



Gwasanaeth Tân ac Achub
Fire and Rescue Service

Financial Strategies and Statements for 2026-27

*ATAL AMDDIFFYN YMATEB
PREVENTING PROTECTING RESPONDING*

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Contents

Treasury Management Strategy Statement 2026/27	3
Introduction	3
External Context	4
Local Context	4
Borrowing Strategy	7
Treasury Investment Strategy	8
Treasury Management Prudential Indicators	10
Related Matters.	11
Financial Implications	12
Other Options Considered	12
Appendix A – Arlingclose Economic & Interest Rate Forecast – February 2026	13
Appendix B – Additional requirements of Welsh Government Investment Guidance	15
Appendix C – Additional requirements of Welsh Government Investment Guidance	15
Capital Strategy Report 2026/27	17
Introduction	17
Capital Expenditure and Financing	17
Treasury Management	19
Liabilities	21
Revenue Budget Implications.	21
Knowledge and Skills	21
Minimum Revenue Provision Statement 2026/27	22



Treasury Management Strategy Statement 2026/27

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

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. In addition, the Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Authority to approve an investment 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 both the CIPFA Code and the WG Guidance.

Revised strategy: In accordance with the WG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large, unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance, or a material loss in the fair value of a non-financial investment identified as part of the year end accounts preparation and audit process.

External Context

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 (BoE) 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.

Interest rate forecast: Bank rate was held at 3.75% in February, but a cut in Q1 2026 remains probable following a more dovish MPC stance. Arlingclose, the Authority’s treasury management adviser, expect Bank Rate to be cut to 3.25% by middle of 2026.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 3.95%, and that new long-term loans will be borrowed at an average rate of 4.61%.

Local Context

On 31st December 2025, the Authority held £14.30m of borrowing and £1.96m of treasury investments. This is set out in further detail at **Appendix B**. 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 Actual £m	31.3.26 Estimate £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
Capital financing requirement	31.00	35.20	39.50	46.40	49.80
Less: Other debt liabilities *					
Loans CFR	31.00	35.20	39.50	46.40	49.80
Less: External borrowing **	-19.10	-14.30	-12.10	-10.30	-9.10
Internal borrowing	11.90	20.90	27.40	36.20	40.70
Less: Balance sheet resources	-14.50	-21.00	-17.50	-17.00	-16.50
Net Treasury investments and new Borrowing	2.50	0.10	-9.90	-19.10	-24.20

* leases and PFI liabilities that form part of the Authority’s total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums 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 has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £24.2m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2026/27

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 £2m at each year-end to maintain sufficient liquidity but minimise credit risk.

