MUNICIPAL YEAR 2018/19 REPORT NO. 107

Agenda – Part: 1	Item:
Subject: **ANNUAL TREASURY MANAGEMENT MID YEAR REVIEW 2018/19** **KD: 4768** **Wards: All**	
Cabinet Member consulted: **Cllr Maguire**	

MEETING TITLE AND DATE:
Cabinet: 14th November 2018
Council: 21st November 2018

REPORT OF:
Director of Finance

Contact officer and telephone no:
Paul Reddaway
020 8379 4730
e-mail: paul.hammond@enfield.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report reviews the activities of the Council's Treasury Management function over the half year period ended 30 September 2018.

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

		See section:
Debt Outstanding at 30th September 2018	£750m - an increase of £53m Since 1st April 2018.	**5**
Average interest on total debt outstanding	The average interest rate remains 3.4%. This likely to fall by year end as a result of a £30m high coupon loan maturing in February.	**5**
Debt Re-scheduling	None undertaken.	**7**
Interest earned on investments	£100k – (excluding interest receipts from loans made by the council). Given low of cash deposits the total receipts for the year will around £150k. In line with 2017/18 outturn	**6**
Investments & Net Borrowing	Net Borrowing has increased by £42m to £724m. This is expected to increase to £800m by year end	**5/6**

2. RECOMMENDATIONS

2.1 Council is asked to approve the 2018/19 Mid-Year Treasury position as set out in this report.

3. **BACKGROUND**

3.1. The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management half yearly and annual reports.

3.2. The Authority's Treasury Management Strategy for 2018/19 was approved at a meeting of the Authority on 21 February 2018. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

4. ECONOMIC BACKGROUND

4.1. The Bank of England have made no change to monetary policy at its meetings in May and June. However, in August 2018 they made a unanimous decision for a rate rise of 0.25%, taking the Bank Rate to 0.75%. This increase was predicated on fears of rising inflation, falling unemployment rates, and greater wage growth.

4.2. There has been a high level of volatility in financial market as a result of potential trade wars resulting from the US implementing tariffs on imports. Perhaps the greatest issue is the great uncertainty around the UK's withdrawal from the EU. These two factors will continue to have a great influence over the next year.

4.3. Given all these factors the gilt yields have on the whole not moved greatly, nevertheless, this has not prevented there from being great volatility over the period. With yields reacting to market news and reverting back on to trend.

5. BORROWING IN 2018/19

5.1. The 2018/19 Treasury Management strategy sets out an operational borrowing limit of £1,067m for the year. As at 30th September there is still a potential for the Authority to borrow up to a further £317 million to meet the capital programme requirement. In practice this is likely to be around an additional £90m of borrowing. This matter is being closely monitored through the Council's cash flow model.

5.2. The chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

5.3. On the 30th September 2018 the Authority held £750m of loans, (an increase of £53m since 1st April 2018), as part of its strategy for funding the Council's capital programmes.

5.4. During this period the Authority borrowed £100m of which £47m was used to replace maturing debt. £43m was applied to fund new capital expenditure.

5.5. The Council has 86 loans spread over 50 years with the average maturity being 27 years. The maturity profile allows the Council to spread the risk of high interest rates when debt matures in any one year. The average of interest for the period was 3.4%.

5.6. Outstanding loans as at 30th September are summarised in Table 1 below.

Table 1: Treasury Management Borrowing Summary				
Type of Loan	**1st April 2018**	**New Borrowing**	**Repaid Borrowing**	**30th Sept 2018**
	£000's	**£000's**	**£000's**	**£000's**
Short-terms loans	**68,000**	85,000	(28,000)	**125,000**
PWLB	**556,752**	15,000	(3,782)	**567,969**
European Investment bank	**9,238**	-	(158)	**9,080**
Commercial Loan	**30,000**	-	-	**30,000**
LEEF	**4,626**	-	(312)	**4,314**
Local Authority	**28,000**	-	(15,000)	**13,000**
SALIX	**153**	-	(52)	**101**
Total*	**696,769**	**100,000**	**(47,304)**	**749,465**

***See table 2**

Table 2 Loans made by to LB of Enfield companies total is included in Table 1				
Loans made to LBE Companies	**1st April 2018**	**New Borrowing**	**Repaid Borrowing**	**30th Sept 2018**
	£000's	**£000's**	**£000's**	**£000's**
HGL	**114,616**	5,000	(5,496)	**114,120**
LVHN	**6,199**	-	(12)	**6,187**
EIL	**13,698**	-	(373)	**13,325**
Total	**134,513**	**5,000**	**(5,881)**	**133,632**

6. TREASURY INVESTMENT ACTIVITY

6.1. Total cash balances over the first half of the year 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.

6.2. During a six-month period, the Authority's investment balance ranged between £9m and £81 million due to timing differences between income and expenditure. The investment position during the half year is shown in table 3.

