

## **CAPITAL AND INVESTMENT STRATEGY REQUIREMENTS 2024/25**

### **Introduction**

1. The CIPFA Prudential Code 2021 and CIPFA Treasury Management Code 2021 require the Council to publish four separate strategies or statements in addition to the revenue and capital medium term budget positions. These are contained within Appendix D to the budget report.

### **Strategy requirements**

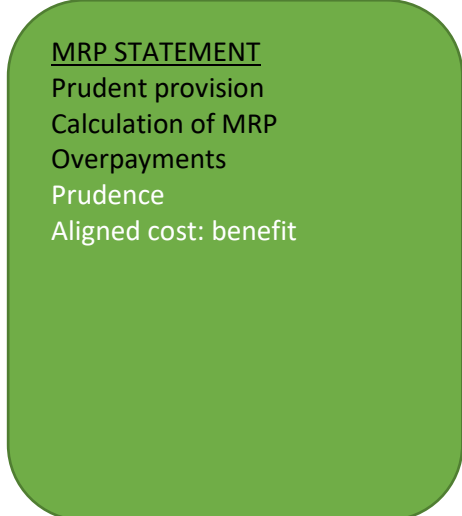
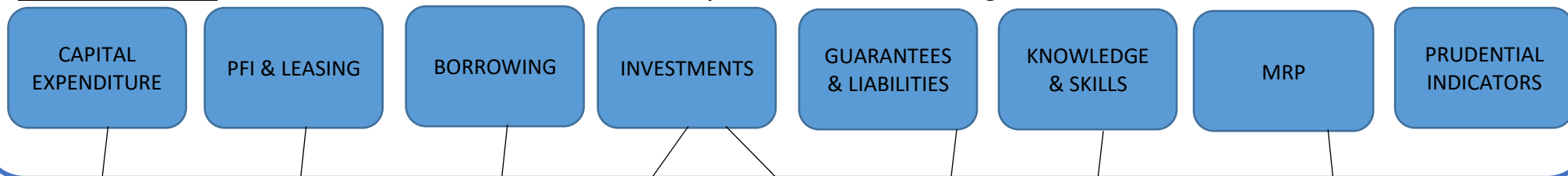
2. The Capital Strategy is an overarching document with a simple guide on the capital programme, borrowing, investments and sets out the prudential indicators that the Council defines as parameters to work within setting a prudent and sustainable approach to its investment to meet service needs and any commercial activities.
3. The Capital Programme within the MTFE provides more comprehensive details on the Capital expenditure and financing from the information provided in the Capital Strategy.
4. The Treasury Management Strategy Statement provides further details on impact of the capital programme in relation to its cash flow forecast, need to borrow and strategy with parameters around methods in which it can invest Council money.
5. The Investment Strategy provides further detail from the Capital Strategy on investment objectives and parameters, focused on service and commercial investment activities.
6. The MRP statement outlines the approach to calculating the minimum revenue contribution within the legislative framework which is a revenue cost resulting from borrowing to fund the capital programme.

### **Recommended Changes for 2024/25**

7. The Council has refreshed all forecasts and Prudential Indicators to align with the budget proposals for the new financial year.
8. The adoption of IFRS16 Lease Accounting is mandatory for local authorities from 1<sup>st</sup> April 2024 and will result in existing operating leases being accounted for on Balance Sheet as Right of Use assets, except where short term or low value. Work is underway to identify and assess the financial implications of this accounting change, and a broad assumption of £10m has been included within these strategies for existing and new leases being recognised in the Balance Sheet. It

should be noted that there is no cost impact to the Council Tax or housing rent payer from these changes.

**CAPITAL STRATEGY: A short overview, accessible to non-financial specialist members, covering:**



## CAPITAL STRATEGY REPORT 2024/25

### Introduction

9. This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services. The strategy also provides an overview of how associated risk is managed and the implications for future financial sustainability.
10. This strategy is integrated with other strategies; MTFE Capital Programme, Treasury Management Strategy, Investment Strategy and the MRP Statement where more detail is provided.

### Capital Expenditure and Financing

11. Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10k are not capitalised and are charged to revenue in year.
12. In 2024/25, the Council is planning capital expenditure of £280.2m as summarised below:

**Table 1: Prudential Indicator: Estimates of Capital Expenditure**

	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
General Fund services	129.1	95.3	71.5	28.3	26.7	26.2
Housing Revenue Account (HRA)	98.4	184.9	101.4	101.1	89.7	73.0
<b>TOTAL</b>	<b>227.5</b>	<b>280.2</b>	<b>172.9</b>	<b>129.4</b>	<b>116.4</b>	<b>99.2</b>
<i>of which</i>						
General Fund services	125.1	89.3	66.5	28.3	26.7	26.2
Housing Revenue Account (HRA)	98.4	184.9	101.4	101.1	89.7	73.0
Capital investments (General Fund)	4.0	6.0	5.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>227.5</b>	<b>280.2</b>	<b>172.9</b>	<b>129.4</b>	<b>116.4</b>	<b>99.2</b>

13. The main General Fund capital programme includes the construction of a new leisure centre in West Drayton, the provision of a new Hillingdon Water Sports

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Facility, carbon zero initiatives and investment in local schools to provide more special needs places alongside ongoing investment in local infrastructure.

14. In addition, the Council has a £25m budget (including prior years) to support capital expenditure on investment in housing through Hillingdon First Limited.
15. Capital investment of £377.1m over the period 2023/24 to 2028/29 has been incorporated into the wider General Fund budget strategy with £184.6m investment in major projects, primarily delivering new or expanded infrastructure, and £170.7m investment in recurrent programme of works, ensuring that existing infrastructure is maintained and improved, with a contingency of £21.8m being set aside for risks over the five-year programme.
16. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself be subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes acquisitions and development of new social housing stock (£266.1m), enhancement of the existing housing stock including green home initiatives (£207.5m), and a major housing regeneration programme to provide new high-quality housing in Hayes (£154.9m). A contingency of £20m is set aside for risks over the five-year programme.
17. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue contributions, CIL, capital receipts, Major Repairs Reserve) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

**Table 2: Capital financing**

	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
External Sources	96.6	71.1	28.9	25.4	28.7	23.5
Own Resources	65.0	86.0	46.7	41.3	37.8	36.4
Debt	65.9	123.1	97.3	62.7	49.9	39.3
<b>TOTAL</b>	<b>227.5</b>	<b>280.2</b>	<b>172.9</b>	<b>129.4</b>	<b>116.4</b>	<b>99.2</b>

18. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as Capital Receipts) may be used instead of debt finance. MRP is a statutory mechanism for General Fund borrowing and details on how this is calculated is included in the MRP Statement policy. The HRA also provide a regular contribution towards it financing of debt.

