

MUNICIPAL YEAR 2016/2017 REPORT NO. 29

MEETING TITLE AND DATE:

Cabinet: 7th July 2016
Council – 21 September 2016

REPORT OF:

Director of Finance, Resources
& Customer Services

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| Agenda – Part: 1 | Item: 13 |
| Subject: ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2015/16 | |
| Wards: All | |
| Cabinet Member consulted: Cllr Lemonides | |

1. EXECUTIVE SUMMARY

1.1 This report reviews the activities of the Council's Treasury Management function over the financial year ended 31 March 2016.

1.2 The key points of the report are highlighted below:

- All of the principal on the Heritable Bank (£5m) has been recovered together with £99k of interest on deposit (see section 5)
- Debt outstanding increased to £438m - an increase of £125m from 2014/15. Much of this was borrowed to fund major regeneration at Meridian Water (£61.4m) and property acquisitions by Housing Gateway Ltd and Enfield Innovations Ltd (£34.7m) (see para 6.2). These are projects which generate long term financial benefits for the authority and help to alleviate homelessness pressures in the borough
- Net borrowing increased by £155.5m in 2015/16 to £410m which reflects a reduction in deposits (as detailed in para 11.8)
- Average interest on total debt outstanding is 4.21% - a reduction of 0.15% from 2014/15
- Interest earned on deposits in 2015/16 was £454k - a decrease of £151k from 2014/15 (see para 11.5)

2. RECOMMENDATIONS

2.1 Council is recommended to accept the Treasury Outturn report.

3. BACKGROUND

- 3.1 This report presents the Council's Annual Treasury Outturn Report for 2015/16 in accordance with the Council's treasury management practices. It is a regulatory requirement for this outturn report to be presented to Council by 30th 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 of implementing and monitoring the policies and practices, as well as the execution and administration of the treasury management decisions.

4. NATIONAL CONTEXT

- 4.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties pending the outcome of the referendum. Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years.

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 Landsbanki failing. The Authority held a £5 million deposit. This deposit 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 2016 | 98.2p | 5,099 |
| Outstanding interest balance on deposit | 1.8p | 93 |
| Final sum including principal & full interest (sec 5.3) | 100.00 | 5,192 |

- 5.3 The Authority has now recovered all of the principal (£5 million) from the Heritable Bank Administrator and £99k of interest. The administrator is still holding a balance so we would expect to receive further distributions. The Authority has also made a claim on the parent bank for the recovery of the outstanding sum (£93k). It is still anticipated that the Council will receive 100% of its claim on Heritable Bank (£5.192m).

6 BORROWING IN 2015/16

- 6.1 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 deposits, which has meant the 'cost of carry' would have been approximately 4%.
- 6.2 The Council increased its overall borrowing by £125 million as detailed in Table 2. This includes £30.0m on loans raised to fund Housing Gateway Ltd (HGL) property acquisitions in order to alleviate the homelessness pressures within the borough. HGL will be repaying the loan and interest payments in semi-annual instalments over 35 years. A further £4.7m borrowing relates to funding for Enfield Innovations Ltd for developing small sites in the borough for the provision of affordable housing. Loans totalling £61.4m were required to fund land acquisitions at Meridian Water; these loans will be repaid in instalments when the land is transferred in line with the development agreement which is being finalised with the chosen Meridian Water Development Partner.
- 6.3 £86m of new borrowing in 2015/16 was short term loans with an average interest rate of 0.52%. The decision to borrow short term follows the advice of our treasury advisors as short term rates continue to be very favourable and have suited the profile of our capital expenditure. This remains well within our prudential indicators as demonstrated in section 11. Markets are closely monitored in liaison with our advisors to assess at what point a move to longer term borrowing would be preferable, if interest rates are expected to rise significantly and in line with the requirements of the capital programme. Longer term loans were taken out where rates were attractive, helping to spread the profile of the council's borrowing (see Table 4).

