



## London Borough of Enfield

<b>Report Title</b>	Treasury Management Outturn Report 2023/24
<b>Report to</b>	Council
<b>Date of Meeting</b>	18th September 2024
<b>Cabinet Member</b>	Cllr Leaver – Cabinet Member for Finance and Procurement
<b>Executive Director</b>	Fay Hammond – Executive Director of Resources
<b>Report Authors</b>	Olga Bennet - Director of Capital and Commercial Olu Ayodele – Head of Finance (Capital & Treasury) Milan Joshi – Assistant Head Capital & Treasury
<b>Ward(s) affected</b>	All
<b>Key Decision Number</b>	KD 5743
<b>Classification</b>	Part 1 Public
<b>Reason for exemption</b>	Not applicable

### Purpose of Report

1. To report on activities of the Council's Treasury Management function during the 2023/24 financial year.

### Recommendations

Council is recommended to note the activities of the Treasury Management function during 2023/24

### Background

2. The overall cost of debt to the Council's General Fund for 2023/24 was £24.7m made up of net interest and other charges £5.5m and MRP £19.2m. This is equivalent to 8.6% of the net revenue budget (i.e. within the affordability level of 10% - 12% set by the Council)
3. This generated an **underspend against budget of £3.3m** made up of interest of £1m due to an Energetik-related loan, and a voluntary Minimum Revenue Provision (MRP) of £3.3m not made for Meridian Water. This was offset by a transfer to reserves of £1m.

4. Originally a pressure of up to £3.8m was reported to Council at the time the budget was set in February 2023 **which** assumed 100% delivery of the capital programme, with a reduced pressure of £2.3m assuming 70% delivery. (Treasury Management Strategy Statement, Council 23<sup>rd</sup> February 2023, KD5504) i.e. it was assumed that a drawdown from reserves would be required to meet 2023/24 financing costs. This drawdown was not required mainly due to lower capital expenditure in the General Fund.
5. The accumulated external debt as at 31<sup>st</sup> March 2024 was £1.250bn which is below the November budget of £1.406bn.
6. The accumulated debt was also below the Capital Financing Requirement (CFR), a key Prudential Indicator, and the Council remained in compliance with all other indicators.
7. The Council held £56.1m in investments as at 31<sup>st</sup> March 2024 and generated investment income of £3.3m.

### Regulatory framework

8. The Prudential Code for Capital Finance and Treasury Management Code (both 2021) require quarterly reports be submitted to the relevant Council Committee detailing the Council's treasury management activities.

### Economic Context

9. Inflation, measured by the Consumer Prices Index (CPI) stood at 10.1% at the start of the financial year and has fallen steadily to 3.2% as at 31st March 2024. As at 2<sup>nd</sup> September it stood at 2.2% with the Government's long term target set at 2%.
10. The Bank of England's Monetary Policy Committee (MPC) relies on interest rates as the primary tool to combat inflation by regulating consumer demand. The has increased the base rate from 4.25% at the start of the financial year to 5.25% as at 31st March 2024. The rate stood at 5% as at 2<sup>nd</sup> September 2024.
11. The Council borrows mainly from the Public Works Loans Board (PWLB) and has taken advantage of the HRA Concessionary Rates (currently in place until June 2025) which reduce the standard rate by 0.60%. Table 1 below shows indicative PWLB standard rates during 2023/24.

**Table 1: Standard PWLB rates 2023/24**

<b>PWLB Equal Instalment of Principal (EIP) rates</b>	<b>5 year</b>	<b>10 year</b>	<b>20 year</b>	<b>30 year</b>	<b>40 year</b>
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%
15th November 2023	5.28%	5.03%	5.19%	5.44%	5.55%
28th March 2024	5.16%	4.84%	4.96%	5.24%	5.38%

## Relevance to Council Plans and Strategies

12. Build our Economy to create a thriving place – the Treasury Outturn position updates provides an update on the overall debt position of the Council together with the cost of servicing this debt. It also reports on the performance of investments within the bounds of the annual investment strategy. Together these updates provide transparency and context for the overall financial position of the Council which supports the local economy.

