Appendix 1- Draft Treasury Management Strategy 2027/28

To note information highlighted will be updated after 31/12/2026.

Introduction:

1. 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.

2. Treasury risk management at the Council 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) which 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.

3. Investments held for service purposes are considered separately within the Investment Strategy.

Economic Background

4. The most significant impacts on the Authority's treasury management strategy for 2027/28 are expected to the include the ongoing war between the US and Iran alongside other geopolitical uncertainties, the UK's fiscal and economic position, rising inflation, and higher interest rates. The US midterm elections saw the Democrats win both the Senate and the House of Representatives. This could enable the party to frustrate President Trump's plans over the remain two years, as well as investigating his previous decisions such as starting the war with Iran. However, exactly what the impact will be together with President Trump's future actions, is as yet unclear.

5. The Bank of England's (BoE) Monetary Policy Committee (MPC) increased Bank Rate to 4% in November. The vote was 8-1 in favour of the 0.25% increase, with lone dissenter instead favouring a 0.5% rise. The MPC outlined that the Middle East conflict has pushed up energy prices to such a degree that Consumer Price Index (CPI) inflation is now expected to reach around 5% by mid-2027, and that this pressure warrants an increase in rates. The Committee also noted that activity data had generally been stronger than expected, adding to the case for tighter monetary policy.

6. UK GDP was estimated to have expanded by 0.5% in Q2 2026 (April-June), an upward revision from the initial estimate of 0.4%, implying that perhaps the UK economy was a little more resilient than it had been given credit for. The construction and services sectors provided the largest positive contributions. Looking ahead, the BoE's November Monetary Policy Report (MPR) notes GDP growth has been more

resilient than expected thanks mostly to the services sector, and from the upwardly revised 0.5% in Q2 2026 an expansion of 0.7% is now predicted for Q3 (previously 0.1%) before falling to 0.3% in Q4.

7. UK CPI inflation rose to 3.6% in October, driven mostly by higher fuel prices, although core and services inflation also increased, suggesting wider price pressure may be emerging. Going forward, inflation is expected to rise further, with the latest BoE MPR predicting CPI rising to around 5% by the middle of 2027. Once again higher energy prices are the main reason for the further rise, and the significant increases in wholesale prices since the July MPR pushing up the CPI forecast compared to previously.

8. Recent labour market data showed an improving but still relatively weak picture. The unemployment rate fell to 4.7% in the three months to August 2026 due to a larger than expected increase in the Labour Force Survey. However, this survey has not the most reliable and the better PAYE measure rose by a smaller amount, implying that hiring by firms remains subdued. The November MPR shows that the unemployment rate is projected to remain around 4.8% in Q4 2026 and that the economy still has a margin of spare capacity consistent with the recent strength in GDP.

9. The US Federal Reserve (Fed) increased the Fed Funds Rate in September 2026 to a range of 3.75%-4.00% from 3.5%-3.75%. Policymakers were unanimous in their decision to hike rates for the first time in three years, citing higher and persistent inflation meant it was necessary. Rates were then held at the same range in the October meeting ahead of the midterm elections in November, albeit two Fed committee members voted to increase rates by 0.25%. Financial markets are expecting one or two further hikes in the months ahead.

10. The European Central Bank (ECB) also raised its key interest rates in September, taking the deposits rate to 2.50% as the central bank acted against higher inflation. This was followed by a pause in October with the ECB citing that despite higher headline inflation, core inflation and wages were broadly stable. As with the Fed, Financial markets are expecting the ECB to increase rates further going forward, with the next hike predicted in December.

11. The gilt market reacted modestly, with the 5 year-gilt reaching an intraday low of 4.97% and the 10 year-gilt reaching 5.30% following the announcement. Meanwhile, the Office for Budget Responsibility (OBR) delivered a challenging economic outlook, reducing its 2027 growth forecast from 1.6% to 1.0% while increasing projected inflation from 2.0% to 3.4%. Fiscal headroom narrowed to £15 billion, highlighting continued pressure on public finances and the potential implications for government borrowing costs.

12. Additional UK economic data presented a mixed picture this week. Retail sales balance rose to -10 from -55 in September, substantially exceeding market expectations of -47. Although sales remained in contractionary territory, the improvement suggested some stabilisation in consumer demand. GfK consumer confidence fell sharply to -24 from -13, its largest monthly deterioration since April 2020. Rising inflation, elevated energy costs and uncertainty surrounding household

finances continue to weigh on consumer sentiment, raising concerns about the sustainability of any recovery in spending.

13. The UK housing market continued to show signs of weakness, with the Nationwide House Price Index indicating that annual house price growth slowed to 0.5% in October, down from 0.8% in September and below market expectations of 0.6%. Monthly house prices remained unchanged however, reflecting subdued buyer demand.

14. Developments in the US and Eurozone continued to influence global interest rate expectations. The Federal Reserve maintained its benchmark interest rate at 3.75%-4.00%, following September's 0.25% increase. Q3 GDP in the US expanded by an annualised 3.4%, exceeding expectations of 3.2%, while CB consumer confidence rose to 91.7 from 84.2, mirroring the rise in UK retail sales and signalling stronger consumer spending.

