

Lancashire Combined Fire Authority

Resources Committee

Meeting to be held Monday 29 June 2026

Year End Treasury Management Outturn 2025-26

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Executive Summary

This report sets out the Authority's borrowing and investment activity during 2025-26. All treasury management activity undertaken during the year was carried out in accordance with the Treasury Management Strategy for 2025-26, which was approved by the Combined Fire Authority in February 2025.

Overall, the outturn shows that the Authority managed its borrowing and investments prudently during 2025-26, operated within its approved treasury limits, maintained appropriate liquidity, and achieved a strong return on investments while keeping risk under control.

Recommendation

The Authority is asked to note the treasury management outturn for 2025-26 and endorse the report.

Information

Treasury management is the way the Authority manages its cash, borrowing, and investments so that it has funds available when needed, earns an appropriate return on surplus cash, and keeps financial risks under proper control. Members are asked to receive regular treasury management reports because these activities involve public money and need clear oversight. This outturn report explains what happened during 2025-26, confirms whether activity was carried out in line with the approved strategy and professional guidance, and helps Members assess whether treasury decisions were prudent, effective, and properly controlled.

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, and to strengthen Members' oversight of the Authority's treasury management arrangements, the Resources Committee receives regular reports on treasury management, including a mid-year report and this year-end outturn report. Treasury activity is also reviewed quarterly with the Authority's treasury management advisers and the Director of Corporate Services.

Investment and borrowing decisions are taken in the context of the Authority's long-term borrowing requirement, the level of reserves, and actual and forecast cash flow. In doing so, regard is given to risk, liquidity, security, and compliance with the Prudential Indicators. These are limits and measures approved by Members to help ensure that borrowing and investment activity remains affordable, prudent, and

sustainable. Decisions are also informed by current and forecast economic conditions, as these influence both the cost of borrowing and the return that can be earned on investments. This report therefore covers:

- An economic overview
- Borrowing position
- Investment activity
- Comparison to the Prudential Indicators

Economic Overview

As in 2024-25, inflation remained above the Bank of England’s 2% target during 2025-26. The Consumer Prices Index (CPI) was 3.5% in April 2025 and peaked at 3.8% between July and September 2025. It then fell to 3.0% in January and February 2026 before ending the year at 3.3% in March 2026. The latest available figure is 2.8% for April 2026. However, forecasts indicate that CPI could rise above 4.5% during 2026-27.

At its March 2026 meeting, the Bank of England’s Monetary Policy Committee (MPC) voted unanimously to maintain Bank Rate at 3.75%. However, the MPC indicated that rates may need to rise if inflationary pressures increase materially. The Committee stated that it “stands ready to act as necessary” and remains alert to the risk of domestic inflationary pressures feeding through into wages and prices. This economic context is relevant to Members because changes in inflation and interest rates directly affect the Authority’s treasury position. They influence how much it would cost to borrow in future, the level of income that can be earned on surplus cash, and the extent to which treasury performance supports the overall financial position of the Authority.

Borrowing

The Authority’s borrowing remained unchanged at £2.0 million at 31 March 2026, with no new long-term borrowing undertaken during the year. The existing loans were taken from the Public Works Loan Board (PWLB), a government body that lends to local authorities and similar public bodies, in 2007, when Bank Rate was 5.75%. The maturity profile and interest rates of the Authority’s borrowing are shown below.

Loan amount	Maturity	Interest rate
£650,000	December 2035	4.49%
£650,000	June 2036	4.49%
£700,000	June 2037	4.48%

Table 1 – maturity profile and interest rates of the authority’s borrowing

Total interest paid on PWLB borrowing during the year was £90,000, equivalent to an average interest rate of 4.49%. The Authority’s borrowing position over the last six financial years is shown below.

Financial Year Ended	PWLB £	Total £
2020-2021	2,000,000	2,000,000
2021-2022	2,000,000	2,000,000

2022-2023	2,000,000	2,000,000
2023-2024	2,000,000	2,000,000
2024-2025	2,000,000	2,000,000
2025-2026	2,000,000	2,000,000

Table 2 – Authority’s borrowing position

The capital programme approved for 2026-27 in February 2026 does not require borrowing until 2027-28. The current debt therefore relates to earlier capital programmes. Borrowing remains above the Capital Financing Requirement (CFR), which represents the Authority’s underlying need to borrow for capital purposes. This is because the Authority has historically set aside revenue each year to repay debt through Minimum Revenue Provision (MRP), while the remaining external loans continue until their maturity dates unless repaid early. In practice, this means the Authority has reduced its underlying need to borrow more quickly than the actual loans have been repaid.

