London Borough of Enfield

Report Title	Treasury Management Strategy Statement for 2025/26
Report to	Council
Date of Meeting	27th February 2025
Cabinet Member	Cllr Tim Leaver
Executive Director / Director	Jo Moore - Executive Director Resources Olga Bennet - Director of Finance (Capital and Commercial)
Report Author	Olu Ayodele – Head of Finance Capital & Treasury Milan Joshi – Assistant Head of Capital & Treasury
Ward(s) affected	All
Key Decision Number	KD5770
Classification	Part 1 Public

Purpose of Report

1. The report sets out the Council's proposed Treasury Management Strategy Statement (TMSS) for the period 2025/26 to 2034/35.

Recommendations

That Council:

I. Approves the Treasury Management Strategy 2025/26 and supporting appendices

II. Delegates to Cabinet the Quarterly monitoring of the Council's Treasury position including Prudential Indicators as part of the quarterly monitoring cycle, with the exception of the Mid-year update and Outturn reports which will be submitted to Council

III. Approves the increase of the Authorised Limit for borrowing and leases from £1.56bn in 2024/25 to £1.93bn in 2025/26 as described in para 16.

Introduction

2. Treasury management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as "The management of the local authority'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." (CIPFA Treasury Management Code of Practice 2021).

3. These activities are regulated by the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003.

4. The code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming three years be adopted, and that it is reviewed at least annually. The strategy needs to reflect treasury policy and cover various forecasts and activities, to incorporate the Council's spending and income plans with decisions about investing and borrowing.

5. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. The minimum reporting requirements are that the Full Council should receive the following reports:

   - an annual Treasury Strategy in advance of the year (this report)
   - a mid-year (minimum) treasury update report
   - an annual review following the end of the year reporting on activity and progress compared to the strategy

6. The strategy sets out the Council's approach and its aims and objectives to be achieved and how it will assist the delivery of the Medium-Term Financial Plan. The Council is exposed to financial risks from treasury management activity including possible losses associated with Council investment and potential for increased borrowing costs arising from market movements.

7. The Treasury Management Strategy incorporates the Council's Annual Investment Strategy and the Minimum Revenue Provision policy statement. The Strategy should also be read in conjunction with the Capital Strategy for 2025/26 which is presented under a separate agenda item.

Borrowing position 2025/26

8. The Council's borrowing requirement is determined by the Loans Capital Financing Requirement (CFR) and the underlying need to borrow to fund the CFR. and 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.

9. 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.

10. The Capital Strategy and the accompany ten-year capital programme are presented under a separate agenda item. The capital programme for 2025/26 is £493.8m, of which £95.5m is planned to be financed by borrowing. For 2025/26 the Council is forecasting an underlying need to borrow of £1.53bn. This is £72.6m higher than the forecast 2024/25 closing position.

11. The Council's actual debt may be lower than this amount due to the application of its own cash resources by way of "internal borrowing." Actual debt is forecast to be £1.38bn at the end of the financial year rising to £1.49bn by the end of 2025/26, an increase of £112m.

12. Of this increase, £95.5m is financing for new capital expenditure, £39.5m is from the conversion of internal borrowing to actual debt (impact of reduced reserves) and this is offset by £21m from Minimum Revenue Provision repayments and £2m from capital repayments from companies. In addition, the Council will need to refinance £60m of loans which are due to mature in 2025/26. Further details of the movements in external debt can be found in the Treasury Management Statement, Appendix A.

13. A separate report will be presented to Cabinet by the Strategic Director of Housing proposing a move to a longer-term temporary accommodation leasing arrangement. These will be required to be treated as finance leases and will therefore increase the Council's CFR above the amount indicated above. i.e. including these leases, the total CFR as at 31 March 2026 is forecast to be £1.77bn. Members should note that there will be no impact on the Council's borrowing costs as any impacts will be funded indirectly through the lease payments made.

