Annual Treasury Management Review

2024/25

Cambridgeshire Police & Crime Commissioner

June 2025

Annual Treasury Management Review 2024/25

1. Introduction

The Police & Crime Commissioner (the PCC) is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Prudential Code sets prudential and treasury indicators which are required to be reported on. The full set of indicators is provided in Appendix 1 and referred to in the report where appropriate.

During 2024/25 the minimum reporting requirements were that the PCC should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the PCC's previously approved policies.

The PCC confirms that he has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Business Coordination Board before they were reported to the PCC.

2. Executive Summary

During 2024/25, the PCC complied with the legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

£000's General Fund	*2023/24 Actual*	*2024/25 Forecast**	*2024/25 Actual*
Capital expenditure	9,987	39,880	20,681
Capital Financing Requirement (CFR)	28,396	60,086	43,048
External Debt	15,806	54,827	36,896
Investments	10,870	10,080	14,270
Net Borrowing	4,935	44,747	22,626

**Forecast per TMSS for 2024/25*

Other prudential and treasury indicators are to be found in the main body and appendices of this report. The CFO for PCC confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, the Authorised Limit, was not breached.

3. The PCC's Capital Expenditure and Financing

The PCC undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the PCC's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£000's General Fund	*2023/24 Actual*	*2024/25 Forecast**	*2024/25 Actual*
Capital expenditure	9,987	39,880	20,681
Financed in year	4,981	3,581	4,691
Unfinanced capital expenditure	5,006	36,299	15,990

**Forecast per TMSS for 2024/25*

4. The PCC's Overall Borrowing Need

The PCC's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the PCC's indebtedness. The CFR results from the capital activity of the PCC and resources used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the PCC's treasury activities are to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the PCC's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources held by the PCC.

Reducing the CFR – the PCC's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The PCC is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The PCC's 2024/25 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2024/25.

The PCC's CFR for the year is shown below and represents a key prudential indicator.

CFR General Fund (£000's)	*31 March 2024 Actual*	*31 March 2025 Actual*
Opening Balance	24,662	28,396
Add unfinanced capital expenditure	4,972	15,990
Less MRP/VRP	(1,198)	(1,338)
Less PFI & finance lease repayments	-	-
Closing Balance	28,396	43,048

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the PCC should ensure that gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the PCC is not borrowing to support revenue expenditure. This indicator allowed the PCC some flexibility to borrow in advance of immediate capital needs. The table below highlights the PCC's gross borrowing position against the CFR. The PCC has complied with this prudential indicator.

	31 March 2024 Actual	*31 March 2025 Actual*
Gross Borrowing Position (£m)	15.8	36.9
CFR General Fund (£m)	28.4	43.0
(Under)/over funding of CFR (£m)	(12.6)	(6.1)

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the PCC does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the PCC has maintained gross borrowing within the authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the PCC during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

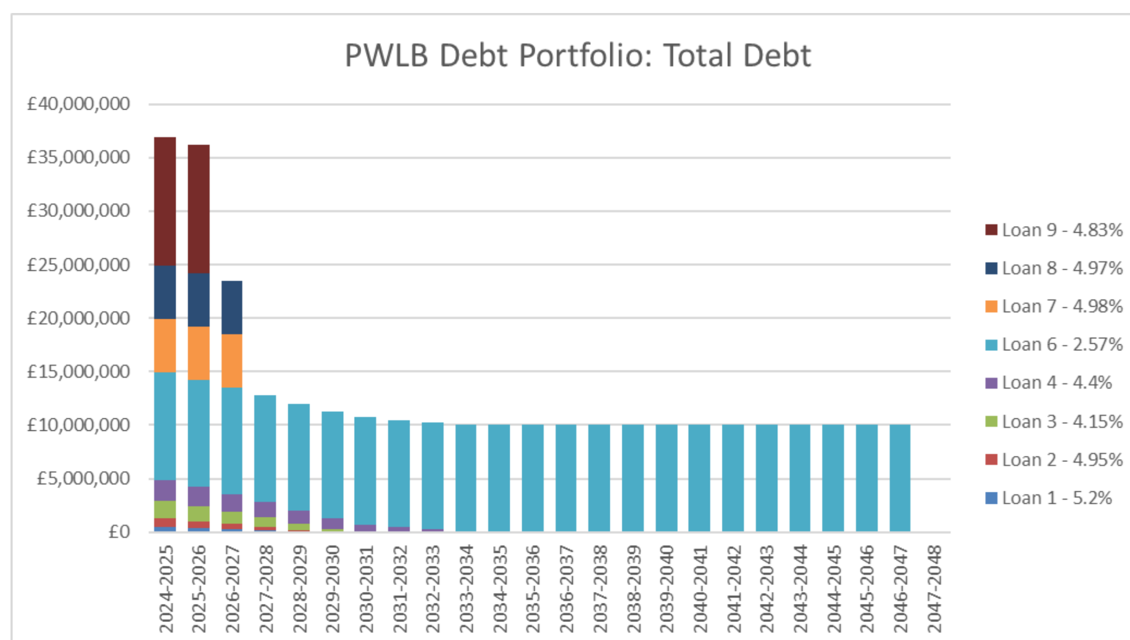
	2024/25
Authorised limit	£123.8m
Maximum gross borrowing position	£37.2m
Operational boundary	£107.6m
Average gross borrowing position	£18.9m
Financing costs as a proportion of net revenue stream	0.44%

