LONDON BOROUGH OF CROYDON

REPORT:		**Cabinet**
DATE OF DECISION		**14 February 2024**
REPORT TITLE:		**Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2024/25**
CORPORATE DIRECTOR / DIRECTOR:		**Jane West – Corporate Director of Resources and Section 151 Officer**
LEAD OFFICER:		**Matthew Hallett** **Acting Head of Treasury and Pensions**
LEAD MEMBER:		**Councillor Jason Cummings Cabinet Member for Finance**
KEY DECISION?	**YES**	**REASON:** Key Decision – Decision incurs expenditure, or makes savings, of more than £1,000,000 or such smaller sum which the decision-taker considers is significant having regard to the Council's budget for the service or function to which the decision relates
CONTAINS EXEMPT INFORMATION?	**NO**	Public
WARDS AFFECTED:		**All**

1 SUMMARY OF REPORT

1.1 This report seeks the agreement of the Executive Mayor in Cabinet to the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2024/25.

1.2 The report sets out the Council's Treasury Management objectives, which are to manage the Council's cash flows, borrowing and investments whilst minimising the level of risk exposure. It looks to maximise investment yield returns within agreed risk parameters and ensure that capital expenditure and financing plans are prudent, affordable and sustainable. The report details the borrowing and investment activities that will be undertaken by the Council in the financial year 2024/25 and the two subsequent years.

1.3 The report invites agreement to recommendations essential to the achievement of the Treasury Management objectives.

2 RECOMMENDATIONS

For the reasons set out in the report and its appendices, the Executive Mayor in Cabinet, is asked to recommend to Full Council that it approves:

2.1 The Treasury Management Strategy Statement 2024/25 as set out in this report;

2.2 The Prudential Indicators as set out in Appendix A of this report;

2.3 The Annual Minimum Revenue Provision Policy Statement (required by the Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008SI 2008/414) as set out in Appendix B;

2.4 The Borrowing Strategy and Investment Strategy; and

2.5 Note the requirement for Members to undertake training in order to have the appropriate knowledge and skills to enable them to understand and scrutinise the Council's treasury management.

3 REASONS FOR RECOMMENDATIONS

3.1 Under the Constitution of the London Borough of Croydon the Council is responsible for approving the Treasury Management Policy Statement setting out the matters detailed in the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes [2021 Edition] (Treasury Management Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities [2021 Edition] (Prudential Code).

4 BACKGROUND AND DETAILS

4.1 Under Regulations made pursuant to the Local Government Act 2003 the Council is required to have regard to the Prudential Code to ensure that its capital investment plans are affordable, prudent and sustainable. In particular, the Prudential Code requires the Council to set a number of Prudential Indicators for the next three financial years. This report incorporates these Indicators and details the expected treasury activities for the year 2024/25 in the context of the long-term planning forecasts for the Council. The implications of these key Indicators function as the overriding control and guidance mechanism for the future capital programme and the revenue consequences that arise for the Council in future financial years.

4.2 Under the same Regulations the Council is required to have regard to the Treasury Management Code in setting up and approving its treasury management arrangements.

4.3 On 20 December 2021 CIPFA produced revised codes and stated that local authorities were required to implement the required reporting changes within their Treasury Management Strategy Statement reports from 2023/24.

4.4 The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over recent years into the purchase of non-financial investments, particularly property. The Codes require an authority to ensure that:

- it defines its risk appetite and its governance processes for managing risk;
- it sets out, at a high level, its investment policy in relation to environmental, social and governance aspects;
- it adopts a new liability benchmark treasury indicator to support the financing risk management of the Capital Financing Requirement (CFR); this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- it does not borrow to finance capital expenditure to invest primarily for commercial return;
- increases in the CFR and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority; where any financial returns are related to the financial viability of the project in question, they should be incidental to its primary purpose;
- an annual review is conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
- its capital plans and investment plans are affordable and proportionate;
- all borrowing/other long-term liabilities are within prudent and sustainable levels;
- risks associated with commercial investments are proportionate to overall financial capacity to sustain losses;
- treasury management decisions are in accordance with good professional practice;
- reporting to members is done quarterly, including updates of Prudential Indicators;
- it should assess the risks and rewards of significant investments over the long term, as opposed to the usual three to five years that most local authority financial planning has been conducted over, to ensure the long-term financial sustainability of the authority. (CIPFA has not defined what longer-term means, but it is likely to infer 20-30 years in line with the financing time horizon and the expected life of the assets, while medium-term financial planning, at a higher level of detail, is probably aimed at around a 10-year timeframe and focuses on affordability in particular); and
- it has access to the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

4.5 The Prudential Code confirms a requirement for local authorities to produce an annual Capital Strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing; and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The Council has produced a separate Capital Strategy report which has been considered when producing this report.

5 KEY CONSIDERATIONS

Background

5.1 With Government support provided in the form of Capitalisation Directions, the Council operates a balanced budget, which broadly means that cash raised during the year will meet its cash expenditure. Part of the treasury management operation ensures that this cash flow is adequately planned, with surplus monies being invested with low risk counterparties, providing adequate liquidity before considering optimizing investment return.

5.2 The second main function of the treasury management service is the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

5.3 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensures liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will, in effect, result in a loss to the General Fund Balance.

5.4 In line with CIPFA the Council defines its treasury management activities as:

"The management of the Council's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

Reporting Requirements

5.6 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of strategies and policies, and estimated and actual figures.

1. **Prudential capital and treasury management indicators and treasury strategy (this report)** - The first, and most significant report covers:

- the capital plans (including Prudential Indicators);
- a Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an Annual Investment Strategy (the parameters on how investments are to be managed).

2. **A mid-year treasury management report –** This is primarily a progress report and updates members on the capital position, amending Prudential Indicators as necessary, and advises whether any policies require revision; and

3. **An annual treasury report –** This is a backward-looking review and provides details of a selection of actual prudential capital and treasury management indicators and of actual treasury operations compared to the estimates.

5.7 In addition to the three major reports detailed above quarterly reporting, as at the ends of June and September, is also required. These reports will be included in the financial monitoring provided to Cabinet.

Treasury Management Strategy for 2024/25

5.8 The Strategy for 2024/25 covers two main areas, capital and treasury management:

Capital

- Capital expenditure plans and associated Prudential Indicators (paragraphs 6.5 to 6.15); and
- MRP Policy Statement (paragraphs 6.16 and 6.18).

Treasury management

- Current portfolio position (paragraphs 7.2 to 7.4);
- Treasury indicators which limit the treasury borrowing (paragraphs 7.7 to 7.10);
- Prospects for interest rates (paragraph 7.11 to 7.12);
- Borrowing strategy (paragraphs 7.13 to 7.15);
- Policy on borrowing in advance of need (paragraphs 7.16 and 7.18);
- Debt rescheduling (paragraphs 7.19 and 7.20);
- Investment Strategy (paragraph 8);

5.9 These elements cover the requirements of the Local Government Act 2003, Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the Prudential Code, and the Treasury Management Code.

Training

5.10 The Treasury Management Code requires a Council officer (the "responsible officer") to ensure that members with responsibility for treasury management receive adequate training in that function. This especially applies to members responsible for scrutiny. Furthermore, the Code states that all organisations are expected to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

5.11 The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Councils should consider how to assess whether treasury management staff and members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

5.12 As a minimum, organisations should carry out the following to monitor and review knowledge and skills:

- Record attendance at training sessions and ensure action is taken where poor attendance is identified;
- Prepare tailored learning plans for treasury management officers and Council members;
- Require treasury management officers and Council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the Council); and
- Have regular communication with officers and Council members, encouraging them to highlight training needs on an ongoing basis.

5.13 In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management.'

5.14 Appropriate training will be made available to all Members involved in the monitoring of treasury management performance.

Treasury management consultants

5.15 The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. It has, therefore, appointed Link Group, Link Treasury Services Limited (Link) as its external treasury management consultant.

5.16 Notwithstanding this appointment, the Council recognises that responsibility for treasury management decisions remains with itself at all times and will ensure that undue reliance is not placed upon the services of external service providers. All decisions will be undertaken with regards to available information, including, but not solely, that provided by Link.

