ASSEMBLY

19 July 2024

Title: Treasury Management Annual Report 2023/24	
Report of the Cabinet Member for Finance, Growth and Core Services	
Open	**For Decision**
Wards Affected: None	**Key Decision:** No
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Summary

Changes in the regulatory environment 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 2023/24. The key points to note are as follows:

Interest Income and Investments:

i) Total treasury investments held at 31/03/2024 was £0.0m (2022/23: £54.0m);

ii) Total cash held at 31/03/2023 was -£10.1m (2022/23: -£18.4m);

iii) Total loans lent held at 31/03/2023 was £287.4m (2022/23: £192.2m);

iv) Net General Fund Treasury outturn for 2023/24 (Interest payable plus MRP less Interest Receivable) was £10.3m compared to a net expenditure budget of £10.9m, an outperformance of £0.6m (as per table 1);

v) Investment from the Council's IAS Residential, Commercial and other IAS portfolio totalled (£4.6m) for the year compared to a budget of (£2.9m), an outperformance of £1.7m (as per table 1);

vi) The combined General Fund Treasury and IAS return was £5.7m against a budget of £8.0m, an outperformance of £2.3m;

vii) The Council's average treasury interest return of 4.55% for 2023/24;

viii) The Council's average return on its property loans was 2.62% and on its commercial loans was 8.42% for 2023/24; and

ix) A total of £8.99m was transferred from the IAS Reserve in 2023/24, reducing it from £31.95m to £22.96m;

Interest Expense and Borrowing:

x) Interest payable for 2023/24 totalled £49.6m (2022/23: £40.9m), consisting of £13.7m for PFI/Finance leases, £10.2m for HRA and £25.7m for General Fund;

xi) Capitalised interest for 2023/24 totalled £12.2m;

xii) The total long-term borrowing (General Fund and IAS) at 31/3/2022 was £681.8m, comprising of market loans, Public Works Loan Board (PWLB), Local Authority, European Investment Bank and other loans;

xiii) The value of short-term borrowing as at 31 March 2024 totalled £343.9m;

xiv) HRA borrowing totalled £295.9m of long-term debt and £10.7m of internal borrowing;

xv) PFI / finance lease borrowing totalling £271.1m, the total Council borrowing as at 31 March 2024 was £1,592.7m (this excludes internal HRA borrowing).

xvi) The Council did not breach its 2023/24 Operational Boundary limit of £1.850bn or its Authorised Borrowing Limit of £1.950bn;

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

xviii) A loan impairment has been made against loans to Barking and Dagenham Trading Partnership (BDTP) of £3.4m in 2023/24, bringing the total provision against BDTP to £15.6m, as outlined in section 2.4.1 of the report.

The Cabinet considered and endorsed this report at its meeting on 18 June 2024.

Recommendation(s)

The Assembly is recommended to:

(i) Note the Treasury Management Annual Report for 2023/24;

(ii) Note that the Council complied with all 2023/24 treasury management indicators;

(iii) Approve the actual Prudential and Treasury Indicators for 2023/24, as set out in Appendix 1 to the report; and

(iv) Note that the Council's total provision against Barking and Dagenham Trading Partnership was £15.6m as at 31 March 2024.

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 2023/24. 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 2023/24 period, Assembly received the following reports:

- an annual treasury strategy in advance of the year (Assembly 01/03/2023);
- a mid-year (minimum) treasury update report (Assembly 22/11/2023); and
- an annual review following the end of the year (this report).

In addition, Treasury and Investment and Acquisition Strategy (IAS) matters are reported as part of the Revenue Budget monitoring report to Cabinet.

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2. Executive Summary of Treasury and IAS and issues for 2023/24

2.1 Overall in 2023/24 the combined Treasury and IAS Return was a surplus of £2.3m. This surplus is £0.6m for Treasury, £1.5m for IAS Commercial and Residential and £0.2m for IAS other, which includes the Hotel lease and lease schemes. The return is significantly below the c£7m surplus returned in 2021/22 and the £29m returned in 2022/23, which includes the £22m dividend returned from the sale of Muller.

2.2 For 2023/24 the surplus return was due to a one-off final dividend from Muller as the company was wound-up and the remaining surplus of £4.8m returned to the Council. Of the £4.8m return from Muller, £1.3m was interest earned by the Council's treasury team as part of a SLA for treasury management with Muller.

2.3 Table 1 below provides a summary of the returns for 2023/24. Abbey Road is reported as part of Central Expenses and the Hotel deals are reported as part of inclusive growth but both form part of the overall IAS return. The main areas where there were losses were in GF interest receivable and IAS residential. A detailed breakdown of the income and costs can be found in Appendix 2.

