

## Greater Manchester Combined Authority

Date: 27 March 2026

Subject: Treasury Management Strategy Statement, Minimum Revenue  
Provision Policy Statement and Annual Investment Strategy 2026/27

Report of: Councillor David Molyneux, Portfolio Lead for Resources &  
Investment and Steve Wilson, GMCA Group Chief Finance Officer

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### Purpose of Report

To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2026/27 to 2028/29 for the Authority. The strategy reflects the 2025-2029 capital programme for Transport, Economic Development, Fire and Rescue, Waste and Police.

The paper has been reviewed by the GMCA Audit Committee and is recommended by them for approval by the GMCA.

### Recommendations:

The GMCA is asked to approve the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2026/27.

### Contact Officers

Steve Wilson

Group Chief Finance Officer

[Steve.Wilson@greatermanchester-ca.gov.uk](mailto:Steve.Wilson@greatermanchester-ca.gov.uk)

Lindsey Keech

Head of Finance – Capital and Treasury Management

[Lindsey.keech@greatermanchester-ca.gov.uk](mailto:Lindsey.keech@greatermanchester-ca.gov.uk)

## **Equalities Impact, Carbon and Sustainability Assessment:**

N/A

## **Risk Management**

There are considerable risks to the security of the GMCA's resources if appropriate Treasury Management strategies and policies are not adopted and followed. The GMCA has established good practice in relation to Treasury Management.

## **Legal Considerations**

This report fulfils the statutory requirements to have the necessary prudential indicators to be included in a Treasury Management Strategy.

## **Financial Consequences – Revenue**

Financial revenue consequences are contained within the body of the report.

## **Financial Consequences – Capital**

Financial capital consequences are contained within the body of the report.

## **Number of attachments to the report:**

None

## **Comments/recommendations from Overview & Scrutiny Committee**

N/A

## **Background Papers**

N/A

## **Tracking/ Process**

Does this report relate to a major strategic decision, as set out in the GMCA Constitution

No

## **Exemption from call in**

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?

N/A

## **GM Transport Committee**

N/A

## Overview and Scrutiny Committee

N/A

# 1. Key Considerations

## 1.1. Background

- 1.1.1 The Authority is required to operate a balanced revenue 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 Authority's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.1.2 The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it can meet its 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 risk or cost objectives.
- 1.1.3 The contribution the treasury management function makes to the Authority 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 Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

“The management of the local authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.1.5 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. Capital Strategy**

1.2.1.1 The CIPFA 2021 Prudential and Treasury Management Codes requires all local authorities to prepare a Capital Strategy report which will provide the following: -

- a) a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- b) an overview of how the associated risk is managed; and
- c) the implications for future financial sustainability.

1.2.1.2 The aim of the strategy is to ensure that all the Authority's elected Members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

### **1.2.2. Treasury Management Reporting**

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

- a) **Prudential and treasury indicators and treasury strategy** (this report) -  
The first, and most important report is forward looking and covers: -
  - i. the capital plans, (including prudential indicators)
  - ii. a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
  - iii. the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - iv. an Annual Investment Strategy, (the parameters on how investments are to be managed)
- b) **A mid-year treasury management report** – This is primarily a progress report and will update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.
- c) **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.2.2 The above reports are required to be adequately scrutinised before being recommended to the Full Authority. This role is undertaken by the Audit Committee.

1.2.2.3 In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Authority but do require to be adequately scrutinised. This role is undertaken by the Audit Committee.

### **1.3. Treasury Management Strategy for 2026/27**

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

#### Capital issues

- the capital expenditure plans and the associated 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 Authority
- 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, Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

### **1.4. Training**

1.4.1 The CIPFA Treasury Management Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate

training in treasury management. This especially applies to Members responsible for scrutiny.

1.4.2 Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

1.4.3 The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

1.4.4 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- a) Record attendance at training and ensure action is taken where poor attendance is identified.
- b) Prepare tailored learning plans for treasury management officers and committee/authority members.
- c) Require treasury management officers and committee/Members to undertake self-assessment.
- d) Have regular communication with officers and committee/Members, encouraging them to highlight training needs on an ongoing basis.

1.4.5 Treasury training has been undertaken by Members on 17 January 2024 and further training will be arranged in the new municipal year.

1.4.6 The training needs of treasury management officers are periodically reviewed.

1.4.7 A formal record of the training received by officer’s central to the Treasury function will be maintained by the treasury team. Similarly, a formal record of the treasury management/capital finance training received by Members will also be maintained by the treasury team.

## **1.5. Treasury Management Consultants**

1.5.1 The Authority uses Mitsubishi UFJ Financial Group (MUFG), as its external treasury management advisors.

1.5.2 The Authority 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.

- 1.5.3 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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 Prudential Indicators 2026/27 – 2028/29

- 2.1 The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans are prudent, affordable and sustainable.

