Police and Crime Commissioner
CAMBRIDGESHIRE AND PETERBOROUGH
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Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Cambridgeshire Police And Crime Commissioner
2026/27

INDEX

1 INTRODUCTION

1.1 Background

1.1.1 The Police and Crime Commissioner ("the Commissioner") is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Commissioner's low risk appetite, providing adequate security and liquidity initially before considering investment return.

1.1.2 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 that the Commissioner can meet the capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet the Commissioner's risk or cost objectives.

1.1.3 The contribution the treasury management function makes to the Commissioner is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.1.4 CIPFA defines treasury management 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."

Local authority, in the definition above, encompasses the Police and Crime Commisioner.

1.1.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting requirements

1.2.1 <u>Capital Strategy</u>

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities, including the Commissioner, to prepare a Capital Strategy report, which will provide the following:

- a high-level long-term 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; and
- the implications for future financial sustainability.

The aim of this strategy is to ensure that the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite are understood.

1.2.2 Treasury Management reporting

The Commissioner is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

- **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
  - the capital plans (including prudential indicators);
  - a minimum revenue provision (MRP) policy (how capital expenditure, financed through borrowing, is charged to revenue over time);
  - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an investment strategy (the parameters on how investments are to be managed).
- **A mid-year treasury management report** – This will update the Commissioner on the progress of the capital and treasury position, amending prudential indicators as necessary, and whether any policies require revision.
- **An annual treasury report** – This provides details of actual prudential and treasury indicators and actual treasury operations at the year end compared to the estimates within the strategy.

1.2.3 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Commissioner. This role is undertaken by the Chief Finance Officer and the Police Accountability Board.

1.2.4 Quarterly reports

In addition to the three major reports detailed above two quarterly reports for periods at the end of June and the end of December are also required. However, these additional reports do not have to be reported to the Commissioner, but do require to be adequately scrutinised. This role is undertaken by the CFO. These reports should specifically comprise of updated Treasury/Prudential Indicators.

1.3 Treasury Management Strategy for 2026/27

1.3.1 The strategy for 2026/27 covers two main areas:

Capital issues
- the capital plans and the prudential indicators;
- the Minimum Revenue Provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Commissioner;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

1.3.2 These elements cover the requirements of the Local Government Act 2003, DLUHC (now MHCLG) Investment Guidance, DLUHC (now MHCLG) MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.3.3 *Affordability and Financial Planning:* The Capital Programme and the Medium-Term Financial Strategy (MTFS) will include forecasts on capital expenditure, revenue consequences of capital programmes and the requirement to financially support capital investment, mainly through borrowing. This work will have identified the potential financial position for the Force in respect of the coming medium term, considering known information and stated assumptions.

1.3.4 *Capital Sustainability:* For the period of the MTFS there continues to be the need to borrow to meet the Commissioner's capital plans.

1.4 *Approval Process:* Once the Commissioner has approved the capital programme, then capital expenditure can be committed against these approved schemes. Whether capital projects are funded from grant, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets. Following approval by the Commissioner capital expenditure is then monitored on a regular basis at the Force Executive Board (FEB) and the Police Accountability Board (PAB) meetings.

1.4.1 *Capital receipts:* Capital receipts cannot be spent on revenue items but will reduce the requirement for borrowing. The Commissioner continues to keep under review all assets in the portfolio to identify which may be released to realise capital receipts.

1.4.2 *Prudential Borrowing:* The Commissioner can set their own borrowing levels based on capital need and the ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so the Commissioner needs to ensure the repayment costs can be funded. Due to the ongoing debt charges (i.e. MRP and external interest charges) the Chief Finance Officer (CFO) will keep under review external borrowing and any potential alternative funding source for financing the capital programme. To ensure sustainability, the Commissioner will aim to repay loan principal within the longer-term management of debt where it is prudent to do so.

1.5 Training

1.5.1 The CIPFA Code requires the responsible officer to ensure that those with responsibility for treasury management, particularly those responsible for its scrutiny, receive adequate training in treasury management. The Commissioner and members of the substantive Joint Audit Committee (JAC) will be provided with appropriate training. The training needs of treasury management officers are periodically reviewed.

1.6 Treasury Management Consultants

1.6.1 The Commissioner uses MUFG Corporate Markets (MUFG) as its external treasury management advisors. The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

1.6.2 The Commissioner also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Commissioner will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2 THE CAPITAL PROGRAMME 2026/27 – 2029/30

2.0.1 The Commissioner's capital expenditure plans are the key driver of treasury management activity. The capital expenditure plans are reflected in the prudential indicators, which are designed to assist with this overview and confirmation of capital expenditure plans. These indicators are separated out in appendix 5.1, with the following table providing an overview.

Table 1

£000's		2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Plan	2028/29 Plan	2029/30 Plan
Opening Capital Financing Requirement (CFR)		**27,645**	**42,297**	**70,260**	**68,016**	**65,431**	**64,020**
Capital investment:							
Tangible assets additions		20,508	33,319	12,107	9,675	11,310	9,440
Intangible assets additions		173	-	-	-	-	-
TOTAL CAPITAL EXPENDITURE	(A)	**20,681**	**33,319**	**12,107**	**9,675**	**11,310**	**9,440**
Source of Finance:							
Capital receipts		-	(1,020)	(7,382)	(5,089)	(3,529)	-
Government Grants		(10)	-	-	-	-	-
Other Grants			(867)	-	-	-	-
		(10)	**(1,887)**	**(7,382)**	**(5,089)**	**(3,529)**	**-**
Sums set aside from Revenue:							
Direct revenue contributions		(3,428)	(1,558)	(4,340)	(4,051)	(2,840)	(2,840)
		(3,428)	**(1,558)**	**(4,340)**	**(4,051)**	**(2,840)**	**(2,840)**
Reserves:							
Tfr from Capital Carry Forward Reserve		(557)	(217)	-	-	-	-
Tfr from Other Reserves		(696)	(150)	(385)	(535)	(3,180)	(280)
		(1,253)	**(367)**	**(385)**	**(535)**	**(3,180)**	**(280)**
TOTAL FINANCING	(B)	**(4,691)**	**(3,812)**	**(12,107)**	**(9,675)**	**(9,549)**	**(3,120)**
Net financing need	(A)+(B)	**15,990**	**29,507**	**-**	**-**	**1,761**	**6,320**
Minimum Revenue Provision (MRP)	(C)	**(1,338)**	**(1,544)**	**(2,244)**	**(2,585)**	**(3,172)**	**(3,730)**
Movement in CFR	(A)+(B)+(C)	**14,652**	**27,963**	**(2,244)**	**(2,585)**	**(1,411)**	**2,590**
Closing Capital Financing Requirement	(D)	**42,297**	**70,260**	**68,016**	**65,431**	**64,020**	**66,610**
Borrowing represented by:							
Loan Finance		36,896	41,224	45,022	43,606	47,998	53,897
TOTAL BORROWING	(E)	**36,896**	**41,224**	**45,022**	**43,606**	**47,998**	**53,897**
(Under)/Over borrowing	(D)-(E)	**(5,401)**	**(29,036)**	**(22,994)**	**(21,825)**	**(16,022)**	**(12,713)**

