

Report of the Chief Finance Officer for the PCC to the Chair and Members of the Cleveland Audit Committee
18th December 2025

Presenting Officer: Michael Porter, PCC Chief Finance Officer

Status: For information

Mid-Year Treasury Management Report

1. Purpose

- 1.1 As part of the agreed Treasury Management Strategy the PCC has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 1.2 The PCC is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (which this Committee received in March) is forward looking, it is the first and most important of the three and includes:
 - Prudential and treasury indicators and treasury strategy (These are appended to the March report and will be provided at each March Committee)
 - the capital plans, (including prudential indicators).
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time).
 - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an Annual Investment Strategy, (the parameters on how investments are to be managed).
 - A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. – **this is this report.**
 - An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. – this will be reported to the June Committee.
- 1.3 This report provides Members with a copy of the Mid-Year review of Treasury Management in line with our current strategy and reporting timelines.

2. Recommendations

Members are asked to:

- 2.1 Note the contents of the report.
- 2.2 Note that there have been several movements in relation to the Capital Financing Requirement from the position reported at the end of 2024/25, and as incorporated into the 2025/26 Treasury Management Strategy due to the adoption and implementation of the technical accounting arrangements relating to IFRS16.
- 2.3 Aside from the changes referred to above the PCC is operating within all of the prudential indicator limits that were approved at the start of the year and that all Treasury Management limits were also being adhered too.
- 2.4 Note that the cash position is being actively managed and considered in relation to whether the £5.5m loan factored into the current plans is taken out.

3. Reasons

- 3.1 This report outlines the key elements of the capital and treasury management activity for the period 1st April 2025 to 30th September 2025.
- 3.2 Prudential Indicators are required to be set each year by the Cipfa Prudential code of Practice, and this report measures the performance against these indicators for 2025/26.

Capital Schemes

- 3.3 On 19th February 2025, the PCC allocated the Force a capital budget of £5,615k for 2025/26. In addition to this £1,068k of schemes were carried forward from 2024/25 for a total approved Capital Budget of £6,783k.
- 3.4 The monitoring of capital budgets is undertaken monthly and has resulted in 1 additional scheme totalling £58k being added to the programme. This in-year scheme has arisen from the collaboration with Northumbria and Durham to replace a boiler at a site occupied by NEROCU which is now end of life. This increases the budget by £58k and was approved by the PCC
- 3.5 The capital expenditure up to 30th September 2025 has been reported in detail in the Corporate Financial Monitoring report and is summarised as:

	Annual Revised Budget	Actual Expenditure at Q2
	£000s	£000s
Estates Schemes	1,073	801
Equipment Schemes	1,226	61
ICT Schemes	2,004	1,249
Fleet Schemes	2,438	937
Other Schemes	100	0
TOTAL	6,841	3,048

There is expected to be a breakeven position at the end of the financial year.

- 3.6 The Police and Crime Commissioner agreed the Capital Strategy in line with the CIPFA Prudential Code on the 19th February 2025. The capital schemes are in line with the capital strategy.

Treasury Management

- 3.7 Local Authorities' (including Police and Crime Commissioner's) Treasury Management activities are prescribed by the Local Government Act 2003. The Police and Crime Commissioner may borrow or invest for any purpose relevant to its functions, under any enactment, or 'for the purpose of the prudent management of its financial affairs' and is required to agree a Treasury Management Strategy annually which provides a number of prudential indicators that are required to be monitored.
- 3.8 The Police and Crime Commissioner agreed the Treasury Management Policy, the Prudential Indicators and Annual Investment Strategy for 2025/26 in line with the CIPFA Prudential Code on 19th February 2025.

The Treasury Management activity in year is measured in terms of investments, cash balances and borrowing which is detailed below:

Investments and Cash Balances

- 3.9 From 1st April 2025 to 30th September 2025, the PCC made total investments of £137.5m which were invested in accordance with the approved Investment Strategy.
- 3.10 On 30th September 2025, the PCC had a cash balance of £24.663m. This consists of £2.663m with the National Westminster Bank and £15.0m with Aberdeen Standard Liquidity (ASL), £5.0m with Lloyds bank and £2.0 with the with UK Debt Management Office. These are in accordance with the Investment Strategy.
- 3.11 The graph at Appendix A sets out the actual and forecast cash balances for the two quarters of the financial year and shows these in comparison to the previous four years.
- 3.12 The Bank of England Base rate is currently 4.00% which was decreased from 4.50% in March 2025. The current interest rate from NatWest is 1.4% for all investments. The budget for interest receivable in 2025/26 is £714k and the actual interest received at the end of Q2 is £371k. We estimate the interest for 2025/26 will be £660k.
- 3.13 Our portfolio of investments are in line with the Treasury management policy includes ASL which has a higher rate of return than deposits at NatWest and still provides the flexibility of being on-call.

