

## LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>  <b>CABINET</b>  <b>FULL COUNCIL</b>	
<b>DATE OF MEETING</b>	<b>28th November 2024 (Audit Committee)</b>  <b>4th December 2024 (Cabinet)</b>  <b>11th December 2024 (Full Council)</b>	
<b>REPORT TITLE:</b>	<b>Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2024/25</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Jane West, Corporate Director of Resources and S151 Officer</b>	
<b>LEAD OFFICER:</b>	<b>Matthew Hallett, Head of Treasury and Pensions</b>	
<b>LEAD MEMBER:</b>	<b>Councillor Jason Cummings, Cabinet Member for Finance</b>	
<b>KEY DECISION?</b>	<b>No</b>	
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>NO</b>	
<b>WARDS AFFECTED:</b>	<b>All</b>	

### 1. SUMMARY OF REPORT

- 1.1 This Report reviews the Council's treasury management activities for the first six months of financial year 2024/25.
- 1.2 The mid-year review has identified unexpected events that have had an impact on the Council's ability to remain within its pre-set Treasury limits for the year. The new government has freed up Right to Buy capital receipts held on the Council's balance sheet and this, coupled with the rise in homelessness being experienced in Croydon and across London this year, has led to new property

strategies with plans for individual property buy-backs underway and the bulk purchase of new development property being explored by the Council. The ability to purchase more housing stock is a very positive development for the Council but means that it will need to borrow more this year than was previously anticipated.

- 1.3** In addition, the Council is more generally holding far less cash this year than it has had available previously. For example the Council is receiving far less funding from Government than during the Covid years and is beginning to deploy its the Growth Zone funding on renewal of the town centre and Right to Buy capital receipts as described above. The Council needs to move to an externalisation of its borrowing through the Public Works Loan Board (PWLB) rather than being able to rely on internal borrowing as it has done over the last three years.
- 1.4** This report recommends that the Council increases its Operational Boundary and Authorised Limit for borrowing in line with the level of its existing Capital Financing Requirement (CFR). Setting the Operational Boundary equal to the CFR is in line with the policy adopted by most other local authorities. The PWLB is owned by the Treasury and is monitoring the Council's borrowing on a monthly basis. It will not allow the Council to borrow excessively.

## **2. RECOMMENDATION**

- 2.1** For the reasons set out in the report, the **Audit and Governance Committee** is recommended to:-
- a) Consider the contents of the mid-year report on the treasury management activity for 2024/25.
  - b) Consider and comment on the proposed increase to the current Operational Boundary and Authorised Limit to £1,769.5m and £1,819.5m respectively for the financial year 2024/25 in respect of external debt to bring it in line with the projected Capital Financing Requirement (CFR) for capital expenditure and for the prudential management of the Council's financial affairs.
- 2.2** For the reasons set out in the report, the **Executive Mayor and Cabinet** is recommended to:-
- a) Consider the comments received from Audit and Governance Committee on 20<sup>th</sup> November relating this report.
  - b) Consider the contents of the mid-year report on the treasury management activity for 2024/25.
  - c) Recommend to Full Council that it agrees to increase the current Operational Boundary and Authorised Limit to £1,769.5m and £1,819.5m respectively to bring it in line with the projected Capital Financing Requirement (CFR) for capital expenditure and for the prudential management of the Council's financial affairs.

- 2.3** For the reasons set out in the report, **Full Council** is recommended to:-
- a) Consider the contents of the mid-year report on the treasury management activity for 2024/25.
  - b) Consider the recommendations from the Executive Mayor and Cabinet relating to this report.
  - c) Agree to increase the current Operational Boundary and Authorised Limit to £1,769.5m and £1,819.5m respectively to bring it in line with the projected Capital Financing Requirement (CFR) for capital expenditure and for the prudential management of the Council's financial affairs.

