Tyne and Wear Fire and Rescue Authority

TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item No 5**

GOVERNANCE, RISK AND AUDIT SCRUTINY COMMITTEE: 13 FEBRUARY 2026

SUBJECT: TREASURY MANAGEMENT – THIRD QUARTER REVIEW 2025/2026

JOINT REPORT OF THE CHIEF FIRE OFFICER / CHIEF EXECUTIVE (CLERK TO THE AUTHORITY) AND THE DIRECTOR OF FINANCE, ESTATES AND FACILITIES

1. INTRODUCTION

1.1 To report on the Treasury Management performance to date for the third quarter of 2025/2026.

2. BACKGROUND

2.1 Sunderland City Council performs the treasury management function on behalf of the Authority.

2.2 This report sets out the Treasury Management performance to date for the third quarter of the financial year 2025/2026, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Authority. This information is based on the data for Sunderland City Council, which incorporates the investment and borrowing figures for the Authority.

3. SUMMARY OF TREASURY MANAGEMENT PERFORMANCE FOR 2025/2026

3.1 The Authority's Treasury Management function continues to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates rose slightly during the first two quarters of the financial year before falling and continue to be volatile. No new borrowing has been required to date during 2025/2026 but the position continues to be monitored closely.

3.2 No refinancing of debt has been carried out in 2025/2026 during the period as rates have not been considered sufficiently favourable. The Authority's average interest rate on borrowing is low, currently 2.67%, and as such the Authority already benefits from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises. Based on advice from the Authority's treasury management advisor, performance continues to see the Authority's average borrowing rate compare favourably to other authorities.

3.3 Treasury Management Prudential Indicators are regularly reviewed, and the Authority is within the limits set for all its Treasury Management Prudential Indicators for 2025/2026. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £31.277m for 2025/2026. The Authority's maximum external debt during the financial year to 31

December 2025 was £25.972m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in Section 2 of Appendix A for information.

3.4 The Authority's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Authority.

3.5 The Authority has benefitted from the fact that its investment income has been matched to the benchmark rate, currently 4.10% for 2025/2026 to 31 December 2025, instead of the average Money Market Fund (MMF) return. Whilst historic returns have been higher than the benchmark rate, the MMF rate has been adversely impacted by the continuing conflict in Ukraine and Gaza/Israel. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section A3 of this report in respect of the Authority's Investment Strategy and Performance.

3.6 More detailed Treasury Management information is included in Appendix A for information.

3.7 The regular updating of the Authority's Authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

4. RISK MANAGEMENT

4.1 There are no risk management implications in respect of this report.

5. FINANCIAL IMPLICATIONS

5.1 There are no financial implications in respect of this report

6. EQUALITY AND FAIRNESS IMPLICATIONS

6.1 There are no equality and fairness implications in respect of this report.

7. HEALTH AND SAFETY IMPLICATIONS

7.1 There are no health and safety implications in respect of this report.

8. RECOMMENDATIONS

8.1 The Governance, Risk and Audit Scrutiny Committee is recommended to:

a) Note the Treasury Management performance for the third quarter of 2025/2026.

b) Note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

Appendix A

Detailed Treasury Management Performance – During Quarter 3 2025/2026

A1 Borrowing Strategy and Performance – 2025/2026

A1.1 The Borrowing Strategy for 2025/2026 was approved by the Authority on 17 March 2025.

A1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view at the time of drafting the Treasury Management Policy and Strategy was that the Bank of England (BoE) Base Rate would start 2025/2026 at 4.50% and continue downwards, reaching 4.00% by September 2025 and fall to 3.75% by March 2026. PWLB borrowing rates were also believed to have reached their peak and were expected to steadily fall over the three-year forecast timescale. However, these projections were subject to significant volatility as a consequence of emerging economic data and future BoE Monetary Policy Committee (MPC) announcements.

A1.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) announced on 18 December 2025 that it voted 5-4 to reduce the Base Rate to 3.75% and was expected to continue a "gradual downward path" subject to data on labour market activity and wage growth pressures. This reflects their ongoing commitment to ensure headline CPI inflation returns to its 2% target in the medium term.

A1.4 The Office for National Statistics (ONS) report that annual Consumer Prices Index (CPI) inflation rose by 3.4% in the twelve months to December 2025. Having peaked at 3.8% during the period July to September 2025, it is projected to fall to close to 3.0% in the coming quarters, with further falls towards the BoE's target of 2.0%.

