LONDON BOROUGH OF HAMMERSMITH and FULHAM

Report to: Cabinet

Date: 08/12/2025

Subject: Treasury Management Strategy: Mid-Year Review 2025/26

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

Responsible Director: Sukvinder Kalsi, Executive Director of Finance and Corporate Services

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SUMMARY

This report provides an update on the implementation (six months to 30 September 2025) of the 2025/26 Treasury Management Strategy, approved by Full Council on 26 February 2025, and presents the Treasury Management Strategy 2025/26 mid-year review.

Treasury management comprises the management of the Council's cash balances, ensuring that funding for the Council's capital programme follows its borrowing strategy and that surplus cash balances arising from the day-to-day financial operations of the Council are invested appropriately to obtain an optimal return, while ensuring security of capital and liquidity.

This report complies with CIPFA's Code of Practice on Treasury Management, and covers the following:

- a review of the Council's investment portfolio for 2025/26 to include the treasury position as at 30 September 2025;
- a review of the Council's borrowing strategy for 2025/26;
- a review of compliance with Treasury and Prudential Limits for the first six months of 2025/26;
- an economic update for the first part of the 2025/26 financial year.

The Council's Treasury responsibilities are well managed and some of the key highlights so far in 2025/26 are set out below.

During the first six months of 2025/26, cash balances were £44.2m at 31 March 2025 and £44.8m at 30 September 2025. These funds were invested in Money Market Funds (MMF) with an average yield of 4.09% The average rate fell from 4.75% at 31 March 2025 following a 0.50% decrease in the Bank Rate.

The Council made principal repayments on its existing debt (£3.2m in total) and took out a further £85.0m of borrowing from the PWLB. Therefore, debt has increased from £288.3m to £370.1m, with the weighted average interest rate also increasing from 3.75% to 3.86%.

The Council approved the Green Investment Fund of up to £5m at the end of 2023/24 and to date £3.3m (or 95%) has been raised in 4 separate tranche issues including

2 in 2025/26. A total of 1,854 individuals have invested in this 5-year bond and the resources will be spent on local green themed projects. A further £1.7m is expected to be raised in the next 12 months.

The Council has operated within the Treasury Limits and Prudential Indicators.

RECOMMENDATIONS

1. That Cabinet notes:
   - the Treasury Management Strategy 2025/26 mid-year review;
   - the forecast capital financing requirement (CFR) for the General Fund and the Housing Revenue Account (HRA);
   - the current split between external and internal borrowing.

Wards Affected: None

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

Financial Impact

This report is wholly of a financial nature.

Implications by: Phil Triggs, Director of Treasury and Pensions
Verified by: Sukvinder Kalsi, Executive Director of Finance and Corporate Services

Legal Implications

There are no legal implications in respect of this report.

Implications by Jade Monroe, Chief Solicitor Social Care

Background Papers Used in Preparing This Report

None.

DETAILED ANALYSIS

Proposals and Analysis of Options

Background and Treasury Position

1. Treasury management in this context is defined 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."

2. This treasury monitoring report covers:

   - the treasury position at 30 September 2025;
   - the borrowing strategy for 2025/26;
   - the borrowing position at 30 September 2025;
   - compliance with treasury limits and prudential indicators;
   - the investment strategy for 2025/26; and
   - the investment position at 30 September 2025.

3. The Council's debt is predominately held with the Public Works Loan Board (PWLB), with the exception of a £1.5m Community Municipal Investment. Investment and debt positions at the beginning of 2025/26 and at the six-month point were as follows:

	31 March 2025 (£m)	Rate (%)	30 September 2025 (£m)	Rate (%)
General Fund (GF)	50.9	3.63	50.7	3.63
Housing Revenue Account (HRA)	237.4	3.78	319.4	3.89
Total Borrowing	**288.3**	**3.75**	**370.1**	**3.86**
Total Cash Invested	44.2	4.75	44.8	4.09
Net (Borrowing)	**(244.1)**		**(325.3)**	

4. The Housing Revenue Account (HRA) is responsible for servicing 86.3% of the Council's external debt and the General Fund is responsible for the remaining 13.7%.