Table 1: General Fund and Treasury Returns in 2023/24

	2023/24 Revised Budget	2023/24 Returns	Variance
	£000s	£000s	£000s
General Fund Treasury Outturn			
Interest Payable	7,678	2,295	(5,383)
Interest Received	(6,503)	(4,888)	1,615
Bad Debt Provisions		3,430	3,430
MRP	9,700	9,470	(230)
TOTAL General Fund Return	**10,875**	**10,307**	**(568)**
IAS Residential & Commercial Return Against Budget			
Total Commercial Net (Return)/Loss	(1,143)	(1,417)	(274)
Total Residential Net (Return)/Loss	50	3,652	3,602
Muller - Final (Net of costs) Distribution		(4,839)	(4,839)
TOTAL IAS Residential & Commercial Return	**(1,093)**	**(2,604)**	**(1,511)**
IAS Other Return Against Budget			
Abbey Road Contribution	(600)	(600)	-
CR27 Lease and Leaseback	(862)	(1,061)	(199)
Travelodge Lease and Leaseback	(314)	(326)	(12)
SUB-TOTAL IAS Other Return	**(1,776)**	**(1,987)**	**(211)**
Total IAS Return	**(2,869)**	**(4,591)**	**(1,722)**
Total General Fund and IAS Return	**8,006**	**5,716**	**(2,290)**
Transfer to IAS Reserve		**1,500**	**1,500**

2.4 The key reasons for the relative underperformance in 2023/24 are provided in 2.4.1 below. Each of these issues can be resolved and some, including PRS lettings, have improved, but Reside Limited, BDTP and Shared Ownership will require further action to reduce the losses currently being incurred.

2.4.1 **Provision for Barking and Dagenham Trading Partnership (BDTP)**

In 2023/24 further provisions were required for the loan to BDTP to purchase LEUK and the working capital loan to BDTP, covering the loan and interest. Provisions set aside against BDTP for loans is provided in table 2 below. The provisions directly impact the Council’s outturn and are a charge to its revenue. The total £15.6m does not include provisions for inter-company debtors, which currently totals £6.2m.

Table 2: BDTP Provisions 2021/22 to 2023/24

Entity	2021/22 Provision £000s	2022/23 Provision £000s	2023/24 Provision £000s	Combined Provision £000s
LEUK Loan	2,347	4,776	2,506	9,629
BDTP Working Capital Loan		5,000	925	5,925
Total Provision	**2,347**	**9,776**	**3,431**	**15,554**

2.4.2 **Barking and Dagenham Reside Ltd (Reside Ltd)**

Reside Ltd includes 477 homes in William Street Quarter and Eastern End Thames View and is subject to an income strip style arrangement with the Council leasing the homes to a funder who then leases these homes back to Reside Ltd. This vehicle currently incurs an ongoing loss primarily because the rent payable to the funder is linked to RPI and there is no cap or collar on the indexation. In addition, management and maintenance allowances under the lease are not sufficient to reimburse the Council in full for the services it provides to this vehicle. There is a Council guarantee in place, so the Council step in should this company be unable to cover its obligations to the funder.

Reside Limited has not historically been part of the IAS, with costs and income being allocated to MyPlace but its reporting has now been transferred to the IAS and therefore the IAS reports its losses. The costs include repairs and maintenance, energy costs and caretaking.

2.4.3 **IAS Residential Scheme Costs**

In 2022/23 and 2023/24 several schemes completed and there was a significant transfer of units from under construction to operational. For the social housing units, the handover of the schemes was generally managed within the assumptions used for each scheme but there were several issues with the Private Rental Schemes (PRS) and Shared Ownership (SO) schemes that have impacted and continue to impact the IAS Residential return.

There were significant delays between when schemes were completed and then leased, in some cases this was many months, which resulted in schemes incurring interest, security and heating costs when they were empty. A summary of the costs against the income generated from the Reside Regeneration schemes is provided below. Overall, the return was negatively impacted by £2.5m in 2023/24.

A key reason for the significant losses is the amount of borrowing against each scheme, with a total of £174.6m of borrowing against the PRS and SO schemes. The assumptions used in the financial models were prudent and the performance of both PRS and SO schemes in 2023/24 reflects the worst-case scenario for lettings. The impact of schemes being empty is the requirement for security but also management and maintenance costs, as well as energy costs must be paid by the Council. The energy costs, even when schemes are being let are also not being charged to the residents.