2.02 **Table 1** shows the movement in Capital Financing Requirement from the 2024/25 accounts to the end of the Medium-Term Financial Strategy period. This takes account of the capital programme for the same period.

- Total capital expenditure is shown, which for 2026/27 to 2029/30 amounts to £42.5m.
- Total financing includes the different sources of financing, direct revenue contributions and use of capital reserves.
- The Minimum Revenue Provision is a charge to the revenue budget to reflect a repayment of the capital outlay when financed by borrowing.
- The Net Financing Need is the difference of capital expenditure to the total of financing available; this shows the requirement to borrow to support the current plans. Actual borrowing undertaken will likely differ to the value presented and loans will be drawn on the prevailing needs of the cash flow balanced against borrowing rate expectations.
- Loan Finance represents the overall debt position from borrowing; the oustanding loan balance, deducting principal repayments within year and adding any planned borrowing.
- The table also shows the currently under-borrowed position which is the difference of the Capital Financing Requirement and the current level of Loans and Finance Leases

outstanding. A key Prudential Indicator is set on these figures and detailed in section 3 Borrowing.

2.1 Capital expenditure and Financing

2.1.1 The Commissioner's capital expenditure plans, both those agreed previously and those forming part of this budget cycle, are summarised within **Table 1** and detail how the plans are being financed by capital or revenue resources. The capital expenditure plans are a key prudential indicator with any shortfall of resources resulting in a borrowing need. See also the table at appendix 5.1.1 that specifically details this indicator.

2.2 The Commissioner's borrowing need (the Capital Financing Requirement)

2.2.1 The second prudential indicator is the Commisioner's Capital Financing Requirement (CFR), shown in **Table 1**, but also detailed in appendix 5.1.2. The CFR, simply put, is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Commissioner's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

2.2.3 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Commissioner's borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to separately borrow for these schemes. The Commissioner currently does not have any such schemes within the CFR.

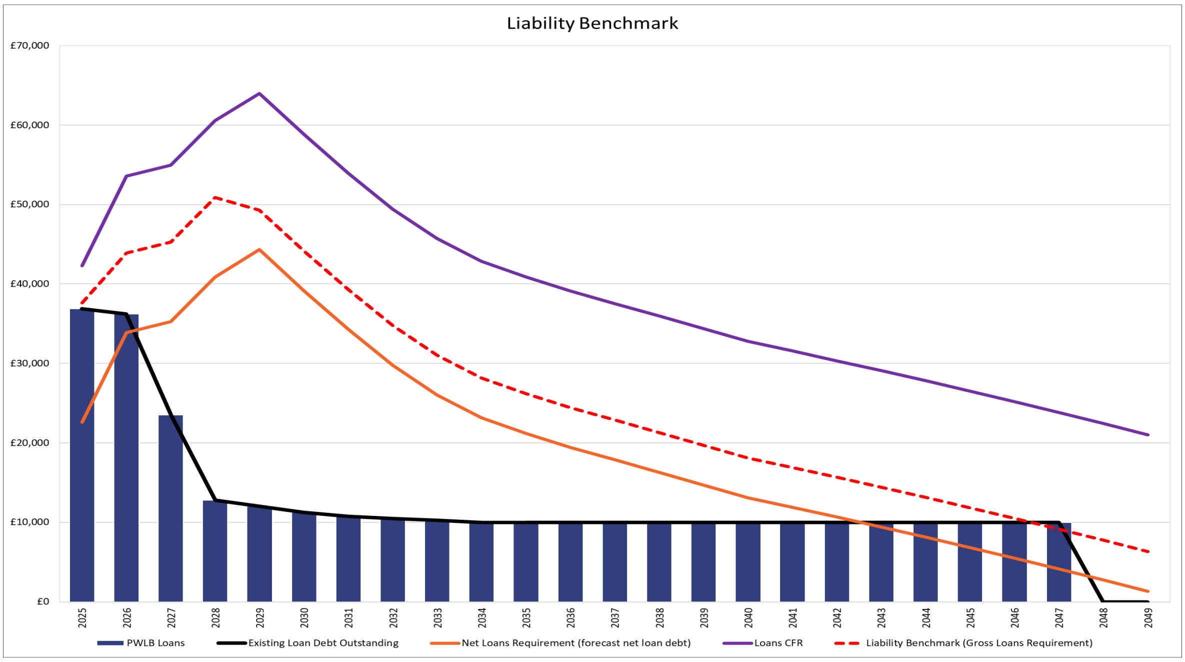
2.3 Liability Benchmark

2.3.1 The Commissioner is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

2.3.2 There are four components to the Liability Benchmark:

1. Existing loan debt outstanding: the Commissioner's existing loans that are still outstanding in future years.
2. Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. Net loans requirement: this will show the Commissioner's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The following graph illustrates the above components with the current debt shown in the blue bars. The sharp increase in the other components are reflective of the increased borrowing need for the planned capital expenditure for the major capital schemes.



