MUNICIPAL YEAR 2018/19 REPORT NO. **25**

Agenda – Part: 1	Item: 9
Subject: **ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2017/18** **KD: 4716** **Wards: All**	
Cabinet Member consulted: **Cllr Maguire**	

MEETING TITLE AND DATE:
Cabinet: 25th July 2018
Council: 20th September 2018

REPORT OF:
Executive Director of Resources

Contact officer and telephone no:
Fay Hammond
020 8379 2662
e-mail: fay.hammond@enfield.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report reviews the activities of the Council's Treasury Management function over the financial year ended 31 March 2018.

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

		See section:
Debt Outstanding at year end to finance capital	• £696.8m - an increase of £142m from 2016/17.	**5**
Average interest on total debt outstanding	• 3.4% - a reduction of 0.3% from 2016/17.	**6**
Debt Re-scheduling	• *None undertaken.*	**8**
Interest earned on investments	• £0.106m – a decrease of £36k from 2016/17 (excluding interest receipts from loans made by the council)	**10**
Investments & Net Borrowing	• Net Borrowing increased by £131.5m to £682m, resulting from an increase of £10.5m in investments and an increase in borrowing of £142m.	**10**

2. RECOMMENDATIONS

2.1. Council is asked to approve the 2017/18 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 2017/18. 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 2017/18 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 28th February 2017 as part of the 2017/18 Budget report)
b. a mid-year Treasury update report – (TM activity is monitored by Cabinet in year and may be reported on 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 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 to support members' scrutiny role.

4. NATIONAL CONTEXT

4.1. At its 2 November meeting, the Monetary Policy Committee (MPC) raised the Bank Rate from 0.25% to 0.50%.

4.2. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

5. BORROWING IN 2017/18

5.1. The following table summarises the councils loan portfolio and changes that have taken place from March 2017 to March 2018 due to debt repaid and new loans raised:

Table 2: Movement in year	Debt 1 April 2017	Debt Repaid	New Debt Raised	Debt at 31 March 2018
	£000	**£000**	**£000**	**£000**
Temporary Borrowing (less than a year)	109,000	(129,000)	88,000	68,000
	109,000	**(129,000)**	**88,000**	**68,000**
Public Works Loan Board (PWLB)	372,416	(7,261)	191,597	556,752
Commercial Loan	30,000	0	0	30,000
Local Authority borrowing	28,000	0	0	28,000
European Investment Bank	9,548	(310)	0	9,238
LEEF	5,243	(617)	0	4,626
Salix	575	(422)	0	153
	445,782	**(8,610)**	**191,597**	**628,769**
Total Debt Outstanding	**554,782**	**(137,610)**	**279,597**	**696,769**

5.2. During 2017/18 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.

6. INTEREST ON TOTAL DEBT OUTSTANDING

6.1. The average interest rate paid on total external debt in 2017/18 was 3.4% (3.7% in 2016/17).

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	2016/17 £'000	2017/18 £'000
Public Works Loan Board	13,575	16,736
Commercial Loan	2,143	2,144
Local Authority Loans	354	384
EIB Loan	221	217
LEEF Loan	96	86
Salix Loan	0	0
Total Interest on Debt	**16,389**	**19,567**
Short Term Loans	441	293
Total interest paid: Total Cost of Debt	**16,830**	**19,859**
Interest income receipts from:		
Housing Revenue Account	8,159	8,159
Capitalised interest on M Water	2,740	5,745
Interest Charged to HGL	1,776	2,534
Interest Charged to EIL	908	992
Interest Charged to LVHN	0	366
Interest Charged to E Enterprise*	0	113
General Fund**	3,248	1,950
Total Cost of Debt	**16,831**	**19,859**

*2017/18 interest receipts include invoices not raised in prior years
**remaining cost picked up by general fund

7. DEBT MATURITY STRUCTURE

7.1 The Council has 79 loans spread over 50 years with the average maturity being 29 years. The 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 2017 (£m)	Debt Outstanding as at 31 March 2018 (£m)
Years		
Under 1 year	117.3	121.6
1- 5	98.6	54.7
6-10	28.1	44.9
11-15	27.4	51.6
16-25	60.2	115.3
26-30	9.3	58.5
31-40	139	141.4
41+	74.8	108.8
	554.7	**696.8**

8. DEBT RESTRUCTURING

8.1 Debt restructuring 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.

8.2 No rescheduling was done during the year as the PWLB new borrowing rates and premature repayment rates made rescheduling unviable. The council will continue to actively seek opportunities to re-structure debt, if viable.

