CABINET

14 November 2023

Title: Treasury Management and Investment and Acquisition Strategy 2023/24 Mid-Year Review	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** No
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Summary

Regulation changes have placed greater onus on elected Members in respect of the review and scrutiny of treasury management policy and activities. This mid-year review report provides details of the mid-year position for treasury activities and highlights compliance with the Council's policies previously approved by the Assembly on 1 March 2023 as part of the Treasury Management Strategy Statement for 2023/24.

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

Recommendation(s)

The Cabinet is asked to recommend the Assembly to note:

(i) The Treasury Management Strategy Statement Mid-Year Review 2023/24;

(ii) The economic update covering the increase in inflation and the Bank of England Base Rate increases;

(iii) The pressures currently impacting Treasury and Investment and Acquisition Strategy (IAS) returns, including:

- Significantly increased interest rates impacting on the Council's borrowing requirements to support cashflow and capital programme;
- Delays to renting of Private Rental units and Disposal of Shared Ownership units developed by the Council for Reside Group of companies impacting on revenue income via lease payments;
- Loss of income from commercial holdings due to delays in renting the assets and further increased borrowing costs due to debt used to deliver the commercial assets being held for longer than projected.
- Loss of interest income from wholly owned companies including Be First and BDTP as they are unable to meet interest payments; and

- Reporting and administrative delays from Reside to accurately forecast rental income back to the Council.

(iv) That the value of the treasury investments and cash balances at 30 September 2023 totalled £38.2m at a rate of 4.2%;

(v) That the value of the residential loans lent by the Council to Reside at 30 September 2023 totalled £190.3m at an average rate of 2.6%;

(vi) That the total value of borrowing incurred for Private Rented Schemes, planned to be transferred to Reside, at 30 September 2023 was £105.7m;

(vii) That the total of other loans which included loans to LEUK, Energy Loans and Working Capital Loans total £50.4m;

(viii) That IAS borrowing at 30 September 2023 totalled £844.3m, with an additional £295.9m of Housing Revenue Account (HRA) borrowing and a further £135.4m of General Fund (GF) borrowing taking total borrowing position for the Council of £1.275.6bn;

(ix) That HRA interest payable was forecast to be £11.033m against a budget of £10.742m, which represented an overspend of £0.291m;

(x) That IAS and GF borrowing was forecasting a gross interest payable amount of £21.33m, to be covered by capitalised interest of £10.231m and allocation of commercial rent to pay for interest costs of £6.141m, leaving a net interest payable charge of £5m against a budget of £10.139m which represented a surplus of £5.182m;

(xi) That interest receivable from loans, IAS and treasury activity was forecast to be £10.9m, split into £4.046m (non-IAS Council loans and GF investments) and £6.848m (Reside Loans, treasury investments and IAS treasury investments), against a budget of £6.5m, representing a surplus of £4.4m;

(xii) That IAS operational income was forecast to be £1.057m against a budget of £6.861m, representing a deficit of £5.8m;

(xiii) That the net surplus from the IAS was £207k and the net surplus from the GF treasury strategy was forecast to be £454k for a combined surplus of £661k, which would be added to the IAS reserve, increasing it to £31.6m by the year-end; and

(xiv) That in the first half of the 2023/24 financial year, the Council complied with all 2023/24 treasury management indicators.

Reason(s)
To accord with the requirements of the Local Government Act 2003. To provide Cabinet with an update report on Treasury and Management performance for the past 6 months of the new financial year.

1. Introduction and Background

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

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

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

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

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

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

1) Economic Update and Interest Rate Forecast;
2) Council's Cash, Interest Budget and Debt Position as at 30 September 2023;
3) Investment Portfolio as at 30 September 2023;
4) Investment Strategy Performance and Benchmarking;
5) Loans and IAS Income Forecast as at 30 September 2023;
6) Accounting Policy change to interest costs; and
7) The Council's Capital Position (Prudential Indicators).

2. Economic Update

2.1 Key economic issues for the first half of 2023/24 are shown below and a more detailed economic update is included at Appendix 1.

(i) Interest rates rise by 100bps (Bank Rate from 4.25% to 5.25%);
(ii) Gilts remain elevated as inflation continually surprised to the upside.
(iii) A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
(iv) CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
(v) Core CPI inflation declining to 6.2% in August from 7.1% in April and May.
(vi) A more of this report.

2.2 Interest Rate Forecasts

2.2.1 The Council's treasury advisor, Link Group, provided the following forecasts in respect of PWLB rates and the current margins over gilt yields for PWLB rates:

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

2.2.2 The latest forecast on 25 September sets out a view that interest rates will be elevated for some little while, as the BoE seeks to squeeze inflation out of the economy. The PWLB rate forecasts below are based on the Certainty Rate (calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

2.3 Impact on Council

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

2.3.2 Treasury will continue to use cash to fund developments. Potential income and cash from the sale of Welbeck and Muller have, unfortunately, not provided the strategy with the expected support as the Muller surplus has been allocated to cover shortfalls in the Be First returns to the Council and the sale of Welbeck did not complete. Initially, as borrowing is required, a short-term borrowing position will be used, with treasury monitoring the borrowing rates. Should borrowing rates drop and reach revised trigger levels, then a medium-term borrowing position will likely be taken to lock in borrowing at rates, currently likely to be from the PWLB.

2.3.3 It is important to stress that, although largely being contained, the speed and now duration of the interest rate increase is impacting treasury and the IAS. Forecast margins are being eroded and there will be a reliance on asset management of the strategy to ensure the IAS remains viable. However there are pressure within asset management that need to be urgently addressed. The impact of interest rate pressures, along with asset management issues and a restriction on using Right to Buy receipts to part-fund schemes, is covered in further sections in this report.

3. Council's Cash Position as at 30 September 2023

3.1 The table below details the Council's mid-year treasury position.

Table 1: Council's Treasury Position at 30 September 2023

	Principal Outstanding £000s	Rate of Return	Average Life (yrs.)
General Fund Fixed Rate Borrowing			
LOBO	10,000	3.98%	53.70
Local Authority (Short-term)	118,687	4.47%	0.34
L1 Renewables (Street Lighting)	6,711	3.44%	23.00
Total General Fund Debt	**135,398**	**4.39%**	**5.40**
IAS Borrowing			
European Investment Bank	71,563	2.21%	20.50
PWLB	602,600	1.91%	28.11
Muller	28,032	5.33%	0.08
Short-term borrowing	142,113	4.47%	0.34
Total IAS Debt	**844,308**	**2.48%**	**21.86**
HRA Fixed Rate Borrowing			
PWLB	265,912	3.50%	32.28
Market Loans	30,000	4.03%	42.21
Total HRA Debt	**295,912**	**3.98%**	**33.29**
Total Council Borrowing	**1,275,618**	**2.93%**	**22.76**
Investments			
Financial Institutions	28,200	5.33%	0.50
Local Authorities	10,000	1.00%	0.28
Total Treasury Investments	**38,200**	**4.20%**	**0.44**
Commercial and Reside Loans & Leases			
Reside Loans	190,308		
Reside Leases	105,659		
Other Loans	6,649		
LEUK Loan	26,476		
Energy Loans	7,259		
Working Capital Loans	10,046		
Total Loans	**346,397**		
Total Investments	**384,597**		

3.2 The GF is split into IAS and GF, with long-term debt allocated to the IAS and Short-term (ST) borrowing split. Overall, the Council's borrowing has increased by £84.5m since 31/03/2023, from £1.191bn to £1.276bn with the following changes include:

- short-term borrowing from £165.3m to £260.8m, an increase of £95.5m;
- no new PWLB borrowing, with £19.0m repaid and £20m moved to Short-term borrowing, reducing the PWLB loan balance from £641.6m to £602.6m;
- Treasury investments reduced from £54.0m to £38.2m; and
- Commercial loans and leases increase from £192.2m to £345.1m.

