

LONDON BOROUGH OF CROYDON

REPORT:	AUDIT AND GOVERNANCE COMMITTEE	
DATE OF MEETING	19 September 2024	
REPORT TITLE:	ANNUAL TREASURY MANAGEMENT REVIEW 2023/24	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources and S151 Officer	
LEAD OFFICER:	Matthew Hallett, Head of Treasury and Pensions	
LEAD MEMBER:	Councillor Jason Cummings, Cabinet Member for Finance	
KEY DECISION?	No	
CONTAINS EXEMPT INFORMATION?	NO	Public
WARDS AFFECTED:	All	

1 SUMMARY OF REPORT

1.1 This Report reviews the Council's Treasury Management activities for the year 2023/24. It is prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) codes of practice in respect of capital finance and treasury management. The codes recommend that Members are advised of the treasury management activities for the whole of each financial year and of compliance with the various strategies and policies agreed by the Council. The report:

- Reviews compliance with the Treasury Management Strategy Statement, Capital Strategy and Annual Investment Strategy as agreed by full Council (Budget Council) on 8 March 2023 (Minute 37/21 applies);
- Reviews treasury borrowing and investment activity for the period 1 April 2023 to 31 March 2024; and
- Demonstrates compliance with agreed Treasury and Prudential Indicators and the CIPFA 2021 Prudential Code for Capital Finance.

2 RECOMMENDATION

- 2.1 The Audit and Governance Committee is recommended to note the contents of the annual report on the treasury management activity for 2023/24.

3 DETAIL

3.1 Purpose

3.1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24.

3.1.2 CIPFA have issued two Codes of Practice (both in December 2021) which applied to the Treasury Management function in 2023/24:

- The Prudential Code for Capital Finance in Local Authorities (Prudential Code); and
- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Code of Practice).

3.1.3 This report meets the requirements of both the Prudential Code and the Code of Practice.

3.1.4 During 2023/24 the Council adhered to the minimum reporting requirements and members received the following reports:

- an annual treasury management strategy in advance of the year [Council 8 March 2023 (Minute 37/21 applies) which can be found via this link [\(Public Pack\)Council Tax and Budget 2023-24 Agenda Supplement for Council, 08/03/2023 18:30 \(croydon.gov.uk\)](#)
- a mid-year, (minimum), treasury update report [Audit and Governance Committee 30 November 2023 (Minute 42/22 applies)] which can be found via this link [\(Public Pack\)Agenda Document for Audit & Governance Committee, 30/11/2023 18:30 \(croydon.gov.uk\)](#)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

3.1.5 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury

activities and highlights compliance with the Council's policies previously approved by members.

3.2 Background

3.2.1 The primary requirements of the Code of Practice are:

- The creation and maintenance of a Treasury Management Strategy Statement which sets out the policies and objectives of the Council's treasury management activities;
- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council seeks to achieve those policies and objectives;
- To provide Council with an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy - for the year ahead, a mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;
- The delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. These functions are delegated to the Corporate Director of Resources, Section 151 Officer and through her to the Head of Treasury and Pensions; and
- The delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the Council the delegated body is the Audit and Governance Committee.

3.2.2 Additionally, under the Code of Practice, all local authorities are required to prepare a Capital Strategy which is to provide the following:

- A high-level 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.

3.2.3 This year-end report has been prepared in compliance with the Code of Practice and best practice and covers the following topics:

- An economic update of the 2023/24 financial year (Section 3.3);
- Summary of interest rate movements in the year and a medium-term interest rates forecast (Section 3.4);
- Treasury Management Strategy Statement and Annual Investment Strategy (Section 3.5);
- The Council's capital activity during the year as set out in the Capital Strategy, and Prudential Indicators and its impact on the Council's underlying indebtedness (Sections 3.6-3.7);

- Overall treasury position identifying how the Council has borrowed in relation to its indebtedness and the impact on investment balances (Sections 3.8 – 3.9);
- A review of any debt re-scheduling undertaken (Section 3.10);
- A review of the Council’s investment strategy and detailed investment activity (Section 3.11);
- Treasury and Prudential Limits (Section 3.12); and
- Treasury Management Outturn (Section 3.13).

3.3 Economic update

3.3.1 A commentary entitled Economic Update provided by the Council’s independent treasury advisers Link Treasury Services Ltd (Link) is included as Appendix A.

3.4 Interest rate movements

3.4.1 In Appendix A Link provide an Economic Update which includes a commentary on movements in interest rates and in Appendix B provide details of PWLB maturity rates for the year to 31 March 2024

3.4.2 As regards 2024/25 and onwards Link provide updated forecasts of key interest rates on a regular basis and their most recent is in Table 1 below. These forecasts will be updated during the remainder of 2024/25 and will inform decisions as to the timing and duration of borrowing decisions.

Table 1: Interest Rate Forecasts June 2024 to March 2027

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

3.5 Treasury Management Strategy Statement and Annual Investment Strategy

3.5.1 The Treasury Management Strategy Statement and Annual Investment Strategy for 2023/24 were approved by full Council [Council 8 March 2023 (Minute 37/21 applies)].

