

MEETING TITLE AND DATE:
Cabinet 22nd July 2015

REPORT OF:
Director of Finance, Resources
& Customer Services

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|---|----------------|
| Agenda – Part: 1 | Item: 8 |
| Subject: ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2014/15 | |
| Wards: All | |
| Cabinet Member consulted: Cllr. A. Stafford | |

1. EXECUTIVE SUMMARY

1.1 This report reviews the activities of the Council's Treasury Management function over the financial year ended 31 March 2015.

1.2 The key points of the report are highlighted below:

| | | See section: |
|--|---|-------------------------|
| Debt Outstanding at year end to finance capital | <ul style="list-style-type: none"> £313m - an increase of £14.4m from 2013/14. | 6 |
| Average interest on total debt outstanding | <ul style="list-style-type: none"> 4.36% - a reduction of 0.17% from 2013/14. | 7 |
| Debt Re-scheduling | <ul style="list-style-type: none"> None undertaken. | 9 |
| Interest earned on investments | <ul style="list-style-type: none"> £605k - an increase of £64k from 2013/14. | 11 |
| Net Borrowing | <ul style="list-style-type: none"> Increased by £19.3m to £254.7m | 11 |

2. RECOMMENDATIONS

2.1 Cabinet is recommended to accept the Treasury Outturn report.

3. BACKGROUND

- 3.1 This report presents the Council's Annual Treasury Outturn Report for 2014/15 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by 30 September each year.
- 3.2 The statement requires the Director of Finance Resources & Customer Services to report on the preceding year's treasury management activities. In accordance with best practice, the Director's report includes information about borrowing levels and costs, as well as the impact of the cash flow management arrangements on the Council's financial position

The Council has fully adopted the recommendations in CIPFA's Code of Practice on Treasury Management in the Public Services. Specifically this includes:

- ☐ Creation of a Treasury Management Policy Statement.
- ☐ Development and maintenance of Treasury Management Practices setting out how the treasury objectives will be met.
- ☐ Production of reports to Council including annual strategy in advance of the start of the year, a mid-year review and an annual review following the year-end.
- ☐ Delegation to the Director of Finance Resources & Customer Services for the responsibility for implementation and monitoring the policies and practices, as well as the execution and administration of the treasury management decisions.

4. NATIONAL CONTEXT.

- 4.1 The market began the year with the expectation that interest rates would be unlikely to be raised until 2015. Despite strongly positive messages from Governor Carney suggesting rises sooner than the market expects, and that the point at which interest rates begin to normalise was getting closer. The dipping of CPI proved more of a driving force behind the markets, and the consensus at the year-end was for the expectation of the first rate rise to occur in Q3 2016. Longer term rates fell over the course of 2014, and had a small bounce back in Q1 2015.

5. THE HERITABLE BANK

- 5.1 Heritable Bank (a UK financial institution) went into administration on 7th October 2008 as a direct result of its Icelandic parent Landbanki bank failing. The Authority held a £5 million deposit. This investment was made on 9th January 2008 for 364 days.

- 5.2 The Council has been vigorously chasing recovery of our funds and lodged claims with the Heritable Bank administrator. Since this time the Authority has received regular distributions as set out below.

| Table 1: Dividends received on Heritable Bank | Pence in the pound | £000s |
|---|---------------------------|--------------|
| Total received as at 31 st March 2015 | 94.21 | 4,891 |
| Additional sum expected following the successful outcome of High Court case | 5.79 | 301 |
| Final sum including principal & full interest (sec 5.3) | 100.00 | 5,192 |

- 5.3 Following the successful outcome of a High Court case against the parent company, the administrators have agreed to pay the full dividend. This means the Authority will have recovered all of its funds including interest from the Heritable bank. Members will be updated once the actual payment is received.

6 BORROWING IN 2014/15

- 6.1 The Council increased its overall borrowing by £14.4 million including £10.0m of loans raised to fund Housing Gateway Ltd (HGL) property acquisitions. The other loans were short term loans with an average interest rate of 0.45%. HGL will be repaying the loan and interest payments in semi-annual instalments over 35 years.

