London Borough of Enfield

Report Title	**2024/25 Quarter 2 (Q2) Treasury Management Mid-Year Update**
Report to	Cabinet
Date of Meeting	13th November 2024
Cabinet Member	Cllr Tim Leaver
Executive Director	Olga Bennet – Acting Executive Director of Resources
Report Authors	Olu Ayodele – Head of Finance (Capital & Treasury) Milan Joshi – Assistant Head Capital & Treasury
Ward(s) affected	All
Key Decision Number	Non Key
Classification	Part I Public

Purpose of Report

1. To report on activities of the Council's Treasury Management function over the six months to 30th September and provide estimates for financial year 2024/25.

Recommendations

Cabinet is requested to note the borrowing and investments position and estimates as at 30th September 2024 prior submission to Council to approve on 22nd January 2025.

Executive summary

2. The estimated overall cost of debt to the Council's General Fund for 2024/25 is £28.2m made up of net interest and other charges £10.9m and Minimum Revenue Provision (MRP) £17.3m. 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 is forecast to generate an underspend in 2024/25 against budget of £3.2m due primarily to the voluntary MRP for Meridian Water being deferred.

4. The accumulated gross external debt (excluding obligations under Private Finance Initiative (PFI) and finance lease contracts) as at 31st March 2024, was £1,250.2m increasing to £1,316.2m as at 30th September and estimated to reach £1,356.1m by 31st March 2025.

5. The level of debt remains in compliance with the key Prudential Indicators determining affordability: Capital Financing Requirement (CFR) and Authorised Limit.

6. The Operational Boundary indicator, which was originally estimated at £1.360bn is expected to be exceeded. This is due to capital receipts being used for ‘flexible use of capital receipts' and kept unapplied for future flexibility rather than using them to finance the historic capital programme. At budget setting it was assumed capital receipts would be used to fund the capital programme and repay historic debt.

7. The Operational Boundary indicator is a monitoring tool, which provides the latest estimate of external debt based on a dynamic set of assumptions. Fluctuations are expected therefore there is no breach of Prudential Regulations unless the Authorised Limit is exceeded.

8. The Council held £56.1m in investments as at 31st March 2024 and generated investment income of £3.3m in 2023/24. It is estimated the average level of investments during 2024/25 will be £50m, higher than the previously estimated £35m due to a borrowing strategy of borrowing during rate dips. These resources are invested in line with the Annual Investment Strategy (approved by Council as part of the Treasury Management Strategy) and are expected to generate investment income in excess of £4m in 2024/25.

9. This is partly due to mitigations put in place against expected declines in investment returns. The Council has taken advantage of lending to selected Local Authorities for up to two years at fixed interest rates to “lock in” returns in following creditworthiness and reputational checks as well as opening higher yield short term investment accounts.

10. Interest on new borrowing has been assumed at 4.40% and that for investment returns 4.70%. The interest on borrowing is lower as the Council is entitled to a reduced rate from the PWLB.

11. The forecasts generated are dependent on many assumptions, minor changes in which can significantly impact the ultimate charge to General Fund. These include the expenditure related to HRA and Meridian Water, timing for appropriations of social housing to the HRA and the timing of Meridian Water future capital receipts.

Regulatory framework

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

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

14. New regulations in relation to Council debt were announced by the Government on 10th April 2024 which will impact Councils from 2024/25. These are designed to ensure Councils can demonstrate a sufficiently prudent attitude to all debt by setting aside adequate financial resources for its eventual repayment.

15. Enfield Council pre-empted the financial impacts of these and included these in the approved budgets and forecasts presented in this report.

Economic Context

16. Inflation, measured by the Consumer Prices Index (CPI) stood at 10.1% at 1st April 2023 falling steadily to 3.2% as at 31st March 2024. At 30th September it stood at 2.2% slightly above the Government's long term target set at 2%.

17. 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 base rate increased from 4.25% at 1st April 2023 to 5.25% as at 31st March 2024 and has since fallen to 5.00% as at 30th September. As at the date of this report the next review is due 7th November 2024.

18. The Council borrows mainly from the Public Works Loans Board (PWLB) at a discount of 20 basis points (bps) off the standard rate. This rate is called the 'certainty rate' and is available to Councils who have submitted details of their long-term expenditure and borrowing plans to the PWLB.

19. A further discount of 40 bps is available when accessing the HRA concessionary rate which is in place until June 2026 which the Council will take advantage of for HRA borrowing.

