

REPORT TO:	<b>AUDIT COMMITTEE</b>		
DATE:	17 February 2026		
TITLE:	<b>TREASURY REPORT - 2025/26 Quarter 2, Mid-Year Review Report</b>		
TYPE OF REPORT:	Review		
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OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

**Date of meeting: 17 February 2026**

**TREASURY REPORT - 2025/26 Quarter 2, Mid-Year Review Report**

**Summary**

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) and remains fully compliant with its requirements. One of the primary requirements of the Code is receipt by Council of a quarterly Review Report.

The Quarterly Review Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- A review of the Treasury Management Strategy.
- The Council's capital expenditure (prudential indicators).
- An economic update for the first six months of 2025/26.
- Interest Rate forecasts.
- Prudential and Treasury Indications for 2025-26.
- Investment Portfolio.
- Approved countries for investment.

**Recommendation**

Audit Committee is asked to note the report and the treasury activity.

**Reason for Recommendation**

The Council has formally adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021) and remains fully compliant with its requirements. One of the primary requirements of the Code is, receipt by Audit Committee of a Quarterly Review Report.

## 1. The Treasury Management Mid-Year (Quarter 2) Review 2025/26

1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

1.2 The primary requirements of the Code are as follows:

- a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- b) Creation and maintenance of Treasury Management Practices which set out the way the Council will seek to achieve those policies and objectives.
- c) Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
- d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

1.3 This quarterly report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2025/26 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2025/26;
- A review of the Council's borrowing strategy for 2025/26;
- A review of any debt rescheduling undertaken during 2025/26;
- A review of compliance with Treasury and Prudential Limits for 2025/26.

## 2. Economic Update

2.1 Appendix 1 details the economic outlook from the Council's Treasury Management Advisers. Some comments to note include:

- UK economic growth has been **weak but positive**, with GDP up **0.3%** in Q2 but flatlining in July.
- Economic sentiment indicators (PMIs) have fallen, signalling **only modest growth** ahead.
- CPI inflation ended September at **3.8%**, broadly unchanged over the half-year.
- Government borrowing is running **£11.4bn above forecasts** just five months into the year. Lower tax receipts and higher departmental spending are driving the gap.
- The Bank expects inflation to reach the **2% target only by early 2027**.

### 3. Annual Investment Strategy

3.1 The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved by Council 27<sup>th</sup> February 2025.

3.2 In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

3.3 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions.

3.4 As shown by the interest rate forecasts in Appendix 2, investment rates have not reduced during the first half of 2025/26 and are expected to reduce from March 2026. This has been reflected in forecast investment returns for 2025/2026.

3.5 There are no policy changes to the Treasury Management Strategy Statement resulting from the updated economic position.

### 4. The Authority's Capital Position (Prudential Indicators)

4.1 This part of the report is structured to update:

- The Authority's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

#### 4.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

	Approved Budget Adjusted for Rephasing 2025/2026	Updated Budget to Q2 Monitoring Report	Actual as at 30 September 2025
	£	£	£
<b>Tier 1 Major projects</b>			
Enterprise Zone (Property and Projects):	448,460	448,460	115,246
Major Housing Development (Companies and Housing):	23,983,370	23,983,370	12,862,692

Other Major Projects	16,889,420	11,458,140	2,733,110
<b>Total Tier 1</b>	<b>41,321,250</b>	<b>35,889,970</b>	<b>15,711,048</b>
<b>Tier 2 Operational Schemes</b>			
Corporate	807,940	807,940	121,216
Health, Wellbeing & Public Protection	2,620,160	2,620,160	991,351
Leisure and Community Facilities:	267,480	267,480	221,437
Operational and Commercial:	3,275,450	3,305,450	661,099
Programme and Projects:	36,300	36,300	36,409
Property and Projects:	53,430	78,430	12,388
Finance:	16,650	16,650	0
<b>Total Tier 2</b>	<b>7,077,410</b>	<b>7,132,410</b>	<b>2,043,900</b>
<b>Tier 3 Operational Schemes</b>			
Health, Wellbeing & Public Protection	86,850	86,850	0
Leisure and Community Facilities:	403,000	403,000	0
Operational and Commercial:	494,150	494,150	0
Property and Projects:	406,970	406,970	0
Regeneration, Housing & Place:	241,060	241,060	0
Resources:	300,000	300,000	0
<i>Subtotal</i>	<i>1,932,030</i>	<i>1,932,030</i>	<i>0</i>
<b>Tier 3 Exempt Schemes</b>			
Exempt Schemes	197,000	197,000	0
<i>Subtotal</i>	<i>197,000</i>	<i>197,000</i>	<i>0</i>
<b>Total Tier 3</b>	<b>2,129,030</b>	<b>2,129,030</b>	<b>0</b>
<b>Total Capital Programme (Tiers 1, 2, 3)</b>	<b>50,527,690</b>	<b>45,151,410</b>	<b>17,754,948</b>

#### 4.3 Financing of the Capital Programme (Current Year)

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Authority by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

Where there has been a reduction reflected in the revised estimate, this is due to reprofiling of the capital programme and not a reduction in budget or financing.