15. In the Eurozone, the European Central Bank maintained its deposit facility rate at 2.50% and refinancing rate at 2.65%, in line with market expectations. Policymakers adopted a cautious approach amid persistent inflationary pressures. The Economic Sentiment Indicator in the eurozone declined to 96.9 from 97.5, falling below market expectations, alongside a decline in consumer confidence to -17.9 from -16.8, reinforcing the challenges facing the ECB.

Credit Outlook

16. Credit Default Swap (CDS) prices spiked in late February and early March 2026 following the start of the US/Israel war with Iran. From April onwards they declined steadily to below pre-conflict levels as it was hoped a resolution to end the war could be found. However, from early September those hopes of the war ending faded, again, and against a backdrop of rising oil prices, higher interest rates, concerns around the fiscal position of the UK and Europe, together with political unrest in the latter, pushed CDS prices up again to levels broadly in line with the averages seen over 2025 and 2026.

17. While higher interest rates give a boost to banks' profitability, ongoing geopolitical issues, high (and rising) inflation combined with modest economic growth in the UK, a loose labour market and high borrowing costs for households and businesses all put pressure on the creditworthiness of institutions on Arlingclose's (the authority's treasury management advisor) counterparty list.

18. Arlingclose's advice on approved counterparties and recommended investment durations is kept under continuous review and will continue to reflect prevailing economic and credit conditions.

Interest Rate Forecast

19. Arlingclose, the Authority's treasury adviser, forecast that Bank Rate would be increased by 0.25% from the current bank rate of 4.0% in February 2027, although a December 2026 rate increase cannot be ruled out.

20. Arlingclose considers current financial market pricing for Bank Rate to rise to around 4.75%-5.00% to be too high and predicts a peak of 4.25%. This is then expected to be reversed relatively quickly to around 3.25% by September 2028, as the Bank of England cuts interest rates to stimulate the economy.

21. Gilt yields, and therefore PWLB borrowing rates, are expected to remain high relative to the Bank Rate forecast, but to trend downwards over the next two to three years. Further monetary tightening through higher Bank Rate could prompt a flatter yield curve or reduce the term premia which been elevated for some time.

22. The main risk for medium-term gilt yields/PWLB rates is the Middle East conflict, the escalation or de-escalation of which could move rates significantly up or down. The changed political landscape in the US following the midterm elections could be a major factor in this conflict.

23. A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix 2.

24. For the purpose of setting the budget, the Council has assumed that new treasury investments will be made at an average rate of 4.0%, and that new long-term loans will be borrowed at an average rate of 6.0% in 2027/28.

25. **Local Context**

26. At 31 October 2026, the Council held £1,077.5m of borrowing (£997.5m long term and £80.0m short term) and £71.3m of short term cash investments. This is set out in further detail at Appendix 4. Forecast changes in these sums are shown in the balance sheet analysis in table 1.

27. As per Table 1, the Council will need to borrow up to £628.0m over the forecast period to support the financing of the capital programme and maturing debt.

Table 1: Balance Sheet Summary and Forecast

£m	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**
	Forecast	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Loans Capital Financing Requirement	1,446.7	1,578.6	1,680.8	1,736.8	1,721.7	1,721.7
Other debt liabilities*	106.5	106.5	106.5	106.5	106.5	106.5
Total CFR	**1,553.2**	**1,685.1**	**1,787.3**	**1,843.3**	**1,828.2**	**1,828.2**

£m	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	Forecast	Estimate	Estimate	Estimate	Estimate	Estimate
Loans Capital Financing Requirement	1,446.7	1,578.6	1,680.8	1,736.8	1,721.7	1,721.7
Less External borrowing**	(1,016.5)	(901.1)	(848.7)	(796.4)	(752.6)	(711.7)
Internal (Over) Borrowing	430.3	677.5	832.1	940.4	969.0	1,009.9
Balance Sheet Resources	(381.9)	(381.9)	(381.9)	(381.9)	(381.9)	(381.9)
Estimated New Borrowing (or Treasury Investments)	**48.4**	**295.6**	**450.2**	**558.5**	**587.1**	**628.0**

* leases and PFI liabilities that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing and additional capital programme debt

28. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. As our internal resources continue to be depleted, there is an increasing need for the Council to undertake new external borrowing to fund the capital programme. This could expose the Council to interest rate risk whereby interest rates could be higher (or lower) than the present day where they have been relatively high and expensive for longer term duration of loans and debt financing.

29. 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. Table 1 shows that the Council expects to comply with this recommendation during 2027/28.

