Treasury Management: Investment and Borrowing Strategy

Committee considering report:	Council
Date of Committee:	26th February 2026
Portfolio Member:	Councillor Iain Cottingham
Date Service Director agreed report:	22nd January 2026
Date Portfolio Member agreed report:	4th February 2026
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1. Purpose of the Report

1.1. The report seeks to consolidate the investment and borrowing strategy for the year ahead by detailing how and where the Council will invest and borrow in the forthcoming year, within a particular framework. This strategy is monitored throughout the year, with a mid-year report going to the Governance Committee as well as an annual report being presented to Members.

1.2. The report also has a statutory footing under the Local Government Act 2003. The Council must have an approved (by Full Council) Investments and Borrowings Strategy (or similar) for the forthcoming financial year. The Council is also required to comply with other regulatory requirements as highlighted in this report, for example to be a professional investor the Council must have £10 million of liquid investment funds on average during the financial year; the Council must also detail its compliance with the relevant Treasury Management indicators (as highlighted in this report).

2. Recommendation

2.1. It is recommended that Council approve and adopt the proposed Investments and Borrowings Strategy for 2026/27.

3. Implications and Impact Assessment

Implication	Commentary
Financial:	Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has and intends to borrow and invest substantial sums of money and is therefore exposed to

	financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.			
Human Resource:	Not applicable.			
Legal:	Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance (CIPFA) and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy prior to the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The annual strategy is supported by a mid-term treasury report and outturn report which are reviewed by the Governance Committee. In-year quarterly review of the Council's liability benchmark is included within the consolidated quarterly financial performance report reviewed by Executive.			
Risk Management:	The Council is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.			
Property:	The Property Investment Strategy approved by Council in February 2024 indicated a gradual disinvestment of the commercial property portfolio over a period of time. Any proposed disposal would be subject to Executive approval.			
Policy:	The Investment and Borrowing Strategy is closely related to the Capital Strategy, as it governs the criteria for borrowing to fund capital spending.			
	Positive	**Neutral**	**Negative**	**Commentary**
Equalities Impact:				

A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		.
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Shannon Coleman Slaughter (Director of Finance, Property & Procurement - S151 Officer) Corporate Board			

4. Executive Summary

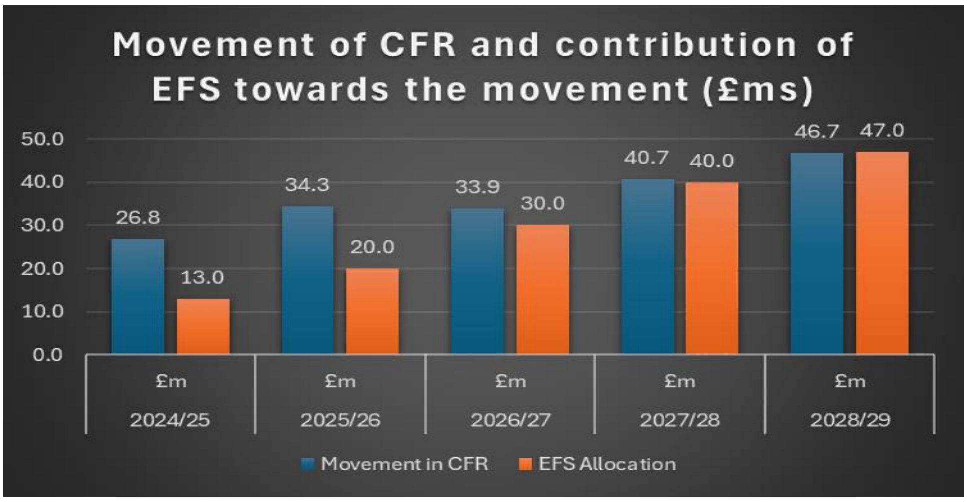
4.1. The Investment and Borrowing Strategy is the Council's treasury management strategy and fulfils the Council's legal obligation to have an annual treasury management strategy. CIPFA published the revised Codes on 20th December 2021 and stated that revisions will be included in the reporting framework starting from the 2023/2024 financial year onwards. The Council, therefore, must have regard to these Codes of

Practice when it prepares its Treasury Management Strategy Statement and Annual Investment Strategy, both strategies are combined within the Investment and Borrowing Strategy.

4.2. The contribution that the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue commitments or for larger capital projects. The Council's treasury operations will identify a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and associated balances, it is of paramount importance that adequate security of the sums invested is ensured, as any losses of such sums will in effect result in decreases within the General Fund balance.

4.3. This strategy sets out the Investment & Borrowing Strategies for financial year 2026/27 and the supporting Prudential Indicators demonstrate the forecast impacts over the medium term . Key impacts to be considered when approving the Medium Term Financial Strategy (MTFS), Capital Strategy and Revenue Budget are as follows:

4.4. The Capital Financing Requirement (CFR) which is the Authority's underlying need to borrow is being primarily driven by Exceptional Financial Support (EFS) from financial year 2026/27. The summary figure below shows the split of the change in CFR annually between financing the capital programme and financing EFS:



4.5. The capital programme has been significantly reduced in future years due to the constraints on funding, generated by revenue pressures and an increasing requirement for seek EFS. The graph above, demonstrates the increasing utilisation of capital financing and the Council's CFR driven by EFS, as opposed to expenditure on capital in future financial years. Based on current projections in the MTFS, and the EFS requirement to support the reserves and net revenue budget in 2026/27, the Liability Benchmark will exceed the CFR in financial year 2027/28. This effectively means the internal investable resources (reserves, cash balances), have been fully depleted from an internal financing perspective and the Authority is fully exposed to interest rate risk, detailed in table below:

Comparison of CFRs and Liability Benchmark	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Closing CFR	319.7	354.0	387.9	428.6	475.3
Loans CFR	310.3	345.6	380.5	422.3	470.3
Liability Benchmark	259.9	309.3	369.1	435.4	490.0

