

LONDON BOROUGH OF HAMMERSMITH AND FULHAM

Report to: Full Council

Date: 25/02/2026

Subject: Treasury Management Strategy Statement 2026/27

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

Report author: Sophie Green, Treasury Manager

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

SUMMARY

This report sets out the Council's proposed Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for 2026/27 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 is given to the future borrowing and investment strategies as outlined in this report.
2. The Executive Director of Finance and Corporate Services, in consultation with the Cabinet Member for Finance and Reform, be delegated authority to manage the Council's cash flow, borrowing and investments in 2026/27 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 by Phil Triggs, Director of Treasury and Pensions

Verified by Sukvinder Kalsi, Executive Director of Finance and Corporate Services

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 Ministry for Housing, Communities, and Local Government (MHCLG) and must be approved by the Full Council.

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

Jade Monroe, Chief Solicitor Social Care

Background Papers Used in Preparing This Report

- Treasury Management Strategy Statement 2025/26 (approved by Council February 2025)

- 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)
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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 2025. CPI inflation was 3.2% in November 2025, down from 3.6% in October. It is expected to slow to around 3.2% by March 2026.
5. The Bank of England voted by a majority of 5-4 on 18 December 2025 to reduce the Bank Rate from 4.00% to 3.75%. The Council's treasury management advisors, MUFG Corporate Markets, are currently forecasting further reductions during 2026.
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, MUFG Corporate Markets (formally 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:
Borrowing

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

Capital spending plans

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

Managing cash balances and investments

- Current cash position
- Cash flow forecast
- Prospects for investment returns
- Council policy on investing and managing risk
- Balancing short and 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 2025/26 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 MHCLG 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 2025/26 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) have been employed where available.
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) in the General Fund, and gilt yields +0.40% for the Housing Revenue Account (HRA). The concessionary rate is due to end 31 March 2026, however, it is possible this will be extended. Officers are awaiting guidance from the Government on this which is expected before the end of the financial year.

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 for any substantial borrowing, 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 be far more costly administratively.
18. There are increasingly attractive funding options available for energy efficiency and carbon reduction schemes through the National Wealth Fund and London Treasury. Strategic scheme by scheme borrowing may be suitable for these options which generally provide lower interest rates and greater flexibility than the PWLB.

Range of options

19. Alternative options for funding to PWLB include:

- Banks
- Pension fund institutional investors
- Bond issuance
- The Municipal Bonds Agency
- London Treasury
- National Wealth Fund
- Other local authorities

Banks

20. 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

21. 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

22. 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.

23. 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.

24. 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

25. This has been in existence since 2013 but is no longer a feasible source of funds.

Community Municipal Bonds

26. 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

27. 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.
28. Officers will continue to explore alternatives to the PWLB, working with the Council's treasury advisor, MUFG Corporate Markets. PWLB rates will also be kept under regular and active review.

Investing Primarily for Yield

29. Under the new 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
30. 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."
31. 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.
32. 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

33. 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 2026/27 have remained at the same level compared with the 2025/26 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

	2025/26	2026/27	2027/28	2028/29	2029/30
	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Authorised Limit for External:					
Borrowing and other long-term liabilities	1,040	1,050	1,070	1,100	1,130
Operational Boundary for:					
Borrowing	940	950	970	1,000	1,030
Other long-term liabilities	15	15	15	15	15
TOTAL	955	965	985	1,015	1,045

Maturity structure of borrowing

34. 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 2025/26.

