



Safest People, Safest Places

Combined Fire Authority

17 February 2026

2026/27 Revenue Budget and Council Tax, Capital Programme and Medium-Term Financial Plan

Report of Treasurer and Chief Fire Officer

Purpose and Structure of the Report

- 1 The purpose of the report is to enable the Authority to:
 - approve a revised revenue budget for 2025/26
 - approve a revenue budget for 2026/27
 - approve the Medium-Term Financial Plan (MTFP)
 - approve the capital budgets for 2026/27 to 2029/30
 - determine the Fire Authority Council Tax Requirement
 - approve the associated resolutions.

- 2 The report is divided into 11 sections:
 - Section A - Background
 - Section B - Consultation
 - Section C - Local Government Finance Settlement
 - Section D – Reserves Strategy
 - Section E – Medium-Term Financial Plan (MTFP)
 - Section F – Revenue Budget
 - Section G - Capital Strategy
 - Section H- Fire Authority Council Tax Requirement
 - Section I - Prudential Code
 - Section J - Treasury Management
 - Section K - Summary of Recommendations

Section A

Background

- 1 A meeting of the Audit and Finance Committee was held on 27 January 2026 to consider the revenue and capital budgets, together with the MTFP. This report incorporates the recommendations of the Committee regarding the overall budget amount and the level of council tax for 2026/27.

Section B

Consultation

- 1 Consultation on the budget and proposals for achieving efficiency savings have taken place with elected members, staff, and the representative bodies on a regular basis. Meetings have been productive and focused on considering savings options that minimise any increase in risks in local communities.
- 2 An opportunity to discuss the budget proposals was also provided to representatives of non-domestic ratepayers.
- 3 The Authority will undertake further consultation with a wide range of stakeholders on the Community Risk Management Plan (CRMP) and the options for balancing the budget over the medium-term. There are no savings options incorporated into the 2026/27 budget which require formal consultation.
- 4 The CRMP consultation process will start on 18 February 2026 and will be open for 12 weeks involving a wide range of stakeholders including:
 - Our staff
 - Representative Bodies
 - The public
 - Our partner agencies
 - Local councillors
 - Parish councils
 - Residents' associations
 - Local Network Meetings
 - Community groups
- 5 Various methods of communication will be used in the consultation process including:
 - An on-line survey
 - Durham County Council and Darlington Borough Council staff
 - Social Media
 - Direct emailing to stakeholders (incl. neighbouring Fire and Rescue Services, Police, NHS, Voluntary Sector, Businesses, Faith Groups)
 - Presentations to various strategic groups of Darlington Borough Council and Durham County Council including Overview and Scrutiny Committees
 - Presentations at Resident Association meetings
 - Presentations at Parish and Town Council meetings
 - Presentations to Local Network Meetings
 - In person engagement at community events
 - Briefings to all CDDFRS staff. Information also included in several staff bulletins and Communications Forums

6 It is **recommended** that members note the consultation arrangements.

Section C

Local Government Finance Settlement

- 1 The government announced the final settlement on 09 February 2026 which is a multi-year settlement covering the financial years 2026/27 to 2028/29. The settlement incorporates the outcome of the Fair Funding Review 2.0 and sets out how the government plans to transition authorities to their new funding allocations over the three-year period.
- 2 Table 2 below sets out the final settlement figures together with figures for the current year 2025/26.

Table 2: Final Settlement

Description	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Legacy Funding	15.898	0	0	0
Fair Funding Allocation	0	15.204	14.299	13.327
Funding Floor	0	0.927	1.363	1.807
Total Government Funding	15.898	16.131	15.662	15.134
Change in Funding	0	+0.233	-0.469	-0.528
% Change in Funding	0	+1.5%	-2.9%	-3.3%

- 3 The final settlement outlines a reduction in the Authority's government funding over the 3-year period totalling £0.764M. This is broken down as an increase of £233,000 (1.5%) in 2026/27 followed by reductions of £469,000 (2.9%) in 2027/28 and £528,000 (3.3%) in 2028/29.
- 4 Whilst the government will argue that the Authority's core spending power (the total of government funding and council tax) will increase by £1.5M (3.8%) in 2026/27, £0.8M (2.0%) in 2027/28 and £0.8M (2.0%) in 2028/29 this assumes that Band D council tax will increase by £5 in each year. This is ultimately an elected member decision and cannot be guaranteed.
- 5 The funding floor has been introduced to ensure that core spending power at least reflects the true inflationary and cost pressures that services face. Following extensive lobbying by the Authority and the National Fire Chiefs Council the government agreed to set a higher funding floor for 2026/27 based on the September CPI figure of 3.8% compared to the amount set out in the provisional settlement. However, the funding floor for 2027/28 and 2028/29 continues to be based on the forecasted GDP deflator. Fire and rescue services' costs are largely driven by staffing costs in particular firefighter pay. A more accurate measure would be average earnings and the Consumer Price Index, rather than the forecasted GDP deflator which is lower.

- 6 A further concern is with how the funding floor will operate at the end of the multi-year settlement period. If this funding which totals £1.807M in 2028/29 is withdrawn, there will be a significant funding gap from 2029/30 onwards. In view of this uncertainty, the Authority will need to continue to prepare for the possibility of further reductions in funding going forward.
- 7 It is clear that the current funding methodology, which uses population as the main driver, is not a fit for purpose funding distribution methodology as the risks the service faces are more complex than population. The funding formula for fire has not been formally reviewed as part of Fair Funding and the current formula requires a fundamental overhaul to better reflect need and the impact of deprivation. It has been acknowledged that the funding formula for fire needs review and this will be happening over the period of the settlement.

Local Council Tax Referendum

- 8 The government has also announced details of the local council tax referendum limits for 2026/27.
- 9 Any fire authority that wishes to increase Band D council tax in 2026/27 by more than £5, as compared to the 2025/26 council tax level, will be required to hold a referendum.

Recommendation

- 10 It is **recommended** that the Authority notes the settlement and the uncertainty around the funding position from 2029/30 onwards.

Section D

Reserves Strategy

Background

- 1 The Fire and Rescue National Framework for England set out the priorities and objectives for fire and rescue authorities (FRA's) and makes specific reference to reserves. The document requires FRA's to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's MTFP.
- 2 The information which FRA's are required to publish includes:
 - How the level of the general reserve has been set.
 - Justification for holding a general reserve larger than 5% of budget.
 - Details of the activities or items to be funded from each earmarked reserve and how they support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund several projects or programmes (for example a change or transformation reserve), details of each programme or project to be funded should be set out.
- 3 The information on each reserve should make clear how much of the funding falls into the following three categories:
 - a. Funding for planned expenditure on projects and programmes over the period of the current MTFP.
 - b. Funding for specific projects and programmes beyond the current planning period.
 - c. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).

Reserves Policy

- 4 The Authority's reserves are held as:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms part of general reserves.
 - A contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves.

- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

5 The current reserves policy is that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain a general reserve of 5% of the net expenditure, currently £2.0M.