6.2

| Table 2: Movement in year | Debt 1 April 2014 | Debt Repaid | New Debt Raised | Debt 31 March 2015 |
|--|----------------------------------|------------------------|--------------------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 |
| Temporary Borrowing (less than 12 months). | 33,000 | (58,000) | 65,500 | 40,500 |
| | 33,000 | (58,000) | 65,500 | 40,500 |
| Public Work Loan Board loans (PWLB) | 232,084 | (2,053) | - | 230,031 |
| Commercial Loan | 30,000 | - | - | 30,000 |
| Loans raised on behalf of HGL | - | - | 10,000 | 10,000 |
| Salix loan – renewal energy | 3,541 | (1,040) | - | 2,501 |
| | 265,625 | (3,093) | 10,000 | 272,532 |
| Total Debt Outstanding | 298,625 | (61,093) | 75,500 | 313,032 |

- 6.3 The Council's Treasury Management strategy continues to follow the same direction as it set since the financial collapse in October 2008, whereby capital expenditure is funded wherever possible by using the Council's internal cash reserves. This has a beneficial impact on the interest charges because of the large differential between long-term fixed borrowing and the interest rate on short term investments, which has meant the 'cost of carry' would have been approximately 4%.

- 6.4 In January 2015 the Authority negotiated a £80 million loan facility with the European Investment Bank. The facility can be used for regeneration, housing and school projects. It is envisaged the loan will be used over the next three

years. The loan offers very competitive interest rates in comparison to the Public Work Bonds (PWLB).

7. INTEREST ON TOTAL DEBT OUTSTANDING

7.1 The average rate paid on total external debt in 2014/15 was 4.36% (4.53% in 2013/14).

7.2 Table 3 shows the interest paid (i.e. the cost of borrowing) by the Council during the year:

| Table 3: Cost of Borrowing | 2014/15 | 2013/14 |
|--|----------------|-----------------------|
| Public Work Loan Board loans (PWLB) | 11,099 | £000 11,132 |
| Gloucester County Council | 34 | - |
| Commercial Loan | 2,143 | 2,143 |
| Salix Loan | - | - |
| Total Interest on Debt | 13,276 | 13,275 |
| Short Term Loans | 201 | 136 |
| Total interest paid | 13,477 | 13,411 |
| Interest Premiums | | - |
| Total Cost of Debt | 13,477 | 13,411 |
| Cost Attributed to the Housing Revenue Account | 7,327 | 5,737 |
| Cost Attributed to General Fund | 6,150 | 7,674 |
| Total Cost of Debt | 13,477 | 13,411 |

8. DEBT MATURITY STRUCTURE

8.1 The Council has 65 loans spread over 47 years with the average maturity being 38 years. This maturity profile allows the Council to spread the risk of high interest rates when debt matures in any one year.

8.2 Table 4 shows the maturity structure of Enfield's long-term debt and the average prevailing interest rates.

| Table 4: Profile Maturing Debt | Debt Outstanding as at 31 March 2015 | Debt Outstanding as at 31 March 2014 |
|---------------------------------------|---|---|
| Years | £m | £m |
| Under 1 year | 43.6 | 36.1 |
| 1- 5 | 47.6 | 11.7 |
| 5-10 | 8.7 | 37.7 |
| 10-15 | 0.0 | 0.0 |
| 15-25 | 20.1 | 20.1 |
| 25-30 | 10.0 | 10.0 |
| 30-40 | 123.2 | 103.2 |
| 40+ | 59.8 | 79.8 |
| | 313.0 | 298.6 |

9. DEBT RESTRUCTURING

- 9.1 Debt restructuring normally involves prematurely replacing existing debt (at a premium or discount) with new loans in order 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.
- 9.2 No debt restructuring was undertaken during the year. We will continue to actively seek opportunities to re-structure debt over 2015/16.