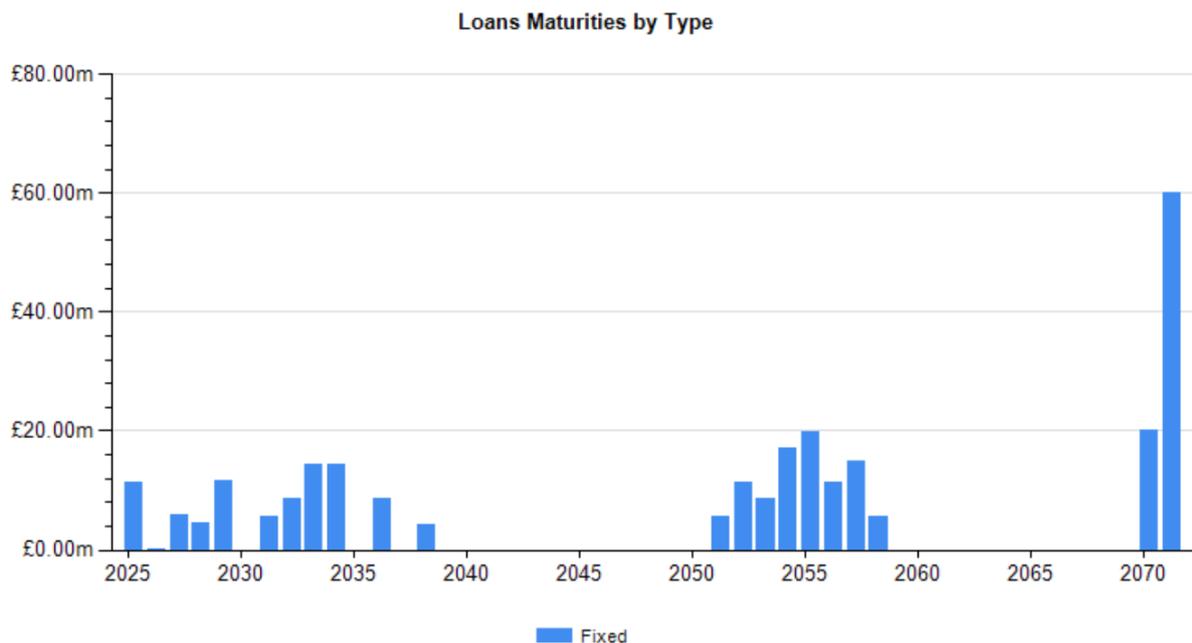
Table 2: Debt maturity profile limits

Period	Actual Maturity at 30 Nov 2025	Actual Maturity at 30 Nov 2025
	£'m	%
0 to 1 year	44	10
1 to 2 Years	49	12
2 to 5 Years	99	23
5 to 10 Years	55	13
10 to 20 Years	4	1
20 to 30 Years	68	16
30 to 40 Years	26	6
40 to 50 Years	80	19
Total	426	100

35. 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

36. The chart below shows that the principal repayment profile for current borrowing (as at 31 December 2025) remains within these limits.



Capital Financing Requirement (CFR)

37. 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, and reduce by minimum revenue contribution, capital receipts applied, and voluntary contributions to capital from revenue.

38. Table 3a shows that the CFR will increase over the medium term.

Table 3a: Capital Financing Requirement forecast.

2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
Actuals		Forecast	Estimate	Estimate	Estimate	Estimate
£m		£m	£m	£m	£m	£m
	CFR as at 30 November					
308	GF Closing CFR (detail in Table 3b)	376	385	375	363	357
459	Closing Forecast HRA CFR (including deferred costs of disposal)	583	563	587	634	670
767	TOTAL	939	948	962	997	1027
	Annual Change					
42	General Fund	68	9	(10)	(12)	(6)
111	HRA	104	0	24	47	36
153	TOTAL	172	9	14	35	30

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

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

	2025/26	2026/27	2027/28	2028/29	2029/30
	Forecast	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
GF Opening CFR	308	376	385	375	363
Unfinanced Capex	58	30	34	6	5
Voluntary Debt Payments	(6)	(12)	(34)	(7)	-
MRP	(3)	(6)	(8)	(8)	(7)
Lease / IFRS 16	(1)	(4)	(4)	(4)	(4)
Forecast Closing GF CFR	376	385	375	363	357

40. 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 the 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

2024/25 Actual £m		2025/26 Forecast £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
288	Gross Projected Debt	426	615	658	719	778
614	Capital Financing Requirement	939	948	962	997	1027
326	Under / (over) borrowing	487	333	304	278	249

