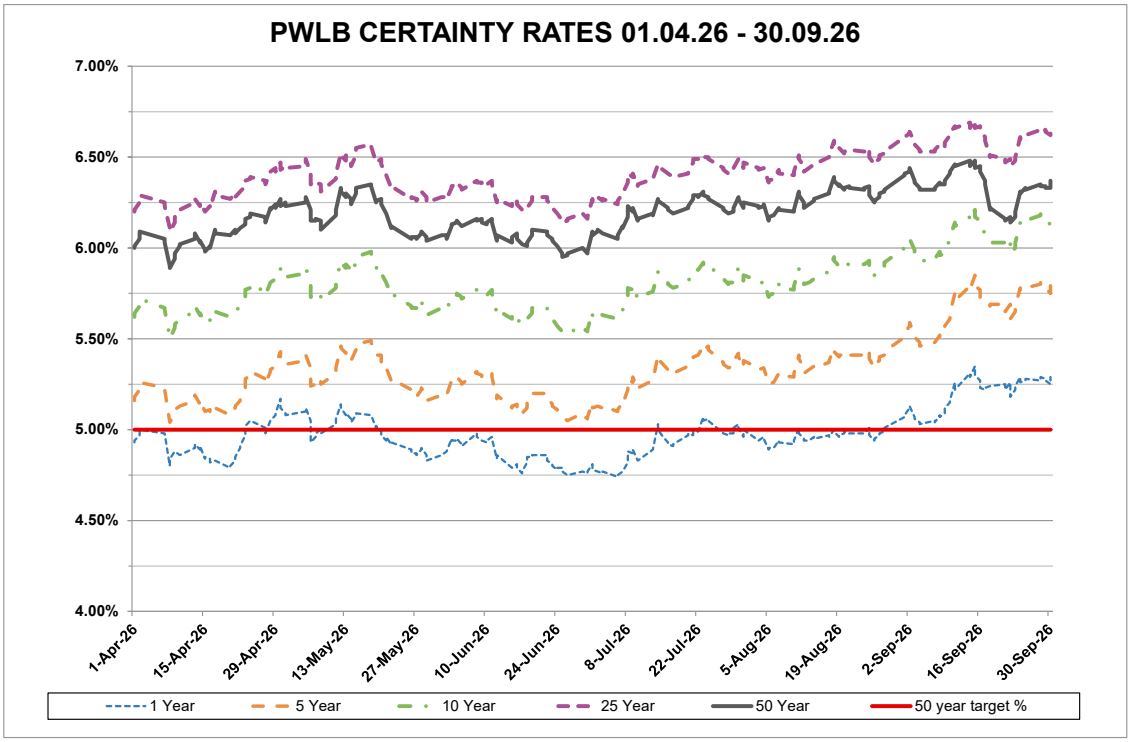
PWLB maturity Certainty Rates (gilts plus 80bps) year to date to 30 September 2026

