Essex County
Fire & Rescue Service

Essex County Fire and Rescue Service Treasury Management Strategy

2026/27

Contents

1. Background

The Authority has engaged with Arlingclose, treasury management advisors, to provide support in producing this strategy. All decisions relating to treasury management are the responsibility of the Authority.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

2. Policy Statement

Treasury management activities are defined as the management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities are measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.

The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

3. Highlights

a. The Authority is compliant with the recommendations of the CIPFA's Prudential Code for Capital Finance.

b. The Authority introduced intraday overdraft capability and automated sweeps between Income and Payment accounts through Lloyds PLC, improving liquidity management and reducing operational risk. In addition, this is expecting to generate £0.016m in 2025/26.

c. It is currently showing that The Authority needs to borrow £3.100 million in 2026/27 to deliver the capital programme.

d. At the time of this report, loans of £22.5m are held against an approved limit of £40.0m of debt.

e. The Authority is unable to repay loans early without significant penalties.

f. The Authority aims to maintain an investment portfolio of high credit quality investments with a liquid maturity profile.

g. The Approved Counterparty Limits (table 4) shows the latest risk profile of the Authority. There was no change since 2025/26

h. There is strong governance at the Authority in respect of treasury management, including reporting of KPI's in the monthly Performance & Resources Board.

4. Changes Since 2025/26 Treasury Management Strategy

a. Investment forecast 2025/26 in the previous strategy was £4.9m compared to the £23.1m in the current forecast. This was mainly due to the additional pension grant in relation to the McCloud Sargent and Matthews pension cases.
b. Included in the 2026/27 strategy is projected £6.2m sale of assets with the majority been sold in 2030/31.
c. The Authority had to make some key adjustments to its Capital Programme 2026/27:
   - Significant reduction of spend on the vehicles, including the number of appliances purchased each year.
   - Increased expenditure on asset protection works by £1.6m and £1.3m in 2026/27 and 2028/29 respectively
   - Savings made on previously forecasted operational equipment costs have been reprioritised to fund the asset protection works
d. The Authority has invested in having a condition survey carried out throughout the Authority's estate in 2025/26. Once the outcome of this report is known and understood, this may impact upon the 10-year capital plan and the borrowing requirements.
e. The CFR is forecasted to peak in 2027/28 at £36.1m, which is approximately the same levels as under the previous strategy (£36.9m).
f. The CFR in 2026/27 is forecast to increase to £34.6m, £1.4m lower than previously reported.
g. The Authority may need to borrow £3.1m in 2026/27. Under the previous strategy, the Authority was forecast to borrow £1.8m in 2026/27.
h. The Liability Benchmark is forecast to rise to £36.1m in 2027/28. Under the previous strategy, this was forecast as £39.3m. The decrease is a result of reduced capital expenditure over the next ten years and higher levels of useable reserves
i. The Authority put new arrangements in place with its bank (Lloyds PLC) to enable intraday overdraft and automatic sweep between Income and Payment accounts.

4. Local Context

On 31st March 2025, the Authority held £22.5m of borrowing and £30.8m of cash available to invest. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance sheet summary and forecast (*31.3.25 as per audited financial statements)*