- 6.4 During the year the Authority also borrowed £6m from the EIB and £6m from LEEF to finance the Lee Valley Heat Network project. A further £4m borrowed from EIB was used to help finance the school expansion programme.

| Table 2: Movement in year | Debt 1 April 2015 | Debt Repaid | New Debt Raised | Debt 31 March 2016 |
|---|----------------------------------|------------------------|--------------------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 |
| Temporary Borrowing (less than 12 mth). | 40,500 | (40,500) | 86,000 | 86,000 |
| | 40,500 | (40,500) | 86,000 | 86,000 |
| Public Work Loan Board loans (PWLB) | 230,031 | (2,553) | 60,000 | 287,478 |
| Commercial Loan | 30,000 | - | - | 30,000 |
| Local Authority borrowing | 10,000 | - | 8,000 | 18,000 |
| European Investment Bank | - | (149) | 10,000 | 9,851 |
| LEEF | - | (150) | 6,000 | 5,850 |
| Salix loan – renewal energy | 2,501 | (1,039) | - | 1,462 |
| | 272,532 | (3,891) | 84,000 | 352,641 |
| | | | | |
| Total Debt Outstanding | 313,032 | (44,391) | 170,000 | 438,641 |

7. INTEREST ON TOTAL DEBT OUTSTANDING

- 7.1 The average rate paid on total external debt in 2015/16 was 4.21% (4.36% in 2014/15).
- 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 | 2015/16 | 2014/15 |
|--|----------------|----------------|
| | £000 | £000 |
| Public Work Loan Board loans (PWLB) | 11,604 | 11,099 |
| Commercial Loan | 2,143 | 2,143 |
| Local Authority loans | 282 | 34 |
| EIB | 170 | - |
| LEEF | 77 | - |
| Salix Loan | - | - |
| Total Interest on Debt | 14,276 | 13,276 |
| Short Term Loans | 185 | 201 |
| Total interest paid :Total Cost of Debt | 14,461 | 13,477 |
| Cost Attributed to: | | |
| Housing Revenue Account | 8,174 | 7,327 |
| Capitalised interest on Meridian Water | 1,027 | - |
| Interested charges to HGL & EIL | 633 | 52 |
| Cost Attributed to General Fund | 4,627 | 6,098 |
| Total Cost of Debt | 14,461 | 13,477 |
| | | |

8. DEBT MATURITY STRUCTURE

8.1 The Council has 66 loans spread over 50 years with the average maturity being 20 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:

| Table 4: Profile of Maturing Debt | Debt Outstanding as at 31 March 2016 | Debt Outstanding as at 31 March 2015 |
|--|---|---|
| Years | £m | £m |
| Under 1 year | 90.8 | 43.6 |
| 1- 5 | 64.5 | 47.6 |
| 5-10 | 14.2 | 8.7 |
| 10-15 | 7.0 | 0.0 |
| 15-25 | 39.0 | 20.1 |
| 25-30 | 10.0 | 10.0 |
| 30-40 | 133.3 | 123.2 |
| 40+ | 79.8 | 59.8 |
| | 438.6 | 313.0 |

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. The Council will continue to actively seek opportunities to re-structure debt over 2016/17.

10. TREASURY MANAGEMENT PRUDENTIAL INDICATORS: 2015/16

10.1 Throughout 2015/16 total loan debt was kept within the limits approved by the Council at its meeting in February 2015 against an Authorised Limit of £550 million and an Operating Limit of £500 million. The Authorised Limit (as defined by the Prudential Code) was set at £550 million as a precaution against the failure, for whatever reason, to receive a source of income or to incur 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. 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 2015/16. 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 (£109.7million). This limit was not breached; the actual position as at 31 March 2016 was £90.8m (20.7%).

11. DEPOSITS

- 11.1 The Council manages its deposits arising from cash flow activities in-house and deposits within the institutions listed in the Authority's approved lending list. It can deposit for a range of periods approved in the Annual Treasury Strategy Report. The Council acts as the treasury manager for many of Enfield's schools within the HSBC banking scheme. 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 deposits entered into by the Authority during 2015/16 were fully compliant with the Annual Investment Strategy. The strategy makes clear that the priority is given to security of principal then liquidity over yield. To this extent all deposits have only been made with counterparties of high credit quality. Appendix 1 sets out the deposits with £28.49m held as at 31 March 2016 (£58.4m 2014/15).
- 11.3 Total cash balances during 2015/16 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/inflows of cash) the Treasury Management team have limited the Council's overdraft costs in the year to £31.
- 11.5 In 2015/16 the Council received £0.454 million in interest on money lent out to the money markets; a decrease of £151k from 2014/15. This was as a result of lower cash balances and holding in more liquid accounts. The average cash balance held by the Council during the year was £62million compared to £102million in 2014/15, when the longer duration of deposits has allowed the Authority to gain higher interest rates on balances. This is set out in table 5 below:

| Table 5: Interest Receipts | 2015/16 | 2014/15 |
|---------------------------------------|----------------|----------------|
| | £000 | £000 |
| Total Interest Receipts | 454 | 605 |
| HRA balances | (250) | - |
| Section 106 Applications | (30) | (22) |
| Other Funds | (2) | (5) |
| Total Interest to General Fund | 172 | 578 |

11.6 Table 6 shows the maturity structure of Enfield's deposits. The Authority continues to adopt a very prudent approach and the 2015/16 strategy allowed deposits up to 12 months with financial institutions that met our credit rating requirements.

| Table 6: Duration of Deposits | Deposits as at 31 March 2016 | No of Deals | Deposits as at 31 March 2015 | No of Deals |
|---|-------------------------------------|--------------------|-------------------------------------|--------------------|
| Months | £000's | | £000's | |
| On demand | 18,990 | 2 | 33,370 | 4 |
| Within 1 Month | 2,000 | 1 | 25,000 | 4 |
| Within 3 Months | 7,500 | 1 | - | - |
| Within 6 Months | | - | - | - |
| Within 9 Months | | - | - | - |
| Within 12 Months | | - | - | - |
| Deposits held at 31st March | 28,490 | 4 | 58,370 | 8 |

11.7 The Treasury Management team achieved an average interest rate of 0.5% (0.6% 14/15), out-performing the benchmark (Inter-Bank 7-day lending rate of 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

11.8 The Council's net borrowing increased in 2015/16 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. This impact has been recognised in the Council's Medium Term Financial Plan.

| Table 7: Trend in Net Borrowing | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|--|----------------|----------------|-----------------|----------------|----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Total Borrowing | 264,136 | 294,204 | 298,624 | 313,032 | 438,641 |
| Total Deposits | (43,600) | (40,200) | (63,350) | (58,370) | (28,490) |
| Net Borrowing | 220,536 | 254,004 | 235,274 | 254,662 | 410,151 |
| Annual change in net debt | 32,189 | 33,468 | (18,730) | 19,388 | 155,489 |

11.9 The Capital Financing Requirement reflects the Council's underlying need to borrow to fund its capital programme (Table 8). The CFR has increased from £453.2 to £577.7m in 2015/16, reflecting a high level of capital expenditure funded from borrowing. However temporary use of internal funds (reserves) means that we have not needed to borrow up to the level of the CFR.

| Table 8: Capital Financing Requirement (CFR) | 31 March 2016 | 31 March 2015 |
|---|--------------------------|--------------------------|
| | £m's | £m's |
| General Fund | 420.0 | 295.5 |
| Housing Revenue Account | 157.7 | 157.7 |
| Total | 577.7¹ | 453.2 |

12. ALTERNATIVE OPTIONS CONSIDERED

12.1 None. This report is required in order 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 2015/16.

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 deposits 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.

¹ A further technical accounting adjustment may be required as part of the completion of the accounts which will need to be agreed with External Auditors. This is in respect of the Ladderswood financial accounting model and may increase the CFR by approximately £3.1m in respect of an existing long term lease credit arrangement. This will not involve additional borrowing or revenue expenditure.

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 IMPLICATIONS

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 used to deliver equitable services to all members of the community.

Background Papers:

None

APPENDIX 1: DEPOSITS OUTSTANDING AT 31ST MARCH 2016

| Call Accounts | Amount lent (£000) | Interest rate | Maturity Date |
|-----------------------------------|-------------------------------|----------------------|----------------------|
| HSBC | 11,990 | 0.40% | On demand |
| Handlesbanken | 7,000 | 0.50% | On demand |
| Deposits | | | |
| Lloyds bank | 7,500 | 1.00% | 5 May 2016 |
| Santander 31 Days' Notice Account | <u>2,000</u> | 0.65% | 31 Days |
| Total | <u>28,490</u> | | |