2.3.3 The Liability Benchmark graph presents a difference between actual loan debt outstanding and the liability benchmark; years where actual loans are less than the benchmark indicate a future borrowing requirement and years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment. The above shows that the Commissioner's current loans are below the liability benchmark, meaning that borrowing will be required to support the current capital plans.

2.4 Core funds and expected investment balances

2.4.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). **Table 2** shows estimated year end balances for each resource and anticipated day -to-day cash flow balances.

Table 2 – Cash available to invest

YEAR END RESOURCES £000's		2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Plan	2028/29 Plan	2029/30 Plan
General and Earmarked Reserve		26,872	28,823	27,036	26,829	23,658	23,426
Capital Receipts Reserve		77	-	8,618	2,229	-	-
TOTAL RESERVES		**26,949**	**28,823**	**35,654**	**29,058**	**23,658**	**23,426**
Provisions		2,899	2,899	2,899	2,899	2,899	2,899
TOTAL CORE FUNDS AVAILABLE	(A)	**29,848**	**31,722**	**38,553**	**31,957**	**26,557**	**26,325**
Working Capital:							
Stock		1,661	1,661	1,661	1,661	1,661	1,661
Debtors		24,876	24,876	24,876	24,876	24,876	24,876
Creditors		(25,424)	(25,656)	(25,656)	(25,656)	(25,656)	(25,656)
		1,113	**881**	**881**	**881**	**881**	**881**
Under-borrowing		(5,401)	(29,036)	(22,994)	(21,825)	(16,022)	(12,713)
TOTAL EXISTING REQUIREMENT	(B)	**6,514**	**29,917**	**23,875**	**22,706**	**16,903**	**13,594**
Cash available to invest	(A)-(B)	**23,334**	**1,805**	**14,678**	**9,251**	**9,654**	**12,731**

2.4.2 **Table 2** shows the value of the remainder of core funds available to invest after consideration of cash backed reserves, provisions and the under-borrowed amount are offset against the working capital requirements of the organisation. The levels of provision and working capital are projected forward at the same level as for 2025/26 forecast.

2.5 Minimum Revenue Provision (MRP) Policy Statement

2.5.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a charge to the revenue account known as the Minimum Revenue Provision (MRP).

2.5.2 The Commissioner is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the asset provide benefit/useful life. A prudent provision means that the Capital Finance Requirement runs down to zero over the life of the asset and that the cost of the asset is reflective of the economic benefits provided during the life of an asset.

2.5.3 The MRP Guidance (2018 fourth edition) gives four ready-made options for calculating MRP, but the Commissioner can use any other reasonable basis that can be justified as prudent.

2.5.4 The MRP policy statement requires full approval in advance of each financial year. The Commissioner is recommended to approve the following MRP Statement.

2.5.5 From 1 April 2008 – 31st March 2024 for all unsupported borrowing (including Finance Leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life.

2.5.6 From 1 April 2024 for all unsupported borrowing (including Finance Leases) the MRP policy will be **Asset life method** with a combination of **Annuity** and **Straight-Line calculations** as follows:

- Asset life straight line method for all short-term assets (generally non-Land and Building assets)
- Asset life annuity method for all long-term Land and Building assets 40 years and over. The specified rate of interest will be the average interest rate of the Commissioner's debt (using the PWLB loan rates) as at the end of the year preceding the first year in which the annuity rate is to be applied.

2.5.7 Repayments included in finance leases are applied as MRP.

2.5.8 **MRP Overpayments** – under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

2.5.9 VRP can be reclaimed in later years if deemed necessary or prudent. For these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

2.5.10 Cumulative VRP overpayments made to date are zero.

2.5.11 We do not have any overpayments to date or currently planned.

3 BORROWING

3.1.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Commissioner. The Treasury Management function ensures that the Commissioner's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Commissioner's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1.2 Current portfolio position

The overall Treasury Management portfolio as at 31st March 2025 and for the position as at 31st December 2025 are shown below for both borrowing and investments. The 31st March 2026 figures show the estimated year end position.

Table 3

TREASURY PORTFOLIO						
	31 March 2025		31 December 2025		31 March 2026	
Treasury Investments	**£000**	**%**	**£000**	**%**	**£000**	**%**
Banks (UK)	1,130	8%	6,270	47%	3,000	100%
Banks (Rest of World)	0	0%	3,000	23%	0	0%
Local Authorities	0	0%	0	0%	0	0%
DMADF (H.M. Treasury)	0	0%	0	0%	0	0%
Money Market Funds	13,140	92%	4,000	30%	0	0%
Certificates of Deposit	0	0%	0	0%	0	0%
Total Managed In-house	**14,270**	**100%**	**13,270**	**100%**	**3,000**	**100%**
Bond Funds	0	0%	0	0%	0	0%
Property Funds	0	0%	0	0%	0	0%
Total Managed Externally	**0**	**0%**	**0**	**0%**	**0**	**0%**
Total Treasury Investments	**14,270**	**100%**	**13,270**	**100%**	**3,000**	**100%**
Treasury External Borrowing						
Local Authorities	0	0%	0	0%	0	0%
PWLB	36,896	100%	36,515	100%	41,224	100%
Total External Borrowing	**36,896**	**100%**	**36,515**	**100%**	**41,224**	**100%**
Net Treasury Investments / (Borrowing)	**(23,756)**		**(23,245)**		**(38,224)**	

3.1.3 The Commissioner's forward projections for borrowing are summarised in Table 1, which shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

3.1.4 Within the prudential indicators there are several key indicators to ensure that the Commissioner's activities are operated within well-defined limits. One of these is that the Commissioner needs to ensure that the 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 2026/27 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

3.1.5 The Chief Finance Officer reports that the Commissioner complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

3.2.1 The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

3.2.2 To calculate an operational boundary an operational buffer of 10% is added to the value of the Capital Financing Requirement. In addition, where there is the potential for borrowing to be needed earlier than planned, the estimated loan requirement is also added.