### **3. REASONS FOR RECOMMENDATIONS**

- 3.1 The CIPFA codes of practice in respect of capital finance and treasury management codes require that members are advised of treasury management activities of the first six months of each financial year and of compliance with various strategies and policies agreed by the Council.
- 3.2 The Prudential Code for finance in local authorities requires Full Council to set prudential indicators including the Operational Boundary and Authorised Limit for the Council before the beginning of the forthcoming year. They must be reviewed and may be revised at any time during the year.
- 3.3 The mid-year review has identified unexpected events that have had an impact on the Council's ability to remain within its pre-set Treasury limits for the year. The new government has freed up the Council to spend Right to Buy capital receipts held on the Council's balance sheet. Coupled with the rise in homelessness being experienced in Croydon and across London this year, this has led to new property strategies with plans for individual property buy-backs being underway and the bulk purchase of new development property is being explored by the Council. The ability to purchase more housing stock is a very positive development for the Council but means that it will need to borrow more this year than was previously anticipated.
- 3.4 In addition, the Council is more generally holding far less cash this year than it has previously. For example the Council is receiving far less funding from Government than during the Covid years, is beginning to deploy its the Growth Zone funding on renewal of the town centre is spending its Right to Buy capital receipts as described above. The Council needs to move to an externalisation of its borrowing through the Public Works Loan Board (PWLb) rather than being able to rely on internal borrowing as it has done over the last three years.

### **4. BACKGROUND AND DETAILS**

#### **4.1 Capital Strategy**

4.1.1 In December 2021, CIPFA issued revised versions of “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” (“the Code”). These require all local authorities 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.

The detailed Capital Strategy and Capital Programme is considered by Cabinet and Council separately to this report.

## **4.2 Treasury management**

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

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

4.2.3 Accordingly, treasury management is defined as:

“The management of the local authority’s borrowing, investments and cash flows, 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.”

## **4.3 Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes**

4.3.1 This report has been written in accordance with the Code the primary requirements of which are as follows:

- 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 way in which the Council will seek to achieve those policies and objectives;
- To provide the 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; and
- The delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the designated body is the Audit and Governance Committee.

4.3.2 This mid-year report has been prepared in compliance with the Codes and covers the following:

- An economic update for the first half of the 2024/25 financial year (Section 4.4);
- A medium-term interest rates forecast (Section 4.5);
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy (Section 4.6);
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators (Section 4.7);
- A review of the Council's borrowing strategy and debt re-scheduling (Section 4.8);
- A review of the Council's investment strategy and portfolio (Section 4.9); and
- A review of compliance with Treasury and Prudential Limits (Section 4.10)

#### **4.4 Economic update**

4.4.1 A commentary provided by the Council's independent treasury advisers Link Group (Link) in the first week of October 2023 is included as Appendix A.

#### **4.5 Interest rate forecasts**

4.5.1 Another part of the Link service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

4.5.2 Link’s latest forecast sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance. Their PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1 November 2012.

**Table 1 Interest rates forecast**

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

4.5.3 A commentary by Link on PWLB rates during 2024/25 is attached as Appendix B.

## 4.6 Treasury Management Strategy Statement and Annual Investment Strategy Update

4.6.1 The TMSS and Annual Investment Strategy for 2023/24 were approved by full Council on 6 March 2024 (Minute 106/24 applies).

4.6.2 The mid-year review has identified unexpected events that have had an impact on the Council’s ability to remain within its pre-set Treasury limits for the year. The new government has freed up the Council to spend Right to Buy capital receipts held on the Council’s balance sheet. Coupled with the rise in homelessness being experienced in Croydon and across London this year, this has led to new property strategies with plans for individual property buy-backs being underway and the bulk purchase of new development property is being explored by the Council. The ability to purchase more housing stock is a very positive development for the Council but means that it will need to borrow more this year than was previously anticipated.

4.6.3 In addition, the Council is more generally holding far less cash this year than it has previously. For example the Council is receiving far less funding from Government than during the Covid years, is beginning to deploy its the Growth

Zone funding on renewal of the town centre is spending its Right to Buy capital receipts as described above. The Council needs to move to an externalisation of its borrowing through the Public Works Loan Board (PWLB) rather than being able to rely on internal borrowing as it has done over the last three years.