Table 3: Investments held by LB of Enfield				
Counter parties	**1st April 2018**	**Cumulative Sums Invested**	**Cumulative Repaid sums**	**30th Sept. 2018**
	£000's	**£000's**	**£000's**	**£000's**
Money Market Funds				
Goldman Sachs	**-**	46,000	(46,000)	**-**
Deutsche	**-**	8,000	(8,000)	**-**
Ignis	**-**	84,000	(84,000)	**-**
Federated	**-**	90,000	(90,000)	**-**
Call Accounts				
HSBC	**6,000**	130,530	(125,180)	**11,350**
Handelsbanken	**9,000**	10,0000	(4,000)	**15,000**
	15,000	**368,530**	**(357,180)**	**26,350**

6.3. Given the continued low interest environment in comparison to cost of borrowing, it is still appropriate to maintain low levels of deposit and to use them as internal borrowing.

6.4. Further, given the relevant low level of cash held and with low interest environment deposits been held with daily access. It not planned to change this strategy over the second half of the year

7. COMPLIANCE WITH TREASURY MANAGEMENT INDICATORS

7.1. Borrowing Prudential Indicators

7.2. 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 full council to approve any increase.

7.3. Throughout the period to the 30th September 2018 the 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.

7.4. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 4 below.

Table 4: Debt Limits	**30.9.18 Actual**	**2018/19 Operational Boundary**	**2018/19 Authorised Limit**	**Complied?**
	£m	**£m**	**£m**	**£m**
Borrowing	750	1,067	1,147	Yes
PFI and Finance Leases	47	75	100	Yes
Total Debt	**1,939**	**1,142**	**1,247**	

7.5. The Council's Treasury Management Strategy permits up to 30% of its debt to mature in one year (equivalent to £225 million as at 30 September 2018). This limit was not breached. The actual position as at 30 September 2018 was £159m (21%), which includes the short-term loans from LAs, repayment of other loans which will be due within a year and principal payments of all other loans which will be paid in 2018/19.

Table 5: Profile Maturing Debt	**Debt Outstanding as at 31 March 2018**	**Debt Outstanding as at 30 September 2018**
Years	**(£m)**	**(£m)**
Under 1 year	121.6	159.3
1- 5	54.7	57.2
6-10	44.9	55.2
11-15	51.6	54.2
16-25	115.3	128.8
26-30	58.5	67.0
31-40	141.4	132.9
41+	108.8	98.8
Total	**696.8**	**749.4**

7.6. Investment Prudential Indicators

7.7. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring and ensuring that it only invest deposits with financial institutions.

Credit rating	**30.9.18 Actual**	**2018/19 Target**	**Complied?**
Portfolio average credit	AA-	A-	Yes

7.8. There have been no breaches of investments in the period ended 30th September 2018. Any breach would be report to the Director of Finance.

Table 6: Investment Limits	30.9.18 Actual	2018/19 Max Limit to any one counterparty	Complied?
	£000	**£000**	
Any single organisation, except the UK Government	15,000	15,000	Yes

7.9. The Authority measures and manages its exposures to treasury management risks using the following indicators.

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. ALTERNATIVE OPTIONS CONSIDERED

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

10. **REASONS FOR RECOMMENDATIONS**

10.1. To inform the Council of Treasury Management performance in the financial year 2018/19.

11. **COMMENTS OF OTHER DEPARTMENTS**

11.1. **Financial Implications**

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

11.3. Legal Implications

11.4. This report sets out the lawful basis for the recommendation to approve the 2018/19 Treasury Half Year Report. The Council has duties within an existing legal and regulatory framework to produce an annual Treasury Management review of activities and the actual prudential and Treasury indicators for 2017/18.

11.5. **Key Risks**

11.6. 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.

12. IMPACT ON COUNCIL PRIORITIES

Good homes in well-connected neighbourhoods
Build our Economy to create a thriving place
Sustain Strong and healthy Communities

12.1. The Treasury Strategy indirectly contributes to the council's ability to address the values set out within the Council's priorities

13. PERFORMANCE MANAGEMENT IMPLICATIONS

13.1. 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.

14. PUBLIC HEALTH IMPLICATIONS

14.1. The council's Treasury Management indirectly contributes to the delivery of Public Health priorities in the borough.

15. EQUALITIES IMPACT IMPLICATIONS

15.1. 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