Table 3: IAS Residential Costs 2023/24

Description	Total Spend £000s	Cost and Income £000s
Net Interest Cost	174,566	2,677
Energy, Security and MRP		549
Regen LLP Loss / (Surplus)		(547)
Regen Ltd Loss / (Surplus)		(216)
Total for PRS and SO	**174,566**	**2,464**

3. Treasury Position at 31 March 2024

3.1 The Council manages its debt and investments through its in-house treasury section to ensure adequate liquidity for revenue and capital spend, security of investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

3.2 Overall the Council's borrowing increased by £130.5m to £1,321.7m, mainly driven by an increase in short-term borrowing, which increased to £343.9m. Overall investments reduced but there was an increase in loans to £287.4m. Table 4 provides a summary of the borrowing, interest rate and average life of the loan or debt for 2023/24 and includes a comparator to 2022/23. Appendix 3 provides a detailed breakdown of the loans, debts and investments.

Table 4: Council's treasury position at the start and end of 2023/24

	31-Mar-23	Ave. Rate of interest	Average Life	31-Mar-24	Ave. Rate of interest	Average Life
	£'000	%	Years	£'000		Years
HRA Borrowing						
HRA – PWLB	265,912	3.50	33.81	265,912	3.50	31.39
HRA – Market	30,000	4.03	43.74	30,000	4.03	41.71
Total HRA Borrowing	**295,912**	**3.55**	**32.28**	**295,912**	**3.55**	**32.28**
General Fund and IAS Borrowing						
GF – PWLB	641,592	1.86	28.19	593,590	1.91	26.57
GF - Market	88,296	2.50	25.97	88,250	2.50	31.91
GF – ST Borrowing	165,317	4.02	1.28	343,900	5.13	0.33
Total GF Borrowing	**895,205**	**1.91**	**23.66**	**1,025,740**	**3.04**	**23.66**
Total Borrowing	**1,191,117**	**2.33**	**28.72**	**1,321,652**	**3.15**	**28.72**
General Fund and IAS Loans and Investments						
Treasury Investments	(54,000)	**3.36**	**1.02**			
Cash	18,420			10,077		
Loans & Equity	(192,243)			(287,374)		
Total Investments	**(227,823)**			**(277,297)**		

4. Borrowing strategy and control of interest rate risk

4.1 In 2023/24, the Council maintained an under-borrowed position against its capital financing requirement, using cash balances to fund capital expenditure and built up a large short-term borrowing position. 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 necessary as long-term interest rates remained high throughout the year, making short-term borrowing a better option. This did result in a large short-term borrowing position of £343.9m by 31 March 2024. 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.

4.2 The Council’s treasury advisors, Link, advise that there is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England’s 2% target.

4.3 As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

4.4 The Bank of England is also embarking on a process of Quantitative Tightening. The Bank’s original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

4.5 The latest interest rate forecast from Link is provided in the table below:

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

4.6 The forecast shows longer term rates, between 25 year and 50-year PWLB, decreasing to around 4% by 2026. At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield.

4.7 The PWLB borrowing rates available, including the various margins attributed to their pricing are as follows:

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- HRA Borrowing rate is gilt plus 40 40bps (G+40bps)

4.8 Officers will continue to monitor interest rates and seek to lock in long-term rates as and when opportunities arise, but in the meantime the short-term borrowing position will continue in 2024/25.

4.9 The Council’s borrowing is mainly driven by the IAS and the assumptions in for each new development within the IAS has included a higher interest rate assumption since 2022. Therefore, although the higher interest rates have reduced the number of schemes that can be agreed, the impact of the higher interest rates has been factored into future borrowing assumptions.

5. Treasury and IAS 2023/24 Strategy Outturn

5.1 Treasury and IAS Outturn and Reserve movements is in Table 5 below and is expanded on in subsequent sections. A positive figure is a cost and a negative figure is income or an asset.

5.2 Overall 2023/24 saw pressures on the IAS from delays in letting PRS and the sale of SO schemes. As each scheme has a significant amount of borrowing, the delays have had a significant impact as there is insufficient rent to cover the borrowing costs. In addition, security and energy costs needs to be funded by the IAS when schemes are void.

5.3 In 2023/24 the final distribution of £4.8m from the sale of Muller was received and this helped the IAS provide to provide a surplus of £1.7m, generating £4.6m of net income against a revised income budget of £2.9m.

5.4 Table 5 provides a detailed breakdown of the HRA, General Fund Treasury and the IAS for 2023/24, including key comments on each cost and income.