10. TREASURY MANAGEMENT PRUDENTIAL INDICATORS: 2014/15

- 10.1 Throughout 2014/15 total loan debt was kept within the limits approved by the Council at its meeting in March 2014 against an authorised limit of £570 million and an operating limit of £500 million. The authorised limit (as defined by the Prudential Code) was set at £570 million as a precaution against the failure, for whatever reason, to receive a source of income e.g. Council Tax. In the unlikely event of this happening, the Council would need to borrow on a temporary basis to cover the shortfall in cash receipts. In practice it is the operating limit by which the Council monitors its borrowing; any significant breach must be reported to Council.
- 10.2 The Council held no variable interest rate debt during 2014/15. The Council's Prudential Code however does allow for up to 25% of the debt to be held in variable interest rate debt.
- 10.3 The Prudential code allows up to 25% of its debt to mature in one year (£78 million). This limit was not breached; the actual position as at 31 March 15 was £46.1 (13.6%).

11. INVESTMENTS

- 11.1 The Council manages its investments arising from cash flow activities in-house and invests within the institutions listed in the Authority's approved lending list. It can invest for a range of periods approved in the Annual Treasury Strategy Report. The Council acts as the treasury manager for the 79 Enfield schools within the HSBC banking scheme and Enfield Homes. The Council produces a three year cash flow model (based on daily transactions) which projects the cash flow movements of the Council linked into the Council's medium term financial plan. This allows the Treasury Management team to make more informed decisions on borrowing and lending.
- 11.2 All investments entered into by the Authority during 2014/15 were fully compliant with the Annual Investment Strategy. The strategy makes clear that the investment priorities are given to security of principal then liquidity over yield. To this extent all investments have only been made with counterparties of high credit quality. Appendix 1 sets out the investments held as at 31 March 2015 - £58.4m (£63.4m 2013/14)
- 11.3 Total cash balances during 2014/15 varied considerably, predominantly as a result of the significant peaks and troughs arising from payment profiles of business rates collection, DWP payments and housing benefit payments.

- 11.4 Liquidity was managed through call accounts and money market funds. The authority used termed deposits for non-core cash,

Through careful cash management control (i.e. the ability to accurately predict the daily out/in flows of cash) the Treasury Management team have limited the Council's overdraft costs in the year to £36.

- 11.5 In 2014/15 the Council received £0.6 million in interest on money lent out to the money markets; an increase of £34k from 2013/14. This was as a result of investing deposits for longer periods (up to 364 days). The average cash balance held by the Council during the year was £102 million compared to £99 million in 2013/14. The longer duration of deposits has allowed the Authority gain higher interest rates on balances. This is set out in table 5 below:

| Table 5: Interest Receipts | 2014/15 £000 | 2013/14 £000 |
|---------------------------------------|-------------------------|-------------------------|
| Total Interest Receipts | 605 | 541 |
| Interest paid to Enfield Homes | (2) | (5) |
| HRA balances | - | (26) |
| Section 106 Applications | (22) | (21) |
| Other Funds | (5) | (5) |
| Total Interest to General Fund | 576 | 484 |

- 11.6 Table 6 shows the maturity structure of Enfield's investments and the prevailing interest rates. The Authority continues to adopt a very prudent approach and the 2014/15 strategy allowed investments up to 12 months with financial institutions that met our credit rating requirements.

- 11.7

| Table 6: Duration of Investments | Investments as at 31 March 2015 | No of Deals | Investments as at 31 March 2014 | No of Deals |
|--|--|--------------------|--|--------------------|
| Months | £000's | | £000's | |
| On demand | 33,370 | 4 | 35,850 | 4 |
| Within 1 Month | 25,000 | 4 | 12,500 | 2 |
| Within 3 Months | - | - | 7,500 | 1 |
| Within 6 Months | - | - | - | - |
| Within 9 Months | - | - | - | - |
| Within 12 Months | - | - | 7,500 | 1 |
| Investments held at 31st March | 58,370 | 8 | 63,350 | 8 |

- 11.8 The Treasury Management team achieved an average interest rate of 0.6% (0.55% 13/14), out-performing the benchmark (Inter-Bank 7-day lending rate 0.35%). This was achieved by adopting an active treasury policy. The average interest rate fell due to banks reducing interest rates on our call accounts.

