

COUNCIL	DATE 30 October 2019	ITEM NO 13
TITLE Treasury Management Mid-Year and Capital Strategy Update	WARD (S) All	
CHIEF OFFICER Director of Finance	CABINET MEMBER Finance and Resources	
DECISION CLASSIFICATION Key	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:

- 1.1 To agree the Treasury Management Mid-Year Report for 2019/20 (Sections 4-10).
- 1.2 To note the Capital Outturn Report for 2018/19 (Sections 11-13).
- 1.3 To agree the proposals developed under the Flexible Use of Capital Programme (Section 14 and Appendix 2).

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

- 3.1 The report comprises of three sections (Treasury Management Mid-Year 2019/20, Capital Outturn 2018/19 and Flexible Use of Capital) and is the first step in developing an integrated Treasury Management and Capital Strategy, the aspiration for which is set out in the Corporate Capital Strategy adopted by Council in February 2019.

Treasury Management

- 3.2 Section one of the report meets the requirement of the CIPFA's Code of Practice on Treasury Management to provide a mid-year report on treasury management activities, for the financial year 2019/20.

Capital Programme

- 3.3 Section two of the report sets out the Outturn Capital position for 2018/19 and forms part of the Corporate Capital Strategy governance framework.

Flexible Use of Capital

- 3.4 Proposals brought forward under the Flexible Use of Capital Receipts policy are outlined.

Treasury Management Mid-Year

4. Treasury Management Structure

- 4.1 This Mid-Year Treasury Management Report covers:

Part 5 - Treasury Management Position as at 30 September 2019

Part 6 – Interest Rate Forecast

Part 7 – Borrowing Report for 2019/20 to 30 September 2019

Part 8 – Debt Rescheduling

Part 9 – Investment Report for 2019/20 to 30 September 2019

Part 10 – Compliance with Treasury Limits

Glossary

5. Treasury Management Position as at 30 September 2019

- 5.1 The authority's treasury position as at 30 September 2019 is presented in Table I below.

Table 1 – Total Debt as at 30/09/19 (comparator as at 31/03/19)

Instrument	Principal		Rate ³		Maturity ⁴	
	Sep-19	Mar-19	Sep-19	Mar-19	Sep-19	Mar-19
PWLB ¹	£m 253.945	£m 253.945	4.67%	4.67%		
Other ²	129.000	129.000	4.18%	4.18%		
Total Debt	382.945	382.945	4.50%	4.50%	34 years	35 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 The weighted average rate as at 30 September 2019

⁴ The residual weighted average maturity as at 30 September 2019

Table 2 – Total Deposits as at 30/09/19 (comparator as at 31/03/19)

Instrument	Principal		Rate ³		Maturity ⁴	
	Sep-19	Mar-19	Sep-19	Mar-19	Sep-19	Mar-19
	£m	£m				
Total Deposits	190.426	191.313	0.74%	0.72%	112 days	138 days

5.2 Despite the very low risk appetite of the authority, return on investments has marginally increased, mainly due to an increase in bank deposit rates and an increase in the Debt Management Office Deposit Rate.

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* %	2019	2020				2021	2022
	Dec	Mar	Jun	Sep	Dec	Mar	
Bank Rate	0.75	0.75	0.75	0.75	1.00	1.25	
5yr PWLB	1.30	1.50	1.60	1.70	1.70	2.10	
10yr PWLB	1.60	1.80	1.90	2.00	2.00	2.40	
25yr PWLB	2.30	2.40	2.50	2.60	2.70	3.00	
50yr PWLB	2.20	2.30	2.40	2.50	2.60	2.90	

*PWLB forecasts using “Certainty Rate”

- 6.2 The interest rate forecasts are predicated on the basis of an agreement being reached on Brexit between the UK and the EU.
- 6.3 Under a scenario where there is both no deal and no transition period (a “disorderly” Brexit), the Bank Rate could move in either direction:
- falls (demand shock) - therefore a need to stimulate business and provide liquidity
 - rises (supply shock) - possibly in steps to counter inflation and output issues:
 - domestic mortgage rates rise
 - commercial loan rates rise.

7. Borrowing Report for 2019/20 to 30 September 2019

7.1 The opening Capital Financing Requirement (CFR – the underlying need to borrow for capital purposes) for 2019/20 is £553m. 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 £212m.