Table 5: General Fund Treasury and IAS Outturn for 2023/24

Type of Income	2023/24 Budget	2023/24 Actual	Variance	Comments
HRA Borrowing Costs	**10,645**	**10,154**	**(491)**	Includes Long and Short-term Borrowing
IAS Return				
IAS Income	(2,746)	(16,443)	(13,697)	Includes Rent and Interest Income
IAS Borrowing Costs		23,446	23,446	Gross Interest Payable on Borrowing
IAS Capitalised Interest		(12,237)	(12,237)	Interest Capitalised
Direct Costs		5,816	5,816	Include Security, bad debt & energy
MRP	1,653	1,653		Revenue Charge
Muller - Final Distribution		(4,839)	(4,839)	Final Distribution from the Sale of Muller
Net IAS Commercial & Residential	**(1,093)**	**(2,604)**	**(1,511)**	
Abbey Road Contribution	(600)	(600)		Abbey Road Rental Contribution
CR27 Lease	(862)	(1,061)	(199)	Net Surplus from CR27 (The Gate)
Travelodge Lease	(314)	(326)	(12)	Net Surplus from Travelodge
Total IAS Return	**(2,869)**	**(4,591)**	**(1,722)**	Net IAS Return Against Budget
GF Treasury Outturn				
GF Borrowing costs	7,678	2,296	(5,382)	Interest Costs on GF Borrowing
GF Provisions		3,430	3,430	Provisions Against BDTP Loans
GF Interest Income	(6,503)	(4,888)	1,615	Interest Received on GF Loans
MRP	9,700	9,470	(230)	Revenue Charge
Total Treasury Return	**10,875**	**10,308**	**(567)**	GF Net Treasury Return Against Budget
Total Treasury & IAS Return	**8,006**	**5,717**	**(2,289)**	Combined IAS and General Fund Return
Transfer to IAS Reserve		**1,500**	**1,500**	IAS Surplus Transfer to Reserves

5.5 **Reserves:** a total of £8.99m was transferred from the IAS Reserve in 2023/24, reducing it from £31.95m to £22.96m, with most of this drawdown used to cover a shortfall in the Be First dividend return. In addition, £3.0m was transferred from the IAS reserve to the Business Support Reserve.

The £11.0m reserve held to cover any losses within the hotel lease and lease back schemes was not inflated for 2023/24 as the current balance held is sufficient to cover any forecast drawdowns. The total IAS reserve is currently £33.96m and reflects the significant contribution the IAS has made to the overall Council's reserve position.

Reserves	Opening Balance	Transfers	Closing Balance
IAS Reserve	(31,950)	8,990	(22,960)
Travelodge and CR27 Reserve	(11,000)		(11,000)
Total IAS and Hotel Reserve	**(42,950)**	**8,990**	**(33,960)**

6. Borrowing Outturn and Capitalised Interest

HRA Borrowing Costs

6.1 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 treasury returns has decreased the borrowing costs to approximately £10.2m against a budget of £10.7m, resulting in an underspend of £0.5m for 2023/24.

General Fund Long and short-term borrowing costs

6.2 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 £3.4m 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.

6.3 Short-term borrowing was used for most of the year to cover cashflow requirements, with a yearend short-term borrowing position of £343.9m. The average borrowing rate was 4.86%. £150m of the short-term borrowing was through the Public Works Loan Board as treasury sought to reduce its reliance of borrowing from other local authorities.

6.4 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 2024/25 but if medium to long-term borrowing opportunities arise then the short-term positions will be replaced with longer-term borrowing.

6.5 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 long-term borrowing rate at 1.98%. For pipeline schemes, the increased interest rate has prevented the Council from agreeing unviable schemes based on the current borrowing costs but it has contributed to delays in schemes being progressed.

6.6 Chart 1 below summarises the GF long term debt position as at 31 March 2024, 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