	Actual 2024/25 £Million	Forecast 2025/26 £Million	Forecast 2026/27 £Million	Forecast 2027/28 £Million	Forecast 2028/29 £Million	Forecast 2029/30 £Million	Forecast 2030/31 £Million	Forecast 2031/32 £Million	Forecast 2032/33 £Million	Forecast 2033/34 £Million	Forecast 2034/35 £Million
General Fund CFR	31.4	34.7	34.6	36.1	34.3	33.0	33.0	33.2	31.5	29.3	27.3
Less: External borrowing[1]	(22.5)	(21.5)	(21.5)	(21.5)	(16.5)	(11.5)	(6.5)	(6.5)	(4.5)	(4.5)	0.0
Internal borrowing[2]	**8.9**	**13.2**	**13.1**	**14.6**	**17.8**	**21.5**	**26.5**	**26.7**	**27.0**	**24.8**	**27.3**
Earmarked and General Reserves	(11.8)	(10.3)	(7.9)	(7.4)	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)
Capital Receipts Reserve[3]	(13.6)	(13.1)	(12.0)	(2.4)	(1.3)	(1.3)	(6.3)	(6.3)	(6.3)	(6.3)	(6.3)
Plus: Working capital[4]	(14.3)	(14.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments / (External Financing)[5]	**30.8**	**24.2**	**6.9**	**(4.9)**	**(9.3)**	**(13.1)**	**(13.0)**	**(13.3)**	**(13.6)**	**(11.4)**	**(13.8)**
Net loans requirement	(8.3)	(2.7)	14.6	26.4	25.8	24.6	19.5	19.8	18.1	15.9	13.8
Preferred Year-End Position	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Liability Benchmark (year-end)	1.7	7.3	24.6	36.4	35.8	34.6	29.5	29.8	28.1	25.9	23.8
Peak to Trough Cash Flow	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)
Liability Benchmark (mid-year)	**(12.3)**	**(6.7)**	**10.6**	**22.4**	**21.8**	**20.6**	**15.5**	**15.8**	**14.1**	**11.9**	**9.8**

[1] Shows only loans to which the Authority is committed and excludes optional refinancing.

[2] Refers to capital expenditure funded through internal financing such as reserves and working capital.

[3] Capital Receipts Reserves movements reflect utilization of the reserves for capital projects as well as assets disposal

[4] Working capital assumptions from 2026/27 are reduced to zero to reflect actuals in 2022/23 and 2023/24, before the additional pension grants for Mathews and McCloud in 2024/25.

[5] Cash available to invest could reduce, as reserves are utilized for projects. A negative investment balance indicates additional borrowing.

The Authority's total debt should be lower than its highest forecast CFR. Table 1 shows that the Authority expects to comply with this recommendation during 2026/27 but may need to revisit its strategy for 2027/28 to ensure compliance, including an option to opt out from being a professional client under MiFID.

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 Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authority's capital expenditure plans may require additional external borrowing in 2026/27 based on the table above - the liability benchmark and borrowing strategy is set out later in this report. Funds available for investment are forecast to fall due to higher budgeted capital expenditure in later years, which cannot be fully funded by capital receipts, the maturity of some existing borrowing and lower pension grant.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* requires authorities to estimate and measure its liability benchmark over as a minimum, the next three years, however, recommends that the liability benchmark is produced for at least ten years and should ideally cover the full debt maturity profile of the authority.

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

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. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability Benchmark

Liability Benchmark	Actual 2024/25 £Million	Forecast 2025/26 £Million	Forecast 2026/27 £Million	Forecast 2027/28 £Million	Forecast 2028/29 £Million	Forecast 2029/30 £Million	Forecast 2030/31 £Million	Forecast 2031/32 £Million	Forecast 2032/33 £Million	Forecast 2033/34 £Million	Forecast 2034/35 £Million

