

COUNCIL	DATE 26 February 2020	ITEM NO 14
TITLE Treasury Management and Capital Strategy 2020/21	WARD (S) All	
CHIEF OFFICER Director of Finance	CABINET MEMBER Finance and Resources	
DECISION CLASSIFICATION Key	IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING Yes	

I. Decisions Required

This report makes the following recommendations to the decision maker:

- I.1 Agree the Treasury Management Strategy for 2020/21 as set out in appendix A; and note any comments of Cabinet and the Audit and Risk Management Panel.
- I.2 To note the capital bid projects, set out in appendix B, subject to approval by Cabinet on 19 February 2020.
- I.3 Agree the proposals developed under the Flexible Use of Capital Receipt policy, and set out in appendix C; and note any comments of Cabinet and the Audit and Risk Management Panel
- I.4 Agree the Capital Strategy for 2020/21, set out in appendix D; and note any comments of Cabinet and the Audit and Risk Management Panel
- I.5 Note the development of the Corporate Planned Maintenance Programme.
- I.6 Agree the Prudential Indicators for the period 2018/19-2022/23 in appendix E; and note any comments of Cabinet and the Audit and Risk Management Panel.
- I.7 Agree the arrangements for determining the Minimum Revenue Provision for 2020/21 as set out in appendix F; and note any comments of Cabinet and the Audit and Risk Management Panel.

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 2020/21

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 to be made in 2020/21 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 2019/20 revenue monitoring report.
- 4.9 The Council's 2020/21 Treasury Management strategy is attached at appendix A.

5. Capital Bids

- 5.1 The 2019/20 Corporate Capital Strategy, adopted in February 2019, set out a bid process for new capital project proposals. Directorates were invited to submit bids to form the first round of schemes for consideration under the transitional governance arrangements. These bids have been subject to an initial officer review process and are subject to approval by Cabinet on 19 February 2020.
- 5.2 Individual bid proformas can be found in appendix B to this report and contribute to the Councils existing programme of diverse and ambitious projects. Outline funding and revenue implications arising from the project are noted within in each bid and summarised in the cross-cutting section below.
- 5.3 Through both direct delivery and an enabling role; panning from regeneration, infrastructure, economic development, educational attainment to leisure, health and social care provision and housing delivery within the Borough, London and the wider sub-region. The combined 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.

6. Flexible Use of Capital Receipts

- 6.1 On 30 October 2019, Council agreed the initial flexible use of capital receipt proposals, developed in-line with the corporate policy and with an anticipated cost of £3.692m.
- 6.2 Further works has been undertaken to identify additional transformational proposals, which will result in on-going cash or service demand savings. The recommended strategy, set out in appendix C to this report will be made available on the Councils website in accordance with the guidance issued under section 15(1)(a) of the Local Government Act 2003.

7. Capital Strategy

- 7.1 Contained within appendix D is the 2020/21 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 the 2019/20 strategy document, which continue to be embedded. Updates have been made following the publication of guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on investments and lease accounting arrangements.
- 7.2 Updated governance arrangements are recommended to reflect the need for 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 programme of work.
- 7.3 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 activity also contributed to the 100 basis points uplift in borrowing rates offered through PWLB. The updated Corporate Capital Strategy strengthens its commitment to compliance with the publication, and Ministry of Housing, Communities and Local Government's (MHCLG) Statutory Guidance on Local Government Investments, and further confirms that the Royal Borough has not undertaken borrowing solely for investment purposes.
- 7.4 With effect from 1 April 2020, Local Authorities will be required to adopt the new accounting standard for leases (IFRS 16), the impact of which will be an increase in the level of liabilities reported at the balance sheet date. Whilst this is unlikely to have an impact upon the cash position, the recognition of assets utilised by the council through either direct or inferred leasing arrangements will increase the Capital Financing Requirement. Estimates have been made for the purposes of the Treasury Management Strategy and Prudential indicators and further work is to be undertaken to fully identify all relevant commitments.
- 7.5 Following the approval of the Corporate Capital Strategy in February 2019, several proposed governance arrangements have been adopted. These include the consolidated reporting of Treasury Management and Capital, establishment of the capital board and inaugural capital bids process. Further actions are set out within the updated strategy document within appendix D

