



Police and Crime Commissioner
CAMBRIDGESHIRE AND PETERBOROUGH
Darryl Preston

Strategy Statement and Annual Investment Strategy

Mid-year Review Report

Cambridgeshire Police And Crime Commissioner
2025/26

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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 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.

Recommendations

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 Economic update

Appendix 1 provides a more detailed economic analysis, however, the first half of 2025/26 saw:

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
- The Bank of England cut interest rates from 4.50% to 4.00% over the quarter.
- The 10-year gilt yield fluctuated between 4.40% and 4.80%, ending the half year at 4.70%.

MPC meetings: 8 May, 19 June, 7 August, 18 September 2025

There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.

In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).

The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that “a gradual and careful” approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.

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 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.

MUFG Corporate Markets’ latest forecast on 11 August 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.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

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	2025/26 Original £m	2025/26 Revised £m
Authorised Limit	107.1	107.1
Operational Boundary	93.1	93.1
Capital Financing Requirement	84.6*	72.4

*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, 2025:

	Original 2025/26 Capital Programme £000	Revised 2025/26 Capital Budget* £000	Actual & Committed 2025/26** £000	Full Year Forecast 2025/26** £000
Capital Payments:-				
Land & Buildings	36,883	28,544	21,506	28,302
Fleet	2,362	2,362	2,551	2,362
IT & Communications	2,815	2,891	80	2,595
Other Projects & Collaboration	697	786	266	624
Major Projects Contingency	400	400	-	-
Approval from Chief Delegated Budget	100	100	-	-
TOTAL	43,257	35,083	24,403	33,883

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

** the actual and committed budget includes contracted commitments for the CSPS building.

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 2025/26 Capital Programme £000	Revised 2025/26 Capital Budget £000	Actual & Committed 2025/26 £000	Full Year Forecast 2025/26 £000
Capital Financing:-				
Capital Grants	-	47	47	47
Carry Forward Reserve	-	217	217	217
Taser Reserve	280	280	198	232
Capital Receipts	-	-	-	-
RCCO's/POCA Reserve	1,540	1,612	1,540	1,540
Estates Development Reserve	-	-	-	-
Capital Receipt Reserve	-	-	150	150
Community Infrastructure Levy	641	641	-	-
Borrowing	40,796	32,286	22,401	31,697
TOTAL	43,257	35,083	24,403	33,883

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	2025/26 Original Estimate £m	2025/26 Current Position £m	2025/26 Revised Estimate £m
Total CFR	84.6	42.3	72.4
Net movement in CFR	34.7	0.0	30.2
Borrowing	74.2	36.9	46.2
Other long-term liabilities*	0.0	0.0	0.0
Total debt (year end position)	74.2	36.9	46.2

* Includes finance leases

The Original Estimate figures are those published in the TMSS for 2025/26, 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. There is a reduction of over £12m in CFR, from Original Estimate, due mainly to the Monks Wood Specialist Training Facility being withdrawn from the Capital Programme.

The revised figure for borrowing is the current debt (£36.9m) with the expectation of further borrowing of £10m this year (with a small reduction due to the repayment of loans in the remainder of the year).

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 2025/26 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	2025/26 Original Indicator £m	2025/26 Revised Indicator £m
Borrowing Limit	93.0	93.0
Other long-term liabilities*	0.1	0.1
Total debt	93.1	93.1
CFR* (year end position)	84.6	72.4
Borrowing Expected	74.2	46.2