Estimated Reserves Position

6 The estimated reserves position for the period 2025/26 to 2029/30 is set out in Table 3 below:

Table 3: Estimated Reserves Position 2025/26 – 2029/30

Reserve	31.03.26 £m	31.03.27 £m	31.03.28 £m	31.03.29 £m	31.03.30 £m
General Reserve	2.010	2.010	2.010	2.010	2.010
Earmarked Reserves	2.130	1.930	1.930	1.930	1.930
TOTAL RESERVES	4.140	3.940	3.940	3.940	3.940

General Reserve

- 7 The Authority has a robust approach to managing risk and there are effective arrangements for financial control in place. However, given the high level of influence that third parties such as the Local Government Employers and government departments have on income and expenditure there is always a risk that the Authority will unexpectedly become liable for expenditure that it has not budgeted for. As a single purpose authority, the Authority has no opportunity to use cross service subsidies to meet unanticipated expenditure. Therefore, proportionally, it's general reserve may be slightly higher than a multi-purpose authority.
- 8 The Authority has a policy to aim to maintain the general reserve at 5% of net expenditure (currently £2.0M) which is a commonly used benchmark across the fire sector. A risk assessment of the adequacy of the Authority's general reserve is carried out at the year-end and any necessary adjustments are made as part

of the final accounts process. A general reserve of 5% of net expenditure is adequate taking account of the risks associated with the MTFP, the level of earmarked reserves and the Authority's track record of delivering efficiency savings and sound budget management.

Earmarked Reserves

- 9 The Authority currently holds the following earmarked reserves to meet known or predicted liabilities:

Pensions Reserve (General Contingency)

The purpose of the pensions reserve is to meet any unforeseen pension costs which may arise due to changes to pension schemes, or any increase in the level of ill-health retirements over and above the level included in the revenue budget. Each higher tier ill-health retirement can cost in the region of £125,000 therefore the pensions reserve equates to the equivalent of an additional 4 higher tier ill-health retirements over the four-year MTFP period.

Insurance Reserve (General Contingency)

The excess levels on the Authority's insurance policies are significant and the purpose of this reserve is to meet any unexpected increase in the level of claims excesses that may arise over and above the sums included in the revenue budget. Provision has not been made in the revenue budget to cover the payment of policy excesses which are £50K on the vehicle insurance policy and £100K on the public and employer's liability policies.

Resilience Reserve (General Contingency)

The National Framework requires the Authority to maintain national resilience capabilities in a high state of operational readiness. The funds in this reserve have been set aside to meet any unforeseen costs which may arise to meet this obligation, and any costs associated with a business continuity event such as a prolonged period of industrial action or the need to support a significant operational incident over a prolonged period, either within our area or elsewhere.

Strategic Finance Reserve (General Contingency)

This reserve holds funds to ensure the continuity of service provision, in the event of future funding pressures.

Emergency Services Mobile Communications Programme (ESMCP) (Grant funding for a planned project)

The reserve comprises of the balance of unspent grant, earmarked to fund the replacement national mobile communications systems. **This balance is expected to be fully utilised during 2025/26.**

Modernisation Reserve (Funding for projects)

The funds in this reserve are earmarked to fund expenditure on future improvements to the Authority’s estate. **This balance is expected to be fully utilised during 2025/26.**

Community Safety Reserve (Funding for Projects)

This reserve is made up of the balance of unspent grant to enable specific community safety improvements to be undertaken. **This balance is expected to be fully utilised during 2025/26.**

Training Reserve (Funding for Projects)

This reserve holds the balance of unspent income, earmarked to fund future training programmes. **This balance is expected to be fully utilised over the course of the medium-term financial plan.**

- 10 The estimated movement on each of the earmarked reserves during the period 2025/26 to 2029/30 is set out in Table 4 below:

Table 4: Earmarked Reserves 2025/26 to 2029/30

Earmarked Reserve	Estimated Balance at 31.03.26 £m	Transfers to Reserves £m	Use of Reserves £m	Estimated Balance 31.03.30 £m
Pensions	0.500	0	0	0.500
Insurance	0.285	0	0	0.285
Resilience	1.000	0	0	1.000
Strategic Finance	0.145	0	0	0.145
ESMCP	0	0	0	0
Modernisation	0	0	0	0
Community Safety	0	0	0	0
Training	0.200	0	-0.200	0
TOTAL	2.130	0	-0.200	1.930

Recommendations

11 It is **recommended** that the Authority:

(a) Agrees to the policy for reserves, that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain a general reserve of 5% of the net expenditure, currently £2.0M.

Section E

Medium-Term Financial Plan

This section provides a summary of the Medium-Term Financial Plan (MTFP) for 2026/27 to 2029/30.

Basis of the Preparation of the Medium-Term Financial Plan

- 1 The MTFP has been revised to take account of the final settlement information and to incorporate 2026/27 and future year's expenditure and income estimates.

Resources

Settlement Funding

- 2 Details of the Local Government Finance Settlement are outlined in Section C. The Government has provided a three-year settlement covering the financial years 2026/27 to 2028/29.
- 3 The final settlement outlines a reduction in the Authority's government funding over the 3-year period totalling £0.764M. This is broken down as an increase of £233,000 (1.5%) in 2026/27 followed by reductions of £469,000 (2.9%) in 2027/28 and £528,000 (3.3%) in 2028/29.

Council Tax

- 4 The MTFP has been calculated based on the assumption that council tax will increase by 4.06% in 2026/27 (£5 on a Band D property) and by £5 in each of the financial years included in the MTFP thereafter. Members will need to review these assumptions noting that each 1% change in council tax results in a variation of approximately £230,000.

Council Tax and Business Rates Collection Fund

- 5 The Authority has been notified by Durham County Council and Darlington Borough Council of forecast deficits and surpluses on the council tax collection and business rates collection funds for 2025/26. The Authority's estimated share of the 2025/26 collection funds' overall surplus is £1,545.
- 6 The estimated surplus on the collection funds in 2025/26 of £1,545 has been included in the budget requirement for 2026/27.

Budget Pressures

- 7 Several budget pressures have been identified which have been incorporated into the MTFP:

Pay Awards

- 8 The MTFP includes an allowance for pay increases of 3.5% in 2026/27 and 2% in each of the following years. However, there is a great deal of uncertainty surrounding the level of pay awards going forward. Each additional 1% increase in pay for the whole workforce costs in the region of £332,000. Any unfunded pay increase above the level included in the MTFP would therefore have a significant impact on the Authority's financial position.

Inflation

- 9 No allowance for inflation has been added to non-pay budget headings. An allowance to cover exceptional inflationary pressures equivalent to 2% of non-pay budgets has been made within the contingencies budget, which can be allocated to budget holders on an exceptional basis should the need arise.

Firefighters Pension Scheme (FPS)

- 10 The government provided a pensions grant to fire and rescue services in 2024/25 and 2025/26 in relation to the additional employer contributions. We expect this funding to continue in 2026/27 and throughout the period covered by the multi-year settlement, although we are currently awaiting formal confirmation that this will be the case.

Efficiency Savings

- 11 During the preparation of the 2026/27 revenue budget, budget heads have been reviewed with an emphasis on the identification of efficiency savings. Where savings have been identified based on historic and predicted future spend the relevant amount has been removed from the 2026/27 budget.

Medium-Term Financial Plan

- 12 The MTFP incorporates 2026/27 and future year's expenditure and income estimates. The estimates for 2027/28 onwards are less robust as they are based on assumptions. Therefore, there is a significant risk that the actual position could turn out to be different.

- 13 The MTFP is based on assumptions which are set out in Table 5 below. At this stage the assumptions are considered to be reasonable based upon the information that is available.

