Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 8**

Report to	**Audit Committee**
Date	**21 September 2026**
Lead Officer	**Helen MacArthur, Assistant Chief Fire Officer**
Contact Officer	**Elgan Roberts, Head of Finance and Procurement**
Subject	**Treasury Management Report Q1 2026/27**

PURPOSE OF REPORT

1 The purpose of this report is to provide Members of the North Wales Fire and Rescue Authority (the Authority) with an update on the treasury management activity and compliance with the treasury management prudential indicators for the period 1 April 2026 – 30 June 2026.

EXECUTIVE SUMMARY

2 In December 2003, the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice (2021)* (the CIPFA Code) which requires the Authority to approve, as a minimum, treasury management semi-annual and annual outturn reports.

3 The CIPFA Code also included a new requirement for quarterly reporting of the treasury management indicators from April 2023. The non-treasury prudential indicators are incorporated in the Authority's normal revenue and capital monitoring report.

4 The Authority's treasury management strategy for 2026/27 was approved at a meeting on 20 April 2026. As the Authority borrows and invests significant sums of money there are financial risks that need to be considered, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

5 During the year, the Authority's borrowing and investments remained well within the limits originally set. There were no new defaults by banks in which the Authority deposited money.

RECOMMENDATIONS

6 Members are asked to:

i) note the treasury management activities and prudential indicators for the period 1 April 2026 to 30 June 2026.

EXTERNAL CONTEXT

7 The main story for the quarter was the continuation of the Middle East conflict, started on 28th February with strikes by Israel and the US on Iran. The conflict led to the closure of the Hormuz Strait, a waterway through which around 20% of the world's oil and liquified natural gas flows, resulting in sharp rises in energy and other commodity prices.

8 The UK headline CPI decreased over the quarter, from an annual rate of 3.3% in March to 2.8% in May, but still well above the Bank of England's 2% target. The core measure of CPI inflation also decreased, from 3.1% to 2.6% over the same period. Upside pressure in inflation generally reflected fuel prices, but many other categories experienced disinflation, providing some evidence that higher energy prices were not immediately feeding into a wider subset of products.

9 Having been expected to cut Bank Rate from 3.75%, the Bank of England's Monetary Policy Committee (MPC) instead held Bank Rate steady throughout the quarter.

10 Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate remain at 3.75%, and that the Bank of England would focus on the spare capacity in the economy, notably the labour market, rather than the upside risk of persistent inflation. The balance of risks over the near term, however, is deemed to be to the upside as signs of second round inflationary effects will prompt policymakers to raise interest rates. Over the medium term, the balance of risk for Bank Rate shifts to the downside, with tighter monetary policy, higher prices and weaker growth presenting downside risks for inflation.

LOCAL CONTEXT

11 On 31 March 2026, the Authority had net borrowing of £15.76m arising from capital expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.26 Actual £m	**30.06.26 Actual £m**
General Fund CFR	31.75	30.33
External borrowing	-15.76	-15.19
Internal borrowing	**15.99**	**15.14**
Less: Balance sheet resources	-18.61	-18.61
Less: New Investments	2.62	3.47
New borrowing	**0.00**	**0.00**

12 Table 1 confirms that the Authority's net borrowings were below the Capital Financing Requirement (CFR). The treasury management position at 30 June and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.26 Balance	Movement	30.06.26 Balance	30.06.26 Rate
	£m	£m	£m	%
Long-term borrowing	11.68	1.20	12.87	2.81 - 4.86
Short-term borrowing	4.08	-1.77	2.31	2.81 – 4.86
Total borrowing	**15.76**	**-0.57**	**15.19**	
Short-term investments	0.00	-1.00	-1.00	
Cash and cash equivalents	-2.62	0.15	-2.47	3.00 - 3.51
Total investments	**-2.62**	**-0.85**	**-3.47**	
Net borrowing	**13.14**	**-1.42**	**11.72**	

BORROWING STRATEGY AND ACTIVITY

13 As outlined in the treasury strategy, the Authority's main objective when borrowing has been to adopt a low-risk strategy balancing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

14 The PWLB certainty rate for 5-year maturity loans was 5.16% at the beginning of the period and 5.07% at the end. The lowest available 5-year maturity certainty rate was 5.04% and the highest was 5.49%. In contrast rates for 20-year maturity loans ranged from 6.02% to 6.50% during the period, and 50-year maturity loans from 5.89% to 6.35%. After coming down from a characteristic spike seen around financial year end, the cost of short-term borrowing from other local authorities has remained a little above Base Rate, at between 4.0% and 4.5%, throughout the period.

