Police and Crime Commissioner
CAMBRIDGESHIRE AND PETERBOROUGH
Darryl Preston

Strategy Statement and Annual Investment Strategy

Mid-year Review Report

Cambridgeshire Police And Crime Commissioner
2024/25

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1 Background

1.1 Capital Strategy

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities, including Police & Crime Commissioners, to prepare a Capital Strategy which is intended to provide the following:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- An overview of how the associated risk is managed.
- The implications for future financial sustainability.

1.2 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."

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 Business Co-ordination 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.

<u>Recommendations</u>

There are no revisions required for the Treasury Strategy so the Business Co-ordination Board is asked to recommend that the Commissioner notes the report and the treasury activity.

3 Economics and interest rates

3.1 Interest rate forecast

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

The latest forecast on 28th May sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

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

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

3.2 Economic update

Appendix 1 provides a more detailed economic analysis, however, the first half of 2024/25 saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, in line with the ECB, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts.

On 9th May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June. However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time. Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing. Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

4 Treasury Management and Annual Investment Strategy Update

There are no policy changes to the Treasury Management Strategy Statement (TMSS) for 2024/25; the details in this report update the position in the light of the economic position and budgetary changes already approved.

Prudential Indicator	2024/25 Original £m	2024/25 Revised £m
Authorised Limit	80.1	80.1
Operational Boundary	69.7	69.7
Capital Financing Requirement	65.1*	46.1

**original CFR as per the forecast provided in the TMSS AIS 2024/25*

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 6, 2024:

	Original 2024/25 Capital Programme £000	Revised 2024/25 Capital Budget* £000	Actual & Committed 2024/25** £000	Full Year Forecast 2024/25** £000
Capital Payments:-				
Land & Buildings	35,099	**36,253**	38,354	18,529
Fleet	2,560	**2,606**	2,160	2,206
IT & Communications	1,720	**1,790**	846	1,641
Other Projects & Collaboration	401	**510**	70	506
Approval from Chief Delegated Budget	100	**100**	-	-
TOTAL	**39,880**	**41,259**	**41,430**	**22,882**

** the revised capital budget includes agreed in year programme amendments.*
*** the actual and committed budget includes contracted commitments for the CSPS building. Approximately £24m of committed expenditure is forecast to occur in the 2025/26 financial year.*

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 2024/25 Capital Programme £000	Revised 2024/25 Capital Budget £000	Actual & Committed 2024/25 £000	Full Year Forecast 2024/25 £000
Capital Financing:-				
Capital Grants	200	**200**		-
Carry Forward Reserve	-	**683**	683	683
Capital Receipts	-	**-**	-	-
RCCO's/POCA Reserve	2,740	**2,786**	1,466	2,886
Estates Development Reserve		**650**	650	650
Community Infrastructure Levy	-	**-**	-	-
Borrowing	36,940	**36,940**	38,631	18,663
TOTAL	**39,880**	**41,259**	**41,430**	**22,882**

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	2024/25 Original Estimate £m	2024/25 Current Position £m	2024/25 Revised Estimate £m
Total CFR	64.1	27.7	46.1
Net movement in CFR	**34.7**	**0.0**	**18.4**
Borrowing	54.8	15.2	33.6
Other long-term liabilities*	0.0	0.0	0.0
Total debt (year end position)	**54.8**	**15.2**	**33.6**

** Includes finance leases*

The Original Estimate is figures published in the TMSS for 2024/25, prior to actual end of year figures. The revised estimate of CFR is based on the forecast capital expenditure as at period 6. The large reduction is mainly due to the Monks Wood Specialist Training Facility build now not expected to commence until early 2025/26 and a clearer estimate of actual spend now known on the CSPS build (overall spend £16m less than original budget).

The borrowing reduces following further debt repayment in year, with increases due to further borrowing in-year. The revised figure for borrowing is the current debt (£15.2m) with the expectation of further borrowing this year (£18.7m) to support the PCCs capital expenditure.