4.6. The Council adopts the ratio of financing costs as a percentage of net revenue stream as part of the Treasury Management Strategy (treasury indicators detailed in appendix A). The historically adopted fiscal rule is that capital financing should not exceed 10% of net revenue stream, this indicator is compiled within 2026/27, see indicator below:

Ratio of Financing Costs to Net Revenue Stream	2025/26	2026/27	2027/28	2028/29	2029/30
	Estimate	Forecast	Forecast	Forecast	Forecast
	£millions	£millions	£millions	£millions	£millions
Capital Financing Budgeted Costs	15.6	18.15	22.02	26.52	30.92
Net Revenue Stream	183.76	181.19	182.35	185.43	194.42
Ratio	**8.5%**	**10.0%**	**12.1%**	**14.3%**	**15.9%**
Adopted maximum ratio	10.0%	10.0%	10.0%	10.0%	10.0%

4.7. The adopted ratio above, although compliant in 2026/27, is exceeded in 2027/28.

4.8. In conclusion, the Council, based on the proposed capital programme and net revenue budget, will remain compliant with treasury indicators in 2026/27. The financing ratio, alongside the liability benchmark demonstrates a level of financial distress, with treasury indicators highlighting financing requirements in financial years, subsequent to 2026/27, being heavily influenced by EFS requests as opposed to purely financing historic and proposed capital programmes.

5. Supporting Information

5.1. CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, including 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."

5.2. **The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -**

a) **Treasury Management** - arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

b) **Service delivery** - investments held primarily and directly for the delivery of public services including housing, regeneration, and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

c) **Commercial return** - investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

5.3. The revised Treasury Management Code requires the following key activities: -

a) **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of 10 years, with material differences between the liability benchmark and actual loans to be explained.

b) **Long-term treasury investments** (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.

c) **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.

d) **Reporting to members is to be done quarterly.** The Council currently produces a formal outturn and mid-term treasury reports which are delegated by Full Council to the Governance Committee for review. Additional in year/quarterly reporting is incorporated into the consolidated quarterly financial performance report which is presented to Executive.

5.4. The main requirements of the Prudential Code relating to service and commercial investments are: -

a) The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed within budgets or reserves without unmanageable detriment to local services.

b) An authority must not borrow to invest for the primary purpose of commercial return.

c) It is not prudent for local authorities to make any investment or spending decisions that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

d) An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt. A supporting prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.

5.5. An authority's Capital Strategy or Annual Investment Strategy should include: -

a) The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.

b) An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

c) Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.

d) Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).

6. Treasury Management Strategy For 2026/27

6.1. The strategy for 2026/27 covers two main areas:

a) **Training and Internal Governance**

b) **Capital issues**: -
- The capital expenditure plans and the associated prudential indicators
- The MRP policy

c) **Treasury management issues**: -
- The current treasury position
- Treasury indicators which limit the treasury risk and activities of the Authority and prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The investment strategy
- Creditworthiness policy; and
- The policy on use of external service providers

6.2. The elements above cover the requirements of the Local Government Act 2003, Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Training and Internal Governance

6.3. The Code states that there is an expectation that "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making." The treasury management activity of the organisation is overseen by the Treasury Management Group which consists of the treasury team, Section 151 officer and portfolio holder for finance, all of whom are qualified and experienced accountants.

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

6.5. The Authority has numerous investment properties and operates a commercial property portfolio. External advisors are used by the Authority to support any decisions regarding retaining or disposing of commercial property investments.

The Capital Prudential Indicators 2026/27 to 2028/29

Capital Expenditure and Financing

6.6. 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. The capital plans below are the total expenditure forecasts inclusive of externally financed expenditure (e.g. utilisation of government grants, Community Infrastructure Levy and section 106).

Capital expenditure	Actual	Estimate	Strategy	Strategy	Strategy
	2024/25	2025/26	2026/27	2027/28	2028/29
Service	**£m**	**£m**	**£m**	**£m**	**£m**
Adult Social Care	1.36	3.10	0.90	0.90	0.90
Children's Social Care	0.05	0.00	0.00	0.00	0.00
Education & SEND	4.79	8.90	11.00	11.70	15.20
Development and Housing	7.09	3.90	2.90	1.70	1.70
Community Services	3.43	3.50	2.50	2.00	0.60
Environment	19.68	26.80	24.40	18.50	17.10
Finance, Property & Procurement	1.09	2.00	3.00	2.60	2.30
Strategy, ICT & Governance	3.56	2.60	1.50	1.50	1.30
Total	**41.05**	**50.80**	**46.20**	**38.90**	**39.10**

6.7. **Other long-term liabilities** - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

6.8. The table below summarises how the above capital expenditure plans are being financed by capital or revenue resources. Any shortfall of resources results in a net financing need that will be met with borrowing:

Financing of Capital Expenditure	Actual	Estimate	Strategy	Strategy	Strategy
	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	**£m**	**£m**	**£m**	**£m**
Total Capital Expenditure	41.10	50.80	46.20	38.90	39.10
Funded by:					
Capital receipts	0.00	0.00	0.00	0.00	0.00
Capital grants	17.80	22.70	27.40	26.10	21.80
Section 106	1.80	1.30	2.30	0.30	3.10
Community Infastructure Levy	2.80	4.20	6.10	3.90	4.70
Capital Reserves	1.00	3.00			
Net financing need for the year	**17.70**	**19.60**	**10.40**	**8.60**	**9.50**

6.9. Currently the MTFS and Capital Strategy make no provision for the allocation of capital receipts to fund capital expenditure. An assets review with a view to finalising an asset disposal plan is under implementation as part of the Council's Financial Improvement Plan (FIP), adopted by Executive in November 2025. It is anticipated that any capital receipts arising from asset disposals will be viewed and applied through a cost benefit analysis between applying to capital as opposed to debt funding capital expenditure, or applying to fund transformation activity.

