MUNICIPAL YEAR 2017/2018 REPORT NO. **16**

Agenda – Part: 1	Item: 9
Subject: **ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2016/17** **KD 4527** **Wards: All**	

MEETING TITLE AND DATE:
CMB 6th June
Cabinet 13th July
Council 19th July

REPORT OF:
Executive Director of Finance, Resources
& Customer Services

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1. EXECUTIVE SUMMARY

1.1. This report reviews the activities of the Council's Treasury Management function over the financial year ended 31 March 2017.

1.2. The key points of the report are highlighted below:

		See section:
Debt Outstanding at year end to finance capital	• £554.7m - an increase of £116m from 2015/16.	**5**
Average interest on total debt outstanding	• 3.7% - a reduction of 0.5% from 2015/16.	**6**
Debt Re-scheduling	• *None undertaken.*	**8**
Interest earned on investments	• £0.429m – a decrease of £25k from 2015/16.	**10**
Investments & Net Borrowing	• Net Borrowing increased by £140m to £550m, resulting from a decrease of £24k in investments and an increase in borrowing of £116m.	**10**

2. RECOMMENDATIONS

2.1 Following consideration by Cabinet on 13 July 2017, Council is to be asked to approve the 2016/17 Treasury Outturn report.

3. BACKGROUND

3.3. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3.4. During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

a. an Annual Treasury Strategy in advance of the year – (reported to Council 24th January 2016 as part of the 2016/17 Budget report)
b. a mid-year Treasury update report – (TM activity is monitored by Cabinet in year and may be reported onto to Council if there are any concerns)
c. an annual review following the end of the year describing the activity compared to the strategy - (this report)

3.5. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3.6. The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Cabinet before they were reported to the full Council. Member training on treasury management issues was undertaken during the year in order to support members' scrutiny role.

4. NATIONAL CONTEXT

4.1. The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019.

4.2. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth.

5. BORROWING IN 2016/17

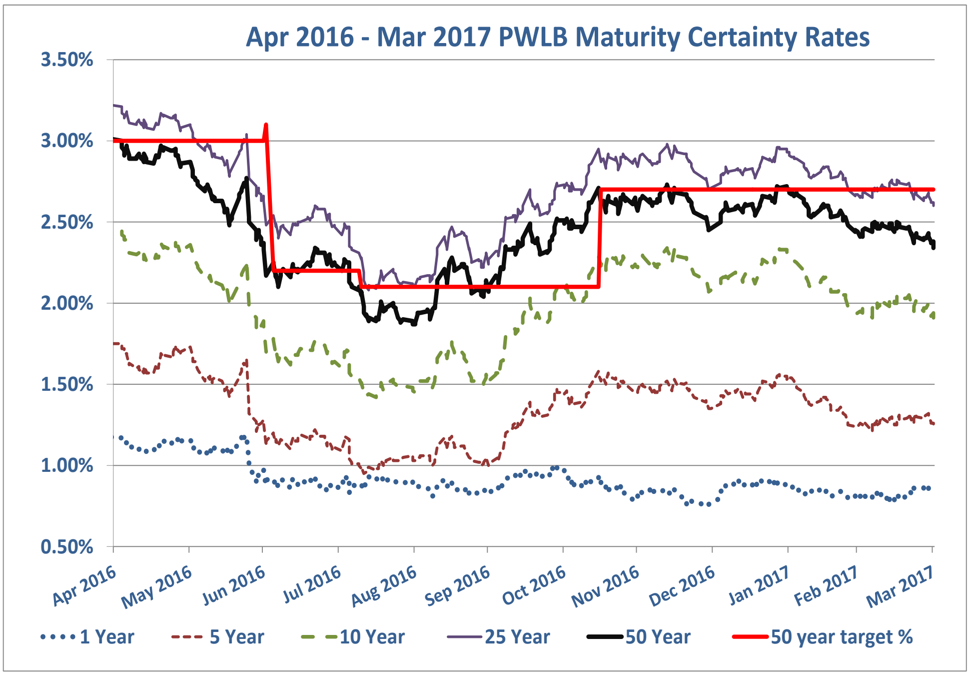
5.1. The following loans were taken out during the year:

Table 2: Movement in year	Debt 1 April 2016	Debt Repaid	New Debt Raised	Debt at 31 March 2017
	£000	**£000**	**£000**	**£000**
Temporary Borrowing (less than a year)	86,000	(86,000)	109,000	109,000
	86,000	**(86,000)**	**109,000**	**109,000**
Public Works Loan Board (PWLB)	287,478	(5,063)	90,000	372,416
Commercial Loan	30,000	-	-	30,000
Local Authority borrowing	18,000	-	10,000	28,000
European Investment Bank	9,851	(303)	-	9,548
LEEF	5,850	(607)	-	5,243
Salix	1,462	(887)	-	575
	352,641	**(6,860)**	**100,000**	**445,782**
Total Debt Outstanding	**438,641**	**(92,860)**	**209,000**	**554,782**

5.2. During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

5.3. Borrowing Rates in 2016/17

PWLB certainty maturity borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



6. INTEREST ON TOTAL DEBT OUTSTANDING

6.1. The average interest rate paid on total external debt in 2016/17 was 3.7% (4.21% in 2015/16).

6.2. 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	2016/17
	£000	**£000**
Public Works Loan Board (PWLB)	11,604	13,575
Commercial Loan	2,143	2,143
Local Authority Loan	282	354
EIB Loan	170	221
LEEF Loan	77	96
Salix Loan	-	-
Total Interest on Debt	**14,276**	**16,390**
Short Term Loans	185	441
Total interest paid :Total Cost of Debt	**14,461**	**16,831**
Cost Attributed to:		
Housing Revenue Account	8,174	8,159
Capitalised interest on Meridian Water	1,027	2,740
Interest charged to HGL (various rates)	633	1,776
Interest charged to EIL (6.67%)	0	908
Cost Attributed to General Fund	4,627	3,248
Total Cost of Debt	**14,461**	**16,831**

7. DEBT MATURITY STRUCTURE

7.1 The Council has 64 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.

7.2. Table 4 shows the maturity structure of Enfield's long-term debt:

Table 4: Profile Maturing Debt	Debt Outstanding as at 31 March 2016 (£m)	Debt Outstanding as at 31 March 2017 (£m)
Years		
Under 1 year	90.8	117.3[1]
1- 5	64.5	98.6
5-10	14.2	28.1
10-15	7.0	27.4
15-25	39.0	60.2
25-30	10.0	9.3
30-40	133.3	139.0
40+	79.8	74.8
	438.6	**554.7**

8. DEBT RESTRUCTURING

8.1 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.

[1] Loans maturing under 1 year as at 31st March 2017 included £109m short term loans and £8.3m longer term loans maturing in 2017/18

8.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. The council will continue to actively seek opportunities to re-structure debt over 2017/18, if viable.

9. TREASURY MANAGEMENT PRUDENTIAL INDICATORS: 2016/17

9.1 Throughout 2016/17 total loan debt was kept within the limits approved by the Council against an authorised limit of £900 million. The authorised limit (as defined by the Prudential Code) was as a precaution against the failure, for whatever reason, to receive a source of income or a major unexpected expenditure. In the unlikely event of this happening, the Council would need to borrow on a temporary basis to cover the shortfall in cash receipts. Any significant breach must be reported to Council.

9.2 The Council held no variable interest rate debt during 2016/17. The Council's Prudential Code however does allow debt to be held in variable interest rate.

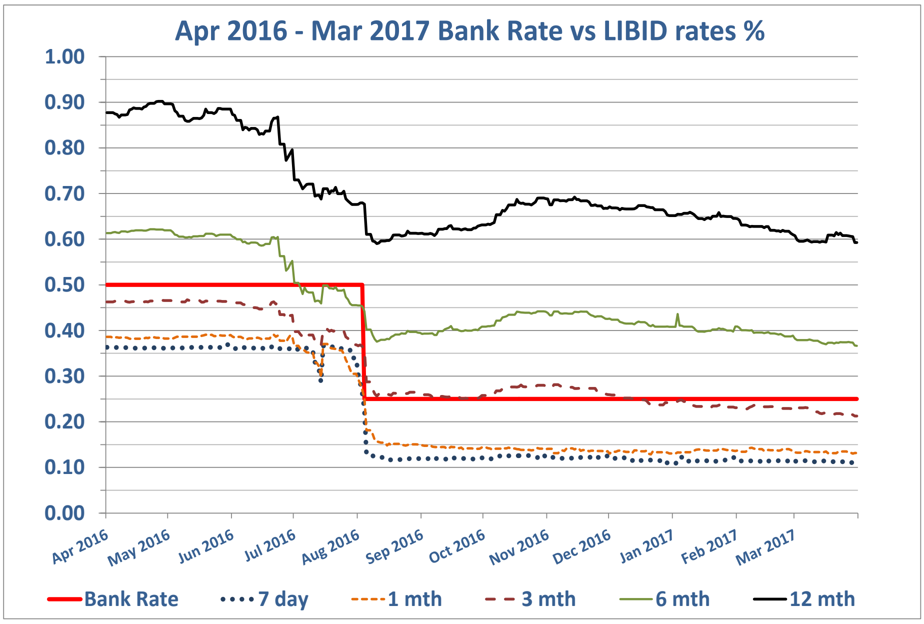
9.3 The Prudential code allows up to 30% of its debt to mature in one year (equivalent to £166 million as at 31 March 2017). This limit was not breached; the actual position as at 31 March 17 was £109m (19.7%).

