DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 26/26

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	30 June 2026
SUBJECT OF THE REPORT	Treasury Management Annual Report 2025-26
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For information and to note
EXECUTIVE SUMMARY	At the meeting of the Authority on 6 February 2025, Members received and approved the Treasury Management Strategy Statement and Prudential Indicators for 2025-26. This report updates Members on the final treasury management performance during 2025-26 and the updated position from the six-monthly report update presented in December 2025.
RISK ASSESSMENT	No risk issues arise directly from this report of treasury management performance for 2025-26.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
ENVIRONMENTAL IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	None for the purposes of this report
RECOMMENDATION	Members are asked to note the content of the report
BACKGROUND PAPERS	Treasury Management Strategy 2025-26, Dorset & Wiltshire Fire and Rescue Authority, 6 February 2025.
APPENDIX	None

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1. Introduction

1.1 This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2025-26. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 During 2025-26 the minimum reporting requirements were that the Fire Authority Full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Fire Authority - February 2025)
- A mid-year treasury update report (Fire Authority – December 2025)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

1.3 In addition, quarterly treasury management updates were received by the Finance & Audit Committee at each of its meetings in 2025-26.

1.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

2. Capital expenditure and financing

2.1 The Authority undertakes capital expenditure on the purchase and replacement of long-term assets, such as buildings and vehicles. These activities may either be:

- Financed immediately by applying available capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual level of capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	Original Estimate 2025-26 £000	Revised Estimate 2025-26 £000	Actual 2025-26 £000
Capital Expenditure	10,689	8,676	6,474
Financed in year	4,512	1,908	1,891
Unfinanced Capital Expenditure	**6,177**	**6,768**	**4,583**

3. The Authority's overall borrowing need

3.1 The Authority's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's indebtedness. The CFR results from the capital activity of the Authority and resources used to pay for the capital spend. It represents the 2025-26 unfinanced capital expenditure (£4.583m as per above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 Part of the Authority's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Authority's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Authority.

3.3 **Reducing the CFR** – the Authority's underlying borrowing need (the CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Authority's 2024-25 MRP Policy, (as required by MHCLG guidance), was approved as part of the Treasury Management Strategy Report for 2025-26 in February 2025.

3.4 The Authority's CFR for the year is shown below and represents a key prudential indicator. It includes leasing schemes and the Dorset Emergency Services Partnership Initiative (DESPI) Private Finance Initiative (PFI) scheme on the balance sheet, which increases the borrowing need. No actual borrowing is required against this scheme though as a borrowing facility is included in the contract.

3.5 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority must ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2024-25) plus the estimates of any additional capital financing requirement for the current (2025-26) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	31.03.25 Actual £m	31.03.26 Forecast £m	31.03.26 Actual £m
CFR	47.516	50.528	49.991
Gross borrowing	30.264	27.807	28.967
Under / (over) funding of CFR	17.252	22.721	21.024

3.6 The **authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Authority does not have the power to borrow above this level. The table below demonstrates that during 2025-26 the Authority has maintained gross borrowing within its authorised limit.

3.7 The **operational boundary** – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

3.8 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	Actual 2024-25	Original 2025-26	Actual 2025-26
Authorised limit	33.973	31.353	**31.353**
Maximum gross borrowing position during the year	30.155	27.817	**30.312**
Operational boundary	31.473	28.853	**30.225**
Financing costs as a proportion of net revenue stream	5.12%	6.10%	**5.66%**

3.9 The Authority is required to account for the impact of its ongoing lease and PFI arrangements when reporting the prudential indicators outlined above. The Authority is required to remeasure these liabilities annually at year-end. Significant movements do not typically occur but amendments to existing lease arrangements, such as extensions, can lead to material movements.

3.10 This was the case at the end of 2025-26 when the calculation was adjusted to reflect the extension to the lease of the office space at Five Rivers, and this explains the operational boundary and the maximum gross borrowing position during the year amounts being higher than previously anticipated. This is permitted as the authorised limit has not been breached.

