

Lancashire Combined Fire Authority

Resources Committee

Meeting to be held on 26 November 2025

Treasury Management Mid-Year Report 2025/26 as at 30 September 2025

Contact for further information:

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Executive Summary

The report sets out the Authority's borrowing and lending activities during 2025/26. Decisions taken were in accordance with the Treasury Management Strategy and were based on anticipated spending and interest rates prevailing at the time.

Recommendation

The Authority is asked to note and endorse the report.

Information

In accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Treasury Management Code of Practice and to strengthen members' oversight of the Authority's treasury management activities, the Resources Committee receives a treasury management mid-year report and a final outturn report. Reports are discussed with the Authority's Director of Corporate Services on a quarterly basis, and the content of these reports is used as a basis for this report to the Committee.

Economic Overview

The first half of 2025/26 saw:

- A 0.3% pick up in Gross Domestic Product (GDP) for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth.
- The 3-month comparison to the same three months last financial year rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.8% in July.
- Consumer Prices Index (CPI) inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.6%.
- The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
- The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70%.

From a GDP perspective, the financial year got off to a bumpy start with the 0.3% monthly fall in real GDP in April as front-running of US tariffs in quarter one (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% compared to the previous quarter. Looking ahead, ongoing speculation about further tax

risers in the Autumn Budget on 26 November will remain a drag on GDP growth for a while yet. GDP growth for 2025 is forecast by Capital Economics to be 1.3%.

With the November Budget edging nearer, the public finances position looks weak. Public net sector borrowing of £18.0bn in August means that after five months of the financial year, borrowing is already £11.4bn higher than the Office for Budget Responsibility's (OBR) forecast at the Spring Statement in March. The overshoot in the Chancellor's chosen fiscal mandate of the current budget is even greater with a cumulative deficit of £15.3bn. All this was due to both current receipts in August being lower than the OBR forecast (by £1.8bn) and current expenditure being higher (by £1.0bn). Over the first five months of the financial year, current receipts have fallen short by a total of £6.1bn (partly due to lower-than-expected self-assessment income tax) and current expenditure has overshot by a total of £3.7bn (partly due to social benefits and departmental spending). Furthermore, what matters now is the OBR forecasts and their impact on the current budget in 2029/30, which is when the Chancellor's fiscal mandate bites. As a general guide, Capital Economics forecasts a deficit of about £18bn, meaning the Chancellor will have to raise £28bn, mostly through higher taxes, if she wants to keep her buffer against her rule of £10bn.

CPI inflation fell slightly from 3.5% in April to 3.4% in May, and services inflation dropped from 5.4% to 4.7%, whilst core inflation also softened from 3.8% to 3.5%. More recently, though, inflation pressures have resurfaced, although the recent upward march in CPI inflation did pause in August, with CPI inflation staying at 3.8%. Core inflation eased once more too, from 3.8% to 3.6%, and services inflation dipped from 5.0% to 4.7%. The Bank of England does not anticipate CPI getting to 2% until early 2027, and with wages still rising by just below 5%, it was no surprise that the September meeting saw the Monetary Policy Committee vote 7-2 for keeping rates at 4%.

The Authority's treasury advisors MUFG Corporate Markets assist the Authority to formulate a view on interest rates. The Public Works Loans Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 base points (bps)) which has been accessible to most authorities since 1 November 2012.

MUFG Corporate Markets' latest forecast on 11 August sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

MUFG Corporate Markets Interest Rate View 11.08.25													
	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

Treasury Management position and Policy

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying

resources available for investment. The treasury management activity is influenced both by the position at the beginning of the year and the plans in year. The position at the start of the financial year is summarised in the Table below:

	Balance 31/03/25
	£m
Capital Finance Requirement	12.440
Less other debt liabilities	(12.440)
Borrowing Requirement	0.000
External borrowing	2.000

The table above shows that the level of loans was above the borrowing requirement. This is the result of the Authority adopting a policy of setting aside additional Minimum Revenue Provision (MRP) to generate the cash to repay loans either on maturity or as an early repayment.

It is not anticipated that new capital expenditure will be funded from borrowing in the year while it is anticipated that there will be some reduction in the level of reserves held.

Borrowing

There has been no new borrowing in the first six months of the financial year. This is consistent with the position that the current borrowing is already above the CFR and that the capital programme does not include any expenditure to be financed from borrowing.

The long-term debt outstanding of £2m has been borrowed from the PWLB. The table below show the maturity profile of the Authority's borrowings, along with an interest rate paid.

