London Borough of Hammersmith and Fulham

Report to: Cabinet

Date: 12/02/2024

Subject: Treasury Management Strategy Statement 2024/25

Report of: Councillor Rowan Ree, Cabinet Member for Finance and Reform

Report author: Sophie Green, Treasury Manager

Responsible Director: Sukvinder Kalsi, Strategic Director of Finance

---

SUMMARY

This report sets out the Council's proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 and seeks authority for the Strategic 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

It is recommended that:

1. Approval be given to the future borrowing and investment strategies as outlined in this report.

2. The Strategic Director of Finance, in consultation with the Cabinet Member for Finance and Reform, be delegated authority to manage the Council's cash flow, borrowing and investments in 2024/25 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.

Implications completed by: Phil Triggs, Director of Treasury and Pensions
Telephone: 0207 641 4136
Email: ptriggs@westminster.gov.uk
Verified by Sukvinder Kalsi, Director of Finance, 2 February 2024

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.

Implications completed by: Jade Monroe, Chief Solicitor Social Care, 19 January 2024
Telephone: 0208 753 2695
Email: jade.monroe@lbhf.gov.uk

Background Papers Used in Preparing This Report – *ALL PUBLISHED*

- Treasury Management Strategy Statement 2023/24 (approved by Council February 2023)
- 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 (2021 Edition)
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 Edition)

DETAILED ANALYSIS

BACKGROUND

1. The Council is required to set a balanced budget, which means that resources available during the year are budgeted for 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 long-term cash flow planning, to ensure that the Council can meet its capital spending obligations. The management of long-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 2021 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 December 2023. CPI inflation forecasts were revised to 4.60% in 2023, 3.4% in 2024 and 2.20% in 2025.

5. The Bank of England made a majority decision on 14 December 2023 to keep Bank Rate at 5.25%. The Council's treasury management advisors, Link Asset Services, are currently forecasting the rate to remain at 5.25% until June 2024, before falling to 5.00% in September 2024 and 4.50% in December 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 report comprises the Council's Treasury Management Strategy Statement which covers three main areas as summarised below:
<u>Borrowing</u>

- 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

<u>Capital spending plans</u>

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

<u>Managing cash balances and investments</u>

- Current cash position
- Cash flow forecast
- Prospects for investment returns
- Council policy on investing and managing risk
- Balancing short and long-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 2024/25 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 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 2024/25 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 coming 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 to 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.

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 market's perception of the financial resilience of the authority and 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 in 2020 transacted its first bond issuance and local authority borrower, at a rate of 1.73%.

Community Municipal Bonds

25. The treasury management strategy will also allow the use of community municipal investments, a bond like instrument, where funds can be raised from multiple investor sources, including individuals.

Future Prospects

26. 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.

27. 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

28. 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

29. 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.”

30. 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 provide assurance it does not intend to buy investment assets primarily for yield.

31. 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

32. 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 2024/25 have remained at the same level compared with the 2023/24 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

	2023/24	2024/25	2025/26	2026/27
	Approved	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Authorised Limit for External:				
Borrowing and other long-term liabilities	700	850	920	920
Operational Boundary for:				
Borrowing	640	790	860	860
Other long-term liabilities	15	15	15	15
TOTAL	**655**	**805**	**875**	**875**

Maturity structure of borrowing

33. 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 2023/24.