3.6 Capital Expenditure, Financing and Prudential Indicators

3.6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

3.6.2 Capital expenditure forms one of the required prudential indicators. Tables 2 and 3 below show the actual capital expenditure and how this was financed.

3.6.3 Table 2 shows:

- Provisional outturn for 2022/23;
- Original budget for 2023/24, as agreed by full Council (Budget Council) on 8 March 2023 (Minute37/21 refers);
- Revised budget for 2023/24; and
- Provisional outturn for 2023/24.

Table 2: Capital Expenditure

Service	2022/23 Provisional Outturn £m	2023/24 Original Budget £m	2023/24 Revised Budget £m	2023/24 Provisional Outturn £m
Adults, Social Care and Health	0.7			
Assistant Chief Executive	5.4	7.1	6.0	3.8
Children, Young People and Education		0.3	0.5	0.2
Housing (GF)	2.3	3.4	3.4	2.6
Resources	6.3	17.7	11.7	8.6
Sustainable Communities, Regeneration and Economic Development	22.8	32.9	39.3	16.7
Corporate	4.0			
Capitalisation Direction*	196.0	63.0	63.0	63.0
Housing Revenue Account	37.8	32.6	39.2	35.7
Total	275.3	157.0	163.1	130.6

**Capitalisation Direction is a device of Government that allows expenditure to be treated as capital expenditure when it would otherwise be charged to the Council's revenue budget. The Secretary of State has granted the sums shown for 2022/23 and 2023/24. Under the conditions of a Capitalisation Direction any further borrowing required to finance the Council's increase to the Capital Financing Requirement (CFR) must be borrowed from the Public Works Loan Board at a premium of 1% over the standard interest rate. Since the first Capitalisation Direction was obtained the Council has reduced its external borrowing.*

3.6.4 Table 3 details the funding sources of the capital programme. The need to borrow to finance capital investment increases the underlying need to borrow for capital purposes by way of the CFR.

Table 3: Financing of Capital Expenditure

Financing of Capital Expenditure	2022/23 Provisional Outturn £m	2023/24 Original Budget £m	2023/24 Revised Budget £m	2023/24 Provisional Outturn £m
<u>General Fund</u>				
Capital receipts	55.0	45.0	83.6	58.5
Capital grants	9.7	24.1	14.8	11.1
Growth Zone Fund	1.4	4.9	15.3	1.4
HRA contribution	1.1	1.2	1.8	1.2
Community Infrastructure Levy	1.4	1.8	6.6	6.6
LMP Community Infrastructure Levy			0.6	0.1
Section 106 payments	1.1	1.6	1.2	0.6
General Fund borrowing requirement	167.8	45.8	-	15.4
TOTAL GENERAL FUND	237.5	124.4	123.9	94.9
<u>Housing Revenue Account</u>				
Major Repairs Allowance	13.4	15.5	15.5	14.1
Revenue		13.9	13.9	13.9
Reserves	22.8	1.1	7.7	7.7
Section 106 payments	0.4			
RTB receipts	1.2	2.1	2.1	
TOTAL HOUSING REVENUE ACCOUNT	37.8	32.6	39.2	35.7

3.7 Capital Financing Requirement (CFR)

- 3.7.1 The Council's underlying need to borrow for capital expenditure is termed the CFR. This figure is a measure of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for it. It represents the 2023/24 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 3.7.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Treasury Management service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLb], or the Local Authority market), or utilising temporary cash resources within the Council.
- 3.7.3 The Council's General Fund underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
- 3.7.4 There is no statutory requirement to reduce the Housing Revenue Account CFR.

3.7.5 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision.

3.7.6 The Council's 2023/24 MRP Policy, (as required by Secretary of State Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 by full Council (Budget Council) on 8 March 2023 (Minute37/21 refers);

3.7.7 The Council's CFR for 2023/24 is shown below and represents a key prudential indicator. It includes development loans, PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the relevant contracts.

Table 4: Capital Financing Requirement (General Fund)

	2022/23 Provisional Outturn £m	2023/24 Original Budget £m	2023/24 Revised Budget £m	2023/24 Provisional Outturn £m
Opening balance	1,301.9	1,399.9	1,399.9	1,399.9
Add unfinanced capital expenditure	167.8	45.8	-	15.4
Less Minimum Revenue Provision	-45.8	-28.3	-28.0	-28.0
Less Development Loans etc repaid	-24.0			
Closing balance	1,399.9	1,417.4	1,371.9	1,387.3

Table 5: Capital Financing Requirement (Housing Revenue Account)

	2022/23 Provisional Outturn £m	2023/24 Original Budget £m	2023/24 Revised Budget £m	2023/24 Provisional Outturn £m
Opening balance	365.7	365.7	365.7	365.7
Add unfinanced capital expenditure				
Closing balance	365.7	365.7	365.7	365.7

3.8 Borrowing

3.8.1 In order to ensure that borrowing levels are prudent over the medium term, and only for capital purposes, the Council must ensure that its gross external borrowing 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 the current and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

3.8.2 The relationship between borrowing and the CFR is a Prudential Indicator and, in 2023/24, it allowed the Council some flexibility to borrow in advance of its immediate capital needs. The Council has approved a policy for borrowing in advance of need as required although it has not done so since 2020 and did not do so in 2023/24. The table below highlights the Council's gross borrowing position against the CFR and shows that it has complied with the Prudential Indicator.

