

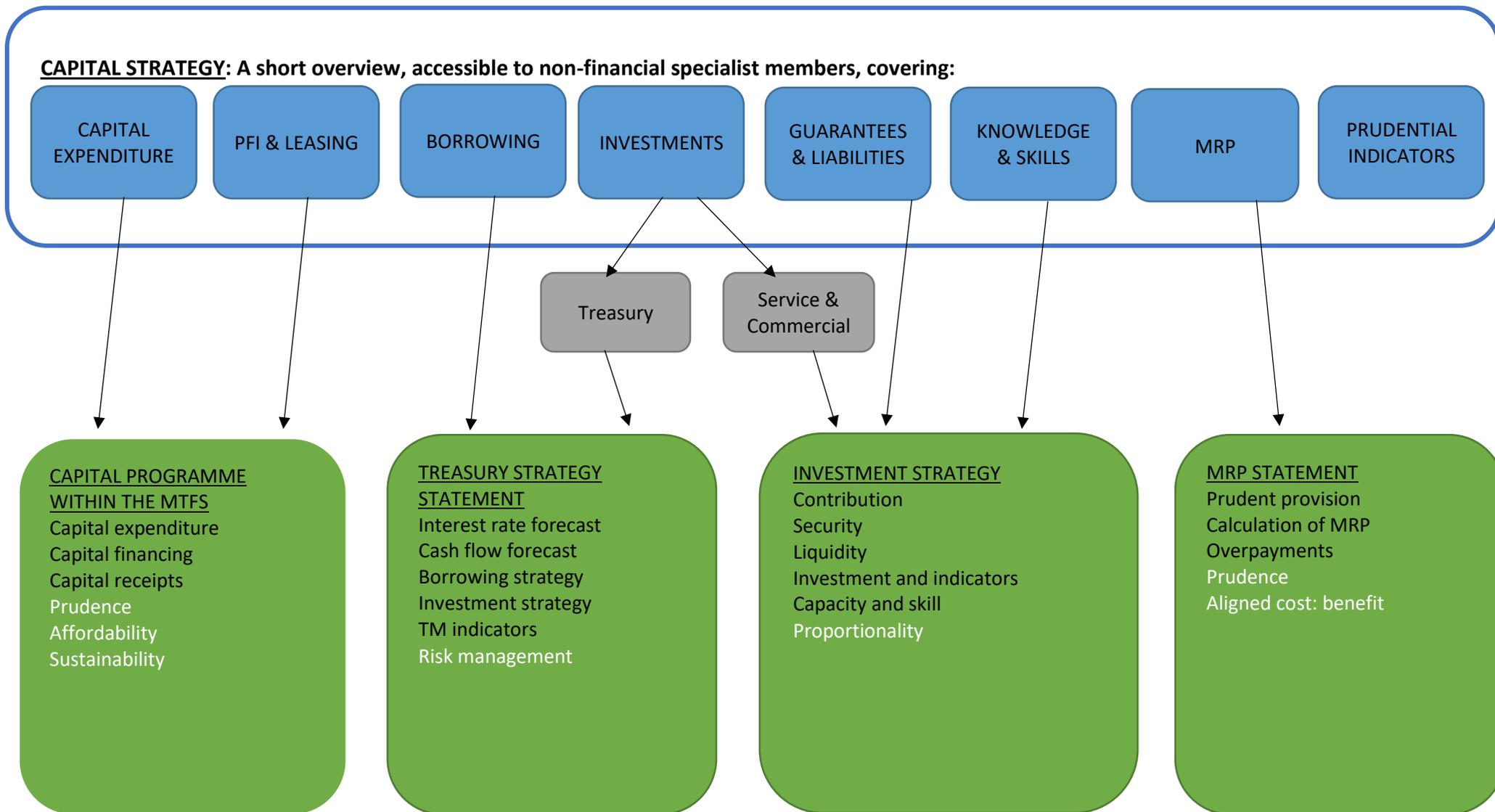
CAPITAL AND INVESTMENT STRATEGY REQUIREMENTS 2026/27

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 G 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 MTFs 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.
7. The Council has refreshed all forecasts and Prudential Indicators to align with the budget proposals for the new financial year.



CAPITAL STRATEGY REPORT 2026/27

Introduction

8. 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.
9. This strategy is integrated with other strategies; MTFS Capital Programme, Treasury Management Strategy, Investment Strategy and the MRP Statement where more detail is provided.

