ASSEMBLY

21 July 2021

Title: Treasury Management Annual Report 2020/21	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open	**For Decision**
Wards Affected: None	**Key Decision:** Yes
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Accountable Director: Philip Gregory, Finance Director (S151 Officer)	
Accountable Strategic Leadership Director: Claire Symonds, Managing Director	

Summary

Changes in the regulatory environment now place a greater onus on Elected Members for the review and scrutiny of treasury management policy and activities. This Treasury Management Annual Report is important in that respect, as it provides details of the outturn position for treasury activities, significant new borrowing proposed, and highlights compliance with the Council's policies previously approved by the Assembly prior to the start of each financial year.

This report presents the Council's outturn position in respect of its treasury management activities during 2020/21. The key points to note are as follows:

Interest Income and Investments:

i) Total treasury investments held at 31/3/2021 was £210.17m (2019/20: £347.29m);

ii) Total cash held at 31/3/2021 was £45.19m (2019/20: £6.79m);

iii) Total loans lent held at 31/3/2021 was £105.99m (2019/20: £80.48m);

iv) Interest for 2020/21 was £8.8m (2019/20: £8.8m) compared to a budget of £6.5m, an outperformance of £2.3m and has been transferred to the Investment Reserve;

v) Investment income from the Council's Investment and Acquisition Strategy (IAS) totalled £6.59m (2019/20: £2.7m) for the year compared to a budget of £6.64m, an underperformance of £50k;

vi) The Council's average treasury interest return of 1.62% for 2020/21 was 1.31% higher than the average London Peer Group return of 0.31%;

vii) The Council's average return on its loans, consisting of commercial and property loans was 4.46% for 2020/21 (3.63% for 2019/20);

Interest Expense and Borrowing:

viii) Interest payable for 2020/21 totalled £32.8m (2019/20: £34.17m), £9.6m for PFI / Finance leases, £10.9m for HRA and £12.3m for the General Fund;

ix) Capitalised interest for 2019/20 totalled £1.5m and for 2020/21 totalled £3.0m and have been transferred to the Investment Reserve;

x) The Council borrowed £60.0m of long-term General Fund borrowing in 2020/21 at an average rate of 1.28% and an average duration of 31.7 years;

xi) The total long-term General Fund borrowing at 31/3/2021 was £600.4m, comprising of market loans, Public Works Loan Board (PWLB), Local Authority, European Investment Bank and other loans;

xii) The value of short-term borrowing as at 31 March 2021 totalled £67.5m;

xiii) HRA borrowing totalled £295.9m of long-term debt and £35.3m of internal borrowing from the General Fund, with PFI / finance lease borrowing totalling £217.8m;

xiv) Total Council borrowing, including PFI and finance leases, was £1.16bn as at 31 March 2021;

xv) The Council did not breach its 2019/21 Operational Boundary limit of £1.25bn or its Authorised Borrowing Limit of £1.35bn; and

xvi) The Council complied with all other set treasury and prudential limits.

The Cabinet considered and endorsed this report at its meeting on 22 June 2021.

Recommendation(s)

The Assembly is recommended to:

(i) Note the Treasury Management Annual Report for 2020/21;

(ii) Note that the Council complied with all 2020/21 treasury management indicators;

(iii) Approve the actual Prudential and Treasury Indicators for 2020/21, as set out in Appendix 1 to the report; and

(iv) Note that the Council borrowed £60.0m from the Public Works Loan Board (PWLB) in 2020/21.

Reason(s)

This report is required to be presented to the Assembly in accordance with the Revised CIPFA Code of Practice for Treasury Management in the Public Services.

1. Introduction and Background

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce a treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2 For the 2020/21 period Assembly received the following reports:

- an annual treasury strategy in advance of the year (Assembly 26/02/2020);
- a mid-year (minimum) treasury update report (Assembly 25/11/2020); and
- an annual review following the end of the year (this report).

1.3 This Annual Treasury Report covers:

- Treasury position as at 31 March 2021;
- Economic Factors in 2020/21 and Interest rates Forecasts;
- Treasury Investment Strategy and Performance in 2020/21;
- Borrowing Outturn and Capitalised Interest;
- Commercial and Reside Loans Outturn;
- Investment and Acquisition Strategy Outturn;
- Treasury Management costs in 2020/21;
- Compliance with Treasury limits and Prudential indicators; and
- Prudential Indicators for 2020/21 (Appendix 1).

2. Treasury Position at 31 March 2021: The Council's treasury position for 2019/20 and 2020/21 can be found in table 1 below:

Table 1: Council's treasury position at the start and end of 2020/21

	31-Mar-20	Average Rate of interest	Average Life	**31-Mar-21**	**Average Rate of interest**	**Average Life**
	£'000	%	Years	**£'000**	**%**	**Years**
Fixed Rate Debt						
HRA – PWLB	265,912	3.51	35.81	**265,912**	**3.50**	**34.81**
HRA – Market	30,000	4.03	58.2	**30,000**	**4.03**	**57.20**
HRA - Internal Borrowing	34,759	1.98	1.00	**35,332**	**1.98**	**1.00**
Total HRA Borrowing	**330,671**	**3.40**	**34.18**	**331,244**	**3.38**	**33.23**
GF – PWLB	463,498	2.16	23.83	**506,822**	**2.06**	**23.05**
GF - Market	96,178	2.49	41.91	**93,613**	**2.49**	**26.75**
GF – ST Borrowing	126,100	0.85	0.07	**67,503**	**0.09**	**0.30**
Total GF Borrowing	**685,776**	**1.97**	**22.00**	**667,938**	**1.92**	**21.27**
Total Debt	1,016,447	2.43	25.96	**981,688**	**2.45**	**25.68**
Investments						
Treasury Investments	346,951	1.34	2.37	**210,168**	**1.62**	**2.17**
Cash	6,787	0.10	0.00	**45,193**	**0.01**	**0.00**
Loans	75,397	3.57		**105,993**	**4.46**	
HRA Internal Lending	34,759	1.98		**35,332**	**1.98**	
Total Investments	**457,107**	**1.76**		**396,686**	**2.38**	

2.1 The Council manages its debt and investment positions through its in-house treasury section to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

2.2 Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

3. Economic Factors in 2020/21 and Interest Rate Forecasts

3.1 **UK. Coronavirus.** 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three-month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK has implemented a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. Household saving rate has also been high since the first lockdown and there is plenty of pent-up demand and purchasing power stored up for services. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during Q1 of 2022.