6 THE CAPITAL PRUDENTIAL INDICATORS 2024/25 -2026/27

Introduction

6.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the Prudential Indicators for 2024/25 to 2026/27, as attached in Appendix A, which are designed to assist members' overview and to confirm capital expenditure plans. It should be noted that the figures used as the baseline for 2024/25 would usually be taken from the audited accounts for 2022/23. The accounts for 2022/23 and those dating back to 2019/20 are yet to be finalised and audited.

6.2 The Corporate Director of Resources (Section 151 Officer) is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy.

6.3 The Council is also required to confirm that it has adopted the Treasury Management Code.

6.4 The Prudential Indicators set will be monitored throughout the year and will be reported to Cabinet on a regular basis.

Capital Expenditure and Financing

6.5 The first prudential indicator is a summary of the Council's expenditure plans, both those previously agreed, and those forming part of this budget cycle. Members are asked to approve the following expenditure forecasts.

Table 1: Capital Expenditure

	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund services	41.5	43.3	52.3	34.2	29.0
Commercial activities and non-financial investments	-	-	-	-	-
HRA services	37.8	39.0	57.2	97.1	70.5
Capitalisation Direction*	196.0	63.0	38.0	38.0	38.0
TOTAL	**275.3**	**145.3**	**147.5**	**169.3**	**137.5**

**The Capitalisation direction figure of £196m includes £36.2m for 22/23 and £159.8m applied to prior years.*

6.6 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Council's overall financial position. The capital expenditure figures shown in Table 1 above indicate that no such activity is proposed in the future programme.

6.7 The above programme excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements, that already include borrowing instruments.

6.8 If approved by DLUHC, the Capitalisation Direction (see paragraph 7.23) will allow for certain items of revenue expenditure to be charged to Capital.

6.9 The table below summarises how the plans in Table 1 are being financed by capital and revenue resources. Any shortfall of resources results in a borrowing need.

Table 2: Resources

	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital receipts	55.0	80.4	57.4	30.0	-
Capital grants	9.7	13.4	19.5	11.5	7.0
S106 payments	1.1	0.4	1.1	0.3	0.3
Community Infrastructure Levy	1.4	7.7	8.3	7.2	6.6
Growth Zone Fund	1.4	3.0	4.0	4.0	4.0
HRA Contribution	1.1	1.4	-	-	-
GENERAL FUND TOTAL	**69.7**	**106.3**	**90.3**	**53.0**	**17.9**
HRA revenue	-	13.9	12.2	11.3	16.7
RTB receipts	-	2.1	2.1	2.1	2.2

HRA reserves	22.8	7.5	28.2	24.1	-
Capital grants	1.2	-	-	-	-
S106 payments	0.4	-	-	-	-
Major Repairs Allowance	13.4	15.5	14.7	15.1	15.4
HRA TOTAL	**37.8**	**39.0**	**57.2**	**52.6**	**34.3**
Net financing need GF	167.8	-	-	19.2	49.1
Net financing need HRA	-	-	-	44.5	36.2
TOTAL NET FINANCING	**167.8**	**-**	**-**	**63.7**	**85.3**
TOTAL	**275.3**	**145.3**	**147.5**	**169.3**	**137.5**

The Council's Borrowing Need (Capital Financing Requirement)

6.10 The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). This is the total of historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, effectively its underlying borrowing need. Any capital expenditure in Table 1, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. However, the CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used.

6.11 The CFR includes any other long term liabilities such as PFI schemes and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility provided by the PFI or lease provider and the Council is not required to borrow separately to deliver them. The Council currently has £137.9m of such schemes within the CFR.

6.12 The Council is asked to approve the CFR projections below:

Table 3: Capital Financing Requirement

	31/03/23 Forecast £m	**31/03/24 Forecast £m**	**31/03/25 Estimate £m**	**31/03/26 Estimate £m**	**2026/27 Estimate £m**
General Fund	1,399.9	1,371.9	1,344.5	1,336.8	1,359.2
HRA	365.7	365.7	365.7	410.2	446.4
Total CFR	**1,765.6**	**1,737.6**	**1,710.2**	**1,747.0**	**1,805.6**

Table 4: Movement in Capital Financing Requirement

	2022/23 Forecast £m	**2023/24 Forecast £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Net financing need	167.8	-	-	63.7	85.3
Less Minimum Revenue Provision	-45.8	-28.0	-27.4	-26.9	-26.7
Development loans repaid	-24.0	-	-	-	-

Movement in CFR	98.0	-28.0	-27.4	36.8	58.6

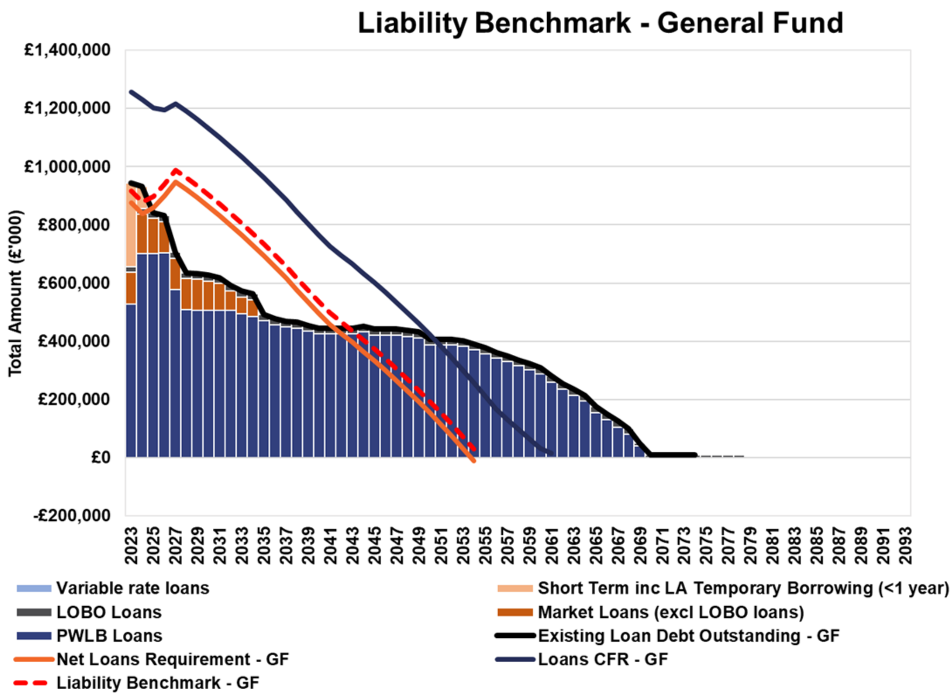
Liability Benchmark

6.13 The third prudential indicator is the Liability Benchmark (LB). The LB is a measure of how well the existing loans portfolio matches the authority's planned borrowing needs. The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

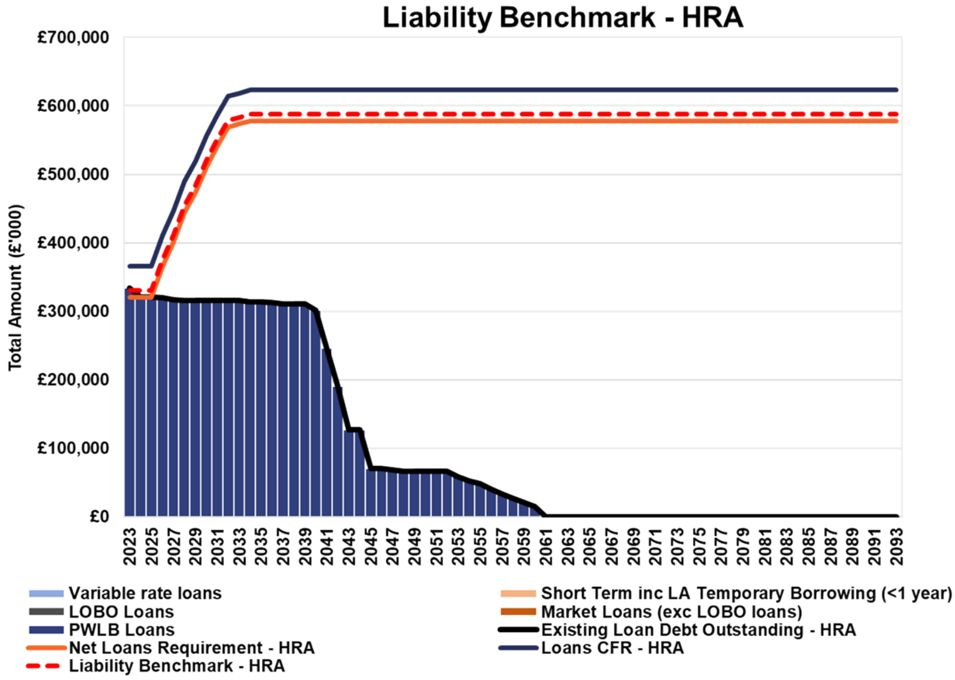
6.14 There are four components to the LB:

- Existing loan debt outstanding in future years;
- Loans CFR: calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP;
- Net loans requirement: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast; and
- LB (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

6.15 Separate LBs have been calculated for the General Fund and the HRA and are shown in the charts below:



The LB for the General Fund shows that from 2024 to 2042 there are insufficient loans to meet the borrowing requirement as the Existing Loans Outstanding are below the LB line. The Council will need to fund this gap by either increasing its reliance on internal borrowing or adding to its external borrowing. Most will have to be done through external borrowing as the use of internal borrowing has almost been fully exhausted. From 2043 as the level of Existing Loans Outstanding rises above the LB line the Council will have surplus cash which will need investing.