20. The table below shows the recent trend of the PWLB Certainty Rate reflecting the expected reduction in interest rates.

Table 1: PWLB Certainty Rate

PWLB Certainty rates for maturity loans	1st Apr 2024	30th Jun 2024	30th Aug 2024	30th Sep 2024
Bank of England base rate	**5.25%**	**5.25%**	**5.00%**	**5.00%**
1 year	5.39%	5.37%	5.19%	4.95%
5 years	4.72%	4.89%	4.79%	4.56%
10 years	4.80%	4.96%	4.99%	4.83%
20 years	5.24%	5.37%	5.40%	5.28%
50 years	5.07%	5.18%	5.24%	5.21%

Source: Government's Debt Management Office

Relevance to Council Plans and Strategies

21. Good homes in well-connected neighbourhoods

22. Build our Economy to create a thriving place

23. Sustain Strong and healthy Communities

Cost of Borrowing

24. The Council's total estimated cost of interest, debt charges and MRP for 2024/25 is £28.2m made up of net interest and other charges £10.9m and MRP £17.3m. This is a £3.2m underspend due mainly to the deferral of voluntary MRP in respect of Meridian Water

25. Table 2 below shows the progression of the initial gross interest payments made by the Council to the ultimate charge experienced by the General Fund in 2024/25. The main adjustments, relating to Meridian Water (Capital) and HRA, are sensitive to changes in assumptions which can therefore significantly impact the ultimate charge to General Fund.

Table 2: Cost of Debt – General Fund

Cost of Debt - General Fund £m	2023/24 Outturn (pre-audit)	Approved budget	Q2 Forecast	Variation vs approved budget
Total interest and debt charges	**33.2**	**42.7**	**40.3**	**-2.4**
Meridian Water - interest capitalised	-7.5	-9.9	-8.8	1.1
HRA - interest recharged	-12.2	-15.2	-13.1	2.1
Companies	-4.7	-5.9	-5.3	0.6
Investment & other Income	-3.9	-3.1	-4.6	-1.5
Interest & other charges	**4.9**	**8.6**	**8.5**	**-0.1**
MRP – Policy	19.2	17.7	17.3	-0.4
MRP Voluntary	0.0	3.2	0.0	-3.2
MRP – total	**19.2**	**20.9**	**17.3**	**-3.6**
Interest & MRP – General Fund	**24.1**	**29.5**	**25.8**	**-3.7**
Loan accounting & bank charges and contingency	0.6	0.7	1.4	0.7
Transfer to Energetik reserve	1.0	1.2	1.0	-0.2
Total cost of Debt – General Fund	**25.7**	**31.4**	**28.2**	**-3.2**

26. The interest rate assumed for new borrowing in 2024/25 is 4.40% has been confirmed with the Council's Treasury Advisors and is consistent with the return demanded by the Capital Markets in exchange for UK Government Bonds. The estimate includes an on-lending allowance to be charged by the Debt Management Office.

Debt and Investments Position

27. Gross debt and investments positions at the start of the financial year and as at 30th September are summarised in table 3 below, with further details in appendices A and B.

Table 3: Debt and Investments position

Summary	1 April Balance £m	Movement £m	30th September Balance £m	30th September Ave rate %
Long-term borrowing	1,233.2	68.0	1,301.2	3.11%
Short-term borrowing	17.0	-2.0	15.0	3.95%
Gross borrowing	**1,250.2**	**66.0**	**1,316.2**	**3.12%**
Gross investments	**56.1**	**98.0**	**154.1**	**4.98%**

28. The increase in gross debt of £66m was due to new loans of £90m (£80m for HRA, £10m Housing Gateway Limited (HGL)) offset by other loan repayments of £24.0m.

29. The planned increase in investments to £154.1m is in preparation for capital investment later in the year.

The Capital Financing Requirement (CFR)

30. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents capital expenditure accumulated over many years for which *borrowing would have been required* (including 'internal borrowing').

31. 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 MRP, in line with external borrowing.

32. External borrowing of £1,316.2m as at 30th September 2024 was below the Loans CFR of £1,459.0m and therefore in compliance with this key Prudential Indicator. The difference of £142.8m is the accumulated cash resources the Council has used over the years to reduce borrowing and represents internal borrowing.