### 2.2 Capital Expenditure and Financing

- 2.2.1 This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

<b>Capital Expenditure</b>	<b>2024/25 Actual £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>2027/28 Estimate £m</b>	<b>2028/29 Estimate £m</b>
Transport	343.241	289.586	373.148	370.497	176.369
Economic Development & Regeneration	241.839	238.282	652.484	198.264	192.825
Fire & Rescue Service	10.748	26.142	44.372	14.740	2.821
Waste & Resources Service	2.737	31.842	36.778	8.250	3.438
Police Service	26.229	26.388	42.131	37.994	31.019
<b>Total</b>	<b>624.794</b>	<b>612.240</b>	<b>1,148.913</b>	<b>629.745</b>	<b>406.472</b>

- 2.2.2 Other long-term liabilities - the above financing need excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements that already include borrowing instruments.
- 2.2.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Financing of capital expenditure</b>	<b>2024/25 Actual £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>2027/28 Estimate £m</b>	<b>2028/29 Estimate £m</b>
Capital Receipts	74.176	97.632	82.716	43.100	37.731
Capital Grants	376.655	363.293	495.399	416.690	249.863
Revenue Contributions	4.436	1.394	0.277	0.090	0.090
External Income	22.285	7.746	3.565	(2.434)	2.500
<b>Net financing need for the year</b>	<b>147.242</b>	<b>142.175</b>	<b>566.956</b>	<b>172.299</b>	<b>116.288</b>

## **2.3 The Authority's Borrowing Need (the Capital Financing Requirement)**

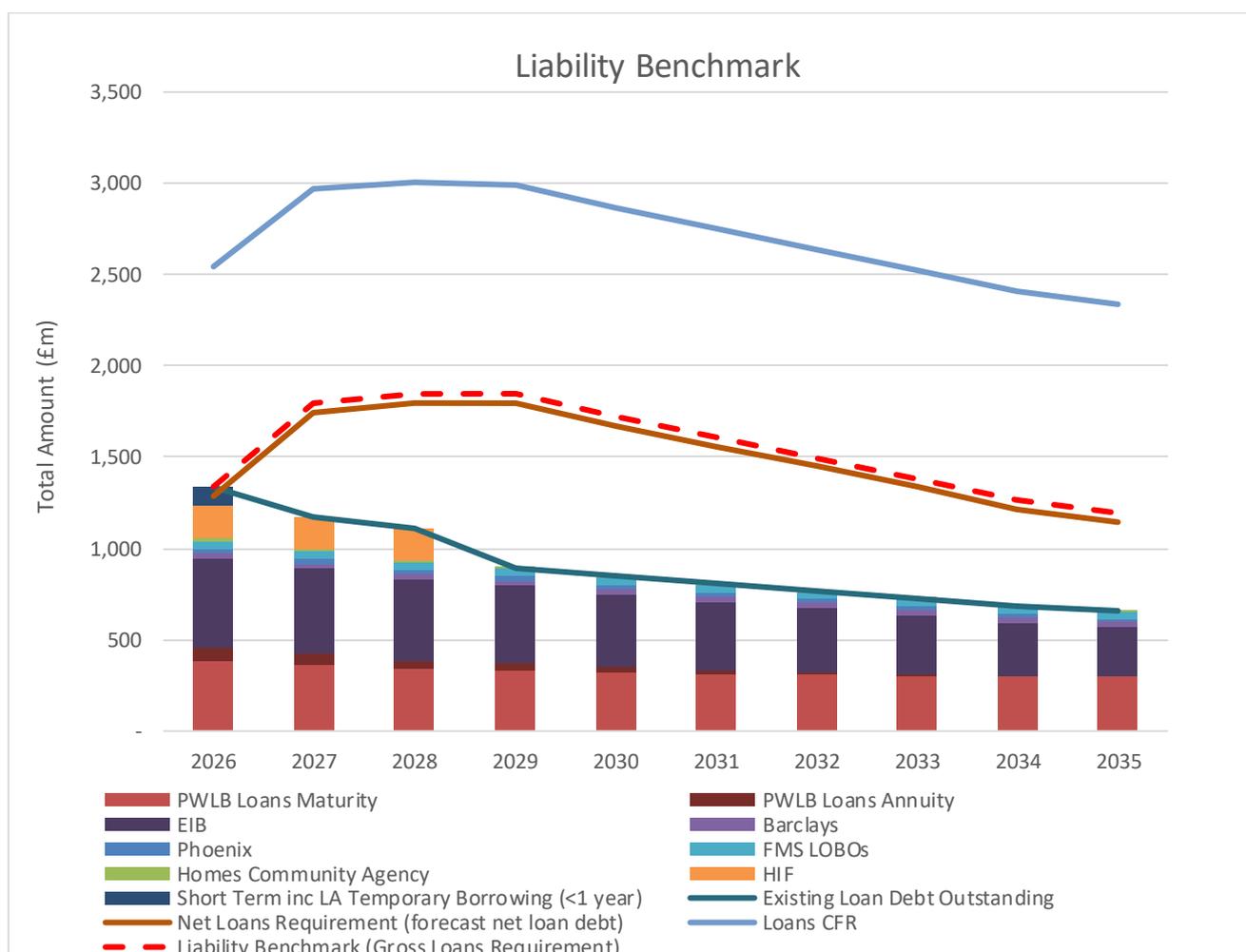
- 2.3.1 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- 2.3.2 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 asset's life, and so charges the economic consumption of capital assets as they are used.
- 2.3.3 The CFR includes any other long-term liabilities (e.g., PFI schemes, leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, Public-Private Partnership (PPP) lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £23.9m of such schemes within the CFR.