Source of Funding	Original Estimate 2025/2026 £	Revised Estimate 2025/2026 £
Total Capital Expenditure	50,527,690	45,151,410
Financed by:		
Capital Grants	19,282,284	14,751,004

General Capital Receipts Reserve	2,010,926	2,010,926
Major Housing Capital Receipts/Deferred Receipts	17,987,528	17,987,528
Reserves/Revenue Contributions	2,050,650	2,050,650
Unsupported Borrowing	2,363,530	2,418,530
Total Financing	43,694,918	39,218,638
CFR Borrowing Requirement	6,832,773	5,932,773

The Councils updated Capital programme remains within the original forecast for Capital Financing Requirement stated in the Treasury Management Strategy Statement.

#### 4.4 Capital Financing Requirement and Operational limits

Officers can confirm that the limits within the Annual Borrowing Strategy were not breached during the period ended 30 September 2025.

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Authority has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	<b>2025/26 Original Estimate £m</b>	<b>Current Position £m</b>	<b>2025/26 Revised Estimate £m</b>
Borrowing	73,000	35,000	79,000
Other long-term liabilities	1,000		1,000
<b>Total debt</b>	74,000	35,000	80,000
<b>CFR* (year end position)</b>	80,674		79,774

A further prudential indicator controls the overall level of borrowing. This is **the Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 (England & Wales).

<b>Authorised limit for external debt</b>	<b>2025/26 Original Indicator £m</b>	<b>Current Position £m</b>	<b>2025/26 Revised Indicator £m</b>
Borrowing	78,000	35,000	89,000
Other long-term liabilities	1,000		1,000
Total	79,000	35,000	90,000

The indicator is increased to reflect the slow market of capital receipts for major housing. The increased CRF allows the authority to borrow in the short term to bridge the gap between capital receipts and a borrowing need. The authority does not

envisage borrowing to this level. The cheaper and more liquid approach is to internally borrow where possible.

## 5. Borrowing

5.1 The Authority's capital financing requirement (CFR) for 2025/26 is £79.7m. The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table below shows the Authority has borrowings of £35m and has utilised cash flow funds in lieu of borrowing to fund its CFR. This is a prudent and cost-effective approach in the current economic climate.

5.2 **Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), new external borrowing of £5m was undertaken in July on a short term basis.** The capital programme is kept under regular review due to the effects of inflation and housing sales. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

It is anticipated that further short-term borrowing will be undertaken during this financial year.

The table below shows the authorities borrowings as at 30 September

Start Date	End Date	Value £	Institution	Rate %	Term
19.03.25	19.03.26	£20,000,000	Public Works Loan Board	4.860	12 months
03.07.25	03.10.25	£5,000,000	West Midlands Combined Authority	4.150	3 months
<b>Total Short Term</b>		<b>£25,000,000</b>			
22.03.07	21.03.77	£5,000,000	Barclays	3.810	70 years
12.04.07	11.04.77	£5,000,000	Barclays	3.810	70 years
<b>Total Long Term</b>		<b>£10,000,000</b>			
<b>Total Borrowing</b>		<b>£35,000,000</b>			

## 6. Debt Rescheduling

6.1 Debt repayment and rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no long-term debt repayments or rescheduling have been undertaken in the current financial year. The Council's Treasury Management advisers continue to monitor for loan refinancing and rescheduling opportunities. It is expected that the existing PWLB loan will be rescheduled in March.

## 7. Compliance with Treasury and Prudential Limits

7.1 It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2025, the Authority has operated within the treasury and prudential indicators set out in the Authority's Treasury Management Strategy Statement for 2025/26. The Authority reports that no difficulties are envisaged for the current in complying with the original indicators of external debt, as a precaution the indicators have been revised in line with the CFR.

All treasury management operations have also been conducted in full compliance with the Authority's Treasury Management Practices.

## 8. Annual Investment Strategy

8.1 The Treasury Management Strategy Statement (TMSS) for 2025/26, which includes the Annual Investment Strategy, was approved on 27 February 2025. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Authority's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Authority's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the MUFU Corporate Markets suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information. (Amend if you use your own creditworthiness approach.) **Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30 September 2025.**

