## Appendix 1 : Enfield Council Treasury Management Strategy - 2024/25


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**Treasury Management Strategy Statement 2024/25**

## 1. Introduction

1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. Borrowing arises from spending on the Council's Capital Programme; this report should be considered alongside the Ten-Year Capital Programme. The Council has borrowed and/or invested substantial sums of money and is therefore exposed to potential financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.3. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet revenue cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.5. CIPFA defines treasury management as:

*"The management of the local Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.6. Investments held for service purposes or for cashflow purposes are considered in a different report, the Investment Strategy (**Section D**).

## 2. External Context: Interest Rate Forecast

2.1. Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee are expected to cut rates in the medium term to stimulate the economy with rate cuts expected in the latter half of 2024 to a low of around 3% by early mid-2026.

2.2. Long-term gilt yields, which correlate to the cost of the Council's new borrowing, are expected to eventually fall reflecting the lower medium-term path for Bank Rate. Short-term volatility is expected due to economic and political uncertainty.

2.3. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 4.0%, and that new long-term loans will be borrowed at an average rate of 5.0%.

## 3. Local Context

3.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for internal borrowing or investment. The Council's current strategy is to use internal borrowing to reduce the total interest costs by delaying the need for external borrowing.

3.2. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators. In considering the affordability of its capital plans, the Council is required to consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years.

3.3. On 31st December 2023, the Council held £1,166.1m of borrowing and £26.5m of treasury investments. The forecasted position shown in Table 1 below.

**Table 1: Forecast Capital Financing Requirement and Borrowing**

| | 2024/25 Forecast £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m | 2033/34 Forecast £m |
|---|---|---|---|---|---|
| General Fund CFR | 1,075.40 | 1,092.66 | 1,096.53 | 1,063.90 | 668.34 |
| HRA CFR | 406.19 | 422.24 | 449.67 | 491.35 | 651.74 |
| **CFR - Loans** | **1,481.59** | **1,514.90** | **1,546.20** | **1,555.25** | **1,320.08** |
| PFI Liability | 17.56 | 15.03 | 12.51 | 9.98 | 0 |
| **CFR – Total** | **1,499.15** | **1,529.93** | **1,558.71** | **1,565.23** | **1,320.08** |
| **Gross external borrowing requirement** | **1,360.38** | **1,378.90** | **1,391.91** | **1,391.35** | **1,089.17** |

3.4. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1,560.38 million for 2024/25. The Annual Investment Strategy provides details of when this may be appropriate.

3.5. Although the Council's CFR is expected to increase to a peak of £1,590.45m in 2028/29, it is expected to reduce to £1,320.08 at the end of the 10-year forecast period in 2033/34 due mainly to capital receipts from asset disposals.

3.6. As detailed in Table 2 below, The Council's 10-year programme is investing £1,566.5m of which £590.7m (38%) is expected to be funded through borrowing. Over the first 5 years, the programme invests £1,090.9m of which £448.9m (41%) is funded through borrowing.

3.7. The 10 year Capital Programme, appearing elsewhere on the agenda, seeks approval for a delegation of the approval of up to £30m capital expenditure for temporary accommodation solutions as part of the pipeline. As with other pipeline projects, the impact of this is not included in the figures in the remainder of this paper. Each proposal will only be approved if it is affordable and has a positive net impact on Council budgets taking into account repayment of debt and interest costs. Capital may be either General Fund or HRA, depending on the particulars of the project.

3.8. Table 2 includes outline budgets for projects that will seek detailed approval as the business cases are further developed.

**Table 2: Capital Expenditure & Financing**

| | 2024/25<br>£m | 2025/26<br>£m | 2026/27<br>£m | 2027/28<br>£m | 2028/29<br>£m | 2029/30 to 2033/34<br>£m | Total 10 Yr.<br>£m |
|---|---|---|---|---|---|---|---|
| General Fund | 213.1 | 169.3 | 57.5 | 34.5 | 46.0 | 146.1 | 666.5 |
| HRA | 101.7 | 108.2 | 119.8 | 122.6 | 118.1 | 329.5 | 900 |
| **Total Capital Expenditure** | **314.8** | **277.5** | **177.3** | **157.1** | **164.1** | **475.6** | **1,566.50** |
| External Grants & Contributions | 155.1 | 135.2 | 57.6 | 30.7 | 12.2 | 107.2 | 497.6 |
| Capital Receipts | 33.5 | 16.5 | 20.3 | 34.4 | 22.1 | 93.7 | 220.3 |
| Major Repairs Allowance | 5.6 | 6 | 6.2 | 6.5 | 6.9 | 37.6 | 68.7 |
| Earmarked Reserves | 10.3 | 25.5 | 18.9 | 19.9 | 19.0 | 95.4 | 189.2 |
| Borrowing | 110.4 | 94.5 | 74.3 | 65.7 | 104 | 141.8 | 590.7 |
| **Total Financing** | **314.9** | **277.7** | **177.3** | **157.2** | **164.2** | **475.7** | **1,566.50** |

3.9. The 2024/25 net revenue impact on the General Fund of interest and MRP after recharges to the HRA; Companies and Meridian Water (capitalised) is £31.36m resulting in a growth required in the revenue budget of £2.4m as referenced in the MTFP report appearing elsewhere on the agenda:

3.10. Table 3 below provides more details and estimates for the 10 years to 2033/34 together with estimates of the proportion of the Net Revenue Budget (General Fund) allocated to Capital Financing charges. These fall within the thresholds approved by the Capital Strategy (approved by Council 22nd November 2023 (KD5666)) of 10% to 12%.

