

<b>AUDIT AND RISK MANAGEMENT PANEL</b>	<b>DATE</b> 29 September 2021	<b>ITEM NO:</b> <b>6</b>
<b>TITLE</b> Treasury Management and Capital Outturn 2020-2021	<b>WARD (S)</b> All	
<b>CHIEF OFFICER</b> Director of Finance	<b>CABINET MEMBER</b> Finance and Resources	
<b>DECISION CLASSIFICATION</b> <i>Non Key</i>	<b>IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING?</b> No. Full Council.	

### 1. **Decision required**

This report makes the following recommendations to the decision-maker:

- 1.1 To note and make any comments to Council on the Treasury Management Outturn Report for 2020/21 (Sections 4-10).
- 1.2 To note and make any comments to Council on the Capital Outturn Report for 2020/21 (Sections 11-14).

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

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

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- 3.1 The report comprises of two sections (Treasury Management Outturn 2020/21 and Capital Outturn 2020/21).

### Treasury Management

- 3.2 This Report summarises the Council's treasury management activities during 2020/21, as required to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management code, which requires the Council to approve a treasury management annual report.
- 3.3 The Council treasury's team ensures adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting, and through officer activity detailed in the Council's Treasury Management Practices.

### Capital Programme

- 3.4 Section two of the report sets out the Outturn Capital position for 2020/21 and forms part of the Corporate Capital Strategy governance framework.

## **4. Introduction and Background**

- 4.1 This Treasury Management Outturn Report covers:
- Part 5 - Borrowing Position as at 31 March 2021
  - Part 6 – Borrowing Strategy for 2020/21
  - Part 7 – Debt Rescheduling
  - Part 8 – Investment Rates in 2020/21
  - Part 9 – Investment Outturn for 2020/21
  - Part 10 – Compliance with Treasury Limits

## **5 Borrowing Position as at 31 March 2021**

- 5.1 The Council's treasury position as at 31 March 2021, is presented in Table 1 below and shows a further reduction in actual borrowing of £3½m through the maturity of historical debt.

*Table 1 – Treasury Position as at 31/03/21 (comparator as at 31/03/20)*

<b>Position</b>	<b>Principal £m</b>		<b>Rate</b> <sup>3</sup> %		<b>Maturity</b> <sup>4</sup>
PWLB <sup>1</sup>	245.654	(249.108)	4.54	(4.53)	
Other <sup>2</sup>	<u>129.000</u>	<u>(129.000)</u>	<u>4.18</u>	<u>(4.18)</u>	
<b>Debt</b>	<b>374.654</b>	<b>(378.108)</b>	<b>4.42</b>	<b>(4.42)</b>	<b>33 (33) years</b>

Note:

- 1 Public Works Loans Board – fixed rate maturity loans
- 2 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 The weighted average rate on 31 March
- 4 The residual weighted average maturity as at 31 March.

## **6 Borrowing Strategy for 2020/21**

- 6.1 During 2020/21, the Council maintained an under-borrowed position. This meant that the capital borrowing need, was not funded with loan debt, as cash supporting the Council's reserves, balance and cash flow were used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investment also needed to be considered.
- 6.2 The policy of temporarily avoiding new borrowing in this way has served well over the last few years. However, against a background of increase capital investment for housing development, the refinancing risk for the council also increases – the need for actual external borrowing is kept under review by the Director of Finance.
- 6.3 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M. Treasury determine a specified margin to add to gilt yields. Gilt yields were on a generally falling trend during the last year. During the year, the 50-year PWLB (certainty) rate for new long-term borrowing averaged 2.14%, with 25 years at 2.33%.
- 6.4 With investment balances still yielding low returns, the interest foregone by temporarily using them to support the capital programme was less than the

cost of undertaking new debt and this also reduced investment counterparty risk. No new borrowing was therefore undertaken during the year.