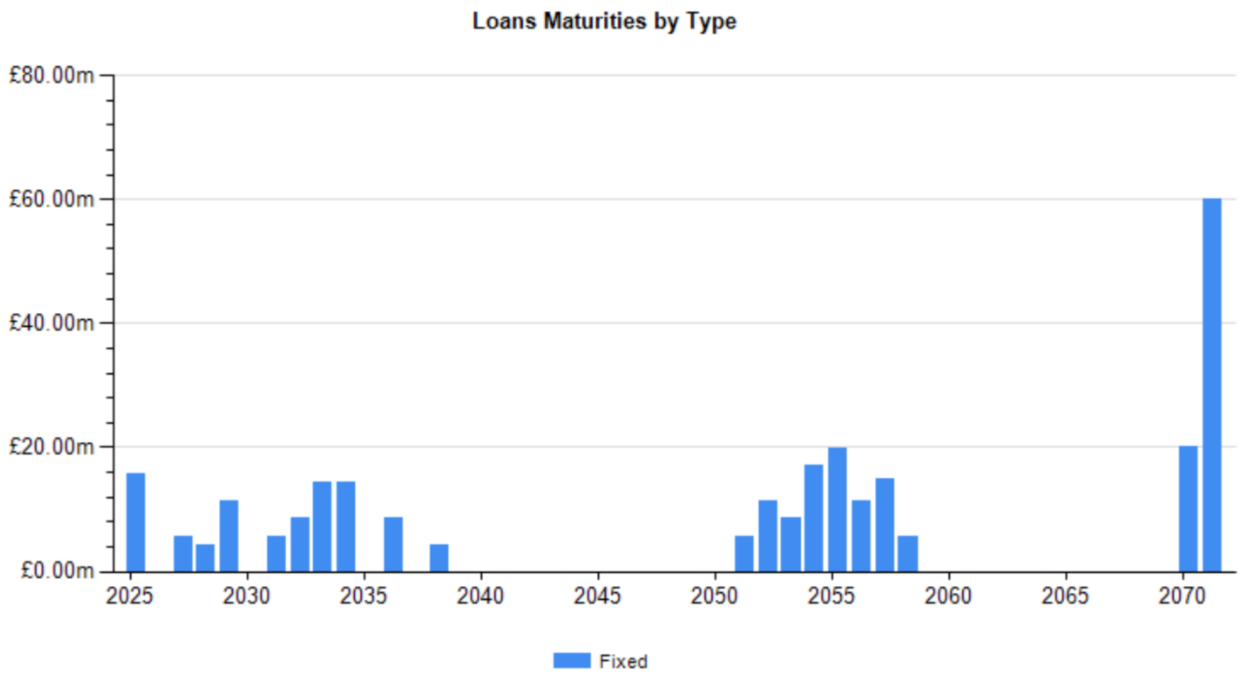
Table 2: Debt maturity profile limits

Period	Actual Maturity at 30 Sep 2023	Actual Maturity at 30 Sep 2023
	£'m	%
0 to 1 year	4	2
1 to 2 Years	11	4
2 to 5 Years	10	4
5 to 10 Years	40	15
10 to 20 Years	27	10
20 to 30 Years	37	14
30 to 40 Years	58	22
40 to 50 Years	80	30
Total	267	100

34. The limit for debt maturity is a maximum 30% in one year. The Council is currently within these limits.

Maturity profile of long-term borrowing

35. The chart below shows that the principal repayment profile for current borrowing (as at 30 September 2023) remains within these limits.



Capital Financing Requirement (CFR)

36. 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.

37. 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.

2022/23 Actuals £m		2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
	CFR as at 31 October				
203	General Fund Closing CFR (detail in Table 3b)	272	318	318	316
301	Closing Forecast HRA CFR (including deferred costs of disposal)	363	467	535	540
504	**TOTAL**	**635**	**784**	**852**	**856**
	Annual Change				
50	General Fund	69	46	0	(2)
68	HRA	62	104	68	5
118	**TOTAL**	**131**	**149**	**68**	**4**

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

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

2022/23 Actuals £m		2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
134	General Fund CFR excluding self-financing schemes and loans	171	221	224	224
55	Self-financing schemes and loans	89	85	83	81
14	PFI and Finance lease liabilities	12	12	11	10
203	**TOTAL**	**272**	**318**	**318**	**316**

39. 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

2022/23 Actual £m		2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
272	Gross Projected Debt	494	468	378	339
504	Capital Financing Requirement	635	784	852	856
232	**Under / (over) borrowing**	**141**	**317**	**474**	**517**

Affordability

40. The objective of the affordability indicators is to ensure that the level of investment in capital assets proposed remains within sustainable limits, including 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

2022/23 Actual %		2023/24 Forecast %	2024/25 Estimate %	2025/26 Estimate %
3.02	General Fund	2.96	2.82	2.80
31.20	HRA	31.55	35.42	38.44

Table 6: Ratio of commercial/service investment income to net revenue stream

2022/23 Actual %		2023/24 Forecast %	2024/25 Estimate %	2025/26 Estimate %
2.11	General Fund	1.88	1.8	1.79
3.6	HRA	3.48	3.41	3.34

41. From 2024/25 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.

42. 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.