33. Table 4 below shows the Council's Loans CFR together with PFI and Finance lease liabilities as at 31st March 2024 (pre-audit) together with the Q2 forecast to 31st March 2025, split between the General Fund and HRA. Although the CFR for General Fund has decreased, that for the HRA is expected to exceed the approved budget (set in the Treasury Strategy Feb 2024) by £16.4m due to higher than expected unfinanced capital expenditure of 2023/24 £10.4m and 2024/25 £6m. The interest charge to HRA is expected to be within budget, however.

Table 4: Capital Financing Requirement

Capital Financing Requirement (CFR) and External borrowing	**31 March 2024 Outturn (pre-audit) £m**	**Approved budget £m**	**Forecast 2024/25 Q1 info only £m**	**Forecast 2024/25 Q2 £m**
General Fund	1,013.5	1,075.4	1,044.8	1,036.4
Housing Revenue Account	371.6	406.2	416.2	422.6
Loans CFR – total	**1,385.1**	**1,481.6**	**1,461.0**	**1,459.0**
PFI and other liabilities	23.7	17.6	17.6	18.0
Total CFR	**1,408.8**	**1,499.2**	**1,478.6**	**1,477.0**

34. The Operational Boundary shown in table 5 below is an estimate of the Council's external debt (including PFI and finance lease liabilities) based on current estimates and is expected to fluctuate as part of the in-year monitoring cycle. The latest estimate exceeds the approved budget by £13.7m, as at budget setting it was assumed capital receipts would be used to fund the capital programme/repay historic debt.

Table 5: Operational Boundary and Authorised Limit

Capital Financing Requirement (CFR) and External borrowing	31 March 2024 Outturn (pre-audit) £m	Approved budget £m	Forecast 2024/25 Q1 info only £m	Forecast 2024/25 Q2 £m
External Borrowing*	1,250.2	1,342.8	1,356.3	1,356.1
PFI and other liabilities	23.7	17.6	17.6	18.0
Gross external debt	**1,273.9**	**1,360.4**	**1,373.9**	**1,374.1**
Operational Boundary	**1,445.3**	**1,360.4**	**1,373.9**	**1,374.1**
Authorised Limit – Statutory limit	**1,645.3**	**1,560.4**	**1,560.4**	**1,560.4**

**external borrowing as at 30th September £1,316.2m, details in appendix A.*

35. Conversely, the Authorised Limit is statutory which can only be set by Full Council and represents the maximum debt beyond which any additional borrowing is prohibited. This limit, which includes PFI and finance lease liabilities, is set at £1,560.4m for 2024/25 approved by Council 22nd February 2024 (KD5668).

36. Gross external debt is below the Authorised Limit and therefore in compliance with this Prudential Indicator.

Forward Borrowing

37. 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.

Debt Maturity

38. The Council has 115 loans averaging a remaining term of 16.3 years.

39. To ensure the Council is not overexposed to repayment demands accumulating in a particular year, the maturity profile is kept under review. A balance is therefore maintained between the term of new or replacement debt and its cost to ensure cash resources are not overstretched.

40. Details of the maturity profile are provided in appendix D as part of the Treasury Management and Prudential Indicators.