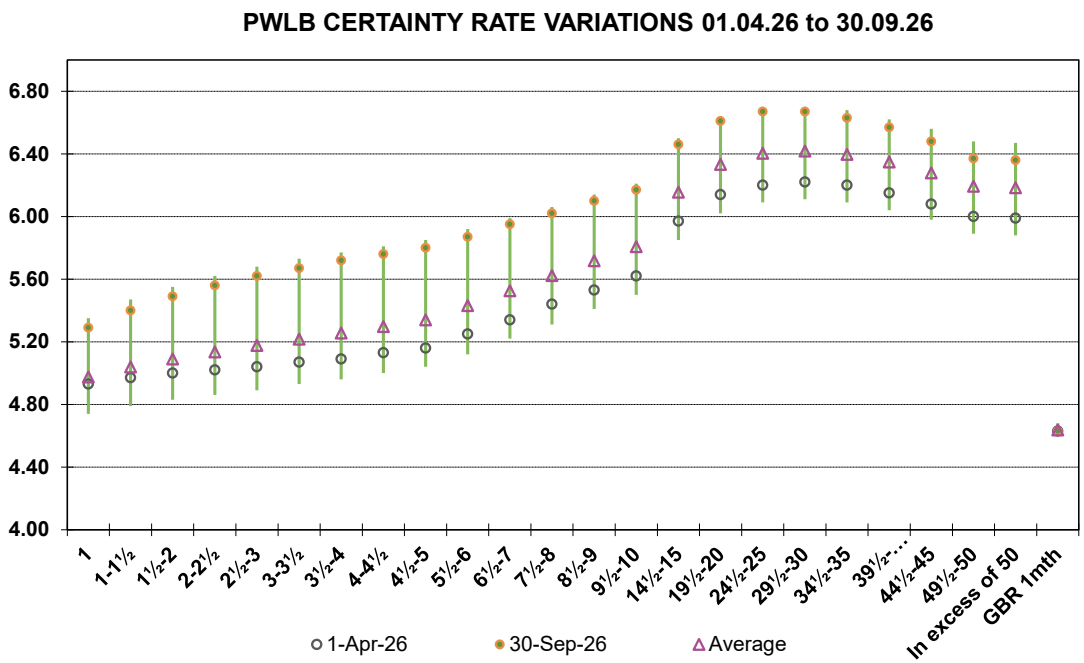
Gilt yields and PWLB Certainty Rates have remained volatile throughout the six months under review, but the general trend has been for the whole curve to shift higher on the back of inflation concerns and a pessimistic outlook for fiscal aspects, both domestically and internationally.

Consequently, the bulk of the low points in the charts below pertain to early April 2026 with the highs congregated around mid-September. The spreads have ranged from 0.59% in the 50-year part of the curve through to 0.81% in the 5-year part of the curve.

At this juncture, MUFG Corporate Markets forecasts rates to fall back over the next one to three years as inflation dampens, but in the near-term there are upside risks should the second-round effects of inflation, primarily from energy price shocks emanating in the Middle East, become embedded. That scenario could lead to wage increases becoming more challenging from an inflation-management perspective, resulting in monetary policy tightening further than currently forecast (one increase in Bank Rate of 0.25% in either November or December 2026). Conversely, a swift resolution to the conflict in the Middle East could see energy prices fall back swiftly and, therein, an easing in inflation concerns and monetary policy respectively. Currently, the CPI measure of inflation is expected to hit a high of 4.3% in early 2027 before falling back towards the 2% target rate by 2028.

PWLB CERTAINTY RATES 01.04.26 - 30.09.26





HIGH/LOW/AVERAGE PWLB CERTAINTY RATES FOR 01.04.26 – 30.09.26

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2026	4.93%	5.16%	5.62%	6.20%	6.00%
30/09/2026	5.29%	5.80%	6.17%	6.67%	6.37%
Low	4.74%	5.04%	5.50%	6.09%	5.89%
Low date	06/07/2026	08/04/2026	08/04/2026	08/04/2026	08/04/2026
High	5.35%	5.85%	6.21%	6.70%	6.48%
High date	15/09/2026	15/09/2026	15/09/2026	15/09/2026	14/09/2026
Average	4.98%	5.34%	5.81%	6.40%	6.19%
Spread	0.61%	0.81%	0.71%	0.61%	0.59%

- The current PWLB rates are set as margins over gilt yields as follows: -.
    - PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
    - PWLB Certainty Rate (GF) is gilt plus 80 basis points (G+80bps)
    - PWLB Local Infrastructure Rate is gilt plus 60 basis points (G+60bps)
    - PWLB Certainty Rate (HRA) is gilt plus 40bps (G+40bps)

- The National Wealth Fund will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

Appendix 3 – Approved countries for investments as at 30th September 2026

The approved Investment Strategy requires a minimum sovereign rating of AA- which provides the below list of countries available per the strategy. The Commissioner may take other factors into account when determining where investments are placed and so the below is indicative solely based on sovereign rating and further restrictions may reduce this list further:

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- U.S.A.