**Table 3: Replacement of prior years' debt finance**

	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
General Fund services (MRP)	7.8	8.0	8.4	10.2	10.6	10.9
HRA (Debt provision)	9.7	9.6	9.5	10.4	10.5	10.5
<b>TOTAL</b>	<b>17.5</b>	<b>17.6</b>	<b>17.9</b>	<b>20.6</b>	<b>21.1</b>	<b>21.4</b>

19. The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP. The CFR is expected to increase by £125.2m during 2024/25 including an estimated allowance of £10m for leases coming on Balance Sheet (IFRS16). Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

**Table 4: Prudential Indicator: Estimates of Capital Financing Requirement**

	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
General Fund services	275.2	293.8	332.2	326.9	318.9	310.5
Housing Revenue Account (HRA)	179.2	285.8	332.7	378.7	413.6	437.9
<b>TOTAL</b>	<b>454.4</b>	<b>579.6</b>	<b>664.9</b>	<b>705.6</b>	<b>732.5</b>	<b>748.4</b>
<i>of which</i>						
General Fund services	261.0	263.8	297.2	291.9	283.9	275.5
Housing Revenue Account (HRA)	179.2	285.8	332.7	378.7	413.6	437.9
Capital investments	14.0	20.0	25.0	25.0	25.0	25.0
Leases	0.2	10.0	10.0	10.0	10.0	10.0
<b>TOTAL</b>	<b>454.4</b>	<b>579.6</b>	<b>664.9</b>	<b>705.6</b>	<b>732.5</b>	<b>748.4</b>

20. The Council utilises capital receipts to fund capital projects and does not apply against the replacement of prior years' debt.

### Governance of Capital Expenditure

21. Specific capital projects are identified primarily through the Council's annual budget setting process which revises the approved capital programme for the following five years. Service managers submit proposals for new projects, outlining the reasons and benefits for the proposal and the estimated cost and method of financing. These proposals are reviewed at internal challenge sessions attended by senior managers across the organisation chaired by the Corporate Director of Finance. If proposals are deemed satisfactory at this stage, they are included in a further submission to relevant Cabinet members. There is then a public consultation period in December on the full budget and impact to Council Tax. Following any further feedback, the final revised five-year capital programme is submitted to Cabinet and Council for approval in February each year.
22. Implications of existing and new capital investment proposals in terms of the future impact on prudential borrowing levels and capital financing costs are taken into account in setting the revenue budget which is also approved by Council in February each year. The various sources of finance for all existing and new capital projects and programmes are identified and included in the Council's budget.
23. Some capital projects arise which require more short-term implementation during the current financial year, and these are usually managed through dedicated contingency budgets included in the five-year programme where there is anticipated need for that type of investment. These projects would normally be managed within overall borrowing limits approved by Council.
24. To subsequently proceed with implementation, all individual capital expenditure projects require a formal democratic decision from the Leader of the Council, the Cabinet Member for Finance and relevant Cabinet members to release the monies included within the capital programme budget. To obtain approval for the budget to be released, a formal report is submitted providing detailed information on the objectives of the project and including a cost plan.

### Asset Management

25. The maintenance and improvement of the Council's property assets and wider infrastructure are managed and formally set out in the Council's organisational structure, with specific service teams in place to manage various parts of the Council's asset portfolio.
26. In general, assets are managed in accordance with the principles of good estate management. The Council seeks continuous improvement in the quality of assets

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used to deliver services and wherever possible use its ownership of assets to deliver service improvements.

27. Service teams with responsibility for managing Council assets include:
- Capital Programme Works Service: responsible for delivery of major new construction projects and capital works on existing property assets.
  - Repairs, Engineering, Planned Works and Facilities Management: maintenance of existing assets including repairs to Council buildings, voids and renewal of existing housing stock.
  - Highways and Street Lighting: maintenance and improvement of the roads and footways infrastructure, and maintenance and enhancement of street lighting.
  - Property and Estates Management: provide a complete overview of all properties and land owned by the council, including management of leases, ensuring that the full potential is being gained from each property asset.
  - Fleet Engineering Team: manage the Council's vehicle requirements for areas such as waste management and various other services.
  - ICT: maintaining and improving the Council's ICT infrastructure for both internal business operations, front line services and enhancing residents' online interactions with the Council.
  - Green Spaces: maintain and enhance the various parks and green spaces sites across the Borough.

### Asset Disposals

28. Assets are continually reviewed, to determine those that may be declared surplus to service requirements, with regular monitoring meetings. Proposals to change the purpose, to redevelop or to sell an asset are reported with options presented to the Councils property governance working group consisting of those cabinet members charged with oversight of the Council's capital programme and asset base, Strategic Property Governance (SPG), to determine next steps on the most appropriate development or disposal route before recommendations are made to Cabinet. Progress on asset development and disposals is reported through monthly budget monitoring. Surplus assets may be sold to generate proceeds, known as Capital Receipts, which can be used to finance capital expenditure on new assets or enhancements to existing assets. With the approval of Cabinet, surplus assets can also be appropriated between the General Fund and Housing Revenue Account (HRA) to reflect planned changes in use of the land where notional receipts are transferred between the funds.
29. Right to Buy Council housing sales, repayments of capital grants, loans and investments also generate Capital Receipts. The Council plans to invest £59.9m of Capital Receipts in the coming financial year (2024/25) on General Fund and



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HRA capital programmes, to fund the DSG deficit and other transformation projects.

**Table 5: Capital receipt financing applied**

	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
Capital Receipts	37.8	59.9	20.3	14.5	10.8	10.4

### Treasury Management

30. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash is met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically 'cash rich' in the short-term as revenue income is received before it is spent, but 'cash poor' in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

### Borrowing strategy

31. As of 31 March 2024, the estimated borrowing is £362.3m and treasury investments of £35.1m.
32. The Council's chief objectives when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required; this is achieved using a mix of short-term loans and long-term fixed rate loans. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
33. The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loan Board.
34. Projected levels of the Council's total current outstanding debt (which comprises borrowing, PFI liabilities and leases) compared with the projected CFR, are shown below.

**Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement**

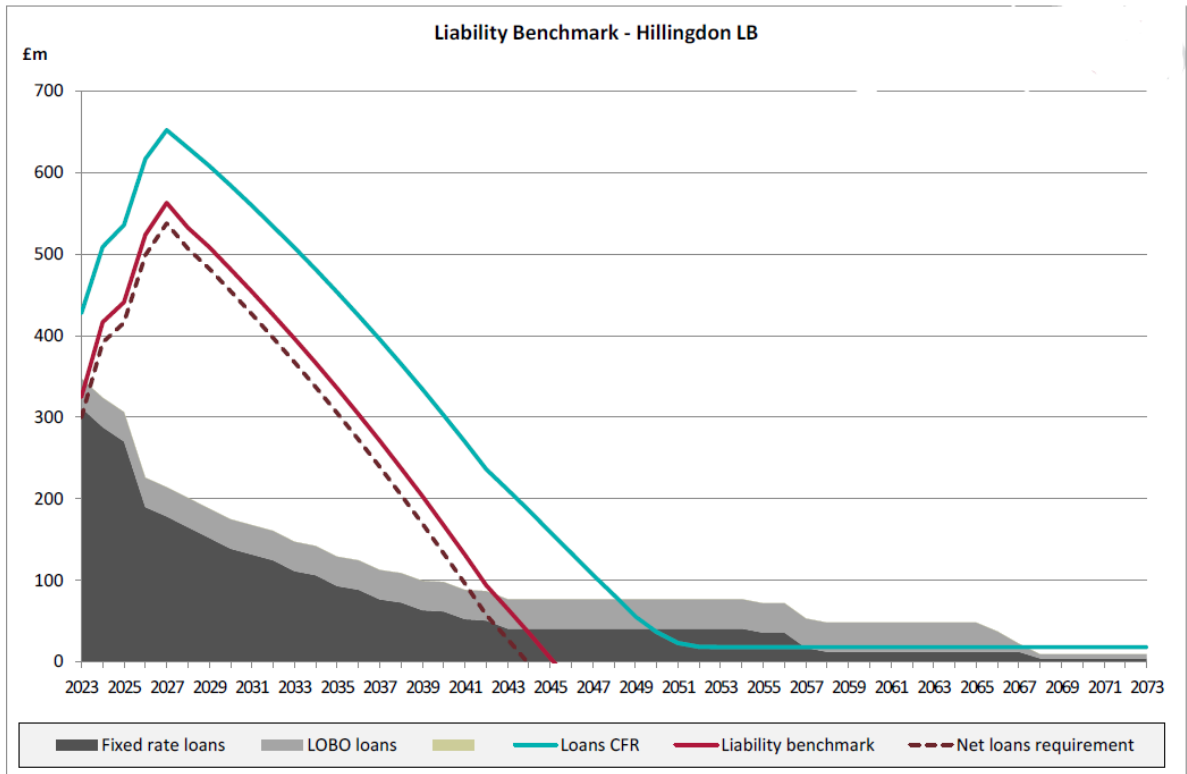
	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
Debt (including PFI and leases)	362.3	476.1	580.6	614.0	594.8	569.6
Capital Financing Requirement	454.4	579.6	664.9	705.6	732.5	748.4

35. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Statutory guidance is that debt should remain below the CFR, except in the short-term. Table 6 shows the Council's existing debt along with the CFR while Table 7 shows the borrowing required to meet this financing requirement. In taking any new borrowing, the Council will comply with the liability benchmark in Table 7 to meet the CFR.
36. **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing compared to the CFR borrowing requirement. This assumes that internal resources such as reserves and working capital are utilised and that cash and investment balances are kept at around £25m at each year-end.

**Table 7: Borrowing and the Liability Benchmark**

	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
Outstanding Borrowing	362.2	466.1	570.6	604.0	584.8	559.6
Lease Financing	0.1	10.0	10.0	10.0	10.0	10.0
Borrowing Required to meet CFR	92.1	103.5	84.3	91.6	137.7	178.8
Borrowing Required to meet Liability Benchmark	14.0	29.9	22.4	27.3	71.5	110.1

37. The Liability Benchmark Chart below demonstrates the Council's need to borrow, with outstanding borrowing falling below the current CFR and also indicating the borrowing need is for a period up to around 25 years.



38. Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. Further details on borrowing can be found in the Treasury Management Strategy.

**Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt**

	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m	2027/28 Limit £m	2028/29 Limit £m
Authorised Limit - Borrowing	638.8	638.8	752.5	768.4	768.4	768.4
Authorised Limit - PFI and Leases	0.2	20.0	20.0	20.0	20.0	20.0
<b>Authorised Limit - Total External Debt</b>	<b>639.0</b>	<b>658.8</b>	<b>772.5</b>	<b>788.4</b>	<b>788.4</b>	<b>788.4</b>
Operational Boundary - Borrowing	608.8	608.8	722.5	738.4	738.4	738.4
Operational Boundary - PFI and Leases	0.2	15.0	15.0	15.0	15.0	15.0
<b>Operational Boundary - Total External Debt</b>	<b>609.0</b>	<b>623.8</b>	<b>737.5</b>	<b>753.4</b>	<b>753.4</b>	<b>753.4</b>

### Treasury Investment Strategy

39. Treasury investments arise from receiving cash before it is paid out again. Investments made for service purposes or for commercial profit are not generally considered to be part of treasury management.
40. The Council's policy on treasury investments is to invest its treasury funds prudently and to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely to minimise risk of loss, for example with the government, other local authorities or selected high-quality Money Market Funds and banks, to minimise the risk of loss. Cash balances that will be held for longer terms is invested more widely in funds including in bonds and shares, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice.

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41. The Council will aim to hold a level of short-term investment balances which are not excessive but will ensure sufficient liquidity to manage the day-to-day activities of the Council and will not fall below £10m. Longer-term investments are forecast at £15m over the next 5 years.
42. Further details on treasury investments can be found in the Treasury Management Strategy.

### **Risk management**

43. The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.
44. The treasury management prudential indicators are set out within the treasury management strategy.

### **Governance**

45. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director of Finance and staff, who must act in line with the Treasury Management Strategy. The Treasury Management Strategy Statement is agreed by Cabinet in February prior to agreement at full Council before the start of each financial year. Amendments to the Treasury Management Strategy during the year are only done with Cabinet approval.
46. Treasury activity is monitored and reported to senior management on a daily and weekly basis. Monthly and more detailed quarterly reports on treasury management activity, including compliance with prudential indicators, are provided to Cabinet as part of the budget monitoring process. The Cabinet is responsible for scrutinising treasury management decisions.