Table 5: MTFP Assumptions

	2026/27	2027/28	2028/29	2029/30
Income Assumptions				
Council Tax Base	+1.68%	+0.92%	+0.92%	+0.92%
Band D Council Tax	+£5.00	+£5.00	+£5.00	+£5.00
Government Funding	+1.50%	-2.90%	-3.30%	-11.90*
Expenditure Assumptions				
Pay Awards	+3.50%	+2.00%	+2.00%	+2.00%
Inflation	+2.00%	+2.00%	+2.00%	+2.00%

* Transitional Funding Floor ends in 2028/29

- 14 The Authority has been notified of an overall collection fund surplus of £1,545 (the increase in council tax and business rates collected over that which was budgeted to collect) in relation to 2025/26 which has been included in the 2026/27 budget. No surplus or deficit has been incorporated into the MTFP models for future years.
- 15 The MTFP in Table 6 below is based on the assumptions set out in Table 5.

Table 6: Medium Term Financial Plan

	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m
Net Expenditure	40.191	41.700	42.581	44.010
Fair Funding Allocation	15.204	14.299	13.327	13.327
Funding Floor	0.927	1.363	1.807	0
Council Tax	24.058	25.226	26.414	27.622
Surplus on Collection Funds	0.002	0	0	0
Total Funding	40.191	40.888	41.548	40.949
Surplus/ (Shortfall)	0	(0.812)	(1.033)	(3.061)

- 16 The MTFP in Table 6 shows a balanced budget for 2026/27 and a shortfall of £0.812M in 2027/28 rising to £3.061M in 2029/30. The significant increase in the shortfall in 2029/30 is due to the end of the transitional funding floor in 2028/29.

Impact of Changes to Assumptions on the MTFP

- 17 Several assumptions have been made in relation to settlement funding, council tax, pay and prices across the MTFP period. Table 7 below sets out the potential impact of changes to the main assumptions on the MTFP position:

Table 7: Impact of Changes to Expenditure and Income Assumptions

Impact of Changes to Expenditure Assumptions	Annual Impact £m
1% change in level of pay award	£0.332
1% change in level of Inflation	£0.090
1% change in level of council tax	£0.230
1% change in level of settlement funding	£0.158

Alternative MTFP Scenarios

- 18 There is a great deal of uncertainty surrounding the level of inflation, pay awards and funding going forward. Whilst it is impossible to predict what might happen in the future, four alternative scenarios have been modelled for illustrative purposes:

- **Model 1 Increased Pay Awards**

The MTFP includes pay awards of 3.5% in 2026/27 and 2% in each of the following years. This model sets out the impact of pay awards above this level. Pay awards of 4.0% in 2026/27 and 3.0% in each of the following years have been assumed in this model.

Table 8 Alternative Scenario Model 1

	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m
MTFP Shortfall	0	(0.812)	(1.033)	(3.061)
Impact	(0.166)	(0.482)	(0.815)	(1.165)
Model 1 Shortfall	(0.166)	(1.294)	(1.848)	(4.226)

- **Model 2 Increase in Council Tax Base of 1.50% in all future years.**

The MTFP includes increases in the council tax base of 1.68% in 2026/27 and 0.92% in 2027/28, 2028/29 and 2029/30. An increase in the council tax base of 1.50% in each year from 2027/28 onwards has been assumed in this model.

Table 9 Alternative Scenario Model 2

	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m
MTFP Shortfall	0	(0.812)	(1.033)	(3.061)
Impact	0	0.146	0.305	0.479
Model 2 (Shortfall)	0	(0.666)	(0.728)	(2.582)

- **Model 3 A £5 increase in Band D council tax in 2026/27 and 2% increase in each of the following years**

The MTFP includes council tax increases of £5 (Band D) in 2026/27 and in each of the following years. A £5 increase in Band D council tax in 2026/27 followed by a 2% increase in each of the following years has been assumed in this model.

Table 10 Alternative Scenario Model 3

	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m
MTFP Shortfall	0	(0.812)	(1.033)	(3.061)
Impact	0	(0.461)	(0.922)	(1.382)
Model 3 (Shortfall)	0	(1.273)	(1.955)	(4.443)

- **Model 4 Settlement funding floor remains in place at the end of the 3-year settlement**

The MTFP assumes that the funding floor will be removed in 2029/30 at the end of the 3-year settlement. This model sets out the impact of the funding floor remaining in place in 2029/30.

Table 11 Alternative Scenario Model 4

	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
MTFP Shortfall	0	(0.812)	(1.033)	(3.061)
Impact	0	0	0	1.807
Model 4 (Shortfall)	0	(0.812)	(1.033)	(1.254)

The alternative scenario models set out above illustrate how sensitive the overall MTFP deficit position is to small changes in the underlying assumptions.

Balancing the Budget over the Medium-Term

- 19 At the Fire Authority strategic planning day on 21 November 2025, members received an update on the options that have been modelled to shape the Service's Emergency Response provision in future years together with alternative options for service delivery. A summary of the options is set out in Table 12 below:

Table 12: Summary of Options to Balance the Budget

Option Number	Option	Saving £M	Response Standards Impact
1	Unit crew SRU	0.525	LEAST
2	1 x Station removal of TRV	0.519	LEAST
3	1 x RDS Station removal of 2nd appliance	0.163	GREATER
4	1x Station second appliance to day crewing	0.335	GREATER
5	1 x Station to day crewing	0.556	GREATER
6	1 x Station to 1 appliance and 1 TRV	0.493	GREATER
7	1 x Wholetime Station removal of 2nd appliance	1.011	GREATER
8	1 x Station to RDS only	1.315	GREATER

- 20 Depending on future funding settlements and possible changes to the assumptions on which the MTFP is based, members may need to consider the implementation of some of the options in Table 12 above in order to balance the budget.

Risks

- 21 The Authority has embedded risk management as part of its overall control framework and reviews financial risks on a regular basis. Risks have also been

fully reviewed as part of the overall budget setting process for 2026/27 and over the medium-term.

22 There are several risks associated with the MTFP that need to be considered as part of the budget setting process:

a) Local Business Rates Retention

The Local Business Rates Retention Scheme introduces risks in relation to the Authority being exposed to fluctuations in business rates income in County Durham and Darlington. The Authority is also exposed to collection rate risk and if collection rates fall, then there will be a direct impact on the Authority's available financial resources.

b) Local Council Tax Benefit Schemes

The local council tax benefit schemes in Durham County Council and Darlington Borough Council expose the Authority to a further council tax collection rate risk.

c) Expenditure and Income Assumptions

Several assumptions have been made in relation to settlement funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are considered to be reasonable at this stage, there is a risk that the actual position could turn out to be different.

d) Firefighter Pensions

The outcome of the latest valuation exercise for the Firefighters Pension Scheme resulted in an increase of 8.5% in the average employer's contribution rate. The government made grant funding available in 2025/26 towards the additional cost. However, there is a risk that this funding does not continue in future years.

23 The above risks will be closely monitored, and the Authority will be notified of any significant movement in the financial assumptions and projections that have been made within the MTFP.

Value for Money

24 The Authority's approach to identifying efficiency savings is based on the principle of providing value for money to local taxpayers. The savings that have been identified as part of the budget setting process are focused on reducing cost whilst at the same time minimising the impact on the level of risk in local communities.

Recommendations

25 It is **recommended** that the Authority:

- (a) Agrees the Medium-Term Financial Plan.
- (b) Notes the Treasurer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget, as set out in the separate report under Section 25 of the Local Government Act 2003.

Section F

Revenue Budget

Introduction

- 1 This section sets out the revised revenue budget for 2025/26 and the revenue budget for 2026/27.

