London Borough of Hammersmith and Fulham

Report to: Full Council

Date: 24/02/2022

Subject: Treasury Management Strategy Statement 2022/23

Report of: Councillor Max Schmid, Cabinet Member for Finance and Commercial Services

Report author: Phil Triggs, Director of Treasury and Pensions

Responsible Director: Emily Hill, Director of Finance

SUMMARY

This report sets out the Council's proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 and seeks authority for the Director of Finance to deliver the treasury management activities as set out in the report.

The report is also designed to demonstrate compliance with the Local Government Act 2003, other regulations and statutory guidance for ensuring that the Council's borrowing and investment plans are prudent, affordable and sustainable, and comply with statutory requirements.

RECOMMENDATIONS

1. That approval is given to the future borrowing and investment strategies as outlined in this report.

2. That the Director of Finance, in consultation with the Cabinet Member for Finance and Commercial Services, be delegated authority to manage the Council's cash flow, borrowing and investments in 2022/23 in line with this report.

3. In relation to the Council's overall borrowing for the financial year, to approve the Prudential Indicators as set out in this report and the revised Annual Investment Strategy set out in Appendix E.

Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Values
• Building shared prosperity	Achieve best value for money in investment and borrowing decisions.
• Being ruthlessly financially efficient	Effective management of the Council's cashflow resources.

Financial Impact

This report is wholly of a financial nature.

Legal Implications

The Local Government Act 2003 and the regulations made under that Act require the Council to:

- set out an annual statement of its treasury management strategy for borrowing, having regard to the Prudential Code and setting out the Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

- prepare an Annual Investment Strategy, setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Treasury Management Strategy Statement and Annual Investment Strategy must both have regard to guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC) and must be approved by the Full Council.

All other legal implications are contained within the body of the report.

Contact Officer(s):

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 0207 641 4136
Email: ptriggs@westminster.gov.uk
Verified by Emily Hill, Director of Finance

Name: Jade Monroe
Position: Chief Solicitor Social Care
Telephone: 0208 753 2695
Email: jade.monroe@lbhf.gov.uk

Background Papers Used in Preparing This Report

- Treasury Management Strategy Statement 2021/22 (approved by Council February 2021)
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended
- MHCLG guidance on minimum revenue provision (4th Edition, 2018)
- MHCLG guidance on local government investments (3rd Edition, 2018)
- CIPFA Prudential Code for Capital Finance in Local Authorities (2018 Edition)
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2018 Edition)

DETAILED ANALYSIS

BACKGROUND

1. The Council is required to set a balanced budget, which means that resources available during the year is budgeted to meet expenditure. Part of the treasury management operation is to ensure that:
    - The Council's capital programme and corporate investment plans are adequately funded;
    - Cash flow is adequately planned, with cash being available when needed to discharge the Council's legal obligations and to deliver Council services;
    - Surplus monies are invested wisely, in counterparties or financial instruments commensurate with the Council's low risk appetite, providing security of capital and adequate liquidity before considering investment yield.

2. Treasury Management Strategies provide a guide to the borrowing needs of the Council, essentially longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. The management of longer-term cash may involve arranging long or short-term loans, using cash flow surpluses, or restructuring any debts previously transacted to meet Council risk or cost objectives.

3. The Council has formally adopted CIPFA's Code of Practice on Treasury Management (the Code). The Code and Cross Sectoral Guidance Notes issued in 2018 require that each local authority has a Treasury Management Policy Statement that is approved by the Full Council, and this is set out in Appendix A.

4. The Council also follows other key requirements of the Code as set out in Appendix B. Prospects for interest rate changes and investment returns have been considered in developing and updating the Council's Treasury Management Strategies. The Bank of England published its latest Monetary Policy report in November 2021. CPI inflation forecasts were revised to 4.3% in 2021, 3.4% in 2022 and 2.2% in 2023.

5. The Bank of England made a majority decision on 15 December 2021 to increase rates by 0.15% to 0.25%. The Council's treasury management advisors, Link Asset Services, are currently forecasting the rate to increase to 0.50% in June 2022, 0.75% in March 2023 and 1.00% in March 2024.

6. The importance of external economic factors is also a key driver in external parties setting rates and also the availability of instruments in which to invest and borrow. Appendix D sets out the present views of our treasury consultant, Link Asset Services.

7. The remainder of this reports comprise the Council's Treasury Management Strategy Statement which covers three main areas as summarised below:

Borrowing

- Overall borrowing strategy
- Limits on external borrowing
- Maturity structure of borrowing
- Capital Financing Requirement (CFR) projections
- Affordability
- Minimum Revenue Provision (MRP) policy
- Borrowing in advance of need
- Debt rescheduling

Capital spending plans

- Capital spending plans
- Housing Revenue Account borrowing needs
- Other investment opportunities

Managing cash balances and investments

- Current cash position
- Cash flow forecast
- Prospects for investment returns
- Council policy on investing and managing risk
- Balancing short and longer-term investments
- Annual Investment Strategy

8. The report summarises the key Prudential Indicators. These provide a reference point or "dashboard" so that senior officers and members can easily identify whether approved treasury management policies are being applied correctly in practice and take corrective action as required.

9. The Annual Investment Strategy in Appendix E provides more detail on how the Council's surplus cash investments are to be managed in 2022/23 including approved schedules of specified and non-specified investments.

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

BORROWING

Overall borrowing strategy

11. The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

12. Given the significant historic cuts to public expenditure and, in particular, local government funding, the Council's borrowing strategy continues to address the

key issue of affordability without compromising the long-term stability of the debt portfolio. The key factors influencing the 2022/23 strategy are:

- forecast capital funding;
- the current economic and market environment; and
- interest rate forecasts.

13. The Council is currently maintaining an under-borrowed position. This means that capital expenditure has not been fully funded from loan debt as other funding streams (such as government grants and third-party contributions, use of Council reserves and cash balances and capital receipts) have been employed where available. This policy has served the Council well over the last few years while investment returns have been low and counterparty risk has been relatively high.

14. However, officers are constantly reviewing the situation to see if this remains the appropriate solution, or whether the Council should undertake more long-term borrowing to match the anticipated Capital Financing Requirement (CFR) over the next few years. Given that the Council's resources available for internal borrowing are expected to reduce as capital spending intensifies, the Council needs to maintain flexibility to borrow at opportune moments in line with the approved Prudential Indicators.