AA

- Abu Dhabi (UAE)
- Finland
- Qatar

AA-

- U.K.

Appendix 4: Prudential & Treasury Indicators

The following indicators are reporting requirements for Prudential and Treasury Indicators, as per the CIPFA Prudential Code for Capital Finance in Local Authorities and CIPFA Treasury Management in the Public Services Guidance Notes.

These indicators are designed for the reader to understand and evaluate the prudence and affordability of the PCC's capital expenditure plans and the borrowing and investment activities undertaken in support of this.

PRUDENTIAL INDICATORS

Capital Expenditure

This provides a summary of the PCC's capital expenditure. It reflects matters previously agreed and those proposed for the forthcoming financial periods.

Capital Expenditure		2025/26 Actual	2026/27 Forecast	2027/28 Plan	2028/29 Plan	2029/30 Plan
Total Capital Expenditure	(A)	**30,223**	**11,979**	**9,675**	**11,310**	**9,440**
Financed by:						
Capital receipts		-	(6,850)	(5,089)	(3,529)	-
Revenue contribution		(4,780)	(4,380)	(4,051)	(2,840)	(2,840)
Grants and other contributions		(1,252)	(749)	(535)	(3,180)	(280)
Finance lease and PFI liabilities		-	-	-	-	-
Total Financing	(B)	**(6,032)**	**(11,979)**	**(9,675)**	**(9,549)**	**(3,120)**
Net financing need for year	(A)-(B)	**24,191**	**-**	**-**	**1,761**	**6,320**

Capital Financing Requirement (CFR)

The CFR shows the difference between the PCC's capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce as the PCC makes Minimum Revenue Provision ("MRP") or Voluntary Revenue Provision ("VRP") or otherwise sets aside revenue or capital resources to finance expenditure.

Capital Financing Requirement	2025/26 Actual	2026/27 Forecast	2027/28 Plan	2028/29 Plan	2029/30 Plan
Opening CFR	42,314	64,961	62,717	60,132	58,721
Capital spend	30,223	11,979	9,675	11,310	9,440
Resources used	(6,032)	(11,979)	(9,675)	(9,549)	(3,120)
MRP & VRP	(1,544)	(2,244)	(2,585)	(3,172)	(3,730)
Closing CFR	**64,961**	**62,717**	**60,132**	**58,721**	**61,311**

Authorised Limit

This represents a control on the maximum level of external debt the PCC can incur. The PCC has to show this aggregate amount split into the element in respect of actual external borrowing and that which relates to 'other long-term liabilities' - the latter being credit arrangements, as defined in statute and which will include the principle element of any finance lease or Private Finance Initiative obligations payable.

The Authorised Limit is a statutory limit determined under Section 3(1) of the Local Government Act 2003 for English and Welsh authorities, and for Scottish authorities under Regulation 6(1) of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. The PCC has no legal power to borrow in excess of the limits set. Revision of this Indicator would need to be approved by the PCC in advance of any external debt taken on in excess of the limit then in force.

The Authorised Limit reflects a level of external debt that, whilst not desired, could be afforded by the PCC in the short-term, but which is not sustainable in the longer-term. The limit for the year is set within the Treasury Management Strategy Statement (TMSS) before the year begins and will not change. However, the future year estimates shown in the table are subject to change over the reporting period as the capital programme develops.

