AUDIT AND RISK MANAGEMENT PANEL	DATE 14 December 2021	ITEM NO 6
TITLE Treasury Management and Capital Mid-Year Update	**WARD (S)** All	
CHIEF OFFICER Director of Finance	**CABINET MEMBER** Finance and Resources	
DECISION CLASSIFICATION Non-Key	**IS THIS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING** No: Council 15 December 2021	

1. Decisions Required

This report makes the following recommendations to the decision maker:

1.1 To note the Treasury Management Mid-Year Report for 2021/22 (Sections 4-11) and refer to Council with any comments.

1.2 To note the Capital Mid-Year Report for 2021/22 (Sections 12-13) and refer to Council with any comments.

2. Links to the Royal Greenwich high level objectives

This report sets out how an effective Treasury Management function helps to facilitate smooth running of the Council and provides an overview of the Councils extensive capital programme.

2.1 This report relates to the Council`s agreed high-level objectives as follows:

- 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 comprises of two sections (Treasury Management Mid-Year 2021/22 and Capital Mid-Year 2021/22), and forms part of the established reporting and governance process for each area.

Treasury Management

3.2 Paragraphs 4-11 of the report meets the requirement of CIPFA's Code of Practice on Treasury Management to provide a mid-year report on treasury management activities, for the financial year 2021/22.

Capital Programme

3.3 Paragraphs 12-13 of the report sets out the mid-year forecast for 2021/22 and forms part of the Corporate Capital Strategy governance framework.

3.4 The mid-year positions will be further considered by Council in accordance with the joint governance arrangements set out within the Corporate Capital Strategy.

Treasury Management Mid-Year

4. Introduction and Background

Treasury Management Structure

4.1 This Mid-Year Treasury Management Report covers:

Part 5 - Treasury Management Position as at 30 September 2021
Part 6 – Interest Rate Forecast
Part 7 – Borrowing Report for 2021/22 to 30 September 2021
Part 8 – Debt Rescheduling
Part 9 – Investment Report for 2021/22 to 30 September 2021
Part 10 - CIPFA Treasury Management Code Consultation
Part 11 – Compliance with Treasury Limits

5. Treasury Management Position as at 30 September 2021

5.1 The authority's treasury position as at 30 September 2021 is presented in Table 1 below.

Table 1 – Total Debt as at 30/09/21 (comparator as at 31/03/21)

Instrument	Principal		Rate [4]		Maturity [5]	
	Sep-21	Mar-21	Sep-21	Mar-21	Sep-21	Mar-21
	£m	£m				
PWLB [1]	**245.654**	245.654	4.54%	4.54%		
Market Loans [2]	**129.000**	129.000	4.18%	4.18%		
Amber MEEF[3]	**11.560**	-	0.96%	-		
Total Debt	**386.214**	374.654	**4.31%**	4.42%	**32 years**	33 years

1 Public Works Loans Board – fixed rate maturity loans
2 These are market loans which are mainly Lenders Option Borrowers Option (LOBO) – loans from banks that are fixed rate for a period, with an option for the lender to revise the rate and a subsequent option for the borrower to repay without penalty
3 New loan taken out for street lighting programme across borough
4 The weighted average rate as at 30 September 2021
5 The residual weighted average maturity as at 30 September 2021

Table 2 – Total Deposits as at 30/09/21 (comparator as at 31/03/21)

Instrument	Principal		Rate [6]		Maturity [7]	
	Sep-21	Mar-21	Sep- 21	Mar-21	Sep- 21	Mar-21
	£m	£m				
Total Deposits	**175.99**	125.23	**0.04%**	0.04%	**14 days**	6 days

6 The weighted average rate as at 30 September 2021
7 The residual weighted average maturity as at 30 September 2021 on treasury related loans.

5.2 Councils would have to take more excessive risk if they want to earn the level of interest income commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020, where it has remained.

6 Interest Rate Forecast

6.1 The revised forecast for interest rate and new PWLB loan rates from our Advisors is as shown in Table 3 below.

Table 3 - Bank Interest and PWLB Rate Forecast

Forecast*	2021	2022				2023	2024
%	Dec	Mar	Jun	Sep	Dec	Mar	Mar
Bank Rate	0.25	0.25	0.50	0.50	0.50	0.75	1.00
5yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.80
10yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.20
25yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.60
50yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.40

*PWLB forecasts using "Certainty Rate"

7. Borrowing Report for 2021/22 to 30 September 2021

7.1 The opening Capital Financing Requirement (CFR – the underlying need to borrow for capital purposes) for 2021/22 is £673m. Table 4 below shows the projected net increase in the borrowing requirement against projected actual external borrowing, with the level of under borrowing rising to £368m.