## Cost of Borrowing

13. Table 2 below shows the Council's total cost of interest, debt charges and MRP, as well as how these costs are recharged to the Meridian Water (Capital), HRA and Council owned Companies to generate an overall net charge to General Fund of £24.7m made up of net interest & charges £5.5m and MRP £19.2m.

**Table 2: Cost of Debt – General Fund**

<b>Cost of Debt - General Fund £m</b>	<b>Feb Budget 70% delivery</b>	<b>Nov budget*</b>	<b>Period 8 estimate</b>	<b>Outturn</b>
<b>Total interest and debt charges</b>	<b>35.8</b>	<b>35.6</b>	<b>33.3</b>	<b>33.2</b>
Meridian Water - interest capitalised	-8.5	-8.5	-8.4	-7.5
HRA - interest recharged	-13.1	-13.1	-10.6	-12.2
Companies	-4.4	-4.4	-4.3	-4.7
Investment & other Income	-1.9	-1.9	-3.0	-3.6
Energetik – working capital facility valuation adjustment	-	-	0.5	0.3
<b>Interest &amp; other charges</b>	<b>7.9</b>	<b>7.7</b>	<b>7.5</b>	<b>5.5</b>
<b>Budget</b>	<b>6.1</b>	<b>6.1</b>	<b>6.5</b>	<b>6.5</b>
<b>(Under) Over-spend</b>	<b>1.8</b>	<b>1.6</b>	<b>1.0</b>	<b>-1.0</b>
MRP – Policy	19.7	19.7	19.4	19.2
MRP Voluntary	3.3	3.3	3.3	0.0
<b>MRP – total</b>	<b>23.0</b>	<b>23.0</b>	<b>22.6</b>	<b>19.2</b>
<b>Budget</b>	<b>22.5</b>	<b>22.5</b>	<b>22.5</b>	<b>22.5</b>
<b>(Under) Over spend</b>	<b>0.5</b>	<b>0.5</b>	<b>0.2</b>	<b>-3.3</b>
<b>Cost of Debt - General Fund</b>	<b>30.9</b>	<b>30.7</b>	<b>30.2</b>	<b>24.7</b>
Transfer to Energetik reserve	-	-	0.8	1.0
<b>Total cost of Debt – General Fund</b>	<b>30.9</b>	<b>30.7</b>	<b>31.0</b>	<b>25.7</b>
<b>Budget</b>	<b>28.6</b>	<b>28.6</b>	<b>29.0</b>	<b>29.0</b>
<b>(Under) Over spend – before transfer to reserves</b>	<b>2.3</b>	<b>2.1</b>	<b>1.2</b>	<b>-4.3</b>
<b>(Under) Over spend – after transfer to reserves</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>	<b>-3.3</b>

\*Mid-year update, Cabinet 15<sup>th</sup> Nov 2023

14. Details of the movement from the November budget (reported to Cabinet as part of the Mid-year update, 15<sup>th</sup> November 2023) to the final outturn are provided in appendix A.

### Debt and Investments Position

15. The Council started 2023/24 with net borrowing and investments of £1,118.2m and £36.9m respectively. These increased to £1,250.2m and £56.1m respectively due to additional borrowing to support capital expenditure and cash requirements as shown in table 3 below.

**Table 3: Debt and Investments position**

Summary	31.3.23 Balance £m	Movement £m	31.3.24 Balance £m	31.3.24 Ave rate %
Long-term borrowing	1,044.2	189.0	1,233.20	3.02%
Short-term borrowing	74.0	(57.0)	17.0	4.10%
<b>Total borrowing</b>	<b>1,118.2</b>	<b>132.0</b>	<b>1,250.2</b>	<b>3.04%</b>
<b>Total investments</b>	<b>(36.9)</b>	<b>(19.2)</b>	<b>(56.1)</b>	<b>4.98%</b>
<b>Net Borrowing</b>	<b>1,081.30</b>	<b>112.80</b>	<b>1,194.10</b>	

16. The increase in borrowing funded capital expenditure (not supported by other sources of finance) of £68m HRA, £26m Meridian Water, £14m Companies with the balance financing other General Fund capital expenditure. Further details are shown in the Capital outturn report appearing elsewhere on the agenda. Details of the movement is provided in appendix B.