4.6.4 It is proposed that Full Council agrees to increase the current Operational Boundary and Authorised Limit to £1,769.5m and £1,819.5m respectively to bring them in line with the current projected CFR. The previous Operational Boundary and Authorised limit were set based on the level of external debt plus the increase in the underlying need to borrow and placed reliance on the Council’s ability to borrow internally, which is no longer possible to the same extent as in the past. Setting the Operational Boundary equal to the CFR is also in line with the policy adopted by most other local authorities.

4.6.5 Under the Exceptional Financial Support/Capital Direction regime, the Council can only borrow from the PWLB. The PWLB is owned by the Treasury and is monitoring the Council’s borrowing on a monthly basis. It will not allow the Council to borrow excessively.

#### 4.7 Capital Expenditure and Prudential Indicators

4.7.1 The paragraphs in this section cover:

- The Council’s capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.7.2 Table 2 below shows the original capital budget as agreed by full Council on 6 March 2024 (Minute 106/24 applies), the revised budget agreed by Cabinet on 25 September 2024 (Minutes 198/24 and 199/24 apply), the actual spend at 30 September 2024 and the outturn forecast at month six. Explanations of the evolution of the budget are provided in detail in the Cabinet reports. A further refresh is underway of both the General Fund and HRA capital programmes as part of the preparations for the budget setting processes in February and March 2025.

**Table 2 Capital expenditure by service**

	<b>Original Budget £m</b>	<b>Revised Budget £m</b>	<b>Actual at 30 September 2024 £m</b>	<b>Outturn Forecast £m</b>

Assistant Chief Executive	5.311	6.951	1.654	5.954
Children, Young People and Education	0.095	0.374	0.117	0.374
Housing	3.335	3.927	0.662	3.150
Resources	12.719	19.106	2.588	15.685
Sustainable Communities, Regeneration and Economic Recovery	30.865	50.179	4.149	32.099
Corporate	38.000	38.000		38.000
<b>Total General Fund</b>	<b>90.325</b>	<b>118.537</b>	<b>9.170</b>	<b>95.262</b>
HRA	57.235	57.235	6.389	48.899
<b>Total</b>	<b>147.560</b>	<b>175.772</b>	<b>15.559</b>	<b>144.161</b>

4.7.3 The table below details the funding sources of the capital programme and their evolution through the first half of the year. This position will be refreshed as part of the preparations for the budget setting processes in February and March 2025.

4.7.4 The borrowing element in the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although, in the current year, this will be more than offset by revenue charges for the repayment of debt (MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

**Table 3 Financing of capital expenditure**

	Original Budget £m	Revised Budget £m	Outturn Forecast £m
Capital receipts	57.394	57.394	56.608
Capital grants and other contributions	19.557	28.276	22.282
Capital reserves		3.889	3.899
Capital reserves – Growth Zone	4.000	11.942	3.562
Section 106	1.084	1.240	0.156
Community Infrastructure Levy	8.290	8.755	8.755
General Fund borrowing		7.041	0.0
HRA Right to Buy Receipts	2.140	2.140	2.140
HRA Reserves	28.170	28.170	19.834
HRA Revenue	12.196	12.196	12.196
HRA Major Repairs Allowance	14.729	14.729	14.729
<b>Total financing</b>	<b>147.560</b>	<b>175.772</b>	<b>144.161</b>
<b>Underlying need to borrow</b>		<b>7.0</b>	<b>0.0</b>
<b>Less Minimum Revenue Provision</b>	<b>-27.4</b>	<b>-27.4</b>	<b>-27.8</b>
<b>Borrowing Requirement</b>	<b>-27.4</b>	<b>-20.4</b>	<b>-27.8</b>

4.7.5 The key controls over treasury management activity to ensure that, over the medium term, borrowing will only be for capital purposes are the prudential indicators. 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 the current year and the next two financial years. This allows some flexibility for limited early borrowing for future years. The table below shows the currently projected CFR and borrowing requirements.



