LONDON BOROUGH OF CROYDON

REPORT:	**AUDIT AND GOVERNANCE COMMITTEE**
DATE OF MEETING	**21 September 2023**
REPORT TITLE:	**ANNUAL TREASURY MANAGEMENT REVIEW 2022/23**
CORPORATE DIRECTOR / DIRECTOR:	**Jane West, Corporate Director of Resources and S151 Officer**
LEAD OFFICER:	**Matthew Hallett, Acting Head of Treasury and Pensions**
LEAD MEMBER:	**Councillor Jason Cummings, Cabinet Member for Finance**
KEY DECISION? .	**No**
CONTAINS EXEMPT INFORMATION?	**NO**
WARDS AFFECTED:	**All**

1 SUMMARY OF REPORT

1.1 This Report reviews the Council's Treasury Management activities for the year 2022/23. 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 and Annual Investment Strategy as agreed by full Council (Budget Council) on 7 March 2022 (Minute A6/21 applies);
- Reviews treasury borrowing and investment activity for the period 1 April 2022 to 31 March 2023; and

- Demonstrates compliance with agreed Treasury and Prudential Indicators (Appendix E) and the CIPFA 2017 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 2022/23.

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 2022/23.

3.1.2 CIPFA have issued two Codes of Practice (both in December 2021) which apply to the Treasury Management function in 2022/23:

- 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 2022/23 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 7 March 2022 (Minute A6/21 applies)] which can be found via this link https://democracy.croydon.gov.uk/documents/s36285/7.1%20TMSS%20202223%20draft%20as%20at%2023%20February%202022%20v6.pdf;

- a mid-year, (minimum), treasury update report [Audit and Governance Committee 24 November 2022 (Minute 20/22 applies)] which can be found via this link https://democracy.croydon.gov.uk/documents/s41542/TREASURY%20MANAGEMENT%20202223%20MID%20YEAR%20REVIEW.pdf

- an annual review following the end of the year describing the activity compared to the strategy, (this report)

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 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 2022/23 financial year (Section 3.3);
- Summary of interest rate movements in the year and a medium-term interest rates forecast (Section 3.4);
- 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 and 3.7);
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness and the impact on investment balances (Sections 3.8 – 3.10);
- A review of the Council's borrowing strategy and controls and detailed debt activity (Section 3.8);

- A review of any debt re-scheduling undertaken (Section 3.9);
- A review of the Council's investment strategy and detailed investment activity (Section 3.10);
- Treasury and Prudential Limits (Section 3.11);
- Treasury Management Outturn (Section 3.12).

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 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. The CPI measure of inflation was between 9-11% throughout the year which increased the pressure to raise interest rates. This led to interest rates moving from 0.75% to 4.25% during the year, with expectations of further rises during 2023-24.

3.4.2 In Appendix B Link provide a commentary on PWLB maturity rates for the year to 31 March 2023

3.4.3 As regards 2023/24 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 2023/24 and will inform decisions as to the timing and duration of borrowing decisions.

Table 1: Interest Rate Forecasts June 2023 to June 2026

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

3.5 Treasury Management Strategy Statement and Annual Investment Strategy

3.5.1 The Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 were approved by full Council [Council 7 March 2022 (Minute A6/21 applies)].

3.6 Capital Expenditure 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:

- Actual outturn for 2021/22;
- Original budget for 2022/23, as agreed by full Council (Budget Council) on 7 March 2022 (Minute 6/21 refers);
- Revised budget for 2022/23; and
- Provisional outturn for 2022/23.

