London Borough of Enfield

Report Title	Treasury Management Outturn Report 2022/23
Report to	Cabinet
Date of Meeting	13 September 2023
Cabinet Member	Cllr Leaver – Cabinet Member for Finance and Procurement
Executive Director	Fay Hammond – Executive Director of Resources
Report Authors	Olga Bennet - Director of Capital and Commercial Olu Ayodele – Head of Finance (Capital & Treasury) Milan Joshi – Asst Head of Finance Capital & Treasury
Ward(s) affected	All
Key Decision Number	KD 5655
Classification	Part 1 Public
Reason for exemption	Not applicable

Purpose of Report

1. To report the activities of the Council's Treasury Management function during the 2022/23 financial year. The key points of the report are highlighted in the Background section.

Recommendations

2. Cabinet is recommended to note the report prior to submission to Council on 27th September 2023.

Background

3. The key points of the report are set in the table below :

Key point	Details	Reference
Economic context	Inflation review : 5.5% at start of financial year 10.1% at end of financial year 6.80% at 4th September 2023 2.00% remains Government target Bank of England base rate review : 0.75% at start of financial year 4.25% at end of financial year 5.25% as at 4th September 2023 Three further reviews expected this calendar year	**Para 9**
Council's cost of borrowing and impact increased cost of borrowing	<u>2022/23 :</u> Interest cost as proportion of total debt outstanding reduced from 2.40% to 2.29% due mainly to repayment of loan principals (see below). **Impact of rate increases will materialise in 2023/24.** <u>2023/24 :</u> Impact of rate increases will be felt in 2023/24 when £104.2m of the Council's total debt of £1,118.2m has to be replaced. Currently this £104.2m debt carrying average interest rate of 2.80% Current estimated cost of replacement debt 5.4% (PWLB long term)	**Para 39** **Para 44** **Fig 1 & 2**
Average interest on total debt outstanding and Interest paid on external borrowing	Average interest cost *as a proportion of debt outstanding* reduced in 2022/23 by 0.11% from 2.40% to 2.29% due mainly to repayment of loan principals resulting in 0.45% reduction in interest charges for repayment loans. Gross cost of borrowing increased over the year by £1.1m to £25.5m due mainly to additional borrowing of £164m taken at an average rate of 3.93%.	**Para 38**
Borrowing Outstanding on 31st March 2023	£1,118.2m as at 31st March 2023 (£1,015.1m as at 31st March 2022) An increase of £103.1m made up of £164m new borrowing offset by £60.9m loan repayments	**Para 24**

Capital Financing Requirement (CFR) on 31 March 2023	The borrowing CFR (this represents the underlying need to borrow) is £1,336.2m as at 31st March 2023 (£1,244.1m as at 31st March 2022) An increase of £92.1m made up of : HRA CFR increased by £28.3m General Fund CFR increased £63.8m	**Para 29**
Investments & Net Borrowing (this is external borrowing less investments)	Interest earned on investments was £1.84m. Investments stood at £36.9m as of 31st March 2023. Amongst highest returns in comparator Authorities. Net Borrowing increased by £161.9m to £1,081.3m.	**Para 50** **Fig 3**
Compliance with Treasury Management & Prudential Indicators	Compliant although significant additional costs expected for debt replacement	**Para 77**
Minimum Revenue Provision (MRP)	MRP chargeable to the General Fund (GF) for 2022/23 is £18.9m compared against budget £17.5m due mainly to lower capital expenditure in 2022/23.	**Table 12**
Interest charged on borrowing	Interest charged on debt during 2022/23 was £3.7m against budget £6.1m due mainly to voluntary contributions for Meridian Water	

4. The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 require regular reports be submitted to the relevant Council Committee detailing the Council's treasury management activities.

5. This report updates Members on both the borrowing and investment decisions made by the Executive Director – Resources, under delegated authority in the context of prevailing economic conditions and considers the Council's Treasury Management performance. The Council can only borrow for capital investment, it cannot borrow to fund operational, day to day expenditure. The borrowing supports the Council's capital investment programmes for both Council Housing (HRA) and General Fund, the outputs from this investment are set out in monitoring reports appearing elsewhere on the agenda.

6. The regular reporting of treasury management activities assists Members to scrutinise officer decisions and monitor progress on the implementation of its borrowing and investment strategy as approved by Full Council.

7. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

8. The Council's treasury management strategy for 2022/23 was approved by Council on 23rd February 2023 (KD 5504). The Council has borrowed and

invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the treasury management strategy.

9. The 2021 Prudential Code includes a requirement for Councils to provide a Capital Strategy. The 2022/23 Capital strategy was approved by Council on the 23rd February 2023 (KD 5502) and the 2024/25 Capital Strategy will be presented to Cabinet on 18th October 2023, which is a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments.

Economic context

10. Inflation, measured by the Consumer Prices Index (CPI) stood at 5.5% at the start of the financial year and rose steadily peaking at 11.1% in October before falling to 10.1% as at 31st March 2023. As at 4th September 2023 it stood at 6.8%, with the Government's long term target set at 2%.

11. The Bank of England's Monetary Policy Committee (MPC) relies on interest rates as the primary tool to combat inflation by regulating consumer demand and has increased the base rate at every meeting from 0.75% at the start of the financial year to 4.25% as at 31st March 2023.The rate as at 4th September 2023 was 5.25% with further reviews scheduled for 21st September, 2nd November and 14th December this calendar year.

12. The Council borrows mainly from the Public Works Loans Board (PWLB) although the cost of both long and short-term borrowing have increased significantly over the financial year and are summarised in Table 1 below:

Table 1: Historical PWLB rates

PWLB Maturity rates	**1 year**	**5 year**	**10 year**	**20 year**	**30 year**	**40 year**
1st April 2022	2.15%	2.53%	2.71%	2.90%	2.81%	2.69%
12th Oct 2022 Peak	4.80%	5.54%	5.67%	6.08%	5.98%	5.73%
31st March 2023	4.98%	4.48%	4.55%	4.90%	4.86%	4.73%
31st July 2023	6.09%	5.53%	5.34%	5.53%	5.47%	5.34%

Source : Debt Management Office 31st July 2023

13. These rate increases will impact the replacement of maturing debt and the long term affordability of the Capital programme. The 2024/25 Capital strategy, being presented to October Cabinet will detail the measures required to ensure the programme remains affordable

14. The Council will take advantage of concessionary borrowing for the HRA announced 15th March 2023 to support the delivery of social housing and is available from June 2023, initially for a period of one year.

Relevance to Council Plans and Strategies

15. Good homes in well-connected neighbourhoods

16. Build our Economy to create a thriving place

17. Sustain Strong and healthy Communities

Treasury Management Position

18. The Council started 2022/23 with net borrowing of £919.5m. This section starts by describing the position at the start of the financial year and then goes on to explain the financial position at the close of the financial year.

19. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This is usually higher than the actual borrowed amount because the Council uses internal borrowing to minimise external borrowing and reduce interest costs. The starting position for financial year 2022/23 is summarised in Table 2 below.

Table 2: Opening position for 2022/23 - Draft Balance Sheet Summary

Opening positions	**31.3.22 Actual £m**
General Fund CFR	975.7
HRA CFR	268.4
Borrowing CFR	**1,244.1**
External borrowing	1,015.1
Internal borrowing	**229.0**
Less : useable reserves & working capital	133.4
Net investments – Money Market Funds	95.6
Net borrowing : £1,015.1m less investments £95.6m	919.5

20. The Council's Borrowing CFR has increased from £1,244.1m to £1,336.2m as set out in the draft statement of accounts and Table 2 and 5.

21. The treasury management position on 31st March 2023 and the change during the year is shown in Table 3 below. All the investments shown below were in Money Market Funds (categorised as cash equivalent) for this financial year.

Table 3: Treasury Management Summary

Summary	**31.3.22**		**31.3.23**	**31.3.23**

	Balance £m	Movement £m	Balance £m	Ave rate %
Long-term borrowing Short-term borrowing	980.1 35.0	64.1 39.0	1,044.2 74.0	2.41% 0.56%
Total borrowing	**1,015.1**	**103.1**	**1,118.2**	**2.29%**
Total investments	**(95.6)**	**58.8**	**(36.9)**	**4.93%**
Net Borrowing	**919.5**	**161.9**	**1,081.3**	**2.19%**

22. The increase in borrowing included £28m HRA, £25m Meridian Water, £19m Companies with the balance financing other General Fund capital expenditure.

23. Cash held in investments were run down to fund internal borrowing but maintained above the £35m minimum set out in the Treasury Management Strategy.

24. Further details on expenditure are set out in the Capital Outturn report appearing elsewhere on the agenda.

Borrowing Update

25. The main objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change, is a secondary objective.

26. The Capital Strategy, to be submitted to Cabinet 18th October 2023, will set out the Council's longer term capital expenditure plans and how they will be funded. The use of internal cash balances and borrowing short term will continue until interest rates stabilise.

27. On 31st March 2023 the Council held loans of £1,118.2m, an increase of £103.1m from the 2021/22 closing balance. This was to fund capital expenditure not funded by internal resources. Outstanding loans on 31st March 2023 are summarised in Table 4 below and include loans that have been made to the Council's companies.

<u>Table 4: Treasury Management Borrowing Summary</u>

Type of Loan	31st March 2022 £m	Net movement £m	31st March 2023 £m	Interest rate	Weighted* Average Rate	Weighted* Average Maturity (years)
Public Works Loans Board	928.3	66.5	994.8	2.49%	2.29%	21.9
Local Authorities (short-term)	35.0	39.0	74.0	0.56%	0.05%	-
European Investment Bank	7.9	(0.3)	7.6	2.39%	0.02%	0.1

London Energy Efficiency Fund	2.1	(0.7)	1.4	2.23%	-	-
Mayors Energy Efficiency Fund	15	-	15	1.20%	0.02%	0.2
Heat Networks Investment Project	21.6	-	21.6	0.10%	-	0.5
Salix Funding	4.0	(0.9)	3.1	-	-	-
Greater London Authority	1.2	(0.5)	0.7	-	-	-
Total Debt	**1,015.10**	**103.1**	**1,118.20**	**2.29%**	**2.37%**	22.8
Accrued Interest	5.7	1.5	7.2	**-**	-	-
Total Debt & Accrued Interest Outstanding	**1,020.80**	**104.6**	**1,125.40**	**2.29%**	**2.37%**	22.8

*"*Weighted average" gives greater emphasis to the higher value loans*

28. The Council raised a total of £164m loans during the year whilst repaying maturing debt of £60.9m,resulting in a net increase in debt of £103.1m

29. The new debt was made up of £90m long term PWLB and £74m short term borrowing (£69m Local Authorities, £5m Building Societies) with average interest rates of 4.04% and 3.8% respectively. These rates relate to new borrowing in year and are included in the overall averages in the table above.

The Capital Financing Requirement (CFR)

30. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents the accumulated capital expenditure to 31st March 2023 for which borrowing would have been required had the Council not used its own cash balances to supplement earmarked internal resources. It therefore differs to the actual borrowing.

31. This is done to ensure borrowing is kept to a minimum and cash balances maintained at a level adequate to support any day to day working capital requirements. The use of cash balances is termed internal borrowing with external borrowing representing the Council's actual debt.

32. The Council's borrowing of £1,118.2m was below the CFR of £1,336.2m and therefore in compliance with this Prudential Indicator for the CFR which requires total external debt to be no higher than the CFR. The difference of £218m is the accumulated cash resources the Council has used to reduce borrowing over and above the capital resources already allocated to finance its capital expenditure over the years.

33. Table 5 below analyses the Council's CFR and external borrowing as of 31 March 2023, split between the General Fund and HRA.

<u>Table 5: Capital Financing Requirement</u>

Capital Financing Requirement (CFR)	31 March 2022 (pre- audit) £m	31 March 2023 (pre-audit) £m
General Fund	975.7	1,039.4
Housing Revenue Account	268.4	296.8
Total CFR	**1,244.1**	**1,336.2**
Represented as :		
External Borrowing	1,015.1	1,118.2
Internal Borrowing	229.0	218.0
Total CFR	**1,244.1**	**1,336.2**
Authorised Limit : Prudential Indicator – limit which prohibits additional borrowing	**1,668.0**	**1,655.0**

34. The Authorised Limit represents the maximum debt beyond which any additional borrowing is prohibited. This limit can only be set by Full Council.

35. The Council is currently estimating the cost of new debt at 5.4% and will continue to use internal resources where possible to minimise borrowing whilst using shorter term borrowing to make up any shortfalls.

36. This estimate is based on the UK 15-year Gilt yield as at 31st July 2023 as this is considered a reasonable estimate of the return demanded by the Capital Markets in return for UK Government Bonds. The estimate includes an on-lending allowance expected to be charged by the Debt Management Office.

37. The risk with this approach is that the Council's cash balances are depleted to the minimum permitted levels of £35m and subsequently require replenishment through borrowing at potentially higher rates.

Forward Borrowing

38. During 2022/23, the Council entered into a forward loan agreement effective 30th November 2023 for £15m secured at 3.95% for one year. The market will continue to be monitored with a view to securing advantageous forward borrowing as appropriate.

Other Debt Liabilities

39. After £4m repayment of prior years' Private Finance Initiative/finance leases liabilities, total debt other than borrowing stood at £26.3m for this financial year end.

Cost of Borrowing

40. As detailed in Table 3, the average interest rate paid on total external debt in 2022/23 was 2.29% (2.40% in 2021/22) an overall reduction of 0.11%. This is due to two reasons.