8.2 Creditworthiness

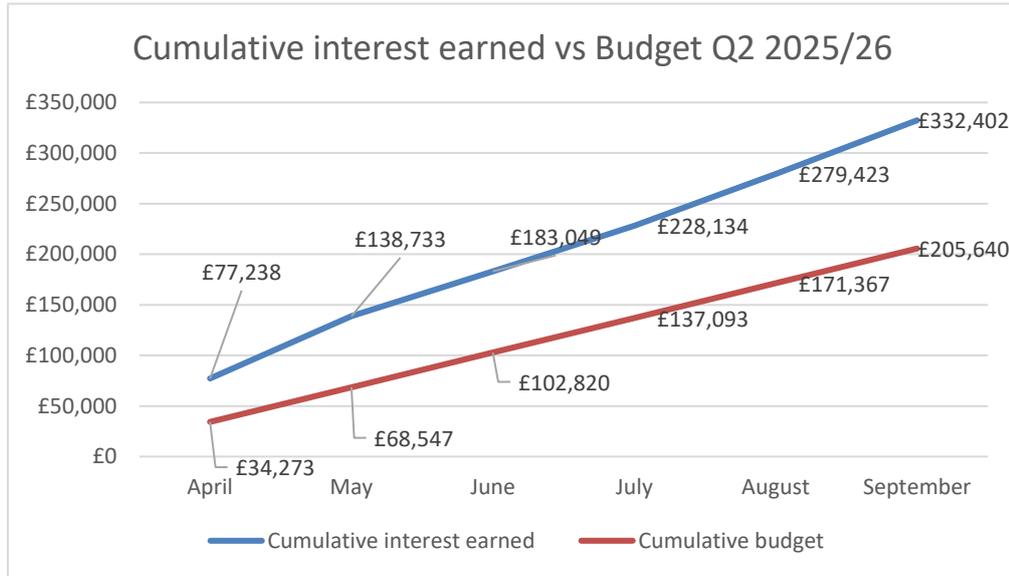
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes. Appendix 3 refers to countries and their ratings at 30<sup>th</sup> Sept 2025.

8.3 Investment balances

The average level of funds available for investment purposes during the first half of the financial year was £15.2m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

8.4 Investment performance year to date as of 30 September 2025;

The graph below compares the cumulative interest earned and forecasted budget



The table below show the current investments

Institution	Principal £	Rate %
BNP (Banque Nationale de Paris) – MMF	2,150,000	4.030%
Federated Primerate – MMF	4,000,000	4.038%
HSBC Sterling – MMF	1,600,000	4.027%
LGIM - MMF	4,000,000	4.090%
<b>Total Money Market Fund Investment</b>	<b>11,750,000</b>	
Handlesbanken	1,260,000	3.950%
South Ayrshire Council	4,000,000	5.650%
<b>Total Other Investments</b>	<b>5,260,000</b>	
<b>Overall Investments</b>	<b>17,010,000</b>	

## Appendix 1

### 1. Economic Update (*MUFG, Nov 2026*)

- 1.1 The first half of 2025/26 saw:
- 1.2 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.
- 1.3 The 3m/year on year rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
- 1.4 CPI inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
- 1.5 The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
- 1.6 The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.
- 1.7 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%.
- 1.8 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.
- 1.9 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.
- 1.10 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 overshoot 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.

- 1.11** 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.
- 1.12** A looser labour market is driving softer wage pressures. The 3m/year on year 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).
- 1.13** 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.
- 1.14** 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%.
- 1.15** 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%.

- 1.16 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.

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

- 2.1 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.
- 2.2 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%.
- 2.3 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).
- 2.4 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.

## 3. PWLB maturity certainty rates (gilts plus 80bps) year to date to 30 September 2025

- 3.1 Gilt yields and PWLB certainty rates have remained relatively volatile throughout the six months under review, but the general trend has been for medium and longer dated

parts of the curve to shift higher whilst the 5-year part of the curve finished September close to where it began in April.

- 3.2** Concerns around the stickiness of inflation, elevated wages, households' inflation expectations reaching a six-year high, and the difficult funding choices facing the Chancellor in the upcoming Budget on 26 November dominated market thinking, although international factors emanating from the Trump administration's fiscal, tariff and geo-political policies also played a role.
  - 3.3** At the beginning of April, the 1-year certainty rate was the cheapest part of the curve at 4.82% whilst the 25-year rate was relatively expensive at 5.92%. Early September saw the high point for medium and longer-dated rates, although there was a small reduction in rates, comparatively speaking, by the end of the month.
  - 3.4** The spread in the 5-year part of the curve (the difference between the lowest and highest rates for the duration) was the smallest at 37 basis points whilst, conversely, the 50-years' part of the curve saw a spread of 68 basis points.
  - 3.5** At this juncture, MUFG Corporate Markets still forecasts rates to fall back over the next two to three years as inflation dampens, although there is upside risk to all forecasts at present. The CPI measure of inflation is expected to fall below 2% in early 2027 but hit a peak of 4% or higher later in 2025.
  - 3.6** The Bank of England announced in September that it would be favouring the short and medium part of the curve for the foreseeable future when issuing gilts, but market reaction to the November Budget is likely to be the decisive factor in future gilt market attractiveness to investors and their willingness to buy UK sovereign debt.
- 4.**

## Appendix 2 Interest Rate Forecasts

The Authority has appointed MUFG Corporate Markets as its treasury advisors and part of their service is to assist the Authority 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

*Appendix 3*

**Approved Countries for Investments as of 30 September 2025**

*The current approved list of countries for investments is as below. There have been no revisions to the current list.*

***Based on lowest available rating***

**AAA**

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

**AA+**

- Canada
- U.S.A.

**AA**

- Finland

**AA-**

- U.K.

**A+**

- Belgium
- France