Table 4 – Projected Borrowing Need versus Physical Borrowing

	£'000		£'000
CFR at 1 April 2019	552,540	Borrowing at 1 April 2019	382,945
Add Approved Borrowing:		Add:	
New Build (Meridian)	23,248	New Net Borrowing	0
Temporary Accom	9,800		
Regeneration	5,300		
HRA	2,850		
Leisure / Libraries	395		
BSF	267		
Less:		Less:	
MRP	(4,366)	Borrowings Maturing	(4,837)
CFR at 31 March 2020	590,034	Borrowing at 31 March 2020	378,108

7.2 Rates are being monitored, but no new borrowing has been undertaken as yet during the 2019/20 financial year. However, given the historically low levels, consideration could be given to converting some of the 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 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 34 years. Thus, even with the possibility of LOBO options being exercised (Chart 2), this provides for a long period of low refinancing risk.

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

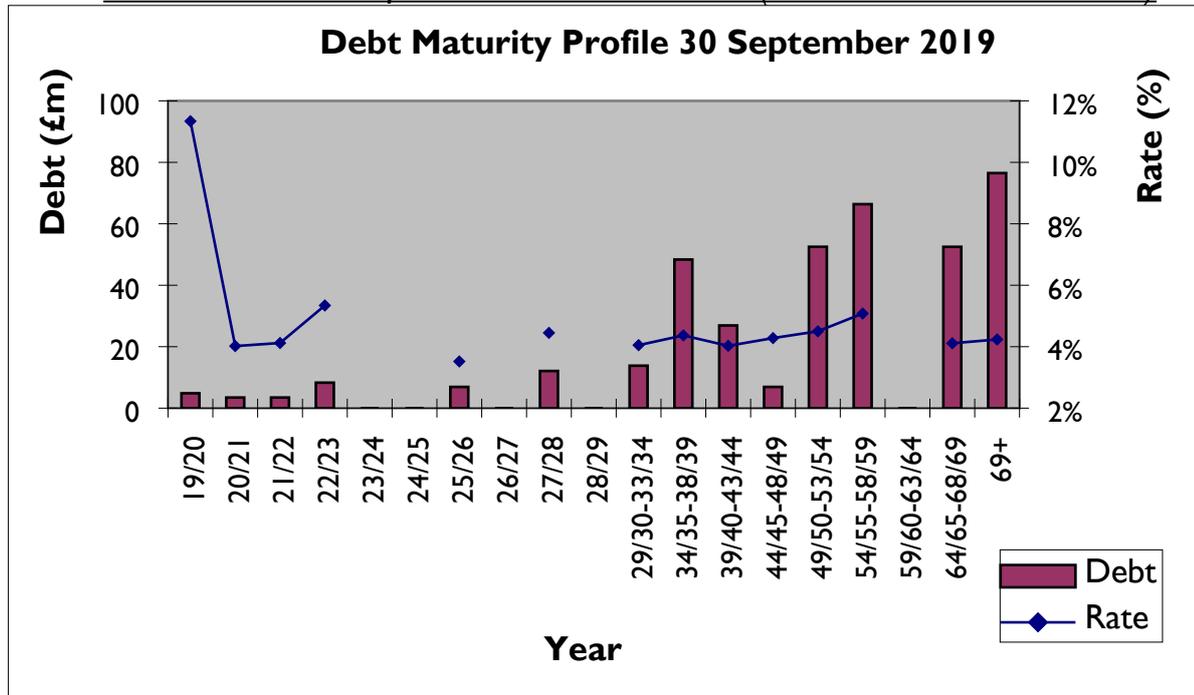
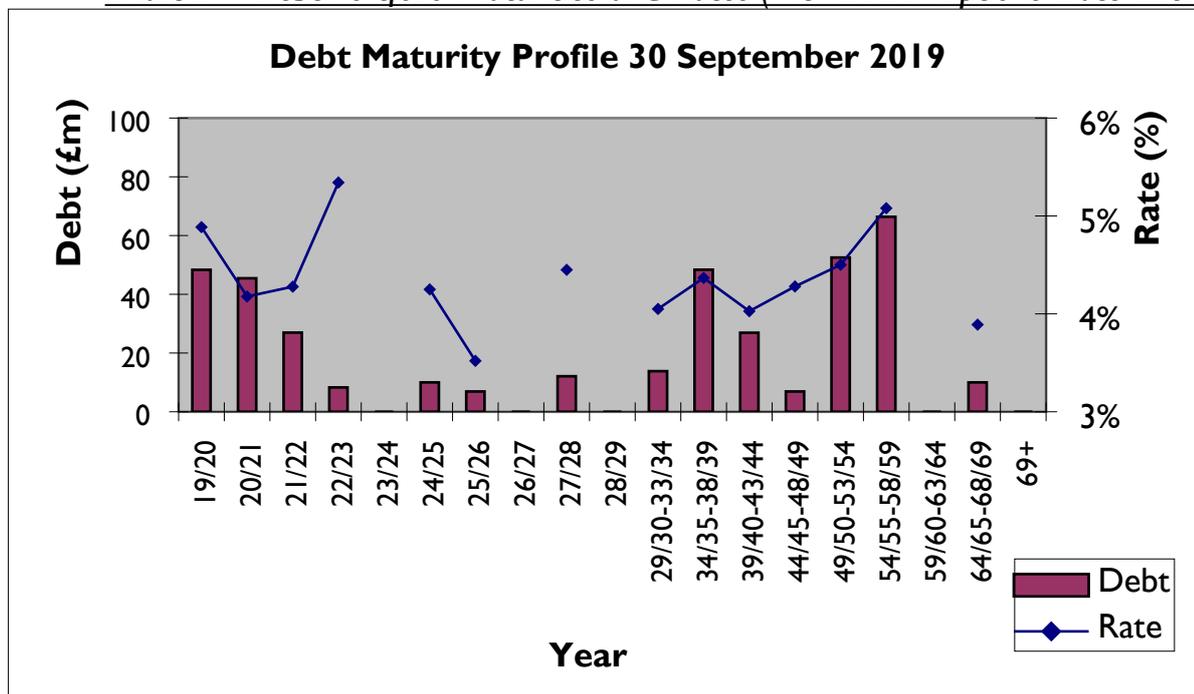


