Policy Committee

16 February 2026

Title	Treasury Management Strategy Statement (TMSS) 2026/27
Purpose of the report	To make a recommendation to Council
Report status	Public report
Report author	Darren Carter, Director of Finance
Lead Councillor	Councillor Terry, Leader of the Council
Corporate priority	Not applicable, but still requires a decision
Recommendations	**That the Policy Committee endorse and recommend that Council approve:** 1. The Treasury Management Strategy Statement for 2026/27 as set out in Appendix 1 Section 2; 2. The Capital Prudential Indicators as set out in Appendix 1 Section 3; 3. The Minimum Revenue Provision (MRP) Policy for 2026/27 as set out in Appendix 1 Section 4; 4. The Borrowing Strategy for 2026/27 as set out in Appendix 1 Section 5; 5. The Annual Investment Strategy for 2026/27 as set out in Appendix 1 Section 6; 6. The Prudential and Treasury Management Indicators as set out in Appendix 1 Annex 1. **That the Policy Committee notes:** 7. The change to the calculation of apportioning interest to the HRA as set out in Appendix 1 Section 6.24 to 6.28

1. Executive Summary

1.1. The Council's Treasury Management Strategy Statement (TMSS) 2026/27, attached at Appendix 1, sets out the parameters for the Council's planned treasury activity during 2026/27 under which the Council's Treasury Team will manage day to day activity. The TMSS reflects the Council's Capital Programme 2026/27 – 2028/29.

1.2. The successful identification, monitoring and control of financial risk are central to the Strategy.

1.3. The CIPFA 2021 Prudential Code also requires the Council to prepare a Capital Strategy report which sets out the Council's capital requirements arising from policy objectives, as well as the associated governance procedures and risk appetite.

1.4. The Capital Strategy is reported separately from the Treasury Management Strategy Statement and includes non-treasury investments. The CIPFA Treasury Management Code 2021 further breaks down non-treasury investments into:

- *“**Investments for service purposes** (or service investments) are taken or held primarily for the provision and for the purposes of delivering public services (including housing, regeneration, and local infrastructure), or in support of joint working with others to deliver such services”.*

- *“**Investment for commercial purposes** (or commercial investments) are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services”.*

2. Policy Context

2.1. In accordance with the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2021 and the CIPFA Prudential Code for capital finance in local authorities (2021), the Council is required to approve a Treasury Management Strategy before the start of each financial year. This report fulfils that obligation.

3. Economic Background

3.1. The Bank of England’s Monetary Policy Committee (MPC) decreased its base interest rate several times throughout the year, from 4.50% to 4.25% on 8th May 2025, to 4.00% on 7th August 2025 and to 3.75% on 18th December 2025. The next projected cut to base rate of 0.25% is forecast to occur during quarter one of 2026/27.

3.2. The annual inflation rate in the United Kingdom as measured by the Consumer Price Index (CPI) stood at 3.4% as at December 2025, up from 2.5% in December 2024. The Consumer Prices Index including owner occupiers' housing cost (CPIH) stood at 3.6% as at December 2025, up from 3.5% in December 2024.

4. Borrowing

4.1. Under the Prudential Code, the Council can borrow to fund capital expenditure if such borrowings are sustainable, affordable, and prudent. In order to comply with the Prudential Code, an authority must not borrow to invest primarily for financial return.

4.2. The underlying need to borrow (the net borrowing requirement) for capital purposes is measured by the Capital Financing Requirement (CFR). Usable reserves and working capital are the underlying resources available for investment.

4.3. Historically the Council has borrowed to pay for new assets including schools, roads, housing and community facilities etc. The value of the Council’s non-current assets is circa £1.3bn. As at 31st December 2025, the Council had £529.500m of loans outstanding in respect of General Fund and Housing Revenue Account (HRA) assets.

4.4. The Council has not taken out any long-term borrowing in 2025/26 to 31st December 2025 but has utilised the temporary borrowing market when required in line with the 2025/26 Borrowing Strategy. As at 31st December 2025, the Council had an outstanding temporary borrowing portfolio of £170.000m as set out in Appendix 1 Annex 3. This includes two £50.000m loans taken from the PWLB utilising the HRA certainty rate, both of which have one year terms.

4.5. Market projections, per Table 11 in Appendix 1, indicate that long-term borrowing costs will reduce further but at a slower pace than the already implemented and forecast decreases to the Bank of England Bank Rate. Consequently, the Council intends to continue with the strategy of utilising lower cost temporary borrowing in the coming year where required. This strategy will be kept under review with the Council’s Treasury Management Advisors. Longer term borrowing will not be taken out until necessary, or until it makes sense to borrow in advance of need. This strategy will thereby avoid the "cost of carry" (the difference between the cost of borrowing and return on investing the funds.