A1.5 On growth, the ONS reports that gross domestic product (GDP) grew by 0.1% in the three months to November 2025, compared with the three months to August 2025. Monthly GDP is estimated to have grown by 0.3% in November 2025, following an unrevised fall of 0.1% in October 2025 and a growth of 0.1% in September. The BoE's Quarterly Monetary Policy Report shows that UK GDP is expected to be in the region of 1.4% for Q4 2025, rising to 1.8% by Q4 2028.

A1.6 Investment returns have fallen steadily, reflecting corresponding falls in the BoE Base Rate. However long-term borrowing rates are currently high, and above our 2025/2026 benchmark borrowing rate of 5.50%. Therefore, investment balances will be temporarily used where necessary pending borrowing rates reducing.

A1.7 MUFG Corporate Markets, the Authority's treasury advisors, reviewed their interest rate forecasts in December 2025 to reflect the outcome of the Chancellor's November 2025 Budget and the 25bps Base Rate cut announced by the MPC. They believe the MPC won't look to cuts rates until economic data shows the BoE has been successful in removing excess inflation out of the economy, against a backdrop of wage growth remaining stubbornly high and a restricted labour market.

A1.8 The following table shows the average PWLB rates for Quarters 1, 2 and 3 compared to the SONIA Overnight Rate used to benchmark investment returns.

2025/2026	Qtr 1* (Apr-Jun 2025) %	Qtr 2* (Jul-Sep 2025)	Qtr 3* (Oct-Dec 2025) %
SONIA Overnight Rate	4.31	4.07	3.93
PWLB 1 year	4.61*	4.49*	4.47*
PWLB 5 years	4.81*	4.84*	4.78*
PWLB 10 years	5.36*	5.44*	5.35*
PWLB 25 years	6.03*	6.17*	6.02*
PWLB 50 years	5.72*	5.93*	5.79*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities.

A1.9 High levels of volatility in the financial markets continue in 2025/2026. The main sensitivities of the forecasts in the UK reflect ongoing concerns over the future path of inflation, increased level of Government borrowing over the term of the current Parliament and the potential impact on inflation globally resulting from President Trump's ongoing tariff policies.

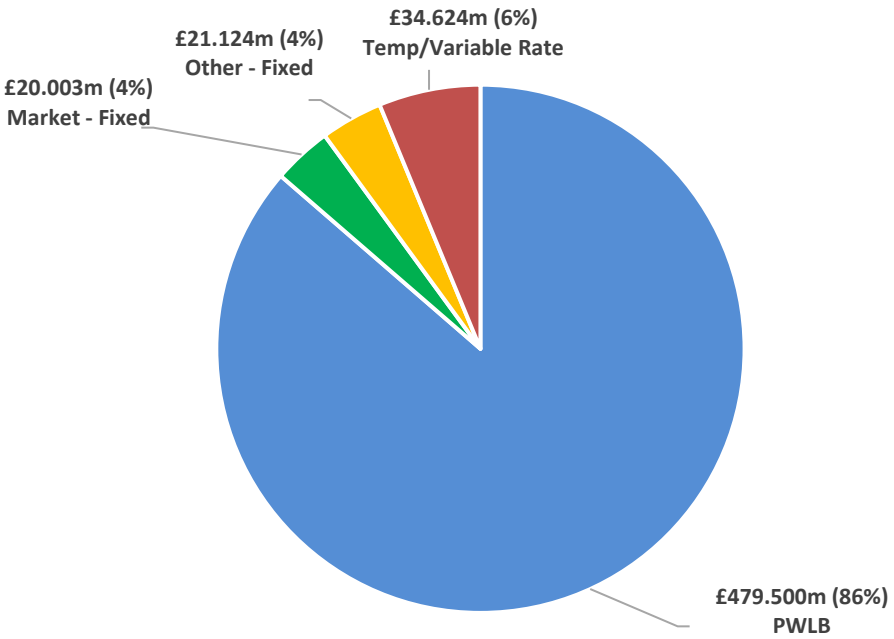
A1.10 The UK and the EU reached a new agreement setting out post-Brexit relations on areas including fishing rights, trade and defence. £250bn of investments between the UK and USA together with a new technology trade deal were also announced during President Trump's second state visit. However, the ongoing conflict between Russia and the Ukraine, Israel and Gaza/Iran and heightened tensions between China, Taiwan and the United States alongside other geopolitical factors are likely to continue to have a global economic impact.