30. Table 2 sets out the Councils current and future years capital programme and capital financing.

Table 2: Capital Programme Expenditure and Financing

Capital Expenditure (£m)	2026/27	2027/28	2028/29	2029/30	2030/31	Total 2026/27-2030/31
	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Corporate Assets	47.2	43.3	25.2	17.2	3.5	136.3
South Kilburn	53.6	35.3	19.4	12.0	6.9	127.1
Regeneration	65.9	23.9	31.9	28.8	5.0	155.6
Schools and CYP	11.3	48.4	19.5	5.0	0.0	84.2
Housing HRA & Management	28.0	52.5	24.0	23.0	5.0	132.5
Affordable Housing Supply	45.3	91.2	78.7	43.3	0.0	258.6
Total Capital Expenditure	**251.2**	**294.5**	**198.7**	**129.3**	**20.4**	**894.2**

Capital Financing (£m)	2026/27	2027/28	2028/29	2029/30	2030/31	Total 2026/27-2030/31
	Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
Grants	49.3	45.8	23.0	11.9	8.5	138.4
Section 106 & CIL	60.9	45.0	33.2	22.1	2.3	163.5
Capital Receipts	16.3	33.4	5.6	4.9	0.0	60.2
Earmarked Reserves	3.7	0.4	0.3	0.1	0.7	5.2
Major Repairs Reserve	13.9	18.9	13.0	13.0	0.0	58.8
Revenue Contributions	0.6	0.6	0.8	0.6	1.5	4.0
Borrowing	106.6	150.6	122.8	76.8	7.4	464.1
Total Capital Financing	**251.2**	**294.5**	**198.7**	**129.3**	**20.4**	**894.2**

31. Table 3 details the cost of delivering the Council's proposed capital programme as well as servicing existing debt relating to past capital programme.

Table 3: Capital Financing Costs

General Fund Net interest Costs (£m)	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	Forecast	Estimate	Estimated	Estimated	Estimated	Estimated
Total Interest Payable & Expenses General Fund	31.5	40.3	47.0	51.9	54.4	53.8
Total Interest Receivable General Fund	(10.1)	(13.1)	(15.7)	(10.7)	(10.8)	(10.7)
Net Interest	**21.4**	**27.2**	**31.3**	**41.3**	**43.6**	**43.0**
MRP (Excluding PFI and Leases) General Fund	18.0	18.7	20.6	20.8	22.5	22.4
Total Capital Financing Costs (Interest & MRP)	**39.4**	**45.9**	**51.9**	**62.1**	**66.1**	**65.4**

HRA Net interest Costs (£m)	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	Forecast	Estimate	Estimated	Estimated	Estimated	Estimated
Total Interest Payable & Expenses HRA	15.7	16.3	16.3	16.3	16.3	16.3
Total Interest Receivable HRA	0.0	0.0	0.0	0.0	0.0	0.0
Total Capital Financing Costs HRA	**15.7**	**16.3**	**16.3**	**16.3**	**16.3**	**16.3**

32. The increase in capital financing costs reflects new borrowing to fund the capital programme and rising interest costs. The cost of new loans is based on a budgeted interest rate of 6.0%. Currently, interest rates are high – PWLB rates were consistently above 5% throughout September – so the budgeted rate adds a prudent buffer in line with recent trends. The Council also needs to refinance maturing historic loans (which were secured at much cheaper rates of borrowing when interest rates were lower). Forecasting interest rates is subject to significant degrees of uncertainty as rates are influenced by the uncertain economic environment, as set out in Appendix 2.

33. The increase in capital financing costs is also attributable to Minimum Revenue Provision (MRP), a statutory charge to the Revenue Account for the repayment of debt. MRP is increasing due to new capital spend that is being financed through borrowing and because the method the Council uses to determine the MRP charge means lower charges in the earlier period of repayment.

34. Rising interest rates and limited available reserves and grant funding makes delivering the Council's ambitious capital programme very challenging. The Council manages its borrowing position proactively and pressures are incorporated into the Medium-Term Financial Strategy. Through this proactive approach, the Council aims to maintain a balanced budget while continuing to invest in essential infrastructure and services for the community through the capital programme.