3.2 The **Monetary Policy Committee** cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC increased then QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

3.3 **Average inflation targeting.** This was the major change adopted by the BOE in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". In effect, if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. This sets a high bar for raising Bank Rate and no increase is expected by March 2024, and possibly for as long as five years. Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor.

3.4 BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy.

4. Treasury Investment Strategy and Performance in 2020/21

4.1 **Treasury and IAS Outturn:** The Treasury and IAS Outturn is in Table 2 Below.

Table 2: Treasury Outturn for 2019/20 and 2020/21

Interest	2019/20 Actual	2019/20 Budget	Difference		2020/21 Actual	2020/21 Budget	Difference
HRA Borrowing Costs	12,244	12,244	0		**10,944**	**10,944**	**0**
General Fund IAS & Interest Costs							
GF Borrowing costs	12,374	11,769	605		12,254	13,069	**(815)**
GF Interest Income	(8,818)	(6,648)	(2,170)		(8,817)	(6,503)	**(2,314)**
GF IAS Income	(2,735)	(4,333)	1,598		(6,230)	(6,637)	**407**
Capitalised Interest (19/20)					(1,522)	0	**(1,522)**
Capitalised Interest (20/21)					(3,002)	0	**(3,002)**
GF Net IAS & Interest Cost	821	788	33		**(7,317)**	**(71)**	**(7,246)**

4.1.1 Overall borrowing costs were lower than budgeted as both long-term and short-term borrowing rates were cheaper than the forecast. The Council has also agreed to capitalise borrowing costs for schemes that are over £10m in total value and take longer than two years to develop. This was backdated to 2019/20 and as a result borrowing costs of £4.52m were capitalised in 2020/21.

4.1.2 Treasury provided a surplus return of £2.3m and the IAS, although underperforming its target by £50k, held up well during a particularly difficult investment period. The borrowing costs and treasury and IAS income is outlined in detail in the next sections.

4.2 Annual Investment Strategy (AIS) 2020/21

4.2.1 All investments were managed in-house and were invested with institutions of high credit standing listed in the Council's approved lending list and specified limits. The Council invested over a range of periods from overnight to three years, with an increase in lending to other Local Authorities and a reduction in lending to banks. The Council's investment policy is outlined in the 2020/21 Annual Investment Strategy. The policy sets out the Council's approach for choosing investment counterparties.

4.2.2 Council officers met quarterly with Treasury Adviser to discuss financial performance, objectives, targets and risk in relation to the Council's investments and borrowing. The Cabinet Member for Finance, Performance and Core Services was briefed regularly on treasury activity by the Section 151 Officer.

4.2.3 Investments decisions during 2020/21

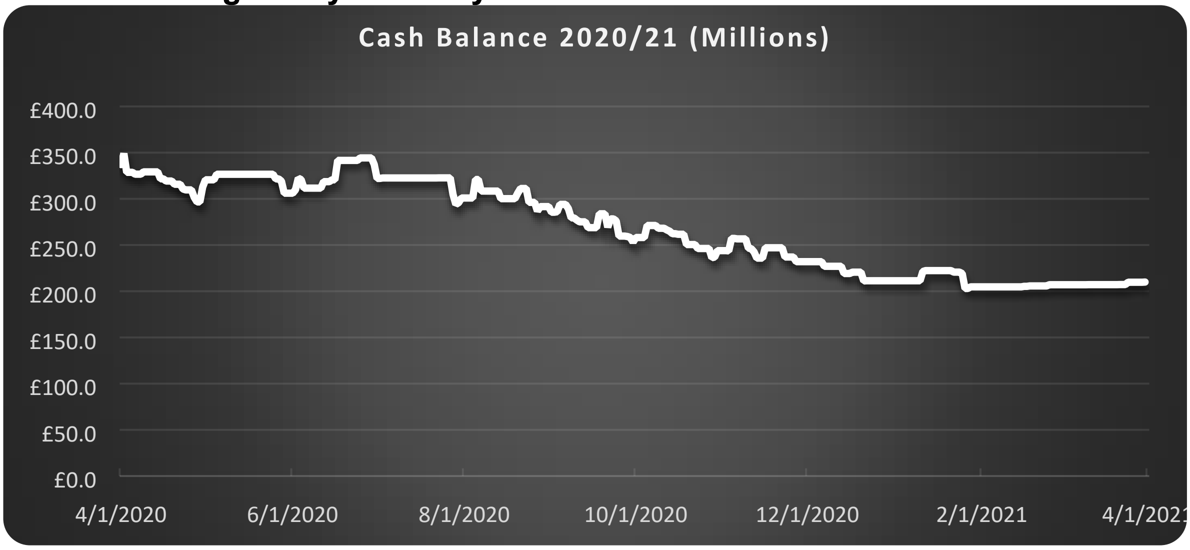
When making investment decisions the Council's investment priorities are:

(a) The **security** of capital;
(b) The **liquidity** of its investments; and
(c) **Yield** (after ensuring the above are met).

