Police and Crime Commissioner
CAMBRIDGESHIRE AND PETERBOROUGH
Darryl Preston

Annual Treasury Management Review
2025/26

Cambridgeshire Police & Crime Commissioner
May 2026

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1. Introduction

1.1 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 2025/26. 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.

1.2 During 2025/26 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)

1.3 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.

1.4 The PCC confirms compliance 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

2.1 During 2025/26, 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	*2024/25 Actual*	*2025/26 Forecast**	*2025/26 Actual*
Capital expenditure	20,681	43,257	30,223
Capital Financing Requirement (CFR)	42,973	84,663	66,961
External Debt	36,896	74,224	40,224
Investments	14,270	17,997	6,300
Net Borrowing	22,626	56,227	33,924

**Forecast per TMSS for 2025/26*

2.2 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

3.1 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.

3.2 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	*2024/25 Actual*	*2025/26 Forecast**	*2025/26 Actual*
Capital expenditure	20,681	43,257	30,223
Financed in year	5,442	2,461	4,032
Unfinanced capital expenditure	15,239	40,796	26,191

**Forecast per TMSS for 2025/26*

4. The PCC's Overall Borrowing Need

4.1 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 2025/26 unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.2 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.

4.3 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.

4.4 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).

4.5 The PCC's 2025/26 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2025/26.

4.6 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	27,662	42,314*
Add unfinanced capital expenditure	19,204	26,191
Less MRP/VRP	(1,207)	(1,544)
Less PFI & finance lease repayments	-	-
Closing Balance	45,629	66,961

** Includes £659k prior year adjustment*

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

4.8 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 (2024/25) plus the estimates of any additional capital financing requirement for the current (2025/26) 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 2025 Actual	*31 March 2026 Actual*
Gross Borrowing Position (£m)	36.9	40.2
CFR General Fund (£m)	45.7	66.9
(Under)/over funding of CFR (£m)	(8.8)	(26.7)

4.9 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 2025/26 the PCC has maintained gross borrowing within the authorised limit.

4.10 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.

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

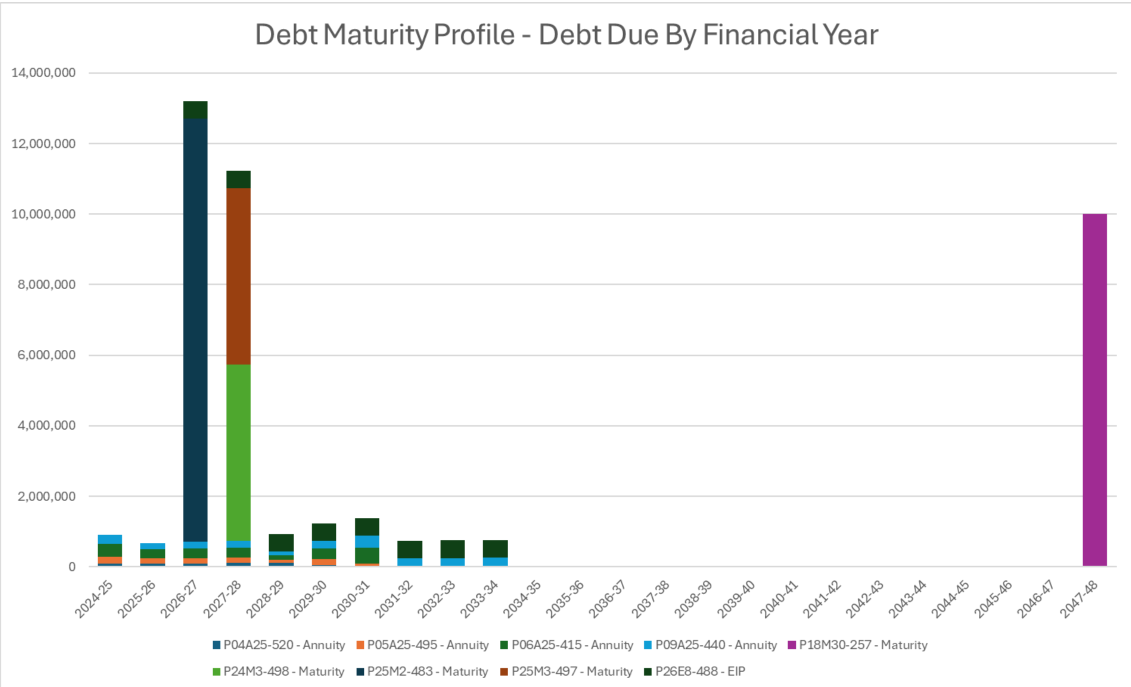
	2025/26
Authorised limit	£107.1m
Maximum gross borrowing position	£36.9m
Operational boundary	£93.1m
Average gross borrowing position	£36.8m
Financing costs as a proportion of net revenue stream	2.02%

