

**TREASURY MANAGEMENT STRATEGY 2026/27
(INCLUDING 2025/26 OUTTURN AND FIRST QUARTER
REVIEW 2026/27)****For Information****1. PURPOSE OF REPORT**

1.1 The purpose of the report is to:

- i. provide a review of Treasury Management activity for 2025/26 including the 2025/26 outturn Prudential Indicators;
- ii. provide the first quarter update of the 2026/27 Treasury Management activity.

2. RECOMMENDATION

It is recommended that Members note the report.

3. BACKGROUND

3.1 The Treasury Management Strategy covers:

- The strategy for the Authority's borrowing requirement arising from historic capital expenditure and the element of the approved Asset Management Plan funded from Prudential Borrowing; and
- The Annual Investment Strategy relating to the Authority's cash flow.

3.2 The Local Government Act 2003 requires the Authority to 'have regard to' the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code and to set prudential indicators for the next three years to ensure the Authority's capital investment plans are affordable, prudent and sustainable.

3.3 The Act requires the Authority to set out a Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Secretary of State has issued Guidance on Local Government Investments which came into force on 1st April 2004, and has subsequently been updated, most recently in 2021.

3.4 The Authority is required to nominate a body to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, before making recommendations to the full Fire Authority. This responsibility has been allocated to the Audit and Governance Committee.

3.5 This report covers the following areas:

- Economic background and outlook for interest rates
- Treasury Management Strategy 2025/26 outturn
- Treasury Management Strategy 2026/27 first quarter review

4. ECONOMIC BACKGROUND AND OUTLOOK FOR INTEREST RATES

4.1 The UK economy continues to be influenced by international economic and financial market developments. Since the sharp increase in gilt yields during late 2024, long-term borrowing costs have remained elevated and during 2026, 30-year gilt yields (interest rate for Government borrowing) have generally traded at around 5.6%-5.8%, remaining close to their highest levels for many years. Most financial commentators continue to attribute the majority of the movement in long-dated gilt yields to global factors, including inflation expectations, monetary policy developments and the supply of government debt across major economies. Whilst domestic fiscal policy remains an important influence on UK financial markets, market reactions during 2025 and 2026 have generally been orderly, with none of the volatility experienced following the September 2022 mini budget.

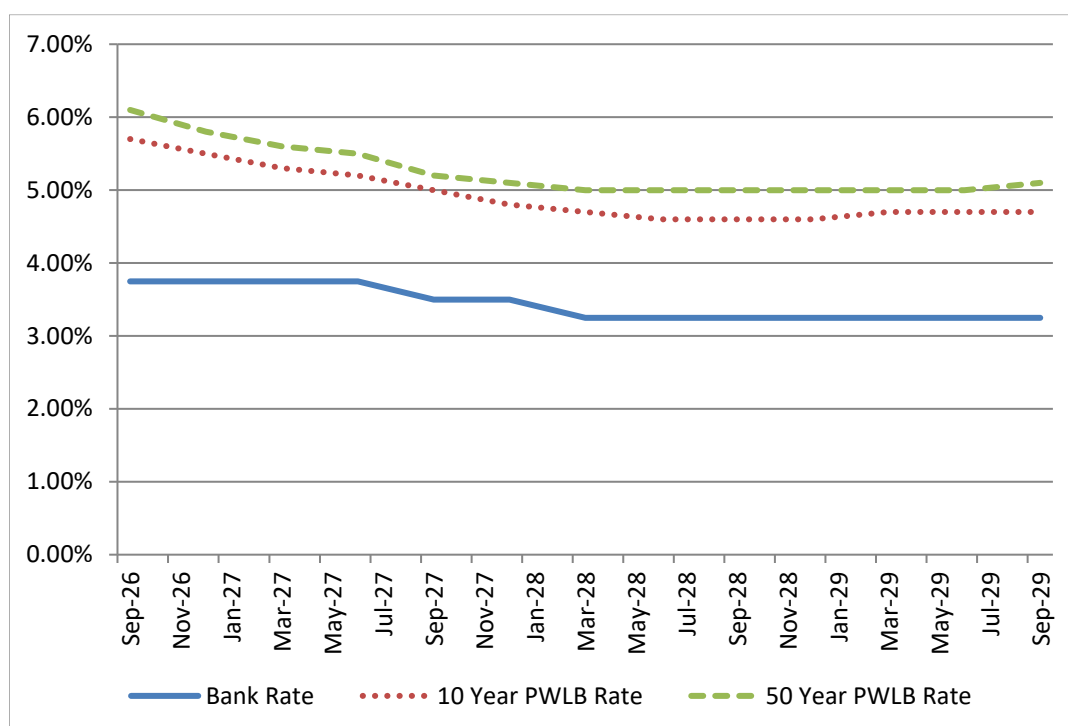
4.2 Whilst, the financial markets have remained broadly stable, the current level of gilt yields continues to have a number of significant implications:

- If these elevated rates are sustained, they will increase the cost of Government borrowing and place additional pressure on the public finances. This could require future Governments to consider a combination of spending restraint, efficiency measures and/or tax increases in order to meet their fiscal objectives.
- The level of gilt yields continues to influence expectations regarding future Bank of England Base Rate decisions. Higher long-term yields may affect both the timing and extent of any future reductions in interest rates.
- Elevated gilt yields increase the interest rates set by the Public Works Loans Board (PWLB). As Members are aware the PWLB provides loans for capital expenditure to local authorities and Fire and Rescue Authority's. The interest rates set by the PWLB are driven by the Government gilt yields. As detailed later in the report the current gilt and PWLB rates are higher than forecast in the previous Treasury Management Strategy and this report sets out the proposal for managing the position.

4.3 Interest Rate Forecasts

4.4 MUFG Corporate Markets (the Authority's Treasury Management advisors) continue to update their interest rate forecasts to reflect statements made by the Governor of the Bank of England and changes in the economy.

- 4.5 At the July Monetary Policy Committee (MPC) meeting, the MPC voted by a majority of 6-3 to maintain the Bank Rate at 3.75%. Three members voted to increase Bank Rate by 0.25 percentage points, to 4%.
- 4.6 MUFG Corporate Markets suggest that September 2027 looks a reasonable estimate for when the next Bank Rate cut will occur, with rates forecast to fall to 3.50% and to 3.25% by the end of financial year 2028. This timeframe highlights the current economic uncertainty and this impact this is having on interest rates higher for longer than anticipated before the commencement of the USA/Iran conflict.
- 4.7 Economic and interest rate forecasting remains difficult with so many influences impacting on the economy. UK gilt yields (i.e. Government borrowing) and PWLB rates forecasts made by MUFG Corporate Markets may be liable to further amendment depending on how the political and economic developments transpire over the next year.
- 4.8 Interest Rate Forecast up to September 2029 are shown below:



5. TREASURY MANAGEMENT OUTTURN POSITION 2025/26

5.1 Capital Expenditure and Financing 2025/26

- 5.2 The Authority's approved capital programme was funded from a combination of borrowing, the Capital Investment Programme Reserve, revenue contributions and capital receipts.

- 5.3 Actual capital expenditure forms one of the required prudential indicators. As shown at Appendix A, the total amount of capital expenditure for the year was £1.749m, funded by a mix of Capital Investment Programme Reserve, revenue contributions, capital receipts and borrowing. This was lower than the approved budget as capital expenditure was rephased from 2025/26 to 2026/27. This position is helpful as it avoided the need to make borrowing decisions at a time of elated interest rates.
- 5.4 The Authority's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is the accumulated value of capital expenditure which is not funded from revenue or capital resources. Each year the Authority is required to apply revenue resources to reduce this outstanding balance termed the Minimum Revenue Provision.
- 5.5 Whilst the Authority's CFR sets a limit on the level of borrowing, the Authority can manage the actual borrowing position by either:
- borrowing externally to the level of the CFR; or
 - choosing to use temporary internal cash flow funds instead of borrowing; or
 - a combination of the two.
- 5.6 The Authority's CFR for the year was £10.468m as shown at Appendix A.
- 5.7 The Authority can also borrow for future planned increases in the CFR up to 3 years in advance, when this is deemed appropriate. As previously reported, in line with the approved Treasury Management Strategy, long-term borrowing secured low interest rates to fund the business case for the Asset Management Plan.
- 5.8 The Authority's total long term external borrowing at 31st March, 2026 was £8.589m, which funds 82% of the CFR up to 2026/27. The total borrowing remains below the CFR and there continues to be an element of netting down investments and borrowing (i.e. using cash backed reserves to delay borrowing). This is appropriate whilst interest rates remain at current levels and the Authority needs to carefully manage the timing of new borrowing to fund forecast expenditure to secure affordable interest rates.
- 5.9 **Prudential Indicators and Compliance Issues 2025/26**
- 5.10 Details of each Prudential Indicator are shown at Appendix A. Some of the Prudential Indicators provide either an overview or specific limits on treasury activity. The key Prudential Indicators to report at outturn are described below.
- 5.11 The **Authorised Limit** is the "Affordable Borrowing Limit" required by Section 3 of Local Government Act 2003. The Authority does not have the power to borrow above this level. Appendix A demonstrates that during 2025/26 the Authority has maintained gross borrowing within the Authorised Limit.