The projection given above for the Council's HRA LB benchmark has been taken from the HRA 30 year business plan. This indicates that significant levels of borrowing will be undertaken. This extra borrowing must be self-financed from the HRA account.

Minimum Revenue Provision Policy Statement

6.16 The Council's Minimum Revenue Provision (MRP) Policy Statement is attached as Appendix B.

6.17 The MRP policy has been changed from 2024-25 in relation to the Council's commercial property held as part of its Investment Property Portfolio. It has been amended to correctly follow the Statutory guidance on MRP which is, to make an MRP charge on the debt associated with the purchase of investment properties over an estimated asset life of 40 years. The capital receipt from any disposal of investment properties will be used to reduce the CFR balance associated with its purchase. The change is reflected in point 15 of the MRP Policy Statement.

6.18 Prior to the change referred to in 6.17 the policy was:
' 15. The Council holds commercial property as part of its Investment Property Portfolio. The assets are held solely for investment purposes and are managed on a fully commercial basis. The Council has the ability to sell the assets to repay any

outstanding debt liabilities related to their purchase, there is still a need to consider if a prudent provision is required. As above, following a stringent risk assessment a contribution to the MRP may be necessary. The market value of the assets will be reviewed on a regular basis and if the asset value significantly decreases, a prudent MRP contribution will be made. For the 2023/24 Budget and the 3 Year MTFS the Council has calculated the projected MRP costs and these are included within the plans.'

7 BORROWING

7.1 The capital expenditure plans set out in paragraph 6.5 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Treasury Management Strategy covers the relevant treasury / Prudential Indicators, the current and projected debt positions, and the Annual Investment Strategy.

Current Borrowing Position

7.2 The level of the Council's borrowing as at 31 December 2023 was as follows:

Table 5: Borrowing as at 31 December 2023

		Principal £m	**Average Rate %**
Fixed Rate Funding	- PWLB[1]	1,037.6	3.72
	- Local Authorities[2]	75.0	3.34
	- Amber Green LEEF 2LLP	5.0	1.60
	- European Investment Bank	102.0	2.20
Variable Rate Funding	- LOBO [3]	20.0	4.20
Total External Debt as 31/12/23		**1,239.6**	**3.57**
Other long term liabilities		**137.9**	
Total Debt		**1,377.5**	

1. PWLB is the Public Works Loan Board, the branch of Government that is the principal lender to local authorities. Included within this amount is the £223.1m borrowed for the HRA self-financing settlement made on 28/3/2012.
2. As an alternative to borrowing from the Government, local authorities have come to the market offering loans at competitive rates.
3. Lender's Option Borrower's Option (LOBOs) loans are commercial debts with options for the lender to vary the rate at pre-set intervals. If the option is exercised, then the Council can either accept the new rate or repay the loan with no penalty.

7.3 The Council's debt maturity profile is set out below and is included as a graph in Appendix C.

Table 6: Debt Maturity Profile at 31 December 2023

	£m	% of External Debt
Under 12 months	78.0	6.3%
12 months to 2 years	128.7	10.4%
2 years to 5 years	90.0	7.3%
5 years to 10 years	137.0	11.0%
10 years and above	805.9	65.0%

7.4 The Council's external gross debt at 31 December 2023 was £1,377.5m and this is forecast to remain the same at 31 March 2024. The Council's forward projections for borrowing are summarised below. The table shows the actual external debt against the CFR, highlighting any over- or under-borrowing.

Table 7: Borrowing and the Capital Financing Requirement

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt at 1 April	1,364.6	1,277.5	1,239.6	1,287.2	1,374.0
Expected change in debt	-87.1	-37.9	47.6	86.8	83.6
Other long term liabilities(OLTL)	142.6	140.0	137.9	135.3	132.7
Expected change in OLTL	-2.6	-2.1	-2.6	-2.6	-2.6
Actual gross debt at 31 March	**1,417.5**	**1,377.5**	**1,422.5**	**1,506.7**	**1,587.7**
CFR	**1,765.6**	**1,737.6**	**1,710.2**	**1,747.0**	**1,805.6**
Under/ (over) borrowing	**348.1**	**360.1**	**287.7**	**240.3**	**217.9**

The table above assumes that the Council will have to externalise some of its existing internal borrowing as earmarked cash backed reserves which have been used to finance the internal borrowing will be required for future expenditure. It assumes £75m for 2024/25, £50m for 2025/26 and £25m for 2026/27.

Within the above figures the level of debt relating to commercial activities / non-financial investment is:

Table 8: Debt relating to commercial activities / non-financial investment

	2022/23 Actual	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate

Debt at 1 April (£m)	97.1	95.7	94.1	92.5	90.9
Percentage of total external debt (%)	6.9	6.9	6.6	6.2	5.8

7.5 Within the range of Prudential Indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

7.6 The Corporate Director of Resources (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

Treasury indicators: limits to borrowing activity

7.7 Section 3 of the Local Government Act 2003 requires the Council to set limits and to keep under review how much it can afford to borrow. The amounts so determined are to be set on a rolling basis, for the forthcoming financial year and two successive financial years.

7.8 **Operational boundary for external debt.** This is the limit which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 9: Operational boundary for external debt

	31/03/23 Actual £m	31/03/24 Forecast £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
Debt	1,277.5	1,239.6	1,287.2	1,374.0	1,457.6
Other long term liabilities	140.0	137.9	135.3	132.7	130.1
TOTAL	**1,417.5**	**1,377.5**	**1,422.5**	**1,506.7**	**1,587.7**

7.9 **Authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents the statutory limit under section 3 (1) of the Local Government Act 2003 beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The Government can control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.

7.10 At the Council meeting held on 1 March 2023, the Council approved the Authorised Limit for 2023/24 of £1,553.4m. The forecast actual debt for 2023/24 is £1,377.5m and reflects the work done by the Council to date in reducing its external debt. The level of external debt has been identified as and remains a problem for the Council and where possible the Council are looking to reduce this or at least slow the pace of increase over time. The forecast increases in debt are largely driven by Capitalisation Directions being sought by the Council which are due to legacy issues around finance and governance. It is recommended that the Authorised limit for external debt is set based on the Operational boundary plus £50m which is approximately the level for one month of working capital. With this in mind, the Cabinet is asked to recommend to Full Council that it should approve the authorised limit for 2024/25 of £1,472.5m as per the following table:

Table 10: Authorised limit for external debt

	31/3/23 Actual £m	31/03/24 Forecast £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
Debt	1,327.5	1,289.6	1,337.2	1,424.0	1,507.6
Other long term liabilities	140.0	137.9	135.3	132.7	130.1
TOTAL	**1,467.5**	**1,427.5**	**1,472.5**	**1,556.7**	**1,637.7**

Prospects for Interest Rates

7.11 Part of the service provided by Link is to assist the Council to formulate a view on future interest rate movements. The following table gives their current forecasts for certainty rates, gilt yields plus 80bps.

Table 11: Interest Rate Forecast December 2023 to December 2026

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

7.12 Interest rate forecasts have been extremely volatile over the last year, so any forecasts must be viewed with caution. However, the general consensus is that interest rates have peaked and are likely to start a downward trajectory staring in the second half of 2024. Link's commentary on the prospects for interest rates and on the wider economic background are attached as appendices D and E respectively.