Loan Amount	Maturity Date	Interest rate
£0.700m	June 2037	4.480%
£0.650m	June 2036	4.490%
£0.650m	December 2035	4.490%

If the loans were to be repaid early there would be an early repayment (premium) charge. At the reporting date the Authority could achieve an interest saving of £2k for early repayment of the loans above however, with the Authority budgeting a borrowing requirement to fund the capital programme from 2026/27, the additional interest on new loans would outweigh the £2k saving from early repayment.

Investments

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 investments before seeking the highest 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 low investment returns and having the value of reserves eroded by inflation.

In the period the Authority has invested funds in the Debt Management Office's (DMO) Debt Management Account Deposit Facility (DMADF) overnight facility and other local

authorities. Each working day the balance on the Authority's current account was invested in this to ensure that interest is received on surplus balances within an acceptable risk framework.

At 30 September there was a balance of £12.385m invested in DMADF overnight facility while the average for the period for DMADF deposits was £18.757m. The current rate for these investments is 3.95% 25bps below the Bank of England base rate.

To increase the rate earned, the authority has placed fixed term investments with other local authorities. To attract a higher rate of interest than is available on the call account these investments will need to be fixed for a longer period of time. During the year the following investments have been in place:

Start	Finish	Principal £m	Interest Rate	Annual interest	Interest in 2025/26
29-Aug-24	28-Aug-25	5	4.80%	239,342	97,973
03-Feb-25	30-Sep-25	5	5.65%	184,979	140,863
02-Oct-24	01-Oct-25	5	4.70%	234,356	117,822
19-Feb-25	18-Feb-26	5	5.50%	274,247	243,356
22-Apr-25	21-Apr-26	5	4.50%	224,384	212,055
30-Apr-25	29-Apr-26	5	4.75%	236,849	218,630
30-Jul-25	29-Jul-26	5	4.15%	206,932	139,281
29-Sep-25	28-Sep-26	5	4.15%	206,932	104,603
30-Sep-25	29-Sep-26	5	4.25%	211,918	106,541

At 30 September there was £35.0m fixed term investment in place, therefore the total investment held at 30 September is £47.385m.

The overall rate of interest earned during this period was 4.65% which is favourable when compared with the 7-day Sterling Overnight Rate (SONIA) which averaged 4.20% over the same period.

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

Current interest rates available for lending to other local authorities are:-

Period	Interest rate
6 months	4.60%
1 year	4.50%
2 year	4.45%
3 year	4.40%

Prudential Indicators

To control and monitor the Authority's treasury management functions, several prudential indicators (PI) are determined against which performance may be measured. The indicators for 2025/26 were approved by the Authority on 17 February 2025 are shown in the table below alongside the current actual.

	2025/26 PI	Actual at 30/09/25
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt	£m	£m
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	2
Other long-term liabilities	30	13
Total	34	15
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	2
Other long-term liabilities	15	13
Total	18	15
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	74%
Upper limit for variable rate exposure		
Borrowing	50%	0%
Investments	100%	26%
Upper limit for total principal sums invested for over 364 days (per maturity date)	25	0
Maturity structure of loan debt	Upper/ Lower Limits	Actual %
Under 12 months	100% / nil	0%
12 months and within 24 months	50% / nil	0%
24 months and within 5 years	50% / nil	0%
5 years and within 10 years	50% / nil	0%
10 years and above	100% / nil	100%
Ratio of financing costs to revenue stream (%)	Budget	Sept Estimate

		2025/26 PI	Actual at 30/09/25
Ratio of financing costs to revenue stream (%)	-1.67%	-2.65%	

Revenue Budget Implications

The 2025/26 revenue budget for treasury management activity shows that anticipated income will exceed expenditure by £1.295m. Considering the activity for the first six months of the year and estimated cash-flow for the remainder of the year the latest forecast is shown below:

	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Variance £m
Interest payable	0.090	0.090	0.000
MRP	0.000	0.000	0.000
Interest receivable	(1.385)	(2.144)	(0.759)
Net budget	(1.295)	(2.054)	(0.759)

The interest receivable is above budget as the investment balances and interest rates are higher than anticipated when setting the budget. The forecast assumes interest rates achieved through deposits with the DMADF the call account averages 3.87% for the remainder of the financial year.

Financial Implications

Included within report above.

Legal Implications

None.

Human Resource Implications

None.

Equality and Diversity Implications

None.

Business Risk Implications

The Treasury Management strategy is designed to minimise the Authority's financial risk associated with investment decisions, whilst maximising the return on any investments made. As such the adoption of the CIPFA's Code of Practice on Treasury Management and the monitoring arrangements in place ensure that any risks faced by the Authority are managed.

However, it must be acknowledged that there will always be a balance between risk and return and hence the strategy does not completely eliminate the risk of any further default on investments in the future.

Environmental Impact

None.

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

Reason for inclusion in Part 2 if appropriate: N/a