

**ORIGINATOR: PCC CHIEF FINANCE OFFICER**

**PAPER NO: AC25/30**

**SUBMITTED TO: AUDIT COMMITTEE - 17<sup>TH</sup> OCTOBER 2025**

**SUBJECT: MID-YEAR TREASURY MANAGEMENT MONITORING REPORT 2025/26**

**SUMMARY:**

1. This report presents the mid-year treasury management monitoring report for 2025/26 in line with CIPFA's Code of Practice on Treasury Management and the PCC's 2025/26 Investment and Treasury Management Strategy.
2. This report provides information on the treasury management activities of the PCC for the period 1<sup>st</sup> April 2025 to 30<sup>th</sup> September 2025.
3. Borrowing has not exceeded the Operational Boundary limit or Authorised Limit for external debt as set in the PCC's 2025/26 Investment and Treasury Management Strategy.
4. An approved Counterparty list has been maintained in line with strategy and there have been no credit rating downgrades that have resulted in counterparties being removed from the list during the period.

**RECOMMENDATION:**

The Audit Committee are invited to note the contents of this report.

## **1. Introduction**

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Sector (the Code), requires that the PCC receives a mid-year review of treasury activities in addition to the forward looking annual investment and treasury strategy and backward looking annual treasury report. The Annual Investment and Treasury Strategy for the current year (2025/26) was approved by the PCC in January 2025.
- 1.2 The PCC operates a balanced budget, which broadly means income receivable during the year will cover expenditure payable and any planned movement on reserves. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.
- 1.3 The second main function of the treasury management service is the financing of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning to ensure the PCC can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to the PCC's risk or cost objectives.
- 1.4 As a consequence treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.5 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC's Chief Finance Officer. Day to day execution and administration of investment and borrowing decisions are undertaken by the Constabulary.
- 1.6 The PCC recognises the importance of monitoring treasury management activities, with regular reports being presented to the Audit Committee throughout the year.
- 1.7 This mid-year review provides commentary on economic conditions produced by MUFG Corporate Markets Treasury Limited (the PCC's external treasury consultant) and details treasury activities for the period 1 April 2025 to 30 September 2025 including; cash balances and cash flow management, investment performance, counterparty management and long-term borrowing/debt management.

## **2.1 MUFG Corporate Markets Economic Update - October 2025**

- The first half of 2025/26 saw:
  - A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
  - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
  - CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
  - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
  - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.

- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July will have caused some concern, with the hikes in taxes for businesses that took place in April this year undoubtedly playing a part in restraining growth. The weak overseas environment is also likely to have contributed to the 1.3% m/m fall in manufacturing output in July. That was the second large fall in three months and left the 3m/3m rate at a 20-month low of -1.1%. The 0.1% m/m rise in services output kept its 3m/3m rate at 0.4%, supported by stronger output in the health and arts/entertainment sectors. Looking ahead, ongoing speculation about further tax rises in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.
- Sticking with future economic sentiment, the composite Purchasing Manager Index for the UK fell from 53.5 in August to 51.0 in September. The decline was mostly driven by a fall in the services PMI, which declined from 54.2 to 51.9. The manufacturing PMI output balance also fell, from 49.3 to 45.4. That was due to both weak overseas demand (the new exports orders balance fell for the fourth month in a row) and the cyber-attack-induced shutdown at Jaguar Land Rover since 1 September reducing car production across the automotive supply chain. The PMIs suggest tepid growth is the best that can be expected when the Q3 GDP numbers are released.
- Turning to retail sales, and the 0.5% m/m rise in volumes in August was the third such rise in a row and was driven by gains in all the major categories except fuel sales, which fell by 2.0% m/m. Sales may have been supported by the warmer-than-usual weather. If sales were just flat in September, then in Q3 sales volumes would be up 0.7% q/q compared to the 0.2% q/q gain in Q2.
- With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the OBR forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what very much matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October Budget. The number of job vacancies in the three months to August stood at 728,000. Vacancies have now fallen by approximately 47% since its peak in April 2022. All this suggests the labour market continues to loosen, albeit at a declining pace.

- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.8% in July. The rate for the private sector slipped from 5.5% to 4.7%, putting it on track to be in line with the Bank of England's Q3 forecast (4.6% for September).
- CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause for breath in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. So, we finish the half year in a similar position to where we started, although with food inflation rising to an 18-month high of 5.1% and households' expectations for inflation standing at a six year high, a further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout the past six months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended Q2 at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England have kept yields elevated over 4.70%.
- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1 April to 7,702 on 7 April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 closed Q2 at 8,761, around 2% higher than its value at the end of Q1 and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed Q3 at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings.

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

- There were four Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC will be wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction).
- The Bank also took the opportunity to announce that they would only shrink its balance sheet by £70bn over the next 12 months, rather than £100bn. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggests the Bank still thinks interest rates will fall further but possibly not until February, which aligns with both our own view and that of the prevailing market sentiment.

## 2.2 Interest Rate Forecasts

The PCC has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the PCC to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20bps) which has been accessible to most authorities since 1 November 2012.

MUFG Corporate Markets' latest forecast on 11 August sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

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

## 3. Cash Balances and Cash Flow Management

- 3.1 The PCC's cash and short-term investment balances support revenue and capital resources, such as general balances and earmarked reserves and the timing differences between the receipt and payment of monies required to meet the cost of PCC services and the capital programme. The average level of cash and short term-investment balances in the year to date totals £49.4m.

- 3.2 Cash and short-term investment balances are managed internally and have been invested in accordance with the PCC's approved Authorised Lending List.
- 3.3 A key objective of cash flow management is to minimise balances held in the PCC's bank accounts in order to ensure that the maximum interest is earned on investments.
- 3.4 The PCC operates seven bank accounts. Cash balances across all seven accounts are aggregated and surplus cash balances are invested on a daily basis.
- 3.5 From 1 April 2025 to 30 September 2025 (excluding investments and repayments), monies received amounts to £135.9m while payments total £112.2m, resulting in an overall increase in cash balances of £23.7m.
- 3.6 By continuing to delay borrowing for capital purposes (Section 6) while at the same time actively managing levels of liquid cash, the PCC on occasions may need to borrow short-term from the money markets to cover daily liquidity. However there has been no short term borrowing in the review period.

#### 4. Investment Performance

- 4.1 In accordance with the Code, it is the PCC's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the PCC's risk appetite.
- a. At the 30<sup>th</sup> September 2025, the PCC held £55.250m of investments. The profile of these investments is shown below.

Institutional Sector	Liquid £m	Up to 3 months £m	Up to 6 months £m	Up to 9 months £m	Up to 12 months £m
<b>Part Nationalised</b>					
<b>Banks</b>	-	-	-	-	-
<b>UK Banks</b>	10.0	-	-	-	-
<b>UK Banks with a non-UK ultimate parent</b>	0.3		15.0	15.0	
<b>Non-UK Banks</b>	-	-	-	-	-
<b>Building Societies</b>	-	-	10.0	-	-
<b>Other*</b>	5.0	-	-	-	-
<b>Total</b>	<b>15.3</b>	<b>-</b>	<b>25.0</b>	<b>15.0</b>	<b>-</b>

\*Includes: Money Market Funds

- b. A more detailed investment profile at 30<sup>th</sup> September 2025 is shown at Appendix 1.
- 4.4 The average interest rate earned for the year to date is 4.34%.

4.5 Gross interest earned for the period 1<sup>st</sup> April 2025 to 30<sup>th</sup> September 2025 was £1.063m.

## **5. Counterparty Maintenance**

5.1 The PCC CFO is responsible for maintaining an Approved Counterparty List in accordance with the criteria as set out in the approved Annual Investment and Treasury Strategy 2025/26. Credit rating information is supplied by our treasury consultants on all active counterparties. Any rating changes, rating watches (notification of a likely change) and rating outlooks (notification of a possible longer-term change) are provided by our treasury consultants immediately they occur. A wide range of market information such as Credit Default Swap prices and share price is also taken into account. The Approved Counterparty List is therefore actively managed on a day-to-day basis and when an institution no longer meets the PCC approved counterparty criteria, it is immediately removed.