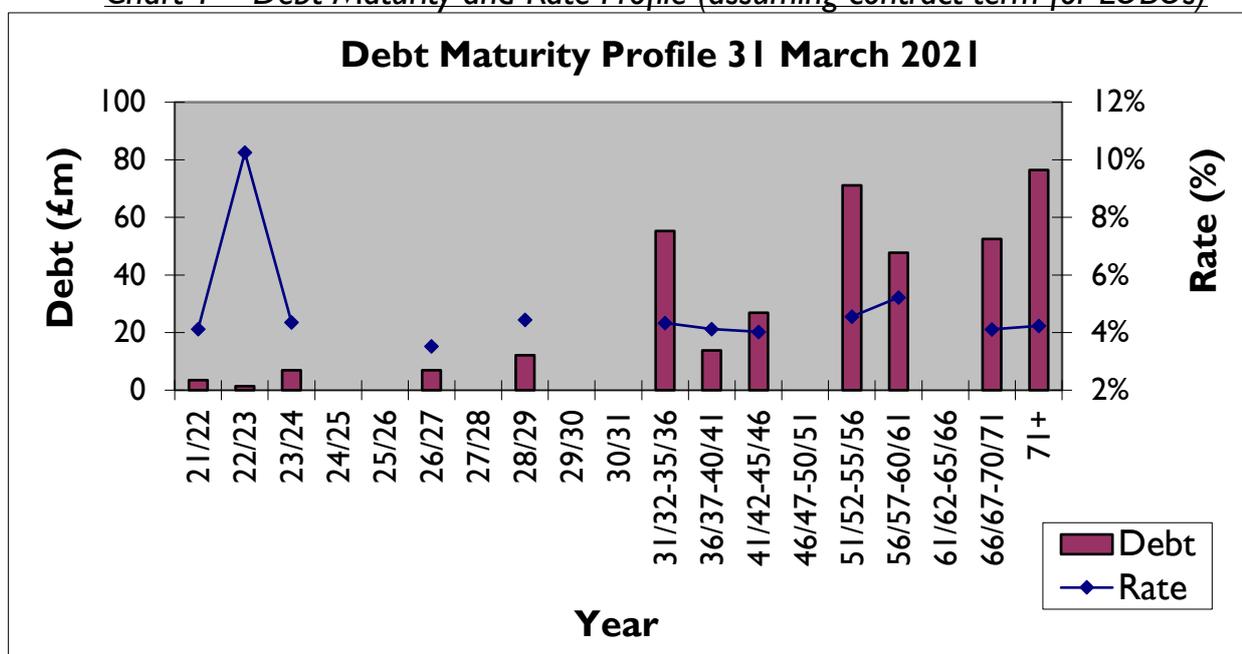
6.5 A comparison of the Capital Financing Requirement and Borrowing activity for 2020/21 is as shown in Table 2.