15. All new Public Works Loan Board (PWLB) loans are subject to relevant gilt yields +0.80% (certainty rate).

Alternatives to PWLB

16. The Council's treasury management strategy permits borrowing from various sources, but it has not been previously anticipated that any alternatives to PWLB would need to be utilised, given the current low cost of PWLB funding.

17. In addition to the low interest rate payable, the key advantage of PWLB is the speed and ease of transaction processing and the low fee and administration cost associated with the loans. Alternative types of funding could result in lengthy due diligence, consultancy costs, legal advice and fees, and will be far more costly administratively.

Range of options

18. Alternative options for funding to PWLB include:
    - Banks
    - Pension fund institutional investors
    - Bond issuance
    - The Municipal Bonds Agency

Banks

19. Discussions with the Council's treasury consultant suggest that the Council could access borrowing from banks. However, current PWLB certainty rate

pricing has resulted in banks being placed in an overly competitive environment.

Pension fund institutional investors

20. Initial indications have suggested that the Council may be able to borrow from institutional investors at rates of around gilt yield plus 1.00% for periods of over 30-40 years, via a private placement agreement (PPA). Such an arrangement will be subject to extensive negotiations with the lenders, who will need to carry out due diligence on a Council’s finances, budgets and balance sheet. Again, the recent decision by the PWLB has resulted in a lower PWLB rate than expected from private placements.

Bond investors

21. A bond issuance would first require the Council to become credit rated by one (or more) of the major ratings agencies: Fitch, S&P or Moody’s. This is a complex, lengthy, repetitive and costly process.

22. The precise rate offered will be market led and dependent on the financial resilience of the authority and the market’s perception of its creditworthiness.

23. Councils with significant reserves and a record of not overspending on budget will be able to secure the most advantageous rates. Bond releases typically require a minimum size of at least £200m.

Municipal Bonds Agency

24. This has been in existence since 2013 but has only recently transacted its first bond issuance and local authority borrower, at a rate of 1.73%.

Future prospects

25. Alternative opportunities for the Council may well present themselves, and the borrowing strategy will be designed to allow for this. The ‘benchmark’ for a borrowing opportunity is regarded at around gilts +0.8%. It is unclear at this stage whether feasible PWLB competition will materialise, and it is likely to take some time to do so.

26. Officers will continue to explore alternatives to the PWLB, working with the Council’s treasury advisor, Link Asset Services. PWLB rates will also be kept under regular and active review.

Investing Primarily for Yield

27. Under the new Public Work Loans Board (PWLB) framework, the Council will need to submit its three-year capital plan to the PWLB and classify under different areas of spend, listed below, with classification the responsibility of the S151 officer. Any monies lent by the PWLB would also need to be classified under the following areas of spend:

- Service spending
- Housing
- Regeneration
- Preventative action
- Treasury Management: refinancing and externalisation of internal borrowing

28. Under the PWLB criteria, it is stipulated: “Local authorities must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with a PWLB loan.”

29. On transacting a PWLB loan, the S151 officer is required to confirm that the local authority is not borrowing in advance of need and does not intend to buy investment assets primarily for yield. When applying for a new PWLB loan, the Council will be asked to confirm that the latest plans submitted remain current and the assurance that they do not intend to buy investment assets primarily for yield remains valid.

30. The PWLB guidance defines investment assets bought primarily for yield as:

    - buying land or existing buildings to let out at market rate;
    - buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification;
    - buying land or existing buildings, other than housing, which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger, such as the completion of land assembly;
    - buying a speculative investment asset (including both financial and non-financial assets) that generates yield without a direct policy purpose.

Limits on external borrowing

31. The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 1 below. The limits for 2022/23 have remained at the same level compared with the 2021/22 Treasury Management Strategy Statement (TMSS) to reflect slippage in the capital programme from previous years. The limits are:
    - **Authorised Limit for External Debt (Prudential Indicator 5a):** This is the limit prescribed by section 3(1) of the Local Government Act 2003, representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term.
    - **Operational Boundary (Prudential Indicator 5b):** This is the limit which external debt is not normally expected to exceed. The boundary

is based on current debt plus anticipated net financing need for future years.

Table 1: Overall borrowing limits

	2021/22	2022/23	2023/24	2024/25
	Approved	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Authorised Limit for External:				
Borrowing and other long-term liabilities	550	650	700	700
Operational Boundary for:				
Borrowing	390	440	560	630
Other long-term liabilities	15	15	15	15
TOTAL	**405**	**455**	**575**	**645**

Maturity structure of borrowing

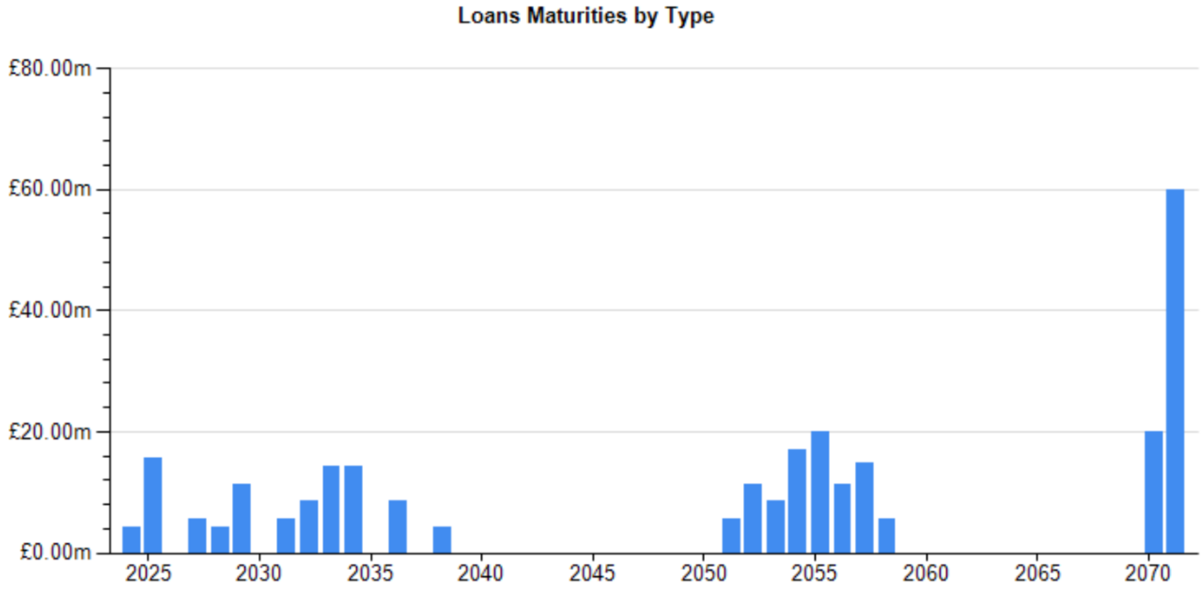
32. Managing the profile of when debt matures is essential for ensuring that the Council is not exposed to large, fixed rate sums falling due for refinancing within a short time period, and thus potentially exposing the Council to additional risk and cost. Table 2 below sets out current upper and lower limits for debt maturity which are unchanged from 2021/22.

