

CABINET

18 June 2019

Title: Treasury Management Annual Report 2018/19	
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: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Summary	
<p>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 report (the 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.</p> <p>This report presents the Council's outturn position in respect of its treasury management activities during 2018/19. The key points to note are as follows:</p> <ul style="list-style-type: none">➤ Interest income for the year was £8.9m (2017/18: £4.1m) compared to a budget of £4.3m;➤ Investment Income resulting from the Council's Investment and Acquisition strategy totalled £2.7m for the year compared to a budget of £2.8m;➤ The Council's average interest return of 1.50% for 2018/19 was 0.57% higher than the average London Peer Group return and 0.58% higher than the Local Authority average return;➤ Interest payable for 2018/19 totalled £29.2m (£2017/18: £25.9m), with PFI and Finance leases totalling £9.8m, HRA totalling £9.7m and the General Fund totalling £9.7m.➤ The Council borrowed £140.0m of long-term General Fund borrowing in 2018/19 to bring the total long-term General Fund borrowing to £475.7m. The total borrowing comprises market, Public Works Loan Board (PWLB), Local Authority, European Investment Bank and Green Investment Bank loans;➤ The value of short term borrowing as at 31 March 2019 totalled £96.0m;	

- Total HRA borrowing remained at £275.9m, with PFI and finance lease borrowing totalling £131.2m;
- Total Council borrowing as at 31 March 2019 was £978.8m;
- The Council did not breach its 2018/19 authorised borrowing limit of £1.102bn or its Operational Boundary limit of £1.002bn; and
- The Council complied with all other set treasury and prudential limits.

Recommendation(s)

The Cabinet is asked to recommend the Assembly to:

- (i) Note the Treasury Management Annual Report for 2018/19;
- (ii) Note that the Council complied with all 2018/19 treasury management indicators;
- (iii) Approve the actual Prudential and Treasury Indicators for 2018/19; and
- (iv) Note that the Council borrowed £140.0m from the Public Works Loan Board (PWLB) in 2018/19.

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 an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. 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 2018/19 period Assembly received the following reports:

- an annual treasury strategy in advance of the year (Assembly 28/02/2018);
- a mid-year (minimum) treasury update report (Assembly 21/11/2018); and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

1.3 This Annual Treasury Report covers:

- The Council's treasury position as at 31 March 2019;
- Economic Factors in 2018/19 and Interest rates Forecasts;
- Investment Strategy and Performance in 2018/19;

- Borrowing Outturn;
- Treasury Management costs in 2018/19;
- Compliance with Treasury limits and Prudential indicators;
- Lending to Commercial and External Organisations; and
- Prudential Indicators for 2018/19 (Appendix 1).

2. Treasury Position as at 31 March 2019

2.1 The Council's treasury position for 2017/18 and 2018/19 can be found in table 1:

Table 1: Council's treasury position at the start and end of 2018/19

	31-Mar-2018	Average Rate of interest	Average Life	31-Mar-2019	Average Rate of interest	Average Life
	£'000	%	Years	£'000	%	Years
Fixed Rate Debt - Long Term Borrowing						
Housing Revenue Account (HRA) – PWLB	265,912	3.51	37.67	265,912	3.51	36.81
HRA – Market	10,000	3.98	60.21	10,000	3.98	59.21
General Fund (GF) – PWLB	179,565	2.36	34.72	335,596	2.28	28.33
GF - Market	34,000	3.96	45.19	49,000	2.85	28.78
GF – EIB	86,669	2.21	26.02	86,669	2.21	26.02
Fixed Rate Debt - Short Term Borrowing						
GF - Local Authorities	65,000	0.67	0.65	115,000	0.88	0.10
Total Debt	641,146	2.75	32.32	847,613	2.56	27.85
Investments						
In-House*	247,905	1.37	1.22	316,681	1.50	1.21

* excludes a prepayment made to Elevate and external school cash balances.

