LONDON BOROUGH OF CROYDON

REPORT:		**Cabinet**
DATE OF DECISION		**22 February 2023**
REPORT TITLE:		**Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2023/24**
CORPORATE DIRECTOR		**Corporate Director of Resources and Section 151 Officer**
LEAD OFFICER:		**Matthew Hallett** **Acting Head of Treasury and Pensions**
LEAD MEMBER:		**Cllr Jason Cummings – Lead Member for Finance**
KEY DECISION? [Insert Ref. Number if a 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 and Key Decision – Decision significantly impacts on communities living or working in an area comprising two or more Wards
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 2023/24.

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 2023/24 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 2023/24 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.

3 REASONS FOR RECOMMENDATIONS

3.1 Under the Constitution of the London Borough of Croydon the Full Council is responsible for approving the Treasury Management Policy Statement setting out the matters detailed in CIPFA's Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities (Prudential Code).

4 INTRODUCTION

4.1 Under Regulations made pursuant to the Local Government Act 2003 the Council is required to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (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 2023/24 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 CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance (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
- 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. Over the last year the Council’s Officers and advisers have carried out a great deal of work in formulating the Capital Strategy. Although the Capital Strategy is separate to this report, it has been considered when producing this report.

5. KEY CONSIDERATIONS

Background

5.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first main function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

5.2 The second main function 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 obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, 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 ensure 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.

Treasury Management Strategy for 2023-24

5.7 The Strategy for 2023/24 covers two main areas, capital and treasury management:

Capital

- Capital expenditure plans and associated prudential indicators (paragraphs 6.5 to 6.9);
- MRP Policy Statement (paragraph 6.16 and 6.17).

Treasury management

- Current portfolio position (paragraphs 7.2 and 7.3);
- Treasury indicators: Limits to borrowing activity (paragraphs 7.7 to 7.10);
- Prospects for interest rates (paragraph 7.11);
- Borrowing strategy (paragraphs 7.13 to 7.16);
- Policy on borrowing in advance of need (paragraphs 7.17 and 7.18);
- Debt rescheduling (paragraphs 7.19 and 7.20);
- Investment Strategy (paragraph 8).

5.8 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

5.9 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.

5.10 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.

5.11 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.

5.12 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.'

5.13 Appropriate training will be made available to all Members involved in the monitoring of treasury management performance. Members have been offered training on the Council's finances and were given a detailed session on Treasury Management in the summer of 2021.

Treasury management consultants

5.14 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) as its external treasury management consultant.

5.15 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 2023/24 -2025/26

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 2023/24 to 2025/26, 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 2021/22 are taken directly from the Council's Statement of Accounts and these are yet to be 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 CIPFA Code of Practice on Treasury Management.

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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund services	32.8	53.0	61.4	50.7	32.5
Commercial activities and non-financial investments	5.8	0	0	0	0
HRA services	55.1	27.4	32.6	82.6	98.0
Capitalisation Direction	50.0	186.6	63.0	38.0	38.0
TOTAL	**143.7**	**267.0**	**157.0**	**171.3**	**168.5**

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 awarded, 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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital receipts	47.6	55.0	45.0	50.0	50.0
Capital grants	31.3	13.1	24.1	23.6	8.8
Capital reserves	0.5	0	0	0	0
S106 payments	0.5	0.5	1.6	1.2	0.7
Community Infrastructure Levy	6.5	1.5	1.8	0.8	0
Growth Zone Fund	0	3.0	4.9	4.9	4.9
HRA Contribution	0	1.7	1.2	0	0
General Fund total	**86.4**	**74.8**	**78.6**	**80.5**	**64.4**
HRA revenue	8.8	1.2	13.9	15.4	15.6
RTB receipts	6.0	0	2.1	2.2	2.2
HRA reserves	0	13.8	1.1	0	0
Major Repairs Allowance	12.3	12.4	15.5	14.9	15.2
HRA total	**27.1**	**27.4**	**32.6**	**32.5**	**33**
Net financing need	**30.2**	**164.8**	**45.8**	**58.3**	**71.1**
TOTAL	**143.7**	**267.0**	**157.0**	**171.3**	**168.5**

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 schemes 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 £71m of such schemes within the CFR.