## Table 3: Cost of Debt and Revenue Budgets

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 | 2033/34 |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Gross interest** | **42.66** | **45.46** | **47.35** | **49.08** | **50.79** | **48.39** | **44.19** | **42.91** | **41.33** | **40.64** |
| **Recharges/ Income:** | | | | | | | | | | |
| Investment Income | -3.00 | -1.40 | -1.40 | -1.40 | -1.40 | -1.40 | -1.40 | -1.40 | -1.40 | -1.40 |
| Meridian Water | -9.93 | -9.91 | -9.80 | -7.88 | -7.35 | -5.69 | -5.85 | -2.41 | -2.54 | -2.71 |
| Companies | -5.88 | -5.92 | -6.03 | -5.82 | -5.66 | -5.54 | -5.42 | -5.30 | -5.17 | -5.04 |
| HRA | -15.23 | -16.35 | -17.12 | -18.65 | -20.77 | -23.52 | -25.72 | -26.76 | -27.30 | -27.53 |
| Schools | -0.13 | -0.13 | -0.13 | -0.13 | -0.13 | -0.13 | -0.13 | -0.13 | -0.13 | -0.13 |
| Other | 0.82 | 0.76 | 0.81 | 0.86 | 0.93 | 1.00 | 1.08 | 1.18 | 0.55 | 0.57 |
| **Total Recharges and Income** | **-33.35** | **-32.95** | **-33.67** | **-33.02** | **-34.38** | **-35.28** | **-37.44** | **-34.82** | **-35.99** | **-36.24** |
| **Interest Charged to Gen. Fund** | **9.31** | **12.51** | **13.68** | **16.06** | **16.41** | **13.11** | **6.75** | **8.09** | **5.34** | **4.40** |
| MW interest financing | 3.19 | 3.31 | 5.25 | 7.88 | 7.35 | 5.69 | 5.85 | 2.41 | 2.54 | 2.71 |
| Transfer to reserves | 1.15 | 0.70 | 1.07 | 0.46 | 0.39 | 0.39 | 0.34 | 0.34 | 0.33 | 0.31 |
| **Total interest charge – General Fund** | **13.65** | **16.52** | **20.00** | **24.40** | **24.15** | **19.19** | **12.94** | **10.84** | **8.21** | **7.42** |
| MRP | 17.72 | 18.85 | 19.37 | 18.65 | 16.40 | 15.30 | 14.68 | 14.59 | 14.55 | 14.33 |
| **Total Capital Financing cost – General Fund** | **31.37** | **35.37** | **39.37** | **43.05** | **40.55** | **34.49** | **27.62** | **25.43** | **22.76** | **21.75** |
| | | | | | | | | | | |
| **Budget b/fwd** | **28.97** | **31.37** | **35.37** | **39.37** | **43.13** | **40.74** | **34.74** | **27.88** | **25.71** | **23.04** |
| **Variation vs budget b/fwd** | **2.40** | **4.00** | **4.00** | **3.76** | **-2.39** | **-6.00** | **-6.86** | **-2.17** | **-2.67** | **-1.04** |
| **Budget c/fwd** | **31.37** | **35.37** | **39.37** | **43.13** | **40.74** | **34.74** | **27.88** | **25.71** | **23.04** | **22.00** |
| | | | | | | | | | | |
| **Net Revenue Budget (NRB) – General Fund** | **315.09** | **319.25** | **345.28** | **368.10** | **391.40** | **401.19** | **411.22** | **421.50** | **432.04** | **442.84** |
| **Capital Financing as proportion of NRB** | **10.00%** | **11.10%** | **11.40%** | **11.70%** | **10.40%** | **8.60%** | **6.70%** | **6.00%** | **5.30%** | **4.90%** |
| | | | | | | | | | | |
| **HRA voluntary MRP** | **1.39** | **1.45** | **1.57** | **1.62** | **1.68** | **1.74** | **1.80** | **1.86** | **1.92** | **1.99** |

## 4. Liability benchmark

4.1. The liability benchmark represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

4.2. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than the amount of borrowing it needs to finance its programmes (i.e., its highest forecast CFR over the next three years). Table 4 sets out the position over the forecasted period and shows the Council's external debt is below the CFR.

**Table 4: Prudential Indicator: Liability benchmark**

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 | 2033/34 |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Loans CFR | 1,481.59 | 1,514.90 | 1,546.20 | 1,555.25 | 1,590.45 | 1,438.52 | 1,415.99 | 1,369.71 | 1,335.44 | 1,320.08 |
| Balance sheet | -173.77 | -186.03 | -201.81 | -208.89 | -218.90 | -229.04 | -239.31 | -249.70 | -260.24 | -265.91 |
| **Net Loans Requirement** | **1,307.82** | **1,328.87** | **1,344.39** | **1,346.36** | **1,371.55** | **1,209.48** | **1,176.68** | **1,120.01** | **1,075.20** | **1,054.17** |
| Liquidity allowance | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 | 35.00 |
| **Liability benchmark*** | **1,342.82** | **1,363.87** | **1,379.39** | **1,381.36** | **1,406.55** | **1,244.48** | **1,211.68** | **1,155.01** | **1,110.20** | **1,089.17** |