Capital Expenditure and Financing

10. 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. In 2026/27, the Council is planning capital expenditure as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
General Fund services	76.6	132.1	65.2	50.9	36.0	29.2
General Fund EFS Capitalisation	88.0	62.0	23.0			
Housing Revenue Account (HRA)	186.6	136.3	113.5	113.8	84.9	70.9
TOTAL	351.2	330.4	201.7	164.7	120.9	100.1
<i>of which</i>						
General Fund services	70.6	132.1	65.2	50.9	36.0	29.2
General Fund EFS	88.0	62.0	23.0			
Housing Revenue Account (HRA)	186.6	136.3	113.5	113.8	84.9	70.9
Capital investments (GF)	6.0	0.0	0.0	0.0	0.0	0.0
TOTAL	351.2	330.4	201.7	164.7	120.9	100.1

11. The 2025/26 forecast is based on the Month 9 capital monitoring forecasts and the 2026/27 budget includes proposed re-phasing of 2025/26 slippage under spends

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into the new financial year. Re-phasing at year end outturn will be submitted to Cabinet for approval in the Budget Outturn report following year end.

12. The main General Fund capital programme includes a new site for the Hillingdon Water Sports Facility & Activity Centre, structural works for the Cedar and Grainges car parks and refurbishment of the crematorium. The capital programme also includes increased support for SRP and SEND at Meadow High School, secondary school expansion to support the growing population within the borough, and ongoing investment in local highways infrastructure.
13. Capital investment of £390.0m over the period 2025/26 to 2030/21 has been incorporated into the wider General Fund budget strategy with £182.8m investment in major projects, primarily delivering new or expanded infrastructure.
14. 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. The 2025/26-2030/31 five year programme includes acquisitions and development of new social housing stock (£264.6m), enhancement of the existing housing stock including green home initiatives (£231.3m), and a major housing regeneration programme to provide new high-quality housing in Hayes (£210.1m).

Exceptional Financial Support

15. The Council is in the closing stages of agreeing Exceptional Financial Support (EFS) with the government. EFS is required to:
 - offset the forecast overspend in 2025/26;
 - replenish General Fund and Earmarked Reserves; and
 - enable the Council to set a balanced budget for 2026/27
16. Total EFS amounts to £173m as set out in Table 1 above phased over three years from 2025/26 to 2027/28.
17. EFS is not operational capital expenditure on new projects and programmes however it is delivered as a capitalisation directive enabling the Council to effectively treat revenue costs as capital, allowing those costs to be financed by borrowing and resulting in an increase to the Council's capital financing requirement (CFR) in a similar way to ordinary capital expenditure. As a result the Council will be required to provide Minimum Revenue Provision (MRP) to pay down the EFS over time and this is budgeted over 20 years. The Council also anticipates needing to externally borrow to maintain its cash position and ensure liquidity. The increase in the CFR following EFS provides the Council with more flexibility in managing liquidity and capital financing costs arising from EFS

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(interest payable and MRP) have been included in the budget. These are set out in Table 11 below. Further details on EFS are provided in the Council's Budget Report.

Capital Financing

18. All other 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

	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
External Sources	88.0	88.5	51.8	52.4	35.9	33.5
Own Resources	44.9	44.1	45.7	25.2	25.9	26.8
Capital Debt	130.3	135.8	81.2	87.1	59.2	39.8
EFS Debt	88.0	62.0	23.0	-	-	-
TOTAL	351.2	330.4	201.7	164.7	121.0	100.1

19. 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 to provide repayment of General Fund borrowing and details on how this is calculated are included in the MRP Statement policy. The HRA also provide a regular contribution towards its financing of debt repayment, although it is not mandatory unlike the General Fund.

Table 3: Replacement of prior years' debt finance

	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
General Fund services MRP	8.5	9.6	11.2	12.6	13.7	14.7
General Fund EFS MRP	0.0	2.6	4.6	5.6	5.8	6.1
Housing Revenue Account (HRA)	8.1	8.7	10.5	11.4	13.8	16.8
Total	16.6	20.9	26.3	29.6	33.3	37.6

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20. 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 £206.3m in 2025/26 of which £88m relates to EFS. 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