5. All investments at 30 September 2025, £44.8m, were kept liquid in Money Market Funds.

6. The Treasury Management Strategy Statement (TMSS) for 2025/26 was approved by Full Council on 26 February 2025. The TMSS has kept investments short-term and invested with highly rated or UK Government backed institutions, resulting in low returns compared with borrowing rates.

Treasury Borrowing

7. The 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.

8. There are four components to the Liability Benchmark:

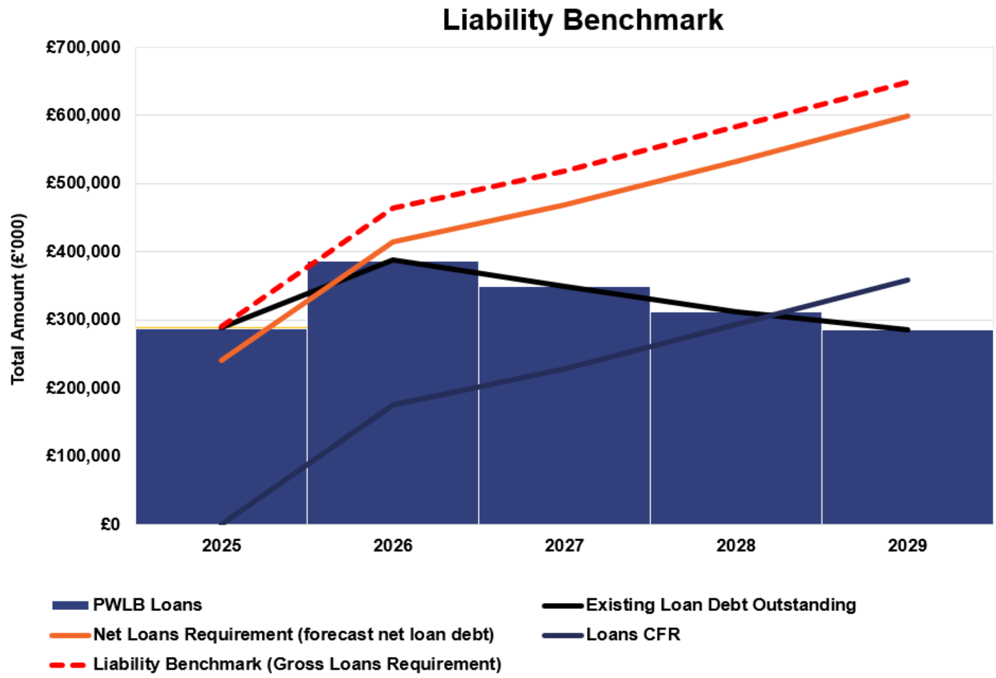
   - Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years;

   - 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 minimum revenue provision (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.

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



10. The Authority's liability benchmark shows that its actual external borrowing remains below the benchmark over the medium term, indicating an under-borrowed position.

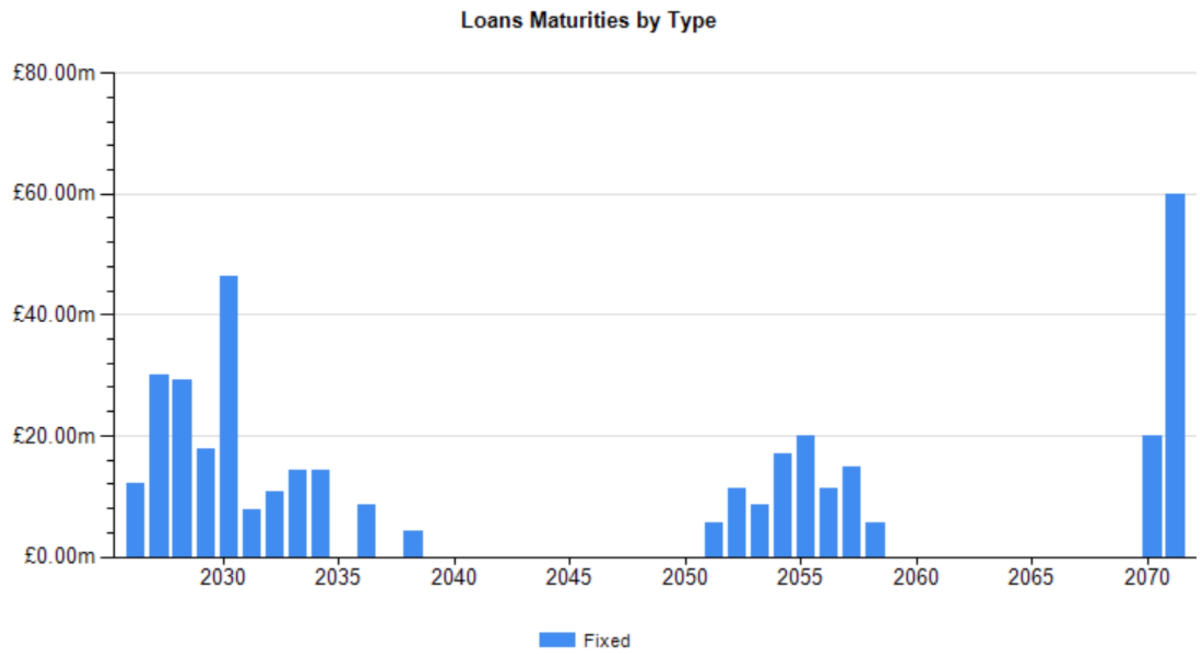
11. This reflects its continued use of internal borrowing to finance the capital programme, which avoids the cost of holding surplus cash and reduces interest payable in the short term.