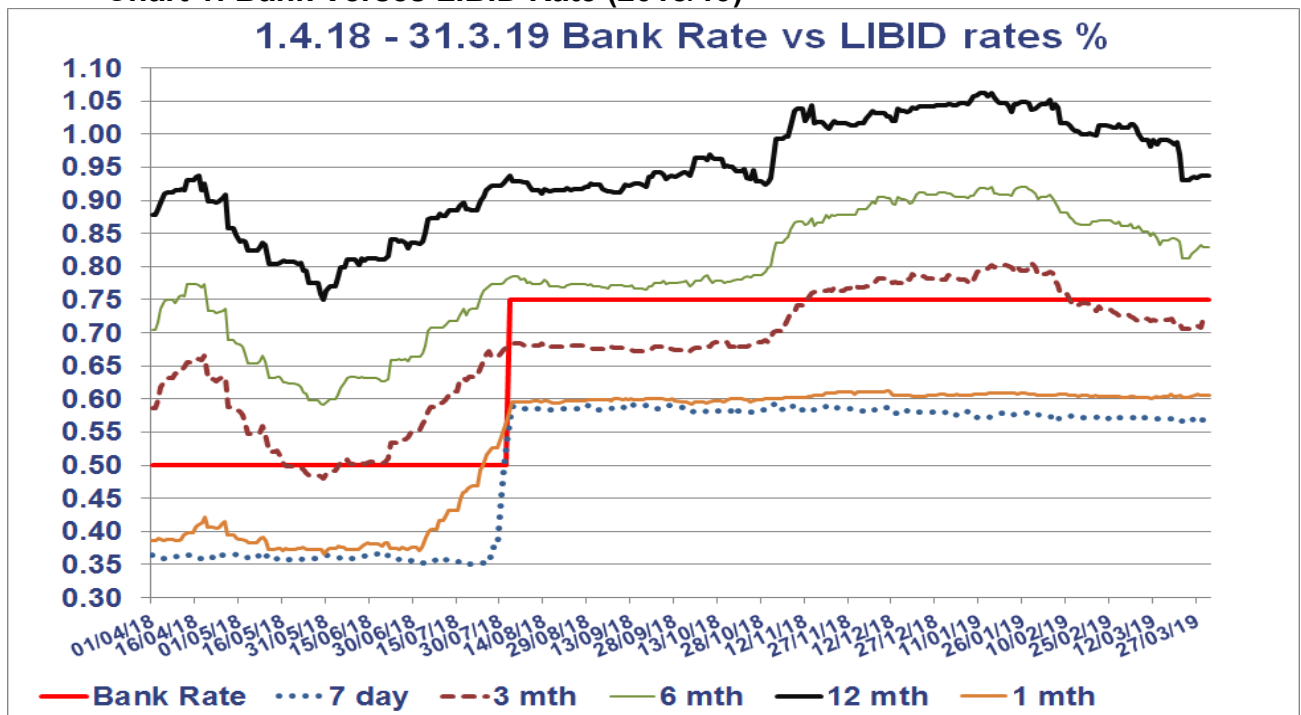
- 2.2 The Council manages its debt and investment positions through its in-house treasury section to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.
- 2.3 Procedures and controls to achieve these objectives 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 2018/19 and Interest Rate Forecasts

- 3.1 The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate the economy.
- 3.2 This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016, and followed it up with another 1.8% in 2017, (although this was a comparatively weak result compared to the US and EZ).

- 3.3 As a result of the uncertainty, PWLB 25 and 50-year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of 2018 and reached peaks in February / March 2018.
- 3.4 Longer term investment rates were on a rising trend for most of the year until they started falling in Q1 of 2019. The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.

Chart 1: Bank Verses LIBID Rate (2018/19)



4. Investment Strategy and Performance in 2018/19

4.1 Annual Investment Strategy (AIS) 2018/19

- 4.1.1 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.
- 4.1.2 Council officers met quarterly with Treasury Adviser to discuss financial performance, objectives, targets and risk in relation to the Council's investments and borrowing. Monthly treasury meetings were held between the Section 151 Officer, the Group Manager – Treasury and Pensions and the Treasury Section to discuss strategy and to ensure close monitoring of investment decisions. The Cabinet Member for Finance, Performance and Core Services was briefed regularly on treasury activity by the Section 151 Officer.
- 4.1.3 During 2018/19 the Council's investment policy was governed by CLG guidance, which was implemented in the 2018/19 Annual Investment Strategy. The policy sets out the Council's approach for choosing investment counterparties.

4.2 Treasury Outturn

4.2.1 The Treasury Outturn position is in Table 2 Below.

Table 2: Treasury Outturn for 2018/19

Interest	2018/19 Actual	2018/19 Budget	Difference
HRA Borrowing Costs	9,690	9,690	0
GF Borrowing costs	9,744	8,198	1,546
GF Interest Income	(8,879)	(4,299)	(4,580)
GF Investment Income	(2,678)	(2,811)	133
GF Net Investment and Interest Cost	(1,813)	1,008	(2,901)

4.2.2 Overall the General Fund borrowing costs were higher than forecast due to an additional £60.0m of borrowing from the PWLB and Local Authorities. The borrowing was used to fund a number of property purchases as part of the Council's Investment and Acquisitions strategy. General Fund interest income was £4.6m more than budgeted due to good treasury investment returns and interest from a number of loans the Council made to Reside and to its trading partnerships.