Using the above as the basis for investment decisions does mean that investment returns will be lower than would be possible were yield the only consideration. During 2020/21, the Council ensured that all investments were made with appropriately rated counterparties and that liquidity was maintained. On occasion, short term borrowing was also used to allow the Council to take advantage of investment opportunities.

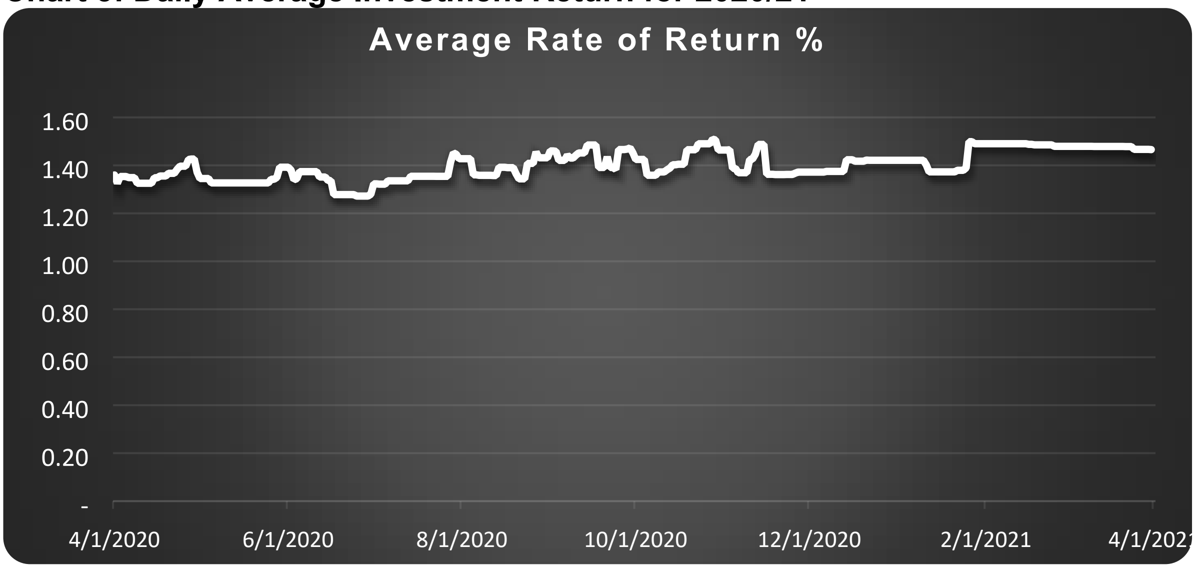
4.2.4 In March 2020 treasury forward dealt £30m at an average rate of 1.70% and an average duration of 2 years as it positioned for a low interest rate environment. These forward deals were the only major treasury deals made during the year as rates reduced to near zero. The Council held a high investment balance of £347.0m at 31 March 2020 and cash, rather than borrowing, was used to fund most of the Council's cashflow requirement for 2020/21. The average investment balance (excluding cash) held for 2020/21 was £268.5m. The average daily Treasury Investment Balance for 2020/21 is shown in chart 2:

Chart 2: Average Daily Treasury Investment Balance for 2020/21



4.2.5 Treasury investments provided an average return of 1.40% for 2020/21 (1.34% for 2019/20), which increased to an average return of 2.38% when including non-treasury investments. Although the average return was on a reducing balance, the increase in the average return for the year allowed a significant net surplus of £2.3m to be generated and this excess return was moved to the investment reserve. Chart 3 below graphically illustrates the average daily treasury return for the year:

Chart 3: Daily Average Investment Return for 2020/21



4.2.6 In addition, an average interest of 3.25% was charged on borrowing costs for commercial property (borrowing for commercial property at 31/03/2021 was £102.3m). This return was allocated to the IAS.

4.3 Strategy Changes in 2020/21

4.3.1 The Council's investment policy was agreed by the Assembly on 26 February 2020. Members agreed to delegate authority to the Section 151 officer in consultation with the Cabinet Member for Finance, Performance and Core Services to proportionally amend the counterparty lending limits agreed within the TMSS.

4.3.2 During the year an increase in the maximum short-term cash the Council could hold was agreed by the S151 officer to allow treasury to respond to any liquidity issues but also to manage large cashflow movements resulting from borrowing £60m of long-term debt in December 2020 and from the sale of the film studio land in March 2021. The high cash balance was offset by short-term borrowing.

4.4 Performance Benchmark in 2020/21

4.4.1 As part of ensuring value for money and to monitor the Council's investment return, the Council's treasury performance is benchmarked by against a peer group of London and other Local Authorities. Benchmarking data is provided by the Council's treasury advisors, Link Asset Services. Table 3 summarises the benchmarking data as at 31 March 2021.

Table 3: Advisor's Benchmarking data as at 31 March 2021

Savings Proposal	LBBD	London Peer Group (21)
Weighted Average Rate of Return	1.62%	0.31%
Weighted Average Maturity(days)	351	88
Credit Risk (lower is less risky)	1.34	2.68

