London Borough of Enfield

Report Title	Treasury Management Period 8 Update 2023/24
Report to	Cabinet
Date of Meeting	17 January 2024
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 – Assistant Head of Finance (Capital & Treasury)
Ward(s) affected	All
Key Decision Number	Non-Key
Classification	Part 1 Public
Reason for exemption	Not applicable

Purpose of Report

1. To report the activities of the Council's Treasury Management function over the eight months to 30th November 2023.

2. Over the reporting period, all treasury management activities have been carried out within approved limits and in compliance with the Prudential Indicators set out in the Council's Treasury Management Strategy statement approved by Council 23rd Feb 2023 (KD5504).

Recommendations

3. Cabinet is recommended to note the report prior to submission to Council on 24th January 2024.

Background

4. The key points of the report are set in table 1 below:

Table 1 – Key points of report

Key point	Details	Reference
Economic context	Inflation review: 5.5% at 1 Apr 2022 10.1% at 31 Mar 2023 4.60% as at 23rd November 2023 2.00% remains Government target Bank of England base rate review: 0.75% at 1 Apr 2022 4.25% at 31 Mar 2022 5.25% as at 23rd November 2023 Three further reviews expected this financial year	**Para 13**
Council's cost of borrowing and impact increased cost of borrowing	Average interest for Council's external debt: 2022/23 - 2.29% gross interest payable of £27m, net charge to General Fund £3.7m 2023/24 – Forecast 2.60% gross interest £33.3m, net charge to General Fund £7.5m (P5 2.52% Gross interest £35.6m, net £7.7m)	**Para 38**
Borrowing Outstanding on 23rd November 2023	£1,118.2m as at 1st April 2023 £1,143.7m as at 23rd November (31st Aug P5 £1,123.4m).	**Para 25**
Capital Financing Requirement (CFR)	The borrowing CFR (this represents the underlying need to borrow) was £1,336.2m as at 1st April 2023 and set at £1,484.1m for 2023/24 by Treasury Management Strategy. External debt is below this at 23rd November and forecast to remain so for 2023/24 therefore in compliance	**Para 27**
Investments & Net Borrowing (this is external borrowing less investments)	Estimated income of £3.0m (P5 £1.9m) (2022/23 actual £1.8m) assuming an average rate of return of 4.97% based on year-to-date yields.	**Para 44** **Fig 1**
Compliance with Treasury Management & Prudential Indicators	Compliant	**Para 67**
Minimum Revenue Provision (MRP)	MRP chargeable to General Fund (GF) 2022/23 £18.9m 2023/24 £22.5m (P5 £23.0m)	**Para 88**

Capital financing revenue cost	In Feb 2023, the Council anticipated that a £2.3m drawdown from reserves would be required to meet 2023/24 capital financing charges. This estimate has reduced to £1.2m	**Table 2**

5. 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.

6. This report updates Members for the eight months to 30th November 2023 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.

7. 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.

8. 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.

9. The Council's Treasury Management Strategy for 2023/24 was approved by Council on 23rd February 2023 (KD 5504). The Treasury Management Outturn position and Mid-year update to period 5 were reported to Cabinet 13th September (KD 5655) and 15th November respectively. 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.

10. This update is based on the period 8 Capital programme and Companies updates appearing elsewhere on the agenda.

11. The Council's estimated revenue cost of debt servicing for 2023/24 is summarised in Table 2 below which also includes the approved budget and estimates reported at period 5. The 2023/24 capital financing budget anticipated a drawdown from reserves in the year 2023/24 of £2.3m assuming 70% delivery of the capital programme (£3.5m assuming full delivery). The current forecast is that the drawdown will be £1.2m.