	2024/25 Actual £m	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
General Fund services	307.4	354.6	420.8	451.5	466.8	472.4	470.3
EFS	0	88.0	147.4	165.7	160.2	154.3	148.2
Housing Revenue Account (HRA)	279.6	350.6	404.2	434.0	483.0	509.8	520.8
TOTAL	586.9	793.2	972.4	1,051.2	1,110.0	1,136.5	1,139.3
<i>of which</i>							
General Fund services	297.9	335.2	391.4	422.1	437.4	443.0	440.9
General Fund EFS	0	88.0	147.4	165.7	160.2	154.3	148.2
Capital investments	4.0	9.4	9.4	9.4	9.4	9.4	9.4
Leases	5.5	10.0	20.0	20.0	20.0	20.0	20.0
Housing Revenue Account (HRA)	279.6	350.6	404.2	434.0	483.0	509.8	520.8
TOTAL	586.9	793.2	972.4	1,051.2	1,110.0	1,136.5	1,139.3

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

Governance of Capital Expenditure

22. 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

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Tax. Following any further feedback, the final revised five-year capital programme is submitted to Cabinet and Council for approval in February each year.

23. 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.
24. 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.
25. 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

26. 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.
27. In general, assets are managed in accordance with the principles of good estate management. The Council seeks continuous improvement in the quality of assets used to deliver services and wherever possible use its ownership of assets to deliver service improvements.
28. 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.

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- 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.
- Digital & Intelligence: 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

29. 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 Council's property governance working group consisting of those cabinet members charged with oversight of the Council's capital programme and asset base, the Land and Property Board, 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, repay debt or fund approved transformation expenditure. 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 adjusting the Capital Financing Requirement split between the two funds.
30. Right to Buy Council housing sales, repayments of capital grants, loans and investments also generate Capital Receipts. The Council plans to invest £27.6m of Capital Receipts in the coming financial year (2026/27) on the HRA capital programme, to part fund housing projects to increase housing stock.

Table 5: Capital receipt financing applied

	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
Capital Receipts	15.7	27.6	28.2	7.5	7.7	7.9

Treasury Management

31. 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

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 and leases) compared with the projected CFR, are shown below.

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

	2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	2030/31 Budget
	£m	£m	£m	£m	£m	£m	£m
Capital programme debt	517.5	688.9	805.4	865.4	927.8	959.0	966.8
EFS debt	0	48.0	110.0	133.0	133.0	133.0	133.0
Lease liabilities	5.5	10.0	20.0	20.0	20.0	20.0	20.0
Total Debt	523.0	746.9	935.4	1,018.4	1,080.8	1,112.0	1,119.8
Capital Financing Requirement	586.9	793.2	972.4	1,051.2	1,110.0	1,136.5	1,139.3

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

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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. EFS debt of £48m in the above table is lower than the total increase of £88m in the CFR relating to EFS because it is not anticipated that the Council will need to externally borrow the full amount from the PWLB to maintain liquidity.

Liability benchmark

37. 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

	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
Outstanding Borrowing (GF and HRA)	688.9	805.4	865.4	927.8	959.0	966.8
External Borrowing for EFS	48.0	110.0	133.0	133.0	133.0	133.0
Lease Liabilities	10.0	20.0	20.0	20.0	20.0	20.0
Total	746.9	935.4	1,018.4	1,080.8	1,112.0	1,119.8
Borrowing Required to meet CFR	46.3	36.9	32.8	29.2	24.6	19.5
Borrowing Required to meet Liability Benchmark	20.8	19.8	19.9	16.4	11.6	3.6

Affordable borrowing limit

38. 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.

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39. The operational boundary and authorised limit have been set based on the highest forecast CFR in the following three years:

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

	2025/26 Limit	2026/27 Limit	2027/28 Limit	2028/29 Limit	2029/30 Limit	2030/31 Limit
	£m	£m	£m	£m	£m	£m
Authorised Limit - Borrowing	867.6	1,120.0	1,146.5	1,149.3	1,149.3	1,149.3
Authorised Limit - PFI and Leases	50.0	50.0	50.0	50.0	50.0	50.0
Authorised Limit - Total External Debt	917.6	1,170.0	1,196.5	1,199.3	1,199.3	1,199.3
Operational Boundary - Borrowing	837.6	1,090.0	1,116.5	1,119.3	1,119.3	1,119.3
Operational Boundary - PFI and Leases	25.0	25.0	25.0	25.0	25.0	25.0
Operational Boundary - Total External Debt	862.6	1,115.0	1,141.5	1,144.3	1,144.3	1,144.3

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. In line with the CIPFA Treasury Management Code of Practice, 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.
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

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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 of the operating framework, controls, and reporting requirements. All projects will undergo a full due diligence before any investment is made.

