Treasury Management Mid-Year Review Report 2025/26

Committee considering report:	Governance Committee
Date of Committee:	27 January 2026
Portfolio Member:	Councillor Iain Cottingham
Date Head of Service agreed report:	6 November 2025
Report Author:	David Leech / Elizabeth Griffiths

1 Executive Summary

1.1 The report details the changes in the elements that contribute to the overall performance of the treasury activities and what the impacts of those changes are expected to be, along with the results for the half year to September 2025.

1.2 The results are within the expected parameters but with the Council under increasing financial pressure, capital financing remains a key area of budgetary concern with borrowing set to rise from £260m to £312m by the end of the financial year.

2 Background

2.1 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). The primary requirements of the Code are as follows:

2.2 Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.

2.3 Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.

2.4 Receipt by the full Council/Board of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy, a Mid-year Review Report and an Annual Report covering activities during the previous year.

2.5 The 2021 Prudential Code and Treasury Management Code introduced a new requirement that monitoring of the treasury management indicators should be reported quarterly (along with the other prudential indicators) as part of the authority's general revenue and capital monitoring.

2.6 Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

2.7 Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority, the delegated body is The Governance Committee:

2.8 This mid-year 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 (Appendix C);
- The Authority's capital expenditure, as set out in the Capital Strategy, and prudential indicators (Paragraphs 4.3 to 4.10);
- A review of the Authority's borrowing strategy for 2025/26 (Paragraph 4.11 to 4.13);
- A review of any debt rescheduling undertaken during 2025/26 (Paragraph 4.14);
- A review of compliance with Treasury and Prudential Limits for 2025/26 (Paragraph 4.15 and 4.16).
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy (Paragraphs 4.17 and 4.19);
- A review of the Authority's investment portfolio for 2025/26 (Paragraph 4.20 to 4.21);

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The medium term projections detailed within this report show an increasing external debt position over the next few years. With capital financing forming a significant percentage of the net revenue budget, it is vital that that authority establishes not only what is allowable within its Treasury activities, but what is affordable. The capital finance budget, as part of the overall revenue budget, is being supplemented by EFS which in turn is recharged to the revenue budget through MRP over 20 years, as well as incurring interest.
Human Resource:	None
Legal:	None

Risk Management:	None			
Property:	None			
Policy:	This report makes reference to the policies laid out and agreed in our Investment and Borrowing Strategy			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		No
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		No
Environmental Impact:		X		None
Health Impact:		X		None
ICT Impact:		X		None
Digital Services Impact:		X		None

Council Strategy Priorities:		X		None
Core Business:	X			None
Data Impact:	X			None
Consultation and Engagement:	External Treasury Advisors, S151 Officer and Finance Portfolio Holder			

4 Supporting Information

Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1 The Council does not currently publish a Treasury Management Strategy Statement, (TMSS), but in lieu of this document it publishes an Investment and Borrowing Strategy which for 2025/26 was approved by this Authority on 27th February 2025.

4.2 There are no policy changes relating to this published strategy; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

The Authority's Capital Position (Prudential Indicators)

4.3 This part of the report is structured to update:

- The Authority's capital expenditure plans (Paragraph 4.4);
- How these plans are being financed (Paragraph 4.5);
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow (Paragraphs 4.6 to 4.8; and
- Compliance with the limits in place for borrowing activity (Paragraphs 4.9 and 4.10).

Prudential Indicator for Capital Expenditure

4.4 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The capital programme as set in February 2025 has been subject to multiple changes as outlined in the Capital Outturn reports at Q1 and Q2 with new projects being added and multiple project budgets being "slipped" to 2026/27, most recently £22.5m in Q2 resulting in the closing forecast shown below.