Revised Revenue Budget 2025/26

- 2 During the year, the revenue budget is monitored and reports outlining spending against budget are regularly considered by the Audit and Finance Committee. Estimates are revised as pressures and opportunities for savings are identified and virement is exercised in accordance with the financial regulations of the Authority. Details of the revised 2025/26 revenue budget are set out in Appendix A.
- 3 Based upon expenditure and income to 31st December 2025, net expenditure for 2025/26 is forecast to be within the approved budget.
- 4 To secure the financial position of the Authority going forward, it is recommended that the Treasurer is authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2025/26.

Revenue Budget 2026/27

- 5 The revenue budget for 2026/27 includes provision for pay awards, inflation, capital financing and any known variations. Due to the current financial climate, attention has been focussed on the achievement of further efficiencies during the preparation of the budget.
- 6 The net revenue budget for 2026/27 totals £40,190,511. Details of the revenue budget are set out in Appendix A.

Recommendations

- 7 The following resolutions are **recommended** to the Authority:
 - (a) That the revised revenue budget for 2025/26 as set out in Appendix A be approved.
 - (b) That the Treasurer be authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2025/26
 - (c) That the revenue budget for 2026/27 totalling £40,190,511 as set out in Appendix A be approved.

Section G

Capital Strategy 2025/26 to 2029/30

Background

- 1 The CIPFA Prudential Code for Capital Finance in Local Authorities, sets out key objectives to ensure capital programme decisions are affordable, prudent, and sustainable. Under the Prudential Code, the Authority is required to produce a Capital Strategy, which must be considered and approved annually by Members. A revised Prudential Code was published in December 2021, and has been formally adopted since 2023/24, in line with requirements.
- 2 The provisions of the code around borrowing in advance of need were strengthened, to make it clear that borrowing for debt-for-yield investment is not permissible. The Authority does not undertake any such activity, and is not involved in commercial activities, so there is no impact upon the Authority.
- 3 One of the objectives of the new Code is for the Authority to incorporate an assessment of risk to the resources it uses for capital purposes. When undertaking any capital scheme, the Authority assess the financing needs and all associated risks as part of the project.
- 4 Capital strategies are required to report investments under the headings of service, treasury management and commercial investment. The Authority does not invest in capital resources with the intention of making a return. Any investment in capital is purely to allow the Authority to undertake its primary function.

Purpose and Principles

- 5 The principles of the Capital Strategy are:
 - To ensure capital resources are aligned with the corporate priorities of the Authority.
 - To maintain the Authority's assets and infrastructure.
 - To maintain an affordable rolling capital programme.
 - To only undertake Prudential Borrowing where there are sufficient monies to meet the full borrowing and running costs of capital expenditure.
- 6 These principles have been followed when developing the capital programme, within the framework of the MTFP.

- 7 It is essential that the Authority ensures that its assets are in good condition and that it delivers a good service through the best use of its assets. Where assets are identified as surplus to requirements, they will be disposed of appropriately and where possible, will generate a capital receipt. Such capital receipts contribute towards the costs of future asset investment and development.

Monitoring

- 8 The Authority will undertake frequent monitoring of the agreed capital programme, including the funding of this programme. All expenditure incurred in delivering the capital programme must be compliant with the defined finance and procurement policies and procedures.

Funding

- 9 There are several available options for the financing of capital expenditure. Typically, this will be financed through a combination of revenue contributions or use of reserves, capital grants, capital receipts and borrowing, as defined below:
- Revenue Contributions – the revenue budget can include an amount allocated to support the funding of the capital programme.
 - Use of Reserves – revenue resources held in the Authority’s modernisation reserve are set aside to fund capital expenditure.
 - Capital Grants – external grant funding may be available for some projects. Such funding must be applied for and utilised for the specific project. The Government have not announced any available capital grant funding for 2026/27.
 - Capital Receipts – cash receipts generated from the disposal of assets deemed to be surplus to requirements will be used to support new capital investment or to offset any future debt.
 - Borrowing – prudential borrowing can be used to fund capital expenditure. This is on condition that any borrowing is affordable, prudent and sustainable over the medium term. As part of the annual budget setting process, a range of calculations, known as prudential indicators, are completed to demonstrate this and ensure that when developing the MTFP, the cost of interest charges and the repayment of principal is considered.

Capital Receipts Strategy

- 10 Prior to the start of each financial year, under the statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), Local Authorities are required to publish a strategy on the planned use of capital

receipts. Generally, capital receipts must only be utilised to support the purchase of capital expenditure.

- 11 The Authority is not expected to receive a significant level of capital receipts in 2026/27, but any received will be used to fund capital expenditure, reducing the need to borrow.

Significant Capital Projects

- 12 The main capital projects included in the Authority's Capital Programme are outlined below:
- **Premises** – The capital programme includes an allowance for minor works to ensure that the condition of the Authority's property portfolio is maintained and provision for the relocation of Service Headquarters in 2027/28.
 - **Vehicle Replacement** – a comprehensive plan is in place to replace the operational fleet of fire appliances and specialist vehicles, pool cars and response vehicles when they reach the end of economic life. This is reviewed on an ongoing basis to identify any changes in the number and types of vehicles required to facilitate operational capacity.
 - **Equipment Replacement** – Equipment and IT assets are replaced in line with a detailed plan, which is subject to regular review.
- 13 All capital projects are subject to an assessment of risk and outcomes, as well as identifying any savings and efficiencies that can be achieved. The Authority seeks to collaborate with other partner agencies wherever possible, in order to maximise efficiencies and improvements to service.

Capital Expenditure

- 14 The Prudential Code requires that all decisions made by the Authority in relation to capital expenditure, investments and borrowing are prudent and sustainable. Therefore, the Authority must consider arrangements for debt repayment, risk and the impact on overall fiscal sustainability. The Authority should make reasonable estimates of the anticipated capital expenditure throughout the period covered by the MTFP.
- 15 The estimates of capital expenditure, along with the proposed sources of finance are outlined in Table 13 below:

Table 13: Capital Budgets 2025/26 – 2029/30

	2025/26 Revised £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000
Premises	2,600	5,989	500	500	500
IT	558	150	150	150	150
Equipment	469	1,073	200	1,256	250
Vehicles	3,069	3,712	527	3,297	2,451
TOTAL	6,696	10,924	1,377	5,203	3,351
Funded by:					
Revenue contributions	4,016	725	26	26	26
External borrowing	2,680	10,199	1,351	5,177	3,325
TOTAL FUNDING	6,696	10,924	1,377	5,203	3,351

- 16 The capital budgets proposed for the medium term are reflective of the Authority's priorities and are affordable in terms of associated revenue expenditure. The revenue costs associated with the capital programme have been incorporated into the MTFP.

Capital Financing Requirement

- 17 Under the Prudential Code, it is necessary for the Authority to calculate its Capital Financing Requirement (CFR), which relates to all unfunded capital expenditure, not yet permanently financed through the revenue account. The Authority's Capital Financing Requirement is set out in Table 14 below:

Table 14: Capital Financing Requirement 2025/26 - 2026/27

	2025/26 £000	2026/27 £000
Opening CFR	17,573	18,928
Capital Expenditure	6,696	10,924
Sources of Finance:		
Revenue Contributions	-726	-724
Transfers from Reserves	-3,290	-
Minimum Revenue Provision (MRP)	-1,325	-1,318
Closing CFR	18,928	27,810

External Debt

- 18 All borrowing is undertaken from the Public Works Loan Board (PWLB). The outstanding external borrowing from PWLB as at 31st March 2025 was £4.865m. The estimated borrowing requirement based upon the capital programme contained within the MTFP is set out in Table 15 below:

Table 15: Estimated Borrowing Requirement 2026/27 - 2029/30

2026/27	2027/28	2028/29	2029/30
£000	£000	£000	£000
10,200	1,351	5,177	3,325

Knowledge and Skills

- 19 Capital and Treasury Management are managed by professionally qualified accountants, who also have significant experience within local government. External professional advice is procured where required and members receive appropriate training on a variety of financial subjects, provided by officers and external providers.