5. Treasury Position as at 31 March 2026

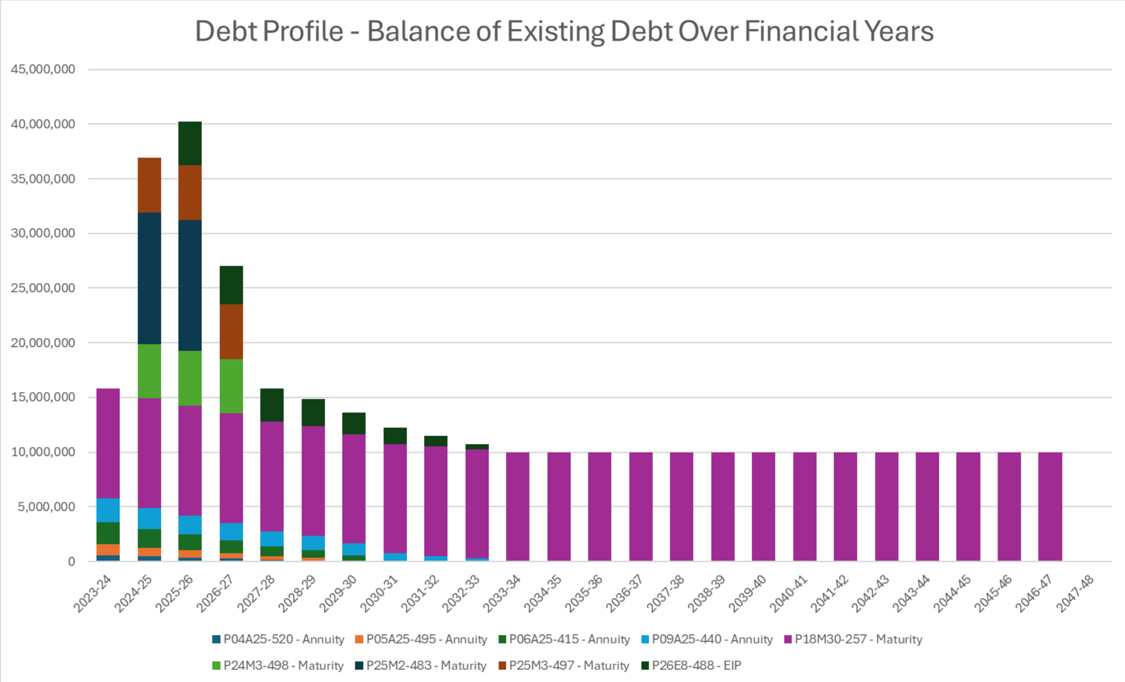
5.1 The PCC's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. At the end of 2025/26 the PCC's treasury position (excluding borrowing by PFI and finance leases) was as follows:

Treasury Position 2025/26 (£m)	*31 March 2025 Principal*	*Rate/ Return*	*Average Life yrs*	*31 March 2026 Principal*	*Rate/ Return*	*Average Life yrs*
Total debt	*36.9*	*4.21%*	*6.9*	*40.2*	*4.27%*	*6.1*
CFR	*42.9*			*65.0*		
Over / (under) borrowing	*(6.1)*			*(24.8)*		
Total investments	*14.3*	*4.42%*		*6.3*	*3.91%*	
Net debt	22.6			33.9		

5.2 All loans are held with Public Works Loan Board (PWLB). The following graph shows the maturity structure of the debt portfolio (when the debt principal is due for payment):



