CABINET

20 June 2023

Title: Treasury Management Annual Report 2022/23	
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 Executive Team Director: Philip Gregory, Strategic Director, Finance & Investment (S151 Officer)	

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 proposed borrowing, 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 2022/23. The key points to note are as follows:

Interest Income and Investments:

i) Total treasury investments held at 31/03/2023 was £54.0m (2021/22: £154.9m);

ii) Total cash held at 31/03/2023 was (-£18.4m) (2021/22: £1.7m);

iii) Total loans lent held at 31/03/2023 was £168.9m (2021/22: £124.9m);

iv) Total Equity held with Muller was £23.4m (2021/22: £23.4m)

v) Net General Fund interest income for 2022/23 was a surplus of £6.5m compared to a net expenditure budget of £5.2, an outperformance of £11.7m.

vi) £7.0m of the outperformance from interest income was transferred to the Investment Reserve, with the remaining balance used to cover shortfalls in the Investment and Acquisition Strategy (IAS);

vii) Investment income from the Council's IAS totalled £1.5m (2021/22: £4.3m) for the year compared to a budget of £6.1m, an underperformance of £4.6m, which will be covered by the outperformance in interest;

viii) The Council’s average treasury interest return of 1.99% for 2022/23; and

ix) The Council’s average return on its loans, consisting of commercial and property loans was 3.65% for 2022/23 (4.42% for 2021/22);

Interest Expense and Borrowing:

x) Interest payable for 2022/23 totalled £40.9m (2021/22: £37.4m), consisting of £13.5m for PFI / Finance leases, £11.0m for the HRA and £16.4m for the General Fund;

xi) Capitalised interest for 2022/23 totalled £9.7m;

xii) The Council borrowed £30m of medium-term General Fund borrowing in 2022/23 at an average rate of 0.77% and an average duration of 2.4 years;

xiii) The total long-term General Fund borrowing at 31/3/2023 was £729.9m, comprising of market loans, Public Works Loan Board (PWLB), Local Authority, European Investment Bank and other loans;

xiv) The value of short-term borrowing as at 31 March 2023 totalled £165.3m;

xv) HRA borrowing totalled £295.9m of long-term debt and £30.6m of internal borrowing;

xvi) With PFI / finance lease borrowing totalling £356.6m, the total Council borrowing as at 31 March 2023 was £1,547.7m (this excludes internal HRA borrowing).

xvii) The Council did not breach its 2022/23 Operational Boundary limit of £1,600m or its Authorised Borrowing Limit of £1,700m;

xviii) The Council complied with all other set treasury and prudential limits;

xix) That a loan impairment of £2.4m was made in 2021/22 against the loan to Barking and Dagenham Trading Partnership (BDTP) relating to the purchase of London East UK (LEUK), as outlined in paragraph 7.9 of the report; and

xx) A further impairment of £7.74m is required for 2022/23 relating to additional capitalised interest on the LEUK loan and two working capital loans to BDTP, as outlined in paragraph 7.10 of the report.

Recommendation(s)

The Cabinet is asked to recommend the Assembly to:

(i) Note the Treasury Management Annual Report for 2022/23;

(ii) Note that the Council complied with all 2022/23 treasury management indicators;

(iii) Approve the actual Prudential and Treasury Indicators for 2022/23, as set out in Appendix 1 to the report; and

(iv) Note that the Council borrowed £140.0m from the PWLB in 2022/23.

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 2022/23. 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 2022/23 period Assembly received the following reports:

- an annual treasury strategy in advance of the year (Assembly 02/03/2022);
- a mid-year (minimum) treasury update report (Assembly 23/11/2022); 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 2023;
- Economic Factors in 2022/23 and Interest rate forecasts;
- Treasury Investment Strategy and Performance in 2022/23;
- Borrowing Outturn and Capitalised Interest;
- Annual Investment Strategy 2022/23;
- Commercial and Reside Loans Outturn;
- Investment and Acquisition Strategy Outturn;
- Compliance with Treasury limits and Prudential indicators; and
- Prudential Indicators for 2022/23 (Appendix 2).

2. Treasury Position at 31 March 2023:

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. The position at 31 March 2023 is shown in table 1 below:

Table 1: Council's treasury position at the start and end of 2022/23

	31-Mar-22	Ave. Rate of interest	Average Life	31-Mar-23	Ave. Rate of interest	Average Life
	£'000	%	Years	**£'000**	**%**	**Years**
Fixed Rate Debt						
HRA – PWLB	265,912	3.50	33.81	**265,912**	**3.50**	**33.81**

HRA – Market	30,000	4.03	43.70	**30,000**	**4.03**	**43.74**
HRA - Internal Borrowing	35,905	1.98	1.00	**30,612**	**3.01**	**-**
Total HRA Borrowing	331,817	3.38	33.23	**326,524**	**3.55**	**32.28**
GF – PWLB	629,521	1.92	29.13	**641,592**	**1.86**	**28.19**
GF - Market	90,988	2.49	25.75	**88,296**	**2.50**	**25.97**
GF – ST Borrowing	63,000	0.58	0.14	**165,317**	**4.02**	**1.28**
Total GF Borrowing	783,509	1.98	27.38	**895,205**	**1.91**	**23.66**
Total Debt	1,115,326	2.33	28.72	**1,191,117**	**2.33**	**28.72**
Investments						
Treasury Investments	154,900	1.25	1.66	**54,000**	**3.36**	**1.02**
Cash	1,675	0.75	-	**-18,420**	**1.80**	**-**
Loans & Equity	148,287			**192,243**		
HRA Internal Lending	35,905	1.98	1.00	**30,612**	**3.01**	**1.00**
Total Investments	340,767			**258,502**		

3. Economic Factors in 2022/23 and Interest Rate Forecasts

3.1 This section of the report sets out key factors that have affected the UK economy during 2022/23 and their impact. In addition, the Euro-zone (EZ) and US economies are considered as comparators and benchmarks. These economic factors have a direct impact on the Council through the borrowing rates and returns on investment that have been achieved. The Council will also be impacted as the wider economy responds to these factors.