Table 2: Capital Expenditure

Service	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Housing (GF)	1.9	3.5	4.4	2.3
Adult Social Care and Health		1.7		0.7
Children, Young People and Education	10.7	16.0	7.9	3.3
Assistant Chief Executive	3.8	14.0	7.0	5.4
Sustainable Communities, Regeneration and Economic Development	20.4	45.1	36.3	22.8
Resources	1.5	4.6	8.3	3.0
Corporate	0.3	2.5	4.0	4.0
Capitalisation Direction*	50.0	25.0	186.6	190.8
HRA	56.7	23.7	27.4	37.8
Total	145.3	136.1	281.9	270.1

**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 2021/22 and 2022/23. 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, although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

Table 3: Financing of Capital Expenditure

Financing of Capital Expenditure	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Capital receipts	53.6	27.5	55.0	55.0
Capital grants	31.3	33.7	18.3	9.7
Major Repairs Allowance	13.9	13.7	22.1	31.5
Capital reserves	0.5		5.3	6.3
Growth Zone reserves			6.9	1.4
Revenue				
HRA revenue	8.8	14.1	1.7	1.1
Community Infrastructure Levy	6.5	7.5	2.8	1.4
Section 106 payments	0.5	2.9	0.6	1.1
Total financing	**115.1**	**99.4**	**112.7**	**107.5**
Borrowing requirement – General Fund	**20.7**	**36.7**	**169.2**	**162.6**
Borrowing requirement – HRA	**9.5**			

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 2022/23 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 2022/23 MRP Policy, (as required by Secretary of State Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 by full Council (Budget Council) on 7 March 2022 (Minute 6/21 refers);

3.7.7 The Council's CFR for 2022/23 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)

	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Opening balance	1,274..5	1,364.5	1,268.7	1,268.7
Add unfinanced	20.7	36.7	169.2	162.6
Less Minimum Revenue Provision	24.3	21.0	25.4	45.8
Less Development Loans etc repaid	2.2			19.0
Closing balance	1,268.7	1,380.2	1,412.5	1,366.5

Table 5: Capital Financing Requirement (Housing Revenue Account)

	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Opening balance	354.0	363.5	363.5	363.5
Add unfinanced	9.5			
Closing balance	363.5	363.5	363.5	363.5

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 2022/23, 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 2022/23. 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

	2021/22 Actual Outturn £m	2022/23 Original Budget £m	2022/23 Revised Budget £m	2022/23 Provisional Outturn £m
Gross borrowing	1,364.5	1,556.1	1,556.1	1,345.5
Capital Financing Requirement	1,632.2	1,743.7	1,776.0	1,730.0
(Under)/over funding of CFR	(267.7)	(187.6)	(219.9)	(384.5)

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 borowing 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 7 March 2022 (Minute 6/21 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 2022/23 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	1,674.6
Maximum gross borrowing position during the year	1,435.5
Operational boundary	1,624.6
Average gross borrowing position	1,385.4

3.8.8 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.

3.8.9 The level of the Council's borrowing, which is measured against the limits discussed above, was £1,435.5m on 1 April 2022 and £1,345.5m on 31 March 2023

3.8.10 Table 8 shows the monthly movement of the actual debt during the year. During the year the Council repaid £87.0m of external debt by use of internal borrowing.

Table 8: Actual debt during 2022/23

End of Month	PWLB	Market debt	Temporary borrowing	TOTAL BORROWING	Development loans / PFI and other	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
March (2022)	887,426	160,575	316,500	1,364,501	71,005	1,435,506
April	887,426	160,575	304,500	1,352,501	71,005	1,423,506
May	867,926	160,575	291,500	1,320,001	71,005	1,391,006
June	863,926	160,575	307,500	1,332,001	71,005	1,403,006
July	863,926	160,575	291,500	1,316,001	71,005	1,387,006
August	863,926	145,575	304,000	1,313,501	71,005	1,384,506
September	863,926	145,575	316,000	1,325,501	71,005	1,396,506
October	860,926	153,575	316,000	1,330,501	71,005	1,401,506
November	860,926	153,575	283,000	1,297,501	71,005	1,368,506
December	860,926	153,575	281,000	1,295,501	71,005	1,366,506
January	860,926	153,575	268,000	1,282,501	71,005	1,353,506
February	860,926	143,575	278,000	1,282,501	71,005	1,353,506
March (2023)	860,926	143,575	273,000	1,277,501	67,960	1,345,461