5. Treasury Position as at 31 March 2025

The PCC's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. At the end of 2024/25 the PCC's treasury position (excluding borrowing by PFI and finance leases) was as follows:

Treasury Position 2024/25 (£m)	*31 March 2024 Principal*	*Rate/ Return*	*Average Life yrs*	*31 March 2025 Principal*	*Rate/ Return*	*Average Life yrs*
Total debt	*15.8*	*3.25%*	*8.8*	*36.9*	*4.21%*	*6.1*
CFR	*28.4*			*43.0*		
Over / (under) borrowing	*(12.6)*			*(6.1)*		
Total investments	*10.9*	*5.41%*		*14.3*	*4.42%*	
Net debt	4.9			22.6		

The maturity structure of the debt portfolio, with all loans taken with PWLB, is as follows:



** Loan 5 has been fully repaid*

All investments within the portfolio were short-term and liquidity remained the primary focus throughout the year. The structure of the investment portfolio comprised:

TREASURY PORTFOLIO				
	31 March 2024		31 March 2025	
Treasury Investments	**£000**	**%**	**£000**	**%**
Banks (UK)	10,870	100%	1,130	8%
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	0	0%	13,140	92%
Certificates of Deposit	0	0%	0	0%
Total Managed In-house	**10,870**	**100%**	**14,270**	**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%**	**14,270**	**100%**
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	15,805	100%	36,896	100%
Total External Borrowing	**15,805**	**100%**	**36,896**	**100%**
Net Treasury Investments / (Borrowing)	**(4,935)**		**(22,626)**	

6. The Strategy for 2024/25

5.1 Investment strategy and control of interest rate risk

Investment returns remained robust throughout 2024/25 with Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and even at the end of March the yield curve was still relatively flat, which might be considered unusual as further Bank Rate cuts were expected in 2025/26.

Bank Rate reductions of 0.25% occurred in August, November and February, bringing the headline rate down from 5.25% to 4.5%. Each of the Bank Rate cuts occurred in the same month as the Bank of England publishes is Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

As of early April 2025, market sentiment has been heavily influenced of late by President Trump's wide-ranging trade tariffs policy. Commentators anticipate a growing risk of a US recession, whilst UK GDP is projected by the Office for Budget Responsibility to remain tepid, perhaps achieving 1% GDP growth in 2025/26.

Looking back to 2024/25, investors were able to achieve returns in excess of 5% for all periods ranging from 1 month to 12 months in the spring of 2024 but by March 2025 deposit rates were some 0.75% - 1% lower. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of "laddered investments" paid off.

That is not to say that investment choices were straight-forward. Concerns over rising inflation after the Autumn Statement in October led to reduced expectations for Bank Rate to fall. Indeed, the CPI measure of inflation is expected to reach c3.75% by the autumn of 2025, which could provide for some presentational issues for a Bank whose primary mandate is to

ensure inflation is close to 2% on a two-to-three-year timeframe. At the end of March, only two further rate cuts were priced into the market for 2025 (4% at December 2025). A week later and sentiment has changed dramatically in the wake of the equity market sell-off to the extent that markets now expect three Bank Rate reductions between May and December 2025 (Bank Rate to fall to 3.75%).