* 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

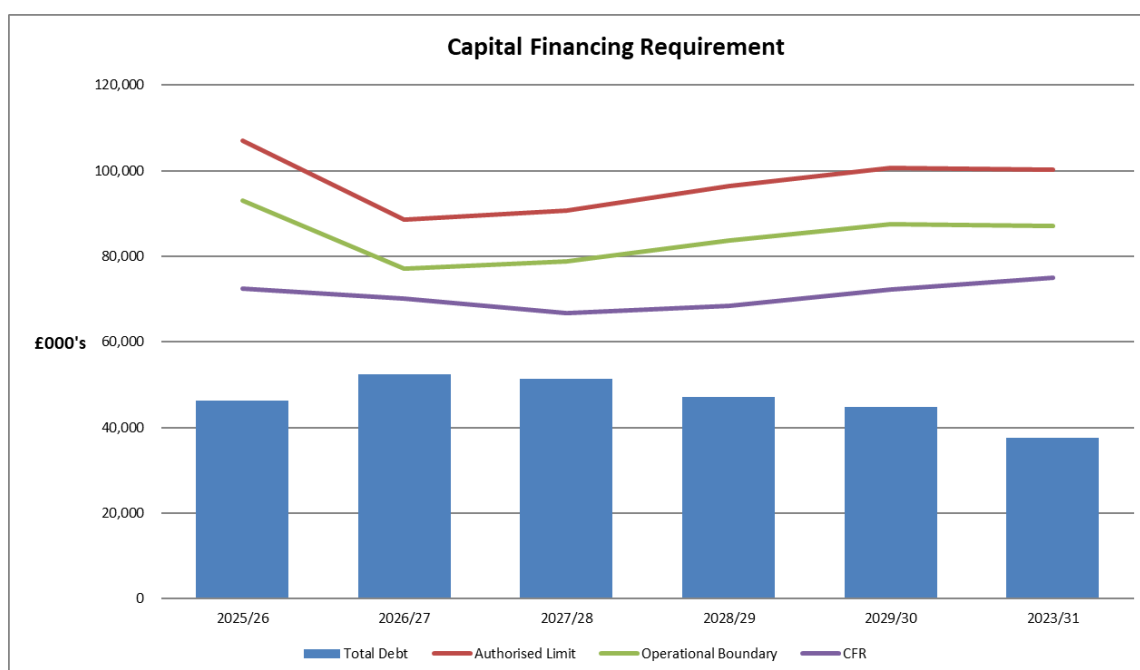
short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

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	2025/26 Original Indicator £m	2025/26 Revised Indicator £m
Borrowing Limit	106.9	106.9
Other long-term liabilities*	0.2	0.2
Total	107.1	107.1
CFR	84.6	72.4
Borrowing Expected	74.2	46.2

* 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 2025/26 is forecast at £72.4m. 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 £46.2m and is forecast for an under-borrowed position of £26.2m. 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 £10.0m has been added to the expected year-end position. This amount mirrors that required for the capital plans.

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 until the government can assure markets of the 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 2025, the Commissioner has operated within the treasury and prudential indicators set out in the Commissioner's Treasury Management Strategy Statement for 2025. 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 2025/26. The Government is expected to outline in detail its future fiscal proposals in the Budget scheduled for 26 November 2025.

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 £30.9m. 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 2025		30 September 2025	
Treasury Investments	£000	%	£000	%
Banks (UK)	1,130	8%	7,250	30%
Banks (Rest of World)	0	0%	5,000	21%
Local Authorities	0	0%	0	0%
DMADF (H.M. Treasury)	0	0%	0	0%
Money Market Funds	13,140	92%	11,705	49%
Certificates of Deposit	0	0%	0	0%
Total Managed In-house	14,270	100%	23,955	100%
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total Managed Externally	0	0%	0	0%
Total Treasury Investments	14,270	100%	23,955	100%
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	36,896	100%	36,564	100%
Total External Borrowing	36,896	100%	36,564	100%
Net Treasury Investments / (Borrowing)	(22,626)		(12,609)	

The Commissioner held an investment portfolio of £23.9m as at 30th September 2025 (£14.3m at 31st March 2025) with:

- Weighted Average Rate of Return 4.10%,
- Weighted Average Maturity 14 days
- Weighted Average Total Term 54 days

The Commissioner's budgeted investment return for 2025/26 is £750,000, and performance for the first half of the year is £537,000. The projection for the full year currently shows an outturn of £920,000, however, diminishing cash balances and delays to borrowing 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 2025.

10 Conclusion

Return on investments for the first six months has been strong and has benefited from a reasonably high Bank Rate. The rate cycle is firmly on a downward trajectory, however, the forecast pace of decline has markedly slowed following the MPC's more dovish outlook, allowing investments to gather a bit more yield than originally forecast.

The Commissioner has quite robust cash levels at mid-year and the expected borrowing needed to support the capital programme in the coming months will only be undertaken if the cash flow cannot absorb the spend; delaying any borrowing until absolutely necessary will reduce costs, but this must be weighed against the prevailing loan rates – where rates are expected to increase, for instance, taking a loan out earlier may be the more prudent move. This will continue to be monitored and action taken depending on how circumstances play out.

Appendix 1 – Economic Overview

The first half of 2025/26 saw:

- A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.

From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.

Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.

Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.

With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of

about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.

A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).

CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.

An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.

More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.

The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end

of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

MPC meetings: 8 May, 19 June, 7 August, 18 September 2025

There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.

In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.

The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).

The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.

Appendix 2 – Borrowing Cost Outlook

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2025

Gilt yields and PWLB certainty rates have remained relatively volatile throughout the six months under review, but the general trend has been for medium and longer dated parts of the curve to shift higher whilst the 5-year part of the curve finished September close to where it began in April.