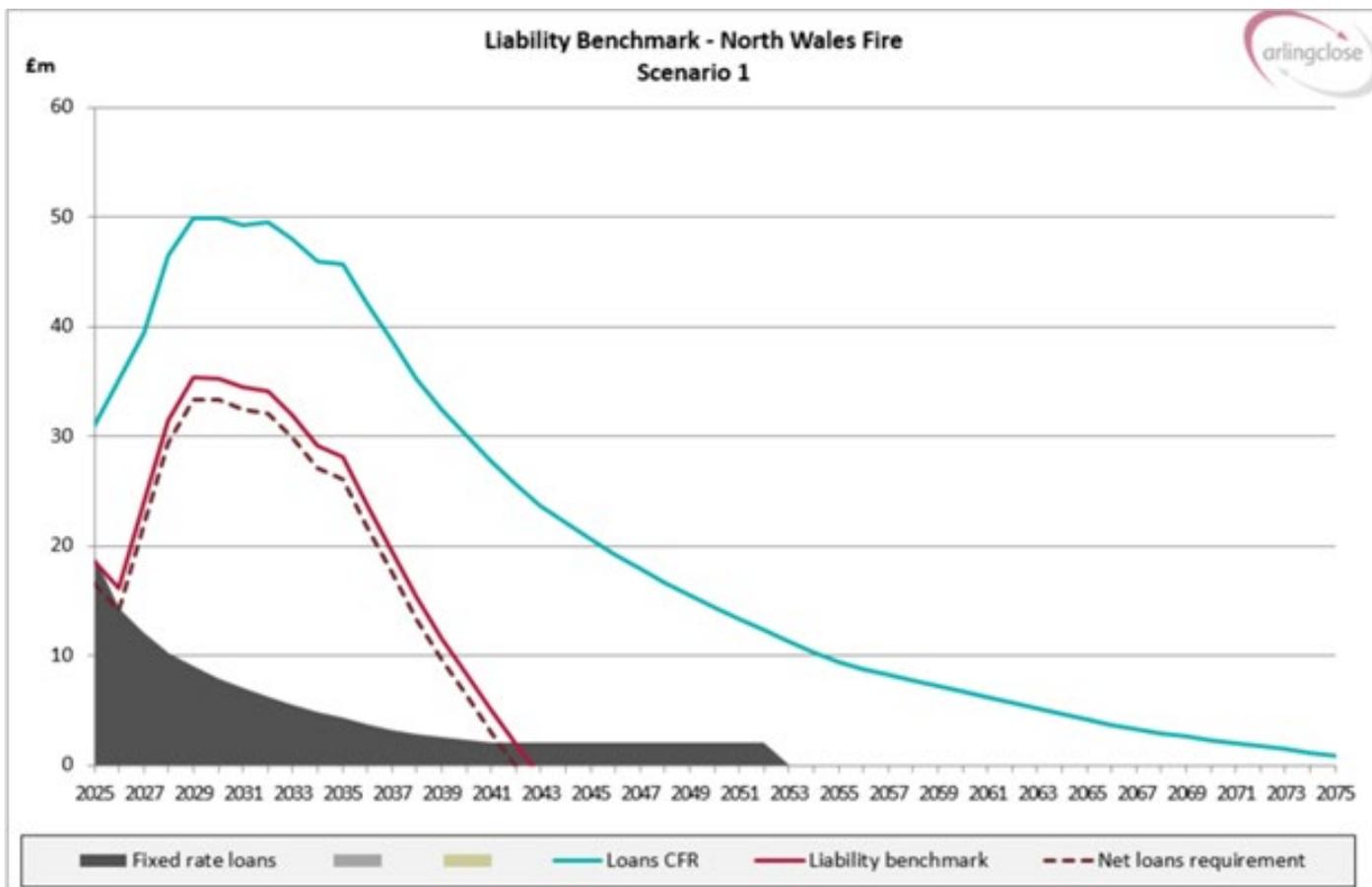
The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Authority 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

	31.3.25 Actual £m	31.3.26 Estimate £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m
Loans CFR	31.00	35.20	39.50	46.40	49.80
Less: Balance sheet resources	-14.50	-21.00	-17.50	-17.00	-16.50
Net loans requirement	16.60	14.10	22.00	29.40	33.30
Plus: Liquidity allowance	2.00	2.00	2.00	2.00	2.00
Liability benchmark	18.60	16.10	24.00	31.40	35.30

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes cumulative capital expenditure funded by borrowing of £22.0m in 2026/27, £29.4m in 2027/28 and £33.3m in 2028/29.

Minimum revenue provision on new capital expenditure based on the asset life for the class of asset and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



The Authority will continue to be a borrower, as the authority does not hold investments or reserves to fund the capital plan. The blue line denotes the need to fund capital expenditure through borrowing. The red lines represent the need to fund capital expenditure through borrowing once reserves and working capital surplus' (or deficits) have been taken into account – this is actually the real need to borrow which CIPFA have defined as being the Liability Benchmark. The dashed red line represents the position at year end and the solid line represents the average mid-year position. The grey shaded areas show actual loans. When the grey area falls below the red lines this infers a borrowing need.



Borrowing Strategy

The Authority currently holds £14.30m of loans, a decrease of £4.77 million on balance at 31 March 2025, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to borrow up to £9.90 million in 2026/27. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £35.30 million.

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. Short-term interest rates have fallen over the past year, and are expected to fall a little further, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators, see below.

By doing so, the Authority is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2026/27 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised all its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

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)
- 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 (except for the Clwyd Pension Fund - Local Government Pension Scheme)
- 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
- sale and leaseback
- similar asset-based finance

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. Financial derivatives may be used to manage this interest rate risk (see section 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.

Treasury 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 £1.034m. and £13.733m.

Objectives: Both the CIPFA Code and the WG Guidance require 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, 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: As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

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.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the limits shown.

Table 3: Treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£2m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	Unlimited
Registered providers (unsecured) *	5 years	£1m	Unlimited
Money market funds *	n/a	£1m	Unlimited
Other investments *	5 years	£1m	Unlimited

This table must be read in conjunction with the notes below

*** 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 taken into account.

UK Government: Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Local authorities and other government entities: Loans to, and bonds and bills issued or guaranteed by, other 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.