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

Table 3: Capital Financing Requirement

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund	1,268.7	1,408.1	1,425.6	1,405.2	1,383.1
HRA	363.5	363.5	363.5	413.6	478.6
Total CFR	1,632.2	1,771.6	1,789.1	1,818.8	1,861.7

Table 4: Movement in Capital Financing Requirement

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Net financing need	30.2	164.8	45.8	58.3	71.1
Less Minimum Revenue Provision	-24.3	-25.4	-28.3	-28.6	-28.2
Development loans repaid	-2.1				
Movement in CFR	3.8	139.4	17.5	29.7	42.9

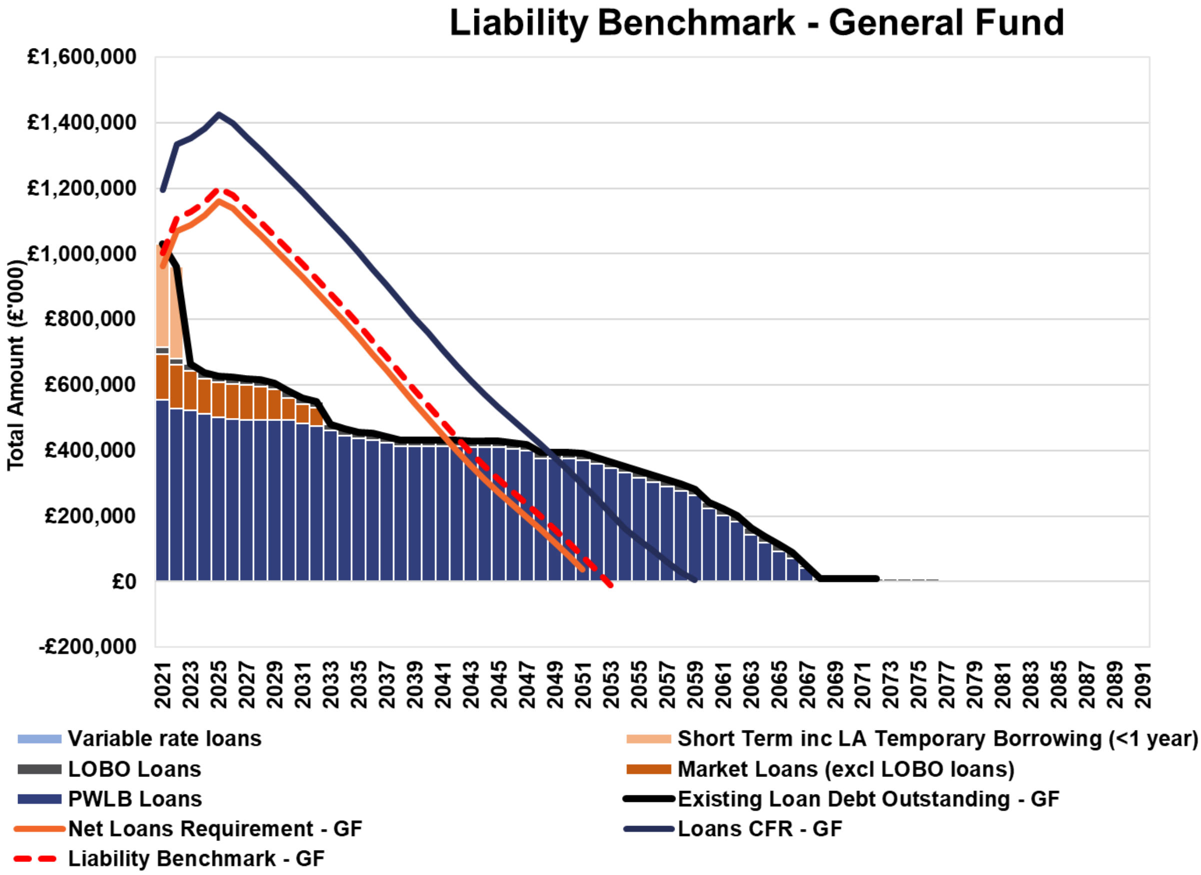
Liability Benchmark

6.13 A third and new prudential indicator for 2023/24 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.

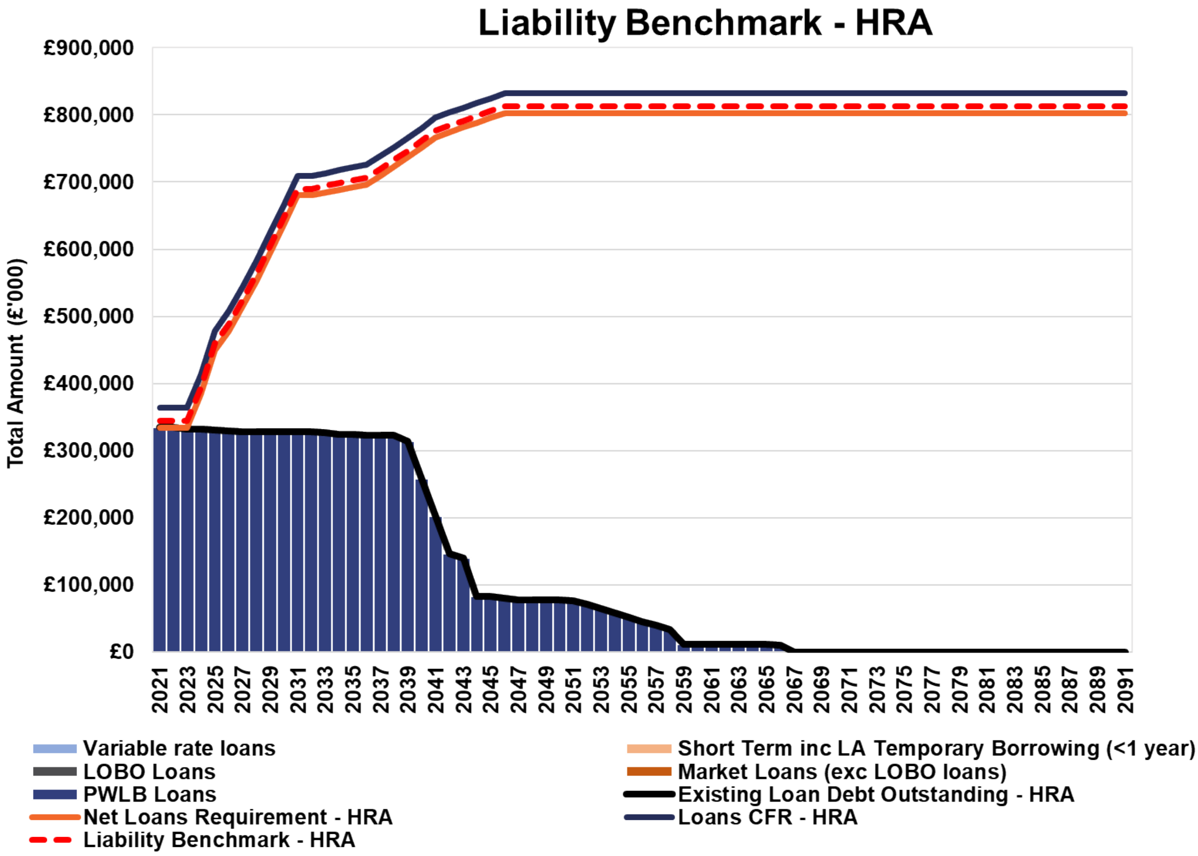
6.14 There are four components to the LB:

- 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.
- LB (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

6.15 A separate LB has 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 2023 to 2041 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 2041 as the level of Existing Loans Outstanding rises above the LB line the graph indicates that the Council will have surplus cash which will need investing. In reality this is unlikely as the Council will extend its Capital programme in future years. The LB will be used to help determine the duration of future borrowing undertaken by the Council, as keeping the maturity of loans in line with the LB will help reduce the Council's exposure to interest rate risk.