Recommendations

- 20 It is **recommended** that the Authority approves the Capital Strategy, the revised capital budget for 2025/26 and the capital budgets for 2026/27 to 2029/30.

Section H

Fire Authority Council Tax Requirement

Council Tax

- 1 Considering the information outlined in Sections F and G, the budget has been constructed to include the assumption that council tax will be increased by 4.06% (£5 for Band D property).
- 2 This will increase basic council tax (Band D) by £5 (4.06%) from the 2025/26 level of £123.12 to £128.12 in 2026/27. Table 16 below sets out the effect of a £5 council tax increase in 2026/27 on each of the council tax bands.

Table 16: Effect of a £5 Increase in Council Tax

Council Tax Band	Proportion of 'Basic Amount'	2025/26 Council Tax	Increase (per annum)	2026/27 Council Tax	Increase (per week)
Band A	6/9	£82.08	£3.33	£85.41	6.4p
Band B	7/9	£95.76	£3.89	£99.65	7.5p
Band C	8/9	£109.44	£4.44	£113.88	8.5p
Band D	'Basic Amount'	£123.12	£5.00	£128.12	9.6p
Band E	11/9	£150.48	£6.11	£156.59	11.8p
Band F	13/9	£177.84	£7.22	£185.06	13.9p
Band G	15/9	£205.20	£8.33	£213.53	16.0p
Band H	18/9	£246.24	£10.00	£256.24	19.2p

- 3 Members are **requested** to determine the level of Council Tax for 2026/27.

Calculation of the Council Tax Requirement

- 4 The calculation of the council tax requirement takes the Authority's net expenditure and deducts contributions from Government together with the business rates income receivable from Durham County Council and Darlington Borough Council. Allowance must also be made for the Authority's share of any surplus or deficit on Durham County Council and Darlington Borough Council Collection Funds.

- 5 Assuming net revenue expenditure of £40,190,511 the calculation is shown in Table 17 below:

Table 17: Calculation of the 2026/27 Council Tax Requirement

	£	£
Net Revenue Expenditure		40,190,511
Less:		
Revenue Support Grant	9,107,165	
Top Up Grant	3,799,053	
Business Rates Income	2,298,254	
Transitional Grant	926,742	
Collection Fund Surplus / Deficit	1,545	
		16,132,759
Council Tax Requirement		24,057,752

Council Tax Base

- 6 The 'council tax bases' of Durham County Council and Darlington Borough Council are used to calculate the proportion of the Fire Authority's total precept to be levied on each local authority. The tax base is the estimated full year equivalent number of chargeable 'Band D' dwellings with two or more liable adults in respect of which tax will be received. The 'council tax bases' for 2026/27 as notified to the Fire Authority are set out in Table 18 below:

Table 18: Council Tax Base and Precept 2026/27

Authority	Council Tax Base	Precept £
Durham County Council	151,633.60	19,427,296.83
Darlington Borough Council	36,141.55	4,630,455.39
Total	187,775.15	24,057,752.22

Calculation of Fire Authority's Basic Council Tax

- 7 The basic council tax for the Authority is calculated by dividing the council tax requirement by the aggregate of the tax bases as shown below:

$$\frac{\text{Council Tax Requirement}}{\text{Aggregate Council Tax Base}} = \text{Basic Council Tax (At Band D)}$$

$$\frac{24,057,752.22}{187,775.15} = \text{£}128.12$$

- 8 A Basic Council Tax of £128.12 represents a £5 (4.06%) increase from the 2025/26 level.

Precept Instalments

9 Following discussions with the Treasurers of the collecting authorities, the following dates for the payment of the precept in ten equal instalments have been agreed:

(a) Durham County Council:

08 April 2026	03 September 2026
06 May 2026	05 October 2026
04 June 2026	03 November 2026
06 July 2026	03 December 2026
05 August 2026	06 January 2027

(b) Darlington Borough Council:

20 April 2026	08 October 2026
26 May 2026	11 November 2026
29 June 2026	15 December 2026
31 July 2026	21 January 2027
04 September 2026	24 February 2027

10 It is proposed that Durham County Council and Darlington Borough Council also use these payment dates for income from business rates.

Recommendations

11 Based on the net expenditure of £40,190,511 and a Band D Council Tax of £128.12 it is **recommended** that the Authority adopts the following resolutions:

That for the year ended 31 March 2027:

- i. the 'council tax base' for the whole of the Authority's area be 187,775.15.
- ii. there be no Authority expenses relating to a part only of the Authority's area.
- iii. the 'basic amount of council tax' be £24,057,752.22 and the amount of the council tax for each category of dwelling be as set out in Table 19 below:

Table 19: 2026/27 Council Tax by Council Tax Band

Council Tax Band	Proportion of 'Basic Amount'	Council Tax
		£
A	6/9	85.41
B	7/9	99.65
C	8/9	113.88
D	'Basic Amount'	128.12
E	11/9	156.59
F	13/9	185.06
G	15/9	213.53
H	18/9	256.24

- iv. the Net Expenditure be £40,190,511 and that, after taking into account revenue support grant of £9,107,165 business rates income of £2,298,254, top up grant of £3,799,053, transitional grant of £926,742 and a surplus on the collection funds of £1,545, precepts totalling £24,057,752.22 be issued to Durham County Council and Darlington Borough Council.

Section I

Prudential Code

Background

- 1 The framework of the prudential capital finance system, which came into effect from 1 April 2004, is contained in the Local Government Act 2003. Under the Act, Government borrowing controls based on “credit approvals” were abolished with effect from 1 April 2004. The Authority is now free to borrow and take out leases without Government consent, provided these commitments can be afforded. The Prudential Code is designed to guide the Authority’s decision on what it can afford. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA, as the code of practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.
- 2 The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the Authority are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability, and sustainability.
- 3 To demonstrate that the above objectives have been fulfilled, the Prudential Code sets out the indicators that must be used, and the factors that must be considered. The Code does not include limits; these are for the Authority to set.
- 4 Previously, credit approvals from Central Government set the limit of a local authority’s long-term borrowing and attracted Revenue Support Grant (RSG) towards the financing costs of loans (interest and repayment of principal). Under the new system, unless, exceptionally, a national limit is imposed, the Authority is free to make its own borrowing decisions according to what it can afford. Central Government support for borrowing through RSG continues to be given based on a named amount of capital expenditure which borrowing will support. The Authority will take the totality of Central Government support into account in setting its prudential limits.
- 5 A revised Treasury Management Code and Prudential Code were published by CIPFA in December 2021. Changes required under these codes have been formally adopted within Treasury Management Strategies since 2023/24.