*Table 2 – CFR and Borrowing Levels 2020/21*

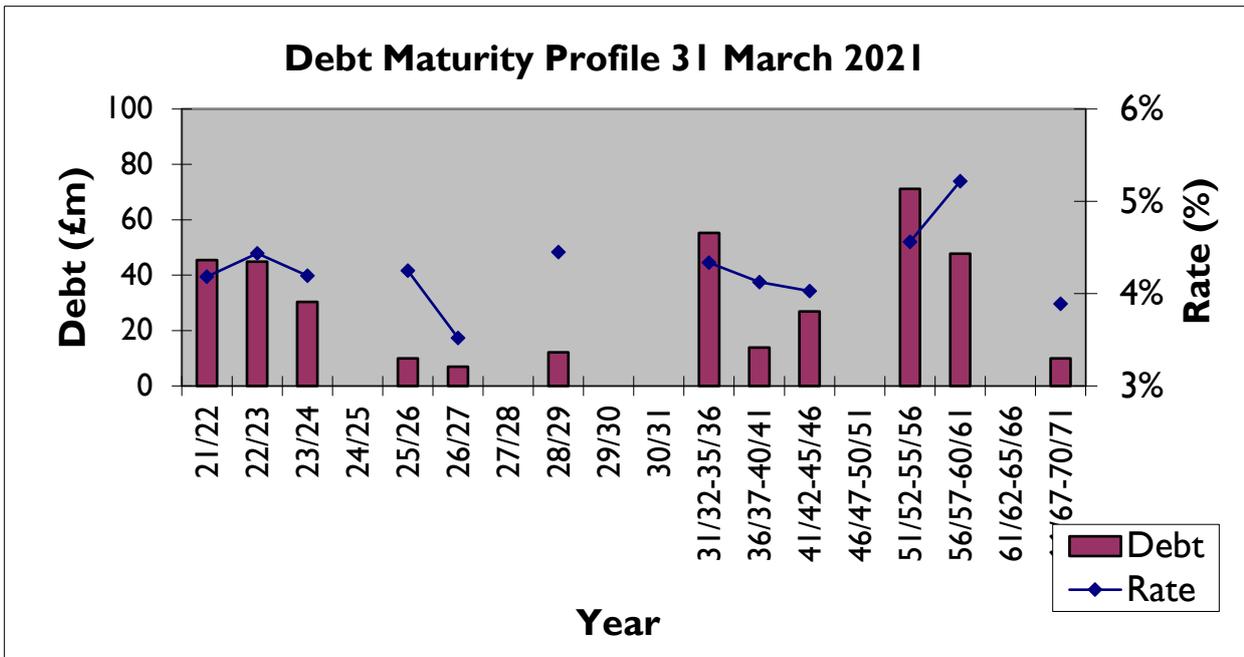
£000	2020/21 Actual
<b>CFR at 31 March</b>	<b>672,958</b>
Debt at 1 April	378,108
Debt maturing	(3,454)
Add	
New Net Borrowing	0
<b>Debt at 31 March</b>	<b>374,654</b>
<b>Under / (Over) Borrowing</b>	<b>298,304</b>

6.6 The maturity profile of the debt portfolio at the end of the year is shown in Charts 1 and 2.

*Chart 1 – Debt Maturity and Rate Profile (assuming contract term for LOBOs)*



*Chart 2 - Debt Maturity and Rate Profile (assuming next call date for LOBO's)*



6.7 The average interest rate for the debt portfolio has remained relatively low over recent years and is currently 4.42%.

6.8 The weighted average duration of the portfolio is 33 years.

## 7 Debt Rescheduling

7.1 Debt rescheduling opportunities have been limited due to the level of premium (penalty) that would be chargeable on by the PWLB and LOBO providers. No debt rescheduling was undertaken during the financial year.

## 8 Investment Rates in 2020/21

8.1 Table 3 below compares the forecasts made in the 2020/21 Treasury Management Strategy (presented to Council on 26/02/20) with events during the year. Forecasts were made before the COVID 19 pandemic outbreak.

*Table 3 – Investment Rate 2020/21 (Forecast v Actual)*

<b>Forecast</b>	<b>Actual</b>
Bank Rate expected to remain at 0.75% until 2021	The rate was reduced from 0.75% to 0.25% on 11/03/2020 and to 0.10% on 19/03/2020. This was due to the COVID 19 pandemic.

## **9 Investment Outturn for 2020/21**

- 9.1 Investment balances were £125m as at 31 March 2021 (£137m in 2020), with an annualised investment return of 0.04% (compared to 0.40% in the previous year).
- 9.2 King & Shaxson continue to be our custody account holders although there were no new investment in Treasury bills during the year, whilst the Bank Rate was lowered from 0.75% to 0.25% on 11 March 2020 and again to 0.1% on 19 March 2020 as a result of the Covid-19 pandemic. Further movements either way will depend on how the financial markets cope with the evolving pandemic.
- 9.3 Security and liquidity have remained the priorities of the council throughout the year in order to reduce counterparty risk as much as possible. Due to uncertainties surrounding the impact of covid-19 on financial organisations and the need to hold a more liquid portfolio, all new investments were invested in Debt Management Account Deposit Facility (DMADF).
- 9.4 Greenwich maintained a short duration investment portfolio:
- Monies invested in the DMADF and Treasury Bills had a maximum duration of 6 months
  - Treasury Bills can also be sold on the secondary market if there is a need to liquidate them
- 9.5 The portfolio thus remained liquid in case the economic situation changed and there was a sudden need to change the investment strategy.