4. The strategy for 2025-26

4.1 Investment strategy and control of interest rate risk

4.1.1 Investment returns remained robust throughout 2025-26 despite Bank Rate reducing steadily through the course of the financial year (three 0.25% rate cuts in total), and at the end of March the yield curve had turned positive, reflecting inflation concerns emanating from the on-going conflict in the Middle East.

4.1.2 Bank Rate reductions of 0.25% occurred in May, August and December, bringing the headline rate down from 4.50% to 3.75%. Two of the Bank Rate cuts occurred in the same month as the Bank of England publishes its Quarterly Monetary Policy Report, therein providing a clarity over the timing of potential future rate cuts.

4.1.3 As of early April 2026, market sentiment has been heavily influenced by the Middle East conflict. Commentators anticipate a growing risk of inflation, meaning interest rates will not be cut for some time, and may increase to counteract inflationary pressures arising from steepening energy costs. Growth will also be impacted in many regions of the world. UK GDP is projected by the Office for Budget Responsibility (3 March 2026) to be 1.1% in 2026 before picking up to 1.6% in 2027 and 2028. But the likelihood is that there is downside risk to this forecast given events in the Middle East through March and still on-going.

4.1.4 Looking back through 2025-26, investors were able to achieve returns generally in a range of 4.5% - 5% for periods ranging from 1 month to 12 months in the spring of 2025. By the end of March 2026 deposit rates were somewhat volatile, regaining some traction as the Middle East conflict suggested energy driven inflation may lead to higher interest rates than would otherwise have been the case. Where liquidity requirements were not a drain on day-to-day investment choices, extending duration through the use of “laddered investments” paid off.

4.1.5 Heading into 2026-27, UK inflation is likely to increase to over 4% in the coming months as oil prices, for example, remain close to $100 per barrel, over 50% higher than before the Middle East conflict started.

4.2 Borrowing strategy and control of interest rate risk

4.2.1 During 2025-26, the Authority maintained an under-borrowed position. This meant that the capital borrowing need, (the CFR), was not fully funded with loan debt, as cash supporting the Authority’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as near-term investment rates have generally been lower than medium to long-term borrowing costs. The latter are expected to fall a little through 2026 and 2027 in the light of economic growth concerns and the eventual dampening of inflation. The Authority has sought to minimise the taking on of any long-term borrowing at elevated levels (>5%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.

4.2.2 Interest rates in financial markets were closely monitored and a pragmatic strategy was adopted based on the following principles to manage interest rate risk. If it has been felt there was a significant risk of a sharp fall in long and short-term rates then long-term borrowing would have been postponed until this occurred. If it had been felt that there was a significant risk of a much sharper rise in long and short-term rates than initially expected, then fixed rate funding options would have been drawn whilst interest rates were lower.

4.2.3 Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2025-26. Bank Rate did reduce to 3.75% as anticipated, but the initial expectation of significant rate reductions across the whole curve did not transpire, primarily because inflation concerns were very elevated in March 2026. At the start of April 2026, the market expected Bank Rate to increase over the coming months to 4% or 4.25%, from 3.75%, whilst all parts of the curve have also risen substantially through March. A significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

4.2.4 The Public Works Loan Board (PWLB) is the most used provider of long-term external debt in the public sector market. Rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. More recently, the Middle East conflict is likely to see inflation spike higher from late spring 2026 through to early 2027.

4.2.5 Gilt yields have been volatile throughout 2025-26. The low point for long-term rates of 25 and 50 years' duration was reached early in April 2025 whilst the low points for short and medium dated rates were reached in early 2026, prior to the outbreak of the Middle East conflict.

4.2.6 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.