Borrowing

- 3.14 No new loans have been taken out with the Public Works Loans Board in 2025/26 so far, however the plans assume a loan(s) totalling £5.5m will be taken out during the financial year. One repayment of principal for £0.76m (interest rate of 2.16%) was repaid on 1st August 2025. The loan profile is set out in Appendix B.
- 3.15 At 30th September 2025, the PCC had £18.0m of outstanding long-term loans with PWLB. There is also borrowing associated with PFI schemes totalling £11.871m giving a total of £29.871m. The borrowing for both PWLB and PFI schemes is expected to be at the estimated level by 31st March 2026.

3.16 Prudential Indicators

- 3.17 The Prudential Indicators were approved by the PCC for 2025/26 on 19th February 2025. The measurement of actual performance against the individual indicators is measured below.

3.18 *Ratio of Financing Costs to Net Revenue Stream*

This indicator identifies the trend in the cost of capital against the net budgetary requirement. The forecast ratio for 2025/26 is 2.5% which is in line with the actual return for both 2024/25 (3.0%) and 2023/24 (2.8%).

Financing Costs to Net Revenue Streams	2024/25	2025/26	2025/26
	Actual	Estimate	Estimate at Q2
	£000	£000	£000
Minimum Revenue Provision (MRP)	3,082	2,723	2,642
Interest Payable on Borrowing	2,825	2,599	2,389
Interest Receivable	(884)	(714)	(660)
Financing Costs	5,023	4,608	4,372
Net Revenue Stream	168,297	174,322	174,322
Ratio %	3.0%	2.6%	2.5%

Given that funding for PFI's is dealt with by a separate specific grant then the underlying level of funding that will be set aside to service borrowing (excluding PFI's) in 2025/26 is forecasted to be 0.5% of the Net Revenue Stream.

Financing Costs to Net Revenue Streams (Excluding PFI)	2024/25	2025/26	2025/26
	Actual	Estimate	Estimate at Q2
	£000	£000	£000
Minimum Revenue Provision (MRP)	925	935	931
Interest Payable on Borrowing	503	772	562
Interest Receivable	(884)	(714)	(660)
Financing Costs	544	993	833
Net Revenue Stream	168,297	174,322	174,322
Ratio %	0.3%	0.6%	0.5%

3.18 *Incremental Impact of Capital Investment Decisions on Band D Council Tax*

This indicator shows the incremental impact of the additional capital expenditure that is planned in the current programme on the Band D council tax.

Council Tax	2024/25	2025/26	2025/26
	Actual	Estimate	Estimate at Q2
	£000	£000	£000
Band D Impact	(1.86)	4.04	2.06
Band D Level	303.73	317.73	317.73
Band D increase year on year	13.00	14.00	14.00
%age of precept increase funding capital costs	-14.3%	28.9%	14.7%

3.19 *Level of borrowing to fund the capital expenditure*

The level of borrowing required to fund the 2025/26 capital programme is detailed below:

Capital Expenditure	2024/25	2025/26	2025/26
	Actual	Estimate	Estimate at Q2
	£000	£000	£000
Capital Expenditure	5,117	5,715	6,841
PFI Capital Expenditure	575	1,489	1,489
Total Capital Expenditure	5,692	7,204	8,330
Funded By:			
Gross Borrowing	1,010	1,073	1,073
PFI Borrowing	0	0	0
Other Capital Resources	4,682	6,131	6,124
%age of Expenditure funded by Borrowing	17.7%	14.9%	12.9%

3.20 *The PCC's Borrowing Need (The Capital Financing Requirement)*

The Capital Financing Requirement (CFR) measures the PCC's underlying need to borrow for Capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

	2024/25	2025/26	2025/26
	Actual (Revised)	Estimate	Estimate at Q2
Capital Financing Requirement	0	0	0
Opening Capital Financing Requirement	12,010	11,539	11,539
MRP on Supported Borrowing	(471)	(452)	(452)
Closing Capital Financing Requirement	11,539	11,087	11,087
Unsupported borrowing to fund Capital Expenditure	29,892	30,965	30,965
Impact of IFRS 16 on non-PFI CFR	1,050	0	1,050
PFI Borrowing	34,978	34,978	34,978
Impact of IFRS 16 on PFI	2,886	0	2,886
Total CFR Base on which MRP is calculated	80,345	77,030	80,966
MRP on IFRS 16 borrowing	(362)	0	(286)
MRP on Unsupported Borrowing- cumulative	(8,138)	(8,617)	(8,617)
MRP on PFI (cumulative)	(21,706)	(23,417)	(23,417)
Total CFR Base for borrowing purposes	50,138	44,996	48,646

The Capital Financing Requirement has increased since the approval of the Treasury Management Strategy in February 2025, this reflects a technical adjustment to the calculation for the adoption of IFRS16 as part of the 2024/25-year end accounts. This has increased the closing Capital Financing Requirement by £3,574k for 2024/25 and has a corresponding impact on the 2025/26 estimate versus the originally approved Capital Financing Requirement.

