**CABINET**

**21 June 2022**

| | |
|---|---|
| **Title**: Treasury Management Annual Report 2021/22 | |
| **Report of the Cabinet Member for Finance, Growth and Core Services** | |
| **Open** | **For Decision** |
| **Wards Affected:** None | **Key Decision:** Yes |
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| **Accountable Director:** Philip Gregory, Director, Finance & Investment (S151 Officer) | |
| **Accountable Strategic Leadership Director:** Fiona Taylor, Acting Chief Executive | |


**Summary**

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

This report presents the Council's outturn position in respect of its treasury management activities during 2021/22. The key points to note are as follows:

**Interest Income and Investments:**

i) Total treasury investments held at 31/3/2022 was £154.9m (2020/21: £210.12m);

ii) Total cash held at 31/3/2022 was £1.7m (2020/21: £29.0m);

iii) Total loans lent held at 31/3/2022 was £124.9m (2020/21: £139.2m);

iv) Total Equity held with Muller was £23.4m (2020/21: £0.00)

v) Net General Fund Interest for 2021/22 was a surplus of (£0.8m) compared to a budget of £2.6m, an outperformance of £3.4m and £1.9m of this outperformance has been transferred to the Investment Reserve, with the remaining balance used to cover shortfalls in the Investment and Acquisition Strategy (IAS) and a potential provision against an impairment against on the Council's loans;

vi) Investment income from the Council's IAS totalled £5.4m (2020/21: £6.9m) for the year compared to a budget of £6.8m, an underperformance of £1.4m, which will be covered by the outperformance in interest;

vii) The Council’s average treasury interest return of 1.39% for 2021/22 was 1.27% higher than the average London Peer Group return of 0.21%; and

viii) The Council’s average return on its loans, consisting of commercial and property loans was 4.42% for 2021/22 (4.46% for 2020/21);

**Interest Expense and Borrowing:**

ix) Interest payable for 2021/22 totalled £37.30m (2020/21: £31.8m), consisting of £12.3m for PFI / Finance leases, £11.2m for HRA and £13.8m for the General Fund;

x) Capitalised interest for 2021/22 totalled £5.5m;

xi) The Council borrowed £140.0m of long-term General Fund borrowing in 2021/22 at an average rate of 1.41% and an average duration of 44.4 years;

xii) The total long-term General Fund borrowing at 31/3/2022 was £720.5m, comprising of market loans, Public Works Loan Board (PWLB), Local Authority, European Investment Bank and other loans;

xiii) The value of short-term borrowing as at 31 March 2022 totalled £63.0m;

xiv) HRA borrowing totalled £295.9m of long-term debt and £35.9m of internal borrowing;

xv) With PFI / finance lease borrowing totalling £197.4m, the total Council borrowing as at 31 March 2022 was £1,276.8m (this excludes internal HRA borrowing).

xvi) The Council did not breach its 2021/22 Operational Boundary limit of £1,700m or its Authorised Borrowing Limit of £1,800m; and

xvii) 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 2021/22;

(ii) Note that the Council complied with all 2021/22 treasury management indicators;

(iii) Approve the actual Prudential and Treasury Indicators for 2021/22, as set out in Appendix 1 to the report; and

(iv) Note that the Council borrowed £140.0m from the PWLB in 2021/22.

**Reason(s)**

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

## 1. Introduction and Background

1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce a treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of 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 2021/22 period Assembly received the following reports:

- an annual treasury strategy in advance of the year (Assembly 03/03/2021);
- a mid-year (minimum) treasury update report (Assembly 24/11/2021); and
- an annual review following the end of the year (this report).

1.3 This Annual Treasury Report covers:

- Treasury position as at 31 March 2022;
- Economic Factors in 2021/22 and Interest rates Forecasts;
- Treasury Investment Strategy and Performance in 2021/22;
- Borrowing Outturn and Capitalised Interest;
- Commercial and Reside Loans Outturn;
- Investment and Acquisition Strategy Outturn;
- Treasury Management costs in 2021/22;
- Compliance with Treasury limits and Prudential indicators; and
- Prudential Indicators for 2021/22 (Appendix 1).

## 2. Treasury Position at 31 March 2022 is shown in table 1 below:

**Table 1: Council's treasury position at the start and end of 2021/22**

| | 31-Mar-21 | Average Rate of interest | Average Life | 31-Mar-22 | Average Rate of interest | Average Life |
|---|---|---|---|---|---|---|
| | £'000 | % | Years | **£'000** | **%** | **Years** |
| **Fixed Rate Debt** | | | | | | |
| HRA – PWLB | 265,912 | 3.5 | 34.81 | **265,912** | **3.5** | **33.81** |
| HRA – Market | 30,000 | 4.03 | 44.7 | **30,000** | **4.03** | **43.7** |
| HRA - Internal Borrowing | 35,332 | 1.98 | 1 | **35,905** | **1.98** | **1** |
| **Total HRA Borrowing** | 331,244 | 3.38 | 33.23 | **331,817** | **3.38** | **33.23** |
| | | | | | | |
| GF – PWLB | 506,822 | 2.06 | 23.05 | **629,521** | **1.92** | **29.13** |
| GF - Market | 93,613 | 2.49 | 26.75 | **90,988** | **2.49** | **25.75** |
| GF – ST Borrowing | 67,503 | 0.09 | 0.3 | **63,000** | **0.58** | **0.14** |
| **Total GF Borrowing** | 667,938 | 1.92 | 21.27 | **783,509** | **1.98** | **27.38** |
| | | | | | | |
| **Total Debt** | 981,688 | 2.45 | 25.68 | **1,115,326** | **2.33** | **28.72** |
| **Investments** | | | | | | |
| **Treasury Investments** | 210,168 | 1.4 | 2.17 | **154,900** | **1.25** | **1.66** |
| **Cash** | 29,037 | 0.01 | 0 | **1,675** | **0.75** | **0** |
| **Loans & Equity** | 139,243 | | | **148,287** | | |
| **HRA Internal Lending** | 35,332 | 1.98 | 1.0 | **35,905** | **1.98** | **1.0** |
| **Total Investments** | 413,780 | | | **340,767** | | |