Table 2 – Capital financing cost estimates

2023/24 period 8 forecasts (all in £m)	**Approved budget**	**Period 5 Mid Yr update**	**Period 8 forecast**	**Variance (Period 8 vs Budget)**
Gross interest	**41.6**	**35.6**	**33.3**	**-8.3**
Investment income	-1.0	-1.9	-3.0	-2.0
Meridian Water	-8.7	-8.5	-8.4	0.3
Companies	-4.9	-4.4	-4.3	0.6
Schools	-0.1		-0.1	0.0
HRA	-14.2	-13.1	-11.8	2.4
HRA interest payable on balances	0.0	0	1.2	1.2
Capitalisation & Recharges	**-28.9**	**-27.9**	**-26.4**	**2.5**
Net interest charge to GF	**12.7**	**7.7**	**6.9**	**-5.8**
MRP - policy	19.7	19.7	19.4	**-0.3**
MRP - voluntary	0.0	3.3	3.3	**3.3**
MRP - total	**19.7**	**23.0**	**22.6**	**2.9**
Bank charges, company loan impairment/credit losses and other	0.0	0.4	0.7	**0.7**
Capital financing charges - total	**32.4**	**31.1**	**30.2**	**-2.2**
Budget	**28.6**	**29.0**	**29.0**	**0.4**
Reserve Drawdown Anticipated	**3.8**	**2.1**	**1.2**	**-2.6**
70% spend assumption	-1.5	0	0	1.5
Assuming 70% delivery*	**2.3**	**2.1**	**1.2**	**-1.1**

**2023/24 capital financing budget anticipated a drawdown from reserves in the year 2023/24 of £2.3m assuming 70% delivery of the capital programme (£3.5m assuming full delivery). The current forecast is that the drawdown will be £1.2m.*

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Economic context

13. Inflation, measured by the Consumer Prices Index (CPI) stood at 5.5% in April 2022 rising steadily before peaking at 11.1% in October 2022 before falling to 10.1% as at 31st March 2023. As at 23rd November 2023 it stood at 4.6%, with the Government's long term target set at 2%.

14. 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% April 2022 to 4.25% as at 31st March 2023. The rate as at 23rd November 2023 was 5.25% with further reviews scheduled for 14th December, 1st February then 21st March 2024.

15. 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 3 below:

Table 3: Historical PWLB rates

PWLB Equal Instalment of Principal (EIP) rates	**5 year**	**10 year**	**20 year**	**30 year**	**40 year**
1st April 2022	2.41%	2.50%	2.67%	2.83%	2.87%
12th Oct 2022	5.30%	5.53%	5.66%	5.92%	6.07%
31st March 2023	4.72%	4.49%	4.55%	4.79%	4.90%
31st July 2023	5.88%	5.53%	5.34%	5.48%	5.55%
31st August 2023	5.81%	5.50%	5.38%	5.56%	5.64%
29th September 2023	5.63%	5.39%	5.47%	5.72%	5.85%
4th October 2023	5.69%	5.51%	5.64%	5.89%	6.01%
23rd November 2023	5.45%	5.18%	5.28%	5.54%	5.66%

Source : Debt Management Office 23rd November 2023

16. These rate increases will impact the replacement of maturing debt and the long-term cost of borrowing to finance capital projects.

17. The Council is using concessionary borrowing for the HRA announced 15th March 2023 which was initially available until June 2023 but has now been extended as a result of the Autumn Statement to June 2025.

Relevance to Council Plans and Strategies

18. Good homes in well-connected neighbourhoods
19. Build our Economy to create a thriving place
20. Sustain Strong and healthy Communities

Treasury Management Position

21. The Council started 2023/24 with net borrowing of £1,081.3m made up of external debt £1,118.2m offset by investments of £36.9m. As at 23rd November 2023 net borrowing stood at £1,065.1m (31st August P5 £1,069.9m) made up of external debt £1,143.7m offset by investments £78.6m (31st August P5 £1,123.4m offset by investments of £53.5m).

22. The treasury management position on 23rd November 2023 and the change since the start of the financial year is set out in Table 4 below. All the investments shown below were in Money Market Funds (categorised as cash equivalent) for this financial year.