Capital Expenditure by Service	2025/26 Approved Capital Programme £m	2025/26 Q2 Forecast Capital Expenditure £m
People Directorate		
Adult Social Care	2.0	3.0
Children's Social Care	0.0	0.0
Education & SEND	12.4	9.3
Total People Directorate	**14.4**	**12.3**
Place Directorate		
Community Services	1.0	4.7
Development & Housing	3.9	4.0
Environment	48.9	32.0
Total Place	**53.8**	**40.7**
Resources Directorate		
Finance, Property & Procurement	2.5	2.0
Strategy, ICT & Governance	2.2	3.2
Total Resources	**4.7**	**5.2**
TOTAL CAPITAL EXPENDITURE	**72.9**	**58.2**

Changes to the Financing of the Capital Programme

4.5 The table below draws together the main elements of the capital expenditure plans (above), highlighting 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). This borrowing requirement is based on capital expenditure but additional borrowing will be needed to refinance maturing debt and to externalise internal borrowing as and when those balance sheet resources are consumed to meet their corresponding liabilities.

Capital Expenditure	2025/26 Approved Capital Programme £m	2025/26 Q2 Forecast Capital Expenditure £m
Total capital expenditure	72.9	58.2
Financed by:		
Grants	29.4	25.8
S106	1.4	1.3
CIL	6.7	4.4
Other Contributions	0.2	0.0
Total financing	37.7	31.5
Borrowing requirement	35.2	26.7

Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

4.6 The table below shows the CFR, which is the underlying need to incur borrowing for a capital purpose. It also shows the expected debt position over the period in comparison with the operational boundary and the authorised limit.

4.7 The table below shows the Q2 forecast for the year end CFR as £344.2m with the total forecast debt to be £312.0m, of which £304.1m is external borrowing. The gap between the two is expected to be filled by utilising cash generated by or received for other purposes to fund the expenditure (also referred to as internal borrowing).

Prudential Indicator – Capital Financing Requirement

The original forecast CFR included within the approved 25/26 Strategy has increased from £338m to £344.2m at the Q2 forecast. An analysis of the change is included in the table beneath paragraph 5.11 but has primarily been driven by the capitalisation of revenue via Exceptional Financial Support (EFS) and a reduction in forecast council funded capital expenditure during the first half of 25/26. EFS is given in the form of a permitted capitalisation of revenue which the Council must repay, and which MRP must be charged to the revenue budget each year over 20 years to cover.

Prudential Indicator – the Operational Boundary for external debt

Prudential Indicator - Capital Financing Requirement	**2025/26 Approved Strategy £m**	**2025/26 Q2 Forecast £m**
Total CFR	**338.0**	**344.2**
Forecast External Debt		
Borrowing	300.8	304.1
Other Long-term Liabilities (PFI)	7.9	7.9
Total Forecast Debt (Year-end Position)	**308.7**	**312.0**
PRUDENTIAL INDICATORS 25/26		
Authorised Limit	382.9	382.9
Operational Boundary	368.9	368.9

4.8 The analysis of the change in the 31/03/2026 Total CFR between the 2025/26 Approved Strategy and the 2025/26 Q2 forecast is shown below:

	£m
Approved Strategy 25/26 - Total CFR	338.0
24/25 Exceptional Financial Support (EFS)	13.0
Reduction in 24/25 Council Funded capital expenditure	-1.0
Increase in 24/25 Minimum Revenue Provision	-0.1
24/25 Introduction of IFRS16 leases to balance sheet	0.5
25/26 Exceptional Financial Support (EFS)	3.0
Reduction in 25/26 Council Funded capital expenditure	-8.4
Increase in 25/26 Minimum Revenue Provision	-0.8
Q2 Forecast 25/26 - Total CFR	344.2

Limits to Borrowing Activity

4.9 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.

	2025/26 Approved Strategy £m	**2025/26 Q2 Forecast £m**
Borrowing	300.8	304.1
Other long-term liabilities*	7.9	7.9
Total debt	308.7	312.0
CFR* (year end position)	**338.0**	**344.2**

** Includes on balance sheet PFI schemes and lease liabilities recognised under IFRS16 etc.*

4.10 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 can only be set and revised by full Council. It reflects the level of borrowing which, while not desired, is allowable 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). Since this value can only be amended by the agreement of full Council, it has not changed since it was set in February, even although the CFR and expected level of borrowing has.