Liability Benchmark

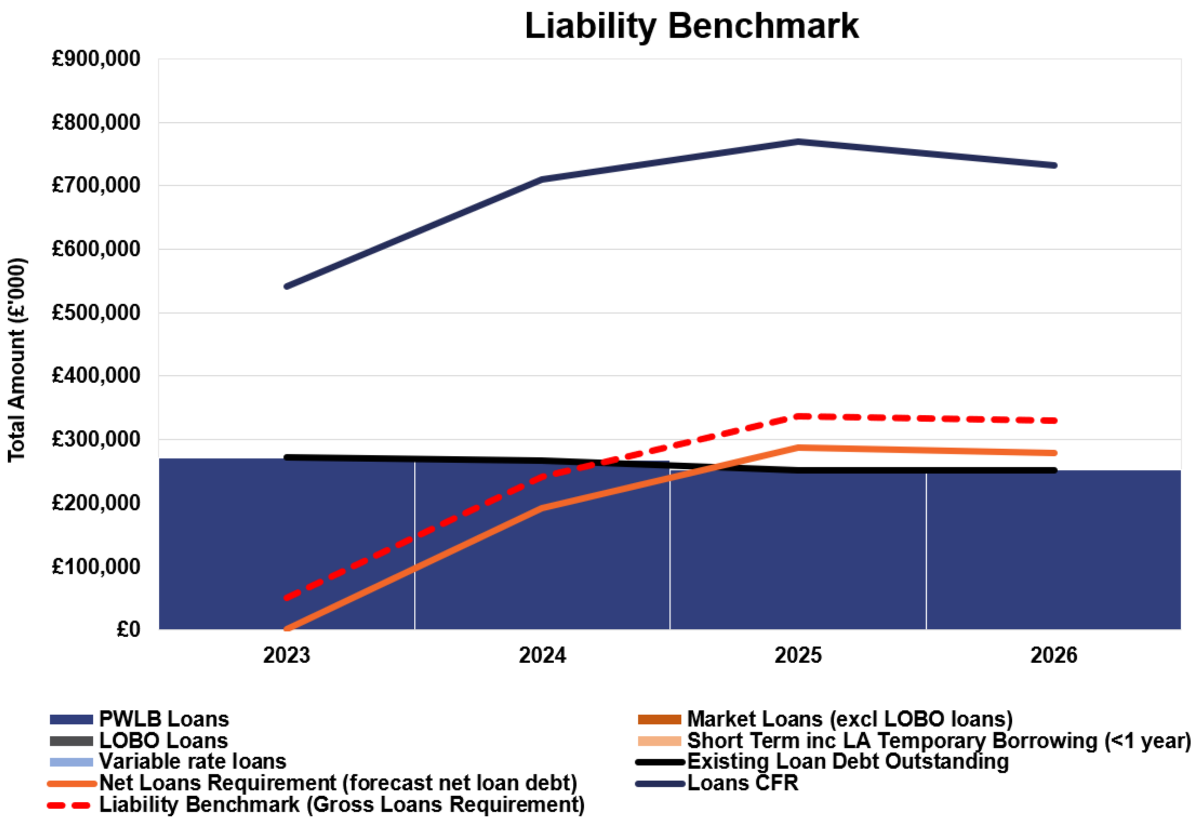
43. The updated prudential code requires the Council to produce a liability benchmark. The Council is required to estimate and measure the liability benchmark for the forthcoming financial year and the following two financial years, as a minimum.

44. There are four components to the Liability Benchmark:

- **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
- **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

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

46. Based on the current calculations, the liability benchmark forecasts that the Council would need to borrow £85m in 2024/25, and a further £89m in 2026/27 (collective £174m requirement).



Minimum Revenue Provision (MRP) Policy

47. 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.

48. 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

49. 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.

50. 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

51. 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 light of the current treasury position and the cost of debt repayment (premiums incurred), which are very costly.

52. 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.

53. 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.

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

CAPITAL

Capital spending plans

55. The Prudential Code requires that any borrowing and investment decisions are taken in light of capital spending plans and consideration of how that proposed capital expenditure will be financed. The Council’s capital expenditure plans have been reported in the four-year capital programme 2024/25 to 2027/28 reported elsewhere on the Committee’s agenda, both in terms of those agreed previously, and those forming part of the current budget cycle.

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

Housing Revenue Account (HRA) borrowing

57. Local authorities with a HRA can borrow against their expected rental income, in line with the Prudential Code.

58. For the period 2024/28 to 2027/28, based on the planned four-year capital programme and due to reduced cash balances from the latter half of 2024/25 onwards, the HRA may need to actively consider new external borrowing.