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 Statement is attached as Appendix B.

6.17 The only significant change made from the existing Policy is that the Council commits to set aside a minimum of 2% of Capital Financing Requirement for MRP in the event that the total MRP charge as calculated would be less than 2% of the total CFR.

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 Portfolio Position

7.2 The overall treasury management portfolio as at 31 December 2022 comprised:

Table 5: Borrowing as at 31 December 2022

		Principal £m	Average Rate %
Fixed Rate Funding	- PWLB[1]	860.926	3.30
	- Local Authorities[2]	304.000	1.91
	- Amber Green LEEF 2LLP	8.575	1.68
	- European Investment Bank	102.000	2.20
Variable Rate Funding	- LOBO [3]	20.000	4.20
Total External Debt as 31/12/22		**1,295.501**	**2.89**
Other long term liabilities		**71.000**	
Total Debt		**1,366.501**	

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 included as Appendix C.

Table 6: Temporary Investments as at 31 December 2022

	Principal £m	Average Rate %
Money Market Funds	70.10	3.28
Banks	30.00	3.08
Total Temporary investments outstanding as at 31/12/22	**100.10**	**3.22**

7.4 The Council's external gross debt at 31 December 2022 was £1,366.5m and this is forecast to remain the same at 31 March 2023. The forward projections are based on the debt increasing in line with the projected increase to the CFR from the previous year. The Council's forward projections for borrowing are shown in table 7. The table shows the actual external debt against the CFR, highlighting any over- or under-borrowing.