## **10 Compliance with Treasury Limits**

- 10.1 During the financial year the Borough operated within the treasury limits and Prudential Indicators set out in the Annual Treasury Strategy Statement. The

outturn for the Treasury Management Indicators is shown in Appendix A.

- 10.2 The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the Council on 26 February 2020. This policy sets out the approach for choosing investment counterparties.
- 10.3 The Authority uses a combination of credit ratings, and economic news / market data such as credit default swaps, ratings outlook etc, delivered via various sources including Bloomberg and external advisors, to ensure that decisions are made with the best real time information available.
- 10.4 The investment activity during the year conformed to the approved strategy.

### **Capital Outturn 2020/21**

#### **11. Programme**

- 11.1 In 2020/21 the Council invested £179m acquiring or maintaining fixed assets, such as land, buildings, and equipment, with the majority of this sum attributable to the Council's programme of Housing, Schools and Regeneration projects.

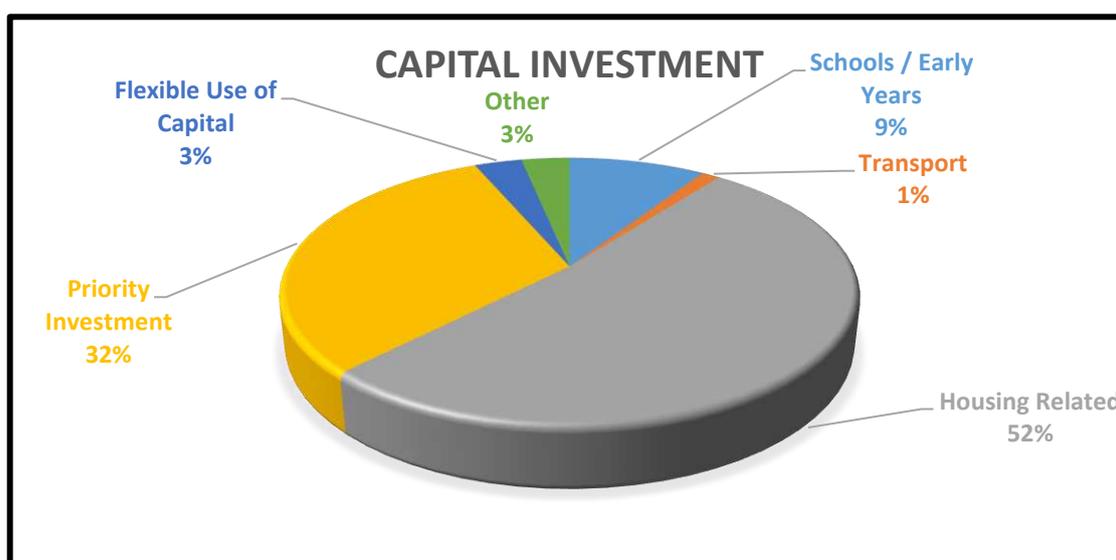


Figure 1: Capital Expenditure by Category

11.2 Overall capital spend was £1.91m lower than the 2020/21 forecast outturn, as detailed in Table 6 below. The significant contributors to the variances were:

- Priority Investment forecast was higher than expected, with the acquisitions at Penhall Road in relation to Charlton Riverside the major driver.
- Housing Investment (HRA) in its existing stock was £4.9m lower than forecast, the ability to undertake work was significantly impacted by Covid and associated controls.
- Housing Development (HRA) reported an outturn £15.34m lower than forecast, as above with the impact of Covid resulted in a material reduction in the ability to progress schemes both on site and in design / planning stage