	2025/26 Approved Strategy £m	2025/26 Q2 Forecast £m
Authorised limit for external debt*	382.9	382.9

*includes other long-term liabilities (on balance sheet PFI schemes and lease liabilities recognised under IFRS16 etc.)

Borrowing

4.11 The Authority forecasts that it's capital financing requirement (CFR) at 31/03/2026 will be £344.2m. 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 under paragraph 4.7 above shows the Authority forecasts debt of £312.0m at 31/03/2026 and forecast the utilisation of £39m of cash flow funds in lieu of borrowing. While interest rates for borrowing are higher than the rates that can be earned on short term investment, it is prudent to use internal cash first to avoid external borrowing where possible.

4.12 Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR) and the repayment of existing borrowing of £49.2m, new external borrowing of £42m was undertaken in the first half of 2025/26. The capital programme is being kept under regular review due to the effects of on-going budgetary pressures. 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.

Borrowing position as at 30/09/2025	31/03/2025 Balance £m	Borrowing repaid £m	New Borrowing £m	30/09/2025 Balance £m
Public Works Loan Board	247.0	-27.1	23.0	242.9
Community Bond	0.2	-0.1	-	0.1
Local Authorities (Short-Term)	20.0	-22.0	19.0	17.0
Total Borrowing	**267.2**	**-49.2**	**42.0**	**260.0**

NEW BORROWING UNDERTAKEN IN FIRST HALF OF 2025/26

Counterparty type	Borrowed from	Borrowed to	Amount (£)	Interest Rate (%)
Local Authority	29/05/2025	20/06/2025	2,000,000	4.25
Local Authority	16/07/2025	17/11/2025	5,000,000	4.25
Local Authority	29/05/2025	01/12/2025	2,000,000	4.28
Local Authority	30/06/2025	09/01/2026	3,000,000	4.25
Local Authority	31/07/2025	30/04/2026	5,000,000	4.2
Local Authority	17/06/2025	18/05/2026	2,000,000	4.28
PWLB	31/07/2025	30/09/2026	4,000,000	4.47
PWLB	30/09/2025	24/02/2027	4,000,000	4.59
PWLB	30/09/2025	13/01/2027	5,000,000	4.59
PWLB	22/09/2025	22/01/2027	5,000,000	4.59
PWLB	22/09/2025	21/12/2026	5,000,000	4.59

4.13 It is anticipated that further borrowing will be undertaken during this financial year with the authority’s level of external debt reaching £304m, an increase of £37m compared to the 2024/25 financial year end.

Debt Rescheduling

4.14 Potential debt repayment and rescheduling opportunities arise as interest rates reduce but these are only relevant if existing loans are at a rate that’s high enough above current market rates to make early repayment, including the associated financial penalties, viable. Our historical debt is typically at rates either lower or similar to the current market rates so, no debt rescheduling has been undertaken to date in the current financial year.

Compliance with Treasury and Prudential Limits

4.15 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 Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators. It is worth noting that the CFR outlines the level of borrowing that is “allowable”. This is determined by the amount of borrowing agreed to fund the capital programme as agreed. The larger the Council funded element of that programme, the higher the CFR and the higher the allowable borrowing. Under normal circumstances, the amount of MRP and capital financing required to fund this kind of capital expenditure would be included in the balanced revenue budget of the authority, but when a Council cannot meet its liabilities or balance its revenue budget and requires exceptional financial support to close that gap, it does not follow that the planned capital expenditure, while authorised and therefore allowable, is actually affordable.

4.16 All treasury management operations have also been conducted in full compliance with the Authority's Treasury Management Practices. A recent internal audit report raised no significant concerns in relation to breaches of indicators, other limits or procedures.

Annual Investment Strategy

4.17 The Investment and Borrowing Strategy for 2025/26, in accordance with the CIPFA Treasury Management Code of Practice, sets out the Authority's investment priorities as being:

- Security of capital
- Liquidity
- Yield

4.18 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.

4.19 The current investment counterparty criteria selection is meeting the requirement of the treasury management function.