Table 2: Debt maturity profile limits

Actual Maturity at 30 Sep 2021		Lower Limit	Upper Limit
%		%	%
0	Under 12 months	0	15
0	12 Months and within 24 Months	0	15
10	24 Months and within 5 years	0	60
8	5 Years and Within 10 Years	0	75
82	10 Years and Above	0	100

Maturity profile of long-term borrowing

33. The chart below shows that the principal repayment profile for current borrowing (as at 30 September 2021) remains within these limits.



Capital Financing Requirement (CFR)

34. The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or other capital resources. Essentially, it measures the Council's underlying borrowing need. Each year, the CFR will increase by the amounts of new capital expenditure not immediately financed.

35. Table 3a shows that the CFR will increase over the medium term. Consequently, the capital financing charge to revenue will increase, reflecting the capital spending plans.

Table 3a: Capital Financing Requirement forecast

2020/21 Actuals £m		2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
	CFR as at 30 September				
153	General Fund Closing CFR (detail in Table 3b)	178	261	312	316
233	Closing Forecast HRA CFR (including deferred costs of disposal)	258	296	317	332
386	**TOTAL**	**436**	**557**	**629**	**648**
	Annual Change				
18	General Fund	26	83	51	4
17	HRA	25	38	21	15
35	**TOTAL**	**51**	**121**	**72**	**19**

36. A more detailed analysis of the closing Forecast CFR is shown below:

Table 3b: General Fund Capital Financing Requirement forecast (detailed)

2020/21 Actuals £m		2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
122	General Fund CFR excluding self-financing schemes and loans	134	164	173	175
22	Self-financing schemes and loans	37	90	133	135
9	PFI and Finance lease liabilities	8	7	6	6
153	**TOTAL**	**178**	**261**	**312**	**316**

37. Table 4 below confirms that the Council's gross debt does not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for current year and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

Table 4: Borrowing compared to the Capital Financing Requirement

2020/21 Actual £m		2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
272	Gross Projected Debt	272	462	534	553
386	Capital Financing Requirement	436	557	629	648
114	**Under / (over) borrowing**	**165**	**95**	**95**	**95**

Affordability

38. The objective of the affordability indicators is to ensure that the level of investment in capital assets proposed remains within sustainable limits and, in particular, the impact on the Council's "bottom line" as reflected in the impact on council tax and rent levels. Table 5 below sets out the expected ratio of capital financing costs to income for both General Fund and HRA activities:

Table 5: Ratio of capital financing costs to income

2020/21 Actual %		2021/22 Forecast %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
(2.09)	General Fund	(0.62)	(0.13)	0.62	0.86
6.52	HRA	6.04	6.18	7.35	8.20

39. From 2022/23 onwards, gross capital financing charges (loan interest, MRP and finance and PFI payments) for the General Fund capital programme will start to increase as a proportion of the income from investments and the commercial property portfolio, as new debts are raised to close the gap between funding and the CFR.

40. The capital financing charges arising from the HRA capital programme increase in line with the forecast increased income, hence capital charges as a proportion of the HRA net revenue stream will remain fairly steady.

Minimum Revenue Provision (MRP) Policy

41. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year. The accounting approach is to spread the cost over the estimated useful life of the asset. The mechanism for spreading these costs is through an annual MRP. The MRP is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is funded by Council Tax.

42. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended (Statutory Instrument (SI) 3146/2003) requires Full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. In setting a level which the Council considers to be prudent, the guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.

Borrowing in advance of need

43. The Council has the power to borrow in advance of need in line with its future borrowing requirements under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated, and that the Council can ensure the security of such funds. Currently, there are no plans to incur any additional external borrowing in the medium term.

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

Debt rescheduling

45. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred), which are very costly.

46. The reasons for any rescheduling to take place will include:
    - generating cash savings and / or discounted cash flow savings;
    - helping to fulfil the treasury strategy; and
    - enhancing the balance of the portfolio by amending the maturity profile and/or the balance of volatility.

47. Consideration will also be given to identifying the potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates paid on current debt.

48. Any rescheduling must be authorised by the Director of Finance in consultation with the lead Cabinet Member.

CAPITAL

Capital spending plans

49. The Prudential Code requires that any borrowing and investment decisions are taken in the light of capital spending plans and consideration of how that proposed capital expenditure will be purchased. The Council's capital expenditure plans have been reported in the four-year capital programme 2021/22 to 2024/25 reported elsewhere on the Committee's agenda, both in terms of those agreed previously, and those forming part of the current budget cycle.

50. Any slippage against the capital programme, or new capital approvals, will impact on the figures reported throughout this report.

Housing Revenue Account (HRA) borrowing

51. From October 2018 onwards, local authorities with an HRA are no longer constrained by government controls over borrowing for house building and are able to borrow against their expected rental income, in line with the Prudential Code.

52. For the period 2021/22 to 2024/25, based on the planned four-year capital programme and due to reduced cash balances from the latter half of 2021/22 onwards, the HRA may need to actively consider new external borrowing.

53. Where the HRA is borrowing below its level of CFR and is under borrowed, the General Fund will make an accounting charge to the HRA based on the average one-year LIBOR rate applied to the under borrowed position.

Other investment opportunities

54. As well as investing in assets owned by the Council and used in the delivery of services, the Council also invests, or may invest, where appropriate, in:
    - Infrastructure projects, such as green energy;
    - Loans to third parties;
    - Shareholdings in limited companies and joint ventures.