The debt profile of existing borrowing (balance owed over time) is shown below:



5.3 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 2025		31 March 2026	
Treasury Investments	**£000**	**%**	**£000**	**%**
Banks (UK)	1,130	8%	5,160	82%
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	13,140	92%	1,140	18%
Certificates of Deposit	0	0%	0	0%
Total Managed In-house	**14,270**	**100%**	**6,300**	**100%**
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total Managed Externally	**0**	**0%**	**0**	**0%**
Total Treasury Investments	**14,270**	**100%**	**6,300**	**100%**
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	36,896	100%	40,224	100%
Total External Borrowing	**36,896**	**100%**	**40,224**	**100%**
Net Treasury Investments / (Borrowing)	**(22,626)**		**(33,924)**	

6. The Strategy for 2025/26

6.1 Investment strategy and control of interest rate risk

6.1.1 Investment returns remained robust throughout 2025/26 despite Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and at the end of March the yield curve had turned positive, reflecting inflation concerns emanating from the on-going conflict in the Middle East.

6.1.2 Bank Rate reductions of 0.25% occurred in May, August and December, bringing the headline rate down from 4.50% to 3.75%. Two of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

6.1.3 As of early April 2026, market sentiment has been heavily influenced by the Middle East conflict. Commentators anticipate a growing risk of inflation, meaning interest rates will not be cut for some time, and may increase to counteract inflationary pressures arising from steepening energy costs. Growth will also be impacted in many regions of the world. UK GDP is projected by the Office for Budget Responsibility (3 March 2026) to be 1.1% in 2026 before picking up to 1.6% in 2027 and 2028. But the likelihood is that there is downside risk to this forecast given events in the Middle East through March and still on-going.

6.1.4 Looking back through 2025/26, investors were able to achieve returns generally in a range of 4.5% - 5% for periods ranging from 1 month to 12 months in the spring of 2025. By the end of March 2026 deposit rates were somewhat volatile, regaining some traction as the Middle East conflict suggested energy driven inflation may lead to higher interest rates than would otherwise have been the case. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of “laddered investments” paid off.

6.1.5 Heading into 2026/27, UK inflation is likely to increase to over 4% in the coming months as oil prices, for example, remain close to $100 per barrel, over 50% higher than before the Middle East conflict started.

6.2 Borrowing strategy control of interest rate risk

6.2.1 During 2025/26, 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 have generally been lower than medium to long-term borrowing costs. The latter are expected to fall a little through 2026 and 2027 in the 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 borrowing, supplemented by short-dated borrowing (<5 years on a maturity loan structure or <10 years on an EIP loan structure) as appropriate.

6.2.2 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.

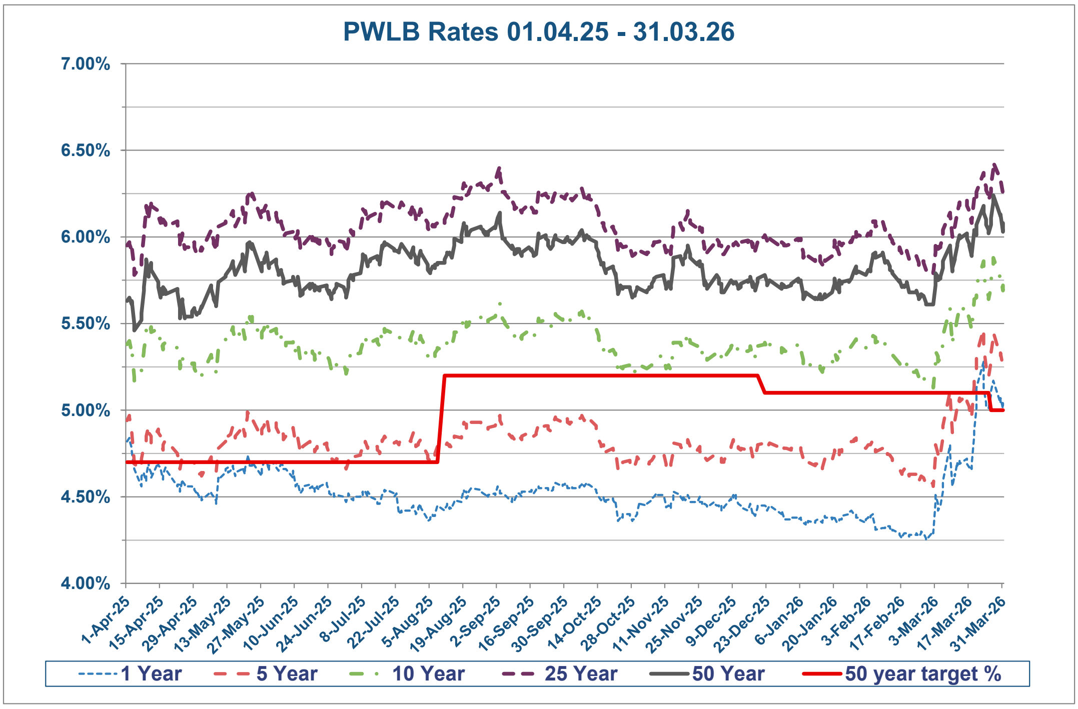
6.2.3 Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained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