Table 4: Treasury Management Summary

Summary	**31.3.23 Balance £m**	**Movement £m**	**23.11.23 Actual £m**	**Approved estimate* £m**	**Revised forecast** £m**
Long-term borrowing	1,044.2	67.5	1,111.7	1,423.2	1,283.0
Short-term borrowing	74.0	-42.0	32.0	0.0	0.0
Total borrowing	**1,118.2**	**25.5**	**1,143.7**	**1,423.2**	**1,283.0**

Summary	31.3.23 Balance £m	Movement £m	23.11.23 Actual £m	Approved estimate* £m	Revised forecast** £m
Total investments	**-36.9**	**-41.7**	**-78.6**	**-35.0**	**-35.0**
Net Borrowing	**1,081.3**	**-16.2**	**1,065.1**	**1,388.2**	**1,248.0**

**Approved estimate: Treasury Management Strategy Statement (Council 23 Feb 2023, KD5504)*
***Revised forecast based on current level of activities*

23. The estimate for external debt as at 31 March 2024 has reduced by £140.2m against the forecast presented to February Council.. This is mainly due to :

    - Capital expenditure estimates – the approved estimate assumed full delivery of the capital programme. The Capital Strategy, approved by Council 22nd November 2023 (KD5666), set out a reduced capital programme to ensure capital financing costs remain affordable which is reflected in the period 8 forecasts and forecasts for capital expenditure appearing elsewhere on the agenda

    - Balance sheet review – in accordance with the objectives set out in the Capital Strategy a review of the Council's balance sheet resources together with cash requirements has been conducted, giving greater confidence in the level of internal borrowing cash resources that can be used, allowing us to reduce external borrowing assumptions for 2023/24.

24. The increase in borrowing of £25.5m from 1st April to 23rd November 2023 is made up of £15m to fund Energetik and borrowing to fund the capital programme. All cash is invested until required which has resulted in increased investment income. Further details are provided in Table 4 below.

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. Current external loans are summarised in Table 5 below.

Table 5: Treasury Management Borrowing Summary

Type of Loan	31st March 2023 £m	Net movement £m	23rd November 2023 £m
Public Works Loans Board	994.8	53.8	1,048.6
Local Authorities (short-term)	74.0	-42.0	32.0
European Investment Bank	7.6	-0.2	7.4
London Energy Efficiency Fund	1.4	-0.3	1.1
Mayors Energy Efficiency Fund	15.0	15.0	30.0
Heat Networks Investment Project	21.6	0.0	21.6
Salix Funding	3.1	-0.9	2.2
Greater London Authority	0.7	0.1	0.8

Type of Loan	31st March 2023 £m	Net movement £m	23rd November 2023 £m
Total Debt	**1,118.2**	**25.5**	**1,143.7**
Accrued Interest	7.2	-7.2	0.0
Total Debt & Accrued Interest Outstanding	**1,125.4**	**18.3**	**1,143.7**

The Capital Financing Requirement (CFR)

27. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents the accumulated capital expenditure 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.

28. 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.

29. As at 23rd November 2023 external borrowing of £1,143.7m remains below the loans CFR, approved in the Treasury Management Strategy, for 2023/24 of £1,484.1m. The Prudential Indicator for the CFR requires total external debt to be no higher than the total CFR therefore the Council remains compliant. The difference of £340.4m is the accumulated cash resources the Council has used to reduce external borrowing over and above the capital resources already allocated to finance its capital expenditure over the years.

30. The HRA CFR is above that originally estimated due to the transfer of assets (or "appropriation") from the General Fund. This does not constitute a breach as it is the total CFR and debt which are form part of the Prudential Indicators. Overall HRA debt remains affordable and will be included in the annual HRA Business Plan update.

31. Table 6 below shows the Council's CFR as compared to its external borrowing together with the Operational boundary and Authorised limit.