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49. In terms of Service Delivery Investment, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to generate a net revenue benefit. The risk of incurring unexpected losses is managed by ensuring the Council remains within the limits shown within the Investment Strategy through monthly monitoring and reporting to senior management. Compliance with limits will also form part of the monthly reporting to Cabinet.
50. Service loans and shares in Hillingdon First Ltd are classified as capital expenditure.
51. The Council has set up a Special Purchase Vehicle (SPV) called The Hillingdon Care Company (THCC) to run and manage The Burroughs Care Home which was purchased in 2025/26 for £5.75m and a related loan agreement arranged for £6m with THCC including £250k working capital. The objective is to address the increasing demand for nursing and dementia care places, manage escalating bed prices, and ensure that residents have access to quality care locally. THCC was incorporated with Companies House on 23 January 2025. The SPV IS 100% owned by the Council and will operate the care home (The Burroughs). The SPV will be able sell beds to other local authorities/parties as long as this is less than 20% of total revenue.

Table 9: Prudential indicator: Net income from service investments to net revenue stream

	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
Total net income from service investments (£ms)	0.1	0.3	0.3	0.3	0.3	0.3
Proportion of Net Revenue Stream*	0.03%	0.09%	0.09%	0.09%	0.09%	0.08%

Commercial Activities

52. The Council has a historic portfolio of investment properties which are properties that are used solely to earn rentals and/or for capital appreciation. They are valued annually by the external valuers for the Statement of Accounts, with a fair value of £4.035m at 31st March 2025. 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 2024/25 was £252k.

Table 10: Prudential indicator: Net income from commercial investments to net revenue stream

	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
Total net income from commercial investments (£m)	0.2	0.2	0.2	0.2	0.2	0.2
Proportion of Net Revenue Stream*	0.06%	0.06%	0.05%	0.05%	0.05%	0.05%

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

Liabilities

53. In addition to debt detailed above, the Council is committed to making future payments to cover its pension fund deficit of £122.8m and has made provisions to cover risks such as insurance claims and non-domestic rates appeal losses of £7.5m, both of which are measured in the latest published accounts as at 31 March 2025. 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

54. 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

	2025/26 Forecast £m	2026/27 Budget £m	2027/28 Budget £m	2028/29 Budget £m	2029/30 Budget £m	2030/31 Budget £m
Financing Costs Capital GF (£m)	19.7	26.5	30.9	33.4	35.0	36.4
Financing Costs EFS (£m)	0.0	6.4	10.7	12.5	12.6	12.8
Proportion of Net Revenue Stream*	6%	10%	13%	14%	14%	14%

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

Sustainability

55. 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 40 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

56. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.
57. 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.
58. 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 2026/27

Summary

59. 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.
60. 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, actual and forecast new external borrowing required during 2025/26 amounts to £219.4m (General Fund and HRA including impact of EFS). New borrowing to fund the Capital Financing Requirement (CFR) will be taken for cash flow purposes. With short-term interest rates currently 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.

Economic Outlook

61. The most significant impacts on the Authority's treasury management strategy for 2026/27 are expected to include: the influence of the government's 2025 Autumn Budget, lower short-term interest rates alongside higher medium- and longer-term rates, slower economic growth, together with ongoing uncertainties around the global economy, stock market sentiment, and geopolitical issues
62. The Bank of England's Monetary Policy Committee (MPC) cut Bank Rate to 3.75% in December 2025, as expected. The vote to cut was 5-4, with the minority instead favouring holding rates at 4.0%. Those members wanting a cut judged that disinflation was established while those preferring to hold Bank Rate argued that inflation risks remained sufficiently material to leave rates untouched at this stage.
63. The most recent Monetary Policy Report (November) projected modest economic growth, with GDP expected to rise by 0.2% in the final calendar quarter of 2025. Annual growth is forecast to ease from 1.4% before improving again later, reflecting the delayed effects of lower interest rates, looser monetary conditions, stronger global activity, and higher consumer spending. The view of modest economic growth going forward was echoed by the Office for Budget Responsibility in its Economic and fiscal outlook published in line with the Autumn Statement which revised down its estimate of annual real GDP to around 1.5% on average between 2025 and 2030.

