

**TREASURY MANAGEMENT STRATEGY 2026/27
(INCLUDING 2024/25 OUTTURN AND SECOND QUARTER
REVIEW 2025/26)****For Recommendation****1. PURPOSE OF REPORT**

1.1 The purposes of the report is to:

- i. Provide a review of Treasury Management activity for 2024/25 including the 2024/25 outturn Prudential Indicators;
- ii. provide the Second quarter update of the 2025/26 Treasury Management activity; and
- iii. enable the Audit and Governance Committee to scrutinise the recommended Treasury Management Strategy for 2026/27, before it is referred to the Full Fire Authority for approval.

2. RECOMMENDATIONS

It is recommended that Members consider the Treasury Management Strategy and note that if Members are content the following recommendations will be referred to the Full Authority for approval:

- i) Note the 2024/25 Treasury Management outturn detailed in Section 5 and Appendix A.
- ii) Note the 2025/26 Treasury Management second quarter position detailed in section 6.
- iii) Note the indicative the prudential indicators outlined in Appendix C and the final indicators will be referred to the Authority as part of the MTFS report for approval.
- iv) Borrowing Strategy 2026/27
To approve the recommendation that the Capital Financing Requirement (CFR) i.e. capital borrowing requirement is funded from short-term borrowing until such time as long term interest rates reduce to a sustainable level.

To approve the proposal to use any temporary revenue budget savings arising from temporary borrowing interest being less than budgeted to make earmarked contributions to the Capital Phasing Reserve. These amounts can then either be used to reduce the CFR, or offset future higher longer term borrowing costs if these arise.

- v) Investment Strategy 2026/27
Approve the Counterparty limits as set out in paragraph 9.7.
- vi) Minimum Revenue Provision (MRP) and Voluntary Revenue Provision (VRP) Statement
Approve the following MRP statement:
- For capital expenditure incurred before 1st April, 2008 the Authority's MRP policy is to calculate MRP in accordance with former DCLG (Department for Communities and Local Government) Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments (VRP) which is in excess of the amount required by these regulations, based on asset life;
 - From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments;
 - The Authority approves the allocation of the 2025/26 forecast investment income of £0.863m to make a Voluntary Revenue Provision (VRP) payment to reduce the Authority's overall Capital Financing Requirement (i.e. total amount of borrowing required).
 - To note that after reflecting the above VRP amount the cumulative VRP at 31.03.26 will be £1.163m. This amount will either be held to (a) permanently reduce the Capital Financing Requirement, or (b) to reduce future MRP payments by at least £0.250m per year for 4 years, which will effectively extend this level of support for the revenue beyond 2028/29, as detailed in paragraph 6.4. The decision between options (a) and (b) will be made within a future Treasury Management Strategy and Medium Term Financial Strategy to reflect the financial position of the Authority at the time.

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 2024/25 outturn
 - Treasury Management Strategy 2025/26 second quarter review
 - Treasury Management Strategy 2026/27
 - Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2026/27.
- 3.6 The report is being presented earlier than in previous years to feed into the Medium Term Strategy (MTFS) timetable. This has no impact on strategy, although some of the detailed Prudential Indicators cannot yet be finalised until the 2026/27 final Government Funding Settlement is received. Final indicators will be presented within the final MTFS report.

4. ECONOMIC BACKGROUND AND OUTLOOK FOR INTEREST RATES

- 4.1 The UK economy is not immune to international events and gilt yields (the interest rate for UK Government borrowing) increased significantly in December 2024, when the 30 year rate gilt yield increased to 5.4% - the highest rate since 1998. Most financial commentators have recognised that the majority of this increase appears to a response to global factors. However, some of the impact reflects the Chancellor's budget statement on 30 October 2024. The financial markets have reacted in a calmer manner to the global increase in interest rates and have not reacted in the same way as they did as a result of the mini-budget in September 2022.
- 4.2 Whilst, the financial markets have been calmer and are largely being driven by global factors the current level of gilt yields has a number of significant impacts:
- If these rates are sustained they will increase the cost of Government borrowing and potentially require the Chancellor to announce lower government spending and/or higher taxes. The Chancellor will have to address this issue as part of the November Budget scheduled for 26th November 2025.
 - Impact on the timing and scope of reductions in the Base Rate by the Bank of England.
 - Increase the interest rates set by the Public Works Loans Board (PWLb). As Members are aware the PWLB provides loans for capital expenditure to councils 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