2.3.4 The Authority is asked to approve the CFR projections below:

	<b>2024/25</b> <b>Actual</b> <b>£m</b>	<b>2025/26</b> <b>Estimate</b> <b>£m</b>	<b>2026/27</b> <b>Estimate</b> <b>£m</b>	<b>2027/28</b> <b>Estimate</b> <b>£m</b>	<b>2028/29</b> <b>Estimate</b> <b>£m</b>
Capital Financing Requirement	2,502.141	2,540.738	2,994.019	3,046.396	3,040.477
<b>Movement in CFR</b>	<b>50.434</b>	<b>38.597</b>	<b>453.281</b>	<b>52.377</b>	<b>(5.919)</b>
Net financing need for the year (above)	147.242	142.175	566.956	172.299	116.288
Less MRP and other financing movements	(96.808)	(103.578)	(113.675)	(119.922)	(122.207)
<b>Movement in CFR</b>	<b>50.434</b>	<b>38.597</b>	<b>453.281</b>	<b>52.377</b>	<b>(5.919)</b>

## 2.4 Liability Benchmark

2.4.1 The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.



2.4.2 There are four components to the LB:

- a) **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
- b) **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.
- c) **Net loans requirement:** this will show the Authority'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.
- d) **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

## 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 revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

2.5.2 The Authority 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 capital expenditure provides benefits. The MRP Guidance (2024) provides four ready-made options for calculating MRP, but the Authority can use a mix of these options if it considers it appropriate to do so.

2.5.3 The MRP policy statement requires full Authority approval in advance of each financial year.

2.5.4 The Authority is recommended to approve the following MRP Statement:

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- MRP will be calculated using an Asset Life annuity basis over 50 years

From 1 April 2008 for all unsupported borrowing (including PFI) the MRP policy will be:

- MRP will be calculated on an Asset Life annuity basis. The interest rate applied will be linked to Public Works Loan Board (PWLB) interest rates and the useful life on the asset.

Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27, or in the financial year following the one in which the asset becomes operational.

For On Balance Sheet leases following the adoption of the IFRS 16 Leases accounting standard, the MRP policy will be:

- The annual MRP charge will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

For capital expenditure on loans to third parties which are primarily for service purposes, the MRP policy will be:

- the Authority will make nil MRP except as detailed below for credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

For capital expenditure on loans to third parties which are primarily for service purposes made on or after 7 May 2024 where an expected credit loss is recognised during the year, the MRP policy will be:

- an MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

For share capital, the MRP policy will be:

- an MRP charge based on the lifetime of the asset and guidance states for equity this must be charged over a maximum useful life of 20 years. Where it can be proved that the underlying asset has a greater useful life than 20 years then the greater life will be used. The Authority would seek professional opinion to confirm acceptability before using the greater useful life.

### 3. Borrowing

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority'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.

### 3.2 Current Portfolio Position

3.2.1 The overall treasury management portfolio as at 31 March 2025 and for the position as at 31 January 2026 are shown below for both borrowing and investments.

	<b>Actual 31 March 2025</b>	<b>Actual 31 March 2025</b>	<b>Current 31 January 2026</b>	<b>Current 31 January 2026</b>
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
<b>Treasury Investments</b>				
Banks	11.000	7%	6.710	2%
Local authorities	0	0%	70.000	20%
Debt Management Account Deposit Facility (DMADF) (HM Treasury)	154.680	93%	0	0%
Money Market Funds	0	0%	145.340	42%
Certificates of Deposit	0	0%	0	0%
Transport for Greater Manchester (TfGM)	0	0%	127.205	36%
<b>Total Treasury Investments</b>	<b>165.680</b>	<b>100%</b>	<b>349.255</b>	<b>100%</b>
<b>Treasury External Borrowing</b>				
PWLB	476.019	33%	461.316	37%
European Investment Bank	508.481	36%	495.231	39%
Market Loans	304.820	21%	304.820	24%
TfGM	1.032	1%	0	0%
Temporary Borrowing	127.000	9%	0	0%
<b>Total External Borrowing</b>	<b>1,417.352</b>	<b>100%</b>	<b>1,261.367</b>	<b>100%</b>
<b>Net treasury investments/ (borrowing)</b>	<b>1,251.672</b>		<b>912.112</b>	