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64. CPI inflation was 3.2% in November 2025, down from 3.6% in the previous month and below the 3.5% expected. Core CPI eased to 3.2% from 3.4%, contrary to forecasts of remaining at 3.6%. Looking forward, the MPC continues to expect inflation to fall, to around 3% in calendar Q1 2026, before steadily returning to the 2% target by late 2026 or early 2027. In the three months to October 2025, the unemployment rate increased to 5.1%, higher than the level previously expected by the BoE, while the employment rate slipped to 74.9%. Pay growth for the same period eased modestly, with total earnings (including bonuses) growth at 4.7% and while regular pay was 4.6%.
65. The US Federal Reserve also continued to cut rates, including reducing the target range for the Federal Funds Rate by 0.25% at its December 2025 meeting, to 3.50%-3.75%, in line with expectations. The minutes of the meeting noted that most Fed policymakers judged that further rate cuts would be likely in 2026 if inflation continues to ease, however they were still divided in their assessment of the risks between inflation and unemployment. The European Central Bank (ECB) kept its key interest rates unchanged in December for a fourth consecutive meeting, maintaining the deposit rate at 2.0% and the main refinancing rate at 2.15%.
66. Credit Default Swap (CDS) prices, which spiked in April 2025 following President Trump's 'Liberation Day' tariff announcements, have since trended lower, returning to levels broadly consistent with their 2024 averages. Although CDS prices rose modestly during October and November, the overall credit outlook remains stable, and credit conditions are expected to remain close to the range seen over the past two years.
67. The Authority's treasury management adviser, currently forecasts that the Bank of England's Monetary Policy Committee will continue to reduce Bank Rate in 2026, reaching around 3.25%. This forecast reflects amendments made following the Autumn Budget and an assessment of the fiscal measures and their market implications, and following the BoE MPC meeting held on 18th December.
68. Long-term gilt yields, and therefore interest rates payable on long-term borrowing, are expected to remain broadly stable on average, though with continued volatility, and to end the forecast period marginally lower than current levels. Yields are likely to stay higher than in the pre-quantitative tightening era, reflecting ongoing balance sheet reduction and elevated bond issuance. Short-term fluctuations are expected to persist in response to economic data releases and geopolitical developments
69. This report details the Council's 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

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monitored, assessing risk and determining the limits of duration and value of investments.

70. The Treasury Management Strategy Statement (TMSS) follows the 2021 Code of Practice guidance.

Introduction

71. 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 MTFs process.
72. Investments held for service purposes or for commercial profit are considered in a separate report; the 'Investment Strategy'.
73. 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

74. 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".
75. The Council's CFR approach in this capital strategy document is to consider the financing requirement for the Council as a whole (General Fund and HRA).

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Estimates of the CFR, based on the projected capital programme over the next five years are shown in Table 12.

Table 12: Balance Sheet summary, forecast and liability benchmark

76. To compare the Council's actual borrowing against an alternative strategy, Table 12 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 MTFs period.

	2024/25 Actual	2025/26 Forecast	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget	2030/31 Budget
	£m	£m	£m	£m	£m	£m	£m
General Fund CFR	307.4	354.6	420.8	451.5	466.8	472.4	470.3
General Fund EFS CFR	0.0	88.0	147.4	165.7	160.2	154.3	148.2
HRA CFR	279.6	350.6	404.2	434.0	483.0	509.8	520.8
Total CFR	586.9	793.2	972.4	1,051.2	1,110.0	1,136.5	1,139.3
External Borrowing*	(517.5)	(736.9)	(915.4)	(998.4)	(1,060.8)	(1,092.0)	(1,099.8)
Lease Liabilities	(5.5)	(10.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
External Borrowing to meet CFR	63.9	46.3	36.9	32.8	29.2	24.6	19.5
Projected Useable Reserves	(91.7)	(95.0)	(95.0)	(95.0)	(95.0)	(95.0)	(95.0)
Accumulated DSG Deficit	65.9	75.5	83.8	88.1	88.2	88.0	85.1
Projected Working Capital	(31.0)	(31.0)	(31.0)	(31.0)	(31.0)	(31.0)	(31.0)
(Investments) / New Borrowing Required	7.1	(4.2)	(5.2)	(5.1)	(8.6)	(13.4)	(21.4)
Plus Minimum Investments	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Liability Benchmark	32.1	20.8	19.8	19.9	16.4	11.6	3.6

*Borrowing profile does not include potential calls on LOBO borrowing.

*DSG is not adjusted for LG Settlement changes announced on the 9th February 2026.

77. The Council's closing CFR is estimated at £793.2m for 2025/26. This CFR, less forecast outstanding loans and other long-term liabilities of £746.9m, results in a gross external borrowing requirement of £46.3m going into 2026/27. Existing borrowing is identified into separate loan pools for GF and HRA. As at 31st January 2026, GF debt is £294.2m and HRA £327.0m (excluding leases). It is estimated that up to a further £116m of borrowing net of repayments on existing

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loans may be taken before the end of this financial year depending on cash flows. This will be a combination of temporary loans from other local authorities depending on availability and rates, and the PWLB.

