Treasury and Investment Strategy 2026/27

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Published February 2026

Contents

Foreword

Councillor Jeff Brooks, Lead Member for Finance and Chair of RBFA

It is my pleasure, as the Lead Member for Budget and Income Generation, to introduce the Authority's Treasury Strategy for 2026/27. The Authority has always adopted a prudent approach to both its investment and borrowing strategies with the aim of providing the Authority with financial headroom in times of volatility. Indeed, this approach has enabled the Authority to plan and deliver significant capital projects over the last five years.

The 2026/27 Treasury Strategy continues to focus on long-term financial sustainability by maintaining an upper limit on capital financing costs as a proportion of the Authority's Revenue Budget. Like all of our prudential indicators, this is reviewed and approved on an annual basis. This not only provides greater transparency within our Treasury Policy but will also prove useful when we consider how to phase capital projects within the Strategic Asset Investment Framework.

The Authority's investment strategy has always been to firstly ensure the security of the sum invested, then consider portfolio liquidity and only after that to consider the yield generated. In other words, the Authority has sought to achieve the optimum return on its investments commensurate with the Authority's risk appetite.

Although investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt the principles of security, liquidity and yield, we also do this within an ethical framework that was first introduced in 2023/24. The framework was constructed on the basis of Freedom House's assessment of citizens' access to political rights and civil liberties in 210 countries and territories. So, in addition to the criteria of security, liquidity and yield, we only invest in counterparties that are based in countries that are rated as "free" by Freedom House.

A further refinement to this ethical investment policy was introduce in 2024/25 to include countries that appeared on the CCLA counterparty list in addition to the ones that appeared on the Freedom House list. CCLA takes more factors into account as it considers data from Freedom House, Transparency International, the PEW Institute and countries that are subject to arms embargoes when drawing up its list of approved countries and counterparties. We shall continue with this ethical investment policy in 2026/27.

We shall always put sound management of our financial resources at the heart of our treasury management plans and I am very pleased to support this strategy.

Key Considerations

Background

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is to fund the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

The contribution that the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either day-to-day costs or expenditure for larger capital projects. Since cash balances generally result from reserves, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's investments and 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."*

This Authority has not engaged in any commercial investments and has no non-treasury investments.

Reporting Requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services.
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected Members on the Authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The capital strategy is being reported separately in the form of the Strategic Asset Investment Framework.

Treasury Management reporting

The Authority is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- 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 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.

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.

Scrutiny

The areas above are required to be adequately scrutinised before being recommended to the Authority. The Audit and Governance Committee, on a quarterly basis, review capital expenditure and interest estimates. Additionally, the Budget Working Party and Management Committee review the underlying assumptions which support the annual Treasury Strategy and Strategic Asset Investment Framework.

Quarterly reports – In addition to the three major reports detailed above, quarterly reporting is also required. However, these additional reports do not have to be reported to the Authority but do require scrutiny. This role is undertaken by the Management Committee.

Treasury Management Strategy for 2026/27

The strategy for 2026/27 covers two main areas:

Capital issues

- The capital expenditure plans and the associated prudential indicators.
- The minimum revenue provision (MRP) policy.

Treasury management issues

- Prospects for interest rates
- The current treasury position
- Treasury indicators which limit the treasury risk and activities of the Authority
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The investment strategy
- Creditworthiness policy
- Policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, MHCLG Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Training

The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

The Authority uses MUFG Corporate Markets as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the advice of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Prospects for interest rates

MUFG Corporate Markets, as our treasury advisors, has provided the Authority with a view on interest rates. The following table gives their view.

	Mar 26	Jun 26	Sep 26	Dec 26	Mar 27	Jun 27	Sep 27	Dec 27	Mar 28	Jun 28	Sep 28	Dec 28
Bank Rate	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 Month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 Month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40
12 Month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60
5 Yr PWLB rate	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 Yr PWLB rate	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60
25 Yr PWLB rate	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20
50 Yr PWLB rate	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00

The continued decline in inflation created the conditions for the Bank of England's Monetary Policy Committee to implement a further reduction in the Bank Rate, lowering it from 4% to 3.75% at its meeting on 18 December 2025.

While the Committee noted that interest rates are likely to follow a gradual downward path, members emphasised the need to review forthcoming data on labour market conditions and wage growth before deciding on any further reductions. With annual wage growth still above 4.5%, the MPC cautioned that additional rate cuts remain a 'closer call'.