3.3 The reduction in cash is due to funding the IAS. Currently ST borrowing is difficult, and a higher short-term cash position will be maintained to ensure liquidity and reduce the impact of cash shortages within the inter-Local Authority lending market. ST borrowing includes cash the Council manages and invests on behalf of BD Muller Developments. Short-term borrowing will likely continue to increase, but medium-term borrowing positions may be taken if rates come off from the current highs. Over the next six months, several IAS schemes will become operational, and this will result in the loans and leases to Reside of £106m, as summarised below:

Scheme Name	Units	Tenure Type	PC Date	Loan Value
Gascoigne East J	*66*	*London Affordable Rent*	*Nov-23*	*14,608,712*
Gascoigne East J	*58*	*Affordable Rent*	*Nov-23*	*12,915,764*
Oxlow Lane	*22*	*London Affordable Rent*	*Mar-24*	*9,352,184*
Oxlow Lane	*41*	*Affordable Rent*	*Mar-24*	*4,534,382*
Gascoigne West 2	*122*	*Affordable Rent*	*Apr-24*	*36,225,408*
Gascoigne West 2	*46*	*London Affordable Rent*	*Apr-24*	*12,295,941*
Gascoigne West 2	*60*	*Target Rent*	*Apr-24*	*15,964,858*
Totals	**415**			**105,897,249**

4. Interest and IAS Position at 30 September 2023

4.1 The funding of the IAS required a significant amount of borrowing and still requires some additional borrowing. Pressure on the net interest budget could be from:

- a delay in developments becoming operational, delaying interest receivable and increasing the overall build costs;
- an increase in borrowing requiring more interest payable than forecast;
- an increase in borrowing rates higher than forecast; and
- a drop in treasury returns through lower returns or lower investible cash.

4.2 The following tables provide the interest receivable and payable budgets and forecast for the HRA, IAS and GF.

4.3 GF Forecast

4.3.1 The IAS has been removed from the GF reporting and the interest payable and receivable budget remains within the GF. The net interest budget for 2023/24 is £3.6m and the forecast is an underspend of £454k. Interest from the company loans has been provided for as, potentially, this will not be paid. The forecast is under pressure from interest rate increases but this may decrease between now and year end, with £1m included for additional interest rate pressure.

Table 2: GF Borrowing and Interest Forecast at 30/09/2023

Type of Income / Expense	30/09/2023 Holdings	Rate	2023/24 Forecast	2023/24 Budget	Variance
General Fund Borrowing					
GF - Market	16,711	3.76%	631		
GF - ST Borrowing	118,687	4.47%	2,490		
Total GF Borrowing	**135,398**	**2.31%**	**3,121**	**10,139**	-7,018
General Fund Investments					
Company WC Loan	-10,046	**9.78%**	**-984**		
Energy Company Loan	-7,259	**5.98%**	**-436**		
LEUK Loan	-26,476	**8.06%**	**-2,140**		
Other Loans	-6,650	**7.32%**	**-487**		
Total GF Investments	**-50,431**	**8.02%**	**-4,046**	**-6,503**	2,457
LEUK Loan Provision			2,140		2,140
Interest Pressure Provision			1,000		1,000
Be First and BDTP Interest			984	0	968
Net General Fund			**3,199**	**3,636**	**-454**

4.3.2 The interest payable budget is being supported by £4.5m for capitalised interest. This has allowed the Council to charge £4.5m worth of interest costs to capital account and reduce the impact on the General Fund's revenue account. In addition, a further £0.638m has been capitalised for Temporary Accommodation budget to cover borrowing costs for Weighbridge, Wivenhoe, and Grays Court.

4.3.3 ST borrowing is allocated to variable rate loans but these loans, include working capital loans and LEUK loans are under pressure. ST borrowing also used to replace internal borrowing, with remaining ST borrowing used to fund IAS commercial.

4.3.4 Borrowing relates to the non-IAS capital spend, which includes Temporary Accommodation, and is profiled to the asset life of 40 years.

4.4 **IAS Treasury Forecast**

4.4.1 IAS income and expenditure, forms part of the General Fund account, but as it carries significant investment and is financed from borrowing, it has been separately reported. The IAS incurs interest charges as a result of the large borrowing, however where possible interest charges are capitalised to reduce the impact on the revenue account. The IAS programme also benefits from proportion of the rental income generated from commercial assets.

4.4.2 The IAS treasury forecast is for a £6.01m surplus, mainly driven from Reside loans, reduced borrowing from capitalised interest and the commercial strategy absorbing the significant interest pressure from higher borrowing costs. The net surplus from treasury management for the IAS will be used to support underperformance in the surplus returns for the IAS, which is covered in section 4.5 below.

4.4.3 Lease income is forecast as a net nil position due to significant delays in letting PRS properties and slow sales for shared ownership schemes. As more certainty over the lettings and sales is confirmed then it may produce a net income for 2023/24. ST borrowing allocated to commercial schemes and has reduced the net return from commercial that gets allocated to Be First and a provision has been included.

Table 3: IAS Borrowing and Interest Forecast at 30/09/2023

Type of Income / Expense	30/09/2023 Holdings	Rate	2023/24 Forecast	2023/24 Budget	Variance
IAS Borrowing					
IAS - Market	71,563	2.21%	1,584		1,584
IAS - PWLB	602,600	1.91%	11,644		11,669
IAS - ST Borrowing	142,113	4.47%	2,981		2,981
IAS - Interest Recharge			-6,141		-5,143
Capitalised Interest			-10,231		-10,231
Interest Pressure Provision			1,000		1,000
Muller Equity	28,032		0		
Total IAS Borrowing	**844,309**	**2.13%**	**836**	**0**	**1,860**
Reside Loans	-190,308	**2.61%**	**-5,568**	0	-5,568
Treasury Investments	-38,200	**4.00%**	**-1,279**		-1,279
Reside Leases	-105,659				0
Total IAS / Treasury Returns	**-334,167**	**2.05%**	**-6,848**	0	-6,848
Net IAS Treasury Return			**-6,011**	0	**-6,011**

4.4.4 Several schemes will become operational in 2023/24 and the on-lending interest rate of 2.61% is higher than the average capitalised interest rate of 2.50%. This has provided an additional return to the strategy, although this has been reduced by the poor lettings of private rental schemes.

4.5 **Overall IAS Forecast and position**

4.5.1 Overall, there is a shortfall against budget of £5.8m from the IAS, with a return of £1.06m forecast against a budget of £6.86m. With the IAS treasury return of £6.01m (table 3 above) the forecast net surplus is £207k to the Council and a total contribution to the Council of £7.13m.

4.5.2 The IAS includes the two-hotel lease and lease back deals (CR27 and Travelodge). Both hotels have reserves that include an annual uplift in the reserve. The reserves will be increased by £200k each in 2023/24 and this has put a pressure on the IAS but provides protection for management and future works related to each hotel. The result of this is that the hotel reserves are forecast to be £12.5m.

4.5.3 Returns of £1.71m from Reside surpluses are currently estimates as the pressures from operational costs make forecasting difficult. Further work is required with Reside to firm up the net contribution, but a prudent estimate has been used.

4.5.4 Commercial income is currently forecasting a significant loss of £2.02m due to increase interest costs (as these are predominantly currently funded from variable rate short-term borrowing) but also costs associated with letting Industria. Debt repayment (MRP) is allocated to the commercial portfolio and is a cost of £1.37m but this will reduce the commercial assets associated borrowing.

4.5.5 A total of £0.2m will be transferred to reserves based on current forecasts but pressures within the IAS commercial may impact on the ability to do so due to increased costs with several new completed commercial developments.