Table 7: Borrowing and the Capital Financing Requirement

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt at 1 April	1,446.5	1,364.5	1,298.0	1,437.4	1,454.9
Expected change in debt	-82.0	-66.5	139.4	17.5	29.7
Other long term liabilities	73.6	71.0	68.5	66.0	63.5
Expected change in other long term liabilities	-2.6	-2.5	-2.5	-2.5	-2.5
Actual gross debt at 31 March	**1,435.5**	**1,366.5**	**1,503.4**	**1,518.4**	**1,545.6**
CFR	**1,632.2**	**1,771.6**	**1,789.1**	**1,818.8**	**1,861.7**
Under/ (over) borrowing	**196.7**	**405.1**	**285.7**	**300.4**	**316.1**

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

	2021/22 Actual	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt at 1 April (£m)	98.2	98.2	98.2	98.2	98.2
Percentage of total external debt (%)	6.8	7.2	6.4	6.1	5.9

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 2023/24 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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt	1,364.5	1,298.0	1,437.4	1,454.9	1,484.6
Other long term liabilities	71.0	68.5	66.0	63.5	61.0
TOTAL	**1,435.5**	**1,366.5**	**1,503.4**	**1,518.4**	**1,545.6**

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 retains an option to 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 Full Council meeting held on 7 March 2022, the Council approved the Authorised Limit for 2022/23 of £1,674.6m. The forecast actual debt for 22/23 is £1,366.5m 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. With this in mind, the Cabinet is asked to recommend to Full Council that it should approve the authorised limit for 2023/24 of £1,553.4m as per the following table:

Table 10: Authorised limit for external debt

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt	1,414.5	1,348.0	1,487.4	1,504.9	1,534.6
Other long term liabilities	71.0	68.5	66.0	63.5	61.0
TOTAL	**1,485.5**	**1,416.5**	**1,553.4**	**1,568.4**	**1,595.6**

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 2022 to December 2025

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

7.12 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 is currently maintaining an under-borrowed position. This means that the capital borrowing need, CFR, has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow have been used. The Council will continue to maximise its use of internal borrowing whilst interest rates remain at perceived elevated levels. The Council also has a significant portion of short-term debt that needs to be financed over the coming year. This 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 from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy i.e. Bank Rate increases over the first half of 2023.

7.15 Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Corporate Director of Resources (Section 151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it is felt that there is a significant risk of a sharp fall in borrowing rates, then borrowing will be postponed;

- if it is felt that there is a significant risk of a much sharper rise in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

7.16 Any decisions will be reported to Cabinet at the first available opportunity.

Policy on borrowing in advance of need

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

7.18 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.

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.

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. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

7.23 The Council's Medium Term Financial Plan includes the provision of Capitalisation Directions from Government to support the budget gap 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 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 2023/24 Financial Plan indicates a £63m gap to its budget requirement and this is being supported by a further Capitalisation Direction request from 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;
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021; and
- CIPFA Treasury Management Guidance Notes 2021.

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, as well as wider range fund options.

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 only change made to the above criteria from 2022/23 is that all UK local authorities be "specified" for periods of under one year

8.11 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 8.17). Regular monitoring of investment performance will be carried out during the year.

.

Investment Strategy

8.12 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 peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy is appropriate to optimise returns.

8.13 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.

8.14 As at 31 December 2022, the Council held £100m in short-term investments. Any funds above those required to meet day to day expenditure will be used to repay debt as it matures. As it has become clear that the low interest rate environment, which has existed for several years, has come to an end the cost of re-financing debt is likely to exceed the yield on investments. 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.

8.15 Based on cashflow forecasts for 2023/24 the Council anticipates its average daily cash balances for the year to be £75m. The overall balances include schools' balances and HRA revenue balances for which an apportionment of interest earned is made. The net income then due to the General Fund is estimated at £1m.

Investment returns expectations.

8.16 The current forecast shown in paragraph 8.15, includes a forecast for Bank Rate to reach 4.5% in the second half of 2023.

8.17 The 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 12: 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%

8.18 **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 is asked to approve the following treasury indicator and limit: -

Table 13: Upper limit for principal sums invested for longer than 365 days

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

End of Year Investment Report

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

9 IMPLICATIONS

7.1 FINANCIAL IMPLICATIONS

7.1.1 Revenue and Capital consequences of this report are dealt with within this report. There are no additional financial considerations other than those identified in this report.

Comments approved by Alan Layton, the Interim Head of Service, Finance on behalf of the Corporate Director of Resources. Date 09/02/2023

7.2 LEGAL IMPLICATIONS

7.2.1 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.

7.2.2 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.

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

7.2.4 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.

7.2.5 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.

7.2.6 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."

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

Approved by: Sandra Herbert, Head of Litigation & Corporate Law, on behalf of the Director of Legal Services and Monitoring Officer. Date 09/02/2023

7.3 EQUALITIES IMPLICATIONS

7.3.1 As a public body, the Council is required to comply with the Public Sector Equality Duty [PSED], as set out in the Equality Act 2010. The PSED requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out their activities. Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

7.3.2 The Council must, therefore, ensure that it considers any equality implications in respect of its Treasury Management Strategy. The the Council has an established Equality Impact Assessment process, with clear guidance, templates and training for managers to use whenever new policies or services changes are being considered. This approach ensures that proposals are checked in relation to the impact on people with protected characteristics under Equality Act 2010.