3.2.2 The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	<b>2024/25 Actual £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>2027/28 Estimate £m</b>	<b>2028/29 Estimate £m</b>
External Debt at 1 April	1,363.184	1,417.353	1,377.120	1,738.578	1,854.071
Expected Change in Debt	54.169	(40.233)	361.457	115.494	(102.596)
Other long-term liabilities (OLTL)	32.998	28.645	23.946	18.685	12.865
Expected Change in OLTL	(4.353)	(4.699)	(5.261)	(5.821)	(6.279)
Actual gross debt at 31 March	1,445.998	1,401.067	1,757.263	1,866.936	1,758.061
The Capital Financing Requirement	2,502.141	2,540.738	2,994.019	3,046.396	3,040.477
Under/ (Over) borrowing	1,056.143	1,139.671	1,236.756	1,179.460	1,282.417

3.2.3 Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its 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 or speculative purposes.

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

### **3.3 Treasury Indicators: Limits to Borrowing Activity**

3.3.1 **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.

<b>Operational Boundary</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>2027/28 Estimate £m</b>	<b>2028/29 Estimate £m</b>
Debt	2,667.774	3,143.720	3,198.716	3,192.501
Other long-term liabilities	28.644	23.946	18.685	12.864
Total	2,696.418	3,167.665	3,217.401	3,205.365

**3.3.2 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 legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. 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.

- a) 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 local authority plans, or those of a specific authority, although this power has not yet been exercised.
- b) The Authority is asked to approve the following Authorised Limit:

<b>Authorised Limit</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>2027/28 Estimate £m</b>	<b>2028/29 Estimate £m</b>
Debt	2,794.811	3,293.421	3,351.036	3,344.525
Other long-term liabilities	28.644	23.946	18.685	12.864
Total	2,823.455	3,317.366	3,369.720	3,357.389

### **3.4 Prospects for Interest Rates**

**3.4.1** The Authority has appointed Mitsubishi UFJ Financial Group (MUFG), as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 22 December 2025. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

	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	3.40	3.30	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 year 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 year 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 year 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 year 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

- a) MUFG's last interest rate forecast update was undertaken on 11 August 2025. Since then, a combination of tepid growth (0.2% q/q Gross Domestic Product (GDP) for Q2 and 0.1% q/q GDP for Q3), falling inflation (currently Consumer Price Indexation (CPI) is 3.2%), and a November 2025 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 18 December 2025.
- b) 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.
- c) 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, Monetary Policy Committee (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 Bank Rate approaches a neutral level”.

- d) 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 2026 to 2% in April 2026 (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.
- e) As in August 2025, 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 will there be additional 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%.
- f) Accordingly, the updated central forecast is made with several hefty caveats. MUFG are confident, as they have been for some time, that the forecast for Bank Rate and the 5-year PWLB Certainty Rate is robust, and they 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 United States (US), are also likely to hold sway. Matters should be clearer by June 2026 in the UK, but the US mid-term elections are scheduled for November 2026.
- g) The revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA

(standard rate minus 60 bps) and is set to prevail until at least the end of March 2026. Hopefully, there will be a further extension to this discounted rate announced.

- h) Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

### **Gilt Yields and PWLB Rates**

- 3.4.2 The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of MUFG forecasts, but the risks to the forecasts are to the upsides. MUFG's target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

<b>PWLB Borrowing</b>	<b>Current borrowing rates as at 22 December 2025 PM</b>	<b>Target borrowing rate now (end of Q4 2027)</b>	<b>Target borrowing rate previous (end of Q4 2027)</b>
5 years	4.81%	4.10%	4.20%
10 years	5.39%	4.70%	4.70%
25 years	6.01%	5.30%	5.30%
50 years	5.78%	5.10%	5.10%

### **Borrowing advice**

- 3.4.3 MUFG's long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.5%. As all PWLB certainty rates are still above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve (<5 years PWLB maturity/<10 years PWLB Equal Instalments of Principal (EIP)) and short-dated fixed Local Authority (LA) to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.
- 3.4.4 MUFG's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

<b>Average earnings in each year</b>	<b>Now</b>	<b>Previously</b>
2025/26 (residual)	3.80%	3.90%
2026/27	3.40%	3.60%

2027/28	3.30%	3.30%
2028/29	3.30%	3.50%
2029/30	3.50%	3.50%
Years 6 to 10	3.50%	3.50%
Years 10+	3.50%	3.50%

3.4.5 MUFG will continue to monitor economic and market developments as they unfold. Typically, they formally review the forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider the position on an ad hoc basis as required.

3.4.6 MUFG's interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. MUFG continue to monitor events and will update the forecasts as and when appropriate.

### **3.5 Borrowing Strategy**

3.5.1 The Authority currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority'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, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

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

- a) if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- b) 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.

3.5.3 Any decisions will be reported to the Audit Committee at the next available opportunity.

### 3.6 Policy on Borrowing in Advance of Need

3.6.1 The Authority will not borrow more than or in advance of its needs 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 Authority can ensure the security of such funds.

3.6.2 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.