78. 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 total General Fund CFR is also increased by Exceptional Financial Support of £88m in 2025/26. The HRA CFR increase is driven by investment in new and existing dwelling stock.
79. 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

80. The Council's external debt excluding leases at 31 March 2026 is forecast to be £736.9m, an increase of £219.4m on the previous year, due partly to borrowing to finance the HRA capital programme which has a significant borrowing requirement, taking advantage of the concessionary rates available from the PWLB for housing development. Borrowing is also impacted by the need for EFS to maintain liquidity. Temporary borrowing (up to one year) of up to £100m is also undertaken to support short term liquidity requirements.
81. There have been no viable opportunities to repay debt early in 2025/26 although in August 2025 a £5m market (LOBO) loan was called by the bank counterparty and repaid as the new higher rate offered was expensive compared to PWLB rates to replace the loan. As at 31st January 2026 the Council's secured loan portfolio has average interest rates of 4.17% (General Fund loan book) and 3.99% (HRA loan book). The Council may also borrow additional sums in advance to pre-fund future years' requirements where this offers better value for money, providing this does not exceed the authorised limit for borrowing.
82. 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.

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83. 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.
84. By the end of 2025/26 the council expects to have a short-term loan portfolio sourced from other local authorities of around £55-60m (limit is £100m) expected to mature during the next financial year. It is expected to fluctuate between £50-£100m throughout 2026/27. Where shorter term PWLB borrowing (12-18 months) rates offer better value for money than the local authority market, this may be sourced instead.
85. The Council may arrange forward starting loans during 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 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
86. 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
 87. 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,

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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.

88. 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.
89. 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

90. Within the current secured loan portfolio, as at 31st January 2026 the Council has total loans of £621.2m including fixed rate PWLB loans of £522.2m which protect against interest rate rises, and £61m temporary loans with other local authorities. The Council also holds market (banks) loans of £38m including Lender's Option Borrower's Option (LOBO) loans. As the interest rates on LOBO loans are relatively low compared to current market rates the likelihood of an option exercise at the next contractual exercise dates remains significant. The Council will not utilise LOBO loans for any new borrowing.

Interest rate exposures

91. 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.
92. 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 Exposure

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.

Debt Rescheduling

93. 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.

94. Rates and markets are regularly monitored to identify opportunities for rescheduling and any borrowing and rescheduling activity is reported monthly to Cabinet.

95. 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.

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Table 14 Maturity Profile

Maturity Structure of Borrowing	% Fixed Term loans maturity profile at 31/01/26	% Market LOBO loans 1 st call option profile at 31/01/26	Lower Limit for 2026/27 %	Upper Limit for 2025/26 %
Under 12 months	23.04%	2.62%	0	50%
12 months and within 24 months	9.79%	0.00%	0	50%
24 months and within 5 years	26.82%	1.92%	0	50%
5 years and within 10 years	21.68%	0.00%	0	100%
10 years and within 20 years	7.06%	0.00%	0	100%
20 years and within 30 years	4.12%	0.00%	0	100%
30 years and within 40 years	0.87%	0.00%	0	100%
40 years and within 50 years	1.39%	0.00%	0	100%
50 years and above	0.70%	0.00%	0	100%
Total	95.47%	4.53%	0	100%

Treasury Investment Strategy

96. 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.
97. 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.
98. 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.
99. 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.
100. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves. For the year up to 31st

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December 2025, the Council's average investment balances have been £63.2m (£62.6m annual average in 2024/25) with a peak earlier this year of £104m. Higher balances are primarily driven by business rates received which were yet to be paid to government, grants received in advance of expenditure, and borrowing taken in advance of need to secure favourable rates and hedge against base rate rises. The budget assumption for 2026/27 is average internally managed cash balances of £45m plus £15m externally managed strategic pooled funds.