### Borrowing Update

17. On 31st March 2024, the Council held loans of £1,250.2m, an increase of £132m from the 2022/23 closing balance (predominantly due to HRA borrowing for new capital expenditure). The Council repaid loans of £115m during the year and entered into loans of £247m, including refinancing. .

18. Table 4 below shows the allocation of debt across the main Council services together with other financial liabilities (PFI and lease obligations) and its investments and how these compare to the November budget positions reported as part of the Mid-year update.

19. The movement in debt and a summary of the Outstanding loans are shown in Appendix B.

### The Capital Financing Requirement (CFR)

20. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents capital expenditure accumulated over many years to 31<sup>st</sup> March 2024 for which borrowing would have been required had the Council not used its own cash balances to supplement budgeted financial resources.

21. Cash balances are used when available to ensure borrowing is kept to a minimum and is termed “internal borrowing,” with external borrowing representing the Council’s actual debt. Internal borrowing is also repaid over time from revenue via Minimum Revenue Provision, in line with external borrowing.
22. External borrowing of £1,250.2m was below the CFR of £1,402.7m and therefore in compliance with this key Prudential Indicator. The difference of £152.5m is the accumulated cash resources the Council has used to reduce borrowing and represents internal borrowing..
23. Table 5 below analyses the Council’s CFR and external borrowing as of 31 March 2024, split between the General Fund and HRA.

**Table 5: Capital Financing Requirement**

<b>2023/24 Capital Financing Requirement (CFR) and External borrowing</b>	<b>November Budget* £m</b>	<b>Outturn (pre-audit) £m</b>
General Fund	1,064.4	1,031.1
Housing Revenue Account	358.5	371.6
<b>Borrowing CFR</b>	<b>1,422.9</b>	<b>1,402.7</b>
<b>PFI and other liabilities</b>	<b>22.1</b>	<b>22.1</b>
<b>Capital Financing Requirement</b>	<b>1,445.0</b>	<b>1,424.8</b>
<b>External Borrowing</b>	<b>1,406.4</b>	<b>1,250.2</b>
<b>PFI and other liabilities</b>	<b>22.1</b>	<b>22.1</b>
<b>Operational boundary</b>	<b>1,428.5</b>	<b>1,272.3</b>
<b>Headroom</b>	<b>351.6</b>	<b>200.0</b>
<b>Authorised Limit</b>	<b>1,780.0</b>	<b>1,472.3</b>

\* Mid-year update, Cabinet 15<sup>th</sup> Nov 2023

24. The Authorised Limit represents the maximum debt beyond which any additional borrowing is prohibited. This limit, which can only be set by Full Council, was £1.645bn for 2023/24 approved by Council 23<sup>rd</sup> February 2023 (KD5504). The Authorised Limit in the table below shows the refreshed estimate.
25. The Council is currently estimating the cost of new debt at 5% and will continue to use internal resources where possible to minimise borrowing.
26. This estimate is based on the UK 15-year Gilt yield as at 30<sup>th</sup> April 2024 of 4.6% which is considered a reasonable estimate of the return demanded by the Capital Markets in exchange for UK Government Bonds. The estimate includes an on-lending allowance expected to be charged by the Debt Management Office.

## **Forward Borrowing**

27. The Council did not enter into any forward borrowing arrangements during the financial year although the market will continue to be monitored should any opportunities arise.

### **Other Debt Liabilities**

28. After £4.2m repayment of prior years' Private Finance Initiative/finance leases liabilities, total debt other than borrowing stood at £22.1m.

### **Debt Maturity**

29. The Council has 109 loans with some loans reaching maturity (becoming repayable) at up to 47 years with the average loan length currently at 15 years.

30. To ensure the Council is not overexposed to repayment demands accumulating in a particular year, the maturity profile is kept under review. Details of the maturity profile are provided in appendix D as part of the Treasury Management Indicators.