4.2.3 General Fund Investment Income, predominantly from Reside, totalled £2.7m compared to a budget of £2.8m.

4.2.4 The Council deals with most of its counterparties directly but from time to time the Council will use the services of brokers to act as agents between the Council and its counterparties when lending or borrowing. However, no one broker will be favoured by the Council. The Council will ensure that sufficient quotes are obtained before investment or borrowing decisions are made via brokers. In 2018/19, brokerage costs of £145k were incurred from the short-term borrowing and costs from borrowing from the PWLB. These costs are not budgeted from but form part of the borrowing costs for the year in which they are incurred.

4.3 Investments decisions during 2018/19

4.3.1 When making investment decisions the Council must have regard to its investment priorities being:

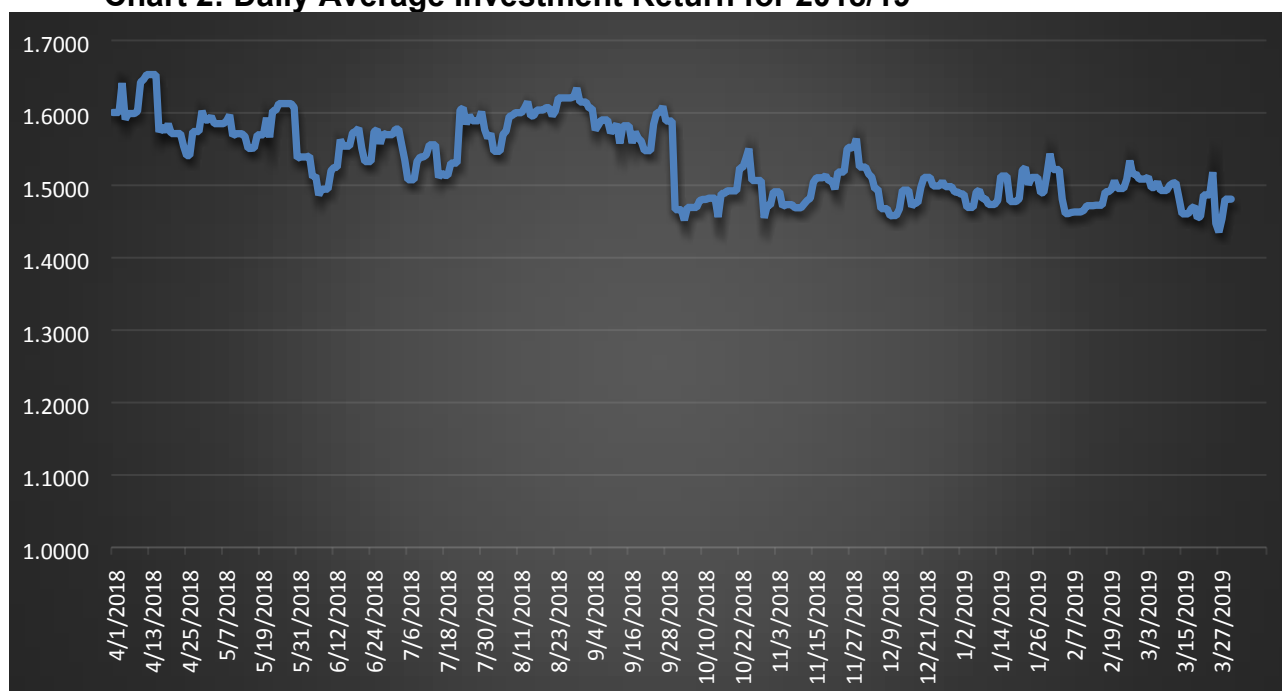
- (a) The **security** of capital;
- (b) The **liquidity** of its investments; and
- (c) **Yield** (after ensuring the above are met).

4.3.2 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 2018/19, 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.

4.3.3 During the year there were several opportunities for the Council to invest with credit worthy financial institutions as well as Local Authorities over a longer duration at much improved rates. As a result of these opportunities the Treasury Section was able to provide an average return of 1.50% for 2018/19 (1.37 for 2017/18). Chart 2 below

graphically illustrates the increase in the average daily return for the Council during the year

Chart 2: Daily Average Investment Return for 2018/19



4.3.4 The average cash balance held was £331.4m. The average cash balance was high as this included the use of short-term borrowing, which was used to cover some of the investment opportunities. Short-term borrowing was also used to smooth the cash flow fluctuations, allowing treasury to keep a considerable proportion of its investments invested over a longer duration.

