Croydon Council

REPORT TO:	**AUDIT AND GOVERNANCE COMMITTEE** **15 September 2022**
SUBJECT:	**Treasury Management Strategy Statement and Annual Investment Strategy** **End of Year Review 2021/22**
LEAD OFFICER:	**Matthew Hallett, Acting Head of Treasury and Pensions**
CABINET MEMBER:	**Councillor Jason Cummings** **Cabinet Member for Finance**
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT:

Sound Financial Management. This Report details the Council's Treasury Management activities for the year 2021/22 and its compliance with the 2017 Treasury Management Code of Practice and Prudential Code for Capital Finance.

FINANCIAL SUMMARY:

This Report details the Council's Treasury Management activities for the year 2021/22 and demonstrates its compliance with the 2017 Prudential Code for Capital Finance.

1. RECOMMENDATION

The Committee are recommended to:

1.1 Note the contents of this report

2. EXECUTIVE SUMMARY

2.1 This Report 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. This report:

- Reviews compliance with the Treasury Management Strategy Statement, Capital Strategy and Annual Investment Strategy as agreed by full Council (Budget Council) on 8 March 2021 (Minute A19/21 applies);
- Reviews treasury borrowing and investment activity for the period 1 April 2021 to 31 March 2022; and

- Demonstrates compliance with agreed Treasury and Prudential Indicators.

3 DETAIL

3.1 Background

3.1.1 CIPFA have issued two Codes of Practice (both in December 2017) which apply to the Treasury Management function in 2021/22:

- 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).

3.1.2 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.

3.1.3 The primary requirements of the Code of Practice are:

- The creation and maintenance of a Treasury Management Policy 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 will seek to achieve those policies and objectives;
- Providing full 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 Pensions and Treasury; 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.

3.1.4 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 2021/22 financial year (Section 3.2);
- A medium term interest rates forecast (Section 3.3);
- A review of the Council's Treasury Management Strategy Statement and Annual Investment Strategy (Section 3.4);
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators (Section 3.5);
- A review of the Council's borrowing strategy (Section 3.6);
- A review of the Council's investment strategy (Section 3.7);
- A review of any debt re-scheduling undertaken (Section 3.8);
- Compliance with Treasury and Prudential Limits (Section 3.9);
- Treasury Outturn (Section 3.10).

3.2 Economic update

3.2.1 A commentary entitled Economic Update provided by the Council's independent treasury advisers Link Treasury Services Ltd (Link) in April 2022 is included as Appendix A.

3.3 Interest rate forecasts

3.3.1 Link provide updated forecasts of key interest rates on a regular basis and one of the most recent is in Table 1 below. These forecasts will be updated during the remainder of 2022/23 and will inform decisions as to the timing and duration of borrowing decisions.

Table 1: Interest Rate Forecasts

Link Group Interest Rate View	09.08.22												
	Sep-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
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

3.4 Treasury Management Strategy Statement and Annual Investment Strategy

3.4.1 The Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 were approved by full Council (Budget Council) on 8 March 2021 (Minute A19/21 applies).

3.5 Capital Strategy and Prudential Indicators

3.5.1 Table 2 shows:

- the original capital budget, taking into account service re-structuring, as agreed by full Council (Budget Council) on 8 March 2021 (Minute A18/21 refers);
- the revised outturn estimate is as reported to Cabinet on 21 March 2022 (Minute 12/22 refers); and
- the actual outturn.

Table 2: Capital Expenditure Summarised by Services

Capital Expenditure by Service	Original Estimate £m	Revised Outturn Estimate £m	Outturn £m
Housing (GF)	2.9	3.4	1.8
Adults		0.1	
Children, Families and Education	13.7	15.4	10.7
Assistant Chief Executive	9.2	11.9	3.8
Sustainable Communities, Regeneration and Economic Development	31.0	45.3	20.3
Resources	5.7	3.4	1.8
HRA	81.5	183.2	56.6
Corporate	50.0	52.4	50.3
Total	**194.0**	**315.1**	**145.3**

Members will note the reference to the Capitalisation Direction. This 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 granted a Capitalisation Direction for up to £70m for the 2020/2021 year and one up to £50m for 2021/2022 to the Council. Under the conditions of a Capitalisation Direction any further borrowing required to finance the Council's increase to the Capital Financing Requirement 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.