These technical adjustments have no impact on either the overall level of borrowing or the impact of MRP on the revenue budget.

6.5 *Limits to Borrowing Activity*

Within the Prudential indicators there are a number of indicators to ensure that the PCC operates its activities within well-defined limits.

For the first of these the PCC needs to ensure that the total borrowing net of any investments does not, except in the short term, exceed the total of the CFR.

Net Borrowing and the Capital Financing Requirement (CFR)	2024/25	2025/26	2025/26
	Actual	Estimate	Estimate at Q2
	£000	£000	£000
Borrowing	18,760	23,500	18,000
PFI Borrowing	13,659	11,871	11,871
Investments	(3,100)	0	(24,660)
Net Borrowing	29,319	35,371	5,211
Total CFR Base for borrowing purposes	50,138	44,996	48,646

As at the end of Q2, the level of net borrowing is significantly below the borrowing limits set by the PCC, due to the planned £5.5m loan not having yet been taken out and the significant level of cash and investments at this point in the financial year.

It is forecast that the overall net borrowing position will move towards the forecast by the end of the financial year.

There are a further two prudential indicators which control or anticipate the overall level of borrowing. These are:

- The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by the PCC. Borrowing beyond this limit would be ultra vires.
- The **Operational Boundary** which is based on the probable external debt during the year. It includes scope for borrowing for revenue purposes that may be required in the short term during the year.

Authorised Limit for External Debt	2024/25	2025/26	2025/26
	Actual	Estimate	Actual at Q2
	£000	£000	£000
Borrowing	18,760	23,500	18,000
PFI Borrowing	13,659	11,871	11,871
Provision for Temporary Borrowing	0	10,000	
	32,419	45,371	29,871
Operational Boundary for External Debt	2024/25	2025/26	2025/26
	Actual	Estimate	Actual at Q2
	£000	£000	£000
Borrowing	18,760	23,500	18,000
PFI Borrowing	13,659	11,871	11,871
Provision for Temporary Borrowing	0	7,500	
	32,419	42,871	29,871

The forecast authorised limit and operational boundary for external debt for 2025/26 is well within the approved estimated limits at the end of Q2 and is expected to remain well within these limits throughout the financial year.

There was a temporary overdraft in place of £5m from April to June and this was used intermittently during this period as and when required.

6.6 Upper Limits on borrowing

This indicator identifies a maximum level of borrowing that can be made at Fixed and Variable interest rates.

Borrowing	2024/25	2025/26	2025/26
	Actual	Estimate	Actual
	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100
Upper Limit of Variable Rate Exposures	25	25	25

No new loans have been taken out in 2025/26 and all existing loans are at a fixed interest rate.

6.7 Upper Limits on Investments

This indicator identifies a maximum level of investments that can be made at Fixed and Variable interest rates.

Investments	2024/25	2025/26	2025/26
	Actual	Estimate	Actual at Q2
	%	%	%
Upper Limit on Fixed Interest Rate Exposures	41	100	54
Upper Limit of Variable Rate Exposures	59	70	46

£137.5m of investments have been made from 1 April 2025 to 30 September 2025 with the average split between fixed and variable interest rates being 54.37% to 45.63% which is at the 70% upper limit of variable rate exposure.

6.8 Maturity Structure of Debt

These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for re-financing within a short timeframe.

Maturity Structure of Debt	2024/25		2025/26	
	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%
Over 12 months and under 2 years	0%	50%	0%	50%
Over 2 years and under 5 years	0%	50%	0%	50%
Over 5 years and under 10 years	0%	85%	0%	85%
Over 10 years	0%	100%	0%	100%

The actual maturity structure of debt to date in 2025/26 was under the upper limits.

Actual Maturity Structure of Debt	2024/25		2025/26	
	£000	%	£000	%
Under 12 months	0	0%	0	0%
Over 12 months and under 2 years	760	4%	0	0%
Over 2 years and under 5 years	0	0%	1,500	8%
Over 5 years and under 10 years	1,500	8%	0	0%
Over 10 years	16,500	88%	16,500	92%

6.9 Upper Limit for Sums Invested for a Period of over 364 days

This indicator sets a limit on the level of investments that can be made for more than 364 days.