5.2 Borrowing strategy control of interest rate risk

During 2024/25, the PCC maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the PCC's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2025 and 2026 in light of economic growth concerns and the eventual dampening of inflation. The PCC has sought to minimise the taking on of long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by taking short-dated borrowing (<5 years), as appropriate.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The CFO to PCC therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from the stickiness of inflation in the major developed economies, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts, updated from November 2024 onwards, look more realistic.

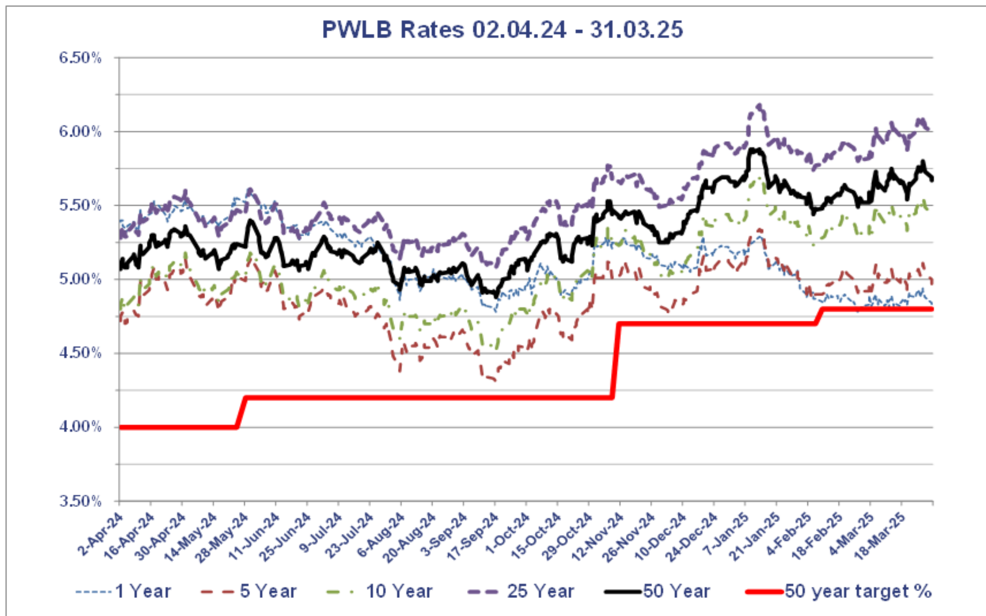
At the start of April 2025, following the introduction of President Trump's trade tariffs policies, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, pulling down the 5- and 10-year parts of the curve too.

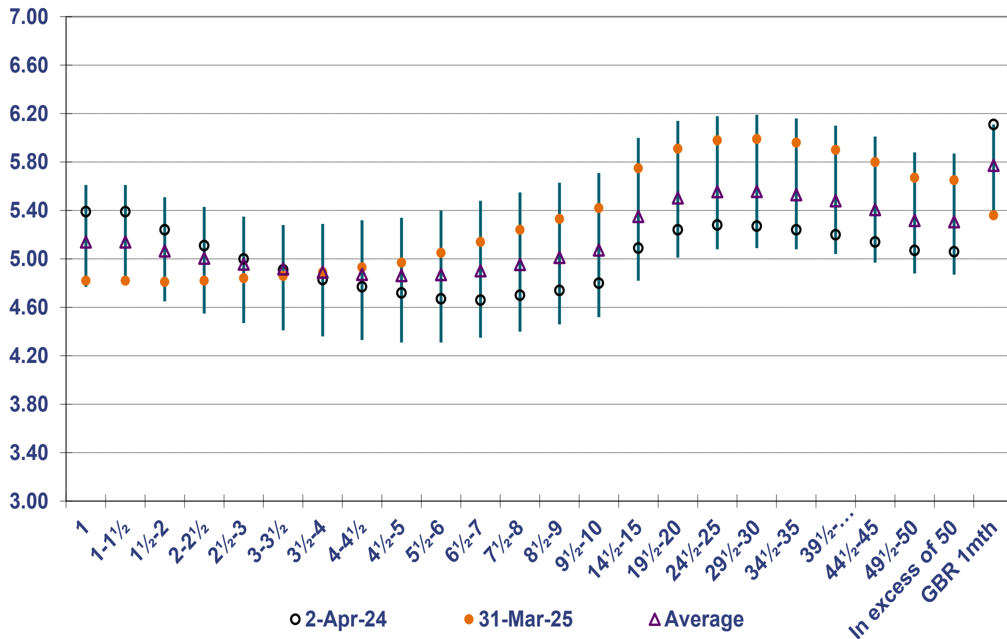
This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