4.4 Strategy Changes in 2018/19

4.4.1 The Council's investment policy was agreed in the AIS approved by the Assembly on 28 February 2018. 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.

4.4.2 During the year, there were no changes to the AIS.

4.5 Performance Benchmark in 2018/19

4.5.1 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 Local Authorities. Benchmarking date is provided by the Council's treasury advisors, Link Asset Services. Table 3 summarises the benchmarking data as at 31 March 2019.

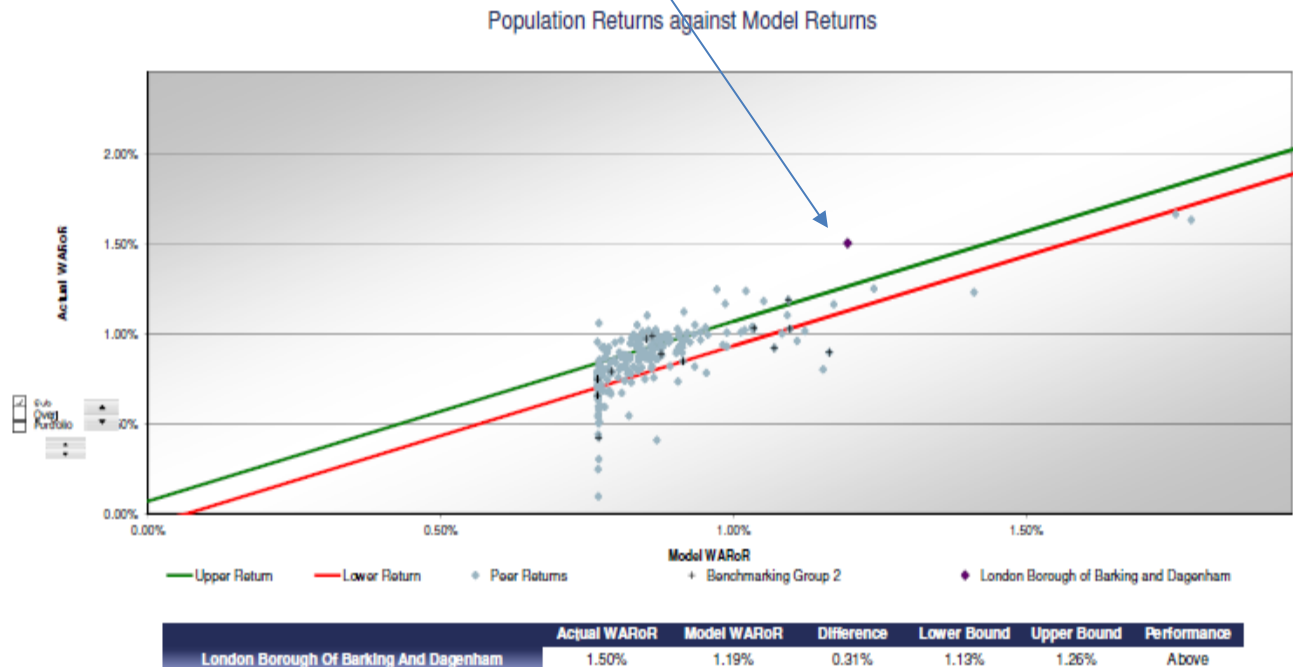
Table 3: Advisor's Benchmarking data as at 31 March 2019

Savings Proposal	LBBB	London Peer Group (20)	Total LA Group (223)
Weighted Average Rate of Return	1.49%	0.93%	0.92%
Weighted Average Maturity(days)	443	111	111
Credit Risk	2.26	2.71	2.41

4.5.2 The benchmarking data outlines the outperformance of the Council’s investment return compared to a group of 21 London Boroughs and 223 Local Authorities (LAs). The Council’s average return as at 31 March 2019 was 0.57% higher than the average London Peer Group return and 0.58% higher than the Local Authority average return. The Council’s credit risk, at 2.26 was lower (better) than the London Peer Group at 2.71 and lower than the Local Authority Group at 2.41.

4.5.3 Chart 3 illustrates the Council’s return against the upper and lower banding levels and shows the Council’s performance compared to a Local Authority benchmark.