**excludes PFI / Finance leases as these have separate repayment arrangements*

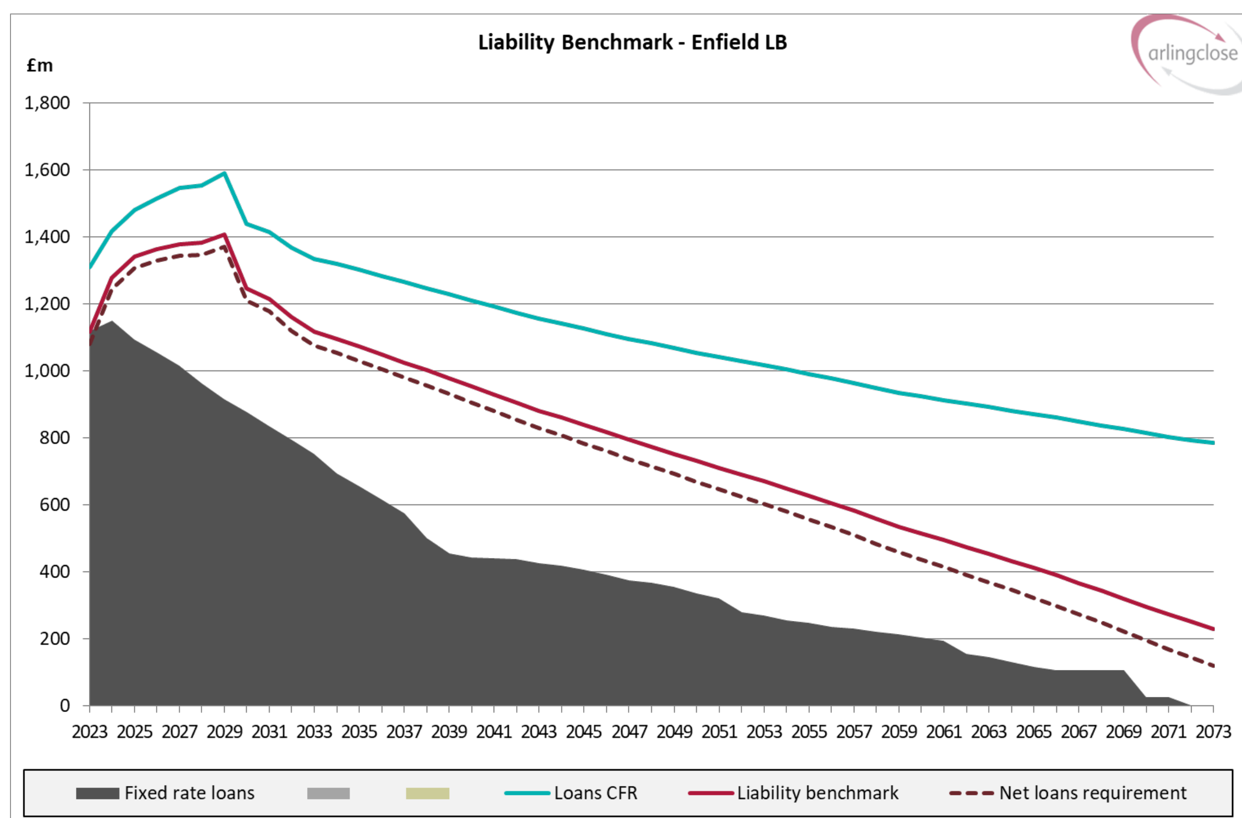
4.3. Balance Sheet Resources as per Table 5 is based on the Council's forecast of its Useable Reserves. Liquidity Allowance is based on the headroom built into the Council's Authorised Limit.

4.4. Based on current 10-year programme only (i.e. no further borrowing beyond the current 10 yr program) Chart 1 below provides a long term view how the Council's loans (grey shaded area) compare to:

- Capital Financing Requirement
- Net Loans Requirements (CFR less balance sheet resources), and
- Liability Benchmark (above plus liquidity allowance)

4.5. If debt (grey shaded area) exceeds the liability benchmark (red lines), the Council has a cash surplus and is holding this on deposit. It is a measure of the Council's existing (and committed) loans portfolio compared with its forecast loan needs. This benchmark supports the Council to understand and manage its exposure to treasury risks.

**Fig 1 Liability benchmark**




## 5. Borrowing Strategy

5.1. **Objectives:** The Council's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

5.2. **Strategy:** The Council's borrowing strategy continues to address the key issue of affordability without compromising the long-term stability of the debt portfolio. The Council will continue to use concessionary borrowing rates for the HRA announced 15th March 2023 which were initially available until June 2023 but have now been extended to June 2025.

5.3. During the recent period of interest rate volatility, the Council's borrowing strategy has been to borrow up to three months in advance of the cash being required in order to manage risk and refinance maturing debt at relatively lower interest rate where possible. Relatively strong investment income (around 5.3% as at 31st Dec, though lower earlier in the year) reduces the holding cost of debt until it is required.

5.4. Uncertainty persists in the economy which has an impact on the magnitude and timing of capital receipts and expenditure. In this environment, our borrowing strategy is going to be 'little and often, minimising cash balances' eg:

(i) Closer focus and engagement with project managers on cash flow forecasting (focusing on large payments and the month ahead).

(ii) Keeping £35m cash available in short-term investments as a buffer, for example, to meet payroll runs.

(iii) When the balance goes below £35m and is forecast to stay below this level, borrowing the forecast amount required for the following two weeks using the Council's HRA's headroom in order to secure concessionary rates from PWLB which will be available until June 2025.

(iv) Ensuring debt repayments are spread to avoid over concentration in any given year

5.5. This strategy will reduce cash balances and give certainty about the quantum of long-term borrowing required. It also gives the Council flexibility to change plans without incurring the cost of holding debt that is not required.

5.6. The above strategy will allow the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

5.7. The Authority has previously raised the majority of its long-term borrowing from the PWLB and short-term borrowing from other local authorities. The Council will continue to horizon-scan and investigate potential alternative financing options, but PWLB is likely to remain the cheapest and lowest risk option for long term borrowing.

5.8. PWLB loans are no longer available to Councils planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

5.9. **Sources of borrowing:** The approved sources of long term and short-term borrowing are:

i. HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
ii. UK Infrastructure Bank Ltd
iii. any institution approved for investments (see below)
iv. any other bank or building society authorised to operate in the UK
v. any other UK public sector body
vi. UK public and private sector pension funds (except the London Borough of Enfield Pension Fund)
vii. capital market bond investors
viii. UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
ix. Mayor of London Energy Efficiency Fund (MEEF)
x. Energy Efficiency Fund (LEEF)
xi. European Investment Bank (EIB)
xii. Insurance Funds

5.10. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

i. Leasing and hire purchase
ii. Private Finance Initiative
iii. sale and leaseback
iv. similar asset-based finance

5.11. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to Councils. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

5.12. **LOBOs:** the Council does not hold any Lender's Option Borrower's Option loans.