Banks and building societies (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.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and unsecured loans to companies and universities. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: 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 below £5m per bank. 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 advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. 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 "negative watch") 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.

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

Liquidity management: The Authority undertakes 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 plan and cash flow forecast.

The Authority will spread its liquid cash over at least two 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.

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 value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit	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.

Liquidity risk indicator	Target
Total cash available within 3 months	£2m

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	-£0.030m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.030m

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.

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	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	30%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Related Matters

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

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 with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater 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 Authority’s officers believe this to be the most appropriate status.

Government Guidance: Further matters required by the WG Guidance are included in Appendix C.

Financial Implications

The Authority does not hold an investment portfolio and therefore does not budget for investment income. Any income generated relates solely to the overnight placement of surplus cash, for which a budget of £0.037m has been set for 2026/27.

The budget for debt interest paid in 2026/27 is £0.876m, based on an average debt portfolio of £21.224m at an average interest rate of 3.95%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Authority’s Treasurer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. For information only, 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 – February 2026

Underlying assumptions:

- While the MPC acceded to widely held expectations to leave Bank Rate unchanged at 3.75% in February, the decidedly dovish tone in which the decision was delivered prompted investors to reassess interest rate expectations. Four Committee members voted to reduce rates, but two of the slim holding majority also indicated that they would likely vote for a cut soon.
- Budget policies and base effects will mechanically reduce the CPI rate in 2026, on top of the downward pressure arising from soft economic growth and the looser labour market. After reviewing new analysis on wage growth, more policymakers now appear to believe that high wage growth will decline as the labour market continues to weaken, thus undermining previous fears of inflationary persistence. Household inflation expectations remain elevated, but there is a growing consensus that these will ease as headline inflation drops back to target, in line with historical observations. This brings the Committee’s view more in line with our own.
- Some economic data has been stronger than expected, such as November GDP growth and recent PMI releases. However, these follow a period of consistent weakness since Q1 2025, GDP growth during which was bolstered by investment/spending ahead of Trump’s tariff announcements. While activity data may be stabilising, this does not appear to be causing stronger hiring intentions, with survey evidence suggesting that businesses continue to shed employees. This will only prompt further weakness in spending as households continue to maintain a cautionary stance.
- Risks to the growth and inflation outlook lie to the downside, which may ultimately deliver lower Bank Rate than our central case. However, the bar to further rate cuts beyond 3.25% is relatively high, as policy makers become more cautious as monetary policy becomes looser.
- Recent moves have steepened the yield curve, as investors price a lower path for short term rates. However, sustained heavy borrowing across advanced economies, continued outperformance of the the US economy, the DMO’s move towards issuing more short-dated gilts and lingering doubts about the government’s fiscal plans will keep short to medium yields above the levels implied by UK interest rate expectations alone.
- Furthermore, while attention has recently shifted away from the UK government’s fiscal position, potential changes to political leadership may prompt a higher path for yields should a new team be less fiscally restrained.

Forecast:

- Bank Rate was held at 3.75% in February, but a cut in Q1 2026 remains probable following a more dovish MPC stance.
- Continued disinflation, rising unemployment, softening wage growth and low confidence suggests that monetary policy will continue to be loosened.
- Arlingclose expects Bank Rate to be cut to 3.25% by middle of 2026.

- Medium and long-term gilt yields continue to incorporate premia for UK government credibility, global uncertainty and significant issuance. These issues may not be resolved quickly and we expect yields to remain higher than would normally be consistent with Bank Rate expectations.

	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	3.79	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	3.91	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	4.54	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	5.24	5.10	5.05	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.05	5.05	5.05
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	4.90	4.80	4.75	4.70	4.70	4.70	4.70	4.70	4.70	4.70	4.75	4.75	4.75
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 (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; National Wealth Fund Rate (Maturity Loans) = Gilt yield + 0.40%

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 – Additional requirements of Welsh Government Investment Guidance

	Jan-26 Actual portfolio £m	Jan-26 Average Rate %
External borrowing: Public Works Loan Board Local Authorities Total borrowing	14.80 14.80	3.92%
Other long-term liabilities: Finance Leases Total gross external debt	0.00 14.80	
Treasury investments The UK Government Banks (unsecured) Total treasury investments	2.10 1.03 3.13	
Net Debt	11.67	

Appendix C – Additional requirements of Welsh Government Investment Guidance

The Welsh Government (WG) published revised Investment Guidance in November 2019 which places additional reporting requirements upon local authorities that are not integral to this Authority's treasury management processes. The guidance also covers investments that are not part of treasury management, for example investment property and loans to local organisations.