55. Such investments are treated as expenditure for treasury management and Prudential borrowing purposes, even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities will be agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Annual Investment Strategy.

MANAGING CASH BALANCES

Current position and cash flow forecast

56. Table 6 below shows that cash balances have increased by £43m in the past six months which is due to Government grants for COVID-19 support received during this period. The cash largely comprises the Council's usable reserves, capital receipts and unspent grants.

Table 6: Cash position at 30 September 2021

As at 31 March 2021			As at 30 September 2021	
Principal £m	Average Rate %		Principal £m	Average Rate %
		Investments		
297	0.1	Specified	340	0.0
0	0.0	Non-Specified	0	0.0
297		**Total**	**340**	
		Borrowing		
272	3.8	Public Works Loan Board	272	3.8
272		**Total**	**272**	

57. The Council aims to manage daily cash flow peaks and troughs to achieve a nil current account balance daily throughout the year. As such the average yearly surplus cash balances should be fully invested throughout.

Prospects for investment returns

58. The Bank Rate was increased in December 2021 to 0.25%. The rate is predicted to remain at the same level until June 2022 where the forecasted rate is set at 0.75%. The Council should therefore see an increase in investment returns for 2022/23.

59. Money Market Funds (MMFs) yields have increased in recent months but still remain exceptionally low and the Debt Management Account Deposit Facility (DMADF) offer nil or negative rates for very short-term maturities.

60. The Table in Appendix C, provided by our treasury consultants, sets out the forecasted rates.

Council policy on investing and managing risk

61. The aim is to manage risk and reduce the impact of any adverse movement in interest rates on the one hand but, at the same time, not setting the limits to be so restrictive that they impair opportunities to reduce costs or improve performance.

Balancing short- and longer-term investments

62. During the first half of 2021/22, there have been no new investments of surplus funds for more than 364 days. The 2022/23 Annual Investment Strategy permits investing for more than 364 days. Using longer term maturity investments would improve yields; however, this needs to be balanced with liquidity needs.

Table 7: Investment limits

2020/21 Actual £m		2021/22 Forecast £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
0	Upper Limit for principal sums invested for more the 364 days	120	120	120	120

Annual Investment Strategy

63. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves.

64. The Local Government Act 2003 requires the Council to prepare an Annual Investment Strategy, setting out the Council’s policies for managing its

investments and for giving priority to the security and liquidity of those investments. This strategy is set out in Appendix E.

65. Investments are made with reference to the core balance, future cash flow requirements and the outlook for interest rates. The Council's investment priorities will always be security of capital first, liquidity second, then investment yield.

SUMMARY OF PRUDENTIAL INDICATORS (PIs)

66. The purpose of prudential indicators (PIs) is to provide a reference point or "dashboard" so that senior officers and Members can:
    - easily identify whether approved treasury management policies are being applied correctly in practice; and
    - take corrective action as required.

67. As the Council's S151 officer, the Director of Finance has responsibility to ensure that appropriate Prudential Indicators are set and monitored and that any breaches are reported to members. The Director of Finance has confirmed that the PIs set out below are all expected to be complied with in 2021/22 and it is not envisaged at this stage that there will be any difficulty in achieving compliance with the suggested indicators for 2022/23.

Indicator	2021/22 indicator	2021/22 forecast	2022/23 proposed
Capital expenditure	£162m	£116m	£191m
Capital Financing Requirement (CFR)	£481m	£436m	£557m
Net debt vs CFR	£95m underborrowed	£182m underborrowed	£95m underborrowed
Ratio of financing costs to revenue stream	GF (0.61%) HRA 6.34%	GF (0.62%) HRA 6.04%	GF (0.13%) HRA 6.18%
Authorised limit for external debt	£550m	£272m	£650m
Operational debt boundary	£495m	£272m	£570m
Working capital balance	£0m	£0m	£0m
Limit on surplus funds invested for more than 364 days (non-specified investments)	£120m	£0m	£120m
Maturity structure of borrowing	Upper limit under 12 months - 15% Lower limit 10 years and above - 100%	Upper limit under 12 months - 0% Lower limit 10 years and above - 100%	Upper limit under 12 months - 15% Lower limit 10 years and above - 100%

Reasons for Decision

68. This report represents the Council's Treasury Management Strategy Statement for 2022/2023. It is a regulatory requirement for this report to be reported to the Council. It is recommended that approval is given to the future borrowing and investment strategies as outlined in this report.

Equality Implications

69. There are no equality implications for groups with protected characteristics (under the Equality Act 2010) as a result of this report. EIAs have been completed for each service area to which the underlying financing in this report relates to. Additionally, there is a general EIA which assesses the impacts on equality of the main items in the budget proposed to Full Council.

Risk Management Implications

70. Treasury Management contributes to all the Council values and objectives. Management of treasury risks are commensurate to the risk appetite of the Council. The effective understanding, control and management of the many aspects of risk associated with treasury management are essential to achieving and Council's objectives. Risk management is therefore embedded throughout treasury guidance, policies and practices.

71. Treasury risks present themselves in many forms, from failure to optimise performance by not taking advantage of opportunities, to managing exposure to changing economic circumstances, most recently the situation is somewhat uncertain due to the impact of the pandemic. In adopting a policy of managing risk, an authority is determining its level of risk acceptance.

72. The key challenge is to understand, identify, monitor and manage risks in a planned and effective way. Local authorities are required to report annually to Full Council on their treasury management strategy statement (TMSS) before the start of the year, which sets the objectives and boundaries for the approach to treasury activity.

73. The authority supplements this with treasury management practice schedules (TMPs), which set out the practical arrangement to achieve those objectives. The TMPs inform the day-to-day practices applied to manage and control treasury activities. Local authorities are typically financially risk averse and greatly value stability in order to form council tax and housing rent levels, through to general fund and HRA budgets.

Implications verified by: David Hughes, Director of Audit, Risk and Fraud, tel. 020 7361 2389.

Climate and Ecological Emergency Implications

74. The Council will not intentionally place cash investment deposits which are inconsistent with its environmental and social policy objectives. This would

include avoiding direct investment in institutions where there is verifiable material links to harmful practices, such as human rights abuse or environmentally climate damaging activities.

75. The Council will consider investments that deliver environmental and social benefits, provided that security and liquidity criteria have already been met.