Treasury Investment Activity

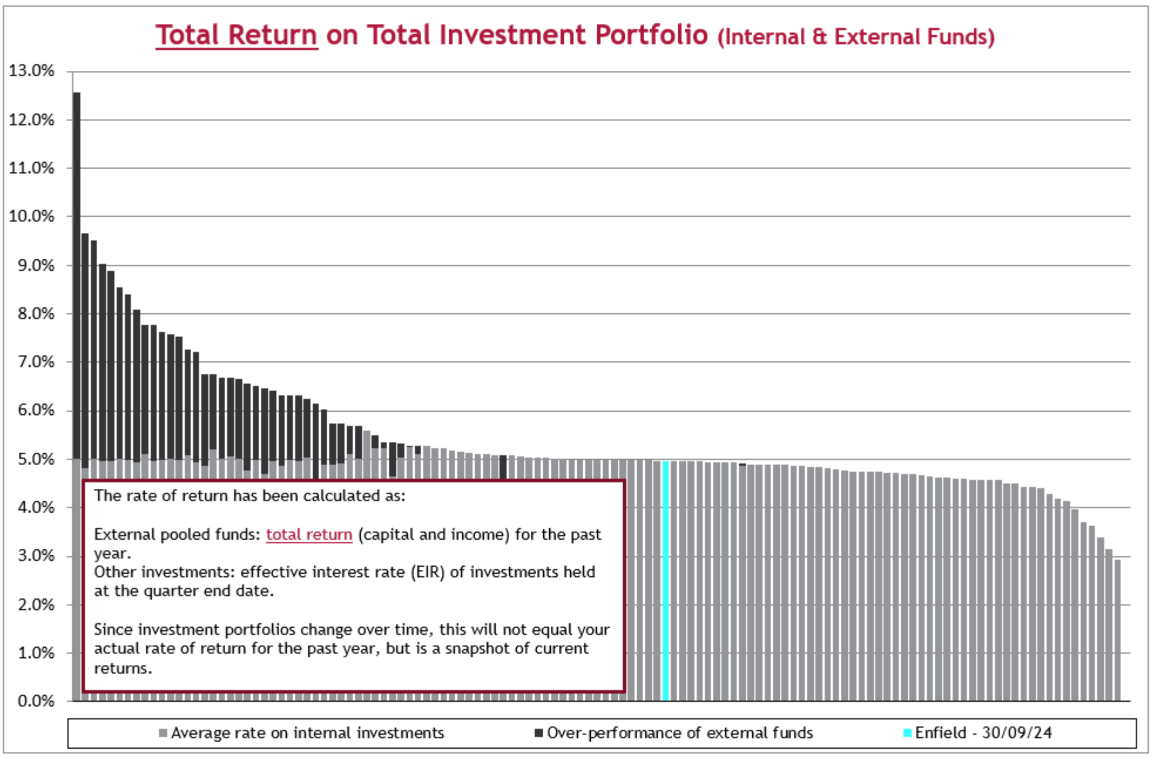
41. Total cash balances are expected to vary considerably over the year, predominantly due to significant peaks and troughs arising from payment profiles of business rates, capital expenditure, DWP payments and housing benefit payments.

42. The Treasury Management Strategy set the average level of cash balances at £35m. It is expected this average will increase to £50m from 2024/25 onwards which better reflects the working capital requirements of the Council.

43. Part of this expected increase has been invested longer term as a partial mitigation to the risk that Money Market Fund yields are reducing. This has been done by lending £10m to other Councils for up to two years subject to credit and reputational checks. The limit of £10m is consistent with the minimum balances required to access Money Market Funds and wider capital markets (as set out by Markets in Financial Instruments Directive 2014 (MIFID)).

44. As at 31st March 2024 the Council held £56.1m investments which generated £3.3m investment income, a return of 4.98% on average, which is consistent with other members of the Council's benchmarking group (figure 1 below). Investment income in excess of £4m is estimated for 2024/25 based on average balances of £50m which incorporates the mitigations implemented to shield the Council's returns from expected declines.

Figure 1 – Councils return on investments in England as at 30th Sep 2024



45. The Council also participates in benchmarking its investment risk and return metrics using data compiled by its Treasury Advisers. Details of the risk and return indicators are provided in appendix B.

Non-Treasury Investments

46. 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).

47. The Council held £176.3m of such investments as loans to subsidiaries as at 31st March 2024, increasing to £186.4m as at 30th September and expected to increase to £216.5m as at 31st March 2025. Details are set out in table 6 below:

Table 6: Council owned Companies

Loans to Council owned companies	**HGL £m**	**Energetik £m**	**Total £m**
31st March 2024 (pre-audit)	**133.0**	**43.3**	**176.3**
New Borrowing – capital	-	3.1	3.1
Repaid Borrowing	-0.3	-	-0.3
Working Capital Facility Borrowed	2.0	0.4	2.4
Working Capital Facility Repaid	-2.0	-	-2.0
Balance at 30th June 2024	**132.7**	**46.8**	**179.5**
New Borrowing – capital	5.0	1.8	6.8
Repaid Borrowing	-0.3	-	-0.3
Working Capital Facility Borrowed	-	0.4	0.4
Working Capital Facility Repaid	-	-	-
Balance at 30th September 2024	**137.4**	**49.0**	**186.4**
New Borrowing - capital	24.4	6.7	31.1
Repaid Borrowing	-0.3	-0.6	-0.9
Working Capital Facility Borrowed	-	-	-
Working Capital Facility Repaid	-	-0.1	-0.1
Forecast at 31st March 2025	**161.5**	**55.0**	**216.5**

48. These investments are not expected to generate investment income in 2024/25 and the Council held no investments for commercial purposes.

49. The Council is required to recognise expected credit losses (ECLs) associated with loans extended to its subsidiaries. These are estimated at £300k per annum and are mandatory adjustments for compliance with accounting standards (IFRS 9 Financial Instruments) even if the debt is considered recoverable. These ECLs, which are revised annually, are intended to reflect the credit quality of loans extended to third parties and are refunded once the loan has been fully repaid at the end of the term.