41. Firstly, a reduction in the interest charged on the Council's Equal Instalment of Principal (EIP) loans. Interest payable reduced during the year from 0.45% from

1.70% to 1.25%. This was due to the repayment of loan principal which reduces the interest payable as this is calculated on the principal outstanding.

42. Secondly, a net increase in EIP loans of £39m, the first interest payments for which are not due until 2023/24, which reduces the interest payable *as a proportion of the principal outstanding*. Taken together these generate a reduction in the effective interest rate of EIP loans by 0.45% which pulls down the overall average by 0.11% from 2.40% to 2.29%.

43. Table 6 shows the Council's total cost of maintaining its debt portfolio, as well as how the debt cost has been recharged to the Housing Revenue Account and Council owned Companies to generate an overall net charge to General Fund of £3.7m.

Table 6: Debt summary

Debt	**2021/22 £m**	**2022/23 £m**
Public Works Loan Board	23.9	25.1
European Investment Bank	0.2	0.2
Mayors Energy Efficiency Fund	0.1	0.2
Total Interest on Actual Debt	**24.2**	**25.5**
Local Authority Short-Term	0	1.4
Commission on loans (arrangement fees)	0.1	0.1
Other costs	0.1	0.0
Total Cost of Debt	**24.4**	**27**
Funded by :		
Capitalised Interest on Meridian Water	6.9	6.6
Housing Revenue Account	9.8	11.3
Interest Recharges	0.1	- 0.7
Housing Gateway Limited	3.1	1.1
Energetik	0.6	3.2
Investment Income	0.1	1.8
Total recharges and income	**20.6**	**23.3**
General Fund net expenditure	**3.8**	**3.7**

44. Although Officers have been successful in securing lower rates in 2022/23 this situation is not expected to continue as debt matures and has to be replaced (see below).

Debt Maturity

45. The Council has 104 loans with some loans reaching maturity (becoming repayable) at up to 50 years with the average currently at 23 years. The "maturity

profile" shows the distribution of when cash has to be repaid to lenders and is composed of all loan products.

46. Assuming the Council still needs this money, the amount of cash repayable will equate to the amount the Council will have to borrow again through replacement debt at higher rates of interest.

47. In 2023/24 the Council will have to repay to it's lenders £104.2m which carries an average interest cost of 2.80% per annum. If this same amount is then replaced at an estimated rate of 5.40% the increase in interest cost on a full year basis is estimated at £2.7m per annum. This assumes no reduction in capital expenditure or other mitigations and reflects the current economic environment.

48. Table 7 below shows the maturity structure of the Council's debt portfolio as of 31st March 2023. Although within the thresholds of the Prudential Indicator for Maturity Profile the cost of replacing debt remains a key risk for the Council.

Table 7: Debt by maturity

Debt maturity	**Loans Outstanding as at 31 March 2022 £m**	**Loans Outstanding as at 31 March 2023 £m**
Under 1 year	61.1	104.2
1-2 Years	25.0	31.8
3-5 years	51.7	62.9
5-10 Years	147.1	178.7
10-15 Years	139.0	175.5
15-20 Years	152.2	128.6
20-25 Years	49.8	63.4
25-30 Years	69.5	94.4
30-35 Years	85.0	48.9
35-40 Years	41.0	74.8
40-45 Years	88.7	50.0
45+ Years	105.0	105.0
Total Debt	**1,015.1**	**1,118.2**

49. As at 31st March 2023 the Council held debt of £1.118bn made up of a combination of loan products. On the assumption this debt is replaced as it matures the Council is expected to incur significant additional interest costs based on current estimates of PWLB interest cost of 5.40% (based on 15 year UK Gilt yield).

50. Work is underway to develop the 2024/25 Capital strategy which will set out the framework for developing an affordable Capital programme in the short to medium term, ensuring the size of the programme reflects the impact on Revenue budgets arising from increasing Interest rates

51. Figure 1 below shows the trajectory of the £1.118bn debt replacement together with the gap between its cost and the expected cost of replacement debt.

52. Figure 2 shows that the £104.2m debt to be replaced in 2023/24 is mainly short term borrowing taken from other Local Authorities during 2022/23 when interest rates started increasing. This was deliberate as these loans carried lower rates than the longer term PWLB loans and were taken to ensure the Council is not locked into expensive long terms borrowing.

Figure 1 – Cost of replacement debt based on current estimates is higher than the debt coming up for replacement

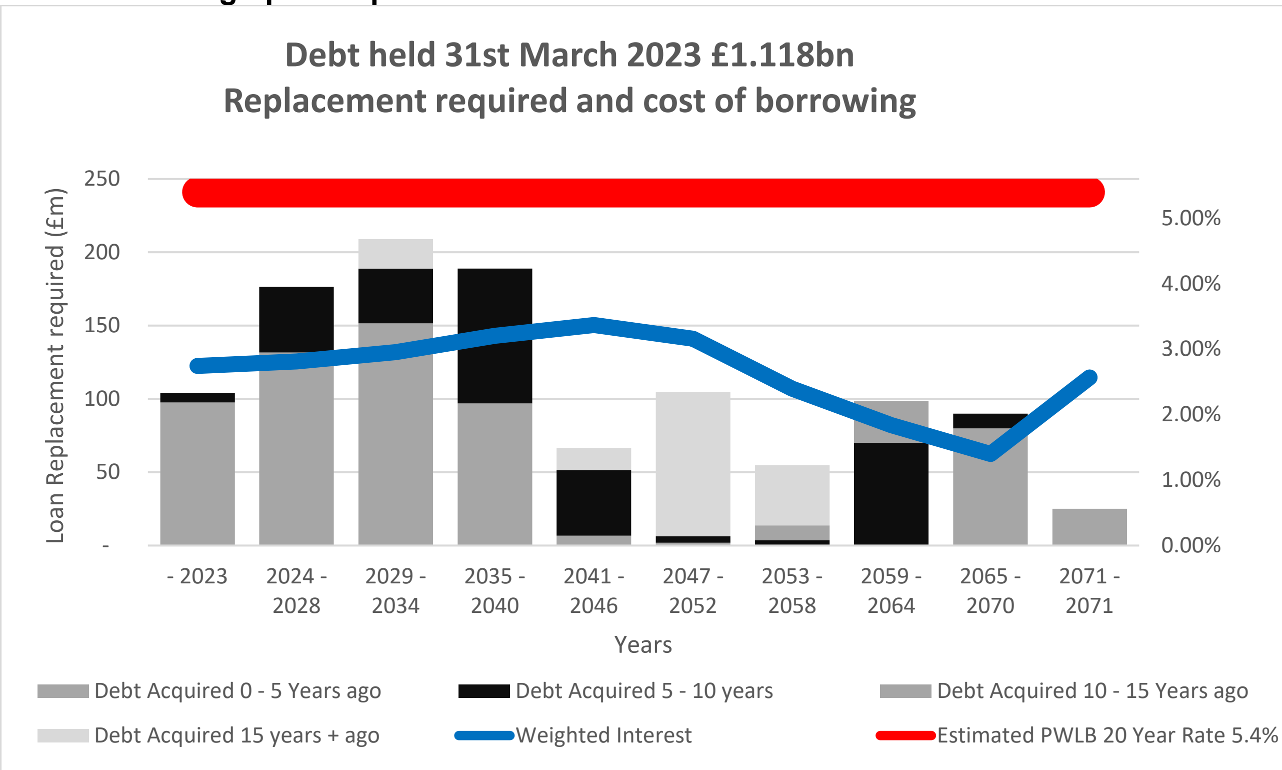
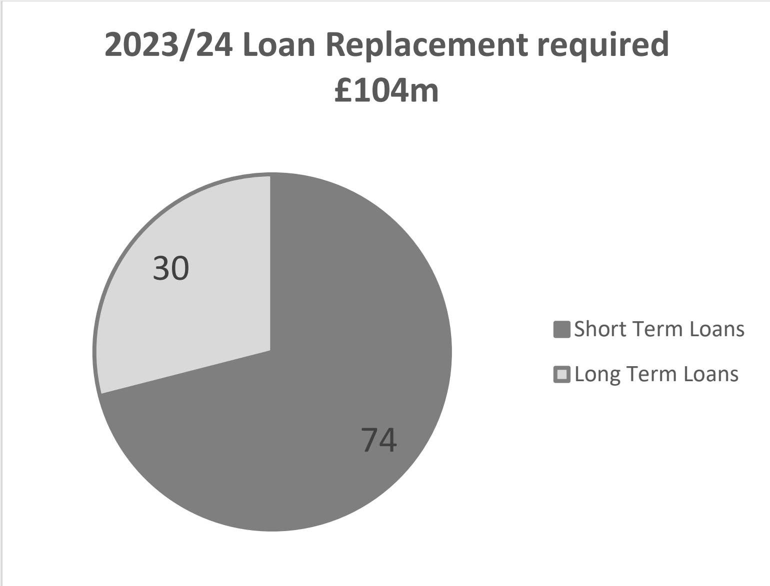