**Table 4 Borrowing and CFR**

	<b>Original Budget £m</b>	<b>Outturn Projection £m</b>
Borrowing	1,287.2	1,433.5
Other long term liabilities	135.3	135.3
<b>Total debt</b>	<b>1,422.5</b>	<b>1,568.8</b>
CFR (year end position) – GF	1,344.5	1,402.8
CFR (year end position) – HRA	365.7	365.7
<b>CFR (year end position) – Total</b>	<b>1,710.2</b>	<b>1,769.5</b>

*Note: The difference between the original budget and the outturn projection is mainly due to changes to the accounting treatment for prior years and the need to externalise internal borrowing.*

4.7.6 The Prudential Indicators relevant to the capital programme and its borrowing implications are the Operational Boundary (the expected debt position) and the Authorised Limit (the limit, including a buffer of £50m to cover unexpected cashflow shortages, beyond which borrowing is prohibited). For the reasons set out in 4.6 above, it is recommended that these be increased as set out in the following table.

**Table 5 Operational Boundary and Authorised Limit**

	<b>Agreed TMSS £m</b>	<b>Revised £m</b>
Operational Boundary	1,422.5	1,769.5
Authorised Limit	1,472.5	1,819.5

## **4.8 Borrowing Strategy**

4.8.1 During 2024/25 the Council has been operating in accordance with the Authorised Limit approved by full Council on 6 March 2024. The level of the Council's borrowing, which is measured against the limits, was £1,417.4m on 1 April 2024 and increased to £1,447.4m on 30 September 2024.

4.8.2 For the reasons set out in 3.6, there is forecast to be a need for further borrowing for the second half of the year as the Council's need to externalise internal borrowing arises. Details are provided in Table 6 below.

**Table 6 Borrowing**

	1 April 2024 £m	30 September 2024 £m	Outturn Projection £m
Temporary – other local authorities	55.0	43.0	20.0
Long term – PWLB	1,092.6	1,139.6	1,315.1
Long term – UK banks	20.0	20.0	20.0
Long term – LEEF	5.0	5.0	5.0
Long term – other local authorities	5.0		0.0
Long term – European Investment Bank	102.0	102.0	102.0
Other Long Term Liabilities	137.8	137.8	135.3
<b>TOTAL</b>	<b>1,417.4</b>	<b>1,447.4</b>	<b>1,597.4</b>

4.8.3 During the period a sum of £37.0m of temporary loans from other local authorities has been re-paid on maturity (see table 7) with £20m refinanced with other local authorities and £17m refinanced with the PWLB. The Council has increased external borrowing by £30m, by taking out a loan under the HRA from the PWLB. The Council has reached a point where it has maximised internal borrowing and it is forecast that external borrowing will now increase due to the need to externalise internal borrowing.

**Table 7 Loans Matured 1 April 2024 to 30 September 2024**

Counterparty	Principal £	Interest Rate	Maturity Date
Rugby Borough Council	5,000,000	4.700	04/04/24
West Midlands CA	10,000,000	3.850	26/04/24
Furness Building Society	5,000,000	4.900	08/05/24
Argyll & Bute	5,000,000	5.300	10/06/24
Mole Valley DC	2,000,000	5.300	10/06/24
Test Valley BC	5,000,000	6.000	03/07/24
Test Valley BC	5,000,000	6.000	29/08/24
<b>Total</b>	<b>37,000,000</b>		

**Table 8 New Loans taken out 1 April 2024 to 30 September 2024**

Counterparty	Principal £	Interest Rate %	Start Date	Maturity Date
West Midlands CA	10,000,000	4.500	26/04/24	25/04/25
Test Valley BC	5,000,000	5.300	03/07/24	06/05/25
Test Valley BC	5,000,000	4.750	29/08/24	28/08/25
PWLB	5,000,000	5.070	04/04/24	09/04/26
PWLB	5,000,000	5.470	09/05/24	08/05/26
PWLB	7,000,000	5.240	10/06/24	10/06/27
PWLB	30,000,000	4.030	30/09/24	30/09/29
<b>Total</b>	<b>67,000,000</b>			

4.8.4 The Council continues to maintain an under-borrowed position at the moment. This means that the underlying capital borrowing need (CFR), is not fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow are currently used as an interim measure. As this report explains in 3.6, this position is no longer sustainable. If Council agrees to the recommended increases in the Operational Boundary and the Authorised Limit, further borrowing will be arranged with the PWLB.

