Essex County
Fire & Rescue Service

Essex County Fire and Rescue Service Treasury Management Strategy

2025/26

Last updated 6 February 2025

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 may need to borrow in 2026/27 to deliver the capital programme.

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

d. At the time of this report, loans of £23.5m are held against an approved limit of £40m 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.

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 2023/24 Treasury Management Strategy

a. The Authority had to make some key adjustments to its Capital Programme:
   - To remove the wholetime station modernisation programme.
   - To place the joint fleet workshop collaboration with Essex police on pause.

   This resulted in reduced levels of Capital Financing Requirement (CFR) over the ten year period.

b. The CFR is forecasted to peak in 2027/28 at £36.9m, which is £4.1m lower than under the previous strategy (£44.1m) and a year later. This is due to changes reflected in the Capital Programme (see Capital Strategy 2025/26).

c. The CFR in 2025/26 is forecast to increase to £34.6m, £3.3m higher than previously reported.

d. As a result, the Authority may need to borrow £1.8m in 2027/28. Under the previous strategy, the Authority was forecast to borrow £5.5m in 2026/27.

e. The previous strategy included additional borrowing of £8.2m by 2027/28 for Joint Fleet Workshops Project. This requirement is no longer included in the current Strategy (Table 1).

f. The Liability Benchmark is forecast to rise to £39.3m in 2027/28. Under the previous strategy, this was forecast as £49.2m. The decrease is a result of reduced capital expenditure over the next ten years and higher levels of useable reserves

g. The Approved Counterparty Limits (table 4) have been updated to reflect the latest risk profile of the Authority. The counterparty limit for banks was increased from £1m to £1.5m to allow for a higher volume of payments, especially pension lump sums that are required to be settled at a short notice.

h. For total cash available within three months (Chapter 7) increased the level from £6.2 m to £10m to match minimum investment level.

4. Local Context

On 31st March 2024, the Authority held £23.5m of borrowing and £16.4m 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 (*31.3.24 as per unaudited financial statements*)

	Actual 2023/24 £Million	Forecast 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
General Fund CFR	28.8	33.9	34.6	36.0	36.9	35.7	35.7	35.0	34.7	33.8	32.4
Less: External borrowing [1]	(23.5)	(22.5)	(21.5)	(21.5)	(21.5)	(16.5)	(11.5)	(6.5)	(6.5)	(4.5)	(4.5)
Less: Assumed borrowing [2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Internal borrowing [3]	**5.3**	**11.4**	**13.1**	**14.5**	**15.4**	**19.2**	**24.2**	**28.5**	**28.2**	**29.3**	**27.9**
Earmarked and General Reserves [4]	(10.4)	(9.0)	(7.6)	(7.4)	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)
Capital Receipts Reserve [4]	(13.3)	(13.6)	(12.3)	(7.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
Plus: Working capital	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Investments / (Extenal Financing)[5]	**16.4**	**9.3**	**4.9**	**(1.8)**	**(7.8)**	**(11.7)**	**(16.6)**	**(20.9)**	**(20.7)**	**(21.8)**	**(20.4)**

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

2 Assumed borrowing was previously included to finance the Joint Fleet Workshop project, which has now been placed on pause.

3 Refers to capital expenditure funded through internal financing such as reserves and working capital.

4 Earmarked, Capital and General Reserves are forecast to fall going forward as reserves are utilized for projects.

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 2025/26.

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 and the maturity of some existing borrowing.

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 Service 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.

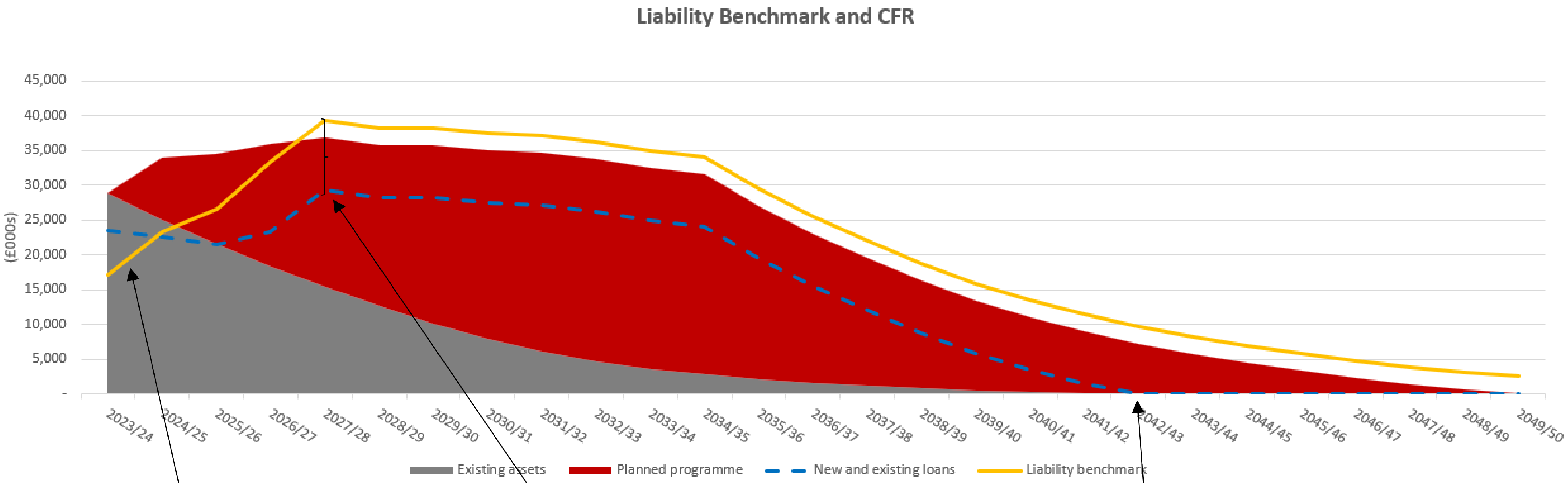
Table 2: Prudential Indicator: Liability benchmark