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 2024/25 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	2024/25 Original Indicator £m	2024/25 Revised Indicator £m
Borrowing Limit	107.5	107.5
Other long-term liabilities*	0.1	0.1
Total debt	**107.6**	**107.6**
CFR* (year end position)	**65.1**	**46.1**
Borrowing Expected	54.8	33.6

** 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	**2024/25 Original Indicator £m**	**2024/25 Revised Indicator £m**
Borrowing Limit	123.5	123.5
Other long-term liabilities*	0.2	0.2
Total	**123.7**	**123.7**
CFR	65.1	46.1
Borrowing Expected	54.8	33.6

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

6 Borrowing

The Commissioner's capital financing requirement (CFR) for 2024/25 is forecast at £46.1m. 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 £33.6m and is forecast for an under-borrowed position of £11.2m. The financing of the capital programme this year includes new borrowing, however, this borrowing is being held off until the cash flow requires the support. It is anticipated that external borrowing will be required during this financial year and £18.7m has been added to the expected year-end position. This amount mirrors that required for the capital plans.

The Commissioner's treasury advisors, Link Group, provide an outlook on borrowing costs as shown in Appendix 2, where it is expected that rates will fall back over the next two to three years as inflation dampens, however, there are upside risks to the Bank Rate forecast at present.

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 2024, the Commissioner has operated within the treasury and prudential indicators set out in the Commissioner's Treasury Management Strategy Statement for 2024. 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 Link 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 2024/25. The new Labour Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 30 October 2024.

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 £25.4m. 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 2024		30 September 2024	
Treasury Investments	**£000**	**%**	**£000**	**%**
Banks (UK)	10,870	100%	12,345	79%
Banks (Rest of World)	0	0%	2,000	13%
Local Authorities	0	0%	0	0%
DMADF (H.M. Treasury)	0	0%	0	0%
Money Market Funds	0	0%	1,310	8%
Certificates of Deposit	0	0%	0	0%
Total Managed In-house	**10,870**	**100%**	**15,655**	**100%**
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total Managed Externally	**0**	**0%**	**0**	**0%**
Total Treasury Investments	**10,870**	**100%**	**15,655**	**100%**
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	15,805	100%	15,221	100%
Total External Borrowing	**15,805**	**100%**	**15,221**	**100%**
Net Treasury Investments / (Borrowing)	**(4,935)**		**434**	

The Commissioner held £15.7m of investments as at 30th September 2024 (£10.9m at 31st March 2024) and the investment portfolio yielded:

- Weighted Average Rate of Return 5.12%,
- Weighted Average Maturity 55 days
- Weighted Average Total Term 146 days

The Commissioner's budgeted investment return for 2024/25 is £750,000, and performance for the year to date is £435,000. The projection for the full year currently shows an outturn of £1,100,000, however, diminishing cash balances are putting downward pressure on this. The level of borrowing undertaken to support the capital expenditure this year could, conversely, result in a higher outturn.

Approved limits - Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the half year ended 30th September 2024.

10 Conclusion

The mid-year point concludes during a period of volatility for the global/economic outlook; with an impending US election and a new UK government about to deliver their first budget there is heightened sensitivity in the market which could shift the cost of borrowing upward or downward depending on outcome. Whilst inflation across the globe is somewhat tamed and the central banks have started the fiscal loosening cycle, the ongoing conflicts in Ukraine and Middle East in particular adds complexity to forecasting inflationary pressures.

Return on investments have been strong and have benefited from the high Bank Rate. The market reacted to the first rate-drop in August and have been more cautious, scaling back the longer term offers. This has understandably effected the potential yield, however, some longer-dated term deposits placed earlier in the year have cushioned the impact.

The consensus of opinion continues to be the Bank of England will continue to drop the Bank Rate making the opportunity to borrow more attractive as time goes on. The large level of gilt issuance will need to be digested by the market over the next couple of years and this indicates the drop in borrowing rate may be slower to filter through following the expected Bank Rate cuts.

The PCC has depleted cash reserves from years of funding capital spend internally (a cost-effective and prudent measure), and with the progression of the CSPS project in particular, the cashflow is getting squeezed greater than originally forecast. Borrowing will need to be undertaken in the coming months to support the continued capital programme. The duration and values of loans will need consideration in light of the expectation of falling rates in the coming years.

Appendix 1 – Economic Overview

The first half of 2024/25 saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.

The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.