- 5.12 **Gross Borrowing and the CFR** – In order to ensure that borrowing levels are prudent, over the medium term the Authority's external borrowing, must only be for capital purposes. Gross borrowing should not exceed the CFR for 2025/26 plus the expected changes to the CFR over 2026/27 and 2027/28. The Authority has complied with this Prudential Indicator.

5.13 **The Treasury position at 31st March 2026**

- 5.14 The table below shows the Treasury position for the Authority as at 31st March, 2026 compared with the previous year.

Treasury position	31st March 2025		31st March 2026	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- PWLB	£6.7m	2.92%	£6.6m	2.92%
- Market Loans (LOBOs)	£2.0m	3.95%	£2.0m	3.95%
Total Long Term Debt	£8.7m	3.15%	£8.6m	3.16%
Total Investments	(£15.8m)	4.88%	(£13.4m)	4.18%
Net Debt / (Investment) Position	(£7.1m)		(£4.8m)	

A LOBO (Lender Option, Borrower Option) loan was taken out in March 2007 at which time interest rates for comparative PWLB loans were 4.3%.

- 5.15 A key performance indicator shown in the above table is the low average interest rate for external long-term debt of 3.16% for debt held as at 31st March, 2026.
- 5.16 The Authority's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance, which has been implemented in the annual investment strategy approved by the Authority.
- 5.17 The Authority continues to keep under review the most opportune approach to borrowing. Given prevailing interest rates during 2025/26 no long-term borrowing was undertaken.

Regulatory Framework, Risk and Performance 2025/26

- 5.18 The Authority's Treasury Management activities are regulated by a variety of professional codes, statutes and guidance:
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Authority or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made since this power was introduced);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act, and requires the Authority to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the MHCLG has issued Investment Guidance to structure and regulate the Authority's investment activities;
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

5.19 The Authority has complied with all the above relevant statutory and regulatory requirements which limit the levels of risk associated with Treasury Management activities.

6. **TREASURY MANAGEMENT STRATEGY 2026/27 1st QUARTER REVIEW**

6.1 The Treasury Management Strategy for 2026/27 was approved by the full Fire Authority on 13th February 2026. The Authority's borrowing and investment position as at 30th June 2026 is summarised as follows:

	£m	Average Rate
LOBO Loan #	2.0	3.95%
PWLB Loans	6.6	2.92%
Gross Debt	8.6	3.16%
Investments	14.1	4.31%
Net Investment	5.5	

A LOBO (Lender Option, Borrower Option) loan was taken out in March 2007 at which time interest rates for comparative PWLB loans were 4.3%. The LOBO has a call date of 28th March 2028 at which point the lender can potentially increase the interest rate and the Authority can either accept the new rate, or repay the loan and refinance with another lender.

6.2 As part of the Treasury Strategy for 2026/27 the Authority set a number of prudential indicators. Compliance against these indicators is monitored on a regular basis and there are no breaches to report.

- 6.3 The CFR and capital expenditure financed by borrowing will vary from the original estimate approved by the full Fire Authority in February 2026 owing to planned capital expenditure being re-phased between financial years.
- 6.4 The investment strategy is achieving investment income to support the Medium Term Financial Strategy to 2030/31 at the rate of £0.250m per year. As interest rates on investments are continuing at a higher level than previously forecast, following slower reductions in the Bank of England base rate than anticipated, the investment strategy should provide additional one off investment income in 2026/27 and 2027/28. Decisions regarding this additional income will be made as part of the 2027/28 budget process, which will consider the benefits of either:
- Allocating uncommitted investment income to continue support of the revenue budget at the rate of £0.250m beyond 2030/31;
 - Allocating to help partly mitigate the risk of Government grant cuts in 2029/30, including the Floor Funding grant;
 - Earmarked as a Voluntary Revenue Provision (VRP), which then be used to either (a) reduce the overall level of borrowing undertaken by the Authority in future years to fund capital expenditure, or (b) released over a number of years by reducing Minimum Revenue Provision payments to support the revenue budget.
- 6.5 As at the 30th June, the funds managed by the Authority amounted to £14.127m. All investments complied with the Annual Investment Strategy and are shown in the table below.