Table 6: Gross Borrowing against Capital Financing Requirement

	2022/23 Provisional Outturn £m	2023/24 Original Budget £m	2023/24 Revised Budget £m	2023/24 Provisional Outturn £m
Gross borrowing	1,417.8	1,435.3	1,389.8	1,417.4
Capital Financing Requirement	1,765.6	1,783.1	1,737.6	1,753.0
(Under)/over funding of CFR	(347.8)	(347.8)	(347.8)	(335.6)

- 3.8.3 There are two further prudential indicators relevant to the capital programme and its borrowing implications. These are the Operational Boundary, the expected borrowing position, and the Authorised Limit, the limit beyond which borrowing is prohibited. Table 7 below shows the limits as agreed by full Council (Budget Council) on 8 March 2023 (Minute 37/21 refers).
- 3.8.4 As regards the Operational Boundary, there is some flexibility in that periods where the actual position is over the Boundary are acceptable subject to the Authorised Limit not being breached.
- 3.8.5 The Authorised Limit is the “affordable borrowing limit” required by S3 of the Local Government Act 2003. It includes a buffer of £50m to cover unexpected cash flow shortages. Once it has been set, the Council does not have the power to borrow above this level.
- 3.8.6 Table 7 demonstrates that during 2023/24 the Council has maintained gross borrowing within both its Operational Boundary and its Authorised Limit.
- 3.8.7 Actual financing costs as a proportion of net revenue stream is the Indicator which identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

Table 7:

	£m
Authorised limit	1,553.4
Maximum gross borrowing position during the year	1,417.8
Operational boundary	1,503.4
Average gross borrowing position	1,383.1
Financing costs as a proportion of net revenue stream (General Fund)	17.0%

3.9 Treasury position at 31 March 2024

- 3.9.1 The Council’s borrowing and investment activity is organised by the Treasury Management service in order to ensure adequate liquidity for revenue and capital purposes and security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting as discussed above and through officer activity detailed in the Council’s Treasury Management Practices.

3.9.2 The level of the Council's borrowing, which is measured against the limits discussed above, was £1,417.8m on 1 April 2023 and £1,417.4m on 31 March 2024

3.9.3 Table 8 shows the monthly movement of the actual debt during the year.

Table 8: Actual debt during 2023/24

End of Month	PWLB	Market debt	Temporary borrowing	TOTAL BORROWING	Development loans / PFI and other	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
March (2023)	860,926	143,575	273,000	1,277,501	140,260	1,417,761
April	860,926	143,575	242,000	1,246,501	140,260	1,386,761
May	860,926	143,575	225,000	1,229,501	140,260	1,369,761
June	860,926	143,575	205,000	1,209,501	140,260	1,349,761
July	956,026	143,575	140,000	1,239,601	140,260	1,379,861
August	956,026	143,575	140,000	1,239,601	140,260	1,379,861
September	974,601	140,000	125,000	1,239,601	140,260	1,379,861
October	1,022,601	132,000	85,000	1,239,601	140,260	1,379,861
November	1,032,601	132,000	75,000	1,239,601	140,260	1,379,861
December	1,037,601	132,000	70,000	1,239,601	140,260	1,379,861
January	1,052,601	132,000	55,000	1,239,601	140,260	1,379,861
February	1,052,601	132,000	55,000	1,239,601	140,260	1,379,861
March (2024)	1,092,601	132,000	55,000	1,279,601	137,760	1,417,361

3.9.4 Long term loans drawn, repaid or transferred to short term during the year are shown in Table 9 below.

Table 9: Long term loans drawn, repaid or transferred to short term loans during 2023/24

Loans drawn	Loans repaid or transferred to short term	Principal £m	Interest rate %	Maturity period	Start Date
	Argyll and Bute Council*	-5.0	4.10	2 years	10/10/22
	Great Yarmouth Borough Council*	-3.0	0.40	2 years	14/10/22
	Amber Leef Green	-3.6	1.80	9 years	31/12/14
PWLB folio 14		75.1	5.99	2 years	03/07/23
PWLB folio 15		15.0	6.17	3 years	13/07/23
PWLB folio 16		5.0	6.16	2 years	19/07/23
PWLB folio 17		10.0	5.67	3 years	01/09/23
PWLB folio 18		3.6	5.67	2 years	14/09/23
PWLB folio 19		5.0	5.40	2 years	29/09/23
PWLB folio 20		30.0	5.49	3 years	11/10/23
PWLB folio 21		15.0	5.59	2 years	23/10/23
PWLB folio 9		8.0	5.60	2 years	30/10/23
	PWLB folio 9	-5.0	6.125	25 years	04/03/98
PWLB folio 22		10.0	5.24	3 years	21/11/23
PWLB folio 23		5.0	5.30	2 years	20/12/23
PWLB folio 24		15.0	4.89	3 years	25/01/24
PWLB folio 25		40.0	5.21	2 years	08/03/24