9. TREASURY MANAGEMENT PRUDENTIAL INDICATORS: 2017/18

9.1 Throughout 2017/18 total loan debt was kept within the limits approved by the Council against an authorised limit of £1,178 million. The authorised limit (as defined by the Prudential Code) was set 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 2017/18. However, the Council’s Treasury Management Strategy does permit variable interest rate interest rate loans

9.3 The Council’s Treasury Management Strategy permits up to 30% of its debt to mature in one year (equivalent to £209 million as at 31 March 2018). This limit was not breached; the actual position as at 31 March 18 was £137.6m (19.7%), which includes the short-term loans from LAs, repayment of other loans which is now due within a year and principal payments of all other loans which will be paid in 2018/19.

9.4 Within the prudential indicators there are several 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. The Bank Rate increased from 0.25% to 0.5% in November and remained at that level for the rest of the year.

10.2. The Council manages its investments arising from cash flow activities in-house and invests within the institutions listed in the its approved lending list. It can invest for a range of periods approved in the Annual Treasury Management Strategy. The Council currently acts as the treasury manager for most 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 2017/18 were fully compliant with the Annual Investment Strategy. The strategy makes clear that the investment priorities are given firstly to security of principal, then to liquidity over yield. To this extent all investments have only been made with counterparties of high credit quality. The council only had £15m investment with two Call Account counterparties as at 31 March 2018 (£4.5m in 2016/17)

10.4 Total cash balances during 2017/18 varied considerably, predominantly because of the significant peaks and troughs arising from payment profiles of business rates collection, capital expenditure, 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 £151 (£197 in 2016/17)

10.6 In 2017/18 the Council received £0.106 million in interest on money lent out to the money markets; a decrease from 2016/17. This was because of lower cash balances, reduced interest rates from money markets and holding cash in more liquid accounts. The average cash balance held by the Council during the year was £44.1m compared to £45.4m 2016/17.

10.7 Table 5 shows the maturity structure of Enfield's investments. The council continues to adopt a very prudent approach and the 2017/18 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 2018 were as follows:

Table 5: Duration of Investments	Investments as at 31 March 2017	No of counter-parties	Investments as at 31 March 2018	No of counter-parties
	£000's		**£000's**	
On call accounts	4,500	1	15,000	2
Total Investments held at 31st March	**4,500**	**4**	**15,000**	**2**

10.9 The Council's net borrowing increased in 2017/18 as demonstrated in Table 6. 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 6: Trend in Net Borrowing	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
Total Borrowing	298,624	313,032	438,641	554,782	696,769
Total Investments	-40,200	-63,350	-28,490	-4,500	-15,000
Net Borrowing	258,424	249,682	410,151	550,282	681,769
Annual change in net debt	**0**	**-8,742**	**160,469**	**140,131**	**131,487**

10.11 The Capital Financing Requirement reflects the Council's underlying need to borrow to fund its capital programme (Table 7).

Table 7: Capital Financing Requirement (CFR)	31st March 2017	31st March 2018
	£m's	**£m's**
General Fund	578.2	733.0
Housing Revenue Account	157.7	157.7
Total CFR	**735.9**	**890.7**
External Borrowing	554.8	696.8
Under / (Over) Borrowing	181.1	193.9
Authorised Limit	900	1,178

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 2017/18.

13. COMMENTS OF THE EXECUTIVE DIRECTOR OF RESOURCES AND OTHER DEPARTMENTS

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 IMPLICATIONS

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