The Authority's Borrowing Need (the Capital Financing Requirement)

6.10. The second prudential indicator is the Authority's 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 so 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 annual Minimum Revenue Provision (MRP) reduces the CFR. The annual MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used.

6.11. The CFR includes any other long-term liabilities (e.g. PFI schemes, leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, lease provider and so the Authority is not required to separately borrow for these schemes.

Capital Financing Requirement	**Actual**	**Estimate**	**Strategy**	**Strategy**	**Strategy**
	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£m	**£m**	**£m**	**£m**	**£m**
Opening CFR	292.9	319.7	354.0	387.9	428.6
Movement in CFR	26.8	34.3	33.9	40.7	46.7
Closing CFR	319.7	354.0	387.9	428.6	475.3
Movement in CFR represented by:					
Net financing need for the year	17.7	19.6	10.4	8.6	9.5
Exceptional Financial Support	13.0	20.0	30.0	40.0	47.0
Assets acquired under IFRS16 Lease	0.6	0.0	0.0	0.0	0.0
Less MRP	4.5	5.3	6.5	7.9	9.8
Movement in CFR	**26.8**	**34.3**	**33.9**	**40.7**	**46.7**

6.12. It should be noted that the Authority's CFR is not purely being driven by the planned capital programme, but also through capitalisation of revenue overspends (EFS). The above table shows that by the end of the MTFS, 100% of the movement in CFR will be driven by EFS.

EFS as a percentage of CFR movement	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**Cumulative**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Movement in CFR	26.8	34.3	33.9	40.7	46.7	182.4
EFS Allocation	13.0	20.0	30.0	40.0	47.0	150.0
EFS as a percentage of CFR movement	**48.5%**	**58.3%**	**88.5%**	**98.3%**	**100.6%**	**82.2%**

Liability Benchmark

6.13. An alternative method of reviewing financing is the Liability Benchmark. The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum. There are **four components** to the LB: -

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

b) **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. Loans CFR is defined as the projected loan debt based on approved borrowing, planned borrowing and MRP.

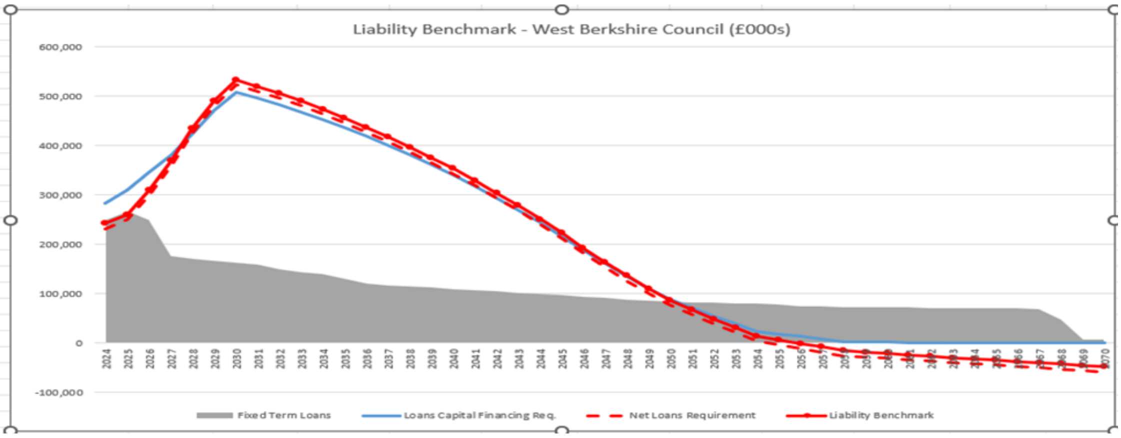
c) **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

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

Liability Benchmark	**Actual 2024/25 £m**	**Estimate 2025/26 £m**	**Strategy 2026/27 £m**	**Strategy 2027/28 £m**	**Strategy 2028/29 £m**
Existing loan debt outstanding	267.24	249.73	175.51	171.23	166.94
Loans CFR	310.27	345.55	380.49	422.28	470.29
Less: Balance Sheet resources	-60.33	-46.23	-21.37	3.09	9.67
Net Loans Requirement	249.94	299.32	359.12	425.37	479.96
Plus: Short-term liquidity allowance	10.00	10.00	10.00	10.00	10.00
Liability Benchmark	259.94	309.32	369.12	435.37	489.96

6.14. The graph below shows the liability benchmark over the full debt maturity profile for the Authority. Any years where actual fixed term loans are lower than the liability benchmark indicate a future borrowing requirement. Any years where actual fixed term loans exceed the liability benchmark represent an overborrowed position, which will result in excess cash requiring investment. Excess cash holdings generate a return for the Authority, however, as the Authority is deemed a long term borrower (categorisation under the Prudential Code – i.e. Authority is required to borrow to fund capital and day to day expenditure), there is a cost of carry associated with a returns on excess holdings.

The Liability Benchmark Graph



6.15. The Prudential Code stipulates that over the medium term, net external borrowing should not exceed the CFR, ensuring that the Authority is not over borrowed. The Loans CFR does not exceed the CFR over the medium term (see table below) however, the Liability Benchmark exceeds the loans CFR and the main CFR in 2027/28.

Comparison of CFRs and Liability Benchmark	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Closing CFR	319.7	354.0	387.9	428.6	475.3
Loans CFR	310.3	345.6	380.5	422.3	470.3
Liability Benchmark	259.9	309.3	369.1	435.4	490.0

6.16. In the context of the Prudential Code, it is rare for the Liability Benchmark to exceed the Loans CFR as the Loans CFR represents the theoretical maximum level of borrowing permitted. When this occurs, it indicates negative investable resources (i.e. CFR minus investable resources like reserves and cash balances). The Liability benchmark includes a £10million liquidity buffer, this combined with low reserves will drive the benchmark above the main CFR. If the benchmark is higher than external loans (loans CFR), it signals an immediate need to take on long term borrowing to fund capital and liquidity, as essentially the Authority has depleted all internal resources and is fully exposed to interest rate and refinancing risks for the full CFR.