Table 6: Capital Financing Requirement and Gross Debt

Capital Financing Requirement (CFR)	Approved estimate 2023/24*	Revised forecast** £m
General Fund	1,132.9	1,029.9
Housing Revenue Account	351.2	383.1
Borrowing CFR	**1,484.1**	**1,412.9**
PFI liability	22.1	22.1
Total CFR	**1,506.2**	**1,435.0**
External Borrowing	1,423.2	1,283.0

Capital Financing Requirement (CFR)	Approved estimate 2023/24*	Revised forecast** £m
Internal Borrowing	83.0	152.1
Total CFR	**1,506.2**	**1,435.1**
External borrowing required	1,423.2	1,283.0
Other liabilities	22.1	22.1
Operational boundary	**1,445.3**	**1,305.1**
Headroom	200.0	200.0
Authorised Limit	**1,645.3**	**1,505.1**

**Approved estimate: Treasury Management Strategy Statement (Council 23 Feb 2023, KD5504)*

***Revised forecast based on current level of activities*

32. The Operational boundary is the level of external debt expected if capital expenditure plans are fully implemented. The Authorised Limit, which is based on the Operational boundary plus a temporary allowance only to be used in exceptional circumstances, is the maximum level of external debt beyond which any additional borrowing is prohibited. This limit can only be set by Full Council.

33. The Council is currently estimating the cost of new debt at 4.80% for the remainder of 2023/24 and will continue to use internal resources where possible to minimise borrowing and using concessionary rates offered by PWLB for the HRA.

34. This estimate is based on estimates of UK Gilt yields and 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 and corroborated by advice from the Council's external Treasury Advisers.

Forward Borrowing

35. The Council has no forward loan arrangements.

36. Continuing instability combined with expected increases in the base rate have introduced some uncertainty making forward borrowing unviable. The markets will continue to be monitored for favourable borrowing products.

Other Debt Liabilities

37. Private Finance Initiative/finance leases liabilities of £22.6m as at 23rd November 2023.

Cost of Borrowing

38. The average interest rate paid on total external debt in 2022/23 was 2.29%.

39. The Council's revenue cost of debt servicing for 2023/24 is summarised in Table 6 below. The over spend against budget of by £1.2m includes increased interest payments expected to the HRA in respect of its cash balances and loan impairment costs associated with the Council's subsidiary companies.

40. The 2023/24 capital financing budget anticipated a drawdown from reserves in the year 2023/24 of £2.3m assuming 70% delivery of the capital programme (£3.5m assuming full delivery). The current forecast is that the drawdown will be £1.2m.

41. The current forecast average interest payable in 2023/24 is 2.60% (P5 2.83%) against a budget of 2.92%. This generates net interest charge to General Fund of £7.6m (P5 £7.7m) against an approved budget of £6.5m, details are shown in table 7 below.

Table 7: Cost of borrowing summary

Net interest and MRP cost	**2022/23 Actual £m**	**2023/24 Actual 30.11.23 £m**	**2023/24 Approved estimate * £m**	**2023/24 P8 Revised estimate** £m**
Interest on borrowing :				
Gross interest payable	27.0	8.7	41.7	33.3
Meridian Water	-6.6	0.0	-8.7	-8.4
HRA	-11.3	0.0	-14.2	-10.6
Companies	-4.3	-2.3	-4.9	-4.3
School and other	0.7	0.0	-0.1	0.6
Treasury investments	-1.8	-2.3	-1.0	-3.0
Net interest	**3.7**	**4.1**	**12.8**	**7.6**
Budget	**6.1**	**6.5**	**6.5**	**6.5**
Interest (Under) over budget	**-2.4**	**-2.4**	**6.3**	**1.1**
Minimum Revenue Provision (MRP) :				
MRP	18.9	0	19.7	22.6
Budget	17.5	22.5	22.5	22.5
MRP (Under) over budget	**1.4**	**-22.5**	**-2.8**	**0.1**
Budget total	**23.6**	**29.0**	**29.0**	**29.0**
Variance (under) or over budget	**-1.0**	**-24.9**	**3.5**	**1.2**
Variance assuming 70% delivery of programme			**2.3**	