3.5.2 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 Capital Financing Requirement (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	Original Estimate £m	Revised Outturn Estimate £m	Outturn £m
Capital receipts		2.4	0.3
Capital grants	22.9	39.3	47.9
Community Infrastructure Levy	6.8	6.7	6.5
Major Repairs Allowance	13.7	13.7	
Capital reserves	19.8	22.5	0.5
S106 payments	0.8	5.7	0.5
S141 payments			
Revenue	8.2	8.2	21.1
Total financing	**72.2**	**98.5**	**76.8**
Borrowing requirement – General Fund	**40.5**	**43.9**	**18.1**
Borrowing requirement – HRA	**31.3**	**122.7**	**0.4**
Borrowing requirement – Capitalisation Direction	**50.0**	**50.0**	**50.0**

3.5.3 The key controls for treasury management activity are the Prudential Indicators and compliance with them ensures that, over the medium term, borrowing will only be for a capital purposes. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need as required, although since 2020 has not done so. Table 4 shows changes in the CFR and borrowing over the year.

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Table 4: Capital Financing Requirement

	Original Estimate* £m	Outturn Projection** £m	Actual £m
Borrowing	1,591.7	1,663.1	1,515.0
Other long-term liabilities	75.8	71.0	71.0
Total debt	1,667.5	1,734.1	1,586.0
CFR (year-end position)	1,664.7	1,857.1	1,699.9

*As reported to full Council on 8 March 2021
**As reported to Cabinet on 21 March 2022

3.5.4 There are two Prudential Indicators relevant to the capital programme and its borrowing implications. These are the Operational Boundary (the expected debt position) and the Authorised Limit (the limit beyond which borrowing is prohibited). Table 5 shows the limits as agreed by the full Council on 8 March 2021 (Minute 19/21 applies)

Table 5: Key Prudential Indicators

	£m
Operational Boundary	1,987.8
Authorised Limit	2,037.8

3.5.5 Members will note that the Authorised Limit includes a buffer of £50m to cover unexpected cash flow shortages.

3.6 Borrowing Strategy

3.6.1 Throughout the financial year 2021/22 the Council operated within the borrowing limits approved by full Council on 8 March 2021 (Minute 19/21 applies).

3.6.2 The level of the Council's borrowing, which is measured against the limits, was £1,520.0m on 1 April 2021 and £1,435.5m on 31 March 2022. At no point during the year was either the approved Operational Boundary or the Authorised Limit breached.

3.6.3 Table 6 shows the monthly movement of the actual debt during the year. During the year the Council repaid £84.5m of external debt by use of internal borrowing.

Table 6: Actual debt in 2021/22

End of Month	PWLB	Market debt	Temporary borrowing	PFI and other	TOTAL
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
March (2021)	897,426	221,075	328,000	73,584	1,520,085
April	897,426	221,075	325,000	73,584	1,517,085
May	897,426	211,075	335,000	73,584	1,517,085
June	897,426	211,075	320,000	73,584	1,502,085
July	897,426	216,075	315,000	73,584	1,502,085
August	897,426	181,075	350,000	73,584	1,502,085
September	897,426	178,575	348,500	73,584	1,498,085
October	897,426	178,575	364,500	73,584	1,514,085
November	897,426	165,575	354,500	73,584	1,491,085
December	897,426	170,575	351,500	73,584	1,493,085
January	897,426	160,575	326,500	73,584	1,458,085
February	897,426	160,575	316,500	73,584	1,448,085
March (2022)	887,426	160,575	316,500	71,005	1,435,506

3.6.4 During the year, debt was refinanced on a short-term basis. No new long term PWLB debt was taken and £10m was repaid on maturity.

3.6.5 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 fit into 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.

3.6.6 The Council's effective interest payable on long term debt currently stands at 2.63% with the maturity profile detailed in Appendix C.

3.7 Investment Strategy

3.7.1 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 on 8 March 2021 Minute A19/21 applies). This report does not take into account any non-treasury investments.

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

3.7.3 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.

3.7.4 A non-specified investment is any investment that does not meet all the conditions in paragraph 3.7.3 above.

3.7.5 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 2021/22 as included in the current Treasury Management Strategy are detailed in Appendix D.

3.7.6 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 highly credit rated financial institutions using the Link AM suggested creditworthiness approach including a minimum sovereign credit rating and Credit Default Swap overlay information.