14. The Council's strategy for borrowing has been to borrow at the bottom of the yield curve on an annuity or equal instalment of principal (EIP) basis, as well as making use of the HRA discount to finance the HRA borrowing requirements. This has minimised interest costs while providing stability. In the

last few months, the yield curve has shifted significantly, and the cheapest debt is now much shorter term which, if taken at scale, would expose the Council to future refinancing risk. The borrowing strategy will therefore be amended to borrow longer term at a premium of up to 0.5% from the bottom of the yield curve, prioritising risk reduction and stability. This strategy will continue to be under periodic review with the Council's treasury advisors.

15. The Council's proposed General Fund Revenue Budget for 2025/26 is presented under a separate agenda item. Within this budget it has been assumed that new long-term loans will be borrowed at an average rate of 5.0% from financial years 2025/26. This has increased from the current weighted average cost of 3.1%. The total estimated cost of the new borrowing for 2025/26 is £4.3m (including HRA and capitalised interest).

16. The authorised limit for borrowing represents a limit beyond which external debt (including the capital value of leases) is prohibited. This limit needs to be set or revised by the full Council. It is calculated by taking the likely external debt (known as the Operational Boundary, which for 2025/26 is £1.49bn), adding the capital value of leases (£243m) and £200m headroom. This methodology is in line with previous years and there is no expectation of this level of actual external debt being required during the year. The biggest

Borrowing Position over the next ten years

17. Over the next ten years, the strategy will be to ensure that the Council's borrowing is via long term loans when the PWLB long term interest rates are at an appropriate level. The long term target rate for treasury investments is 3.85%. The average rate for new long-term loans during 2024/25 was 4.23% and the average return on investments was 4.91%. There is risk in these assumptions as interest rates have been very volatile. As at 28 Jan 2025, a relative high point, PWLB certainty rates have been elevated and annuity loans longer than 8 years would be slightly above the 5% budget.

18. The Council's borrowing requirement (loans Capital Financing Requirement) is forecast to peak at £1.6bn in 2026/27 and then reduce as Meridian Water parcels are sold. The timing of the disposals and receipts is an important element of the Treasury Management Strategy.

19. The Capital Programme includes an assumption of a significant number of temporary accommodation leases being signed on a longer-term basis (ten years and a day). This is accounted for as capital expenditure at the signing of the lease and will be financed by annual lease payments (deemed capital spend of £189.8m 2025/26). The CFR has been adjusted to take into account the impact of all known finance leases following mandatory adoption of IFRS16 from April 2024.

Revenue Impact of Capital programme 2025/26

20. The 2025/26 General Fund capital financing budgets are forecast to be under the target of 10% of net revenue budgets, at 8.8% (£31.1m) before movements to reserves. Of this, £19.2m is repayment of debt related to previous capital spend (MRP) and £11.9m is the net interest charge. The adjustments from

gross interest are listed in Table 3 of Appendix A and include recharges to the HRA, capitalisation of interest and interest receivable. This is reflected in the Council's proposed interest payable budget.

21. There is no growth requirement for capital financing budgets from 2024/25 to 2025/26, primarily due to the removal of £3.3m previously planned Voluntary Minimum Revenue Provision related to Meridian Water. The General Fund revenue cost for capital financing is forecast to increase from £28.2m in 2024/25 (an underspend compared to budget) to £31.4m in 2025/26.

22. The gross interest payable in 2025/26 is forecast to be £44.1m. Of this, £16.3m is related to the HRA, £8.5m is capitalised as part of the Meridian Water project and £5.0m is forecast to be received from companies to offset the Council's interest costs. The full list of adjustments to arrive at the net interest of £11.9m is listed in Table 3 of Appendix A.

23. An independent review of the Council's proposed 2025/26 MRP policy was undertaken with CIPFA. Their final report was only issued on 17 February and their review has recommended some changes to the Council's current MRP Policy and an updated policy in Appendix B incorporates these amendments. However, the review findings and updated policy will need to be discussed with the Council's external auditor due to matters that have been raised in their Audit Findings Report for 2023/24.

24. Table 1 below details the 2024/25 forecast at Quarter 3, position for the next 4 years and estimated position at the end of the current ten years.