Prudential Indicators

- 6 The estimates of capital expenditure to be incurred for the current and future years are contained in Section G of this report and summarised in Table 20 below:

Table 20: Prudential Indicators – Capital Expenditure

2024/25 Actual £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
1,094	6,696	10,924	1,377	5,203

- 7 Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2025 are set out in Table 21 below:

Table 21: Prudential Indicators – Capital Financing Requirement

2024/25 Actual £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
17,573	18,928	27,715	26,936	29,809

- 8 The Capital Financing Requirement measures the Authority’s underlying need to borrow for a capital purpose. In accordance with best professional practice, the Fire Authority does not associate borrowing with particular items or types of expenditure. The Authority has an Integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority’s Treasury Management Strategy and annual plan for 2026/27 is shown in Section J. The Fire Authority has, at any point in time, several cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved Treasury Management Strategy. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Authority and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the Authority’s underlying need to borrow for a capital purpose.
- 9 CIPFA’s Prudential Code for Capital Finance includes the following as a key indicator of prudence:
- “In order to ensure that over the medium-term net borrowing will only be for a capital purpose the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.”*
- 10 There are no difficulties envisaged for the current or future years in meeting this requirement. This view considers current commitments, existing plans, and the proposals contained in this budget report.

- 11 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2024/25 are set out in Table 22 below:

Table 22: Prudential Indicators – Ratio of Financing Costs to Net Revenue Stream

2024/25 Actual %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
3.6	3.9	4.8	7.4	8.1

Minimum Revenue Provision (MRP) Statement

- 12 The Authority is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – MRP). Communities and Local Government (CLG) Regulations have been issued which require the full Authority to approve an MRP Statement in advance of each year. A variety of options have been provided to replace the existing Regulations, so long as there is a prudent provision. The Authority is recommended to approve the following MRP Statement:

- i. For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the MRP policy will be:
 - **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations (Option 2).
- ii. From 1 April 2008 for all unsupported borrowing the MRP policy will be:
 - **Asset Life Method (Annuity)** - MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (Option 3).

External Debt

- 13 In respect of external debt, the Authority has set Authorised Limits for its total external debt, gross of investments, for the current (2025/26) and the next three financial years. These limits separately identify borrowing from other long-term liabilities such as finance leases. The authorised limits are set out in Table 23 below:

Table 23: Prudential Indicators – Authorised Limit for External Debt

	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Borrowing	8.202	19.300	20.497	26.096
Long-term liabilities	13.108	11.907	10.608	9.601
Total	21.310	31.207	31.105	35.697

- 14 The Authorised Limits are consistent with the Authority’s current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst-case scenario, with the addition of sufficient headroom over and above this to allow for operational management. An assessment of risk has been considered, as have plans for capital expenditure, estimates of the Capital Financing Requirement, and estimates of cash flow requirements.
- 15 The Operational Boundary for external debt is based on the same estimates as the Authorised Limit but directly reflects the Treasurer’s estimate of the most likely, prudent but not worst-case scenario, without the additional headroom included within the Authorised Limit. The Operational Boundary represents a key management tool for in year monitoring by the Treasurer. Within the Operational Boundary, figures for borrowing and other long-term liabilities are separately identified. The operational boundary limits are set out in Table 24 below:

Table 24: Prudential Indicators – Operational Boundary for External Debt

	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Borrowing	7.456	17.545	18.634	23.724
Long-term liabilities	11.916	10.825	9.644	8.728
Total	19.372	28.370	28.278	32.452

- 16 The Authority’s actual external debt on 31 March 2025 was £16.310m, comprising of £4.864m PWLB borrowing and £11.446m long-term liabilities in respect of Private Finance Initiative (PFI) schemes and Right of Use Lease Assets. It should be noted that actual external borrowing differs from the Authorised Limit and Operational Boundary, since actual external debt reflects the position at one point in time.

Council Tax

- 17 The Prudential Indicators have been calculated using a £5 (4.06%) Band D Council Tax increase in 2026/27 and assuming a 1.99% increase in subsequent years.
- 18 The capital programme set out in Section G (Table 13) is funded by a mixture of capital grants, contributions from revenue and borrowing under the Prudential Code.
- 19 The estimate of the incremental impact of this prudential borrowing for Band D Council Tax is set out in Table 25 below:

Table 25: Prudential Indicators – Incremental Impact of Borrowing

2026/27	2027/28	2028/29
%	%	%
2.01	5.40	6.36

Liability Benchmark

- 20 The Liability Benchmark calculates the optimum position for external borrowing.
- 21 A positive benchmark indicates the need for the Authority to borrow, whilst a negative benchmark indicates that the Authority has surplus cash balances that can be used to fund capital.
- 22 The Liability Benchmark over the course of the MTFP period is set out in Table 26 below:

Table 26: Prudential Indicators – Liability Benchmark

2026/27	2027/28	2028/29	2029/30
£000	£000	£000	£000
-4,845	-3,435	1,802	5,188

Recommendations

23 It is **recommended** that the Authority:

- (a) Notes the prudential indicators.
- (b) Approves the MRP Statement:
 - i. For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the MRP policy will be:
 - **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations (Option 2).
 - ii. From 1 April 2008 for all unsupported borrowing the MRP policy will be:
 - **Asset Life Method (Annuity)** - MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (Option 3).
- (c) Approves the following limits for external debt in 2026/27:
 - i. Authorised Limit of £31.207m
 - ii. Operational Boundary of £28.370m

Section J

Treasury Management 2026/27

- 1 The CIPFA Code of Practice for Treasury Management in the Public Services makes the following key recommendations:
 - (i) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities
 - (ii) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities
 - (iii) They should acknowledge that the pursuit of best value in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

- 2 The Authority has formally adopted the key recommendations of the CIPFA Code of Practice for Treasury Management in the Public Services and has created and maintains, as the cornerstone for effective treasury management:
 - a treasury management policy statement stating the policies and objectives of its treasury management activities. This is attached as Annex J1.
 - suitable treasury management practices (TMPs), setting out the way the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. These are attached as Annex J2.

- 3 Reports will be presented to members of the Authority on its Treasury Management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in the TMPs. The annual strategy for 2026/27 is shown in Annex J3. In implementing this strategy, the Authority will give priority to security and liquidity rather than yield. However, the Authority will aim to achieve the highest rate of interest consistent with proper levels of security and liquidity. **Members' attention is drawn to the key objectives of the Investment Strategy, which is firstly safeguarding the repayment of principal and interest of its investments on time and secondly ensuring adequate liquidity. The investment return is the third objective.** The Authority delegates responsibility

for the execution and administration of treasury management decisions to the Treasurer, who will act in accordance with the Policy Statement, Treasury Management Practices and CIPFA’s Standard of Professional Practice on Treasury Management.

Treasury Management Indicators

- 4 The Authority has set an upper limit on its *fixed* interest rate exposures for 2026/27, 2027/28 and 2028/29 of 100% of its net outstanding principal sum.
- 5 The Authority has further set an upper limit on its *variable* interest rate exposures for 2026/27, 2027/28 and 2028/29 of 30% of its net outstanding principal sums.
- 6 The Authority’s upper and lower limits for the maturity structure of its borrowings are set out in Table 27 below. The table shows the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

Table 27: Maturity Structure of Borrowings

	Upper Limit %	Lower Limit %
Under 12 months	20	0
12 months and within 24 months	20	0
24 months and within 5 years	30	0
5 years and within 10 years	50	0
10 years and above	100	0

- 7 The Authority does not intend to invest sums for periods longer than 364 days. This is seen as prudent interest rate risk management.

Recommendations

- 8 It is **recommended** that the Authority:
 - a) Continues to adopt the key recommendations of the CIPFA code.
 - b) Notes the Annual Treasury Management Strategy as set out in Annex J3.
 - c) Agrees to set an upper limit on the Authority’s fixed interest rate exposures for 2026/27, 2027/28 and 2028/29 of 100% of its net outstanding principal sum.
 - d) Agrees to set an upper limit on the Authority’s variable interest rate exposures for 2026/27, 2027/28 and 2028/29 of 30% of its net outstanding principal sums.