### **Investments for Service Purposes**

47. The Council lends money to, and has a 100% shareholding in one subsidiary, Hillingdon First Ltd. The twin objectives are to deliver a financial return to the Council and provide housing for sale or rent. It will achieve this by generating of long-term sustainable revenue streams through the delivery of high-quality housing to meet the need of Hillingdon's residents.
48. The Hillingdon First Limited shareholder agreement and memorandum of association sets out in detail the governance arrangements and provides details



**Liabilities**

52. In addition to debt detailed above, the Council is committed to making future payments to cover its pension fund deficit of £260.6m and has made provisions to cover risks such as insurance claims and non-domestic rates appeal losses of £5.4m, both of which are measured in the latest published accounts as at March 2023. The Council is also at risk of having to pay for claims following legal proceedings but has not put aside any money because the claims are denied and will be defended, and in some instances, counterclaims pursued.

**Revenue Budget Implications**

53. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs and excludes investment income; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

**Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream**

	<b>2023/24 Forecast £m</b>	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>	<b>2027/28 Budget £m</b>	<b>2028/29 Budget £m</b>
Financing Costs (£m)	15.6	19.0	21.2	23.9	23.9	23.9
Proportion of Net Revenue Stream*	6%	7%	7%	8%	8%	8%

\*Net revenue stream is the general fund budget requirement, which is funded through Council Tax Business Rates and Government Grants.

**Sustainability**

54. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 35 years into the future. The Corporate Director of Finance is satisfied that both the proposed individual schemes and the overall programme are tested for affordability, sustainability and prudence.

### Knowledge and Skills

55. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.
56. The Council adopts a continuous performance and development programme to ensure officers are regularly appraised and any training needs identified. Where appropriate, officers will attend training sessions, seminars, and workshops to ensure their knowledge is up to date and relevant. Council Members are provided access to additional training where required.
57. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field.



### TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25

#### Summary

58. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
59. Over the longer term, the Council considers the need to borrow money to fund its major capital projects and when the best time is to do this. The strategy aims to minimise borrowing and make use of internal funds where viable. Currently, there is an expectation that new borrowing will be required during 2024/25 of £103.9m. New borrowing to fund the Capital Financing Requirement (CFR) will be taken for cash flow purposes. With short-term interest rates currently much lower than long-term rates, new debt will be a mixture of short and medium-term durations designed to minimise cost without having a detrimental effect on refinancing risk.
60. External influences on the Council's Treasury Management Strategy for 2024/25 will result from the geo-political and economic environment. The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.
61. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November and February 2024.
62. The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.
63. Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar year 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

## Appendix D2 - Treasury Management Strategy Statement 2024/25

64. Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.
65. Although UK inflation and wage growth remain elevated, the Authority's treasury management advisers forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Rate cuts may occur in from quarter 3 2024 to a low of around 3% by early-mid 2026.
66. Long-term gilt yields are expected to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.
67. This report details the Councils approach and strategy towards borrowing and investing and provides details on sources of debt and investment instruments in which the Council can invest. All institutions on the counterparty list are regularly monitored, assessing risk and determining the limits of duration and value of investments.
68. For 2023/24, Treasury Management Strategy Statement (TMSS) follows the 2021 Code of Practice guidance.

### Introduction

69. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code). This requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The strategy is developed as part of the Council's MTFE process.
70. Investments held for service purposes or for commercial profit are considered in a separate report; the 'Investment Strategy'.

## Appendix D2 - Treasury Management Strategy Statement 2024/25

71. The Council, by having significant investments and borrowing, is exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. As such treasury management operations are fundamentally concerned with managing risk. Whilst there are regulations and controls in place designed to minimise or neutralise risk, some risk exposure remains, due to the nature of managing loan and investment portfolios and cash flow activities. Active monitoring of the economic outlook, as well as changes in regulation, is undertaken where it impacts on the Council's treasury management strategy and risk parameters.

### Balance Sheet and Treasury Position

72. The Council's borrowing strategy is driven by the estimated Balance Sheet position in the medium-term and capital programme expectations. The underlying need to borrow for capital purposes is reflected by the CFR which measures the cumulative capital expenditure that has not been financed from other Council resources such as capital grants, revenue contributions or financed from reserves. The CFR will generally be higher than the actual debt held due to timing requirements for cash flow purposes. This is called "internal borrowing".
73. The Council's CFR approach in this capital strategy document is to consider the financing requirement for the Council as a whole. Details of the CFR breakdown split between the General Fund and the HRA are outlined in The Council's Budget.
74. Estimates of the CFR, based on the projected capital programme over the next five years are shown in Table 12. The Council's closing CFR is estimated at £454.4m for 2023/24. This CFR, less forecast outstanding loans and other long-term liabilities of £362.3m, results in a gross external borrowing requirement of £92.1m going into 2024/25. Existing borrowing is identified into separate loan pools for GF and HRA. As at 31<sup>st</sup> January 2024, GF debt is £164.6m and HRA £159.3m, with £0.1m liabilities under PFI and finance leases. A further £38m of borrowing net of repayments on existing loans may be taken before the end of 2023/24 depending on cash flow. This will be a combination of temporary loans from other local authorities depending on availability and rates, and the PWLB.

## Appendix D2 - Treasury Management Strategy Statement 2024/25

**Table 12: Balance Sheet summary, forecast and liability benchmark**

	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m
General Fund CFR	275.2	293.8	332.2	326.9	318.9	310.5
HRA CFR	179.2	285.8	332.7	378.7	413.6	437.9
<b>Total CFR</b>	<b>454.4</b>	<b>579.6</b>	<b>664.9</b>	<b>705.6</b>	<b>732.5</b>	<b>748.4</b>
External Borrowing*	-362.2	-466.1	-570.6	-604.0	-584.8	-559.6
Lease Financing	-0.1	-10.0	-10.0	-10.0	-10.0	-10.0
<b>Gross External Borrowing Required to meet CFR</b>	<b>92.1</b>	<b>103.5</b>	<b>84.3</b>	<b>91.6</b>	<b>137.7</b>	<b>178.8</b>
Projected Useable Reserves**	-84.1	-82.6	-81.9	-81.3	-86.2	-87.7
Accumulated DSG Deficit	21.0	24.0	25.0	22.0	25.0	24.0
Projected Working Capital	-40.0	-40.0	-30.0	-30.0	-30.0	-30.0
<b>(Investments) / New Borrowing Required</b>	<b>-11.0</b>	<b>4.9</b>	<b>-2.6</b>	<b>2.3</b>	<b>46.5</b>	<b>85.1</b>
Plus Minimum Investments	25.0	25.0	25.0	25.0	25.0	25.0
<b>Liability Benchmark</b>	<b>14.0</b>	<b>29.9</b>	<b>22.4</b>	<b>27.3</b>	<b>71.5</b>	<b>110.1</b>

\*Borrowing profile does not include potential calls on LOBO borrowing. Amount includes PFI

\*\* Council controllable reserves only

75. The increasing General Fund CFR is due to the Council's programme of capital investment funded by Council resources, with investment in local infrastructure leading this requirement. The HRA CFR increase is driven by investment in new and existing dwelling stock.
76. To compare the Council's actual borrowing against an alternative strategy, Table 12 also shows a liability benchmark which calculates the lowest risk level of borrowing. This assumes the same CFR forecasts, but that cash and long-dated pooled fund balances are kept to a minimum level of £25m at each year-end to maintain sufficient liquidity but minimise credit risk. Thus the Council will take a low risk level approach for borrowing through the MTF period.