4.6. The Capital Programme 2026/27-2028/29 totals £323.237m (£118.607m General Fund and £204.630m HRA) as set out in Table 1 of Appendix 1. The Programme aims to improve the infrastructure, asset base and effectiveness of service provision for the residents of Reading.

4.7. After accounting for specific grants, s106 contributions and capital receipts, the total borrowing requirement is £153.970m per Table 2 of Appendix 1 (£55.590m General Fund and £98.380m HRA). The cost of borrowing together with any associated revenue savings is included within the Council's Medium-Term Financial Strategy 2026/27 – 2028/29.

4.8. After reducing the borrowing requirement by a total Minimum Revenue Provision charge of £53.524m across the period, the Council has a projected increase in its CFR of £100.446m, as set out in Table 3 of Appendix 1.

4.9. The Director of Finance has been delegated responsibility for borrowing and works closely with the Council's Treasury Management Team and advisors, Mitsubishi UFJ Group (MUFG) Corporate Markets, on borrowing decisions taking into account several factors including:

- The cost of borrowing short or long-term;
- Anticipated changes in the cost of borrowing;
- The level of cash balances held under investment;
- The return on invested balances.

4.10. The Council's long-term borrowing (loans over 12 months in length) is from two sources: The Public Works Loans Board (PWLB) and private banks for debt relating to Lender Option Borrower Option loans (LOBO). The Council has recently taken their option to repay the outstanding £5.000m LOBO following the lenders proposed change in interest rate. For short term borrowing the Council will continue to use other sources of finance, e.g. loans from other local authorities that it can borrow from at lower rates of interest than PWLB.

4.11. The framework for taking borrowing decisions in the coming year is set out within the Borrowing Strategy contained with the Council's TMSS, attached at Appendix 1 Section 5. As set out in paragraph 4.5, the Council intends to continue with the strategy of utilising lower cost temporary borrowing in the coming year where required.

4.12. Included within the Borrowing Strategy, is the Council's Policy on borrowing in Advance of Need, where the Council may increase its longer term borrowing to cover new capital project expenditure in advance of need to minimise the risk of interest rate fluctuations. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully as part of the overall Borrowing Strategy to ensure that value for money can be demonstrated, that the costs of borrowing can be met and that the Council can ensure the security of such funds.

4.13. The Council's self-imposed limits on sustainable, affordable and prudent borrowing and investment, the Prudential and Treasury Management Indicators that need to be approved by Council are set out in Appendix 1.

5. Investments

5.1. The Council's investments for Treasury Management purposes seek to manage fluctuations in cash-flow. Treasury investments can be called on at short-notice and in the main are held in Money Market Funds or short-term fixed rate/fixed term deposits. These are low-risk investments and give higher rates of interest compared to leaving balances in the Council's bank account. The long-term treasury investments held by the Council are in the CCLA property fund.

5.2. The level of investments fluctuates throughout the year dependent on cash balances. The balance of treasury investments was £81.876m at the end of December 2025 (per Table 6 in Appendix 1). The average interest rate (simple average interest rate earned on all investments to 31st December 2025) was 4.054% and the average weighted rate of return (weighing the simple average interest rates based on the principal invested) was 4.365%.

5.3. The Council can legally invest in the following funds and instruments:

- Fixed Term Deposits (Government, public sector bodies, Banks and Building Societies)
- Callable deposits (Banks and Building Societies)
- Money Market Funds
- Certificates of Deposit (tradable term deposits)
- Government Gilts and Treasury Bills
- Corporate Bonds
- Derivatives (where used for risk management)

5.4. Government issued updated guidance on investments in February 2018. The previous edition covered treasury investments only, but the latest edition focuses on non-treasury investments. These are commercial investments such as the purchase of investment properties, investments in subsidiaries or investments for service objectives including regeneration.

5.5. Revised PWLB borrowing terms announced in November 2020 prevent Local Authorities from borrowing from the PWLB for any purpose should their ongoing Capital Programme contain commercial schemes that are primarily investments to generate a financial yield. Consequently, Policy Committee approved the removal of the Capital budget for the Purchase of Commercial Property from its Capital Programme at its meeting in December 2020.

6. Approved Investments and Counterparties

6.1. The counterparty criteria are kept under regular review and are detailed in section 6 of Appendix 1 to this report. The criteria set out the value and duration limits which are applied in the day to day investment of the Council's cash balances.