Net Borrowing

- 11.9 The Council's net borrowing decreased in 2014/15 as Table 7 demonstrates. This recognises that future capital expenditure will need to be financed from

external borrowing and will create pressure on the revenue budget, but this impact has been recognised in the Council's Medium term financial plan.

| Table 7: Trend in Net Borrowing | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|--|----------------|----------------|----------------|-----------------|----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Total Borrowing | 218,347 | 264,136 | 294,204 | 298,624 | 313,032 |
| Total Investments | (30,000) | (43,600) | (40,200) | (63,350) | (58,370) |
| Net Borrowing | 188,347 | 220,536 | 254,004 | 235,274 | 254,662 |
| Annual change in net debt | 42,150 | 32,189 | 33,468 | (18,730) | 19,388 |

The Capital Financing Requirement reflects the Council's underlying need to borrow to fund its capital programme (Table 8).

| Table 8: Capital Financing Requirement (CFR) | 31st March 2015 | 31st March 2014 |
|---|-----------------------------------|-----------------------------------|
| | £m's | £m's |
| General Fund | 322.8 | 264.9 |
| Housing Revenue Account | 157.7 | 157.7 |
| Total | 480.5 | 422.6 |

The Council is allowed to borrow up to its capital financing requirement which means it has £167m headroom to increase its borrowing

12. ALTERNATIVE OPTIONS CONSIDERED

12.1 None. This report is required to comply with the Council's Treasury Management Policy statement, agreed by Council in February 2014.

13. REASONS FOR RECOMMENDATIONS

13.1 To inform the Council of Treasury Management performance in the financial year 2014/15.

14. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES & CUSTOMER SERVICES

14.1 Financial Implications

Financial implications are set out in the body of the report.

14.2 Legal Implications

The Council has a statutory duty to ensure the proper administration of its financial affairs and a fiduciary duty to tax payers to use and account for public monies in accordance with proper practices.

The Statement has been prepared in accordance with the CIPFA Code of Practice.

14.3 Key Risks

Extending the maximum period of deposits will increase the level of risk of default. This fact must be considered against the backdrop that investments will still be restricted to countries outside the UK with a sovereign rating of AAA and that deposits will be made only with financial institutions with a high credit rating.

15. IMPACT ON COUNCIL PRIORITIES

15.1 Fairness for All

Effective financial management provides the basis for the Council to achieve its priorities and objectives. This report explains a key part of effective financial management and the progress that has been made during the year.

15.2 Growth and Sustainability

Effective financial management provides the basis for the Council to achieve its priorities and objectives. This report explains a key part of effective financial management and the progress that has been made during the year.

15.3 Strong Communities

Effective financial management provides the basis for the Council to achieve its priorities and objectives. This report explains a key part of effective financial management and the progress that has been made during the year.

16. PERFORMANCE MANAGEMENT IMPLICATIONS

16.1 The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

17 PUBLIC HEALTH IMPLICATION

17.1 There are no public health implications directly related to this report.

18 EQUALITIES IMPACT IMPLICATIONS

18.1 The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

18.2 Financial reporting and planning is important in ensuring resources are

Background Papers:
None

APPENDIX 1: INVESTMENTS OUTSTANDING AT 31ST MARCH 2015

| | Amount lent (£000) | Interest rate | Maturity Date |
|-----------------------------|-----------------------|---------------|-----------------------------|
| Call Accounts | | | |
| HSBC | 11,370 | 0.40% | On demand |
| Handlesbanken | 12,500 | 0.50% | On demand |
| Money Market Fund | | | |
| Ignis | 3,500 | 0.47% | On demand |
| Goldman Sachs | 6,000 | 0.41% | On demand |
| Deposits | | | |
| Nationwide building society | 7,500 | 0.81% | 9 th April 2015 |
| Nationwide building society | 5,000 | 0.81% | 14 th April 2015 |
| Lloyds bank | 5,000 | 0.95% | 21 st April 2015 |
| Lloyds bank | 7,500 | 0.95% | 6 th May 2015 |
| Total | 58,370 | | |