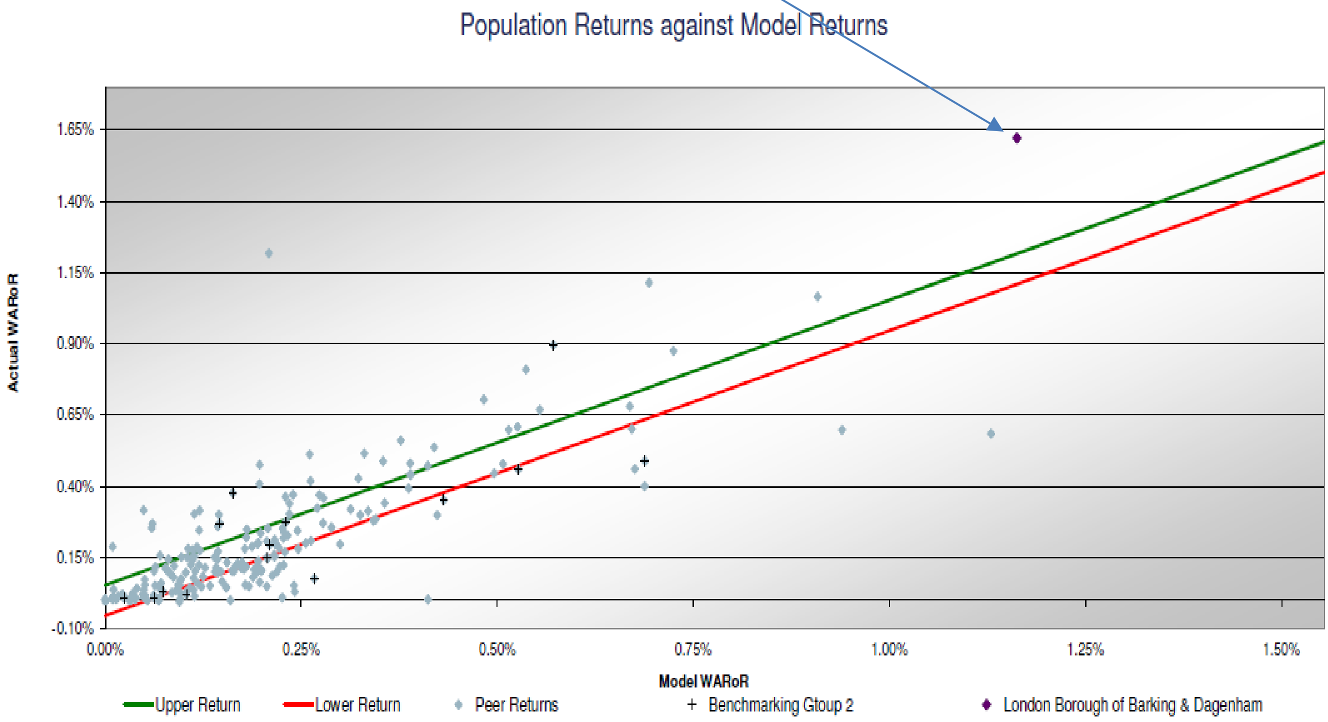
4.4.2 The benchmarking data outlines the outperformance of the Council's treasury investment return compared to a group of 21 London Boroughs. By only including treasury returns (i.e. returns from deposits, Money Market Funds etc) the performance of each treasury team can be compared on a like for like basis. The Council's average return as at 31 March 2021 was 1.31% higher than the average London Peer Group return. On an average investment balance of £268.5m that equates to additional income above the average of £3.52m against the London Peer group.

4.4.3 The Council's credit risk, at 1.34 was lower (better) than the London Peer Group at 2.68. This lower average is due to the Council moving away from investing in banks and other financial institutions and investing more with other Local Authorities.

4.4.4 Chart 4 illustrates the Council's return against the upper and lower banding levels. The Council has a high overall return (the highest when compared to the Local Authority group). The return is higher than the banding range, indicating the return is above the return that would be expecting considering the duration. The average return is expected to increase in 2021/22, although on a reducing average balance as cash is reduced to fund investments.

The Council’s return is highlighted below:

Chart 4: Advisor’s benchmarking data as at 31 March 2021



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
London Borough Of Barking & Dagenham	1.62%	1.16%	0.46%	1.11%	1.22%	Above

4.5 **Table 4: Investments held by the Council at 31 March 2021**

Counterparty	Rating	Rate %	£000s	Start	End
LBBD Pension Fund	Local Authority	0.50	29,200		
Cambridgeshire CC	Local Authority	2.05	10,000	06/04/2018	06/04/2021
Medway Council	Local Authority	1.50	10,000	16/10/2018	16/04/2021
South Ayrshire Council	Local Authority	1.55	5,000	22/10/2018	22/04/2021
L B Croydon	Local Authority	1.50	10,000	24/04/2018	23/04/2021
Wokingham BC	Local Authority	1.55	10,000	30/01/2019	30/07/2021
Sedgemoor DC	Local Authority	1.08	5,000	20/08/2019	20/08/2021
Lloyds Bank PLC	A+	1.48	10,000	31/08/2018	31/08/2021
Rugby BC	Local Authority	1.80	5,000	18/10/2019	18/10/2021
Rugby BC	Local Authority	1.80	5,000	15/11/2019	15/11/2021
Rugby BC	Local Authority	1.60	10,000	25/11/2019	25/11/2021
Wokingham BC	Local Authority	1.65	15,000	28/01/2020	28/01/2022
Folkstone and Hythe DC	Local Authority	1.60	5,000	31/01/2020	31/01/2022
Lloyds Bank PLC	A+	1.59	5,500	18/04/2019	19/04/2022
Birmingham CC	Local Authority	1.70	10,000	24/04/2020	22/04/2022
L B Croydon	Local Authority	1.70	10,000	06/07/2020	06/07/2022
L B Croydon	Local Authority	1.70	10,000	14/07/2020	14/07/2022
Runnymede BC	Local Authority	1.80	5,000	20/12/2019	20/12/2022
Colchester BC	Local Authority	1.75	5,000	02/03/2020	03/01/2023
Cardiff Council	Local Authority	1.75	10,250	10/01/2020	10/01/2023
Dudley Metropolitan BC	Local Authority	1.80	10,000	21/02/2020	21/02/2023
Northumberland BC	Local Authority	1.80	5,000	27/02/2020	27/02/2023
Cambridgeshire CC	Local Authority	1.00	10,000	11/01/2021	11/01/2024
Other investments	Local Authority		218		
	Total Investments		**210,168**		

5. Borrowing Outturn and Capitalised Interest

5.1.1 Short-term borrowing was used for most of the year to cover cashflow requirements, but after the PWLB dropped its margin from 1.8% to 0.8% in November 2020, £60m was borrowed at an average rate of 1.28% in December 2020. These loans are maturity loans (pay at maturity date) and were used as the strategy already has a significant amount of Equal Instalment and Annuity borrowing and these durations allowed both for a reduced rate but also smoothed the Council's overall repayment. Fixing long term borrow improves the future year budget requirements as the borrowing is locked in. Savings over the life of the borrowing compared to a 2.0% target is £12.16m.