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77. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

### **Borrowing Strategy**

78. The Council's external debt including PFI at 31 March 2024 is forecast to be £362.3m, an increase of £38.5m on the previous year, due to a net increase in £25.0m of new LA borrowing and £13.5m new long-term borrowing with the PWLB during 2023/24, after replacing £76.5m of naturally maturing debt. There were no viable opportunities to repay debt early in 2022/23. A further £81.2m is scheduled for repayment in 2024/25 on existing secured loans. Over 2023/24 the Council's secured loan portfolio has an average interest rate of 3.30%. The Council may also borrow additional sums during 2024/25 to pre-fund future years' requirements where this offers better value for money, providing this does not exceed the authorised limit for borrowing of £658.8m.
79. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council continues to avoid this activity which ensures the Council retains access to PWLB borrowing.
80. Projected capital expenditure levels, market conditions and interest rate levels are monitored throughout the year. This enables the Council to adapt borrowing strategies to minimise borrowing costs over the medium to longer term whilst maintaining financial stability. Table 12 shows the Council is expecting it will need to borrow in 2024/25 based on the full capital programme and debt maturity profile.
81. By the end of 2023/24 the council expects to have a short-term loan portfolio sourced from other local authorities of up to £100m expected to mature during the next financial year. It is expected to remain around this level throughout 2024/25. This will enable the Council to meet the MiFID II minimum investment balance criteria with the subsequent long-dated pooled funds.
82. The Council may arrange forward starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in the later years. This would enable certainty of cost to be achieved without suffering a cost of carry (borrowing

## Appendix D2 - Treasury Management Strategy Statement 2024/25

costs before the debt is physically required for cash flow purposes) in the intervening period.

**Sources of Borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments
- UK local authorities
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Hillingdon Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc (for instruments where joint and several liability are required on the part of the borrowers, use of such instruments will be subject to Cabinet approval)
- Other special purpose companies created to enable local authority bond issues

83. Other sources of debt finance: in addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire Purchase
- Private Finance Initiative
- Sale and Leaseback

84. The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over reliance on one source of borrowing in line with the CIPFA code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

85. To cover short-term borrowing requirements or unexpected cash flow shortages, the Council may borrow short-term, which would mainly be sourced from other local authorities. However, short-term borrowing leaves the Council exposed to the risk of short-term interest rate rises and are therefore subject to interest rate exposure limits in the treasury management indicators in Table 13. Financial derivatives may be used to manage this interest rate risk.

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86. Where borrowing is required, this will be attributed directly to either the GF or HRA loan pools. Interest costs will be separated between the two pools and allocated accordingly.

### Interest Rate Risk

87. Within the current secured loan portfolio, as at 31<sup>st</sup> January 2024 the Council has total loans of £323.9m including fixed rate PWLB loans of £201.9m which protect against interest rate rises, and £74m temporary loans with other local authorities. The Council also holds market loans of £48m of which £36m are Lender's Option Borrower's Option (LOBO) loans. The remaining £12m are classified as fixed rate debt. There is one call date for a £6m LOBO loan in October 2024 with FMS-WM, who are a German state-owned wind-up institution whose sole purpose is to unwind risk positions. Thus the likelihood of an option exercise at the next contractual exercise date remains significant.
88. The Council will not utilise LOBO loans for any new borrowing. Forward dated temporary loans totalling £10m with other local authorities have been secured and a further £28m additional loans net of repayments on existing loans (short and long term) may be required by the end of 2023/24 depending on cash flow requirements which are closely monitored.

### Interest rate exposures

89. To manage interest rate risk, the Council will aim to balance variable rate debt with its exposure to variable rate investments. This approach will offset any increase or decrease in borrowing costs with comparable changes in investment income.
90. The Council is required to set an indicator to control the Council's exposure to interest rate risk. Table 13 shows upper limits on the one-year revenue impact of a 1% rise or fall in interest rates.

**Table 13**

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£1.0m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£(1.0m)

The impact of a change in interest rates is calculated both on the assumption that fixed-rate maturing loans and investments will be replaced at their existing fixed rates and with a forecast maximum variable rate net investment and debt position of £100m.

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### Debt Rescheduling

91. The PWLB allows authorities to repay loans before maturity at a premium or discount. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans or repay early without replacement. The rationale for rescheduling is to provide an overall cost saving and, or reduce risk; balance the volatility profile (i.e. the ratio of fixed to variable rate debt); or amend the profile of maturing debt to reduce any inherent refinancing risks.
92. Rates and markets are regularly monitored to identify opportunities for rescheduling and any borrowing and rescheduling activity is reported monthly to Cabinet.
93. The Council will limit and monitor large concentrations of debt needing to be replaced through the prudential indicator in Table 14. The upper and lower percentage limits are intended to control excessive exposure to volatility in interest rates on refinancing of maturing debt by setting a structure for borrowing maturity profiles. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The first scheduled LOBO call option is included as the maturity date within this indicator.

