Lancashire Combined Fire Authority
Resources Committee
Meeting to be held on 8 July 2025

Year End Treasury Management Outturn 2024/25

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Executive Summary
The report sets out the Authority's borrowing and lending activities during 2024/25. All treasury activities undertaken throughout the year are in accordance with the Treasury Management Strategy 2024/25 approved by the CFA in February 2024.

Recommendation
The Authority is asked to note and endorse the outturn position report.

Information
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 activities, the Resources Committee receives regular updates on treasury management issues including a mid-year report and a final outturn report. Reports on treasury activity are discussed on a quarterly basis with our advisors and the Director of Corporate Services.

Investment and borrowing decisions are taken in the light of long-term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. Consideration is also given to various risks and ensuring compliance with the Prudential Indicators. Decisions are taken in the light of current and forecasted economic situation. Therefore, this report provides information on:

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

Economic Overview
UK inflation has been relatively static throughout 2024/25. Having started the financial year at 2.3% (April), the Consumer Price Index (CPI) measure of inflation briefly dipped to 1.7% in September before ending the financial year at 2.8%. The latest data shows CPI is 3.4% (June 2025) and expectations are that it will average 3.2% over the financial year; this compares to the 2% budgeted figure.

Against that backdrop and the global economy, the Bank Rate reductions have been limited. Bank Rate currently stands at 4.5%, despite the Office for Budget Responsibility reducing its 2025 GDP forecast for the UK economy to only 1%

(previously 2% in October). Borrowing is currently expensive although rates are expected to reduce over the coming year or two.

Borrowing

The borrowing levels of the Fire Authority have remained unchanged at year end at £2m with no new long-term loans being taken. The existing loans were taken out with the Public Loans Works Board (PWLB) in 2007 when the base rate was 5.75%. The maturity and interest rate of the Authority's borrowing is:

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

Total interest paid on PWLB borrowing was £90k, which equates to an average interest rate of 4.49%. The levels of borrowings for the last six financial years are shown below:-

Financial Year Ended	PWLB £	Total £
2019-2020	2,000,000	2,000,000
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

The current approved capital programme has no requirement to be financed from borrowing until 2026/27 and the debt relates to earlier years' capital programmes. While the borrowing is above its Capital Financing Requirement (CFR), which is the underlying need to borrow for capital purposes, this is because the Fire Authority has had a policy of setting aside monies in the form of statutory and voluntary minimum revenue provision (MRP) to repay debt as it matures or to make an early repayment.

If the loans were to be repaid early there would be an early repayment (premium) charge. Previous reports on treasury management activities have reported that the premium and the potential loss of investment income have been greater than the savings made on the interest payments therefore it has not been considered financially beneficial to repay the loans especially with the potential for increased interest rates. However, at 31 December the Authority would save £10k in interest, split over 10-years, if the loans were to be repaid early. As the Authority is budgeting a borrowing requirement to fund the capital programme from 2026/27, the additional interest on new loans would outweigh the £10k saving achieved from early repayment. This can be seen in the table below detailing PWLB rates throughout 2024/25:-

PWLB Rate	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.77%	4.31%	4.52%	5.08%	4.88%
Date	26/02/2025	17/09/2024	17/09/2024	17/09/2024	17/09/2024

PWLB Rate	1 Year	5 Year	10 Year	25 Year	50 Year
High	5.61%	5.34%	5.71%	6.18%	5.88%
Date	29/05/2024	13/01/2025	13/01/2025	13/01/2025	09/01/2025
Average	5.14%	4.86%	5.07%	5.56%	5.32%
Spread	0.84%	1.03%	1.19%	1.1%	1.00%

At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

Investments

Both the CIPFA Code and the then Ministry of Housing, Communities and Local Government (MHCLG) Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Throughout the year when investing money, the key aim was to strike an appropriate balance between risk and return.

To reduce credit risk to the Authority, HM Treasury's Debt Management Office is the main counterparty for the Authority's investments via the operation of overnight deposits at 31 March 2025. This changed from the operation of a call account with Lancashire County Council from 1 October 2024.

The Treasury Management Strategy does permit investment with other high-quality counterparties including other local authorities. During the year the total cash held by the Authority has been positive with the highest balance being £60.2m and the lowest £27.0m. For the monies invested with Lancashire County Council/Debt Management Office the range was £38.1m to £3.5m. The overnight deposit with the Debt Management Office at year end was £29.5m.