UK Economy

3.2 Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile throughout 2022/23, from Bank Rate through to 50-year gilt yields. Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022.

3.3 The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

3.4 The UK Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%. In the interim, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. The markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their period in office lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their

Autumn Statement of the 17 November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

3.5 GDP has been limited throughout 2022/23, although the most recent Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a recession will be avoided is still unclear. Ultimately, the Monetary Policy Committee at the Bank of England will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets before the Bank Rate is reduced. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

3.6 The pound remained resilient throughout this volatile period, recovering from a low of $1.035, following the Truss government's "fiscal event", to $1.23. Notwithstanding the pound's better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

USA Economy

3.7 The flurry of comments from Federal Reserve officials over recent months suggest there is a hawkish theme to their outlook for interest rates, which means rates are expected to rise. Markets are pricing in further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%. In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision have been concluded. US Inflation is c6% but with the economy expected to weaken in 2023, and wage data already falling back, there is the prospect that if the economy slides into a recession there will be scope for rates to be cut at the end of 2023 or shortly after.

EU Economy

3.8 Although Euro-zone inflation rate fell below 7%, the European Central Bank (ECB) has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely.

Borrowing strategy and control of interest rate risk

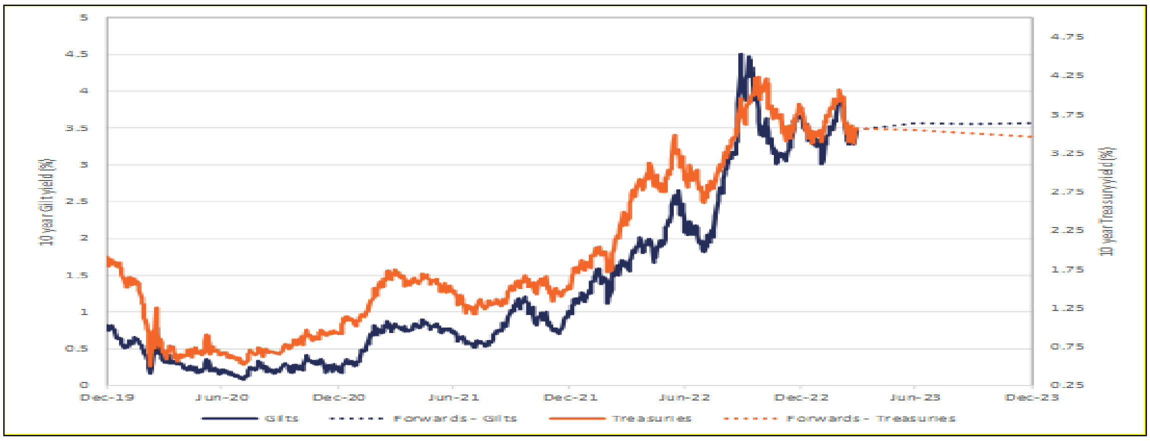
3.9 In 2022/23, the Council maintained an under-borrowed position and used cash balances. This meant that the capital borrowing need, (the CFR), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow were used. This strategy was prudent as returns were initially low and minimising counterparty risk on placing investments also needed to be considered. A couple of asset sales, Welbeck and Pondfield did not progress, which meant that the Council needed to borrow short term towards the end of 2022/23, resulting in a short-term borrowing position of £165.3m by 31 March 2023. Caution was adopted with the treasury operations, with the Investment Fund Manager monitoring interest rates in financial markets and adopted a pragmatic strategy of not locking in higher rates while cash balances were used.

3.10 Interest rate forecasts initially suggested only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the BoE engaged in monetary policy tightening at every MPC meeting during 2022, and into 2023, by increasing Bank Rate by either 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

3.11 The Council's Treasury advisor, Link, increased their September 2024 interest rate view during 2022/23 from a rate forecast for of 1% to 3.25%. More marked is the increase for June 2023 increasing from 0.75% to the current 4.5%. The current rate forecast is below and does show rates decreasing over the next two to three years:

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

3.12 The chart below shows the UK Gilt and US Treasury 10-year yields over the past two years, with rates dropping to historical lows of near zero in December 2019.



4. Treasury and Investment Strategy Outturn Summary for 2021/22 and 2022/23

4.1 Treasury and IAS Outturn is in Table 2 below and is expanded on in subsequent sections. A positive figure is a cost and a negative figure is income or an asset.

