

<b>COUNCIL</b>	<b>DATE</b> 24 February 2022	<b>ITEM NO</b> 13
<b>TITLE</b> Treasury Management and Capital Strategy 2022/23	<b>WARD (S)</b> All	
<b>CHIEF OFFICER</b> Director of Finance	<b>CABINET MEMBER</b> Finance and Resources	
<b>DECISION CLASSIFICATION</b> Key Non-exempt report  Non-exempt appendices	<b>IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING?</b>  Yes	

## **1. Decisions Required**

This report makes the following recommendations to the decision maker:

- 1.1 To approve the Treasury Management Strategy for 2022/23 as set out in appendix A; and note any comments from Cabinet or Audit and Risk Management Panel.
- 1.2 To note the disposal revocations set out in section 5
- 1.3 To approve the Capital Strategy for 2022/23 set out in appendix C; and note any comments from Cabinet or Audit and Risk Management Panel.
- 1.4 To agree the Prudential Indicators for the period 2020/21-2024/25 in appendix D; and note any comments from Cabinet or Audit and Risk Management Panel.
- 1.5 To agree the arrangements for determining the Minimum Revenue Provision for 2022/23 as set out in appendix E; and note any comments from Cabinet or 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), now the Department of Levelling Up Housing and Communities (DLUHC)
- 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.

### **4. Treasury Management Strategy 2022/23**

- 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. On occasion, when it is prudent and economic, any debt

previously drawn may be restructured to meet Council's risk or cost objectives.

- 4.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 4.4 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.”*
- 4.5 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.
- 4.6 It should be noted that CIPFA published revised Treasury Management Code on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The changes will impact on future TMS reports and the risk management framework. Any changes required will be formally adopted within the 2023/24 TMS report, a summary of the implications is in section four of the TMS.
- 4.7 The Council's 2022/23 Treasury Management strategy is attached at appendix A.

## **5. Disposal Revocations**

- 5.1 Assets that have been assessed as being no longer required or able to support the delivery of services are formally requested to be disposed of in accordance with the Councils General Scheme of Delegation and Financial Procedures. Previously approved disposals are kept under review, with the timing of each sale taking into consideration local and national market factors alongside evolving service and capital financing needs.
- 5.2 Cabinet was requested to approve the revocation of three previously agreed disposals as set out below.
- 5.2.1 52 Craigton Road – It is recommended that the disposal of the former Gordon Primary school premises manager house is revoked, with the asset appropriated from the General Fund to the HRA where the property will be used for the Councils general housing need.
- 5.2.2 617 Rochester Way – As with the above property, it is recommended that the in-principal decision to dispose of the premise is revoked and that the asset is appropriated to the HRA to be used as a dwelling for general housing need.
- 5.2.3 187 Trafalgar Road – It is recommended that the upper floor is appropriated to the HRA for conversion into dwellings. The ground floor will continue to be held within the General Fund and let on commercial terms with a view to encouraging community use.
- 5.3 The capital and revenue implications arising from these revocations are set out within appendix B of this report.

## **6. Capital Strategy**

- 6.1 Contained within appendix C is the 2022/23 iteration of the Corporate Capital Strategy that, in accordance with the Prudential Code for Capital Finance in Local Authorities, requires approval by Full Council on an annual basis. The document provides a framework for long term financial planning and investment to achieve the Councils strategic objectives and builds upon the governance arrangements set out in prior year strategies.

- 6.2 Alignment of the capital programme and investment planning with other key fiscal plans, including the Medium Term Financial Strategy, revenue budget setting and Treasury Management ensures that Royal Greenwich has a robust and sustainable financial base to support service delivery and community needs.
- 6.3 The Capital Strategy contains details of the Councils diverse capital programme that is comprised of approved investments in built assets, infrastructure, and equipment across a 10-year period.
- 6.4 A resource deficit of £74.53m is reported over the 10 year period that, in the absence of alternative funding, will give rise to an increase in the underlying borrowing need or Capital Financing Requirement (CFR). Revenue implications arising from short and long-term borrowing on existing and emerging schemes can be managed within the forecast budget position, and is reflected within the prudential indicators set out later within this report. Royal Greenwich will, where deemed appropriate by the Director of Finance, utilise future capital receipts to make voluntary repayment of debt in order to reduce the CFR and on-going financing costs.

## **7. Prudential Indicators 2021/22-2024/25**

- 7.1 The Prudential Code for Capital Finance in Local Authorities (2021) requires authorities to publish and agree indicators of affordability, sustainability, and prudence in relation to its capital programme. The indicators set out in Appendix D have been developed in accordance with the Code; and have informed the 2022/23 Budget Setting and Council Tax report.
- 7.2 Prudential Indicators are monitored throughout the year, with resource planning decisions informed by on-going updates. The latest version of the code, Published by CIPFA in December 2021, includes a range of new indicators that facilitate comparisons in risk exposure with respect to income generated through commercial and investment activities.
- 7.3 The forecasts informing the Prudential Indicators do not pre-empt capital programme decisions, including Housing investment options scheduled for consideration by Cabinet on 17 February 2022. The financial consideration supporting the recommendations within these reports have regard to the implications that will arise from changes to

the CFR; at present there are no forecast implications for the 2022/23 financial year. Updated forecasts will be reported as part of the Mid-Year Treasury Management and Capital Programme report.