**Approved estimate: Treasury Management Strategy Statement (Council 23 Feb 2023, KD5504 assuming 100% programme delivery)*

***Revised forecast based on current level of activities*

Debt Maturity

42. The Council has 97 loans with some loans reaching maturity (becoming repayable) at up to 50 years with the average currently at 18 years (31 March 2023 : 104 loans with average 23 yrs.). The "maturity profile" shows the distribution of when cash must be repaid to lenders and is composed of all loan products.

43. Table 8 below shows the current maturity structure of the Council's debt portfolio. The cost of replacing debt is within the prudential indicator for maturity profile. The Council is not significantly exposed to refinancing risk.

Table 8: Debt by maturity

Debt maturity	Loans Outstanding as at 31 March 2023 £m	Loans Outstanding as at 23 November 2023 £m
Under 1 year	104.2	28.4
1-2 Years	31.8	53.4
3-5 years	62.9	73.3
5-10 Years	178.7	208.0
10-15 Years	175.5	206.9
15-20 Years	128.6	137.2
20-25 Years	63.4	63.4
25-30 Years	94.4	94.4
30-35 Years	48.9	48.9
35-40 Years	74.8	74.8
40-45 Years	50.0	50.0
45+ Years	105.0	105.0
Total Debt	**1,118.2**	**1,143.7**

Treasury Investment Activity

44. Total cash balances can vary 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.

45. During the year the Council's investment balance has ranged between £24.1m and £118.2m due to timing differences between income and expenditure.

46. The investment position as at 23rd November 2023 is shown in Table 9 below.

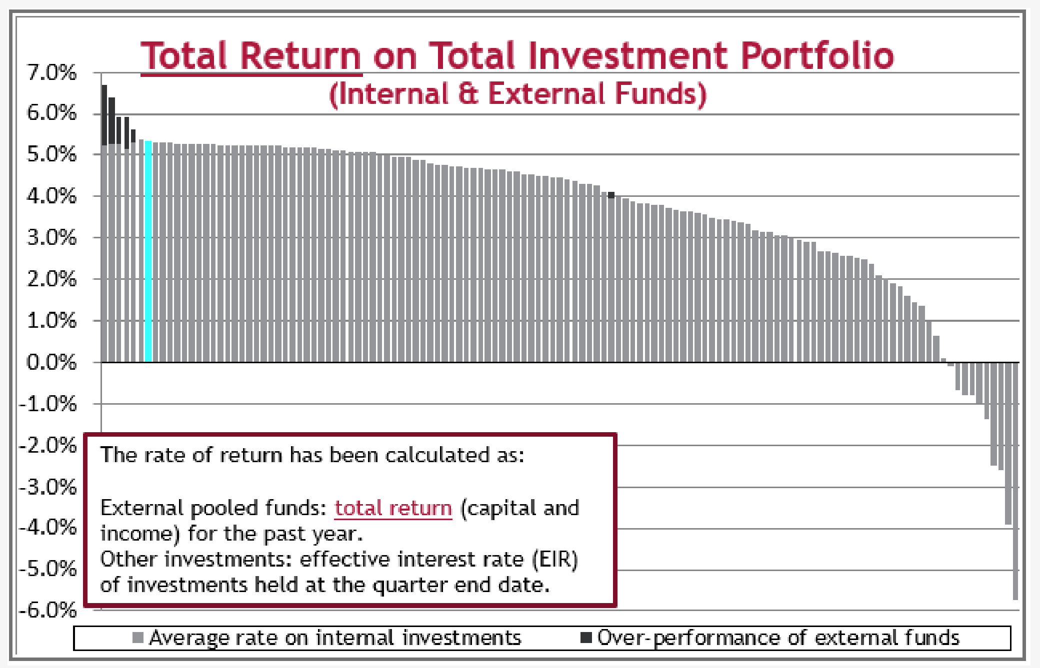
Table 9: Investment summary

Counterparties – all Money Market Funds	31 March 2023 £m	Movement £m	23 November 2023 £m
Deutsche	3.8	-3.8	0.0
Federated	0.0	22.6	22.6
CCLA	25.0	-25.0	0.0
Invesco	0.0	15.0	15.0
Aviva Investors	8.1	10.0	18.1
Aberdeen	0.0	22.9	22.9
Total Cash Investments	**36.9**	**41.7**	**78.6**