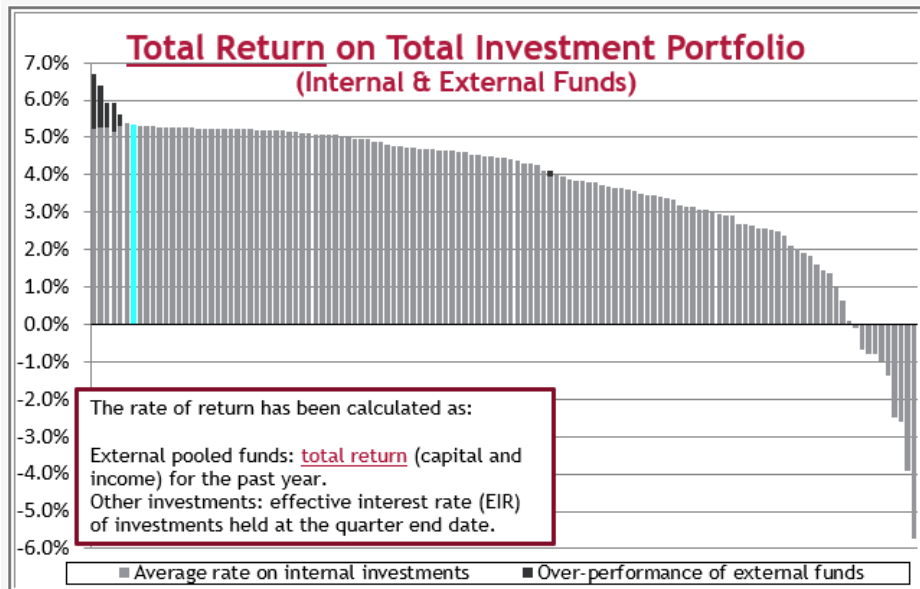
### **Treasury Investment Activity**

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

32. During the year, the Council's investment balance ranged between £10 million and £118 million due to timing differences between income and expenditure.

33. As at 31<sup>st</sup> March 2024 the Council held £56.1m investments which generated £3.3m investment income, a return of 4.98% on average, which is amongst the highest in the Council's benchmarking group as shown in figure 1 below.

**Figure 1 – Councils return on investments were amongst highest in England as at 30<sup>th</sup> September 2023**



34. The Council also participates in benchmarking its investment risk and return metrics using data compiled by its Treasury Advisers. The Council continues to invest prudently in funds with a credit score of AA-, higher than the minimum A rating set in the Treasury Management Strategy Statement approved by Council in February 2023.

35. Details of the risk and return indicators are provided in appendix C.

### Non-Treasury Investments

36. 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).

37. The Authority held £103.1m of such investments as loans to subsidiaries as set out in table 6 below:

**Table 6: Council owned Companies**

Loans to Council owned companies	HGL £m	Energetik £m	Total £m
<b>31 March 2023 (nominal)*</b>	126.8	33.9	160.7
New Borrowing	6.5	10.9	17.4
Repaid Borrowing	-0.3	-1.6	-1.9
<b>Balance at 31 March 2024 (nominal)*</b>	<b>133</b>	<b>43.2</b>	<b>176.2</b>
Reclassified Investment in Subsidiary	-43.3	-4.6	-48.0
Fair Value adjustments –			
Capital (no impact on useable reserves)	-	-24.8	-24.8
Working capital – impact on useable reserves	-	-0.3	-0.3
<b>Balance sheet value at 31st March 2024</b>	<b>89.6</b>	<b>13.5</b>	<b>103.1</b>

\*Nominal is cash basis

38. These investments generated no investment income in 2023/24 and the Council held no investments for commercial purposes.

### **Debt Restructuring**

39. 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**

40. The Council was in compliance with all indicators used to ensure its activities were within well-defined limits, details are provided in in appendix D.

### **Minimum Revenue Provision**

41. 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).

42. The actual MRP charge for 2023/24 was £19.2m (excluding voluntary MRP for Meridian Water) and total Financing Cost Charged to General Fund for 2023/24 was £24.7m.

### **Financial Implications**

43. 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**

44. Local Authorities in England have broad powers for borrowing and investment. How they do this is largely determined by the Local Government Act 2003 (LGA 2003) and statutory instruments issued under its powers.