15 CIPFA's 2021 Prudential Code outlines that local authorities must not borrow to invest with the primary objective being financial return. It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement requiring new borrowing, unless directly and primarily related to the functions of the Authority.

16 The Authority has not invested in assets for financial return, and all expenditure is related to the discharge of the Authority's functions.

17 As of 30th June 2026, the Authority held £15.19m of loans, a decrease of £0.57m compared to 31st March 2026. A summary of outstanding loans as of 30th June provided in Table 3A below.

Table 3A: Borrowing Position

	31.3.26 Balance £m	Net Movement £m	30.06.26 Balance £m	30.06.26 Weighted Average Rate %	30.06.26 Weighted Average Maturity (years)
Public Works Loan Board	13.76	1.430	15.186	4.260	8.960
Local authorities (short-term)	2.00	-2.000	0.000	6.350	0.000
Total borrowing	**15.76**	**-0.57**	**15.186**		

18 The Authority took out a £2M in March 26 repayable in April 26. It took out a further loan of £1.5m in June 26 repayable in Dec 2028. A LA loan of £2m will be taken out in July 26 repayable March 27. All other short-term loans are held with the PWLB. Further borrowing will be required in the year 2026/27.

Table 3B: Long-dated Loans borrowed

	Amount £m	Rate %	Period (Years)
PWLB Maturity Loan	2.00	4.80	26
PWLB EIP Loan	0.55	3.09	11
PWLB EIP Loan	0.30	2.81	1
PWLB EIP Loan	0.40	4.31	2
PWLB EIP Loan	3.89	3.91	15
PWLB EIP Loan	1.40	4.61	4
PWLB EIP Loan	0.90	4.80	9
PWLB EIP Loan	0.86	4.58	7
PWLB EIP Loan	1.38	4.80	12
PWLB EIP Loan	1.20	4.86	2
Total borrowing	**12.87**		

19 The Authority's borrowing decisions are not predicated on any one outcome for interest rates and seeks to maintain a balanced portfolio of short- and long-term borrowing.

TREASURY MANAGEMENT INVESTMENT ACTIVITY

20 The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

21 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the period, the Authority's investment balances ranged between £0.526 and £6.287m. The investment position is shown in Table 4 below.

Table 4: Treasury Investment Position

	31.3.26		**30.06.26**	**30.06.26**	**30.06.26**
	Balance	**Net Movement**	**Balance**	**Income Return**	**Weighted Average Maturity**
	£m	**£m**	**£m**	**%**	**days**
Banks & building societies	2.62	-0.15	2.47	3.00-3.51	On call
BOS Fixed Term		1.00	1.00	4.04	22
Central Government					
Total investments	**2.62**	**0.85**	**3.47**		

22 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

23 As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower, and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

24 Bank Rate was held at 3.75%. Short term interest rates have largely followed these levels. The rates on DMADF deposits ranged between 3.70% and 3.73% and money market rates between 3.51% and 4.04%.

COMPLIANCE

25 All treasury management activities undertaken during the year complied with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. North Wales Fire and Rescue Service (the Service) hold two call accounts that are used to place short term deposits, with Lloyds Bank and Barclays Bank. The interest rates being offered on treasury deposits tend to be more favourable; however, deposits were held with Lloyd and Barclays during the period due to the liquidity requirement for purchasing the land for the new training centre.

26 The authority also utilises its Debt Management Office (DMO) account, as the Treasury Management Strategy allows for unlimited funds to be placed with the DMO.