Core Funds and Expected Investment Balances (Investable Resources)

6.17. 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:

*Note: Working capital balances may vary during the financial year

Year End Resources	Actual	Estimate	Strategy	Strategy	Strategy
	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
General Fund	10.60	15.83	12.17	8.02	0.52
Earmarked Reserves - Schools	7.77	7.77	7.77	7.77	7.77
Earmarked Reserves - Other	3.37	3.37	3.37	3.37	3.37
Capital Receipts Reserve	4.45	1.75	1.75	1.79	1.84
Capital Grants Unapplied Account	15.53	15.53	15.53	15.92	16.32
Total useable reserves	**41.72**	**44.25**	**40.59**	**36.87**	**29.81**
Working capital*	18.62	1.98	-19.22	-39.96	-39.48
(Under)/over borrowing	-43.03	-95.82	-204.98	-255.06	-314.23
Expected investments	**17.31**	**-49.59**	**-183.61**	**-258.14**	**-323.90**

*Working capital balances shown are estimated year-end; these may be higher mid-year

6.18. The above table demonstrates that the Authority's investable resources are being depleted over the life of the MTFS, with usable reserves (even after application of EFS), are reducing, driving an increasing borrowing need. Working capital from a balance Sheet perspective refers to current assets minus current liabilities, positive working capital indicates growth, negative working capital indicates liquidity issues. From 2025/26 the Authority moves to a negative working capital position, this is primarily driven by increasing current liabilities relating to borrowing, and revenue pressures alongside the increasing High Needs Block deficit.

7. Minimum Revenue Provision (MRP) Policy Statement

7.1. This document summarises the Authority's proposed approach to the calculation of MRP.

7.2. Where the Authority finances capital expenditure by debt, it must set aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as MRP. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) in determining a prudent annual provision of MRP.

7.3. The broad intention of the MHCLG Guidance is to ensure that capital expenditure is financed during a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. However, as the Council is in receipt of exceptional financial support, (whereby capital accounting rules are suspended with central government approval to allow for revenue overspends to be capitalised), MRP is also applied to exceptional financial support itself. The parameters whereby MRP is charged to the revenue accounts is as follows:

7.4. For capital expenditure incurred prior to 1st April 2008, the Council will apply the asset life method for MRP using an annuity calculation. The charge will be determined using a fixed annuity rate of 4.91%, equal to the relevant 1st April PWLB annuity certainty rate in the applicable financial year for the residual thirty-five -year asset life established at that point.

7.5. For capital expenditure incurred after 1st April 2008 to 31st March 2023, MRP will be determined using a single annuity calculation for all outstanding historic unfinanced capital expenditure as at 31st March in the relevant financial year. This calculation combines each historic year on a weighted average life basis.

7.6. From 1st April 2024 for all unsupported borrowing the MRP policy will be the asset life method (annuity). Regulation 27(3) allows a local authority to charge MRP in the financial year following the one in which capital expenditure finance by debt was incurred.

7.7. Capital expenditure financed by borrowing in 2025/26 will not be subject to an MRP charge until 2026/27, or in the financial year following the one which the asset first becomes available for use. Where the Council incurs unfinanced capital expenditure on assets which remain under construction by 31st March of the financial year in question, the Council may opt to apply £nil MRP to such items until the financial year following the year in which the assets are brought into use.

7.8. The Authority will apply the asset life method (annuity) for any expenditure capitalised under a Capitalisation Direction, for example, when Exceptional Financial Support has been awarded. When a Capitalisation Direction is issued, the period during which MRP is required is dictated by MHCLG.

7.9. The MHCLG Guidance permits any charges made above the statutory MRP, i.e. voluntary revenue provision or overpayments, to be reclaimed in later financial years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The value of overpayments in financial year 2025/2026 is £nil.

Leases/PFI

7.10. The Authority recognised a £26 million Private Finance Initiative (PFI) waste management facility in 2011/12. The assets remain with the Council after the PFI contract has ended so they will have a longer useful life than the twenty-one years on the contract. The asset life has been estimated as forty years. The Authority will apply the asset life method (annuity) for the PFI contract.

7.11. The Authority has recognised the assets as part of the IFRS sixteen Leases financial accounting standard changes to remove the distinction between finance and operating leases. Lease liabilities have been recognised from the commencement date of the lease and expressed as the present value of any lease payments not paid to date. These payments are discounted using the interest rate implicit in the lease or the council’s incremental borrowing rate. Lease payments are split between an amount to pay off the lease liability (a principal repayment to reduce the outstanding debt in the Council’s Balance Sheet) and finance charges (interest on the lease liability charged as a revenue expense). Following the implementation of IFRS 16, the Capital Financing Requirement has increased by £548k.

Investment Property

7.12. The Authority has historically purchased investment properties which have increased the CFR. This expenditure occurred prior to 31st March 2023 and as such the MRP on this expenditure has been included within the single annuity calculation for all unfinanced capital expenditure prior to 31st March 2023.