Annex J1: Treasury Management Policy Statement

1 The Authority defines its treasury management activities as:

“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

2 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

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

Annex J2: Treasury Management Practices

1 TMP1 - TREASURY RISK MANAGEMENT

1.1 The Treasurer shall:

- Design, implement and monitor all arrangements for the identification, management and control of the treasury management risks shown below
- Report at least annually on the adequacy/ suitability thereof, and
- Report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect, all in accordance with the procedures set out in **TMP6 Reporting requirements and management information arrangements**.

1.2 *Liquidity*

The Authority will ensure it has adequate, but not excessive, cash resources, borrowing arrangements, overdraft or standby facilities, to always enable the Authority to have the level of funds available which are necessary for the achievement of its service objectives.

1.3 *Interest Rates*

The Authority will manage its exposure to fluctuations in interest rates with a view to containment of its net interest costs, or securing its interest revenues, in accordance with the amounts provided in the Revenue Estimates in accordance with **TMP6 Reporting requirement and management information arrangements**.

1.4 *Credit and Counterparties*

The Authority regards a prime objective of its treasury management activities to be the security of the principal sums invested. A formal counterparty list will be maintained, and the named organisations and limits will reflect a prudent attitude towards organisations with which funds may be deposited and will limit the Authority's investment activities to the instruments, methods and techniques referred to in **TMP4 Approved Instruments, methods and techniques**.

1.5 *Rescheduling & Refinancing of Debt*

The Authority will ensure that all borrowing, private financing and partnership arrangements will be negotiated, structured and documented, and the maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

1.6 *Legal and Regulatory*

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. The Authority will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under **TMP1.4 *Credit and Counterparties***, the Authority will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

The Authority will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.

1.7 *Fraud, Error and Corruption, and Contingency Management*

The Authority will seek to ensure that it has identified the circumstances which may expose the Authority to the risk of loss through fraud, corruption, or other eventualities in its treasury management dealings. Accordingly, it will design and implement suitable systems and procedures and will maintain effective contingency management arrangements to counter such risks.

1.8 *Market Risk*

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums invested.

2 TMP2 - BEST VALUE AND PERFORMANCE MEASUREMENT

2.1 The Authority will actively work to promote best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement.

3 TMP3 - DECISION-MAKING AND ANALYSIS

3.1 The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

4 TMP4 - APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 The Authority will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy that is shown in Annex J3.

5 TMP5 - ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

- 5.1 The Authority's treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance.
- 5.2 The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly regarding the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 5.3 If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Treasurer will ensure that the reasons are properly reported in accordance with **TMP6 Reporting requirements and management information arrangements**, and the implications properly considered and evaluated.
- 5.4 The Treasurer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover.
- 5.5 The Treasurer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.
- 5.6 The Treasurer will fulfil all delegated responsibilities in respect of treasury management in accordance with Authority's Treasury Management Policy Statement, Treasury Management Practices and the CIPFA Standard of Professional Practice on Treasury Management.

6 TMP6 - REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

- 6.1 Regular reports will be prepared for consideration by the Authority on:
 - the implementation of its treasury management policies
 - the effects of decisions taken, and the transactions executed in pursuit of those policies
 - the implications of changes resulting from regulatory, economic, market or other factors affecting its treasury management activities; and the performance of the treasury management function

6.2 As a minimum, Authority will receive:

- an Annual Report on the strategy and plan to be pursued in the forthcoming year
- an Annual Report on the performance of the treasury management function in the previous year and on any circumstances of non-compliance with the organisation's Treasury Management Policy Statement and Treasury Management Practices

7 TMP7 - BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 The Authority will account for its treasury management activities in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements.

7.2 The Authority will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

8 TMP8 - CASH AND CASH FLOW MANAGEMENT

8.1 All Authority monies shall be aggregated for treasury management purposes and will be under the control of the Treasurer. Cash flow projections will be prepared on a regular and timely basis, and the Treasurer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1.2 Liquidity**.

9 TMP 9 - MONEY LAUNDERING

9.1 Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this area are properly trained.

10 TMP 10 - STAFF TRAINING AND QUALIFICATIONS

10.1 The Authority will seek to appoint individuals to the treasury management function who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Treasurer will recommend and implement the necessary arrangements.

11 TMP 11 - USE OF EXTERNAL SERVICE PROVIDERS

11.1 When external service providers are employed by the Authority, the Treasurer will ensure that this is done for reasons which have been submitted to a full evaluation of the costs and benefits. The terms of their appointment and the

methods by which service providers' value will be assessed will be properly agreed and documented and subjected to regular review.

- 11.2 Where feasible and necessary, a spread of service providers will be used to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, Authority Standing Orders and Financial Regulations plus legislative requirements will always be observed. The monitoring of such arrangement's rests with the Treasurer.

12 TMP 12 - CORPORATE GOVERNANCE

- 12.1 The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.
- 12.2 The Authority has adopted and implemented the key recommendations of the Code of Practice on Treasury Management in the Public Services. This, together with other arrangements that the Treasurer will put in place, is considered vital to the achievement of proper corporate governance in treasury management, and the Treasurer will monitor and, if necessary, report upon the effectiveness of these arrangements.

Annex J3: Treasury Management Strategy 2026/27

The CIPFA Code of Practice for Treasury Management in the Public Services recommends that the Authority draw up an annual Treasury Management Strategy before the start of each financial year, which it may vary at any time.

In implementing this strategy, the Authority will give priority to security and liquidity, rather than yield. However, the Authority will aim to achieve the highest rate of interest consistent with the proper levels of security and liquidity. To achieve this, the strategy deals with the use of specified investments, non-specified investments and the liquidity of investments.

The strategy also covers the Authority's approach to borrowing and the use of external managers.

1. Borrowing Strategy 2026/27 - 2028/29

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result, the Authority will take a cautious approach to its treasury strategy.

The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time. It is likely that shorter term fixed rates may provide lower cost opportunities in the short/medium term.

The Treasurer and treasury consultants will monitor prevailing rates for any debt restructuring opportunities during the year.

Continuing to postpone borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against a potential fall in investments returns.

2. Investment Strategy 2026/27 - 2028/29

2.1 Key Objectives

The primary objectives of the Authority's investment strategy are firstly safeguarding the repayment of the principal and interest of its investments on time and secondly ensuring adequate liquidity. The investment return is the third objective. With the current economic background, the current investment climate has one over-riding risk consideration, that of counterparty security risk. As a result of these underlying concerns, officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

2.2 Risk Benchmarking

A development in the revised Codes and the CLG consultation paper is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature.

These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Authority's maximum-security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.08% historic risk of default when compared to the whole portfolio.

Liquidity – In respect of this area, the Authority seeks to maintain:

- Liquid short-term deposits of at least £0.5m available with a week's notice
- Weighted Average Life benchmark is expected to be 0.25 years (3 months), with a maximum of 0.5 years (6 months)

Yield - Local measure of yield benchmarks is:

- Investments - Internal returns above the 7-day London Interbank Bid Rate (LIBID)

2.3 Investment Counterparty Selection Criteria

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Authority will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Authority for approval as necessary. These criteria are separate to those which choose Specified and Non-Specified investments, as they provide an overall pool of counterparties considered high quality that the Authority may use, rather than defining what its investments are.