Figure 2 – Majority of debt to be replaced in 2023/24 is short term – deliberately taken to avoid committing to longer term debt at higher rates



Treasury Investment Activity

53. Total cash balances over the year varied considerably, predominantly because of the significant peaks and troughs arising from payment profiles of business rate collections, capital expenditure, DWP payments and housing benefit payments.

54. During the year the Council's investment balance ranged between £26 million and £137million due to timing differences between income and expenditure.

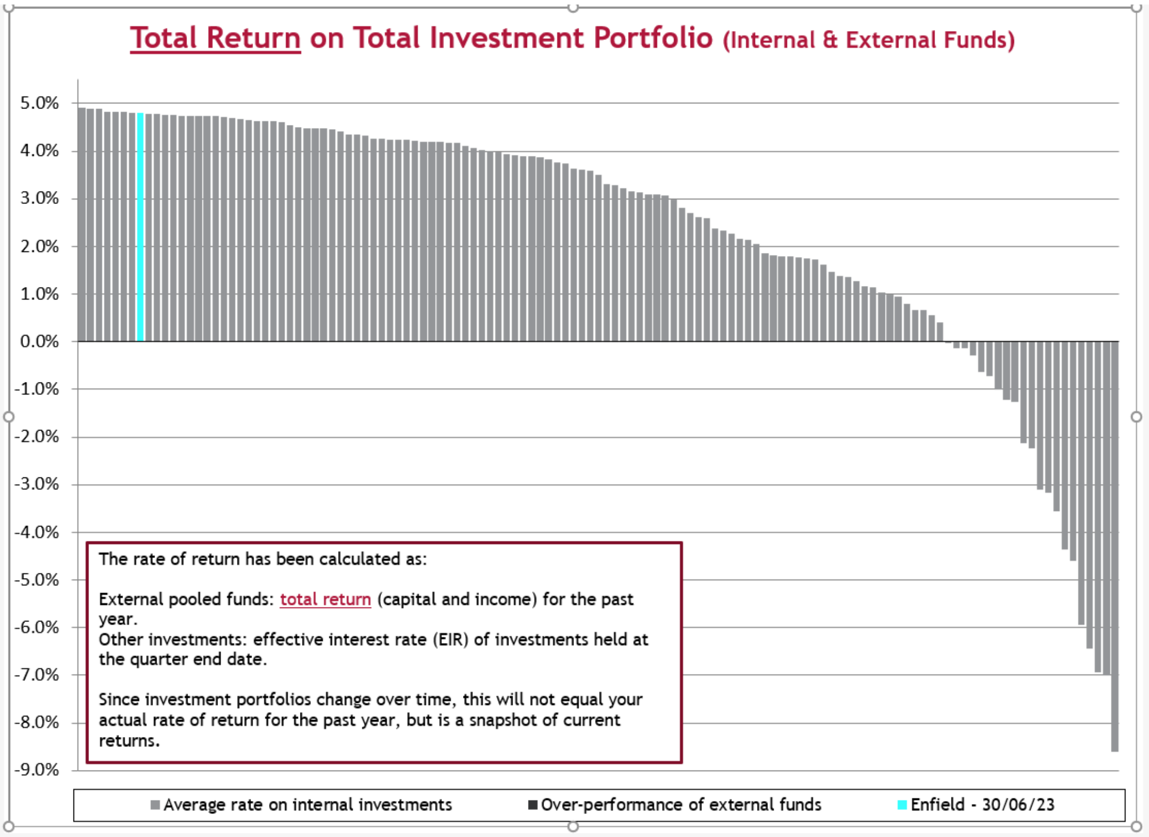
55. The investment position at the year end is shown in Table 8 below.

Table 8: Investment summary

Counterparties	31 March 2022 balance £m	Cumulative Sums Invested £m	Cumulative Repaid sums £m	31 March 2023 £m
Money Market Funds				
Goldman Sachs	25	65.2	(90.2)	0
Deutsche	0	28.8	(25.0)	3.8
Ignis	10	100.8	(110.8)	0
Federated	10	91.1	(101.1)	0
CCLA	25	25.5	(25.5)	25
HSBC Liquidity	0	65.3	(65.3)	0
Invesco	0	96.9	(96.9)	0
Aviva Investors	25	150.3	(167.2)	8.1
Call Accounts				
Santander	0	0	0	0
HSBC	0.6	0	(0.6)	0
Handelsbanken	0	0	0	0
Total Cash Investments	**95.6**	**623.9**	**(682.6)**	**36.9**

56. The Council generated investment income of £1.84m on cash balances held in call accounts and money market funds during this financial year equating to 4.93% on average. On average the Council's cash investment portfolio had a risk weighting equivalent to A+ credit rating. Benchmarking from the Council's Treasury Advisors show the Council to be amongst the best performers in this regard as set out in the ranking shown below.