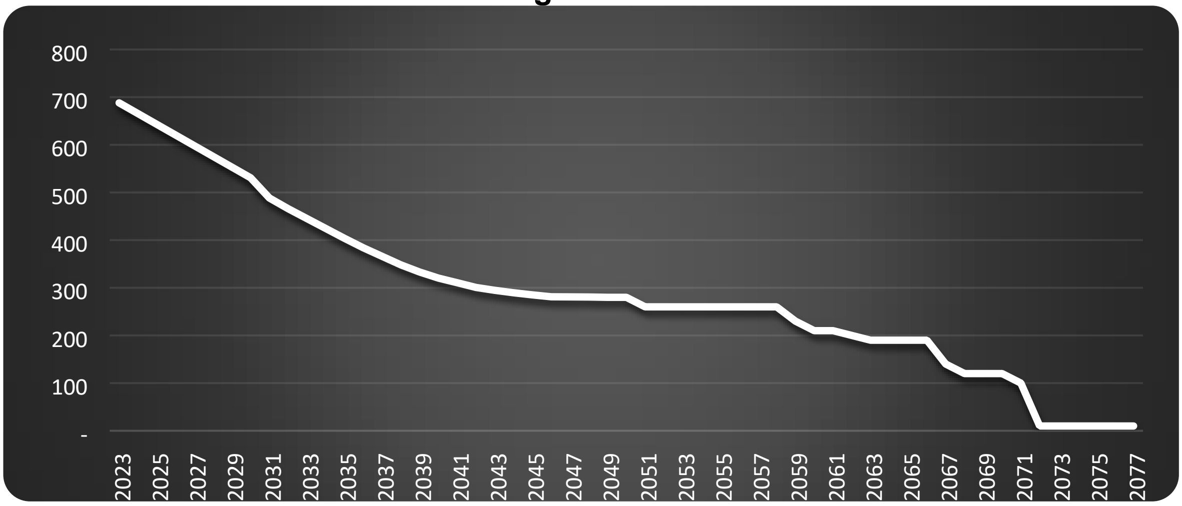
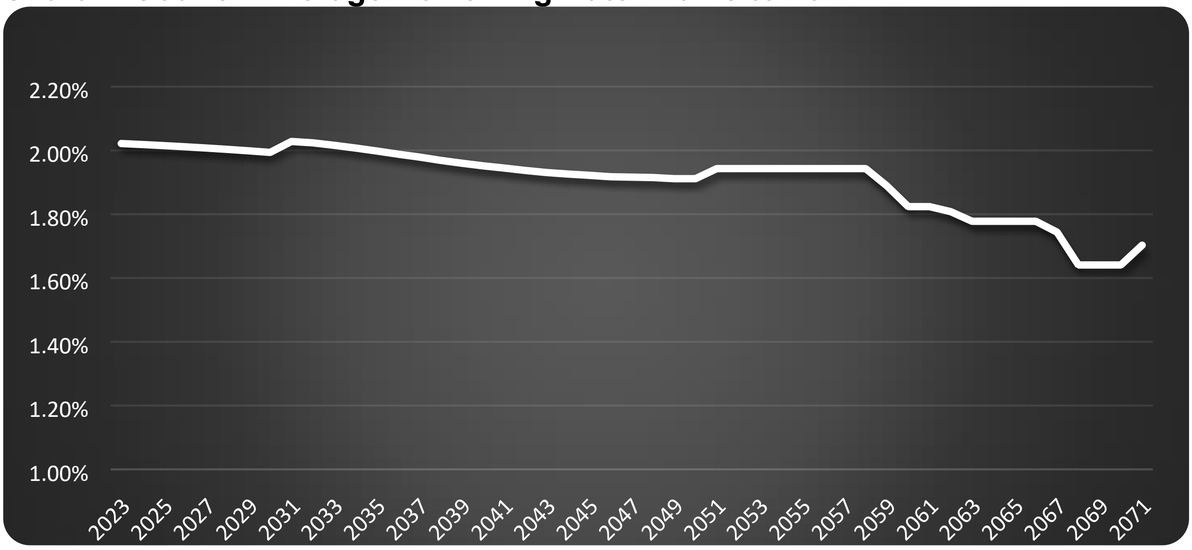


Chart 2 outlines the average long-term borrowing costs over the duration of the Council's borrowing. With elevated borrowing rates, if more expensive borrowing is added to the current long-term debt portfolio the average rate will increase.

Chart 2: Council Average Borrowing Rate Profile to 2077



Capitalisation of Development Interest

6.7 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.

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

6.9 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.

6.10 Interest is capitalised quarterly and is 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.

6.11 For 2023/24 the capitalised interest rate was 2.67%. A total of £12.2m was capitalised against developments in 2023/24. 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.

7. Annual Investment Strategy (AIS) 2023/24

7.1 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 2023/24 Annual Investment Strategy. The policy sets out the Council's approach for choosing investment counterparties.

7.2 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.

7.3 **Investments decisions during 2023/24** - 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 2023/24, 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.

7.4 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 £54.0m at 31 March 2023 and ended the year with a balance of £0.0m.