The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

The Link Group forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

Appendix 2 – Borrowing Cost Outlook

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2024

Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

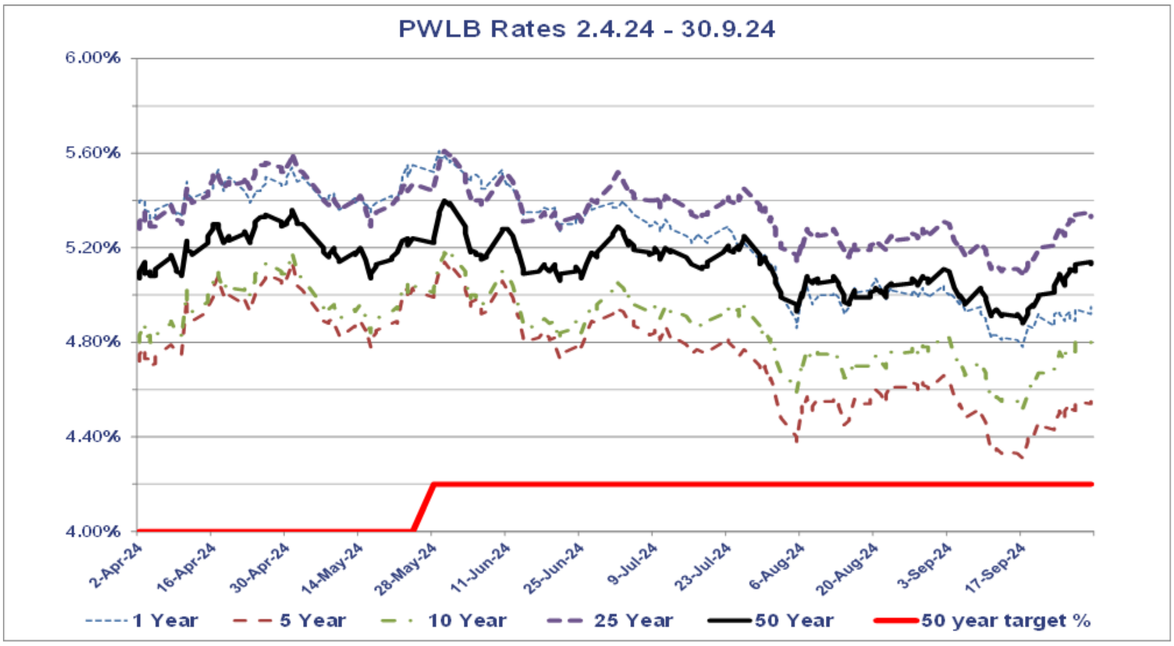
Where there was some movement downwards, this came in the shorter part of the curve as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, although the continued stickiness of inflation and the prevailing tight labour market is a concern for those looking for more sizeable falls ahead.

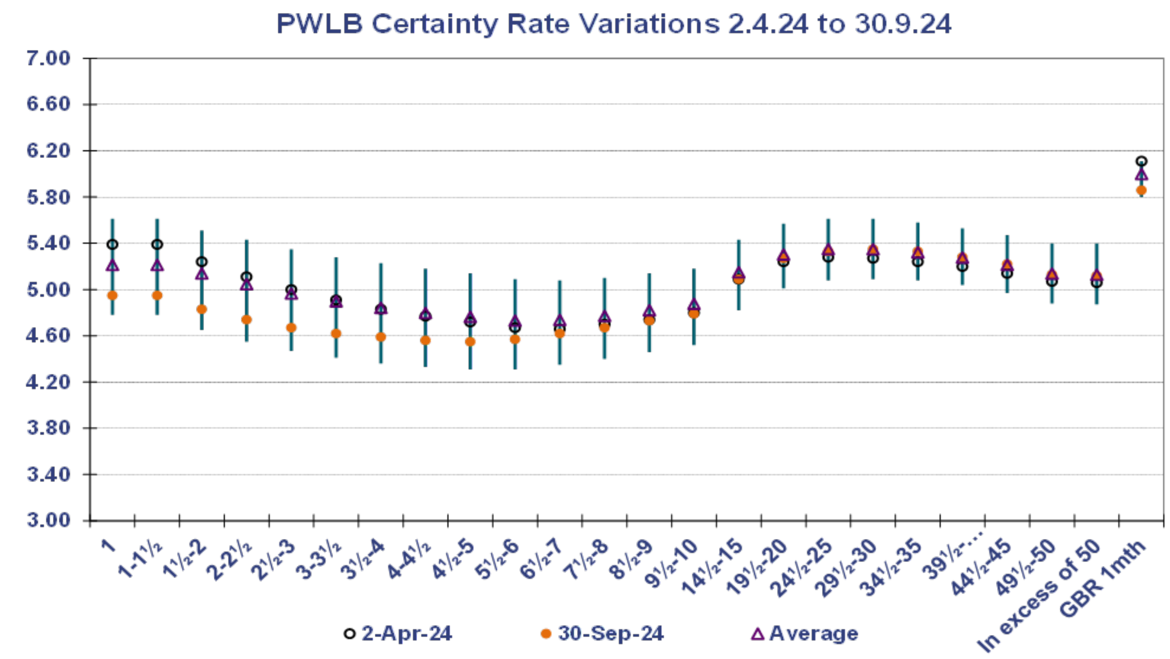
At the beginning of April, the 5-year certainty rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%. May saw yields at their highest across the whole curve.