Figures 3 – Councils return on investments were amongst highest in England



Investment Benchmarking

57. Table 9 below show the progression of risk and return metrics for the Enfield Investments portfolio compared with other local authorities as extracted from Arlingclose quarterly investment benchmarking as of 31st March 2023:

Table 9: Investment benchmarking

Benchmarking	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2023	5.00	A+	100%	1	4.12%
31.03.2022	4.90	A+	100%	1	0.52%
Similar LA's	**4.71**	A+	**61%**	**32**	2.24%
All LA's	**4.71**	A+	**59%**	**12**	1.59%

58. Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

59. **Credit score and credit rating** measures the credit risk of the Council's investment portfolio. At the end of the reporting period our investment portfolio has been assigned a credit score of 5.00 based on an average long-term credit rating from Fitch as A+. It is worth noting that this is expected of our investment portfolio as all the investments are in money market funds with average maturity of 1 day for instant and liquidity/easy access.

60. The credit score of money market funds is calculated from the fund's investments on the previous month end date. As part of Arlingclose investment advice an average credit rating from Fitch, Moody's and Standard & Poor's are converted to a number, for example AAA=1, AA+=2, etc. Higher numbers therefore indicate higher risk.

61. The Council's investment portfolio of £36.9m at 31st March 2023 has 100% "bail in" exposure meaning some or all of the investment can be lost in the event Money Market Funds (MMF) fails.

62. Prior to 2013, failed banks were either bailed out by Government or placed into administration, with losses shared amongst most investors.

63. The risk of these losses has been substantially mitigated by the Council placing these investments with six different MMFs, then with each MMF subsequently invested in more than 10 institutions.

Non-Treasury Investments

64. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) or for commercial purposes (made primarily for financial return).

65. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

66. The Authority also held £93.9m of such investments as loans to subsidiaries as set out in table 10 below :

Table 10: Council owned Companies

Council owned Companies	Housing Gateway Ltd £m	Lea Valley Heat Networks Ltd £m	Total £m
31 March 2022 (nominal)	127.40	15.20	142.60
New Borrowing	0.00	19.00	19.00
Repaid Borrowing	(0.60)	(0.30)	(0.90)
Balance at 31 March 2023	**126.80**	**33.90**	**160.70**
Reclassified as Investment in Subsidiary	(43.40)	(4.00)	(47.40)
Loan impairment	-	(19.40)	(19.40)
Balance sheet value at 31st March 2023	**83.40**	**10.50**	**93.90**

67. Net loans advanced to the Council's subsidiary companies to date, totalled £160.7m as at 31st March 2023 made up £126.8m Housing Gateway Limited (HGL) and £33.9m Lea Valley Heat Networks (LVHN).

68. In accordance with Soft Loan accounting which recognises the sub-market element of the loan advances £47.4m of these loans have been classified as investments in subsidiaries.

69. In respect of LVHN the Council has impaired the loans advanced by £19.4m to ensure a prudent estimate is assigned to the recoverable amount after taking into account the inherent business risk of the venture. This adjustment has no impact on the Council's useable reserves in accordance with IFRS 9.

70. These adjustments generate a fair value of the loans advanced of £83.4m for HGL and £10.5m LVHN, totalling £93.9m

71. These investments generated no investment income in 2022/23 and the Council held no investments for commercial purposes.

Gross to Net Table and Debt Servicing Costs

72. This shows how the total, or "gross", debt and interest of the Council as a whole is divided into it's main constituent services (HRA, Meridian Water and Companies) to leave the residue, or "net", debt and interest attributable to the Council's General Fund.

73. It also shows how financial liabilities (PFI and lease obligations) increase and how its investments decrease the Council's overall debt position. Both are shown in the tables below.

74. The Council's net gross debt increased by £157.8m from £949.8m to £1,107.6m in 2022/23 as shown in Table 11. Although this will create pressure

on the revenue budget this impact will be recognised in the Council's Medium Term Financial Plan.

Table 11: Gross to Net

Gross to Net table	31st March 2022	31st March 2023	
	Actual £m	Original Budget £m	Actual £m
Gross Debt and interest to Net General Fund position:			
Gross borrowing	**1,015.10**	**1,302.6**	**1,118.20**
Companies & Schools	(142.3)	(212.0)	(160.7)
Meridian Water	(350.9)	(406.1)	(374.9)
HRA	(268.4)	(334.8)	(296.8)
General Fund	**253.5**	**349.7**	**285.8**
Gross Debt to Net Debt :			
Total borrowing	1,015.10	1,302.6	1,118.20
PFI & Finance leases	30.3	26.3	26.3
Gross Debt	**1,045.40**	1,328.9	**1,144.50**
Treasury investments	(95.6)	(35.0)	(36.9)
Net Debt	**949.8**	**1,293.9**	**1,107.60**

75. The Council's revenue cost of debt servicing for 2022/23 is summarised in Table 12 below. The net interest charge to General Fund was under spent against budget by £2.4m due mainly to lower than expected spend on the capital programme and MRP overspent by £1.4m due mainly to voluntary contributions in respect of Meridian Water.

Table 12 : Debt Servicing Costs

Net interest and MRP cost	2022/23 £m
Interest on borrowing :	
Gross borrowing	27.0
Meridian Water	(6.6)
HRA	(11.3)
Companies	(4.3)
School and other	0.7
Treasury investments	(1.8)
Net interest	**3.7**
Budget	**6.1**
(Under) over spend	**(2.4)**
Minimum Revenue Provision (MRP) :	

MRP	18.9
Budget	17.5
(Under) over spend	1.4

Debt Restructuring

76. Debt restructuring normally involves prematurely replacing existing debt (at a premium or discount) with new loans to secure net savings in interest payable or a smoother maturity profile. Restructuring can involve the conversion of fixed rate interest loans to variable rate loans and vice versa.

77. No restructuring was done during the year as the new PWLB borrowing rates and premature repayment rates made restructuring unviable. The Council will continue to actively seek opportunities to restructure debt, if viable.

Treasury Management Indicators - overview

78. The Council was in compliance with all nine indicators used to ensure its activities were within well-defined limits, summarised below :

    - **Operational Boundary and Authorised Limit**
      Set by the Council to ensure external debt does not exceed prescribed limits

    - **Liability Benchmark**
      An estimate of how much debt the Council should be carrying based on external debt and requirements to maintain liquidity and is normally forecast for at least ten years

    - **Debt Servicing costs as a proportion of revenue resources**
      An assessment of the sustainability of the Council's borrowing commitments in the context of its revenue resources. Three main measures are used including one recently introduced by DLUHC in the context of the Levelling Up and Regeneration Bill (May 2022)

    - **Net income from Commercial & Service Investments to Net Revenue Budget** –
      Considers the Council's exposure to risk from commercial and service investment income in relation to is overall revenue resources

    - **Risk & Liquidity**
      A suite of five indicators assessing the risk and liquidity of the Council's borrowing and investment portfolio

Treasury Management Indicators - results

<u>Operational Boundary and Authorised Limit</u>

79. Throughout 2022/23 the total loan debt was kept within the limits approved by Council against an authorised limit of £1,655 million. The authorised limit (as defined by the Prudential Code) was set as a precaution against the failure to receive a source of income or a major unexpected expenditure. In the unlikely event of this happening, the Council would need to borrow on a temporary basis to cover the shortfall in cash receipts. Any significant breach must be reported to the Council.