Table 4: IAS Forecast at 30/09/2023

Type of Income / Expense	30/09/2023 Holdings	Rate	2023/24 Forecast	2023/24 Budget	Variance
IAS Return					
Net Commercial Income			-5,657	-1,252	-4,405
Borrowing Costs - Commercial			6,141	0	6,141
Costs			171	0	171
MRP			1,369	-1,024	2,393
Abbey Road MRP			-600	-600	0
IAS Residential Income			-1,706	-2,810	1,104
CR27 Lease and Leasback			-862	-862	0
Leases and Reserves			-314	-314	0
CR27 Hotel Inflation			200		200
Travelodge Hotel Inflation			200		200
Net IAS Position			**-1,057**	**-6,861**	**5,804**
GF Net IAS & Interest Cost			**-7,069**	**-6,861**	**-207**

4.5.6 Total IAS borrowing is £844.3m at an average cost of 2.48%. Residential average on-lending rate is 2.65% and commercial is 3.62%, with a blended rate of 3.21%

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

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

4.6 **Overall GF and IAS Forecast Summary and Pressures**

4.6.1 Although there is a forecast surplus of £454k from GF Treasury and net return of £207k from the IAS, these returns are significantly down on the surplus provided in 2022/23 of £7m. The main reasons for the deterioration include:

i. Interest rate pressure reducing the net return from commercial schemes;
ii. Handover and letting delays reducing the interest and net return to the IAS;
iii. Pressures on the Council's subsidiaries requiring a provision against interest income;
iv. Delays in schemes completing, resulting in increased scheme costs and reduced interest from Reside.

4.6.2 Interest rate pressures are reducing returns, and the interest rate pressure remains high. Assumptions for new schemes, development interest rates and for commercial schemes have been adjusted to reflect the higher rates but this has put an abrupt halt on new schemes being agreed.

4.6.3 Handover and letting issues are having a significant impact as delays in letting schemes results in a loss of income but this is especially high for Private Rents and Shared Ownership, which are nearly completely funded by borrowing. Progress on lettings and sales is very slow and there is a lack of an overall strategy for both tenure types. Letting is through MyPlace, where there have been long delays and letting issues, but this has now largely transferred to Reside.

4.6.4 Interest pressure on the various subsidiaries is having a negative impact on their returns at a time when all the companies are under some considerable pressure. A provision of £2.2m against the interest payment has been set aside. This provision is in addition to the provisions put against BDTP and LEUK in 2022/23.

Private Rental lettings and Shared Ownership sales issues

4.6.5 Private rental units (PRS) and Shared Ownership (SO) sales are the biggest issues impacting the IAS returns currently. Both tenures require a lot of borrowing as there is no grant or RtB available to support the costs. Therefore, the Council has a significant interest rate exposure to both tenures. Delays in selling and letting both tenures means that the Councils must cover the costs of holding the assets without any income being earned. There are also additional costs for security and BD Energy is impacted by delays in connecting units. In addition, any build issues will not be picked up timely as the units remain empty.

4.6.6 The Council has recent completions for PRS and SO totalling £160m on the market. Of this, over £100m worth of property is not let, at a **cost of £3m** in interest per year. While lettings have now move across to Reside there are still issues around the speed, the offer being provided and further properties being available to let in the coming months. This issue is extremely urgent and needs to be addressed.

4.6.7 SO sales are also delayed and some have required a reduction in price due to the overall drop in property prices. The loss from a reduced sales and then delays in selling is having an impact on the IAS returns.

4.6.8 While there remains a surplus from treasury and the IAS, this has been drastically reduced due to the lettings and sales issues, from interest rate increases and from the need to provide for company loans. As a one-off hit this can be absorbed but is a loss to the Council. If this issue continues, this will result in significant losses to the Council that will require funding from the IAS reserve and potentially the GF

4.7 **HRA Borrowing Summary**

4.7.1 HRA borrowing remains as per pervious years, although there is expected to be an increase in internal borrowing as the HRA cashflows are under pressure and as reserves are used to cover overspends.

Table 5: HRA Borrowing and Forecast at 30/09/2023

Type of Income / Expense	30/09/2023 Holdings	Rate	2023/24 Forecast	2023/24 Budget	Variance
HRA Fixed Rate Debt	£'000	%	£'000	£'000	£'000
HRA - PWLB	265,912	3.50%	9,319		
HRA - Market	30,000	4.03%	1,213		
HRA - Internal Borrowing	tbc	3.28%	500		
Total HRA Borrowing	295,912	3.73%	11,033	10,742	291

4.8 **Borrowing**

4.8.1 Interest payable is forecast to be £11.03m for the HRA and £21.33m for the GF borrowing. The GF is reduced by capitalised interest of £10.23m and internal charges against the commercial schemes of £6.14m, with a net forecast of £15.99m. The GF net position is a surplus of £4.158m. The summary below is taken from the previous tables but just contains a summary of the borrowing costs and budgets.

Table 6: Council Borrowing Interest Forecasts at 30/09/2023

Interest Payable Forecast	2023/24 Forecast	2023/24 Budget	Variance
Total HRA Borrowing	**11,033**	**10,742**	**291**
Total GF Borrowing	**3,121**	**10,139**	**-7,018**
Interest Pressure Provision	1,000		1,000
IAS - Market	1,584		1,584
IAS – PWLB	11,644		11,644
IAS - ST Borrowing	2,981		2,981
Interest Pressure Provision	1,000		1,000
Total GF Interest Payable Forecast	**21,330**	**10,139**	**11,191**
IAS - Interest Recharge	-6,141		-6,141
Capitalised Interest	-10,231		-10,231
Net Interest Payable Forecast	**4,957**	**10,139**	**-5,182**

4.8.2 Capitalised interest is forecast £10.2m and reflects the peak of capitalised interest as several schemes will complete over the coming months, which will result in a reduction in capitalised interest. Capitalised interest stops when a scheme is completed and handed over to Reside and is replaced by a loan rate, which is currently at a higher rate than the capitalised interest rate. There should, potentially, be further surpluses produced from both capitalised interest but also from the on-lending surplus, although this has reduced significantly as it has been necessary to reduce the on-lending rate.

4.8.3 As the 2019/20 to 2022/23 accounts have not yet been audited, there remains a risk that the capitalised interest will be adjusted, but this is low risk. Currently all the income from capitalised interest for 2019/20 to 2022/23 can be covered by the IAS reserve and the approach taken is in-line with the accounting code.

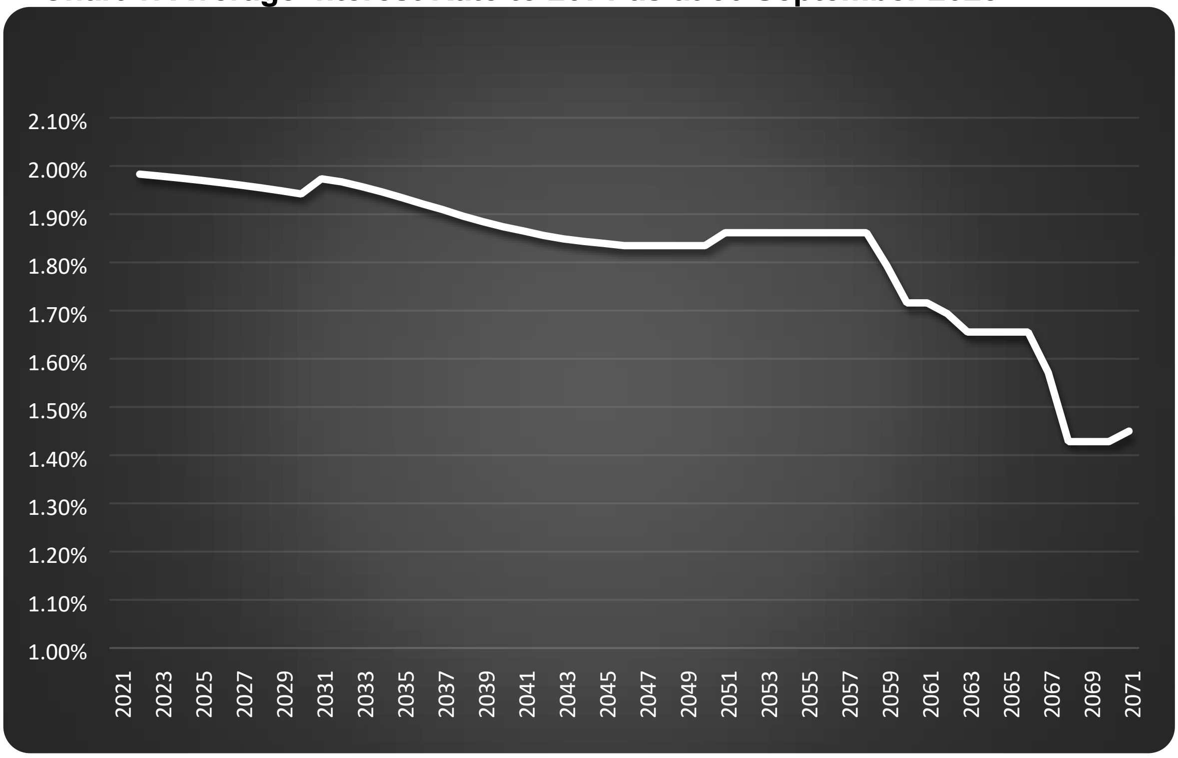
4.8.4 As most of the Council's borrowing is linked to a repayment schedule from the underlying asset the money was borrowed for, and because there is an interest margin, there is the potential for the interest payable to be fully funded from the interest received from investments and from capitalised interest. This will depend on a number of factors, such as the ability to keep the average cost of borrowing below the average interest earned on the loans but also on there still being sufficient surplus from the assets to provide the Council a return.