Table 4 – Projected Borrowing Need versus Physical Borrowing

	£'000		£'000
CFR at 31 March 2021	**672,954**	**Borrowing at 1 April 2021**	**374,654**
Add Approved Borrowing:		Add:	
Temporary Accom	24,510	New Net Borrowing	11,560
Regeneration	19,660		
Leisure / Libraries	590		
HRA	38,670		
Less:		Less:	
MRP	(5,168)	Borrowings Maturing	(3,455)
CFR at 31 March 2022	**751,216**	**Borrowing at 31 March 2022**	**382,759**

7.2 The only new borrowing that has been undertaken during the first half of the 2021/22 financial year is the loan with Amber MEEF to facilitate the delivery of the LED for a street lighting programme. The loan interest rate was benchmarked against PWLB at the time and was 0.70% lower. The loan also aided in supporting the underlying Capital Financing Position in helping to externalise some of internal borrowing position. Further consideration will be given to converting some additional internal borrowing to external borrowing. This would need to be considered in the context of the levels of internal borrowing over the short to medium term.

7.3 Increased investment such as the Greenwich Builds programme are driving an increase in the CFR. The council keeps its use of internal and external borrowing under review.

7.4 to Chart 1 below shows the debt portfolio by amounts maturing each year (and the average rate of the respective debt). The majority of the debt is not due to mature for at least 32 years. Thus, even with the possibility of LOBO options being exercised (Chart 2), this provides for a long period of low refinancing risk for sums already borrowed.

Chart 1 – Debt Portfolio Maturities and Rates (with Contractual End Date)