Affordability

41. 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

2024/25 Actual %		2025/26 Forecast %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %	2029/30 Estimate %
2.85	General Fund	1.23	2.64	3.62	4.00	4.22
25.62	HRA	29.8	27.21	26.92	28.13	27.5

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

2024/25 Actual %		2024/25 Forecast %	2025/26 Estimate %	2026/27 Estimate %	2028/29 Estimate %	2029/30 Estimate %
2.85	General Fund	1.53	1.61	2.67	3.52	4.45
25.62	HRA	3.00	3.76	3.48	3.43	3.30

42. From 2026/27 onwards, the ratio of capital financing costs to net revenue stream for the General Fund increases, primarily for two reasons: firstly an increasing minimum revenue provision charge, with the completion of the Civic Campus project, and secondly a reducing net revenue stream as a result of Government implementing the Fair Funding framework. This latter point is something that will be considered as part of the budget planning process over the coming years. The completion of campus, which will lead to increased

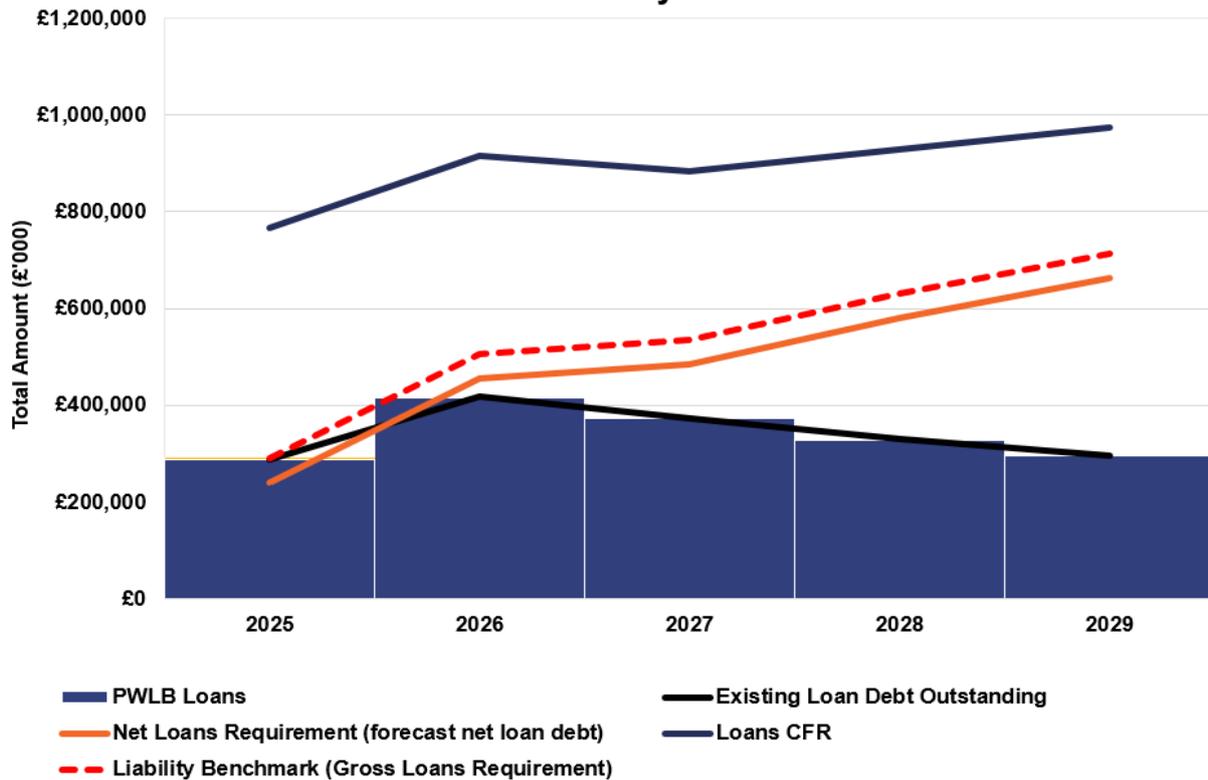
commercial income over the medium term, and the reducing net revenue stream, are also the reasons for the increasing ratio for commercial income to net revenue stream for the General Fund, though the percentage remains small, from a risk perspective.

