CABINET

15 November 2022

Title: Treasury Management and Investment and Acquisition Strategy 2022/23 Mid-Year Review	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** No
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Accountable Strategic Leadership Director: Philip Gregory, Strategic Director, Finance & Investment (S151 Officer)	

Summary

Regulation changes have placed greater onus on elected Members in respect of the review and scrutiny of treasury management policy and activities. This mid-year review report provides details of the mid-year position for treasury activities and highlights compliance with the Council's policies previously approved by the Assembly on 3 March 2022 as part of the Treasury Management Strategy Statement for 2022/23.

This report also provides a mid-year review of the Council's Investment and Acquisition Strategy, covering returns from both commercial and residential schemes.

Recommendation(s)

The Cabinet is asked to recommend the Assembly to note:

(i) The Treasury Management Strategy Statement Mid-Year Review 2022/23;

(ii) The economic update covering the increase in inflation and the potential for a further increase in the Bank of England Base Rate;

(iii) That the value of the treasury investments and cash as at 30 September 2022 totalled £109.2m and that the treasury investment strategy outperformed its peer group, with a return of 1.27% against an average of 0.95% for London Local Authorities (as at 30 June 2022);

(iv) That the value of the commercial and residential loans lent by the Council as at 30 September 2022 totalled £168.1m at an average rate of 3.3%;

(v) That the total borrowing position as at 30 September 2022 totalled £1,086m, with £295.9m relating to the Housing Revenue Account and £791.1m to the General Fund;

(vi) That interest payable was forecast to be £15.8m against a budget of £15.7m;

(vii) That interest receivable was forecast to be £7.2m against a budget of £7.5m, representing a deficit of £0.3m;

(viii) That capitalised interest was forecast to provide a surplus of £9.0m;

(ix) That Investment and Acquisition Strategy income was forecast to be £6.7m against a budget of £7.0m, representing a deficit of £0.3m;

(x) That the IAS surplus, held in a reserve, was currently £29.3m and is forecast to increase to £37.6m by the end of the year, of which £11.0m is ring fenced for lease and leaseback properties;

(xi) The post Gateway 4 cashflows, including the impact of Gascoigne East 3B and the pressures on the current pipeline schemes, as outlined in paragraph 9.2 of the report; and

(xii) That in the first half of the financial year the Council complied with all 2022/23 treasury management indicators.

Reason(s)

To accord with the requirements of the Local Government Act 2003 and keep the Assembly appraised of the Council's financial position and the challenges faced.

1. Introduction and Background

1.1 The Council operates a balanced budget whereby cash raised during the year meets the Council's cash expenditure needs. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies invested with counterparties of an appropriate level of risk, providing adequate liquidity before considering maximising investment return.

1.2 A second main function of treasury management is the funding of the Council's capital programme and Investment and Acquisition Strategy (IAS). These capital plans provide a guide to the Council's borrowing need, which is essentially the use of longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging loans, using cash flow surpluses, or restructuring debt to meet Council risk or cost objectives. To fund the IAS, it is essential that a significant level of borrowing is secured prior to being used to reduce interest rate risk.

1.3 A third main function of treasury management is the funding and treasury advice that is required for the Council's Investment and Acquisitions Strategy (IAS).

1.4 In accordance with the Chartered Institute of Public Finance Accountancy's (CIPFA) Code of Practice for Treasury Management, there should be a review of that strategy at least half yearly. The principal requirement of the Code includes:

1) Maintain a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management.

2) Maintain a Treasury Management Practices which set out the how the Council will seek to achieve those policies and objectives.
3) Receipt by full Council of a Treasury Management Strategy Statement, (TMSS) including the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy for the year ahead; a Mid-Year Review Report (this report); and an Annual Report covering activities during the previous year.
4) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5) Delegation by the Council to a specific named body, for this Council this is Cabinet, to scrutinise the treasury management strategy and policies.

1.5 This mid-year report has been prepared in compliance with CIPFA's Code of practice on Treasury Management, and covers the following:

1) Introduction and Background;
2) Economic Update and Interest Rate Forecast;
3) Council's Cash, Interest, IAS and Borrowing positions at 30 September 2022;
4) Investment Strategy Performance and Benchmarking;
5) Loans and IAS Income Forecast as at 30 September 2022; and
6) The Council's Capital Position (Prudential Indicators).

2. Economic Update and Interest Rate Forecast

2.1 Economic update

2.1.1 The second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
- economic activity losing momentum as production fell due to energy prices;
- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- Unemployment fall to a 48-yr low of 3.6% due to a shortfall in labour supply;
- Bank Rate (BR) rise by 100bps, taking BR to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

2.1.2 The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels. There are signs of higher energy prices creating more persistent downward effects in economic activity. Industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

2.1.3 The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above pre-Covid level and 3.3% below their level at the start of the year.

There are signs households are spending excess savings in response to high prices - cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

2.1.4 The labour market remained tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey employment rose by 40k in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154k over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354k in July itself and there are now 904k more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

2.1.5 CPI eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, Link expects to see fuel prices fall further in the coming months. However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2.5k per household (prior to any benefit payments).

2.1.6 Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

2.1.7 During the first half of the financial year, there was a change of both Prime Minister and Chancellor (Liz Truss and Kwasi Kwarteng) which resulted in a step change in government policy. The Government's huge fiscal loosening from its proposed significant tax cuts was seen to add to existing domestic inflationary pressures and potentially leave a legacy of higher interest rates and public debt. Whilst the Government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over two years, was expected to reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" added up to a loosening in fiscal policy relative to the previous Government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

2.1.8 Fears the Government had no fiscal anchor on the back of these announcements has meant that the pound weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the "fiscal event", it has since recovered to around $1.12. That is due to hopes that the BoE will deliver a big increase in interest rates at the policy meeting on 3 November and the most recent change to Government. The new Government is now expected to announce its tax and spending plans on 17 November.

Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

2.1.9 The MPC has increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75bps in their most recent meetings, the BoE’s latest 50 basis points hike looks relatively dovish. However, the UK’s status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

2.1.10 Since the fiscal event on 23 September it expected the MPC will increase interest rates faster, from 2.25% currently to a peak of 5.00% in Feb. 2023. The combination of the government’s fiscal loosening, the tight labour market and sticky inflation expectations means Link expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If BR climbs to these levels the housing market looks vulnerable, which is one reason why the peak in Link forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets.

2.1.11 Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (peak of 2.37% on 21 June) and 10-year yields (peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. The 30-year gilt yield rose from 3.60% to 5.10% following the “fiscal event”, which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31 October. Second, it committed to buy up to £65bn of long-term gilts to “restore orderly market conditions” until 14 October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons. The 2-year gilt yield dropped from 4.70% to 4.30%; 10-year yield fell back from 4.55% to 4.09%.

2.1.12 There is a possibility that the Bank continues with QE at the long-end beyond 14 October or it decides to delay quantitative tightening beyond 31 October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government’s deficit. But instead, that it is a temporary intervention with financial stability in mind. After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of Q3, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has partly been driven by the rise in global real yields and resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in risk appetite.

2.2 **Interest Rate Forecast**.

2.2.1 The Council’s treasury advisor, Link Group, provided the following forecasts (PWLB rates are certainty rates). **PWLB Rates:** The current margins over gilt yields for PWLB rates are:

- **PWLB Standard Rate & HRA is gilt plus 100 basis points (G+100bps)**
- **PWLB Certainty Rate & HRA is gilt plus 80 basis points (G+80bps)**
- **Local Infrastructure Rate is gilt plus 60bps (G+60bps)**

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

2.3 Forecasts for Bank Rate

2.3.1 The latest forecast sets out a view that both short and long-dated interest rates will be elevated for some little while, as the BoE seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances. To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

2.4 Impact on Council

2.4.1 Overall, the significant increase in short and long-term GILT rates will have a negative impact on the Council, with the impact mainly on future investments as higher borrowing costs will mean that some marginal schemes, that relied on lower borrowing rates, will no longer be viable or will require changes to the tenure mix or nature of the investment. However, as outlined in this report, the Council has managed to secure relatively cheap long-term borrowing over the past 5 years and this borrowing will be used to fund the current schemes.