45. The Treasury Management function for both borrowing and investment forms part of the Prudential funding structure established by LGA 2003. Authorities are required to have regard to a range of guidance when exercising these powers:

- Guidance issued by the Secretary of State (3rd edition applicable from 1 April 2018)



- Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (2021 edition)
  - CIPFA Prudential Code (2021 edition)
46. Finally, Local Authorities have the power to invest under [LGA 2003, s 12](#) (England and Wales) and the [Trustee Investments Act 1961](#). When making investments, authorities are required by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, [SI 2003/3146, regs 2,24](#) to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

### Equalities Implications

47. An Equality Act assessment has been conducted which can be found in Appendix E. The proposals set out in this report do not appear to impact on protected groups.

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### Appendices

- A – Cost of borrowing: explanation of variations
- B – Debt position
- C – Investment position and Benchmarking
- D – Treasury Management Indicators

### Appendix A – Cost of Borrowing: Explanation of Variations

Cost of Debt - General Fund £m	November budget*	Outturn	Variance vs Nov Budget	Explanation
<b>Total interest and debt charges</b>	<b>35.6</b>	<b>33.2</b>	<b>-2.4</b>	(i) £0.4m due to average interest on new borrowing of 4.49% against 4.80% estimated (ii) £0.8m due to lower than expected capital expenditure (iii) £1.2m due to the impact of taking debt later in financial year and internal borrowing
Meridian Water - interest capitalised	-8.5	-7.5	1.0	£574k corrections relating to prior years combined with lower than expected expenditure

HRA - interest recharged	-13.1	-12.2	0.9	Interest payments to HRA on its cash balances recognised in outturn. Nov budgets used older model which did not recognise this payment due to historically low interest rates.
Companies	-4.4	-4.7	-0.3	Model reviewed to ensure income recognised on accruals basis
Investment & other Income	-1.9	-3.6	-1.7	£0.7m of this is due to Higher average investment balances combined with improvement in investment yields. £1m of this had been planned to be transferred to Energetik shareholder reserve – (net in the budget)
Energetik – WCF loan valuation losses	-	0.3	0.3	Review of working capital facility
<b>Interest &amp; other charges</b>	<b>7.7</b>	<b>5.5</b>	<b>-2.2</b>	
<b>Budget</b>	<b>6.1</b>	<b>6.5</b>	<b>0.4</b>	
<b>(Under) Over spend</b>	<b>1.6</b>	<b>-1.0</b>	<b>-2.6</b>	
MRP – Policy	19.7	19.2	-0.5	Mainly £0.3m REFCUS expenditure originally expected to be written off not incurred
MRP Voluntary	3.3	0.0	-3.3	Voluntary MRP not made in 2023/24
<b>MRP – total</b>	<b>23.0</b>	<b>19.2</b>	<b>-3.8</b>	
<b>Budget</b>	<b>22.5</b>	<b>22.5</b>	<b>0.0</b>	
<b>(Under) Over spend</b>	<b>0.5</b>	<b>-3.3</b>	<b>-3.8</b>	
<b>Cost of Debt – GF before transfer to reserves</b>	<b>30.7</b>	<b>24.7</b>	<b>-6.0</b>	
<b>Transfer to reserves</b>	<b>-</b>	<b>1.0</b>	<b>1.0</b>	Transfer to Energetik Shareholder reserve (previously shown net in the investment income figure)
<b>Cost of Debt - GF after transfer to reserves</b>	<b>30.7</b>	<b>25.7</b>	<b>-5.0</b>	
<b>Budget</b>	<b>28.6</b>	<b>29.0</b>	<b>0.4</b>	
<b>(Under) Over spend before transfer to reserves</b>	<b>2.1</b>	<b>-4.3</b>	<b>-6.4</b>	
<b>(Under) Over spend after transfer to reserves</b>				