80. Officers report that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

81. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 12 below.

Table 13 : Approved Borrowing Limits

Approved Borrowing Limits 2022/23	**31st March 2023 Actual £m**	**Operational Boundary £m**	**Authorised Limit £m**	**Complied?**
Borrowing	1,118.20	1,329.00	1,355.00	Yes
PFI and Finance Leases	26.3	26	300	Yes*
Total Debt	**1,144.50**	**1,355.00**	**1,655.00**	

**temporary breach of Operational Boundary permitted as long as within Authorised Limit*

82. The Authorised Limit is the ultimate threshold beyond which additional borrowing is prohibited. A temporary breach of the Operational Boundary is not counted as a compliance failure if is due variations in cash flow and of a relatively low value. PFI and Finance lease liabilities exceeded the Operational Boundary by £300k but were within the Authorised Limit therefore no compliance failure has been reported.

Liability benchmark

83. This is basically outstanding debt plus an allowance for liquidity to maintain day to day working capital and is therefore an estimate of how much debt the Council should be carrying. Table 13 shows how this is calculated for 2022/23 and the chart showing the liability benchmark and projected debt levels for the Council in the future.

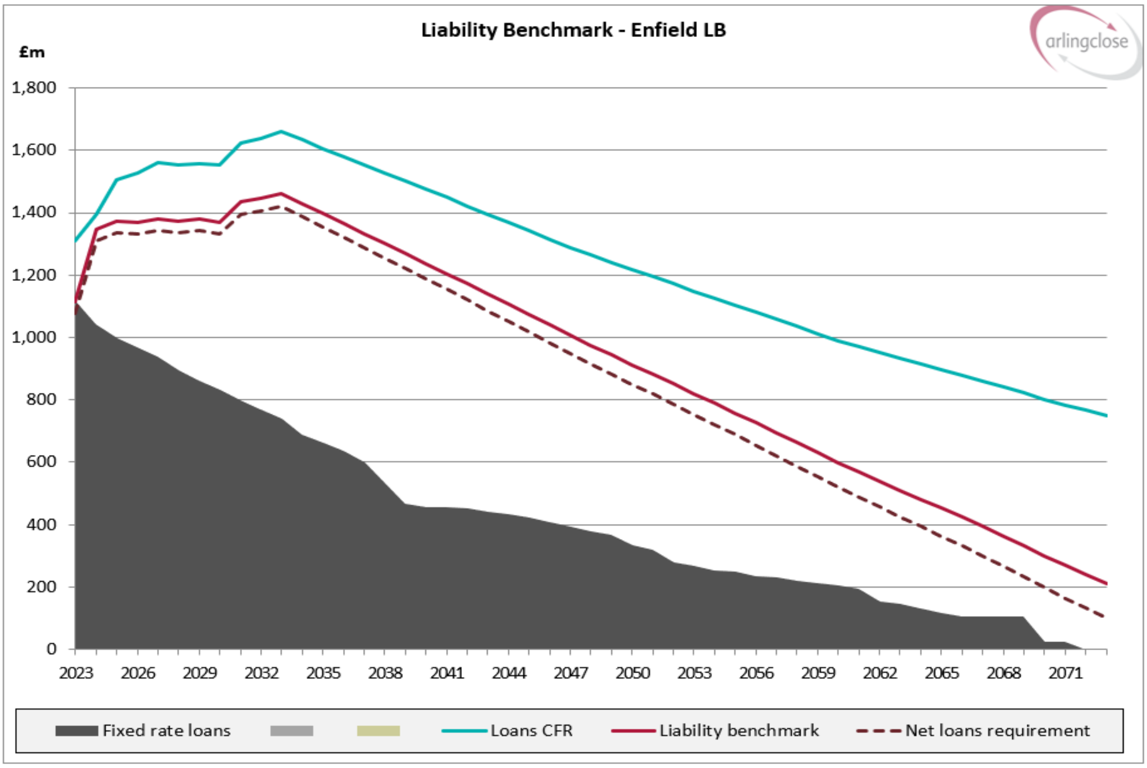
Table 14: Balance Sheet Summary

Balance Sheet Summary	**31 March 2022 Actual £m**	**31 March 2023 Actual £m**
Capital Financing Requirement (CFR) : the accumulated capital expenditure to 31st March 2023 for which borrowing *would have been required* had the Council not used its own cash resources (termed "internal borrowing") to offset actual borrowing		
General Fund CFR	975.7	1,039.4
Housing Revenue Account CFR	268.4	296.8

Capital Financing Requirement	**1,244.1**	**1,336.2**
CFR Represented as :		
External Borrowing	1,015.1	1,118.2
Internal Borrowing	229.0	218.0
Capital Financing Requirement	**1,244.1**	**1,336.2**
Internal borrowing represented as :		
Usable Reserves & working capital	(133.4)	(181.1)
Net Investments	**(95.6)**	**(36.9)**
Internal borrowing	**(229.0)**	**(218.0)**
		.2
Liability Benchmark : estimate of net borrowing requirement including allowance for liquidity		
Capital Financing Requirement	1,244.1	1,336.2
Less : Balance Sheet resources	**(229.0)**	**(218.0)**
Add: Allowance for liquidity	35.0	35.0
Liability benchmark (year end)	**1,050.1**	**1,153.2**

84. The Chart below illustrates the Council's treasury position on 31 March 2023. It shows the borrowing the Council already has (shaded in grey) does not exceed the borrowing amount required in total (red line). This chart uses data of the capital programme up to 2032 only.

Figure 4



<u>Debt Servicing costs as a proportion of revenue resources</u>

85. DLUHC, on 4th July 2023, set up the Office for Local Government ("Oflog"), aimed at increasing transparency and identifying Councils "at risk of potential failure".

86. In the context of the Levelling up and Regeneration Bill (introduced to Parliament 11th May 2022, presently in the House of Lords) which makes similar references, three indicators which assess the resilience of the Council's revenue budgets to contain debt servicing costs have been presented in table 5 below.

- Oflog indicator "Debt Servicing as a proportion of Core Spending Power" (CSP) where CSP measures revenue resources by the funding available for General Fund services comprised mainly of Council tax and specific Government grants.

- Debt servicing costs as a proportion of Net Revenue Budget - introduced by the Treasury Management Strategy Statement 2023/24 (KD 5504) approved by Council 23rd February 2023 and will be referenced as a key indicator of affordability in the upcoming Capital Strategy.