Debt Restructuring

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

51. No restructuring is expected as PWLB and premature repayment rates make this unviable. The Council will continue to actively seek opportunities to restructure debt, if viable.

Treasury Management Indicators

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

Table 6: Treasury Management & Prudential Indicators

Indicator	Result
1. Authorised Limit Statutory limit on gross external debt (including PFI and finance lease liabilities) beyond which further borrowing is prohibited. This limit can only be set by Full Council.	**Complied**
2. Operational Boundary Latest estimate of gross external debt based on current capital expenditure plans, financing and broader assumptions around the Council's working capital requirements. Forecast exceeds that estimated in the Treasury Management Strategy due to the choice to withhold capital resources for future flexibilities. Fluctuations are expected as assumptions change – no breach unless Authorised limit exceeded.	**Complied**
3. Liability Benchmark An estimate of how much debt the Council should be carrying based on external debt and requirements to maintain liquidity and is normally forecast for at least ten years. The Liability Benchmark remains below the Loans CFR therefore remains within limits.	**Complied**
4. Debt Servicing costs as a proportion of Net Revenue Budget (NRB) An assessment of the sustainability of the Cou2ncil's borrowing commitments in the context of its revenue resources. This limit was set 10% - 12% of the General Fund Net Revenue Budget. The indicator for 2023/24 was 8.6% and that for 2024/25 is forecast to be unchanged	**Complied**
5. Net income from Commercial & Service Investments to NRB – Considers the Council's exposure to risk from commercial and service investment income in relation to is overall revenue resources. As the proportion of income from these sources to NRB remains insignificant no over reliance on service investments is indicated. The Council has no commercial investments	**Complied**

6. Risk & Liquidity A suite of six indicators assessing the risk and liquidity of the Council's borrowing and investment portfolio: • Security • Liquidity • Interest Rate Exposure • Maturity Structure of Borrowing • Principals invested over one year • Investment Limits	**Complied**
7. Capital Expenditure Estimates of capital expenditure remain within the approved budgets approved by Council February 2024	**Complied**

Minimum Revenue Provision (MRP)

53. On 10th April 2024 amended legislation and revised statutory guidance were published on MRP. The majority of the changes take effect from 2025/26, although there is a requirement for capital loans given on or after 7th May 2024 that sufficient MRP must be charged so the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

54. The regulations also require that Councils cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

55. The requirement to make MRP does not exclude the HRA although the guidance states prudent provision through depreciation may negate the requirement for further MRP charges. The Council had already included a voluntary MRP charge assumption in 2024/25 HRA approved budgets.

56. The Council's Treasury advisors have confirmed that HGL loans are not affected by the changes in the rules due to the nature of the business and asset base of the entity. Energetik loans for contractually committed capital works have been signed and therefore fall before the 7 May 2024 rules. Further capital loans will be subject to a refreshed business plan which will take into account any revenue risks to the Council of providing the loans. The Council has set up an Energetik Shareholder reserve in order to finance costs such as these in the future, if required.

57. A proportion of existing loans are recognised as revenue to support the working capital requirements of the companies, and these are subject to ECLs which are charged direct to the Income & Expenditure account in accordance with proper practices.

58. The Council's Annual MRP Statement, published as part of the Treasury Management Strategy Statement, (KD 5668) approved by Council 22nd February 2024, sets out the assumptions to be used in applying MRP from 1st April 2024 including the application of capital receipts and use of voluntary MRP to accelerate debt extinguishment where such opportunities exist.

Financial Implications

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

Legal Implications

60. A wide power to borrow is provided for any purpose relevant to the authority's functions and for the purposes of the prudent management of its affairs. The concept of "prudent management" is not defined by statute but the stated intention is to include normal treasury management purposes such as refinancing existing debt, and it is clarified by the Prudential Code for Capital Finance in Local Authorities to which authorities must have regard.

61. Every authority is under a duty to determine and keep under review how much it can afford to borrow, and the duty is that of the authority itself and cannot be delegated (Local Government Act 2003 s.3(1) and (8)). That determination must be made with regard to the regulations made by the Secretary of State in relation to this duty, and those regulations may require authorities to have regard to specified codes of practice. The regulations may also provide for when, how, and for what period the determination is to be made.

62. Local authorities have always been able to invest, but the legal basis for this has been unclear. Under section 12 of Local Government Act 2003, there is now a general power for an authority to invest for any purpose relevant to its functions under any enactment, and for the purposes of the prudent management of its financial affairs.