Contribution: The Authority's investments contribute to its service delivery objectives and/or to promote wellbeing as follows:

- treasury management investments support effective treasury management activities,

Climate change: The Authority's investment decisions consider long-term climate risks to support a low carbon economy to the extent that 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.

Specified investments: The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement unless the counterparty is a local authority,
- not defined as capital expenditure by legislation, and

- invested with one of:
 - ◊ the UK Government,
 - ◊ a UK local authority, parish council or community council, or
 - ◊ a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of [A-] or higher.

Loans: The WG Guidance defines a loan as a written or oral agreement where the authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who agrees a return according to the terms and conditions of receiving the loan, except where the third party is another local authority.

The Authority does not have any financial exposure to loans to local enterprises, local charities, wholly owned companies and joint ventures.

Non-specified investments: The Authority does not have any non-specified investments.

Non-financial investments: The Authority does not have any non-financial investments.

Investment advisers: The Authority has appointed Arlingclose Limited as treasury management advisors. The quality of these services is controlled by an internal review.

Capacity and skills: The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Treasurer, Assistant Chief Fire Officer (Finance and Resources), and Head of Finance and Procurement are qualified accountants with many years’ experience.

The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Arlingclose have provided training to members of the Audit Committee, who have responsibility for reviewing treasury management activities.

Corporate governance: All treasury activity is reported to the Audit Committee and Fire Authority, on a quarterly basis. The reports are presented by the Treasurer or Assistant Chief Fire Officer (Finance & Resources). Members have the opportunity to ask questions, following the presentations.

Capital Strategy Report 2026/27

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes-technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Authority spends money on assets, such as land, property, equipment or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2026/27, the Authority is planning capital expenditure of £6.661m for General Fund service and £2.265m for the Hwb Awen (Training Centre) as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
General Fund services	3.821	6.103	6.661	9.654	7.200
Hwb Awen	2.714	1.333	2.265	20.564	24.748
Total	6.535	7.436	8.926	30.218	31.948

The main General Fund capital projects include building works, fleet including specialist vehicles, equipment, information technology and decarbonisation activities. Included separately is the aspiration to construct a centralised training centre, Hwb Awen. Approval has been given by the Fire Authority to complete enabling works, where final approval and funding is required for construction phase for 2027/28 onwards.

Governance: By September each year, managers submit bids to include projects in the Authority's capital programme. Bids are collated by the Head of Finance who calculates the financing requirement and cost for inclusion within budget setting assumptions. The Service Leadership Team appraises all bids based on a comparison of strategic priorities and departmental objectives, mitigation of risks, and impact against wellbeing of future generations act, and makes recommendations for schemes to be included in the capital plan. The final capital programme is then presented to the Audit Committee and Executive Panel in December and to the Fire and Rescue Authority in January each year.

- The full details of the Authority's capital programme is within the MTRS Report

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2024/25 actual	2025/26 forecast	2026/27 budget *	2027/28 budget	2028/29 budget
Reserves	0.049	1.379	0	0	0
Revenue resources	1.459	1.451	1.000	1.250	1.500
Debt	4.108	3.746	6.139	8.404	5.700
Grants	0.918	0.860	0.500	20.564	24.748
Total	6.535	7.436	8.926	30.218	31.948

The above debt and Grant includes the new training centre, as detailed in Table 1.

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
Minimum revenue provision (MRP)	1.957	2.015	2.241	2.564	2.944
Capital receipts	0	0	0	0	0
Total	1.957	2.015	2.241	2.564	2.944

- The Authority's full minimum revenue provision statement is available as part of the Treasury Management Strategy

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £4.30m during 2026/27. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
General Fund services	31.00	35.20	39.50	46.40	49.80

The above debt excludes the new training centre, as detailed in Table 1 as it is assumed that this will be fully funded by grant funding.

Asset management: To ensure that capital assets continue to be of long-term use, the Authority is developing an Estate strategy.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Authority is not planning to receive any capital receipts in the coming financial year.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority’s spending needs, while managing the risks involved. This includes the management of borrowing to fund capital expenditure as well as the day-to-day management of revenue cash. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Authority currently has £14.80m borrowing at an average interest rate of 3.92%.

