Report to:	**Cabinet**
Date:	**27 January 2026**
By:	**Chief Finance Officer**
Title of report:	**Treasury Management Strategy Statement 2026/27**
Purpose of report:	**This report proposes the Treasury Management Strategy Statement for 2026/27, including the Minimum Revenue Provision Policy Statement for 2025/26 and 2026/27, and Annual Investment Strategy. The Council is also required to set Prudential Indicators as set out in the Prudential Code which are included in this strategy for approval.**

RECOMMENDATIONS

Cabinet is recommended to recommend Council to:

1) **approve the Treasury Management Strategy Statement for 2026/27;**
2) **approve the Annual Investment Strategy for 2026/27;**
3) **approve the Prudential and Treasury Indicators 2026/27 to 2028/29;**
4) **approve the Minimum Revenue Provision (MRP) Policy Statement for 2025/26 and 2026/27 at Appendix 1 (Section 3).**

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1. Background

1.1 A requirement under the Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services is to prepare a Treasury Management Policy and Strategy setting out the Council's policies for managing investments and borrowing.

1.2 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.3 The Treasury Management Strategy Statement (TMSS) for 2026/27 is presented in Appendix 1 to this report. The strategy includes the Treasury Management Policy Statement, the Annual Investment Strategy, Prudential and Treasury Indicators for the next three years and the annual Minimum Revenue Provision (MRP) Policy Statement.

1.4 The 2026/27 TMSS has been prepared within the context of the financial challenge being faced by the County Council over the Medium Term Financial Plan (MTFP). A summary of the outlook for Local Government finances is outlined in Annex F of Appendix 1 of this report. The treasury management strategy for the year seeks to compliment the MTFP and Council Plan by:

- ensuring the investment portfolio is working hard to maximise income by seeking appropriate investment opportunities that meet the Council's security requirements;
- reviewing the Capital Programme to reduce the level of investment of core council funded programmes that would otherwise increase the Council's borrowing requirement;
- utilising cash balances to fund the Council's borrowing need in order to minimise borrowing costs as far as possible;
- ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.
- ensuring that the impact of Exceptional Financial Support in the form of capitalisation direction has been incorporated into the TMSS for the year.

1.5 As set out in the Reconciling, Policy, Performance and Resources (RPPR) papers earlier in the agenda, the Council continues to face unprecedented financial challenges, with the demand for, and cost of, services continuing to increase beyond the resources available, resulting in the application to Government for Exceptional Financial Support (ESF) in the form of a capitalisation direction. This would allow the Council to treat certain types of revenue expenditure as capital expenditure, allowing them to be funded by borrowing or capital receipts as opposed to from the revenue budget. The impact of this on the Council's borrowing strategy and treasury management activity have been reflected in this TMSS, with specific implications separately reported where possible to explicitly demonstrate the financial implications.

Investment Strategy

1.6 The 2026/27 Investment Strategy has been set in the context of moderate investment returns as a result of expected decreases in the Bank of England (BofE) Base Rate. The Base Rate has continued to fall from its peak at 5.25% during 2024/25, with markets and economists' current expectation that rates will continue to fall further into 2026/27 and beyond as the BofE is expected to tighten monetary policy in order to contain the impact of inflation. At the time of writing, the Council's treasury advisors, MUFG, are forecasting that Monetary Policy Committee will cut Base Rate to 3.25% by December 2026. The investment performance for 2026/27 is therefore forecast at 3.59%. The average rate of return for 2024/25 was 5.26% and for the first six months of 2025/26 was 4.63%.

1.7 The Strategy is also being set in the context of the Council's deficit revenue budget forecast and application for EFS in 2026/27, as well as the ongoing deficit position forecast in the MTFP to 2028/29. Annex F of Appendix 1 outlines the context for the outlook of Local Government finances in general. Additionally, paragraph 1.4 outlines the principles that will be applied during the year to ensure the Investment Strategy appropriately contributes to mitigating the Council's ongoing deficit revenue position.

1.8 The planned use of reserves, revenue budget overspend and debt maturities have all contributed to the falling investment balances during 2025/26. Cash balances are expected to reduce further into 2026/27 due to the Council's forecast deficit position and borrowing need. However, in this context, the Council's risk appetite for investments will not be modified to increase income. The strategy will continue to prioritise security and liquidity of the Council's funds. New investment options will be explored within the current risk appetite and strategy parameters.

1.9 There are various changes proposed in the Annual Investment Strategy from 2026/27 to reflect the challenging financial position of the Council and ongoing reduction in available balances, and the need to manage the subsequent risk to security and liquidity. These changes are detailed in Section 4 of the TMSS.

1.10 Officers continue to seek out Environmental Social & Governance (ESG) investment opportunities with counterparties that meet the Council's investment parameters. There are currently limited available products within the market that meet both the Council's security requirements and the Council's shortened investment time horizon due to the strategy to use cash to initially fund the Council's liquidity and borrowing requirement. Nevertheless, appropriate ESG investment products will continue to be researched and considered into 2026/27.