*Loans with outstanding maturity of under one year transferred to short term

- 3.9.5 During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need (CFR), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<5 years) as appropriate.
- 3.9.6 The Council has maximised internal borrowing and so was unable to reduce any further external debt. Over the whole year the Council took out additional debt from PWLB of £231.7m for periods of 2 and 3 years in order to refinance £218.0m of maturing temporary borrowing with other local authorities and £11.6m to refinance other maturing market debt. The balance of £2.1m increased external debt. The Council will look to further reduce its reliance on external debt over the next couple of years as it continues with its asset disposal plan.
- 3.9.7 In the immediate future borrowing will be taken up as required based on a continuing analysis of actual and projected expenditure over the different components of the capital programme and interest rates forecasts. It is likely that the Council will use a mixture of long term borrowing from the PWLB and the wider market and continue to make use of internal borrowing. Borrowing will be undertaken to change the Council's existing debt maturity profile to move towards a more even distribution of maturities. Appendix B shows the movements in PWLB interest rates for various loan periods during the last year.
- 3.9.8 The Council's effective interest payable on all debt currently stands at 3.38% with the maturity profile detailed in the table below and Appendix C.

Table 10: Maturity Structure of the debt portfolio

	31.3.23 £m	31.3.24 £m
Under 12 months	281.5	73.0
12 months and within 2 years	26.0	128.7
2 years and within 5 years	22.0	135.0
Over 5 years	948.0	942.9
TOTAL	1,277.5	1,279.6

3.10 Repayment of Debt and Debt Rescheduling

- 3.10.1 No rescheduling was done during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

3.11 Investment

- 3.11.1 As discussed in paragraph 3.9.1 above the Council's investment activity is organised by the Treasury Management service in order to ensure adequate liquidity for

revenue and capital purposes and security for investments and to manage risks within all treasury management activities.

- 3.11.2 From time to time, under Section 15 (1) of the Local Government Act 2003, the Secretary of State issues statutory guidance on local government investments to which local authorities are required to “have regard.” This guidance was taken into account in the investment policy parameters set within the Council’s Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy as approved by full Council (Budget Council) on 8 March 2023 (Minute 37/21 refers). This report does not take into account any non-treasury investments
- 3.11.3 This Strategy sets out the approach for choosing investment counterparties and, in addition to having regard to the guidance, is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).
- 3.11.4 The current guidance defines investments as “Specified” and “Non-specified”
- 3.11.5 An investment is a specified investment if all of the following apply:
- the investment and any associated payments or repayments are denominated in sterling;
 - the investment has a maximum maturity of one year;
 - the investment is not defined as capital expenditure; and
 - the investment is made with a body or in an investment scheme described as high quality or with the UK Government, a UK local authority or a parish or community council.
- 3.11.6 A non-specified investment is any investment that does not meet all the conditions in paragraph 3.11.5 above.
- 3.11.7 All investments are managed in-house and it is the Council’s priority when undertaking treasury activities to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council’s risk appetite. Investment instruments identified for use by the Council during 2023/24 as included in the current Treasury Management Strategy are detailed in Appendix D.
- 3.11.8 During the year it was considered appropriate to keep investments short term to cover cashflow needs and to seek out value available in periods of up to twelve months. Investments were only made with high credit rated financial institutions.
- 3.11.9 Investment activity during 2023/24 conformed to the approved strategy. In March 2024 the Council borrowed £40m from the PWLB due to the delay in the sale of Red Clover Gardens by Brick by Brick in order to prevent any liquidity issues. There was an average monthly balance of £54.8m being maintained in temporary investments on behalf of the Council. The Council considers it prudent to hold balances of £50-100m in order to ensure it can meet its day to day expenditure for operational needs. It should be noted that at the end of June and February it

was substantially below the lower limit. An average monthly balance of £52.4m was held on behalf of the Pension Fund. Month end balances are shown in Table 10 below:

Table 10: Month end balances

Month	General Fund and HRA £m	Pension Fund £m	Total £m
April	86.80	45.20	132.00
May	52.05	47.65	99.70
June	31.90	50.00	81.90
July	71.70	46.65	118.35
August	61.55	43.10	104.65
September	58.25	45.00	103.25
October	55.55	55.00	110.55
November	51.20	52.22	103.42
December	61.70	56.32	118.02
January	48.15	61.70	109.85
February	23.85	61.70	85.55
March	55.20	65.30	120.50

3.11.11 The Corporate Director of Resources confirms that the approved counterparty limits within the Annual Investment Strategy were not breached during the year.

