MUNICIPAL YEAR 2019/20 REPORT NO. **41**

Agenda – Part: 1	Item: 8
Subject: **ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2019/19** **KD:** **Wards: All**	
Cabinet Member consulted: **Cllr Maguire**	

MEETING TITLE AND DATE:
Cabinet: 17th July 2019
Council: 18 September 2019

REPORT OF:
Executive Director of Resources

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1. EXECUTIVE SUMMARY

1.1. This report reviews the activities of the Council's Treasury Management function over the year ended 31 March 2019.

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

		See section:
Debt Outstanding at 31st March 2019	£844.8m - an increase of £148.0m since 1st April 2018.	**5**
Average interest on total debt outstanding	The average interest rate fell to 3.05% This in part reflects the maturing of the £30m high coupon and new borrowing being taken at lower than average rates.	**6**
Debt Rescheduling	None undertaken.	**7**
Other Treasury Activities	Schools balances de-coupled from a group balance position	**8**
Treasury Investment activity	£275k – (excluding interest receipts from loans made by the council).	**9**
Compliance with Treasury Management prudential indicators	No breaches	**10**
Investments & Net Borrowing	Net borrowing has increased by £125.5m	**11**

2. RECOMMENDATIONS

2.1. Council is asked to:

- **i.** Note and comment on the contents of the report
- **ii.** Approve the revised Treasury Management Strategy noting the change to the Minimum Revenue Provision with the addition of 4 c) in Appendix E of the Strategy

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 an Authority meeting on the 21st 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 the financial markets 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 overall 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 Actual borrowing for the year was £845milllion. The actual borrowing was within the Operational limit of £1,067 million (as set out in the 2018/19 Treasury Management Strategy Report). The outturn position was in line with the borrowing requirement set out in the mid year Treasury Management report.

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 31st March 2019 the Authority held £845million of loans, (an increase of £148.2 million since 1st April 2018), as part of its strategy for funding the Council's capital programme.

5.4. During this period the Authority borrowed £290 million of which £141.8 million was used to replace maturing debt.

5.5. Outstanding loans as at 31 March 2019 are summarised in Table 1 below.

Table 1: Treasury Management Borrowing Summary				
Type of Loan	**1st April 2018**	**New Borrowing**	**Repaid Borrowing**	**31st March 2019**
	£000	**£000**	**£000**	**£000**
PWLB	**556,752**	125,000	(7,906)	**673,846**
Commercial Loan	**30,000**		(30,000)	**-**
European Investment bank	**9,238**		(317)	**8,921**
LEEF	**4,626**		(627)	**3,999**
Local Authority	**28,000**		(15,000)	**13,000**
SALIX	**153**		(86)	**67**
Short-terms loans	**68,000**	165,000	(88,000)	**145,000**
Total*	**696,769**	**290,000**	**(141,936)**	**844,833**

Note1*See table 2

Note2: The HRA borrowing remains unchanged at £157.7m

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**	**31 March 2019**
	£000	**£000**	**£000**	**£000**
HGL	**115,849**	5,000	(5,997)	**114,852**
Energetik	**6,209**	2,880	(216)	**8,873**
EIL	**12,820**	-	(584)	**12,236**
EEA	**750**	-	-	**750**
Total	**135,628**	**7,880**	**(6,797)**	**136,711**

6. **COST OF BORROWING**

6.1. The average interest rate paid on total external debt in 2018/19 was 3.05% (3.4% in 2017/18).

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	2017/18	2018/19
	£000	**£000**
Public Works Loan Board	16,736	19,448
Commercial	2,144	1,885
Local Authority	384	304
EIB	217	210
LEEF	86	75
Salix	-	-
Commission on loans	92	130
Total Interest on Debt	**19,659**	**22,052**
Short term Loans	293	917
Total Interest Paid	**19,952**	**22,969**
Interest Income Receipts from:		
Housing Revenue Account	8,159	8,159
Capitalised Interest on Meridian Water	5,745	7,226
HGL	2,534	2,836
EIL	992	828
Energetik Note 3	366	439
Enfield Enterprise	113	38
General Fund	2,042	3,443
Total Cost of Debt	**19,951**	**22,969**

Note 3: Energetik pay an inflated interest rate to meet the State Aid regulations set by the European Union this additional interest cost amounted to £259K in 2018/19 and is used to reduced the interest paid budget.

7. DEBT MATURITY

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 of Maturing Debt	Loans Outstanding as at 31 March 18	Loans Outstanding as at 31 March 19
	£m	**£m**
Under 1 year	121.6	164.6
1-5	54.7	67.1
5-10	44.9	85.0
10-15	51.6	151.8
15-25	115.3	67.6

25-30	58.5	58.5
30-40	141.4	141.4
40+	108.8	108.8
	696.8	**844.80**

8. TREASURY INVESTMENT ACTIVITY

8.1. Total cash balances over the year varied considerably, predominantly because of the significant peaks and troughs arising from payment profiles of business rate collections, capital expenditure, DWP payments and housing benefit payments.

8.2. During the year the Authority's investment balance ranged between £5 million and £111 million due to timing differences between income and expenditure. The investment position at year end is shown in table 5.