### 3.7 Rescheduling

3.7.1 Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

3.7.2 If rescheduling is to be undertaken, it will be reported to the Audit Committee at the earliest meeting following its action.

### 3.8 Approved Sources of Long and Short-Term Borrowing

3.8.1 On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK National Wealth Fund	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●

Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

## 4. Annual Investment Strategy

### 4.1. Investment Policy – Management Risk

- 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, (a separate report).
- 4.1.2 The Authority’s investment policy has regard to the following:
- a) MHCLG’s Guidance on Local Government Investments (“the Guidance”)
  - b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
  - c) CIPFA Treasury Management Guidance Notes 2021
- 4.1.3 The Authority’s investment priorities will be security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority’s risk appetite.
- 4.1.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.
- 4.1.5 The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:
- a) 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.

- b) **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 Authority will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
- c) **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.
- d) This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 4 under the categories of ‘specified’ and ‘non-specified’ investments.
  - i. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.
  - ii. **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.
- e) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.6.
- f) **Transaction limits** are set for each type of investment in 4.2.6.
- g) This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.3.7).
- h) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.2.9).
- i) This Authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security,

liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

- j) All investments will be denominated in **sterling**.
- k) As a result of the change in accounting standards under International Financial Reporting Standard (IFRS) 9, this Authority 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. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. Subsequently, a further extension to the override to 31 March 2029 was agreed by Government but only for those pooled investments made before 01 April 2024.

4.1.6 However, this Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.4). Regular monitoring of investment performance will be carried out during the year.

## **4.2 Creditworthiness Policy**

4.2.1 This Authority applies the creditworthiness service provided by the MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- a) "watches" and "outlooks" from credit rating agencies;
- b) CDS spreads that may give early warning of changes in credit ratings;
- c) sovereign ratings to select counterparties from only the most creditworthy countries.

4.2.2 This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

4.2.3 The MUFG Corporate Markets creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

4.2.4 Typically, the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalent) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.2.5 All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets creditworthiness service.

- a) if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- b) in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by MUFG Corporate Markets. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

4.2.6 Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Money and/or %limit	Transaction limit	Time limit
Banks	Yellow	£30m/100%	£30m	5 yrs
Banks	Purple	£30m/100%	£30m	2 yrs
Banks	Orange	£30m/100%	£30m	1 yr
Banks – part nationalised	Blue	£30m/100%	£30m	1 yr
Banks	Red	£30m/100%	£30m	6 months
Banks	Green	£30m/100%	£30m	100 days
Banks	No Colour	Not to be used		
Limit 3 category – Authority’s banker	Any or no colour	£50m/100%	£50m	1 day
Other institutions limit		£50m/100%	£50m	Liquid
DMADF	UK sovereign rating	unlimited	Unlimited	6 months
Local authorities	n/a	£30m/100%	£30m	1 yr

### Creditworthiness

4.2.7 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, this Authority will not set a minimum rating for the UK.

### CDS prices

4.2.8 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in 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. MUFG Corporate Markets monitor CDS prices as part of their creditworthiness service to local authorities and

the Authority has access to this information via its MUFG Corporate Markets provided Passport portal.

### **Limits**

- 4.2.9 Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.
- a) **Non-specified treasury management investment limit.** The Authority has determined that it will not invest for periods longer than 12 months.
  - b) **Country limit.** The Authority has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

## **4.3 Investment Strategy**

- 4.3.1 **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.
- 4.3.2 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.

### **Investment returns expectations.**

- 4.3.3 The current forecast shown in paragraph 3.4, includes a forecast for Bank Rate to fall to a low of 3.25% in 2026.
- 4.3.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year were updated on 22 December 2025 and are as follows: -

Average earnings in each year	Now	Previously
2025/26 (residual)	3.80%	3.90%
2026/27	3.40%	3.60%
2027/28	3.30%	3.30%
2028/29	3.30%	3.50%
2029/30	3.50%	3.50%
Years 6 – 10	3.50%	3.50%
Years 10+	3.50%	3.50%

4.3.5 Caution must be exercised in respect of all interest rate forecasts.

4.3.6 For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to 100 days) in order to benefit from the compounding of interest.

**Total principal funds invested for greater than 365 days**

4.3.7 The Authority does not place treasury investments for longer than 365 days.

**4.4 Investment Performance / Risk Benchmarking**

4.4.1 This Authority will use an investment benchmark to assess the investment performance.

**4.5 End of Year Investment Report**

4.5.1 At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

**4.6 Delegation to the Group Chief Finance Officer to Safeguard the Authority's Position**

4.6.1 It may be prudent, depending on circumstances, to temporarily increase the limits shown in paragraph 4.2.6 if it becomes increasingly difficult for officers to place

funds. If this is the case officers will seek approval from the Group Chief Finance Officer for such an increase and approval may be granted at the Group Chief Finance Officer's discretion. Any increase in the limits will be reported to Members of the Audit Committee as part of the normal treasury management reporting process.