Chart 2 – Debt Portfolio Maturities and Rates (with LOBO Options Date Exercised)



7.4 The average interest rate on the debt portfolio has remained relatively low in recent years and is currently 4.50%.

7.5 The weighted average duration of the portfolio is 34 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 2019/20 to 30 September 2019.

9.1 Table 5 compares the initial forecasts made in the 2019/20 Treasury Management Strategy with latest revisions.

Table 5 – Investment Rates: Initial Forecast v Revised Forecast

Initial Forecast	Year	Current Forecast
1.00-1.25%	2019/20	0.75
1.25-1.50%	2020/21	0.75-1.00%
1.50-1.75%	2021/22	1.00-1.25%

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. The Council has call accounts with Lloyds bank earning 0.95% and 1.10% respectively. 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 Compliance with Treasury Limits

- 10.1 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 I.

Capital Outturn 2018/19

11. Programme

- 11.1 In 2018/19 the Council invested £146m, with the majority of this sum attributable to the Council's programme of Housing, Schools and Regeneration projects.

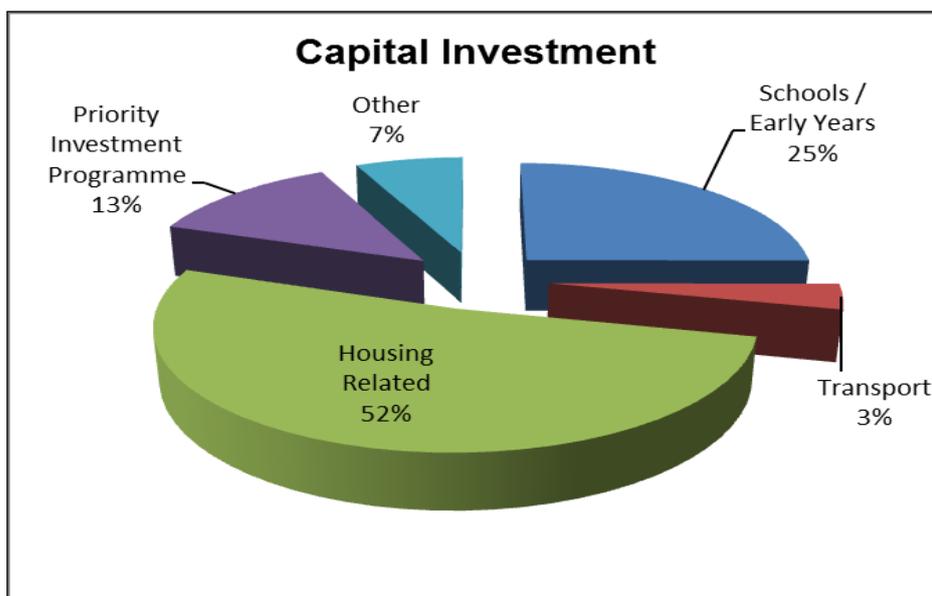


Figure 1: Capital Expenditure by Category

- 11.2 Capital outturn was £26.96m lower than the 2018/19 forecast outturn, as detailed in Table 6 below, which is due to a combination of project slippage and resourcing of project costs from revenue streams supporting the capital programme.