4.8.5 Currently the IAS return is lower than the budget and has required top ups from treasury surplus to reach its investment target.

4.9 **IAS Interest Costs**

4.9.1 Currently the average long-term interest rate on borrowing is 1.94% for £674m and remains constant, although against a reducing borrowing amount. The average interest rate to 2070 is provided below:

Chart 1: Average Interest Rate to 2071 as at 30 September 2023



4.10 **Impact of higher borrowing rates**

4.10.1 If future borrowing can keep the longer-term average borrowing rate to under 2%, then this will provide a margin against the on-lending rate to Reside of approximately 2.6% (reduced from 2.9% due to viability issues with some schemes). A 2.6% rate is very low and reflects the historically low rates that have been available over the past 5 years.

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

4.10.3 It is important to stress that, given the significant increase in borrowing costs and the fact that the Council still needs to borrow for current schemes but also has an ambitious investment programme that may require funding, that if future borrowing is at rates above 2%, the average borrowing cost will increase. However, projected future borrowing is not included within this report.

4.10.4 If the rates are significantly higher than 2% then the average rate may increase to above the rates currently being lent out to Reside. The impact of this will be magnified if a significant amount of borrowing is required – i.e. the impact of needing to borrow £200m at 4% will be less than needing to borrowing £600m at 4%. To absorb this impact, the borrowing rate for new schemes has increased from 2.6% to 4%, although this will impact on schemes viability.

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

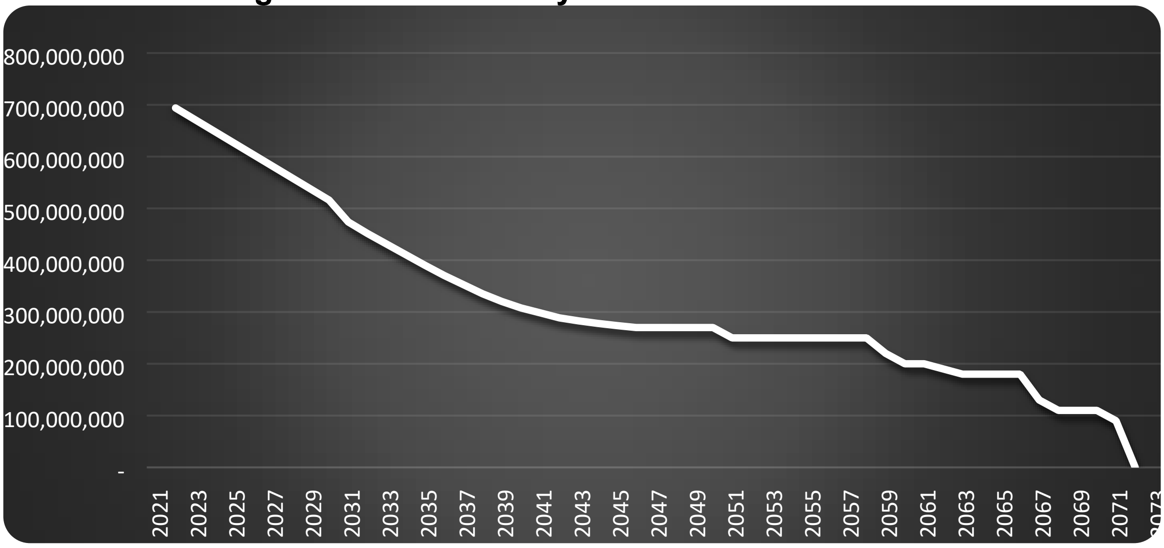
4.11 **Debt Position at 30 September 2023**

4.11.1 The total GF borrowing at 30 September 2023 was £135.4m, for the IAS borrowing totalled £844.3m and £295.9m of HRA borrowing (this excludes borrowing between the HRA and the GF). The total borrowing as at 30 September 2023 was £1.276bn. Ensuring low cost of carry and debt repayment is at the forefront of any borrowing decisions made. Although the size of the Council's overall borrowing is significant, Members are asked to note that most debt includes a repayment profile, and that the repayment is linked to income streams that are sufficient to cover the interest costs and debt repayment.

4.11.2 As an example, the EIB borrowing of £89m is an annuity repayment (AP), which means a proportion of the loan will be repaid each year. Currently the balance owed on the EIB loan is £71.6m, with all repayment made from returns from the IAS (Abbey Road and Weavers). In addition £390m of long-term PWLB borrowing is Equal Instalment Payments or AP, which means there is repayment of a portion of the debt each year. As a result, the Council has a loan repayment profile that is similar to its forecast property debt repayment schedule, although refinancing does remain a risk.

4.11.3 However, it is likely that future borrowing rates will be higher and could be significantly higher than the rates secured and this, without a decrease in build costs, will impact viability. The Council still needs to borrow approximately £270m to fund its current IAS, although this reduces to nearer £150m if land assembly holdings on Thames Road are sold, although this could impact on the commercial portfolio financial returns in turn and could be lower still if they are sold with any gain. Any schemes that are agreed in future will be impacted by the increase borrowing costs. The Council's GF long-term borrowing repayment schedule is outlined in Chart 2:

Chart 2: GF Long Term Debt Maturity Profile



4.12 Borrowing Levels

4.12.1 The Council has one of the highest debt levels out of all other Local Authorities. Table 7 shows the borrowing taken by other Local Authorities as at 30 June 2023.

Table 7: Local Authority Borrowing Levels and Type at 30/06/2023

Local Authoritiy Debt					
Local authority as at 30/6/2023	**ST Borrowing**	**Securities**	**LT PWLB**	**LT Other**	**Total**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Birmingham	274,736	287,971	2,524,172	151,377	**3,238,256**
Leeds	175,022	0	1,790,172	473,386	**2,438,580**
Woking	105,000	0	1,864,833	30,000	**1,999,833**
Warrington	60,140	0	1,502,115	254,020	**1,816,275**
Edinburgh	211,851	0	1,155,918	290,603	**1,658,372**
Thurrock	66,000	0	1,364,389	54,000	**1,484,389**
Manchester	-	0	517,394	858,325	**1,375,719**
Glasgow	58,030	0	863,226	449,000	**1,370,256**
Lancashire	421,603	600,000	279,600	13,192	**1,314,395**
LBBD	161,611	0	895,196	158,295	**1,215,102**
Croydon	205,000	0	860,926	143,575	**1,209,501**

4.12.2 Debt was £50m in 2011 and increased to £1.2bn at 30 June 2023. It will increase to £1.5bn by 2026 to fund Beam and 3b with no further schemes agreed. The tables below show the evolution of the debt.

4.12.3 The Council has secured cheap borrowing for the current schemes (excluding Beam and 3b). There is still a £70m funding requirement for schemes and this will put a pressure on the interest rate as the current rates of around 5.5% is so much higher than the 2.0% average rate. Short-term borrowing is higher than expected due to Welbeck and Pondfield not being sold (£75m), delays in taking long-term borrowing due to high interest rates and a lack of progress with Thames Road. In addition, the Council has exposure to repayments through several leases, including an RPI linked lease for Weavers Quarter (£85m), two leases linked to CPI (with cap & collars) for out of borough Hotels deals (£156m) and Trocoll (tbc).