\* Mid-year update, Cabinet 15<sup>th</sup> Nov 2023

## Appendix B – Debt Position

Source & Ref	£m	Rate	From	To
Bfwd 1 Apr 2023	<b>1,118.20</b>	2.80%		
657939	10.00	4.84%	14 Sep 2023	13 Sep 2040
659077	10.00	4.78%	19 Sep 2023	18 Sep 2039
661546	5.00	4.60%	27 Sep 2023	26 Sep 2037
668123	15.00	4.66%	18 Oct 2023	17 Oct 2037
674334	10.00	4.65%	10 Nov 2023	09 Nov 2034
677269	20.00	4.42%	22 Nov 2023	21 Nov 2036
680857	10.00	4.41%	06 Dec 2023	05 Jun 2036

684965	10.00	4.27%	19 Dec 2023	18 Jun 2037
685884	15.00	3.97%	21 Dec 2023	20 Dec 2035
705864	30.00	4.40%	27 Feb 2024	26 Aug 2038
706375	15.00	4.41%	28 Feb 2024	27 Aug 2038
710914	5.00	4.41%	13 Mar 2024	12 Mar 2042
712729	10.00	4.24%	19 Mar 2024	18 Mar 2041
714471	20.00	4.40%	25 Mar 2024	24 Sep 2040
715012	10.00	4.40%	26 Mar 2024	25 Sep 2037
715362	10.00	4.30%	27 Mar 2024	26 Mar 2040
<b>PWLB loans taken*</b>	<b>205.00</b>	4.42%		
Other loans	27.0	4.18%	Various	
MEEF	15.0	2.30%	Various	
<b>Total new loans</b>	<b>247.0</b>	4.27%		
<b>Repayments</b>	<b>-115.0</b>			
<b>C/fwd 31 Mar 2024</b>	<b>1,250.20</b>	3.04%		

*\*Taken from PWLB using HRA concessionary rates available until June 2025*

## Appendix C – Investment Position and Benchmarking

<b>Investment Position</b>	<b>31 March 2023 £m</b>	<b>Cumulative Sums Invested £m</b>	<b>Cumulative Repaid sums £m</b>	<b>31 March 2024 £m</b>
<b>Money Market Funds:</b>				
Invesco	0.0	20.1	(5.1)	15.0
Deutsche	3.8	30.8	(34.7)	0.0
CCLA	25.0	31.3	(56.3)	0.0
Goldman Sachs	0.0	20.7	(20.7)	0.0
Ignis/Aberdeen	0.0	235.7	(235.7)	0.0

Prime Rate	0.0	220.3	(195.7)	24.6
AVIVA	8.0	203.9	(195.4)	16.5
<b>Call Accounts:</b>				
Santander	0	0	0	0
HSBC	0.0	3.6	(3.6)	0.0
Handelsbanken	0	0	0	0
<b>Total Cash Investments</b>	<b>36.8</b>	<b>766.4</b>	<b>(747.2)</b>	<b>56.1</b>

The Council generated investment income of £3.3m on cash balances held in call accounts and money market funds during this financial year equating to 4.98% on average. On average the Council's cash investment portfolio had a risk weighting equivalent to AA- credit rating.

### Investment Benchmarking

Table 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<sup>th</sup> September 2023:

Benchmarking	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30.09.2024*	4.36	AA-	100%	1	5.33%
31.03.2023	4.71	A+	100%	1	4.12%
<b>Similar LA's</b>	<b>4.53</b>	<b>A+</b>	<b>69%</b>	<b>27</b>	<b>4.30%</b>
<b>All LA's</b>	<b>4.47</b>	<b>AA-</b>	<b>59%</b>	<b>13</b>	<b>3.68%</b>

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.

**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.

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.

The Council's investment portfolio of £56.1m at 31<sup>st</sup> March 2024 has 100% "bail in" exposure meaning some or all of the investment can be lost in the event Money Market Funds (MMF) fails.

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

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

## **Appendix D – Treasury Management Indicators**

### **Operational Boundary and Authorised Limit**

Throughout 2023/24 the total loan debt was kept within the limits approved by Council against an Authorised Limit of £1,645.30 million. The authorised limit (as defined by the Prudential Code) was set as a precaution against the failure to receive a source of income or a major unexpected expenditure. In the unlikely event of this happening, the Council would need to borrow on a temporary basis to cover the shortfall in cash receipts. Any significant breach must be reported to the Council.