2.1 The Council manages its debt and investments through its in-house treasury section to ensure adequate liquidity for revenue and capital spend, security of investments and to manage risks within all treasury management activities. 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 2021/22 and Interest Rate Forecasts

### 3.1 UK Economy

3.1.1 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022; 0.75% in March 2022 and 1.0% in May 2022.

3.1.2 The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

3.1.3 Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

3.1.4 Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

### 3.2 Average inflation targeting

3.2.1 This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

3.3 **USA**

3.3.1 The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

3.3.2 In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May.

3.3.3 The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

3.3.4 More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

3.4 **EU**

3.4.1 With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said "we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation."

3.4.2 While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a "technical" recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

3.5 **World growth**

3.5.1 World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

3.6 **Central banks' monetary policy**

3.6.1 During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth.

3.6.2 This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

## 4. Treasury Investment Strategy and Performance in 2021/22

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

**Table 2: Treasury Outturn for 2020/21 and 2021/22**

| Interest | 2020/21 Actual | 2020/21 Budget | Vari-ance | | 2021/22 Actual | 2021/22 Budget | Vari-ance |
|---|---|---|---|---|---|---|---|
| **HRA Borrowing Costs** | 10,944 | 10,944 | 0 | | **10,874** | **10,874** | **0** |
| | | | | | | | |
| GF Borrowing costs | 12,254 | 13,069 | -815 | | 13,833 | 14,121 | **-288** |
| GF Interest Income | -8,817 | -6,503 | -2,314 | | -9,156 | -6,503 | **-2,653** |
| GF IAS Income | -6,919 | -6,637 | -282 | | -5,434 | -6,782 | **1,348** |
| Capitalised Interest (19/20) | -1,522 | | -1,522 | | 0 | 0 | **0** |
| Capitalised Interest (20/21) | -3,002 | | -3,002 | | 0 | 0 | **0** |
| Capitalised Interest (21/22) | 0 | 0 | 0 | | -5,463 | -5,000 | **-463** |
| Transfer to Reserves | 7,935 | 0 | 7,935 | | 1,900 | 0 | **1,900** |
| **GF Net IAS & Interest Cost** | **-71** | **-71** | **0** | | **-4,320** | **-4,164** | **-156** |
| | | | | | | | |
| Capital Reserve | | -3,576 | | | | -3,779 | |
| CR27 Reserve | | -5,500 | | | | -5,500 | |
| IAS Reserve | | -3,265 | | | | -10,998 | |
| IAS Reserve Transfer | | -7,935 | | | | -1,900 | |
| **Total IAS Reserve** | | **-20,277** | | | | **-22,177** | |

4.1.1 Overall borrowing costs were lower than budgeted as both long-term and short-term borrowing rates were cheaper than the forecast. The Council has also agreed to capitalise borrowing costs for schemes that are over £10m in total value and take longer than two years to develop. A budget was allocated against capitalised interest of £5.0m, with the IAS therefore contributing £5.0m to the 2021/22 budget.

4.1.2 Treasury provided a surplus return of £2.9m from net interest. Capitalised interest provided a surplus of £0.5m above the £5.0m target. Including the capitalised interest, treasury provided a £3.4m surplus for 2021/22.

4.1.3 The IAS, underperformed its target by £1.3m during a particularly difficult investment period. At the time of this report, final numbers had not yet been received from Reside for the net contribution to the IAS. The IAS underperformance is likely to reduce but currently it is not possible to estimate what the contribution from Reside will be. Any contribution from Reside will be transferred to the IAS reserve. The borrowing costs and treasury and IAS income is outlined in detail in the next sections.

4.2 **Annual Investment Strategy (AIS) 2021/22**

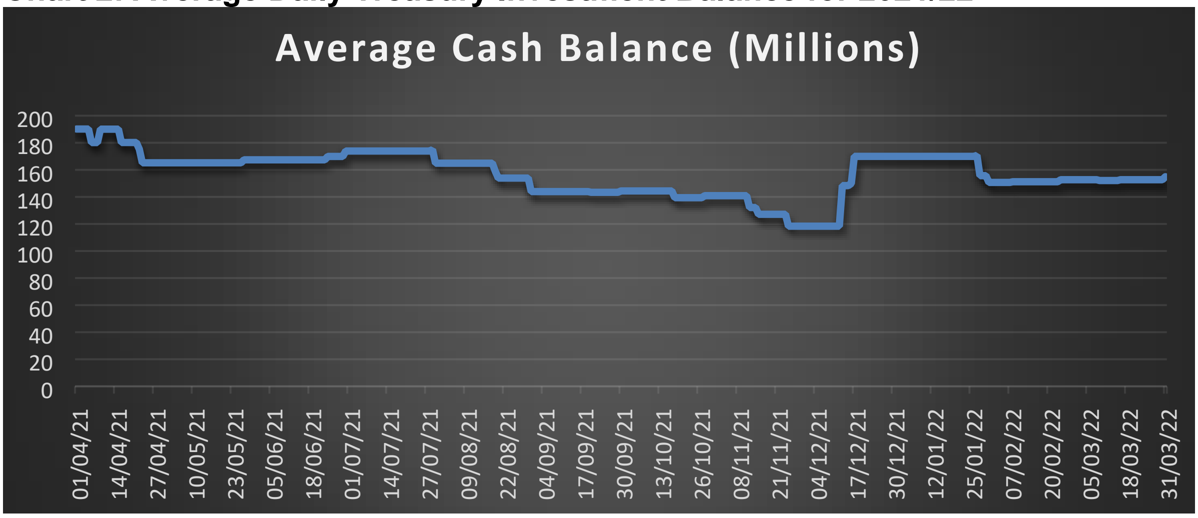
4.2.1 All investments were managed in-house and were invested with institutions of high credit standing listed in the Council's approved lending list and specified limits. The Council's investment policy is outlined in the 2021/22 Annual Investment Strategy. The policy sets out the Council's approach for choosing investment counterparties.