101. 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.
102. 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.
103. 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 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.
104. The statutory override for pooled funds, as per the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, requires local authorities to follow the CIPFA Code of Practice on Local Authority Accounting. This code, adapted or interpreted for local government, includes provisions for accounting practices that local authorities must follow, including where these may conflict with the Code.
105. The override was initially set to end on 31 March 2025 but following feedback from the 2025 Local Government Finance Settlement consultation, the Government has decided to implement the override in place for existing pooled fund investments held as of 1 April 2024. The override will continue for a limited time until 31 March 2029, for relevant investments made before 1 April 2024. This decision aims to mitigate risks to local authority finances and support the timely completion of local authority audited accounts.
106. Rising market interest rates in recent years reduced the fair value of bonds held within these strategic pooled funds. The fair value as at 31st March 2025 reported in the Statement of Accounts reflects an unrealised loss of £1,079k. This has been

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recovering gradually during 2025/26 and is expected to improve further with base rate falling leading to rise in bond prices, increasing the funds' fair value.¹

107. 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

108. 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.
109. 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.
110. **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.
111. **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, secured deposits 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 the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The

¹ The relationship between base rates and bond prices is an inverse one. When the base rate increases, bond prices tend to decrease, and vice versa. This is because higher interest rates make existing bonds less attractive to investors, leading to a decline in their market value. Conversely, when the base rate decreases, bond prices tend to increase, and vice versa.

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combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

112. **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.
113. **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.
114. **Strategic Pooled Funds:** Bond, equity and property funds including exchange traded 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 can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Credit Risk

115. 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.
116. 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

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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

117. 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.
118. 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-.
119. 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 £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:

120. The Council's revenue reserves available to cover investment losses were reduced to £7.6m on 31st March 2025 post audit² however EFS will restore reserve levels to a more secure position. 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 £5m. A group of entities under the same ownership will be treated as a single organisation for

² There were cost impacts amounting to £3.3m arising from audit corrections which will be reflected in the final Statement of Accounts to be published with audit opinion by the statutory backstop date of 27th February 2026

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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

121. 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.

122. 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

123. 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.

124. 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.

125. 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

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

Long-term treasury management investments

126. 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

Price Risk Indicator	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
	35	35	35	35	35	35

127. 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

128. The Council's treasury management advisers are forecasting that BoE Bank Rate (currently 3.75%) will have two further cuts in 2026 to 3.25% if inflationary pressures ease, and this is being reflected in pricing in the financial markets.

Council's Bank Account

129. 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

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

Table 17 Approved investment counterparties

Instruments	Counterparty	Maximum Exposure Limits	Maximum Duration Limits
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 £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 £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 75% of total investments	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

131. The counterparty limit for unsecured bank deposits has been reduced from £6.5m to £5m to reduce risk exposure given the more challenging financial position the Council faces.

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132. 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.

Other Items

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

Policy on Use of Financial Derivatives

134. 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).
135. 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.
136. 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.
137. 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)

138. 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.
139. Interest earned on HRA balances will be calculated and distributed in accordance with MHCLG (Ministry of Housing, Communities and Local Government) 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

140. The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.
141. The Council has applied for Exceptional Financial Support (EFS) from the Government. When this support is agreed, it will allow the Council, for the approved period, to use Capital Resources to pay for revenue. EFS is shown as a separate line in the Council's CFR requirement. The TMS is therefore updated for this temporary change.

Monitoring and Reporting

142. 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.
143. 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

144. The proposed budget for General Fund investment income in 2026/27 is £284k net of distribution to other funds, and debt interest payable of £27.0m (£16.9m GF, £17.2m HRA). If actual levels of investments and borrowing or actual interest rates

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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)

145. 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 2026/27

Introduction

146. 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**).
147. 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

148. 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 £105m during the 2026/27 financial year, based on investment levels this year.
149. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.
150. Full details of the Council's policies and its plan for 2026/27 for treasury management investments are covered in a separate document, the Treasury Management Strategy.

Service Investments: Loans & Shares

151. 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.

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152. The last external fair value assessment as at 31st March 2025 is £2.6m, which was a decrease of £1.6m from the previous year. This valuation largely reflects a change from last year which was based on future cash flow on Hillingdon First projections, whereas the latest valuation was based on future cash flow being the same as cash flow in the most recent year.
153. The Council has also created a Specialist Purpose Vehicle for the operation of a care home. A loan agreement of £6m related to the acquisition of the home (£5.75m), completed in August 2025, plus working capital (£250k) has been agreed with The Hillingdon Care Company (THCC). The loan rate was set at fixed rate of 8.19% (2.00% above PWLB market rate for 40-year term annuity loan).
154. 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.
155. In order to limit these risks, upper limits on the sums invested in each category have been set in Table 18 below.

Table 18: Loans & Shares for service purposes

Hillingdon First Ltd	2025/26 Approved Limit £m
Loans	up to £17.5m
Shares	up to £25m
TOTAL	up to total £25m

156. 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.
157. 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. 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.
158. 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

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shareholder) before the loan facility can be drawn down for specific expenditure on that development.