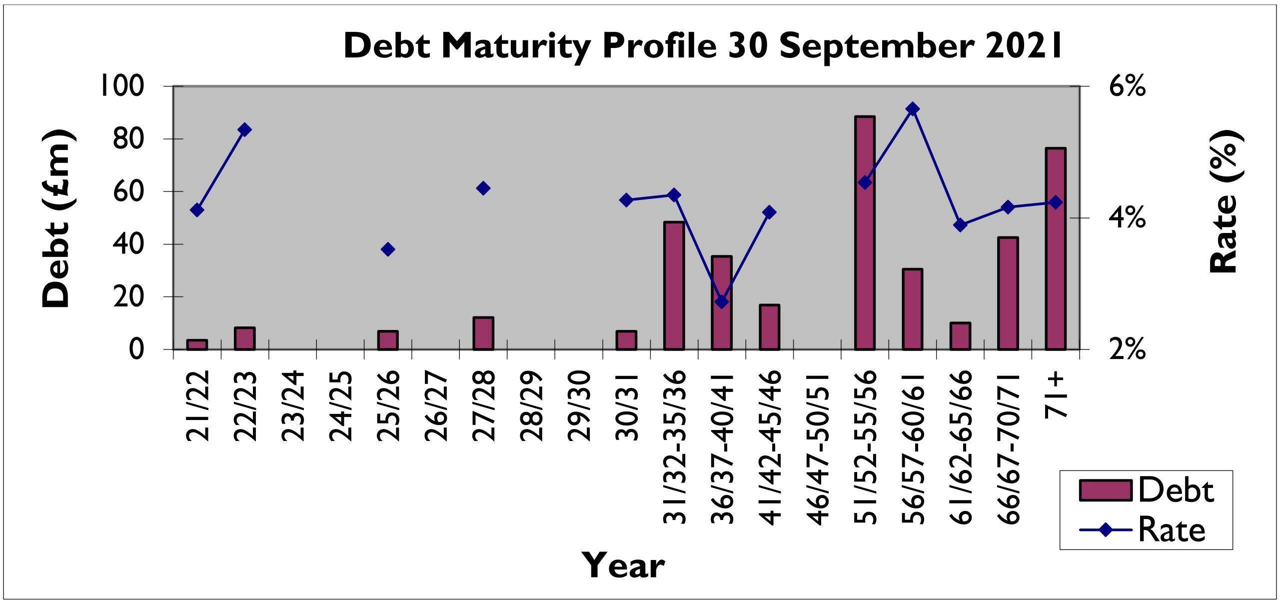
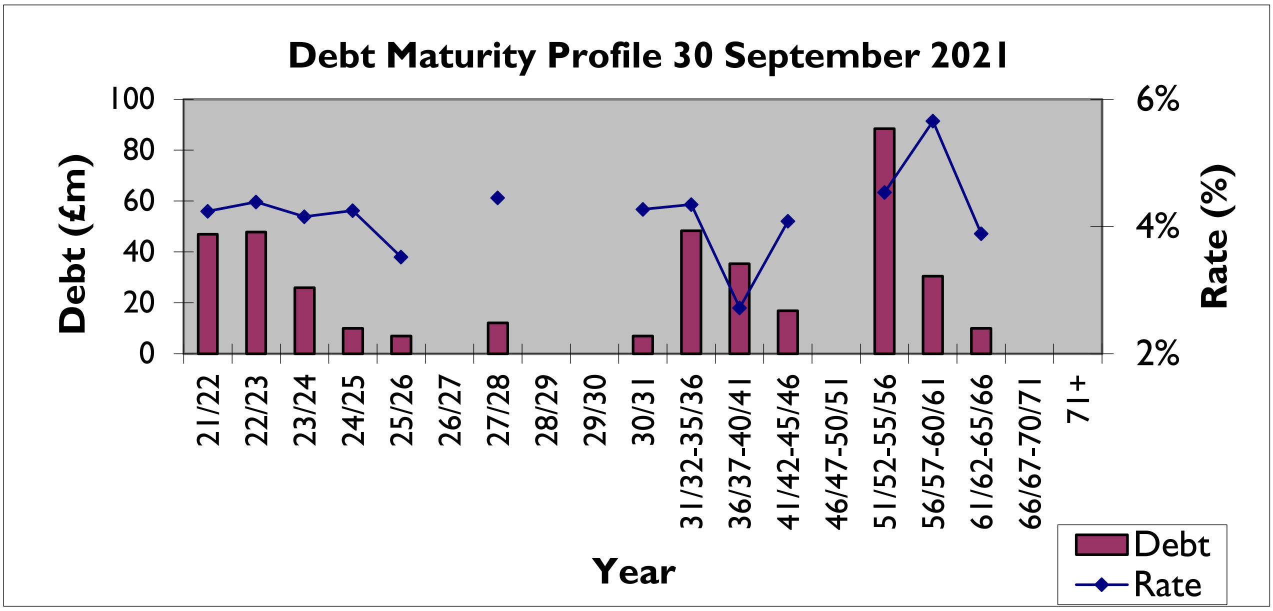


Chart 2 – Debt Portfolio Maturities and Rates (with LOBO Options Date Exercised)



7.5 The average interest rate on the debt portfolio has remained relatively low (compared to previous decades) in recent years and is currently 4.31%.

7.6 The weighted average duration of the portfolio is 32 years.

8 Debt Rescheduling

8.1 Debt rescheduling opportunities have been limited due to the economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first half of the financial year.

9 Investment Report for 2021/22 to 30 September 2021.

9.1 Table 5 compares the initial forecasts made in the 2021/22 Treasury Management Strategy with latest revisions.

Table 5 – Investment Rates: Initial Forecast v Revised Forecast

Initial Forecast	Year	Current Forecast
0.10%	2020/21	0.10%
0.10%	2021/22	0.10%
0.10%	2022/23	0.25%

9.2 During the first six months of the year, all investments made were in full compliance with the authority's treasury management policies and practices, prepared in accordance with the CIPFA guidance.

Investment Strategy

9.3 In accordance with the Code, it is the authority's priority to ensure security of capital, maintain liquidity and to obtain an appropriate level of return, which is consistent with the authority's risk appetite.

9.4 Given this authority's risk-averse environment, investment returns are likely to remain relatively low, but overall treasury management operations will mitigate the effect of this for the current financial year.

Investment Counterparty Criteria

9.5 The current investment counterparty criteria selection approved in the Treasury Management Strategy Statement is meeting the requirement of the treasury management function.