Borrowing strategy: The Authority’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Authority’s total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2025 actual	31.3.2026 forecast	*31.3.2027 budget	*31.3.2028 budget	*31.3.2029 budget
Debt (incl. Finance leases)	19.07	14.26	22.12	24.92	33.55
Capital Financing Requirement	31.00	35.20	39.50	46.40	49.80

*The above debt includes the new training centre, as detailed in Table 1. It is assumed that construction phase will be fully funded from grants.

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.

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 that cash and investment balances are kept to a minimum level of £2m at each year-end. This benchmark is currently £16.10m and is forecast to rise to £35.30m over the next three years.

The liability benchmark does not include the cost of construction for the new training centre.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2025 actual	31.3.2026 forecast	31.3.2027 budget	31.3.2028 budget	31.3.2029 budget
Outstanding borrowing	19.07	14.26	22.12	24.92	33.55
Liability benchmark	18.60	16.15	23.98	31.41	35.33

The table shows that the Authority expects to remain borrowed below its liability benchmark.

Affordable borrowing limit: The Authority is legally obliged to set an authorised limit for external debt each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2025/26 limit	2026/27 limit	2027/28 limit	2028/29 limit
Authorised limit – borrowing	30.99	38.12	42.42	49.32
Operational boundary – borrowing	28.99	36.12	39.42	45.32

- Further details on borrowing are in the treasury management strategy

Treasury investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority’s policy on treasury investments is to prioritise security and liquidity over yield and as such it places short term cash surpluses into bank call accounts or with the UK Debt Management Office until required. The Authority does not have long term investments. Cash that is likely to be spent in the near term is invested securely, with selected high-quality (creditworthy) banks, to minimise the risk of loss.

Risk management: The effective management and control of risk are prime objectives of the Authority’s treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks. The Treasury Management Strategy excludes the construction phase borrowing requirement for Hwb Awen pending confirmation of full grant funding.

The treasury management prudential indicators are included in the treasury management strategy

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to an Assistant Chief Fire Officer and officers, who must act in line with the treasury management strategy approved by the Authority. Reports on treasury management activity are presented to committee. The Audit Committee is responsible for scrutinising treasury management decisions.

Liabilities

The Authority may need to cover the costs of changes to firefighter pension regulations. If no extra funding is received, it will use the pensions reserve to manage any additional expenses and limit increases to the levy.

Governance: Decisions on incurring new discretionary liabilities are taken by the Head of Finance in consultation with an Assistant Chief Fire Officer. The risk of liabilities crystallising and requiring payment is monitored by the Head of Finance and reported annually to the Fire Authority. New liabilities exceeding £1m are reported to the Authority for notification as appropriate.

- Further details on liabilities are on pages 43 and 65 of the [2024/25 statement of accounts](#).

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from the levy and general government grants.

Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream

	2024/25 actual	2025/26 forecast	2026/27 budget	2027/28 budget	2028/29 budget
Financing costs (£m)	3.189	4.407	4.501	5.200	5.900
Proportion of net revenue stream	6.48%	8.41%	8.16%	9.2%	10.0%

- Further details on the revenue implications of capital expenditure are detailed within the 2026/27 revenue budget [here](#).

Sustainability: Because capital expenditure and financing decisions affect budgets far into the future, spending over the next few years will have revenue implications for up to 50 years. Adding the new training centre poses financial challenges because of its size and expense; however, currently, the impact on capital financing is restricted to the preconstruction stage, as a full capital grant for construction stage is being sought.

Knowledge and Skills

The Authority entrusts capital, borrowing, and investment decisions to professionally qualified staff with extensive experience, including accountants in key roles such as Treasurer and Head of Finance. It supports employees pursuing relevant certifications like CIPFA and AAT. External specialists, including Arlingclose Limited for treasury management, and Facilities Management consultants engaged through a Service Level Agreement, supplement internal expertise. This strategy is cost-effective and aligns the Authority's skills base with its risk management needs.

Minimum Revenue Provision Statement 2026/27

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to Welsh Government's *Guidance on Minimum Revenue Provision* (the WG Guidance) most recently issued in 2018.

The broad aim of the WG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The WG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance:

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

Capital expenditure incurred during 2026/27 will not be subject to a MRP charge until 2027/28 or later.

Based on the Authority's latest estimate of its capital financing requirement (CFR) on 31st March 2026, the budget for MRP has been set as follows:

	31.03.2026 Estimated CFR £m	2026/27 Estimated MRP £
General Fund	35.2	2.2

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