3.12 Compliance with Treasury and Prudential Limits

3.12.1 As required by statute the Council has complied with its Prudential Indicators on its authorised borrowing limit, operational boundary and borrowing maturity structure. The approved Treasury and Prudential Indicators, (affordability limits), are included in the approved Treasury Management Strategy Statement as detailed in Appendix E.

3.13 Treasury Management Outturn

3.13.1 The Treasury Management outturn position is summarised in the table below.

Table 11: Borrowing costs and investment income

	Budget £m	Outturn £m	Variance £m
GENERAL FUND			
Borrowing costs	31.092	31.196	0.104
Investment income	-1.500	-1.283	0.217
TOTAL	29.592	29.913	0.321
HRA			
Borrowing costs	12.120	11.658	-0.462
Investment income	n/a	-2.595	-2.595
TOTAL	12.120	9.063	-3.057

4. CONSULTATION

- 4.1 This report has been prepared using advice from the Council's Treasury Management Adviser, Link Treasury Services Ltd.

5. CONTRIBUTION TO COUNCIL PRIORITIES

- 5.1 Effective Treasury Management supports the Mayor's Business Plan 2022-2026 objective one 'The council balances its books, listens to residents and delivers good sustainable services'.

6. FINANCIAL CONSIDERATIONS

- 6.1 There are no additional financial considerations arising from this report.

Approved by: James Huggett, Head of Strategic Finance for Resources, ACE and MTFS (09/09/24), on behalf Jane West, Corporate Director of Resources (S151 Officer)

7. HUMAN RESOURCES CONSIDERATIONS

- 7.1 There are no immediate workforce implications arising from this report. In the event that workforce issues were to arise, they should be dealt with in accordance with the council's HR policy and procedure framework.

Approved by: Dean Shoesmith, Chief People Officer (3/9/2024)

8. LEGAL CONSIDERATIONS

- 8.1 The Council is required by the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to approve a treasury management strategy before the start of each financial year. The Act and the Regulations require the Council to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code. The Code requires that that regular monitoring reports on treasury management activities be submitted to the relevant Council Committee to review the Council's borrowing and investment activities and compliance with the various strategies and policies agreed by the Council.
- 8.2 The Audit and Governance Committee is responsible for the review and scrutiny of treasury management policies and activities. This report is important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 8.3 In addition, Section 151 of the Local Government Act 1972, requires the Council to make arrangements for the proper administration of the Council's financial affairs. Good Treasury Management supports the discharge of this responsibility by the Council's Chief Finance Officer.

- 8.5 Separately, the Council has a duty in section 3(1) of the Local Government Act 1999 as a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. On 20 July 2023 the Secretary of State for Levelling Up, Housing and Communities (SoS) issued Directions under section 15(5) of the Local Government Act 1999 arising from the Council's failure to meet the best value duty placed upon it. The SoS Directions require the Council to take a number of actions including a requirement to address the culture of poor financial management of the Authority and to secure as soon as practicable that all the Authority's functions are exercised in conformity with the best value duty. The Directions apply to all the governance and decision-making bodies of the Council including Full Council, Elected Mayor and Cabinet Members (Executive) and also any committee or sub-committee. The Directions are expected to remain in force until 20 July 2025 but could be amended or revoked at an earlier date by the SoS, if appropriate.
- 8.6 The recommendations in this report comply with the Council's statutory minimum reporting requirements and support the actions required under the SoS Directions.
- 8.7 **Approved by:** Gina Clarke Principal Lawyer Corporate Law & Litigation on behalf of Stephen Lawrence-Orumwense, Director of Legal Services and Monitoring Officer. 06/09/24.

9. EQUALITIES CONSIDERATIONS

- 9.1 The Council has a statutory duty to comply with the provisions set out in Section 149, Equality Act 2010. The Council must therefore have due regard to:
- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 9.2 The protected characteristics defined by law are race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, religion or belief, marriage and civil partnership.
- 9.3 There are no Equalities implications arising from this report.

Comments approved by Ken Orlukwu, Senior Equalities Officer, on behalf of Helen Reeves, Head of Strategy & Policy on 11/09/2024

10. OTHER CONSIDERATIONS

10.1 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report.

11. FREEDOM OF INFORMATION

11.1 This report contains only information that can be publicly disclosed.

12. DATA PROTECTION IMPLICATIONS

12.1 Will the subject of the report involve the processing of 'personal data'?

No.

Has a data protection impact assessment (DPIA) been completed?

No. This report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Jane West, Corporate Director of Resources (S151 Officer)

CONTACT OFFICER:

Matthew Hallett, Head of Pensions and Treasury,

BACKGROUND DOCUMENTS:

None

APPENDICES:

A Economic update April 2024

B PWLB maturity rates for the year to 31 March 2024

C Debt maturity profile

D Investment Instruments

E Treasury and Prudential Indicators

APPENDIX A

Economic update (as prepared by Link Treasury Services Ltd in April 2024)

UK Economy

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24 but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

	UK	Eurozone	US
Bank Rate	5.25%	4%	5.25%-5.5%
GDP	-0.3%q/q Q4 (-0.2%y/y)	+0.0%q/q Q4 (0.1%y/y)	2.0% Q1 Annualised
Inflation	3.4%y/y (Feb)	2.4%y/y (Mar)	3.2%y/y (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while y/y growth was also negative at -0.2%.

