

<b>AUDIT AND RISK MANAGEMENT PANEL</b>		<b>DATE</b> 24 February 2021
<b>TITLE</b> Treasury Management and Capital Strategy 2021/22		<b>ITEM NO</b> 7
<b>CHIEF OFFICER</b> Director of Finance	<b>CABINET MEMBER</b> Finance and Resources	
<b>DECISION CLASSIFICATION</b> Non-Key	<b>FINAL DECISION</b> Council on 25 February 2021	

## I. **Decisions Required**

This report makes the following recommendations to the decision maker:

- I.1 Refer to Council, with any comments, the Treasury Management Strategy for 2021/22 as set out in appendix A.
- I.2 To note the inclusion of the capital bid projects, set out in appendix B, within the Capital Programme from 1 April 2021; and where applicable, the associated revenue savings.
- I.3 To note the disposal revocation in respect of one asset as detailed in 5.4
- I.4 To note the proposals developed under the Flexible Use of Capital Receipt policy, and set out in appendix C; for approval by Full Council
- I.5 Refer to Council, with any comments, the Capital Strategy for 2021/22, set out in appendix D.
- I.6 To note the Investment Strategy and refer the item to Council.
- I.7 To note the Prudential Indicators for the period 2019/20-2023/24 in appendix E; and refer the indicators, together with any comments, to Full Council.
- I.8 To note the arrangements for determining the Minimum Revenue Provision for 2021/22 as set out in appendix F; and refer the arrangements to Full Council.

## **2. Links to the Royal Greenwich high level objectives**

2.1 Treasury and Capital Management strategies help to facilitate the smooth running of the Council and contribute to the delivery of the Corporate Plan. This report therefore cuts across each of the high-level objectives:

- a Healthier Greenwich
- a Safer Greenwich
- a Great Place to Grow Up
- Delivering Homes Through Economic Growth
- a Cleaner, Greener Greenwich
- Economic Prosperity for All
- a Great Place to Be
- a Strong Vibrant and Well-run Borough

## **3. Purpose of Report and Executive Summary**

3.1 The report satisfies the requirements of both the Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); and has regard to the Statutory Investment Guidance (2018) issued by the Ministry of Housing Communities and Local Government (MHCLG).

3.2 The requirements of the above are met through the development of the Treasury Management and Capital Strategies, alongside the setting of Prudential Indicators and Minimum Revenue Provision Policies.

3.3 Further decisions are required with respect to the development of the Councils Capital and Flexible Use Programmes.

## **4. Treasury Management Strategy 2021/22**

4.1 The Royal Borough of Greenwich is required to operate a balanced budget, which broadly means that cash raised during the year will, as a minimum, meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in accordance with the Authority's risk appetite and investment policy, having regard to security, liquidity and yield.

4.2 The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning to ensure that the Authority can meet its capital spending obligations. The management of this longer-term cashflow may involve arranging long or short-term loans or using longer-term cash flow surpluses.

4.3 CIPFA recognises that there is a wide range of interpretations of what activities comprise treasury management. For the purposes of the Code and accompanying guidance notes, CIPFA has adopted the following as its definition of treasury management activities

*“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.”*

4.4 Investments in the definition above covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management.

4.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from day to day treasury management activities. However, to provide an overall picture of total investment. Any non-treasury investments that have treasury implications (i.e borrowing requirement) have been included in the investment section of TMS.

4.6 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

- 4.7 The scale of the investment highlighted in the capital strategy means the Council will need to undertake external borrowing in the future and will not be able on to rely on internal borrowing alone. The first tranche of external borrowing is forecast likely to be made in 2021/22 and will depend on capital project/housing delivery going live and interest rate movement.
- 4.8 The approach to external borrowing will affect the revenue outturn position, as the authority will no longer be able to benefit from foregoing debt interest, by using the surplus fund for borrowing rather than investment. This point is further detailed in 2020/21 revenue monitoring report.
- 4.9 The Council's 2021/22 Treasury Management strategy is attached at appendix A.

## **5. Capital Bids / Disposals**

- 5.1 The Corporate Capital Strategy sets out a bid process for new capital project proposals. The bid has been subject to an initial officer review process and is subject to approval by Cabinet on 19 February 2021.
- 5.2 A bid proforma can be found in appendix B to this report and contributes to the Council's existing programme of diverse and ambitious projects. Outline funding and revenue implications arising from the project is noted and summarised in the cross-cutting section below.
- 5.3 The capital programme plays an important role in the delivery of the Council's strategic objectives panning from housing delivery and regeneration, infrastructure and economic development and educational attainment to leisure, health and social care provision. Combined with the Medium-Term Financial Strategy the approach aims to maximise the possibility of convergence between wealthier and poorer parts of the borough, improving social cohesion and mobility and boosting economic growth.
- 5.4 Cabinet on 24 February 2021 was presented with one asset (Bostall Gardens – PCs), previously agreed for disposal in 2019, subject to review through the Property Asset Strategy and Corporate Capital Strategy, whereupon the disposal decision is now revoked.