5.13. **Short term and variable rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

5.14. **Debt rescheduling: The PWLB allows Councils to repay loans before maturity. This** results in the Council either paying a premium (additional cost) to prematurely repay the loan or receiving a discount (refund of cost by PWLB). Premiums and discounts are calculated according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

## 6. Treasury Investment Strategy

6.1. At present the Council does not hold a significant level of invested funds. Surplus cash is held in overnight Money Market Funds for ease of accessibility to meet short-term cashflow demands.

6.2. The Council plans to have a zero daily current bank closing balance every day ensuring all surplus cash is always appropriately invested.

6.3. The level of cash deposit will fluctuate during the course of the year. For 2024/25 the Council aims to hold average cash balances of £35m to reflect the borrowing strategy as described in section 5.

6.4. **Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before

seeking the highest rate of return, or yield. The Authority'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. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

6.5. **Strategy:** The Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

6.6. Currently, the Council invests all surplus cash overnight into Money Market Funds (no fixed period). This gives maximum liquidity. Given the current high interest rate environment, the Council has focussed on maximising return on short term investments whilst maintaining liquidity to meet cash flow requirements.

6.7. The Council is required to have a £10m minimum investments at all times to keep its professional status and access to Money Market Funds and the wider capital markets. This means that £10m can be invested longer term to increase returns while prioritising the security of that investment.

6.8. This strategy is likely to lead to a higher diversification in the sectors we invest any cash surpluses in, depending on the returns and conditions (e.g., we may lend to other local authorities).

6.9. The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

6.10. **ESG policy**: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

6.11. **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

6.12. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types set out below, subject to the cash limits (per counterparty).

**Table 5 - Approved Investment Counterparties and Limits**

| Sector | Time limit | Counterparty limit | Sector limit |
| --- | --- | --- | --- |
| The UK Government | 50 years | Unlimited | n/a |
| Local authorities & other government entities | 25 years | £20m | Unlimited |
| Secured investments * | 25 years | £10m | Unlimited |
| Banks (unsecured) * | 13 months | £5m | Unlimited |
| Building societies (unsecured) * | 13 months | £5m | £10m |
| Registered providers (unsecured) * | 5 years | £5m | £25m |
| Money market funds * | n/a | £25m | Unlimited |
| Strategic pooled funds | n/a | £10m | £50m |
| Real estate investment trusts | n/a | £10m | £25m |
| Other investments * | 5 years | £5m | £10m |

This table must be read in conjunction with the notes below

A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below.

6.13. *** Minimum Credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

6.14. For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £500,000 per counterparty as part of a diversified pool e.g., via a peer-to-peer platform.

6.15. **Government:** Loans to; bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks.

These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

6.16. **Secured investments**: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

6.17. **Banks and building societies (unsecured)**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

6.18. **Registered providers (unsecured)**: Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

6.19. **Money market funds**: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

6.20. **Strategic pooled funds**: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

6.21. **Real estate investment trusts**: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

6.22. **Other investments**: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

6.23. **Operational bank accounts**: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £800,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

6.24. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

(i) no new investments will be made,
(ii) any existing investments that can be recalled or sold at no cost will be, and
(iii) full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.25. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

6.26. **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

6.27. **Reputational aspects:** The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

6.28. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected

in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested

6.29. Investments that are not for the purpose of treasury management activities (e.g., lending to wholly owned Council companies) are described in the separate Investment Strategy Report.

6.30. **Investment limits**: The Council will limit the risk of loss from a default from lending to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

**Table 6: Additional investment limits**

| | **Cash limit** |
|---|---|
| Any group of pooled funds under the same management | £25m per manager |
| Negotiable instruments held in a broker's nominee account | £25m per broker |
| Foreign countries | £10m per country |

6.31. **Liquidity management:** The Council uses its own in-house cash flow forecasting software model (Predictor) to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

6.32. The Authority will spread its liquid cash over at least four providers (e.g., bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## 7. Treasury Management Prudential Indicators

7.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

7.2. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value weighted average 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.

| Credit risk indicator | Target |
|---|---|
| Portfolio average credit score | 6 |

7.3. **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.

| Liquidity risk indicator | Target |
|---|---|
| Total cash available within 3 months | £35m |

7.4. **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

| Interest rate risk indicator | Limit |
|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | +£4.5m |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | -£4.5m |

7.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at market interest rates. The effect of an increase in interest rates will be mitigated through the Council's risk budget.

7.6. **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 borrowing will be:

| Refinancing rate risk indicator | Upper limit | Lower limit |
|---|---|---|
| Under 12 months | 30% | 0% |
| 12 months and within 24 months | 35% | 0% |
| 24 months and within 5 years | 40% | 0% |
| 5 years and within 10 years | 45% | 0% |
| 10 years and above | 100% | 0% |

7.7. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.8. **Long-term treasury management investments:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early

repayment of its investments. The prudential limits on the long-term treasury management investments (i.e., investments with duration in excess of 1 year) will be:

| Price risk indicator | 2023/24 | 2024/25 | 2025/26 | No fixed date |
|---|---|---|---|---|
| Limit on principal invested beyond year end | £25m | £25m | £25m | £0m |

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.

## 8. Related Matters

8.1. The CIPFA Code requires the Authority to include the following in its treasury management strategy.

8.2. **Financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment).

8.3. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

8.5. In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

8.6. **Housing Revenue Account:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g., premiums and discounts

on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on new borrowing. Where new borrowing is taken out using PWLB concessionary rates (currently available until June 2025) these will be assigned to the HRA with remaining debt to split on a financing requirement basis.

8.7. **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Director of Finance (Capital & Commercial) considers this to be the most appropriate status.