4.8.5 The Council’s effective interest payable on debt currently stands at 3.7%.

#### **4.9 Investment Strategy**

4.9.1 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 TMSS, MRP Policy Statement and Annual Investment Strategy as approved by full Council on 6 March 2024 (Minute 106/24 applies). In accordance with the Code it sets out the Council’s investment priorities as being security of capital, liquidity and yield.

4.9.2 The current guidance defines investments as “Specified” and “Non-specified”

4.9.3 An investment is a specified investment if all 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.

4.9.4 A non-specified investment is any investment that does not meet all the conditions in paragraph 4.9.3 above.

4.9.5 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 2024/25 as advised in the current Treasury Management Strategy are detailed in Appendix C.

4.9.6 Investment activity in the first half of the year conformed to the approved strategy with an average end of month balance of £75.8m being maintained in temporary investments. As at 30 September 2024 investments were as follows:

**Table 9 Investment Balances at 30 September 2024**

<b>Investment</b>	<b>£m</b>
Money Market Funds	38.650

Other local authorities	40.000
<b>TOTAL</b>	<b>78.650</b>

In addition the Pension Fund had balances of £65.250m.

4.9.7 The Corporate Director of Resources confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2024/25.

#### **4.10 Compliance with Treasury and Prudential Limits**

4.10.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2024, the Council has operated within the treasury and prudential indicators set out in the TMSS.

4.10.2 All treasury management operations have been conducted in compliance with the Council's Treasury Management Practices.

### **5. CONSULTATION**

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

### **6. CONTRIBUTION TO EXECUTIVE MAYOR'S BUSINESS PLAN**

6.1 Sound financial management: the report asks the Committee to note the contents of the mid-year report on the treasury management activity for 2023/24 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 IMPLICATIONS**

#### **7.1 FINANCIAL IMPLICATIONS**

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

**Approved by:** James Huggett, Head of Strategic Finance for Resources, Assistant Chief Executive and MTFs on behalf of Jane West, Corporate Director of Resources (S151 Officer) 18/11/2024

#### **7.2 HUMAN RESOURCES IMPLICATIONS**

7.2.1 Ensuring the council maintains a balanced budget and a prudent approach to treasury management, borrowing, and debt repayment are matters of interest to the council's workforce, and workforce representatives, which will impact upon recruitment, retention and employee engagement.

Approved by: Dean Shoesmith, Chief People Officer Date: 18/11/2024

### **7.3. LEGAL IMPLICATIONS**

7.3.1 Under Part 1 Chapter 1 of the Local Government Act 2003, a local authority must determine and keep under review how much money it can afford to borrow for any purpose relevant to its functions or for the prudent management of its affairs.

7.3.2 The total amount that a local authority may borrow is governed by the requirements of CIPFA's Prudential Code for Capital Finance in Local Authorities (the Code) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

7.3.3 Each local authority must set a total borrowing limit for itself in accordance with the principles of the Code. The Council may borrow money from a number of different sources this includes using the Public Works Loan Board. However the overall borrowing must not breach the borrowing limit set by the Code.

7.3.4 Under the provisions of Section 3(1) and (8) of the Local Government Act 2003, the function of determining and keeping the Council's borrowing limit under review is a Council, rather than an executive function. The Council may vary its borrowing limit during the year, if there is good reason. The approval of Full Council is required for any subsequent variation.

Approved by: Gina Clarke, Principal Lawyer, Corporate Law & Litigation, on behalf of the Director of Legal Services and Monitoring Officer.

### **7.4 EQUALITIES IMPLICATIONS**

7.4.1 There are no specific equalities issues set out in this report.

7.4.2 The Council has a statutory duty to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must therefore have due regard to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it

(c) foster good relations between persons who share a relevant protected

characteristic and persons who do not share it.