**Table 14**

Maturity Structure of Borrowing	% Fixed Term loans maturity profile at 31/03/24	% Market LOBO loans 1 <sup>st</sup> call option profile at 31/03/24	Lower Limit for 2024/25 %	Upper Limit for 2024/25 %
Under 12 months	25.67	1.90	0	50
12 months and within 24 months	3.85	3.16	0	50
24 months and within 5 years	13.13	6.33	0	50
5 years and within 10 years	15.55	0.00	0	100
10 years and within 20 years	17.58	0.00	0	100
20 years and within 30 years	1.58	0.00	0	100
30 years and within 40 years	7.46	0.00	0	100
40 years and within 50 years	2.53	0.00	0	100
50 years and above	1.26	0.00	0	100
<b>Total</b>	<b>88.61</b>	<b>11.39</b>	<b>0</b>	<b>100</b>



## Appendix D2 - Treasury Management Strategy Statement 2024/25

### Treasury Investment Strategy

94. The CIPFA Code requires the Council to invest funds prudently and have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.
95. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing, but only after first ensuring it meets its primary objectives set out above.
96. ESG considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will aim to utilise those that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
97. All banks, building societies and money market funds appearing on the Council's current counterparty list are signatories to the UN Principles for Responsible Investment. In addition, all money market funds are signatories to the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.
98. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves. For 2023/24, the Council's investment peaked at £122.5m – with higher balances primarily being driven by business rates received which were yet to be paid to DLUHC, grants received in advance of expenditure, and borrowing taken in advance of need to secure favourable rates and hedge against base rate rises. Overall, investment balances are expected to be lower during 2024/25.
99. When investing funds, the Council looks to balance risk and return, minimising the risk of incurring losses from defaults, and the risk receiving unsuitably low investment income. Balances are not expected to be invested more than one year, however, should this occur, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
100. The Council intends to continue with the existing strategy of placing £15m in long-dated strategic pooled funds to complement investment returns and ensure minimum balances are held to comply with the MiFID II directive.
101. Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve

## Appendix D2 - Treasury Management Strategy Statement 2024/25

value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

102. The IFRS 9 statutory override for fair value gains and losses on pooled investment funds was extended and remains in place for the 2023/24 and 2024/25 financial years. It is highly uncertain that the override will be extended beyond that time period.
103. The Corporate Director of Finance under delegated powers will, on a daily basis, determine the most appropriate form of investments, in keeping with investment objectives, income and risk management requirements. Investments will also be made with reference to the approved investments detailed in Table 17. Activity concerning the core strategic investment portfolio will be reported monthly to Cabinet.

### Bail-In Risk

104. Banking reform legislation was incorporated into UK law from January 2015 and exposes the Council to bail-in risk on all unsecured bank deposits. The risk of bail-in is effective at the point when banks are considered underperforming rather than once, they have failed. With most large entities either exempt or not exposed, local authorities will be one of the primary bail-in targets with a potential loss of 100% of the deposit.
105. There are several secure deposits available to the Council to reduce bail-in exposure. Secure deposits include Covered Bonds (fixed and floating rate notes) and Repurchase Agreements (REPO's). Secure deposits are longer in duration and can be difficult to invest as a result. The majority of the Council's investments must remain liquid to fund cash flow requirements, resulting in bail-in risk being inherent in the Council's investment portfolio.
106. **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
107. **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which

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the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

108. **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
109. **Money Market Funds (MMF's):** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets remain an important vehicle in the Council's investment portfolio. Money Market Funds may reduce the risk of bail-in as they have the advantage over bank accounts of providing wide diversification of investment risks,, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will diversify over a variety of MMF providers to ensure access to cash at all times. Where MMF's participate, the Council utilises the facilities of a MMF portal to make subscriptions and redemptions. The portal procedure involves the use of a clearing agent; however, the Council's funds are ring-fenced throughout the process.
110. **Strategic Pooled Funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short-term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

### Credit Risk

111. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

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112. The Council's in-house investments are made with reference to the outlook for the UK Bank Rate, money market rates and other macroeconomic factors. In any period of significant stress in the markets or heightened counterparty risk, the fallback position is for investments to be placed with central government's Debt Management Office (DMO), to purchase UK Treasury Bills or deposits with other local authorities. The rates of interest from the DMO may be below the equivalent money market rates in most cases, but this is an acceptable counterbalance for the guarantee that the Council's principal sum invested is secure.

### High Credit Quality

113. The Council has defined "high credit quality" for deposits and investments in organisations and securities as those having a minimum credit rating of A- for UK counterparties, A+ for overseas counterparties and AA+ for non-UK sovereigns. Covered Bonds will be restricted to bond issues of AA or above.

114. When determining the minimum acceptable credit quality, the Council will not only consider the credit rating criteria above but also advice from Arlingclose, information on corporate developments and market sentiment towards investment counterparties. For credit rated counterparties, the minimum criteria will be the lowest equivalent long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned). Long-term minimum: A- (Fitch); A3 (Moody's); A- (S&P). The Council will aim to have a weighted average credit score of A- for the rated element of its investment portfolio and treasury investments in the sectors marked with an asterisk in Table 17 will only be made with entities whose lowest published long-term credit rating is no lower than A-. The Council's portfolio average credit rating as at 31 March 2024 is forecast at AA+ (value weighted basis).

115. To diversify investments within the portfolio, funds will be placed with a range of counterparties which meet agreed minimum credit risk requirements. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria. Diversification will be achieved by applying individual limits with each counterparty; for unsecured deposits this is capped to £6.5m. Varying instruments and investment periods will be utilised to meet liquidity requirements and mitigate risks. Table 17 shows investment limits and allowable instruments.

### Investment limits:

116. The Council's revenue reserves available to cover investment losses are forecast to be £26.9m on 31<sup>st</sup> March 2024. In order that no more than 50% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £6.5m. A

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group of entities under the same ownership will be treated as a single organisation for limit purposes. Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £15m in operational bank accounts count against the relevant investment limits. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as shown in Table 17. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

### **Risk Assessment and Credit Ratings**

117. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

118. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch” so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

### **Liquidity Risk**

119. The Council will ensure it has liquid funds available to settle its payment obligations when they fall due and uses cash flow modelling techniques to determine the maximum term for which funds may be prudently committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. It will utilise instant access facilities including call accounts and MMFs for core working capital balances and structure longer term maturities to correspond to large cash outflows with reference to the Council's capital programme and cash flow forecast.

120. The Council will spread its liquid cash over at least four providers (e.g bank accounts and money market funds) to ensure that access to cash is maintained in

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the event of operational difficulties at any one provider.

121. The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within 1 day, without additional borrowing.

**Table 15**

Liquidity Risk Indicator	Target
Total cash available within 1 day	£10m

### Long-term treasury management investments

122. The Council has placed an upper limit for long-term treasury management investments. This limit is to control the Council's exposure to the risk of incurring losses by seeking early repayment of the sums invested. The limits on the long-term treasury management investments will be:

**Table 16**

Price Risk Indicator	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
	35	35	35	35	35	35

123. Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term

### Return on Invested Sums

124. The Council's treasury management advisers are forecasting that BoE Bank Rate will start to fall in the second half of 2024 if inflationary pressures continue to ease, and this is being reflected in pricing in the financial markets.