Forecasts at the time of approval of the treasury management strategy report for 2024/25 were as follows:

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

PWLB Rates for 2024/25 are illustrated below.





High/Low/Average PWLB Rates for 2024/25

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.77%	4.31%	4.52%	5.08%	4.88%
Date	26/02/2025	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.34%	5.71%	6.18%	5.88%
Date	29/05/2024	13/01/2025	13/01/2025	13/01/2025	09/01/2025
Average	5.14%	4.86%	5.07%	5.56%	5.32%
Spread	0.84%	1.03%	1.19%	1.10%	1.00%

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Fed, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in September 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c5% - 6% with the exception of the slightly cheaper shorter dates.

At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows:

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves lower.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also continuing on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market

over several years (currently c£623bn). The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and very high in historic terms, is an unknown at the time of writing.

7. Borrowing Outturn

Borrowing

Due to the elevated cost of long-term borrowing, short-dated borrowing was undertaken during the year. An initial £5m loan was taken in late 2024, with a further two tranches drawn down in the closing quarter of 2024/25, totalling £17m. Drawing down the loans was held off in an attempt to obtain better borrowing rates. These remained stubbornly high so borrowing was kept to a minimum and all debt was taken on a maturity basis (interest only) for a 1 to 3 year period; the strategy being to re-finance these loans in a more favourable rate environment. Current loans held by the PCC are all with the Public Works Loan Board (PWLB) and total £36.9m as at 31 March 2025.

Borrowing in advance of need

The orgnisation has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

8. Investment Outturn

Investment Policy

The PCC's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the PCC. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the PCC had no liquidity difficulties.

Investments held by the PCC

The PCC maintained an average balance of £22.0m of internally managed funds. The internally managed funds earned £1.02m of interest, which equates to an average rate of return of 4.57%. The budget of £750,000 for interest on cash balances was exceeded.

9. Conclusion

The Bank of England base rate peaked at 5.25% and it was in 2024/25 period that the beginning of the declining rate cycle began. The initial rate drop to 5.00% in August 2024 saw the biggest impact on investment rates on offer as it was this move that indicated to the markets the downward trajectory had begun. It was just the timing and extent of drops the market had to price in to their rate offerings and it was this outlook that subdued investment yields for the remainder of the year. Conversely, many upward pressures to the bank base rate had created uncertainty, but the MPC have continued to drop the rate in a controlled and steady manner. The return on cash investments yielded good results, especially considering a squeeze on available cash in the latter half of the year due to the progression of the Milton Police Station. The capital expenditure saw a sharp increase

and borrowing became required to cover the cash flow position as the building works started in earnest. Borrowing was held off for as long as possible as borrowing rates were expected to decline. These rates, however, remained higher for longer and so three loans were drawn down, each on a short-term basis (maturing in 3 years, 3 years and 2 years respectively), on a needed basis. The settling of the debt markets over time should see refinancing of this debt on maturity at preferable rates.