Capital Prudential Indicators 2026/27 – 2029/30

The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts, details of which appear in the Authority's Strategic Asset Investment Framework.

Capital Expenditure £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Total	**5,712**	**5,095**	**4,607**	**5,659**	**5,125**	**3,724**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

Financing of capital expenditure £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Capital receipts	3,919	2,348	100	100	100	100
Grants	0	927	0	0	0	0
Revenue	1,793	1,820	2,332	2,661	2,757	2,575
Net financing need for the year	**0**	**0**	**2,175**	**2,898**	**2,268**	**1,049**

The Authority's borrowing need (CFR)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The Authority is asked to approve the CFR projections below.

CFR £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Total CFR	**9,200**	**8,657**	**10,336**	**12,636**	**14,164**	**14,384**
Movement in CFR	**-550**	**-543**	**1,679**	**2,300**	**1,528**	**220**
Movement in CFR represented by:						
Net financing need for the year (above)	0	0	2,175	2,898	2,268	1,049
Less MRP / VRP and other financing movements	-550	-543	-496	-598	-740	-829
Movement in CFR	**-550**	**-543**	**1,679**	**2,300**	**1,528**	**220**

Liability Benchmark

A third prudential indicator is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

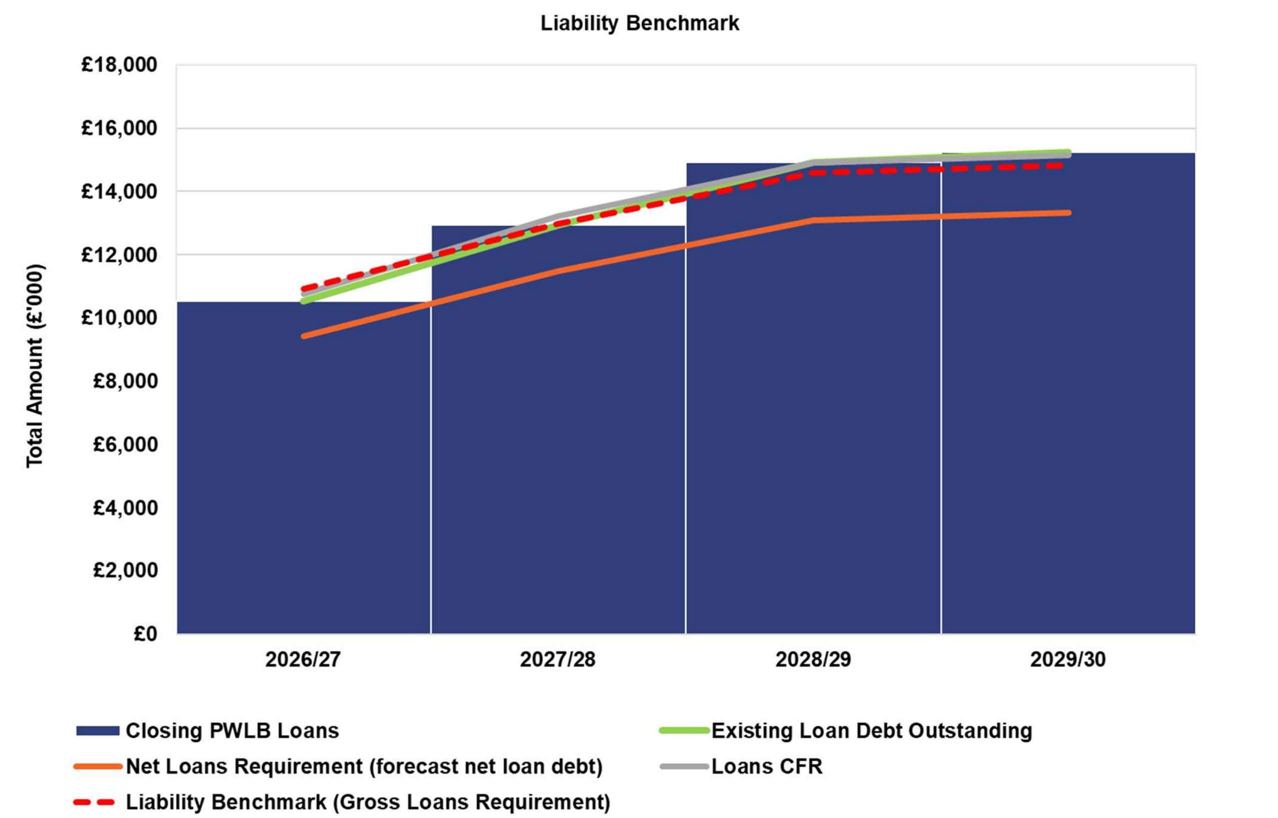
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based

on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The liability benchmark uses the above information to plan the future borrowing requirements of the Authority.



Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Fund balances / reserves	2,404	2,527	2,637	2,749	2,801	2,857
Earmarked Reserves	7,088	5,987	4,754	4,239	4,098	4,029
Capital receipts	2,348	0	0	0	0	0
Provisions	410	400	400	400	400	400
Other	0	0	0	0	0	0
Total core funds	**12,250**	**8,914**	**7,791**	**7,388**	**7,299**	**7,286**
Working Capital	4,700	4,700	1,500	1,500	1,500	1,500
(Under)/over invested	-278	-129	192	295	767	866
Expected investments	**16,672**	**13,485**	**9,483**	**9,183**	**9,566**	**9,652**

Borrowing

The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Authority's capital strategy. This will involve both the organisation of cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current portfolio position

The Authority's treasury portfolio position at 31 March 2025, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Debt £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt at 1 April	8,922	8,922	8,528	10,528	12,931	14,931
Expected change in Debt	0	-394	2,000	2,403	2,000	319
Actual gross debt at 31 March	**8,922**	**8,528**	**10,528**	**12,931**	**14,931**	**15,250**
The Capital Financing Requirement	**9,200**	**8,657**	**10,336**	**12,636**	**14,164**	**14,384**
Under / (over) borrowing	**278**	**129**	**-192**	**-295**	**-767**	**-866**

Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2026/27 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance and Procurement reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt.

Operational Boundary £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	9,400	8,857	10,536	12,836	14,364	14,584
Other long-term liabilities	500	500	500	500	500	500
Total	**9,900**	**9,357**	**11,036**	**13,336**	**14,864**	**15,084**

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities' plans, or those of a specific Authority.

2. The Authority is asked to approve the following authorised limit:

Authorised Limit £000	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	11,400	10,857	12,536	14,836	16,364	16,584
Other long-term liabilities	500	500	500	500	500	500
Total	**11,900**	**11,357**	**13,036**	**15,336**	**16,864**	**17,084**

Borrowing Strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Against this background and the risks within the economic forecast, caution will be adopted with the 2026/27 treasury operations. The Head of Finance and Procurement will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp fall in borrowing rates, then borrowing will be postponed.
- If it was felt that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Policy on borrowing in advance of need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

Annual Investment Strategy

The Authority's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Authority's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Authority's risk appetite.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors.

3. **Other information sources** used will include the financial press and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. The Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in the annex to this document under the categories of 'specified' and 'non-specified' investments.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments to £2m.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in the section below.

7. **Transaction limits** are set for each type of investment detailed in the annex.

8. The Authority will set a limit for the amount of its investments which are invested for **longer than 365 days**.

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** and that comply with our ethical policy.

10. The Authority has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

Creditworthiness policy

The Authority applies the creditworthiness service provided by MUFG Corporate Markets. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies.
- CDS spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of Credit Default Swap spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The MUFG Corporate Markets creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Authority use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on an ongoing basis. The Authority is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its passport website, provided to it by MUFG Corporate Markets. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Authority will also use market data and market information, information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks *	Yellow	100%	5yrs
Banks	Purple	100%	2 yrs
Banks	Orange	100%	1 yr
Banks – part nationalised	Blue	100%	1 yr
Banks	Red	100%	6 mths
Banks	Green	100%	100 days
Banks	No colour	Not to be used	
Limit 3 category – Authority's banker - Barclays	Red	100%	1 day
Other institutions limit	-	£2m	3yrs
DMADF	UK sovereign Rating	100%	6 months
Local authorities	n/a	100%	12 months
Housing associations	Colour bands	100%	As per colour band
	Fund rating	**Money and/or % Limit**	**Time Limit**
Money market funds CNAV	AAA	100%	Liquid
Money market funds LVNAV	AAA	100%	Liquid
Money market funds VNAV	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink / AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink / AAA	100%	Liquid

Other Limits

Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments to £2m.

b) **Country limit.** The Authority has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch *(or equivalent*). In addition, the Authority will only use counterparties that are rated "free" by Freedom House or appear on the CCLA counterparty list. The list of countries that qualify using these credit criteria as at the date of this report are shown in the annex. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- No more than £4m will be placed in a non-UK country at any time.
- Sector limits will be monitored regularly for appropriateness.