3.7.7 Investment activity during 2021/22 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.

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

3.7.9 As shown in Table 7 below, throughout the year the Treasury Management Team managed substantial balances with the month-end position never being below

£65m and on several occasions exceeding £150m. Total investments outstanding at 31 March 2022 were £97m invested as follows: £20m with UK local authorities, £37m with AAA rated Money Market Funds and £40m with banks in UK.

Table 7: Month end balances

Month	General Fund £m	Pension Fund £m	Total £m
April	79.80	16.50	96.30
May	79.80	16.50	96.30
June	79.80	16.50	96.30
July	60.00	16.50	76.50
August	50.00	16.50	66.50
September	60.00	16.50	76.50
October	70.00	16.50	86.50
November	90.00	16.50	106.50
December	141.00	16.50	157.50
January	150.00	20.00	170.00
February	127.00	30.00	157.00
March	67.00	30.00	97.00

3.8 Repayment of Debt and Debt Rescheduling

3.8.1 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.

3.9 Compliance with Treasury and Prudential Limits

3.9.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The approved Treasury and Prudential Indicators, (affordability limits), are included in the approved Treasury Management Strategy Statement as detailed in Appendix E.

3.10 Treasury Outturn

3.10.1 The Treasury outturn position is summarised in the table below.

Table 8: Borrowing costs and investment income

	Budget £m	Outturn £m	Variance £m
GENERAL FUND			
Borrowing costs	27.500	23.861	-3.639
Investment income	-0.500	-0.138	0.362
TOTAL	27.000	23.723	-3.277
HRA			
Borrowing costs	12.120	11.986	-0.134
Investment income	n/a	n/a	n/a
TOTAL	12.120	11.986	-0.134

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

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

Approved by: *Lesley Shields* (Head of Finance Resources & Assistant Chief Executive) on behalf of the Director of Finance

5. HUMAN RESOURCES CONSIDERATIONS

5.1 There are no immediate workforce implications arising from this report. It should be noted, that in the event that the council encounters further financial challenges this may require reductions to the council's workforce overhead, and in that instance the council should apply it's well-established employment policies and procedures in consultation with affected staff and their trade unions representatives.

Approved by: Dean Shoesmith, Chief People Officer

6. LEGAL CONSIDERATIONS

6.1 In relation to the Annual Investment Strategy, the Council is required to have regard to guidance issued by the Secretary of State under the Local Government Act 2003 section 15(1) (a) 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.

6.2 The Ministry of Housing Communities and Local Government (MHCLG) guidance is complemented by two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) containing investment guidance namely Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes and The Prudential Code for Capital Finance in Local Authorities.

6.3 By regulation 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, local authorities are required to have regard to the current edition of the CIPFA codes.

6.4 The Local Government Act 2003 section 3(1) and (8) requires the council to determine and keep under review how much money it can afford to borrow. The function of determining and keeping these levels under review is a function reserved to Full Council.

6.5 In determining the Annual Minimum Reserves and the policy around such reserves, the Council shall have regard to guidance issued by the Secretary of State under the Local Government Act 2003 section 21(1A) entitled “Statutory guidance on minimum revenue provision

Approved by: Sandra Herbert, Head of Litigation & Corporate Law & Deputy Monitoring Officer, on behalf of the Director of Legal Services and Monitoring Officer.

7. EQUALITIES CONSIDERATIONS

7.1 The council has an obligation under the Public Sector Equality Duty, which is to eliminate unlawful discrimination, to advance equality of opportunity and to build better relationships between groups with protected characteristics. No direct negative impacts have been identified for groups with protected characteristics in this report.

Approved by: Gavin Handford, Director of Policy, Programmes & Performance

8. FREEDOM OF INFORMATION

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

9. DATA PROTECTION IMPLICATIONS

9.1 Will the subject of the report involve the processing of ‘personal data’?

No.

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

No.

CONTACT OFFICER:

Matthew Hallett, Acting Head of Pensions and Treasury,

BACKGROUND DOCUMENTS:

None

APPENDICES:

A Economic update April 2022
B PWLB maturity rates for year to 31 March 2022
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 2022)

UK. Economy. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA. The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May.

The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

EU. With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said "we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation."