Principal Sums Invested > 1yr	2024/25	2025/26	2025/26
	Actual	Estimate	Actual at Q2
	£000	£000	£000
Maturity Profile	0	2,000	0

There have been no investments to date in 2025/26 for more than 364 days.

6.10 Members are encouraged to scrutinise the report and raise any questions/queries that they may have.

7 Implications

7.1 Finance

There are no financial implications arising directly from this report.

7.2 Diversity & Equal Opportunities

There are no diversity or equal opportunities implications arising from this report.

7.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

7.4 Sustainability

There are no sustainability issues arising from this report.

7.5 Risk

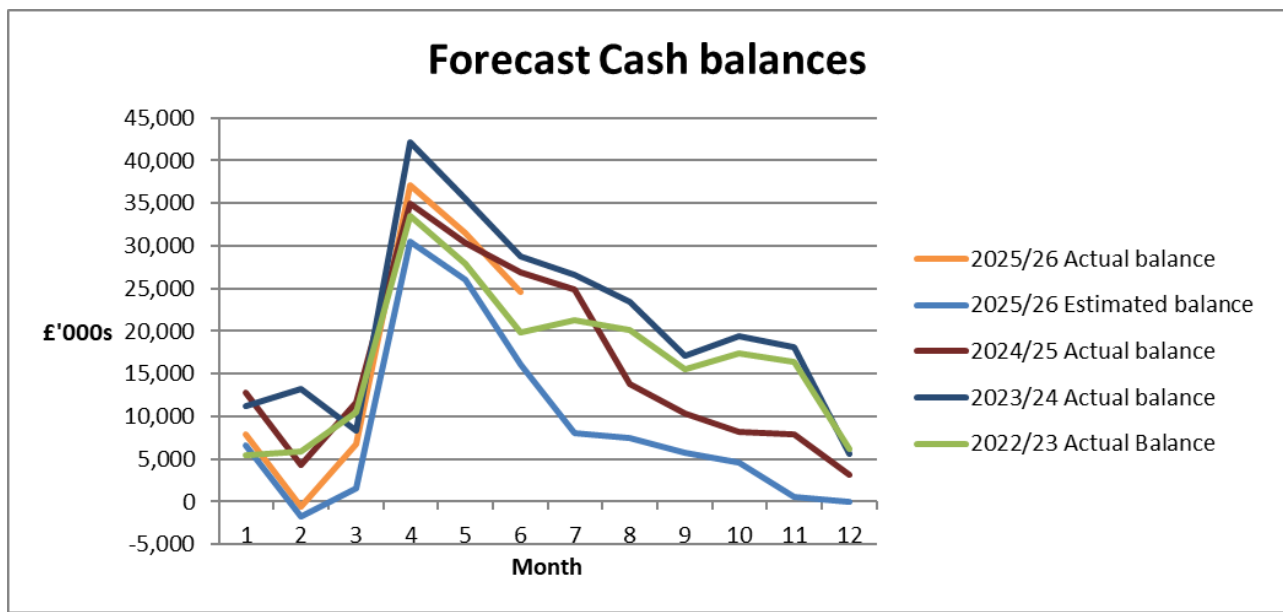
There are no risk issues arising from this report.

8 Conclusion

8.1 This report provides Members with a mid-year treasury management update including an update on the capital position and prudential indicators, showing that no changes are needed to either limits or policies at this stage.

8.2 The report does highlight a potentially challenging cash position towards the end of the financial year but this is being actively managed.

Appendix A – Actual v Forecast Cash Balances



Appendix B – Loan Structure at 30th September 2025.

<u>LOAN NUMBER</u>	<u>DATE LOAN TAKEN OUT</u>	<u>AMOUNT (£)</u>	<u>INTEREST RATE (%)</u>	<u>MATURITY DATE</u>	<u>2025/26</u>
506868 PWLB	01/02/2018	3,500,000	2.48	01/08/2060	86800
506976 PWLB	01/03/2018	2,500,000	2.76	01/08/2038	69000
507161 PWLB	28/03/2018	0	2.16	01/08/2025	8208
507173 PWLB	29/03/2018	3,500,000	2.45	01/08/2052	85750
507174 PWLB	29/03/2018	1,500,000	2.42	01/08/2030	36300
507274 PWLB	30/04/2018	3,000,000	2.74	01/08/2045	82200
519123 PWLB	06/06/2022	4,000,000	3.08	01/08/2042	123200
		18,000,000			491,458