Concerns around the stickiness of inflation, elevated wages, households' inflation expectations reaching a six-year high, and the difficult funding choices facing the Chancellor in the upcoming Budget on 26 November dominated market thinking, although international factors emanating from the Trump administration's fiscal, tariff and geo-political policies also played a role.

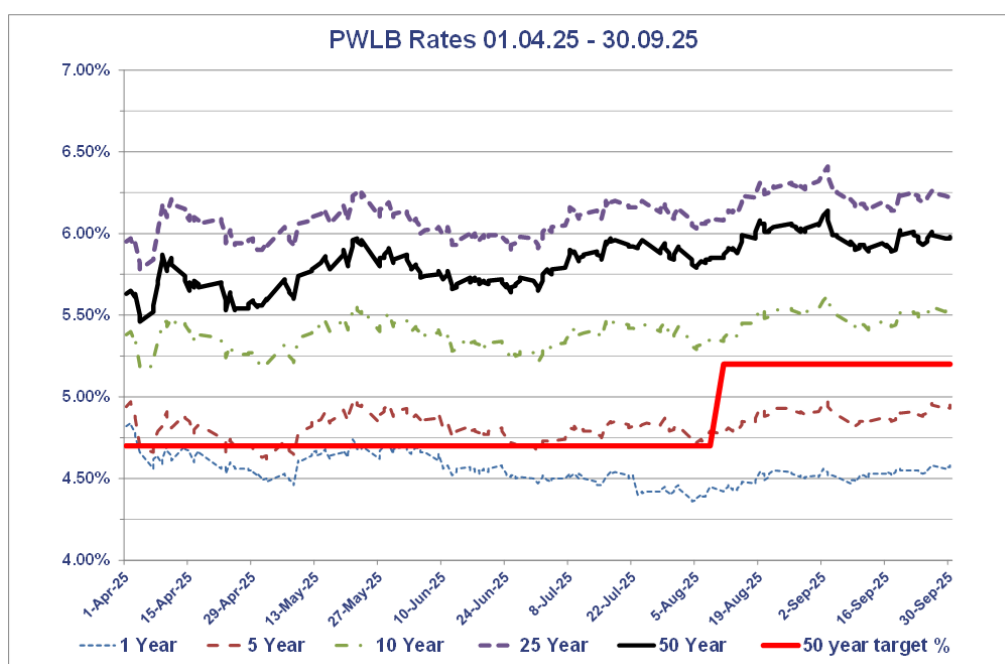
At the beginning of April, the 1-year certainty rate was the cheapest part of the curve at 4.82% whilst the 25-year rate was relatively expensive at 5.92%. Early September saw the high point for medium and longer-dated rates, although there was a small reduction in rates, comparatively speaking, by the end of the month.

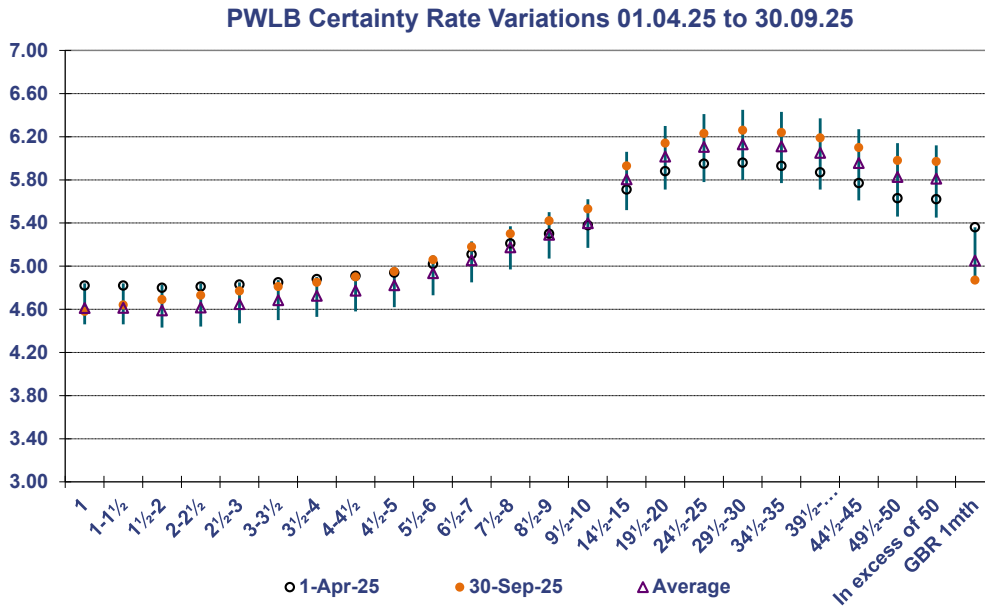
The spread in the 5-year part of the curve (the difference between the lowest and highest rates for the duration) was the smallest at 37 basis points whilst, conversely, the 50-years' part of the curve saw a spread of 68 basis points.