3.2.3 The authorised limit for external debt

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited and needs to be set or revised by the Commissioner. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

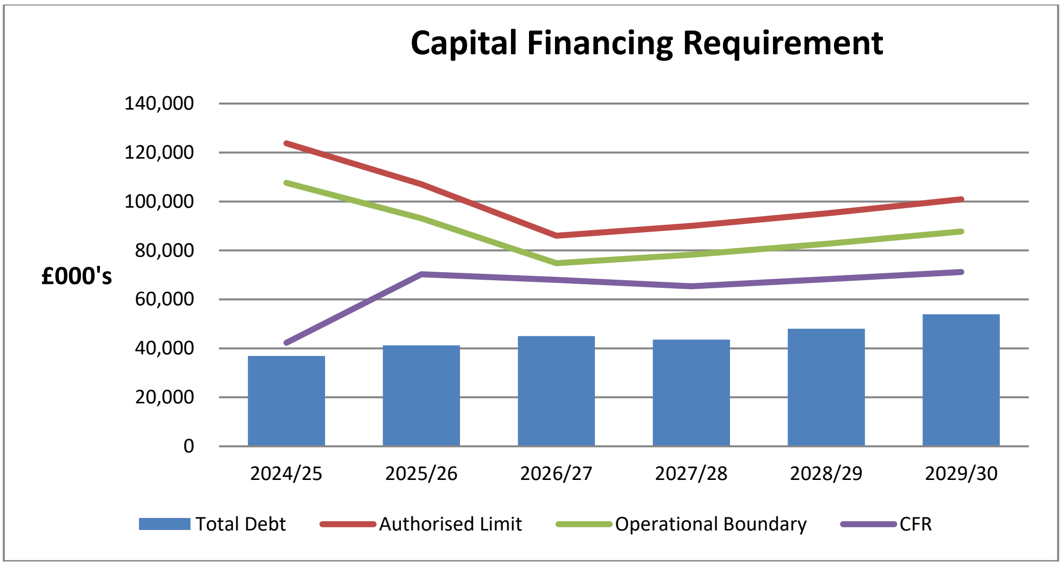
1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all authorities and councils' plans, or those of a specific authority or council, including the Commissioner, although this power has not yet been exercised.
2. The Authorised Limit has been determined to be 15% above the operational boundary.
3. The below highlights the Authorised Limit the Commissioner has approved for 2026/27 and forecasts the changes expected over the period to 2029/30:

Table 4

LIMITS TO BORROWING ACTIVITY £000's	2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Plan	2028/29 Plan	2029/30 Plan
Capital Financing Requirement (CFR)	42,297	70,260	68,016	65,431	64,020	66,610
Operational Margin (10% of CFR)			6,802	6,543	6,402	6,661
			74,818	**71,974**	**70,422**	**73,271**
Borrowing Capability Factor *			-	1,761	6,320	9,440
OPERATIONAL BOUNDARY	**107,604**	**93,096**	**74,818**	**73,735**	**76,742**	**82,711**
AUTHORISED LIMIT (15% above Operational Boundary)	**123,745**	**107,060**	**86,041**	**84,795**	**88,253**	**95,118**

** Net Financing Need (see Table 1) for following year brought forward - this allows for borrowing in readiness for expected capital outlay*

3.2.4 The Capital Financing Requirement graph below illustrates the relationship between the Commissioner's current and planned borrowing, with the CFR, Operational Boundary and the Authorised Limit.



3.3 Prospects for Interest Rates

3.3.1 The Commissioner has appointed MUFG Corporate Markets (MUFG) as Treasury Advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. MUFG provided the following forecasts on 22nd December 2025. This forecast remains current and presents the expectations for Bank Rate, average earnings and PWLB certainty rates (gilt yeilds plus 80 basis points).

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

3.3.2 MUFG provide context for this forecast, shown in appendix 5.3.

3.3.3 Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of the forecasts, but the risk to this forecast is generally to the upside. Target borrowing rates are set two years forward (as expect rates to fall back) and the current PWLB Certainty borrowing rates are set out in the below table:

PWLB Debt	Current borrowing rate (22.12.2025)	Target borrowing rate (end of Q4 2027)
5 Year Loan	4.81%	4.10%
10 Year Loan	5.39%	4.70%
25 Year Loan	6.01%	5.30%
50 Year Loan	5.78%	5.10%

3.3.4 MUFG's borrowing advice is that the long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.50%. As all PWLB Certainty rates are currently significantly above this level, borrowing strategies should be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed local authority market borrowing should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

3.4 Borrowing strategy

3.4.1 The Commissioner is currently maintaining an under-borrowed position (see Table 1). This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated in 2026 even if further rate cuts arise.

3.4.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 Treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates*, then, where possible, borrowing will be postponed.
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

3.4.3 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

3.5.1 The Commissioner will not borrow more than, or in advance of, the need purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Commissioner can ensure the security of such funds.

3.5.2 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

3.6.1 There are no plans for rescheduling our current borrowing in the debt portfolio, however, maturing loans will be re-financed where required and preferential rates will be sought to ensure prudence in debt management. All rescheduling will be discussed with the Commissioner prior to any decision being taken.

3.7 New financial institutions as a source of borrowing and/or types of borrowing

3.7.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

3.7.2 Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

4.1.1 The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, as managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

4.1.2 The Commissioner's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the CIPFA TM Code")
- CIPFA Treasury Management Guidance Notes 2021

4.1.3 The Commissioner's investment priorities will be security first, portfolio liquidity second, then return. The Commissioner will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity and with regard to the Commissioner's risk appetite.

4.1.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Commissioner has adopted a prudent approach to managing risk and defines risk appetite by the following means: -

1. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Commissioner will engage with advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
3. Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. The Commissioner has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.
   - Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.
   - Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

5. Non-specified investments limit. The Commissioner has determined that zero Non-specified investments will be undertaken. This will limit the maximum total exposure to non-specified investments to 0% of the total investment portfolio, (see paragraph 4.3).
6. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. The Commissioner will set a limit for the amount of the investments which are invested for longer than 365 days, (see paragraph 4.4).
8. Investments will only be placed with counterparties from the UK and countries with a specified minimum sovereign rating, (see paragraph 4.3).
9. The Commissioner has engaged external consultants to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Commissioner in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in sterling.
11. As a result of the change in accounting standards for 2023/24 under IFRS 9, the Commissioner will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

4.1.5 The Commissioner will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see section 4.5). Regular monitoring of investment performance will be carried out during the year.