47. The Council expects to generate £3.0m investment income this financial year equating to a 4.97% return, assuming year to yield will continue to the end of the financial year and cash balances are at an average of £35m till the end of the financial year (2022/23 £1.84m investment income, 4.93% yield).

48. 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 shown in benchmarking data published by the Council's Treasury advisers as at 23rd November 2023.

Figure 1 – Councils return on investments



Source : Arlingclose Investment Benchmarking as at 23 November 2023

Investment Benchmarking

49. Table 10 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 30 June 2023:

Table 10: Investment benchmarking

Benchmarking	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30.11.2023	4.64	AA-	100%	1	5.33%
30.06.2023	4.80	A+	100%	1	4.80%
31.03.2023	5.09	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%

Arlingclose Investment Benchmarking 2023/24 as at 30th November 2023

50. 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.

51. **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.

52. 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.

53. The Council's investment portfolio of £78.6m at 23rd November 2023 has 100% "bail in" exposure meaning some or all of the investment can be lost in the event Money Market Funds (MMF) fails.

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

55. 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. The Council's investment advisors are comfortable with the Council's investment strategy and risk exposure.

Non-Treasury Investments

56. 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).

57. 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. The Council held no investments primarily for financial return.

58. The Authority held £162.8m of such investments as loans to subsidiaries as set out in table 11 below.

Table 11: Council owned Companies

Council owned Companies	Housing Gateway Ltd £m	Lea Valley Heat Networks Ltd £m
31 March 2022 (nominal)	127.4	15.2
New Borrowing	0.0	19.0
Repaid Borrowing	-0.6	-0.3
Balance at 31 March 2023	**126.8**	**33.9**
New advances	0.0	2.5
Repayments	-0.3	-0.1
Balance 31st Oct 2023	**126.5**	**36.3**
Advances – to be drawn	6.0	4.8
Repayments due*	-6.3	-0.1
Expected position 31 March 2024	**126.2**	**41.0**

59. Net loans advanced to the Council’s subsidiary companies to date, totalled £2.1m as at 23rd November 2023.

60. In accordance with Soft Loan accounting which recognises the sub-market element of the loan advances a proportion of these loans are expected to be classified as investments in subsidiaries.

61. In respect of LVHN the Council will also impair the loans advanced if required 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.

Gross to Net Table

62. Table 12 below shows how the total, or “gross”, debt of the Council as a whole is divided into its main constituent services (HRA, Meridian Water and Companies) to leave the residue, or “net”, debt attributable to the Council’s General Fund.

63. 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.

64. The Council’s net debt, including PFI and other obligations, stood at £1,107.6m at the start of the financial year and decreased by £19.9m to £1,087.7m as at 23rd Nov 2023. The year-end position is expected to be £1,270.1m against the approved budget of £1,410.3m

Table 12: Gross to Net Debt

Gross to Net table	**2022/23 Actual £m**	**Actual as at 23.11.23 £m**	**2023/24 Approved estimate* £m**	**2023/24 Revised estimate** £m**
Gross borrowing	**1,118.2**	**1,143.7**	**1,423.2**	**1,283.0**
Companies & Schools	-160.7	-160.7	-198.7	-179.2
Meridian Water	-374.9	-374.9	-422.8	-391.1
HRA	-296.8	-296.8	-351.2	-383.1
General Fund	**285.8**	**311.3**	**450.5**	**329.6**
Gross Debt to Net Debt :				
Total borrowing	1,118.2	1,143.7	1,423.2	**1,283.0**
PFI & Finance leases	26.3	22.6	22.1	22.1
Gross Debt	**1,144.5**	**1,166.3**	**1,445.3**	**1,305.1**
Treasury investments	-36.9	-78.6	-35.0	-35.0
Net Debt	**1,107.6**	**1,087.7**	**1,410.3**	**1,270.1**