8. Corporate Planned Maintenance Programme 2019/20 – 2022/23.

- 8.1 The Corporate Estate represents all buildings owned by the Council that are not houses, schools or commercially let properties. This equates to 562 buildings ranging in size from the Woolwich Centre to huts used for storage of parks equipment. They cover buildings as varied as mortuaries, toilet blocks, Grade II listed town halls and community centres
- 8.2 Underinvestment in Planned Preventative Maintenance (PPM) ultimately leads to early component failure and increased capital expenditure in the medium to long term. The impact of the historical budget position was recognised in the Property Asset and Corporate Capital Strategies, leading to the February 2019 Cabinet approval of a 10-year capital allocation for planned maintenance activities.
- 8.3 To understand the condition of the Corporate Estate, the Capital Projects and Property Maintenance Team within DRES have commissioned condition surveys of the property portfolio. This work is underway; however due to scale of the portfolio the surveys will take 18 months to complete. Information from these surveys will provide vital data on the overall condition of the estate and offer a means for prioritising work on a consistent, fair and transparent basis in future years.
- 8.4 Surveys will include a visual inspection of the building fabric, mechanical and electrical condition that will provide a condition rating and indication of cost to repair or replace the element. The rating system is based on the criteria shown below and results in '1D' being the highest priority through to '4A' being in good condition with no current issues.

Condition Grading	
A = Good	B = Satisfactory
C = Poor	D = Bad / Urgent work required
Priority Grading	
1 = Immediate work required	2 = Required within 2 years
3 = Required within 3-5 years	4 = No work in next 5 years

- 8.5 Until the surveys have been undertaken for all buildings it is not possible to create a complete programme of prioritised work. An initial categorised schedule has therefore been identified for implementation to March 2022 (years 1, 2 & 3), whilst the surveys are completed and analysed. The high-level programme allocation has been produced from identified urgent fabric

repairs, mechanical and electrical plant (MEP) replacement requirements, other health & safety and compliance requirements. Further it encompasses the works previously identified and approved by Cabinet.

9. Prudential Indicators 2019/20-2022/23

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 2020/21 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 2019/20.

11. Available Options

11.1 To agree decisions, 1.1, 1.3, 1.4, 1.6 and 1.7 within this report.

11.2 To agree with amendments the policy documents noted in decisions 1.1, 1.4, 1.6 and 1.7.

11.3 To vary the Flexible Use of Capital Receipts proposals recommended under 1.3 of this report.

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 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.

14. Cross-Cutting Issues and Implications

Issue	Implications	Sign-off
Legal 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>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, 1.3, 1.4, 1.6 and 1.7.</p> <p>The adoption of the Treasury Management and Corporate Capital Strategies for 2020/21 will 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.</p> <p>The legal implications for each individual scheme which is brought forward pursuant to the Corporate Capital Strategy will be considered when</p>	<p>Azuka Onuorah, Head of Legal Services 17/02/2020</p>

	<p>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>Finance 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 potential programme deficit of £68.38m – this potentially demonstrates an underlying need to undertake further borrowing, financial implications will be developed as funding proposals are developed.</p> <p>It is essential that there are sufficient revenue resources underpinning the capital programme to fund feasibilities and other associated non-capital expenditure. Income generated from regeneration properties will be monitored to ensure that the maximum</p>	<p>Jason Coniam 30/01/2020</p>

	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.	
Equalities	<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 30/01/2020</p>
Risk Management	<p>The timely realisation of capital resources is essential to ensure that funding for the councils ambitious capital investment programme remains on course and is unaffected by these proposals, which will be managed under the new capital strategy arrangements. The impact of non-realisation could potentially increase borrowing costs hence strong project management governance arrangements will be in place to reduce the risk of this event. Furthermore, a programme management office structure will be established to drive delivery of the investment projects, each of which will be in possession of a robust business case and subject to on-going monitoring.</p>	<p>Michael Horbatchewskyj Accountancy Business Change Manager 30/01/2020</p>

15. Report Appendices

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

Appendix A – Treasury Management Strategy
Annex I-6 – Treasury Management Annex
Appendix B(i) – Capital bids
Appendix B(ii) – Capital bid proformas
Appendix C – Flexible Use of Capital bids
Appendix D – Corporate Capital Strategy
Appendix E – Prudential Indicators 2018/19 – 2022/23
Appendix F – Minimum Revenue Provision 2020/21

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