159. 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.

160. 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

161. The Council has a historic portfolio of investment properties, last valued at £4.035m as at 31st March 2025, 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 2025/26 is expected to be around £250k. The fair value of these properties are measured annually and published in the Council's statement of accounts.

Loan Commitments and Financial Guarantees

162. 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.

163. 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.

164. The latest published accounts as at March 2025 show the Council is committed to making future payments to cover its pension fund deficit valued at £122.8m and has set aside £7.5m to cover other provisions and deferred liabilities.

165. The Council may enter into rent guarantee arrangements where appropriate.

Proportionality

166. In the 2025/26 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

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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

167. 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

168. 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.

169. 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.

170. The Council's investment position, including compliance with prudential indicators, is reported to Cabinet on a monthly basis as part of the monitoring process.

171. 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

172. 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.

173. 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.

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Table 19: Total investment exposure

Total Investment Exposure	2024/25 Actual £m	2025/26 Forecast £m	2026/27 Forecast £m
Treasury Management Investments*	62.6	62.4	60.0
Service investments: Loans	0.6	6.0	6.0
Service investments: Shares	3.4	3.4	3.4
Commercial investments	4.0	4.0	4.0
Total Exposure			

*Treasury Management Investments figures above are an average for the year. Actual investments fluctuate during the year depending on cash flows – the above is an average exposure.

174. Service loans and shares in Hillingdon First Ltd and the SPV 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	31/03/25 Actual £m	31/03/26 Forecast £m	31/03/27 Forecast £m
Service investments: Loans	0.6	6.0	6.0
Service investments: Shares	3.4	3.4	3.4
Total funded by borrowing	4.0	9.4	9.4

175. 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.

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

Investments Net Rate of Returns	2024/25 Actual	2025/26 Forecast	2026/27 Budget
Treasury Management Investments*	4.93%	4.03%	3.10%
Strategic Long-Term Investments	4.25%	4.25%	4.00%
Service investments: Loans**	0.00%	2.00%	2.00%
Service investments: Shares	0.00%	0.00%	0.00%
Commercial investments	6.25%	4.82%	4.62%

*internally managed investments excluding strategic pooled funds

**the return of 2% represents the interest rate mark up within the loan agreement on the £6m loan agreed with The Hillingdon Care Company. The loan is set at a 2% premium above the prevailing PWLB rate at the time the loan was finalised for 40-year term annuity loan that the Council could obtain to provide the loan.

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2026/27

Where the Authority funds capital expenditure with debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in April 2024.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefit. The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance.

MRP is calculated by reference to the Capital Financing Requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

MRP will generally be charged over the useful life of the assets, beginning in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

In all cases we will consider the most prudent method of providing for debt repayment. In 2026/27 the Annuity Method will be applied to calculations of MRP charge for all debt.

In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However the HRA may make a form of voluntary MRP to pay down its debt over the context of its 30-year business cycle, based on affordability within the HRA. Depreciation will be charged on HRA assets in line with regulations.

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £13.2m. This continues to be an allowable adjustment in calculating the MRP charge. Adjustment A was introduced in 2004: it is an amount

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that is subtracted from the CFR when determining the MRP charge. It was intended to ensure a local authority's MRP charge did not increase when the new capital financing statutory framework was introduced in 2004.

For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where former operating leases have been brought onto the balance sheet 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 MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

Capital expenditure financed by borrowing and incurred during 2026/27 is not subject to an MRP charge until the following financial year. For assets under construction and significant assets, an MRP charge may be delayed until the asset is deemed available for use.

Capital Loans

For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

Appendix G4 – Annual Minimum Revenue Provision Statement 2026/27

Overpayments

The Council can make voluntary overpayments (Voluntary Revenue Provision) to reduce revenue charges in later years. There are no plans to make overpayments in 2026/27.

Capital Receipts

Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

Appropriations to/from the Housing Revenue Account

Where assets are transferred from the Housing Revenue Account to the General Fund, for the purposes of the MRP calculation, this will be treated as new General Fund capital expenditure, ie increasing the General Fund CFR and reducing the HRA CFR by the amount of the appropriation.

Where assets are transferred from the General Fund to the Housing Revenue Account, for the purposes of the MRP calculation, this will be treated as a capital receipt applied to repay debt, ie reducing the General Fund CFR and increasing the HRA CFR by the amount of the appropriation.