## Appendix 1 The Capital Prudential and Treasury Indicators 2026/27 – 2028/29

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

### Capital Expenditure

	<b>2024/25 Actual £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>	<b>2027/28 Estimate £m</b>	<b>2028/29 Estimate £m</b>
Transport	343.241	289.586	373.148	370.497	176.369
Economic Development & Regeneration	241.839	238.282	652.484	198.264	192.825
Fire & Rescue Service	10.748	26.142	44.372	14.740	2.821
Waste & Resources Service	2.737	31.842	36.778	8.250	3.438
Police Service	26.229	26.388	42.131	37.994	31.019
<b>Total</b>	<b>624.795</b>	<b>612.240</b>	<b>1,148.913</b>	<b>629.745</b>	<b>406.472</b>

### Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

#### Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs), against the net revenue stream.

The estimates of financing costs include current commitments and the proposals in this budget report.

	<b>2024/25 Actual</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>	<b>2028/29 Estimate</b>
Ratio of Financing Costs to Net Revenue Stream	8.5%	7.7%	7.6%	8.6%	9.7%

## **Maturity Structure of Borrowing**

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Authority is asked to approve the following treasury indicators and limits: -

	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	20%
12 months to 2 years	0%	10%
2 years to 5 years	0%	30%
5 years to 10 years	0%	60%
10 years to 20 years	0%	80%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

## Appendix 2 Interest Rate Forecasts 2026 – 2029

MUFG Corporate Markets Interest Rate View 22 December 2025

	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 year 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 year 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 year 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 year 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

PWLB forecasts are based on PWLB certainty rates

## Appendix 3 Economic Background

1. The first half of 2025/26 saw:
  - a) A 0.3% pick up in GDP for the period April 2025 to June 2025. More recently, the economy flatlined in July 2025, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August 2025 before falling back by 0.1% m/m in September 2025.
  - b) The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September 2025.
  - c) CPI inflation has ebbed and flowed but finished September 2025 at 3.8%, whilst core inflation eased to 3.5%.
  - d) The Bank of England cut interest rates from 4.50% to 4.25% in May 2025, and then to 4% in August 2025 (and subsequently to 3.75% in December 2025).
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 2025 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 2025 and June 2025 so that quarterly growth ended up 0.3% q/q (subsequently revised down to 0.2% q/q). Nonetheless, the 0.0% m/m change in real GDP in July 2025, followed by a 0.1% m/m increase in August 2025 and a 0.1% decrease in September 2025 will have caused some concern. GDP growth for 2025 - 2028 is currently forecast by the Office for Budget Responsibility to be in the region of 1.5%.
3. Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October 2025. 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 2025 we heard that GDP for July 2025 to September 2025 was only 0.1% q/q.
4. Turning to retail sales volumes, and the 1.5% year-on-year rise in September 2025, accelerating from a 0.7% increase in August 2025, marked the highest gain since April 2025. 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 2025. Household spending remains surprisingly resilient, but headwinds are gathering.
5. Prior to the November 2025 Budget, the public finances position looked weak. The £20.2 billion borrowed in September 2025 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 2025 to September 2025 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.
  6. Following the 26 November 2025 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.
  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 National Insurance Contributions (NICs) on salary-sacrifice pension contributions (+£4.8bn). The increase in council tax for properties worth more than £2.0m will generate £0.4bn.
  8. The weakening in the jobs market looked clear in the spring. May 2025's 109,000 m/m fall in the Pay As You Earn (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 2025'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 2025, 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 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.

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 2025 to 4.6% in September 2025 (still at that level in November 2025). The rate for the private sector has slipped just below 4% as the year end approaches.
10. CPI inflation remained at 3.8% in September 2025 but dropped to 3.2% by November 2025. Core inflation also fell to 3.2% by November 2025 while services inflation fell to 4.4%. Nonetheless, 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.
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 2025 to 4.8% in mid-April 2025 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 2025, the 10-year gilt yield had returned to 4.4%. In May 2025, 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 2025. 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 2025 at 4.50%.
12. More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July 2025 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 2025, 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 2025, sticky inflation, resilient activity data and a hawkish Bank

of England kept yields elevated over 4.70% although by late December 2025 had fallen back again to a little over 4.50%.

13. The Financial Times Stock Exchange (FTSE) 100 fell sharply following the “Liberation Day” tariff announcement, dropping by more than 10% in the first week of April 2025 - from 8,634 on 1 April 2025 to 7,702 on 7 April 2025. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April 2025. As a result, the FTSE 100 ended June 2025 at 8,761, around 2% higher than its value at the end of March 2025 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 2025, its strongest monthly gain since January 2025 and outperforming the Standard & Poors (S&P) 500. Strong corporate earnings and progress in trade talks (US-European Union (EU), UK-India) lifted share prices and the index hit a record 9,321 in mid-August 2025, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September 2025 proved more volatile and the FTSE 100 closed September 2025 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 2025, the FTSE100 climbed to a record high just above 9,900. By late December 2025, the index had clung on to most of those gains standing at 9,870 on 23 December 2025.