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a "technical" recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

China. After a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; however, 2021 has seen the economy negatively impacted by political policies that have focussed on constraining digital services, restricting individual freedoms, and re-establishing the power of the One-Party state. With the recent outbreak of Covid-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

Japan. The Japanese economic performance through 2021/22 is best described as tepid. With a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

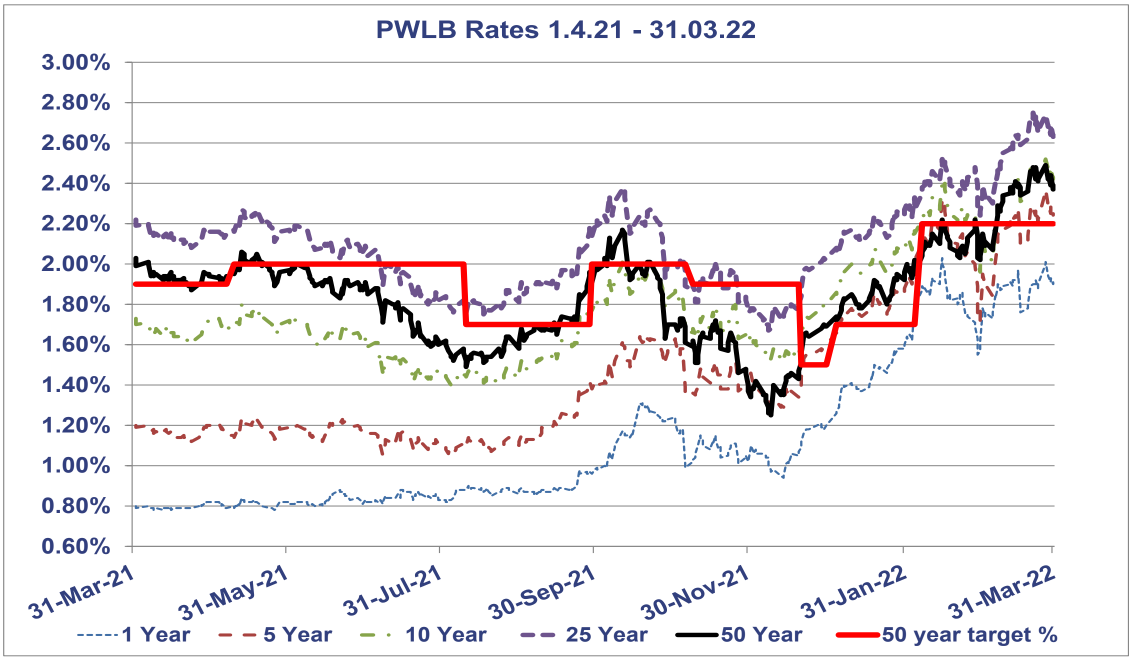
World growth. World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

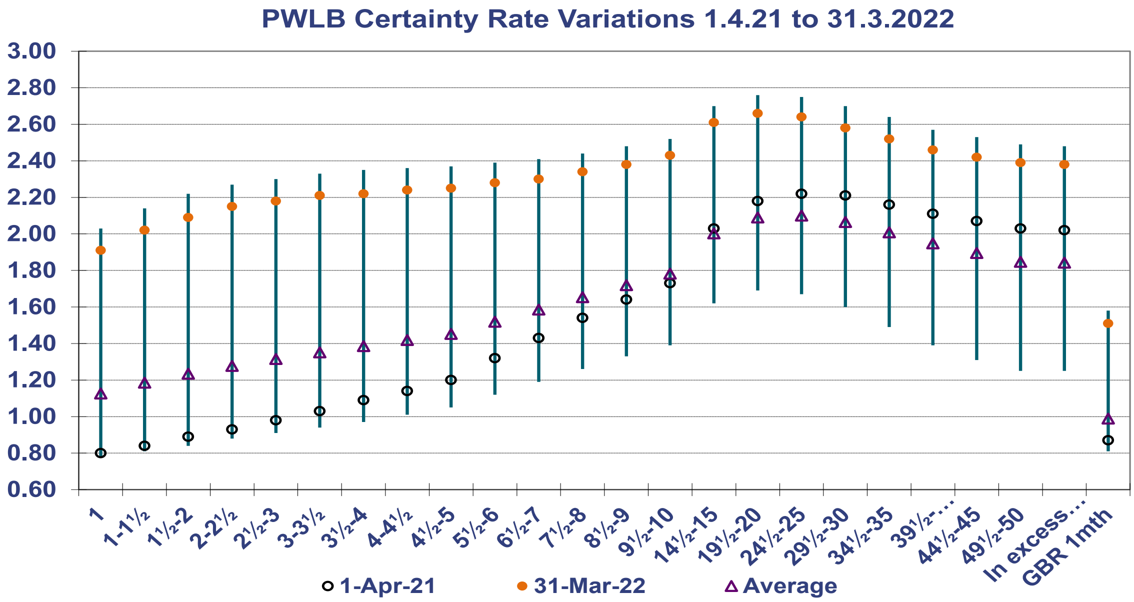
Deglobalisation. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