12. However, as reserves and balances have been exhausted through internal borrowing over the life of the capital programme, the liability benchmark projects

a gradual increase in the need for external borrowing to maintain liquidity and ensure the authority remains aligned with its long-term financing needs.

13. It is therefore likely that any future borrowing requirement in the capital programme will have to be funded through external borrowing which exposes the council to interest rate risk, and increased interest payable charges in the capital programme.

14. £3.2m of borrowing has been repaid in the first half of 2025/26. Total borrowing therefore increased from £288.3m to £370.1m and the average interest rate increased from 3.75% to 3.86%. All the Council’s loans are at a fixed rate of interest. The table below shows the debt profile as at 30 September 2025:



15. In the first six months of 2025/26, the HRA PWLB debt of £319.4m remained below the HRA Capital Financing Requirement (CFR) of £566.5m, which generates internal borrowing of £247.1m. A charge for this is made based on the opportunity cost to the General Fund of providing this financing. HRA reserves and working capital, represent cash balances, on which interest is allocated from the general fund.

16. As at 30 September 2025, the Council had an under-borrowed position. This means that the capital borrowing requirement was not fully funded by the existing external loan debt and the balance is funded by cash reserves (known as internal borrowing).

17. The Council has borrowed £85m for the HRA so far this financial year. Cash is now needed to manage daily liquidity: therefore, there is no further opportunity for internal borrowing to fund the capital programme. All future capital spend will be funded through external borrowing. Cash balances and interest rates are constantly being monitored to determine the optimal time to borrow.

18. Future External Borrowing: It is anticipated that any future external borrowing is more likely to be undertaken within the HRA at this stage. This reflects the

additional discount available on HRA rates compared with General Fund borrowing. The current distribution between General Fund and HRA borrowing reflects underlying interest rate considerations, rather than any imbalance or "unfair" allocation of borrowing activity.

Closing Capital Financing Requirement analysed between General Fund and Housing Revenue Account

	31 March 2025 CFR £m	31 March 2025 External Debt £m	30 Sep 2025 CFR £m	30 Sep 2025 External Debt £m
Total GF Headline CFR	**291.0**	**0.0**	**382.1**	**0.0**
Finance leases/PFI	16.8	0.0	20.0	0.0
Total Closing GF CFR	**307.8**	**50.9**	**402.1**	**50.7**
HRA	458.9	0.0	559.3	0.0
HRA CFR Total	**458.9**	**237.4**	**55.93**	319.4
Total CFR/External Debt	**766.7**	**288.3**	**961.4**	**370.1**

19. Within the Prudential Indicators, the approved limit for the aggregate 2025/26 Capital Financing Requirement (which formed part of February's budget report) was £856m, and the forecast CFR at the mid-year point of this report is £961m. The increase in CFR estimate between these points is explained primarily by a combination of budget reprofiling from the prior year (£38m), capital receipt income being reprofiled into 2026/27 (£19m), the inclusion of IFRS16 (technical adjustment for lease accounting - £15m), and additional financing through borrowing at 2024/25 year end (£17m).