Liability Benchmark

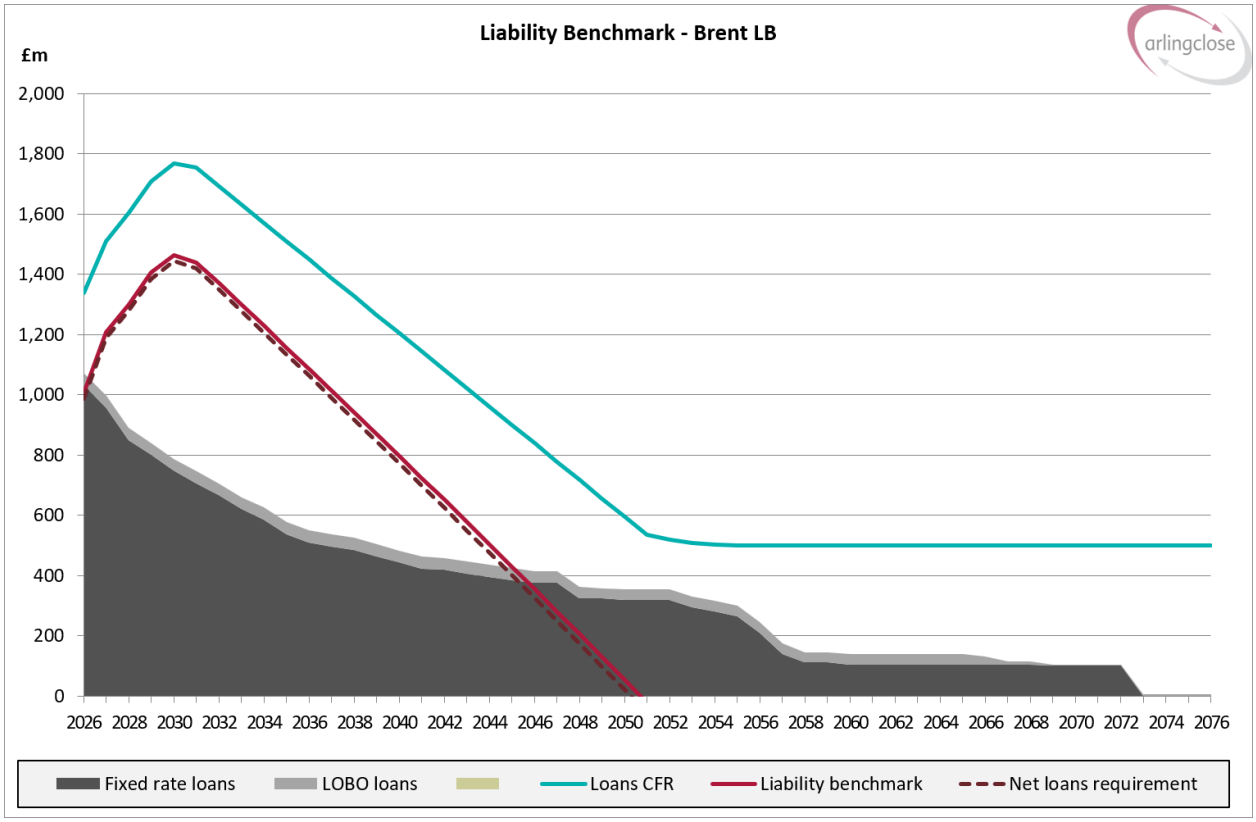
35. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level to maintain sufficient liquidity but minimise credit risk.

36. 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. Brent Council will be a long-term borrower for the foreseeable future because of the demands of the ambitious capital programme.

37. Following on from the medium-term forecasts in Table 3, the long-term liability benchmark assumes Minimum Revenue Provision (MRP) on new capital expenditure based on estimated asset lives in line with the Council's MRP policy. Most asset lives are estimated between 5 and 50 years.

38. The Loan CFR represents the need to fund capital expenditure through borrowing. The Liability benchmark represents the level of borrowing requirement once reserves and working capital has been considered. Where the liability benchmark exceeds the Council's current borrowing levels this indicates the real need to borrow. The graph below from Arlingclose shows the council's liability benchmark as at 31 October 2026.

39. The graph below is produced by Arlingclose and illustrates the Council's position as a long-term borrower. The Council is currently in an under-borrowed position, as actual debt (shown in grey) is lower than the net loans requirement (red dashed line), indicating that the Council is using internal resources to fund a portion of capital financing. External debt is forecast to reduce over time through loan maturities and repayments. Similarly, the net loans and capital financing requirements also reduce over time, but this is partially because the approved capital programme only extends five years ahead and does not incorporate future capital investment beyond that horizon.



Borrowing Strategy

40. As of 31 October 2026, the Council held £1,077.5m of loans, an increase of £3.5m compared to balances held at the start of the financial year (£1,074.0m). The Council's future borrowing is dependent on the progression and development of the capital programme. The Council may also borrow additional sums to pre-fund future years' requirements as well as replenish the internal borrowing position, providing this does not exceed the authorised limit for borrowing in the years ahead.

41. **Objectives:** The Council's main objective when borrowing money is to prioritise security, liquidity and yield. This is done by ensuring 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.

42. **Strategy:** The Council's borrowing strategy continues to prioritise security, liquidity and yield as well as address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

43. Interest rates have increased for all durations over the past year. Interest rates are currently high for longer term durations making it expensive for the council to borrow over 10 years. Therefore, short term borrowing is a cheaper option for the Council and the Council has varied its portfolio by securing local authority loans with a 1-year duration. This does however expose the Council to interest rate risk should rates rise in the future.

44. The Council will continue to work closely with our Treasury advisors, Arlingclose, to ensure borrowing occurs at optimal points avoiding the worst of the market volatility. The Council follows the advice of Arlingclose and takes a “little and often approach” to borrowing. This means borrowing relatively small amounts regularly with varying maturities. This enables the Council to take advantage of temporary reductions in interest rates and vary the terms of the loans to limit the risk of large sums needing to be repaid or refinanced at the same time.

45. The Council’s Borrowing Strategy for 2027/28 is to maintain its debt portfolio Pool Rate within 6.0%. At 31 October 2026, the average debt Pool Rate (excluding PFI) was 4.56%. This is because the Council has historic loans which were secured at much lower rates than is currently available for new borrowing.

46. To ensure long term stability of the debt portfolio, a proportion of the portfolio will be funded by long term borrowing using a little and often approach.

47. **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)
- National Wealth Fund (previously known as the UK Infrastructure Bank Ltd)
- Green Finance Fund
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body including the Greater London Authority
- UK public and private sector pension funds (except the local Brent Pension Fund)
- Capital market bond investors.
- Retail investors via a regulated peer-to-peer platform
- Any other special purpose companies created to enable local authority bond issues.