7.3.3 The objectives of the Mayor's Business plan are focused on delivering good sustainable services and creating opportunities for all residents of Croydon including children and young people. The proposals in the Treasury Management Strategy are likely to impact on residents, the extent of which and the characteristics most affected can only be identified following further analysis once the proposals have been developed.

7.3.4 The Council considers both its own data and evidence from other sources in making these decisions. We analyse both who will be affected along with how services will change as a result of decisions that are made. During the MTFS process, proposals which impact on people are subjected to equality analysis and mitigation is offered to people most affected. Mitigation is largely targeted at those who fulfil the criteria laid out. These are often young people, Disabled people and people on low incomes.

7.3.5 We commit to ensuring that we meet our legal requirements under the Equality Act 2010 to our residents including Disabled residents and the parents of Disabled residents in respect of children and young people.

7.3.6 We have identified areas of improvement in relation to the collection of data across directorates and are committed to improving this to enable our decisions to be more evidence based and robust.

Approved By: Denise McCausland, the Equality Programme Manager.
Date 09/02/2023.

7.4 HUMAN RESOURCES IMPLICATIONS

7.4.1 There are no immediate HR impacts arising from this report.

Comments approved by: Dean Shoesmith, Chief People Officer. Date 09/02/2023

8. APPENDICES

8.1
A Capital and Treasury Management Prudential Indicators 2023/24 -2025/26
B Minimum Revenue Provision Policy Statement 2023/24
C Long-term debt profile
D Commentary on prospects for interest rates – November 2022
E Economic background – November 2022
F Specified and non-specified investments

9. BACKGROUND DOCUMENTS

9.1 None.

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.