*Table 6 – 2020/21 Actual Capital Investment vs Forecast Investment*

<b>Programme</b>	<b>Forecast 2020/21 £m</b>	<b>Actual 2020/21 £m</b>	<b>Variance 2020/21 £m</b>
Priority Investment	34.64	58.12	23.48
Schools / Early Years Transformation	16.45	16.44	(0.01)
Property	7.44	5.38	(2.06)
Flexible Use	3.85	1.41	(2.44)
Housing Investment (GF)	5.86	4.70	(1.16)
Housing Development (GF)	2.00	1.08	(0.92)
	38.00	39.45	1.45
<b>Sub-total General Fund</b>	<b>108.24</b>	<b>126.58</b>	<b>18.35</b>
Housing Investment (HRA)	39.96	35.05	(4.91)
Housing Development (HRA)	32.56	17.22	(15.34)
<b>Sub-total Housing Revenue Account</b>	<b>72.52</b>	<b>52.27</b>	<b>(20.25)</b>
<b>Total</b>	<b>180.76</b>	<b>178.85</b>	<b>(1.91)</b>

**Priority Investment**

11.3 Delivery of this programme during the year was attributable to the following capital schemes:

- Penhall Road acquisitions – part of the Charlton Riverside regeneration zone. Charlton Riverside is set to become a mixed-use quarter. Woolwich Creative District (Woolwich Works) – refurbishment of a collection of

buildings on the Royal Arsenal that will be home to a range of cultural organisations

- Woolwich Leisure Centre – investment in a new leisure centre in Woolwich Town Centre, which will replace the Waterfront Leisure Centre and provide a new arts venue and community space to encourage the community to be more active.
- Ezra – Refurbishment and extension to accommodate Woolwich Common Community Centre
- Plumstead Good Growth – series of projects to improve Plumstead High Street and redevelop Plumstead Power Station
- Highways – delivery of the TfL funded Local Improvement Plan (LIP) projects and s.106 works (this includes a multi-year investment programme).

### ***Schools / Early Years***

11.4 Capital activities focused on the delivery of additional pupil places, improvements in facilities and pupil health & wellbeing including:

- Kidbrooke Park rebuild - Construction of a new state-of-the-art school building which will replace the current facilities in September 2021
- Improvements in facilities – Includes the annual Planned Maintenance Programme.
- SEND places – series of projects to create additional SEND places and enhancement of existing learning environments.

### ***Transformation***

11.5 The transformation programme consists of a range of general fund schemes;

- Crossrail – Council contribution towards the fit-out of the Woolwich Crossrail Station
- Greenwich Good Growth Fund – range of CIL funded schemes across the Borough
- ICT – investment in the Councils ICT hardware
- Disabled Facilities Grants – grants provided to facilitate adaptations to private residences
- Library & Leisure – investment in Libraries and Leisure Centres operated by GLL
- Vehicle Replacement Programme – rolling replacement programme of the Council / GSPlus fleet.

### ***Property***

- 11.6 Capital expenditure within the Property Programme consists of major works undertaken on the Corporate Property Portfolio.

### ***Flexible Use***

- 11.7 Previously approved service transformation costs funded from Capital Receipts utilising a time limited MHCLG directive. These projects will result in long term cash savings and efficiencies in support of the Councils revenue outturn position and MTFS. The capital and revenue impact of the Flexible Use proposals to date is set out in Appendix 2 of this report.

### ***Housing Investment***

- 11.8 This programme consists of a large number of schemes, which form the Council's Housing investment priorities. These priorities were delivered using the Investment Principles that were developed and agreed at Cabinet in November 2017 (priority 3 - updated January 2020), as set out below:
1. Keeping residents safe in their homes
  2. Worst first and in poor condition
  3. Tackling energy efficiency and moving to zero carbon
  4. Environmental and estate improvements
  5. Maximising supply through development