Equalities Implications

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

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Appendices

A – Debt position
B – Investment position and Benchmarking
C – Treasury Management and Prudential Indicators

Background Papers

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

(i) Treasury Management Strategy Statement 2024/25 (KD5668) approved by Council 22nd February 2024

(ii) Treasury Management Outturn Report 2023/24 (KD5743) approved by Cabinet 12th June 2024, and Council 18th September 2024

(iii) Treasury Management Quarter 1 2024/25 Monitoring report approved by Cabinet 11th September 2024

Appendix A – Debt Position

Source & Ref	£m	Rate	From	To
Bfwd 1 Apr 2024	**1,250.2**	3.04%		
PWLB 730321*	25.0	4.31%	23-May-24	22-May-37
PWLB 737937*	5.0	4.34%	21-Jun-24	20-Jun-38
PWLB 737932	4.0	4.74%	21-Jun-24	20-Jun-31
PWLB 737934	1.0	4.74%	21-Jun-24	20-Jun-37
PWLB 750790*	20.0	4.22%	08-Aug-24	07-Aug-39
PWLB 751892*	20.0	4.05%	12-Aug-24	11-Aug-39
PWLB 760837*	10.0	3.93%	18-Sep-24	17-Sep-35
PWLB 761501	4.0	4.56%	20-Sep-24	19-Sep-34
PWLB 761503	1.0	4.33%	20-Sep-24	19-Sep-34
New debt taken	**90.0**	4.23%		
Repayments	**-24.0**			
30 Sep 2024	**1,316.2**	3.12%		

*****_Taken from PWLB using HRA concessionary rates available until June 2026_

Appendix B – Investment Position and Benchmarking

Investment Position	**31 Mar 2024 £m**	**Cumulative Sums Invested £m**	**Cumulative Repaid sums £m**	**30th Sep 2024* £m**
Money Market Funds:				
Invesco	15.0	10.0	-	25.0
Deutsche	-	148.9	-148.9	-
CCLA	-	26.3	-1.3	25.0
Goldman Sachs	-	90.7	-88.9	1.8
Ignis/Aberdeen	-	60.9	-35.9	25.0
Prime Rate	24.6	0.2	-	24.8
AVIVA	16.5	8.5	-	25.0
HSBC	-	80.0	-80.0	0.0
Call Accounts:				
Lloyds	-	35.6	-18.1	17.5
Santander	-	-	-	-
HSBC	-	-	-	-
Handelsbanken	-	-	-	-
LA Loans:				
Lancashire County Council	-	5.0	-	5.0
Manchester City Council	-	5.0	-	5.0
Total Cash Investments	**56.1**	**471.1**	**-373.1**	**154.1**

The Council is expected to have average cash balances of at least £50m during the financial year. On average the Council's cash investment portfolio had a risk weighting equivalent to A+ credit rating in line with other similar Councils.

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 30th June 2024:

Benchmarking	Credit Score*	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30.09.2023	4.36	AA-	100%	1	5.33%
30.06.2024	4.79	A+	100%	1	5.21%
30.09.2024	4.79	A+	94%	35*	4.96%
Similar LA's	**4.71**	A+	**78%**	**14**	5.26%
All LA's	**4.60**	A+	**62%**	**11**	5.42%

**Lower score indicates a better credit rating*
***includes impact of two long term investments*

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 4.79 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 £154.1m at 30th September 2024 has 100% "bail in" exposure meaning some or all of the investment can be lost in the event Money Market Fund (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 Eight different MMFs and One Call Account, then with each MMF subsequently invested in more than 10 institutions.

Appendix C – Treasury Management and Prudential Indicators

Operational Boundary and Authorised Limit

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

For 2024/25 the decision has been taken to withhold capital resources from funding capital expenditure to provide flexibility in the future. This has resulted in the estimate of the Operational Boundary exceeding that reported to Council by £13.7m (or 1%) which is neither significant nor permanent.

Both Prudential Indicators are therefore complied with.

C1: Approved Borrowing Limits 2024/25	**Q2 estimate 2024/25**	**Actual 30th Sep 2024**	**Operational Boundary £m**	**Authorised Limit £m**	**Complied**
Borrowing	1,356.1	1,316.2	1,342.8	1,542.8	Yes
PFI & Finance Leases	18.0	23.7	17.6	17.6	Yes
Total Debt	**1,374.1**	**1,339.9**	**1,360.4**	**1,560.4**	

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.