4.1.6 Changes in risk management policy from last year

The above criteria are unchanged from last year.

4.2 Creditworthiness policy

4.2.1 The primary principle governing the Commissioner’s investment criteria is the security of investments, although the yield or return on the investment is also a key consideration. After this main principle, the Commissioner will ensure that:

- A policy is maintained that covers both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- There is sufficient liquidity in its investments. For this purpose, there will be set procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Commissioner’s prudential indicators covering the maximum principal sums invested.

4.2.2 The CFO will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Commissioner for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.

4.2.3 Credit rating information is supplied by MUFG (formerly Link Group), our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum of the Commissioner's criteria will be suspended from use, with all others being reviewed in light of market conditions.

4.2.4 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Commissioner will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA- and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
  iii. Short Term – F1
  iv. Long Term – A-
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised, or it meets the ratings in Banks 1 above.
- Banks 3 – The Commissioner's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Money market funds (MMFs) CNAV – AAA
- Money market funds (MMFs) LVNAV – AAA
- Money market funds (MMFs) VNAV – AAA
- Ultra-Short Dated Bond Funds with a credit rating of at least 1.25 – AAA
- Ultra-Short Dated Bond Funds with a credit rating of at least 1.50 - AAA
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, parish councils, Commissioners etc

4.2.5 A limit of 0% will be applied to the use of non-specified investments.

4.2.6 <u>Use of additional information other than credit ratings</u>

Additional requirements under the Code require the Commissioner to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

4.2.7 <u>Time and monetary limits applying to investments</u>

The time and monetary limits for institutions on the Commissioner's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Rating	**Money and/or % Limit**	**Time Limit**
Banks 1 - higher quality	A- / F1	25% of available funds (max £10m)	365 days
Banks 2 – part nationalised	A- / F1	25% of available funds (max £10m)	365 days
Commissioner' bank (when not within Banks 1)		£10m	Overnight
DMADF	AAA	unlimited	6 months
Local authorities	N/A	£10m	365 days

	Fund rating	Money and/or % Limit	Time Limit
Money market funds CNAV	AAA	100% of available funds	Liquid
Money market funds LVNAV	AAA	100% of available funds	Liquid
Money market funds VNAV	AAA	100% of available funds	Liquid
Ultra-Short Dated Bonds Funds	AAA	100% of available funds	Liquid

4.2.8 The proposed criteria for specified and non-specified investments are shown in appendix 5.4.

4.2.9 Creditworthiness

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, the Commissioner will not set a minimum rating for the UK.

4.2.10 CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.3 Country and sector limits

4.3.1 Due care will be taken to consider the country, group and sector exposure of the Commissioner's investments.

4.3.2 The Commissioner has determined that approved counterparties from the UK and countries with a minimum sovereign credit rating of AA- from Fitch or equivalent will be used. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.3.3 In addition:

- no more than 50% of available funds will be placed in a country outside of the UK (this applies to Banks 1 (see 4.2 above) only, not Money Market Funds);
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

4.4.1 In-house funds

- Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.
- Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.
    - If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

4.4.2 Investment returns expectations

- The current forecast shown in appendix 5.3, includes a forecast for Bank Rate to fall to a low of 3.25% by 2027.
- The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as:

2025/26 (remainder)	3.80%
2026/27	3.40%
2027/28	3.30%
2028/29	3.30%
2029/30	3.50%
Later years	3.50%

- As there are so many variables, caution must be exercised in respect of all interest rate forecasts.

4.4.3 Investment treasury indicator and limit

- Total principal funds invested for greater than 365 days. These limits are set with regard to the Commissioner's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.
- The Commissioner has approved the treasury indicator and limit for investments greater than 365 days as:

Maximum principal sums invested > 365 days	2026/27	2027/28	2028/29
Principal sums invested > 365 days	£0	£0	£0

- For cash flow generated balances, the Commissioner will seek to utilise business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 365 days) in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

4.5.1 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

- Security - the Commissioner's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:
  - 0.05% historic risk of default when compared to the whole portfolio.
- Liquidity - in respect of this area the Commissioner seeks to maintain:
  - Liquid short-term deposits having the lower of at least £5m or 25% of funds available with a week's notice.
- Yield - local measures of yield benchmarks are:
  - Investments - internal returns above the 7-day SONIA compounded rate.

4.6 Environmental, Social & Governance (ESG)

4.6.1 Treasury Management Practice 1 (TMP1) of the Treasury Management Code includes ESG within the framework of investing activity. ESG consideration is defined as the understanding of ESG risks that an entity is exposed to and evaluating how well it manages these risks. The Treasury Management Code recognises (page 50) that “there is a diversity of market approaches to ESG classification and analysis”, making it difficult for public service organisations to develop a consistent and detailed approach to ESG. As such the Commissioner will determine the ESG eligibility of counterparties at the point of investment. It is not anticipated that investment activity will be restricted by negatively screening institutions nor attempting to invest sustainably with available cash resources. Whilst efforts will be made in regard to this latter point, it falls outside the scope of ESG consideration under TMP1. For clarity, the Commissioner places ESG consideration secondary to the investing principles of Security, Liquidity and Yield (SLY) and considers the best application of sustainable investment is via the capital programme, where investments have long-term implications.

4.7 End of year investment report

4.7.1 At the end of the financial year, the Commissioner will report on the investment activity as part of the Annual Treasury Report.