5. Treasury position as at 31 March 2026

5.1 The Authority's treasury position for 2025-26, excluding borrowing for PFI and finance leases, is summarised as follows:

	Balance 1 April 2025	In year movement	Balance 31 March 2026	Interest 2025-26
Annuity Loans (1/1)	£80,406	-£39,250	£41,156	£3,286
Maturity Loans (12/12)	£16,107,000	£0	£16,107,000	£471,454
1. Total Debt	**£16,187,406**	**-£39,250**	**£16,148,156**	**£474,740**
Banks – overnight	£2,539,058	-£1,937,378	£601,680	£135,560
Banks – other	£0	£0	£0	£0
Local Authority Lending	£5,000,000	-£5,000,000	£0	£196,604
Money Market Funds	£3,981,591	-£2,984,870	£996,721	£161,645
2. Total investments	**£11,520,649**	**-£9,922,248**	**£1,598,401**	**£493,809**
3. Net debt (1-2)	£4,666,757		£14,549,755	
4. CFR	£33,440,481		£35,827,746	
5. Under / (over) borrowing (4-1)	£17,253,075		£19,679,590	

5.2 Prior to August 2019 the Authority was able to fully fund capital expenditure as it was incurred from cashflow balances, rather than having a requirement to borrow. External borrowing of £4.4m was required in 2019-20 and £5m in 2021-22 to support cashflow needs. Due to the borrowing rates available at those times, long-term arrangements were put in place for durations between 25 and 50 years with fixed interest rates between 1.61% and 2.20%.

5.3 No additional long-term new borrowing has been undertaken since November 2021. Planned short-term borrowing for a period of 50 days was utilised in June 2024 to support cashflow needs on a temporary basis. No borrowing of any kind was undertaken in 2025-26.

5.4 The total amount of long-term loan debt held on 31 March 2026 was £16.148m. More than £16.1m of this debt is repayable upon maturity. The next repayment date is October 2027, with the last scheduled for September 2071. There is one annuity loan held, which requires annual repayments; £39k was repaid in 2025-26. This reduced the outstanding debt balance to £41k and this will mature fully in March 2027.

5.5 The maturity structure of borrowing for 2025-26 compared to target limits is as follows:

Maturity Structure	1 Apr 2025 £m	% Total	31 Mar 2026 £m	% Total	Upper Limit %	Lower Limit %
Under 12 months	0.039	0.2%	0.041	0.2%	40%	0%
12 mths and within 24 mths	0.041	0.3%	0.500	3.1%	40%	0%
24 mths and within 5 yrs	0.900	5.6%	1.707	10.6%	40%	0%
5 yrs and within 10 yrs	1.307	8.1%	0.000	0.0%	50%	0%
10 years and above	13.900	85.8%	13.900	86.1%	100%	0%
	16.187		16.187			

5.6 A pro-active approach has been undertaken throughout 2025-26 to maximise the returns on investments whilst also maintaining the underlying security and liquidity of our resources and adherence to the Authority’s Annual Investment Strategy. Total investment returns have once again exceeded the interest costs the Authority has incurred servicing its debt.

5.7 Investment returns throughout the year have largely reflected the expected performance. The income interest target had originally been set as £400k, but the Bank of England has maintained bank rate at a higher level for a longer period, meaning additional income has been generated. Total interest earning in 2025-26 was just under £494k.

5.8 During 2025-26 investment transactions totalled £114.8m, and disinvestment transactions totalled £124.7m. Net investments therefore decreased by £9.9m during the year, bringing the total invested at 31 March 2026 to £1.598m. (Total invested at 1 April 2025 was £11.521m).

5.9 The gross yield from the investments averaged 4.14%. Gross income from investments totalled £494k in 2025-26, decreased from £690k in 2024-25 when larger cash reserves were held.

5.10 A pro-active approach to investments will continue to be made in 2026-27, with opportunities assessed on a case-by-case basis to ensure the ongoing security of the investment as the priority.

6. Summary and key points

6.1 The Authority's treasury management activity is controlled through the Treasury Management Policy Statement and Practices approved in February each year for the new financial year starting in April.

6.2 Taking account of repayments made during the year, and no new long-term borrowing, the Authority's total amount of outstanding long-term debt has reduced to £16.148m as at 31 March 2026, well below the original forecast position.

6.3 Net investments of surplus funds decreased by £9.9m during the year, bringing the total invested at 31 March 2026 to £1.598m. Investment returns totalled £494k, as the Authority took a pro-active approach to maximise the returns generated form the funds available.