Table 8: LBBD Historic Borrowing & Current Forecast (excluding new schemes)

As at Date	General Fund LT Borrowing M's	General Fund ST Borrowing M's	Total GF Borrowing M's	HRA Borrowing M's	Total Borrowing M's	Cash M's	Total Net Borrowing M's
31/12/2011	- 40	- 10	- 50	-	- 50	92	42
31/12/2012	- 40	- 10	- 50	- 266	- 316	135	- 181
31/12/2013	- 50	- 12	- 62	- 266	- 328	108	- 220
31/12/2014	- 50	- 20	- 70	- 266	- 336	138	- 198
31/12/2015	- 129	- 66	- 195	- 266	- 461	258	- 203
31/12/2016	- 179	- 129	- 308	- 276	- 584	293	- 291
31/12/2017	- 268	- 121	- 389	- 276	- 665	301	- 364
31/12/2018	- 417	- 133	- 550	- 276	- 826	354	- 472
31/12/2019	- 506	- 141	- 647	- 276	- 923	335	- 588
31/12/2020	- 609	- 92	- 701	- 296	- 997	256	- 741
31/12/2021	- 729	- 55	- 784	- 296	- 1,080	225	- 855
31/12/2022	- 739	- 146	- 885	- 296	- 1,181	87	- 1,094
30/06/2023	- 755	- 143	- 898	- 300	- 1,198	46	- 1,152
31/12/2024	- 900	- 150	- 1,050	- 305	- 1,355	50	- 1,305
31/12/2025	- 1,000	- 100	- 1,100	- 305	- 1,405	50	- 1,355
31/12/2026	- 1,100	- 100	- 1,200	- 305	- 1,505	50	- 1,455

4.12.4 There is a refinancing requirement as there is not a perfect match between borrowing and debt repayment from Reside. However, the average rate decreases over time, on a reduced balance and so the impact of higher refinancing is mitigated but not eliminated. The borrowing below is ringfenced for agreed schemes. Future borrowing for Beam, 3b and other schemes will have individual borrowing strategies to ensure the target rates and borrowing profile can be linked.

4.13 Debt Repayment and Rescheduling

4.13.1 Treasury section has repaid £19m of long-term borrowing through EIP and AP. No debt rescheduling was undertaken during the first six months of the financial year.

5. Treasury Portfolio at 30 September 2023

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

5.2 As at 30 September 2023 the Council held £38.2m in treasury investments, with £10m invested with LAs and a short-term position of £28.2m to cover liquidity risk as part of building up a short-term borrowing position. All of the Council's investments had a maturity of one year or less at 30 September 2023. A breakdown of the Council's treasury investments is provided in the table 9:

Table 9: Treasury Investments as at 30 September 2023

Counterparty	Start	End	Amount	Rate
Cambridge CC	11/01/2021	11/01/2024	10,000,000	1.00%
FEDERATED MMF			28,200,000	5.33%
		Total	**38,200,000**	**4.20%**

6. Commercial and Reside Loans at 30 September 2023

6.1 In addition to its treasury investments, the Council has several loans to its subsidiary companies, including Reside. These loans all have repayment schedule agreed. The majority of the loans are secured against an asset and each one has a repayment schedule based on an annuity repayment. Where the loan is unsecured the company is closely monitored to ensure that it will be financially viable. Loans against residential properties are very long term, with the loan duration of up to 55 years (to match the asset life of the asset it is secured against).

6.2 Commercial loans durations vary but most loans have a maximum duration of 5 years. Each loan has been agreed at Cabinet. At 30 September 2023 the Council's loans totalled £240.7m, as summarised in table 10. As outlined in previously in the report, a number of the loans are under pressures as some of them have an index linked rate, which has made the interest payments much higher than budgeted for by the company. In addition, there are other pressures on loans to third parties and these are being closely monitored.

Table 10: Commercial and Reside Loans at 30 September 2023

Entity	Loan Type	Amount	Maturity
BE-FIRST LTD	Company WC Loan	5,046,203	31/03/2025
BD TRADING PARTNERSHIP LEUK	Company WC Loan	5,000,000	31/07/2024
BD ENERGY LTD	Energy Company Loan	1,005,512	31/03/2025
BD ENERGY LTD	Energy Company Loan	2,056,713	31/03/2027
BD ENERGY LTD	Energy Company Loan	4,197,026	31/03/2047
BD TRADING PARTNERSHIP LEUK	LEUK Loan	26,475,621	01/04/2025
	Total Company Loans	**43,781,076**	
Dagenham & Redbridge Football Club	Other Loans	83,453	31/01/2028
Grafton Primary School	Other Loans	34,961	02/03/2026
Gascoigne Primary School	Other Loans	29,276	03/03/2036
BARKING RIVERSIDE LTD	Other Loans	5,500,000	31/03/2025
CARE CITY	Other Loans	436,857	10/02/2041
Barking Enterprise Centre CIC	Other Loans	129,600	12/08/2031
Make IT Bow Ltd	Other Loans	234,504	30/06/2032
STUDIO 3 ARTS LTD (Co reg 03177640)	Other Loans	200,000	07/10/2038
	Total Other Loans	**6,648,652**	
B&D Homes Ltd	Reside Loans	6,450,702	23/08/2075
B&D Homes Ltd - Gascoigne West 1 , Cargo &	Reside Loans	3,250,285	31/12/2074
BD Homes Ltd - Chequers Lane , Kerwin LAR	Reside Loans	5,364,677	31/03/2075
BD Homes Ltd - Crown House Challingsworth S	Reside Loans	16,801,408	31/03/2075
BD Homes Ltd - Gascoigne East C - LAR	Reside Loans	4,858,701	31/12/2074
BD Homes Ltd - Gascoigne East Phase 2 Block	Reside Loans	12,331,170	31/03/2075
BD Homes Ltd - Gascoigne West 1 Cargo LAR	Reside Loans	3,652,632	31/12/2074
Reside Abbey Roding LLP PSL Loan	Reside Loans	8,220	31/03/2024
Reside Ltd - PSL Loan	Reside Loans	117,142	31/03/2024
Reside Regeneration LLP - GE Phase 2	Reside Loans	6,400,428	31/03/2075
Reside Regeneration Ltd	Reside Loans	173,887	31/03/2025
Reside Weavers LLP	Reside Loans	1,343,850	31/03/2075
Reside Weavers - 10 Units 798-806 Dag rd	Reside Loans	2,200,725	31/03/2075
Reside Weavers - 200 Becontree Ave RM8 2TR	Reside Loans	4,347,892	30/09/2074
Reside Weavers - A House for Artists	Reside Loans	2,844,022	31/03/2077
Reside Weavers - Chequers Lane , Kerwin AR	Reside Loans	10,715,863	31/12/2074
Reside Weavers - Convent Court	Reside Loans	8,168,960	30/06/2074
Reside Weavers - Crown House, Challingsworth	Reside Loans	26,035,909	31/12/2074
Reside Weavers - Gascoigne East C - AR	Reside Loans	6,491,083	31/12/2074
Reside Weavers - Gascoigne East Phase 2	Reside Loans	34,553,143	31/03/2075
Reside Weavers - Gascoigne West 1 Cargo & C	Reside Loans	3,525,279	31/12/2074
Reside Weavers - Gascoigne West 1 Carrier - A	Reside Loans	20,355,474	30/09/2074
Reside Weavers - Gasgoigne East Phase 2 Blo	Reside Loans	1,870,898	31/03/2075
Reside Weavers - PSL Loan	Reside Loans	12,160	29/07/2074
Reside Weavers - Seb Ct Alf Ramsey AR	Reside Loans	5,385,790	30/06/2074
Reside Weavers - Seb Ct Martin Peters LAR	Reside Loans	2,991,701	31/12/2074
TPFL Regeneration Ltd	Reside Loans	55,876	31/03/2075
	Total Reside Loans	**190,307,875**	
	Total Loans	**240,737,603**	

7. IAS Update

7.1 Completed and Post Gateway 4 schemes

7.1.2 The IAS can be split into schemes that have been agreed at Gateway 4 (GW4) and are therefore under construction or completed and Pre-Gateway 4 (Pre-GW4) Schemes that are still undergoing planning and design. The table below shows Post Gateway 4 schemes and their status:

Table 11: Completed and Post Gateway 4 schemes at 30 September 2023

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

7.1.3 There are also pipeline schemes that have not been to a Gateway but are in a longer-term regeneration plan. Post GW4 schemes need to be completed but also there is certainty over build costs. Pre-GW4 schemes have had some spend on them but can still be put on hold or not progressed.