But it was a strange recession. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 - is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of

years, according to Capital Economics. The Bank of England still needs some convincing on that score, but upcoming inflation and employment releases will settle that argument shortly. It is noted that core CPI was still a heady 4.5% in February and, ideally, needs to fall further.

Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.

From a fiscal perspective, the further cuts to national insurance tax (from April) announced in the March Budget will boost real household disposable income by 0.5 - 1.0%. After real household disposable income rose by 1.9% in 2023, Capital Economics forecast it will rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income, combined with the earlier fading of the drag from previous rises in interest rates, means GDP growth of 0.5% is envisaged in 2024 and 1.5% in 2025. The Bank of England is less optimistic than that, seeing growth struggling to get near 1% over the next two to three years.

As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly.

Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

USA Economy

Despite the markets willing the FOMC to cut rates as soon as June 2024, the continued resilience of the economy, married to sticky inflation, is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.

In addition, the Fed will want to shrink its swollen \$16 trillion balance sheet at some point. Just because the \$ is the world's foremost reserve currency (China owns over \$1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high. The 10 year stands at 4.4%.

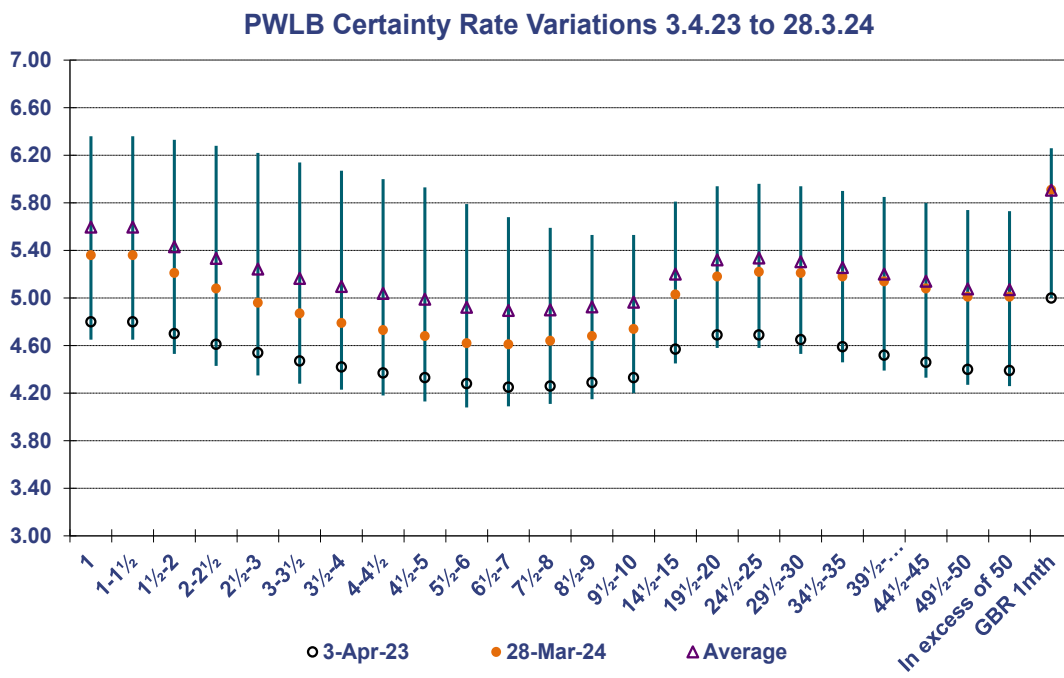
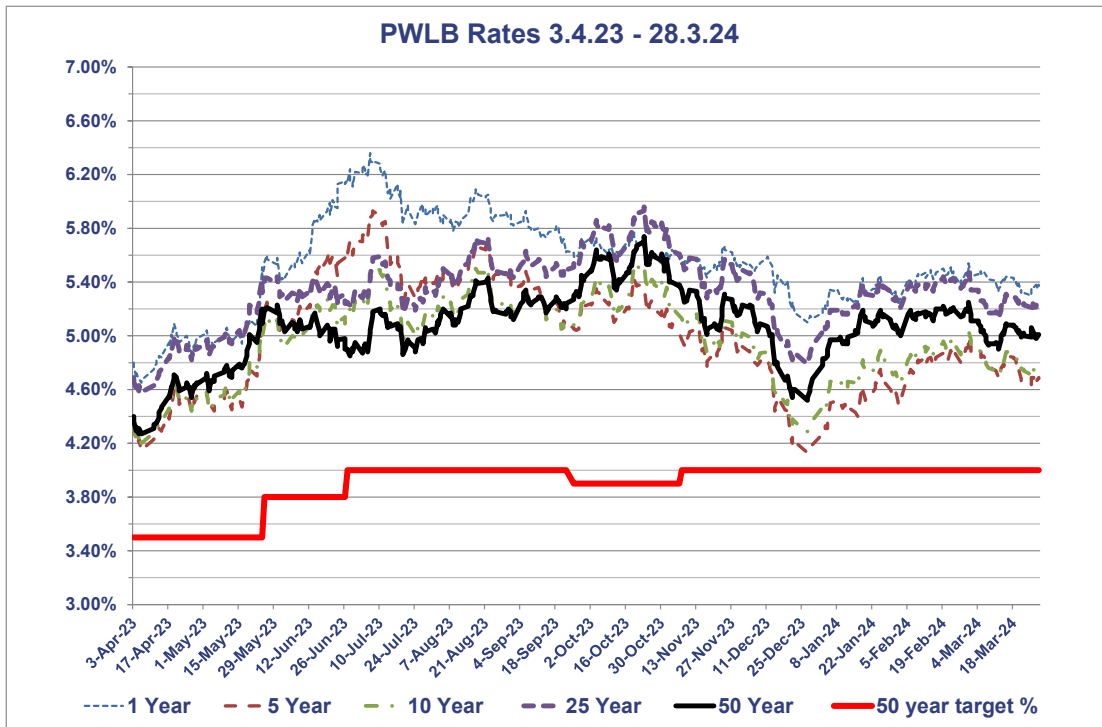
As for inflation, it is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025...but how many and when?