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.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table D1 below.

<b>D1: Approved Borrowing Limits 2023/24</b>	<b>Maximum debt 2023/24</b>	<b>31st March 2024 Actual £m</b>	<b>Operational Boundary* £m</b>	<b>Authorised Limit* £m</b>	<b>Complied?</b>
Borrowing	1,250.2	1,250.2	1,406.3	1,757.9	Yes
PFI & Finance Leases	22.1	22.1	22.1	22.1	Yes
<b>Total Debt</b>	<b>1,272.3</b>	<b>1,272.3</b>	<b>1,428.4</b>	<b>1,780.0</b>	

\* Mid-year update, Cabinet 15<sup>th</sup> Nov 2023

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 it is due to variations in cash flow and of a relatively low value.

### Liability Benchmark

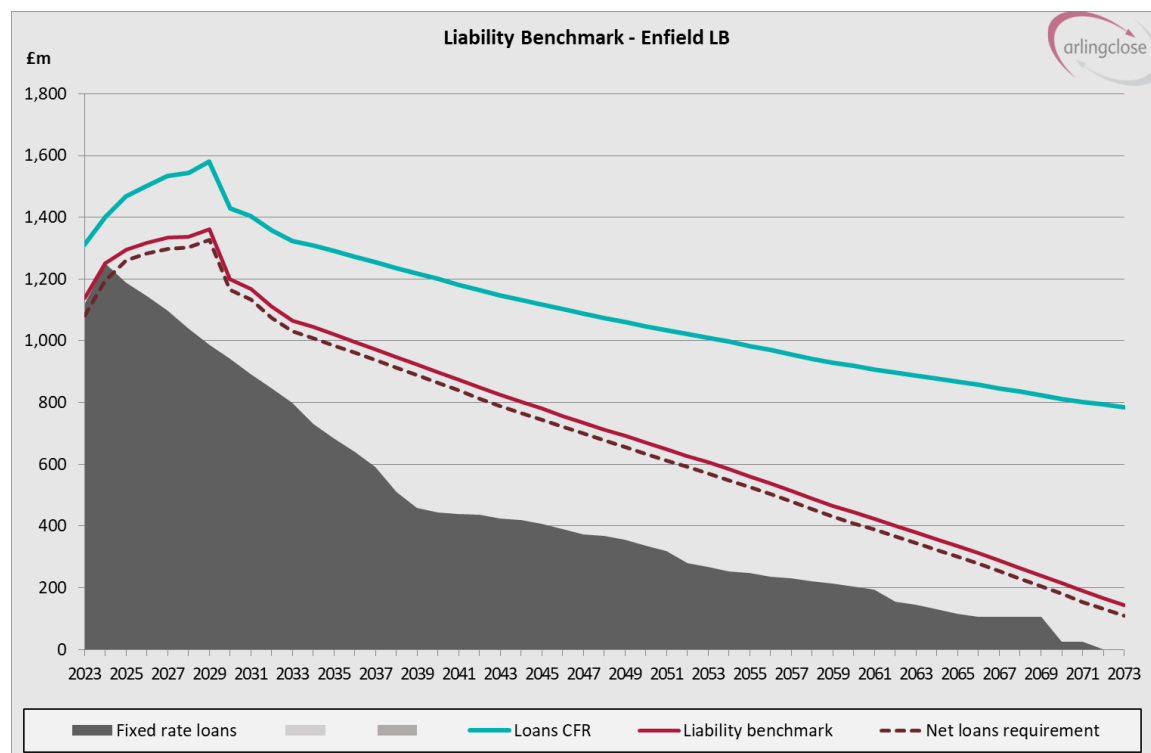
This is outstanding debt plus an allowance for liquidity to maintain day to day working capital and is therefore an estimate of how much debt the Council should be carrying. Table D2 shows how this is calculated for 2023/24 and the chart showing the liability benchmark and projected debt levels for the Council in the future.