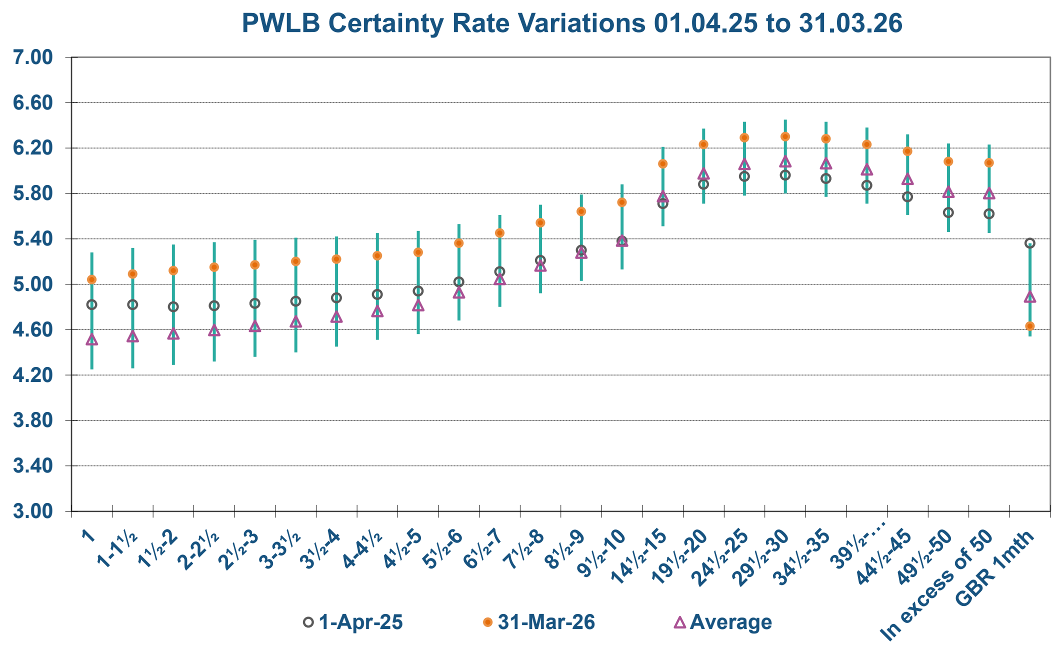
6.2.4 This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

6.2.5 Forecasts at the time of approval of the treasury management strategy report for 2025/26 were as follows:

MUFG Corporate Markets Interest Rate View 11.11.24													
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

6.2.6 PWLB Rates for 2025/26 are illustrated below.





High/Low/Average PWLB Rates for 2025/26

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.25%	4.56%	5.13%	5.78%	5.46%
Date	27/02/2026	27/02/2026	02/03/2026	04/04/2025	04/04/2025
High	5.28%	5.47%	5.88%	6.43%	6.24%
Date	23/03/2026	23/03/2026	27/03/2026	27/03/2026	27/03/2026
Average	4.52%	4.82%	5.38%	6.06%	5.81%
Spread	1.03%	0.91%	0.75%	0.65%	0.78%

6.2.7 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.