Conversely, 17 September saw the low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

At this juncture, we still forecast rates to fall back over the next two to three years as inflation dampens, although there is upside risk to our Bank Rate forecast at present. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, however, and we forecast 50-year rates to stand at 4.20% by the end of September 2026. The major caveats are that there is considerable gilt issuance to be digested by the market over the next couple of years, and geo-political uncertainties – which are generally negative for inflation prospects – abound in Eastern Europe and the Middle East, in particular.

Borrowing Rates





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
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%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

- 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** is gilt plus 80 basis points (G+80bps)
    - **PWLB Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- The **UK Infrastructure Bank** 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 2024

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
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- 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		2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total Capital Expenditure	(A)	**9,987**	**23,882**	**46,376**	**14,909**	**7,713**
Financed by:						
Capital receipts		(2)	-	-	(1,500)	-
Revenue contribution		(4,217)	(2,886)	(1,540)	(1,540)	(1,540)
Grants and other contributions		(762)	(1,333)	(641)	-	-
Finance lease and PFI liabilities		-	-	-	-	-
Total Financing	(B)	**(4,981)**	**(4,219)**	**(2,181)**	**(3,040)**	**(1,540)**
Net financing need for year	(A)-(B)	**5,006**	**19,663**	**44,195**	**11,869**	**6,173**

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	2023/24 Actual	2024/25 Actual	2025/26 Actual	2026/27 Actual	2027/28 Actual
Opening CFR	23,854	27,662	46,112	88,452	96,556
Capital spend	9,987	23,882	46,376	14,909	7,713
Resources used	(4,981)	(4,219)	(2,181)	(3,040)	(1,540)
MRP & VRP	(1,198)	(1,213)	(1,855)	(3,765)	(5,055)
Closing CFR	**27,662**	**46,112**	**88,452**	**96,556**	**97,674**

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	2023/24 Actual	2024/25 Actual	2025/26 Actual	2026/27 Actual	2027/28 Actual
Borrowing	110,731	123,545	125,341	129,042	123,358
Other Long Term Liabilities	200	200	200	200	200
Total Authorised Limit	**110,931**	**123,745**	**125,541**	**129,242**	**123,558**

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	2023/24 Actual	2024/25 Actual	2025/26 Actual	2026/27 Actual	2027/28 Actual
Borrowing	96,362	107,504	109,066	112,285	107,341
Other Long Term Liabilities	100	100	100	100	100
Total Operational Boundary	**96,462**	**107,604**	**109,166**	**112,385**	**107,441**

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	2023/24 Actual
Borrowing	15,805
Other Long Term Liabilities	1
Total External Debt	**15,806**

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	2023/24 Actual	2024/25 Actual	2025/26 Actual	2026/27 Actual	2027/28 Actual
CFR	27,662	46,112	88,452	96,556	97,674
Gross Borrowing	15,806	51,195	86,276	82,747	79,052
(Under)/Over Borrowing	**(11,856)**	**5,083**	**(2,176)**	**(13,809)**	**(18,622)**

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		2023/24 Actual	2024/25 Actual	2025/26 Actual	2026/27 Actual	2027/28 Actual
Interest cost on existing borrowing		526	498	469	438	406
Interest cost on new borrowing		-	-	948	2,618	2,491
Gains/losses on debt rescheduling		-	-	-	-	-
Interest and investment income		(250)	(750)	(750)	(550)	(400)
MRP & VRP		1,198	1,553	1,958	3,335	3,348
Total Financing Costs	(A)	**1,474**	**1,301**	**2,625**	**5,841**	**5,844**
Net Budget Requirement	(B)	**178,160**	**188,686**	**197,589**	**203,768**	**208,902**
Ratio of financing costs	(A)/(B)	**0.83%**	**0.69%**	**1.33%**	**2.87%**	**2.80%**

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	3%	0%	100%
12 to 24 months	6%	0%	100%
2 to 5 years	12%	0%	100%
5 to 10 years	13%	0%	100%
Over 10 years	66%	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	£ -	£ -