APPENDIX B

PWLB RATES 2021/22



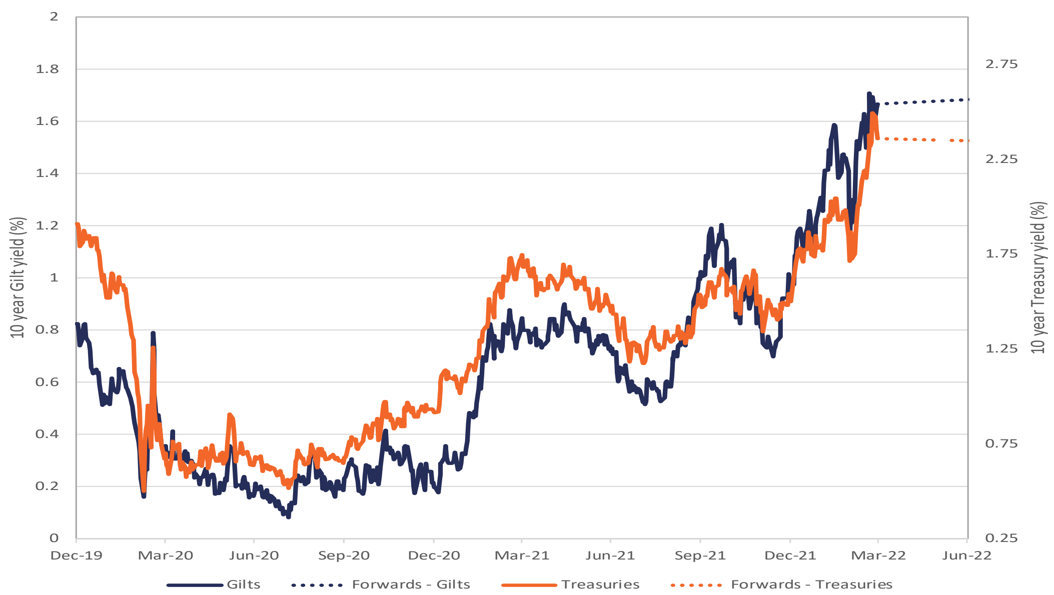


HIGH/LOW/AVERAGE PWLB RATES FOR 2021/22

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

PWLB rates are based on gilt (UK Government bonds) yields through H.M.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. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn 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. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