2.4.2 Treasury will continue to use cash to fund developments, while also utilising cash from the sale of Welbeck and Muller. Initially, as borrowing is required, some short-term borrowing will be used, with treasury monitoring the borrowing rates. Should borrowing rates drop and reach revised trigger levels, then a medium-term borrowing position will likely be taken to lock in borrowing at rates.

2.4.3 An update on the borrowing positions will be provided to Cabinet and full Council as part of the Treasury Management Strategy Statement in March 2023.

3. Council's Cash Position as at 30 September 2022

3.1 Table 1 details the Council's mid-year treasury position. Overall, the Council's borrowing has increased by £1.2m since 31/03/2022 with the following changes:

- short-term borrowing reduced from £55m to £49m, a reduction of £6m;
- medium-term borrowing increased from nil to £30m;

- there was no new PWLB borrowing, with £14.7m repaid reducing the PWLB loan balance from £635.8m to £621.1m; and
- £2.6m of debt was repaid for EIB and L1 Renewables.

3.2 Treasury investments have reduced from £225m at 31 March 2022 to £109m at 30 September 2022. Commercial loans total £168.1m at an average rate of 3.3%. The reduction in cash is due to funding the IAS and will continue for the rest of the financial year. Short-term borrowing includes cash the Council manages and invests on behalf of BD Muller Developments. Cash balances are expected to increase on completion of the sale of Welbeck.

Table 1: Council's Treasury Position at 30 September 2022

	Principal Outstanding £000s	Rate of Return %	Average Life (yrs.)
General Fund Fixed Rate Borrowing			
LOBO	10,000	3.98	54.8
Local Authority (Short-term)	49,000	1.82	0.5
Local Authority (Medium-term)	30,000	0.77	1.9
European Investment Bank	74,220	2.21	21.5
L1 Renewables (Street Lighting)	6,768	3.44	24.0
PWLB	621,065	1.91	28.8
Total General Fund Debt	**791,054**	**1.93**	**25.6**
HRA Fixed Rate Borrowing			
PWLB	265,912	3.50	33.3
Market Loans	30,000	4.03	43.2
Total HRA Debt	**295,912**	**3.38**	**34.3**
Total Council Borrowing	1,086,966	2.37	28.0
Cash			
Short-Term Investments	7,279	0.78	-
Pension Fund	1,700	2.25	-
Investments			
Financial Institutions	50,000	2.41	0.5
Local Authorities	50,250	1.65	1.8
Total Investment Income	**109,229**	**1.95**	**0.5**
Commercial and Reside Loans	**168,127**	**3.30**	**16.4**
Total Investments	**277,356**	**27.67**	**19.8**

4. Interest and IAS Position at 30 September 2022

4.1 The funding of the IAS will require a significant amount of borrowing. Pressure on the net interest budget could be from:

- a delay in developments becoming operational, delaying interest receivable and increasing the overall build costs;

- an increase in borrowing requiring more interest payable than forecast, with this pressure increased during periods of increasing borrowing rates;
- an increase in borrowing rates higher than forecast; and
- a drop in treasury returns through lower returns or lower investible cash.

4.2 Table 2 provides the latest interest receivable and payable budgets forecast for the Council. The current net interest forecast is for a large surplus of £8.5m driven by improved interest rates but mainly due to capitalised interest on developments and the much lower than forecast borrowing requirement for 2022/23. There is the potential that, given interest rates are currently very high compared to recent levels, that the surplus could be reduced if the sale of Welbeck does not complete or if there is an increased need to borrow, resulting from further asset purchases or from accelerated development costs. The surplus interest is a direct result of the timing and level of borrowing secured and the cash surpluses produced by the sale of Muller and Welbeck. It is likely that this level is the peak of the surpluses produced by the capitalising interest on developments.

Table 2: General Fund (GF) Interest Budget Forecast 2022/23

Interest Forecast	2022/23 Forecast £'000s	2022/23 Budget £'000s	2022/23 Variance £'000s
GF Interest Receivable Budget			
Loans - Reside	1,821		
Loans - Companies	1,988		
Loans - Other	427		
Investments	1,665		
Pension Fund Prepayment	1,265		
HRA	-		
Total Income	**7,165**	**7,503**	**(338)**
GF Interest Payable Budget			
GF - Lobo	(398)		
GF - PWLB	(11,952)		
GF - Medium Term	(29)		
GF - Short Term	(551)		
GF - Other	(1,871)		
GF - Potential Additional Interest	(1,000)		
Total Expense	**(15,801)**	**(15,681)**	**(120)**
Capitalised Interest	9,000	-	**9,000**
Net Interest	**364**	**(8,178)**	**8,542**

4.3 **Borrowing Position as at 30 September 2022**

4.3.1 Interest payable budget is forecast to be £120k higher than the budget of £15.7m (excluding capitalised interest). This includes £1m to fund any borrowing that may be required by year-end, although it is expected that the actual amount will be lower than this. The budget will be adjusted in 2023/24 to take into account additional borrowing requirements.

4.3.2 £30m was borrowed in early 2022/23 at very low rates but no subsequent borrowing has taken place outside of some short-term borrowing where it was required.

4.3.3 Capitalised interest is forecast to provide a surplus of £9m against budget. This figure is much higher than originally forecast and is mainly due to a much-improved cashflow resulting from prepayments of some grant, surpluses from the sale of Muller and potentially Welbeck, as well as a reduced borrowing position from the pension fund. The longer the Council defers borrowing, the bigger the surplus capitalised interest but it is expected that the Council will need to borrow again in mid-2023 or possibly earlier if further schemes or purchases are made. It is likely that new borrowing will be higher than the current average borrowing rate of 2% and this will lead to a reduction in the capitalised interest surplus.

4.3.4 Capitalised interest stops when a scheme is completed and handed over to Reside and is replaced by a loan rate, which is currently higher than the capitalised interest rate. There should, potentially, be further surpluses produced from both capitalised interest but also from the on-lending surplus, although this has reduced significantly as it has been necessary to reduce the on-lending rate.

4.3.5 A more detailed forecast will be produced as part of the Q3 report, with scenarios included for higher (and potentially lower) borrowing over the development period of the current development strategy. As the 2020/21 accounts will not be audited until mid 2023, there remains a risk that the capitalised interest will be adjusted, but this is low risk. Currently all the income from capitalised interest for 2019/20 and 2020/21 is part of the reserve.

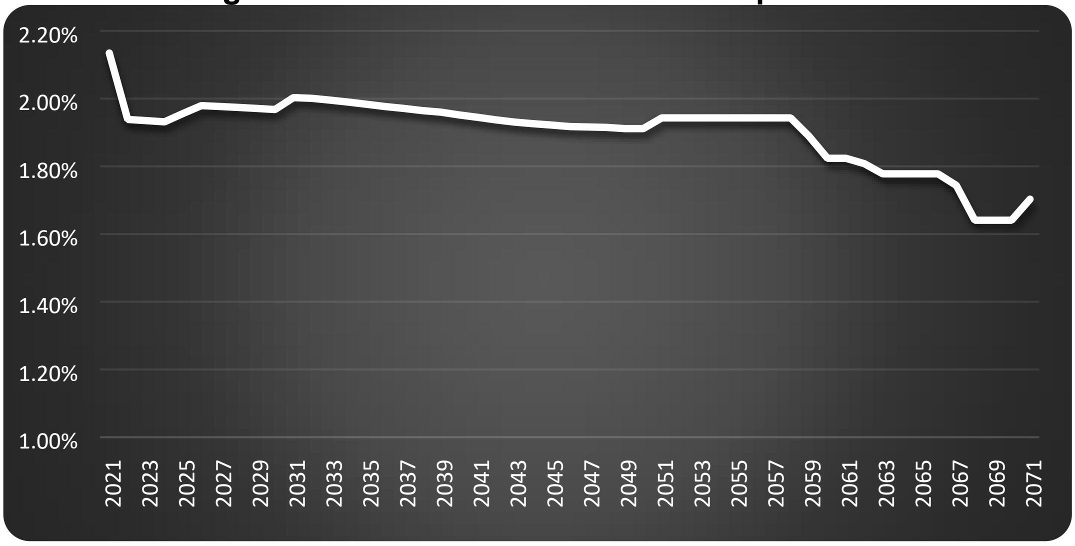
4.3.6 As most of the Council's borrowing is linked to a repayment schedule from the underlying asset the money was borrowed for, and because there is an interest margin, there is the potential for the interest payable to be fully funded from the interest received from investments and from capitalised interest. This will depend on a number of factors, such as the ability to keep the average cost of borrowing below the average interest earned on the loans but also on there still being sufficient surplus from the assets to provide the Council a return. Currently the IAS return is lower than the budget and has required top ups from treasury surplus to reach its investment target.