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

4.2.3 **Investments decisions during 2021/22 -** When making investment decisions the Council's investment priorities are **security** of capital; **liquidity** of its investments; and **Yield** (after ensuring the above are met). Using the above as the basis for investment decisions does mean that investment returns will be lower than would be possible were yield the only consideration. During 2021/22, the Council ensured that all investments were made with appropriately rated counterparties and that liquidity was maintained. On occasion, short term borrowing was also used to allow the Council to take advantage of investment opportunities.

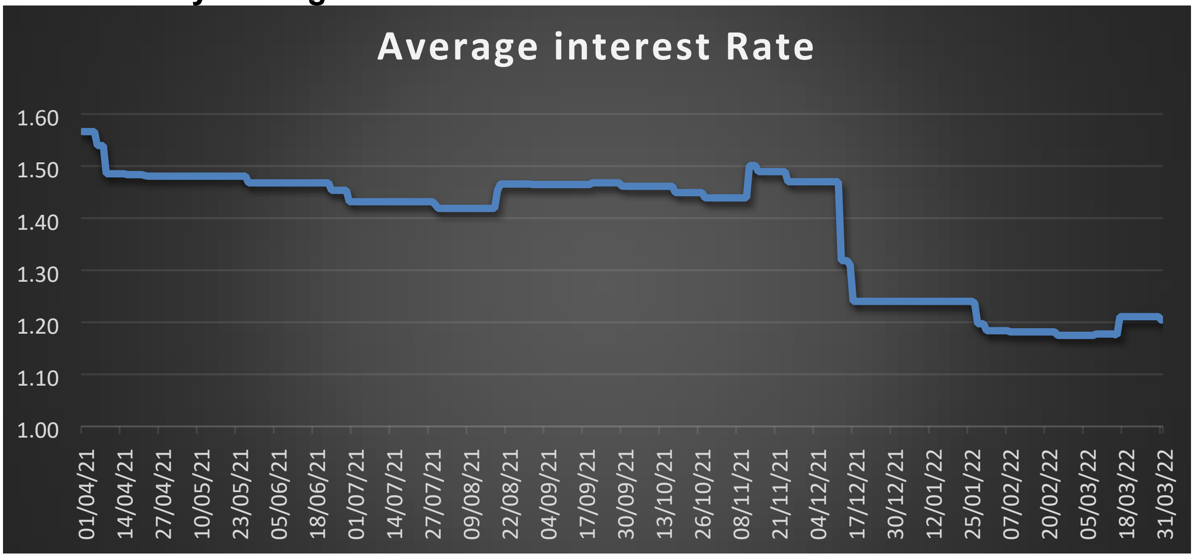
4.2.4 Treasury made few investments during the year as cash and borrowing was used to fund the IAS developments. The Council held an investment balance of £210.2m at 31 March 2021 and ended the year with a cash balance of £154.9m. The average investment balance (excluding cash) held for 2021/22 was £157.0m. The average cash balance for 2021/22 is shown in chart 2:

**Chart 2: Average Daily Treasury Investment Balance for 2021/22**




4.2.5 Treasury investments provided an average return of 1.39% for 2021/22 (1.40% for 2020/21). Although the average return was on a reducing balance, the increase in the average return for the year provided a net interest surplus. Chart 3 below graphically illustrates the average daily treasury return for the year:

**Chart 3: Daily Average Investment Return for 2021/22**




## 4.3 Strategy Changes in 2021/22

4.3.1 The Council's investment policy was agreed by the Assembly on 3 March 2021. 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. During the year an increase in the maximum short-term cash the Council could hold was agreed by the S151 officer to allow treasury to respond to any liquidity issues but also to manage large cashflow movements resulting from borrowing £100m in December 2021. In addition, the maximum amount that can be invested in A rated financial institutes was raised to £50m each.

## 4.4 Performance Benchmark in 2021/22

4.4.1 As part of ensuring value for money and to monitor the Council's investment return, the Council's treasury performance is benchmarked by against a peer group of 21 London Authorities. Benchmarking data is provided by the Council's treasury advisors, Link Asset Services. Table 3 summarises the data as at 31 December 2021.

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

| Savings Proposal | LBBD | London Peer Group (21) |
|---|---|---|
| Weighted Average Rate of Return | 1.33% | 0.21% |
| Weighted Average Maturity(days) | 285 | 85 |
| Credit Risk (lower is less risky) | 2.47 | 2.61 |

4.4.2 The benchmarking data outlines the outperformance of the Council's treasury investment return by 1.12% against the average London Peer Group. On an average investment balance of £157.0m that equates to additional income above the average of £1.88m. The Council's credit risk, at 2.47 was lower (better) than the London Peer Group at 2.61. Chart 4 illustrates the Council's return against the upper and lower banding levels. The Council has a high overall return and significantly outperforms the model return.