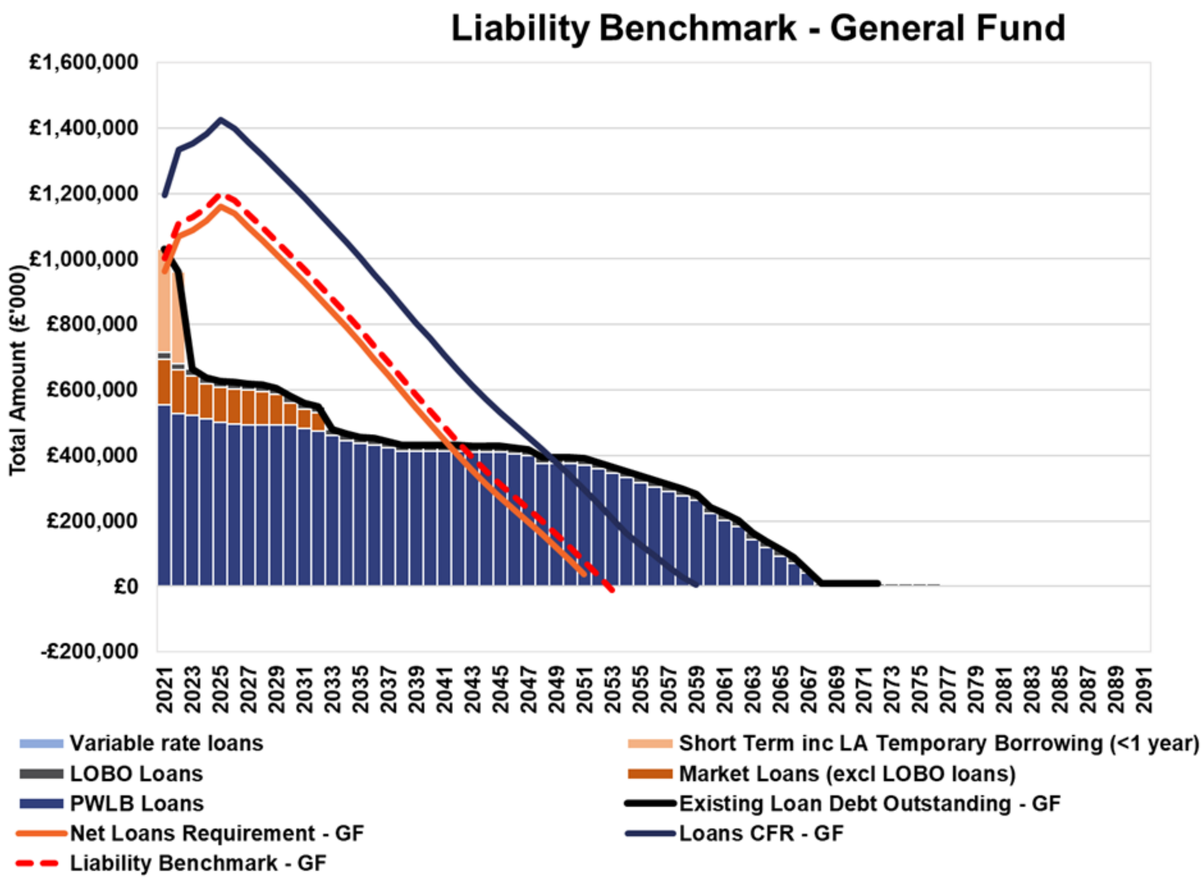
Capital Expenditure

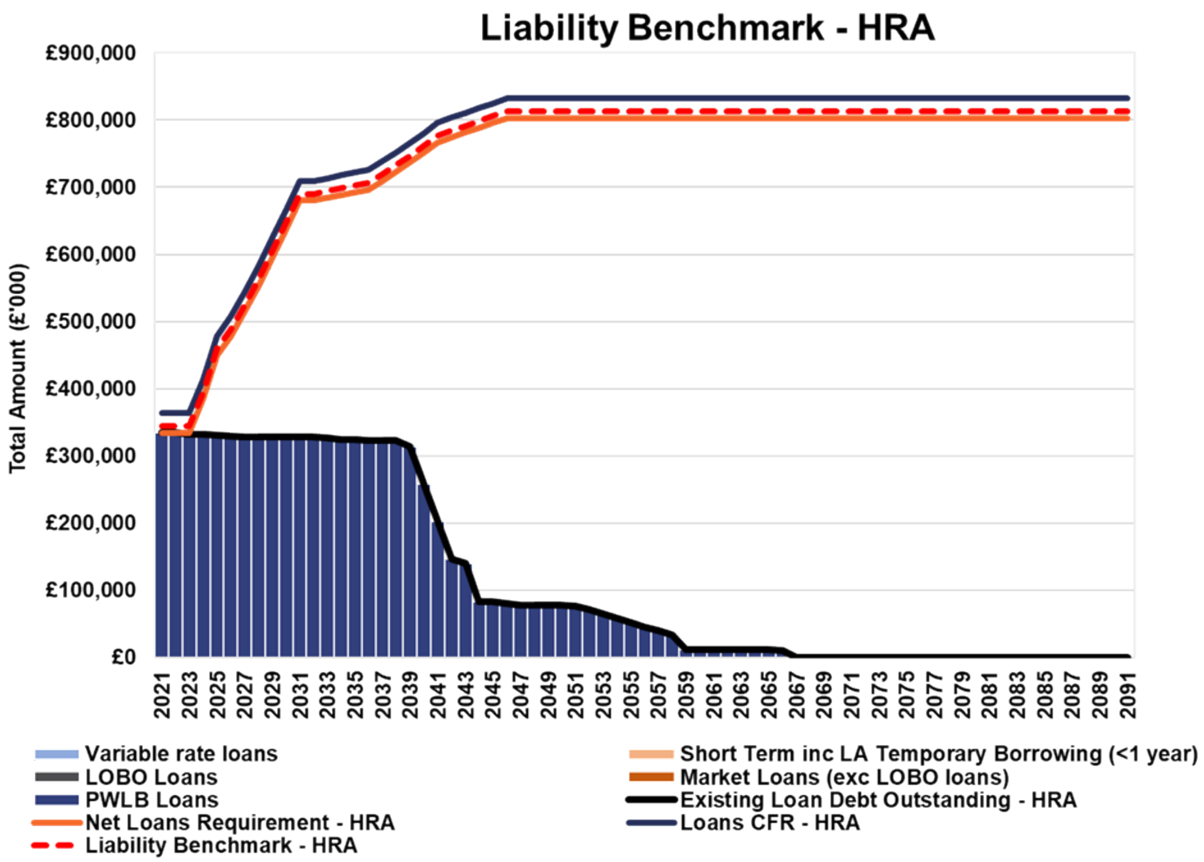
	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund services	32.8	53.0	61.4	50.7	32.5
Commercial activities and non-financial investments	5.8	0	0	0	0
HRA services	55.1	27.4	32.6	82.6	98.0
Capitalisation Direction	50.0	186.6	63.0	38.0	38.0
TOTAL	**143.7**	**267.0**	**157.0**	**171.3**	**168.5**

Capital Financing Requirement Projections

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
General Fund	1,268.7	1,408.1	1,425.6	1,405.2	1,383.1
HRA	363.5	363.5	363.5	413.6	478.6
Total CFR	1,632.2	1,771.6	1,789.1	1,818.8	1,861.7

Liability Benchmark





Debt and Capital Financing Requirement

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt at 1 April	1,446.5	1,364.5	1,298.0	1,437.4	1,454.9
Expected change in debt	-82.0	-66.5	139.4	17.5	29.7
Other long term liabilities	73.6	71.0	68.5	66.0	63.5
Expected change in other long term liabilities	-2.6	-2.5	-2.5	-2.5	-2.5
Actual gross debt at 31 March	**1,435.5**	**1,366.5**	**1,503.4**	**1,518.4**	**1,545.6**
CFR	**1,632.2**	**1,771.6**	**1,789.1**	**1,818.8**	**1,861.7**
Under/ (over) borrowing	**196.7**	**405.1**	**285.7**	**300.4**	**316.1**

Authorised limit for external debt

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt	1,414.5	1,348.0	1,487.4	1,504.9	1,534.6
Other long term liabilities	71.0	68.5	66.0	63.5	61.0
TOTAL	**1,485.5**	**1,416.5**	**1,553.4**	**1,568.4**	**1,595.6**

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.