4.3.7 The Council has set aside a net budget of £8.2m to cover interest costs and potentially this budget could be reviewed if there are sufficient surpluses from the on lending. Any adjustments will be dependent on the future pressures from interest costs but also the sign off of the capitalised interest approach by the Council's auditors.

4.4 **General Fund Interest Costs**

4.4.1 Currently the average long-term interest rate on borrowing is 1.93% for £791.1m and remains fairly constant, although against a reducing borrowing amount. The average interest rate to 2070 is provided below:

Chart 1: Average Interest Rate to 2071 as at 30 September 2022



4.5 **Impact of higher borrowing rates**

4.5.1 If future borrowing can keep the longer-term average borrowing rate to under 2%, then this will provide a margin against the on-lending rate to Reside of approximately 2.5% (reduced from 2.9% due to viability issues with some schemes). A 2.5% rate is very low and reflects the historically low rates that have been available over the past 5 years.

4.5.2 The average rate will increase if PWLB rates remain elevated and if borrowing costs increase or more expensive borrowing, i.e. index linked borrowing, is used. Therefore, currently there is a margin between the current average borrowing and the on-lending value, but this could change quickly if new borrowing is at much higher rates.

4.5.3 It is important to stress that, given the significant increase in borrowing costs and the fact that the Council still needs to borrow for current schemes but also has an ambitious investment programme that will require funding, that if future borrowing is at rates above 2%, the average borrowing cost will increase. If the rates are significantly higher than 2% then the average rate may increase to above the rates currently being lent out to Reside. The impact of this will be magnified if a significant amount of borrowing is required – i.e. the impact of needing to borrow £200m at 4% will be less than needing to borrowing £600m at 4%. To absorb this impact, the borrowing rate for new schemes has increased from 2.6% to 4%, although this will impact on schemes viability.

4.5.4 A number of the Council’s smaller loans are linked to the BR and this will improve the average return on the loans but some of these loans are to the Council’s subsidiary companies, and therefore the impact of the increased loans will have an impact on their returns.

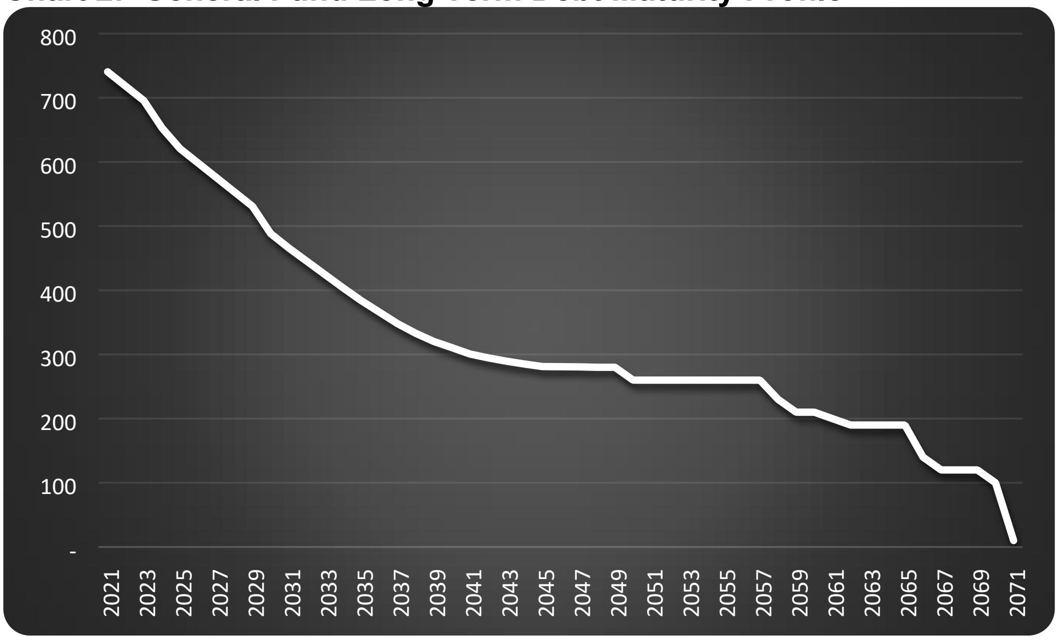
4.6 **Debt Position at 30 September 2022**

4.6.1 The total GF borrowing at 30 September 2022 was £791.1m and £295.9m of HRA borrowing (this excludes borrowing between the HRA and the GF). The total borrowing as at 30 September 2022 was £1.1bn. Ensuring low cost of carry and debt repayment is at the forefront of any borrowing decisions made. Although the size of the Council’s overall borrowing is significant, Members are asked to note that the majority of debt includes a repayment profile, and that the repayment is linked to income streams that are sufficient to cover the interest costs and debt repayment.

4.6.2 As an example, the EIB borrowing of £89m is an annuity repayment (AP), which means a proportion of the loan will be repaid each year. Currently the balance owed on the EIB loan is £74.2m, with all repayment made from returns from the investment strategy (Abbey Road and Weavers). In addition, £351.1m of the long-term PWLB borrowing is Equal Instalment Payments or AP, which means there is repayment of a portion of the debt each year. As a result, the Council has a loan repayment profile that is similar to its forecast property debt repayment schedule.

4.6.3 However, it is likely that future borrowing rates will be higher and could be significantly higher than the rates secured and this, without a decrease in build costs, will impact viability. The Council still needs to borrow approximately £250m to fund its current IAS, although this reduces to nearer £150m if land assembly holdings on Thames Road are sold and could be lower still if they are sold with any gain. Any schemes that are agreed in future will be impacted by the increase borrowing costs. The Council's GF long-term borrowing repayment schedule is outlined in Chart 2:

Chart 2: General Fund Long Term Debt Maturity Profile



4.7 Debt Repayment and Rescheduling

4.7.1 For the first half of the financial year, the treasury section has repaid approximately £17.3m of long-term borrowing through EIP and AP. In addition, short-term borrowing reduced to £49m at 30 September 2022. No debt rescheduling were undertaken during the first six months of the financial year.

5. Treasury and Loan Portfolio at 30 September 2022

5.1 It is the Council's priority to ensure security of capital and liquidity before obtaining an appropriate level of return which is consistent with the Council's risk appetite. In the current economic climate, the Council's risk appetite remains relatively low, with the treasury section looking to take advantage of the fluctuations in rates offered by Local Authorities (LAs) and Financial Institutions.

5.2 As at 30 September 2022 the Council held £109.2m in treasury investments, with £50.25m invested with LAs, £50.0m held with banks, a short-term position of £9.0m to cover liquidity risk as part of building up a short-term borrowing position. The Council also held a £30.0m prepayment position with the pension fund that may be repaid by the financial yearend. The exposure to Goldman Sachs is higher than would generally be held but this will reduce as a percentage when cash is received from the sale of Welbeck Wharf but will also reduce as an actual amount in December 2023 as £30m of current deposits mature.