Chart 3: Advisor’s benchmarking data as at 31 March 2019



4.6 Investments Held as at 31 March 2019

Table 4: Investments held by the Council at 31 March 2019

Investment Counterparty	Credit Rating	Interest Rate %	Principal £000s	Start Date	End Date
Barclays Bank Plc	A+	0.05	9,313	25/03/2011	//
Lloyds Deposit Account	A+	0.40	6,600,000	04/11/2013	//
Pension Fund	Pension Fund	0.65	561,556	N/A	N/A
Royal Bank Of Scotland	A+	0.21	8,793	31-Mar-15	//
Lloyds Bank Plc	A+	1.79	5,000,000	01/04/2016	01/04/2019
Lloyds Bank Plc	A+	1.00	5,000,000	05/04/2017	05/04/2019
Lloyds Bank Plc	A+	1.84	5,500,000	21/04/2016	18/04/2019
Goldman Sachs International	A	1.30	10,000,000	18/04/2018	18/04/2019
Goldman Sachs International	A	1.33	10,000,000	02/11/2018	01/11/2019
Lloyds Bank Plc	A+	1.25	10,000,000	05/02/2019	21/02/2020
Lloyds Bank Plc	A+	1.18	5,000,000	16/03/2017	16/03/2020
Lloyds Bank Plc	A+	1.15	5,000,000	05/04/2017	06/04/2020
Lloyds Bank Plc	A+	0.90	5,000,000	15/06/2017	15/06/2020
Lloyds Bank Plc	A+	1.10	5,000,000	30/06/2017	30/06/2020
Lloyds Bank Plc	A+	1.09	10,000,000	14/07/2017	14/07/2020
Lloyds Bank Plc	A+	1.14	5,000,000	19/09/2017	18/09/2020

Lloyds Bank Plc	A+	1.24	5,000,000	05/12/2017	07/12/2020
Lloyds Bank Plc	A+	1.16	4,500,000	19/12/2017	21/12/2020
Lloyds Bank Plc	A+	1.48	10,000,000	31/08/2018	31/08/2021
Barnsley MBC	Local Authority	0.94	3,000,000	21/09/2017	21/09/2020
Borough Of Poole	Local Authority	0.97	7,500,000	18/11/2016	18/11/2019
Cambridgeshire CC	Local Authority	1.35	5,000,000	04/04/2018	06/04/2020
Cambridgeshire CC	Local Authority	0.95	10,000,000	06/04/2018	06/04/2021
Darlington BC	Local Authority	1.45	5,000,000	20/12/2018	21/12/2020
Doncaster MBC	Local Authority	1.10	5,000,000	06/11/2017	06/11/2020
Dudley Metropolitan BC	Local Authority	1.30	5,000,000	27/04/2018	27/04/2020
Gascoigne Primary School	Local Authority	4.50	78,935	03/03/2016	03/03/2036
Grafton Primary School	Local Authority	4.50	81,221	03/03/2016	03/03/2026
L B Croydon	Local Authority	1.00	10,000,000	24/04/2018	23/04/2021
L B Newham	Local Authority	1.20	8,000,000	12/01/2018	12/01/2021
Lancashire CC	Local Authority	1.50	10,000,000	25/04/2018	24/04/2020
Lancashire CC	Local Authority	1.00	5,000,000	01/11/2017	21/09/2020
Lancashire CC	Local Authority	1.35	5,000,000	24/09/2018	24/09/2020
Lancashire CC	Local Authority	1.45	10,000,000	15/11/2018	16/11/2020
Lancashire CC	Local Authority	1.35	10,000,000	23/11/2018	23/11/2020
Lancashire CC	Local Authority	1.16	5,000,000	27/11/2017	27/11/2020
Medway Council	Local Authority	1.50	10,000,000	16/10/2018	16/04/2021
Northamptonshire CC	Local Authority	1.10	5,000,000	04/04/2018	03/04/2020
Northumberland CC	Local Authority	1.04	10,000,000	28/04/2017	28/10/2020
Plymouth City Council	Local Authority	1.40	5,000,000	03/04/2018	03/04/2020
Plymouth City Council	Local Authority	1.40	5,000,000	09/04/2018	09/04/2020
Rugby Borough Council	Local Authority	1.05	5,000,000	16/11/2018	15/11/2019
South Ayrshire Council	Local Authority	1.55	5,000,000	22/10/2018	22/04/2021
Southwood Primary	Local Authority	3.50	80,356	28/04/2017	28/04/2022
Valence Primary School	Local Authority	3.50	100,000	12/02/2015	01/08/2019
Warrington Borough Council	Local Authority	0.92	20,000,000	08/09/2017	08/09/2020
Woking Borough Council	Local Authority	1.55	10,000,000	30/01/2019	30/07/2021