Capital Loans

7.13. For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal sums, the Authority will reflect no MRP element but will instead apply the capital receipts arising from principal repayments to reduce the overall Capital Financing Requirement (CFR). In financial years where there are no such principal repayments, MRP will be charged in accordance with the overriding policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options described in the MHCLG Guidance, it is thought to be a prudent approach overall since it ensures that the capital expenditure incurred on the loan is fully funded during the life of the assets

Capital receipts

7.14. Where the Authority receives a capital receipt upon disposal of an asset previously acquired via borrowing, the receipt arising in-year may be applied to offset the charge to revenue (either in full or in part), which would otherwise apply in relation to the element of the Authority's aggregate CFR element pertaining to the disposal. There is no provision for application of capital receipts to financing requirements included within the Authority's proposed financial indicators. The Authority has been using capital receipts to fund transformational expenditure under the flexible use of capital receipts guidance (Appendix D of the Capital Strategy). The focus has been on increasing revenue efficiency to minimise the revenue funding gap, reducing reliance on EFS. This approach enabled the avoidance of seeking EFS prior to financial year 2024/2, which in turn avoided longer term financing costs associated with EFS.

8. Borrowing

8.1. The capital expenditure plans set out in the capital prudential indicators 2026/27 - 2028/29 provide details of the service activity of the Authority. 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 this service activity and the Authority's Capital Strategy. This will involve both the organisation of the 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

8.2. The overall treasury management portfolio as at 31st March 2025 and for the position as at 31st December 2025 is shown below for both borrowings and investments: -

TREASURY PORTFOLIO	Actual 31.03.25 £m	Actual 31.03.25 %	Actual 31.12.25 £m	Actual 31.12.25 %
Treasury investments				
Banks	2.4	16%	1.6	16%

Local authorities	0.0	0%	0.0	0%
DMADF (HM Treasury)	0.0	0%	0.0	0%
Money Market Funds	12.3	84%	8.2	84%
Total treasury investments	**14.8**	**100%**	**9.9**	**100%**
Treasury external borrowing				
Local authorities	20.0	7%	18.0	7%
Community Bond	0.2	0%	0.0	0%
PWLB	247.0	92%	236.3	93%
Total external borrowing	**267.2**	**100%**	**254.3**	**100%**
Net treasury investments/ (borrowing)	**-252.5**		**-244.4**	

8.3. The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing:

External Debt	**Actual**	**Estimate**	**Strategy**	**Strategy**	**Strategy**
	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£m	**£m**	**£m**	**£m**	**£m**
Debt at 1 April	249.0	267.2	249.7	175.5	171.2
Expected change in debt	18.3	-17.5	-74.2	-4.3	-4.3
Debt at 31 March	267.2	249.7	175.5	171.2	166.9
Other long-term liabilities	9.4	8.5	7.4	6.3	5.2
Actual gross debt at 31 March	276.7	258.2	182.9	177.6	172.1
Capital Financing Requirement	319.7	354.0	387.9	428.6	475.3
Under / (over) borrowing	**43.0**	**95.8**	**205.0**	**251.0**	**303.2**

8.4. The above table demonstrates in 2026/27, significant short term debt will be refinanced, alongside the increasing debt requirement (reduction of £74 million and a borrowing need of £205million). The Council has been maintaining a low average weighted cost of capital (3.94% in 2025/26), through utilisation of short term borrowing, avoiding accessing high cost longer term PWLB financing. However, as detailed in the Liability Benchmark, the borrowing requirement is set to exceed the CFR in 2027/28, effectively meaning depletion of internal investable resources, fully exposing the Council to interest rate risk.

Treasury Indicators: Limits to Borrowing Activity

8.5. **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 and the ability to fund under-borrowing by other cash resources. It is essentially the day to day financing limit and is deemed prudent but not a worst case cash flow scenario. The operational boundary takes into consideration the loans CFR and other liabilities (e.g. leases under IFRS16).

8.6. **The Authorised Limit for external debt** - This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the

Full Council. 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. 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 Local Authority plans, or those of a specific authority, although this power has not yet been exercised. Typically, a minimal increase over and above the operational boundary is applied, for prudence purposes this has been set at £5million to allow for short term emergency funding capity.

8.7. The following table and graph show projections of CFR; borrowing; and the prudential indicators for the operational boundary and authorised limit:

Capital Financing Requirement including PFI and leases	**Actual 24/25 £m**	**Estimated 25/26 £m**	**Estimated 26/27 £m**	**Estimated 27/28 £m**	**Estimated 28/29 £m**
Total CFR	**319.7**	**354.0**	**387.9**	**428.6**	**475.3**
External Borrowing	267.2	249.7	175.5	171.2	166.9
Other long term liabilities	9.4	8.5	7.4	6.3	5.2
Total Debt	**276.7**	**258.2**	**182.9**	**177.6**	**172.1**
Under / (over) borrowed position based on CFR	43.0	95.8	205.0	251.0	303.2
Operational Boundary	383.9	383.9	395.5	437.3	485.3
Authorised Limit	402.9	388.9	400.5	442.3	490.3
Operational Boundary lower than CFR	No	No	No	No	No
Authorised Limit lower than CFR	No	No	No	No	No

8.8. The CFR is lower than the boundary and limits forecast over the duration of the MTFS. It should be noted that the Authorised Limit is forecast to increase by £87.4 million compared to the 2024/5 base level. This is driven by an increasing CFR and borrowing requirements. The annual movement (increase) in the CFR from 2025/26 is primarily being driven by the EFS requirement.

Borrowing Strategy

8.9. The Authority is currently maintaining an under-borrowed position, with an increasing borrowing need per the MTFS as detailed in the Liability Benchmark. 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, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2026 even if further rate cuts arise.

8.10. The Authority will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. The Council is deemed a long term borrower, and hence any decision to borrow in advance will create a cost of carry against any potential investment returns. Any potential borrowing in advance will be within the forward approved Capital Financing Requirement (CFR) 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.

8.11. As a standard rule, the Authority does not borrow in advance, but the following best practice is in place:

- It will be limited to no more than 5% of the expected increase in borrowing need (CFR) over the three-year planning period; and

- The Authority would not look to borrow more than 12 months in advance of need.

Types of Borrowing

8.12. Traditionally the Authority undertakes the majority of longer term borrowing from the Public Works and Loan Board (PWLB). However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local Authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).