The Council’s treasury return is indicated in the chart below:

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


| | Actual WARoR | Model WARoR | Difference | Lower Bound | Upper Bound | Performance |
|---|---|---|---|---|---|---|
| London Borough Of Barking & Dagenham | 1.33% | 0.73% | 0.60% | 0.69% | 0.78% | Above |

## 4.5 Table 4: Investments held by the Council at 31 March 2022

| Counterparty | Rating | Rate % | £000s | Start | End |
|---|---|---|---|---|---|
| LBBD Pension Fund | Local Authority | 0.50 | 24,150 | | |
| Lloyds Bank PLC | A+ | 1.59 | 5,500 | 18/04/2019 | 19/04/2022 |
| Birmingham CC | Local Authority | 1.70 | 10,000 | 24/04/2020 | 22/04/2022 |
| L B Croydon | Local Authority | 1.70 | 10,000 | 06/07/2020 | 06/07/2022 |
| L B Croydon | Local Authority | 1.70 | 10,000 | 14/07/2020 | 14/07/2022 |
| Goldman Sachs Int. Bank | A+ | 0.72 | 20,000 | 17/12/2021 | 19/09/2022 |
| Goldman Sachs Int. Bank | A+ | 0.72 | 30,000 | 13/12/2021 | 13/12/2022 |
| Runnymede BC | Local Authority | 1.80 | 5,000 | 20/12/2019 | 20/12/2022 |
| Colchester BC | Local Authority | 1.75 | 5,000 | 02/03/2020 | 03/01/2023 |
| Cardiff Council | Local Authority | 1.75 | 10,250 | 10/01/2020 | 10/01/2023 |
| Dudley Metropolitan BC | Local Authority | 1.80 | 10,000 | 21/02/2020 | 21/02/2023 |
| Northumberland BC | Local Authority | 1.80 | 5,000 | 27/02/2020 | 27/02/2023 |
| Cambridgeshire CC | Local Authority | 1.00 | 10,000 | 11/01/2021 | 11/01/2024 |
| | **Total Investments** | | **154,900** | | |

## 5. Borrowing Outturn and Capitalised Interest

5.1 A mix of Long-term and short-term borrowing was used for most of the year to cover cashflow requirements, with a total of £140m borrowed in 2021/22. These loans were mostly maturity loans (pay at maturity date) and were used as the strategy already has a significant amount of Equal Instalment and Annuity borrowing and these durations allowed both for a reduced rate but also smoothed the Council’s overall repayment. Fixing long term borrow improves the future year budget requirements as the borrowing is locked in. Savings over the life of the borrowing compared to a 2.0% target is £34.28m.

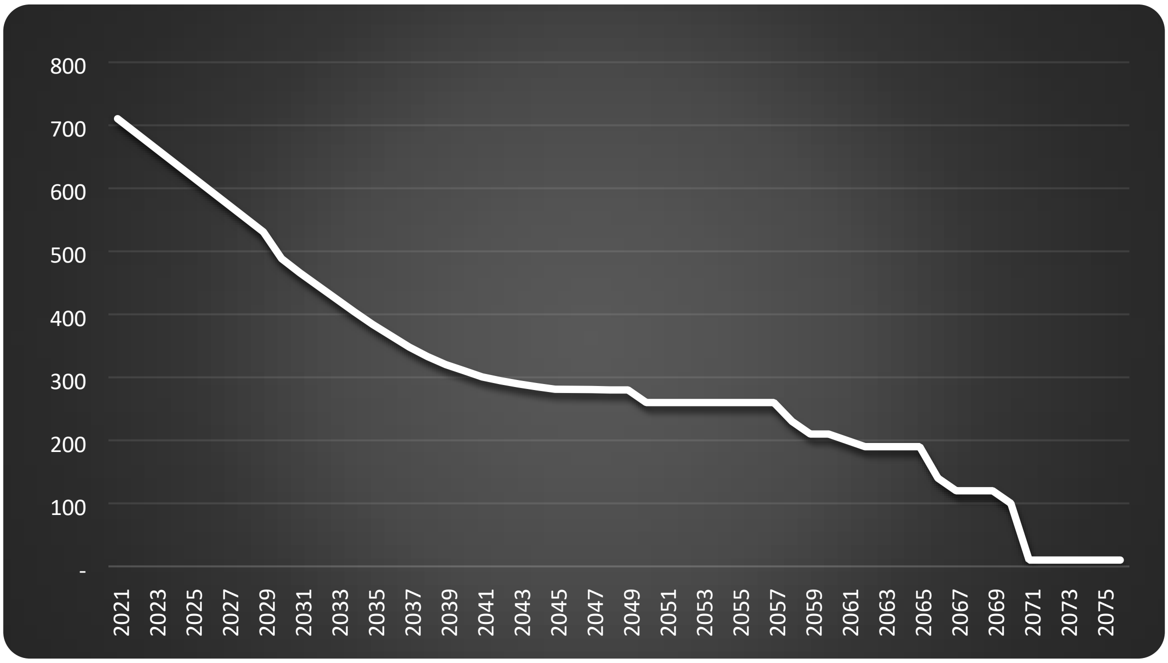
**Table 5: Long-Term Borrowing in 2021/22**

| Lender | Start Date | End Date | Amount £Ms | Rate | Duration (Yrs) | Savings Against 2% £Ms | Savings Against 3% £Ms |
|---|---|---|---|---|---|---|---|
| **PWLB** | 12/07/2021 | 12/07/2039 | 20 | 1.38% | 18.00 | 2.23 | 5.83 |
| **PWLB** | 12/07/2021 | 13/07/2071 | 20 | 1.71% | 50.00 | 2.90 | 12.90 |
| **PWLB** | 10/11/2021 | 10/11/2063 | 20 | 1.51% | 42.00 | 4.12 | 12.52 |
| **PWLB** | 10/11/2021 | 10/11/2063 | 30 | 1.37% | 42.00 | 7.94 | 20.54 |
| **PWLB** | 16/12/2021 | 16/12/2066 | 30 | 1.31% | 45.00 | 9.32 | 22.82 |
| **PWLB** | 16/12/2021 | 16/12/2071 | 20 | 1.25% | 50.00 | 7.50 | 17.50 |
| **Total and Average Rate** | | | **140** | **1.41%** | **41.50** | **34.28** | **92.10** |