5 APPENDICES

5.1 APPENDIX: Prudential and Treasury Indicators 2026/27 – 2029/30

5.1.1 Capital Expenditure

This provides a summary of the Commissioner'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 Budget	2027/28 Plan	2028/29 Plan	2029/30 Plan
Total Capital Expenditure	(A)	**20,681**	**33,319**	**12,107**	**9,675**	**11,310**	**9,440**
Financed by:							
Capital receipts		-	(1,020)	(7,382)	(5,089)	(3,529)	-
Revenue contribution		(3,428)	(1,558)	(4,340)	(4,051)	(2,840)	(2,840)
Grants and other contributions		(1,263)	(1,234)	(385)	(535)	(3,180)	(280)
Finance lease and PFI liabilities		-	-	-	-	-	-
Total Financing	(B)	**(4,691)**	**(3,812)**	**(12,107)**	**(9,675)**	**(9,549)**	**(3,120)**
Net financing need for year	(A)-(B)	**15,990**	**29,507**	**-**	**-**	**1,761**	**6,320**

5.1.2 Capital Financing Requirement

This shows the difference between the Commissioner'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 Commissioner 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 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Plan	2028/29 Plan	2029/30 Plan
Opening CFR	33,260	49,165	77,495	75,636	73,586	75,355
Capital spend	20,681	32,619	12,107	9,675	11,310	9,440
Resources used	(3,438)	(2,745)	(11,722)	(9,140)	(6,369)	(2,840)
MRP & VRP	(1,338)	(1,544)	(2,244)	(2,585)	(3,172)	(3,730)
Closing CFR	**49,165**	**77,495**	**75,636**	**73,586**	**75,355**	**78,225**

5.1.3 Authorised Limit

This represents a control on the maximum level of external debt the Commissioner can incur. The Commissioner 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 principal element of any finance lease or Private Finance Initiative obligations payable.

Authorised Limit	2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Plan	2028/29 Plan	2029/30 Plan
Borrowing	123,545	106,860	85,841	84,595	88,053	94,918
Other Long Term Liabilities	200	200	200	200	200	200
Total Authorised Limit	**123,745**	**107,060**	**86,041**	**84,795**	**88,253**	**95,118**

5.1.4 Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. Again, the Commissioner 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 Commissioner's expectations of the level at which external debt would not ordinarily be expected to exceed.

Operational Boundary	**2024/25 Actual**	**2025/26 Forecast**	**2026/27 Budget**	**2027/28 Plan**	**2028/29 Plan**	**2029/30 Plan**
Borrowing	107,504	92,996	74,718	73,635	76,642	82,611
Other Long Term Liabilities	100	100	100	100	100	100
Total Operational Boundary	**107,604**	**93,096**	**74,818**	**73,735**	**76,742**	**82,711**

5.1.5 External Debt

The Commissioner must 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 Commissioner'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	41,224
Other Long Term Liabilities	-
Total External Debt	**41,224**

5.1.6 Gross Debt and the Capital Financing Requirement

The Commissioner should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. If the level of gross borrowing is below the Commissioner's capital borrowing need – the CFR – it demonstrates compliance with the requirement of this Indicator.

Gross Debt and the CFR	**2024/25 Actual**	**2025/26 Forecast**	**2026/27 Budget**	**2027/28 Plan**	**2028/29 Plan**	**2029/30 Plan**
CFR	42,297	70,260	68,016	65,431	64,020	66,610
Gross Borrowing	36,896	41,224	45,022	43,606	47,998	53,897
(Under)/Over Borrowing	**(5,401)**	**(29,036)**	**(22,994)**	**(21,825)**	**(16,022)**	**(12,713)**

5.1.7 Liability Benchmark

Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement).

Liability Benchmark	**2024/25 Actual**	**2025/26 Forecast**	**2026/27 Budget**	**2027/28 Plan**	**2028/29 Plan**	**2029/30 Plan**
Existing Loan Debt Outstanding	36,896	36,224	23,522	12,787	12,018	11,274
Liability Benchmark (Gross Loans Requirement)	37,626	43,911	45,289	50,890	49,311	44,121
(Under)/Over Liability Benchmark	**(730)**	**(7,687)**	**(21,767)**	**(38,103)**	**(37,293)**	**(32,847)**

5.1.8 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 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Plan	2028/29 Plan	2029/30 Plan
Interest cost on existing borrowing		503	1,546	1,515	903	372	337
Interest cost on new borrowing		-	-	347	1,027	1,374	1,737
Gains/losses on debt rescheduling		-	-	-	-	-	-
Interest and investment income		(1,015)	(1,050)	(750)	(600)	(500)	(400)
MRP & VRP		1,338	1,544	2,244	2,585	3,172	3,730
Total Financing Costs	(A)	**826**	**2,040**	**3,356**	**3,915**	**4,418**	**5,404**
Net Budget Requirement	(B)	**188,686**	**205,244**	**217,397**	**225,163**	**231,225**	**237,275**
Ratio of financing costs	(A)/(B)	**0.44%**	**0.99%**	**1.54%**	**1.74%**	**1.91%**	**2.28%**

5.1.9 Maturity Structure of Borrowing

The Commissioner 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 Commissioner’s exposure to large sums falling due for refinancing.

Maturity structure of borrowing:	Actual	Lower Limit	Upper Limit
Under 12 months	35%	0%	100%
12 to 24 months	30%	0%	100%
2 to 5 years	6%	0%	100%
5 to 10 years	2%	0%	100%
Over 10 years	27%	0%	100%

5.1.10 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 Commissioner’s liquidity needs and reduce the potential need to have to make early exit from an investment to recover funds.

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

A limit of zero is set to ensure that investments are not tied up for any period greater than 12 months.

5.2 APPENDIX: Economic Background

5.2.1 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, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
- The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
- CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
- 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% (before falling back to 4.43% in early November).

5.2.2 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, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 to 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.

5.2.3 Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13 November we heard that GDP for July to September was 0.1% q/q.

5.2.4 Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall, following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but the headwinds are gathering.

5.2.5 Prior to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

5.2.6 Following the 26 November Budget, the Office for Budget Responsibility (OBR) calculated the net tightening in fiscal policy as £11.7bn (0.3% of GDP) in 2029/30, smaller than the consensus forecast of £25bn. It did downgrade productivity growth by 0.3%, from 1.3% to 1.0%, but a lot of that influence was offset by upgrades to its near-term wage and inflation forecasts. Accordingly, the OBR judged the Chancellor was going to achieve her objectives with £4.2bn to spare. The Chancellor then chose to expand that headroom to £21.7bn, up from £9.9bn previously.

5.2.7 Moreover, the Chancellor also chose to raise spending by a net £11.3bn in 2029/30. To pay for that and the increase in her headroom, she raised taxes by £26.1bn in 2029/30. The biggest revenue-raisers were the freeze in income tax thresholds from 2028/29 (+£7.8bn) and the rise in NICs on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.