If the loans were repaid early, a premium would be payable. Although early repayment could generate an estimated saving of £32,000 in future interest costs, the Authority is currently planning for a need to borrow from 2027-28 onwards. Any saving from early repayment would therefore need to be considered alongside the likely cost of replacement borrowing, which is expected to be at higher rates than the existing loans.

This is relevant to Members because it explains why no action has been taken to repay debt early. Although an early repayment might reduce future interest costs, it could also create additional costs now and may not represent best value if the Authority expects to borrow again in the near future.

The table below details the PWLB rates throughout 2025-26:-

PWLB Rate	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.25%	4.56%	5.13%	5.78%	5.46%
Date	27/02/2026	27/02/2026	02/03/2026	04/04/2025	04/04/2025
High	5.28%	5.47%	5.88%	6.43%	6.24%
Date	23/03/2026	23/03/2026	27/03/2026	27/03/2026	27/03/2026
Average	4.52%	4.82%	5.38%	6.06%	5.81%
Spread	1.03%	0.91%	0.75%	0.65%	0.78%

Table 3 – PWLB rates

At the close of 31 March 2026, the 1-year PWLB Certainty rate was 5.04% whilst the 5, 10, 25, and 50-year rates were 5.28%, 5.72%, 6.29%, and 6.08% respectively.

Investments

Both the CIPFA Code and the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance require the Authority to invest its funds prudently, with primary regard to security and liquidity before yield. During the year, the Authority’s approach continued to be to secure an appropriate balance between risk and return.

To reduce credit risk, the Authority uses an account facility with the Debt Management Office (DMO), which is part of His Majesty's Treasury, as its main counterparty for overnight investments. This provides a highly secure place to hold short-term cash while maintaining immediate access to funds.

The Treasury Management Strategy also allows investment with other high-quality counterparties, including local authorities. During the year, the Authority maintained positive cash balances throughout, ranging from a high of £60.0 million to a low of £36.7 million. Amounts invested with the DMO ranged from £28.9 million to £6.7 million, with an overnight DMO balance of £9.1 million at 31 March 2026.

This matters to Members because the Authority must balance two things: keeping cash secure and available when needed, while also generating a reasonable return for the public purse. The split between overnight and fixed-term investments shows how that balance has been managed in practice.

Longer-term fixed rate investments can generate higher returns than overnight deposits, but they reduce liquidity and are therefore used selectively. At the year end, fixed investments totalled £30.0 million. During 2025-26, five fixed-term investments matured and seven new investments were placed. The table below shows the £1.5 million of interest earned on fixed-term investments during the year.

Amount	Interest Rate	Start	Finish	2025-26 Interest	Status
5,000,000	4.50%	22/04/2025	21/04/2026	212,055	Current
5,000,000	4.75%	30/04/2025	29/04/2026	218,630	Current
5,000,000	4.15%	30/07/2025	29/07/2026	139,281	Current
5,000,000	4.15%	29/09/2025	28/09/2026	104,603	Current
5,000,000	4.25%	30/09/2025	29/09/2026	106,541	Current
5,000,000	4.55%	04/02/2026	03/02/2027	34,904	Current
5,000,000	4.80%	29/08/2024	28/08/2025	97,973	Matured
5,000,000	4.70%	02/10/2024	01/10/2025	117,822	Matured
5,000,000	5.65%	03/02/2025	30/09/2025	140,863	Matured
5,000,000	5.50%	19/02/2025	18/02/2026	243,356	Matured
5,000,000	4.50%	24/09/2025	26/01/2026	76,438	Matured

Table 4 – Interest earned on fixed-term investments

Overnight deposits with the DMO averaged five basis points (0.05%) below Bank Rate. Surplus balances on the Authority's current account are invested each working day to maximise the return on cash holdings. The average balance invested in this way during the year was £15.6 million, generating interest of £0.6 million.

Total interest earned in 2025-26 was £2.1 million, representing an average return of 4.48%. This compares favourably with the benchmark 7-day Sterling Overnight Index Average (SONIA), which averaged 4.02% over the same period. SONIA is a widely used market benchmark for short-term sterling interest rates. Achieving a return above SONIA indicates that the Authority earned more than a simple overnight market benchmark, mainly because it was able to place some funds in fixed-term deposits at favourable rates while still maintaining sufficient liquidity and operating within the approved risk framework.