Table 2: Treasury Outturn for 2021/22 and 2022/23

Interest	2021/22 Actual	2021/22 Budget	Vari-ance	2022/23 Actual	2022/23 Budget	Vari-ance
HRA Borrowing Costs see 4.2	**10,874**	**10,874**	**0**	**11,000**	**10,742**	**258**
GF Treasury Outturn						
GF LT Borrowing costs see 4.3	13,780	14,121	**-341**	14,395	13,181	1,214
GF ST Borrowing costs see 4.3	53	0	**53**	1,999	0	1,999
GF Interest Income see 4.4	-9,156	-6,503	**-2,653**	-9,111	-6,503	-2,608
Borrowing Costs Recharge see 4.5	-3,522		**-3,522**	-4,074	0	-4,074
Capitalised Interest	-5,463	-5,000	**-463**	-9,707	-1,500	-8,207
Net Treasury Position	**-4,308**	**2,618**	**-6,926**	**-6,497**	**5,178**	**-11,675**
IAS Return						
GF IAS Income	-7,780	-6,782	**-998**	-8,895	-6,077	-2,818
Borrowing Costs	3,522		**3,522**	4,074	0	4,074
Costs				2,296	0	2,296
MRP				1,024	0	1,024
Net IAS Position	**-4,258**	**-6,782**	**2,524**	**-1,501**	**-6,077**	**4,576**
Leases and Reserves						
GF Lease Back				-1,102	-1,136	34
Travelodge Lease				-15,500	0	-15,500
To Travelodge Reserve				5,500	0	5,500
To General Reserves				10,000	0	10,000
To IAS Reserve	1,900	0	**1,900**	7,000	0	7,000
GF Net IAS & Interest Cost	**-6,666**	**-4,164**	**-2,502**	**-2,100**	**-2,035**	**-65**
Muller returns						
Muller Sale				90,499	90,499	0
Be First Income				-10,500	-10,500	0
Loan and Equity Repayment				-26,828	-50,177	23,349
LBBD DIVIDEND				-22,000	-22,000	0
Tax				-6,252	-6,252	0
Interest and Cash				1,141	1,141	0
Cash Held within Muller				**26,060**	**2,211**	**23,349**
Reserves						
IAS Reserve		**-22,177**			**-20,353**	
Dividend Reserve					**-22,000**	
Loan Provision		2,346			**7,734**	
General Reserve					**-10,000**	
Travelodge and CR27 reserve		**-5,500**			**-11,000**	

4.2 One off income from the Isle of Dogs Travelodge is included above and has been allocated to reserves to fund the 2022/23 provisions outlined later in this report. The sale of Muller generated a large surplus but none of the return is allocated to the IAS, with the equity holding (£23.3m) costing the IAS £500k in interest as all the surplus has been allocated as a soft credit Be First, which will be held to smooth out dividend returns against the £10.3m MTFS target .

5. Borrowing Outturn and Capitalised Interest

5.1 HRA Borrowing Costs

5.1.1 HRA long-term borrowing costs are fixed and so matched the budget but a short-term borrowing position between the Council and the HRA, along with higher borrowing costs, has increased the borrowing costs to approximately £10.9m.

5.2 General Fund Long and short-term borrowing costs

5.2.1 Overall borrowing costs were higher than budgeted as both long-term and short-term borrowing rates on new borrowing was much higher than the forecast, with £3.2m additional borrowing costs being incurred. Most of this cost was picked up in a higher capitalised interest figure which netted off this additional cost but also increased the total cost of the schemes the interest was capitalised against.

5.2.2 During the year the sale of Muller, front loading of grant payments and using cash helped to reduce the borrowing requirement as the Council spent £316m on the IAS but borrowing only increased by £112m. Short-term borrowing was used for most of the year to cover cashflow requirements, with an average short-term borrowing position of £105.7m in 2022/23. The average borrowing rate was 3.0% for the year but the last quarter had an average of 3.56%, with the average borrowing rate for May 2023 now over 4.5%.

5.2.3 Four loans of between two to three years were taken out in April 2022 totalling £30m, at rates of 0.3% and 1.0% respectively to cover the development period of the approved residential schemes. Appendix 1 of this report provides a list of the borrowing for the HRA and General Fund for both short- and long-term durations.

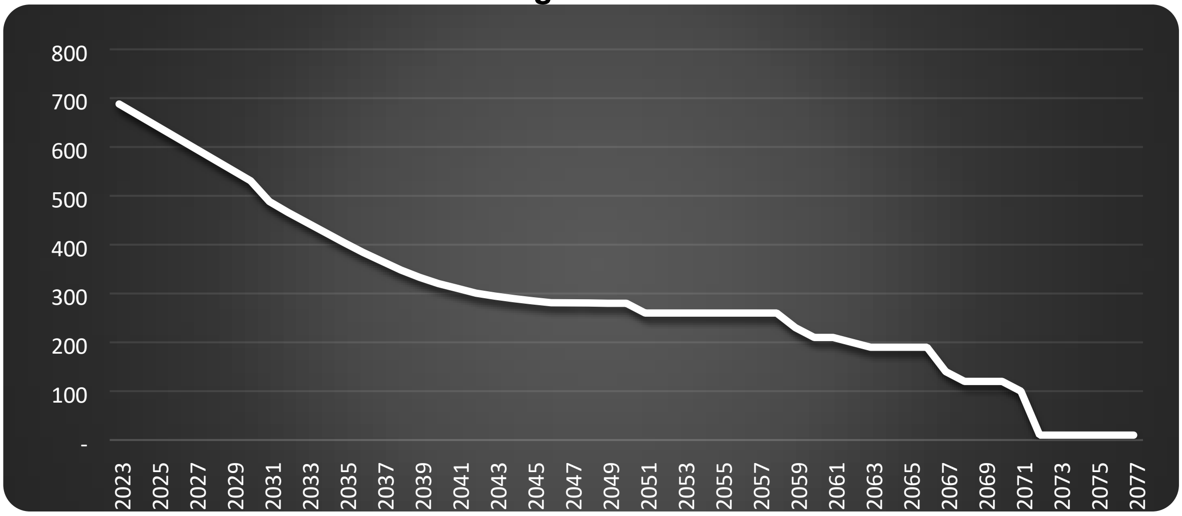
5.3 Officers have sought to ensure that the borrowing matches the relevant asset life and repayment profile of the Council's investment portfolio. The current large short-term borrowing position is likely to increase in 2023/24 but if medium to long-term borrowing opportunities arise then the short-term positions will be replaced with longer-term borrowing.