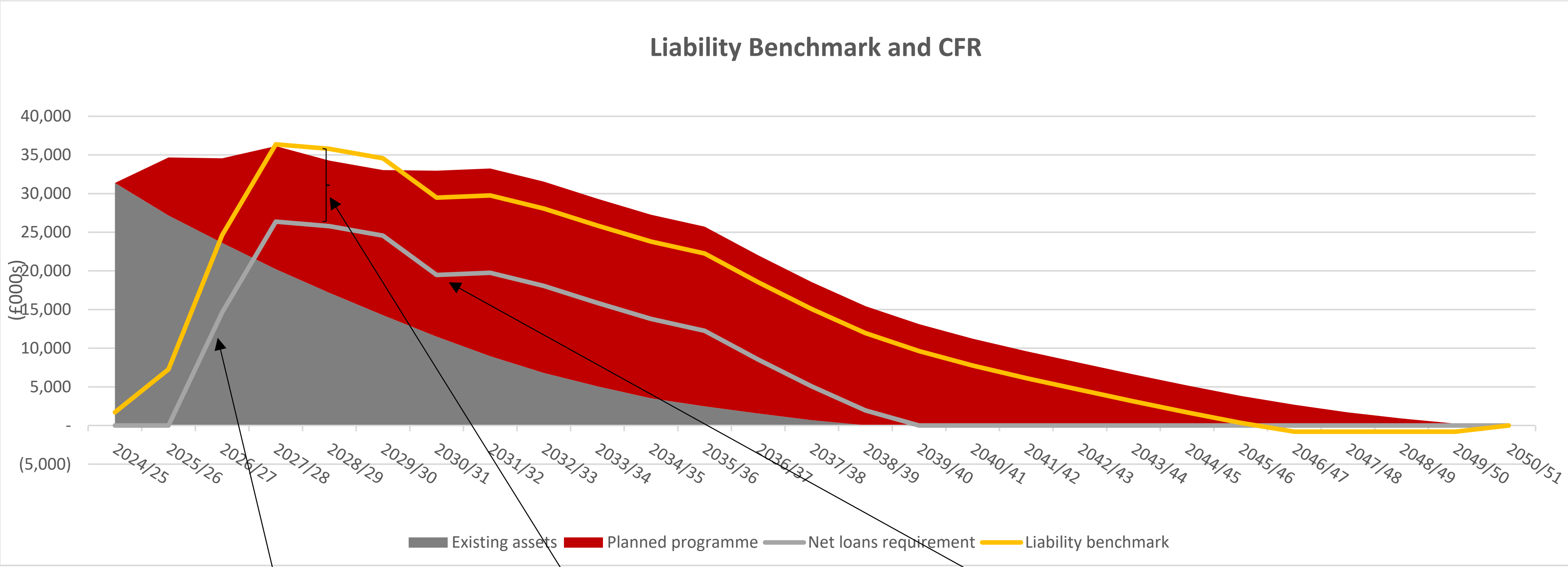
Loans CFR	31.4	34.7	34.6	36.1	34.3	33.0	33.0	33.2	31.5	29.3	27.3
Less: Usable reserves	(25.4)	(23.4)	(19.9)	(9.8)	(8.5)	(8.5)	(13.5)	(13.5)	(13.5)	(13.5)	(13.5)
Plus: Working capital	(14.3)	(14.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Plus: Minimum investments	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	**1.7**	**7.3**	**24.6**	**36.4**	**35.8**	**34.6**	**29.5**	**29.8**	**28.1**	**25.9**	**23.8**

The table above shows that the liability benchmark of the Authority could increase to £24.6m by 2026/27. This indicates an underlying need to borrow due to a reduction in usable reserves and an increase in the capital finance requirement.

In 2027/28 the liability benchmark forecasts to exceed CFR. This reduces in the subsequent years with a further drop of £5m in 2030/31 due to the projected sale of assets. As outlined below, the Authority requires to have £8.0m total cash available within 3 months for operational reasons, which is less than £10m required under MiFID. The Authority can choose to opt out from being a professional client and lower the cash available threshold, which in turn will enable it to comply with the CIPFA requirement of the total debt being lower than the highest CFR.

Graph 1: Liability benchmark

In the graph below, the capital financing requirement, assumed borrowing and liability benchmark have been extrapolated across the life of the capital programme. CIPFA recommends that the liability benchmark should be produced to cover the full debt maturity profile of the Authority:



Net loans requirement and CFR:
Shows how much more the Authority needs to borrow to afford the capital programme.

CFR increases in line with capital programme.

Liability benchmark V Net loans requirement:
Liability benchmark takes into account £10m MiFID liquidity allowance on top of the net loans requirement

No new borrowing:
Drop in 2030/31 represents an influx of capital receipts due to £5m projected sale of assets.