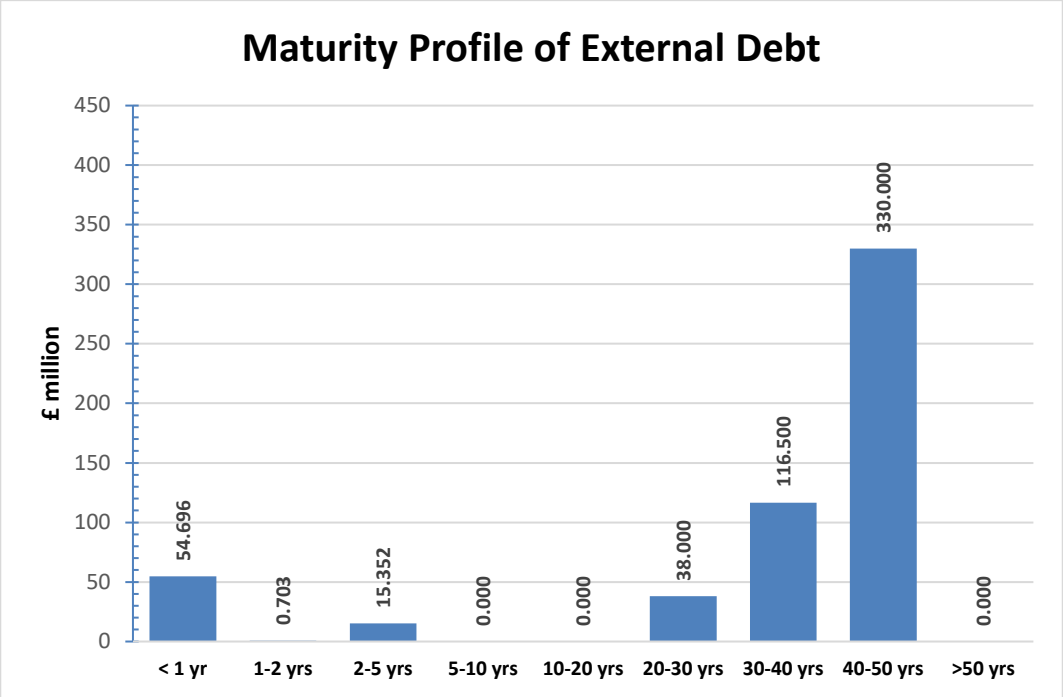
A1.11 At present, PWLB rates are expected to fall gradually from their current levels through to March 2027. MUFG Corporate Markets predict PWLB rates standing at 4.60%, 5.20%, 5.80% and 5.60% for 5, 10, 25 and 50-year durations respectively by 31st March 2026 before falling within the range 4.10%-5.50% for all durations by March 2027. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period.

A1.12 The strategy for 2025/2026 is to adopt a pragmatic and flexible approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 5.50% for long-term borrowing was set for 2025/2026 in light of the views prevalent at the time the Treasury Management policy was set in March 2025.

A1.13 The Council's treasury portfolio position at 31 December 2025 is set out as follows:

Borrowing Summary at:	31 December 2025	
	Principal	**Ave rate %**
Fixed		
PWLB	479,500,000	2.60
Market – Fixed	20,003,079	4.38
Other – Fixed	21,123,923	0.30
	520,627,002	2.58
Variable		
Temporary/Other – Variable	34,623,878	4.06
	34,623,878	4.06
TOTAL:	**555,250,880**	**2.67**





A2 Treasury Management Prudential Indicators – 2025/2026

A2.1 All external borrowing and investments undertaken in 2025/2026 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Treasury Management Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2025/2026 as follows:

	£m
Borrowing	21.809
Other Long-Term Liabilities	9.468
Total	**31.277**

The Operational Boundary for External Debt was set as shown below:

	£m
Borrowing	16.809
Other Long-Term Liabilities	9.468
Total	**26.227**

A2.3 Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

A2.4 The Authority's maximum external debt in respect of 2025/2026 (to 31 December 2025) was £25.972m and is within the Authorised Borrowing Limit for External Debt.