4.20 The average level of funds available for investment purposes during the first half of the financial year was £26.6m. 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 with the maximum funds available during the period being £47.3m and the minimum funds available during the period being £4.6m.

Investment performance year to date as of 30 September 2025	Actual Interest Received 01/04/25 - 30/09/25 £'000	Average Interest Rate for the Period %	Benchmark (SONIA) average rate for the period %	Variance (actual interest rate earnt to benchmark) bps
Short-Term Investments	130	4.29	4.19	10
Cash and Cash Equivalents	431	4.10	4.19	-9
Total Treasury Investments	**561**	**4.14**	**4.19**	**-5**

4.21 As illustrated, the Authority's Total Treasury Investments underperformed the benchmark by 5 bps. The Authority's budgeted investment return for 2025/26 is £508k, and performance for the year to date is £307k above budget. The SONIA (Sterling OverNight Index Average) is an indicator of what could be expected to be earned on large deposits. Since we typically hold only circa £10m of working capital and a portion of that is readily liquid, meaning that it is accessible but that will generally mean that it earns a lower interest rate than longer term investments, we would not expect to earn the equivalent of the SONIA rate on our working capital cash. The SONIA rate is an indicator of what could be earned and therefore a useful benchmark to assess the efficiency of our cash management but for the reasons above, it is not in itself a target that is either set or expected to be attainable.

Total Council Investment Income	**Actual Interest Received 01/04/25 - £'000**	**Profiled Interest Income budget 01/04/25 - £'000**	**Above/(Below) budget £'000**
Short-Term Investments	130	252	-122
Cash and Cash Equivalents	431	3	429
Total Treasury Investments	**561**	**254**	**307**

4.22 Appendix B shows our counterparty limits, meaning the maximum amount that can be held with those counterparties at any time. On the 3rd of June 2025, the approved limit with CCLA was breached because interest in the amount of £26,538.43 was automatically added to the account, taking the overall balance to £17,455.43 above our £8m counterparty limit. This was quickly spotted by officers and a withdrawal made on the 5th of June to ensure the balance fell back below the £8m set out in the strategy. Officers can confirm that this was the only instance where the approved limits within the Annual Investment Strategy were breached during the period ended 30 September 2025.

Non-Treasury Investments

4.23 The definition of investments in the CIPFA TM Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. At the 31 March 2025 the Authority held £51.8million of such investments in directly owned property categorised as follows:

4.24 Directly owned property (commercial property) £39.9 million. This is property that the Authority has borrowed specifically to fund the purchase:

Name and address of property	Property type	Original Purchase cost plus capitalised incidentals £'000	2024/25 valuation £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3,724	3,891
79 Bath Road, Chippenham	Retail Warehouse	9,651	8,779
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	3,078	1,614
Aldi/Iceland, Cleveland Gate Retail Park, Guisborough*	Retail Warehouse	6,424	5,875
303 High Street and 2 Waterside South, Lincoln	Retail	6,010	2,654
3&4 The Sector, Newbury Business Park	Office	18,802	10,770
Ruddington Fields Business Park, Mere Way, Nottingham	Office	6,931	6,297
TOTAL		**54,620**	**39,878**

*sold August 2025

4.25 The forecast rate of return on these investments for 2025/26 is summarised in the tables below. The rate of return is based on the latest valuation of the properties included in the Authority's 2024/25 accounts. The forecast net income for 2025/26 is based on the Q2 budget monitoring at 30/09/2025:

Directly owned Property: Commerical property	**£'000**
Valuations as at 31 March 2025	39,878
Valuations as at 30 September 2025	39,878
Loss on change in Market value during 2025/26	0
25/26 Forecast Net income	2,739
25/26 Forecast rate of return excluding MRP and Interest	**6.87%**
Directly owned Property: Commerical property	**£'000**
25/26 Net income	2,739
Loss on change in Market value during 2025/26	0
MRP costs 25/26	(943)
Interest Costs 25/26	(1,525)
Forecast Outturn, net of MRP and interest	**271**
25/26 Forecast rate of return, after MRP and interest	**0.68%**