7.5 Treasury investments provided an average return of 4.25% for 2023/24 (1.99% for 2022/23). Although the average return was on a reducing balance, the increase in the average return for the year provided an 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.

7.6 **Investments held by the Council at 31 March 2024 -** As at 31 March 2024 the Council held no treasury investments.

7.7 **Income from treasury investments and loans in 2023/24 -** The Council earned a return of £11.5m for its loans and treasury investments in 2023/24. 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 £2.1m, with the remaining £9.3m coming from loans to third parties. The treasury return is largely from surplus cash held as part of the Council's short-term borrowing positions and this return has been used to reduce the short-term borrowing costs, which are charged to the IAS commercial strategy.

Provisions of £3.4m against loans to BDTP did decrease the net interest return to £8.0m for 2023/24. Table 6 provides a summary of the interest earned by the Council in 2023/24.

Table 6: Income from treasury investments and loans for 2023/24

Interest Received	£000s	Comments
Treasury Income	(1,720)	Interest from Treasury Investments
HRA	(526)	Interest from HRA Internal Lending
Schools	98	Interest allocated to School Balances
Treasury Investments Income	**(2,148)**	
Reside Loans	(4,885)	Interest from Loans to Reside
General Fund Loans	(4,439)	Interest from subsidiary & other loans
Loans Income	**(9,324)**	
BDTP Provision	925	Provision against General Fund Loans
BDTP Provision	2,506	Provision against General Fund Loans
Net Loans & Treasury Income	**(8,041)**	

8. Investment and Acquisition Strategy Outturn

Council's Growth Strategy

8.1 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. Be First was set up to deliver the Council's long-term strategic regeneration objectives, including enhancing economic growth and prosperity for residents. Be First was also charged with delivering financial benefits to the council by bringing forward returns in New Homes Bonus, Council Tax and NNDR and delivering dividends to the Council.

8.2 In October 2016, Cabinet agreed the 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. The IAS was originally set a target of delivering a net income of £5.13m per annum by 2023/24.

8.3 The IAS Return for 2023/24 is provided in table 7 below, split into Residential, Commercial and Other. Other includes the hotel lease and lease back, a return from Abbey Road and a one-off Muller dividend payment. Overall, the IAS provided a return of £4.6m against a budget of £2.9m, providing a surplus of £1.7m, although most of this surplus was due to the one-off dividend from the sale of Muller.

Table 7: IAS Returns 2023/24

IAS Returns 2023/24			
IAS Commercial	**Budget** £000s	**Actual** £000s	**Variance** £000s
Rents		(7,127)	
Direct Cost		2,093	
IAS Interest Received		(1,699)	
Interest Payable on St Borrowing		4,092	
Minimum Debt Provision		1,224	
Commercial Net (Return) / Loss	**(1,143)**	**(1,417)**	**(274)**
IAS Residential			
Reside Scheme Surplus		(2,733)	
Direct Cost - Residential		3,723	
Interest Received		(4,884)	
Interest Payable		17,903	
Capitalised Interest		(10,787)	
MRP		429	
Residential Net (Return) / Loss	**50**	**3,652**	**3,602**
IAS other			
Abbey Road Contribution	(600)	(600)	
CR27 Lease and Leaseback	(862)	(1,061)	(199)
Muller Surplus		(4,839)	(4,839)
Leases and Reserves	(314)	(326)	(12)
IAS Other Net (Return) / Loss	**(1,776)**	**(6,826)**	**(5,050)**
IAS Net (Return) / Loss	**(2,869)**	**(4,591)**	**(1,722)**

IAS Residential 2023/24 Performance

8.4 The IAS Residential schemes have provided a loss of £3.65m for 2023/24. A breakdown of the return in table 8 can be found in Appendix 2 of this report.

Table 8: IAS Residential 2023/24 Performance

IAS Residential Outturn 2023/24											
Spend Type	Loan / Net Spend £000s	Reside Rental Surplus	Costs	Net Operating Income	Total Interest Costs	Cap Ave. Rate: 2.67%	Net Interest Costs	Interest Income	Interest Margin	MRP	Total net (return) / loss
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Affordable Rent - Reside Weavers	150,925	(1,465)	5	(1,460)	3,213	(565)	2,648	(3,658)	(1,010)		(2,470)
Social Rents - BD Homes	75,768		294	294	1,740	(523)	1,217	(1,089)	128	96	518
Private Rents & SO - Reside Regen	174,566	(762)	478	(284)	3,733	(931)	2,802	(124)	2,678	71	2,465
Reside Limited			1,618	1,618							1,618
Abbey Road	22,374	(506)	221	(285)	443		443		443	248	406
Other Residential Costs	317		1,109	1,109	6		6	(13)	(7)		1,102
Assets Under Construction	511,194				8,769	(8,769)				14	14
Total Residential Return	**935,144**	**(2,733)**	**3,725**	**992**	**17,904**	**(10,788)**	**7,116**	**(4,884)**	**2,232**	**429**	**3,653**