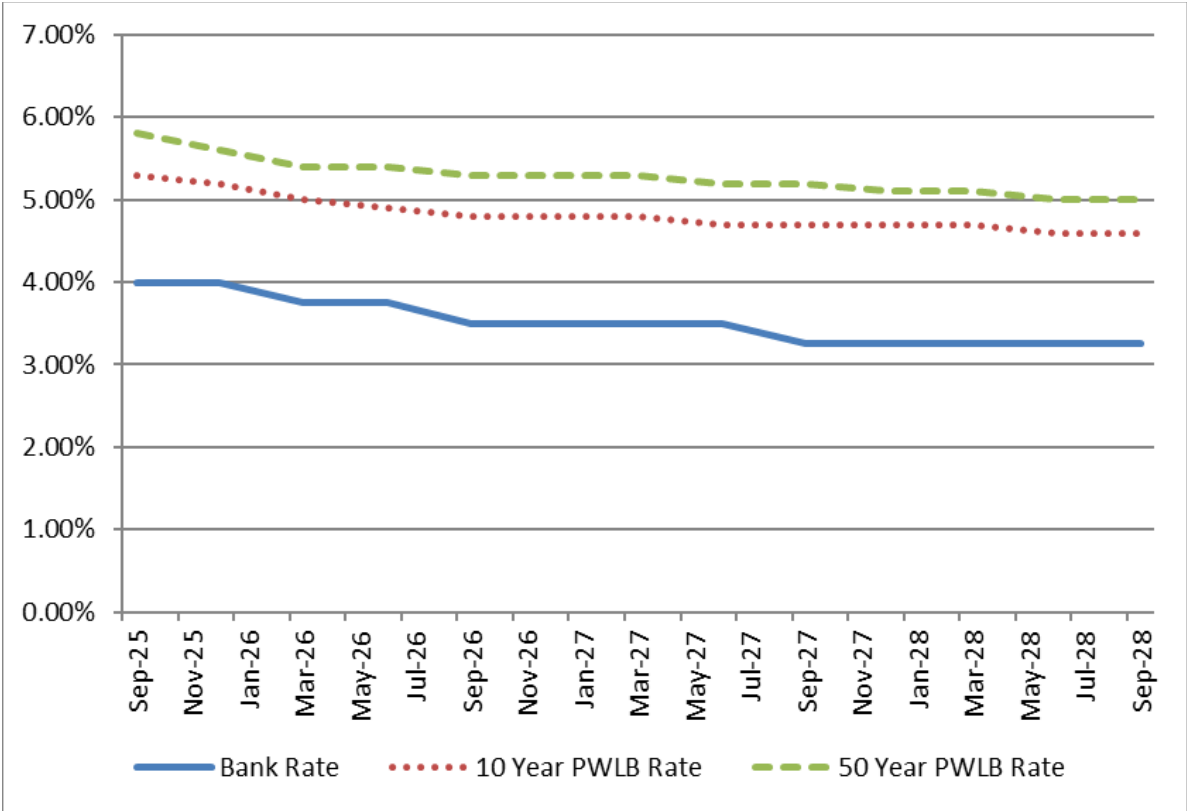
4.4 MUFG Corporate Markets (the Council’s Treasury Management advisors) continue to update their interest rate forecasts to reflect statements made by the Governor of the Bank of England and changes in the economy.

4.5 At the November MPC meeting, the MPC voted by a majority of 5-4 to maintain the Bank Rate at 4.00%.

4.6 MUFG Corporate Markets suggest that February 2026 looks a reasonable estimate for when the next Bank Rate cut will occur, with rates forecast to fall to 3.75% by the end of 2026 and further cuts likely throughout 2027. The September inflation level of 3.8% was lower than most economists had forecast. This potentially impacts on the timing of the next Bank of England Bank Rate decision, although with inflation at this level it is still significantly above the 2% target level.

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 June 2028 are shown below:



5. TREASURY MANAGEMENT OUTTURN POSITION 2024/25**5.1 Capital Expenditure and Financing 2024/25**

- 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 £2.466m, funded by a mix of Capital Investment Programme Reserve, revenue contributions, capital receipts and borrowing.
- 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 £10.203m 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, 2025 was £8.694m, which funds 85% of the CFR up to 2025/26. 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 2024/25**
- 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 2024/25 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 a capital purpose. Gross borrowing should not exceed the CFR for 2024/25 plus the expected changes to the CFR over 2025/26 and 2026/27. The Authority has complied with this Prudential Indicator.