5.4 The current borrowing strategy has a target of reducing the long-term average borrowing rate to 2.0% (excluding short-term borrowing). The average rate increases when adding short-term borrowing, with the total average borrowing rate for the General Fund at 2.07%.

5.5 For pipeline schemes, the increased interest rate has protected the Council from agreeing schemes that are unviable based on the current borrowing costs but it has contributed to delays in schemes being progressed. It is essential that the Council does not increase its exposure to schemes that are only viable at very low interest rates as the low rates achieved over the past few years may not return in the near future.

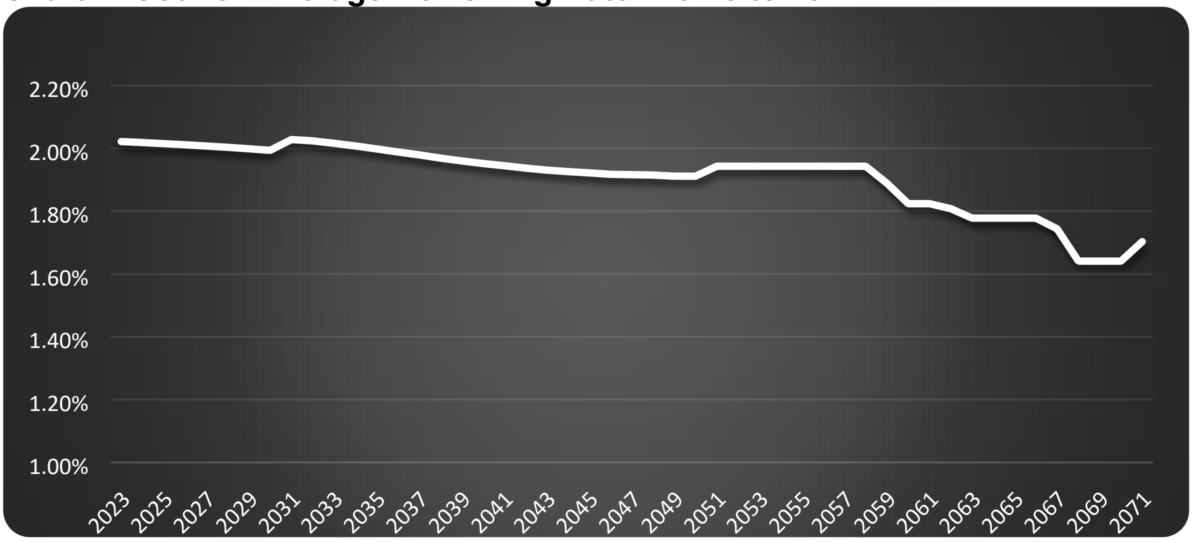
5.6 Chart 1 below summarises the GF long term debt position as at 31 March 2023, indicating the repayment profile average rate will increase. Officers will continue to monitor rates and will seek to lock in lower rates when they occur.

Chart 1: Council General Fund Long Term Debt Profile to 2077



5.7 Chart 2 outlines the average long-term borrowing costs over the duration of the Council's borrowing. With elevated borrowing rates, if more expensive borrowing is added to the current long-term debt portfolio then the average rate long term rate will increase.

Chart 2: Council Average Borrowing Rate Profile to 2077



5.8 **Capitalisation of Development Interest**

5.8.1 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.

5.8.2 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 £5m and that take in excess of two years to build. This approach has reduced the pressure on the Council's interest budget.

5.8.3 Capitalisation of interest starts when the development is 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 schemes, such as Temporary Accommodation have been combined as one overall scheme.

5.8.4 Interest is capitalised quarterly 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 and the property is handed over to Reside.

5.8.5 For 2022/23 the capitalised interest rate was around 2.07% and so still very low but as further borrowing is made the capitalised interest costs will increase. The Council has also agreed to capitalise borrowing costs for schemes that are over £5m in total value and take longer than two years to develop. A total of £9.7m was capitalised against developments in 2022/23 against a budget £1.5m. It is likely that this will be around the peak of capitalised interest, as schemes complete and the pipeline of schemes reduces in the short term.