5.3 A breakdown of the Council's treasury investments is provided in the table 3:

Table 3: Treasury Investments as at 30 September 2022

Counterparty	Start	End	Amount	Rate
LBBD Pension Fund	10/07/2019	01/10/2022	1,700,000	2.25
Cash	01/10/2021	01/10/2022	4,778,876	0.10
FEDERATED MMF	01/04/2016	01/10/2022	2,500,000	2.08
			8,978,876	**1.06%**
Goldman Sachs IB	20/09/2022	20/09/2023	10,000,000	4.22
Goldman Sachs IB	29/09/2022	29/09/2023	10,000,000	5.65
Goldman Sachs IB	13/12/2021	13/12/2022	30,000,000	0.72
			50,000,000	2.41%
RUNNYMEDE BC	20/12/2019	20/12/2022	5,000,000	1.80
Dudley MBC	21/02/2020	21/02/2023	10,000,000	1.80
CARDIFF COUNCIL	10/01/2020	10/01/2023	10,250,000	1.75
COLCHESTER BC	02/03/2020	03/01/2023	5,000,000	1.75
NORTHUMBERLAND CC	27/02/2020	27/02/2023	5,000,000	1.80
CAMBRIDGESHIRE CC	11/01/2021	11/01/2024	10,000,000	1.00
SLOUGH BC	27/05/2022	26/05/2023	5,000,000	2.05
			50,250,000	1.65%
		Total	**109,228,876**	**1.95%**

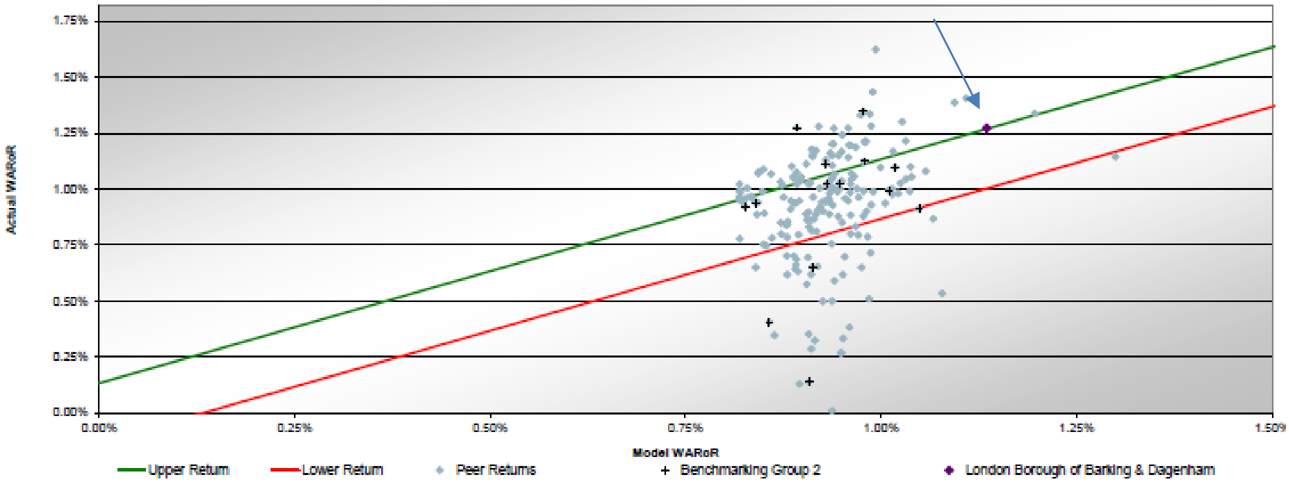
5.4 The Council's investment maturity profile in Chart 3 shows that, at 30 September 2022, 72.1% of the Council's investments had a maturity of one year or less. The Council is reducing its long-term investment positions to fund the IAS and due to the higher borrowing costs. It is likely that, given the current market conditions, the cash position will reduce to below £50m by the year end. The returns lost of treasury returns will be replaced by returns from the IAS as schemes become operational and interest is paid on the loans to Reside, as well as from returns from the Council's commercial portfolio.

6. Treasury Investment Strategy Performance and Benchmarking

6.1 For the past two years, yields on investments have been low, with returns for most Council's at around 0.25%. During this time the Council managed to keep a stable return of around 1.5%, while at the same time building up a significant borrowing position, with the aim to fund the IAS over the coming years. This period was important for the strategy and has allowed it to be in the current strong position. Since February 2022, rates have increased, with rates over the past few months increasing to levels not seen since the financial crisis in 2008. Currently the strategy is to not borrow and to use cash reserves and sales to fund the IAS, although it has been possible to lock in some of the higher rates available, with the average return, as at 30 September 2022, being 1.95% on a balance of £109.2m.

6.2 **Benchmarking at 30 June 2022:** The treasury strategy, which excludes loans and the pension prepayment, still continues to perform in the top quartile when compared to its peer group, with a return of 1.27% against an average of 0.95% for London LAs, although the difference between the Council and other Local Authorities has flattened as short-term investments now provide a good return. This is highlighted in chart 4:

Chart 4: Population Returns against Model Returns (at 30 June 2022)



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
London Borough Of Barking & Dagenham	1.27%	1.13%	0.14%	1.00%	1.27%	Above

6.3 The strategy has a slightly higher credit risk of 3.08 against a London LA average of 3.00, mainly due to the exposure to Goldman Sachs and due to the reduced investment positions with other local authorities, which have a low credit risk.

6.4 For the rest of the financial year, the average rate is forecast to increase to above 2.5% but on a reduced balance. The duration is also likely to reduce as there is less value from investing longer due to the elevated borrowing rates.

6.5 Overall the current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

7. Commercial and Reside Loans

7.1 In addition to its treasury investments, the Council has loans to its subsidiary companies, including Reside and a prepayment to the pension fund. These loans all have repayment schedule agreed. At 30 September 2022 the Council's loans and equity holdings totalled £168.1m and are summarised in table 4 below:

Table 4: Commercial and Reside Loans at 30 September 2022

Entity	Loan Type	Value £000s	Value £000s
LBBD Pension Fund	Commercial Loan	4,769.41	31/03/2025
LBBD Pension Fund	Pension Fund Prepayment	30,000.00	31/03/2023
BE-FIRST LTD	Commercial Loan - Working Capital	4,769.41	31/03/2025
BD TRADING PARTNERSHIP LEUK	Commercial Loan - Working Capital	5,000.00	31/07/2024
BD TRADING PARTNERSHIP LEUK	Commercial Loan - Asset Backed	24,867.85	01/04/2025
BARKING RIVERSIDE LTD	Commercial Loan - Guarantee	5,500.00	31/03/2025
BD ENERGY LTD	Commercial Loan - Working Capital	954.87	31/03/2025
BD ENERGY LTD	Commercial Loan - Asset Backed	1,953.13	31/03/2027
BD ENERGY LTD	Commercial Loan - Asset Backed	4,016.77	31/03/2047
Grafton Primary School	Commercial Loan - Energy	46.65	02/03/2026
Dagenham & Redbridge Football Club	Commercial Loan - Asset Backed	81.11	31/01/2028
Barking Enterprise Centre CIC	Commercial Loan - Asset Backed	142.62	12/08/2031
Make IT Bow Ltd	Commercial Loan - Asset Backed	250.00	30/06/2032
Gascoigne Primary School	Commercial Loan - Energy	46.80	03/03/2036
CARE CITY	Commercial Loan - Asset Backed	31.21	10/02/2041
Reside Weavers LLP Gascoigne East Phase 2	Commercial Loan - Asset Backed	34,553.14	31/03/2066
Reside Weavers LLP Gascoigne East Phase 2	Commercial Loan - Asset Backed	1,343.85	31/03/2066
Reside Weavers LLP - 796-806 Dagenham Road	Commercial Loan - Asset Backed	2,200.73	31/03/2071
Reside Weavers LLP - Sacred Heart	Commercial Loan - Asset Backed	8,071.22	31/03/2074
Reside Weavers LLP - 200 Becontree Avenue	Commercial Loan - Asset Backed	4,752.33	01/07/2074
Reside Weavers LLP - A House for Artists	Commercial Loan - Asset Backed	2,834.01	31/03/2077
Reside Ltd PSL Loan	Commercial Loan - Asset Backed	244.93	31/03/2024
Reside Abbey Roding LLP PSL Loan	Commercial Loan - Asset Backed	27.95	31/03/2024
Reside Weavers LLP PSL Loan	Commercial Loan - Asset Backed	39.22	29/07/2024
TPFL Regeneration Ltd	Commercial Loan	30.39	31/03/2025
Reside Regeneration Ltd	Commercial Loan - Asset Backed	168.82	31/03/2025
Reside Regeneration LLP	Commercial Loan - Asset Backed	6,400.43	31/03/2025
B&D Homes Ltd	Commercial Loan - Asset Backed	6,450.70	23/08/2025
BD Muller Developments	Equity	23,348.97	31/03/2023
Total		**168,127.10**	

7.2 The majority of the loans above are secured against an asset. Where the loan is unsecured the company is closely monitored to ensure that it remains financially viable. Loans against residential properties 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.

7.3 Commercial loans durations vary, with some loans to schools maturing in 14 years but most of the loans have a maximum duration of 5 years. Each loan has been agreed at Cabinet. The Pension Fund prepayment is contributions totalling £40m. 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 the correct contribution rate is paid to the pension fund. The prepayment is due to end on 31 March 2023.