Table 5: Investments held by LB of Enfield				
Counter parties	**1st April 2018**	**Cumulative Sums Invested**	**Cumulative Repaid sums**	**31st March 2019**
	£000	**£000**	**£000**	**£000**
Money Market Funds				
Goldman Sachs	**-**	118,800	(118,800)	**-**
Deutsche	**-**	97,600	(97,600)	**-**
Ignis	**-**	172,115	(172,115)	**-**
Federated	**-**	131,500	(121,500)	**10,000**
Call Accounts				
Santander	**-**	7,000	(7,000)	**-**
HSBC	**6,000**	254,572	(247,872)	**12,700**
Handelsbanken	**9,000**	46,000	(40,000)	**15,000**
	15,000	**827,587**	**(804,887)**	**37,700**

8.3. 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 these deposits as internal borrowing.

8.4. Further, given the relevant low level of cash held and with low interest environment deposits been held with daily access to aid daily liquidity.

9. OTHER TREASURY CONSIDERATIONS

9.1. Schools banking

9.2. In February following a change in banking regulations HSBC the Council's bankers requested that all the Council's banking accounts be de-coupled. This had the effect that schools' balances could no longer be grouped as one account. The impact of this was that a school~~s'~~ in an overdrawn position which had previously been protected by schools with credit balances are now exposed to the cost of being overdrawn. At year end 6 schools were in an overdrawn position amounting to a total of £6.2m. The Council has mitigated the interest costs to these schools by granting a revolving credit facility and charging interest at lower rate than the bank - 1.25%. The

Treasury team remain in close communication with both the affected schools and the Education department.

9.3. Minimum Revenue Provision (MRP)

9.4. Council officers have been working with Treasury Consultants (Arlingclose) and the Council's External Auditors to construct an equitable but prudent policy to account for MRP on borrowing by HGL for investment properties that are housing assets. The current MRP policy is overly prudent where there is evidence of sustained appreciation in asset valuations and for which there is a long asset-life. The review has concluded and the Policy is to be amended to provide for principal period over 75 years for such assets with an asset-life of that longevity.

10. COMPLIANCE WITH TREASURY MANAGEMENT INDICATORS

10.1. Borrowing Prudential Indicators

10.2. 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.

10.3. Throughout 2018/19 the total loan debt was kept within the limits approved by the Council against an authorised limit of £1,147 million. The authorised limit (as defined by the Prudential Code) was set as a precaution against the failure, 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 the Council.

10.4. The Council held no variable interest rate debt during 2018/19. However, the Council's Treasury Management Strategy does permit variable interest rate loans.

10.5. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits	**31st March 2019 Actual**	**2018/19 Operational Boundary**	**2018/19 Authorised Limit**	**Complied?**
	£m	**£m**	**£m**	**£m**
Borrowing	845	1,067	1,147	Yes
PFI and Finance Leases	45	75	100	Yes
Total Debt	**890**	**1,142**	**1,247**	

10.6. The Council's Treasury Management Strategy permits up to 30% of its debt to mature in one year (equivalent to £253 million at year end). This limit was not breached. The actual position as at 31 March 2019 was £159m (19.5%), 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 2019/20. Section 7.2 shows the outturn position.

10.7. Investment Prudential Indicators

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

Table 7: Credit rating	31 Mar 2019	2018/19 Target	Compiled?
Portfolio average credit	AA-	A-	Yes

10.9. There have been no breaches of investments during the year. Any breach would be reported to the Director of Finance.

Table 8: Investment Limits	30 Sep 2018 Actual	2018/19 Max Limit to any one counterparty	Complied?
	£000	£000	
Any single organisation, except the UK Government	15,000	15,000	Yes

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

11. DEBT RESTRUCTURING

11.1. 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.

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

12. NET DEBT

12.1. The Council's net borrowing increased in 2018/19 as demonstrated in Table 7. This recognises that future capital expenditure will need to be financed from external borrowing and will create pressure on the revenue budget, however this impact has been recognised in the Council's Medium Term financial plan.

Table 9: Trend in Net Borrowing	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m	£m	£m
Total Borrowing	298.6	313.0	438.6	554.8	696.8	844.8
Total Investments	(40.2)	(63.4)	(28.5)	(4.5)	(15.0)	(37.7)
Net Borrowing	258.4	249.6	410.1	550.3	681.8	807.1
Annual Change	-	(8.8)	160.5	140.1	131.5	125.3

12.2. **The Capital Financing Requirement**

12.3. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. This has been achieved in 2018/19 but with the Authority's internal borrowing now exhausted we will move closer to the CFR limit in future years.

Table 10: Capital Financing Requirement (CFR)	31 March 2018	31 March 2019
	£m	**£m**
General Fund	733.0	795.1
Housing Revenue Account	157.7	157.7
Total CFR	**890.7**	**952.8**
External Borrowing	696.8	844.8
Under Borrowing	193.9	108.0
Authorised Limit	**1,078**	**1,148**

13. ALTERNATIVE OPTIONS CONSIDERED

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

14. REASONS FOR RECOMMENDATIONS

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

15. COMMENTS OF OTHER DEPARTMENTS

15.1. **Financial Implications**

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

15.3. Legal Implications

15.4. 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 2018/19.

15.5. **Key Risks**

15.6. 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.

16. IMPACT ON COUNCIL PRIORITIES

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

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

17. PERFORMANCE MANAGEMENT IMPLICATIONS

17.1. 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.

18. PUBLIC HEALTH IMPLICATIONS

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

19. EQUALITIES IMPACT IMPLICATIONS

19.1. 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.