6.2.8 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. More recently, the Middle East conflict is likely to see inflation spike higher from late spring 2026 through to early 2027.

6.2.9 Gilt yields have been volatile through 2025/26. The low point for long-term rates of 25 and 50 years' duration was reached early in April 2025 whilst the low points for short and medium dated rates were reached in early 2026, prior to the outbreak of the Middle East conflict.

6.2.10 At the close of 31 March 2026, the 1-year PWLB Certainty rate was 5.04% whilst the 5, 10, 25 and 50-year rates were 5.28%, 5.72%, 6.29% and 6.08% respectively.

6.2.11 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)

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.

7. Borrowing Outturn

7.1 Borrowing

Due to the elevated cost of long-term borrowing, short-dated borrowing was undertaken toward the end of the year to ensure liquidity for the PCC. A £4m loan was drawn in March on a repayment basis (equal instalment of principal) to ensure debt over the portfolio is being paid down. Current loans held by the PCC are with the Public Works Loan Board (PWLB) and total £42.2m as at 31 March 2026.

7.2 Borrowing in advance of need

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

7.3 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

8.1 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.

8.2 Investments held by the PCC

The PCC maintained an average balance of £26.9m of internally managed funds. The internally managed funds earned £1.05m of interest, which equates to an average rate of return of 3.91%. The budget of £750,000 for interest on cash balances was exceeded.

9. Conclusion

In conclusion, the PCC maintained a prudent and fully compliant treasury position throughout 2025/26, operating within all approved prudential indicators and without breaching either the authorised limit or the operational boundary. Capital expenditure for the year amounted to £30.2m, of which £26.2m remained unfinanced at 31 March 2026, resulting in an increase in the Capital Financing Requirement to £66.9m. Gross external borrowing at year end was £40.2m, which remained below the CFR and accordingly evidenced an under-borrowed position of £26.7m.

Investments stood at £6.3m at 31 March 2026, reflecting the use of internal cash balances in support of the capital financing requirement, whilst net debt increased to £33.9m. Notwithstanding the lower average investment balance, internally managed funds generated interest receivable of £1.05m at an average return of 3.91%, exceeding the budgeted level of investment income, while financing costs represented 2.02% of the net revenue stream. Taken together, these outcomes demonstrate that treasury management activity during the year was conducted in a prudent and effective manner, appropriately balancing the objectives of security, liquidity and yield, whilst supporting the delivery of the capital programme in accordance with the approved strategy.

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		2024/25 Actual	2025/26 Actual	2026/27 Budget	2027/28 Forecast	2028/29 Forecast	2029/30 Forecast
Total Capital Expenditure	(A)	**20,681**	**30,223**	**12,107**	**9,675**	**11,310**	**9,440**
Financed by:							
Capital receipts		-	-	(7,382)	(5,089)	(3,529)	-
Revenue contribution		(2,870)	(2,780)	(4,340)	(4,051)	(2,840)	(2,840)
Grants and other contributions		(2,572)	(1,252)	(385)	(535)	(3,180)	(280)
Finance lease and PFI liabilities		-	-	-	-	-	-
Total Financing	(B)	**(5,442)**	**(4,032)**	**(12,107)**	**(9,675)**	**(9,549)**	**(3,120)**
Net financing need for year	(A)-(B)	**15,239**	**26,191**	**-**	**-**	**1,761**	**6,320**

Capital Financing Requirement (CFR)

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

Capital Financing Requirement	2024/25 Actual	2025/26 Actual	2026/27 Budget	2027/28 Forecast	2028/29 Forecast	2029/30 Forecast
Opening CFR	28,413	42,314	66,961	64,717	62,132	60,721
Capital spend	20,681	30,223	12,107	9,675	11,310	9,440
Resources used	(5,442)	(4,032)	(12,107)	(9,675)	(9,549)	(3,120)
MRP & VRP	(1,338)	(1,544)	(2,244)	(2,585)	(3,172)	(3,730)
Closing CFR	**42,314**	**66,961**	**64,717**	**62,132**	**60,721**	**63,311**