Borrower	Duration	Value of Investment (£m)	Rate (%)	Start Date	Maturity Date
Fixed term Deposits					
Goldman Sachs	1 year	5.000	4.140	01/08/25	31/07/26
Standard Chartered Bank	1 year	5.000	4.700	01/05/26	30/04/27
Lloyds Bank Corporate Markets	9 months	1.500	4.490	01/05/26	01/02/27
DMADF	<1 month	0.250	3.730	19/06/26	06/07/26
DMADF	<1 month	0.250	3.730	22/06/26	13/07/26
DMADF	<1 month	1.000	3.705	26/06/26	01/07/26
		13.000	4.347		
Money Market Funds					
Blackrock	On Call	1.127	4.306		Call
Total Deposits		14.127	4.208		

- 6.6 The principles and hierarchy of security / liquidity / rate of return continue to be closely adhered to.

6.7 Counterparty Selection Criteria

- 6.8 The Authority's criteria for providing a pool of high quality investment counterparties uses the credit rating information produced by the three major ratings agencies (Fitch, Moody's and Standard & Poor's) and is supplied by our treasury consultants. All active counterparties are checked against criteria outlined below to ensure that they comply with the criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered on a daily basis before investments are made. For instance, a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions.
- 6.9 The **lowest common denominator** method of selecting counterparties and applying limits is used. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria.
- 6.10 The Treasurer will continue to adopt a vigilant approach resulting in what is effectively a 'named' list. This consists of a select number of counterparties that are considered to be the lowest risk.
- 6.11 The use of Local Authority counterparties will be considered and due diligence carried out on an individual basis. The media often describes issuing a section 114 notice as 'bankruptcy', but in fact, a section 114 notice means the Authority cannot make new spending commitments. Local authorities are regarded as very low credit risk investment counterparties and as such are included on our counter party list.

Category	Fitch	Moody's	Standard & Poor's	Proposed Counterparty Limit	Proposed Time Limit
A	F1+/AA-	P-1/Aa3	A-1+/AA-	£7m	1 year
B	F1/A-	P-1/A3	A-1/A-	£5m	1 year
C	Debt Management Office/Treasury Bills/Gilts			£14m	1 year
D	Nationalised Banks			£5m	2 years
E	Other Local Authorities Individual Limits per Authority: - £3m County, Metropolitan or Unitary Councils - £1.5 District Councils, Police or Fire Authorities			£15m	2 years
F	Three Money Market Funds (AAA) with maximum investment of £1.5m per fund			£4.5m	Liquid (instant access)

- 6.12 Borrowing Strategy** - In relation to the Authority's borrowing requirement for approved capital expenditure in 2026/27 it is not recommended that any new borrowing is undertaken during the current year as interest rates are expected to fall in future years. Therefore, by deferring borrowing decisions the Authority will not lock into these high interest rates.
- 6.13 It is recognised that there is a potential risk that current interest rates may prevail longer than currently anticipated. However, it is expected these rates will fall once the MPC is satisfied inflation is under control, although interest rates are unlikely to fall to the previously historical low level of recent years.
- 6.14 In the short-term any borrowing requirement for the approved 2026/27 capital programme will be funded from a combination of netting down investments and borrowing (in a similar way to an individual having an offset mortgage), or temporary borrowing for a short period if this is necessary. This approach will minimise the net overall costs of the Authority's investments and borrowing requirement.

7. CIPFA TREASURY MANAGEMENT CODE OF PRACTICE

- 7.1 The Authority has adopted the current CIPFA Treasury Management Code of Practice, effective from December 2021.
- 7.2 Treasury Management Advisors**
- 7.3 The Authority uses MUFG as its external treasury management advisors.
- 7.4 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
- 7.5 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

8. CONCLUSION

- 8.1 The MTFS continues to benefit from careful management of investments and this is providing annual support for the revenue budget of £0.250m up to and including 20230/31. It may be possible to extend support for the revenue budget at the rate of £0.250m beyond the planned period. However, this is not a recurring source of funding as reserves will be used and interest returns will reduce. Therefore, at some point use of this resource will need replacing with budget reductions.

- 8.2 The MTFS also benefits from previous decisions to lock into low interest rates for capital borrowing.
- 8.3 The approved Asset Management Plan requires significant additional borrowing over the period up to March 2030. The phasing of this borrowing will depend on when actual capital expenditure is incurred. Locking into current long term interest rates is not appropriate as these are currently anticipated to exceed the Bank of England Base Rate for the foreseeable future.
- 8.4 It is therefore recommended that the borrowing requirement is funded from a combination of netting down investments / borrowings and then funding the net borrowing requirement using short-term loans. This approach will provide the lowest cost in the short-term (i.e. 2026/27) and also enable the Authority to minimise the long term cost (i.e. from 2027/28 onwards) of financing the approved Asset Management Plan by either;
- continuing this strategy if current interest rate structures continue for longer than forecast (i.e. short-term interest rates remain below long-term interest rates); or
 - lock into long-term interest rates if these are more favourable and there is a risk of short-term interest rates increasing.