43. 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

44. 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.
45. 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 flow forecast.
 - **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.
46. The liability benchmark uses the above information to plan the future borrowing requirements of the Council.
47. Based on the current calculations, the liability benchmark forecasts that the Council would need to borrow £86m in 2026/27, and a further £75m in 2027/28 (collective £161m requirement).

Liability Benchmark



Minimum Revenue Provision (MRP) Policy

48. 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.
49. Regulation 27 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.
50. The 2003 Regulations have been further amended with full effect from 1 April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

Borrowing in advance of need

51. 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.
52. 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

53. 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 can be very costly.
54. 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.
55. 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.
56. Any rescheduling must be authorised by the Director of Finance in consultation with the lead Cabinet Member.

CAPITAL

Capital spending plans

57. 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 2026/27 to 2029/30 reported elsewhere on the Committee's agenda, both in terms of those agreed previously, and those forming part of the current budget cycle.
58. Any slippage against the capital programme, or new capital approvals, will impact the figures reported throughout this report.

Housing Revenue Account (HRA) borrowing

59. Local authorities with a HRA can borrow against their expected rental income, in line with the Prudential Code.
60. For the period 2026/27 to 2029/30, based on the planned four-year capital programme and due to reduced cash balances from the latter half of 2026/27 onwards, the HRA may need to actively consider new external borrowing.
61. 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 yield earned on the General Fund investment portfolio applied to the under borrowed position.

Other investment opportunities

62. 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.
63. 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

64. Table 6 below shows that cash balances have increased by £39m and borrowing increased by £134m.

Table 7: Cash position at 31 December 2025

As at 31 March 2025			As at 31 December 2025		
Principal	Average Rate		Principal	Average Rate	
£m	%		£m	%	
Investments					
44	4.8	Specified	83	3.9	
0	0.0	Non-Specified	0	0.0	
44	Total		83		
Borrowing					
288	3.8	Public Works Loan Board	422	3.9	
288	Total		422		

65. 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

66. The Bank Rate was reduced from 4.00% to 3.75% at the 18 December 2025 MPC meeting and is predicted to fall further in 2026. The Council should therefore expect investment returns to drop in 2026/27.
67. Money Market Funds (MMFs) and Debt Management Account Deposit Facility (DMADF) yields have decreased since 1 April 2025 in response to Bank Rate reductions.
68. The Table in Appendix C, provided by the treasury consultant, sets out the forecast rates.

Council policy on investing and managing risk

69. 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

70. During the first half of 2025/26, there have been no new investments of surplus funds for more than 364 days. The 2026/27 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

2025/26 Actual £m	2026/27 Forecast £m	2027/28 Estimate £m	2028/29 Estimate £m	2029/30 Estimate £m
0	120	120	120	120
Upper Limit for principal sums invested for more the 364 days				

Annual Investment Strategy

71. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves.
72. 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.

73. 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

74. 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.

75. 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 2025/26 save for the forecast outturn CFR. It is not envisaged that there will be any difficulty in achieving compliance with the suggested indicators for 2026/27.

	2025/26 indicator	2025/26 forecast	2026/27 proposed
Capital expenditure	£214m	£214m	£251m
Capital Financing Requirement (CFR)	£856m	£948m	£962m
Net debt vs CFR	£389m underborrowing	£487m underborrowing	£333m underborrowing
Authorised limit for external debt	£920m	£1,040	£1,050m
Operational debt boundary	£875m	£955m	£965m
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%
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	2025/26 indicator	2025/26 forecast	2026/27 proposed
Ratio of financing costs to revenue stream	GF (0.79%) HRA 29.75%	GF 1.23% HRA 29.8%	GF 2.64% HRA 27.21%
Ratio of financing costs to revenue stream	GF 1.31% HRA 3.04%	GF 1.53% HRA 3.00%	GF 1.61% HRA 3.76%

Reasons for Decision

76. This report represents the Council's Treasury Management Strategy Statement for 2026/27. It is a regulatory requirement for this report to be reported to the Council. It is recommended that approval is given to the borrowing and investment strategies as outlined in this report.