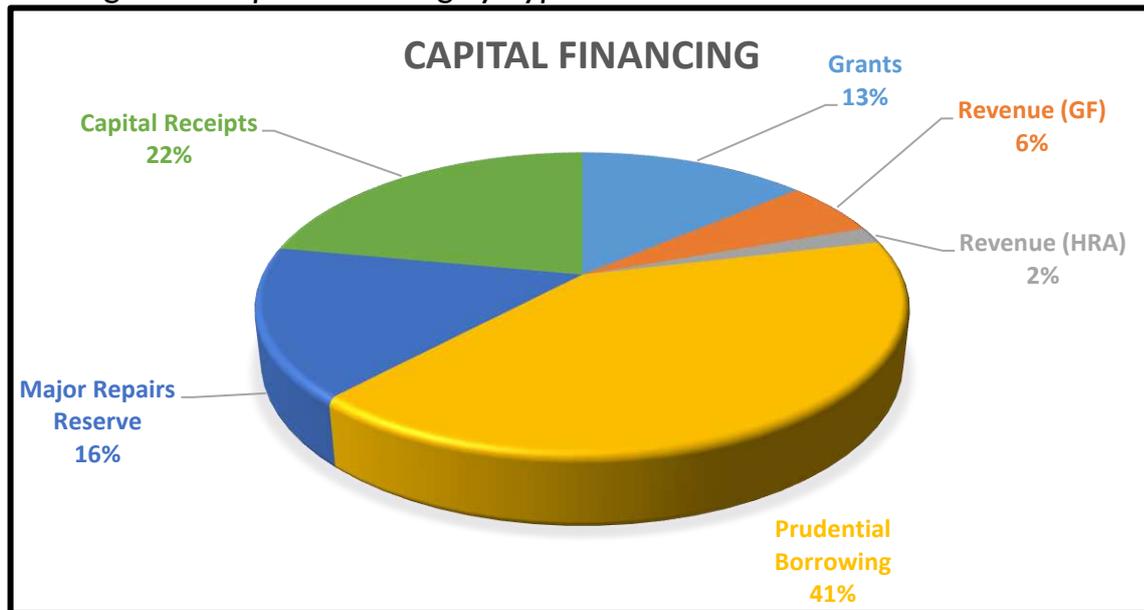
### ***Housing Delivery***

- 11.9 Capital expenditure focused on the Councils direct delivery and grant support to Registered Providers, for the provision of new affordable housing:
- RTB Acquisitions programme providing temporary accommodation to homeless households
  - Greenwich Builds programme developing new build general needs Housing Revenue Account stock
  - RTB funding to Meridian Home Start and Peabody Trust to provide affordable homes at less than 80% market rent.

## **12 Capital Financing**

- 12.1 A high level financing breakdown of the 2020/21 capital programme is set out in Figure 2, with further detail in Table 7.

Figure 2: Capital Financing by Type



### **Capital Receipts**

12.2 The Council utilises a 'single capital pot' approach for the deployment of capital receipts within the non-housing General Fund Programme. This is in order to provide flexibility and best use in the deployment of resources.

12.3 Right to buy receipts generated from the disposal of Council dwellings are utilised in accordance with the Right to Buy retention agreement and are subject to pooling restrictions.

### **Grants**

12.4 The main grants utilised within the financial year were;

- Basic Needs and School Condition funding from the Department of Education, which was deployed against the Schools and Early Years Programme. Local Implementation Plan (LIP) funding from TfL, which supports a significant proportion of the investment in Transport infrastructure
- Disabled Facilities Grant, which supports essential adaptations to private residencies
- Community Infrastructure Levy (CIL) – these planning contributions have been utilised for the fit-out of the Woolwich Crossrail Box and to offset the local impact of developments through the Greenwich Good Growth Fund. Financial reporting and governance of the Councils CIL fund is to be aligned to the Capital Programme
- Affordable Housing Capital Funding – a grant from the GLA utilised within the Greenwich Builds Programme for new housing supply.

- Good Growth Fund – a GLA grant to support local projects, specifically the Plumstead ‘Embrace the Change’ programme of works.

### **Borrowing**

12.5 The council utilises ‘Prudential’ borrowing, which is underpinned by identified budgets and revenue streams and assessed on a sustainable basis. During 2020/21 the council utilised internal reserves to fund the prudential borrowing requirement within the capital programme; thereby avoiding external interest charges. This is in accordance with approved treasury management practices.

### **Major Repairs Reserve & Revenue Contributions**

12.6 The major repairs reserve is an earmarked reserve within the Housing Revenue Account, which is used specifically for the financing of planned works to maintain and improve the housing stock. Contributions are made to the reserve each year in accordance with the HRA business plan and self-financing regulations.