5.13 The Treasury position at 31st March 2025

5.14 The table below shows the Treasury position for the Authority as at 31st March, 2025 compared with the previous year;

Treasury position	31st March 2024		31st March 2025	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- PWLB	£6.8m	2.92%	£6.7m	2.92%
- Market Loans (LOBOs)	£2.0m	3.95%	£2.0m	3.95%
Total Long Term Debt	£8.8m	3.15%	£8.7m	3.15%
Temporary Borrowing	£0.8m	4.20%	£0.00	0.00%
Total Investments	(£12.1m)	5.60%	(£15.8m)	4.88%
Net Debt / (Investment) Position	(£2.5m)		(£7.1m)	

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 3.15% for debt held as at 31st March, 2025.

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 Authority.

5.17 The Authority continues to keep under review the most opportune approach to borrowing. Given prevailing interest rates during 2024/25 no long term borrowing was undertaken.

5.18 As at the 30th September, the funds managed by the Authority amounted to £20.617m. 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					
Lloyds	1 year	5.000	4.550	04/10/24	03/10/25
Goldman Sachs	1 year	5.000	4.140	01/08/25	31/07/26
Natwest Markets Plc	9 months	5.000	4.070	01/08/25	01/05/26
SMBC Bank International Plc	6 months	5.000	4.110	01/08/25	30/01/26
		20.066	4.213		
Money Market Funds					
Blackrock	On Call	0.617	4.057		Call
Total Deposits		20.617	4.208		

- 5.19 The principals and hierarchy of security / liquidity / rate of return continue to be closely adhered to.
- 5.20 Investment benchmarking information for the year-ending March 2025 (provided by MUFG Corporate Markets, our Treasury Management advisors), which measures the “weighted average rate of return” was 4.86%. This is in the upper quartile of performance, for the second successive year. Further comparative information and an overview of the Investment Strategy is provided in **Appendix B**. These investments are providing one-off income to support the MTFS.
- 5.21 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.

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

6. TREASURY MANAGEMENT STRATEGY 2025/26 2nd QUARTER REVIEW

- 6.1 The Treasury Management Strategy for 2025/26 was approved by the Full Fire Authority on 28th March 2025. The Authority's borrowing and investment position as at 30th September 2025 is summarised as follows:

	£m	Average Rate
LOBO Loan #	2.0	3.95%
PWLB Loans	6.6	2.92%
Gross Debt	8.6	3.15%
Investments	20.7	4.21%
Net Investment	12.1	

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 call date of 28 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 2025/26 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 March 2025 owing to planned capital expenditure being re-phased between financial years.
- 6.4 The investment strategy has secured investment income to support the Medium Term Financial Strategy to 2028/29 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 will also provide additional one off income in 2025/26 of £0.863m. It is recommended this amount is earmarked as a Voluntary Revenue Provision (VRP). This amount can 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 at the rate of £0.250m – this would effectively extend the existing support of the revenue budget beyond 2028/29 and therefore avoid cuts of this amount being required in 2029/30. The decision between options (a) and (b) will be made within a future Treasury Management Strategy and Medium Term Financial Strategy to reflect the financial position of the Authority at the time.

7. TREASURY MANAGEMENT STRATEGY 2026/27

- 7.1 Initial Prudential Indicators and other regulatory information in relation to the 2026/27 Treasury Management Strategy is set out in Appendix C. These figures will be updated to reflect actual figures approved by the Authority as part of the Medium Term Financial Strategy. It should be noted that these updates will not impact on the borrowing or investment strategy.
- 7.2 The key elements of the Treasury Management Strategy which Members need to consider are the Borrowing and Investment Strategies, detailed in section 8 and 9.

8. BORROWING STRATEGY 2026/27

- 8.1 Following the development and implementation of the Asset Management Plan (AMP) the Authority's CFR has risen and will continue to rise to reflect borrowing approved as part of the 2025/26 Medium Term Financial Strategy. Therefore, it was recognised that a proactive borrowing strategy would need to be adopted to finance the borrowing element of the AMP. This strategy needs to address both current and forecast interest rates, and the forecast borrowing requirement. Current interest rate structure are driven by two key trends:

- **Short-term interest rates**

The Bank of England has commenced a process of reducing the Bank Base rate, which has reduced from a high of 5.25% to 4% in August 2025 and retained at this level in November. Further decisions by the Bank of England will depend on the level of inflation falling back to the 2% target level.