Equality Implications

77. 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

78. 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.
79. 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. In adopting a policy of managing risk, an authority is determining its level of risk acceptance.
80. 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 TMSS before the start of the year, which sets the objectives and boundaries for the approach to treasury activity.
81. 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

82. 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.
83. 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

84. 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.
85. 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

86. 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

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.

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 to the appropriate body an annual Treasury Management Strategy Statement, including an annual investment strategy (this report) and Minimum Revenue Provision policy for the year ahead (separate report on the agenda), a half year review report and an annual report (stewardship report) covering compliance during the previous year
- A statement of delegation for treasury management functions and for the execution and administration of treasury management decisions (see below).
- Delegation of the role of scrutiny of treasury management activities and reports to a specific named body. At the London Borough of Hammersmith & Fulham, this role is undertaken by the Audit Committee.

Treasury Management Delegations and Responsibilities

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

Council

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

Cabinet

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

Audit Committee

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

Section 151 Officer

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

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

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

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

Director of Treasury and Pensions

Has responsibility for the execution and administration of treasury management decisions, acting in accordance with the Council's Treasury Policy Statement and CIPFA's 'Standard of Professional Practice on Treasury Management'. The Director of Treasury and Pensions and his direct reports have delegated authority to implement investment management arrangements and strategy.

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.
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	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

PROSPECTS FOR INTEREST RATES

- The Authority has appointed MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets provided the following forecasts on 22 December 2025, and the narrative that follows. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

MUFG Corporate Markets Interest Rate View 22.12.25													
	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29
BANK RATE	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3 month ave earnings	3.80	3.50	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30	3.30
6 month ave earnings	3.80	3.50	3.50	3.40	3.30	3.30	3.30	3.40	3.40	3.40	3.40	3.40	3.40
12 month ave earnings	3.90	3.60	3.60	3.50	3.40	3.50	3.50	3.50	3.50	3.50	3.60	3.60	3.60
5 yr PWLB	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
10 yr PWLB	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
25 yr PWLB	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
50 yr PWLB	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

- The last interest rate forecast update was undertaken in August 2025. Since then, a combination of tepid growth, falling inflation (CPI is 3.2% at December 2025), and a November Budget that will place more pressure on the majority of households' income, has provided an opportunity for the Bank of England's Monetary Policy Committee to further reduce Bank Rate from 4% to 3.75% on 18 December 2025.
- The most recent Bank of England's Quarterly Monetary Policy Report expects annual UK GDP to be in the region of 1.2% for Q3 2025, rising to 1.7% by Q3 2028. The Bank anticipates wage growth to moderate to a sustainable 3.75% and CPI inflation to return to 2% in around 18 months' time.
- Further gradual reductions in the Bank Rate to 3.25% are anticipated but only if future inflation and employment data are supportive of such cuts.
- Revised PWLB rate forecast below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. **Gilt yields and PWLB rates**
- The overall longer run trend is for gilt yields and PWLB rates to fall back over the timeline of the forecasts, but the risks to the forecasts are generally to the upsides. Target borrowing rates are set **two years forward** as rates are expected to fall back and the current PWLB (certainty) borrowing rates are set out below: -

PWLB borrowing	Current borrowing rates as at 22.12.25 p.m. %	Target borrowing rate now (end of Q4 2027) %	Target borrowing rate previous (end of Q4 2027) %
5 years	4.81	4.10	4.20
10 years	5.39	4.70	4.70

25 years	6.01	5.30	5.30
50 years	5.78	5.10	5.10

7. **Borrowing advice:** The long-term (beyond 10 years) forecast for the neutral level of Bank Rate remains at 3.5%. 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 be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.
8. Officers continue to monitor economic and market developments as they unfold. Typically, forecasts are reviewed following the quarterly release of the Bank of England's Monetary Policy Report.
9. The 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.