	2021/22 Actual %	2022/23 Forecast %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
Non-HRA	9.9	12.6	18.4	18.9	18.0
HRA	13.8	13.7	13.1	12.6	14.2

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

HRA ratios

	2021/22 Actual	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA debt £m	334.3	334.3	334.3	384.3	444.3
HRA debt cap £m	363.5	363.5	363.5	413.6	478.6
HRA revenues £m	87.6	88.1	92.7	96.1	98.3
Ratio of debt to revenues	3.8	3.8	3.9	4.3	4.9

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 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		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	20%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years and above	0%	100%

APPENDIX B

MINIMUM REVENUE PROVISION POLICY STATEMENT 2023/24

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”.**

2. 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.

3. 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.

4. 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.

5. The Council’s MRP Policy Statement for 2023/2024 is to be as follows:

6. 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.

7. 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 under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the Guidance or supporting evidence pertaining to the asset. 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.

8. 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.

9. 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.

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

11. 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.

12. 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

13. 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.

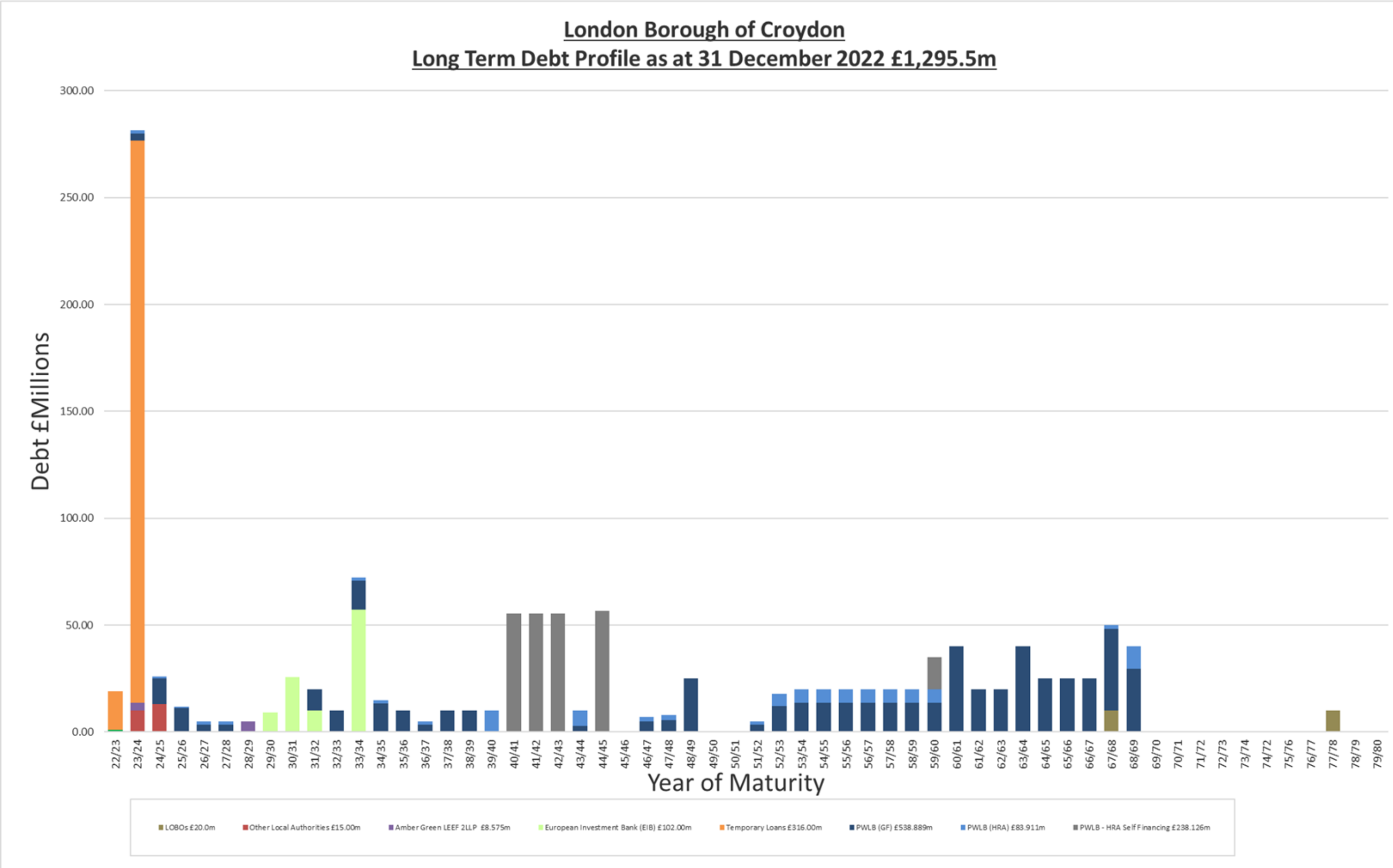
14. In circumstances where the Council has previously determined not to set aside a provision to repay the debt liability, an annual review will be undertaken to determine if the amount and timing of any loan repayment remains in accordance with the formal loan agreement. Where there is evidence which 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.