Graph of UK gilt yields v. US treasury yields



Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

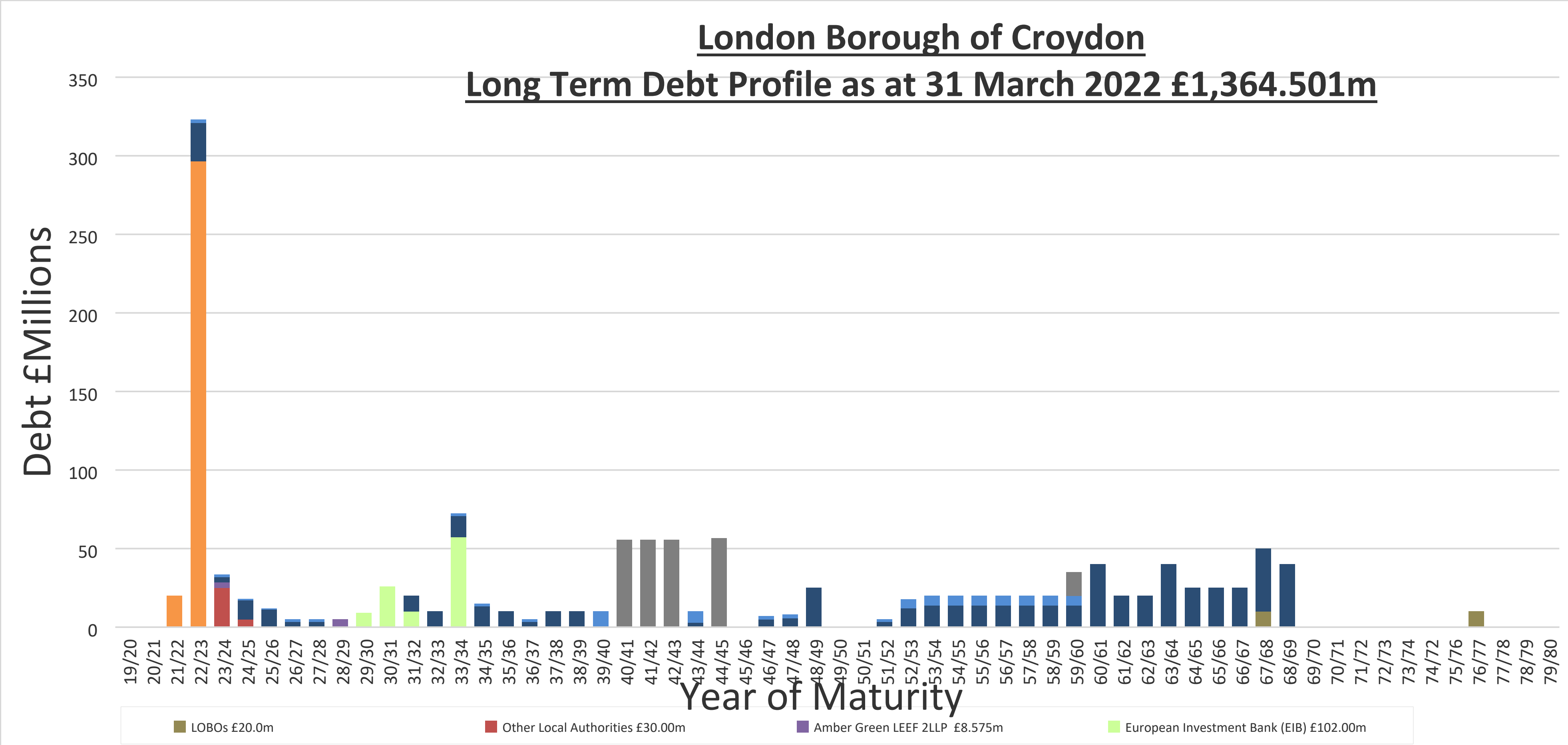
At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

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

There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £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.

APPENDIX C



London Borough of Croydon
Long Term Debt Profile as at 31 March 2022 £1,364.501m
Debt £Millions
350
300
250
200
150
100
50
0
19/20 20/21 21/22 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 £30.00m
Amber Green LEEF 2LLP £8.575m
European Investment Bank (EIB) £102.00m

APPENDIX D

Investment instruments identified for use by the Council during 2021/22

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 2021/22

Treasury Indicators	**Treasury Management Strategy Statement £m**	**Actual £m**
Authorised limit for external debt		
Borrowing	1,962.0	1,364.5
Other long term liabilities	75.8	71.0
TOTAL	2,037.8	1,435.5
Operational boundary for external debt		
Borrowing	1,912.0	1,364.5
Other long term liabilities	75.8	71.0
TOTAL	1,987.8	1,435.5
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	0-20%	25.1%
12 months to 2 years	0-20%	2.5%
2 years to 5 years	0-30%	2.6%
5 years to 10 years	0-30%	4.7%
10 years and above	0-100%	65.1%

Prudential Indicators	**Treasury Management Strategy Statement £m**	**Actual £m**
Capital expenditure		
General Fund	62.528	38.720
Commercial Activities / non-financial investments		
Capitalisation Direction	50.000	50.000
HRA	81.486	56.566
TOTAL	194.014	145.286
Capital Financing Requirement (CFR)		
General Fund	1,257.183	1,345.981
HRA	407.562	353.965
TOTAL	1,664.745	1,699.946
Annual change in CFR		
General Fund	41.154	71.462
HRA		
TOTAL	41.154	71.462
In year borrowing requirement	53.154	68.547