48. **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
- Similar asset-based finance

49. The Council has previously raised most of its long-term borrowing from the PWLB but will consider long-terms loans from other sources including banks, pension funds, the GLA and local authorities should they offer more favourable rates and not significantly increase the admin burden. In line with the requirements of the Prudential Code, the Council does not borrow primarily for yield and has no plans to in future. This ensures

continuing access to PWLB borrowing facilities.

50. In addition to the above, the Council may borrow short-term loans to cover temporary cash flow pressures from other local authorities or public sector bodies and banks.

51. The Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

52. **LOBOs:** As at 31 October 2026 the Council held £39.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

53. Three LOBOs of £15m may undergo a rate review in 2027/28 resulting in a potential change in the loan rate. Due to higher interest rates, there is an elevated risk that the LOBO will be called, resulting in higher interest rates or refinancing. The default option of refinancing shall be the PWLB, but this will be kept under review. The Council will assess the financial implications of the best approach and either repay the LOBO loan using existing cash resources (where applicable) or raise new loans.

54. **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

55. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. 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 loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. Future rescheduling opportunities will be kept under review by Officers as the interest rate environment changes. Any decision to undertake debt rescheduling will be the subject of a separate report by the Corporate Director for Finance and Resources in consultation with the Lead Member for Finance.

Treasury Investment Strategy

56. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. When cash balances are high the Council will defer the decision to borrow for the capital programme until such time cash balances deplete. Cash balances are forecasted to reduce over time as the Council is a net borrower.

57. **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the

Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. The ESG Policy is discussed below.

58. **Strategy:** As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments such as Local Authority deposits or Money-Market Funds. Cash invested beyond the liquidity duration will be in accordance with the investment instruments set out in Table 5. However, it is anticipated that the Council will not have significant cash balances to invest into long durations. The Council will maintain a minimum investment balance of £10m to ensure the Council complies with the requirements to be a professional client under MIFID II regulations.

59. **ESG Policy -** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making. When investing in banks and funds for greater than a year, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. The Council's ESG policy reflects these recognised industry frameworks when assessing longer-term investment opportunities.

60. Currently, most of the Council's surplus cash remains invested in short-term money market funds. The average rate of interest received on short-term investments during the year to 31 October 2026 was 3.97% with an average duration of 1 day and an average weighted risk rating of A+. Due to the Council's borrowing requirement, there is unlikely to be scope to improve the short-term investment returns achieved as liquidity of the surplus funds will play a key role.

61. **Business models:** Under the IFRS 9 standard introduced in 2019, 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. This means an expected future credit losses could impact revenue budgets and, therefore, the Council prioritises low risk investments.

62. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 4, subject to the limits shown.

Table 4: Investment limits

	Credit Quality	Cash limit	Time Limit †
Any single organisation, except a Government entity	A- Or equivalent	£20m	n/a
UK Government	Any	Unlimited	50 years
Local Authorities & other government entities	Any	Unlimited	25 years
Banks (unsecured)*	A- Or equivalent	£20m	3 years
Building Societies (unsecured)*	A- Or equivalent	£20m	13 months
Registered providers and registered social landlords*	A- Or equivalent	£20m	5 years
Secured investments*	A- Or equivalent	£20m	5 years
Money market funds*	A- Or equivalent	Lower of 5% of total net assets of the fund or £20m	n/a
Strategic pooled funds*	A- Or equivalent	£20m	n/a
Real estate investment trusts*	A- Or equivalent	£20m	n/a
Other Investments*	A- Or equivalent	£50m	5 years

† **Time limits:** These start on the earlier of date that the Authority is committed to make the **investment and the date that cash is transferred to the counterparty.**
***please refer to Minimum credit rating paragraph below**

63. ***Minimum Credit Rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose long-term credit rating is no lower than A-. The Council uses the lowest rating quoted by the main rating agencies, as recommended by CIPFA. The Council uses the credit rating relevant to the specific investment or class of investment, or, if unavailable, the counterparty credit rating. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered. Within these criteria the Corporate Director for Finance and Resources has discretion to accept or reject individual institutions as counterparties based on any information which may become available.

64. **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 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.

65. **Local authorities and other government entities**: Loans to, and bonds and bills issued or guaranteed by, other 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.

66. For authorities subject to local government reorganisation, the counterparty limit for loans to local authorities will be increased to an unlimited amount where (a) the government has announced that this authority will merge with the borrowing authority and (b) the loan is scheduled to be repaid after the expected date of the merger.

67. **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. There is no upper limit to the maximum credit loss that the Council could suffer in the event of a bail-in scenario. See section 76 below for arrangements relating to operational bank accounts. Investments in unsecured deposits will be limited to £20m.

68. **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed. Investments with registered providers will be limited to £20m in 2027/28.

69. **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 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. The Council and its advisors remain alert for signs of credit or market distress that might adversely affect the Council. Investments in secured deposits will be limited to £20m. A higher limit applies for investments fully secured on UK or other government collateral.

70. **Money market funds (MMFs):** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times. Deposits will not exceed 0.5% of the net asset value of the MMF. In addition, each Fund will be limited to a maximum deposit of £20m. As of the 31 October 2026 the council held £71.3m in MMFs with no more than £20m in each fund available to the council.