_C2: Balance Sheet Summary £m	**2023/24**	**2024/25**			
	Actual pre-audit	**Budget**	**Q1 forecast**	**Q2 forecast**	**Variation**
General Fund – core services	448.1	443.9	443.7	447.3	3.4
Meridian Water	392.9	416.5	389.2	377.2	-39.3
HGL	132.4	167.6	161.1	161.1	-6.5
Energetik	40.1	47.4	50.8	50.8	3.4
HRA	371.6	406.2	416.2	422.6	16.4
Loans CFR*	**1,385.10**	**1,481.60**	**1,461.00**	**1,459.00**	**-22.60**
PFI and other liabilities	23.7	17.6	17.6	18.0	0.4
CFR total	**1,408.80**	**1,499.20**	**1,478.60**	**1,477.00**	**-22.20**
Loans CFR Represented as:					
External Borrowing	1,250.20	1,360.40	1,356.40	1,356.10	-4.3
Internal Borrowing	134.9	121.2	104.6	102.9	-18.3
Loans CFR*	**1,385.10**	**1,481.60**	**1,461.00**	**1,459.00**	**-22.60**
Less: Balance Sheet resources	-191	-173.8	-154.6	-152.9	20.9
Net Loans Requirement	**1,194.10**	**1,307.80**	**1,306.40**	**1,306.10**	**-1.70**
Add: Allowance for liquidity	56.1	35.0	50.0	50.0	15.0
Liability benchmark**	**1,250.20**	**1,342.80**	**1,356.40**	**1,356.10**	**13.30**

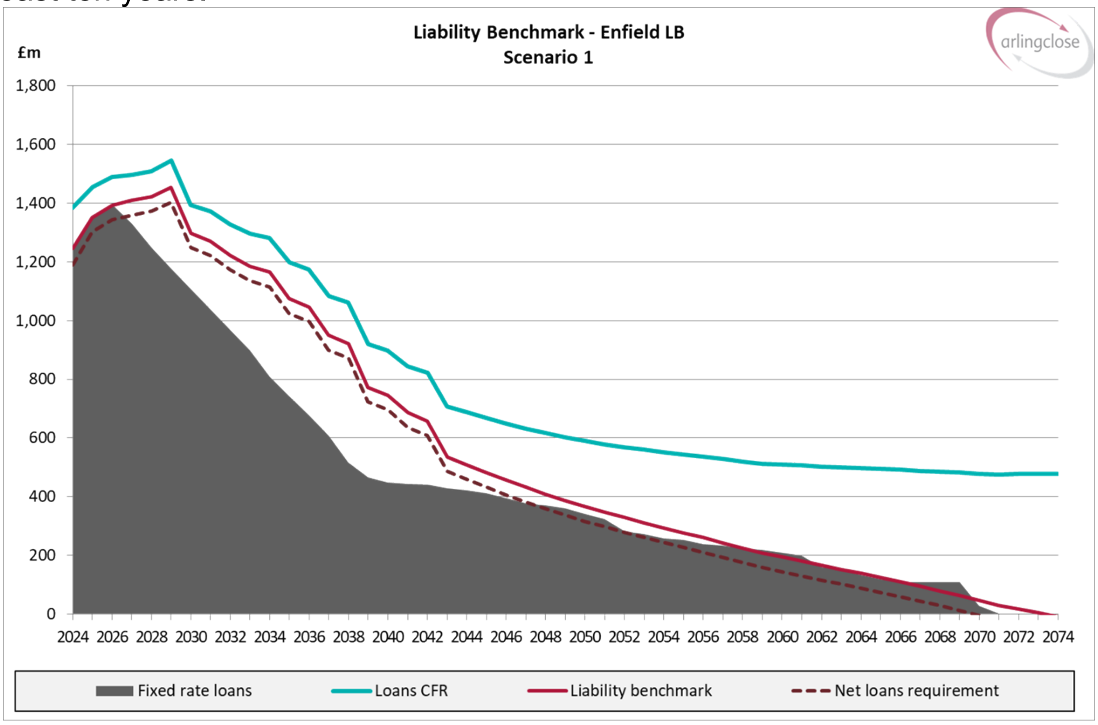
*Loans CFR: accumulated unfinanced capital expenditure for which borrowing *would have been required* had the Council not used its own cash resources (termed "internal borrowing") to offset actual borrowing (excludes PFI and finance lease liabilities)
** Liability Benchmark**:** estimate of net borrowing requirement including allowance for liquidity

The Chart below illustrates the Council's Liability Benchmark which compares the Council's current debt position to its longer-term estimates of required debt.