6. Annual Investment Strategy (AIS) 2022/23

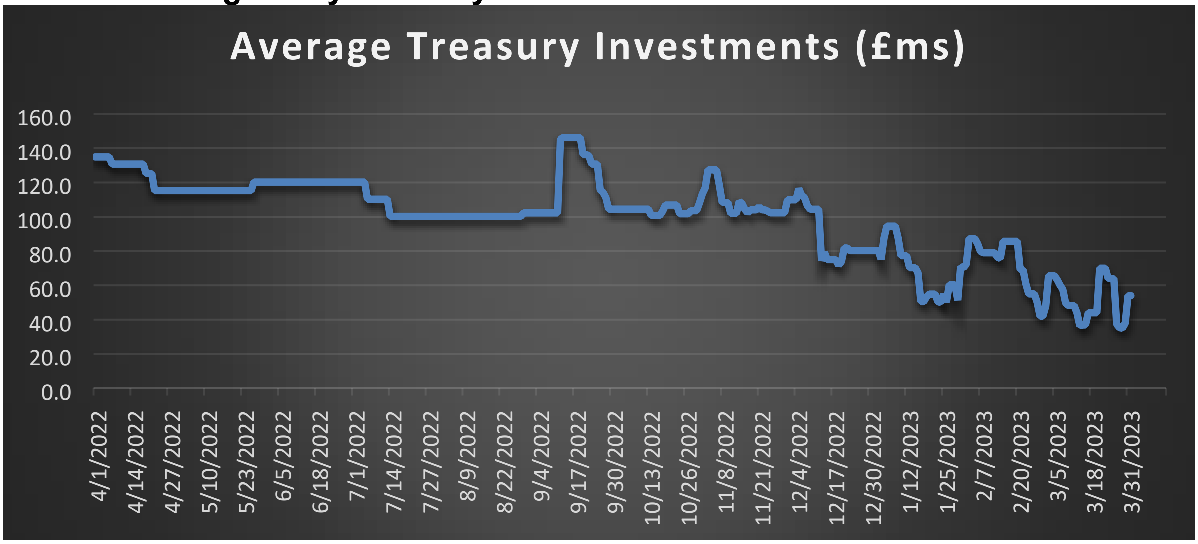
6.1 All investments were managed in-house and were invested with institutions of high credit standing listed in the Council's approved lending list and specified limits. The Council's investment policy is outlined in the 2022/23 Annual Investment Strategy. The policy sets out the Council's approach for choosing investment counterparties.

6.2 Council officers met quarterly with the 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.

6.3 **Investments decisions during 2022/23 -** 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 2022/23, 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.

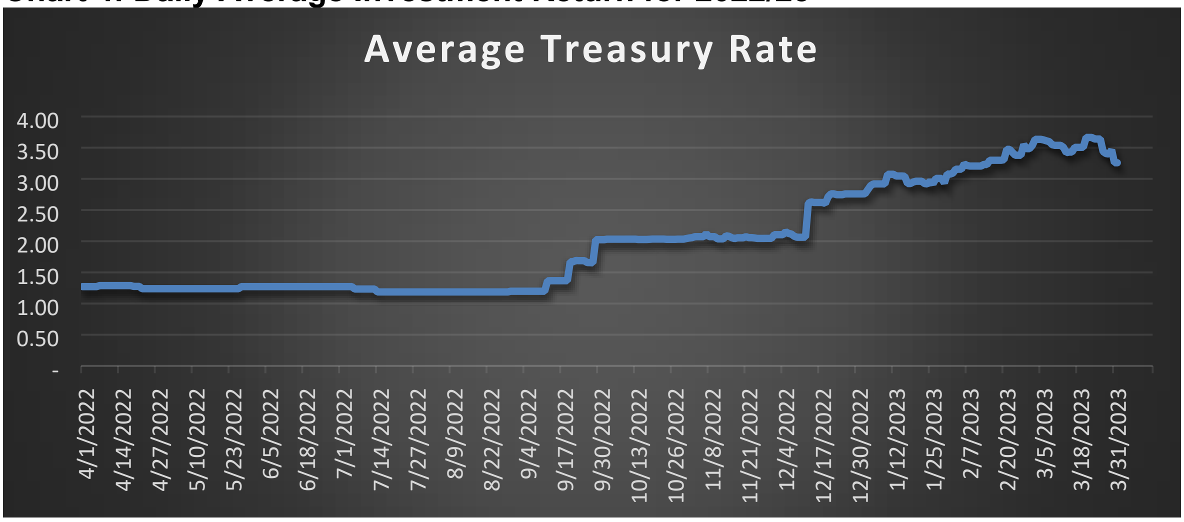
6.4 Treasury made few investments during the year as cash and borrowing was used to fund the IAS developments. The Council held an investment balance of £154.9m at 31 March 2022 and ended the year with a balance of £54.0m. The average investment balance (excluding cash) held for 2022/23 was £98m and is shown in chart 3 below, with the chart showing the steady decline in cash balance throughout the year.