6.2. The value and duration limits as well as the minimum credit ratings required of individual institutions seek to minimise the Council's exposure to counterparty risk, i.e. limit any potential loss due to the failure of any single institution or group.

6.3. The credit ratings agencies' criteria are relative measures of financial strength, any changes are notified to the Council's Treasury Team on the same day by our treasury advisors, MUFG. Over recent years the agencies have downgraded many financial institutions by removing the implied sovereign support. However, financial institutions have responded by improving their capital ratios to meet new regulatory standards to enable them to withstand market shocks like that experienced during the financial crisis in 2008. This requirement for increased resilience is designed to give higher assurance that institutions will be going concerns in the medium to long term.

6.4. In addition, central banks such as the Bank of England and European Central Bank provide financial support to financial institutions through Term Funding Schemes (TFS) that ensure they have access to enough liquidity at low rates. The TFS was launched in 2016 and provides funding to banks and building societies at rates close to Base Rate.

6.5. CIPFA's Treasury Management Code (2021) requires the Council to set out its policies and practices relating to environmental, social and governance (ESG) investment considerations within its credit and counterparty policies. The framework for taking investment decisions in the coming year is set out in the Council's TMSS, attached at Appendix 1 Section 6 and includes the use of credit rating agencies' criteria, which incorporate Environmental, Social & Governance (ESG) risks alongside more traditional financial risk metrics, and the application of the Freedom House Global Freedom rating system.

6.6. The Freedom House Global Freedom rating system is a scored assessment of people's access to political rights and civil liberties in 210 countries and territories. In its annual Freedom in the World report, Freedom House assigns a numerical score and a Free/Partly Free/Not Free status to each country. The Council will only invest in organisations from countries with a 'Free' rating. Ratings will be regularly monitored to determine if ratings have changed.

7. Risk Controls

Investment Risk

7.1. The main risk of investing is that the borrower or counterparty defaults on the loan and cannot repay it.

7.2. The main controls on investment risk are the application of counterparty criteria which limit the amount and duration of investments with both individual and groups of related counterparties. The criteria are generally based on rating agency evaluations as detailed in Appendix 1 Section 6.

Borrowing Risk

7.3. The main risk when deciding to borrow is around the timing of the decision and ensuring affordability. There is a risk that interest rates will increase before any planned borrowing is taken. The Council receives regular interest rate forecasts which are used to inform decisions on the timing of external borrowing.

7.4. The latest guidance requires the use of other information as well as rating agency evaluations. When ratings change, the Treasury Team are notified on the same day by our treasury advisors. There are regular internal and external meetings the Treasury Team attend to keep abreast of latest topics. The monthly updates from MUFG include other market sources of information, such as the prices of financial instruments and shares. In addition, professional publications and sector specific reports are reviewed by the Team to ensure that any decision to borrow is based a broad array of available information.

7.5. The Treasury Management Policies deal with risk controls, decision making and reporting processes, along with high level administration of the Treasury Management activities.

8. Contribution to Strategic Aims

8.1. Full details of the Council Plan and the projects which will deliver these priorities are published on the Council's website. These priorities and the Council Plan demonstrate how the Council meets its legal obligation to be efficient, effective, and economical.

8.2. The TMSS is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

9. Environmental and Climate Implications

9.1. There are no environmental implications arising directly from this report.

9.2. As set out in the Council's Annual Investment Strategy (Appendix 1 paragraph 6.18), the Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's Corporate Plan and values. This would include institutions with material links to environmentally harmful activities (e.g. pollution, destruction of habitat, fossil fuels).

10. Community Engagement

10.1. Budget-related communications and consultations will continue to be a priority over the next three years as we work to identify and deliver savings.

11. Equality Implications

11.1. Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

11.2. There are no equality implications arising directly from this report.

12. Other Relevant Considerations

12.1. There are none.

13. Legal Implications

13.1. This report assists the Council in fulfilling its statutory obligation to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy for the coming year setting out the Council's policies for managing its borrowing and investments and giving priority to the security and liquidity of those investments.

14. Financial Implications

14.1. The financial implications are set out within the main body and Appendix 1 of this report and have been factored into the 2026/27 Budget & Medium Term Financial Strategy 2026/27-2028/29 Report which appears elsewhere on the agenda.

15. Timetable for Implementation

15.1. Not applicable.

16. Background Papers

16.1. There are none.

Appendices

1. Treasury Management Strategy Statement (TMSS) 2026/27