3.8.11 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 2022/23

Loans drawn	Loans repaid or transferred to short term	Principal £m	Interest rate %	Maturity period	Start Date
	Elmbridge Borough Council*	5.0	1.85	3 years	06/07/20
	Brighton and Hove City Council*	5.0	1.85	3 years	06/07/20
	West of England Combined Authority*	5.0	0.60	2 years	27/07/21
	Cornwall County Council*	10.0	1.00	3 years	28/01/21
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
	PWLB – folio 13	19.5	1.45	3 yrs 1m	01/04/19
	PWLB – folio 12	4.0	7.25	25 yrs 1m	28/05/97
	PWLB – folio 9	3.0	7.25	25 yrs 5m	28/05/97

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

3.8.12 During 2022/23, 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 investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

3.8.13 The Council has continued to pay off as much external debt as it is able to in order to reduce the increased cost of refinancing its short term debt. During the year the Council repaid £87m of maturing debt to the PWLB (26.5m) and other local authorities (£60.5m). The Council refinanced £277m of loans for a further year at an average rate of 1.42%. 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.

3.8.14 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.

3.8.15 The Council's effective interest payable on all debt currently stands at 2.82% with the maturity profile detailed in the table below and Appendix C.

Table 10: Maturity Structure of the debt portfolio

	31.3.22 actual	31.3.23 actual
Under 12 months	£342.5m	£281.5m
12 months and within 24 months	£30m	£26m
24 months and within 5 years	£43.5m	£22m
Over 5 years	£948.5m	£948m

3.9 Repayment of Debt and Debt Rescheduling

3.9.1 Opportunities for debt rescheduling have been limited in the current economic climate. With high premiums being attached to the premature repayment of existing debt, opportunities for debt restructuring were minimal and none were taken. For example, the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

3.10 Investment

3.10.1 As discussed in paragraph 3.8.8 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.

3.10.2 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 7 March 2022 (Minute 6/21 refers). This report does not take into account any non-treasury investments

3.10.3 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.).

3.10.4 The current guidance defines investments as "Specified" and "Non-specified"

3.10.5 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.

3.10.6 A non-specified investment is any investment that does not meet all the conditions in paragraph 3.10.5 above.

3.10.7 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 2022/23 as included in the current Treasury Management Strategy are detailed in Appendix D.

3.10.8 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.

3.10.9 Investment activity during 2022/23 conformed to the approved strategy. The Council has experienced no liquidity issues with an average monthly balance of £107m being maintained in temporary investments. Part of this sum is made up of core balances such as provisions and reserves set aside and cash balances that can, if necessary, be invested for longer periods to take advantage of favourable interest rates and to limit exposure to the risk of future rate movements.

3.10.10 As shown in Table 10 below, throughout the year the Treasury Management Team managed substantial balances with the month-end position only once being below £100m and, occasionally, being around £150m. Total investments outstanding at 31 March 2023 were £145.65m invested as follows: £40m with UK local authorities and £105.65m with AAA rated Money Market Funds. None of these investments were for periods in excess of 4 months.

Table 11: Month end balances

Month	General Fund £m	Pension Fund £m	Total £m
April	115.00	40.00	155.00
May	74.20	40.00	114.20
June	83.20	40.00	123.20
July	80.90	35.00	115.90
August	64.85	35.00	99.85
September	83.85	43.61	127.46
October	102.50	42.30	144.80
November	69.29	40.00	109.29
December	100.10	40.00	140.10
January	92.60	34.30	126.90
February	88.25	48.00	136.25
March	99.75	45.90	145.65

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

3.11 Compliance with Treasury and Prudential Limits

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

3.12 Treasury Management Outturn

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

Table 12: Borrowing costs and investment income

	Budget £m	**Outturn £m**	**Variance £m**
GENERAL FUND			
Borrowing costs	26.739	23.947	-2.792
Investment income	-0.150	-1.786	-1.636
TOTAL	26.589	22.161	-4.428
HRA			
Borrowing costs	12.120	11.972	-0.148
Investment income	n/a	-0.373	-0.373
TOTAL	12.120	11.599	-0.521

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 N/A

5. CONSULTATION

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

6. CONTRIBUTION TO COUNCIL PRIORITIES

6.1 Sound financial management: the report asks the Committee to note the contents of the annual report on the treasury management activity for 2022/23 as part of the proper financial administration of the Council.