The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside of the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

2.4 Specified Investments

Specified Investments are defined as those satisfying the following conditions:

- a) Denominated in sterling
- b) To be repaid or redeemed within 12 months of the date on which the investment was made
- c) Do not involve the acquisition of share capital or loan capital in any body corporate
- d) Are made with the UK Government, local authorities, parish councils, community councils, housing associations or with a body or in an investment scheme which has been awarded a high credit rating by a credit agency.

The criteria for providing a pool of high-quality investment counterparties are:

Banks 1 - Good Credit Quality

The Authority will only use banks which:

- (a) Are UK banks; and/or
- (b) Are non-UK and domiciled in a country which has a minimum Sovereign long-term rating of AA- and have, as a minimum, the following credit ratings (where rated):

	Fitch	Moody's	Standard & Poor's
Short Term Credit Rating	F1	P1	A-1
Long Term Credit Rating	A-	A3	A-

Financial strength and support ratings have been removed and will not be considered in choosing counterparties.

Banks 2 - Guaranteed Banks with suitable Sovereign Support

In addition, the Authority will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

- (a) wholesale deposits in the bank are covered by a government guarantee
- (b) the government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poor's); and
- (c) the Authority's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

Banks 3 - Eligible Institutions

The Authority is an eligible institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long-term ratings required in Banks 1 above. These institutions have been subject to suitability checks before inclusion and have access to HM Treasury liquidity if needed.

Banks 4 - The Authority's own banker for transactional purposes if the bank falls below the above criteria although in this case balances will be minimised in both monetary size and time invested.

Building Societies

The Authority will use all Societies which meet the ratings for banks outlined above or have assets in excess of £1 billion.

Money Market Funds

UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF))

Other Local Authorities, Parish Councils, Community Councils, Housing Associations

2.5 Non - Specified Investments

Non-Specified investments are those not meeting the definition in the Specified Investments section above. It is proposed that during 2026/27, the Authority will not invest in Non-Specified Investments, including those to be repaid or redeemed more than 12 months from the date on which the investment was made.

2.6 Use of additional information other than credit ratings

Additional requirements under the Code of Practice now require the Authority to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example credit default swaps, negative rating watches/ outlooks) will be applied to compare the relative security of differing investment counterparties.

2.7 Time and Monetary Limits applying to Investments

The time and monetary limits for institutions on the Authority's Counterparty List are set out in Table 28 below:

Table 28: Time and Monetary Limits of Investments

	Long Term Rates	Money Limit	Time Limit
Banks / Building Societies	AA-	£4m	1 year
Banks / Building Societies	A	£4m	6 months
Banks / Building Societies	A-	£1m	3 months
Banks – Authority's banker	A-	£1m	3 months
Building Societies	+£1 billion	£1m	3 months
Money Market Funds	AAA	£4m	liquid
UK Government		unlimited	6 months
Other Local Authorities		£2m	1 year

Due to the uncertainty in the financial markets, it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from these criteria to safer instruments and institutions. Currently this involves the use of the UK Government Debt Management Account Deposit Facility, AAA rated Money Market Funds and institutions with higher credit ratings than those outlined in the investment strategy, or which are provided support from the Government. Investments are being maintained short term to also improve the security of investments.

2.8 Sensitivity to Interest Rate Movements

Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified.

The estimated impact of a 1% increase or decrease in interest rates to the estimated treasury management income for the Authority in 2026/27 is an increase or decrease of £49,000.

3. External Managers (Other than those relating to the Pension Fund)

The Authority may, upon the recommendations of the Treasurer, appoint one or more external managers to manage the short-term investment of surplus Authority money. Any such managers appointed are to be bound by this Treasury Management Policy Statement.

Section K

Summary of Recommendations

Set out below is a summary of the recommendations on which Members' views are sought.

Section B – Consultation

That Members note the consultation arrangements.

Section C – Local Government Finance Settlement

That the Authority notes the settlement and the uncertainty around the funding position from 2029/30 onwards.

Section D – Reserves Strategy

That the Authority agrees to the policy for reserves, that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain a general reserve of 5% of the net expenditure; currently £2.0m.

Section E – Medium-Term Financial Plan

That the Authority:

- (a) Agrees the Medium-Term Financial Plan.
- (b) Notes the Treasurer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the budget, as set out in the separate report under Section 25 of the Local Government Act 2003.

Section F – Revenue Budget

That the Authority adopts the following resolutions:

- (a) That the revised revenue budget for 2025/26, as set out in Appendix A be approved.
- (b) That the Treasurer be authorised to make any proper accounting transactions that would be in the interests of the Authority in relation to the accounts for 2025/26.
- (c) That the revenue budget for 2026/27 totalling £40,190,511 as set out in Appendix A be approved.

Section G – Capital Strategy

That the Authority approves the Capital Strategy, the revised capital budget for 2025/26 and the capital budgets for 2026/27 to 2029/30.

Section H – Fire Authority Council Tax Requirement

Based on the net expenditure of £40,190,511 and a Band D Council Tax of £128.12 it is **recommended** that the Authority adopts the following resolutions:

- i. That the 'council tax base' for the whole of the Authority's area be £187,775.15
- ii. That there be no Authority expenses relating to a part only of the Authority's area
- iii. That the Authority increases Council Tax by £5 to £128.12 for a Band D property
- iv. That the Net Expenditure be £40,190,511 and that, after taking into account revenue support grant of £9,107,165, business rates income of £2,298,254, top up grant of £3,799,053, transitional grant of £926,742 and a surplus on the collection funds of £1,545, precepts totalling £24,057,752.22 be issued to Durham County Council and Darlington Borough Council.

Section I – Prudential Code

- (a) That the Authority notes the prudential indicators.
- (b) That the Authority approves the MRP Statement.
- (c) That the Authority approves the following limits for external debt in 2026/27:
 - i. Authorised Limit of £31.207m
 - ii. Operational Boundary of £28.370m

Section J – Treasury Management

- (a) That the Authority continues to adopt the key recommendations of the CIPFA code.
- (b) That the Authority notes the Annual Treasury Management Strategy.
- (c) That the Authority agrees to set an upper limit on its fixed interest rate exposures for 2026/27, 2027/28 and 2028/29 of 100% of its net outstanding principal sum.
- (d) That the Authority agrees to set an upper limit on its variable interest rate exposures for 2026/27, 2027/28 and 2028/29 of 30% of its net outstanding principal sums.

COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY

REVENUE BUDGET

Budget Heading	Original Estimate 2025/26 £	Revised Estimate 2025/26 £	Original Estimate 2026/27 £
Employees			
Salaries and Wages	23,655,966	23,655,966	24,512,980
Pension Contributions	6,528,317	6,528,317	6,684,823
Ill Health Charges	665,000	665,000	657,302
Other	522,782	522,782	526,379
Total Employees Costs	31,372,065	31,372,065	32,381,484
Premises	3,578,152	3,578,152	3,219,075
Transport	678,460	678,460	689,250
Supplies & Services	5,230,728	4,886,528	4,190,767
Capital Financing	1,766,766	1,766,766	3,203,228
Contingencies	561,198	838,159	627,976
Capital Charges	1,984,232	2,457,070	2,871,870
GROSS EXPENDITURE	45,171,601	45,577,200	47,183,650
Income	-6,601,390	-6,534,151	-4,121,269
Contribution from Reserves	-	-	-
Reversal of Capital Charges	-1,984,232	-2,457,070	-2,871,870
NET EXPENDITURE	36,585,979	36,585,979	40,190,511