*no valuation completed, assume valuation is the same as at 31/03/2025

4.26 Directly owned property (investment property) £11.9 million. This is property that the Authority holds as an investment property but the purchase has not been funding by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998:

Name and address of property	Property type	Original Purchase cost plus capitalised incidentals £'000	2024/25 valuation £'000
The Stone Building, The Wharf, Newbury	Café	50	25
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	87	94
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholdin	1,330	1,157
Bloomfield Hatch Farm, Grazely	Tenanted Smallholdin	549	485
Shaw Social Club, Almond Avenue, Shaw	Community Centre	320	219
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	66	259
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	500	669
London Road Industrial Estate, Newbury	Industrial	7,800	8,976
TOTAL		**10,702**	**11,883**

4.27 Directly owned property (investment property) £11.9 million. This is property that the Authority holds as an investment property but the purchase has not been funding by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998:

4.28 The forecast rate of return on these investments for 2025/26 is summarised in the tables below. The rate of return is based on the latest valuation of the properties included in the Authority's 2024/25 accounts. The forecast net income for 2025/26 is based on the Q2 budget monitoring at 30/09/2025:

Directly owned Property: Investment Properties	**£'000**
Valuation as at 31 March 2025	11,883
Valuations as at 30 September 2025	11,883
Loss on change in Market value during 2025/26	0
25/26 Forecast Net income	182
25/26 Forecast rate of return	**1.53%**

Note: There is no borrowing on this investment and therefore no MRP and Interest

5 Other options considered

5.1 This report is for noting only so no other options have been considered.

6 Appendices

6.1 Appendix A – The CFR, Liability Benchmark and Borrowing

6.2 Appendix B – Investment Portfolio

6.3 Appendix C – Economics and Interest Rates

6.4 Appendix D – PWLB maturity certainty rates

Background Papers:

Investment and Borrowing Strategy Financial Year 2025/2026

Capital Strategy Financial Year 2025/2026

Subject to Call-In:

Yes: No: x

The item is due to be referred to Council for final approval

Delays in implementation could have serious financial implications for the Council

Delays in implementation could compromise the Council's position

Considered or reviewed by one of the Council's Scrutiny Committees or associated Task Groups within the preceding six months

Item is Urgent Key Decision

Report is to note only ☒

Wards affected: *all

Officer details:

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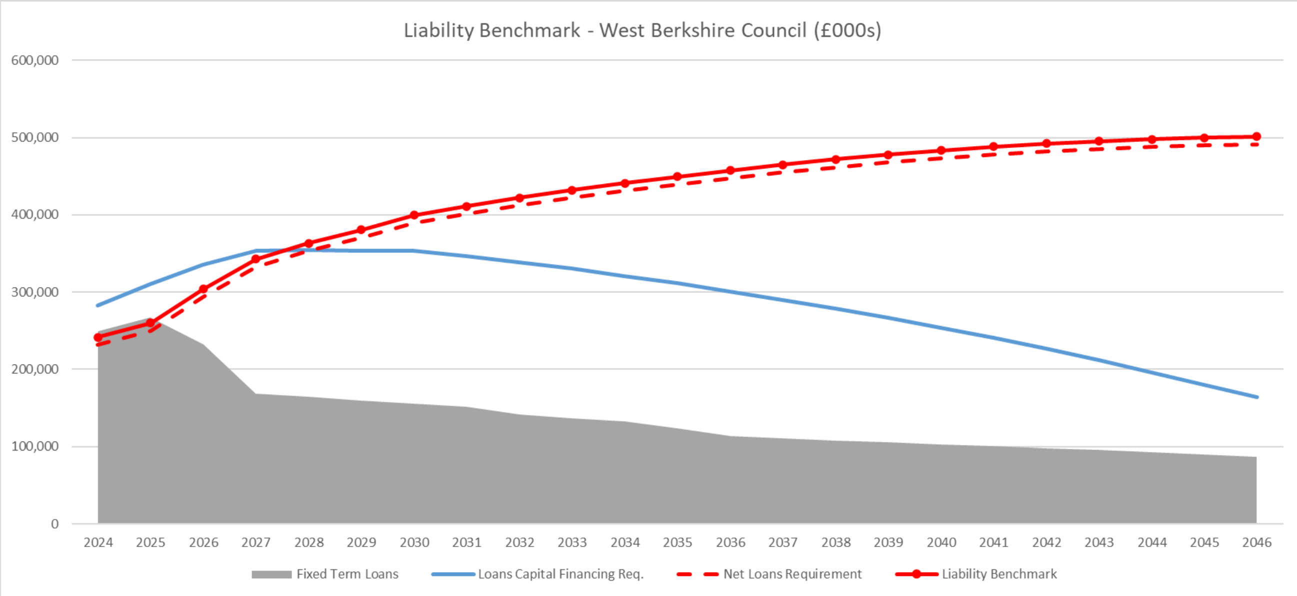
Appendix A