- Financial institutions (primarily insurance companies and pension funds but also some banks, and sometimes out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

9. Annual Investment Strategy

Investment Policy – Management of Risk

9.1. The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are referenced in Appendix F Non-Treasury Investments.

9.2. 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

9.3. 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 with due consideration to the Authority's risk appetite.

9.4. The above guidance from MHCLG and CIPFA places 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: -

a) Minimum acceptable **credit criteria** are applied 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.

b) **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

c) All investments will be denominated in **sterling**.

d) As a result of the change in accounting standards under IFRS 9 Financial Instruments, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay implementation of IFRS 9 for the five years ending 31 March 2023. Subsequently, a further extension to the over-ride to 31 March 2029 was agreed by Government but only for those pooled investments made before 1st April 2024.

Creditworthiness Policy

9.5. 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 that: -

- 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 disclosed in the specified and non-specified investment sections below; and

- 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.

9.6. The Council may invest its surplus funds with any of the counterparty types subject to the adopted limits. Time and monetary limits applying to investments. The time and monetary limits for institutions within the Authority's counterparty list are as follows (these relate to both specified and non-specified investments): -

Organisation	Credit Ratings	Individual Counterparty Limit (£000)	Sector Limit (£000)	Time Limit
The UK Government (Debt Management Office)		Unlimited	Not applicable	50 Years
UK Local Authorities (including Police, Fire and similar bodies)		8,000	Unlimited	25 Years
UK Building Societies	Long term FITCH credit rating of A- or higher	8,000	14,000	13 months
UK Banks and other financial institutions	Long term FITCH credit rating of A- or higher	8,000	Unlimited	13 months
Money Market Funds (Sterling denominated)	AAA or equivalent	8,000	Unlimited	Not applicable
Other Non-local authority UK public sector body	-	8,000	Unlimited	25 Years
Registered Providers, Charities	-	2,500	5,000	12 months
Council owned companies	-	5,000	5,000	2 Years
Council owned joint ventures	-	5,000	5,000	2 Years
Strategic pooled funds (including cash plus funds)	-	8,000	35,000	Not applicable
Real estate investment trusts	-	8,000	17,500	Not applicable

Investment Strategy

9.7. **In-house funds.** Investments will be made with reference to the core balance and cashflow 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.

9.8. Accordingly, while most cash balances are required to manage the ups and downs of cashflow, 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.

9.9. **Investment returns expectations.** The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to fall to a low of 3.25% in 2027.

9.10. For its cashflow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to 365 days), to benefit from the compounding of interest.

9.11. **Investment treasury indicator and limit -** total principal funds invested for greater than 365 days. These limits are set regarding 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 operates a policy of not investing longer than 365 days to ensure liquidity and incur unnecessary cost of carry as balances are sourced via borrowing.

10. Other Options Considered

10.1. It is a requirement of the Authority to adopt a treasury management strategy that covers its investing and borrowing activities. The Prudential Code sets out a number of prudential indicators and reporting requirements that the Authority is required to comply with.

11. Appendices

Appendix A – Capital Prudential and Treasury Indicators.

Appendix B – Economic background.

Appendix D – Treasury Indicators.

Subject to Call-In:

Yes: ☐ No: X

The item is due to be referred to Council for final approval	X
Delays in implementation could have serious financial implications for the Council	☐
Delays in implementation could compromise the Council's position	☐
Considered or reviewed by one of the Council's Scrutiny Committees or associated Task Groups within the preceding six months	☐
Item is Urgent Key Decision	☐
Report is to note only	☐

Wards affected: All

Officer details:

Name: Shail Vitish
Job Title: Senior Finance Manager
E-mail: shail.vitish1@westberks.gov.uk

Appendix A

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2026/27 – 2028/29

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' overviews and confirm capital expenditure plans.

Capital Expenditure

Capital expenditure		Actual 2024/25	Estimate 2025/26	Strategy 2026/27	Strategy 2027/28	Strategy 2028/29
Directorate	**Service**	**£m**	**£m**	**£m**	**£m**	**£m**
People	Adult Social Care	1.4	3.1	0.9	0.9	0.9
People	Children's Social Care	0.1	0.0	0.0	0.0	0.0
People	Education & SEND	4.8	8.9	11.0	11.7	15.2
Place	Development and Housing	7.1	3.9	2.9	1.7	1.7
Place	Community Services	3.4	3.5	2.5	2.0	0.6
Place	Environment	19.7	26.8	24.4	18.5	17.1
Resources	Finance, Property & Procurement	1.1	2.0	3.0	2.6	2.3
Resources	Strategy, ICT & Governance	3.6	2.6	1.5	1.5	1.3
Total		**41.1**	**50.8**	**46.2**	**38.9**	**39.1**

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 indicators: -

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), against the net revenue stream.

Ratio of Financing Costs to Net Revenue Stream	2025/26 Estimate £millions	2026/27 Forecast £millions	2027/28 Forecast £millions	2028/29 Forecast £millions	2029/30 Forecast £millions
Capital Financing Budgeted Costs	15.6	18.15	22.02	26.52	30.92
Net Revenue Stream	183.76	181.19	182.35	185.43	194.42
Ratio	**8.5%**	**10.0%**	**12.1%**	**14.3%**	**15.9%**
Adopted maximum ratio	10.0%	10.0%	10.0%	10.0%	10.0%

Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

	2026/27	2026/27
	Lower limit	**Upper limit**
Under 12 months	0%	30%
12 months and within 24 months	0%	30%
24 months and within 5 years	0%	30%
5 years and within 10 years	0%	30%
10 years and within 15 years	0%	30%
15 years and within 20 years	0%	30%
20 years and within 25 years	0%	30%
25 years and within 30 years	0%	30%
30 years and within 35 years	0%	30%
35 years and within 40 years	0%	30%
40 years and within 45 years	0%	30%
45 years and within 50 years	0%	30%

Appendix B

Economic Background (13th November 2025)

The disclosures below have been provided by Mitsubishi UFJ Financial Group (MUFG). MUFG is the external consultant engaged by the Council for treasury management advice.