Table 6 - 2018/19 Capital Outturn vs Forecast

Programme	Forecast 2018/19 £m	Actual 2018/19 £m	Variance 2018/19 £m
Priority Investment	31.95	23.52	(8.43)
Schools / Early Years Transformation	47.06	36.72	(10.34)
Property	11.12	10.16	(0.96)
Housing Investment (GF)	0.75	0.18	(0.57)
Housing Development (GF)	1.55	1.50	(0.05)
Sub-total General Fund	129.12	113.81	(15.31)
Housing Investment (HRA)	38.77	24.88	(13.89)
Housing Development (HRA)	8.43	7.67	(0.76)
Sub-total Housing Revenue Account	47.20	32.55	(14.65)
Total	176.32	146.36	(26.96)

Priority Investment

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

- Eltham Cinema – regeneration based project designed to stimulate the night-time economy around Eltham High Street
- 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
- Plumstead Library – works forming part of the wider Plumstead Good Growth programme to deliver a multi-functional library, leisure, cultural and sports centre that combines the Grade II Listed Building with a new extension
- Hervey Road – scheme delivered on the playing field site, including the construction of a new sports pavilion.
- Slade Café – conversion of a former toilet block into a café and community hub
- 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:

- St Mary Magdalene CE All-through School – the school took possession of its new permanent building on the Greenwich Peninsula in November 2018 saw the opening of the all-through school on the Greenwich Peninsula
- Primary – completion of the building project to expand Creation of school places in the Primary education phase, including the expansion of Plumcroft Primary onto the Vincent Road Site and ongoing construction works on the expansions of Haimo and Invicta schools
- Secondary – delivery of additional pupil places at via Royal Greenwich Trust School and works to facilitate the change of Plumstead Manor Girls School to co-education status
- SEND places – series of projects to create additional SEND places and enhancement of existing learning environments.

- Improvements in facilities – Includes the commitment to rebuild Kidbrooke Park Primary School and the annual Planned Maintenance Programme.
- Pupil Health and Wellbeing – Bid based grants provided to successful schools to fund the provision of facilities to improve physical activity, healthy eating, mental health, well-being and medical conditions in schools under the Healthy Pupil Capital Fund.

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. Works during 2018/19 included:

- Thistlebrook Industrial Estate – roof renewal to bring two units into lettable standard
- Woolwich Centre – boiler and chiller replacement works

Housing Investment

11.7 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, as set out below:

1. Keeping residents safe in their homes
2. Worst first and in poor condition
3. Poorly performing stock (energy)
4. Environmental and estate improvements
5. Maximising supply through development

Housing Delivery

11.8 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
- Local Authority New Build Round 6 programme developing new 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 2018/19 capital programme is set out in Figure 2, with further detail in Table 7.