71. The investment strategy will provide flexibility to invest cash for longer periods to access higher investment returns. The upper limit for lending beyond a year is £50m.

In practice, lending for more than one year will be only to institutions of the highest credit quality and at rates which justify the liquidity risk involved. Marketable instruments may have longer maturities, though the maturity will be considered in conjunction with the likely liquidity of the market and credit quality of the institution. Other than UK Central Government the Council may invest its surplus funds subject to a maximum duration of 25 years.

Alternative investment options will include:

72. **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. Although considered as pooled funds, Money Market Fund's (MMFs) are discussed separately in the previous two paragraphs. Investments in pooled funds will be limited to £20m in 2027/28.

73. The IFRS9 Statutory Override was originally in place until 31 March 2023 and has been extended for existing pooled funds until 31 March 2029. Any new pooled fund investments made after 1 April 2024 will not be subject to the override. This means gains and losses will need to be recognised in the Comprehensive Income & Expenditure Account, impacting revenue outturn. As of 31 October 2026, the Council currently has no investments in Pooled Funds (other than MMFs) at present but may make prudent use of them in the future.

74. **Real estate investment trusts (REITs):** Shares in companies that invest in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. The risk with any investments in REITs is that shares cannot be withdrawn but can be sold on the stock market to another investor which leaves the Council open to market risk. Investments in REITs will be limited to £20m in 2027/28.

75. **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

76. **Operational bank accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council currently continues to bank with National Westminster Bank (NatWest) who meet the Council's minimum credit criteria. Should Natwest's creditworthiness deteriorate below the Council's minimum credit criteria, then as far as is consistent

with operational efficiency, no money will be placed with NatWest and credit balances in the various Council accounts will be kept to a minimum level. The Council's contract with Natwest expires on 31 March 2028 so re-procurement of the banking contract during 2027/28 will take this credit criteria into account.

77. **Unrated Counterparties**: For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £200,000 per counterparty as part of a diversified pool e.g., via a peer-to-peer platform.

78. **Risk Assessment:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Any institution will be suspended or removed should any factors give rise to concern, and caution will be paramount in reaching any investment decision regardless of the counterparty or the circumstances. Should an entity's credit rating be downgraded so that it does not meet the Council's approved criteria then:

- No new investments will be made.
- Full consideration will be made to the recall or sale of existing investments with the affected counterparty.

79. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch"), this could result in the rating falling below the council's approved rating criteria. In these circumstances, investments may be withdrawn on the next working day, until the outcome of the rating 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.

80. **Other information on the security of investments:** 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.

81. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2022; 2008 and 2020, this is not reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

82. **Reputational Risk:** The Council is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be considered when making investment decisions.

83. **Investment limits:** The Council's revenue reserves available to cover investment losses are forecast to be £423.4m on 31st March 2027. In order that no more than 10% 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 and Council subsidiaries) will be £20 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

84. **Liquidity management:** The Council uses internal purpose-built cash flow modelling tools to determine the maximum period for which funds may prudently be 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. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast. The Council aims to spread its liquid cash over at least two providers (e.g., bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

85. The Council measures and manages its exposures to treasury management risks using the following indicators.

86. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 5: Credit risk indicator

Credit risk indicator	Target
Portfolio average credit rating	A

87. **Liquidity:** 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 a rolling three-month period, without additional borrowing.

Table 6: Liquidity risk indicator

Liquidity risk indicator	Target
Total cash available within 3 months	£20m

88. **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Table 7: Interest rate risk indicator

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£5m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

89. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Table 8: Refinancing rate risk indicator

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	60%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%
30 years and within 40 years	75%	0%
Over 40 years	75%	0%

**Time periods start on the first day of each financial year. LOBOs are classified as maturing on the next call date i.e., the earliest date that the lender can require repayment to ensure prudent and careful planning as part of managing the council's security and liquidity risk.*

90. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 9: Price risk indicator

Price risk indicator	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Limit on principal invested beyond year end	£50m	£50m	£50m	£50m	£50m	£50m

Related Matters

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

92. **Financial Derivatives:** A Derivative is a contract between two or more parties to hedge against the risk associated with the performance of an underlying asset.

93. Local authorities have previously made use of financial derivatives embedded into its loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. Brent Council has not previously used such instruments.

94. In line with the CIPFA Code, the Council will seek external advice and consult with Members before entering financial derivatives to ensure that it fully understands the implications. This will include analysis of the impact on interest rate, refinancing, counterparty, market, regulatory and legal risks, together with an assessment on the effectiveness of the derivative. The Council currently has no plans to enter financial derivatives and does not anticipate doing so in the foreseeable future.

95. **Housing Revenue Account:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g., premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. 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 and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

96. The Council is eligible for the PWLB HRA rate, which is 0.4% below the Standard Rate until 31 March 2028. This discounted rate can be used to support local authorities borrowing for the Housing Revenue Account's capital programme and for refinancing existing HRA loans. The Council may choose to raise PWLB loans for the HRA in 2027/28 under the HRA concessionary rate subject to it being beneficial for the HRA.