The grey shaded area shows the Council current loan contracts together with planned borrowing for to 31 March 2026 with the solid red line representing the requirement to borrow. The gap between the grey shaded area and the solid red line represents either additional borrowing required or excess borrowing resulting in surplus cash balances which can be invested.

The latter situation can occur where loan contracts span a given length of time the requirement to borrow changes as a result of changes in expenditure plans or working capital requirements. The intention is to provide a strategic view of the loan contract yet to be entered into and therefore the potential exposure to interest rate risk.

Minimum requirements of the Treasury Management Code 2021 is to generate this chart for three financial years although CIPFA recommends a longer term view of at least ten years.



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 and expected to remain unchanged in 2024/25.

C3: Financing as a Proportion of Revenue Resources	2023/24 Outturn (pre-audit)	2024/25 forecast
General Fund	8.6%	8.6%

Net income from Service and Commercial 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 withing the Borough.

The Council holds only service investments and no commercial investments. Any income generated 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. The forecast for 2024/25 is 2.6% which is considered neither significant nor a risk and is incidental to the provision of the Council's wider services.

C4: Total net income from service and commercial investments	2023/24 Outturn (pre-audit)	2024/25 forecast
Net income – investment properties	£7.4m	£6.8m
Proportion of net revenue budget	2.6%	2.2%

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.

C5: Credit Risk	30 Sep Actual	2024/25 Target	Complied?
Portfolio average credit rating	A+	A	Yes
Portfolio average credit score*	4.79	6	Yes

**Lower value indicates a stronger credit score*

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.

Although the Treasury Management Strategy, approved by Council February 2024, estimated liquid resources within three months to be £35m, current working capital demands indicate a requirement of at least £50m as indicated in the table below.

The Council will continue to borrow to meet its working capital requirements with all money borrowed expended within six months in accordance with the terms of loan agreements entered into with the UK Debt Management Office.

C6: Liquidity Risk	30 June Actual £m	30 Sep Actual £m	2024/25 Estimate £m	Complied?
Total cash available within 3 months	146.3	144.1	50.0	Yes
Total cash available after 3 months	0.0	10.0*	10.0*	Yes
Total sum borrowed in past 3 months without prior notice	0.0	0.0	0.0	Yes

**Loans to two other Councils totalling £10m were extended in September to shield the Council from expected declines in investment returns*

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. Although the Council holds no variable interest rate debt the Treasury Management Strategy does permit these. Table D7 shows the estimated impact a 1% fluctuation in loans exposed to variabilities and the impact is within limits approved in the Treasury Management Strategy.

C7: Interest Rate Risk	2024/25 estimate	2024/25 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	+£0.1m	+£4m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	-£0.1m	-£4m	Yes

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.

C8: Maturity Structure	30 Sep 2024 Actual £m	30 Sep 2024 Actual %	Upper Limit	Lower Limit	Complied?
Under 12 months	40.30	3.06%	30.0%	0.0%	Yes
12 months & within 24 months	50.10	3.81%	35.0%	0.0%	Yes
24 months and within 5 years	175.10	13.30%	40.0%	0.0%	Yes
5 years and within 10 years	292.60	22.22%	45.0%	0.0%	Yes
10 years and above	758.10	57.60%	100.0%	0.0%	Yes
Total	1,316.20	100.00%			

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.

C9: Principal invested over one year	2023/24	30 Sep 2024	No fixed date
Actual principal invested beyond 365 days	Nil	£10m	Nil
Limit on principal invested beyond 365 days	£25m	£25m	£0m
Complied?	Yes	Yes	Yes

**£10m loaned to two Council in September to shield the Council from expected declines in investment returns. The MIFID (Markets in Financial Instruments Directive) requires a minimum of £10m in investments to be maintained for continued access to Professional Status which enables broader access to the financial markets and specialist advice.*

Investment limits: All treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy as set out below.

The Council will limit the risk of loss from a default from lending to any one organisation (other than the UK Government). 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 and foreign countries 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.

C10: Investment limits	2024/25 Maximum	30 Sep 2024 Actual	Complied? Yes/No
Any group of pooled funds under the same management	£25m per manager	£25m Limit	Yes
Negotiable instruments held in a broker's nominee account	£25m per broker	0	Yes
Foreign countries	£10m per country	0	Yes

END