9.6 Security and liquidity have remained the priorities of the Council throughout the year in order to reduce counterparty risk as much as possible. The Council continues to hold an instant access business reserve account with NatWest, which is a part-nationalised institution. The government has indicated that it will take several years to return the bank to private ownership. Due to continued uncertainties surrounding the risk of investing in other UK banks and building societies, all other investments held by the Council were placed with the UK government either through its Debt Management Account Deposit Facility (DMADF) or through UK Treasury Bills.

9.7 The authority is using a combination of share price activity, credit ratings and economic news delivered via various sources including Bloomberg and external advisors, to ensure that decisions are made with the best real time information available.

10 CIPFA Treasury Management Code Consultation

10.1 CIPFA has recently consulted on revising the Treasury Management and Prudential Codes. This is the second stage of consultation, with any changes now intended for a soft adoption in 2022/23 TMSS, with full implementation set to be expected for 2023/24 strategies. The key changes impact on Treasury Management Practices and Treasury Indicators;

- TMP1 Risk Management - Several changes are proposed in this area, mostly changes around wording to limit long investment purely for yield. The amended that would have the most step change if implemented would be requiring an organisation to set out policy and practices relating to environmental, social and governance (ESG) investment considerations. We still waiting for detail on this from CIPFA.
- TMP2 Performance Management - The change is to included measures of effective treasury risk management and not only measures of financial performance. This will mean the treasury team reporting against additional indicators that measure risk.
- TMP6 Reporting Requirements and Management Information Arrangements- this is amended to included investment indicators, which was already required by regulation. No direct impact.
- TMP8 Cash and Cash Flow Management- change aligned to the proposed change to treasury management indicators to implement the use of the liability benchmark. This change will be reflected in the TMSS report, which would now include a Liability benchmark indictor.
- TMP10 Training and Qualifications - CIPFA seek to update the current requirement to ensure that organisation recognises the importance of all staff and board / council members having the required skills and knowledge to be able to undertake their duties and responsibilities. This will mean having a training plan to make sure both staff and Member have sufficient

training in carrying out their roles.

11 Compliance with Treasury Limits

11.1 During the first six months of the financial year the authority operated within the treasury limits and Prudential Indicators set out in the authority's Annual Treasury Management Strategy Statement, per CIPFA Guidance. Treasury Management Indicators are shown in Appendix 1.

Capital Mid-Year 2021/22

12. Programme

12.1 On 25 February 2021 Full Council approved the Capital Programme (2021/22 - 2028/29) and adoption of the updated Corporate Capital Strategy, with a forecast outturn position of £277.27m for 2021/22. The following section notes movements in the approved programme against the February baseline position, with narrative provided on major changes within each sub-programme. With the delivery of the capital programme planned over multiple years, in-year underspends or overspends are, in the absence of changes to the programme arising from new decisions, generally indicative of slippage or acceleration of capital expenditure between financial years.

Programme	Base 2021/22 £m	Revised Forecast 2021/22 £m	Variance £m
Priority Investment	30.53	25.98	(4.55)
Schools / Early Years	23.11	10.21	(12.90)
Transformation	21.09	18.65	(2.44)
Property	7.63	5.92	(1.71)
Flexible Use	5.97	6.45	0.48
Housing Investment (GF)	2.00	1.70	(0.30)
Housing Development (GF)	41.00	35.01	(5.99)
Sub-total General Fund	***131.33***	***103.92***	***(27.41)***
Housing Investment (HRA)	46.61	37.43	(9.18)
Housing Development (HRA)	99.32	78.40	(20.92)
Sub-total Housing Revenue Account	***145.93***	***115.83***	***(30.10***
Total	**277.27**	**219.75**	**(57.51)**

Priority Investment

12.2 Slippage has been encountered within the programme that has resulted in a net £4.55m reduction in forecast capital expenditure in-year. The main drivers for the intra year movement are;

- Woolwich Leisure Centre – Land assembly costs have been reprofiled to 2022/23, reflective of on-going discussions with 3rd party land owners.
- Woolwich Works – Construction works are complete and the Trust held buildings are operational.
- Housing Zones – Slippage in the match funded programme by a further year.
- Nathan Way – Construction of 21 units has completed and occupation of the units is on forecast against the pre-commencement revenue modelling.
- Covid-19 funding will be applied within the programme where there are clear and quantifiable cost arising from delays in accordance with Central Government guidance.