## **7.5. FREEDOM OF INFORMATION**

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

## **7.6 DATA PROTECTION IMPLICATIONS**

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

No.

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

No.

## **BACKGROUND DOCUMENTS:**

None

## **APPENDICES:**

- A Economic update
- B PWLB rates
- C Investment instruments

## APPENDIX A

### Economic update (as prepared by Link in the first week of October 2024)

- The third quarter of 2024 (July to September) saw:
  - GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
  - A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
  - CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
  - Core CPI inflation increasing from 3.3% in July to 3.6% in August;
  - The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
  - 10-year gilt yields falling to 4.0% in September.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven

by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

- The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.
- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.
- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts



likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.
- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

#### **MPC meetings: 9 May, 20 June, 1 August, 19 September 2024**

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20<sup>th</sup> June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geopolitical events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

## APPENDIX B

### PWLB Rates

#### **Maturity certainty rates (gilts plus 80bps) year to date to 30 September 2024**

Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

Where there was some movement downwards, this came in the shorter part of the curve as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, although the continued stickiness of inflation and the prevailing tight labour market is a concern for those looking for more sizeable falls ahead.

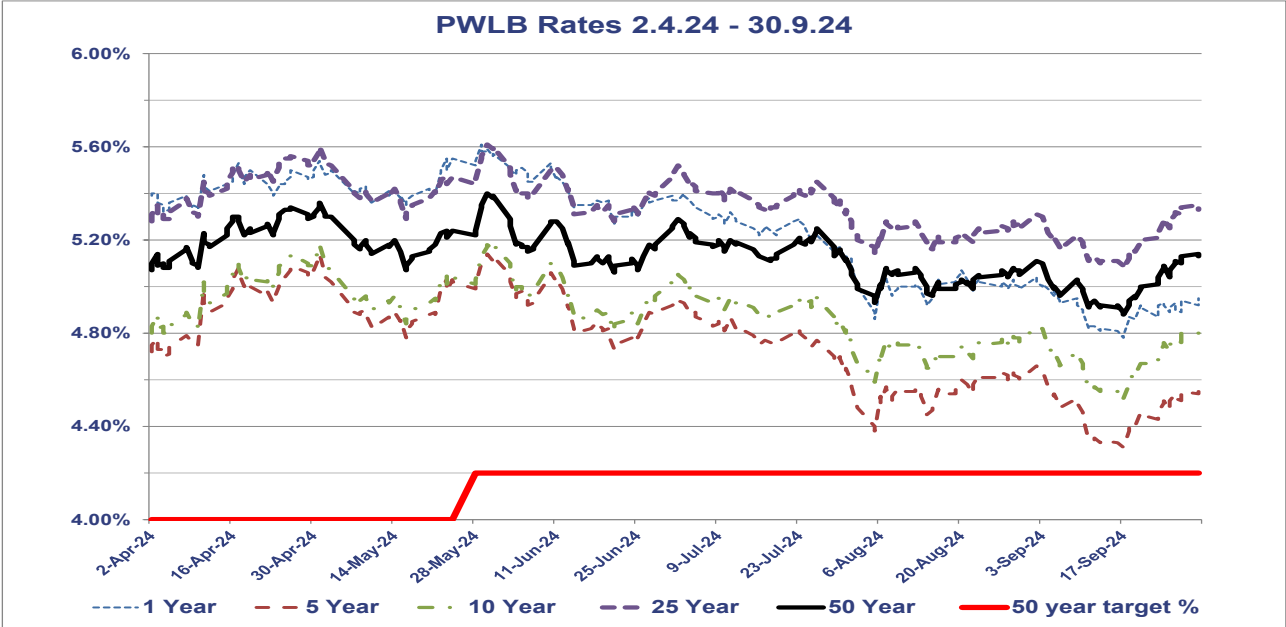
At the beginning of April, the 5-year certainty rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%. May saw yields at their highest across the whole curve.