8. IAS Income Forecast

8.1 The IAS is forecasting to return £6.7m, £0.3m less than the target of £7.0m for 2022/23. The IAS target includes the original £5.2m target but now also included the lease and lease back target of £1.1m and then additional income is required to fund MRP on Abbey Road 2 and also on the commercial purchases on Thames Road, totalling £708k.

Table 5: IAS Income Forecast as at 30 September 2022

IAS Forecast	Budget	Forecast	Variance
Residential - *Reside Schemes*			
Regen LLP		400	
Abbey		275	
Weavers		1,000	
Reside Ltd		-100	
Total Residential	**1,590**	**1575**	**-15**
Commercial Income			
Barking Business Centre		902	**902**
Dagenham Heathway		240	**240**
Travelodge Dagenham		236	**236**
Barking Restore PLC		409	**409**
Purchase of Welbeck Wharf		483	**483**
23 Thames Road		186	**186**
27 Thames Road		20	**20**
3 Gallions Close		206	**206**
47 Thames Road		5	**5**
7 Cromwell		206	**206**
26 Thames Rd		152	**152**
Purchase of 1-4 Riverside		39	**39**
9 Thames Road		17	**17**
Maritime House		487	**487**
Pianoworks Lease		408	**408**
Total Commercial	**3,610**	**3,995**	**385**
Lease and Lease Back			
CR27	862	691	**171**
Travelodge Isle of Dogs	240	240	**0**
Total Lease and Lease Back	**1,102**	**930**	**(172)**
IAS Support Costs	**0**	**(350)**	**(350)**
Additional MRP			
Thames Road	558	558	**0**
Abbey Road 2	150		**(150)**
Total Lease and Lease Back	**708**	**558**	**(150)**
IAS Target	**7,010**	**6,708**	**(302)**

8.2 MRP on Abbey Road is required as this is the only capital expenditure where MRP is not appropriately charged. MRP was removed from Abbey Road as part of a savings target, as the market value of the scheme was higher than the build costs and the scheme was considered for sale or enter into a lease back arrangement. To be compliant with MRP rules, MRP will be charged from 2022/23, backdated to 2016/17 using the 50 year annuity method.

8.3 The IAS is supported by higher-than-expected level of commercial income. The return from current residential schemes is forecast to be marginal. Loans from the

Council to Reside are included as interest receivable, with the treasury and IAS returns interlinked and, at times, one underperforms while the other outperforms. Table 5 outlines the income received from the various commercial investments and includes costs to fund additional resources in the investment strategy.

8.4 **Reside Returns**

8.4.1 The draft Reside return payable to the Council for 21/22 and the forecast return for 2022/23 have been calculated, as in previous years, based on fixed payments to MyPlace to cover the costs of management, repairs and services.

8.4.2 Work on budgeting for the Reside homes over the last eighteen months has identified that these fixed payments to MyPlace, even though they are indexed to allow for inflation each year, do not fully cover the costs actually incurred by MyPlace for the management and maintenance of Reside's Homes. A review of these costs is currently being completed and will likely lead to an increase in costs, which will reduce future net returns from Reside.

8.4.3 Reside is entering a period of rapid growth it is imperative correct actual costs for the Reside homes are correctly identified in real-time, real-time costs and forecasts are available to Reside ad that the correct costs are charged to Reside by MyPlace and deducted from the return. If this does not happen there is a risk of:

- Increasing cost pressures in MyPlace as Reside and therefore these unrecovered costs grow;
- Reside will be unable to manage and control the costs of running its homes and unable to ensure the services delivered to its tenants represent value for money; and
- Using incorrect assumptions for management, maintenance and service costs when appraising new development could lead to decisions being made based on poor information.

8.4.4 MyPlace is putting in place a project, working closely with Reside, to address this gap but to also find efficiencies, especially as the number of schemes increases.

8.5 The IAS has received significant income contributions from rental received from land assembly purchases on Thames Road and from commercial loans made for the purchase of Muller and for LEUK. Although this is short-term income received during land assembly, this income has provided additional support to the IAS and allows for the costs of borrowing to be covered for part of the development.

8.6 A 2021/22 surplus of £1.566m is estimated to be paid from Reside and will be transferred to the IAS reserve.

9. IAS Update

9.1 Over the past two years the IAS has come under pressure from higher build costs and lower rent increases. To address this, amendments were made to assumptions used within the IAS, including a reduction in the on-lending interest rate and an increase in use of Right to Buy receipts. Prior to the revised assumptions the cashflows showed losses of £45.6m over the first 20 years, mainly from London Affordable Rent (LAR) but also from Private Rentals (PRS). A summary of the forecast prior to the assumption's amendments and then after these amendments is provided below:

Table 7: December 2021 IAS viability

Borrow	£1,234m	£1,234m	£94.4m	£310.4m	£247.9m	£532.5m	£14.4m	£34.8m
Dates	Total	Accumul-ative	SO	AR	LAR	PRS	Comm-ercial	Realm and Community
2021/22	245,208	245,208	131,828	142,646	43,696	0	0	-72,962
2022/23	704,336	949,544	87,859	644,156	484,739	-448,503	9,284	-73,199
2023/24	-176,990	772,554	-840,152	1,318,017	154,546	-797,408	293,819	-305,812
2024/25	3,153,347	3,925,901	1,170,661	1,790,104	-165,801	65,226	738,824	-445,667
2025/26	-961,688	2,964,213	23,802	1,273,721	-1,656,436	-428,210	538,489	-713,054
2026/27	-2,355,130	609,083	-211,273	1,169,515	-1,781,862	-1,249,730	518,402	-800,182
2027/28	-496,771	112,312	3,361,876	443,334	-2,387,261	-1,624,050	521,939	-812,609
2028/29	-3,714,393	-3,602,081	286,823	134,926	-2,595,988	-1,380,125	648,100	-808,129
2029/30	-5,650,033	-9,252,114	219,039	-434,783	-3,373,405	-1,929,184	654,497	-786,197
2030/31	-3,831,706	-13,083,820	1,696,127	-337,491	-3,416,365	-1,645,482	654,598	-783,093
2031/32	-5,073,659	-18,157,479	609,466	-411,413	-3,534,317	-1,610,376	651,834	-778,853
2032/33	-6,162,877	-24,320,356	550,992	-634,182	-4,019,988	-1,945,258	658,170	-772,611
2033/34	-4,944,999	-29,265,355	692,109	-406,693	-3,912,305	-1,354,749	803,745	-767,106
2034/35	-5,035,357	-34,300,712	854,694	-231,442	-4,202,633	-1,524,263	810,930	-742,643
2035/36	-4,155,240	-38,455,952	1,000,394	-92,621	-4,189,869	-945,185	810,992	-738,951
2036/37	-3,050,515	-41,506,467	1,149,015	145,784	-4,113,587	-308,037	811,058	-734,748
2037/38	-2,550,087	-44,056,554	1,300,597	388,829	-4,241,054	-87,798	818,238	-728,899
2038/39	-1,396,884	-45,453,438	1,455,270	554,745	-4,203,604	537,108	982,953	-723,356
2039/40	-167,724	-45,621,162	1,613,124	806,017	-4,123,895	1,241,959	991,091	-696,020