Authorised Limit

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

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

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

Authorised Limit	2024/25 Actual	2025/26 Actual	2026/27 Budget	2027/28 Forecast	2028/29 Forecast	2029/30 Forecast
Borrowing	123,545	106,860	81,667	80,422	83,880	90,744
Other Long Term Liabilities	200	200	200	200	200	200
Total Authorised Limit	**123,745**	**107,060**	**81,867**	**80,622**	**84,080**	**90,944**

The Operational Boundary

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

Operational Boundary	2024/25 Actual	2025/26 Actual	2026/27 Budget	2027/28 Forecast	2028/29 Forecast	2029/30 Forecast
Borrowing	107,504	92,996	71,089	70,006	73,013	78,982
Other Long Term Liabilities	100	100	100	100	100	100
Total Operational Boundary	**107,604**	**93,096**	**71,189**	**70,106**	**73,113**	**79,082**

External Debt

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

Actual External Debt as at 31st March	2025/26 Actual
Borrowing	40,224
Other Long Term Liabilities	-
Total External Debt	**40,224**

Gross Debt and the Capital Financing Requirement

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

Gross Debt and the CFR	2024/25 Actual	2025/26 Actual	2026/27 Budget	2027/28 Forecast	2028/29 Forecast	2029/30 Forecast
CFR	42,973	66,961	64,717	62,132	60,721	63,311
Gross Borrowing	36,896	40,224	41,522	42,606	47,998	53,897
(Under)/Over Borrowing	**(6,077)**	**(26,737)**	**(23,195)**	**(19,526)**	**(12,723)**	**(9,414)**

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 Actual	2026/27 Budget	2027/28 Forecast	2028/29 Forecast	2029/30 Forecast
Interest cost on existing borrowing		503	1,546	1,704	1,068	462	467
Interest cost on new borrowing		-	-	347	345	920	915
Gains/losses on debt rescheduling		-	-	-	-	-	-
Interest and investment income		(1,015)	1,046	(750)	(750)	(600)	(500)
MRP & VRP		1,338	1,544	2,244	2,585	3,172	3,730
Total Financing Costs	(A)	**826**	**4,136**	**3,545**	**3,248**	**3,954**	**4,612**
Net Budget Requirement	(B)	**188,686**	**205,244**	**217,397**	**225,163**	**231,225**	**237,276**
Ratio of financing costs	(A)/(B)	**0.44%**	**2.02%**	**1.63%**	**1.44%**	**1.71%**	**1.94%**

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	33%	0%	100%
12 to 24 months	28%	0%	100%
2 to 5 years	9%	0%	100%
5 to 10 years	6%	0%	100%
Over 10 years	25%	0%	100%

Limit for Principal Sums Invested for Longer Than a Year

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

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

Appendix 2: The Economy and Interest Rates

UK Economy

As with 2024/25, UK inflation has proved somewhat stubborn throughout 2025/26. Having started the financial year at 3.5% y/y (April), the CPI measure of inflation peaked at 3.8% from July to September, before dipping to 3% in January and February. Core inflation picked up to 3.2% in February, from 3.1%, and the recent upward pressure on energy costs could see CPI inflation breach 4.5% later this year.

Against this backdrop, the continued lack of progress in ending the Russian invasion of Ukraine, and the potentially negative implications for global growth as a consequence of the implementation of US tariff policies, Bank Rate reductions look limited for the remainder of 2026 (as they do in the euro-zone). Bank Rate currently stands at 3.75%.

Moreover, borrowing has becoming more expensive in 2025/26. Gilt yields have risen materially in March 2026, more than reversing the falls earlier in the financial year. Additionally, the public finances have remained under pressure. The higher-than-expected public net sector borrowing of £14.3bn in February was £2.2bn above last February's outturn. But that borrowing overshoot was mainly due to timing effects relating to the £13.0bn government debt interest payment. That came in as the highest payment since June 2025, causing a 12.3% y/y jump in spending. On the flip side, sitting at £8.1bn, tax revenues were also higher than last February, largely on the back of solid growth in self-employment incomes in 2024/25, boosting self-assessment income tax receipts and stronger capital gains tax receipts.