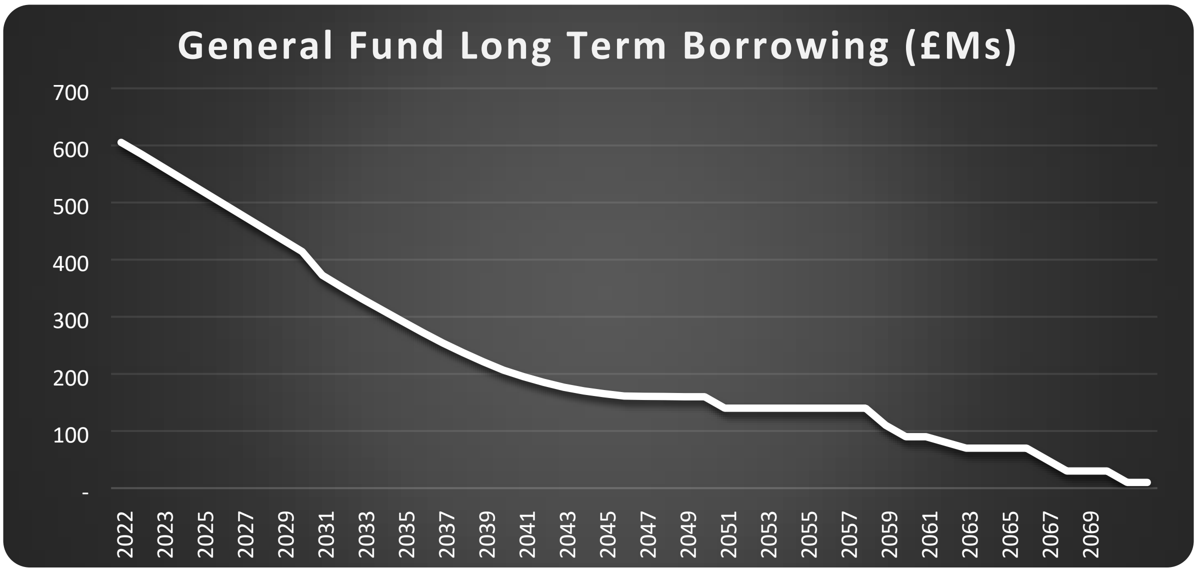
Table 5: Long-Term Borrowing in 2020/21

Lender	Start Date	End Date	Amount £Ms	Rate	Duration	Savings Against 2% £Ms	Savings Against 3% £Ms
PWLB	21/12/2020	21/12/2070	20.00	1.33%	50 Years	6.70	16.70
PWLB	23/12/2020	23/12/2040	20.00	1.02%	10 Years	1.96	3.96
PWLB	23/12/2020	23/12/2055	20.00	1.50%	35 Years	3.50	10.50
Total and Average Rate			**60.00**	**1.28%**	**31.7 yrs.**	**12.16**	**31.16**

5.1.2 During the year commercial purchases, as part of land assembly, were funded by a mixture of short-term borrowing and cash, with expenditure on residential developments funded by PWLB borrowing taken in March 2020 and December 2020. This approach has also helped to reduce the overall borrowing costs.

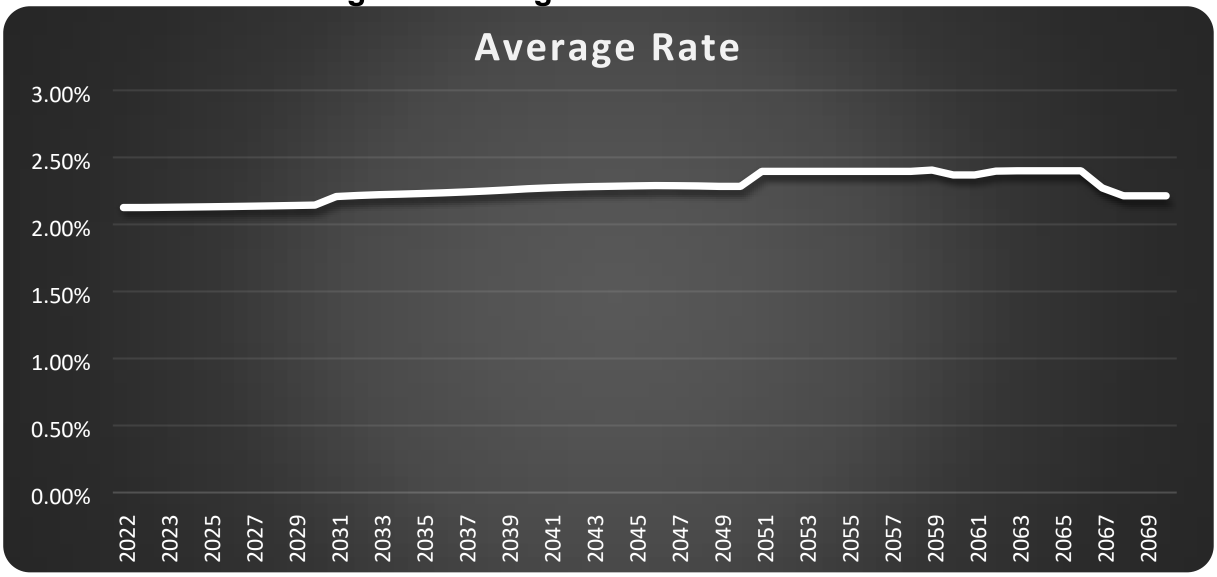
5.1.3 Officers have sought to ensure that the borrowing matches the relevant asset life and repayment profile of the Council's investment portfolio. Chart 5 below summarises the GF long term debt position as at 31 March 2021, indicating the repayment profile.