59. 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 SONIA rate applied to the under borrowed position.

Other investment opportunities

60. 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.

61. 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

62. Table 6 below shows that cash balances have decreased by £28m. The cash largely comprises the Council's usable reserves, capital receipts and unspent grants.

Table 7: Cash position at 30 September 2023

As at 31 March 2023			As at 30 September 2023	
Principal £m	Average Rate %		Principal £m	Average Rate %
		Investments		
270	4.0	Specified	242	5.2
0	0.0	Non-Specified	0	0.0
270		**Total**	**242**	
		Borrowing		
272	3.8	Public Works Loan Board	267	3.7
272		**Total**	**267**	

63. 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

64. The Bank Rate remained at 5.25% after the December MPC meeting and is predicted to stay at this rate until June 2024, before starting to decline. The Council should therefore see investment returns remain at similar levels for 2024/25.

65. Money Market Funds (MMFs) and Debt Management Account Deposit Facility (DMADF) yields have increased since 1 April 2023 in response to Bank Rate rises.

66. The Table in Appendix C, provided by the treasury consultant, sets out the forecasted rates.

Council policy on investing and managing risk

67. The aim is to manage risk and reduce the impact of any adverse movement in interest rates while providing sufficient flexibility to capitalise on opportunities to reduce costs or improve performance.

Balancing short- and longer-term investments

68. During the first half of 2023/24, there have been no new investments of surplus funds for more than 364 days. The 2024/25 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 8: Investment limits

2022/23 Actual £m		2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
0	Upper Limit for principal sums invested for more the 364 days	120	120	120	120

Annual Investment Strategy

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

70. 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 ensuring the security and liquidity of those investments. This strategy is set out in Appendix E.

71. 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)

72. 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.

73. As the Council's S151 officer, the Strategic Director of Finance has responsibility to ensure that appropriate prudential indicators are set and monitored and that any breaches are reported to members. The Strategic Director of Finance has confirmed that the PIs set out below are all expected to be complied with in 2023/24 and it is not envisaged at this stage that there will be any difficulty in achieving compliance with the suggested indicators for 2024/25.

	2023/24 indicator	2023/24 forecast	2024/25 proposed
Capital expenditure	£203m	£232m	£264m
Capital Financing Requirement (CFR)	£684m	£635m	£784m
Net debt vs CFR	£95m underborrowing	£141m underborrowing	£317m underborrowing
Ratio of financing costs to revenue stream	GF (2.39%) HRA 4.56%	GF 2.96% HRA 31.55%	GF 2.82% HRA 35.42%
Ratio of financing costs to revenue stream	GF N/A HRA N/A	GF 1.88% HRA 3.48%	GF 1.80% HRA 3.41%
Authorised limit for external debt	£650m	£267m	£850m
Operational debt boundary	£705m	£267m	£805m
Working capital balance	£0m	£0m	£0m
Limit on surplus funds invested for more than 364 days (i.e., non-specified investments)	£120m	£0m	£120m
Maturity structure of borrowing	Upper limit under 12 months - 15%	Upper limit under 12 months - 2%	Upper limit under 12 months - 15%

	Lower limit 10 years and above - 100%	Lower limit 10 years and above - 76%	Lower limit 10 years and above - 100%

Reasons for Decision

74. This report represents the Council's Treasury Management Strategy Statement for 2024/2025. 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

75. 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

76. 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.

77. Treasury risks present themselves in many forms. These include failure to optimise performance by not taking advantage of opportunities or managing exposure to changing economic circumstances. Most recently the situation is somewhat uncertain due to the impact of the pandemic and the subsequent high levels of inflation. In adopting a policy of managing risk, an authority is determining its level of risk acceptance.

78. 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.

79. 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

80. 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.

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

Local Economy and Social Value

82. 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.

83. 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

84. 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.

<u>Council</u>

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.

<u>Cabinet</u>

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.

<u>Audit Committee</u>

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 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	1. Political Cabinet 2. Cabinet 3. 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	Audit Committee	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. Political Cabinet 2. Cabinet 3. Audit Committee	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 Group as its treasury advisor who, as part of their service, assist the Council to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

2. Link's central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. Link expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

3. Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

4. In the upcoming months, Link's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

5. On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

6. Gilt yield curve movements have broadened since Link's last Newsflash. The short part of the curve has not moved far but the longer-end continues to

reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

Balance of risks to the UK economy

7. The overall balance of risks to economic growth in the UK is to the downside.

Downside Risks to current forecasts for UK gilt yields and PWLB rates

8. Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

9. The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than currently anticipated.

10. 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.

11. Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

12. Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

13. The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

14. Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher.

15. Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

Link Group Forecasts

16. Link expect the MPC to keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures.

Link do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

Gilt yields and PWLB rates

17. The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of Link's forecasts, as inflation continues to fall into 2024.

18. Link's target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

19. Borrowing advice: Link's long-term forecast for Bank Rate has increased from 2.75% to 3.00% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will be high for some time to come but may prove the best option while the market continues to wait for inflation gilt yields, to drop back later in 2024.

20. Link's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below. Investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%

2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

21. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

22. Link's interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Link continue to monitor events and will update forecasts as and when appropriate.

Source: Link Asset Services

APPENDIX D

ECONOMIC UPDATE

1. The first half of 2023/24 saw:

    - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.

    - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.

    - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.

    - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.

    - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

2. The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

3. The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

4. The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

5. As the growing drag from higher interest rates intensifies over the next six months, Link believe the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. Link expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

6. The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

7. But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3mth rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

8. CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

9. In its latest monetary policy meeting on 14 December, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

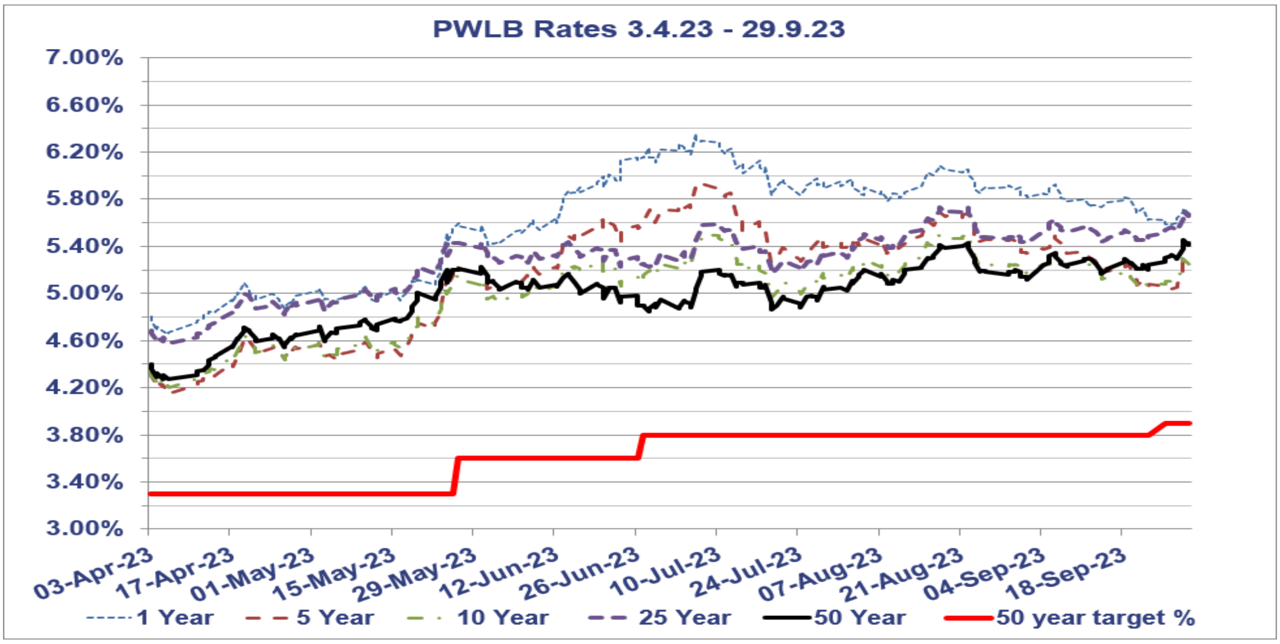
10. Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