At this juncture, MUFG Corporate Markets still forecasts rates to fall back over the next two to three years as inflation dampens, although there is upside risk to all forecasts at present. The CPI measure of inflation is expected to fall below 2% in early 2027 but hit a peak of 4% or higher later in 2025.

The Bank of England announced in September that it would be favouring the short and medium part of the curve for the foreseeable future when issuing gilts, but market reaction to the November Budget is likely to be the decisive factor in future gilt market attractiveness to investors and their willingness to buy UK sovereign debt.

Borrowing Rates





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.25 – 30.09.25

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2025	4.82%	4.94%	5.38%	5.95%	5.63%
30/09/2025	4.58%	4.95%	5.53%	6.23%	5.98%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Low date	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
High	4.84%	4.99%	5.62%	6.41%	6.14%
High date	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
Average	4.55%	4.82%	5.40%	6.11%	5.83%
Spread	0.48%	0.37%	0.45%	0.63%	0.68%

- 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 **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 2025

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		2024/25 Actual	2025/26 Forecast	2026/27 Plan	2027/28 Plan	2028/29 Plan
Total Capital Expenditure	(A)	20,681	33,883	9,339	10,222	8,532
Financed by:						
Capital receipts		-	(150)	(7,409)	(7,297)	(1,294)
Revenue contribution		(3,428)	(1,540)	(1,540)	(1,540)	(1,540)
Grants and other contributions		(1,263)	(496)	(390)	(1,385)	(280)
Finance lease and PFI liabilities		-	-	-	-	-
Total Financing	(B)	(4,691)	(2,186)	(9,339)	(10,222)	(3,114)
Net financing need for year	(A)-(B)	15,990	31,697	-	-	5,418

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	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Forecast	Plan	Plan	Plan
Opening CFR	27,628	42,280	72,433	70,064	66,777
Capital spend	20,681	33,883	9,339	10,222	8,532
Resources used	(4,691)	(2,186)	(9,339)	(10,222)	(3,114)
MRP & VRP	(1,338)	(1,544)	(2,369)	(3,287)	(3,794)
Closing CFR	42,280	72,433	70,064	66,777	68,401

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	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Forecast	Plan	Plan	Plan
Borrowing	123,545	106,860	88,431	90,504	96,139
Other Long Term Liabilities	200	200	200	200	200
Total Authorised Limit	123,745	107,060	88,631	90,704	96,339

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	2024/25 Actual	2025/26 Forecast	2026/27 Plan	2027/28 Plan	2028/29 Plan
Borrowing	107,504	92,996	76,970	78,773	83,673
Other Long Term Liabilities	100	100	100	100	100
Total Operational Boundary	107,604	93,096	77,070	78,873	83,773

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	2025/26 Forecast
Borrowing	46,224
Other Long Term Liabilities	-
Total External Debt	46,224

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	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Forecast	Plan	Plan	Plan
CFR	42,280	72,433	70,064	66,777	68,401
Gross Borrowing	36,896	46,224	52,522	51,287	47,018
(Under)/Over Borrowing	(5,384)	(26,209)	(17,542)	(15,490)	(21,383)

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		2024/25	2025/26	2026/27	2027/28	2028/29
		Actual	Forecast	Plan	Plan	Plan
Interest cost on existing borrowing		503	718	687	655	372
Interest cost on new borrowing		-	1,832	2,664	2,768	3,215
Gains/losses on debt rescheduling		-	-	-	-	-
Interest and investment income		(1,015)	(750)	(550)	(400)	(400)
MRP & VRP		1,338	1,544	2,369	3,287	3,794
Total Financing Costs	(A)	826	3,344	5,170	6,310	6,981
Net Budget Requirement	(B)	188,686	197,589	203,768	208,902	208,902
Ratio of financing costs	(A)/(B)	0.44%	1.69%	2.54%	3.02%	3.34%

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	2%	0%	100%
12 to 24 months	34%	0%	100%
2 to 5 years	33%	0%	100%
5 to 10 years	3%	0%	100%
Over 10 years	27%	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	£ -	£ -