97. **Markets in Financial Instruments Directive:** The MiFID II regulations took effect from January 2018 which saw the council reclassified as a retail client with the opportunity to opt up to professional client status. Retail clients have access increased protection however this would be balanced against potentially higher fees and access to a more limited range of products. The Council has opted up to professional client status with its providers of financial services, including advisors, banks, brokers and fund managers. Given the size and range of the Council's treasury management activities, the Corporate Director for Finance and Resources believes this to be the appropriate status for the Council's treasury management activities.

98. **Financial Implications:** A draft capital financing budget of £45.9m for 2027/28 has been determined to enable the Council to service its debt in a timely manner; to ensure it complies with the Statutory MRP Guidance and to allow the Council to continue with the delivery of its proposed capital programme in a prudent and affordable manner.

99. **Other Options Considered:** The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Council believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial

and risk management implications, are listed below.

Table 10: Alternative Strategies

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix 2 – Economic Commentary & Interest Rate Forecast 30 October 2026

Underlying assumptions:

- Recent data suggest that the UK economy has displayed considerable resilience to the higher energy prices and interest rates arising from the Middle East conflict. Inflation has risen and will move higher due to more recent energy price movements. The Budget impact will be minimal.

- September's no-change monetary policy decision was caveated by the majority of the MPC pointing to the need to tighten policy if inflationary conditions did not improve. Since then, wholesale energy prices have continued to rise, particularly wholesale UK gas and electricity prices. The effect on UK inflation is already apparent, and a further jump in the CPI rate from 3.5% will occur in the coming months as the Ofgem price cap is increased in January.

- The key concern remains the prospect of sticky second-round inflationary effects arising from persistently high headline inflation trickling into wage demands and price setting; there has been some early evidence of higher food and services inflation in recent data.

- We believe that any monetary policy will be performative rather than necessary. Marginal 'insurance' rate rises will have little effect on second-round inflation, but we believe credibility-restoring action (rate hikes) will be taken.

- We believe that the UK economy will slow more materially in the months ahead, irrespective of monetary tightening. UK households face another period of negative/weak real earnings growth amid a soft labour market and high borrowing costs, which will further pressure consumer spending. Growth will be weighted towards net trade and investment. Rate cuts will be necessary in future years.

- Gilt yields may remain high in the near term due to geo-political uncertainty. While UK monetary policy tightening could lead to a flatter yield curve, the key near term determinant of yields is energy prices, and thus the Middle East conflict. The outcome of Israeli and US elections may be influential here.

- While the conflict is the main near-term influence on yields, the UK fiscal position remains important. The Chancellor did little to address medium term issues, which leaves the UK vulnerable to investor confidence. AI-related activity also remains a risk on both sides of the gilt yield forecasts, with heavy bond issuance supporting higher yields, but a decline in investor confidence in the sector leading to a possible flight to quality (and lower yields).

Forecast:

- A further rise in Bank Rate to 4.25% is expected in February 2027, although a rise in December cannot be ruled out

- Market pricing for a higher Bank Rate path goes too far. The forecast is for our 4.25% Bank Rate peak to be reversed relatively quickly, as the MPC cuts rates to stimulate the economy

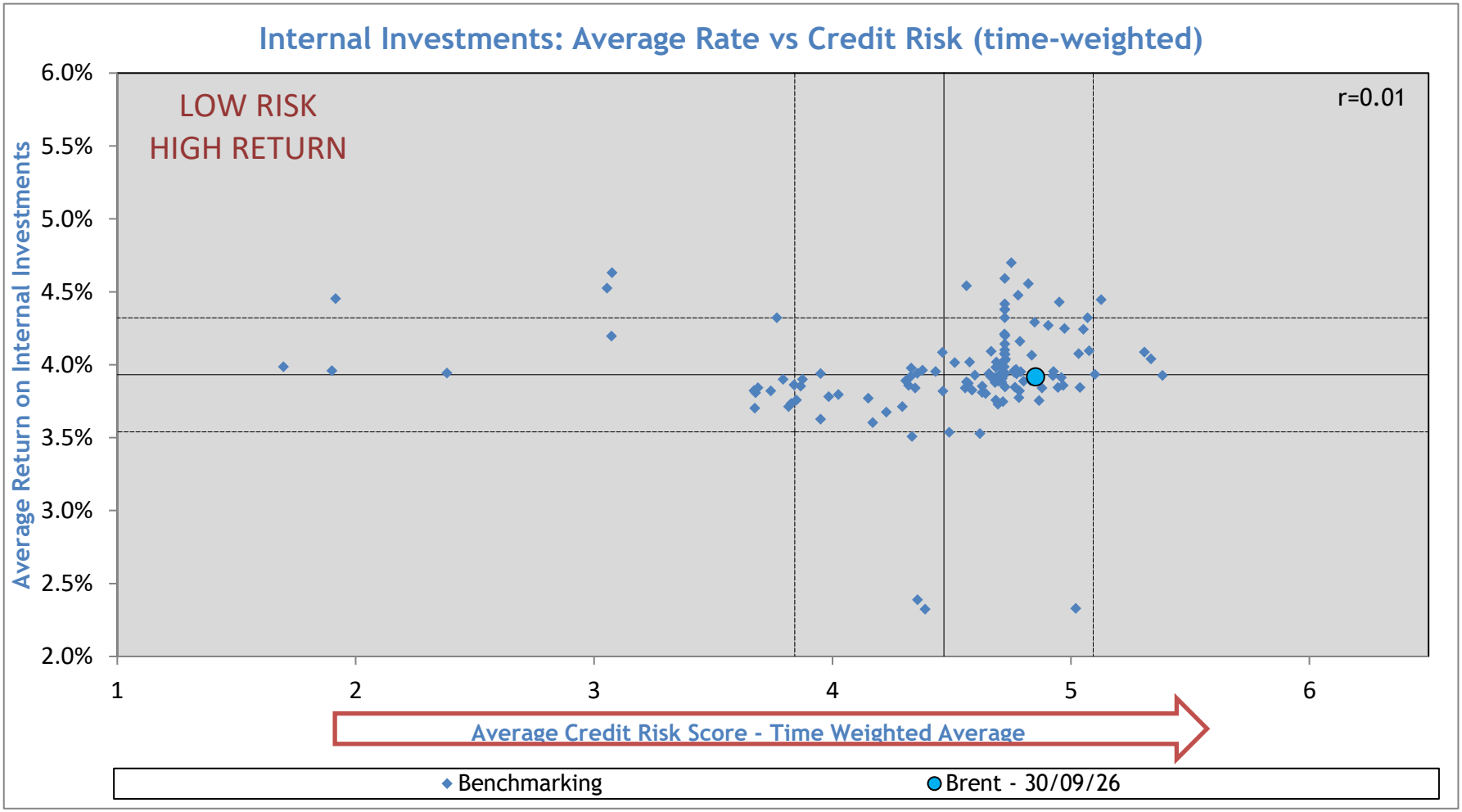
- Gilt yields/swap rates will remain high relative to our Bank Rate forecast, although monetary tightening could prompt a flatter curve or reduce term premia