Table 8: Revised IAS viability

Borrow	£1,180.1m		£94.4m	£276.2m	£215.7m	£533.0m	£26.7m	£34.6m
Dates	Total	Accum ulative	SO	AR	LAR	PRS	Comm-ercial	Realm and Community
2021/22	435,052	435,052	128,874	270,680	90,821	0	0	-55,322
2022/23	2,337,937	2,772,989	87,133	1,312,014	727,461	-289,520	9,284	-31,911
2023/24	2,087,690	4,860,679	-841,177	2,592,030	1,122,950	-432,790	-181,040	-172,286
2024/25	6,398,591	11,259,270	1,169,641	3,318,307	1,082,553	807,728	263,965	-257,817
2025/26	3,778,813	15,038,083	22,788	3,263,807	321,036	505,850	63,570	-398,233
2026/27	2,390,759	17,428,842	-212,280	3,173,598	198,372	-324,595	43,483	-487,822
2027/28	4,575,714	22,004,556	3,360,876	2,441,347	-280,911	-489,914	47,019	-502,700
2028/29	1,328,436	23,332,992	285,830	2,126,678	-499,121	-257,426	173,181	-500,700
2029/30	-638,295	22,694,697	218,053	1,549,951	-1,286,336	-818,265	179,577	-481,278
2030/31	1,396,203	24,090,900	1,695,148	1,640,182	-1,247,441	-390,659	179,679	-480,705
2031/32	119,070	24,209,970	608,495	1,558,999	-1,376,853	-369,459	176,914	-479,026
2032/33	-1,006,321	23,203,649	550,029	1,328,738	-1,874,307	-718,663	183,251	-475,365
2033/34	174,385	23,378,034	691,154	1,548,513	-1,778,740	-142,906	328,826	-472,462
2034/35	45,810	23,423,844	853,748	1,715,811	-2,081,516	-327,615	336,010	-450,622
2035/36	886,653	24,310,497	999,458	1,846,442	-2,081,560	235,812	336,073	-449,572
2036/37	1,951,011	26,261,508	1,148,088	2,076,411	-2,018,441	856,840	336,139	-448,024
2037/38	2,409,941	28,671,449	1,299,681	2,310,760	-2,159,443	1,060,476	343,318	-444,849
2038/39	3,520,491	32,191,940	1,454,365	2,467,712	-2,135,913	1,668,280	508,034	-441,992
2039/40	4,705,831	36,897,771	1,612,230	2,709,749	-2,070,493	2,355,516	516,172	-417,348

9.2 IAS Post GW4 Cashflows

9.2.1 The revised cashflows can be split further into schemes that have been agreed at Gateway 4 (GW4) and are therefore under construction and Pre-Gateway 4 (Pre-GW4) that are still undergoing planning and design. Generally, Post GW4 schemes need to be completed but there is certainty over build costs. Pre-GW4 schemes have had some spend on them but can still be put on hold or not progressed.

9.2.2 As summarised in table 9, the post-GW4 schemes, with the revised assumptions, are viable, although there are a number of years where there are deficits, as a result of lifecycle costs being incurred. In addition, there are negative cashflows from LAR and parking, realm and community. LAR tenures are cross subsidised by Shared Ownership (SO) but any further shortfall forecast at handover will need to be addressed through a lower on-lending rate to the Registered Provider (RP). Realm and Community is held and funded by the Council and this will be funded from any excess from the IAS and treasury above its target or from the IAS reserves. Post GW4 schemes include:

Project	Project Type	Project Status
Becontree Avenue 200	New Build	Completed
Becontree Heath	New Build	Completed
Chequers Lane	Turnkey	Completed
Crown House	New Build	Completed
Gascoigne East Phase 2 Block C	New Build	Completed
Gascoigne West Phase 1	New Build	Completed
House for Artists	New Build	Completed
Kingsbridge	New Build	Completed
Sacred Heart	New Build	Completed
12 Thames Road	New Build	Post-G4
Gascoigne East Phase 2 Block E2	New Build	Post-G4
Gascoigne East Phase 2 Block F	New Build	Post-G4
Gascoigne East Phase 3A - Block I	New Build	Post-G4
Gascoigne East Phase 3A - Block J	New Build	Post-G4
Gascoigne West Phase 2	New Build	Post-G4
Oxlow Lane	New Build	Post-G4
Padnall Lake - Phase 2	New Build	Post-G4
Roxwell Road	New Build	Post-G4
Sebastian Court	New Build	Post-G4
Woodward Road	New Build	Post-G4
Beam Park - Phase 6	Turnkey	Post-G4
Beam Park - Phase 7	Turnkey	Post-G4
Transport House	Turnkey	Post-G4
Trocoll House	Turnkey	Post-G4

9.2.3 The surpluses in table 9 will contribute to the IAS return and, as outlined in section 8, there is a £2m deficit and these surpluses are required to ensure the IAS meets its target, especially as there is currently pressure on borrowing costs, which could reduce the return from Treasury. In addition, there remains pressure from operational costs and rents and rent caps likely to reduce the surpluses. Work is being carried out by the Investment Panel (IP) to improve the viability, especially for LAR units, with the option to change tenure mix, reducing LAR provision, especially where viability is particularly challenging, and replacing it with Affordable Rent (AR). If there remains a deficit, then it will be necessary to reduce the interest rate charged to ensure that the schemes are viable for the RP. Reducing the interest rate further will put additional pressure on the investment strategy at a time when interest rates are increasing.

Table 9: IAS Post GW4 Revised viability

Borrow	£920.0m	£920.0m	£90.5m	£204.4m	£13.0m	£171.7m	£393.5m	£46.8m
Dates	Total	Accum ulative	SO	AR	LLR	LAR	PRS	Realm and Community
2021/22	**131,421**	**200,081**	51,214	35,131	0	56,290	0	-11,215
2022/23	**467,045**	**667,126**	44,152	507,509	81,387	300,653	-412,180	-54,477
2023/24	**1,901,795**	**2,568,921**	13,149	2,127,470	93,961	143,932	-361,824	-114,891
2024/25	**2,396,747**	**4,965,668**	-124,184	2,595,400	-28,156	3,815	576,891	-627,016

2025/26	**311,595**	**5,277,263**	-449,796	2,156,880	-13,810	-559,109	-105,293	-300,627
2026/27	**1,157,464**	**6,434,727**	85,801	2,054,232	1,008	-772,375	185,631	-477,004
2027/28	**1,904,891**	**8,339,618**	180,930	2,206,111	11,376	-717,485	590,188	-468,013
2028/29	**1,397,784**	**9,737,402**	159,857	2,309,399	-3,356	-1,007,750	267,701	-450,559
2029/30	**1,823,873**	**11,561,276**	262,164	2,312,676	-2,575	-1,150,915	588,205	-331,755
2030/31	**3,098,952**	**14,660,227**	589,964	2,339,565	6,125	-1,189,389	1,509,982	-327,980
2031/32	**1,350,990**	**16,011,217**	720,937	1,378,687	-208,982	-1,868,752	1,459,832	-325,123
2032/33	**-676,821**	**15,334,397**	685,959	868,165	-50,611	-2,511,889	961,072	-315,118
2033/34	**1,498,129**	**16,832,526**	825,615	1,857,934	10,952	-1,987,276	1,374,857	-292,309
2034/35	**4,721,726**	**21,554,252**	968,126	2,623,874	35,256	-1,522,371	3,045,303	-158,226
2035/36	**4,300,264**	**25,854,515**	1,113,612	3,155,534	52,302	-1,848,148	2,226,738	-154,826
2036/37	**1,435,057**	**27,289,572**	1,262,130	937,960	-463,533	-2,843,913	2,911,988	-151,251
2037/38	**-711,539**	**26,578,033**	1,413,773	-420,696	-103,120	-3,787,809	2,521,346	-141,977
2038/39	**3,903,831**	**30,481,864**	1,568,634	1,796,491	82,284	-2,479,548	3,216,407	-116,836
2039/40	**8,881,795**	**39,363,659**	1,726,825	3,448,738	92,681	-1,689,025	5,400,691	34,530

9.2.4 In October 2022, Cabinet agreed to proceed with Gascoigne East 3B (GE3b), a key scheme within the Gascoigne regeneration but also a scheme that, on its own, is unviable. The impact of this scheme on the current cashflow forecasts is outlined in table 10 below, showing the initial cash flows remain unchanged but future year have much worse annual returns, especially when compared to the borrowing required:

Table 10: IAS Post GW4 Revised viability including GE3B

Borrow	£1,057.1m	£1,057.1m	£90.5m	£226.0m	£13.0m	£197.5.0m	£477.4m	£52.6m
Dates	Total	Accum ulative	SO	AR	LLR	LAR	PRS	Realm and Community
2021/22	**131,421**	**200,081**	51,214	35,131	0	56,290	0	-11,215
2022/23	**467,045**	**667,126**	44,152	507,509	81,387	300,653	-412,180	-54,477
2023/24	**1,901,795**	**2,568,921**	13,149	2,127,470	93,961	143,932	-361,824	-114,891
2024/25	**2,396,747**	**4,965,668**	-124,184	2,595,400	-28,156	3,815	576,891	-627,016
2025/26	**-1,044,938**	**3,920,730**	-449,796	2,219,736	-13,810	-823,075	-994,448	-566,895
2026/27	**73,741**	**3,994,471**	85,801	2,171,814	1,008	-968,341	-553,991	-742,722
2027/28	**-357,930**	**3,636,541**	180,930	2,109,215	11,376	-1,337,344	-685,126	-738,766
2028/29	**-727,254**	**2,909,287**	159,857	2,242,440	-3,356	-1,606,837	-920,538	-721,312
2029/30	**-158,934**	**2,750,354**	262,164	2,276,610	-2,575	-1,728,534	-510,165	-602,508
2030/31	**1,240,192**	**3,990,545**	589,964	2,322,560	6,125	-1,754,792	504,382	-598,733
2031/32	**-585,175**	**3,405,370**	720,937	1,341,676	-208,982	-2,491,744	454,422	-595,876
2032/33	**-2,485,734**	**919,637**	685,959	850,190	-50,611	-3,123,575	52,573	-585,871
2033/34	**-179,806**	**739,831**	825,615	1,859,378	10,952	-2,587,431	566,386	-563,062
2034/35	**1,282,891**	**2,022,722**	968,126	2,271,583	35,256	-2,728,350	1,435,491	-428,979
2035/36	**2,895,963**	**4,918,684**	1,113,612	3,196,986	52,302	-2,424,538	1,628,128	-425,579
2036/37	**-21,499**	**4,897,185**	1,262,130	961,769	-463,533	-3,473,553	2,332,017	-422,004
2037/38	**-1,825,890**	**3,071,295**	1,413,773	-337,620	-103,120	-4,339,474	2,146,336	-412,730
2038/39	**2,940,880**	**6,012,175**	1,568,634	1,901,009	82,284	-3,018,476	2,958,619	-387,589
2039/40	**3,873,214**	**9,885,389**	1,726,825	2,732,840	92,681	-3,482,676	3,172,413	-236,223

9.3 IAS Pre GW4 Cashflows

9.3.1 Due to increased build costs and higher interest rates, most pre-GW4 schemes are unviable at a scheme and tenure level. Work is being carried out to improve viability, but most schemes need build costs to decrease or increased grant for the schemes to be viable from an investment perspective. Currently the Pre GW4 schemes are below:

Project	Project Type	Project Status
Barking Health Hub	New Build	Pre-G4
Gascoigne East Phase 2 Block E1	New Build	Pre-G4
Jervis Court	New Build	Pre-G4
Padnall Lake - Phase 3	New Build	Pre-G4
Padnall Lake - Phase 4 - merged with Ph3	New Build	Pre-G4
Town Quay Wharf	Turnkey	Pre-G4
Brocklebank	New Build	Pre-G2
Gascoigne East Phase 4	New Build	Pre-G2
Gascoigne West Phase 3	New Build	Pre-G2
Heath Park - Infill	New Build	Pre-G2
Hepworth Gardens	New Build	Pre-G2
Ibbscott	New Build	Pre-G2
Millard Terrace (Dagenham Heathway)	New Build	Pre-G2
Padnall & Reynolds	New Build	Pre-G2
Rest of Gascoigne West	New Build	Pre-G2

9.3.2 The Council has purchased land around Thames Road, and this will require spend to progress the development and this has not been modelled as yet but will likely require a significant amount of funding. The accumulative loss for the schemes is £154.5m to 2039/40 (see table 11 below) and a surplus only being generated in 2048/49, at which stage the losses are forecast to be £223m and negative cashflows in all tenures. Total borrowing required is £902.4m, although there is uncertainty over the full borrowing requirement. Options on tenure, build specifications, operating costs, mothballing or alternative build options are being considered but there are also additional pressures around rents, inflation on operating costs and financing costs to be considered. In addition, the performance of the current schemes being completed, including initial rents, handover and reporting need to be reviewed and improved.

Table 11: IAS Pre GW4 Revised viability

Borrow	£902.4m	
Dates	Total	Accumulative
2024/25	-£911,749	-911,749
2025/26	-£6,397,197	-7,308,946
2026/27	-£3,995,892	-11,304,838
2027/28	-£7,570,752	-18,875,590
2028/29	-£7,323,655	-26,199,245
2029/30	-£7,589,162	-33,788,407
2030/31	-£7,861,039	-41,649,446
2031/32	-£7,840,469	-49,489,915
2032/33	-£15,891,623	-65,381,538
2033/34	-£15,736,569	-81,118,107
2034/35	-£11,952,585	-93,070,692
2035/36	-£15,068,378	-108,139,070
2036/37	-£13,068,326	-121,207,396
2037/38	-£11,541,151	-132,748,547
2038/39	-£11,819,684	-144,568,231
2039/40	-£9,893,959	-154,462,190

9.4 Mid-year IAS spend Budget and Forecast

9.4.1 A revised IAS budget of £352.8m of gross spend has been set for 2022/23 and is summarised in the table below:

Investment and Acquisitions Strategy		2022/23 Estimate as per TMSS	2022/23 Revised Budget	2022/23 Forecast	2022/23 Variance
Code	Project	£000s	£000s	£000s	
	Residential Developments				
C04067	12 Thames Road	32,688	33,019	33,019	0
C04065	200 Becontree	-	154	154	0
C03086	A House for Artists	-	104	104	0
C05100	Barking Riverside Health	3,818	806	806	0
C05066	Beam Park	21,124	22,489	22,489	0
TBC	Beam Park Phase 4 / 7 -	155	0	0	0
C03089	Becontree Heath New Build	-	-233	-233	0
C05071	Brocklebank Lodge	3,110	1,129	1,129	0
C05065	Chequers Lane	563	0	0	0
C04069	Crown House	2,697	4,005	4,005	0
C05090	Gascoigne East 3A - Block I	28,633	7,543	7,543	0
C05073	Gascoigne East 3B	19,503	13,691	13,691	0
C05076	Gascoigne East Phase 2 E1	21,621	26	26	0
C05026	Gascoigne East Phase 3	18,081	28,534	28,534	0
C04099	Gascoigne West P1	6,343	970	970	0
C05025	Gascoigne West Phase 2	73,439	72,843	72,843	0
C04062	Gascoigne East Phase 2 C1	433	1,261	1,261	0
C05092	Gascoigne East Phase 2 E2	20,374	24,203	24,203	0
C05091	Gascoigne East Phase 2 F	43,255	39,545	39,545	0
C03080	RBL Jervis Court	13,057	1,073	1,073	0
C04068	Oxlow Road	7,585	6,063	6,063	0
C05035	Padnall Lake	4,620	9,210	9,210	0
C05093	Padnall Lake Phase 2	11,260	19,363	19,363	0
C05094	Padnall Lake Phase 3	336	3,469	3,469	0
C04066	Roxwell Road	9,492	5,052	5,052	0
C03072	Sacred Heart	-	173	173	0
C03084	Sebastian Court - Redevelop		1,128	1,128	0
C05103	Town Quay Wharf	9,465	5,379	5,379	0
C05041	Transport House	24,045	10,167	10,167	0
C05082	Trocoll House	995	762	762	0
C05020	Woodward Road	10,093	9,866	9,866	0
	Total for Residential	**386,785**	**321,794**	**321,794**	**0**
	Temporary Accommodation				
C05021	Grays Court	-	36	36	0
C04101	Margaret Bondfield	4,455	0	0	0
	Total for Temporary Accom.	**4,455**	**36**	**36**	**0**
	Commercial Investments				
C04091	Welbeck Wharf	3	1,018	1,018	0
	Thames Road	97			0
C05072	Industria	26,830	29,930	29,930	0
	Total for Commercial	**26,930**	**30,948**	**30,948**	**0**
	Total for Investment Strategy	**418,170**	**352,779**	**352,779**	**0**

10. IAS Current and Forecast Reserves and contributions to the MTFS

10.1 The IAS reserve is essential to provide some support and security to the Council's IAS. As the strategy increases in value so will the reserve. £10.5m of the reserve is specifically linked to the two lease and lease back arrangements for CR27 and the

Isle of Dogs Travelodge and the amounts will be inflated each year to ensure that the protection they provide does not decrease.