Source: MUFG Corporate Markets

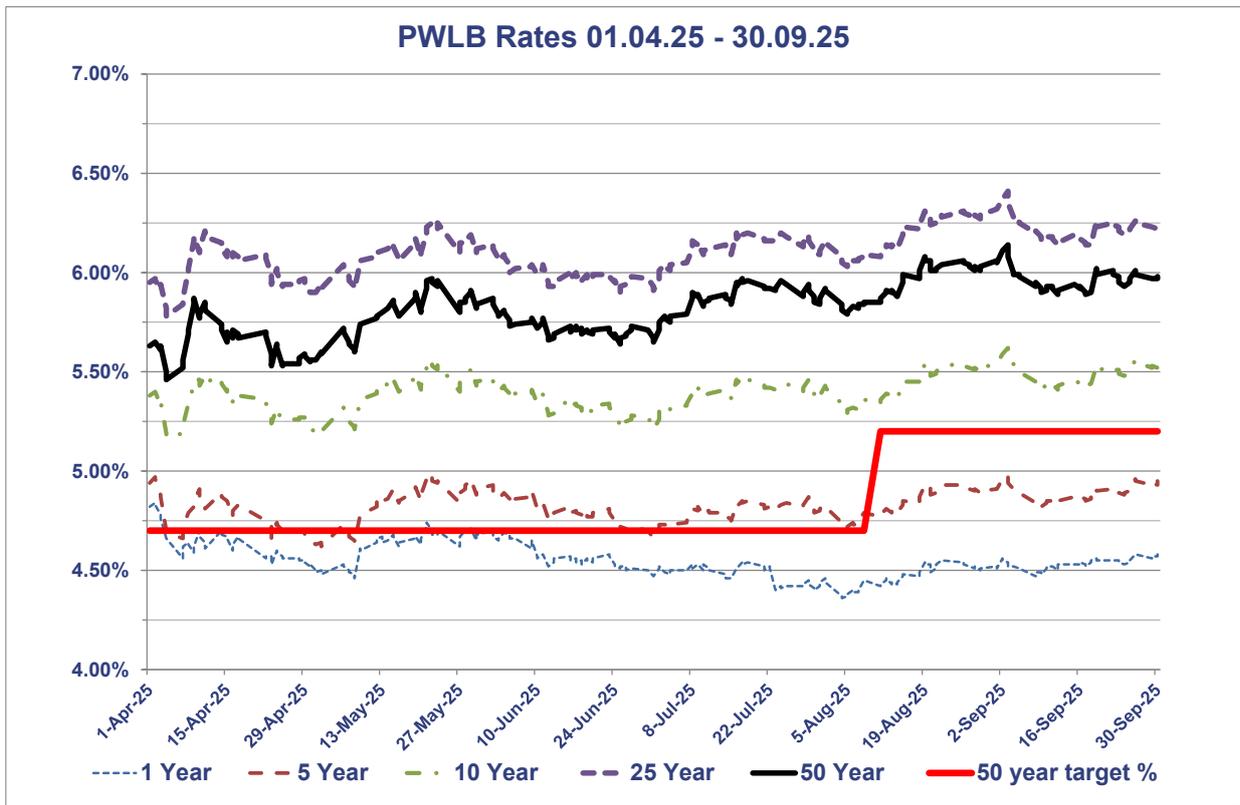
ECONOMIC UPDATE

1. The first half of 2025/26 saw:
 - A 0.3% pick up in GDP for the period April to June 2025. More recently, the economy flatlined in July, with higher taxes for businesses restraining growth, but picked up to 0.1% m/m in August before falling back by 0.1% m/m in September.
 - CPI inflation has ebbed and flowed but finished in November at 3.2%.
 - The Bank of England cut interest rates from 4.50% to 4.25% in May, and then to 4% in August. Rates were cut a further 0.25% in December to 3.75%.
 - The 10-year gilt yield fluctuated between 4.4% and 4.8%, ending the half year at 4.70% (before falling back to 4.43% in early November).