## **6. Flexible Use of Capital Receipts**

- 6.1 On 30 October 2019, Council agreed the initial flexible use of capital receipt proposals. Additional projects have been added to the programme, in accordance with the adopted strategy, under subsequent capital reports.
- 6.2 Further works has been undertaken to identify additional transformational proposals, which will result in on-going cash or service demand savings. The strategy and programme as set out in appendix C to this report, will be made available on the Council's website in accordance with the guidance issued under section 15(1)(a) of the Local Government Act 2003.
- 6.3 Details of expenditure incurred under the Flexible Use programme are reported as part of the Treasury Management and Capital Outturn and Mid-Year reports.

## **7. Capital Strategy**

- 7.1 Contained within appendix D is the 2021/22 iteration of the Corporate Capital Strategy, with approval required by Council on an annual basis as required under the Prudential Code for Capital Finance in Local Authorities. The document reinforces the governance arrangements set out in prior year strategies. The Chartered Institute of Public Finance and Accountancy (CIPFA) have confirmed that implementation of IFRS 16 in relation to the accounting for leases, which has capital implications, has been deferred and will now come into effect from accounting periods commencing 1 April 2022. The impact upon the CFR from this deferral is included in the Treasury Management sections above.
- 7.2 In recognition of the funding gap on the capital programme and revenue implications arising from short- and long-term borrowing requirements on existing and emerging schemes; the Council will adopt a short-term voluntary repayment principle. Future unallocated General Fund capital receipts will, unless otherwise agreed, be used to reduce the CFR and associated borrowing costs in the first instance.
- 7.3 The objective of the governance arrangements is to ensure strategic alignment of the flexible use of capital receipts programme, investment proposals and associated resource monitoring with the Medium-Term

Financial Plan, continuous improvement agenda and budget recovery board / star chamber programme of work.

## **8. Investment Strategy.**

8.1 In November 2019 CIPFA published its guidance on Prudential Property Investment in response to rapidly increasing levels of commercial activity being undertaken by Local Authorities. This reflected concern echoed by HM Treasury and the National Audit Office that the risk exposure created by some of these investments were significant and not proportionate to the size of the authority. This commercial activity contributed to a 1% uplift in borrowing rates offered through PWLB, which had a significant impact on the business cases and viability hurdles for all capital projects, not just commercial investments

8.2 HM Treasury issued a response to a consultation on PWLB future lending terms in November 2020, which sees a more targeted approach to reducing the level of commercial investments funded by borrowing. This is achieved by blocking Local Authorities from borrowing from PWLB if they plan to invest purely for a commercial gain anywhere within their Capital plans over a 3-year period. The introduction of the new lending terms enabled HM Treasury to remove the previously introduced 1% uplift in the borrowing rate, making borrowing backed projects more viable again.

8.3 The Investment Strategy, if approved, would sit aside the Corporate Capital Strategy, Treasury Management Strategy and MTFs; setting out in broad terms the Councils approach and risk appetite to different investment opportunities. The strategy aligns with both CIPFA's Prudential Code and MHCLG's Statutory Guidance on Local Government Investments.

## **9. Prudential Indicators 2020/21-2023/24**

9.1 The Prudential Code for Capital Finance in Local Authorities (2018) requires authorities to publish and agree indicators of affordability, sustainability and prudence in relation to its capital programme. Forming part of the annual Budget and Council Tax Setting report in prior years, the indicators set out in Appendix E have been developed in accordance with the Code; and have informed the 2021/22 Budget Setting and

Council Tax report, which is being considered at the same time as this report.

## **10. Minimum Revenue Provision 2020/21**

- 10.1 The authority is required via Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) to determine a minimum revenue provision (MRP) which it deems prudent. Appendix F contains the MRP policy, which is materially unchanged from previous years, to be applied from 2021/22.