MUFG Corporate Markets Interest Rate View 11.08.25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28
BANK RATE	4.00	4.00	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	4.00	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.30	3.40	3.40	3.40
12 month ave earnings	4.00	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.30	3.40	3.50	3.60	3.60
5 yr PWLB	4.80	4.70	4.50	4.40	4.30	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10
10 yr PWLB	5.30	5.20	5.00	4.90	4.80	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60
25 yr PWLB	6.10	5.90	5.70	5.70	5.50	5.50	5.50	5.40	5.40	5.30	5.30	5.30	5.20
50 yr PWLB	5.80	5.60	5.40	5.40	5.30	5.30	5.30	5.20	5.20	5.10	5.10	5.00	5.00

- The first half of 2025/26 saw:
  - A 0.3% pick up in Gross Domestic Product (GDP) for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
  - The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% to 4.6% in September.
  - Consumer Prices Index (CPI) inflation has ebbed and flowed but finished September at 3.8%, whilst core inflation eased to 3.5%.
  - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August.
  - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).
- From a GDP perspective, the financial year got off to a bumpy start with the 0.3% m/m fall in real GDP in April as front-running of US tariffs in Q1 (when GDP grew 0.7% on the quarter) weighed on activity. Despite the underlying reasons for the drop, it was still the first fall since October 2024 and the largest fall since October 2023. However, the economy surprised to the upside in May and June so that quarterly growth ended up 0.3% q/q. Nonetheless, the 0.0% m/m change in real GDP in July, followed by a 0.1% m/m increase in August and a 0.1% decrease in September will have caused some concern. GDP growth for 2025 and 2026 is currently forecast by the Bank of England to be in the region of 1.4% before picking up in 2027.
- Sticking with future economic sentiment, the composite Purchasing Manager Index (PMI) for the UK increased to 52.2 in October. The manufacturing PMI output balance improved to just below 50 but it is the services sector (52.2) that continues to drive the economy forward. Nonetheless, the PMIs suggest tepid growth is the best that can be expected in the second half of 2025 and the start of 2026. Indeed, on 13th November we heard that GDP for July to September was 0.1% q/q.
- Turning to retail sales volumes, and the 1.5% year-on-year rise in September, accelerating from a 0.7% increase in August, marked the highest gain since April. On a monthly basis, retail sales volumes rose 0.5%, defying forecasts of a 0.2% fall,

following an upwardly revised 0.6% gain in August. Household spending remains surprisingly resilient, but the headwinds are gathering.

- With the November Budget edging nearer, the public finances position looks weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. For the year to date, the £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.
- The weakening in the jobs market looked clear in the spring. May's 109,000 m/m fall in the PAYE measure of employment was the largest decline (barring the pandemic) since the data began and the seventh in as many months. The monthly change was revised lower in five of the previous seven months too, with April's 33,000 fall revised down to a 55,000 drop. More recently, however, the monthly change was revised higher in seven of the previous nine months by a total of 22,000. So instead of falling by 165,000 in total since October, payroll employment is now thought to have declined by a smaller 153,000. Even so, payroll employment has still fallen in nine of the ten months since the Chancellor announced the rises in National Insurance Contributions (NICs) for employers and the minimum wage in the October 2024 Budget. The number of job vacancies in the three months to October 2025 stood at 723,000 (the peak was 1.3 million in spring 2022). All this suggests the labour market continues to loosen, albeit at a slow pace.
- A looser labour market is driving softer wage pressures. The 3m/yy rate of average earnings growth excluding bonuses has fallen from 5.5% in April to 4.6% in September. The rate for the private sector slipped from 4.3% to 4.2%.
- CPI inflation remained at 3.8% in September, whilst core inflation fell to 3.5%. Services inflation stayed at 4.7%. A further loosening in the labour market and weaker wage growth may be a requisite to UK inflation coming in below 2.0% by 2027.
- An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the "Liberation Day" tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.
- More recently, the yield on the 10-year gilt rose from 4.46% to 4.60% in early July as rolled-back spending cuts and uncertainty over Chancellor Reeves' future raised fiscal concerns. Although the spike proved short lived, it highlighted the UK's fragile fiscal position. In an era of high debt, high interest rates and low GDP growth, the markets are now more sensitive to fiscal risks than before the pandemic. During August, long-dated gilts underwent a particularly pronounced sell-off, climbing 22 basis points and reaching a 27-year high of 5.6% by the end of the month. While yields have since eased back, the market sell-off was driven by investor concerns over growing supply-demand imbalances, stemming from unease over the lack of fiscal consolidation and

reduced demand from traditional long-dated bond purchasers like pension funds. For 10-year gilts, by late September, sticky inflation, resilient activity data and a hawkish Bank of England kept yields elevated over 4.70% although by early November yields had fallen back again to a little over 4.40%.

- The FTSE 100 fell sharply following the "Liberation Day" tariff announcement, dropping by more than 10% in the first week of April - from 8,634 on 1st April to 7,702 on 7th April. However, the de-escalation of the trade war coupled with strong corporate earnings led to a rapid rebound starting in late April. As a result, the FTSE 100 ended June at 8,761, around 2% higher than its value at the end of March and more than 7% above its level at the start of 2025. Since then, the FTSE 100 has enjoyed a further 4% rise in July, its strongest monthly gain since January and outperforming the S&P 500. Strong corporate earnings and progress in trade talks (US-EU, UK-India) lifted share prices and the index hit a record 9,321 in mid-August, driven by hopes of peace in Ukraine and dovish signals from Fed Chair Powell. September proved more volatile and the FTSE 100 closed September at 9,350, 7% higher than at the end of Q1 and 14% higher since the start of 2025. Future performance will likely be impacted by the extent to which investors' global risk appetite remains intact, Fed rate cuts, resilience in the US economy, and AI optimism. A weaker pound will also boost the index as it inflates overseas earnings. In early November, the FTSE100 climbed to a record high just above 9,900.