- Ratio of external debt to Net Revenue Budget – introduced by the Treasury Management Strategy Statement 2022/23 (KD 5355) approved by Council 24th February 2022, similar to the above Oflog indicator but using Net Revenue Budget which includes a broader span of revenue resources

87. These each assess this criteria differently but taken together generate a corroborative measure of the resilience of the Council's revenue resources which indicates debt and debt financing have been stable across financial years

2021/22 and 2022/23 but are set to increase in 2023/24 based on current approved estimates.

Table 15 : Debt Servicing costs as proportion of Net Revenue Budget

Financing as a proportion of Revenue Resources	2021/22 Outturn Compared to all other London Councils (below)	2022/23 Outturn	2023/24 Estimate Supporting Capital Strategy
Debt Servicing as a proportion of Core Spending Power (Oflog)	9.2%	8.8%	11.6%
Debt servicing costs as a proportion of Net Revenue Budget	9.0%	8.5%	13.2%
Ratio of external debt to Net Revenue Budget	4.0 : 1	4.0 : 1	5.5 : 1

Net income from Commercial & Service Investments to Net Revenue Budget

88. The primary purpose of the Council's investments in Housing Gateway Limited and Lea Valley Heat Networks Limited are the provision of temporary accommodation (a statutory duty) and the provision of sustainable and low cost energy to the Borough's residents and businesses respectively.

89. Similarly, the Council's share of the Joint Venture at Montagu Industrial Estate is primarily for the economic regeneration of the area which will have wider benefits for residents and businesses withing the Borough.

90. No income was generated by these investments in 2022/23 and any future income will be incidental to the provision of services and not driven for pure commercial gain.

91. During 2022/23 net income from the Council's investment properties made up 3.5% of the Net Revenue Budget which is considered neither significant nor a risk and is incidental to the provision of the Council's wider services.

Risk & Liquidity

92. **Security**: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk, summarised in table 14 below.

Table 16: Credit Risk

Credit Risk	31.3.23 Actual	2022/23 Target	Complied?

Portfolio average credit rating	A+	A	Yes
Portfolio average credit score	5	6	Yes

93. **Liquidity**: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing, summarised in table 15 below.

Table 17: Liquidity Risk Indicator

Liquidity Risk	31.3.23 Actual £m	2022/23 Target £m	Complied?
Total cash available within 3 months	36.9	35.0	Yes

94. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The Council held no variable interest rate debt during 2022/23. However, the Council's Treasury Management Strategy does permit variable interest rate loans, summarised in table 16 below.

Table 18: Interest Rate Risk Indicator

Interest Rate Risk	31.3.23 Actual	2022/23 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	0.0	+£4m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	0.0	-£4m	Yes

95. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

96. **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing are summarised in table 17 below.

Table 19: Maturity Structure

Maturity Structure	31.3.23 Actual £m	31.3.23 Actual %	Upper Limit	Lower Limit	Complied?
Under 12 months	104.2	9.3%	30%	0%	Yes
12 months & within 24 months	31.8	2.8%	35%	0%	Yes
24 months and within 5 years	62.9	5.6%	40%	0%	Yes
5 years and within 10 years	178.7	16.0%	45%	0%	Yes
10 years and above	740.6	66.2%	100%	0%	Yes
Total	**1,118.2**	**100%**			

97. Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by

seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period are set out in table 18 below.

Table 20 : Principals invested over one year

Principal invested over one year	2022/23	2023/24	No fixed date
Actual principal invested beyond 365 days	Nil	Nil	Nil
Limit on principal invested beyond 365 days	£25m	£25m	£0m
Complied?	Yes	Yes	Yes

98. Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Minimum Revenue Provision

99. In accordance with the Local Government Act 2003 and revised Guidance issued 2018, the Council is required to pay off an element of the accumulated General Fund capital expenditure, which was funded from borrowing, through an annual revenue charge known as the Minimum Revenue Provision (MRP).

100. The actual MRP charge for 2022/23 was £18.9m and total Financing Cost Charged to General Fund for 2022/23 was £23.7m.

101. The Council's MRP Policy was amended during the reporting financial year and approved by Council at its meeting of 23rd February 2023.

MRP Consultation and Enfield Council's MRP Policy Review

102. The Department for Levelling Up, Housing and Communities (DLUHC) initiated a consultation on changes to the MRP framework from 30th November 2021 to 8th February 2022, the results of which have not yet been published but are expected to impact Councils in 2023/24.

103. The two main proposals are expected to increase MRP charges if implemented, as currently worded, as follows:

- **Council owned companies** - Loans made by the Council currently use the capital receipts from repayments to reduce the MRP. The consultation proposes this is no longer permitted which would significantly increase MRP charges in the short term with capital receipts only taking effect to reduce MRP in the longer term. A mitigation could be the acknowledgement of loan agreements stipulating a repayment trajectory which could have the effect of reducing the MRP charges.

- **Meridian Water** is modelled to be funded partly by MRP and partly through capital receipts generated during the life of the project. If the current proposed wording is not altered to allow self-financing projects, then this may lead to a significant impact to the revenue budget. Although the capital receipts generated by Meridian Water will be used to fund future stages of Meridian Water or other projects upfront, the MRP charge would increase in the medium term. The potential impact of this has been included in the Meridian Water financial model refresh.

104. The Council's Annual MRP Statement, published as part of the Treasury Management Strategy Statement, (KD 5504) approved by Council 23rd February 2023, sets out the assumptions to be used in applying MRP from 1st April 2023 including the application of capital receipts and use of voluntary MRP to accelerate debt extinguishment where such opportunities exist.

105. The Council has also commissioned its external Treasury Advisers to review the impact of the consultation once final proposals have been announced by the Government the results of which will be used to update the Capital Strategy and Mid-Year Treasury Management Update which will be submitted to Cabinet 18th October 2023.

Financial Implications

106. This is a noting report which fulfils the requirement to report annually the performance of the Council's treasury management activities. Financial implications are set out in the body of the report.

Legal Implications

Ludmilla Iyavoo, Senior Lawyer, 18 August 2023.

107. Under Part 1 of the Local Government Act 2003 and Regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, local authorities in England are required to have regard to the 'Treasury Management in the Public Services: Code of Practice' and the Official 'Prudential Code for Capital Finance in Local Authorities', both published by CIPFA.

108. The Department for Levelling Up, Housing and Communities has also issued Statutory Guidance on Local Government Investments (the 'Investments Guidance') and the Minimum Revenue Provision (the 'MRP Guidance').

109. The Treasury Management Code requires the Council to approve an annual strategy report for the year ahead. The Code also requires the Council to approve an annual review of the previous year. This report comprises the annual review for 2022/23.