Investment strategy

In-house funds

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that rates can be expected to fall throughout 2026, but only if the CPI measure of inflation maintains a downwards trend towards the Bank of England's 2% target. Rates may be cut quicker than expected if the economy stagnates.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year:

2025/26 (residual)	3.80%
2026/27	3.40%
2027/28	3.30%
2028/29	3.30%
2029/30	3.50%
Years 6-10	3.50%
Years 10+	3.50%

As there are so many variables at this time, the Authority will exercise caution in respect of all interest rate forecasts.

For its cash-flow-generated balances, the Authority will utilise instant-access and call accounts, as well as short-dated fixed deposits, to benefit from the compounding of interest.

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days

These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Authority is asked to approve the treasury indicator and limit: -

£000	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Maximum principal sums invested for longer than 365 days	2,000	2,000	2,000	2,000	2,000	2,000

End of year investment report

At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

The Prudential and Treasury Indicators 2026/27 – 2029/30 and MRP statement

Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full Authority approval in advance of each financial year. The Authority is recommended to approve the following MRP Statement.

For capital expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- **4% reducing balance (CFR method)** – MRP will be calculated as 4% of the opening GF CFR balance;

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets;

Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27, or in the year after the asset becomes operational.

MRP Overpayments – Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP payments made up until the 31 March 2025 were £2,190,000.

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicator.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

The estimates of financing costs include current commitments and the proposals in this budget report.

	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Ratio (%)	1.71%	1.59%	1.51%	2.18%	2.47%	2.71%

The maximum ratio of financing costs to net revenue stream is set out below.

	2024/25	2025/26	2026/27	2027/28	2028/29	2028/29
Ratio (%)	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%

While financing costs rise due to interest payments from increased borrowing and increased set aside to repay loans, the ratios of financing costs to a growing revenue budget remain affordable and do not breach the maximum ratios approved by the Authority.

Furthermore, once major refurbishments of our estate are completed over the next four years it is anticipated that the capital programme will reduce considerably in size, negating the need for further borrowing and additional financing costs.

Annex

Credit and counterparty risk management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of one year**, meeting the minimum ‘high’ quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of £2m will be held in aggregate in non-specified investments.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are overleaf:

	Minimum credit criteria / colour band	** Max % of total investments/ £ limit per institution	Max. maturity period
DMADF – UK Government	yellow	**100%**	**6 months (max. is set by the DMO)**
UK gilts	yellow	£2m	5 years
UK Treasury bills	yellow	£2m	364 days (max. is set by the DMO)
Bonds issued by multilateral development banks	Yellow	£2m	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	Yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No colour	£2m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£4m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£2m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£2m	

Approved Countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also have banks operating in sterling markets which have credit ratings of green or above in the MUFG creditworthiness service.

In addition, all countries must be rated "free" by Freedom House or appear on CCLA counterparty list.

- Freedom House: Freedom House is an independent, US-based, organization that analyses 'challenges to freedom' in the World. They produce an annual, 'Freedom in the World' publication ranking countries on their political rights and civil liberties with the standards set based upon the Universal Declaration of Human Rights.

- CCLA: CCLA is the UK's largest charity fund manager and manages investments for charities, religious organisations and the public sector. CCLA's sustainability team monitor existing and potential counterparties' management of environmental, social, and governance (ESG) risk on regular basis. They take into account data from Freedom House, Transparency International, the PEW Institute and countries that are subject to arms embargoes.

Based on lowest available rating and ethical considerations, the following countries are approved for investments.

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- U.S.A.

AA

- Finland

AA-

- **U.K.**

A+

- Belgium
- France

RoyalBerksFRS
@RBFRSOfficial
RoyalBerkshireFire
Royal Berkshire Fire & Rescue Service
rbfrs.co.uk