27 Compliance with specific investment limits is demonstrated in Table 5 below.

Table 5: Investment Limits

Institution	Description	Limit	30.06.26 Actual	Complied? Yes/No
Banks	All UK banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as long term (BBB)	£5m	**£3.47m**	yes
Central Government	Debt Management Office (DMO)	Unlimited	**0**	yes
Money Market Funds (MMF)	Only in conjunction with advice for Arlingclose	£1m per fund	**0**	yes
Local Authorities	All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992	£2m	**0**	yes
Building Societies	Building societies with a rating (as for the banking sector)	£2m	**0**	yes
Building Societies (Assets £1bn)	Building societies without a rating but with assets of £1billion or more	£2m/9 months	**0**	yes

28 Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in Table 6 below.

Table 6: Debt and the Authorised Limit and Operational Boundary

	30.06.26 Actual £m	2026/27 Operational Boundary £m	2026/27 Authorised Limit £m	Complied?
Borrowing	15.19	36.12	38.12	Yes
Total debt	**15.19**	**36.12**	**38.12**	

29 Since the operational boundary is a management tool for in-year monitoring there may be occasions when actual borrowing exceeds this target. This may be due to variations in cash flow and short-term breaches would not count as a compliance failure.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

30 As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

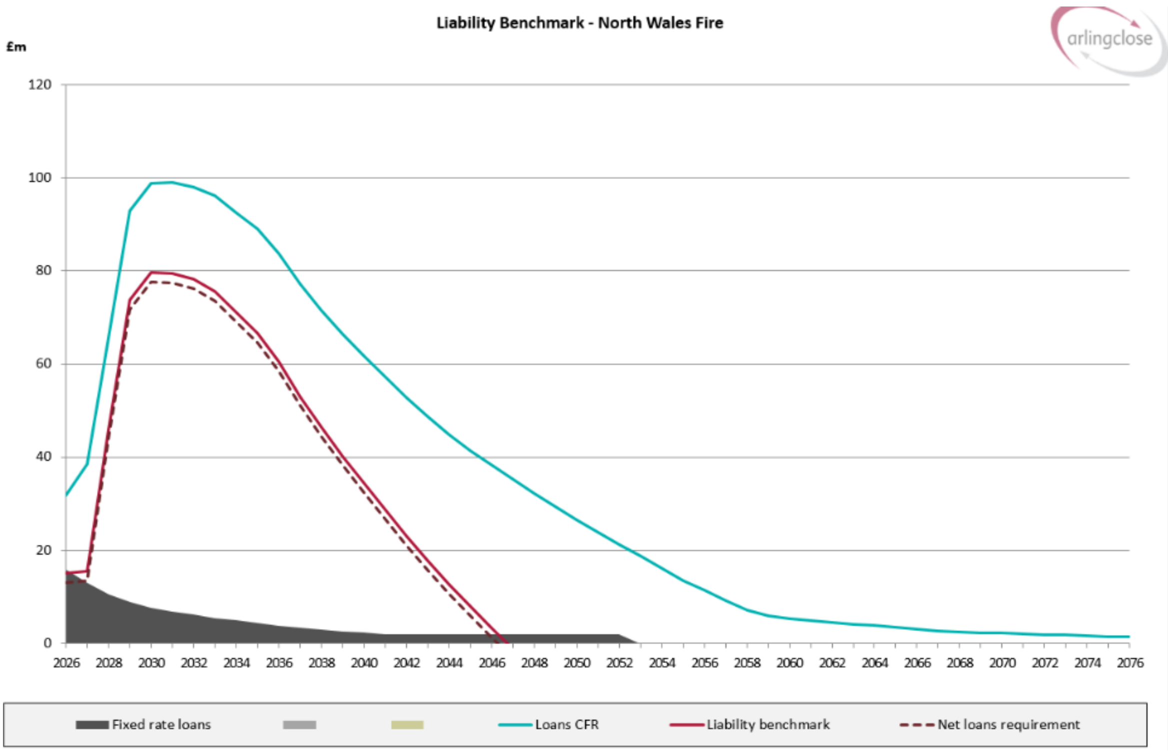
Liability Benchmark

31 This new indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making.

32 The indicator represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £2.0m required to manage day-to-day cash flow.