Schools / Early Years

12.3 A significant reduction in the forecast in-year outturn position is projected.

- An underspend has been generated within the Kidbrooke Park School relocation project at Kellaway Road, unutilised contingency resources, which are underpinned Basic Needs Grant, will be reprofiled within the Schools / Early years programme.
- Funding allocated to the delivery of SEND places within the Borough has been reprofiled over future financial years pending a further decision by Cabinet on the School Place Planning allocations.
- Delivery of the Planned Maintenance Programme, which delivers essential investment in the physical school's estates remains on programme.
- Projects within the Public Sector Decarbonisation programme, approved by the Leader of the Council in April 2021, have been integrated within forecast. These works are fully funded from grant monies.

Transformation

12.4 Movements in the forecast position for 2021/22 are driven by the following;

- Vehicle Replacement Programme – Expenditure profiles have been realigned to procurement and vehicle delivery forecasts., which have been delayed due to global supply chain issues, including the availability of microchips.
- LED Street lighting roll out has been impacted by additional planning and supply chain delays
- Investment in the Corporate digital infrastructure has been impacted upon by delays caused by Covid-19.
- The reprofiling of capital expenditure for these schemes does not impact on the previously reported overall programme position or individual project budgets.

Property

12.5 Corporate property maintenance and condition works profiles have been updated. In-year movements have no effect on the forecast ten-year capital programme.

12.6 As with the Schools Programme, Public Sector Decarbonisation Schemes on the corporate estate have now been built into forecast.

Flexible Use

12.7 Reprofile of expenditure forecast to 2021/22 from 2022/23. On 10 February 2021 the Local Government Secretary announced, as part of the Local Government finance settlement, a further 3-year extension to the Flexible Use programme to 31 March 2025. Whilst further details and guidance on this extension are awaited it is expected that the forecast slippage in the approved programme beyond 31 March 2022 will continue to qualify.

Housing Investment

12.8 Expenditure has been reprofiled to reflect the decision of Cabinet on 20 October 2021 to extend HRA Housing Capital approvals to 31st March 2024, which has reprofiled ~£9m of expenditure from 2021/22 to 2022/23.

Housing Delivery

12.9 The programme has been updated to reflect the latest forecast expenditure to enable delivery of the Greenwich Builds Phase 1 programme. It is anticipated a decision report will be brought forward for approval by Cabinet to agree this increase in funding required and to set out the reasoning behind a slippage in the delivery programme.

13. Capital Financing

13.1 Slippage in the programme of £57.51m as outlined above provides a short term cashflow benefit where the level of reserves at a corporate level is projected to be higher than forecast at 31 March 2021. However, as the underlying resource base contains ring-fenced elements, such as grants, pressures on individual schemes and programmes cannot necessarily be offset by capacity on other areas. A deficit in the programme continues to be forecast within year, this will result in an increase in the underlying borrowing requirement (CFR). As noted below, there will be mitigation against the impact of the rise in CFR in future years through the generation of both identified and unidentified capital receipts.

Capital Receipts

13.2 Delays in the realisation of capital receipts adds pressure on the programme. The Strategic Asset Review, a Tier 3 MTFS project, is looking to deliver future capital receipts, on-going revenue savings and increased asset derived income. The project will seek to deliver over the next MTFS period, there will therefore be a short to medium-term impact on the Capital Financing Requirement (CFR), until disposals are identified and realised.

Grants

13.3 The forecast application of grant funding income has been revised in-line with the capital expenditure forecast, particularly where grants are ringfenced or secured for a specific purpose.

Revenue & Major Repairs Reserve (MRR) Contributions

13.4 General fund revenue contributions supporting the vehicle acquisition programme have been revised in accordance with the spend profile; whilst MRR contributions within the HRA remain materially unchanged.

Prudential Borrowing

13.5 In-year borrowing forecasts have been adjusted in-line with projections on the Street Acquisition programme, LED Street Lighting scheme and profile of investment by RBG in Leisure and Library assets.

13.6 The following table sets out in year movements in the anticipated resource position and is reflected in the forecast Treasury positions in Part 1 of this report.