MPC meetings: 8 May, 19 June, 7 August, 18 September, 6 November 2025

- There were five Monetary Policy Committee (MPC) meetings in the first half of the financial year. In May, the Committee cut Bank Rate from 4.50% to 4.25%, while in June policy was left unchanged. In June's vote, three MPC members (Dhingra, Ramsden and Taylor) voted for an immediate cut to 4.00%, citing loosening labour market conditions. The other six members were more cautious, as they highlighted the need to monitor for "signs of weak demand", "supply-side constraints" and higher "inflation expectations", mainly from rising food prices. By repeating the well-used phrase "gradual and careful", the MPC continued to suggest that rates would be reduced further.
- In August, a further rate cut was implemented. However, a 5-4 split vote for a rate cut to 4% laid bare the different views within the Monetary Policy Committee, with the accompanying commentary noting the decision was "finely balanced" and reiterating that future rate cuts would be undertaken "gradually and carefully". Ultimately, Governor Bailey was the casting vote for a rate cut but with the CPI measure of inflation expected to reach at least 4% later this year, the MPC was wary of making any further rate cuts until inflation begins its slow downwards trajectory back towards 2%.
- With wages still rising by just below 5%, it was no surprise that the September meeting saw the MPC vote 7-2 for keeping rates at 4% (Dhingra and Taylor voted for a further 25bps reduction). Moreover, the Bank also took the opportunity to announce that they would only shrink its balance sheet by £70 billion over the next twelve months, rather than £100 billion. The repetition of the phrase that "a gradual and careful" approach to rate cuts is appropriate suggested the Bank still thought interest rates will fall further.

At the 6th November meeting, Governor Bailey was once again the deciding vote, keeping Bank Rate at 4% but hinting strongly that a further rate cut is imminent. With GDP for Q3 disappointing, and the September CPI number staying at 3.8%, the market is split over whether the next rate cut will be in December or February.

Appendix C

Non-Treasury Management Investments

The definition of investments in the CIPFA TM Code pertains to all financial assets of the Council as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the investment guidance issued by the Ministry of Housing, Communities and Local Government (MHLG), in which the definition of investments is further broadened to also include all such assets held partially for financial return. At 31st March 2025, the Council held £39.9 million of such investments in directly owned property.

Commercial Property Portfolio (Debt Financed Investments)

The commercial property portfolio is valued as follows as at 31st March 2025 and has reduced in value by approximately £1 million.

Names and address of property	Property type	Valuation at 31 March 2024 £'000	Valuation at 31 March 2025 £'000	Movement (Loss)/Gain £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	4,155	3,891	(264)
79 Bath Road, Chippenham	Retail Warehouse	9,250	8,779	(471)
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1,585	1,614	29
Aldi/Iceland, Cleveland Gate Retail Park, Gainsbor	Retail Warehouse	5,495	5,875	380
303 High Street and 2 Waterside South, Lincoln	Retail	2,550	2,654	104
3&4 The Sector, Newbury Business Park	Office	11,100	10,770	(330)
Ruddington Fields Business Park, Mere Way, Notti	Office	6,700	6,297	(403)
TOTAL		**40,835**	**39,878**	**(957)**

The estimated rate of return on these investments for 2024/25 is summarised in the tables below. The rate of return is based on the latest 2024/25 asset valuations. Net income for 2024/25 is based upon the revenue outturn as at 31st March 2025:

Directly owned Property: Commerical property	**£'000**
Valuations as at 31 March 2024	40,835
Valuations as at 31 March 2025	39,878
Loss on change in Market value during 2024/25	(957)
24/25 Net income	2,880
24/25 rate of return excluding MRP and Interest	**4.71%**
MRP costs 24/25	(899)
Interest Costs 24/25	(1,525)
Outturn, net of MRP and interest	(501)
24/25 rate of return, after MRP and interest	**-1.23%**

The rate of return on investment is the level of net income, plus loss in market value over the original opening valuation of the financial year. The adjusted rate of return considers financing costs attributable to the purchase of the portfolio. The rate of return has moved to a negative post application of financing costs, as income generating properties have been disposed off reducing income yields, the capital financing costs remain unchanged as resulting capital receipts have not been paid down against outstanding balances. Receipts have been used to fund transformational expenditure designed to minimise revenue pressures.

Non Debt Financed Investment Property

The Council also holds a further £11.8 million of investment property where the purchase has not been directly funded through borrowing. In most cases, the properties have been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998. Asset valuations are as follows:

Names and address of property	Property type	Valuation at 31 March 2024 £'000	Valuation at 31 March 2025 £'000	Movement(Loss)/Gain £'000
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	40	94	54
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1,800	1,157	(643)
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1,050	485	(565)
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70	219	149
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	375	259	(116)
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	520	542	22
London Road Industrial Estate, Newbury	Industrial	9,000	9,103	103
TOTAL		**12,880**	**11,883**	**(997)**

Directly owned Property: Investment Properties	**£'000**
Valuation as at 31 March 2024	12,880
Valuation as at 31 March 2025	11,883
Loss on change in Market value during 2024/25	(997)
24/25 Net income	477
24/25 rate of return excluding MRP and Interest	**-4.04%**

Note: There is no borrowing on this investment and therefore no MRP and Interest.

The rate of return shown in the tables above do not reflect any changes in the value of these properties. Due to the nature of direct investment in property, there is additional risk (upside and downside) that the value of the investment may change. In respect of commercial property, this risk is carried alongside the risk of voids and the possibility that no rental income being recovered adversely impacts achievable rates of return.