Borrowing Strategy

7.13 The Council continues to maintain an under-borrowed position. This means that the underlying capital borrowing need (CFR) is not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow is used as an interim measure. The Council will continue to maximise its use of internal borrowing whilst interest rates remain at perceived elevated levels. The Council has £78.0m of short term debt that needs to be financed over the coming calendar year and this along with any new borrowing will continue to be on a short term basis unless long term rates are deemed to be more optimal.

7.14 This strategy is prudent as medium and longer dated borrowing rates are expected to fall over the next couple of years as it appears the current level of interest rates has been enough to address prevailing inflation concerns. The Council will keep this under review and continue to be guided by its investment adviser.

7.15 Any borrowing, investment and financing decisions taken are delegated to the S151 Officer and will be reported to Cabinet at the first available opportunity.

Policy on borrowing in advance of need

7.16 The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

7.17 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

7.18 The Council is not currently expecting to borrow in advance of need.

Debt rescheduling

7.19 Rescheduling of current borrowing is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates, although the Council will have to refinance maturing debt.

7.20 If rescheduling is to be undertaken it will be reported to Cabinet, at the earliest meeting following its action.

Sources of borrowing

7.21 The Council's main source of finance has traditionally been borrowing from the Public Works Loan Board (PWLB) where funds can be borrowed for up to 50 years.

7.22 Currently the PWLB Certainty Rate is set at gilts +80 basis points for General Fund borrowing and gilts +60 basis points for HRA borrowing. The Council will continue to look at other sources, but has struggled to borrow from other sources due to it being perceived as having a higher risk than other local authority counterparties.

7.23 The Council's Medium Term Financial Plan includes the provision of Capitalisation Directions from Government to support the budget gap of £38.0m per annum within the Revenue Account. This allows the Council to charge some of its revenue expenditure to capital. It is for the Council to decide which of its capital resources eg capital receipts or borrowing to allocate for this purpose at year end. Should the Council choose to borrow from the PWLB to finance the Capitalisation Directions it will be charged the more disadvantageous rate of PWLB+1%. MRP will be required using the asset life method with a proxy 'asset life' of no more than 20 years. To date, the Council has not needed to use this borrowing facility.

7.24 The Council's 2024/25 Financial Plan indicates a £38m gap to its budget requirement and this is being supported by the allocation of a further capitalisation direction by Government.

8 ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

8.1 DLUHC, formerly MHCLG, and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, as managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

8.2 The Council's Investment Policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments; and
- Treasury Management Code and Guidance Notes.

8.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield. The Council will aim to achieve the optimum yield on its investments commensurate with proper levels of security and liquidity and with regard to its risk appetite.

8.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

8.5 The guidance from DLUHC and CIPFA places a high priority on the management of risk. The Council adopts a prudent approach to managing risk and defines its risk appetite by the following means:

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

- Other information: ratings will not be the sole determinant of the quality of an institution; it is important continually to assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisers to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

- Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment Policy – Council implementation

8.6 The Council has defined the list of types of investment instruments that the treasury management team are authorised to use. They are placed in one of two categories:

Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Detailed explanations of investment instruments included in the two categories are provided in Appendix F.

8.7 The Council's criteria for the selection of counterparties for investments are based on Link's assessment using formal credit ratings issued by various agencies. Credit rating information is supplied by Link on all active counterparties. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

8.8 Each week, the Council, along with other clients, receives from Link a "Suggested Credit List." This is accompanied by a disclaimer reminding recipients, inter alia, as follows:

This document is intended for the use and assistance of customers of Link Asset Services. It should not be regarded as a substitute for the exercise by the recipient of its own judgement.

8.9 Notwithstanding this and other similar clauses Link are the largest suppliers of treasury management advisory services to UK local authorities and understand the market well. In their analysis they take into account the views of each of the three major credit ratings agencies along with the pricing of credit default swaps and market intelligence. They are better placed than Council officers to carry out this analysis and the Council has adopted the following lending list criteria:

Specified investments

AAA rated money market funds - limit £20m
Debt Management Office – no limit
All UK local authorities – limit £10m
NatWest as the Council's banker – limit £25m
Duration of up to one year.

Non-specified investments

All institutions included on Link's weekly "Suggested Credit List" – limit £10m
All UK local authorities with duration over one year – limit £10m
Duration to be determined by the "Suggested Credit List" from Link

8.10 The Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 8.15). Regular monitoring of investment performance will be carried out during the year.

Investment Strategy

8.11 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy is appropriate to optimise returns.

8.12 Accordingly, while most cash balances are required in order to manage the fluctuations of cash flow, where surplus cash sums become available it is expected that these will be used to repay debt. However this will be assessed against income that could be generated through longer term investments.

8.13 As at 31 December 2023, the Council held £61.7m in short-term investments as shown in table 6 below. The Council deems it appropriate to hold between £50-100m in liquid investments in order to ensure it has the funds to meet its day to day expenditure arising from its operating needs. Any funds above those required to meet day to day expenditure will be used to repay debt as it matures. Daily liquidity requirements will be met by investing in AAA-rated MMFs. As investment rates are influenced throughout the year by the release of key items of data, there may be occasions when some investments will be pitched towards specific periods to take advantage of any unexpected higher rates resulting from data issued.

Table 12: Temporary Investments as at 31 December 2023

	Principal £m	Average Rate %
Money Market Funds	55.20	5.29
Other Local Authorities	6.60	5.75
Total Temporary investments outstanding as at 31/12/23	**61.7**	**5.34**

8.14 Based on cashflow forecasts for 2024/25 the Council anticipates its average daily cash balances for the year to be £75m. The overall balances include HRA revenue balances for which an apportionment of interest earned is made. The net income then due to the General Fund is estimated at £1.5m.

Investment returns expectations

8.15 The current forecast is based on suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Table 13: Average Earnings in Each Year

Average earnings in each year	
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

8.16 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity and debt repayment requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The Council will be keeping minimal cash balances and so require liquidity which means it will not be investing sums over 365 days.

8.17 The Council is asked to approve the following treasury indicator and limit: -

Table 14: Upper limit for principal sums invested for longer than 365 days

Upper limit for principal sums invested for longer than 365 days			
£m	**2024/25**	**2025/26**	**2026/27**
Principal sums invested for longer than 365 days	£m 0	£m 0	£m 0
Current investments as at 31 December 2023 in excess of 1 year	0	0	0

End of Year Investment Report

8.18 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

9 CONSULTATION IF REQUIRED

None

10 CONTRIBUTION TO COUNCIL PRIORITIES IF REQUIRED

10.1 The Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2024/25 supports the Mayors Business Plan 2022-2026 objective one 'The council balances its books, listens to residents and delivers good sustainable services'.

11 IMPLICATIONS

11.1 FINANCIAL IMPLICATIONS

11.1.1 Financial implications have been provided throughout this report.

11.1.2 The Council has high costs of borrowing and therefore careful and prudent treasury management is required to avoid unnecessary costs to the revenue account.

11.1.3 Comments approved by Allister Bannin on behalf of the Director of Finance. (date 19/01/2024)

11.2 LEGAL IMPLICATIONS

11.2.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) made pursuant to the Local Government Act 2003 require the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities ("The Prudential Code"). Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, a local authority must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes " ("The Treasury Code") issued by CIPFA.

11.2.2 In relation to the Annual Investment Strategy, the Council is required to have regard to the Guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 entitled "Statutory guidance on Local Government Investments 3rd Edition" which is applicable from and effective for financial years commencing on or after 1 April 2018.

11.2.3 In addition, the Prudential Code and the Treasury Code contain investment guidance which complements the Statutory Guidance mentioned above.

11.2.4 Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended.

11.2.5 Under the provisions of Section 3(1) and (8) of the Local Government Act 2003, the Council must determine and keep under review how much money it can afford to borrow, and the function of determining and keeping these levels under review is a full Council, rather than an executive function.

11.2.6 The Council must also have regard to the Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003 entitled 'Statutory guidance on minimum revenue provision'.