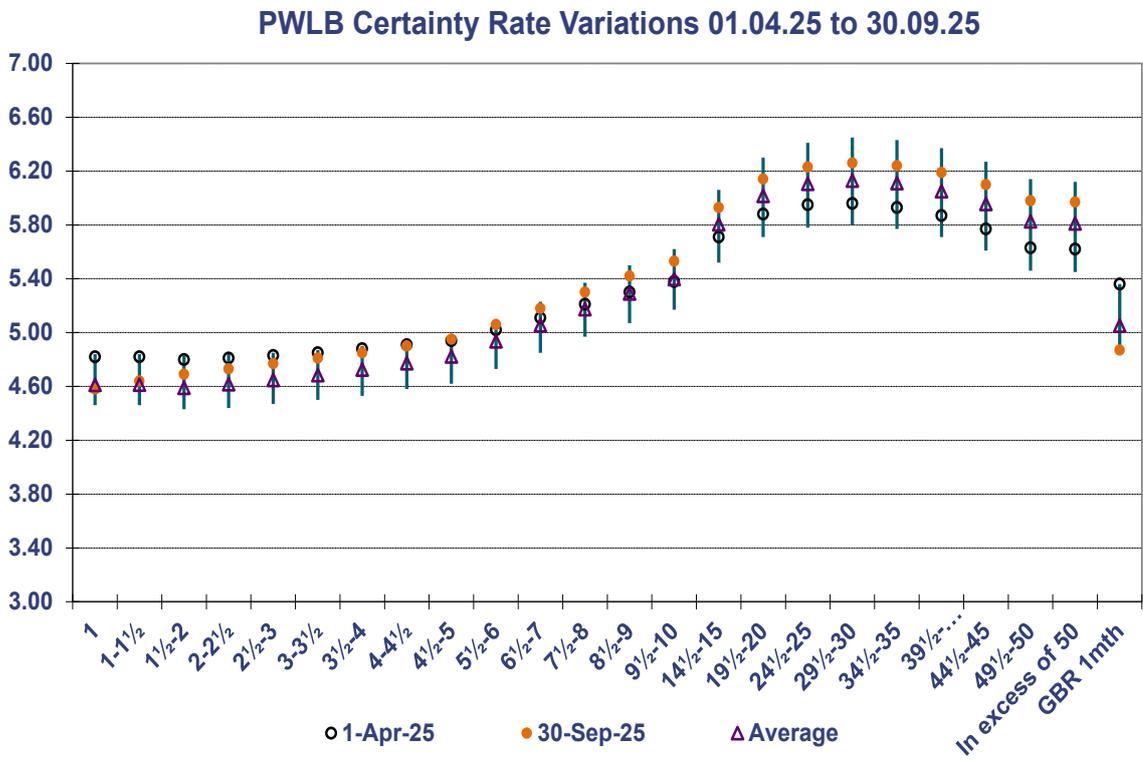
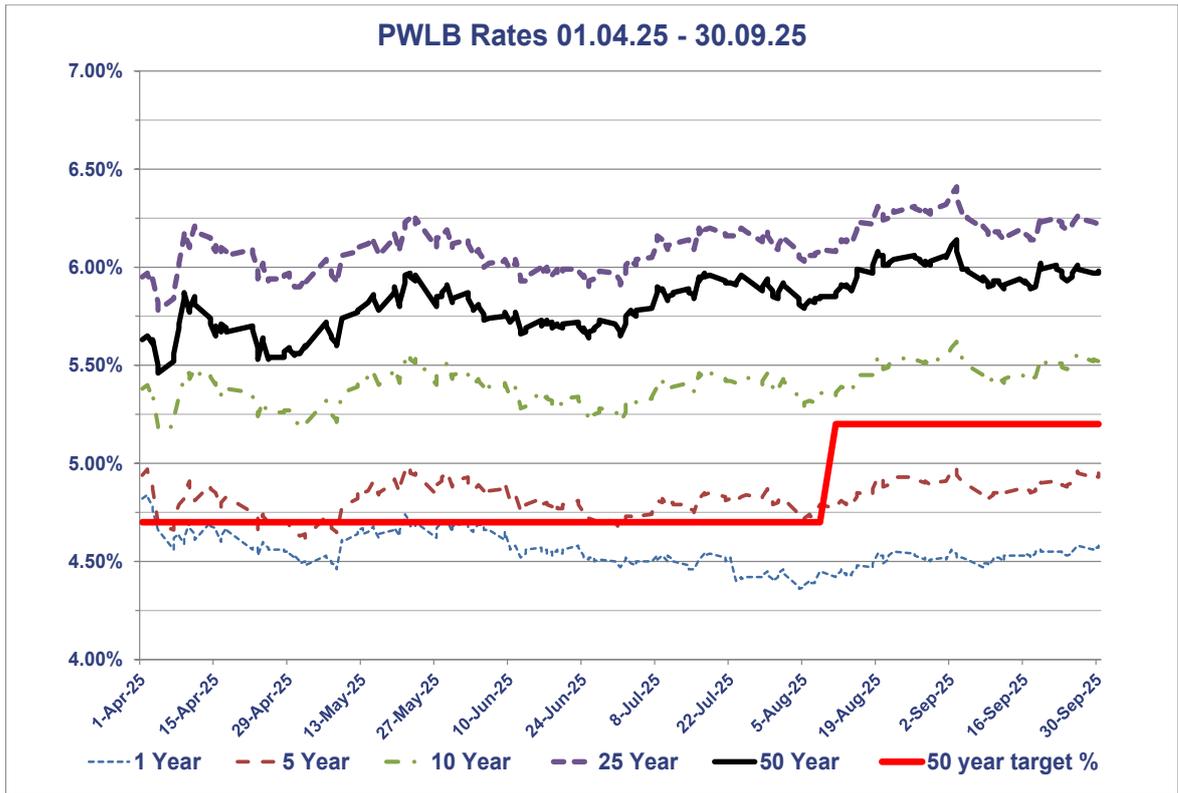
#### **MPC Meetings: 8 May, 19 June, 7 August, 18 September, 6 November, 18 December 2025**