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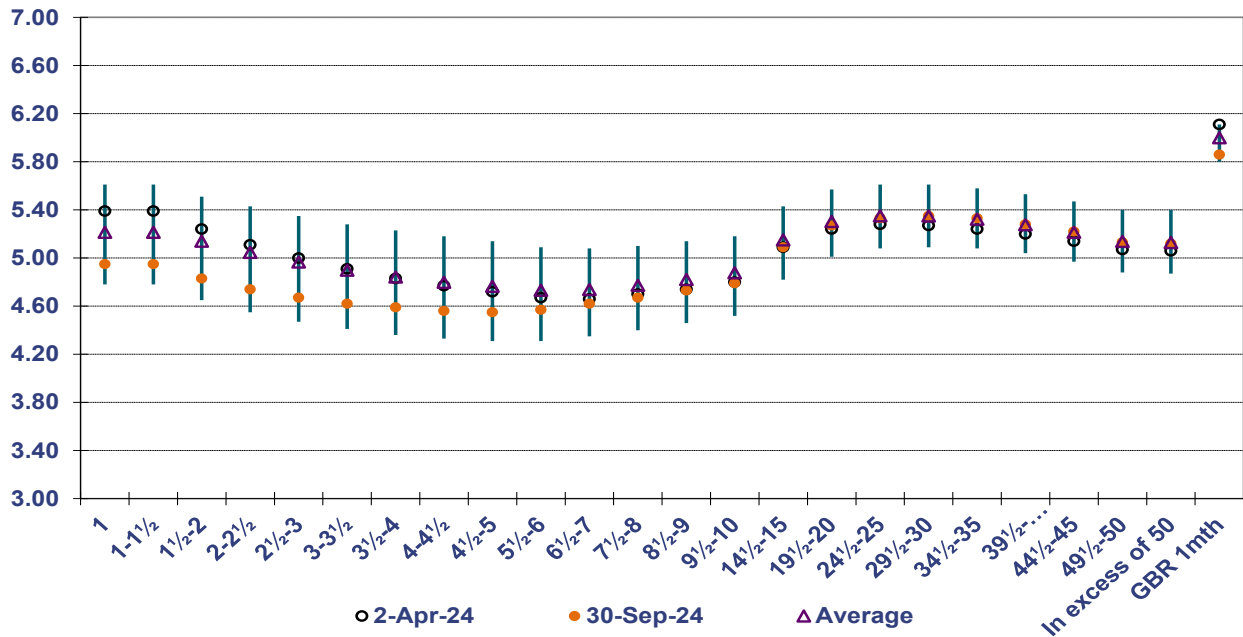
Conversely, 17 September saw the low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

At this juncture, we still forecast rates to fall back over the next two to three years as inflation dampens, although there is upside risk to our Bank Rate forecast at present. The CPI measure of inflation is expected to fall below 2% in the second half of 2025, however, and we forecast 50-year rates to stand at 4.20% by the end of September 2026. The major caveats are that there is considerable gilt issuance to be digested by the market over the next couple of years, and geo-political uncertainties – which are generally negative for inflation prospects – abound in Eastern Europe and the Middle East, in particular.

**PWLB RATES 02.04.24 - 30.09.24**



### PWLB Certainty Rate Variations 2.4.24 to 30.9.24



### HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>02/04/2024</b>	5.39%	4.72%	4.80%	5.28%	5.07%
<b>30/09/2024</b>	4.95%	4.55%	4.79%	5.33%	5.13%
<b>Low</b>	4.78%	4.31%	4.52%	5.08%	4.88%
<b>Low date</b>	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
<b>High</b>	5.61%	5.14%	5.18%	5.61%	5.40%
<b>High date</b>	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
<b>Average</b>	5.21%	4.76%	4.88%	5.35%	5.14%
<b>Spread</b>	0.83%	0.83%	0.66%	0.53%	0.52%

- The current PWLB rates are set as margins over gilt yields as follows: -
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate (GF)** is gilt plus 80 basis points (G+80bps)
  - **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
  - **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)
- The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

## **APPENDIX C**

### **Investment instruments**

#### **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