Table 1 – MTFP General Fund Treasury Revenue impacts

	2024/25	2025/26	2026/27	2027/28	2028/29	2034/35
	£m	£m	£m	£m	£m	£m
Gross interest	42.2	44.1	48.8	57.4	58.3	50.8
HRA Recharges, capitalisation and income	-32.3	-32.2	-33.4	-38.6	-39.2	-35.7
Net interest charge – General Fund	**9.9**	**11.9**	**15.4**	**18.8**	**19.1**	**15.1**
MRP	17.3	19.2	20.1	20.6	19.6	24.9
Capital Financing costs	**27.2**	**31.1**	**35.5**	**39.4**	**38.7**	**40.0**
Transfer to Energetik reserves	1.0	0.3	0.2	0.0	0.0	0.0
Capital Financing cost net of transfers to reserves	**28.2**	**31.4**	**35.7**	**39.4**	**38.7**	**40.0**
Year –on-year budget movement:						
Budget b/fwd	31.4	31.4	31.4	35.7	39.4	44.0
Increase (decrease) yr on yr	-3.2	0.0	4.3	3.7	-0.7	-4.0
Budget c/fwd	28.2	31.4	35.7	39.4	38.7	40.0
Comparison to Budget approved 22 Feb 2024:						
Budget Feb 2024	31.4	35.4	39.4	43.1	40.7	22.0
Increase (decrease)	-3.2	-4.0	-3.7	-3.7	-2.0	18.0
Net Revenue Budget (NRB) – General Fund	**318.5**	**353.7**	**364.1**	**384.3**	**395.6**	**443.7**
Capital Financing as proportion of NRB excluding voluntary adjustments*	**8.6%**	**8.9%**	**9.8%**	**10.3%**	**9.8%**	**9.0%**

**excludes transfers to reserves as these are not mandatory accounting adjustments*

25. Following CIPFA's external review, the Minimum Revenue Provision policy has been updated (Appendix B). In addition to editorial changes, the main changes to the MRP policy from 2024/25 to 2025/26 are:
    a. MRP relating to Meridian Water has been made more explicit. In particular, MRP is charged on parcels "available for their intended use" from the following year.
    b. Making the Council's MRP policy related to wholly-owned companies lending more explicit.
    c. Capping the Minimum Revenue Provision time period for bridges to 40 years (from 120 years). This has minimal impact due to very little borrowing relating to bridges.
    d. Reducing the time period over which HGL share capital is repaid via MRP from 50 years to 20 years in line with statutory guidance.

26. The key impact for 2025/26 of making the above changes to the policy is that MRP relating to Meridian Water Phase M13 will need to be provided for (£73k) and given the late timing of the CIPFA report has not been factored into the revenue budgets for 2025/26 above. In addition, interest related to M13 may no longer be capitalised – this is under review. If interest related to M13 spend was no longer capitalised, this would result in an additional cost of c£200k per annum and, again, has not yet been factored into the revenue budget. For 2025/26, it is proposed that these costs will be managed within the overall General Fund revenue borrowing costs budget.

27. The impact of reducing the time period over which HGL share capital investment is repaid and the time period for repaying borrowing related to bridges is circa £100k in 2025/26 and has been factored into budgets.

Treasury Investments

28. Due to the nature of the timing of the funding and expenditure, the Council also has surplus cash balances. This report sets out the proposed Investment Strategy to the investment of those cash balances. Surplus cash is held in overnight Money Market Funds for liquidity. In addition, the Council will loan up to £10m to other Councils following credit and reputational checks. The Council also makes service investments (e.g. to schools and wholly owned companies). Further detail is provided in the Annual Investment Strategy Report at Appendix C. Security of investments are the top priority, even if theoretically higher returns are possible by compromising the security of investments. No changes to previous years are proposed.

29. As at 24 Jan 2024, the Council had £121m cash held in investments, mostly held in Money Market Funds.

30. The 2025/26 investment income budget has been set assuming an average balance of £50m and an interest receivable rate of 3.85%. This is a prudent position compared to the average return of 4.91% achieved during 2024/25 on a forecast average cash balance over the year of £103m. The investment

income budget for 2025/26 is £4.3m (compared to £5.1m forecast to be received in 2024/25).