Liability Benchmark	Actual 2023/24 £Million	Forecast 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
Loans CFR	28.8	33.9	34.6	36.0	36.9	35.7	35.7	35.0	34.7	33.8	32.4
Less: Usable reserves	(23.7)	(22.6)	(19.9)	(14.7)	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)	(9.5)
Plus: Working capital	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
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	**17.1**	**23.2**	**26.6**	**33.3**	**39.3**	**38.2**	**38.1**	**37.4**	**37.2**	**36.3**	**34.9**

The table above shows that the liability benchmark of the Authority could increase to £39.3m by 2027/28. This indicates an underlying need to borrow due to a reduction in usable reserves and an increase in the capital finance requirement.

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:



Borrowing higher than liability benchmark:
The Authority has more debt that it requires, meaning excess cash is available to invest.

Borrowing lower than liability benchmark:
CFR increases in line with capital programme.

The Service needs more debt to finance the capital programme.

No new borrowing:
Over time, the loans are repaid. As this graph assumes no capital expenditure after 2028/29, there won't be new borrowing to fund the capital programme.

Table 3: Debt profile as at 31st March 2024

Total capital repayable	£Million
Repayable within 1 year	1.0
Repayable within 1-5 years	6.0
Repayable within 5-10 years	12.0
Repayable within 10-15 years	4.5
Total	**23.5**

The table above shows high debt expiry in 1-10 years of £18m. The Authority will need to refinance to meet these repayments. The borrowing strategy is considered in the next section.

Table 4: Assumed Borrowing

Assumed Borrowing	Actual 2023/24 £Million	Forecast 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
Existing Borrowing	23.5	22.5	21.5	21.5	21.5	16.5	11.5	6.5	6.5	4.5	4.5
New Borrowing	0.0	0.0	0.0	1.8	7.8	11.7	16.6	20.9	20.7	21.8	20.4
Total Assumed Borrowing	**23.5**	**23.5**	**22.5**	**23.3**	**29.3**	**28.2**	**28.1**	**27.4**	**27.2**	**26.3**	**24.9**

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. 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

5. Borrowing Strategy

At the time of this report, the Authority holds £23.5 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 does not expect to need to borrow in 2025/26. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £40 million. The liability benchmark shows that the Authority may need to borrow to maintain minimum investments of £10m. The borrowing requirement in the current strategy is a result of the planned capital programme. For further detail, please refer to the 2025/26 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. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. Future borrowing will be driven by business need, once Full Business Cases for key capital projects are available.

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
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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 rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

6. Investment Strategy

The Authority holds modest levels of 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 £9 and £27 million; however, levels are expected to fall going forward due to investment in the Capital Programme.

Investment Activity 2023/24:

Investment	Category	Average Invested	Average Interest %	Interest Received
Morgan Stanley	MMF	£3.75M	5.0%	£197K
Lloyds	Bank (unsecured)	£1M	5.1%	£50K
CCLA	MMF	£3M	5.0%	£158K
UK Debt Management Office	UK government	£15M	5.0%	£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 (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 Service uses bank deposits to generate a return on short term investments.

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 Service 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 Service 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 Service 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 Service 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 Service 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.

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 £9.0 million at 31st March 2025 and £7.6 million at 31st March 2026, 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 2025/26. 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 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.

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

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

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 Service 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:	Forecast 2024/25 £million	Forecast 2025/26 £million	Forecast 2026/27 £million	Forecast 2027/28 £million
Available cash / (new loans)	9.26	4.90	(1.75)	(7.81)
Money Market Funds	3.00	1.00	-	-
UK Government	5.00	2.90	-	-
Bank Deposits	1.00	1.00	-	-
Total Investments	9.00	4.90	-	-
Expected Interest	0.45	0.20	-	-
+1% Net Change in Interest	0.09	0.05	-	-
-1% Net Change in Interest	(0.09)	(0.05)	-	-

The Service 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 Service 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	2024/25	2025/26	2026/27	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 Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

The forecast for investment income in 2025/26 is £202k, based on an average investment portfolio of £5 million at an interest rate of 3.75%. The forecast for debt interest paid in 2025/26 is £1.1 million, based on an average debt portfolio of £22.5 million at an average interest rate of 4.7%. 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.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, 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 Forecast – December 2024

Economic Background: The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.
The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit outlook: Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.
Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.

Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2024): The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

Table 6: Interest Rate Forecast:

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix B – Existing Investment & Debt Portfolio Position

	31/03/2024 Actual Portfolio £m	31/03/2024 Year End Rate %
External borrowing:		
Public Works Loan Board	23.5	4.7
Total external borrowing	**23.5**	
Treasury investments		
Money Market Funds	6.0	5.22
UK Government Investments	9.0	5.19
Bank Deposit	1.0	5.14
Total treasury investments	**16.0**	
Net debt	**7.5**	

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents – none.	
Proper Officer:	Chief Financial Officer (S151)
Contact Officer:	Neil Cross Essex County Fire and Rescue Service, Kelvedon Park, London Road, Rivenhall, Witham CM8 3HB Tel: 01376 576100