It is currently forecast the Bank Base rate will reduce slowly over the next two years; forecast to reduce to between 3% and 3.5% by the end of 2026, with a further reduction to between 3% and 3.25% by the end of 2027 – which may then become the 'new normal' Bank Base rate.

- **Long-term interest rates**

The main source of long borrowing for local authorities, including FRAs, is the Public Works Loans Board (PWLB). Interest rates for these loans are driven by gilt yields (interest rates for Government borrowing).

The UK, alongside other countries, including the US and France, have seen an increase in interest rates for Government borrowing.

Current forecast for long-term interest are detailed in paragraph 4.9 which shows these rates are anticipated to remain above the Bank Base rate.

- 8.2 As indicated in Appendix C (indicator 5.1) the Authority has a net borrowing requirement for the AMP up to 2028/29 of £15.810m. The interest cost of this requirement can be funded from a combination of the recurring revenue budget and the one-off reserves earmarked to manage the phasing of these costs. This position is based on borrowing at 5%, which is lower level than current PWLB interest rates.

In the short-term this is a low risk as short-term interest rates are below current longer term interest rates.

- 8.3 Until long-term interest rates reduce from their current level it would not be prudent to lock into interest rates for the borrowing requirements. Therefore, in the short-term (i.e. through 2026/27 and 2027/28) the borrowing requirement will be funded from a combination of temporary borrowing and/or netting down investments. These borrowing decisions will also reflect the timing of actual capital expenditure as this tends to be towards the end of the financial year owing to the lead in time for capital schemes. This position may continue beyond 2027/28 as current interest forecasts indicate short-term interest rates being lower than longer term interest rates.
- 8.4 It is recognised that the Authority is managing a significant increase in the net borrowing requirement over the next few years, at a time when there is uncertainty over the timing of further reductions in the Bank of England Base Rate, the scale of these reductions and the ongoing level of gilt yields. As referred to earlier in this report gilt and PWLB yields will continue to be driven by global factors. This risk is addressed in the following paragraphs.

8.5 Impact of Capital Programme on the Revenue Budget

- 8.6 In relation to the Authority's Borrowing Strategy the financial risk to the revenue budget arising from increased interest rates is significantly mitigated owing to the level of existing borrowing with low fixed interest rates (£6.6m of PWLB at an average interest rate of 2.92% and £2m LOBO loans at a rate of 3.95%). As highlighted in the following tables these loans cover 61% of the amount the Authority needs to borrow for the Asset Management Plan (technically referred to as the Capital Financing Requirement) forecast as at 31 March 2026 and 55% at 31 March 2031.
- 8.7 The table also shows the low potential revenue budget pressure at 31 March 2031 if interest rates are 1% higher than forecast and built into the MTFs. If the Authority had not adopted the existing borrowing strategy and secured fixed interest for 55% of the forecast borrowing requirement for the AMP as at 31 March 2031 this financial risk would be significantly higher.

	31.03.26 Forecast	31.03.29 Forecast	31.03.31 Forecast
Amount Authority needs to borrow for Asset Management Plan (AMP)	£14.063m	£15.809m	£14.377m
Amount Authority needs to borrow for AMP covered by existing fixed rate loans	£8.589m (61%)	£8.255m (52%)	£8.016m (56%)
Amount Authority needs to borrow for AMP not covered by existing fixed rate loans	£5.474m (39%)	£7.554m (48%)	£6.361m (44%)
Potential Revenue budget pressures of actual borrowing	£0.055m	£0.076m	£0.064m

costs exceeding forecast of 5.0% by 1% for new AMP borrowing <u>not covered</u> by existing fixed rate borrowing			
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- 8.8 The next call date for the LOBO is March 2028, at which point the lender may change the interest rate and the borrower (the Authority) can either accept the new rate, or repay without penalty. In the event the LOBO is repaid the level of borrowing not covered by existing fixed rate loans would increase by £2m. By 31.03.31 this would mean the amount not covered by existing fixed rate loans would increase from £6.361m (paragraph 8.8) to £8.361m. In turn this would increase the potential revenue pressure of a 1% interest rate increase from £0.064m to £0.084m.
- 8.9 The annual borrowing costs (i.e. interest and provision for repayment of the amount borrowed) will be 3.53% of the Authorities forecast 2028/29 budget and this percentage will not increase significantly over the period up to 31 March 2030. To provide context, figures from the Office for Budget Responsibility show that Government interest costs for 2024/25 will be 7.3% of Government Spending (which includes Pensions and Welfare spending).