5.2 During the year commercial purchase costs were transferred from short-term funding to long-term funding. Receipts from the sale of a number of the commercial purchases will be used to fund remaining costs for the residential developments. Cash balances will also be used to fund developments, although, given the current borrowing requirement, some borrowing may be required in 2023. New developments agreed in future will need additional borrowing.

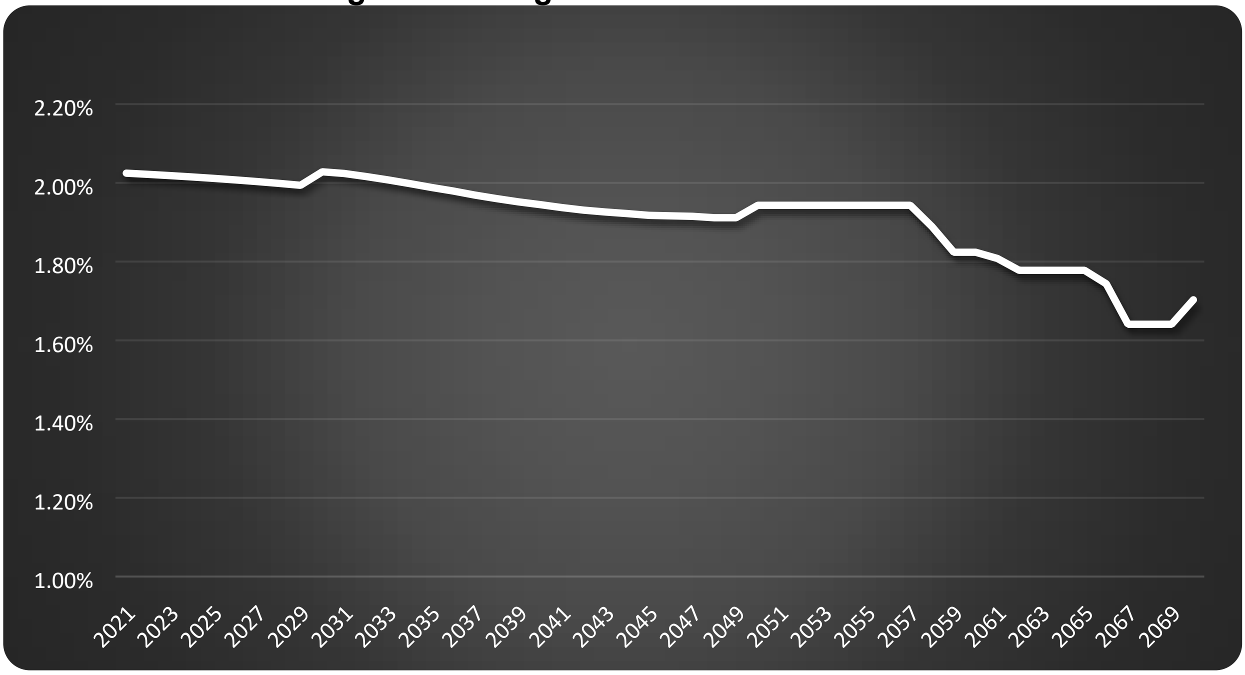
5.3 Officers have sought to ensure that the borrowing matches the relevant asset life and repayment profile of the Council's investment portfolio. Chart 5 below summarises the GF long term debt position as at 31 March 2022, indicating the repayment profile.

**Chart 5: Council General Fund Debt Profile to 2077**




5.4 The current borrowing strategy has a target of reducing the long-term average borrowing rate to 2.02% (excluding short-term borrowing), a reduction of 0.2% from the average long-term borrowing of 2.22% as at 31 March 2020. The average rate is reduced further by using short-term borrowing, with the total average borrowing rate for the General Fund at 1.88%. Chart 6 outlines the average borrowing costs over the duration of the Council's borrowing. With the recent loans that are repaid at maturity, the repayment profile is much smoother and the average rate decreases over the next 45 years to an average rate of 1.64%. Charts 5 and 6 are based on the same time period.

**Chart 6: Council Average Borrowing Rate Profile to 2077**




## 5.5 Capitalisation of Development Interest

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

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

5.5.3 Capitalisation of interest starts from when the development has been agreed at Gateway 2. Where land has been purchased as part of land assembly the capitalisation of interest will be from the later date of the either the completion date of the purchase or the date of this accounting policy. Some scheme, such as Temporary Accommodation developments have been combined as one overall scheme.