8.5 The IAS Residential has been negatively impacted by delays in letting PRS and SO units. The table below shows the interest cost and other holding costs for each scheme for 2023/24 and then compared to the surplus to be paid by Reside, showing a shortfall of £2.5m, as outlined in the table below:

Table 9: Impact of delays in letting PRS and SO schemes in 2023/24

Project Name	Total Spend £'000	Cost and Income £'000
Interest Cost - Gascoigne PH2 E2	31,243	619
Interest Cost - Gascoigne East F1	44,906	517
Interest Cost - Gascoigne West 1 (Forge)	33,349	660
Interest Cost - Weavers	4,756	94
Interest Cost - Becontree Heath B	10,811	214
Interest Cost - Kingsbridge	7,592	150
Interest Cost - Sebastian Court (Bobby Moore)	7,880	156
Interest Cost - Gascoigne East F1 (Ewars Marsh)	34,030	392
Energy, Security and MRP		549
Interest Income		(124)
Regen LLP Loss / (Surplus)		(547)
Regen Ltd Loss / (Surplus)		(216)
Total for PRS and SO (Completed)	**174,567**	**2,464**

8.6 Reside Ltd (Atlantic Income Strip) was also a major contributor towards the overall loss as £1.6m of costs were charged to the IAS to cover costs to management, energy and security. A review of Reside Ltd is essential to improve performance as it will continue to lose money as the lease payment to the funder increases each year by RPI and lifecycle costs will need to be funded in the next few years as the properties are all around 12 years old.

8.7 Energy costs were also a significant cost to Residential schemes through charges from the BD Energy, with £550k charged in 2023/24.

8.8 The Reside company surpluses, although forecast to be £2.2m, are lower than originally forecast due to higher costs in MyPlace and an increase in bad debts.

Minimum Revenue Provisions (MRP) costs are now being charged as Reside starts to repay some of the principal on its loans from the Council.

Residential Property Loan

8.9 The Council has several loans and leases to Reside for properties it has developed. In 2022/23 733 properties were completed, including 176 social housing homes, 228 affordable rent homes, 79 shared ownership homes and 250 private rental.

8.10 Although there have been issues with the speed at which the properties have been let, once let the properties should provide a steady income stream to the Council, through the loans to Reside and to Reside through careful management. On all loans, debt repayment is factored into all the cashflows and assumptions, with the properties paid off over a 52-year period.

8.11 Appendix 3 provides a list of the loans to Reside at 31 March 2024, 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.

8.12 The table below provides the scheme, property name, number of homes and the tenure type of IAS schemes that completed in 2023/24.

Scheme Name	Property Name(s)	No. of homes	Tenure Type
Gascoigne East Block F	Sailor Court and Palomar Court	48	Affordable Rent
Gascoigne East Block J	*Farrimond House, King Edwards Road & St Mary's Road*	*58*	*Affordable Rent*
Gascoigne West Phase 2	*Fishmonger House & Gilderson Hse*	*122*	*Affordable Rent*
	Total Affordable Rent	***228***	
Gascoigne East Block F2	Mizzen Street	4	London Affordable Rent
Gascoigne East Block J	*Farrimond House, St Mary's Road & Fisherman Street*	*66*	*London Affordable Rent*
Gascoigne West Phase 2	*1 - 15 Plaice House & Townhouses*	*46*	*London Affordable Rent*
Gascoigne West Phase 2	*16 - 75 Plaice House*	*60*	*Target Rent*
	Total Social Rent	***176***	
Gascoigne East Block F1	Fifeshire Court and Cutter Court	92	Market Rent
Gascoigne West Phase 2	*Trawler House and Chand House*	*158*	*Market Rent*
	Total Private Rent	***250***	
Gascoigne East Block F1	Ewars Marsh Court	79	Shared Ownership
	Total Shared Ownership	**79**	
Total Properties Completed in 2023/24		**733**	