- There have been no credit rating downgrades during the period 1<sup>st</sup> April 2025 to 30<sup>th</sup> September 2025 that have resulted in counterparties being removed from the authorised counterparty list.

## **6. Long Term Borrowing/Debt Management**

6.1 The PCC undertakes capital expenditure on long-term assets. This activity gives rise to the need to borrow. Part of the PCC's treasury management activity is to address this borrowing need, either through long term borrowing from external bodies (PWLB or commercial banks) or utilising temporary cash resources within the PCC pending long term borrowing.

6.2 In accordance with the approved 2025/26 Investment and Treasury Strategy, the PCC continues to delay new borrowing for capital purposes, using cash balances on a temporary basis to avoid the cost of 'carrying' debt in the short term. Delaying borrowing and running down the level of investment balances also reduces the PCC's exposure to investment counterparty risk.

6.3 At the 30<sup>th</sup> September 2025, the PCC's external borrowing (debt outstanding, excluding PFI) totaled £5.354m (PWLB)

6.4 The PCC's overall capital financing requirement (excluding PFI & ROU Leases) at 31.3.25 was £13.5m. The projected capital financing requirement at 31.3.26 is approximately £17.3m (based on 2024/25 outturn and 2025-29 MTFP capital projections and associated funding). This represents unfunded capital expenditure for which approved borrowing can be drawn down. The PCC's CFO, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks identified in the economic forecast (Section 2).

6.5 The Public Works Loans Board (PWLB) provides a facility to restructure debt, including early repayment of loans and encourages local authorities to do so when circumstances permit. This can result in net savings in overall interest charges. Current circumstances do not suggest that refinancing existing PWLB debt would be economically prudent due to the significant repayment penalties. However prevailing PWLB interest rates continue to be monitored in order to identify repayment opportunities.

6.6 At no point during the period 1 April 2025 to 30 September 2025 has borrowing exceeded either the Operation Boundary Limit or the Authorised Limit for External Debt set in the 2025/26 Investment and Treasury Strategy.

## **7. Other**

- 7.1 A report setting out our Capital Strategy will be included in the Budget and Medium Term Financial Plan 2026/30 which will be presented to the PCC for approval early in 2026.

## **8 Conclusion**

- 8.1 The Mid-Year Treasury Management Monitoring Report 2025/26 provides information on the Treasury Management activities of the PCC for the period 1<sup>st</sup> April 2025 to 30<sup>th</sup> September 2025.

## **9 Recommendation**

- 9.1 It is recommended that Audit Committee notes the Mid-Year Treasury Management Monitoring Report 2025/26.



CURRENT INVESTMENTS				
Start	Repay	Borrower	Rate	Amount
15/07/2025	15/12/2025	Skipton BS	4.12%	£10,000,000
03/07/2025	05/01/2026	Goldman Sachs Intl	4.13%	£5,000,000
03/07/2025	05/01/2026	Al Rayan Bank	4.25%	£10,000,000
07/07/2025	07/01/2026	DBS Bank Ltd	4.19%	£3,000,000
07/07/2025	07/01/2026	Goldman Sachs Intl	4.12%	£5,000,000
10/09/2025	10/03/2026	DBS Bank Ltd	4.15%	£7,000,000
07/08/2025	Instant Access	Lloyds Bank	3.77%	£2,000,000
05/09/2025	Instant Access	Lloyds Bank	3.77%	£3,000,000
11/09/2025	Instant Access	Lloyds Bank	3.77%	£500,000
15/09/2025	Instant Access	Lloyds Bank	3.77%	£2,000,000
17/09/2025	Instant Access	Lloyds Bank	3.77%	£500,000
15/09/2025	Instant Access	Barclays Bank	2.90%	£2,000,000
07/07/2025	Instant Access	CCLA	4.02%	£5,000,000
06/07/2021	Instant Access	Santander UK	2.06%	£250,000
				<b>£55,250,000</b>