**Approved estimate: Treasury Management Strategy Statement (Council 23 Feb 2023, KD5504) assuming 100% programme delivery*

***Revised forecast based on current level of activities*

Debt Restructuring

65. 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.

66. 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

67. 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 Full Council to ensure external debt does not exceed prescribed limits:

  Operational Boundary is the estimated level of external debt assuming capital expenditure plans are fully implemented and represents that level debt expected assuming no extraordinary or unexpected events e.g. significant additional expenditure to be financed by borrowing or capital receipt or grant failing to materialise.

  Authorised Limit is the Operational boundary *plus a temporary allowance* to accommodate extraordinary events (such as those above). This level of borrowing is not sustainable and is therefore the maximum beyond which additional borrowing is prohibited.

- **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

Operational Boundary and Authorised Limit

68. The Authorised Limit, set at £1,645.3m for 2023/24, is set with a risk margin to manage cash balances 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.

69. 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.

70. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 13 below.

Table 13 : Approved Borrowing Limits

Approved Borrowing Limits 2022/23	**23rd Nov 2023 £m**	**Operational Boundary £m**	**Authorised Limit £m**	**Complied?**
Borrowing (gross)	1,143.7	1,423.2	1,445.3	Yes
PFI and Finance Leases/Headroom	22.6	22.1	200.0	Yes
Total Debt	**1,166.3**	**1,445.3**	**1,645.3**	**Yes**

71. 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.

Liability benchmark

72. 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 14 shows the 2022/23 position together with estimates for 2023/24.

Table 14: Balance Sheet Summary

Balance Sheet Summary	**Approved estimate 2023/24* £m**	**Revised forecast 2023/24** £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	1,132.9	1,029.9
Housing Revenue Account	351.2	383.1
CFR - Loans	**1,484.1**	**1,412.9**
PFI liability	22.1	22.1
CFR - Total	**1,506.2**	**1,435.0**
CFR Represented as :		
External Borrowing	1,423.2	**1,283.0**
Internal Borrowing	83.0	152.1
Total CFR	**1,506.2**	**1,435.1**
External borrowing required	1,423.2	**1,283.0**
Other liabilities	22.1	22.1
Operational boundary	**1,445.3**	**1,305.1**
Headroom	200.0	200.0
Authorised Limit	**1,645.3**	**1,505.1**
Liability Benchmark : *estimate of net borrowing requirement including allowance for liquidity*		
CFR - Loans	1,484.1	1,412.9
Less : Balance Sheet resources	-105.8	-164.9
Add: Allowance for liquidity	35.0	35.0
Liability benchmark (year end)	**1,413.3**	**1,283.0**

**Approved estimate: Treasury Management Strategy Statement (Council 23 Feb 2023, KD5504)*

***Revised forecast based on current level of activities*

73. The Chart below illustrates the Council's treasury position on 23rd November 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 2 Liability Benchmark

Debt Servicing costs as a proportion of revenue resources

74. 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”.

75. 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 is referenced as a key indicator of affordability in the Capital Strategy appearing elsewhere on the agenda.

- 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

76. These each assess these 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 estimates as set out in table 15 below.

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 forecast
Debt Servicing as a proportion of Core Spending Power (Oflog)	9.2%	8.8%	10.1%
Debt servicing costs as a proportion of Net Revenue Budget	9.0%	8.5%	11.6%

Estimates for 2023/24 are expected to be between 10% to 12%.

Net income from Commercial & Service Investments to Net Revenue Budget

77. 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.