31. This prudency is required due to the reducing nature of the Counci’s General Fund reserves. The Council has also generated c£37m of capital receipts which has strengthened cash balances in 2024/25.

32. The Investment Strategy (Appendix C) introduces a new explicit limit on revenue loans to wholly owned companies. This is set at £6m for Energetik and £2m for HGL. Any increases in working capital from current levels (Energetik £3.5m, nil for HGL) are subject to Cabinet approval of revised Business Plans.

Prudential Indicators

33. In accordance with the Treasury Management Code of Practice, the Council is required to calculate and monitor a number of prudential indicators, to demonstrate compliance with statutory requirements. These include the Capital Financing Requirement (CFR), Operational Boundary, Authorised limit and Ratio of Financing costs to Net Revenue Budget. These are explained further in the Treasury management strategy statement (Appendix A).

Capital Flexibilities

34. The Local Government Finance Policy Statement 2025/2026 (published the 28November 2024) stated that the Government will extend the flexible use of capital receipts to 2030. Since 2016, this direction has allowed Councils to use the proceeds from asset sales to fund the revenue costs of projects that result in ongoing cost savings or improved efficiency. The government will also remove the restriction with respect to redundancy costs, imposed from April 2022, that limits the use of the flexibility to statutory redundancy costs only. This will support Councils in taking forward transformation and invest-to-save projects. See Appendix 18 of the main General Fund Revenue Budget report.

Treasury Management Practices (TMP’s)

35. The Council has reviewed and revised its Treasury Management Practices (TMPs) Principles and Schedules to be in line with the Treasury Management (TM) Code 2021 and the DLUHC’s Investment Guidance 2022.

Risks

36. Estimates of borrowing, and therefore interest costs, are impacted by levels of available balance sheet resources and other sources of income including capital receipts. The estimates will be kept under review as part of the 2025/26 monitoring cycle to ensure estimates can be adjusted as required to take account of changed assumptions and the macro-economic environment.

37. The Councils average cost of borrowing on its **existing debt** as at 31st December 2024 was 3.1% and expected to remain at this level in 2025/26. Repayments of principal are expected to be £60m in 2025/26. After providing MRP of £19.2m, the remaining £40.8m will have to be funded by re-borrowing

at higher rates of 5%. As an illustration, the annual difference in interest of borrowing £40.8m at 5% rather than 3.1% is £0.8m. This will result in higher borrowing costs and the risk of the rates increasing beyond 5% is termed **refinancing risk**. The borrowing strategy includes a graph shows the amount of loans to be replaced together with the refinancing risk expected.

Financial implications

38. Financial implications are covered throughout the report.

Legal Implications

39. The Council is required to consider and agree a Treasury Management Strategy and this should be developed in line with good practice guidance issued by CIPFA. The Treasury Management practices have been reviewed and agreed by the section 151 officer in accordance with all good practice.

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Appendices

Appendix A –2025/26 Treasury Management Strategy Statement
Appendix B – 2025/26 Minimum Revenue Policy (MRP) Statement
Appendix C – 2025/26 Annual Investment Strategy

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

i) 2025/26 Capital Strategy and ten year capital programme
ii) 2025/26-2029/30 Medium Term Financial plan
iii) Treasury Management Strategy Statement 2024/25 KD5668
iv) 2024/25 Quarter 3 (30 November) Treasury Management Monitoring report, approved by Cabinet 8th January 2025
v) Local Authorities (Capital Finance & Accounting) (England) Regulations 2003
vi) Section 3 Local Government Act 2003
vii) CIPFA Prudential Code for Capital Finance in Local Authorities, 2017
viii) MHCLG Capital Finance Guidance on Local Government Investments Feb 2018
ix) CIPFA Treasury Management Code 2021
x) Capital finance: guidance on minimum revenue provision (5th edition), published 10th April 2024