Resource	**Base 2021/22 £m**	**Revised Forecast 2021/22 £m**	**Variance £m**
Revenue Contributions	(9.47)	(10.06)	(0.59)
Capital Grants	(30.61)	(18.99)	11.62
Capital Receipts	(24.73)	(19.90)	4.83
Prudential Borrowing	(17.53)	(11.95)	5.58
Prudential Borrowing – Homelessness	(28.70)	(24.51)	4.19
Sub-total General Fund	***(111.04)***	***(85.40)***	***25.64***
Housing Revenue	(2.00)	(2.00)	0
Capital Receipts	(63.77)	(38.77)	25.00
Major Repairs Reserve	(28.03)	(28.92)	(0.89)
Prudential Borrowing	(44.11)	(38.67)	5.44
Capital Grants	(8.02)	(7.47)	0.55
Sub-total Housing Revenue Account	***(145.93)***	***(145.93)***	***30.10***
Total	**(256.97)**	**(201.23)**	**55.74**

14. Capital Strategy development

14.1 CIPFA has recently consulted on updates to The Prudential Code for Capital Finance in Local Authorities, which complements the revisions to the Treasury Management Code noted above.

14.2 The updated Prudential Code is set to be published in its final form in late 2021 and will be effective from the date of issue. However, due to the timing of the release and reporting timetables across the sector, CIPFA has confirmed that there will be a soft launch for the 2022/23, with Local Authorities expected to adopt the fundamental principles and not the full reporting and monitoring requirements. The implications of the Prudential Code consultation, which looks to strengthen controls around investments and sustainability, have been reviewed by officers. Along with revised capital strategy best practice guidance, the principles will be reflected in the updated

Corporate Capital Strategy scheduled to be put before Members in February 2022.

15. Available Options

15.1 Note the comments of the Audit and Risk Management Panel and;

Option 1 - Note the Treasury Management and Capital Mid-Year Position

16. Preferred Option

16.1 Option 1 – Note the report.

17. Reasons for Recommendations

17.1 The report sets out the Council's Mid-Year Treasury and Capital position for 2021/22 which are reflective of the approved treasury management practices, capital expenditure commitments, CIPFA Codes and statutory regulations and guidance.

18. Next Steps: Communication and Implementation of the Decision

18.1 None.

19. Cross-Cutting Issues and Implications

Issue	Implications	Sign-off
Legal including Human Rights Act	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. The Local Government Act 2003 sets the legal framework within which local government may undertake capital investments.	Azuka Onuorah, Head of Legal Services 29/10/2020

	Under the Responsibility for Functions section of the Council's Constitution, Full Council is the appropriate body to approve the recommendations in paragraphs 1.3. The Treasury Management and Corporate Capital Strategies strengthen the Council's corporate governance processes around treasury management, capital investment, the delivery of the capital programme and the use of the Council's assets. 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.	
Finance and other resources including procurement implications	The Mid-Year Treasury Management and Capital Programme update is a position statement and reflects the financial position of prior decisions, as such no new Financial Implications arise from this report.	Michael Horbatchewskyj Accountancy Business Change Manager (P&I) 15/11/2021
Equalities	The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no apparent equality impact on end users.	Michael Horbatchewskyj Accountancy Business Change Manager (P&I) 15/11/2021
Climate change	There are no direct implication on the Councils Carbon Neutral commitment,	Michael Horbatchewskyj

	with the financial forecast inclusive of existing initiatives, such as the Public Sector Decarbonisation and LED Street Lighting projects.	Accountancy Business Change Manager (P&I) 15/11/2021
Risk Management	The timely realisation of capital resources is essential to ensure that funding for the council's ambitious capital investment programme remains on course and is unaffected by these proposals, which will be managed under the capital strategy arrangements. The impact of non-realisation could potentially increase borrowing costs for the authority and hence strong project management governance arrangements are in place to reduce the risk of this event.	Michael Horbatchewskyj Accountancy Business Change Manager (P&I) 15/11/2021

20. Report Appendices

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

Glossary
Appendix 1 – Treasury Management Indicators

21. Background Documents

Treasury Management and Capital Strategy 2021/22 – Council 25/02/2021

Report Authors: Jason Coniam }
Julian Gocool } Accountancy Business Change Manager
Michael Horbatchewskyj }

Tel No. 020 8921 2136
Email. michael.horbatchewskyj@royalgreenwich.gov.uk
jason.coniam@royalgreenwich.gov.uk

Chief Officer: Damon Cook – Director of Finance
Tel No. 020 8921 6181
Email. damon.cook@royalgreenwich.gov.uk