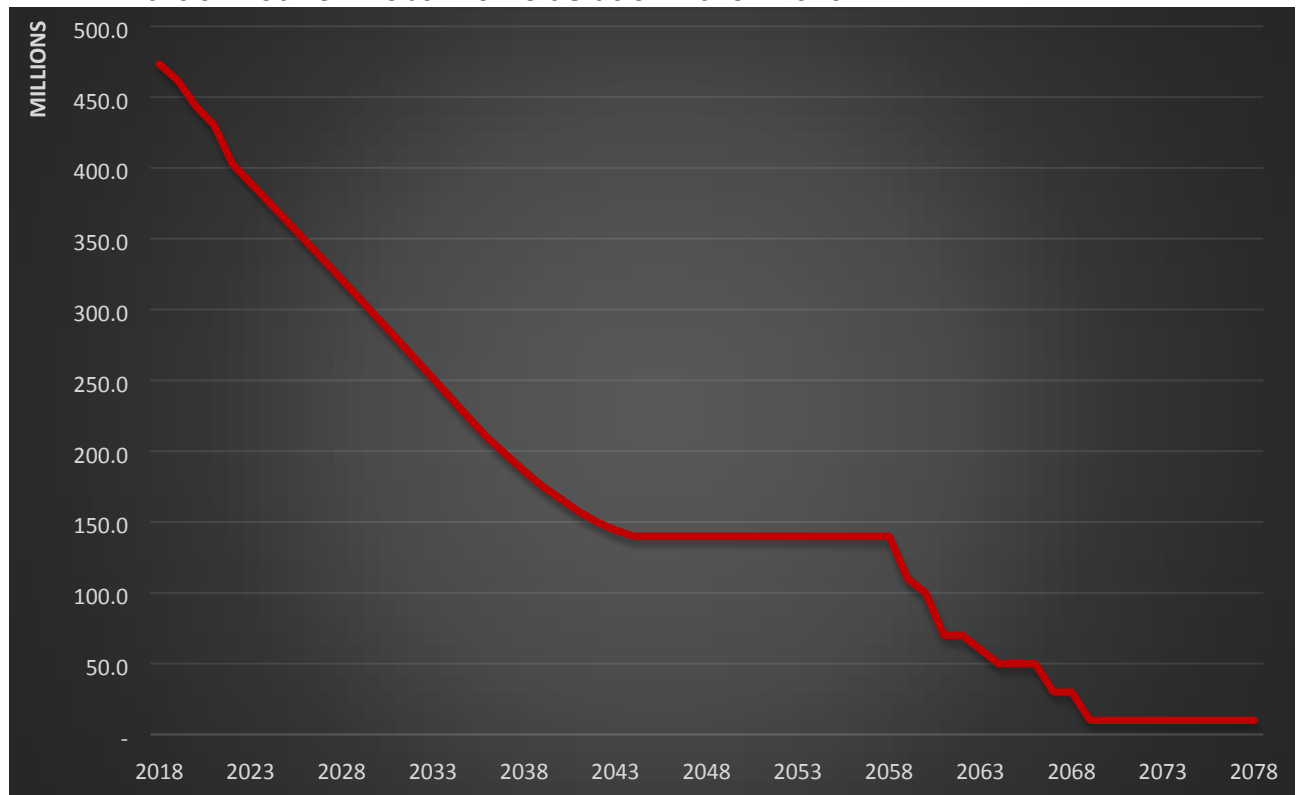
5. Borrowing in 2018/19

5.1 Council's Growth Strategy

- 5.1.1 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.
- 5.1.2 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.
- 5.1.3 In October 2016, Cabinet agreed an Investment and Acquisition Strategy (IAS) alongside an initial £250m investment budget and £100m land and property acquisition budget. An Investment Panel was also established and charged with managing an investment portfolio to deliver a net income of £5m per annum by 2020.

- 5.1.4 In 2017 the Council established a revised IAS, and in February 2018, Cabinet agreed the Be First Business Plan. A revised IAS was agreed at the October 2018 Cabinet.
- 5.1.5 During 2018/19 the Treasury Section, in consultation with the Section 151 officer, began a strategy of building up a debt portfolio to support the Council's investment. Although the Council has significantly increasing its long-term debt by £140m, officers have sought to ensure that the borrowing matches the relevant asset life and potential repayment profile of the Council's investment portfolio. Chart 3 below summarises the GF long term debt position as at 31 March 2019, indicating the repayment profile.