Chart 3: Average Daily Treasury Investment Balance for 2022/23



6.5 Treasury investments provided an average return of 1.99% for 2022/23 (1.39% for 2021/22). Although the average return was on a reducing balance, the increase in the average return for the year provided a net interest surplus. With rates increasing during the year there was little benefit from investing longer term and most investments were short-term in Money Market Funds. Chart 4 below graphically illustrates the average daily treasury return for the year:

Chart 4: Daily Average Investment Return for 2022/23



6.6 **Performance Benchmark in 2022/23**

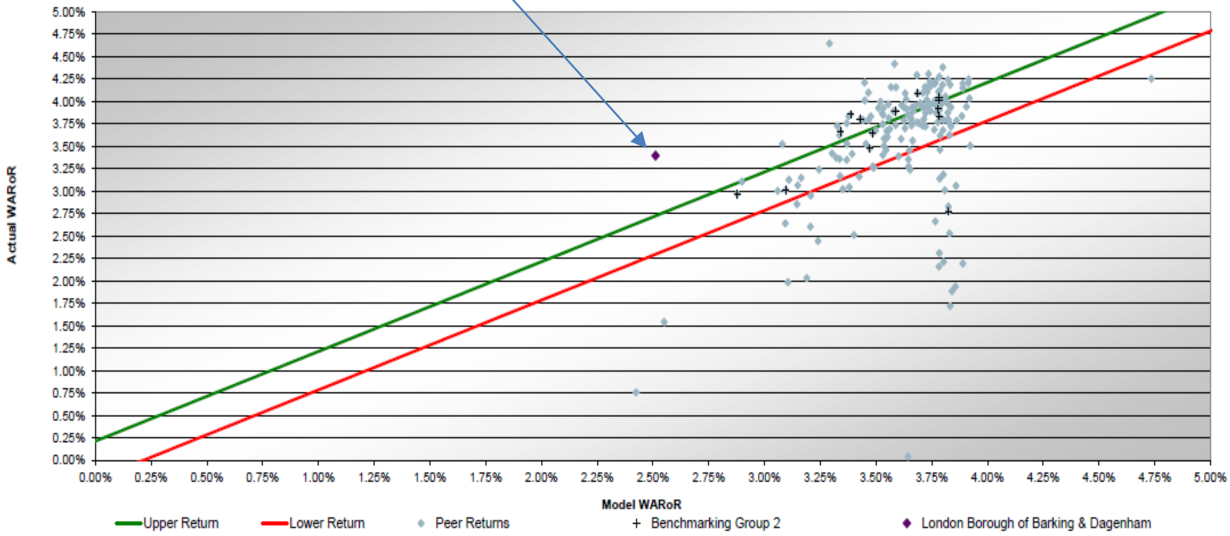
6.6.1 The Council's treasury performance is benchmarked by against a peer group of 22 London Authorities. Benchmarking data is provided by the Council's treasury advisors, Link Asset Services. Table 3 summarises the data as at 31 March 2023.

Table 3: Advisor's Benchmarking data as at 31 March 2023

Savings Proposal	LBBD	London Peer Group (22)
Weighted Average Rate of Return	3.40%	3.62%
Weighted Average Maturity(days)	191	60
Credit Risk (lower is less risky)	3.29	2.46

6.6.2 Generally, the Council significantly outperforms its peer group but in 2022/23, and largely towards the end of the financial year, returns have fallen behind the average. The main driver behind this underperformance is the reduction in cash balance as the Council uses the cash from maturities to reduce its borrowing need and the impact of one longer term investment bringing the average rate down. Currently returns of 4.5% to 5.5% can be obtained for very short duration investments. The Council's treasury return is indicated in the chart below:

Chart 4: Advisor's benchmarking data as at 31 March 2023



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
London Borough Of Barking & Dagenham	3.40%	2.51%	0.89%	2.30%	2.73%	Above

6.7 Investments held by the Council at 31 March 2023

6.7.1 As at 31 March 2023, the Council had treasury investments with a small number of Local Authorities, with the Council's Pension Fund and with Goldman Sachs. The Pension Fund holding was cash held by the Pension Fund during the repayment of a prepayment made by the Council.

Counterparty	Rating	Rate %	£000s	Start	End
LBBD Pension Fund	Local Authority	3.00	19,000		
Slough Borough Council	Local Authority	2.05	5,000	27/05/2022	26/05/2023
Goldman Sachs Interna.	A+	4.22	10,000	20/09/2022	20/09/2023
Goldman Sachs Interna.	A+	5.65	10,000	29/09/2022	29/09/2023
Cambridgeshire CC	Local Authority	1.00	10,000	11/01/2021	11/01/2024
	Total Investments		**54,000**		

6.8 Treasury Income from investments and loans

6.8.1 Treasury provided a surplus return of £2.6m from net interest, with an overall income of £9.1m for 2022/23. Historically most of this income has come from treasury outperformance but with cash being used to fund investments, the overall contribution from treasury investments was £3.2m, with the remaining £5.9m coming from loans to third parties.

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 2022/23. Subsequently nearly £1m was added as an additional target for the Abbey Road scheme and a further £1.136m was added as a return target for the CR27 income strip deal. As a result, for 2022/23 the total return target is £6.077m, increasing to £7.21m if the income strip deals are included.

7.2 IAS Capital Spend 2022/23

7.2.1 In 2022/23 a total of £316.1m was spent on IAS investments, although this was £59.4m less than the budgeted £375.5m. Of this £51.1m was spent on commercial, including £26.3m on Industria and £20.5m on purchasing Maritime House. The spend on residential is gross expenditure and is netted off by grant and right to buy receipts.

Table 4: IAS Capital Spend 2022/23

IAS	£000
Residential Developments	264,982
Commercial Investments	51,146
Investments Total	**316,128**

7.3 IAS Returns

7.3.1 The IAS has underperformed its target by £4.6m in 2022/23, returning a net surplus of £1.5m against a budget of £6.1m. The main reasons why the strategy did not achieve its target return was

- a reduction in surplus from residential schemes as a result of delays in completion and handover of properties;
- costs of £630k for security and energy costs at sites that remained unoccupied.
- management costs of the strategy where costs totalled £554k for 2022/23.