11.2.7 As set out earlier in this report, the Prudential Code requires authorities to prepare a capital strategy.

11.2.8 Comments approved by Sandra Herbert, the Head of Litigation & Corporate Law on behalf of the Director of Legal Services and Monitoring Officer. (Date 09/01/2024)

11.3 EQUALITIES IMPLICATIONS

11.3.1 Under the Public Sector Equality Duty of the Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.

11.3.2 Section 149 of the Act requires public bodies to have due regard to the need to:

- Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- Foster good relations between people who share a protected characteristic and people who do not share it.

11.3.3 Although no EQI has been submitted for this report, it is understood from the report that there is no negative impact arising as a result of the proposals in this report for any protected groups.

11.3.4 Comments approved by Naseer Ahmad on behalf of the Equalities Manager. (Date 11/01/2014)

11.4 HUMAN RESOURCES IMPLICATIONS

11.4.1 There are no immediate human resource implications arising from this report. It is essential the council, with Government support, operates a prudent approach to achieve a balanced budget, where cash raised during the year will meet its cash expenditure and the effective operation of treasury management supports this. In the event that the council cannot achieve a balanced budget this would likely have workforce implications and to effect such consequential changes the council would need to apply its HR policy and procedure framework, including meaningful consultation with any affected staff and their trade union representatives.

11.4.2 Approved by: Dean Shoesmith, Chief People Officer. (Date 12/01/2024)

12 APPENDICES

12.1 Appendix A - Capital and Treasury Management Prudential Indicators 2024/25 -2026/27
Appendix B - Minimum Revenue Provision Policy Statement 2024/25
Appendix C - Long-term debt profile
Appendix D - Commentary on prospects for interest rates – December 2023
Appendix E - Economic background – December 2023
Appendix F - Specified and non-specified investments

13 BACKGROUND DOCUMENTS

13.1 Capital Strategy and Medium Term Financial Plan

CONTACT OFFICER: Matthew Hallett, Acting Head of Pensions and Treasury Ext 27148

APPENDIX A

CAPITAL AND TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2023/24 – 2025/26

CAPITAL

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the plans is reflected in the Prudential Indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

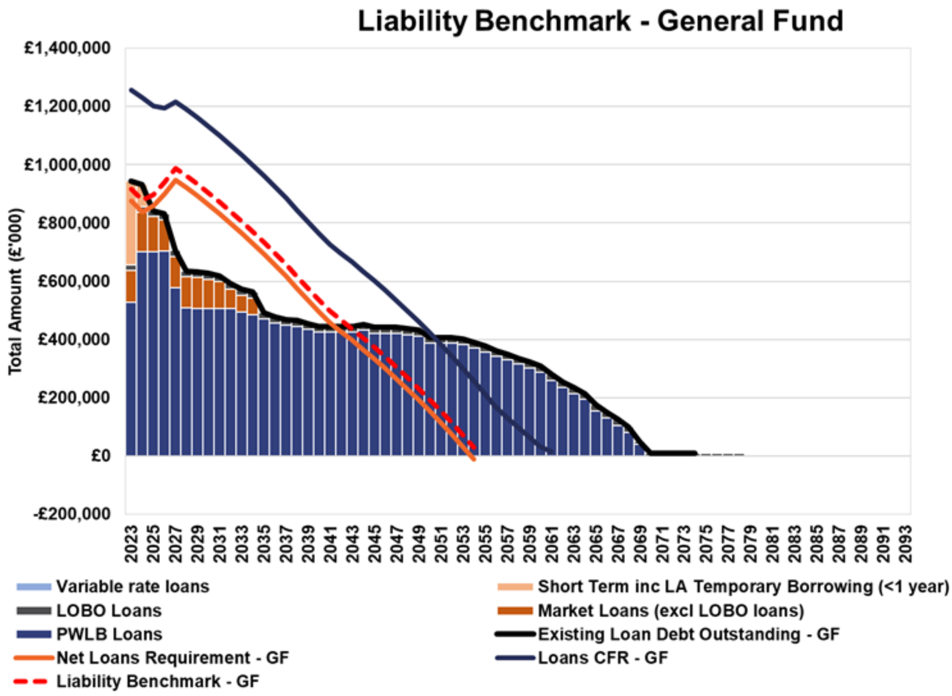
	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund services	41.5	43.3	52.3	34.2	29.0
Commercial activities and non-financial investments	-	-	-	-	-
HRA services	37.8	39.0	57.2	97.1	70.5
Capitalisation Direction*	196.0	63.0	38.0	38.0	38.0
TOTAL	**275.3**	**145.3**	**147.5**	**169.3**	**137.5**

**The Capitalisation direction figure of £196m includes £36.2m for 22/23 and £159.8m applied to prior years.*

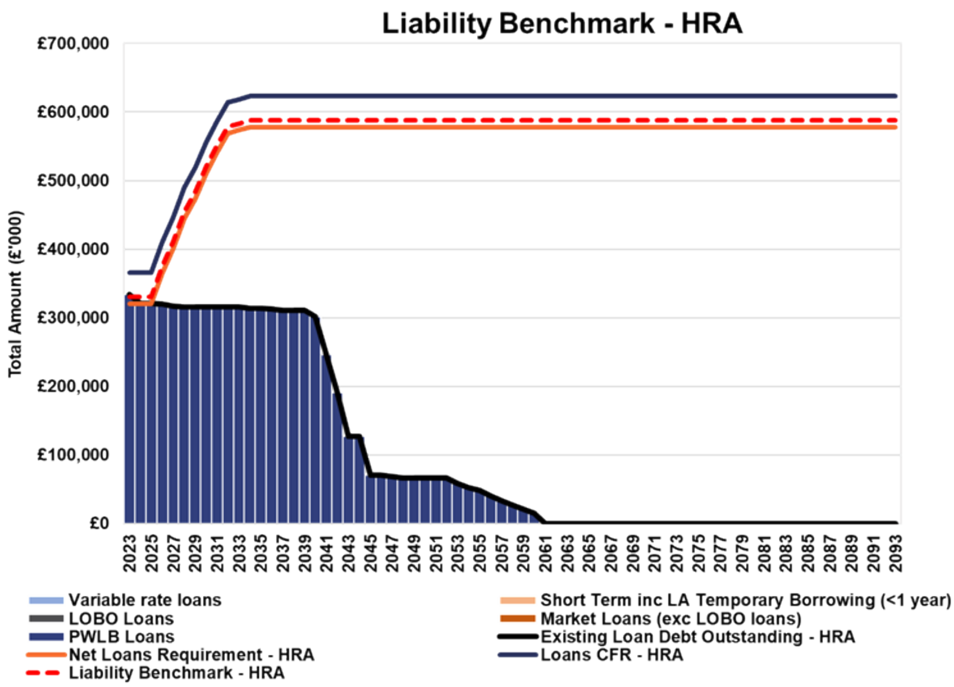
Capital Financing Requirement Projections

	31/03/23 Forecast £m	31/03/24 Forecast £m	31/03/25 Estimate £m	31/03/26 Estimate £m	2026/27 Estimate £m
General Fund	1,399.9	1,371.9	1,344.5	1,336.8	1,359.2
HRA	365.7	365.7	365.7	410.2	446.4
Total CFR	**1,765.6**	**1,737.6**	**1,710.2**	**1,747.0**	**1,805.6**

Liability Benchmark



The LB for the General Fund shows that from 2024 to 2042 there are insufficient loans to meet the borrowing requirement as the Existing Loans Outstanding are below the LB line. The Council will need to fund this gap by either increasing its reliance on internal borrowing or adding to its external borrowing. Most will have to be done through external borrowing as the use of internal borrowing has almost been fully exhausted. From 2043 as the level of Existing Loans Outstanding rises above the LB line the Council will have surplus cash which will need investing.



The projection given above for the Council's HRA LB benchmark has been taken from the HRA 30 year business plan. This indicates that significant levels of borrowing will be undertaken. This extra borrowing must be self-financed from the HRA account.

Debt and Capital Financing Requirement

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt at 1 April	1,364.6	1,277.5	1,239.6	1,287.2	1,374.0
Expected change in debt	-87.1	-37.9	47.6	86.8	83.6
Other long term liabilities(OLTL)	142.6	140.0	137.9	135.3	132.7
Expected change in OLTL	-2.6	-2.1	-2.6	-2.6	-2.6
Actual gross debt at 31 March	**1,417.5**	**1,377.5**	**1,422.5**	**1,506.7**	**1,587.7**
CFR	**1,765.6**	**1,737.6**	**1,710.2**	**1,747.0**	**1,805.6**
Under/ (over) borrowing	**348.1**	**360.1**	**287.7**	**240.3**	**217.9**

The table above assumes that the Council will have to externalise some of its existing internal borrowing as earmarked cash backed reserves which have been used to finance the internal borrowing will be required for future expenditure. It assumes £75m for 2024/25, £50m for 2025/26 and £25m for 2026/27.