Treasury Investments

20. At 30 September 2025, none of the Council's treasury investment portfolio was held in fixed term deposits with local authorities and banks.

21. The TMSS allows investment in the following areas:

- an unlimited investment limit with the UK Government (DMO) deposits, UK gilts, repos and treasury bills;
- up to a maximum of £50m per counterparty in supra-national banks, European agencies and covered bonds debt on a buy to hold basis with maturity dates of up to five years, and the Greater London Authority (GLA) bonds for up to three years;
- a limit of £30m to be invested with any UK Local Authority (subject to internal counterparty approval by the Director of Treasury and Pensions, his direct reports, or the Director of Finance);
- no more than £45m to be invested with any individual MMF;
- any financial instrument held with a UK bank limited to £70m depending on the credit rating and Government ownership above 25% (limit of £50m);
- any financial instrument held with a non-UK bank limited to £50m.

22. The table below provides an analysis of the cash deposits, together with comparisons from financial year-end:

	31 March 2025 £m	**30 September 2025 £m**
Money Market Funds	44.2	44.8
Total	**44.2**	**44.8**

23. During the first six months of 2025/26, cash balances varied between £72.4m and £39.5m, reflecting the timing of the Council's income (council tax, national non-domestic rates, government grants and capital receipts, etc) and expenditure (precept payments, payroll costs, supplier payments and payments re capital projects).

24. The average return achieved on investments managed internally for the first six months was 4.34% compared with the average six-month SONIA rate of 4.48%. Interest rates remained low throughout the period with the Council following a low-risk strategy keeping funds liquid in Money Market Funds.

Prudential Indicators

25. During the year the Council did not operate within all the Treasury Limits and Prudential Indicators set out in the TMSS, with the Capital Financing Requirement breaching the limit. See paragraph 19 for further explanation.

26. The table below provides a breakdown of the indicators and actual position for the six-month period ending 30 September 2025:

<table>
<tr><th>Indicator</th><th>2025/26 Approved Limit</th><th>2025/26 Actual at 30 September 2025</th><th>Indicator Met</th></tr>
<tr><td>Authorised Limit for external debt[1]</td><td>£920m</td><td rowspan="2">£370m</td><td>Yes</td></tr>
<tr><td>Operational Debt Boundary[2]</td><td>£875m</td><td>Yes</td></tr>
<tr><td>Capital Financing Requirement[3]</td><td>£856m</td><td>£961m</td><td>No</td></tr>
<tr><td>Capital Expenditure</td><td>£214m</td><td>£84m</td><td>Yes</td></tr>
<tr><td>Working capital balance</td><td>£0m</td><td>£0m</td><td>Yes</td></tr>
<tr><td>Limit on surplus funds invested for more than 364 days</td><td>£120m</td><td>£0m</td><td>Yes</td></tr>
</table>

[1] The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

[2] The Operational Boundary is the expected normal upper requirement for borrowing in the year.

[3] The limit for the Capital Financing Requirement is a guide not a hard limit, and actuals in excess are not a breach.

Maturity Structure of Borrowing	Minimum	Maximum	Actual	Indicator Met
Under 12 months	0%	15%	5%	Yes
12 > months < 24	0%	15%	5%	Yes
24 > months < 5 years	0%	60%	4%	Yes
5 > months < 10 years	0%	75%	5%	Yes
Over 10 years	0%	100%	81%	Yes

Reasons for Decision

27. The Council's treasury management activity is underpinned by the CIPFA Code of Practice on Treasury Management, which recommends that members are informed of treasury management activities at least twice a year.

Equality Implications

28. There are no direct negative implications for protected groups, under the Equality Act 2010, arising from the information presented in this report.

Risk Management Implications

29. The purpose of this report is to present the Council's mid-year Treasury Management Report for 2024/25 in accordance with the Council's treasury management practices. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities is measured.

30. Risk levels were set in accordance with the approved TMSS. The Council continues to recognise that effective treasury management provides support towards the achievement of its business and service objectives, specifically, being ruthlessly financially efficient.

31. The identification, monitoring and control of risks are central to the achievement of the treasury objectives. Potential risks are identified, mitigated and monitored in accordance with treasury practice.

32. Implications verified by: David Hughes, Director of Audit, Fraud, Risk and Insurance, tel. 07817 507 695

LIST OF APPENDICES
None.