All investments were made in accordance with the approved Treasury Management Strategy and the CIPFA Treasury Management Code of Practice.

Cash flow and interest rates continue to be monitored by the Director of Corporate Services and the finance team. Where market conditions are considered appropriate, further fixed-term investments will be placed in line with the approved strategy and the Authority's liquidity requirements.

The levels of investments for the last six financial years are shown below:

Financial Year Ended	LCC Call Account or DMO £	Local Authorities £	Total £
2020-2021	22,395,455	15,000,000	37,395,455
2021-2022	17,720,455	15,000,000	32,720,455
2022-2023	16,160,455	15,000,000	31,160,455
2023-2024	4,185,455	23,500,000	27,685,455
2024-2025	29,540,000	20,000,000	49,540,000
2025-2026	9,115,000	30,000,000	39,115,000

Table 5 – levels of investment

Prudential Indicators

A range of Prudential Indicators is used to control and monitor the Authority's treasury management activity. These are effectively the guardrails within which treasury decisions must be taken. They are approved by Members in advance and cover matters such as how much the Authority can borrow, how borrowing is structured, and the limits that apply to investments. The table below shows the approved indicators for 2025-26 alongside the actual outturn position.

	Indicators (£'000)	Actual (£'000)
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt - a prudent estimate of external debt, which includes sufficient headroom for unusual cash movements:		
• Borrowing	4,000	2,000
• Other long-term liabilities – these relate to leases and the Private Financial Initiative (PFI) agreements	30,000	11,933
• Total	34,000	13,933
Operational boundary for external debt - a prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising because of the Authority's current plans:		
• Borrowing	3,000	2,000
• Other long-term liabilities – these relate to leases and the PFI agreements	16,000	11,933
• Total	19,000	13,933
Upper limit for fixed interest rate exposure		
• Borrowing	100%	100%

	Indicators (£'000)	Actual (£'000)
• Investments	100%	77%
Upper limit for variable rate exposure		
• Borrowing	50%	-
• Investments	100%	23%
Upper limit for total principal sums invested for up to two years (per maturity date)	40,000	30,000
Upper limit for total principal sums invested for over two years and up to ten years (per maturity date)	25,000	-
Maturity structure of debt*:	Upper/ Lower Limits	Actual
• Under 12 months	100%/-	-
• 12 months and within 24 months	50%/-	-
• 24 months and within 5 years	50%/-	-
• 5 years and within 10 years	50%/-	32%
• 10 years and above	100%/-	68%

Table 6 – Approved indicators for 2025-26 alongside the actual outturn position

Ratio of financing costs to revenue stream (%)	Budget	Actuals
Ratio of financing costs to revenue stream (%)	(1.67%)	(2.62%)

Table 7 - Ratio of financing costs to revenue stream

Overall, the Prudential Indicators show that treasury management activity during 2025-26 remained within the limits approved by Members. This is important because it demonstrates that borrowing and investment decisions were taken within an agreed control framework and that the Authority's treasury position remained prudent and well managed throughout the year.

Financial Implications

The table below summarises the Authority's treasury management financing income and costs for 2025/26, comparing budget with actual outturn.

	Budget £ million	Actual £ million	Reason for variance
Interest Payable on PWLB loans	0.09	0.09	
Interest Receivable with DMO and fixed term investments	(1.39)	(2.12)	Numerous fixed investments with Local Authorities above the Bank of England base rate.
Net financing income from Treasury Management activities*	(1.30)	(2.03)	

Table 8 - The Authority's treasury management financing income and costs for 2025/26

* There are financing costs associated with leases and the PFI agreements, which are not included in the balances above as they are not the result of Treasury Management activities.

Human Resource Implications

None.

Equality and Diversity Implications

None.

Business Risk Implications

The Treasury Management Strategy is intended to ensure the prudent management of cash, investments and borrowing, with primary regard to security and liquidity and, subject to those priorities, an appropriate return on investments and minimisation of borrowing costs. The monitoring and reporting arrangements set out in this report provide assurance to Members that treasury management activity during 2025-26 was undertaken within the approved strategy and prudential framework.

Environmental Impact

None.

Legal Implications

There are no specific legal implications arising directly from this report.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper: Treasury Management Strategy 2025/26

Date: February 2025

Contact: Steven Brown, Director of Corporate Services

Paper: Treasury Management Guidance

Date: February 2017

Contact: Steven Brown, Director of Corporate Services