A2.5 The table below shows that all other Treasury Management Prudential Indicators set by Sunderland City Council (which includes the Authority's data) have been complied with:

Prudential Indicators		**2025/2026 (Max to 31/12/25)**	
		Limit	**Actual**
P9	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	9.91%
	12 months and within 24 months	60%	0.13%
	24 months and within 5 years	80%	2.84%
	5 years plus	100%	89.68%
	A lower limit of 0% for all periods		
P10	**Upper limit for total principal sums invested for over 365 days**	£75m	0

A3 Investment Strategy – 2025/2026

A3.1 The Investment Strategy for 2025/2026 was approved by the Authority on 17 March 2025. The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

a) The **security** of capital;
b) The **liquidity** of its investments and then;
c) The Authority aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

A3.2 At 31 December 2025, funds managed by Sunderland City Council's in-house team on behalf of the Authority amounted to £27.514m and all investments complied with the approved Annual Investment Strategy.

A3.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Authority uses to assess its performance.

	2025/2026 Actual to 31/12/25 %	**2025/2026 Benchmark to 31/12/25 %**
Return on investments	4.10	4.10

A3.4 Investments placed in 2025/2026 have been made in accordance with the approved Investment Strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.5 Investment rates available in the market have continued to fall following changes to the Base Rate announced by the Bank of England's Monetary Policy Committee

(MPC). Following the cut to 5.00% in August 2024, the first fall in the rate since March 2020, there have been further reductions to its current level of 3.75% announced on 18 December 2025.

Effective Date	BoE Base Rate %	
19 Mar 2020	0.10	Historic Low
3 Aug 2023	5.25	Current peak
1 Aug 2024	5.00	
7 Nov 2024	4.75	
6 Feb 2025	4.50	
8 May 2025	4.25	
7 Aug 2025	4.00	
18 Dec 2025	3.75	

A3.6 Whilst investment returns have fallen in comparison to previous years, the Authority continues to follow a risk averse strategy when placing funds, prioritising security of capital whilst seeking to achieve the optimum return commensurate with risk. The Authority continues to follow advice from our Treasury Management advisors by placing funds in shorter dated liquid investments than previously.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes since the last Treasury Management report are indicated in bold on the Approved Lending List is shown in Appendix C.

A3.9 On 31 May 2025, 17 years after buying an 84% stake in the NatWest Group amid the 2008 financial crisis, the Treasury announced the sale of its final shares returning the bank to full private ownership. Deposit and duration limits will now be based on credit ratings for the counterparty rather than the UK Government's credit rating of AA-.

Lending List Criteria **Appendix B**

Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch Long-Term Rating	Fitch Short-Term Rating	Moody's Long-Term Rating	Moody's Short-Term Rating	S&P's Long-Term Rating	S&P's Short-Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA- will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above; these new limits are as follows:

Country Limit
It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £300m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	**Limit £m**
UK	300
Non-UK	50

Sector Limit
The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	**Limit £m**
Central Government	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

Group Limit
Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List **Appendix C**

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	AA-	F1+	A1	P-1	A	A-1	70	365 days
Bank of Scotland Plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
NatWest Group							Group Limit 70	
The Royal Bank of Scotland Plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
National Westminster Bank Plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
NatWest Markets plc (NRFB)	AA-	F1+	A1	P-1	A	A-1	70	365 days
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Clydesdale Bank	A	F1	A1	P-1	**A+**	A-1	65	365 days
Co-Operative Bank Plc *	WD	WD	A3	P-2	-	-	50	365 days
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	**Aa3**	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
SMBC Bank International Ltd	A-	F1	A1	P-1	A	A-1	50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A3	P-2	-	-	50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS*	BBB+	F2	Baa1	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
Yorkshire BS	A-	F1	A2	P-1	-	-	50	365 days
Money Market Funds							250	Liquid
Prime Rate Stirling Liquidity	AAA		AAA		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA				AAA		50	Liquid
Deutsche Managed Sterling Fund			Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	50	2 years
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Westpac Banking Corporation	AA-	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A+	F1	A1	P-1	A+	A-1	50	365 days
Finland	AA		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV	-	-	Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
UBS AG	A+	F1	Aa2	P-1	A+	A-1	50	365 days
USA	AA+		Aa1		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	**Aa1**	P-1	AA-	A-1+	50	2 years
Wells Fargo Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days

Notes

* These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.