14. There were six MPC meetings held between April 2025 and December 2025. In May 2025, the Committee cut Bank Rate from 4.50% to 4.25%, while in June 2025 policy was left unchanged. In June 2025’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.
15. In August 2025, 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%.

16. With wages still rising by just below 5%, it was no surprise that the September 2025 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.
17. At the 6 November 2025 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 2025, with November 2025 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 2026.

# PWLB RATES 1 April 2025 – 30 September 2025



**HIGH/LOW/AVERAGE PWLB RATES FOR 1 April 2025 – 30 September 2025**

	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>	<b>25 Year</b>	<b>50 Year</b>
<b>1 April 2025</b>	4.82%	4.94%	5.38%	5.95%	5.63%
<b>30 September 2025</b>	4.58%	4.95%	5.53%	6.23%	5.98%
<b>Low</b>	4.36%	4.62%	5.17%	5.78%	5.46%
<b>Low Date</b>	4 August 2025	2 May 2025	2 May 2025	4 April 2025	4 April 2025
<b>High</b>	4.84%	4.99%	5.62%	6.41%	6.14%
<b>High Date</b>	2 April 2025	21 May 2025	3 September 2025	3 September 2025	3 September 2025
<b>Average</b>	4.55%	4.82%	5.40%	6.11%	5.83%
<b>Spread</b>	0.48%	0.37%	0.45%	0.63%	0.68%

## Appendix 4 Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	<b>Minimum credit criteria / colour band</b>	<b>Max % of total investments / £ limit per institution</b>	<b>Max. maturity period</b>
DMADF – UK Government	yellow	100%/ unlimited	6 months (max. is set by the Debt Management Office (DMO))
UK Government gilts	yellow	100%/ unlimited	1 year
UK Government Treasury bills	yellow	100%/ unlimited	364 days (max. is set by the DMO)
Bonds issued by multilateral development banks	yellow	Not used	1 year
Money Market Funds	AAA	100%/ £50m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	Not used	Liquid

Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	Not used	Liquid
Local authorities	yellow	100%/ £30m	1 year
Term deposits with housing associations	Blue	Not used	1 year
	Orange		1 year
	Red		6 months
	Green		100 days
	No Colour		Not for use
Term deposits with banks and building societies	Blue	100%/ £30m	1 year
	Orange		1 year
	Red		6 months
	Green		100 days
	No Colour		Not for use
CDs or corporate bonds with banks and building societies	Blue	100%/ £30m	1 year
	Orange		1 year
	Red		6 months
	Green		100 days
	No Colour		Not for use
Gilt funds	UK sovereign rating	Not used	

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

## **Environmental, social and governance (ESG) Policy**

Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

## **Appendix 5 Approved Countries for Investments**

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the MUFG creditworthiness service.

***Based on lowest available rating (as at 23.12.25)***

### **AAA**

Australia

Denmark

Germany

Netherlands

Norway

Singapore

Sweden

Switzerland

### **AA+**

Canada

U.S.A.

### **AA**

Abu Dhabi (UAE)

Finland

Qatar

### **AA-**

**U.K.**

## **Appendix 6 Treasury Management Scheme of Delegation**

### Full Authority

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

### Audit Committee

- a) approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- b) approval of the division of responsibilities;
- c) receiving and reviewing regular monitoring reports and acting on recommendations;

### Group Chief Finance Officer

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

## **Appendix 7 The Treasury Management Role of the S151 Officer**

The S151 (responsible) officer

- a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- b) submitting regular treasury management policy reports;
- c) receiving and reviewing management information reports;
- d) reviewing the performance of the treasury management function;
- e) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- f) ensuring the adequacy of internal audit, and liaising with external audit; and
- g) recommending the appointment of external service providers.