12.7 Other revenue contributions towards capital expenditure are made from earmarked reserves or one-off contributions from departments or third parties. This may include Section 106 developer contributions, reporting of which is to be aligned to the Capital Programme.

Table 7: Capital Financing 2020/21

<b>Resource</b>	<b>2020/21 £m</b>
Grants	21.94
Capital Receipts	21.42
Revenue Contributions	10.49
Prudential Borrowing	72.73
Supported Borrowing	0.00
<b>Sub-total General Fund</b>	<b>126.58</b>
Grants	2.43
Capital Receipts	17.93
Revenue Contributions	3.13
Major Repairs Reserve	28.78
Prudential Borrowing	0.00
<b>Sub-total Housing Revenue Account</b>	<b>52.27</b>
<b>Total</b>	<b>178.85</b>

### **13. Covid-19**

- 13.1 The outbreak of covid-19, declaration of a 'Global Pandemic' by the World Health Organisation on 11 March 2020 and subsequent associated events have a range of implications for the Capital Programme.
- 13.2 Additional direct costs have been incurred by contractors due to social distancing requirements, PPE costs, programme prolongation and supply chain interruption. These costs have been reviewed on a project by project basis in-line with the contracts and recommended practices. Financing for the 2020/21 financial year included the utilisation of £2m of Covid grant monies to negate the impact on Royal Greenwich's funding projections.

### **14 Forecast 2021/22**

- 14.1 Forecasts for 2021/22 and future years will be updated within future reports scheduled in accordance with the Corporate Capital Strategy.

### **15. Available Options**

- 15.1 Option 1 – Note the report
- 15.2 Option 2 - note the contents of this report and recommend changes.

### **16. Preferred Option**

- 16.1 Option 1 – Note the report

### **17. Reasons for Recommendations**

- 17.1 The report provides a position statement for the 2020/21 financial year and reflects the Treasury Management and Capital activities undertaken in accordance with previous decisions.

## 18. Consultation Results

18.1 No consultation has been undertaken.

## 19. Cross-Cutting Issues and Implications

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Legal</b> including Human Rights Act	<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>There are no detailed legal implications arising from the report which is for noting only</p>	John Scarborough, Director of Legal Services, 3 September 2021
<b>Finance</b> and other resources	The report sets out the 2020/21 Treasury and Capital Outturn position, which have no direct financial implications.	Michael Horbatcheskyj Accountancy Business Change Manager (P&I) 31/08/2021
<b>Equalities</b>	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 Horbatcheskyj Accountancy Business Change Manager (P&I) 31/08/2021
<b>Climate change</b>	The decisions recommended through this paper have a remote or low relevance to the substance of the Greenwich Carbon Neutral Plan.	Michael Horbatcheskyj Accountancy Business Change Manager (P&I) 31/08/2021

## 20. **Report Appendices**

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

- *Appendix 1: Treasury Management Indicators and Limits*
- *Appendix 2: Flexible Use of Capital Receipts*

## 21. **Background Papers**

- Treasury Management and Capital Strategy 2020/21 – Council 26.02.20
- Treasury Management and Capital Strategy 2021/22 – Council 25.02.21

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

Tel No. 020 8921 2136

Email. [michael.horbatchewskyj@royalgreenwich.gov.uk](mailto:michael.horbatchewskyj@royalgreenwich.gov.uk)  
[jason.coniam@royalgreenwich.gov.uk](mailto:jason.coniam@royalgreenwich.gov.uk)  
[Julian.Gocool@royalgreenwich.gov.uk](mailto:Julian.Gocool@royalgreenwich.gov.uk)

Reporting to: Michael Bate- Corporate & Finance Assistant Director

Tel No. 020 8921 4292

Email. [Michael.Bate@royalgreenwich.gov.uk](mailto:Michael.Bate@royalgreenwich.gov.uk)

Chief Officer: Damon Cook – Director of Finance

Tel No. 020 8921 6181

Email. [damon.cook@royalgreenwich.gov.uk](mailto:damon.cook@royalgreenwich.gov.uk)