**Other Options Considered**

8.8. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance (Capital & Commercial) having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed overleaf.

| **Alternative** | **Impact on income and expenditure** | **Impact on risk management** |
|---|---|---|
| Invest in a narrower range of counterparties and/or for shorter times | Interest income will be lower | Lower chance of losses from credit related defaults, but any such losses may be greater |
| Invest in a wider range of counterparties and/or for longer times | Interest income will be higher | Increased risk of losses from credit related defaults, but any such losses may be smaller |
| Borrow additional sums at long-term fixed interest rates | Debt interest costs will rise; this is unlikely to be offset by higher investment income | Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain |
| Borrow short-term or variable loans instead of long-term fixed rates | Debt interest costs will initially be lower | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain |

| | | |
|---|---|---|
| Reduce level of borrowing | Saving on debt interest is likely to exceed lost investment income | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain |

## Section A – Existing Investment & Debt Portfolio Position

### Table A1 – Outstanding Debt Portfolio Position as of 31st December 2023

| Type of Loan | 1st April 2023 £m | Movement £m | 31st Dec 2023 |
|---|---|---|---|
| Public Works Loans Board | 994.8 | 86.2 | 1,081.00 |
| Local Authorities (short-term) | 74 | -52 | 22 |
| European Investment Bank | 7.6 | -0.2 | 7.4 |
| London Energy Efficiency Fund | 1.4 | -0.3 | 1.1 |
| Mayors Energy Efficiency Fund | 15 | 15 | 30 |
| Heat Networks Investment Project | 21.6 | 0 | 21.6 |
| Salix Funding | 3.1 | -0.9 | 2.2 |
| Greater London Authority | 0.7 | 0.1 | 0.8 |
| **Total Debt** | **1,118.20** | **47.9** | **1,166.10** |

### Table A2 – Outstanding Investments as of 31st December 2023

| Type of Loan | 1st April 2023 | 31st Dec 2023 |
|---|---|---|
| | **£m** | **£m** |
| **Money Market Funds (MMFs)** | 36.9 | 26.5 |
| **On-call accounts** | 0.0 | 0.0 |
| | **36.9** | **26.5** |

## Section B

## Additional Prudential Indicators

This report covers the requirements of the 2017 CIPFA Prudential Code to set prudential indicators. This item should be approved by the full Council before the start of the new financial year which is a legislative requirement. The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

### Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

**Table B1 - Gross Debt and the Capital Financing Requirement**

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 | 2033/34 |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Loans CFR | 1,481.59 | 1,514.90 | 1,546.20 | 1,555.25 | 1,590.45 | 1,438.52 | 1,415.99 | 1,369.71 | 1,335.44 | 1,320.08 |
| PFI & Fin Leases | 17.56 | 15.03 | 12.51 | 9.98 | 7.46 | 4.94 | 2.41 | 0.00 | 0.00 | 0.00 |
| **Total Capital Debt Requirement** | **1,499.15** | **1,529.93** | **1,558.71** | **1,565.23** | **1,597.91** | **1,443.46** | **1,418.40** | **1,369.71** | **1,335.44** | **1,320.08** |
| Internal borrowing* | -138.77 | -151.03 | -166.81 | -173.89 | -183.90 | -194.04 | -204.31 | -214.70 | -225.24 | -230.91 |
| **External borrowing** | **1,360.38** | **1,378.90** | **1,391.90** | **1,391.34** | **1,414.01** | **1,249.42** | **1,214.09** | **1,155.01** | **1,110.20** | **1,089.17** |
| **Made up :** | | | | | | | | | | |
| Liability benchmark | 1,342.82 | 1,363.87 | 1,379.40 | 1,381.36 | 1,406.54 | 1,244.48 | 1,211.68 | 1,155.00 | 1,110.20 | 1,089.17 |
| PFI/Lease liabilities | 17.56 | 15.03 | 12.51 | 9.98 | 7.46 | 4.94 | 2.41 | 0.00 | 0.00 | 0.00 |
| **External borrowing** | **1,360.38** | **1,378.90** | **1,391.91** | **1,391.34** | **1,414.00** | **1,249.42** | **1,214.09** | **1,155.00** | **1,110.20** | **1,089.17** |

*****_Internal borrowing made up of available balance sheet resources offset by liquidity allowance_

### Prudential Indicator: Operational Boundary

The operational boundary is based on the Council's estimate of most likely, i.e., prudent, but not worst-case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

### Table B2 - Operational Boundary

| | 2024/25<br>£m | 2025/26<br>£m | 2026/27<br>£m | 2027/28<br>£m | 2028/29<br>£m | 2029/30<br>£m | 2030/31<br>£m | 2031/32<br>£m | 2032/33<br>£m | 2033/34<br>£m |
|---|---|---|---|---|---|---|---|---|---|---|
| Debt Required | 1,342.82 | 1,363.87 | 1,379.40 | 1,381.36 | 1,406.54 | 1,244.48 | 1,211.68 | 1,155.00 | 1,110.20 | 1,089.17 |
| Other Long-Term Liabilities* | 17.56 | 15.03 | 12.51 | 9.98 | 7.46 | 4.94 | 2.41 | 0.00 | 0.00 | 0.00 |
| **Operational Boundary** | **1,360.38** | **1,378.90** | **1,391.91** | **1,391.34** | **1,414.00** | **1,249.42** | **1,214.09** | **1,155.00** | **1,110.20** | **1,089.17** |

**IFRS 16 will require most operating leases to be recognised as financed leases from April 2024; this is not expected to significantly affect these estimates*

### Prudential Indicator: Affordable Borrowing / Authorised Limit

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

### Table B3 - Affordable Borrowing / Authorised Limit

| | 2024/25<br>£m | 2025/26<br>£m | 2026/27<br>£m | 2027/28<br>£m | 2028/29<br>£m | 2029/30<br>£m | 2030/31<br>£m | 2031/32<br>£m | 2032/33<br>£m | 2033/34<br>£m |
|---|---|---|---|---|---|---|---|---|---|---|
| Operational Boundary | 1,360.38 | 1,378.90 | 1,391.91 | 1,391.35 | 1,414.00 | 1,249.42 | 1,214.10 | 1,155.00 | 1,110.20 | 1,089.17 |
| Headroom | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 | 200.00 |
| **Total Authorised Limit** | **1,560.38** | **1,578.90** | **1,591.91** | **1,591.35** | **1,614.00** | **1,449.42** | **1,414.10** | **1,355.00** | **1,310.20** | **1,289.17** |

## Prudential Indicator – Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue budget and the gross revenue budget for the General Fund and the Housing Revenue Account, respectively. It also exemplifies the element of housing rental that relates to financing costs, this calculation is notional and assumes all other things are equal.