Table 3: Debt profile as at 31st March 2025

Total capital repayable	£Million
Repayable within 1 year	1.0
Repayable within 1-5 years	10.0
Repayable within 5-10 years	11.5
Repayable within 10-15 years	0.0
Total	**22.5**

The table above shows 51% of debt expiry in the next five to ten years of £21.5m. The Authority will need to refinance to meet these repayments. The borrowing strategy is considered in the next section.

Table 4: External Borrowing

Borrowing Forecast	Actual 2024/25 £Million	Forecast 2025/26 £Million	Forecast 2026/27 £Million	Forecast 2027/28 £Million	Forecast 2028/29 £Million	Forecast 2029/30 £Million	Forecast 2030/31 £Million	Forecast 2031/32 £Million	Forecast 2032/33 £Million	Forecast 2033/34 £Million	Forecast 2034/35 £Million
Existing Borrowing	22.5	21.5	21.5	21.5	16.5	11.5	6.5	6.5	4.5	4.5	0.0
New Borrowing	0.0	0.0	3.1	14.9	19.3	23.1	23.0	23.3	23.6	21.4	23.8
Total External Borrowing	**22.5**	**21.5**	**24.6**	**36.4**	**35.8**	**34.6**	**29.5**	**29.8**	**28.1**	**25.9**	**23.8**

Based on the Authority's capital strategy for the next ten years and its projected use of reserves, additional external borrowing will be required from 2026/27 as reflected in Table1 and the table above. This will fund capital expenditure and will also replace existing borrowing. Table 4 models this external borrowing profile.

Related Strategies

The Treasury Management Strategy has been produced alongside several other key strategies of the Authority. These Strategies were prepared based on the same underlying forecasts and assumptions. These Strategies are:

- Reserves Strategy
- Medium Term Financial Strategy
- Capital Strategy and MRP Policy

These strategies have all been prepared alongside the Authority's strategic planning cycle to ensure alignment to the CRMP.

5. Borrowing Strategy

At the time of this report, the Authority holds £21.5 million of loans as part of its strategy for funding previous years' capital expenditure. The balance sheet forecast in Table 1 shows that the Authority may need to borrow in 2026/27 to maintain minimum investments of £10m. Internal borrowing will be prioritised where cashflow permits to defer expensive long-dated PWLB. The borrowing requirement in the current strategy is a result of the planned capital programme. For further detail, please refer to the 2026/27 Capital Strategy.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

By doing so, the Authority can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years. Future borrowing will be driven by business need, once Full Business Cases for key capital projects are available.

As the financial environment for 2026/27 is easier on short-term rates, harder on long-term borrowing compared with 2025/26. To keep flexibility the Authority may need to stagger new drawdowns (for example, 5-7-10-12-15 years) to avoid maturity cliffs.

The sources of borrowing available to the Authority are discussed below:

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

The Authority has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the Commissioner.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent fall in interest rates means that the opportunities to reschedule debt are less favourable than in previous years.

6. Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £16.5m and £40.5m; however, levels are expected to fall going forward due to investment in the Capital Programme and reduced pension grants.

Investment Activity 2024/25:

Investment	Category	Average Invested	Average Interest	Interest Received
Morgan Stanley	MMF	£5.06M	4.9%	£197K
Lloyds Bank PLC	Bank (unsecured)	£0.83M	4.9%	£50k
CCLA	MMF	£2.88M	4.9%	£158k
UK Debt Management Office	UK government	£17.9M	4.9%	£765k

Objectives: The CIPFA Code requires the Authority to invest its treasury 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 unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: Given that investment balances are projected to fall and then remain low, the Authority aims to maintain an investment portfolio of high credit quality investments with a liquid maturity profile. All the Authority's surplus cash is currently invested in money market funds, UK Government Investments and fixed term deposits bank deposit.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under IFRS 9, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	10 years	Unlimited	Unlimited
Local authorities & other government entities	5 years	£1m	Unlimited
Secured investments *	6 months	£1m	Unlimited
Banks in UK (unsecured) *	13 months	£1.5m	Unlimited
Building societies (unsecured) *	6 months	£1m	£3m
Registered providers (unsecured) *	6 months	£1m	Unlimited
Money market funds *	n/a	£3m	Maximum 50% of total investments
Strategic pooled funds	n/a	£1m	£5m

This table must be read in conjunction with the notes below.