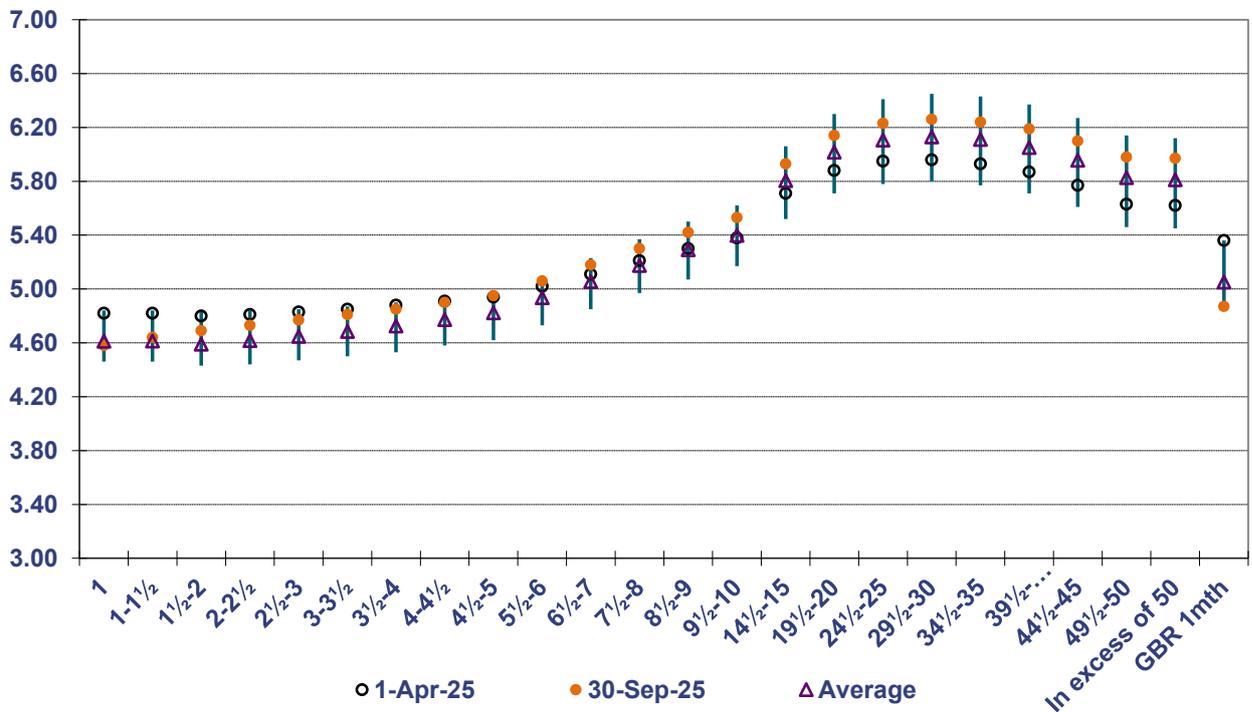
2. Leading up to the November Budget, the public finances position looked weak. The £20.2 billion borrowed in September was slightly above the £20.1 billion forecast by the OBR. The £99.8 billion borrowed is the second highest for the April to September period since records began in 1993, surpassed only by borrowing during the COVID-19 pandemic. The main drivers of the increased borrowing were higher debt interest costs, rising government running costs, and increased inflation-linked benefit payments, which outweighed the rise in tax and National Insurance contributions.