	31.03.26 Actual £m	30.06.26 Actual £m	31.03.27 Forecast £m	31.03.28 Forecast £m
Loans CFR	31.75	30.33	38.60	65.60
Less: Balance sheet resources	-18.61	-18.61	-25.20	-21.70
Net loans requirement	13.14	11.72	13.40	43.90
Plus: Liquidity allowance	2.00	2.00	2.00	2.00
Liability benchmark	**15.14**	**13.72**	**15.40**	**45.90**
Existing borrowing	**-15.76**	**-15.19**	**-12.90**	**-10.50**

33 Following on from the medium-term forecast above, the long-term liability benchmark assumes cumulative capital expenditure funded by borrowing of £22.0m in 2026/27, £29.4m in 2027/28 and £33.3m in 2028/29. Minimum revenue provision on new capital expenditure based on the asset life for the class of asset and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



34 The graph shows that the Authority is expecting to need to borrow in future years. The Authority will always have a borrowing requirement as it does not hold significant cash or reserves and only has limited access to capital grant funding.

35 The blue line represents the need to fund capital expenditure through borrowing (the Capital Financing Requirement or CFR). The red lines represent the need to fund capital expenditure through borrowing once reserves and working capital surplus' (or deficits) have been taken into account – this is actually the real need to borrow which CIPFA have defined

as being the Liability Benchmark. The dashed red line represents the position at year end and the solid line represents the average mid-year position. The grey shaded areas show actual loans. When the grey area falls below the red lines this infers a borrowing need.

Maturity Structure of Borrowing

36 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.03.26 Actual	Actual Limit	Upper Limit	Lower Limit	Complied Y/N
<12 months	2.31	15.21%	60.00%	0.00%	Y
12 months and <24 months	2.38	15.67%	45.00%	0.00%	Y
24 months and < 5 years	3.66	24.09%	45.00%	0.00%	Y
5 years and <10 years	3.48	22.91%	75.00%	0.00%	Y
>10 years	3.36	22.12%	100.00%	0.00%	Y

37 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long-term Treasury Management Investments

38 The Authority does not hold any long-term treasury investments.

Proportion of Financing Costs to Net Revenue Stream

39 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and Minimum Revenue Provision are charged to revenue.

40 The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

	2025/26 actual	2026/27 budget	2027/28 budget	2028/29 budget
Financing costs (£m)	4.906	4.501	5.200	5.900
Proportion of net revenue stream	9.64%	8.16%	9.2%	10.0%

IMPLICATIONS

Wellbeing Objectives	Effective treasury management underpins the Authority's long-term well-being objectives by ensuring that capital investment in stations, fleet and training infrastructure is affordable, prudent and sustainable. Maintaining compliance with the CIPFA Treasury Management Code supports financial resilience, enabling the Authority to continue delivering emergency response and prevention services over the medium and long term.
Budget	Effective treasury management underpins the Authority's long-term well-being objectives by ensuring that capital investment in stations, fleet and training infrastructure is affordable, prudent and sustainable. Maintaining compliance with the CIPFA Treasury Management Code supports financial resilience, enabling the Authority to continue delivering emergency response and prevention services over the medium and long term.
Legal	All borrowing and investment activity complied with the statutory framework and the requirements of the CIPFA Treasury Management Code and Prudential Code.
Staffing	No direct staffing implications arising from this report.
Equalities/Human Rights/Welsh Language	There are no direct equalities, human rights or Welsh language implications arising from this report.
Risks	The principal risks relate to interest rate volatility, future borrowing requirements, and the security of invested funds. These risks are mitigated through adherence to approved investment limits, a cautious approach prioritising security and liquidity, and regular monitoring of counterparties and market conditions. The liability benchmark confirms that the Authority is a long-term borrower, reinforcing the importance of continued active treasury management and member oversight.