### Table B4 - Ratio of Financing Costs to Net Revenue Stream

| Estimated Ratio of Financing Costs to: | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 | 2032/33 | 2033/34 |
|---|---|---|---|---|---|---|---|---|---|---|
| General Fund Net Revenue Stream | 10.00% | 11.10% | 11.40% | 11.70% | 10.40% | 8.60% | 6.70% | 6.00% | 5.30% | 4.90% |
| Housing Revenue Account Gross Revenue Budget | 20.5% | 20.1% | 20.5% | 21.1% | 21.9% | 23.5% | 24.8% | 25.1% | 25.0% | 24.8% |

**Section C**

**Annual Minimum Revenue Provision Statement (With effect from 1 April 2024)**

1) When the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department of Levelling Up, Housing and Communities (formerly Ministry for Housing, Communities and Local Government) Guidance on Minimum Revenue Provision most recently issued in 2018.

2) The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

3) The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

4) The approaches are therefore as follows, with effect from 1 April 2024 will be:

    a) the principle that the determination of a prudent amount of MRP for any given year will take account of payments made in previous years, and an assessment of whether those payments exceed what the current policy would require in terms of prudence.

    b) For capital expenditure incurred before 1 April 2008, and for capital expenditure incurred from 1 April 2008 to 31 March 2011, and which is Supported Capital Expenditure (SCE), MRP will be calculated at 2% on a straight-line basis.

    c) For unsupported borrowing incurred from 1 April 2008 onwards, MRP is calculated based on amortising the amount borrowed over the estimated lives of the assets acquired (or the enhancement made) as a result of the related expenditure using the annuity repayment method in accordance with DLUHC (formerly MHCLG) Statutory guidance. A discount rate of 3.50% is used in the annuity calculation.

    d) MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

e) For assets acquired by leases or the Private Finance Initiative MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

f) Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

g) For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the DLUHC Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

h) The Council is required to consider how the HRA makes prudent provision for the repayment of debt. In addition to depreciation charges funding the Major Repairs Reserve, the Council has chosen to make voluntary MRP charges from the HRA so that the HRA maintains borrowing capacity for future years. The total amount provided is estimated to be £17m from 2024/24 to 2033/34 of which £1.4m is expected for 2024/25.

i) Capital expenditure financed from borrowing incurred during one financial year will not be subject to an MRP charge until the asset moves into operation, except where the Section 151 officer deems it appropriate to charge it an earlier date.

j) Assets acquired with the intention of onward sale, which will not be used in the delivery of services, will not attract MRP. Capital receipts generated by sale of the asset will be set aside to repay debt that was used to initially acquire the asset in full. Where the debt cannot be extinguished as a result of a shortfall in the capital receipt an MRP charge will be made in accordance with this policy.

k) Land that has been acquired and held for regeneration purposes, and which has been financed by borrowing, will be charged MRP upon the asset becoming operational. Where the land is being used for non-regeneration purposes, for example leased out, MRP is chargeable annually. Whether MRP is charged on regeneration assets having meanwhile use will be determined by the S151 Officer on a case-by-case basis.

l) Capital receipts from the sale of developed land will be used to repay the debt incurred to finance the associated capital expenditure. Where the timing of the

capital receipt is unknown, an MRP charge will be made from an identified revenue budget. A voluntary MRP charge may also be applied where opportunities persist in order to accelerate debt extinguishment.

m) No MRP charge is made where a capital receipt is available (or anticipated to be shortly available) to apply to repay debt as long as the capital receipt is equal to or greater than the CFR related to the asset.

n) Unless a specific justification for another MRP rate is given, an annuity basis (rate of 3.5%) shall be used.

o) From 1 April 2024 onwards, asset lives for MRP charges will be charged on the following basis, except for schemes in which the asset is already in operation:

   i) ICT equipment - 5 years
   ii) Vehicles - 10 years
   iii) Highways Infrastructure
      - Carriageways roads substructure – 40 years
      - Carriageways reconstruction – 30 years
      - Carriageways resurfacing – 20 years
      - Carriageways surface dressing – 10 years
      - Bridges – 120 years
      - Structures – 40 years
      - Waterways – 40 years
      - Footways and cycleways roads – 30 years
      - Footways and cycleways off road – 40 years
      - Alleygating – 40 years
      - Street lighting – 25 years
      - Street furniture (including CCTV) – 15 years
   iv) Parks & Landscape - 25 years
   v) Investment Assets - 40 years unless a business can be made that there is a residual value that means a longer asset life is possible
   vi) School buildings and community assets - 40 years unless a business case for a specific asset justifies a different lifespan
   vii) Housing Assets - 50 years
   viii) Land – 50 years

ix) Leased Assets on the basis of the lease asset unless the above categories have a smaller asset life

x) All capital expenditure schemes less than £50k will be charged immediately to revenue

p) Capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26 or later (i.e. the year following the one in which the asset becomes operational).