However, the combination of some energy price support and pressures from higher inflation amid the ongoing energy price shock, higher interest rates and a weaker economy will ultimately put borrowing on an upward trend. With the rise in energy prices possibly pushing the Retail Prices Index inflation up to a peak of 5.7%, debt interest repayments will increase by about £10bn. A weaker growth profile, higher inflation, higher interest rates and gilt yields could erode about £11bn of the Chancellor's £23.6bn headroom.

The loosening in the labour market continues to bear down on wage growth. The 3myy growth rate of average earnings including bonuses slowed from 4.2% in December to 3.9% in January. Meanwhile, excluding bonuses, private earnings growth continued to fall from 3.4% to 3.3%.

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 driven largely by the US administration.

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	3.75%	2.0%	3.5%-3.75%
GDP	0.1%q/q Q4 (1.0%y/y)	+0.2%q/q Q4 (1.2%y/y)	0.7% Q4 Annualised

Inflation	3.0%y/y (Feb)	1.9%y/y (Feb)	2.4%y/y (Feb)
Unemployment Rate	5.2% (Jan)	6.2% (Jan)	4.4% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving Bank Rate unchanged at 3.75% by a vote of 9-0, but suggesting rates may need to rise if inflation picks up markedly. The vote could best be described as moderately hawkish. The MPC stated it "stands ready to act as necessary" and "is alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting". Even so, we suspect the committee is likely to put equal weight on higher inflation and weaker growth, particularly the poor macroeconomic backdrop prior to the energy shock, keeping interest rates at 3.75% this year.

10-year Gilt yields have been exceptionally volatile in the final weeks of 2025/26, troughing at around 4.23% in late February before shooting up to 5.00% (and well through that on an intraday basis). That spike was driven by the outbreak of war in the Middle East, which prompted a dramatic reassessment of investors' Bank of England policy rate expectations. Having been pricing in rate cuts in late-February, as many as four rate hikes were discounted by late-March. The 10-year yield ended the quarter at 4.92% with around 65bp of rate hikes priced in over the coming year. In addition to more hawkish monetary policy expectations, part of this increase in yields probably reflected an increase in term premia amid concerns that the government may react by loosening the fiscal purse strings.

As for equity markets, the FTSE 100 experienced another volatile quarter, surging to an all-time high of around 10,900 in late February, leaving it up 10% from the start of 2026, before giving back most of those gains in March after the outbreak of the Middle East conflict. That pullback leaves the index at around 10,176 at the end of the quarter. For context it was at 8,582 at the start of April. The £ has stayed relatively resilient also at $1.33, strengthening from $1.29 back in April.

USA Economy

Despite a weak finish to 2025, the US economy has generally been the strongest among the developed economies, but with uncertainties growing surrounding President Trump's central economic tenet of being able to apply tariffs on an ad-hoc basis, and bend the FOMC Fed Funds rate decision-making to his will, there is something of a stalemate in place at present over when, and if, rates will be cut further in 2026.

Inflation is currently stuck at around 2.5%, unemployment is only a little above 4%, and tax refunds are in the process of being facilitated for many households. But will those refunds be – at least partially – offset by higher gasoline prices?

The S&P500 started April 2025 at 5,633 and finished March 2026 at 6,528 having peaked at just over 7,000. The 10-year Treasury yield finished March at 4.30% having been 4.17% back at the start of April, and during the year has been both above 4.50% and below 4.00%.

EZ Economy

The Eurozone economy has run pretty much in parallel with that of the UK. A slightly stronger finish to 2025 (GDP of 0.2% q/q) than that of the UK cannot hide the fact that the economy has been negatively impacted by German economic stagnation until late in 2025. France has also struggled against a difficult political backdrop, but managed to post GDP growth of 0.3% q/q for October to December.

With Eurozone headline inflation close to 2%, the ECB has been able to reduce its Deposit Rate to 2%. Whether it rises from that low point will very much be driven by how energy prices trend over the coming months. The Euro has appreciated against the dollar from 1.08 at the start of April 2025 to 1.16 at the end of March.