Borrowing Strategy

1.11 The total level of borrowing need over the next three years (between 2026/27 and 2028/29) is estimated to be £121m, split as £51m capital programme borrowing between 2026/27 and 2028/29 and £70m capitalisation direction in 2026/27.

1.12 Officers will seek to use cash from the Council's own reserves to initially fund borrowing whilst interest rates remain relatively elevated, however, the ongoing cashflow forecast suggests the new external borrowing will need to be undertaken during 2026/27. Modelling of the Council's borrowing plans and cashflows had previously identified an appropriate level of internal borrowing of around £75m in the longer term, however, due to ongoing pressures and reducing reserve levels, it is proposed that this be reduced to £50m from 2026/27 onwards.

1.13 It is therefore anticipated that external borrowing will be required during 2026/27. During a reducing interest rate environment, the strategy will be to borrow over a short to medium term period and to seek new longer-term borrowing on maturity once when rates are expected to reduce. This strategy will be kept under constant review as there are risks that are required to be managed and balanced during the year. Officers will review the interest rate forecast, cashflow needs, the revenue deficit and the Capital Programme to ensure this remains the most appropriate strategy through the year.

1.14 The liability benchmark in Section 2.3 of Appendix 1 demonstrates that the council will be required to undertake new external borrowing during 2026/27. The benchmark also suggests that if reserve balances continue to decrease as currently anticipated, then the Council may need to borrow to finance day-to-day activity in addition to its capital programme by 2028/29. This indicator will be used to assist with future borrowing decisions, in conjunction with the Treasury Management Tool.

Minimum Revenue Provision (MRP) Policy

1.15 The council is required under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended), where it has financed capital expenditure by borrowing, to pay off an element of the accumulated General Fund capital spend (prudential borrowing) each year through a revenue charge (a MRP). Regulation 28 provides local authorities with some flexibility in how they calculate MRP, providing the amount is 'prudent'. The Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance requires the council to approve an MRP Policy Statement in advance of each financial year. This can be amended during the year, by presenting a revised MRP Policy Statement to council for approval.

1.16 The Minimum Revenue Provision Policy Statement for 2025/26 forms part of the council's Treasury Management Strategy 2025/26 which was formally approved at Full Council on 11 February 2025.

1.17 The report recommends updates to the council's Minimum Revenue Provision Policy to reflect changes to, and provide clarity on, interest rates used for annuity calculations, as well as clarity on the policy in relation to provision for capitalisation direction. To ensure that prudent provision is made as early as possible, it is recommended that this policy be approved for both the 2025/26 and 2026/27 financial years.

Revenue impact

1.18 The Treasury Management budget within the MTFP supports the cost of borrowing which includes MRP provision and interest for the capital programme. It is proposed that an increase of £2.7m is made to the Treasury Management budget in 2026/27 due to the current falling interest rate environment and reducing investments. With interest rates expected to normalise at a lower level in the medium term, alongside increasing costs of capital programme borrowing, it is modelled that further increases to the budget will be required in future years. Due to the Council's challenging revenue budget position, the treasury management portfolio will continue to be reviewed to minimise the borrowing costs and impact on the revenue budget.

1.19 The budget within the MTFP is calculated using the Treasury Management Tool that reflects the costs of borrowing offset by returns on investment of the Council's balances. It is therefore reflective of a point in time. The treasury management tool, developed as part of the Capital Strategy, is reviewed regularly for reasonableness.

2. Supporting Information

Treasury Management Reporting

2.1 As well as this annual strategy, the CIPFA Code requires the Council reports as a minimum:

- A mid-year review;
- An annual report at the close of the year;
- Quarterly updates on treasury activity.

2.2 This Council meets this requirement with the Treasury Management Stewardship Report 2024/25 and Mid-Year report 2025/26 presented to Cabinet on 16 December 2025. Additionally, the treasury management quarterly monitoring position is reported to Cabinet as part of the Reconciling, Policy, Performance and Resources quarterly monitoring.

Economic Background

2.3 The Council takes advice from MUFG on its treasury management activities. A detailed view of the current economic situation and forecasts, as prepared by MUFG is included in Appendix 1 (Annex B) to this report.

3. Conclusion and recommendations

3.1 This policy sets out the acceptable limits on ratings, investment periods, amounts to be invested and the borrowing strategy. Cabinet will be aware that the financial position is kept under constant review and if at any time it is felt that any of these limits represent an unacceptable risk appropriate and immediate action will be taken accordingly.

3.2 Cabinet recommends the 2026/27 Treasury Management Strategy Statement for approval by Council.

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Local Member(s)
All

Background documents

CIPFA Prudential Code and CIPFA Treasury Management Code – available on request
Local Government Act 2003 – Capital Finance
MHCLG Statutory Guidance on Local Authority Investments and the Minimum Revenue Provision.