76. CIPFA has indicated that it may update the Prudential Code to include environmental, social and governance (ESG) factors in investment considerations. This will be integrated as part of counterparty credit risk, whereby the Council will be required to set out the organisation's policies and practices relating to ESG factors when making investment decisions.

77. Any changes in the Prudential Code will be reflected in the next year's Treasury Management Strategy Statement (TMSS). However, the Council will begin to further consider ESG implications during this financial year in preparation.

Local Economy and Social Value

78. The Council's borrowing and investment activity represents significant expenditure and income within the Borough and, consequently, where supplies are sourced locally, changes in borrowing or investment may impact either positively or negatively on local contractors and sub-contractors. Where capital expenditure increases, or is brought forward, this may have a beneficial impact on local businesses; conversely, where expenditure decreases, or is slipped, there may be an adverse impact on local businesses.

Implications verified by: Nicki, Burgess, Economic Development Team, tel. 0208 753 5695

Consultation

79. Consultation took place with the Council's investment advisor, Link Asset Services, in respect of the economic and interest rate update.

List of Appendices:

Appendix A: Treasury Management Policy Statement
Appendix B: Meeting CIPFA requirements
Appendix C: Interest Rate Prospects
Appendix D: Economic Update
Appendix E: Annual Investment Strategy
Appendix F: Credit Ratings
Appendix G: Risk Register

APPENDIX A

THE TREASURY MANAGEMENT POLICY STATEMENT

The CIPFA recommendations contained in the Code of Practice and Cross Sectoral Guidance Notes issued as a revised version in 2009, 2011 and 2018 for Treasury Management in the Public Services require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council.

CIPFA recommends that the Council's treasury management policy statement adopts the following form of words below to define the policies and objectives of its treasury management activities.

This Council defines its Treasury Management activities as:

- The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance.

APPENDIX B

MEETING CIPFA REQUIREMENTS

The Council has formally adopted CIPFA's Code of Practice on Treasury Management (updated 2018) and complies with the requirements of the Code as detailed below:

- Maintaining a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities

- Maintaining a statement of Treasury Management Practices that sets out the manner in which the Council will seek to achieve these policies and objectives

- Presenting the Full Council with an annual Treasury Management Strategy Statement, including an annual investment strategy (this report) and Minimum Revenue Provision policy for the year ahead (separate report on the agenda), a half year review report and an annual report (stewardship report) covering compliance during the previous year

- A statement of delegation for treasury management functions and for the execution and administration of treasury management decisions (see below).

- Delegation of the role of scrutiny of treasury management activities and reports to a specific named body. At the London Borough of Hammersmith & Fulham, this role is undertaken by the Audit Committee.

Treasury Management Delegations and Responsibilities

The respective roles of the Council, Cabinet, Audit Committee, and of the Section 151 officer and the Director of Treasury and Pensions are summarised below. Further details are set out in the Statement of Treasury Management Practices.

Council

Council will approve the annual treasury management strategy statement, including borrowing and investment strategies. In doing so, Council will establish and communicate its appetite for risk within treasury management having regard to the Prudential Code.

Cabinet

Cabinet will recommend to Council the annual treasury strategy, including borrowing and investment strategies and receive a half-year report and annual outturn report on treasury activities. Cabinet also approves revenue budgets, including those for treasury activities.

Audit Committee

This committee is responsible for ensuring effective scrutiny of treasury strategy and policies.

Section 151 Officer

The role of the Section 151 is vested in the Director of Finance post (the S151 Officer), pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000.

The S151 Officer may authorise officers to exercise on their behalf functions delegated to them. Any decisions taken under this authority shall remain the responsibility of the S151 Officer and must be taken within the guidelines of the Treasury Management Strategy.

The S151 Officer has full delegated powers from the Council and is responsible for the following activities:

- Investment management arrangements and strategy;
- Borrowing and debt strategy;
- Monitoring investment activity and performance;
- Overseeing administrative activities;
- Ensuring compliance with relevant laws and regulations;
- Provision of guidance to officers and members in exercising delegated powers.

Director of Treasury and Pensions

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'.

Treasury team

Undertakes day-to-day treasury investment and borrowing activity in accordance with strategy, policy, practices and procedures.

Training

The Code requires the S151 officer to ensure that members with responsibility for making treasury management decisions and for scrutinising treasury functions to receive adequate training. The training needs of all officers are reviewed periodically as part of the Learning and Development programme. Officers attend various seminars, training sessions and conferences during the year and appropriate Member training is offered as and when needs and suitable opportunities are identified.

Monitoring and Reporting

The Treasury Management activities during the year will be included in the monitoring reports to the Audit Committee.

The Council's Treasury Management Strategy will be approved annually by Full Council and there will also be a mid-year report. The aim of these reporting arrangements is to ensure that those with the responsibility for treasury management policies and activities and those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council will adopt the following reporting arrangements in accordance with the requirements of the revised code:

Area of Responsibility	Council / Committee / Officer	Frequency
Treasury Management Strategy	Full Council	Annually at meeting before the start of the financial year.
Scrutiny of Treasury Management Strategy	Audit Committee	Annually
Treasury Management Strategy: Mid-year report	1. Audit Committee 2. Cabinet	Annually after the first half of the financial year
Treasury Management Strategy: Updates / revisions at other times	1. Audit Committee 2. Full Council	As and when required
Treasury Outturn Report	1. Audit Committee 2. Full Council	Annually after year-end
Treasury Management Monitoring Reports	Director of Finance and Cabinet Member for Finance and Commercial Services	Weekly/Monthly

APPENDIX C

PROSPECTS FOR INTEREST RATES

1. The Council has appointed Link Asset Services as its treasury advisor and part of its service is to assist the Council to formulate a view on interest rates. The following table gives their central view:

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.25	0.50	0.75	0.75	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.40	1.40	1.50	1.50	1.60	1.70	1.70	1.80	1.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.00	2.00	-	-	-	-	-
25yr PWLB Rate														
Link	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	-	-	-	-	-
50yr PWLB Rate														
Link	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.20	2.30	-	-	-	-	-

Source: Link Asset Services

2. The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until December 2021 when the rate was increased to 0.25%.

   - As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in June 2022 to 0.50%, then March 2023 to 0.75%, March 2024 to 1.00% and, finally, March 2025 to 1.25%.