### Council's Bank Account

125. The Council's bank account is held with NatWest plc and is currently rated above the Council's agreed minimum A- rating at A+/A1/A+. Should the credit rating fall below A- the Council may continue to deposit surplus cash on condition that investments can be withdrawn on the next working day, and the bank maintains a credit rating no lower than BBB-.

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### **Approved investment counterparties and limits**

126. The Council may invest its surplus funds with any of the counterparty types in Table 17 below, subject to the limits shown.

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**Table 17**

<b>Instruments</b>	<b>Counterparty</b>	<b>Maximum Exposure Limits</b>	<b>Maximum Duration Limits</b>
Term Deposits	DMADF, DMO	No Limit	50 Years
Term Deposits	Other UK Local Authorities	£35m per Local Authority / No total limit	25 Years
Instant Access Accounts / Notice Accounts / Term Deposits / Certificates of Deposit / REPO's	UK Banks and Building Societies	Unsecured Deposits £6.5m Secured Deposit - REPO's (In addition to unsecured limits) £15m	13 Months
Instant Access Accounts / Notice Accounts / Term Deposits / Certificates of Deposit	Overseas Banks	Unsecured Deposits £6.5m Overseas Bank Total - 50% in aggregate Secured Deposit - REPO's (In addition to unsecured limits) £15m	13 Months
Registered Secured Deposits (including Covered Bonds)	Bond issue minimum AA Rated*	£15m (Per issue)	5 Years
UK Government (Gilts & Treasury Bills)	DMO	No Limit	50 Years
Local Authority Bonds	Other UK Local Authorities	No Limit	No Limit
Money Market Funds	Money Market Funds(LVNAV)	£5m per fund. Maximum MMF exposure 100%	N/a
Strategic Pooled Funds	Pooled Funds (Cash Plus & Short-Bond Funds with investment horizons < 1year)*	£5m per fund. Maximum Pooled Fund exposure £15m	N/a
Strategic Pooled Funds	Pooled Funds* (Strategic & Long-Dated Funds with investment horizons > 1year)*	£5m per fund. Maximum Pooled Fund exposure £15m	N/a

127. Specific duration limits will be based on guidance from the Council's treasury advisers and with an additional overlay of prudence applied by the Council. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty. Instruments and limits would be amended on notification of any potential risk concerns.



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### **Other Items**

128. The CIPFA Code requires the Council to include the following in its treasury management strategy.

### **Policy on Use of Financial Derivatives**

129. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removed much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

130. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks to which the Council is exposed. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

131. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

132. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

### **Policy on Apportioning Interest to the Housing Revenue Account (HRA)**

133. With the introduction of HRA self-financing in March 2012 the Council allocated specific loans to both the General Fund and the HRA. Since the introduction of self-financing and in the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs applicable to each loan are charged directly to the respective revenue account.

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134. Interest earned on HRA balances will be calculated and distributed in accordance with DLUHC (Department for Levelling Up, Housing and Communities) guidelines and based on a DMO risk free rate of return to match the risk-free credit exposure applicable to the HRA. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each year and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

### **Balanced Budget Requirement**

135. The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

### **Monitoring and Reporting**

136. Treasury activity is monitored and reported to senior management on a daily and weekly basis. Monthly updates including compliance with Prudential Indicators are provided to Cabinet as part of the budget monitoring process.
137. The TMSS is agreed by Cabinet prior to agreement at full Council in February each year. Amendments to the TMSS during the year are only done with Cabinet approval.

### **Financial Implications**

138. The proposed budget for General Fund investment income in 2024/25 is £1.6m net of distribution to other funds, and debt interest payable of £19.7m (£11.0m GF, £8.7m HRA). If actual levels of investments and borrowing or actual interest rates differ from those forecast, performance against budget will be correspondingly different and split into General Fund and HRA budgets if applicable.

### **Market in Financial Instruments Directive II (MiFID II)**

139. The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status. In order to maintain an ongoing professional status, the Council must always hold as a minimum £10m of investments. The allocation to strategic pooled funds and minimum cash requirements will ensure compliance with this criterion.

## INVESTMENT STRATEGY REPORT 2024/25

### Introduction

140. The Council invests money for two broad purposes:
- because it has surplus cash as a result of its day-to-day activities, (**treasury management investments**),
  - to support local public services by lending to or buying shares in other organisations (**service investments**).
141. This Investment Strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second of these categories.

### Treasury Management Investments

142. The Council typically receives its income in cash before it pays for its expenditure in cash. It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. Treasury management investments can be made on either a short-term or long-term basis. The balance of treasury management investments is expected to fluctuate between £25m and £121m during the 2024/25 financial year, based on investment levels this year.
143. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.
144. Full details of the Council's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the Treasury Management Strategy.

### Service Investments: Loans & Shares

145. The Council lends money to, and has a 100% shareholding in one subsidiary, Hillingdon First Ltd, which was incorporated during 2018/19. The objective is to deliver a financial return to the Council and provide housing for sale or rent. It will achieve this by generating of long-term sustainable revenue streams through the delivery of high-quality housing to meet the need of Hillingdon's residents. Shareholdings commenced during 2019/20 and there are currently no outstanding loans. The last fair value assessment as at 31st March 2023 is £6.8m, which was an increase of £2.3m from the previous year.

## Appendix D3 - Investment Strategy Report 2024/25

146. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. While one of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.
147. In order to limit these risks, upper limits on the sums invested in each category have been set in Table 18 below. Furthermore, the Council is protected against any losses through a charge over the assets of Hillingdon First Ltd.

**Table 18: Loans & Shares for service purposes**

Hillingdon First Ltd	2024/25 Approved Limit £m
Loans	0-17.5
Shares	0-25
<b>TOTAL</b>	<b>25</b>

148. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts will be shown net of any cost allowance.
149. The Council assesses the risk of loss before entering and whilst holding service loans. Despite increased interest rates and cost of living pressures, the sales property market across Hillingdon and London has seen positive demand and stable pricing during 2022/23. The demand for property continues to hold in house pricing, and as such, further development across the borough will ensure this demand continues to be met.
150. The Council aligns loan durations with each specific development. A specific loan agreement is drawn up for each development using the agreed schedule as a framework. Hillingdon First Ltd will be required to provide full development scheme details to the Shareholder Committee (acting on behalf of the Council as the shareholder) before the loan facility can be drawn down for specific expenditure on that development.
151. The Council will ensure it remains within the limits shown in Table 18 for service loans and shares through monthly monitoring and reporting to senior management. Compliance with limits will also form part of the monthly reporting to Cabinet.
152. Shares are the only investment type classified as non-specified investment, the limits above in Table 18 on share investments are therefore also the Council's upper limits on non-specified investments.