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

5.6 **Borrowing Owed at 31 March 2022**

5.6.1 Table 5 outlines the borrowing owed by the Council at 31 March 2022.

**Table 5: Loans as at 31 March 2022**

| Lender | Start Date | End Date | Amount | Rate % |
|---|---|---|---|---|
| **HRA** | | | | |
| PWLB(Maturity) | 28/03/2012 | 28/03/2042 | 50,000 | 3.50 |
| PWLB(Maturity) | 28/03/2012 | 28/03/2062 | 65,912 | 3.48 |
| PWLB(Maturity) | 28/03/2012 | 28/03/2061 | 50,000 | 3.49 |
| PWLB(Maturity) | 28/03/2012 | 28/03/2052 | 50,000 | 3.52 |
| PWLB(Maturity) | 28/03/2012 | 28/03/2060 | 50,000 | 3.49 |
| LANCASHIRE CC (Maturity) | 15/05/2019 | 27/02/2060 | 10,000 | 4.05 |
| LANCASHIRE CC (Maturity) | 15/05/2019 | 26/03/2059 | 10,000 | 4.05 |
| BARCLAYS (Maturity) | 30/05/2008 | 30/05/2078 | 10,000 | 3.98 |
| | **HRA Total LT Borrowing** | | **295,912** | |
| | | | | |
| **General Fund** | | | | |
| PWLB(Maturity) | 09/06/2016 | 09/06/2066 | 20,000.00 | 2.72 |
| PWLB(Maturity) | 14/06/2016 | 15/12/2059 | 10,000.00 | 2.65 |
| PWLB(Maturity) | 28/06/2016 | 29/12/2059 | 10,000.00 | 2.49 |
| PWLB(Maturity) | 29/06/2016 | 29/06/2062 | 10,000.00 | 2.38 |
| PWLB(Maturity) | 07/07/2016 | 06/01/2062 | 10,000.00 | 2.14 |
| PWLB(Maturity) | 05/04/2017 | 05/04/2067 | 20,000.00 | 2.36 |
| PWLB(EIP) | 12/09/2017 | 12/09/2040 | 16,086.96 | 1.98 |
| PWLB(Maturity) | 19/12/2017 | 19/06/2058 | 30,000.00 | 2.36 |
| PWLB(EIP) | 21/02/2018 | 21/02/2036 | 15,555.56 | 2.38 |
| PWLB(EIP) | 07/03/2018 | 07/03/2035 | 7,647.06 | 2.20 |
| PWLB(EIP) | 19/03/2018 | 19/03/2038 | 16,000.00 | 2.31 |
| PWLB(EIP) | 31/05/2018 | 29/05/2043 | 17,200.00 | 2.27 |
| PWLB(EIP) | 01/10/2018 | 01/10/2039 | 34,285.71 | 2.38 |
| PWLB(EIP) | 30/10/2018 | 30/10/2036 | 16,666.67 | 2.14 |
| PWLB(EIP) | 10/12/2018 | 10/12/2043 | 17,600.00 | 2.28 |
| PWLB(EIP) | 04/02/2019 | 04/02/2042 | 17,391.30 | 2.17 |
| PWLB(EIP) | 26/03/2019 | 26/03/2042 | 34,782.61 | 1.99 |
| PWLB(EIP) | 04/06/2019 | 04/06/2046 | 18,148.15 | 1.97 |
| PWLB(EIP) | 08/08/2019 | 08/08/2039 | 17,500.00 | 1.39 |
| PWLB(EIP) | 05/09/2019 | 05/09/2042 | 17,826.09 | 1.23 |
| PWLB(Annuity) | 28/02/2020 | 01/03/2038 | 18,157.46 | 2.27 |
| PWLB(Annuity) | 03/03/2020 | 03/03/2038 | 18,143.32 | 2.18 |
| PWLB(Annuity) | 10/03/2020 | 10/03/2040 | 18,348.35 | 2.06 |
| PWLB(Annuity) | 11/03/2020 | 11/03/2045 | 18,737.11 | 1.98 |
| PWLB(Maturity) | 15/12/2020 | 15/12/2070 | 20,000.00 | 1.33 |
| PWLB(Maturity) | 23/12/2020 | 23/12/2030 | 20,000.00 | 1.02 |
| PWLB(Maturity) | 23/12/2020 | 23/12/2055 | 20,000.00 | 1.50 |
| PWLB(Annuity) | 12/07/2021 | 12/07/2039 | 19,444.44 | 1.38 |
| PWLB(Maturity) | 12/07/2021 | 13/07/2071 | 20,000.00 | 1.71 |
| PWLB(Maturity) | 17/11/2021 | 17/11/2071 | 20,000.00 | 1.51 |
| PWLB(Maturity) | 07/12/2021 | 07/12/2071 | 30,000.00 | 1.37 |
| PWLB(Maturity) | 16/12/2021 | 16/12/2066 | 30,000.00 | 1.31 |
| PWLB(Maturity) | 16/12/2021 | 16/12/2071 | 20,000.00 | 1.25 |

| | | | | |
|---|---|---|---|---|
| DEXIA (Maturity - LOBO) | 30/06/2008 | 30/06/2077 | 10,000.00 | 3.98 |
| L1 RENEW (Annuity) | 15/12/2016 | 01/10/2046 | 6,768.06 | 3.44 |
| EIB (Annuity) | 30/01/2015 | 31/03/2044 | 74,220.26 | 2.21 |
| | | **Total GF Long Term Borrowing** | **720,509.11** | |
| **Lender** | **Start Date** | **End Date** | **Amount** | **Rate %** |
| MIDDLESBROUGH TEESIDE | 11/02/2021 | 11/05/2021 | 10,000.00 | 0.50 |
| NEWCASTLE CITY COUNCIL | 17/02/2021 | 17/05/2021 | 10,000.00 | 0.54 |
| CITY & COUNTY of SWANSEA | 22/02/2021 | 24/05/2021 | 5,000.00 | 0.56 |
| L B REDBRIDGE | 10/12/2020 | 10/06/2021 | 5,000.00 | 0.56 |
| Basildon District Council | 10/03/2021 | 10/06/2021 | 5,000.00 | 0.64 |
| CHELMSFORD CC | 19/02/2021 | 19/08/2021 | 5,000.00 | 0.65 |
| MIDDLESBROUGH BC | 19/02/2021 | 19/08/2021 | 5,000.00 | 0.60 |
| Neath Port Talbot CBC | 19/02/2021 | 19/08/2021 | 4,000.00 | 0.60 |
| Cambridge City Council | 19/02/2021 | 19/08/2021 | 5,000.00 | 0.60 |
| VALE OF GLAMORGAN | 22/02/2021 | 23/08/2021 | 5,000.00 | 0.64 |
| NEWPORT CITY COUNCIL | 22/02/2021 | 23/08/2021 | 4,000.00 | 0.62 |
| | | **GF Total ST Borrowing** | **63,000.00** | |
| | | **Total General Fund and HRA Borrowing** | **1,079,421.11** | |