7.2 IAS scheme pressures

7.2.1 At the September 2023 Cabinet, two large schemes, Beam Park 6 (Beam) and Gascoigne east 3B (3B) were agreed. Both schemes were impacted by build cost inflation and by interest rate increases. To ensure that both schemes were viable a substantial amount of right to buy receipts (RtB) were required, a change in tenure from private rental to affordable rent was also required and a significant amount of risk was taken in agreeing interest rates below the current PWLB rates. Both schemes have a net borrowing value of over £100 million and the impact of the amount of RtB receipt used, the significant interest rate risk taken and the requirement to make efficiency savings within operational costs will have implications on future pipeline schemes.

7.2.2 In addition, in the wider context, local authority borrowing is under increased scrutiny with significant negative press around the size of borrowing that councils are taking.

7.2.3 The IAS is currently moving from a strategy dominated by construction and land assembly, with much of the borrowing secured over a medium to long term, to a strategy that will succeed or fail based on how the assets are managed against the model assumptions. To date there has been underperformance against these targets for most asset classes and all tenures. Part of the issue has been the number of schemes completing, the complexity of the services that need to be provided or the challenging, but achievable targets set by the various scheme models.

7.2.4 It is important to note that the IAS has previously become unviable and, in 2021, was forecasting millions of losses. Two key changes were agreed at the time to correct this position, including increasing the amount of affordable rent provided, which allowed schemes to include a contribution from RtB receipts of 40% against each scheme. This improved viability for the tenure and for schemes overall.

7.3 **Pre Gateway 4 and Pipeline Viability**

Interest rates

7.3.1 The impact of the market conditions over the past three years, with high build cost inflation, rent increases below inflation for some tenures and significant operational cost increases have put pressure on the viability of several schemes. An increase in long dated interest rates from the PWLB (50 year increased from a low of 1.3% to over 5.5% currently) but also the move from a blended rate to a specific rate for each scheme has meant that the rate modelled now needs to be closer to the current rates on the market, as the borrowing for each scheme still needs to be completed.

7.3.2 The table below shows the increase in interest rates for 25year gilts (PWLB is based on gilts plus 0.8%). During the early part of 2022 borrowing was delayed as the sale of Welbeck was planned (£68m) and the Council had high cash levels.

Chart 3: 25 Year Gilt from January 2021 to 10 October 2023

7.3.3 Currently there are a variety of interest rate forecasts, ranging from a sudden drop to rates staying higher for longer and options around forward dealing. Overall, where rates will go is difficult to predict, but there is an assumption that, when long dated rates are locked in, they will be lower than where they currently are. It is important to stress that treasury management in this environment, where there is a reliance on interest rates decreasing, is difficult, as there is a tendency to overreact when rates dip initially, but also regret if rates then increase. During this period it is important that modelled rates are prudent. Advice will be sought from the Council's treasury advisor Link.

7.3.4 The Council still needs to borrow around £70m to fund schemes that are still to complete and then around £300m of borrowing for Gascoigne East 3b (current rate assumed at 3.5%) and Beam 6 (current rate assumed at 4.5% and 5%). The £300m of borrowing includes some of the RtB as they are already in reserves and form part of the cash position and therefore still need to be borrowed against.

7.3.5 It is also important than a margin is included in the borrowing rate, both to absorb some of the interest pressure, but also to reflect a commercial on-lending rate. Currently the PWLB rates are:

- 5.41% bullet for 10-year
- 5.68% annuity for 25-year and
- 5.75% annuity for 50-year

7.3.6 Rate modelled in the updated pipeline schemes are below:

i. Long term interest rate for LAR, TR, Realm, Parking and Community at 5.5%.
ii. Long term interest rates for all other tenures at 6.0%, including commercial.
iii. Development period interest rates should be at 3.0% for all costs, capitalised.

7.3.7 A final consideration is the interest rate on commercial. Currently the Council has borrowed nearly £200m to cover commercial purchases and developments. The average rate for these is around 3.5%, compared to the current borrowing rates for short-term cash at around 5.5%.

Right to Buy (RtB)

7.3.8 Agreeing to use the higher level of RtB for Beam 6 and Gascoigne 3B will spend receipts currently held but also future receipts that are forecast to be received in the next three years. While there are likely to be sufficient RtB to fund both schemes, this will reduce the availability of RtB for pipeline schemes, removing the most viable tenure from schemes that can be completed in the next three to four years. The impact of this is significant, both on the future pipeline of schemes but also on Be First's ability to put forward viable schemes and earn fees.

7.3.9 Below is a RtB forecast showing the impact of Beam 6 and Gascoigne 3B on the amount available for other schemes. The assumptions include a reduction in RtB sales in 2023/24 before a slow increase to 2021/22 levels in 2027/28. No further schemes will be able to access RtB until 2028/29:

Table 12: Right To Buy Forecast to 2027/28 after 3B and Beam 6

RtB Receipts (including ring fenced returned)					
Date	**£Ms**	**£Ms**	**£Ms**	**£Ms**	**Comments**
2021-22	86.10	- 0.26	30.12	115.96	Opening Balance includes returned RTB
2022/23	115.96	- 64.99	25.85	76.83	
2023/24	76.83	- 48.51	19.00	47.32	
2024/25	47.32	- 53.00	25.00	19.31	
2025/26	19.31	-	26.00	45.31	
2026/27	45.31	- 61.64	27.00	10.67	GE3b includes ring fenced RTB
2027/28	10.67	- 36.40	27.00	1.27	Beam Park 6

7.4 **Post Gateway 2 viability**

7.4.1 The change in interest rate assumptions and use of RtB has significantly changed the viability of schemes that were already struggling with viability. BeFirst have provided updated numbers on viability for several schemes. The schemes modelled still have a large amount of AR tenures and this will require either a change in tenure or a delay in the completion date for any realistic proposal to be looked at.

7.4.2 A summary at year 5, year 10, year 20 and year 50 for accumulative gains or losses is provided below, with previously modelled figures included as a comparator:

Table 13: Post Gateway 2: 5, 10, 20 and year 50 accumulative gains or losses

Revised Cashflows	GE PH2 E1	GWP3	Padnall Lake Ph 3	Jervis Court	Barking Riverside Health	Brocklebank	Accumulative
Year 5	-2,379,972	-2,253,226	-1,778,007	-866,899	-1,136,588	-2,199,297	-10,613,990
Year 10	-7,378,679	-5,817,787	-6,762,920	-5,550,040	-6,252,423	-4,560,547	-36,322,398
Year 20	-15,068,514	-10,412,692	-14,081,090	-14,613,422	-15,596,181	-8,701,947	-78,473,851
Year 50	4,977,615	17,179,899	12,269,860	-15,809,240	-18,164,717	-6,319,640	-84,340,070
Previous Cashflows							
Year 5	521,772	173,867	-314,682	-1,570,404	-2,523,610		-3,713,057
Year 10	-1,131,983	1,304,391	-2,212,433	-4,400,427	-5,895,750		-12,336,202
Year 20	-4,111,620	3,661,370	-7,805,908	-10,484,343	-11,626,216		-30,366,717
Year 50	9,575,601	36,093,836	3,598,801	-21,696,755	-18,565,060		9,006,423
Difference							
Year 5	-2,901,744	-2,427,093	-1,463,325	703,505	1,387,022	-2,199,297	-6,900,933
Year 10	-6,246,696	-7,122,178	-4,550,487	-1,149,613	-356,673	-4,560,547	-23,986,196
Year 20	-10,956,894	-14,074,062	-6,275,182	-4,129,079	-3,969,965	-8,701,947	-48,107,134
Year 50	-4,597,986	-18,913,937	8,671,059	5,887,515	400,343	-6,319,640	-93,346,493