CHRIS LITTLE
TREASURER

Appendix A**Prudential Indicators 2025/26 Outturn****1. Ratio of Financing Costs to Net Revenue Stream**

This indicator shows the proportion of the total annual revenue budget that is funded by the local tax payer and Central Government, which is spent on servicing debt.

2025/26 Estimate £'000		2025/26 Outturn £'000
2.66%	Ratio of Financing costs to net revenue stream	2.68%

2. Capital Expenditure

This indicator shows the total capital expenditure for the year and the outturn reflects the actual phasing of capital expenditure.

2025/26 Estimate £'000		2025/26 Outturn £'000
3,585	Capital Expenditure	1,749

3. Capital Expenditure Financed from Borrowing

This shows the borrowing required to finance the capital expenditure programme.

2025/26 Estimate £'000		2025/26 Outturn £'000
2,089	Capital Expenditure Financed by Borrowing	910

The actual is lower than estimated owing to the phasing of capital expenditure between years.

4. Capital Financing Requirement (CFR)

CFR is used to determine the minimum annual revenue charge for capital expenditure repayments (net of interest). It is calculated from the Authority's Balance Sheet and is shown below. Forecasts for future years are directly influenced by the capital expenditure decisions taken and the actual amount of revenue that is set aside to repay debt.

2025/26 Estimate £'000		2025/26 Outturn £'000
13,772	Capital Financing Requirement	10,468

The capital financing requirement is lower than estimated owing to the phasing of capital expenditure.

5. Authorised Limit for External Debt

The authorised limit determines the maximum amount the Authority may borrow at any one time. The authorised limit covers both long term borrowing for capital purposes and borrowing for short term cash flow requirements. The authorised limit is set above the operational boundary to provide sufficient headroom for operational management and unusual cash movements. In line with the Prudential Code, the level has been set to give the authority flexibility to borrow up to three years in advance of need if more favourable interest rates can be obtained.

2025/26 Limit £'000		2025/26 Peak £'000
17,000	Authorised limit for external debt	11,892

6. Operational Boundary for External Debt

The operational boundary is the most likely prudent, but not worst case scenario, level of borrowing without the additional headroom included within the authorised limit. The level is set so that any sustained breaches serve as an early warning that the Authority is in danger of overspending or failing to achieve income targets and gives sufficient time to take appropriate corrective action.

2025/26 Limit £'000		2025/26 Peak £'000
15,000	Operational boundary for external debt	11,892

7. Interest Rate Exposures

This indicator is designed to reflect the risk associated with both fixed and variable rates of interest, but must be flexible enough to allow the Authority to make best use of any borrowing opportunities.

2025/26 Limit £'000	Upper limits on fixed and variable interest rate exposure	2025/26 Peak £'000
100%	Fixed Rates	77%
75%	Variable Rates	23%

8. Maturity Structure of Borrowing

This indicator is designed to reflect and minimise the situation whereby the Authority has a large repayment of debt needing to be replaced at a time of uncertainty over interest rates, but as with the indicator above, it must also be flexible enough to allow the Authority to take advantage of any borrowing opportunities.

	Upper Limit	Lower Limit	Actual by Maturity Date	Actual by soonest call date
	£'000	£'000	£'000	£'000
Under 12 months	8,000	0	108	108
12 month to 2 years	10,000	0	111	2,111
2 years to 5 years	10,000	0	354	354
5 years to 10 years	10,000	0	663	663
10 years to 15 years	10,000	0	766	766
15 years to 20 years	10,000	0	886	886
20 years to 25 years	10,000	0	1,025	1,025
25 years to 30 years	10,000	0	2,529	2,529
30 years to 40 years	10,000	0	147	147
40 years to 50 years	10,000	0	0	0
50 years to 60 years	10,000	0	2,000	0

The Authority's current outstanding borrowing includes a LOBO (Lender Option Buyer Option) loan which provide fixed interest rates for defined periods and also defined dates for reviewing interest rates, known as 'call dates'. A change to the Prudential Code requires that the call date is reflected in the Maturity Structure indicator above rather than maturity date. However, the likelihood of a LOBO being 'called' at present is very low and both methods are presented above for completeness.

9. Investments over Maturing over One Year

This sets an upper limit for amounts invested for periods longer than 364 days. The limit was not exceeded as a prudent approach to investment has been taken owing to uncertainties in the economy. This is in line with the Treasury Management Strategy. Consequently, all investments made during the year were limited to a maximum of one year.

	1 year £000	2 year £000	3 year £000
Maximum Limit	5,000	0	0
Actual	0	0	0