10. Appendix 1: 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 Actual**	**2025/26 Forecast**	**2026/27 Plan**	**2027/28 Plan**	**2028/29 Plan**
Total Capital Expenditure	(A)	**9,987**	**20,681**	**43,257**	**19,287**	**10,222**	**8,546**
Financed by:							
Capital receipts		(2)	-	-	(17,357)	(643)	-
Revenue contribution		(4,217)	(3,428)	(1,540)	(1,540)	(1,540)	(1,540)
Grants and other contributions		(796)	(1,263)	(921)	(390)	(1,385)	(280)
Finance lease and PFI liabilities		-	-	-	-	-	-
Total Financing	(B)	**(5,015)**	**(4,691)**	**(2,461)**	**(19,287)**	**(3,568)**	**(1,820)**
Net financing need for year	(A)-(B)	**4,972**	**15,990**	**40,796**	**-**	**6,654**	**6,726**

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 Forecast	2026/27 Plan	2027/28 Plan	2028/29 Plan
Opening CFR	24,622	28,396	43,048	82,022	79,076	82,174
Capital spend	9,987	20,681	43,257	19,287	10,222	8,546
Resources used	(5,015)	(4,691)	(2,461)	(19,287)	(3,568)	(1,820)
MRP & VRP	(1,198)	(1,338)	(1,822)	(2,946)	(3,556)	(4,504)
Closing CFR	**28,396**	**43,048**	**82,022**	**79,076**	**82,174**	**84,396**

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 Forecast	2026/27 Plan	2027/28 Plan	2028/29 Plan
Borrowing	110,731	123,545	106,860	107,484	111,485	111,195
Other Long Term Liabilities	200	200	200	200	200	200
Total Authorised Limit	**110,931**	**123,745**	**107,060**	**107,684**	**111,685**	**111,395**

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 Forecast	2026/27 Plan	2027/28 Plan	2028/29 Plan
Borrowing	96,362	107,504	92,996	93,538	97,017	96,766
Other Long Term Liabilities	100	100	100	100	100	100
Total Operational Boundary	**96,462**	**107,604**	**93,096**	**93,638**	**97,117**	**96,866**

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	2024/25 Actual
Borrowing	36,896
Other Long Term Liabilities	-
Total External Debt	**36,896**

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 Forecast	2026/27 Plan	2027/28 Plan	2028/29 Plan
CFR	28,396	43,048	82,022	79,076	82,174	84,396
Gross Borrowing	15,806	36,896	76,224	74,322	68,063	71,636
(Under)/Over Borrowing	**(12,590)**	**(6,152)**	**(5,798)**	**(4,754)**	**(14,111)**	**(12,760)**

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 Forecast	2026/27 Plan	2027/28 Plan	2028/29 Plan
Interest cost on existing borrowing		526	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		(1,467)	(1,015)	(750)	(550)	(400)	(400)
MRP & VRP		1,198	1,338	1,822	2,946	3,556	4,504
Total Financing Costs	(A)	**257**	**826**	**3,622**	**5,747**	**6,579**	**7,691**
Net Budget Requirement	(B)	**178,160**	**188,686**	**197,589**	**203,768**	**208,902**	**208,902**
Ratio of financing costs	(A)/(B)	**0.14%**	**0.44%**	**1.83%**	**2.82%**	**3.15%**	**3.68%**

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	£ -	£ -

11. Appendix 2: The Economy and Interest Rates

UK Economy

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

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

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

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

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

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

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

cutting rates, but a tepid economy will probably reduce inflation further ahead and prompt the Bank to cut at regular intervals.

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

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

USA Economy

Despite the markets willing the FOMC to repeat the rate cut medicine of 2024 (100 basis points in total), the Fed Chair, Jay Powell, has suggested that the Fed. Funds Rate will remain anchored at 4.25%-4.5% until inflation is under control, and/or the economy looks like it may head into recession as a consequence of President Trump's tariff policies.

Inflation is close to 3% and annualised growth for Q4 2024 was 2.4%. With unemployment just above 4%, and tax cuts in the pipeline, the FOMC is unlikely to be in a hurry to cut rates, at least for now.

EZ Economy

The Eurozone economy has struggled throughout 2024 and is flat lining at present, although there is the promise of substantial expenditure on German defence/infrastructure over the coming years, which would see a fiscal loosening. France has struggled against a difficult political backdrop, but with a large budget deficit it is difficult to see any turn-around in economic hopes in the near-term.

With GDP currently below 1% in the Euro-zone, the ECB is likely to continue to cut rates, although the headline inflation rate is still above 2% (2.3% February 2025). Currently at 2.5%, a further reduction in the Deposit Rate to at least 2% is highly likely.