9. **INVESTMENT STRATEGY 2025/26**

- 9.1 The Ministry of Housing, Communities- and Local Government (MHCLG) issued investment guidance in 2010, updated in 2017, and this forms the structure of the Authority’s policy. The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently and that priority is given to security and liquidity before interest return. The Authority has adopted the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and applies its principles to all investment activity. In accordance with the Code, the Treasurer has produced Treasury Management practices covering investment counterparty policy which requires approval each year.
- 9.2 The primary objectives of the Authority’s investment strategy in order of importance are:
- safeguarding the re-payment of the principal and interest of its investments on time;
 - ensuring adequate liquidity;
 - investment return.

9.3 **Counterparty Selection Criteria**

- 9.4 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.

- 9.5 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.
- 9.6 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.
- 9.7 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)

9.8 Specified and Non-Specified Investments

- 9.9 MHCLG regulations classify investments as either Specified or Non-Specified. Non-Specified Investment is any investment not meeting the Specified definition.
- 9.10 The investment criteria outlined above is different to that used to define Specified and Non-Specified investments. This is because it is intended to create a pool of high quality counterparties for the Authority to use rather than defining what its investments are.

- 9.11 Specified Investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within twelve months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:
- The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
 - Other Local Authorities.
 - Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating (AAA) by a credit rating agency.
 - A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society). This covers bodies with a minimum rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Authority has set additional criteria to set the time and amount of monies which will be invested in these bodies.
- 9.12 Non-specified Investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any investments with:
- Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.
 - Any bank or building society that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).
- 9.13 It is recommended that maturing investments are re-invested with phased maturity dates. This approach will enable the Authority to benefit from existing interest rates and ensure that future investments do not all mature at a time when interest rates are expected to have reduced significantly.

10. **MINIMUM REVENUE PROVISION AND INTEREST COSTS AND OTHER REGULATORY INFORMATION 2026/27**

- 10.1 There are two elements to the Authority's annual loan repayment costs – the statutory Minimum Revenue Provision (MRP) and interest costs. The Authority is required to pay off an element of the Capital Financing Requirement (CFR) each year through a revenue charge called the Minimum Revenue Provision (MRP).
- 10.2 MHCLG Regulations require the Authority to approve **an MRP Statement** in advance of each year. This will determine the annual loan repayment charge to the revenue budget.

10.3 The budget strategy is based on the following MRP statement and the Authority is recommended to formally approve the existing statement:

- For capital expenditure incurred before 1st April, 2008 the Authority's MRP policy is to calculate MRP in accordance with former CLG Regulations. This is 4% of the Capital Financing Requirement except where the Authority makes Voluntary Revenue Payments which is in excess of the amount required by these regulations, based on asset life;
- From 1st April, 2008 the Authority calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.

10.4 CIPFA Treasury Management Code of Practice

10.5 The Authority is adopting the updated CIPFA Treasury Management Code of Practice published 20th December 2021.

10.6 The revised Treasury Management Code requires the implementation of the following:

- 1. Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement, with material differences between the liability benchmark and actual loans explained, this is detailed in Appendix A.
- 2. A knowledge and skills register** for officers and members involved in the treasury function;
- 3. Reporting to members on a quarterly basis;**
- 4. Have consideration for Environmental, Social and Governance (ESG) issues.**

10.7 Treasury Management Advisors

10.8 The Authority uses MUFG as its external treasury management advisors.

10.9 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.

10.10 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.

10.11 Markets in Financial Instruments Directive (MIFID II)

10.12 On 3rd January 2018 an updated version of the European Union's Markets in Financial Instruments Directive (known as MIFID II) came into effect. It is designed to offer greater protection for investors and inject more transparency into financial markets. Under MIFID II all local authorities are classified as "retail" counterparties

and had to consider whether to opt up to “professional” status and for which type of investments. The Fire Authority opted up to professional status in order to maintain the Authority’s ability to operate effectively under the new regime.