5.2.8 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 nearly all the months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to November 2025 stood at 729,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.

5.2.9 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 4.6% in September (still at that level in November). The rate for the private sector has slipped just below 4% as the year end approaches.

5.2.10 CPI inflation remained at 3.8% in September, dropping to 3.2% by November and recent data release provides December CPI inflation rising again to 3.4%. Core inflation fell to 3.2% by November while services inflation fell to 4.4%. 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.

5.2.11 An ever-present issue throughout recent 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 June at 4.50%.

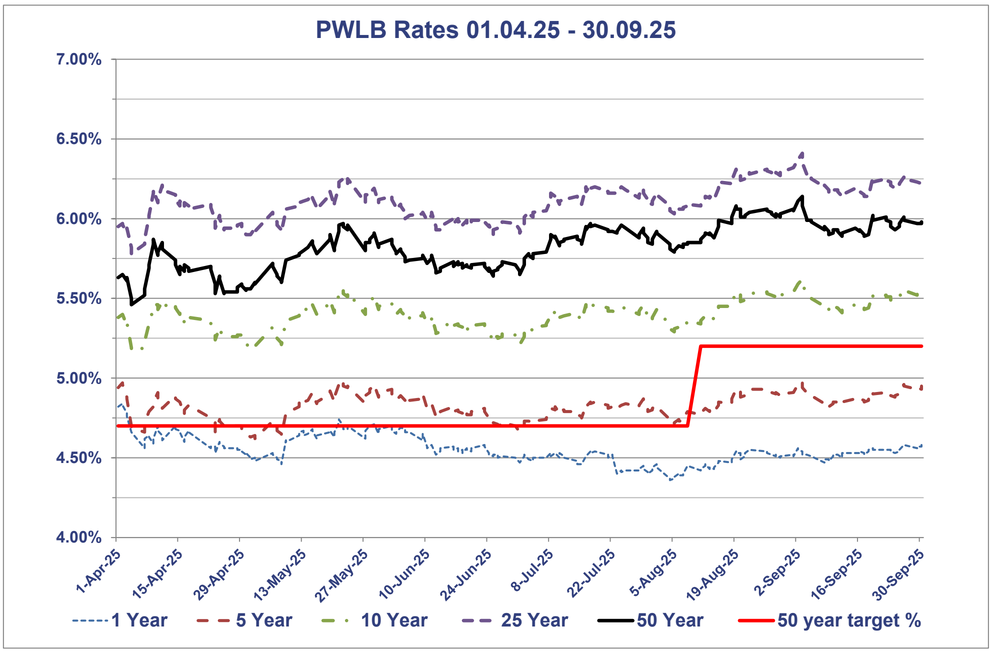
5.2.12 More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, 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 kept yields elevated over 4.70% although by late December had fallen back again to a little over 4.50%.

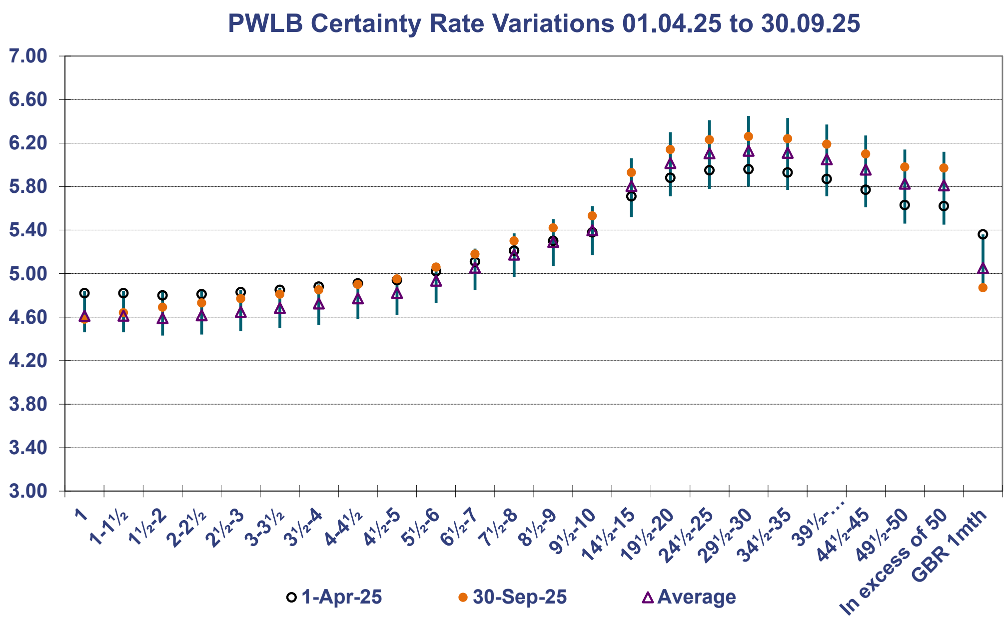
5.2.13 The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March 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 September 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. In early November, the FTSE100 climbed to a record high just above 9,900. By late December, the index had clung on to most of those gains standing at 9,870 on 23 December.

5.2.14 <u>MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025</u>

- There were six Monetary Policy Committee (MPC) meetings held between April and December. 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 was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- 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). Moreover, 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 suggested the Bank still thought interest rates will fall further.
- At the 6 November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut was imminent if data supported such a move. By 18 December, with November CPI inflation having fallen to 3.2%, and with Q2 GDP revised down from 0.3% q/q to only 0.2% q/q, and Q3 GDP stalling at 0.1%, the MPC voted by 5-4 to cut rates further to 3.75%. However, Governor Bailey made it clear that any further reductions would require strong supporting data, and the pace of any further decreases would be slow compared to recent months. The markets expect Bank Rate to next be cut in April.

5.2.15 In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.





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%

5.3 APPENDIX: MUFG Coroporate Markets - Prospects for Interest Rates

5.3.1 The Commissioner has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. They provided the following forecast table on 22nd December 2025:

MUFG Corporate Markets Interest Rate View 22.12.25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

5.3.2 Additional notes by MUFG Corporate Markets on this forecast table:

- Our last interest rate forecast update was undertaken on 11th August. Since then, a combination of tepid growth (0.2% q/q GDP for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently CPI is 3.4%), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18th December.