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

The Authority uses bank deposits to generate a return on short term investments and current accounts to maintain liquidity.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

The Authority does not currently utilise secured bank investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

The Authority utilises Government investments to provide a guaranteed return over fixed periods (normally 1-6 months).

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and typically low price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wider diversification of investment risks, coupled with the services of a professional fund manager.

The Authority utilises money market fund investments to generate a return while providing liquidity, as funds can be returned on the same day.

Strategic pooled funds: Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

The Authority does not currently utilise Strategic Pooled Funds.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

The Authority does not currently utilise real estate investment trusts.

Operational bank accounts: The Authority has an operational bank account with Lloyds, and an exception applies where forecast cash outflows (e.g. salaries or supplier payments) necessitate additional funds being held. In these instances, a balance of up to £8m is permitted.

In 2025/26 the Authority introduced intraday overdraft capability and automated sweeps between Income and Payment accounts through Lloyds PLC, improving liquidity management and reducing operational risk.

The Authority may incur operational exposures, for example, through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept in accordance with the criteria in Table 4. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury staff, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are expected to be £10.3 million at 31st March 2026 and £7.9 million at 31st March 2027, being General plus Earmarked Reserves. To minimise over-exposure, the maximum that will be lent to any one organisation (other than the UK Government) will be £3 million for 2026/27. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Limits are also placed on fund managers, investments in brokers' nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 5: Investment limits

Investment Type	Cash limit
Any group of pooled funds under the same management	£2m per manager
Negotiable instruments held in a broker's nominee account	£2m per broker
Foreign countries	£1m per country

Liquidity management: The Authority uses Microsoft Excel spreadsheets for cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial strategy and cash flow forecast.

The Authority will spread its liquid cash over at least four providers (e.g., bank accounts, DMO and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

7. Treasury Management Prudential Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators:

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the credit rating of its investment portfolio. This is reported in the Finance Pack on a monthly basis.

Credit risk indicator	Target
Minimum credit rating, as per official credit rating agency (Fitch/Moody/S&P)	A

Should the average portfolio credit rating falls below this measure, the Police, Fire and Crime Commissioner will be notified.

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing. This is reported in the Finance Pack on a monthly basis.

Liquidity risk indicator	Target
Total cash available within 3 months	£8.0m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£90,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	(£90,000)

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Expected 3 year impact of a 1% change in interest rates: The Authority should understand the impact of a 1% rise of fall in interest rates across the next 3 years, as suggested by the Treasury Management Code. This is set out below:

Expected Investments:	**Actual 2024/25 £million**	**Forecast 2025/26 £million**	**Forecast 2026/27 £million**	**Forecast 2027/28 £million**
Available cash / (new loans)	30.79	23.10	5.73	(6.01)
Money Market Funds	9.00	9.00	2.00	-
UK Government Investments	19.75	13.10	2.73	-
Bank Deposits	2.00	1.00	1.00	-
Total Investments	**30.75**	**23.10**	**5.73**	**-**
Expected Interest:	**1.50**	**0.95**	**0.19**	**-**
+1% Net Change in Interest	0.31	0.23	0.06	-
-1% Net Change in Interest	(0.31)	(0.23)	(0.06)	-

The Authority holds fixed rate debt which is not impacted by a change in interest rates. The table to the left shows the impact of a 1% rise or fall in interest on the expected investments of the Authority over the next three years. Note that the total investments equal the cash available to invest in Table 1, reducing over the next three years.