Significant risks to the forecasts

3. Labour and supply shortages prove more enduring and disruptive and depress economic activity.

4. Mutations of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, resulting in further national lockdowns or severe regional restrictions.

5. The Monetary Policy Committee acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than currently anticipated.

6. The Monetary Policy Committee tightens monetary policy too late to ward off building inflationary pressures.

7. The Government acts too quickly to cut expenditure to balance the national budget.

8. UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

9. German general election in September 2021. Germany faces months of uncertainty while a new coalition government is cobbled together after the indecisive result of the election. Once that coalition is formed, Angela Merkel's tenure as Chancellor will end and will leave a hole in overall EU leadership.

10. Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.

11. Major stock markets e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

12. Geopolitical risks, for example in Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

13. The balance of risks to the UK economy: -

14. The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

15. It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes five increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?

- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.

- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?

- It is estimated that there were around 1 million people who came off furlough at the end of September; how many of those would not have had jobs on 1st October and would therefore be available to fill labour shortages which are creating a major headache in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate one of the MPC's key current concerns.

- It's also recognised that there could be further nasty surprises on the Covid front, on top of the flu season this winter, and even the possibility of another lockdown, which could all depress economic activity.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no deal Brexit.

16. In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will be revised again over the next few months - in line with what the new news is.

17. It should also be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on no other grounds than it being no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

APPENDIX D

ECONOMIC UPDATE

1. COVID-19 vaccines. These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the Omicron mutation discovered at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022.

2. The mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues.

3. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home.

4. Growth will also be lower due to people being ill and not working. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A summary overview of the future path of Bank Rate

5. In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.

6. The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.

7. If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.

8. With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

9. The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.

10. Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.

11. However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.

12. Link have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.

13. Covid remains a major potential downside threat in all three years as there are likely to be further mutations. How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?

14. Purchases of gilts under QE ended in December. When Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC meeting 16th December 2021

15. The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

16. The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

17. In October, GDP rose 0.1% m/m which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government’s “Plan B” COVID-19 restrictions could cause the economy to contract in December.

18. On 14th December, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

19. These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

20. On 15th December Link had the CPI inflation figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

21. Other elements of inflation are also transitory e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

22. Although it is possible that the Government could step in with some fiscal support for the economy, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

23. This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a surprise increase in Bank Rate from 0.10% to 0.25%. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote

to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that “there has been significant upside news” and that “there were some signs of greater persistence in domestic costs and price pressures”.

24. On the other hand, it did also comment that “the Omicron variant is likely to weigh on near-term activity”. But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now “these conditions had been met”. It also appeared more worried about the possible boost to inflation form Omicron itself. It said that “the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation”. It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning “global price pressures might persist for longer”. (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

25. On top of that, there were no references this month to inflation being expected to be below the 2% target in two years’ time, which at November’s meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

26. These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a “modest tightening” in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. “Modest” seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

27. In as much as a considerable part of the inflationary pressures at the current time are indeed transitory, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

28. As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November’s statement that Bank Rate would be raised “in the coming months”. That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

29. The MPC’s forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

- Raising Bank Rate as “the active instrument in most circumstances”.

- Raising Bank Rate to 0.50% before starting on reducing its holdings.
- Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
- Once Bank Rate had risen to at least 1%, it would start selling its holdings.

30. US. Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, CPI inflation hit a near 40-year record level of 6.8% but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

31. Shortages of labour have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.

32. Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the Fed's meeting of 15th December would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

33. EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected

downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

34. November's inflation figures breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.

35. ECB tapering. The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.

36. The ECB will now also need to consider the impact of Omicron on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

37. The EU has entered into a period of political uncertainty where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

38. China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of 2020; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

39. However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The People's Bank of China made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

40. Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

41. Japan. 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

42. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

43. World Growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not

fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

44. Supply shortages. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

Source: Link Asset Services

APPENDIX E

ANNUAL INVESTMENT STRATEGY

1. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves. During the first half of the current year, the Council's average investment balance has been around £263m. Investments are made with reference to the core balance, future cash flow requirements and the outlook for interest rates.

2. The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments ("the Investment Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

3. In accordance with the above guidance and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties, which will provide security of investments, enable diversification and minimise risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

Investment return expectations

4. The Bank Rate is forecasted to gradually increase from 0.25% over the next three years, with the rate reaching 2.00% in the long term.

5. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long-term forecast is for periods over ten years in the future):

Average earnings in each year	
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Long term later years	2.00%

Source: Link Asset Services

6. The overall balance of risk to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the COVID-19 virus. There is relatively little UK domestic risk of substantial increases or decreases in the Bank Rate and shorter term PWLB rates until 2023/24 at the earliest.

Investment time limits

7. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. For the year 2022/23, the proposed limit of investments for over 364 days is £120m as set out in the TMSS.

Investment Policy

8. The Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to assess continually and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

Creditworthiness Policy

10. The primary principle governing the Council'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 Council 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; 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 Council's prudential indicators covering the maximum principal sums invested.

11. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

12. The Council takes into account the following relevant matters when proposing counterparties:

    - the financial position and jurisdiction of the institution;
    - the market pricing of credit default swaps[1] for the institution;
    - any implicit or explicit Government support for the institution;
    - Standard & Poor, Moody's and Fitch short- and long-term credit ratings;
    - Sovereign ratings to select counterparties from only the most creditworthy countries; and

[1] Credit Default Swaps (CDS) are tradable instruments where the buyer receives a pay-out from the seller if the party to whom the CDS refers (often a financial institution) has a "credit event" (e.g. default, bankruptcy, etc.). The price of the CDS gives an indication to the market's view of likelihood: the higher the price the more likely the credit event.

- Core Tier 1 capital ratios [2].

13. Changes to the credit rating will be monitored and, in the event that a counterparty is downgraded and does not meet the minimum criteria specified, the following action will be taken immediately:

- no new investments will be made;
- existing investments will be recalled if there are no penalties; and
- full consideration will be given to recall or sale existing investments which would be liable to penalty clause.