## 6. Commercial and Reside Loans Outturn

6.1 The Council has several loans including working capital, residential property loans and a prepayment to the pension fund. These are outlined in table 6 below:

**Table 6: Commercial and Reside Loans at 31 March 2022**

| Counterparty | Loan Type | Value £000s |
|---|---|---|
| B&D Homes Ltd | Commercial Loan | 4,100.00 |
| B&D Homes Ltd | Commercial Loan | 6,450.70 |
| Barking Enterprise Centre | Commercial Loan | 142.62 |
| BARKING RIVERSIDE LTD | Commercial Loan | 5,500.00 |
| BD ENERGY LTD | Commercial Loan | 4,016.77 |
| BD ENERGY LTD | Commercial Loan | 1,953.13 |
| BD ENERGY LTD | Commercial Loan | 954.87 |
| BD Muller Developments | Commercial Loan | 26,661.68 |
| BD TP Working Capital | Commercial Loan | 1,500.00 |
| LEUK | Commercial Loan | 24,867.85 |
| BE-FIRST LTD | Commercial Loan | 4,769.41 |
| CARE CITY | Commercial Loan | 31.21 |
| Dagenham & Redbridge FC | Commercial Loan | 81.11 |
| Reside Abbey Roding LLP | Commercial Loan | 47.68 |
| Reside Ltd | Commercial Loan | 308.83 |
| Reside Regeneration LLP | Commercial Loan | 6,400.43 |
| Reside Regeneration Ltd | Commercial Loan | 168.82 |
| Reside Weavers LLP | Commercial Loan | 34,553.14 |
| Reside Weavers LLP | Commercial Loan | 66.29 |
| Reside Weavers LLP | Commercial Loan | 2,200.73 |
| TPFL Regeneration Ltd | Other | 162.5 |
| **BD Muller Developments** | **Equity** | **23,348.97** |
| **Total Loans & Equity** | | **148,286.74** |
| LBBD Pension Fund | Pension Prepayment | 20,000.00 |

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

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

6.4 Commercial loans durations vary with most of the loans having a maximum duration of 5 years. Each loan has a state aid compliant interest rate and have been agreed at Cabinet. A number of loans are linked to the Bank of England base rate and these will provide an increased return for 2022/23 due to the increase in base rate to 1.0%.

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

6.6 The loan and equity investment in BD Muller Developments was for the purchase of the Muller site in Chadwell Heath, which was sold and the loan repaid in April 2022. The equity element will be repaid when the final payment is received in December 2022.

6.7 **Potential Loan Impairment**

6.7.1 The Council has loaned one of its subsidiary companies, BDTP, £24.87m to purchase a company, London East UK (LEUK). The loan is secured against the land held by LEUK and BDTP. Included in the loan agreement is a breach clause, whereby a breach occurs if the combined value of LEUK and BDTP is below the outstanding loan balance. Since the purchase, BDTP has sold two parcels of land and has used the proceeds from the sale to fund losses incurred by BDTP over the past two years. As a result, the valuation of the land held by LEUK has reduced, with the latest valuation being £21.7m, which is below the outstanding loan value of £24.87m, a difference of £3.17m.

6.7.3 BDTP are currently working on the accounts for both LEUK and BDTP and they have advised that potentially there will be a relatively small breach. The size of the breach will only be confirmed when final accounts have been produced.

6.7.4 Where the outstanding loan is higher than the value of BDTP and LEUK, there is the potential for an impairment (recognize a loss) to be required.

## 7. Investment and Acquisition Strategy Outturn

### 7.1 Council's Growth Strategy

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

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

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

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

### 7.2 Overall Summary

7.2.1 In 2021/22 the IAS returned £5.4m against a revised target of £6.75m, which equates to an underachievement of £1.3m.

7.2.2 The main reasons for the lower return includes delays in a number of residential schemes becoming operational, an increase in bad debt, predominantly from Heathway. In addition, security costs on a number of commercial and residential site impacted the return.

7.2.3 A bad debt provision (including 100% provision in some cases) has been included as part of the commercial return, with most of the provision made against outstanding debt from the purchase of the Heathway Shopping centre and it is likely that some of these debts will need to be written off. The commercial return is predominantly income from sites acquired as part of land assembly in Thames Road.