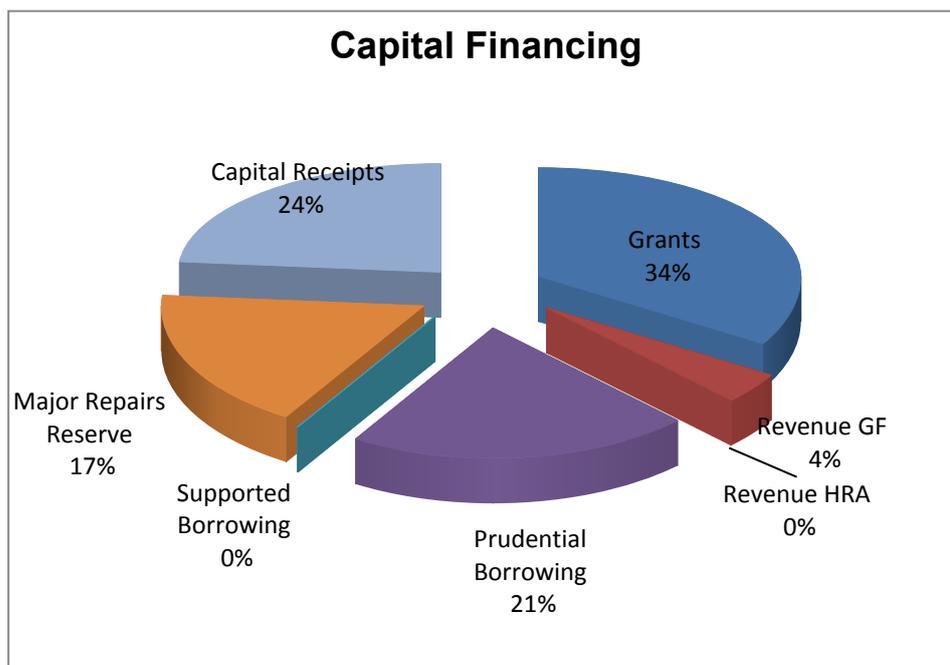


Figure 2: Capital Financing by Type

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
 - New Homes Bonus – a centralised grant arising from, and incentivising housing growth. The grant was deployed within the year, in accordance with the agreement, on schemes to improve Eltham High Street.

Borrowing

- 12.5 The council undertakes two types of borrowing, the principle being 'Prudential', which is underpinned by identified budgets and revenue streams and assessed on a sustainable basis. During 2018/19 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.
- 12.6 During the period, a small proportion of the schools capital programme was funded from historic supported borrowing allowances. This is financed from specific revenue streams provided by the Department for Education. All new borrowing undertaken by the Council is on a prudential basis.

Major Repairs Reserve & Revenue Contributions

- 12.7 The major repairs reserve is an earmarked reserve within the Housing Revenue Account, which is used specifically for the financing 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.
- 12.8 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 2018/19

Resource	2018/19 £m
Grants	49.27
Capital Receipts	27.75
Revenue Contributions	5.73
Prudential Borrowing	31.02
Supported Borrowing	0.04
Sub-total General Fund	113.81
Grants	0.00
Capital Receipts	6.96
Major Repairs Reserve	25.59
Prudential Borrowing	0.00
Sub-total Housing Revenue Account	32.55
Total	146.36

13. Governance

- 13.1 Following the adoption of the Capital Strategy, the main activities have been the formation and embedding of the governance bodies and processes. Terms of reference have been reviewed for each programme board and will be standardised under the newly formed Corporate Capital Board, which comprised members of the Greenwich Management Team.
- 13.2 A review of the board structure proposed within the Corporate Capital Strategy has been undertaken. In response to the financial pressures facing the authority it is recommended that the activities of the Transformation Board

are subsumed into the overarching Corporate Capital Board, with GMT representation, in order to elevate status of the cross cutting workstreams and support for the emerging Medium Term Financial Strategy.

Flexible Use of Capital Receipts

14 Proposals

- 14.1 In February 2019, Council agreed the flexible use of capital receipts policy. Government dispensation to utilise this mechanism is open until March 2022 and provides local authorities freedom to use capital receipts from the disposal of property, plant and equipment (with the exception of Right to Buy disposals) to fund revenue costs arising from change projects that are designed to reduce demand, costs or generate on-going savings.
- 14.2 The council is developing a new Medium Term Financial Strategy (MTFS) with the aim of Building a Fairer Greenwich.
- 14.3 A number of cross cutting work streams have been identified in order to start the process of meeting the socio demographic, economic, technological and financial tests that the next few years will bring.

(i) Community Expectations, Digitalisation & Channel Shift

The financial challenges ahead require a refresh of the perceived “offer” of services to the community and in particular how they access services. This aims to reset the expectations of what / when residents can receive from the Council and sets them alongside things that they will do themselves - either for themselves or others. This can build community civic participation, empowerment and resilience that can be far more effective in delivering public goods and policy outcomes.

Changes to the means and reach of resident engagement and activity have been altered through the digital landscape. Digital tools have changed community connectivity, social participation, service transactions and even financial engagement. It is impossible therefore to conceive of a new deal without seeing it at least partially through a digital lens. This work-stream will identify leading services that are currently provided face-to-face or on the phone and might move direct to digital.

Royal Greenwich finds itself at a turning point. While its traditional values of developing genuinely close relationships with its residents and businesses have served the council well over the years, the world is changing rapidly. For

many people and organisations, many of their relationships already happen digitally and even the most disadvantaged communities have good access to smartphone and broadband technology, choosing to use that connectivity across many aspects of their lives. The council can no longer ignore the speed of digital change happening in its communities, and needs to consider its own digital ambitions in order to continue to meet the needs of residents and businesses in the future. In any change process it is essential that sufficient resources are identified to support those people who are not able to access services electronically.