Specified and Non-specified investments

14. The DLUHC Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on local authorities around the use of specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:

- The investment and any associated cash flows are denominated in sterling;
- The investment has a maximum maturity of one year;
- The investment is not defined as capital expenditure; and
- The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

15. Investments with UK local authorities are deemed to be high credit quality because of the strong regulatory financial framework within which local authorities are required to operate and which mitigates against the risk of default, summarised below:

- The requirement to set a balanced budget annually under sections 31A and 42A of the Local Government Finance Act 1992;
- The requirement to budget for a minimum level of reserves including risk under the Local Government Act 2003;
- The requirement for the S151 officer to issue a statutory report in the event that the authority intends to not set an adequate level of reserves or intends to undertake a course of action which he considers to be unlawful;
- The requirement for long-term borrowing to be solely for capital expenditure;

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[2] The Tier 1 capital ratio is the ratio of a bank's core equity capital to its total risk-weighted assets (RWA). Risk-weighted assets are the total of all assets held by the bank weighted by credit risk according to a formula determined by the Regulator (usually the country's central bank). Most central banks follow the Basel Committee on Banking Supervision (BCBS) guidelines in setting formulae for asset risk weights.
The Core Tier 1 ratios for the four UK banks that the Council uses are: Barclays: 10.2%, HSBC: 11.2%, Lloyds: 12.0% and RBS: 10.8%.

- The cap on excessive borrowing through the operation of the limits in the Prudential Code;
- All borrowing has to be secured on revenues of a local authority rather than assets.

16. All investments with local authorities will be subject to due diligence review of their accounts and financial health by the Tri-Borough Director of Treasury and Pensions and agreed with the Director of Finance.

17. A non-specified investment is any investment that does not meet all the conditions above. In addition to the long-term investments listed in the table below, the following non-specified investments that the Council may make include:

- **Green Energy Bonds:** Investments in solar farms are a form of Green Energy Bonds that provide a secure enhanced yield. The investments are structured as unrated bonds and secured on the assets and contracts of solar and wind farms. Before proceeding with any such investment, internal and external due diligence will be undertaken in advance of investments covering the financial, planning and legal aspects.

- **Loans:** The Council may consider advancing loans (as a form of investment) to organisations delivering services for the Council where this will lead to the enhancement of services to Council stakeholders. The Council will undertake due diligence checks to confirm the borrower’s creditworthiness before any sums are advanced and will obtain appropriate levels of security or third party guarantees for loans advanced. The Council would expect a return commensurate with the type and duration of the loan. All loans would need to be in line with the Council’s Scheme of Delegation and Key Decision thresholds levels.

- **Shareholdings in limited companies and joint ventures:** The Council may invest in three forms of company:

    - Small scale businesses aimed at promoting economic growth in the area. Individual investments are no more than £0.5m and the aim is for these to be self-financing over the medium term. Any such loans will be subject to due diligence and the Council's Scheme of Delegation and Key Decision thresholds levels.

    - Trading vehicles which the Council has set up to undertake particular functions. Currently the Council has interests in the following companies: Lyric Theatre Hammersmith Ltd, Hammersmith and Fulham Urban Studies Centre, Hammersmith and Fulham Bridge Partnership, HFS Developments LLP, HFS Developments 2 LLP, LBHF Ventures Ltd, LBHF Joint Ventures Ltd and LBHF Family Support Services Ltd. These are not held primarily as investments but to fulfil Council service objectives. Any new proposals will be subject to due diligence as part of the initial business case. As these are not to be held primarily as investment vehicles, then there is an expectation that they will break even.

- Trading vehicles held for a commercial purpose where the Council is obliged to undertake transactions via a company vehicle. These will be wholly owned subsidiaries of the Council with the aim of diversifying the investment portfolio risk.

18. For any such investments, specific proposals will be considered by the Director of Treasury and Pensions, and the Director of Finance in consultation with the Cabinet Member for Finance and Commercial Services and approvals to be in accordance with the Council's Constitution and governance processes, after taking into account:

- cash flow requirements
- investment period
- expected return
- the general outlook for short to medium term interest rates
- creditworthiness of the proposed investment counterparty
- other investment risks
- due diligence review

The value of non-specified investments will not exceed their investment allocation.

Country of Domicile

19. The current TMSS allows deposits / investments with financial entities domiciled in the countries listed at the foot of the schedule of investments table.

Schedule of investments

20. The current criteria for providing a pool of high quality short, medium and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are in the table below.

21. The counterparties and specific limits have been reviewed and updated.

All investments listed below must be sterling denominated

Investments	Minimum Credit Rating Required (Fitch/Moody's/S&P)	Maximum Individual Counterparty Investment Limit £m	Maximum tenor	Changes from the 2021/22 TMSS
DMO Deposits	Government Backed	Unlimited	6 months	No change
UK Government (Gilts/T-Bills/Repos)	Government Backed	Unlimited	Unlimited	No change
Supra-national Banks, European Agencies	LT: AA-/Aa3/AA-	£100m	5 years	No change
Covered Bonds	LT: AA+/Aa1/AA+	£100m	5 years	No change
Network Rail	Government guarantee	£200m maximum	Oct-52	No change
Collective Investment Scheme Investment Grade Bond Fund	Due diligence	£30m	Daily pricing	No change
GLA	N/A	GLA: £100M	3 years	No change
UK Local Authorities (LA)		LA: £30m per LA, per criteria £200m in aggregate	3 years	No change
Commercial Paper issued by UK and European Corporates	LT: AA-/Aa3/AA- ST: F1+/P-1/A-1+	£20m per name £80m in aggregate	1 year	No change
Money Market Funds (MMF)	LT: AAA by at least one of the main credit agencies	£45m per Fund Manager £300m in aggregate	3-day notice	No change
Enhanced Money Funds (EMF)	LT: AAA by at least one of the main credit agencies	£25m per fund manager, £100m in aggregate	Up to 7 day notice	No change

Investments	Minimum Credit Rating Required Fitch/Moody's/S&P	Maximum Individual Counterparty Investment Limit £m	Maximum tenor	Changes from the 2021/22 TMSS
UK Bank (Deposit/ Certificates of Deposit/ Short Dated Bonds)	LT: AA-/Aa3/AA- **or** UK Government Ownership greater than 25%	£70m	3-5 years	No change
	LT: A-/A3/A-	£50m	1-3 years	No change
	ST: F2/P-2/A-2	£50m	0-1 year	No change
Non-UK Bank (Deposit/Certificates of Deposit/Short Dated Bonds)	LT: AA-/Aa2/AA-	£50m	1-3 years	No change
	ST: F2/P-2/A-2	£30m	0-1 year	No change
Green Energy Bonds	Internal and External due diligence	Less than 25% of the total project investment or maximum of £20m per bond. £50m in aggregate	10 years	No change
Rated UK Building Societies	LT: A3/A- ST: F2/P-2/A-2	£30m	3 years	No change
Sovereign approved list (AA- rated and above):	Abu Dhabi (UAE), Australia, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Luxembourg, Netherlands, Norway, Qatar, Singapore, Sweden, Switzerland, UK and USA			

UK T-Bills: UK Government Treasury Bills (T-Bills) are short term promissory notes issued by the UK Government at a discount to par, for tenors of up to one year.