- The main risk for medium term yields/rates is the Middle East conflict, escalation/de-escalation of which could move rates significantly either way

	Current	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28	Sep-28	Dec-28	Mar-29	Jun-29	Sep-29
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central Case	**3.75**	**4.00**	**4.25**	**4.25**	**4.25**	**4.00**	**3.75**	**3.50**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**
Downside risk	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central Case	**3.90**	**4.15**	**4.40**	**4.30**	**4.25**	**4.00**	**3.80**	**3.55**	**3.30**	**3.30**	**3.30**	**3.30**	**3.30**
Downside risk	0.00	-0.05	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5yr gilt yield													
Upside risk	0.00	0.50	0.50	0.50	0.50	0.70	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Central Case	**4.95**	**4.90**	**4.90**	**4.85**	**4.70**	**4.50**	**4.30**	**4.10**	**3.90**	**3.90**	**3.90**	**4.00**	**4.00**
Downside risk	0.00	-0.40	-0.40	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
10yr gilt yield													
Upside risk	0.00	0.50	0.50	0.50	0.50	0.70	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Central Case	**5.30**	**5.20**	**5.20**	**5.10**	**5.00**	**4.90**	**4.70**	**4.50**	**4.30**	**4.30**	**4.30**	**4.40**	**4.40**
Downside risk	0.00	-0.40	-0.40	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
20yr gilt yield													
Upside risk	0.00	0.50	0.50	0.50	0.50	0.70	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Central Case	**5.71**	**5.70**	**5.60**	**5.50**	**5.50**	**5.40**	**5.20**	**5.00**	**4.80**	**4.80**	**4.80**	**4.80**	**4.80**
Downside risk	0.00	-0.40	-0.40	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
50yr gilt yield													
Upside risk	0.00	0.50	0.50	0.50	0.50	0.70	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Central Case	**5.14**	**5.35**	**5.25**	**5.15**	**5.15**	**5.05**	**4.85**	**4.65**	**4.45**	**4.45**	**4.45**	**4.45**	**4.45**
Downside risk	0.00	-0.40	-0.40	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Appendix 3 - Average Rate vs Credit Risk



The Council measures the financial performance of its treasury management activities against similar Council's through benchmarking provided by its Treasury Management Advisor, Arlingclose limited. A credit rating of 4 is equivalent to credit score of AA-. The Council has a target rating of A which is a rating of 6. The current portfolio has a credit rating of A+ (Credit score 5) which exceeds our target rating.

*benchmarking is completed on a quarterly basis via Arlingclose, latest available in September 2026.

Appendix 4 – Existing Investment & Debt Portfolio

	31/10/2026 Actual Portfolio £m	31/10/2026 Average Rate %
Long-term borrowing:		
Public Works Loan Board	858.0	4.32%
LOBO's	39.5	3.00%
Private Placement	95.0	
GLA Green Finance Fund	12.0	4.71%
Short-term borrowing:		
Local Authorities	73.0	4.84%
Total External Borrowing	**1,077.5**	**4.22%**
Other long-term liabilities:		
Private Finance Initiative	43.7	N/A
Finance Leases	18.0	
Total gross external debt	**1,139.2**	**4.22%**
Treasury investments: Money Market Funds	71.3	3.97%
Total treasury investments	**71.3**	**3.97%**
Net debt	**1,067.9**	