**Minimum Revenue Provision (MRP) – Estimation for 2024/25**

5) This policy will take effect from 2024/25. Government Guidance requires that an annual statement on the Council's policy for its MRP should be submitted to Council for approval before the start of the financial year to which the provision will relate but that changes during the year are permitted if approved by full Council. Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2024, the MRP for 2024/25 and future years is estimated as follows:

**Table C1 – MRP for 2024/25 and Beyond**

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Future Years | Total MRP & Similar Charges |
|---|---|---|---|---|---|---|---|
| | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | |
| | £m | £m | £m | £m | £m | £m | £m |
| Historical Supported Borrowing | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 14.2 | 28.2 |
| Unsupported Borrowing | 14.2 | 15.3 | 15.8 | 15 | 12.7 | 54.6 | 127.6 |
| **General Fund - core services** | **17.00** | **18.10** | **18.60** | **17.80** | **15.50** | **68.80** | **155.80** |
| Meridian Water | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 4.7 | 8.5 |
| **Total MRP Excluding PFI and Company Loans** | **17.70** | **18.80** | **19.40** | **18.60** | **16.30** | **73.50** | **164.30** |
| HRA | 1.39 | 1.45 | 1.57 | 1.62 | 1.68 | 9.31 | 17.02 |
| PFI Repayment | 2.5 | 2.5 | 2.5 | 2.5 | 10 | 0 | 20 |
| Company Loan Repayments | 1.8 | 2.3 | 2.6 | 2.7 | 2.8 | 15.6 | 27.8 |
| **Total MRP Including PFI & Company Loan Repayments** | **23.39** | **25.05** | **26.07** | **25.42** | **30.78** | **98.41** | **229.12** |

**Section D** **Annual Investment Strategy Report 2024/25**

## Introduction

**1.** A Local Authority could invest its money for three broad purposes:
(I) because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
(II) to support local public services by lending to or buying shares in other organisations (service investments), and
(III) to earn investment income (known as commercial investments where this is the main purpose).

**2.** This investment strategy report meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the second and third of these categories.

## Treasury Management Investments

**3.** The Authority typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £10m and £100m during the 2024/25 financial year.

**4.** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities such as cashflow management. Full details of the Authority's policies and its plan for 2024/25 for treasury management investments are covered in the main report.

## Service Investments: Loans & Shares

**5.** The Council lends money to two of its own companies to support local public services and stimulate local economic growth. Each company, Lee Valley Heat Network Limited (LVHN – also known as Energetik); and Housing Gateway Limited (HGL), is 100% owned by the Council (parent body). All companies have been consistently consolidated into the group accounts. These companies were set up to meet the Council's strategic objectives as an authority.

6. The Council has committed to lend money to HGL and Energetik. In the case of HGL the Council has committed to lend money from 2024/25 at interest rates equal to the Council's own cost of borrowing, PWLB rates, which is below the market rates.

7. HGL, the Council's largest company, was established in 2014 to acquire and manage properties and provide long-term affordable lets in the challenging local housing market. These homes are let to residents in need of temporary accommodation, resulting in savings to the Council's revenue budget. HGL is funded by loans and £5m of equity from the Council. As at 31st October 2023 total loans outstanding with HGL were £126.5m.

8. Energetik was established in August 2015 to provide low carbon energy from waste to Enfield residents, through developing, owning and operating a series of community energy networks across Enfield. Investment in Energetik allows the Council to commit to the climate change agenda through investment in connections to low carbon energy such as the Energetik heat network. The company has successfully attracted grants and low-cost loans to support infrastructure into the borough.

9. The company is funded through a combination of Council loans and equity investment, with £94m approved to date, of which £77m is to be funded through Council borrowing and £17.6m external grants. External grants have been invested as equity in the company. As at 31st October 2023, total loans advanced was £32.8m and total loans outstanding were £37.4m

10. **Security**: The main risk when making service loans is that the borrower will be unable to repay the principal lent or the interest due. The risk of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, and ensure that total exposure to service loans and shares remain proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

**Table D1- Service Investments: loans & shares balance**

| Counterparty<br>All in £m | 2022/23 | | | 2023/24 | 2024/25 |
|---|---|---|---|---|---|
| | 31 March 2023 Nominal** | Loss allowance (accounting purpose only) | Net figure in accounts** | Estimate Nominal** | Approved Limit* Nominal** |
| Energetik | 33.9 | -19.4 | 14.5 | 41.1 | 52.8 |
| HGL | 126.8 | 0.0 | 126.8 | 120.1 | 149.6 |
| **Loans** | **160.7** | **-19.4** | **141.3** | **161.2** | **202.4** |
| Energetik | 17.8 | -0.9 | 16.9 | 17.8 | 17.8 |
| HGL | 5.0 | -0.1 | 4.9 | 5.0 | 5.0 |
| **Investments** | **22.8** | **-1.0** | **21.8** | **22.8** | **22.8** |
| **TOTAL** | **183.5** | **-20.4** | **163.1** | **184.0** | **225.2** |

**Limit based on period 7 forecasts net of loan repayments during 2024/25*
***Loan impairments are required for statutory accounting purposes and is not necessarily the recoverable amount. Actual amounts are denoted as "Nominal"*

**11.** Accounting standards require the Authority to set aside loss allowance for loans, reflecting a statistical likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority does not expect any losses from loans to either company. Appropriate credit control arrangements are in place to recover overdue repayments. Energetik is reviewing its business plan to demonstrate that it remains able to repay existing and future loans.

**12.** The equity investment has been accounted for by the Council purchasing shares in each Company valued at £1 per share. Equity investment is non repayable unless the Company or shares are sold. The investments have been funded by external grants and general PWLB borrowing for Energetik and HGL respectively.

**13.** Approved limit sets out the maximum value of loans and equity to 31 March 2025 based on the capital programme appearing elsewhere on the agenda.

**14.** In addition to the above service loans a new working capital facility of up to £3.5m was approved in favour of Energetik on 23rd October 2023 carrying interest the Bank of England base rate plus 1%. £1.3m was drawn down on this date with a further £0.9m in November with the remaining £1.3m available until 31 March 2027 when the facility expires and becomes repayable in full.

**15.** In addition to lending to existing wholly owned Companies, the Council may consider the following

- Lending to Joint ventures (JVs), Associates and Similar entities: The Council can invest in such organisations where there is minimal risk. Moreover,

there are instances when the Council is de facto required to invest or to deliver an alternative scheme

- Lending to Companies or Charities, which are not wholly owned: The Council may lend to local Charities, which deliver services supporting the Medium-Term Financial Plan, but it is must regularly confirm that the principal on the loans are protected. Similarly, the Council can loan to companies, but the standard is that the loans must be on a commercial basis and that the Council has confidence in the nature that principal will be protected. The Council may make small loans to organisations that are at a higher risk to support the local economy, possibly in relation to a complex regeneration scheme, but such loans, regardless of the amount, will require a delegated approval report, signed off by the Leader or the Cabinet Member responsible for Finance.