7.2.4 Minimum Revenue Provision (MRP) payments were made on three of the commercial assets that are being held as long-term investments, including Travelodge, Welbeck and Restore, with MRP on Pianoworks to start in 2022/23. No MRP was charged on the other sites as they are part of land assembly for Thames Road. A summary of the outturn for each income type is provided in table 7 below:

**Table 7: IAS Outturn 2021/22**

| Income Type | Actual | Target | Variance |
|---|---|---|---|
| Residential | 506 | 2,000 | -1,494 |
| Abbey Road | 600 | 600 | 0 |
| **Total Residential** | **1,106** | **2,600** | **-1,494** |
| | | | |
| Commercial Income | 5,402 | 2,485 | 2,917 |
| MRP | -399 | | -399 |
| Bad Debt Provision | -267 | | -267 |
| Support Costs | -233 | | -233 |
| Security Costs | -464 | | -464 |
| Other costs | -525 | | -525 |
| Brokerage | -229 | | -229 |
| Surplus Income to Be First | -531 | | -531 |
| **Total Commercial** | **2,754** | **2,485** | **269** |
| | | | |
| **Other Commercial** | **800** | **800** | **0** |
| | | | |
| **CR27** | **774** | **862** | **-88** |
| | | | |
| **IAS Total** | **5,434** | **6,747** | **-1,313** |

7.2.5 Residential income covers only the surplus from Abbey Road. The remaining Reside surpluses have not been included as the outturn position for Reside is not finalised. It is expected that Reside will provide additional returns, which will be accrued in 2021/22. Any additional surpluses from Reside will be transferred to the Investment Reserve, subject to Member approval.

7.2.6 For 2021/22, total gross spend on the investment strategy was £282.9m. The split between residential, commercial, and temporary accommodation is below:

**Table 7: IAS Capital Spend 2021/22**

| IAS | £000 |
|---|---|
| Residential Developments | 271,049 |
| Temporary Accommodation | 945 |
| Commercial Investments | 10,929 |
| **Investments Total** | **282,923** |

7.2.7 For 2022/23 it is likely that there will remain a reliance on returns from the commercial properties but there will be a shift towards the majority of the return coming from residential schemes that will become operational in 2022/23 and from an improvement in the returns from the current Reside schemes. A list of residential schemes that became operational, started on site or were agreed in 2021/22 is provided in table 8, 9 and 10:

**Table 8: Residential Schemes Completed in 2021/22**

| Project | BP Homes | Net Costs (£m) | Q4 2021/22 update | Actual delivered | Actual Net Costs (£) |
|---|---|---|---|---|---|
| Sacred Heart | 29 | £9m | Completed Q4 2021/22 | 29 | £8.1m |
| Melish & Sugden Way | 19 | £5m | Sugden completed Jan-21<br>Melish delayed to 22/23 | 13 (Sugden) | £2.5m (Sugden) |
| A House for Artists | 12 | £3m | Completed Q3 2021/22 | 12 | £3.6m |
| Becontree Ave. 200 | 19 | £6m | Completed Q4 2021/22 | 19 | £5m |
| Sebastian Court | 95 | £20m | 33 Block C completed Q3 2021/22 | 33 | £5.4m |
| | | | Blocks A & B handover in Q1 22/23 | - | |
| Margaret Bondfield | 15 | £4m | Project on hold | - | - |
| GE P2 – Block C | 52 | £13m | Completed Q4 2021/22 | 52 | £12.1m |
| **Subtotal** | **241** | **£60m** | **N/A** | **145** | £36.7m |
| GWP1 | 201 | | Completed Q4 2021/22 | 201 | £63m |
| **Total homes** | 442 | | **N/A** | **346** | **£99.7** |

**Table 9: Start on Site Pipeline units in 2021/22**

| Project | BP Homes | Net Costs (£m) | Start on Site | Q4 2021/22 update |
|---|---|---|---|---|
| Oxlow Lane | 62 | £13m | Q2 21/22 | Commenced |
| RBL/Jervis Court | 64 | £19m | Q4 21/22 | Negotiations ongoing |
| Roxwell Road | 87 | £20m | Q2 21/22 | Contract award Q1 2022/23 |
| Brocklebank | 41 | £10m | Q4 21/22 | Q3 2022/23 |
| Industria | 9,000 m2 | £34m | Q2 21/22 | Q3 2021/22 |
| **Total as per BP** | **254** | **£96m** | **N/A** | |
| GE Ph2 E1 | 112 | | Q1 21/22 | Q2 2022/23 – currently not Viable |
| 12 Thames Road | 156 | £55.6m | Q1 21/22 | Commenced |
| GE3A Block I | 102 | £71m | Q4 21/22 | Commenced |

**Table 10: Start on Site Pipeline - Turnkey units in 2021/22**

| Project | BP Homes | Net Costs (£m) | BP Start on Site | Q4 2021/22 update |
|---|---|---|---|---|
| Beam Park | 936 | £282m | Q1 21/22 | Exchanged Q4 2021/22 - SoS Jan 2023 |
| Town Quay Wharf | 62 | £14m | Q1 21/22 | Dec 2022 |
| Trocoll House | 198 | £64m** | Q4 21/22 | Contract signed Q3 2021/22 |
| Church Elm Lane | 85 | £21m | Q4 21/22 | On hold |
| Ecoworld | 562 | £132m | Q4 21/22 | Negotiations ongoing |
| **Total as per BP** | **1,843** | **£513m** | **N/A** | |

## 8. Compliance with Treasury limits and Prudential Indicators

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

8.2 During the financial year to date the Council has operated within and complied with the treasury limits and Prudential Indicators set out in the Council's annual TMSS. The Council's prudential indicators are set out in Appendix 1 to this report. In 2021/22, the Council did not breach its authorised limit on borrowing of £1.8bn or its Operational limit of £1.7bn.

## 9. Options Appraisal

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

## 10. Consultation

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

## 11. Financial Implications

Implications completed by: Katherine Heffernan, Finance Group Manager

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

## 12. Legal Implications

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

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

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

## 13. Risk Management

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

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

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

**List of appendices:**

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