11. CONCLUSION

- 11.1 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 2028/29. It may be possible to extend support for the revenue budget at the rate of £0.250m beyond the current MTFS i.e. 2028/29, or to increase the level of support over the next three years. However, whether this use is retained at £0.250m, or increased for the next three years, it 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.
- 11.2 The MTFS also benefits from previous decisions to lock into low interest rates for capital borrowing.
- 11.3 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.
- 11.4 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 2024/25 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.

2024/25 Estimate £'000		2024/25 Outturn £'000
2.48%	Ratio of Financing costs to net revenue stream	2.35%

2. Capital Expenditure

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

2024/25 Estimate £'000		2024/25 Outturn £'000
7,587	Capital Expenditure	2,466

3. Capital Expenditure Financed from Borrowing

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

2024/25 Estimate £'000		2024/25 Outturn £'000
4,991	Capital Expenditure Financed by Borrowing	925

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.

2024/25 Estimate £'000		2024/25 Outturn £'000
14,577	Capital Financing Requirement	10,203

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.

2024/25 Limit £'000		2024/25 Peak £'000
18,000	Authorised limit for external debt	10,452

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.

2024/25 Limit £'000		2024/25 Peak £'000
16,000	Operational boundary for external debt	10,452

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.

2024/25 Limit £'000	Upper limits on fixed and variable interest rate exposure	2024/25 Peak £'000
100% 75%	Fixed Rates Variable Rates	77% 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 £'000	Lower Limit £'000	Actual by Maturity Date £'000	Actual by soonest call date £'000
Under 12 months	8,000	0	105	2,105
12 month to 2 years	10,000	0	108	108
2 years to 5 years	10,000	0	344	344
5 years to 10 years	10,000	0	644	644
10 years to 20 years	10,000	0	1,605	1,605
20 years to 30 years	10,000	0	3,646	3,646
30 years to 40 years	10,000	0	242	242
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

APPENDIX B**INVESTMENT STRATEGY UPDATE**

The Bank of England set the Base Rate at historically low levels (i.e. below 1%) over the period February 2009 to June 2022. This included significant periods at 0.1% or 0.25%. The Bank of England increased the base rate to 1.25% on 16th June 2022, there-after increasing rates on a regular basis to a peak of 5.25% in August 2024.

Against the background of low interest rates up to June 2022 the Authority's previous Treasury Management strategy netted down investments and borrowings as this position provided the lowest cost option.

In response to the sudden increase in market interest rates following the mini budget on 22nd September 2022 the investment strategy was reviewed to lock investments into these higher interest rates, as it was not expected this position would continue. The initial strategy aimed to achieve fixed rate investments for two years. However, the financial investments available to the Authority only provided one-year investments, as the markets also thought the position would be temporary.

Benchmarking information for year ending March 2024 covering 249 authorities (provided by the MUFG Corporate Markets, our Treasury Management advisors), which measures the "weighted average rate of return" was 5.67%. This put us in the upper quartile of performance. To provide some context benchmarking for 11 other public sector organisations in the North East, Cumbria and Yorkshire is summarised below:

Weighted average rate of return year end 31.03.24

Authority Ranking	Weighted average rate of return year end 31.03.24
1	5.68%
2 (Cleveland)	5.67%
3	5.64%
4	5.53%

5 and 6	5.28%
7, 8, 9 and 10	5.26%
11	5.19%
12	4.77%

The selection of the investment counterparties has continued to prioritise security of the funds invested over the interest return.

In anticipation of continuing reductions in interest rates by the Bank of England, the re-investments of temporary resources has been phased with the current maturity dates spread from 30th January, 2026 to 31st July, 2026. This approach ensures the Authority has the funds available to meet expenditure commitments and avoids all investments maturing at a time when it is expected interest rates will have fallen further.

Cleveland Fire Authority achieved the “weighted average rate of return” was 4.86% as at 30th June 2025. This put us in the upper quartile of performance. To provide some context benchmarking for 12 other public sector organisations in the North East, Cumbria and Yorkshire is summarised below:

Weighted average rate of return year end 30.06.25

Authority Ranking	Weighted average rate of return year end 30.06.25
1 Cleveland)	4.86%
2	4.59%
3	4.51%
4	4.32%
5 and 6	4.30%
7	4.29%
8	4.28%
9 and 10	4.27%
11	4.23%
12	4.21%
13	3.57%