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.

16. 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.

17. 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 2022 £1,295.5m
Debt £Millions
300.00
250.00
200.00
150.00
100.00
50.00
0.00
22/23
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
Year of Maturity
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 2022

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 19.12.22. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Additional notes by Link on this forecast table: -

Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be 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.

The CPI measure of inflation will peak at close to 11% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

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 the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

Yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

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, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker 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, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too quickly to cut taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

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

- Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

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

Link Group Forecasts

We now expect the MPC to continue to increase Bank Rate during Q1 and Q2 2023 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 4.5%, 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 2023.

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

PWLB debt	Borrowing rate 19.12.22	Target borrowing rate 19.12.22
5 years	4.24%	3.5%
10 years	4.35%	3.6%
25 years	4.68%	3.9%
50 years	4.34%	3.6%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. 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 are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and as follows: -

Average earnings in each year	
2022/23 (remainder)	4.00%
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%

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 2022

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

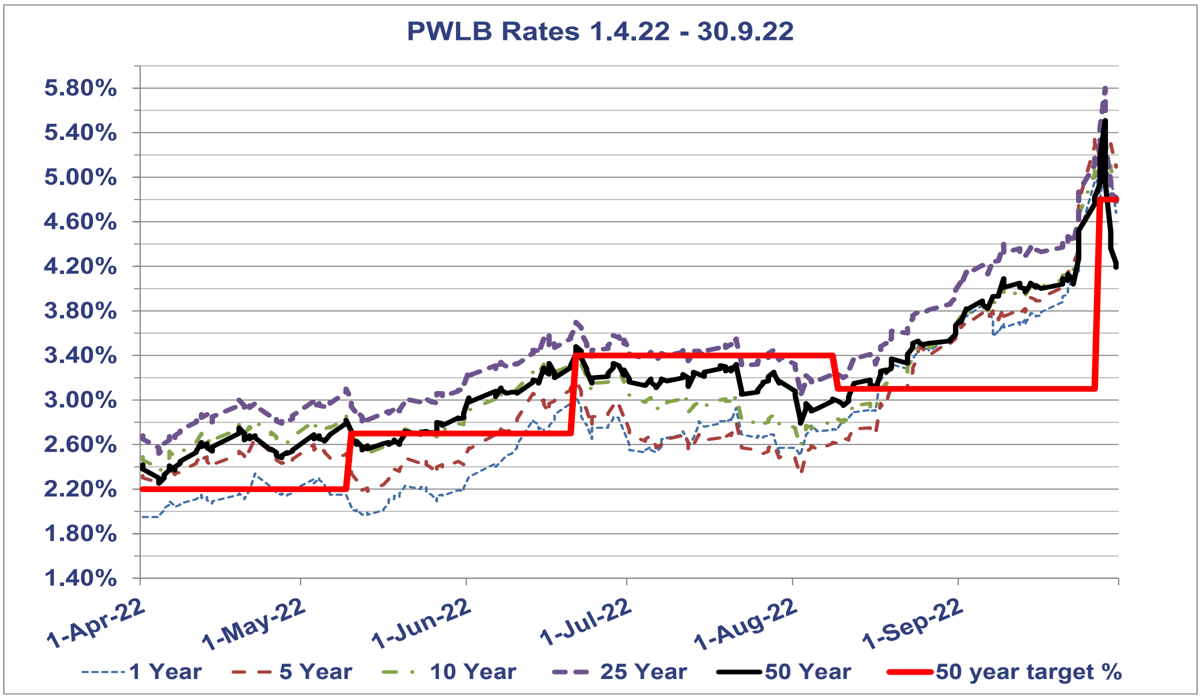
The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, 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).
developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

APPENDIX F

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 – see 3.5.13. 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.