UK Gilts: UK Government Gilts provide a greater yield than cash deposits with the DMO.

UK Government repurchase agreements (Repos): UK Government repurchase agreements are the purchase of UK Government securities with an agreement to resell them back at a higher price at a specific future date.

Commercial Paper (CP) is similar to a very short-term bond issue (up to one year), issued to investors on a discounted basis, and with the interest rate based on prevailing rates at the time of pricing.

Supra-national institutions are those that sovereign backed or supported institutions that span more than one country, such as the European Investment Bank, the European Bank of Reconstruction and Development, the World Bank, etc.

Network Rail: All Network Rail infrastructure debt is directly and explicitly backed by a financial indemnity from the Secretary of State for Transport acting for and on behalf of the government of the United Kingdom of Great Britain. The financial indemnity is a direct UK sovereign obligation of the crown and cannot be cancelled for any reason (prior to its termination date in October 2052). Propose to change TMSS limit to £200m and set the maximum maturity to Oct 2052.

APPENDIX F

CREDIT RATINGS

Moodys		S&P		Fitch		Description	
LT	ST	LT	ST	LT	ST		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	Investment Grade
Aa1		AA+		AA+		High Grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1		A+	A-1	A+	F1	Upper Medium Grade	
A2		A		A			
A3	P-2	A-	A-2	A-	F2		
Baa1		BBB+		BBB+		Lower medium grade	
Baa2	P-3	BBB	A-3	BBB	F3		
Baa3		BBB-		BBB-			
Ba1	Not Prime	BB+	B	BB+	B	Speculative	Non Investment Grade
Ba2		BB		BB			
Ba3		BB-		BB-			
B1		B+		B+		Highly Speculative	
B2		B		B			
B3		B-		B-			
Caa1		CCC+	C	CCC	C	Substantial Risks	
Caa2		CCC				Extremely Speculative	
Caa3		CCC-				Default imminent with little prospect for recovery	
Ca		CC					
		C					
C		D		DDD		In Default	
				DD			
				D			

APPENDIX G

RISK REGISTER

Risk Group	Risk Ref.	Risk Description	Impact			Likelihood	Current risk score	Mitigation actions
			Financial	Reputation	Total			
Financial	1	Interest Rate Risk: the risk that rises in interest rates create an unexpected burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	2	1	3	4	**12**	The Council will continue to invest an borrow in accordance with the TMSS. Borrowing conversations will be set by "trigger points", enacted when gilt yields reach a certain long term levels, where discussions with the Council's S151 officer, T&P Director and the Cabinet Member will take place to discuss potential actions.
Financial	2	Prudent Investment Strategy: the overall treasury management strategy is too prudent and unnecessarily stringent, resulting in investment returns being lower than might have been achieved with a more risky, but ultimately safe, approach.	3	2	5	2	**10**	The TMSS, outturn reports and mid-year reports are scrutinised on a regular basis by the Audit Committee with actions minuted and implemented.
Financial	3	Credit and counterparty risk: the risk of failure by a counterparty to meet its contractual investment or borrowing obligations to the organisation, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or revenue resources.	3	4	7	1	**7**	As part of the TMSS, counterparty criteria have been set at a level to allow only the most financially secure banks and counterparties a place within the lending list, which is regularly monitored against consultant updates and advice provided by the Council's Treasury advisor.
Financial	4	Further Covid-19 variants: the risk of further investment market uncertainty and investor panic, leading to unexpected volatility in gilt yields and interest rates.	2	3	5	3	**15**	Recent forecasts from the Council's Treasury consultant predict at least one further rise in the bank base rate for 2022. In respect of borrowing, gilt prices are expected to rise, albeit steadily, throughout the financial year 2022/23.
Financial	5	Liquidity Risk: the risk that cash will not be available when it is needed, leading to additional costs, with the organisation's business/service objectives ultimately compromised.	4	2	6	1	**6**	A significant part of the Council's cash is now kept fully liquid in Money Market Funds, which offer same day accessibility for both deposits and withdrawals.
Operational	6	Fraud, error and corruption: the risk that an organisation fails to identify the circumstances in which it may be exposed to loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and internal controls to maintain effective management arrangements to these ends.	3	4	7	1	**7**	Internal controls within the treasury function are extremely robust in terms of internal check, accounting, authorisation and segregation of duties. The recent internal audit report (November 2021) concluded with a assurance opinion rated as "substantial".
Operational	7	Financial failure of the Council's main bank: the collapse of the council's main banker, leading to a total shutdown of services.	4	4	8	1	**8**	The suitability of Nat West is assessed regularly along with other institutions. It is regarded as highly unlikely that the UK Government would permit a clearing bank to fail.
Operational	8	Online banking platform failure: the partial or complete failure of the Council's online banking system, resulting in termination of online payments and provision of banking data.	2	4	6	1	**6**	Nat West is regarded as having considerable resilience, both in preventing such failures and having recovery programmes in place if such an event happened. In the event that payments cannot be made online, the Council can make a manual payment by faxing a payment request to the CHAPS team at NatWest.

Appendix 1 - Risk Management Scoring Matrix		
Scoring (Impact)		
Impact Description	**Category**	**Description**
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long term effect to local ecology or community
	Reputation	Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
	Service Delivery	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Scoring (Likelihood)	
Descriptor	**Likelihood Guide**
1. Improbable, extremely unlikely	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely to occur than not 51% to 80% chance of occurrence
5. Likely	Almost certain to occur 81% to 100% chance of occurrence

Control		Details required
Terminate	Stop what is being done.	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Reduce the likelihood of the risk occurring.	
Take	Circumstances that offer positive opportunities	
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service.	The name of the service that the risk is being transferred to and the reasons for the transfer.
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.	A clear description of the specific reasons for tolerating the risk.