78. 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.

79. No income was generated by these investments in 2022/23.

80. 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

81. **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 16 below.

Table 16: Credit Risk

Credit Risk	31.3.23 Actual	30.09.23 Actual*	2023/24 Target	Complied?
Portfolio average credit rating	A+	A+	A	Yes

Portfolio average credit score	5	5	6	Yes

***Measure for 30 Sep 2023*

82. **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 17 below.

Table 17: Liquidity Risk Indicator

Liquidity Risk	31.3.23 Actual £m	23.11.23 Actual* £m	2023/24 Target £m	Complied?
Total cash available within 3 months	36.9	78.6	35.0	Yes

83. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The Council holds no variable interest rate debt however, the Council's Treasury Management Strategy does permit variable interest rate loans.

Table 18: Interest Rate Risk Indicator

Interest Rate Risk	31.3.23 Actual	2023/24 estimate*	2023/24 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	0.0	0.0	**+£4m**	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	0.0	0.0	**-£4m**	Yes

***assuming no variable rate loans, no exposure*

84. The Council has £104.2m loans to be repaid in 2023/24 carrying an average interest cost of 2.80%. Assuming these are replaced at the current estimated cost of 4.80% the full years increase in interest cost is estimated at £2m which is within the £4m threshold approved in the Treasury Management Strategy.

85. **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 19 below.

Table 19: Maturity Structure

Maturity Structure	31.3.23 Actual £m	23.11.23 Actual £m	23.11.23 Actual %	Upper Limit	Lower Limit	Complied?
Under 12 months	104.2	28.4	2.48%	30%	0%	Yes
12 months & within 2 yrs	31.8	53.4	4.67%	35%	0%	Yes
24 months & within 5 yrs	62.9	73.3	6.41%	40%	0%	Yes
5 years and within 10 yrs	178.7	208.0	18.19%	45%	0%	Yes
10 yrs and above	740.6	780.6	68.25%	100%	0%	Yes
Total	**1,118.2**	**1,143.7**	**100%**			

86. 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 20 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

87. 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

88. 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).

89. The 2023/24 MRP Budget is £22.5m and MRP forecast is £22.6m.

90. The Council's MRP Policy was approved by Council at its meeting of 23rd February 2023.

MRP Consultation and Enfield Council's MRP Policy Review

91. 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.

92. 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 loan repayments in lieu of charging MRP. The consultation proposes this is no longer permitted which could 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 initially by borrowing but long term primarily by future capital receipts. 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.

93. 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.

94. 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 appearing elsewhere on the agenda.

Financial Implications

95. 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

96. The Council must adhere to various statutory provisions under the Local Government Finance Act 1992, The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and The Local Government Act 2003.

97. The Council must set the budget (of which the Capital Programme is part of) in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility of the Council.

98. Sections 25 to 29 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget. These provisions require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.

99. In accordance with the legislative requirements and the Chartered Institute of Public Finance and Accountancy *(*CIPFA) and Prudential Codes ('the Codes'), this Report follows the recommendations under the Codes and legislation, by monitoring and reporting and detailing the Council's Treasury Management activities*.* The Report sets out that there has been compliance with the indicators used and that monitoring shows that its activities remain within well-defined limits. Further, it is reported that all Treasury Management activities undertaken during the year complied fully with the CIPFA Code and the Council's approved Treasury Management Strategy.

100. The Executive Director of Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

101. When considering its approach to the Treasury Management matters set out in the Report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the Public Sector Equality Duty: 'PSED'). This PSED is considered in the section 'Equalities Implications and Equalities Impact Assessment'.

Equalities Implications
See attached appendix

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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 (KD5504) approved by Council 23rd February 2023
(ii) Treasury Management Outturn Report 2022/23 (KD5655) approved by Cabinet 13th September 2023
(iii) Treasury Management Mid-Year Update 2023/24 (Non key) noted by Council 22nd November 2023