This supports the Council priority of OUTCOME 1 'Balances the books, listens to residents and delivers good, sustainable services.'

7. FINANCIAL CONSIDERATIONS

7.1 There are no additional financial considerations arising from this report.

Approved by: Allister Bannin on behalf of Jane West, Corporate Director of Resources (S151 Officer) 11/09/23.

8. HUMAN RESOURCES CONSIDERATIONS

8.1 There are no immediate workforce implications arising from this report. In the event that the council's financial position requires a reduction in budgets that impact upon the workforce the council will ensure appropriate consultation with the affected staff and their trade union representatives in accordance with the established HR policies and procedures.

Approved by: Dean Shoesmith, Chief People Officer, 30/8/2023

9. LEGAL CONSIDERATIONS

9.1 The Council is required by the Local Government Act 2003 and regulations issued thereunder to produce an annual treasury management review of activities for the whole of each financial year and compliance with the various strategies and policies agreed by the Council.

9.2 The Committee is responsible for the review and scrutiny of treasury management policies and activities and 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.

9.3 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.

9.4 The recommendations in this report comply with the Council's statutory minimum reporting requirements and support the actions required under the SoS Directions.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of Stephen Lawrence-Orumwense, Director of Legal Services and Monitoring Officer. 12/09/23.

10. EQUALITIES CONSIDERATIONS

10.1 The Council has a statutory duty, when exercising its functions, to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must, in the performance of its functions, therefore, have due regard to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

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

Approved by: Naseer Ahmad for the Equalities Manager, (08/09/2023)

11. OTHER CONSIDERATIONS

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

12. FREEDOM OF INFORMATION

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

13. DATA PROTECTION IMPLICATIONS

13.1 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: Allister Bannin on behalf of Jane West, Corporate Director of Resources (S151 Officer)

CONTACT OFFICER:

Matthew Hallett, Acting Head of Pensions and Treasury,

BACKGROUND DOCUMENTS:

None

APPENDICES:

A Economic update April 2023

B PWLB maturity rates for the year to 31 March 2023

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 2023)

UK Economy

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 2022/23.

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 in 2022. 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	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% 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. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force 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 (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. 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 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA

The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

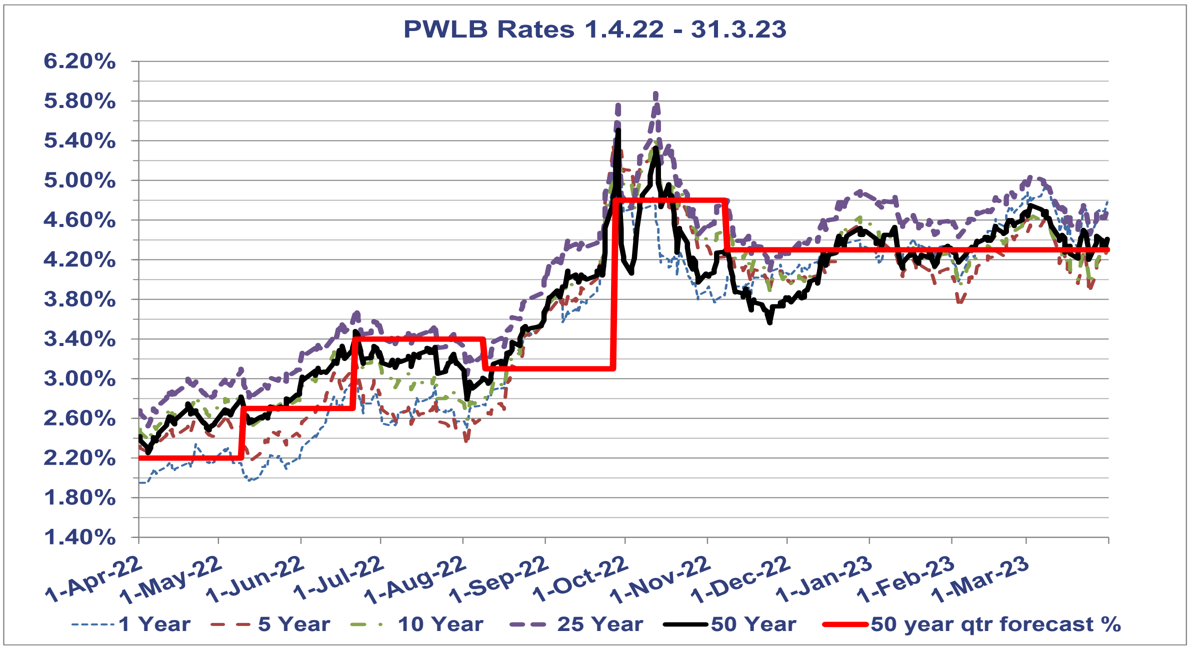
As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

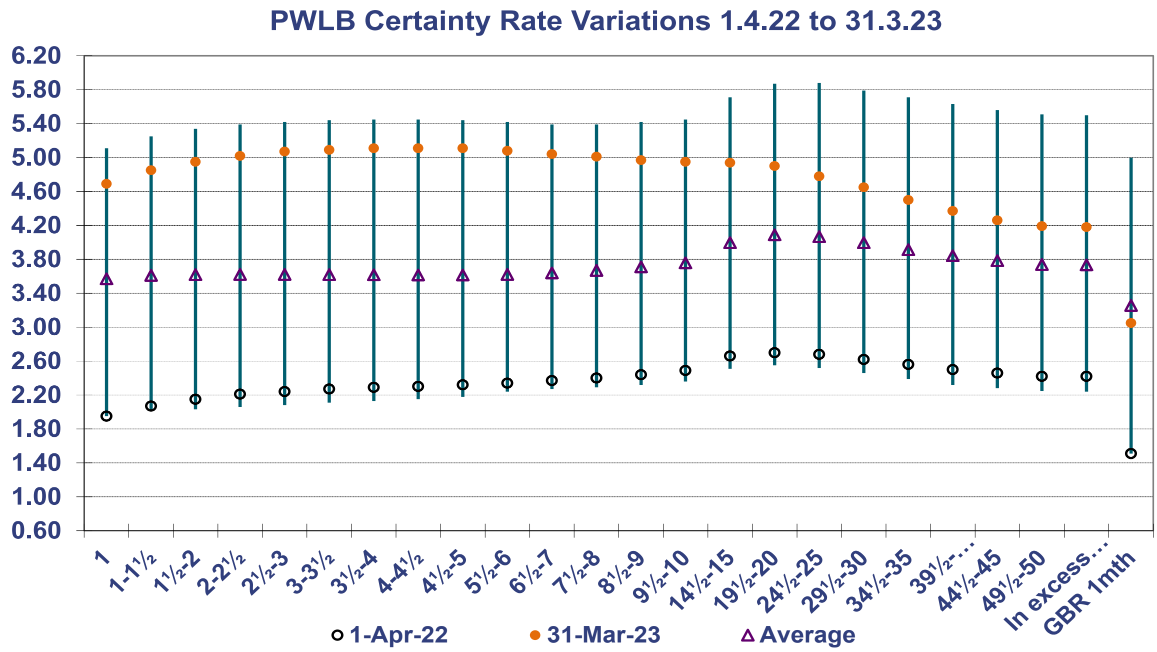
EU

Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

APPENDIX B

PWLB maturity rates for the year to 31 March 2023 (as prepared by Link Treasury Services Ltd in April 2023)