Authorised limit for external debt

	31/3/23 Actual £m	31/03/24 Forecast £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
Debt	1,327.5	1,289.6	1,337.2	1,424.0	1,507.6
Other long term liabilities	140.0	137.9	135.3	132.7	130.1
TOTAL	**1,467.5**	**1,427.5**	**1,472.5**	**1,556.7**	**1,637.7**

Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing Prudential Indicators, but within this framework Prudential Indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a) Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

	2022/23 Actual %	2023/24 Forecast %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Fund	12.6	16.1	17.1	16.4	15.8
HRA	13.7	12.1	12.2	14.1	14.4

The estimates of financing costs include current commitments and the proposals in the budget report.

It is acknowledged that the cost of servicing the Council's debt for the General Fund is too high and not sustainable in the long term and a ratio of Financing Costs to the Net Revenue Stream of under 10% should be targeted to ensure sustainability.

b) Ratio of debt to net revenue stream General Fund

	31/03/23 Actual	31/03/24 Forecast	31/03/25 Estimate	31/03/26 Estimate	31/03/27 Estimate
General Fund CFR (£m)	1,399.9	1,371.9	1,344.5	1,336.8	1,359.2
General Fund Debt excluding (£m) Other long term liabilities	943.2	919.1	966.7	979.5	1,026.9
Net Revenue Stream (£m)	320.3	340.9	361.3	371.3	381.0
Ratio of CFR to Net Revenue Stream	4.4	4.0	3.7	3.6	3.6
Ratio of Debt to Net Revenue Stream	2.9	2.7	2.6	2.6	2.7

It is acknowledged that the Council's debt is too high and not sustainable in the long term and a ratio of the CFR to the Net Revenue Stream of 2.5 should be targeted to ensure sustainability.

c) Ratio of Debt to Revenue HRA

	31/03/23 Actual	31/03/24 Forecast	31/03/25 Estimate	31/03/26 Estimate	31/03/27 Estimate

HRA debt £m	334.3	320.5	320.5	394.5	430.7
HRA debt cap (CFR) £m	365.7	365.7	365.7	410.2	446.4
HRA revenues £m	88.1	96.0	103.1	105.1	107.1
Ratio of debt to revenues (debt/revenue)	3.8	3.3	3.1	3.9	4.2

TREASURY MANAGEMENT

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The Council will be keeping minimal cash balances and so require liquidity which means it will not be investing sums over 365 days.

The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2023/24**	**2024/25**	**2025/26**
Principal sums invested for longer than 365 days	£m 0	£m 0	£m 0
Current investments as at 31 December 2022 in excess of 1 year	0	0	0

Maturity structure of borrowing

These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2023/24			
	At 31 December 2023	**Lower**	**Upper**
Under 12 months	6.3%	0%	20%
12 months to 2 years	10.4%	0%	20%
2 years to 5 years	7.3%	0%	30%
5 years to 10 years	11.0%	0%	30%
10 years and above	65.0%	0%	100%

APPENDIX B

MINIMUM REVENUE PROVISION POLICY STATEMENT 2024/25

1. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 2003/3146, as amended] states that:

"**a local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent".**

The regulations provide authorities discretion in deciding their annual amount of Minimum Revenue Provision (hereafter MRP). Statute (S.21 (1)(A) of LGA 2003) requires authorities to "have regard" to the MRP Guidance and the recommendations within it.

2. Regulation 28 does not define prudent provision, the MRP guidance issued by MHCLG (now DLUHC) makes recommendations on the interpretation of that term. Within this guidance it is acknowledged that while four methodologies are available to authorities, other approaches are not meant to be ruled out, provided they are fully consistent with the statutory duty to make prudent revenue provision. Therefore it is recognised that in some cases a more individually designed MRP approach is justified, taking into account local circumstances.

3. The Council has given regard to Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003 which was revised in November 2020.

4. The Council's MRP Policy Statement for 2024/2025 is to be as follows:

5. For the proportion relating to historic debt (incurred up to 31 March 2008) and to Government-supported capital expenditure incurred since, the MRP policy will be to adopt Option 1 - the Regulatory Method by providing a fixed amount each financial year, calculated at 2% of the balance at 31 March 2015, reducing on a straight line basis so that the whole debt is repaid after 50 years.

6. For unsupported borrowing undertaken since 1 April 2008, reflected within the CFR debt liability at 31 March 2023, the MRP policy will be to adopt Option 3 – Asset Life Method – Annuity method from the Guidance. Estimated life periods will continue to be determined as indicated in the Guidance. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the Guidance would not be appropriate. The total useful life will not exceed 50 years which would be in line with MRP Guidance.

7. As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

8. Where schemes are not fully completed at the end of the financial year, MRP charges will be deferred until the schemes are complete and the assets are operational.

9. MRP on Public Finance Initiative (PFI) schemes debt is to be charged on an annuity basis over the remaining life of each scheme.

10. The Council retains the right to undertake additional voluntary payments if required (Voluntary Revenue Provision – VRP). In addition, the Council commits to set aside a minimum of 2% of Capital Financing Requirement for MRP in the event the total MRP charge is less than 2% of the total CFR.

11. There may be circumstances when the Council may not make a provision for the repayment of the debt liability. In such circumstances where the authority has had regard to the guidance and chooses an alternative approach, the authority will set out the reasons in support to demonstrate it is satisfied that the arrangement is prudent

12. Where the Council has provided loan(s) to a third party to support capital expenditure which is due to be repaid in full under the terms of the contractual agreements, the loan repayments are classed as a capital receipt. Any principal sum repaid will be set aside to reduce the increase in the CFR which relates to any such loan(s) provided.

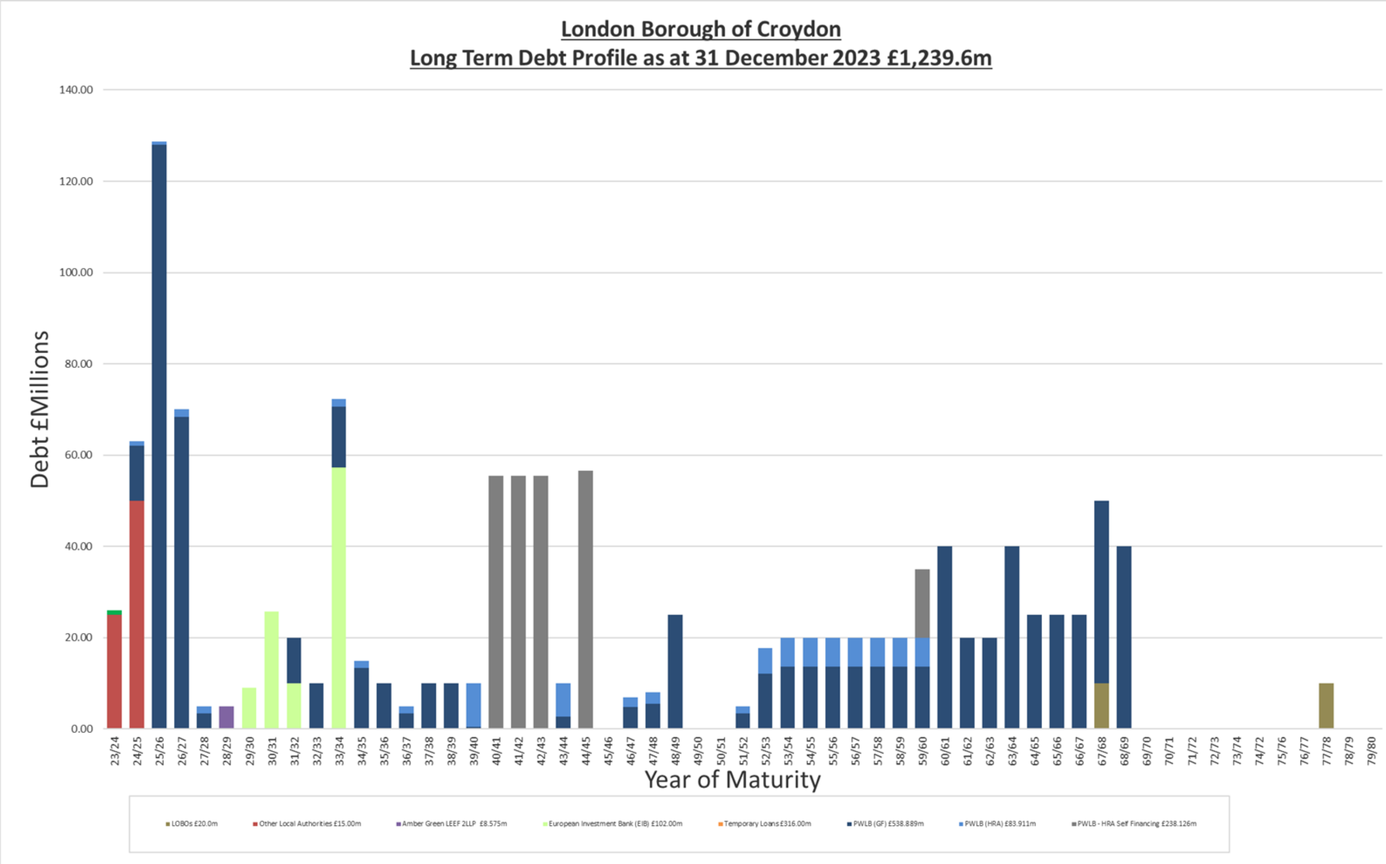
13. In circumstances where the Council has previously determined not to set aside a provision to repay the debt liability, an annual review will be undertaken to determine if the amount and timing of any loan repayment remains in accordance with the formal loan agreement. Where there is evidence which suggests that the full amount will not be repaid, it would be prudent to reassess the need to commence MRP to recover the impaired amounts from revenue. This will be reviewed on an annual basis to assess the likelihood of default. If required, a prudent MRP policy will commence, following a stringent risk assessment process.