### Commercial Activities

153. The Council has a historic portfolio of investment properties, last valued at £4.7m at 31<sup>st</sup> March 2023, which are managed through the Council's organisation structure. The Council is not actively seeking to increase this type of investment exposure. These assets are not held for normal operational activity but held under long-term commercial leases. Net income generated from these assets in 2023/24 is expected to be around £200k. The fair value of these are measured annually and published in the Council's statement of accounts.

### Loan Commitments and Financial Guarantees

154. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

155. The Council has a contractual agreement in place to enable it to make up to £35m of loans, in total, to Hillingdon First Ltd should it request it. The Council has powers to terminate this agreement. The Council has no loan guarantees in place.

156. The latest published accounts as at March 2023 show the Council is committed to making future payments to cover its pension fund deficit valued at £260.6m and has set aside £5.4m to cover other provisions and deferred liabilities.

157. The Council may enter into a rent guarantee arrangements where appropriate.

### Proportionality

158. In the 2024/25 budget plan the Council does not intend to be dependent on profit generating investment activity to achieve a balanced revenue budget. The primary role of Hillingdon First Ltd is to contribute to delivering more quality housing to meet the needs of Hillingdon's residents and towards improving long-term revenue income, which it is anticipated be a more efficient route than the disposal of surplus assets. The historic portfolio of investment properties are managed through the Council's organisation structure and no income reliance is placed on this holding.

### Borrowing in Advance of Need

159. In accordance with government guidelines, the Council does not intend to borrow more than or in advance of need purely in order to profit from investment of the extra sums borrowed.

**Capacity, Skills and Culture**

- 160. Elected members and officers receive training and undergo continuous professional development to ensure their knowledge is current and relevant. Where required, Officers and Members are supported by specialists on technical, commercial and regulatory matters.
  
- 161. The Council’s Investment Strategy to date has been approved by Cabinet and full Council as part of the TMSS. Under delegated powers, the Corporate Director of Finance will, on a daily basis, determine the most appropriate form of investments in accordance with the Council’s investment objectives, income and risk management requirements.
  
- 162. The Council’s investment position, including compliance with prudential indicators, is reported to Cabinet on a monthly basis as part of the monitoring process.
  
- 163. The shareholder agreement and memorandum of association sets out in detail the governance arrangements and provides details of the operating framework, controls, and reporting requirements for Hillingdon First Ltd. No actions should cause the company or the Council to breach the Local Authorities (Companies) Order 1995.

**Investment Indicators**

- 164. The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.
  
- 165. The indicator in Table 19 shows the Council’s total exposure to potential investment losses. This includes amounts the Council has agreed it could lend to Hillingdon First Ltd, but have yet to be drawn down.

**Table 19: Total investment exposure**

<b>Total Investment Exposure</b>	<b>31/03/23 Actual £m</b>	<b>31/03/24 Forecast £m</b>	<b>31/03/25 Forecast £m</b>
Treasury Management Investments	62.2	35.1	25.0
Service investments: Loans	0.0	4.0	10.0
Service investments: Shares	3.8	3.8	3.8
Commercial investments	4.7	4.7	4.7
<b>Total Exposure</b>	<b>70.7</b>	<b>47.6</b>	<b>43.5</b>

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166. Service loans and shares in Hillingdon First Ltd are classified as capital expenditure and can be described as being funded by borrowing. The remainder of the Council's investments are financed by usable reserves and income received in advance of expenditure.

**Table 20: Investments funded by borrowing**

Total Investment Exposure	31/03/23 Actual £m	31/03/24 Forecast £m	31/03/25 Forecast £m
Service investments: Loans	0.0	4.0	10.0
Service investments: Shares	3.8	3.8	3.8
<b>Total funded by borrowing</b>	<b>3.8</b>	<b>7.8</b>	<b>13.8</b>

167. The rate of return received indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

**Table 21: Investment rate of return (net of all costs)**

Investments Net Rate of Returns	2022/23 Actual	2023/24 Forecast	2024/25 Budget
Treasury Management Investments*	2.13%	4.82%	4.85%
Strategic Long-Term Investments**	3.43%	4.11%	2.67%
Service investments: Loans	4.94%	4.94%	4.94%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments	5.38%	3.84%	4.22%

\*Excluding Strategic Long-Term Investment

\*\* Based on 2023/24 performance, returns on Strategic Long-Term Investments are anticipated to exceed budgeted returns.

**ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2024/25**

168. Where the Council finances its capital programme through borrowing it must set aside resources annually through a Minimum Revenue Provision. This is within the revenue budget to repay the debt in later years. The Local Government Act 2003 requires the Council to have regard to Guidance issued in 2018 on Minimum Revenue Provision issued by DLUHC.
169. MRP in 2024/25: MRP will generally be charged over the useful life of the assets, beginning in the year after the asset becomes operational. In all cases we will consider the most prudent method of providing for debt repayment. The HRA will make a form of MRP to pay down its debt over the context of its 30-year business cycle on which the settlement is based.
170. When former operating leases are brought onto the balance sheet on 1st April 2024 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
171. With the implementation of IFRS 16, operating leases that meet the capitalisation thresholds will be brought to the balance sheet with their net book values as an asset and the outstanding amounts as liabilities. A revenue charge will then be made in the year that is due for both the principal and the interest due. Each payment made for each asset reduces the long-term liability outstanding.
172. Capital expenditure financed by borrowing and incurred during 2023/24 is not subject to an MRP charge until 2024/25. For assets under construction and significant assets, an MRP charge may be delayed until the asset is deemed available for use.
173. For capital expenditure loans to third parties, the Authority will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss.



## Appendix D4 - 2024/25 MRP Statement

174. **Overpayments:** In earlier years, the Council has made voluntary overpayments of MRP totalling £4.9m that are available to reduce the revenue charges in later years. The table below shows the expected balance of over payments as at 31 March 2024. The previously made overpayments are expected to be fully drawn down in 2023/24 to support the revenue position.

**Table 22: MRP Overpayments**

<b>MRP Overpayments</b>	<b>£m</b>
Actual balance 31.03.2023	4.9
Planned drawdown 2023/24	(4.9)
Forecast Balance 31.03.2024	0.0