Commercial Property Holdings

8.13 Table 10 provides a summary of the commercial property return in 2023/24.

Table 10: IAS Commercial Property Returns 2023/24

Project Name	Rent	Costs	Bad Debts	Net Operating	MRP	Average Interest For Year 4.88%	Net (return) / loss
Thames Road	(1,635)	692	207	(736)	454	2,838	2,556
Other Regeneration	(1,692)	218	82	(1,392)	251	1,410	268
Other Commercial	(3,563)	696		(2,867)	519	3,006	659
Capitalised Interest						(3,162)	(3,162)
Other Commercial	(237)	198		(39)		(1,699)	(1,737)
Total IAS Commercial	(7,127)	1,804	289	(5,034)	1,224	2,394	(1,417)

8.14 A more detailed summary of the commercial holdings and performance is included in appendix 2 of this report.

8.15 High interest rates impacted the Commercial property holdings as short-term borrowing is used to fund all the commercial property, apart from Industria and 12 Thames Road, where a fixed long-term borrowing rate is used.

8.16 The IAS commercial property portfolio is largely held as part of land assembly for future regeneration of a number of areas including Thames Road and Barking Town Centre. A review of the Council's IAS commercial holdings, as well as non-IAS commercial holdings, is currently being undertaken with a report likely to be taken to Cabinet for consideration later in 2024/25.

8.17 For all IAS commercial property, MRP is charged, with a total of £1.2m charged as in 2023/24 2024.

IAS Leases

8.18 The IAS has a number of leases, including legacy holdings such as Reside Limited, and two hotels through Aviva. The Council is also considering completion on a further lease and lease back arrangement with RailPen for Trocoll House.

8.19 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.

8.20 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.

8.21 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.

8.22 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.

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

Other Commercial Loans Outturn

8.24 In addition to loans to Reside, the Council has several loans including working capital loans. These are outlined in Appendix 3:

8.25 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 2023/24 due to the increase in base rate to 4.5%. The equity investment in BD Muller Developments was repaid in 2023/24.

Loan Impairment

8.26 The Council has loaned one of its subsidiary companies, BDTP 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. In 2022/23 the valuation of the land held by LEUK has reduced to £21.7m, which is below the outstanding loan value of £24.9m. A provision of £2.4m was made against the loan.

8.27 In 2023/24 a working capital loan of £3.5m was made to BDTP, in addition to a working capital loan of £1.5m made in 2022/23. 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 £5.0m for the loan was charged in 2023/24 as, although the loan was not being written off, there was 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.

Further Loan Provisions

8.28 The £2.4m provision from 2022/23 was funded by the IAS, with both provisions in 2023/24 (£2.4m and £5.0m) being put against £8m from the Travelodge lease and lease back deal.

8.29 In 2023/24 the loan to BDTP for the purchase of LEUK increased from £26.5m to £29m due to capitalised interest being added to the loan, now significantly higher than the asset value of £21.7m. A further provision of £2.5m was made against the loan, taking the total provision to £9.6m.

8.30 In addition, as the likelihood of BDTP repaying the working capital loan and interest remains low, a further provision for the 2022/23 interest and 2023/24 interest, totalling £0.9m was made, taking the total provision to £5.9m. Overall, the total provision against BDTP is £15.5m.

IAS Capital Spend 2023/24

8.31 In 2023/24 a total of £275.2m (£316.1m in 2022/23) was spent on IAS investments, £15.7m more than the budgeted £242.15m. The higher spend was due to acceleration of Gascoigne East 3b. Of this total spend, £14.1m was spent on commercial, including £3.5m on Industria and £8.8m on purchasing Edwards Waste.

Table 7: IAS Capital Spend 2023/24

IAS	Budget	Actual	Variance
Residential Developments	242,017	261,126	19,109
Commercial Investments	17,450	14,078	(3,372)
Investments Total	**259,467**	**275,204**	**15,737**

8.32 Appendix 1 contains a more detailed breakdown of the capital spend for both the IAS and the Council's General Fund.

9. Compliance with Treasury limits and Prudential Indicators

9.1 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).

9.2 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 2023/24, the Council did not breach its authorised limit on borrowing of £1.95bn or its Operational limit of £1.85bn.

10. Options Appraisal

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

11. Consultation

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

12. Financial Implications

Implications completed by: Michael Bate, Interim Director of Financial Services (Deputy S151 Officer)

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

13. Legal Implications

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

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

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

14. Risk Management

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

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

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

List of appendices:

- **Appendix 1** - The Prudential Code for Capital Investment in Local Authorities
- **Appendix 2** - IAS Residential and Commercial Outturn and Treasury Outturn 2023/24
- **Appendix 3** - Loans, Debts and Investments held as at 31 March 2024
- **Appendix 4** - The Economy and Interest Rates