Chart 5: Council Debt Profile at 31 March 2021



5.1.4 The current borrowing strategy has a target of reducing the long-term average borrowing rate to below 2.0%. Currently the average long-term borrowing rate is 2.13%, down from 2.22% as at 31 March 2020. The average rate is reduced further by using short-term borrowing, with the total average borrowing rate for the General Fund at 1.92%. Chart 6 outlines the average borrowing costs over the duration of the Council's borrowing. The increase over time reflects the fact some of the longer-term borrowing is at higher rates than the average, although this is against a much smaller amount of debt. Charts 5 and 6 are based on the same time period.

Chart 6: Council Average Borrowing Rate Profile at 31 March 2021



Capitalisation of Development Interest

5.1.5 The Council's IAS will increase the Council's interest payment costs as borrowing increases to fund the development costs. Were the Council to borrow a billion pounds at 2.0% (the current target average long-term debt rate) then the interest costs would be £20m per year, although this would decrease as debt is repaid. This will be funded by rental income from the various schemes but will result in a long-term obligation for future generations as some of the loans that will be taken out have maturity dates of up to 50 years.

5.1.6 The Council's borrowing is largely to fund the IAS. During the construction stage there is a cost of carry as there is no income from the scheme. For previous developments, such as Weavers, interest was capitalised during the construction against loans made to Reside. As construction is now carried out by the Council, a method to capitalise the interest was identified through advice provided by the fund's Treasury advisors, Link. As a result, interest incurred during the construction phase will be capitalised against developments that cost over £10m and that take in excess of two years to build. This approach has reduced the pressure on the Council's interest budget, which was raised in the July IAS update report.

5.1.7 Capitalisation of interest will start from when the development has been agreed at Gateway 2. Where land has been purchased as part of land assembly the capitalisation of interest will be from the later date of the either the completion date of the purchase or the date of this accounting policy.

5.1.8 Interest will be capitalised on a quarterly basis and will be based on the weighted average of the borrowing costs that are outstanding during the period. Cessation of capitalisation will occur when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

5.2 **Borrowing Owed at 31 March 2021**

5.2.1 Table 5 outlines the borrowing owed by the Council at 31 March 2021, split between HRA and GF. The interest rate and borrowing period is included along with the type of loan, which includes Annuity, Equal Instalment, and maturity repayments.

Table 5: Loans as at 31 March 2021

Lender	Start Date	End Date	Amount	Rate %
HRA				
PWLB(Maturity)	28/03/2012	28/03/2042	50,000	3.50
PWLB(Maturity)	28/03/2012	28/03/2062	65,912	3.48
PWLB(Maturity)	28/03/2012	28/03/2061	50,000	3.49
PWLB(Maturity)	28/03/2012	28/03/2052	50,000	3.52
PWLB(Maturity)	28/03/2012	28/03/2060	50,000	3.49
LANCASHIRE CC (Maturity)	15/05/2019	27/02/2060	10,000	4.05
LANCASHIRE CC (Maturity)	15/05/2019	26/03/2059	10,000	4.05
BARCLAYS (Maturity)	30/05/2008	30/05/2078	10,000	3.98
	HRA Total LT Borrowing		**295,912**	
General Fund				
PWLB(Maturity)	09/06/2016	09/06/2066	20,000.00	2.72
PWLB(Maturity)	14/06/2016	15/12/2059	10,000.00	2.65
PWLB(Maturity)	28/06/2016	29/12/2059	10,000.00	2.49
PWLB(Maturity)	29/06/2016	29/06/2062	10,000.00	2.38
PWLB(Maturity)	07/07/2016	06/01/2062	10,000.00	2.14
PWLB(Maturity)	05/04/2017	05/04/2067	20,000.00	2.36
PWLB(EIP)	12/09/2017	12/09/2040	16,956.52	1.98
PWLB(Maturity)	19/12/2017	19/06/2058	30,000.00	2.36
PWLB(EIP)	21/02/2018	21/02/2036	16,666.67	2.38
PWLB(EIP)	07/03/2018	07/03/2035	8,235.29	2.20
PWLB(EIP)	19/03/2018	19/03/2038	17,000.00	2.31
PWLB(EIP)	31/05/2018	29/05/2043	18,000.00	2.27
PWLB(EIP)	01/10/2018	01/10/2039	36,190.48	2.38
PWLB(EIP)	30/10/2018	30/10/2036	17,777.78	2.14
PWLB(EIP)	10/12/2018	10/12/2043	18,400.00	2.28
PWLB(EIP)	04/02/2019	04/02/2042	18,260.87	2.17
PWLB(EIP)	26/03/2019	26/03/2042	36,521.74	1.99
PWLB(EIP)	04/06/2019	04/06/2046	18,888.89	1.97
PWLB(EIP)	08/08/2019	08/08/2039	18,500.00	1.39
PWLB(EIP)	05/09/2019	05/09/2042	18,695.65	1.23
PWLB(Annuity)	28/02/2020	28/02/2038	19,089.13	2.27
PWLB(Annuity)	03/03/2020	03/03/2038	19,081.72	2.18
PWLB(Annuity)	10/03/2020	10/03/2040	19,182.64	2.06
PWLB(Annuity)	11/03/2020	11/03/2045	19,374.78	1.98
PWLB(Maturity)	15/12/2020	15/12/2070	20,000.00	1.33
PWLB(Maturity)	23/12/2020	23/12/2030	20,000.00	1.02
PWLB(Maturity)	23/12/2020	23/12/2055	20,000.00	1.50
DEXIA (Maturity)	01/04/2019	30/06/2077	10,000	3.98
L1 RENEW (Annuity)	01/04/2019	01/10/2046	6,794	3.44
EIB (Annuity)	01/04/2019	31/03/2044	76,820	2.21
	Total GF Long Term Borrowing		**600,436**	