7.4.3 For these 6 schemes, although there were still losses forecast, the deterioration in the returns is significant, with an overall swing of £93.3m over 50 years. The revised figures have not been adjusted for tenure (i.e. removing some of the AR or pushing back completion dates). The cashflows are based on the following tenure mix (shown by borrowing required), including the viability of each tenure:

Table 14: Post Gateway 2: 5, 10, 20 and year 50 tenure gains or losses

	Total	Affordable Rent	London Affordable Rent	Target Rent	Parking	Community	Commercial	Public Realm
Borrowing	£186,001,483	£137,416,054	£9,426,068	£2,401,701	£500,045	£32,753,866	£1,256,416	£2,291,155
Year 5	-3,713,057	463,254	-881,650	-118,635	-58,401	-2,727,948	-50,324	-339,348
Year 10	-12,336,202	-1,473,720	-2,494,776	-362,469	-173,461	-6,819,128	-144,340	-868,308
Year 20	-30,366,717	-6,832,460	-6,127,734	-997,435	-403,581	-13,815,533	-263,186	-1,926,796
Year 50	9,006,423	56,913,936	-17,129,182	-2,591,200	-1,093,941	-22,506,396	524,516	-5,111,332

7.4.4 The table shows the reliance on AR to provide the surpluses and even then, these are backloaded to years 21 to 50. The table below shows the split of the AR returns between each scheme and shows the amount of RtB required. For these schemes, even if completion dates were pushed back to 2028/29 a total of £55m would be required (based on current build cost assumptions and using 40% of build costs).

Table 15: Post Gateway 2: 5, 10, 20 and year 50 tenure AR gains or losses

	Affordable Rent	Gascoigne East Phase 2 Block E1	Gascoigne West Phase 3	Jervis Court	Padnall Lake - Phase 3
Borrowing	137,416,054	38,799,580	36,739,747	14,846,056	47,030,671
AR	54,966,422	15,519,832	14,695,899	5,938,422	18,812,268
Year 5	463,254	832,702	292,503	-599,517	-62,434
Year 10	-1,473,720	233,465	1,666,861	-1,677,914	-1,696,132
Year 20	-6,832,460	-703,172	4,658,804	-4,027,164	-6,760,928
Year 50	56,913,936	18,003,141	38,685,037	-6,013,130	6,238,888

7.5 **Mid-year IAS spend Budget and Forecast**

7.5.1 A revised IAS budget of £352.8m of gross spend has been set for 2023/24 and is summarised in the table below:

Project Code	IAS RESIDENTIAL	2023/24 Budget	2023/24 Expenditure to P5	2023/24 Forecast to P5	2023/24 Forecast Variance
C04067	12 THAMES RD	17,166	6,134	17,625	459
C05066	BEAM PARK Phase 6	40,005	366	40,069	64
C04069	CROWN HOUSE	2,355	91	2,355	(0)
C05090	GASCOIGNE EAST 3A - BLOCK I	27,339	10,661	27,017	(321)
C05073	GASCOIGNE EAST 3B	8,041	6,185	7,529	(512)
C04062	GASCOIGNE EAST PH2	(11,300)	(11,313)	(11,300)	0
C05076	GASCOIGNE EAST PHASE 2 (E1)	2,386	2,398	2,386	0
C05092	GASCOIGNE EAST PHASE 2 E2	8,432	2,870	8,430	(2)
C05091	GASCOIGNE EAST PHASE 2 F	28,981	16,186	27,908	(1,073)
C05026	GASCOIGNE EAST PHASE 3A	16,933	6,602	16,616	(317)
C04099	GASCOIGNE WEST P1	1,109	453	1,109	0
C05025	GASCOIGNE WEST PHASE 2	32,829	17,135	48,743	15,914
C05047	GASCOIGNE WEST PHASE 3	1,994	70	1,962	(32)
C04068	OXLOW LNE	8,907	3,904	8,909	2
C05035	PADNALL LAKE PHASE 1	5,452	4,216	5,532	81
C05093	PADNALL LAKE PHASE 2	4,561	3,268	4,769	208
C05094	PADNALL LAKE PHASE 3	259	(93)	153	(106)
C04066	ROXWELL RD	11,565	4,293	10,312	(1,253)
C03084	SEBASTIAN COURT	350	(121)	366	16
C05103	TOWN QUAY WHARF	8,904	4,397	9,423	520
C05041	TRANSPORT HOUSE	18,719	5,932	22,948	4,230
C05082	TROCOLL HOUSE	584	178	569	(15)
C05020	WOODWARD ROAD	5,518	1,532	3,490	(2,028)
	Miscellaneous	1,210	511	1,388	178
CAP40	**IAS RESIDENTIAL**	**242,297**	**85,855**	**258,309**	**16,012**
C05042	26 THAMES RD	1,020	(35)	1,021	1
C04104	1-4 Riverside Industrial	223	0	399	176
C05133	Dagenham Trades Hall	1,502	3		(1,502)
C05110	Purchase of Maritime House	1,069	5	1,069	0
C05074	BARKING BUSINESS CENTRE	200	16	203	3
C05067	DAGENHAM HEATHWAY	426	109	516	90
C05072	INDUSTRIA	4,019	1,598	1,559	(2,461)
C05112	Purchase of Edwards Waste Site	8,844	8,845	8,845	1
	Miscellaneous	147	54	101	(46)
CAP42	**IAS COMMERCIAL**	**17,450**	**10,595**	**13,714**	**(3,736)**
	IAS TOTAL	**259,747**	**96,450**	**272,022**	**12,276**

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

8.1 The IAS reserve is essential to provide some support and security to the Council's IAS. As the strategy increases in value so will the reserve. £12.5m of the reserve is specifically linked to the two lease and lease back arrangements for CR27 and the Isle of Dogs Travelodge and the amounts will be inflated each year to ensure that the protection they provide does not decrease. The IAS reserve is forecast to be £31.6m by 31 March 2024. Although this is significant, it is necessary as it provides protection to the Council from the impact of negative market movements.

8.2 However, there are several risks that could put pressure on the IAS, including rent increases being lower than operational cost increases, high interest rates and potentially schemes that have very low profits or have years where they incur losses. In addition, the IAS returns are predominantly provided by the returns from commercial schemes, with the commercial schemes held for future regeneration and therefore the returns over the medium term are uncertain and more contribution is expected from residential schemes.

Table 16: Forecast Reserve Movements 2023/24

Reserves	2022/23	2023/24
CAPITAL INVESTMENT RESERVE	3,779	3,779
INVESTMENT RESERVE	15,067	15,274
CR27 Hotel Inflation	720	920
Travelodge Hotel Interest	381	581
CR27 Reserve	5,500	5,500
Travelodge Reserve	5,500	5,500
Total Reserves	30,947	31,554

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

9.1 The revised capital programme was agreed by June 2023 Cabinet as part of the 2022/23 Outturn report. The revised capital programme including carry forwards from 2022/23 was agreed at £496.7m for 2023/24. There have been several budget changes in the year to the end of Period 6. The revised budgets are £336.7m for 2023/24, £146.7m for 2024/25 and £76.6m for 2025/26.

9.2 Forecast outturn expenditure for 2023/24 is £341.9m, an overspend of £5.2m. IAS is reporting an overspend of £12.3m but this will be removed through a revised budget to reflect an accelerated cashflow for Gascoigne West 2 and Transport House.

9.3 The GF programme is reporting an underspend of £7.122m. This is mainly due to:

- The removal of forecast expenditure on ERP Phase 2. Although Executive Team has agreed on a reduced programme, further work is needed to establish the capital/revenue split. The financing of this will be picked up in the review of MRP.
- A change in the forecast for the CPZ programme which is now reporting an underspend rather than spend to budget;
- A reduction in the forecast on vehicle fleet replacement, as there are no plans to invest in the purchase of further vehicles before year-end.