10.2 The total IAS reserve is therefore forecast to be £37.6m by 31 March 2023. Although this is a substantial amount, it is necessary as it provides protection to the Council from the impact of negative market movements. However, it is important to stress that the IAS contains protection from the forecast surpluses, the interest margin, the asset base, which is predominantly residential lettings, and there is some protection within the financial models from prudent assumptions.

10.3 However, there are a number of risks that potentially could put pressure on the investment strategy, including rent increases being lower than operational cost increases, high interest rates and potentially schemes that have very low profits or have years where they incur losses. In addition, the IAS returns are predominantly provided by the returns from commercial schemes, with the commercial schemes held for future regeneration and therefore the returns over the medium term are not certain and more contribution is expected from residential schemes and there is a significant amount of pressure on these returns.

10.4 In addition there are pressures from some of the Council's companies, where dividends have been lower than expected and where there are pressures on profitability. The reserve, as was used in 2020/21, could be used to cover the shortfall in returns from the companies, but this will reduce the protection the IAS has for any negative strategy performance.

10.5 Excluding the return target for the IAS and the reserves that has been built up from treasury returns, the IAS and Treasury has provided a contribution of £5m to the MTFS in 2021/22 and has covered a shortfall of £1.25m in dividends in 2020/21

Table 12: Forecast Reserve Movements 2022/23

IAS Reserves	£'000s
Investment Reserve	12,982
Capital Reserve	3,779
CR27 Reserve	5,500
Travelodge Reserve	5,500
Reside 2021/22 Surplus	1,566
Reserves at 31 March 2022	**29,327**
Potential Year End Transfer 2022/23	**8,240**
Reserves at 31 March 2023	**37,567**
IAS Contribution (excluding target)	**£'000s**
Transfer to support dividends 2020/21	1,254
MTFS Contributions 2021/22	5,000
Total	**6,254**
Total Reserves / IAS contribution	**43,821**

11. The Council's Capital Position (Prudential Indicators)

11.1 Table 13 highlights the original capital programme and the expected financing arrangements and then any budget revisions and the latest forecast. The borrowing need increases the Council's debt through the CFR, although this will be reduced by

MRP. This direct borrowing need is supplemented by maturing debt. Table 7 shows the changes to the original capital budget.

Table 13: Revised Estimate to Capital Programme at 30 September 2022

Capital Expenditure	*2022/23 Estimate as per TMSS £000s*	*2022/23 Revised Budget £000s*	*2022/23 Spend to 30/9/2020 £000s*	*2022/23 Forecast £000s*	*2022/23 Variance £000s*
General Fund					
Adults Care & Support	1,604	1,456	362	617	839
Community Solutions	-	-37	-	-	-37
Core	1,145	1,408	207	1,408	-
CIL	878	932	193	576	356
Culture, Heritage & Recreation	8,022	9,075	1,339	9,075	-
Enforcement	2,369	2,254	-2	135	2,119
Inclusive Growth	-	10,009	383	8,240	1,769
Transport for London	893	1,529	260	333	1,196
My Place	6,518	8,456	1,020	5,822	2,634
Public Realm	732	1,129	985	1,373	-244
Education, Youth and Childcare	39,687	31,349	4,724	8,772	22,577
Other	1,634	1,730	816	1,007	723
Transformation	1,990	3,162	201	3,162	-
Total GF Capital Expenditure	**65,472**	**72,452**	**10,488**	**40,520**	**31,932**
Total IAS Expenditure	**418,168**	**352,779**	**123,953**	**352,779**	**0**
HRA					
Stock Investment (My Place)	43,892	18,691	6,759	18,691	0
Estate Renewal (Be First)	8,800	10,247	844	10,247	0
New Build Schemes (Be First)	2,088	2,122	620	2,122	0
HRA Total	**54,780**	**31,060**	**8,224**	**31,060**	**0**
Financed by:					
HRA/MRR	-54,780	-61,926	-	-61,926	0
CIL/S106	-1,376	-1,631	-	-1,631	0
Revenue	-2,149	-	-	-	0
Capital Receipts (Transformation)	-1,990	-2,354	-	-2,354	0
Self-Financing	-2,768	-3,206	-	-3,206	0
Other Grant	-46,157	-45,259	-	-45,259	0
IAS Grants (RtB, GLA) and sales	-93,313	-62,259	-	-62,259	*0*
Total Financing	**-202,533**	**-176,635**	**0**	***-176,635***	***0***
Financed by Borrowing	***335,887***	***279,656***	***142,665***	***247,724***	***31,932***
PFI Additions & Repayments	***70,000***	***78,807***	***78,807***	***78,807***	***0***
Net financing need for the year	***405,887***	***358,463***	***221,472***	***326,531***	***31,932***

11.2 A total of £326.5m net financing is forecast, which is lower than the original net financing budget of £405.9m due to delays in some of the schemes and also from some scheme being put on hold due to viability issues. Some schemes have accelerated, or the full budget has now been added, replacing the pre-development budget that was originally agreed.

11.3 **Prudential Indicator – CFR**

11.3.1 Table 14 shows that the Council's revised CFR will not exceed the Operational boundary. The S151 reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator. The Authorised Limit represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

11.3.2 Overall table 13 and 14 show the forecast capital spend is lower than originally forecast. Expenditure is still significant in the IAS but there are delays in completing some of the schemes. There is now a gap between the borrowing of £1.12bn, the forecast CFR of £1.60bn and the Operational Boundary of £1.60bn.

Table 14: Revised Capital Financing Requirement as at 30 September 2022

Capital Expenditure	2021/22 actual	2022/23 Forecast
	£000s	£000s
Capital Financing Requirement		
Opening CFR as at 1 April	**1,043,106**	**1,292,374**
Change in Year – General Fund	274,917	247,724
Change in Year – Housing	0	0
Net movement in CFR	**274,917**	**247,724**
Total CFR as at 31 March	**1,318,023**	**1,540,098**
Net financing need for the year	**287,627**	**247,724**
Less: MRP*	-12,710	-15,215
Less: Capital Receipts	0	-65,000
Movement in CFR	**274,917**	**167,509**
Long & Short-Term Borrowing	1,095,017	1,120,000
PFI and finance lease liabilities*	197,357	276,164
Total debt 31 March	**1,292,374**	**1,396,164**
Under / (Over) Borrowing	**25,649**	**143,934**
Operational Boundary	**1,700,000**	**1,600,000**
Authorised Limit	**1,800,000**	**1,700,000**

11.4 **Treasury Indicators: Limits to Borrowing Activity**

11.4.1 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

i. Upper limits on variable interest rate exposure: identifies a maximum limit for variable interest rates based upon the debt position net of investments;

ii. Upper limits on fixed interest rate exposure: similar to the previous indicator and covers a maximum limit on fixed interest rates; and

iii. Maturity structure of borrowing: gross limits to reduce the Council's exposure to large fixed-rate sums requiring refinancing.

11.4.2 The S151 officer reports that there were no breaches in any of the limits outlined below:

Interest rate exposures	**2022/23**	**2022/23**	**2022/23**
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	70%	70%	70%
Limits on fixed interest rates:			
• ***Debt only***	100%	100%	100%
• ***Investments only***	90%	90%	90%
Limits on variable interest rates			
• ***Debt only***	70%	70%	70%
• ***Investments only***	80%	80%	80%

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	60%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	100%

Maturity structure of variable interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	70%
5 years to 10 years	0%	70%
10 years and above	0%	80%

12. Consultation

12.1 The Strategic Director, in his role as statutory Chief Finance Officer, has been informed of the approach, data and commentary in this report.

12.2 The report was considered and endorsed by the Corporate Performance Group on 27 October 2022.

13. Financial Implications

Implications completed by: Katherine Heffernan, Head of Services Finance

13.1 This report sets out the mid-year 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.

14. Legal Implications

Implications completed by: Paul Feild, Senior Governance Lawyer

14.1 The Local Government Act 2003 (the "Act") requires the Council to set out its treasury strategy for borrowing and to prepare 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.

14.2 The Council also has 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.

14.3 The Assembly agreed the Treasury Management Strategy Statement for 2022/23 on 3 March 2021. This report is a mid-year review of the strategy's application and there are no further legal implications to highlight.

15. Options Appraisal

15.1 There is no legal requirement to prepare a TMSS Mid-Year Review. 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).

16. Other Implications

16.1 **Risk Management -** 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 during the first 6 months of the year.

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

List of appendices: None