## **11. Available Options**

- 11.1 To note the Capital Bid proposals in 1.2 and the disposal revocation in 1.3
- 11.2 To make recommendations in respect of paragraphs 1.1, 1.4, 1.5, 1.6, 1.7 and 1.8

## **12. Reasons for Recommendations**

- 12.1 The Strategies, Prudential Indicators and MRP policy have been developed in accordance with the CIPFA Codes and statutory regulations and guidance, with each requiring formal approval
- 12.2 Capital Bids and Flexible Use proposals will positively affect the council's on-going sustainability through the reduction in revenue expenditure or cost avoidance.

## **13. Next Steps: Communication and Implementation of the Decision**

- 13.1 The report is to be presented to Council for consideration alongside any comments made by Cabinet.
- 13.2 Where required, project proposals will be subject to consultation prior to implementation. Where appropriate, the necessary decision making authority will also be sought in accordance with the Council's Constitution.

#### 14. Cross-Cutting Issues and Implications

Issue	Implications	Sign-off
<p><b>Legal</b> including Human Rights Act</p>	<p>Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the Authority, including securing effective arrangements for treasury management.</p> <p>The Local Government Act 2003 sets the legal framework within which local government may undertake capital investments.</p> <p>Under the Responsibility for Functions section of the Council’s Constitution, Cabinet is the appropriate body to make the decisions referred to in paragraphs 1.2 and 1.3.</p> <p>Under the Responsibility for Functions section of the Council’s Constitution, Full Council is the appropriate body to approve the recommendations in paragraphs 1.1, 1.4, 1.5, 1.6, 1.7 and 1.8.</p> <p>The adoption of the Treasury Management, Corporate Capital and Investment Strategies for 2020/21 will strengthen the Council’s corporate governance processes around treasury management, capital investment, the delivery of the capital</p>	<p>John Scarborough, Director of Legal Services 16 February 2021</p>

	<p>programme and the use of the Council's assets.</p> <p>The legal implications for each individual scheme which is brought forward pursuant to the Corporate Capital Strategy will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the Council's Constitution.</p>	
<p><b>Finance</b> and other resources including procurement implications</p>	<p>The Treasury Management Strategy and Capital Strategy have been drafted in compliance with legislative requirements, providing a robust decision-making framework.</p> <p>The Capital Strategy has been prepared to reflect the corporate priorities and balancing both risk and opportunities whilst also ensuring integration with the Council's revenue and treasury management planning.</p> <p>The capital bids and flexible use of capital receipt proposals have been prepared and assessed using the processes agreed within the Capital Strategy. On-going governance arrangements will be co-ordinated with the continuous improvement unit.</p> <p>The ten-year capital programme provided in annex 3 of the Capital Strategy shows a programme deficit of £55.72m, prior to the inclusion of the recommended capital and flexible</p>	<p>Michael Horbatchewskyj 28/01/2021</p>

	<p>use bids outlined within this report. This demonstrates an underlying need to undertake further borrowing, financial implications will be developed as funding proposals and the programme evolves.</p> <p>Movement in the programme since the mid-year update in November 2020 are driven by new scheme approvals, such as the Woolwich Leisure Centre Project and updated projections.</p> <p>It is essential that sufficient revenue resources are available to underpin the capital programme in order to fund feasibilities and other associated non-capital expenditure. Income generated from regeneration properties will be monitored to ensure that the maximum benefit is realised to support both service delivery and a sustainable capital programme. Any financial implications will be monitored as part of the established budget setting and reporting process.</p>	
<b>Equalities</b>	<p>The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act.</p> <p>Individual project proposals will be subject to individual assessment prior to commencement.</p>	<p>Michael Horbatchewskyj Accountancy Business Change Manager 28/01/2021</p>
<b>Risk Management</b>	<p>The timely realisation of capital resources is essential to ensure that funding for the councils ambitious capital investment programme</p>	<p>Michael Horbatchewskyj Accountancy Business</p>

	<p>remains on course and is unaffected by these proposals. The impact of non-realisation will increase borrowing costs hence strong project management and governance arrangements are required. Robust business cases support proposals and are subject to on-going monitoring. The short term voluntary principle of reducing the CFR within the GF will also contribute to strengthen and secure the Councils revenue position.</p>	<p>Change Manager 19/01/2021</p>
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## 15. **Report Appendices**

15.1 The following documents are to be published with and form part of the report:

Appendix A	Treasury Management Strategy incl Annexes 1-6
Appendix B	Capital bid proformas
Appendix C (i/ii)	Flexible Use of Capital bids
Appendix D	Corporate Capital Strategy
Appendix E	Prudential Indicators 2019/20 – 2023/24
Appendix F	Minimum Revenue Provision 2021/22

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