14. The Council holds commercial property as part of its Investment Property Portfolio. The assets are held solely for investment purposes and are managed on a fully commercial basis. The Council will make an MRP charge on debt associated with the purchase of investment properties over an estimated asset life of 40 years. The capital receipt from any disposal of investment properties will be used to reduce the CFR balance associated with its purchase.

15. The Council holds an investment in the Real Lettings Property Fund LP under a 7-year life arrangement which is due to be returned in full at maturity with interest paid on outstanding balances annually. The investment is treated as capital expenditure with the Council's CFR increasing by this amount. At maturity, the funds returned to the Council will be treated as a capital receipt and the CFR will reduce accordingly. No MRP has been charged as annual valuations have determined that Council's investment has not impaired in value but has increased instead. The investment is relatively short-term in duration and the funds are to be returned in full.

16. Loans borrowed from Amber Green LEEF 2LLP, an alternative source to fund energy efficiency and carbon reduction schemes at certain educational institutions within the Borough will be recovered in full from these institutions. As such, the Council has determined there is no need to set aside prudent provision to repay the debt liability in the interim period, and therefore no MRP application is required.

APPENDIX C


London Borough of Croydon
Long Term Debt Profile as at 31 December 2023 £1,239.6m
Debt £Millions
140.00
120.00
100.00
80.00
60.00
40.00
20.00
0.00
Year of Maturity
23/24 24/25 25/26 26/27 27/28 28/29 29/30 30/31 31/32 32/33 33/34 34/35 35/36 36/37 37/38 38/39 39/40 40/41 41/42 42/43 43/44 44/45 45/46 46/47 47/48 48/49 49/50 50/51 51/52 52/53 53/54 54/55 55/56 56/57 57/58 58/59 59/60 60/61 61/62 62/63 63/64 64/65 65/66 66/67 67/68 68/69 69/70 70/71 71/72 72/73 73/74 74/72 75/76 76/77 77/78 78/79 79/80
LOBOs £20.0m
Other Local Authorities £15.00m
Amber Green LEEF 2LLP £8.575m
European Investment Bank (EIB) £102.00m
Temporary Loans £316.00m
PWLB (GF) £538.889m
PWLB (HRA) £83.911m
PWLB - HRA Self Financing £238.126m

APPENDIX D

COMMENTARY ON PROSPECTS FOR INTEREST RATES PROVIDED BY LINK GROUP DECEMBER 2023

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Additional notes by Link on this forecast table: -

- Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening to 5.25%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

LINK GROUP FORECASTS

We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below. You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

APPENDIX E

ECONOMIC BACKGROUND – DECEMBER 2023

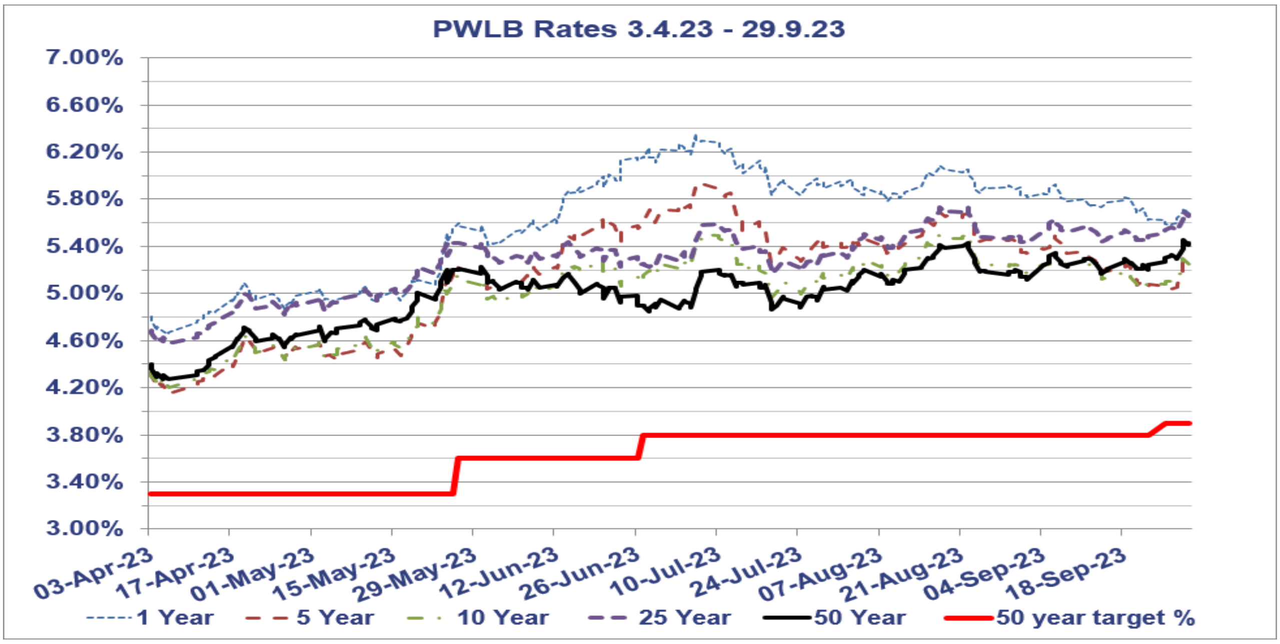
- The first half of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).
- The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% quarter on quarter rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.
- The 0.4% month on month rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living situation without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the