## **8. Minimum Revenue Provision 2022/23**

- 8.1 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 2022/23.
- 8.2 On 30 November 2021 the Department for Levelling Up, Housing & Communities launched a consultation on changes to the capital framework: Minimum Revenue Provision. The proposed updates, which seek to address the practice, in some Local Authorities, of excluding some asset categories from their MRP policy and or failing to make reasonable provision in anticipation of a future offsetting capital receipt. Royal Greenwich's MRP policy and its application is consistent with the proposed update to the statutory guidance.

## **9. Available Options**

- 9.1 To note the disposal revocations in 1.2 and comments from Cabinet and Audit and Risk Management Panel.
- 9.2 To agree decisions 1.1, 1.3, 1.4 and 1.5 in respect of the Treasury Management Strategy, Capital Strategy, Prudential Indicators and Minimum Revenue Provision.

## **10. Preferred Option**

- 10.1 To agree the decisions as recommended in paragraphs 1.1, 1.3, 1.4 and 1.5

## **11. Reasons for Recommendations**

- 11.1 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 Next Steps: Communication and Implementation of the Decision**

- 12.1 The report is presented to Council for consideration alongside any comments made by Cabinet and Audit and Risk Management Panel.
- 12.2 Where appropriate, the necessary decision making authority will also be sought in accordance with the Council's Constitution.

## **13 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>Under the Responsibility for Functions section of the Council's Constitution, Full Council is the appropriate body to approve the recommendations in this report.</p> <p>The adoption of the Treasury Management Strategy and Capital Strategy for 2022/23 will strengthen the Council's corporate governance processes around treasury management, the delivery of the</p>	<p>Davidaire Horsford. Assistant Head of Legal Services 11 February 2022</p>

	<p>capital programme and the use of the Council’s assets.</p> <p>Further, the appropriation of land for housing purposes to the HRA is specifically dealt with in section 19(1) of the Housing Act 1985, which provides that the Council may appropriate their land for the provision of housing accommodation.</p> <p>The legal implications for each individual scheme which is brought forward pursuant to the 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 detailed financial implications arising from the recommendations to revoke the previously agreed disposals set out in section 5 are set out in detail within appendix B.</p>	<p>Michael Horbatchewskyj 07/01/2022</p>



	<p>The ten-year capital programme provided in annex 3 of the Capital Strategy shows a programme deficit of £74.53m. Without further mitigation, such as the realisation of further capital receipts, this will give rise to further borrowing. The remit of the Strategic Asset Review includes the identification of potential disposals and revenue saving proposals that is intended to eliminate or offset the revenue impact of the Capital Programme. Detailed financial implications will be developed alongside the evolving programme.</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; and will be monitored as part of the established budget setting and reporting process.</p> <p>Para 7.3 confirms that the effect of decisions on the Greenwich Build and HRA 5 year capital programme, which are due to be taken at Cabinet on 17 February 2022 will not breach authorised external debt caps for 2022/23.</p>	
<b>Equalities</b>	The decisions recommended through this paper have a remote or low relevance to the substance of the	Michael Horbatchewskyj Accountancy Business

	<p>Equality Act. There is no apparent equality impact on end users</p> <p>The governance and control structures set out in this report will facilitate changes to Council services to ensure they are better able to meet the needs of our residents, particularly those with protected characteristics, as set out in the Equality &amp; Equity Charter and Equality Objectives.</p> <p>The Equality and Equity impact of any capital project or modification to service delivery will be set out in a separate report.</p>	<p>Change Manager 07/01/2022</p>
<b>Climate Change</b>	<p>The Treasury Management and Capital Strategies ensure that the Council has a sound financial base from which it can address the actions set out within the Greenwich Carbon Neutral Plan agreed by Cabinet in 18 November 2020. A specific action set out within the Capital Strategy is development of a financing strategy for the Carbon Neutral Plan, which will be developed alongside the revenue strategy set out within the MTFS.</p>	<p>Michael Horbatchewskyj Accountancy Business Change Manager 07/01/2022</p>
<b>Risk Management</b>	<p>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. The impact of non-realisation will increase borrowing costs hence strong project management and governance arrangements are required.</p>	<p>Michael Horbatchewskyj Accountancy Business Change Manager 07/01/2022</p>

	The voluntary principle of reducing the CFR within the GF will also contribute to strengthen and secure the Councils revenue position.	
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#### **14. Report Appendices**

14.1 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	Disposal Revocations
Appendix C	Corporate Capital Strategy
Appendix D	Prudential Indicators 2019/20 – 2023/24
Appendix E	Minimum Revenue Provision 2021/22

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