(ii) Transactional (business processes)

This work stream will utilise themes of straight through and low cost processing to:

- review and benchmark business processes (internal and external)
- undertake business process re-engineering starting with those that will derive the greatest efficiency first.

(iii) Organisational Development (incl Agile)

The aim of this project is to support a change in the culture of the council so that all staff feel invested in helping it to become a more citizen centric organisation and understand the challenges we face:

- communicating with staff so that they understand why the council needs to change and how their involvement can help ensure the organisation develops using all the skills and experience of our most valuable asset – our workforce.
- to review our training and development programme to ensure it addresses our current challenges and strengthens our core skill set.
- to transform the Greenwich workforce into an agile workforce who can deliver better outcomes through more flexible working and being less tied to premises / ICT equipment.

(iv) Improved Effectiveness and Efficiency in Commissioning Outcomes for People

This area considers the scope for, amongst other things, an integrated model of commissioning, with a focus on commissioning activity providing services for people and personalised commissioning. This project will be in three phases which will be reviewed at each phase:

- the first phase is broadly understanding the current picture - reviewing all commissioning activity in this category across all directorates. This includes services provided, target group, delivery organisation, contract value, workforce undertaking commissioning activity and salary costs and resource capability - contract management, are we achieving the desired outcomes
- the second phase will be an options appraisal identifying and evaluating all possible options considering effectiveness, efficiency, value for money and outcomes
- the third phase will be decision making and selecting a strategy. At this point if changes are to be implemented an implementation plan will be devised.

Alongside this work there may be scope to consider joint commissioning arrangements with health partners.

(v) Income Optimisation

This crosscutting opportunity focuses on a review of opportunities to optimise the income:

- optimising income opportunities from creating charging opportunities and full cost and debt recovery
- identify opportunities where business units can trade its services via local authority direct trading or other vehicles
- identify invest to yield opportunities on commodities that may bring additional investment income.

14.4 These initial proposals, including a number of projects already underway, are summarised for agreement by Council as set out in Appendix 2.

14.5 This is the first stage in the development of a rolling programme of change, generating reduction in demand and cost over the course of the next few years, all of which will be subject to review. Each element is subject to sign off by the Chief Finance Officer and monitored in accordance with the governance set out in the guidance and adopted policy, with oversight by way of the Budget Recovery Board process and also via the Audit and Risk Management Panel.

14.6 Further proposals, including the allocation of a proportion of future capital receipts towards continuous improvement programmes, will be brought forward, alongside the new MTFs, for the period beyond 2020, at a future date.

15. Available Options

15.1 Option 1 – do nothing.

15.2 Option 2 - agree the contents of this report.

16. Preferred Option

16.1 Option 2 is preferred, since a “do nothing” option around flexible use proposals would represent a missed opportunity on the path towards a sustainable future. The option provides investment to support scarce revenue resources in building continuous improvement within the council and a Fairer Greenwich.

17. Reasons for Recommendations

17.1 The report sets out the Council’s mid-term treasury position for 2019/20 and capital outturn for the 2018/19 financial year, which are reflective of the approved treasury management practices, flexible use of capital policy, capital expenditure procedures, CIPFA Codes and statutory regulations and guidance.

18. Cross-Cutting Issues and Implications

Issue	Implications	Sign-off
Legal including Human Rights Act	The report raises no legal issues.	Azuka Onuorah Head of Legal Services 30/09/19
Finance and other resources including procurement implications	The report sets out the 2019/20 Treasury Mid-Year report and 2018/19 Capital Outturn position, which have no direct financial implications Flexible Use of Capital Receipt proposals are to be resourced from identified disposal receipts, which are to be secured during 2019/20 onwards. These	Michael Horbatchewskyj Accountancy Business Change Manager 27/09/2019

	<p>receipts form part of the approved capital programme and will therefore no longer be available to support the existing capital projects. The short-term impact of this decision can be managed within the existing resource base; mitigation to compensate for the medium to long term impact is being developed and will include a combination of further identified disposals, contributions and borrowing. These proposals will be brought forward for future consideration</p>	
Equalities	<p>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.</p>	<p>Michael Horbatchewskyj Accountancy Business Change Manager 27/09/2019</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 by around £200k for the authority and 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 monitoring.</p>	<p>Damon Cook, Director of Finance, October 2019</p>

19. Report Appendices

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

Glossary

Annex 1 – Treasury Management Indicators

Annex 2 – Flexible Use of Capital

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