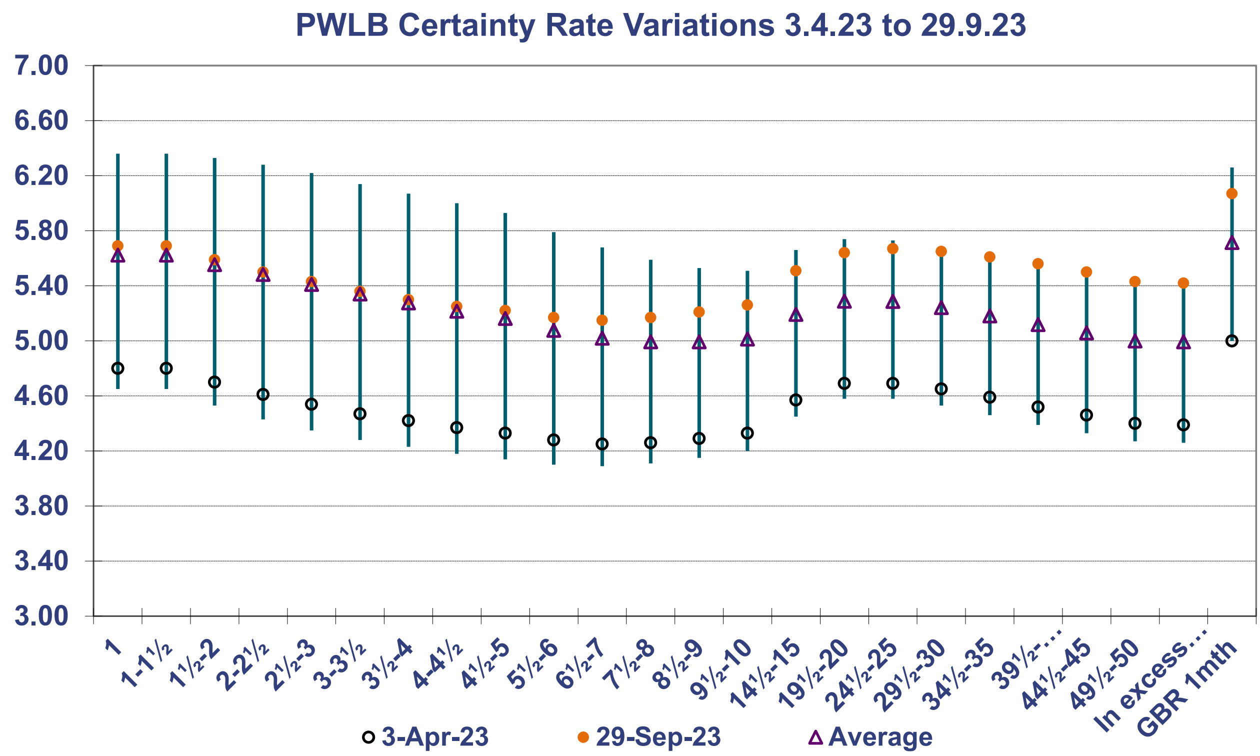
labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.
- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

SPECIFIED AND NON-SPECIFIED INVESTMENTS

a. **Specified Investments -** Where there is a change in the current investment policy this is specifically noted. All investments shall consist of investments under one year as follows:

- Debt Management Agency Deposits Facility (DMADF) which is currently available for investments up to six months.

- Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to one year.

- Term deposits with credit - rated deposit takers (banks and building societies) including callable deposits, with maturities up to one year.

- Certificate of Deposits issued by credit - rated deposit takers (banks and building societies) up to one year.

- AAA rated Money Market Funds (i.e. a collective investment scheme as defined in SI. 2004 No 534).

- Bonds issued by multinational development banks (as defined in SI 2004 No 534) with maturities under 12 months. The Council currently does not invest in this type of investment. It is recommended, however, that these can now be used and held until maturity, after consulting and taking advice from the treasury management consultants.

- Enhanced AAA rated Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds. The Council currently does not invest in this type of fund. It is recommended, however, that these can now be considered, after consulting and taking advice from the treasury management consultants subject to the same criteria as other investments.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market.

- UK Government Treasury Bills which are debt instruments issued by the Government's Debt Management Office through weekly auctions. The bills are issued with maturities of one, three and six months.

b. **Non-Specified investments -** Local authorities now have specific powers to invest for periods in excess of one year. Previously such investments were not permissible, except in respect of the Council's Pension Fund (where specific legislation exists). It is recommended that these shall consist of:

- Term deposits with credit - rated deposit takers (banks and building societies) with maturities greater than one year. As a general rule they cannot be traded or repaid prior to maturity. The risk with these is that interest rates could rise after making the investment and there is also the potential that there could be a deterioration of the credit risk over a longer period. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Term Deposits with UK local authorities. This investment represents intra-authority loans i.e. from one local authority to another for the purpose of cash-flow management. The risk with these is that interest rates could rise after making the investment and it is therefore recommended that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. This risk is common to all term deposits whether with local authorities or other counterparties.

- Certificate of Deposits (C.D.) issued by credit - rated deposit takers (banks and building societies) with maturities greater than one year. With these investments there is a market or interest risk. Yield is subject to movement during the life of the CD, which could negatively impact on the price of the CD if traded early. It is recommended, therefore, that the use of this investment is limited to a maximum of five years and sold on maturity following advice from the Council's treasury management advisers.

- Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than one year. These have the potential of higher return than using a term deposit with a similar maturity. The risk is that only the borrower has the right to pay back the deposit, the lender does not have a similar call, as although the term is fixed only the borrower has the option to repay early. There is, therefore, no guarantee that the loan will continue to its maturity. The interest rate risk is that the borrower is unlikely to pay back the deposit earlier than the maturity date if interest rates rise after the deposit is made.

- Forward deposits with credit rated banks and building societies for periods greater than one year (i.e. negotiated deal period plus period of deposit). The advantage of the investment is that there is a known rate of return over the period the monies are invested which aids forward planning. The credit risk is that if the credit rating falls or interest rate rise in the interim period the deposit period cannot be changed. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Bonds issued by multilateral development banks (as defined by SI. 2004 No 534). These have an excellent credit quality and are relatively liquid. If they are held to maturity there is a known yield, which would be higher than that on comparable gilts.

- If traded, there could be a potential for capital gain or loss through appreciation or depreciation in value. The market or interest risk is that the yield is subject to movement during the life of the bond, which could impact on the price of the bond, i.e. if sold prior to redemption date. Given the potential for loss any investment would need to be based on the principle that they would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers.

- Enhanced Money Market Funds. These funds differ from traditional AAA Money Market Funds in that they take more interest rate risk by managing portfolios with a longer weighted average maturity period. They may also take greater credit risk by holding assets with lower credit ratings and / or have a longer weighted average life. Depending on whether the fund is UK or US administered, it would be rated by only one of the rating agencies. Hence, although the minimum requirement is an AAA rating, the rating need only be given by one of the agencies. Typically these funds are designed to produce an enhanced return and this requires the fund manager to take more risk (whether credit, interest rate or liquidity) than the traditional AAA Money Market Funds. The Council currently does not invest in this type of fund. It is recommended, however, that these can now be considered, after consulting and taking advice from the treasury management consultants subject to the same criteria as other investments.

- UK Government Gilts. These are bonds issued by the UK Government representing a very low credit risk with options to sell in the secondary market. If held to maturity there is a known yield but if traded there could be a potential for capital gain or loss through appreciation or depreciation in value. Given the potential for loss, any investment would need to be based on the principle that UK government gilts would be bought and held until maturity. It is recommended, therefore, that the use of this investment is limited to a maximum of five years following advice from the Council's treasury management advisers. If held to maturity, these bonds represent the nearest to a risk-free investment.

- Property Funds. Property funds can provide stable returns in terms of fixed period rents, whether commercial or industrial rentals. Property funds can be regulated or unregulated. An investment in share or loan capital issued by a regulated property fund is not treated as capital expenditure but an investment in an unregulated fund would count as capital expenditure. Given the nature of the property sector, a longer-term time horizon will need to be considered for this type of investment. The Council currently has invested in one property fund; the Real Lettings Property Fund Limited Partnership. It is recommended, however, that any future investments in property funds should only be considered, after consulting and taking advice from the treasury management consultants.

- Floating Rate Notes (FRNs). These are typically longer term bonds issued by banks and other financial institutions which pay interest at fixed intervals. The floating rate nature of these instruments reduces the exposure to interest rate risk as the interest rate is re-fixed at the beginning of every interest rate period. The option to redeem before maturity is available through the secondary market. It is recommended that investments in FRNs be restricted to those issued by institutions on the Council's authorised lending list, after consulting and taking advice from the treasury management consultants.

- Corporate Bonds are issued by corporate institutions for example General Electric, Vodafone etc. They offer local authorities an alternative to the usual financial institutions. For Corporate Bonds, the minimum credit rating criteria of AA- should apply to fit within the Council's investment parameters. It is recommended that the use of this type of investment can now be considered, after consulting and taking advice from the treasury management consultants.

- Covered Bonds. These are a type of secured bond that is usually backed by mortgages or public sector loans. An important feature of covered bonds is that investors have dual recourse, both to the issuer and to the underlying pool of assets. It is recommended that the use of this investment can now be considered, after consulting and taking advice from the treasury management consultants.

- Investment in equity of any company wholly owned by Croydon Council.