Lender	Start Date	End Date	Amount	Rate %
Liverpool City Combined	11/02/2021	11/05/2021	5,000	0.03
Wigan MBC	17/02/2021	17/05/2021	5,000	0.04
Essex CC	22/02/2021	24/05/2021	5,000	0.05
Colchester BC	10/12/2020	10/06/2021	5,000	0.12
Tyne & Wear Pension Fund	10/03/2021	10/06/2021	5,000	0.14
Liverpool City Region	19/02/2021	19/08/2021	5,000	0.08
Northern Ireland Housing	19/02/2021	19/08/2021	5,000	0.10
Derbyshire Pension Fund	19/02/2021	19/08/2021	5,000	0.10
East Suffolk	19/02/2021	19/08/2021	5,000	0.10
Oxfordshire CC	22/02/2021	23/08/2021	5,000	0.10
Crawley BC	22/02/2021	23/08/2021	5,000	0.10
LB of Islington	22/02/2021	23/08/2021	5,000	0.10
Reside Regeneration Ltd	01/04/2021	01/04/2021	3	3.00
North Tyneside Council	26/02/2021	26/08/2021	7,500	0.10
		GF Total ST Borrowing	**67,503**	

6. Commercial and Reside Loans Outturn

6.1 In addition to its treasury investments, the Council has several loans to its subsidiary companies, residential property loans to Reside and a prepayment to the pension fund. These loans all have a loan agreement, a commercial interest and repayment schedule. As at 31 March 2021 the Council's commercial loans and equity exposure totalled £149.6m and are summarised in table 6 below:

Table 6: Commercial and Reside Loans at 31 March 2021

Reside Company	Loan Type	Value £000s
Grafton Primary School	Commercial Loan	60.53
Valence Primary School	Commercial Loan	55.53
Southwood Primary	Commercial Loan	31.99
Gascoigne Primary School	Commercial Loan	69.77
B&D Reside Roding ltd	Commercial Loan	792.36
Barking & Redbridge FC	Commercial Loan	92.79
Barking Riverside Ltd	Commercial Loan	5,500.00
BD Energy LTD	Commercial Loan	307.42
BD Energy LTD	Commercial Loan	2,623.83
BD Muller Developments	Commercial Loan	24,571.38
BDTP LEUK	Commercial Loan	23,858.06
BE-FIRST LTD	Commercial Loan	4,599.56
Care City	Commercial Loan	30.00
Reside Abbey Roding LLP	Commercial Loan	67.40
Reside Ltd	Commercial Loan	288.62
Reside Regeneration LLP	Commercial Loan	6,400.43
Reside Weavers LLP	Commercial Loan	93.35
Reside Weavers LLP	Commercial Loan	34,547.14
Reside Weavers LLP	Commercial Loan	2,200.73
TPFL Regeneration Ltd	Commercial Loan	20.36
LBBD Pension Fund	Pension Fund Prepayment	20,000.00
BD Muller Developments	Equity	23,348.97
Total		**149,560.24**

6.2 The majority of the loans outlined above are secured against an asset or a guarantee. Where the loan is unsecured the company is closely monitored to ensure that it remains viable.

6.3 Loans against residential properties (Reside Loans) are very long term, with the loan duration of up to 55 years (to match the asset life of the asset it is secured against). A repayment schedule, based on an annuity repayment, is in place for each loan.

6.4 Commercial loans durations vary, with some loans to schools maturing in 15 years but most of the loans have a maximum duration of 5 years. Each loan has a state aid compliant interest rate and have been agreed at Cabinet.

6.5 The Pension Fund amount is a prepayment of pension contributions totalling £40m and also includes a short-term loan. The prepayment provides the pension fund with cash, which it uses to fund investments in infrastructure but also provides a return to the Council from making the payment early. Each month a portion of the loan is repaid and the actual contribution for the month is paid by the Council to ensure that the correct contribution rate is paid to the pension fund.

6.6 The loan and equity investment in BD Muller Developments is for the purchase of the Muller site in Chadwell Heath.

7. Investment and Acquisition Strategy Outturn

7.1 Council's Growth Strategy

7.1.1 In 2015, the Growth Commission Report – "No-one left behind: in pursuit of growth for the benefit of everyone", recommended the establishment of a Borough-wide regeneration vehicle that would be an early statement of the Council's intent to increase the pace of regeneration of the borough.

7.1.2 Subsequently Be First was set up to deliver the Council's long-term strategic regeneration objectives, including enhancing economic growth and prosperity for the people of Barking and Dagenham. In addition, Be First has been charged with delivering significant financial benefits to the council by bringing forward returns in New Homes Bonus, Council Tax and NNDR, and delivering dividends to the Council.

7.1.3 In October 2016, Cabinet agreed an Investment and Acquisition Strategy (IAS) and an Investment Panel was also established and charged with managing an investment portfolio. In 2017 the Council revised the IAS, with a revised strategy subsequently taken to Cabinet each year, the last one agreed was at the October 2020 Cabinet.