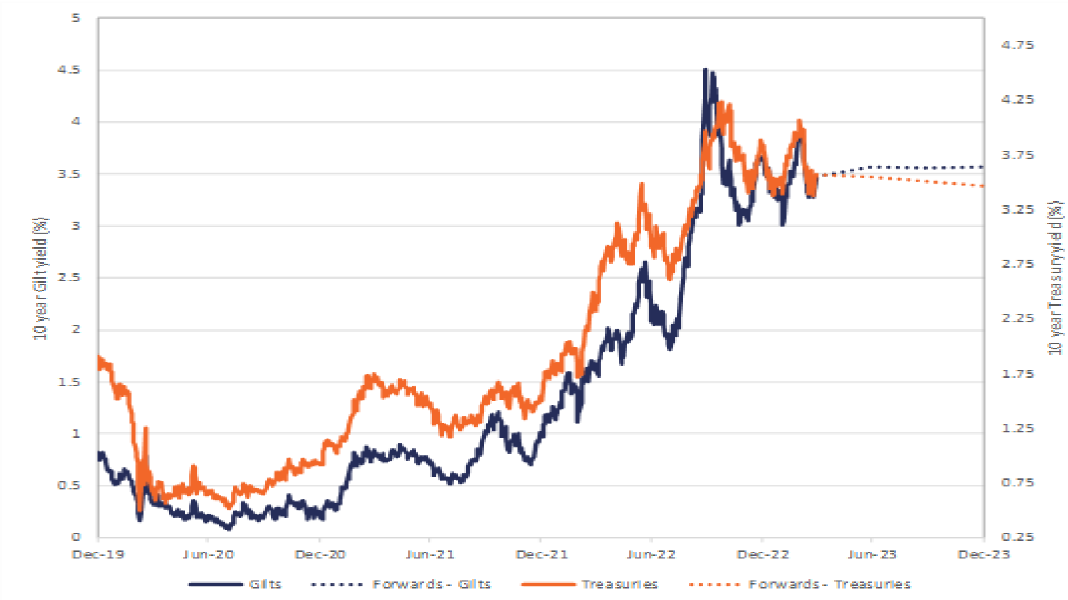
HIGH/LOW/AVERAGE PWLB RATES FOR 2022/23

	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%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

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 persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of UK gilt yields v. US treasury yields



Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

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

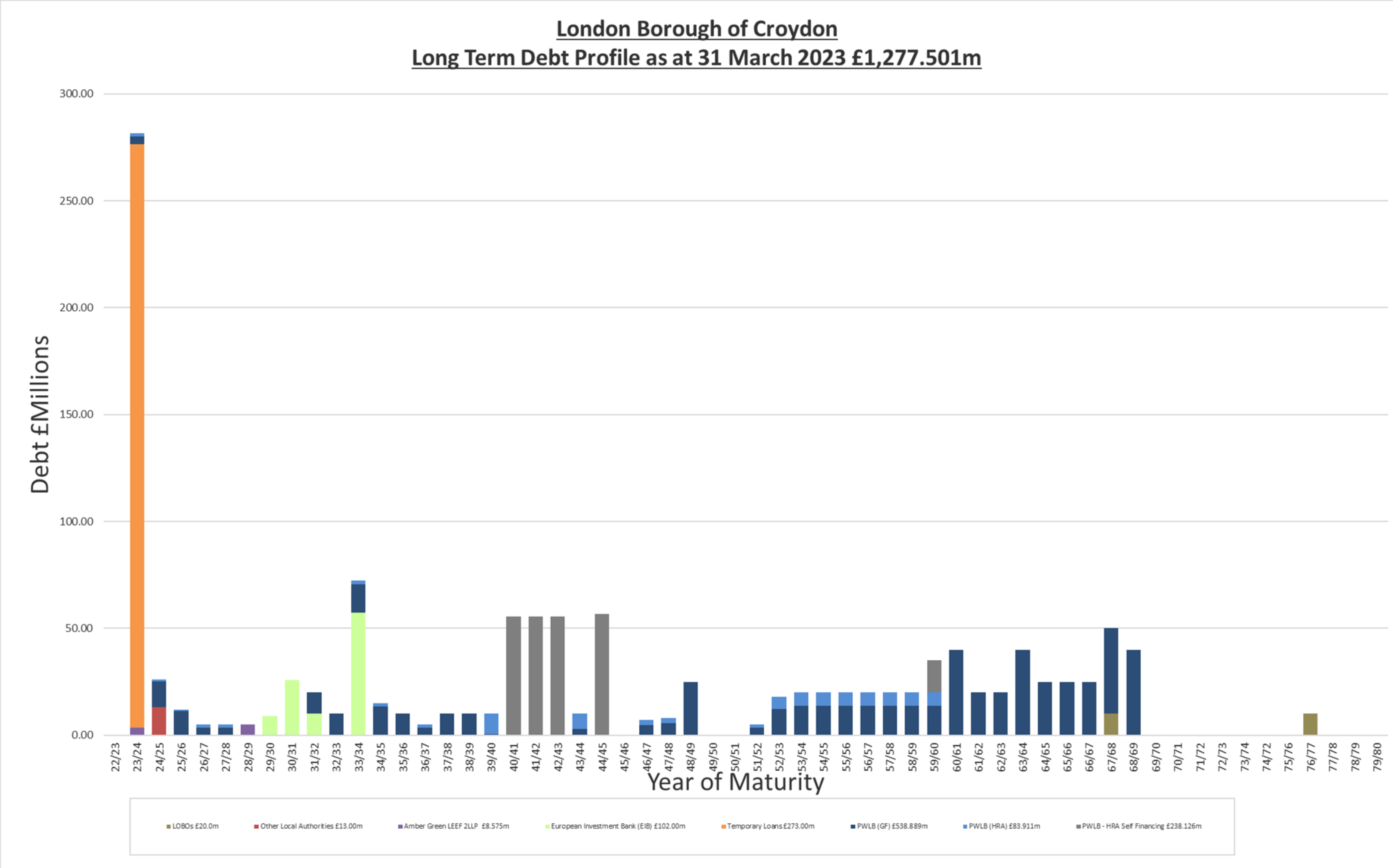
- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

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 first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to 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, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will 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, is an unknown at the time of writing.

Debt maturity profile **APPENDIX C**



APPENDIX D

Investment instruments identified for use by the Council during 2022/23

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 2022/23

Treasury Indicators	Treasury Management Strategy Statement £m	Actual £m
Authorised limit for external debt		
Borrowing	1,606.1	1,277.5
Other long term liabilities	68.5	68.0
TOTAL	1,674.6	1,345.5
Operational boundary for external debt		
Borrowing	1,556.1	1,277.5
Other long term liabilities	68.5	68.0
TOTAL	1,624.6	1,345.5
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	0-30%	22.1%
12 months to 2 years	0-20%	2.0%
2 years to 5 years	0-30%	1.7%
5 years to 10 years	0-30%	5.5%
10 years and above	0-100%	68.7%

Prudential Indicators	Treasury Management Strategy Statement £m	Provisonal Outturn £m
Capital expenditure		
General Fund	87.4	41.5
Commercial Activities / non-financial investments		
Capitalisation Direction	25.0	190.8
HRA	23.7	37.8
TOTAL	136.1	270.1
Capital Financing Requirement (CFR)		
General Fund	1,380.2	1,366.5
HRA	363.5	363.5
TOTAL	1,743.7	1,730.0
Annual change in CFR		
General Fund	15.7	97.8
HRA		
TOTAL	15.7	97.8
In year borrowing requirement	36.7	162.6