Equalities Implications

See attached appendix

Safeguarding Implications

None

Report Author: Olu Ayodele
Head of Finance - Capital & Treasury

olu.ayodele@enfield.gov.uk
0208 132 1321

Appendices
Equalities Impact Assessment

Background Papers
The following documents have been relied on in the preparation of this report:

(i) Treasury Management Strategy Statement 2022/23 (KD5355) approved by Council 24th February 2022
(ii) Treasury Management Strategy Statement 2022/23 (KD5504) approved by Council 23rd February 2023

Appendix – Equalities Impact Assessment EQUIA

SECTION 1 – Equality Analysis Details

Title of service activity / policy/ strategy/ budget change/ decision that you are assessing	**Treasury Management Outturn Report 2022/23**
Lead officer(s) name(s) and contact details	**Olu Ayodele**
Team/ Department	**Resources – Finance**
Executive Director	**Fay Hammond**
Cabinet Member	**Cllr Leaver**
Date of EqIA completion	**14th Aug 2023**

SECTION 2 – Summary of Proposal

Please give a brief summary of the proposed service change / policy/ strategy/ budget change/project plan/ key decision **Please summarise briefly:** What is the proposed decision or change? What are the reasons for the decision or change? What outcomes are you hoping to achieve from this change? Who will be impacted by the project or change - staff, service users, or the wider community?
Summarises the Council's debt and investment portfolios as at 31 March 2023. Attention drawn to interest paid and investment returns earned together with overall levels of debt against established thresholds to ensure Council's financial position remains sustainable.

SECTION 3 – Equality Analysis

This section asks you to consider the potential differential impact of the proposed decision or change on different protected characteristics, and what mitigating actions should be taken to avoid or counteract any negative impact.
According to the Equality Act 2010, protected characteristics are aspects of a person's identity that make them who they are. The law defines 9 protected characteristics:

1. Age
2. Disability
3. Gender reassignment.
4. Marriage and civil partnership.
5. Pregnancy and maternity.
6. Race
7. Religion or belief.
8. Sex
9. Sexual orientation.

At Enfield Council, we also consider socio-economic status as an additional characteristic.

"Differential impact" means that people of a particular protected characteristic (eg people of a particular age, people with a disability, people of a particular gender, or people from a particular race and religion) will be significantly more affected by the change than other groups. Please consider both potential positive and negative impacts, and, where possible, provide evidence to explain why this group might be particularly affected. If there is no differential impact for that group, briefly explain why this is not applicable.
Please consider how the proposed change will affect staff, service users or members of the wider community who share one of the following protected characteristics.

Age This can refer to people of a specific age e.g. 18-year olds, or age range e.g. 0-18 year olds.
Will the proposed change to service/policy/budget have a **differential impact [positive or negative]** on people of a specific age or age group (e.g. older or younger people)? Please provide evidence to explain why this group may be particularly affected.
None
Mitigating actions to be taken
Not applicable

Disability A person has a disability if they have a physical or mental impairment which has a substantial and long-term adverse effect on the person's ability to carry out normal day-day activities. This could include: Physical impairment, hearing impairment, visual impairment, learning difficulties, long-standing illness or health condition, mental illness, substance abuse or other impairments.
Will the proposed change to service/policy/budget have a **differential impact [positive or negative]** on people with disabilities? Please provide evidence to explain why this group may be particularly affected.
None
Mitigating actions to be taken
Not applicable

Gender Reassignment This refers to people who are proposing to undergo, are undergoing, or have undergone a process (or part of a process) to reassign their sex by changing physiological or other attributes of sex.
Will this change to service/policy/budget have a **differential impact [positive or negative]** on transgender people? Please provide evidence to explain why this group may be particularly affected.
None
Mitigating actions to be taken
Not applicable

Marriage and Civil Partnership

Marriage and civil partnerships are different ways of legally recognising relationships. The formation of a civil partnership must remain secular, where-as a marriage can be conducted through either religious or civil ceremonies. In the U.K both marriages and civil partnerships can be same sex or mixed sex. Civil partners must be treated the same as married couples on a wide range of legal matters.
Will this change to service/policy/budget have a **differential impact [positive or negative]** on people in a marriage or civil partnership? Please provide evidence to explain why this group may be particularly affected
None
Mitigating actions to be taken
Not applicable
Pregnancy and maternity Pregnancy refers to the condition of being pregnant or expecting a baby. Maternity refers to the period after the birth and is linked to maternity leave in the employment context. In the non-work context, protection against maternity discrimination is for 26 weeks after giving birth, and this includes treating a woman unfavourably because she is breastfeeding.
Will this change to service/policy/budget have a **differential impact [positive or negative]** on pregnancy and maternity? Please provide evidence to explain why this group may be particularly affected
None
Mitigating actions to be taken
Nor applicable

Race This refers to a group of people defined by their race, colour, and nationality (including citizenship), ethnic or national origins.
Will this change to service/policy/budget have a **differential impact [positive or negative]** on people of a certain race? Please provide evidence to explain why this group may be particularly affected
None
Mitigating actions to be taken
Not applicable

Religion and belief Religion refers to a person's faith (e.g. Buddhism, Islam, Christianity, Judaism, Sikhism, Hinduism). Belief includes religious and philosophical beliefs including lack of belief (e.g. Atheism). Generally, a belief should affect your life choices or the way you live.

Will this change to service/policy/budget have a **differential impact [positive or negative]** on people who follow a religion or belief, including lack of belief? Please provide evidence to explain why this group may be particularly affected.
None
Mitigating actions to be taken
Not applicable

Sex Sex refers to whether you are a man or woman.
Will this change to service/policy/budget have a **differential impact [positive or negative]** on men or women? Please provide evidence to explain why this group may be particularly affected.
None
Mitigating actions to be taken
Not applicable

Sexual Orientation This refers to whether a person is sexually attracted to people of the same sex or a different sex to themselves. Please consider the impact on people who identify as heterosexual, bisexual, gay, lesbian, non-binary or asexual.
Will this change to service/policy/budget have a **differential impact [positive or negative]** on people with a particular sexual orientation? Please provide evidence to explain why this group may be particularly affected.
None
Mitigating actions to be taken
Not applicable

Socio-economic deprivation This refers to people who are disadvantaged due to socio-economic factors e.g. unemployment, low income, low academic qualifications or living in a deprived area, social housing or unstable housing.
Will this change to service/policy/budget have a **differential impact [positive or negative]** on people who are socio-economically disadvantaged? Please provide evidence to explain why this group may be particularly affected.
None
Mitigating actions to be taken.
Not applicable

SECTION 4 – Monitoring and Review

Identified Issue	Action Required	Lead officer	Timescale/By When	Costs	Review Date/Comments
Not applicable					

How do you intend to monitor and review the effects of this proposal? Not applicable Who will be responsible for assessing the effects of this proposal? Not applicable
The report provides an update on the Council's level of borrowing and investments and has no impact on any groups with protected characteristics or persons who may attract "differential impact" from any of the proposals in the report.

SECTION 5 – Action Plan for Mitigating Actions.

None required