The CFR, Liability Benchmark and Borrowing

	31/03/24	31/03/25	31/03/26	31/03/27	31/03/28
	Actual	Actual	Projection	Projection	Projection
	£'000	£'000	£'000	£'000	£'000
Capital Financing requirement	292,870	319,710	344,220	361,010	360,481
Less other debt liabilities (PFI)	-9,807	-8,892	-7,920	-6,890	-5,796
Less other debt liabilities (Other leases)	-	-549	-549	-549	-549
Loans Capital Financing Req.	283,063	310,269	335,751	353,571	354,136
Less: Existing External Borrowing	-248,973	-267,241	-232,732	-168,511	-164,226
Internal (Over) Borrowing	**34,090**	**43,028**	**103,019**	**185,060**	**189,910**
Less: Balance Sheet Resources	-51,363	-60,334	-41,666	-20,966	-1,131
Investments / (New Borrowing)	**17,274**	**17,306**	**-61,352**	**-164,094**	**-188,778**

	31/03/24	31/03/25	31/03/26	31/03/27	31/03/28
	Actual	Actual	Projection	Projection	Projection
	£'000	£'000	£'000	£'000	£'000
Loans Capital Financing Req.	283,063	310,269	335,751	353,571	354,136
Less: Balance Sheet Resources	-51,363	-60,334	-41,666	-20,966	-1,131
Net Loans Requirement	231,700	249,935	294,084	332,604	353,004
Preferred Year-end Position	10,000	10,000	10,000	10,000	10,000
Liability Benchmark	**241,700**	**259,935**	**304,084**	**342,604**	**363,004**

The CFR, Liability Benchmark and Borrowing



	31/03/24	31/03/25	31/03/26	31/03/26	31/03/27
	Actual	**Actual**	**Projection**	**Projection**	**Projection**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Existing External Borrowing	248,973	267,241	232,732	168,511	164,226
Liability Benchmark	241,700	259,935	304,084	342,604	363,004

Appendix B

Investment Portfolio

Counterparty	Counterparty type	Interest rate @ 30/09/25	Investment Balance at 30/09/25	Counterparty Limit
Lloyds	Call Account	3.77%	£151,751.25	£8,000,000
Natwest	Call Account	2.25%	£1,356,274.55	£8,000,000
Santander	Call Account	2.68%	£204.64	£8,000,000
Aviva	Money Market Fund	4.09%	£6,700,000.00	£8,000,000
CCLA	Money Market Fund	4.04%	£3,284,223.18	£8,000,000
Goldman Sachs	Money Market Fund	4.00%	£81,966.37	£8,000,000

Appendix C

Economics and Interest Rates

Economics Update

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.

Economics and Interest Rates

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.

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Economics and Interest Rates

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.

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
BANK RATE	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
3 month ave earnings	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
6 month ave earnings	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
12 month ave earnings	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
5 yr PWLB	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
10 yr PWLB	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
25 yr PWLB	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
50 yr PWLB	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 D

PWLB maturity certainty rates

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

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 begun in April.

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.

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.

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.

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.

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.