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months to 24 months	50%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and within 15 years	100%	0%
15 years and above	100%	0%

Long-term treasury management investments: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2025/26	2026/27	2027/28	No fixed date
Limit on principal invested beyond one year	£1m	£1m	£1m	£2m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term

8. Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy:

Liquidity Management: The Authority prepares a rolling 12-month cashflow report which is presented as part of the Finance Pack monthly. The forecast is reviewed daily to ensure short term fluctuations in cashflow are identified and mitigating plans are put in place. The Authority holds an appropriate level of highly liquid investments to mitigate liquidity risk.

Financial Derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures, and options). Derivatives embedded into loans and investments, including pooled funds, and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Markets in Financial Instruments Directive: The Authority has retained professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a smaller range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance, Procurement and Improvement (S151) believes this to be the most appropriate status. If the Authority becomes at risk of breaching total debt limits as described above, a consideration will be given to opting out of being a professional client under MiFID.

Financial Implications

The forecast for investment income in 2026/27 is £190k, based on an average investment portfolio of £5.73m million at an interest rate of 3.4%. The forecast for debt interest paid in 2026/27 is £1.1 million, based on an average debt portfolio of £21.5 million at an average interest rate of 4.8%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

Governance:

The Authority reports on Treasury Management Prudential Indicators (Section 7) in the monthly Performance & Resources Board, which offers scrutiny of the Authority's management of its investments. The responsibilities of the S.151 Officer and extended Finance Team are set out in the Authority's Constitution, which is available on the PFCC's website Policies & Publications - Essex PFCC.

Further scrutiny is provided through the reporting of the Cashflow in the monthly finance pack that is presented to the Senior Leadership team and the PFCC via the Performance and Resources Board.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, Procurement and Improvement (S151), having consulted the Commissioner, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Outlook January 2026

Economic background: The most significant impacts on the Authority's treasury management strategy for 2026/27 are expected to include: the influence of the government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues.

The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.

Figures from the Office for National Statistics showed that the UK economy expanded by 0.1% in the third quarter of the calendar year, this was unrevised from the initial estimate. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

CPI inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027.

The labour market continues to ease with rising unemployment, falling vacancies and flat inactivity. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.
The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment.

The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%. The ECB maintained that future policy decisions will remain data-dependent, that inflation is close to its 2% target and that the euro area economy continues to expand despite a challenging global environment, including heightened geopolitical risks and trade tensions.

Credit outlook: Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly during October and November, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years. While lower interest rates may weigh on banks' profitability, strong capital positions, easing inflation, steady economic growth, low unemployment, and reduced borrowing costs for households and businesses all support a favourable outlook for the creditworthiness of institutions on (the authority's treasury management advisor) Arlingclose's counterparty list. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

Interest rate forecast (22nd December 2025): Arlingclose, the Authority's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18th December.

Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments.

	Current	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central Case	3.82	3.55	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.35	3.35	3.35
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	3.96	3.85	3.80	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.80	3.80	3.80
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
10yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.52	4.40	4.35	4.30	4.30	4.30	4.30	4.30	4.30	4.30	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
20yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	5.16	5.00	4.95	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.95	4.95	4.95
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85
50yr gilt yield													
Upside risk	0.00	0.40	0.45	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.70	0.70	0.70
Central Case	4.74	4.65	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.60	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.70	-0.80	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85	-0.85

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Appendix B – Existing Investment & Debt Portfolio Position

	31/03/2025 Actual Portfolio £m	31/03/2025 Rate %
External borrowing:		
Public Works Loan Board	22.5	4.7
Total external borrowing	**22.5**	
Treasury investments		
Money Market Funds	9.0	4.50%
Bank Deposit	2.0	4.50%
Debt Management Office	19.8	4.43%
Total treasury investments	**30.8**	
Net investments	**-8.3**	

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents – none.	
Proper Officer:	Director of Finance, Procurement and Improvement (S151)
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