3. An ever-present issue throughout recent months has been the pressure being exerted on medium and longer dated gilt yields. The yield on the 10-year gilt moved sideways in the second quarter of 2025, rising from 4.4% in early April to 4.8% in mid-April following wider global bond market volatility stemming from the “Liberation Day” tariff announcement, and then easing back as trade tensions began to de-escalate. By the end of April, the 10-year gilt yield had returned to 4.4%. In May, concerns about stickier inflation and shifting expectations about the path for interest rates led to another rise, with the 10-year gilt yield fluctuating between 4.6% and 4.75% for most of May. Thereafter, as trade tensions continued to ease and markets increasingly began to price in looser monetary policy, the 10-year yield edged lower, and ended June at 4.50%.

PWLB RATES 01.04.25 - 30.09.25



PWLB Certainty Rate Variations 01.04.25 to 30.09.25



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.25 – 30.09.25

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2025	4.82%	4.94%	5.38%	5.95%	5.63%
30/09/2025	4.58%	4.95%	5.53%	6.23%	5.98%
Low	4.36%	4.62%	5.17%	5.78%	5.46%
Low date	04/08/2025	02/05/2025	02/05/2025	04/04/2025	04/04/2025
High	4.84%	4.99%	5.62%	6.41%	6.14%
High date	02/04/2025	21/05/2025	03/09/2025	03/09/2025	03/09/2025
Average	4.55%	4.82%	5.40%	6.11%	5.83%
Spread	0.48%	0.37%	0.45%	0.63%	0.68%

Source: MUFG Corporate Markets

ANNUAL INVESTMENT STRATEGY

1. The Council holds significant invested funds, representing income received in advance of expenditure, balances and reserves. During the 8 months of the current year, the Council’s average investment balance has been around £66m. 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 MHCLG Guidance on Local Government Investments (“the Investment Guidance”) and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (“the CIPFA TM Code”). The Council’s investment priorities will be security first, liquidity second, then return.
3. In accordance with the above guidance and to minimise the risk to investments, the Council applies minimum acceptable credit criteria to generate a list of highly creditworthy counterparties, which will provide security of investments, enable diversification and minimise risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

Investment return expectations

4. The forecast shown in paragraph 5 includes a forecast for Bank Rate to fall to a low of 3.5%.
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	Now %	Previously %
2025/26 (residual)	3.80	3.90
2026/27	3.40	3.60
2027/28	3.30	3.30
2028/29	3.30	3.50
2029/30	3.50	3.50
Years 6-10	3.50	3.50
Years 10+	3.50	3.50

Source: MUFG Corporate Markets

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 2026/27, 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 Strategic 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 swaps¹ for the institution;
 - any implicit or explicit Government support for the institution;
 - Standard & Poor, Moody's and Fitch short- and long-term credit ratings;
 - Sovereign ratings to select counterparties from only the most creditworthy countries; and

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

- Core Tier 1 capital ratios ².
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 MHCLG 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;
 - 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 they consider 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;

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%.

- 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.
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 Strategic 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 2024/25 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	No change
Covered Bonds	LT: AA+/Aa1/AA+	£50m	5 years	No change
Network Rail	Government guarantee	£200m maximum	Oct-52	No change
Collective Investment Scheme Investment Grade Bond Fund	Due diligence	£30m	Daily pricing	No change
GLA		GLA: £50M	3 years	No change
UK Local Authorities (LA)	N/A	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	Maximum Individual Counterparty Investment Limit	Maximum tenure	Changes from the 2024/25 TMSS
	Fitch/Moody's/S&P	£m		
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-	£30m	3 years	No change
	ST: F2/P-2/A-2			
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

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

APPENDIX G

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	Geopolitical factors: the risk of 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 gradually reduce over the coming months resulting in return on investing declining. However, the cost of borrowing will also decrease, helping to minimise the cost of carry.
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 council's 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 up to 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. Treasury is currently awaiting the results of an internal audit that took place in October 2024.
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.

RISK REGISTER

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	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	
Take	
Transfer	The name of the service that the risk is being transferred to and the reasons for the transfer.
Tolerate	A clear description of the specific reasons for tolerating the risk.