Chart 3: Council Debt Profile as at 31 March 2019



5.2 Borrowing Owed as at 31 March 2019

- 5.2.1 Table 5 outlines the borrowing owed by the Council as at 31 March 2019. The table also shows the interest rate charged and the repayment date for each loan. The loans are split between HRA, General Fund Long and Short-Term Loans:

Table 5: Loans as at 31 March 2019

Lender	Start Date	End Date	Amount	Rate %
HRA				
PUBLIC WORKS LOAN BOARD	28/03/2012	28/03/2042	50,000	3.5
PUBLIC WORKS LOAN BOARD	28/03/2012	28/03/2062	65,912	3.5
PUBLIC WORKS LOAN BOARD	28/03/2012	28/03/2061	50,000	3.5
PUBLIC WORKS LOAN BOARD	28/03/2012	28/03/2052	50,000	3.5
PUBLIC WORKS LOAN BOARD	28/03/2012	28/03/2060	50,000	3.5
BARCLAYS BANK PLC	30/05/2008	30/05/2078	10,000	4.0
HRA Total LT Borrowing			275,912	
General Fund				
WYCOMBE DISTRICT COUNCIL	03/04/2017	09/12/2019	5,000	0.90

CORNWALL COUNTY COUNCIL	03/04/2017	03/04/2020	10,000	1.00
STEVENAGE BOROUGH COUNCIL	09/01/2017	09/04/2020	2,000	0.98
RUGBY BOROUGH COUNCIL	09/01/2017	09/04/2020	2,000	1.00
PUBLIC WORKS LOAN BOARD	07/03/2018	07/03/2035	9,412	2.20
PUBLIC WORKS LOAN BOARD	21/02/2018	21/02/2036	18,889	2.38
PUBLIC WORKS LOAN BOARD	30/10/2018	30/10/2036	20,000	2.14
PUBLIC WORKS LOAN BOARD	19/03/2018	19/03/2038	19,000	2.31
PUBLIC WORKS LOAN BOARD	01/10/2018	01/10/2039	40,000	2.38
PUBLIC WORKS LOAN BOARD	12/09/2017	12/09/2040	18,696	1.98
PUBLIC WORKS LOAN BOARD	04/02/2019	04/02/2042	20,000	2.17
PUBLIC WORKS LOAN BOARD	26/03/2019	26/03/2042	40,000	1.99
PUBLIC WORKS LOAN BOARD	31/05/2018	29/05/2043	19,600	2.27
PUBLIC WORKS LOAN BOARD	10/12/2018	10/12/2043	20,000	2.28
European Investment Bank	30/01/2015	31/03/2044	84,286	2.21
L1 RENEW	15/12/2016	01/10/2046	6,817	3.44
PUBLIC WORKS LOAN BOARD	19/12/2017	19/06/2058	30,000	2.36
RBS	26/03/2010	26/03/2059	10,000	4.05
PUBLIC WORKS LOAN BOARD	14/06/2016	15/12/2059	10,000	2.65
PUBLIC WORKS LOAN BOARD	28/06/2016	29/12/2059	10,000	2.49
RBS	26/03/2010	27/02/2060	10,000	4.07
PUBLIC WORKS LOAN BOARD	07/07/2016	06/01/2062	10,000	2.14
PUBLIC WORKS LOAN BOARD	29/06/2016	29/06/2062	10,000	2.38
PUBLIC WORKS LOAN BOARD	09/06/2016	09/06/2066	20,000	2.72
PUBLIC WORKS LOAN BOARD	05/04/2017	05/04/2067	20,000	2.36
DEXIA	30/06/2008	30/06/2077	10,000	3.98
	GF Total LT Borrowing		475,700	
DACORUM BOROUGH COUNCIL	07/01/2019	17/04/2019	5,000	0.73
VALE OF GLAMORGAN COUNCIL	17/01/2019	18/04/2019	2,000	0.80
SUFFOLK COASTAL DISTRICT COUNCIL	18/01/2019	08/05/2019	3,000	0.85
Police & Crime Commissioner Dyfed-Powys	21/01/2019	26/04/2019	2,000	0.80
CAMBRIDGE & PERTERBOROUGH CA	21/01/2019	30/04/2019	5,000	0.88
Essex CC	22/01/2019	23/04/2019	5,000	0.88
Neath Port Talbot County Borough Council	22/01/2019	23/04/2019	5,000	0.88
LB HAMMERSMITH & FULHAM	28/01/2019	30/04/2019	10,000	0.88
RLB KENSINGTON & CHELSEA	28/01/2019	30/04/2019	5,000	0.88
TYNE & WEAR PENSION FUND	25/01/2019	25/04/2019	5,000	0.85
Derbyshire Pension Fund	28/01/2019	01/04/2019	5,000	0.85
CITY & COUNTY OF SWANSEA PF	25/02/2019	25/04/2019	4,000	0.90
LANCASTER CITY COUNCIL	25/02/2019	28/05/2019	5,000	0.90
NORTHERN IRELAND HOUSING EXEC	25/02/2019	28/05/2019	5,000	0.90
OXFORDSHIRE COUNTY COUNCIL	26/02/2019	28/05/2019	5,000	0.95
SUFFOLK COASTAL DISTRICT COUNCIL	27/02/2019	24/05/2019	6,000	0.90
SOUTH GLOCESTERSHIRE COUNCIL	28/02/2019	31/05/2019	5,000	0.92
SLOUGH BOROUGH COUNCIL	14/03/2019	14/05/2019	10,000	0.90
CITY & COUNTY OF SWANSEA PF	25/03/2019	22/05/2019	4,000	0.90
	GF Total ST Borrowing		96,000	