EZ Economy

Although the Euro-zone inflation rate has fallen to 2.4%, the ECB will still be mindful that it has further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023), a June rate cut from the current 4% looks probable.

APPENDIX B

PWLB maturity rates for the year to 31 March 2024 (as prepared by Link Treasury Services Ltd in April 2024)



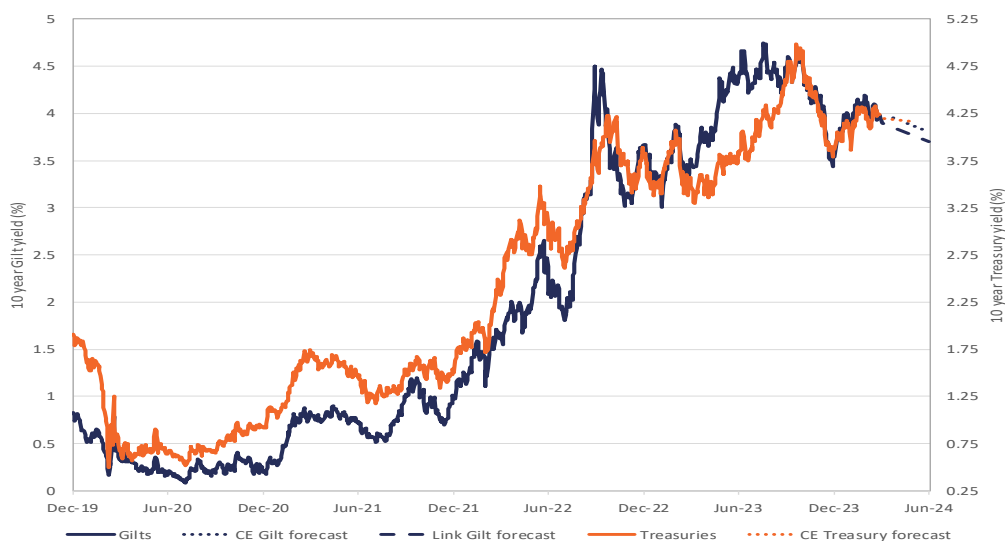
HIGH/LOW/AVERAGE PWLB RATES FOR 2023/24

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of 10-year UK gilt yields v. US treasury yields (inclusive of Link's and Capital Economics' forecasts)



Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%.

At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **HRA Borrowing rate** is gilt plus 40 40bps (G+40bps)