Table 17: Revised Estimate to Capital Programme at 30 September 2023

Capital Expenditure	2023/24 Estimate as per TMSS	2023/24 Revised Budget	2023/24 Spend to 31/8/2023	2023/24 Forecast	2023/24 Variance
	£000s	£000s	£000s	£000s	£000s
General Fund					
GF - CARE & SUPPORT	3,696	3,557	674	3,557	-0
GF - INCLUSIVE GROWTH	2,969	6,373	140	5,904	-470
GF - CIL	-	761	25	726	-35
GF - TFL	-	2,680	235	2,510	-170
GF - ICT	2,100	3,013	2,191	2,941	-71
GF - COMMUNITY SOLUTIONS	-	6	-4	6	-0
GF - CULTURE & HERITAGE	222	1,121	25	527	-594
GF - PARKS COMMISSIONING	6,108	12,925	2,986	10,945	-1,980
GF - ENFORCEMENT	1,836	2,151	71	498	-1,654
GF - MY PLACE	8,727	9,145	2,871	8,433	-713
GF - PUBLIC REALM	71	1,305	139	392	-913
GF - EDUCATION, YOUTH & CHILD	18,179	15,253	4,231	14,732	-521
GF - SALIX	-	130	-	128	-2
Total GF Capital Expenditure	**43,909**	**58,422**	**13,584**	**51,300**	**-7,122**
Investment and Acquisition Strategy*					
IAS Post Gateway 2	316,533	259,747	96,450	272,022	12,276
Total Investment Strategy Expenditure	**316,533**	**259,747**	**96,450**	**272,022**	**12,276**
HRA					
Stock Investment (My Place)	20,000	14,000	2,683	14,000	-
Estate Renewal (Be First)	6,747	4,000	1,280	4,000	-0
New Build Schemes (Be First)	434	544	63	549	5
HRA Total	**27,181**	**18,544**	**4,027**	**18,549**	**5**
Financed by:					
HRA/MRR	-27,181	-21,123		-21,123	0
CIL/S106	-726	-2,311		-2,311	0
Revenue	-1,544	-3,324		-3,324	0
Capital Receipts (Transformation)	0	-		-	0
Self Financing (excluding IAS)	-2,110	-3,002		-3,002	0
Other Grant	-24,263	-50,119		-50,119	0
IAS Grants (RtB, GLA) and sales	-79,128	-59,285		-59,285	-
Total Financing	**-134,952**	**-139,164**		**-139,164**	**0**
Financed by Borrowing	**252,671**	**197,549**		**202,707**	**5,158**
PFI and Leases Additions & Repayments	-3,995	-4,294		-4,294	0
Net financing need for the year	**248,676**	**193,255**		**198,413**	**5,158**

9.4 **Prudential Indicator – CFR**

9.4.1 Table 18 shows that the Council's revised borrowing for 2023/24 will not exceed the Operational Boundary or the Authorised Limit. The Authorised Limit represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Table 18: Revised Capital Financing Requirement as at 30 September 2023

Capital Expenditure	2022/23 actual	2023/24 Forecast
	£000s	£000s
Capital Financing Requirement		
Opening CFR as at 1 April	**1,388,895**	**1,706,996**
Change in Year – General Fund	318,101	122,952
Change in Year – Housing	0	0
Net movement in CFR	**318,101**	**122,952**
Total CFR as at 31 March	**1,706,996**	**1,829,949**
Net financing need for the year	**582,698**	**193,255**
Less: MRP*	-13,178	-11,018
Less: Capital Receipts to repay CFR	-251,419	-59,285
Movement in CFR	**318,101**	**122,952**
Long & Short-Term Borrowing	**1,191,117**	1,350,000
PFI and finance lease liabilities*	275,362	271,068
Total debt 31 March	**1,466,479**	**1,621,068**
Under / (Over) Borrowing	**240,517**	**208,880**
Operational Boundary	**1,600,000**	**1,850,000**
Authorised Limit	**1,700,000**	**1,950,000**

9.4.2 The CFR is significantly higher than the actual borrowing. This is due largely due to grants and Right to Buy receipts that are held and are used to reduce the costs for schemes, and the subsequent CFR, not being allocated.

1. £98m of GLA grant; and
2. £69m of RtB receipts held but not allocated.

9.4.3 The impact of these grants is to reduce the CFR to a forecast of £1,.663bn for 2023/24. Overall table 13 and 14 show the forecast capital spend for 2023/24 is lower than originally forecast. Expenditure is still significant in the IAS but there are delays in completing some of the schemes and a number of schemes have been put on hold.

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

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

i. Upper limits on variable interest rate exposure: identifies a maximum limit for variable interest rates based upon the debt position net of investments;
ii. Upper limits on fixed interest rate exposure: similar to the previous indicator and covers a maximum limit on fixed interest rates; and
iii. Maturity structure of borrowing: gross limits to reduce the Council's exposure to large fixed-rate sums requiring refinancing.

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

Interest rate exposures - General Fund (excludes external borrowing)	**2023/24 Limits**	**2023/24 Actual**
	Upper	
Limits on fixed interest rates based on net debt	100%	
Limits on variable interest rates based on net debt	70%	
Limits on fixed interest rates:		
• ***Debt only***	100%	100.0%
• ***Investments and Loans only***	90%	78.7%
Limits on variable interest rates		
• ***Debt only***	70%	0.0%
• ***Investments and Loans only***	80%	21.3%

Interest rate exposures - HRA (excludes internal borrowing)	**2023/24 Limits**	**2023/24 Actual**
	Upper	
Limits on fixed interest rates based on net debt	100%	100%
Limits on variable interest rates based on net debt	70%	0%
Limits on fixed interest rates:		
• ***Debt only***	100%	100%
• ***Investments and Loans only***	90%	N/a
Limits on variable interest rates		
• ***Debt only***	70%	0%
• ***Investments and Loans only***	80%	N/a

Maturity structure of fixed interest rate borrowing 2023/24			
	Lower	**Upper**	**Current**
Under 12 months	0%	50%	23%
12 months to 2 years	0%	60%	11%
2 years to 5 years	0%	70%	7%
5 years to 10 years	0%	70%	14%
10 years and above	0%	100%	45%

Maturity structure of variable interest rate borrowing 2023/24			
	Lower	**Upper**	**Current**
Under 12 months	0%	50%	0%
12 months to 2 years	0%	50%	0%
2 years to 5 years	0%	70%	0%
5 years to 10 years	0%	70%	0%
10 years and above	0%	80%	0%

10. Options Appraisal

10.1 There is no legal requirement to prepare a TMSS Mid-Year Review. However, it is good governance to do so and meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

11. Consultation

11.1 The S151, in their role as statutory chief finance officer, has been informed of the approach, data and commentary in this report.

11.2 A Member briefing on treasury management and other finance related issues will be provided in due course.

12. Financial Implications

Implications completed by: Nish Popat, Deputy S151 Officer

12.1 This report sets out the mid-year position on the Council's treasury management position and is concerned with the returns on the Council's investments as well as its short and long-term borrowing positions.

12.2 There are significant, complex and interdependent financial risks to the Council's General Fund associated with the current Treasury position relating to the IAS and these have been set out in the main body of the report.

12.3 These risks as monitored as part of the in-year budget monitoring but some of these risks are beginning to materialise and action plans are being developed by officers.

12.4 A Member briefing will be provided in due course.

13. Legal Implications

Implications completed by: Paul Feild, Senior Governance Lawyer

13.1 The Local Government Act 2003 (the "Act") requires the Council to set out its treasury strategy for borrowing and to prepare an Annual IAS 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 also has to ‘have regard to’ the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out its functions under the Act.

13.3 The Assembly agreed the Treasury Management Strategy Statement for 2023/24 on 1 March 2023. This report is a mid-year review of the strategy’s application and there are no further legal implications to highlight.

14. Other Implications

14.1 **Risk Management -** The whole report concerns itself with the management of risks relating to the Council’s cash flow. The report mostly contains information on how the Treasury Management Strategy has been used to maximise income during the first 6 months of the year.

14.2 The report contains several key risks and issues that are currently impacting returns. It is important that these risks are acknowledged and acted upon the prevent further escalation of the issues raised.

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

List of appendices:

- **Appendix 1:** Detailed Economic Update