7.4 A detailed summary of returns is included below and it shows the rent, Bad Debt Provision (BDP) for 2022/23, costs, internally charged interest costs and then MRP charged to cover the cost of the purchases. Negative values in red are income and the positive values in black are costs. Most properties have provided a surplus but there are a few properties that made losses. The original intention of most of the commercial assets was to redevelop them as residential or a mix of commercial and residential but viability issues have meant that progress has been delayed. Each of the properties is currently being reviewed, with a focus on maximising return. All net returns are allocated to Be First as part of its return to the Council:

Table 5: IAS Outturn for 2022/23

IAS Income 2022/23	Rent	BDP	Costs	Interest	MRP	Total
COMMERCIAL RENTS	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
23 THAMES ROAD	-201	-29	0	186	51	6
26 THAMES ROAD	0	0	0	155	41	195
27 THAMES ROAD	-29	0	0	20	5	-4
3 GALLIONS CLOSE	-265	0	0	165	56	-44
47 THAMES ROAD	-61	0	0	5	1	-54
7 CROMWELL	-11	-44	0	40	0	-15
BARKING BC	-876	44	33	903	246	349
MARITIME HOUSE	-735	0	83	485	0	-167
RESTORE	-711	0	0	409	144	-158
THE HEATHWAY	-639	0	76	239	65	-259
TRAVELODGE (Dag/ East)	-460	19	0	236	68	-137
WELBECK WHARF	-1,700	0	90	840	246	-525
14-16 Thames Rd	-290	0	0	36	0	-253
Edwards Waste	0	0	0	7	0	7
Other Fees	0	0	32	0	0	32
PIANOWORKS	-551	0	0	308	90	-153
Dividend Income	-49	0	0	0	0	-49
1-4 riverside	0	0	50	39	11	100
Recharge	0	0	384	0	0	384
Security	0	0	597	0	0	597
Energy Costs	0	0	36	0	0	36
Brokerage	0	0	40	0	0	40
Be First Surplus	0	0	320	0	0	320
Net Total	**-6,579**	**-10**	**1,742**	**4,074**	**1,024**	**251**
Residential Rents						
Reside Surplus	**-2,306**	**0**	**0**	**0**	**0**	**-2,306**
Reside Costs		**0**	**554**	**0**	**0**	**554**
Net Return	**-8,884**	**-10**	**2,296**	**4,074**	**1,024**	**-1,501**

7.5 **Commercial Property Holdings**

7.5.1 Below is a list of the current IAS Commercial Holdings. In addition, several commercial properties within the residential developments will be added to the portfolio for 2023/24. Two large industrial schemes, Industria and 12 Thames Road will be added to the portfolio over the next two years. This will increase the overall size of the commercial portfolio to nearly £200m. MRP is being charged on the properties, with a total of £2.0m charged as at 31 March 2023. Most commercial properties are now medium-term hold positions.

Table 6: IAS Commercial Property Holdings 2022/23

Name	Expenditure £000s	GLA Grant £000s	MRP To 31/3/2023 £000s	Net Cost at 31/3/2023 £000s
Barking Business Centre	27,758	0	-246	27,512
Dagenham Heathway Lease	7,338	0	-65	7,273
Travelodge Dagenham	7,261	0	-199	7,063
Barking Restore PLC	12,585	0	-420	12,165
Welbeck Wharf	25,878	0	-698	25,180
23 Thames Road	5,725	0	-51	5,674
27 Thames Road	602	0	-5	597
47 Thames Road	165	-3,500	-1	163
3 Gallions Close	5,092	0	-56	5,036
7 Cromwell	1,239	0	0	1,239
26 Thames Rd	4,864	0	-41	4,824
Purchase of 1-4 Riverside	1,207	0	-11	1,196
9 Thames Road	509	-4,350	0	509
Maritime House	20,712	0	0	20,712
Edwards Waste Site	823	0	0	823
14-16 Thames Road	1,994	0	0	1,994
Pianoworks Lease	9,477	0	-174	9,303
Totals	**133,228**	**-7,850**	**-1,967**	**131,262**

7.6 **Residential Property Loan**

7.6.1 The Council has several loans and leases to Reside for properties it has developed. In 2022/23 634 properties were completed, including 123 social housing units, 376 affordable rent units, with the remaining properties being shared ownership or private rental. Table 7 provides a list of the loans to Reside at 31 March 2023, with each loan against a specific property, having a 52-year debt repayment period and an interest rate charged based on the tenure within each scheme.

Table 7: IAS Commercial Property Holdings as at 2022/23

Reside Loan	Amount (£000s)
B&D RESIDE LIMITED	191
TPFL REGENERATION LTD	50
B&D RESIDE ABBEY RODING LLP	8
B&D RESIDE REGENERATION LLP	6,046
B&D RESIDE WEAVERS LLP	36,793
B&D RESIDE REGENERATION LTD	174
B&D HOMES	10,551
200 Becontree Avenue	4,348
A House for Artists	2,844
Convent Court	8,169
Sir Alf Ramsey Court	5,386
Martin Peters Court	2,992
Kerwin House	16,081
Arbour Court, Ketch, Tide Street	11,350
Cargo & Carrier	34,391
Challingsworth	42,837
Total	**182,211**

7.6.2 There were several delays between practical completion and letting the properties and this has caused an increase in costs around security and energy but also a loss of rent. Sales of shared ownership properties has also been slower than forecast but the handover of properties has improved during 2023 with much shorter void periods between completion and handover.