- Working Capital Facilities: These are explicitly not capital expenditure because they exist to manage cashflows, nor intended to be of a long-term nature. The Council can loan on a commercial basis to other organisations and the approval process is via the Section 151 Officer, who depending on the size of the loan may choose to request additional approval from the relevant Cabinet member. Regular reviews of cashflow of any entities receiving such a loan are a requirement, taking place no less than on a quarterly basis. It is anticipated that the majority of such facilities would take in relation to wholly owned companies or JVs, and that they would be on a commercial basis. However, where they are not on commercial terms, additional approval from the relevant Cabinet member, depending on the size of the loan, should be sought. One key aspect that must be considered in relation to working capital is that the cashflow review is not just for the demonstration of the financial health of the borrower and ability to repay (plus interest), but to ensure that the loan is not being used for capital purposes and is solely due to the timing of cashflows. The latter requires a different governance process as noted within the financial regulations.

- New Local Council Companies: All borrowing to companies owned by the London Borough of Enfield will require a formal on-lending agreement.

- Lending to Schools with the HSBC Banking Scheme: Where LA schools with an HSBC bank account are in a structural overdraft position then the Council will provide a credit facility to ensure the school(s) remain in a credit position. Interest will be charged at 0.5% above the prevailing bank rate.

16. **Risk assessment**: The Authority assesses the risk of loss before entering into and whilst holding service loans by:

    - Undertaking due diligence of each counterparty through the evaluation of business plans and cash flow forecasts. Due diligence will be undertaken internally by Finance Officers and/ or by an independently appointed advisor.

- To be able to demonstrate the ability to repay both interest and principal over the agreed repayment scheduled.

- Where possible the Council will secure the loan on the company's assets

- Use of credit ratings where applicable and past financial performance assessment

- Wholly owning the company or having a sizeable share in the company

- Ensuring the council has first right of call on assets in the event of default

- Obtaining assurance that there is sound governance and controls in place within the companies referred to above

- On lending agreements and loan agreements governing the terms of the loans advanced.

- Strong governance structures and reporting lines

- Use of external advisors for accounting; legal (including State Aid) and technical advice

- Determination of an exit strategy

17. **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

**Commercial Investments: Property**

18. The Council does not, at present or in the near future, invest in commercial and residential property for the purpose of making a profit.

**Loan Commitments and Financial Guarantees**

19. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

20. The Council has also provided a guarantee of up to £1 for the liabilities of the Meridian Water Estate Management Company, incorporated 31 March 2022, which has been

formed to provide services to residents of on the Meridian Water development. No loan support is envisaged from the Council.

## Investment Indicators

21. The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

22. **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third-party loans.

| **Total investment exposure** | **2023/24 Forecast £m** | **2024/25 Forecast* £m** |
|---|---|---|
| Treasury management investments (Target) | 35.0 | 35.0 |
| Service investments: Loans and Equity | 184.0 | 225.2 |
| Commercial investments: Property | 0 | 0 |
| **TOTAL INVESTMENTS** | **219.0** | **260.2** |
| Commitments to lend – HGL* | 52.9 | 0 |
| Commitments to lend – Energetik* | 0 | 0 |
| Guarantees issued on loans | 0 | 0 |
| **TOTAL EXPOSURE** | **271.9** | **260.2** |

**10-year capital programme includes £94m funding for HGL and Energetik £41.1m included in 2024/25 forecast, balance £52.9m recognised as commitment to lend*

23. **How investments are funded:**
    (i) Capital loans to Energetik: from borrowing – specific low-interest loans for heat networks
    (ii) Equity to Energetik: from government grants
    (iii) Working capital facility for Energetik: from Council working capital balances
    (iv) Loans and equity to HGL: from borrowing
    (v) The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

**Table D3- Investments funded by borrowing**

| | 2022/23 Actual £m | 2023/24 Forecast £m | 2024/25 Forecast £m |
|---|---|---|---|
| **Service investments: Energetik Loans** | **33.9** | **41.1** | **52.8** |
| **Service investments: HGL Loans** | **126.8** | **120.1** | **149.6** |
| **Service investments: HGL Shares** | **5** | **5** | **5** |
| **TOTAL INVESTMENTS FUNDED BY BORROWING** | **165.7** | **166.2** | **207.4** |

24. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

**Table D4- Investments net rate of return**

| | 2023/24 Actual | 2024/25 Forecast | 2025/26 Forecast | Explanation |
|---|---|---|---|---|
| Treasury management investments | 3.80% | 4.00% | 4.00% | Council currently invests in Money Market Funds |
| Service investments: Energetik Loans | 0.8% | 1.6% | 2.0% | Calculated by determining the loan costs incurred by the Council and recovered from Energetik as a proportion of loan balance outstanding at year end. |
| Service investments: HGL Loans | 0% | 0% | 0% | Lent at costs to HGL. Benefit to the Council is in the form of reduction in revenue costs associated with temporary housing |
| Service investments: Energetik Shares | 0% | 0% | 0% | Funded via government grant which has been passed onto Energetik in the form of equity investment. |
| Service investments: HGL Shares | -2.6% | -2.6% | -2.6% | No specific loan used to fund the equity investment; Council pool rate shown for the year equity investment was made. No dividends received from the Company to date but are possible in 2023/24 or 2024/25. Forecast do not yet recognise these receipts. |

25. **Net income from commercial and service investments to net revenue stream :** This indicator measures proportion of the Council's Net Revenue Budget supported by income from commercial and service investments and was introduced in 2023/24. Net income is expressed after direct costs and does not take into account interest tor MRP associated with such investments.

    The Council's Service investments in Energetik and HGL have generated no income in 2023/24 and none is forecast for 2024/25 therefore there is nothing to report on this indicator.