<b>D2: Balance Sheet Summary £m</b>	<b>2022/23 Actual</b>	<b>2023/24 Actual</b>
General Fund – core services	474.3	460.8
Meridian Water	374.2	392.9
HGL	131.5	137.3
Energetik	33.7	40.1
HRA	296.8	371.6
<b>Capital Financing Requirement*</b>	<b>1,310.5</b>	<b>1,402.7</b>
<b>CFR Represented as :</b>		
External Borrowing	1,118.2	1,250.2
Internal Borrowing	192.3	152.5
<b>Capital Financing Requirement</b>	<b>1,310.5</b>	<b>1,402.7</b>
Less : Balance Sheet resources	<b>-218.0</b>	<b>-208.6</b>
Add: Allowance for liquidity	35.0	56.1
<b>Liability benchmark** (year end)</b>	<b>1,127.5</b>	<b>1,250.2</b>

\*Capital Financing Requirement : accumulated capital expenditure to 31<sup>st</sup> March 2024 for which borrowing *would have been required* had the Council not used its own cash resources (termed "internal borrowing") to offset actual borrowing

\*\* **Liability Benchmark** : estimate of net borrowing requirement including allowance for liquidity

The Chart below illustrates the Council's treasury position on 31 March 2024. 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.



### Debt Servicing Costs as a Proportion of Net Revenue Budget (NRB)

From 2024/25 the Council has approved the indicator “Ratio of Financing costs to Net Revenue Budget” as the primary measure of affordability for its debt. Council approved on 22 February 2024 the Capital Strategy (KD 5502) and Treasury Management Strategy Statement (KD 5668) which both set an annual target of 10% to 12%. Table D3 shows the ratio was within these limits for 2023/24.

D3: Financing as a Proportion of Revenue Resources	2022/23 Outturn (pre-audit)	2023/24 Outturn (pre-audit)
General Fund	11.6%	8.6%

### Net income from Commercial & Service Investments to NRB

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.

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 within the Borough.

No income was passed on to the Council by these investments in 2023/24 and any future income will be incidental to the provision of services and not driven for pure commercial gain.

During 2023/24 net income from the Council's investment properties made up 2.6% 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 as shown in table D4 below.

<b>D4: Total net income from service and commercial investments</b>	<b>2022/23 Outturn (pre-audit)</b>	<b>2023/24 Outturn (pre-audit)</b>
Net income – investment properties	£7.2m	£7.4m
Proportion of net revenue budget	2.8%	2.6%

## **Risk & Liquidity**

**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 D5 below.

<b>D: Credit Risk</b>	<b>30.9.23 Actual</b>	<b>2023/24 Target</b>	<b>Complied?</b>
Portfolio average credit rating	AA-	A	Yes
Portfolio average credit score	4.36	6	Yes

**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 D6 below.

<b>D6: Liquidity Risk</b>	<b>31.3.24 Actual £m</b>	<b>2023/24 Target £m</b>	<b>Complied?</b>
Total cash available within 3 months	56.1	35.0	Yes

**Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The Council held no variable interest rate debt during 2023/24. However, the Council's Treasury Management Strategy does permit variable interest rate loans. Table D7 shows the impact of such an increase is within approved limits.



<b>D7: Interest Rate Risk</b>	<b>31.3.24 Actual</b>	<b>2023/24 Limit</b>	<b>Complied?</b>
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	0.0	+£4m	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	0.0	-£4m	Yes

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

**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 D8 below.

<b>D8: Maturity Structure</b>	<b>31.3.24 Actual £m</b>	<b>31.3.24 Actual %</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied?</b>
Under 12 months	62.1	4.97%	30%	0%	Yes
12 months & within 24 months	45.0	3.60%	35%	0%	Yes
24 months and within 5 years	157.1	12.57%	40%	0%	Yes
5 years and within 10 years	258.4	20.66%	45%	0%	Yes
10 years and above	727.6	58.20%	100%	0%	Yes
<b>Total</b>	<b>1,250.2</b>	<b>100%</b>			

**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 D9 below.

<b>D9 : Principal invested over one year</b>	<b>2022/23</b>	<b>2023/24</b>	<b>No fixed date</b>
Actual principal invested beyond 365 days	Nil	Nil	Nil
Limit on principal invested beyond 365 days	£25m	£25m	£0m
Complied?	Yes	Yes	Yes

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.