7.1.4 The IAS was originally set a target of delivering a net income of £5.13m per annum by 2020/21. Subsequently £0.60m was added as an additional target for the Abbey Road scheme and a further £0.91m was added as a return target for the CR27 income strip deal. As a result, for 2020/21 and for 2021/22 the total return target is £6.64m.

7.2 Overall Summary

7.2.1 In 2020/21 the IAS returned £6.59m against a revised target of £6.64m, which equates to a relatively small underachievement of £50k.

7.2.2 The reasons for the lower return include delays in a number of residential schemes becoming operational, CR27 was delayed by 3 months and there was a reduction in income from Travelodge as a result of the Company Voluntary Arrangement.

7.2.3 Interest charged on the commercial investments rental income provided a good, although short-term in nature, return. Income to the IAS from the loan to Muller and the arrangement fee also provided a significant return to the strategy. A summary of the outturn for each income type is provided in table 7 below:

Table 7: IAS Outturn 2020/21

Income Type	Target	Actual	Variance
Residential	2,760	1,812	(948)
Abbey Road	600	600	-
IAS Costs / Reside Costs	-	(559)	(559)
Total Residential	**3,360**	**1,853**	**(1,507)**
Commercial Income	2,365	4,575	2,210
Bad Debt Provision	-	(407)	(407)
Surplus Income to Be First	-	(125)	(125)
Total Commercial	**2,365**	**4,043**	**1,678**
CR27	**912**	**690**	**(222)**
IAS Total	**6,637**	**6,586**	**(51)**

7.2.4 Residential income is net of costs, bad debts and is effectively a surplus return from Reside. A bad debt provision has been included as part of the commercial return, with most of the provision made against outstanding debt from the purchase of the Heathway Shopping centre. The commercial return is predominantly income from sites acquired as part of land assembly in Thames Road. The variance against CR27 reflects the start date being delayed by a quarter to 1 July 2020.

7.2.5 For 2020/21, total gross spend on the investment strategy was £209.1m. The split between residential, commercial, and temporary accommodation is below:

Table 7: IAS Capital Spend 2020/21

IAS	£000
Residential Developments	151,734
Temporary Accommodation	10,765
Commercial Investments	46,632
Investments Total	**209,131**

7.2.6 For 2021/22 it is likely that there will remain a reliance on returns from the commercial properties, although this will reduce as the properties are either sold or redeveloped. There will be a shift towards the majority of the return coming from residential schemes that will become operational in 2021/22 and from an improvement in the returns from the current Reside schemes. A list of residential schemes that became operational in 2020/21 and that are scheduled to become operational in 2021/22 is provided in table 8 and 9:

Table 8: Residential Schemes Completed in 2020/21

Project 2020/21	Practical Completion (PC) Date			Units
	Original PC	Forecast PC	Variance	
Becontree Heath	Apr-20	Jul-20	3	87
Weighbridge	Sep-19	Oct-20	13	92
Grays Court Hospital	Dec-20	Jan-21	1	62
Wivenhoe Container	Dec-20	Feb-21	2	20
			Total Number of Units	**261**

Table 9: Residential Schemes Scheduled to be Completed in 2020/21

Project 2021/22	Practical Completion (PC) Date			Units
	Original PC	Forecast PC	Variance	
Sebastian Court	Jan-21	Jul-21	6	95
Melish Close & Sugden Way	Apr-20	Jul-21	15	19
A House for Artists	Jul-21	Sep-21	2	12
Becontree Avenue 200	May-21	Sep-21	4	19
Sacred Heart	Sep-21	Sep-21	0	29
Margaret Bondfield	Aug-20	Nov-21	15	16
GE P2 - Block C	Mar-22	Mar-22	0	52
Crown House	Mar-22	Apr-22	1	169
			Total Number of Units	**411**

8. Compliance with Treasury limits and Prudential Indicators

8.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordable limits) are included in the approved Treasury Management Strategy (TMSS).

8.2 During the financial year to date the Council has operated within and complied with the treasury limits and Prudential Indicators set out in the Council's annual TMSS. The Council's prudential indicators are set out in Appendix 1 to this report. In 2020/21, the Council did not breach its authorised limit on borrowing of £1.35bn or its Operational limit of £1.25bn.

9. Options Appraisal

9.1 There is no legal requirement to prepare a Treasury Management Annual Report, however, it is good governance to do so and meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

10. Consultation

10.1 The Section 151 officer has been informed of the approach, data and commentary in this report.

11. Financial Implications

Implications completed by: Katherine Heffernan, Finance Group Manager

11.1 This report sets out the outturn position on the Council's treasury management position and is concerned with the returns on the Council's investments as well as its short- and long-term borrowing positions. The net impact of the position is reflected in the Council's overall outturn position and the impacts into future years from borrowing and investment decisions will be incorporated into its MTFS.

12. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Lawyer

12.1 Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor its budget during the financial year and its expenditure and income against the budget calculations. The Council sets out its treasury strategy for borrowing and an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

12.2 The Council is legally obliged to 'have regard to' the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out its functions under the Act. Furthermore, the Prudential Code emphasises that authorities can set their own prudential indictors beyond that specified in the Code where it will assist their own management processes.

13. Risk Management

13.1 The whole report concerns itself with the management of risks relating to the Council's cash flow. The report mostly contains information on how the Treasury Management Strategy has been used to maximise income throughout the past year.

13.2 EIB funded urban regeneration programme - The urban regeneration programme will be governed by a programme delivery board established in the Regeneration department. A programme manager will be identified within the Council who will be responsible for delivering each scheme within the investment programme.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

Appendix 1 - The Prudential Code for Capital Investment in Local Authorities
Appendix 2 - Glossary of Terms