- Surprisingly, to most market commentators, the recent steep fall in CPI inflation in one month from 3.6% to 3.2% did not persuade most "dissenters" from the November vote (Lombardelli, Greene, Mann and Pill) to switch to the rate-cutting side of the Committee. Instead, it was left to Bank Governor, Andrew Bailey, to use his deciding vote to force a rate cut through by the slimmest of margins, 5-4.

- Given the wafer-thin majority for a rate cut it was not unexpected to hear that although rates would continue on a "gradual downward path", suggesting a further rate cut or cuts in the offing, MPC members want to assess incoming evidence on labour market activity and wage growth. Indeed, with annual wage growth still over 4.5%, the MPC reiterated that the case for further rate cuts would be "a closer call", and Governor Bailey observed there is "limited space as Bak Rate approaches a neutral level".

- Accordingly, the MUFG Corporate Markets forecast has been revised to price in a rate cut in Q2 2026 to 3.5%, likely to take place in the wake of a significant fall in the CPI inflation reading from 3% in March to 2% in April (as forecast by Capital Economics), followed by a short lull through the summer whilst more data is garnered, and then a further rate cut to 3.25% in Q4.

- As in August, nonetheless, threats to that central scenario abound. What if wage increases remain stubbornly high? There are, after all, several sectors of the domestic economy, including social care provision and the building/construction industries, where staff shortages remain severe. Moreover, by May 2026, following the local elections, we will have a better handle on whether or not the Starmer/Reeves team is going to see out the current Parliament or whether they face a Leadership challenge from within their own party. If so, how will gilt markets react to these variables and, additionally, will there be geo-political factors to also bake in, particularly the Fed's monetary policy decisions in 2026 and the ongoing battle to lower rates whilst inflation remains close to 3%.

- Accordingly, our updated central forecast is made with several hefty caveats. We are confident, as we have been for some time, that our forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and we have marginally brought forward the timing of the next rate cut(s). But for the 10-, 25- and 50-years part of the curve, the level of gilt issuance, and the timing of its placement will be integral to achieving a benign trading environment. That is not a "given", and additionally, the inflation outlook and political factors domestically and, crucially, in the US, are also likely to hold sway. Matters should be clearer by June in the UK, but the US mid-term elections are scheduled for November.

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The MUFG Corporate Markets forecast for average earnings are averages i.e., rates offered by individual entities may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

5.4 APPENDIX: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

5.4.1 The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Commissioner's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

5.4.2 The key intention of the Guidance is to maintain the current requirement for councils and authorities to invest prudently, and that priority is given to security and liquidity before yield. To facilitate this objective, the guidance requires the Commissioner to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The former Police Authority adopted the Code in February 2006 and the Commissioner will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced the treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

5.4.3 Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Commissioner will use. These are high security (i.e. high credit rating, although this is defined by the Commissioner, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

5.4.4 The investment policy proposed for the Commissioner is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period, but where the Commissioner has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and/or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short-Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and/or Fitch rating agencies.

5.4.5 Within these bodies, and in accordance with the Code, the Commissioner has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out below:

	Fitch Rating	Money and/or % Limit	Time Limit
Banks 1 - higher quality	A- / F1	25% of available funds (max £10m)	365 days
Banks 2 – part nationalised	A- / F1	25% of available funds (max £10m)	365 days
Commissioner' bank (when not within Banks 1)		£10m	Overnight
DMADF	AAA	unlimited	6 months
Local authorities	N/A	£10m	365 days
	Fund rating	**Money and/or % Limit**	**Time Limit**
Money market funds CNAV	AAA	100% of available funds	Liquid
Money market funds LVNAV	AAA	100% of available funds	Liquid
Money market funds VNAV	AAA	100% of available funds	Liquid
Ultra-Short Dated Bonds Funds	AAA	100% of available funds	Liquid

5.4.6 Non-specified investments: not used.

5.4.7 The monitoring of investment counterparties: The credit rating of counterparties will be monitored regularly. The Commissioner receives credit rating information (changes, rating watches and rating outlooks) from MUFG Corporate Markets as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Commissioner's CFO, and if required new counterparties which meet the criteria will be added to the list.

5.4.8 Environmental, Social & Governance (ESG) Considerations: The Treasury Management Code has been updated to reflect the more commonplace discussion around Environmental, Social & Governance (ESG) considerations. A clear understanding of what ESG investment considerations means requires clarification to ensure that unexpected risks to investment activity does not arise. ESG, for investment purposes, is about understanding the ESG "risks" that an entity is exposed to and evaluating how well it manages these risks. All entities will be subject to these to one extent or other.

5.4.9 All the main agencies are now extolling how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. As such, the incorporation of ESG by the mainstream rating agencies is, to an extent, already being carried out.

5.4.10 The Commissioner's ESG considerations will not be a mechanism for Socially Responsible Investing, which is typically where you apply negative screens to investment consideration. Equally it will not be a policy for Sustainable Investing, where investing in products and companies is based on expected sustainable and beneficial societal impact, alongside a financial return. However, where appropriate and available options are provided, consideration to invest in such ethical instruments will play a factor in decision making.

5.5 Investment guidance has the security, liquidity, and yield (SLY) principle at its core and paramount in all investment decisions for the Commissioner will be the priority of security and liquidity over other factors. It is expected that a trade-off with yield will be made for ethical investment opportunities and these considerations will be made on a case-by-case basis. As the ESG area expands there will be further development in the Commissioner's overall strategy in this regard.

5.6 APPENDIX: Treasury Management scheme of delegation

(i) Commissioner / Police Accountability Board (PAB)

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Commissioner / PAB

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Resources Group / Commissioner

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.7 APPENDIX: The Treasury Management role of the section 151 officer

The S151 officer (CFO to Commissioner)

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Commissioner;
- ensure that the Commissioner has appropriate legal powers to undertake expenditure on non-financial assets and their financing.