7.7 IAS Leases

7.7.1 The IAS has a number of leases, including legacy holdings such as Reside Limited, and two hotels through Aviva. The Council will also complete on a further lease and lease back arrangement with RailPen for Trocoll House in 2025.

7.7.2 The Council also leases properties to Reside to manage, such as the Bobby Moore building and Forge. Each lease has a long-term repayment period and represent an obligation by the Council and in some cases Reside to make regular lease payments back to the lessor.

7.7.3 Most leases are performing well or have only just started, however there is significant pressure on the Reside Limited lease between the Council and M&G / Long Harbour. The lease with M&G / Long Harbour has an RPI inflation linked lease which was structured to match the increase expected in rents and provide a surplus to the Council. However recent below inflation rent increases have resulted in the Reside Ltd lease incurring losses, with these losses expected to increase unless mitigating action is taken. To prevent the Council incurring losses on this lease, rents can be increased by above inflation, there can be a renegotiation of the lease or savings around management and maintenance costs can be implemented. Currently meetings are being arranged with M&G / Long Harbour to discuss the impact of the lease on these properties. A list of the IAS leases is provided below:

Table 8: IAS Leases as at 2022/23

IAS Leases	Lease Holder	Amount (£000s)
Travelodge - IoD	Aviva	81,198
CR27	Aviva	73,078
Reside Ltd	M&G / Long Harbour	81,470
Bobby Moore	Council	7,880
Forge	Council	33,349
Total		**276,974**

7.7.4 Additional reporting on all the Council's leases will be provided in future reports, which will include the returns, maintenance of the asset, the performance of the operator, which will include Reside in some instances, and a forecast.

7.7.5 Lease and lease back arrangements are a form of borrowing for the Council and have increased the Council's debt position and CFR by a significant amount, with this likely to reach half a billion pounds when Trocoll and other lease arrangement with Reside are completed. These leases have an effective variable rate and are reliant on the lease between the Council and the operator matching or exceeding the lease arrangement with the funder.

7.7.6 Lease and lease back arrangements have now been removed from the IAS for future schemes.

7.8 **Other Commercial Loans Outturn**

7.8.1 In addition to loans to Reside, the Council has several loans including working capital loans. These are outlined in table 9 below:

Table 9: Commercial and Reside Loans at 31 March 2023

Loan	Amount (£000s)	Loan Type
B&D TRADING PARTNERSHIP LTD	5,000.00	Working Capital Loan
LEUK	26,475.62	Loan to Purchase LEUK
DAGENHAM & REDBRIDGE FC	83.45	Loan for Football Stand
BARKING RIVERSIDE LIMITED	5,500.00	Loan for Infrastructure
CARE CITY LOAN	436.86	Site Improvement
BARKING ENTERPRISE CENTRE CIC	129.58	Site Improvement
MAKE IT BOW	234.50	Site Improvement
Studio 3 Arts Ltd	200.00	Site Improvement
BE FIRST	5,046.20	Working Capital Loan
B&D ENERGY LTD	6,253.74	Energy Centre
B&D ENERGY LTD	1,005.51	Working Capital Loan
MULLER SITE	23,348.97	Equity in Muller Purchase
	73,714.44	

7.8.1 Commercial loans durations vary with most of the loans having a maximum duration of 15 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 4.5%.

7.8.2 The 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 2023.

7.9 **Loan Impairment**

7.9.1 The Council loaned one of its subsidiary companies, BDTP, £26.48m 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.

7.9.2 In 2021/22 the valuation of the land held by LEUK has reduced to £21.7m, below the outstanding loan value of £24.9m. A provision of £2.4m was therefore made against the loan, funded from the Investment and Acquisitions Strategy Reserve.

7.10 **Further Loan Provisions**

7.10.1 In 2022/23 the value of the loan to BDTP for the purchase of LEUK increased to £26.5m due to capitalised interest being added to the loan, now significantly higher than the asset value of £21.7m. A further provision of £2.4m has therefore been made against the loan, taking the total provision relating to LEUK to £4.8m.

7.10.2 In 2022/23 a working capital loan of £3.5m was made to BDTP, in addition to a working capital loan of £1.5m made in 2021/22. As at 31 March 2023, the loan plus interest accrued totalled £5.34m. BDTP is a subsidiary of the Council but has been significantly impacted by the impact of Covid and is currently going through a restructure. A provision of £5.34m for the full loan and interest charged in 2022/23 will be made as, although the loan is not being written off, there is still a significant amount of work required within the business to restructure and be able to generate sufficient income from its business operations to repay the loan. As a result, a prudent provision of the full loan amount has been made.

7.10.3 The £2.4m provision from 2021/22 was funded by the IAS, with both provisions in 2022/23 (£2.4m and £5.34m) being put against £8m from the Travelodge deal.

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 2022/23, the Council did not breach its authorised limit on borrowing of £1.7bn or its Operational limit of £1.6bn.

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** – Borrowing as at 31 March 2023
- **Appendix 2** - The Prudential Code for Capital Investment in Local Authorities
- **Appendix 3** - Glossary of Terms