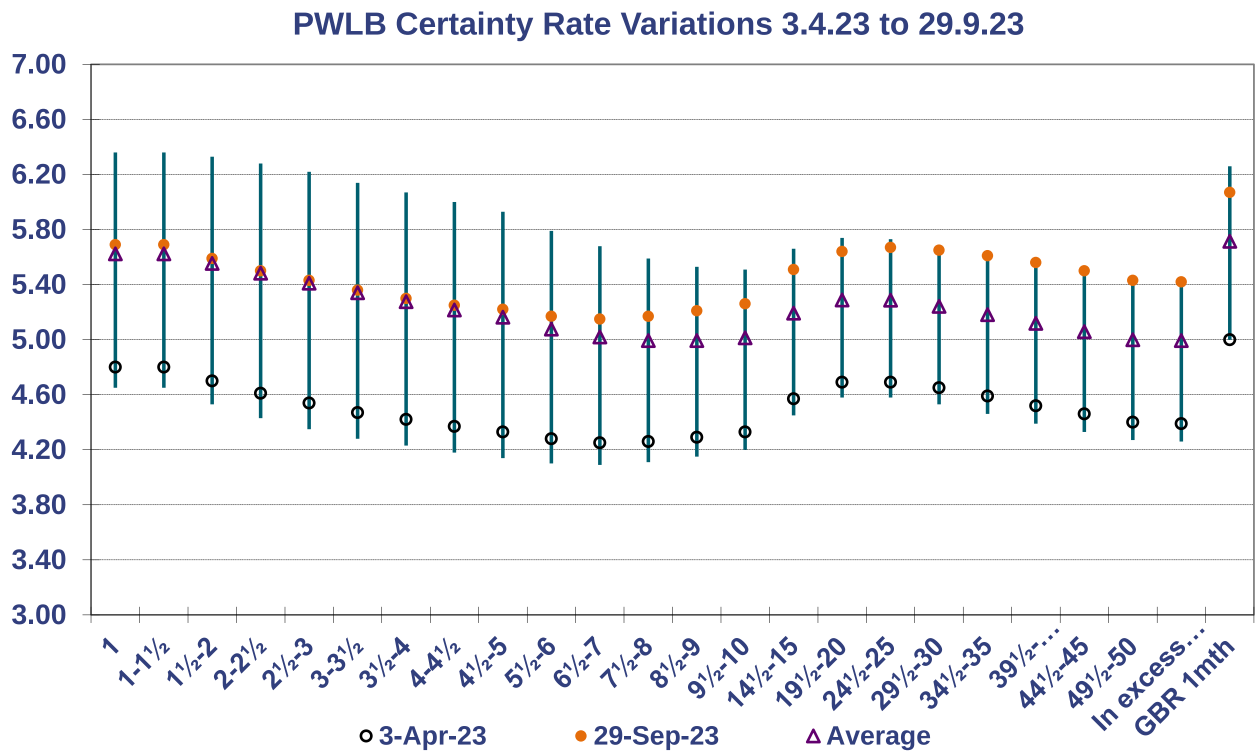
11. This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash

inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

12. In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

13. The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

14. The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

15. Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

16. Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

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 £245m. 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. Bank Rate is forecasted remain at 5.25% until June 2024, before falling to 5.00% in September 2024 and 4.50% in December 2024.

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	
2023/24 (residual)	5.30%
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

Source: Link Asset Services

Investment time limits

6. 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 2024/25, the proposed limit of investments for over 364 days is £120m as set out in the TMSS.

Investment Policy

7. 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.

8. 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

9. 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.

10. 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.

11. 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;

[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.

- 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
- Core Tier 1 capital ratios [2].

12. 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 sell existing investments which would be liable to penalty clause.

Specified and Non-specified investments

13. 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.

14. 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;

---

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.

[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 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;
- 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.

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

16. 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.

17. 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

18. 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

19. 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.

20. 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 tenure	Changes from the 2022/23 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-	£50m	5 years	Reduced from £100m
Covered Bonds	LT: AA+/Aa1/AA+	£50m	5 years	Reduced from £100m
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: £50M	3 years	Reduced from £100m
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 tenure	Changes from the 2022/23 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):	Australia, Belgium, Canada, Denmark, Finland, France, Germany, Netherlands, Norway, 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.

Due diligence: Due diligence will be carried out by officers where appropriate or in conjunction with the Council's treasury advisor. The Tri-Borough Director of Treasury and Pensions will authorise the investment on behalf of the authority.

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 and 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	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 that the Bank Rate will remain at 5.25% until June 24 and then steadily decline. In regards to borrowing, rates will start to decline earlier from March 2024.
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**	Around half of the councils funds are kept fully liquid in Money Market Funds, which offer same day accessibility for both deposits and withdrawals. The remainder of the funds are placed as fixed-term deposits for upto 1 year.
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 NatWest 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**	NatWest 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.