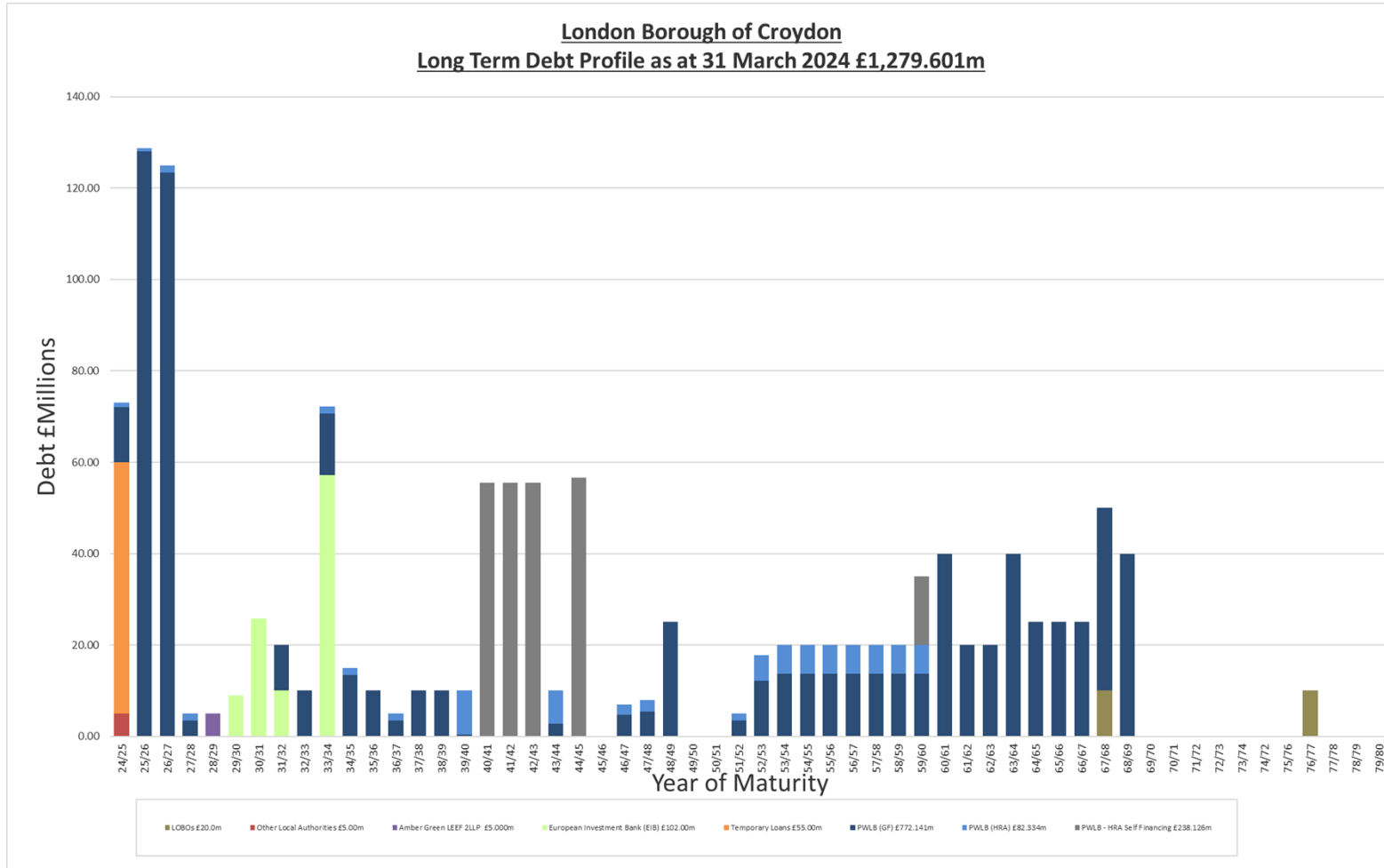
There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

Debt maturity profile

APPENDIX C



APPENDIX D

Investment instruments identified for use by the Council during 2023/24

Specified investments

AAA rated money market funds - limit £20m

Debt Management Office – no limit

Royal Bank of Scotland* – limit £25m

Duration of up to one year.

*Royal Bank of Scotland is included as a specified investment since it is the Council's banker and the UK Government holds a majority stake.

Non-specified investments

All institutions included on Link weekly "Suggested Credit List" – limit £10m

All UK local authorities – limit £10m

Duration to be determined by the "Suggested Credit List" from Link

APPENDIX E

Prudential and Treasury Indicators for 2023/24

Treasury Indicators	Treasury Management Strategy Statement 08/03/23 £m	Provisional Outturn £m
Authorised limit for external debt		
Borrowing	1,487.4	1,279.6
Other long term liabilities	66.0	*137.8
TOTAL	1,553.4	1,417.4
Operational boundary for external debt		
Borrowing	1,437.4	1,279.5
Other long term liabilities	66.0	*137.8
TOTAL	1,503.4	1,417.4
<i>*Note other long term liabilities increased as a result of the change in accounting treatment of Croydon Affordable Homes backdated to 2019/20.</i>		
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	0-30%	5.7%
12 months to 2 years	0-20%	10.0%
2 years to 5 years	0-30%	10.6%
5 years to 10 years	0-30%	10.7%
10 years and above	0-100%	63.0%

Prudential Indicators	Treasury Management Strategy Statement 08/03/23 £m	Provisional Outturn £m
Capital expenditure		
General Fund	61.4	31.9
Commercial Activities / non-financial investments	-	-
Capitalisation Direction	63.0	63.0
HRA	32.6	35.7
TOTAL	157.0	130.6
Capital Financing Requirement (CFR)		
General Fund	1,425.6	1,387.3
HRA	363.5	365.7
TOTAL	1,789.1	1,753.0
In year borrowing requirement	17.5	-11.1
Annual change in CFR		
General Fund	17.5	-12.6
HRA	-	1.5*
TOTAL	17.5	-11.1
<i>*Note this is as result of an adjustment made to prior years</i>		