6. Compliance with Treasury limits and Prudential Indicators

- 6.1 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).
- 6.2 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 A to this report. In 2018/19, the Council did not breach its authorised limit on borrowing of £1.102bn.
- 6.3 The Operational limit set in the 2018/19 TMSS was £1.002bn, which was also not breached. As at 31 March 2019 the total borrowing was £978.8m.

7. Lending to commercial and external organisations

- 7.1 Section 2 of the Local Government Act 2000 (power of well-being) gives authorities the power to lend as part of promotion or improvement of economic /social wellbeing of the Borough. The guidance encourages local authorities to use the well-being power as the power of first resort removing the need to look for powers in other legislation. Further the power provides a strong basis on which to deliver many of the priorities identified by local communities and embodies in community strategies. The Chief Operating Officer determines the rates and terms of such loans.

8. Lending to Special Purpose Vehicles

- 8.1 At the 30 June 2014 Cabinet Meeting, Members agreed to the principle of establishing a Special Purpose Vehicle(s) to develop, own and be responsible for procuring the management of the units to be developed as part of the Gascoigne Estate (East) Regeneration.
- 8.2 Members also agreed:
1. that the Council shall grant a 252-year lease to the Special Purpose Vehicle(s) which shall terminate at the option of the Council at the end of the funding term and repayment of the loans made by the Council, with full ownership reverting to the Council;
 2. to the principle of establishing an independent charity which shall own and control the Special Purpose Vehicle(s) in accordance with the funding terms imposed by the Council;
 3. to the principle of borrowing £62.86m within the General Fund to finance the development and ownership of the following tenures:
 - i. Borrow £39.98m to fund development and ownership of 236 affordable rented units, social rent units and shared ownership units to be owned and managed by a Special Purpose Vehicle(s) controlled within the General Fund;
 - ii. Borrow £3.75m to fund 50% of 51 private for sale units to be developed and sold jointly by the Council and East Thames Group via a limited company, and

- iii. Borrow £19.13m to lend to East Thames Group to fund the development and ownership of 135 units shared ownership units which shall be owned by East Thames Group subject to agreement of satisfactory terms;
- 8.3 Cabinet also delegated authority to the Chief Executive, in consultation with the Director of Law and Governance, the Section 151 Officer and the Cabinet Member for Finance, Performance and Core Services, to negotiate terms and agree the contract documents to fully implement and effect the project and to authorise the Director of Law and Governance to execute all the legal agreements, contracts and other documents on behalf of the Council.
- 8.4 Following a significant period of legal discussions a number of SPV's were set up. As at 31 March 2019, the Council had lent Reside a total of £44.4m.
- 8.5 Actual payment will be made to the various SPV throughout the construction period, with interest added to the Loan amount. After the construction period has been completed and the properties are being rented out the loan and interest will be repaid over a 50-year period. Where properties are sold then the full loan, plus interest, will be paid back to the Council.

9. Council Transformation Programme

- 9.1 In addition to the Reside loan, the following loans have been agreed by Cabinet for the various companies set up as part of the Council's transformation programme:

£21.6m	Purchase LEUK	BD Trading Partnerships
£ 4.2m	Working Capital	Be First
£ 3.0m	Capital	BD Energy Limited*
£ 1.7m	Working Capital	BD Energy Limited
£ 0.7m	Working Capital	BD Trading Partnerships
£ 0.2m	Working Capital	BD Schools Improvement Partnership
£ 0.2m	Working Capital	BD Reside Regeneration Limited

**Potentially a total of £27.2m subject to receipt of HNIP grant*

10. Options Appraisal

- 10.1 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).

11. Consultation

- 11.1 The Chief Operating Officer has been informed of the approach, data and commentary in this report.

12. Financial Implications

Implications completed by: Katherine Heffernan, Finance Group Manager

- 12.1 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.

13. Legal Implications

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

- 13.1 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.
- 13.2 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 indicators beyond that specified in the Code where it will assist their own management processes.

14. Risk Management

- 14.1 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.
- 14.2 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