9.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. For example the operational borrowing limit set by the council, determines the external debt levels which are not normally expected to be exceeded. Whereas the authorised borrowing limit represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It helps to monitor and reduce the risk of exposing the council to external debt.

10. INVESTMENTS

10.1. After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018.

Deposit rates continued at previous depressed levels into the start of 2016/17 but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



Money market investment rates in 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16

10.2. 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 Management Strategy. The Council acts as the treasury manager for the majority of Enfield schools who are 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 and Capital programme. This allows the Treasury Management team to make more informed decisions on borrowing and lending.

10.3 All investments entered into by the Council during 2016/17 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. The council only had £4.5m investment with HSBC as at 31 March 2017 (£28.5m 2015/16)

10.4 Total cash balances during 2016/17 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.

10.5 Liquidity was managed through call accounts and money market funds. 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 £197.

10.6 In 2016/17 the Council received £0.429 million in interest on money lent out to the money markets; a decrease of £25k from 2016/17. This was as a result of lower cash balances, reduced interest rates and holding in more liquid accounts. The average cash balance held by the Council during the year was £45.4m compared to £62m 2015/16. Table 5 shows the total interest receipt received by the council.

Table 5: Interest Receipts	**2015/16 £000**	**2016/17 £000**
Total Interest Receipts	**454**	**429**
HRA balances	(250)	(130)
Section 106 Applications	(30)	(24)
Total Interest to General Fund	**172**	**275**

10.7. Table 6 shows the maturity structure of Enfield's investments. The council continues to adopt a very prudent approach and the 2016/17 strategy allowed investments up to 12 months with financial institutions that met the Council's credit rating requirements.

10.8 Investments as at 31 March 2017 were as follows:

Table 6: Duration of Investments	**Investments as at 31 March 2016**	**No of counter-parties**	**Investments as at 31 March 2017**	**No of counter-parties**
Months	**£000's**		**£000's**	
On demand	18,990	2	4,500	1
Within 1 Month	2,000	1	-	-
Within 3 Months	7,500	1	-	-
Investments held at 31st March	**28,490**	**4**	**4,500**	**1**

10.9 The Treasury Management team achieved an average interest rate of 0.35% (0.5% 15/16), out-performing the benchmark (Inter-Bank 7-day lending rate 0.2%). This was achieved by adopting an active treasury policy and resulted in a saving at outturn. The average interest rate fell due to banks reducing interest rates on our call accounts.

10.10 The Council's net borrowing increased in 2016/17 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 and action has been taken to contain this by reductions in the Capital programme.

Table 7: Trend in Net Borrowing	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	**£000**	**£000**	**£000**	**£000**
Total Borrowing	294,204	298,624	313,032	438,641	554,782
Total Investments	(40,200)	(63,350)	(58,370)	(28,490)	(4,500)
Net Borrowing	**254,004**	**235,274**	**254,662**	**410,151**	**550,282**
Annual change in net debt	**33,468**	**(18,730)**	**19,388**	**155,489**	**140,131**

10.11 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 2016	31st March 2017
	£m's	**£m's**
General Fund	420.0	596.4
Housing Revenue Account	157.7	157.7
Total CFR	577.7	754.1
External Borrowing	438.6	554.8
Under / (Over) Borrowing	139.1	199.3
Authorised Limit	600.0	900.0

11. ALTERNATIVE OPTIONS CONSIDERED

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

12. REASONS FOR RECOMMENDATIONS

12.1 To inform the Council of Treasury Management performance in the financial year 2016/17.

13. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE, RESOURCES & CUSTOMER SERVICES

13.1 Financial Implications

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

13.2 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.

13.3 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.

14. IMPACT ON COUNCIL PRIORITIES

14.1 **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.

14.2 **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.

14.3 **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.

14.4 **PERFORMANCE MANAGEMENT IMPLICATIONS**

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.

15 PUBLIC HEALTH IMPLICATION

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

16 EQUALITIES IMPACT IMPLICATIONS

16.1 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.

Background Papers:
None