Authorised Limit	2025/26 Actual	2026/27 Forecast	2027/28 Plan	2028/29 Plan	2029/30 Plan
Borrowing	106,860	85,841	77,892	81,350	80,146
Other Long Term Liabilities	200	200	200	200	200
Total Authorised Limit	**107,060**	**86,041**	**78,092**	**81,550**	**80,346**

The Operational Boundary

The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Again, the PCC is required to disclose an aggregate limit and separately disclose the element that relates to actual external borrowing and that which relates to other long-term liabilities. Unlike the Authorised Limit, the Operational Boundary is not an absolute limit but it reflects the PCC's expectations of the level at which external debt would not ordinarily be expected to exceed. As with the Authorised Limit (shown above), this limit is set within the TMSS for the pending year and will not change, whilst future years will be adjusted in line with developments in the capital programme.

Operational Boundary	**2025/26 Actual**	**2026/27 Forecast**	**2027/28 Plan**	**2028/29 Plan**	**2029/30 Plan**
Borrowing	92,996	74,718	67,806	70,813	69,766
Other Long Term Liabilities	100	100	100	100	100
Total Operational Boundary	**93,096**	**74,818**	**67,906**	**70,913**	**69,866**

External Debt

The PCC has to disclose the closing balance for actual gross borrowing in respect of the financial period just ended, together with the level of other long-term liabilities and so the actual aggregate level of external debt at the Balance Sheet date. This clarifies the overall level of external debt and allow comparison to the PCC's actual borrowing need as provided by the Gross debt and the CFR Indicator.

Actual External Debt as at 31st March	**2026/27 Forecast**
Borrowing	36,022
Other Long Term Liabilities	-
Total External Debt	**36,022**

Gross Debt and the Capital Financing Requirement

The PCC should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. The PCC should ensure that gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the three subsequent financial years. If the level of gross borrowing is below the PCC's capital borrowing need – the CFR – it demonstrates compliance with the requirement of this Indicator.

Gross Debt and the CFR	2025/26 Actual	2026/27 Forecast	2027/28 Plan	2028/29 Plan	2029/30 Plan
CFR	64,961	62,717	60,132	58,721	61,311
Gross Borrowing	40,224	36,022	34,287	32,518	30,774
(Under)/Over Borrowing	**(24,737)**	**(26,695)**	**(25,845)**	**(26,203)**	**(30,537)**

Ratio of Financing Costs

This Indicator shows the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream – i.e. taxation and non-specific grant income. The higher the ratio, the higher the proportion of resources tied up just to service net capital costs, and which represent a potential affordability risk.

Ratio of Financing Costs		2025/26 Actual	2026/27 Forecast	2027/28 Plan	2028/29 Plan	2029/30 Plan
Interest cost on existing borrowing		1,546	1,515	903	372	337
Interest cost on new borrowing		-	347	1,027	1,374	1,737
Gains/losses on debt rescheduling		-	-	-	-	-
Interest and investment income		(1,050)	(1,025)	(600)	(500)	(400)
MRP & VRP		1,544	2,244	2,585	3,172	3,730
Total Financing Costs	(A)	**2,040**	**3,081**	**3,915**	**4,418**	**5,404**
Net Budget Requirement	(B)	**205,244**	**216,654**	**224,875**	**230,613**	**236,699**
Ratio of financing costs	(A)/(B)	**0.99%**	**1.42%**	**1.74%**	**1.92%**	**2.28%**

TREASURY INDICATORS

Maturity Structure of Borrowing

The PCC is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the PCC's exposure to large sums falling due for refinancing.

Maturity structure of borrowing:	Actual	Lower Limit	Upper Limit
Under 12 months	32%	0%	100%
12 to 24 months	28%	0%	100%
2 to 5 years	9%	0%	100%
5 to 10 years	6%	0%	100%
Over 10 years	25%	0%	100%

Limit for Principal Sums Invested for Longer Than a Year

This Indicator is seeking to support control of liquidity risk. The limits should be set with regard to the PCC's liquidity needs and reduce the potential need to have to make early exit from an investment in order to recover funds.

	Actual	Limit
Upper limit on total principal sums invested longer than a year	£ -	£ -

There is currently no allowance to invest funds longer than 12 months.