By placing monies in longer term fixed rate investments, it is anticipated a higher level of interest will be earned. However, having fixed term deals does reduce the liquidity of the investments and therefore their use is limited. At the year-end fixed investments of £20.0m were in place. During the year seven fixed term investments had matured and six new investments were made. The table below shows the interest earned of £1.18m on fixed term investments in 2024/25:

Amount	Interest Rate	Start	Finish	2024/25 Interest	Status
5,000,000	4.80%	29/08/2024	28/08/2025	141,370	Current
5,000,000	4.70%	02/10/2024	01/10/2025	116,534	Current
5,000,000	5.65%	03/02/2025	30/09/2025	44,116	Current
5,000,000	5.50%	19/02/2025	18/02/2026	30,890	Current
5,000,000	5.60%	12/12/2023	12/09/2024	125,808	Matured
5,000,000	5.55%	17/10/2023	15/10/2024	149,774	Matured
5,000,000	5.85%	20/11/2023	18/11/2024	185,116	Matured
3,500,000	5.05%	14/12/2023	12/12/2024	123,483	Matured
5,000,000	5.50%	03/01/2025	06/01/2025	247,849	Matured
5,000,000	4.75%	19/12/2024	15/01/2025	2,260	Matured
5,000,000	5.55%	23/02/2024	21/02/2025	17,568	Matured

The call account provided by Lancashire County Council paid six base points (0.06%) below the base rate to 30 September 2024. From 1 October 2024 the overnight deposits with the Debt Management Office averaged five base points (0.05%) below the base rate. Each working day the balance on the Authority's current account is invested to ensure that the interest received on surplus balances is maximised. The average balance using these investments during the year was £22.5m earning interest of £1.08m.

The overall interest earned during this financial year was £2.27m at a rate of 5.07% which compares favourably with the backward-looking 1-month index (Sterling Overnight Index Average) which averages 4.94% over the same period. The main factor for this is fixed deposits commencing in 2024/25 with high interest rates.

All these investments are made in accordance with the current 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 Authority’s finance team, and when rates are felt to be at appropriate levels further fixed term deposits will be placed.

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

Financial Year Ended	LCC Call Account/ DMO £	Local Authorities £	Total £
2019-2020	27,385,455	10,000,000	37,385,455
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

Prudential Indicators

To control and monitor the Authority’s treasury management functions, several prudential indicators are determined against which performance may be measured. From 1 April 2024 the Fire Authority were required to implement international accounting standard IFRS 16 Leases, replacing IAS 17. The standard eliminates the distinction between finance and operating leases for lessees, requiring most leases to recognise a right of use asset and liability on the balance sheet.

IFRS 16 has an impact on the Fire Authority’s private finance initiative (PFI) agreements which has resulted in an increase of the Authority’s other long-term liabilities, which has been included in the actual totals in the table below. The Fire Authority has identified several property leases which are impacted. The liability for these properties is not included in the table below however, the impact is expected to be within the authorised limit and operational boundary for external debt.

The indicators for 2024/25 are shown in the table below 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 total external debt, which does not reflect the worst-case scenario, but allows sufficient headroom for unusual cash movements			
	Borrowing	4,000	2,000
	Other long-term liabilities – these relate to leases and the PFI agreements	30,000	12,444
	Total	34,000	14,444
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	12,444
	Total	19,000	14,444
Upper limit for fixed interest rate exposure			
	Borrowing	100%	100%
	Investments	100%	100%
Upper limit for variable rate exposure			
	Borrowing	25%	0%
	Investments	100%	0%
Upper limit for total principal sums invested for over 365 days (per maturity date)		25.000	0
Maturity structure of debt		Upper/ Lower Limits	Actual
	Under 12 months	100%/nil	-
	12 months and within 24 months	50%/nil	-
	24 months and within 5 years	50%/nil	-
	5 years and within 10 years	50%/nil	-
	10 years and above	100%/nil	100%
Ratio of financing costs to revenue stream (%)	**Budget**	**Actuals**	
Ratio of financing costs to revenue stream (%)	-1.3%	-3.0%	

Financial Implications

The following table summarises the Financing costs for the Authority, comparing actual with budget:-

	Revised Budget £m	Actual £m	Reason for variance
Interest Payable on PWLB loans	0.09	0.09	
Interest Receivable on call account and fixed term investments	(1.05)	(2.27)	Largely due increase in call account rate in year along with new investments taken out with local authorities for the last quarter of the financial year at higher rates than anticipated when setting the budget
Minimum Revenue Provision re PWLB loans	0.00	0.00	
Net financing income from Treasury Management activities*	(0.96)	(2.18)	

* 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.

Legal Implications
None.

Human Resource Implications
None.

Equality and Diversity Implications
None.

Business Risk Implications
The Treasury Management Strategy is designed to maximise interest earned, minimise interest paid whilst maintaining an acceptable level of risk. The reviews of performance provide members with an assurance that this has been complied with.

Environmental Impact
None.

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

Paper: Treasury Management Strategy 2024/25

Date: February 2024
Contact: Steven Brown, Director of Corporate Services

Paper: Treasury Management Guidance
Date: February 2017
Contact: Steven Brown, Director of Corporate Services