MUNICIPAL YEAR 2019/20 REPORT NO. 127

MEETING TITLE AND DATE:
Cabinet: 13th November 2019
Council: 29 January 2020

REPORT OF:
Executive Director of Resources

Contact officer and telephone no:
Bola Tobun - 020 8379 6879
e-mail: Bola.Tobun@enfield.gov.uk

Agenda – Part: 1	**Item:**
Subject: **ANNUAL TREASURY MANAGEMENT MID YEAR REVIEW 2019/20** **KD: 4992** **Wards: All**	
Cabinet Member consulted: **Cllr Maguire**	

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 2019.

1.2. Over the reporting period, all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement.

1.3. It is worth noting that the HM Treasury increased PWLB rate by 100 basis points (1%) to 180 basis points (1.8%). Please see more information on this as set in section 7.4 to 7.6.

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

		See section
Debt Outstanding at 30th September 2019	£917m - an increase of £72m Since 1 April 2019. £120m long-term PWLB borrowing was raised for the financial year 2018/19.	**5**
Average interest on total debt outstanding	The average interest rate reduced by 0.5% to 2.9%. This was due to some high coupon loans maturing during the year.	**5**
Investments & Net Borrowing	Investments stood at £72.1m for the reporting period. Net Borrowing has increased by £35m to £845.1m, this is expected to increase to £1,050m by year end as part of the Council's capital programme funding strategy.	**5 & 6**
Interest earned on investments	£185k – (excluding interest receipts from loans made by the council). Given low level of cash deposits the total receipts for the year will be around £250k, this should be in line with 2019/20 forecast.	**6**
Compliance with Treasury Management prudential indicators	No breaches	**7**
Debt Re-scheduling	None undertaken.	**8**

2. RECOMMENDATIONS

2.1. Council is asked to consider the 2019/20 Mid-Year Treasury position.

3. BACKGROUND

3.1. The Council 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 Council to approve treasury management half yearly and annual reports.

3.2. The Council's Treasury Management Strategy for 2019/20 was approved at a meeting of the Council on 27 February 2019. The Council 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 Council's Treasury Management Strategy.

4. ECONOMIC BACKGROUND

4.1. he Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.

4.2. Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown.

4.3. Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1 month, 3 month and 12 month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

5. BORROWING IN 2019/20

5.1. The 2019/20 Treasury Management Strategy sets out an operational borrowing limit of £1,275m for the year. As at 30th September there is still a potential for the Authority to borrow up to a further £350 million to meet the capital programme requirement. In practice this is likely to be around an additional £100m 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 2019 the Authority held £917m of loans, (an increase of £72m since 1st April 2019), as part of its strategy for funding the Council's capital programmes.

5.4. During this period the Authority borrowed £120m of which £48m was used to replace maturing debt. £72m was applied to fund new capital expenditure.

5.5. The Council has 90 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 2.9%.

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 2019**	**New Borrowing**	**Repaid Borrowing**	**30th Sept 2019**
	£000's	**£000's**	**£000's**	**£000's**
PWLB	**673,846**	120,000	(2,133)	**791,713**
European Investment Bank	**8,921**	-	(158)	**8,763**
LEEF	**3,999**	-	(318)	**3,681**
Local Authority	**158,000**	-	(45,000)	**113,000**
SALIX	**67**	-	(34)	**33**
Total**	**844,833**	**120,000**	**(47,643)**	**917,190**

***Total includes loans to LBE companies as shown in table 2 below**

Table 2 **Loans made by LB of Enfield to its companies'**				
Loans made to LBE Companies	**1st April 2019**	**New Borrowing**	**Repaid Borrowing**	**30th Sept 2019**
	£000's	**£000's**	**£000's**	**£000's**
HGL	**114,852**	-	(1,448)	**113,404**
Energetik	**8,873**	1,170	(86)	**9,957**
EIL	**12,236**		(285)	**11,951**
EEA	**750**	-	-	**750**
Total	**136,711**	**1,170**	**(1,819)**	**136,062**

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 £0m and £150 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 2019**	**Cumulative Sums Invested**	**Cumulative Repaid sums**	**30th Sept. 2019**
	£000's	**£000's**	**£000's**	**£000's**
Money Market Funds				
Goldman Sachs	**-**	46,000	(46,000)	**-**
Aberdeen	**-**	18,500	(8,000)	**10,500**
CCLA PSDF	**-**	35,000	(20,000)	**15,000**
Federated	**10,000**	85,000	(80,000)	**15,000**
Invesco	**-**	64,000	(50,000)	**14,000**
Call Accounts				
HSBC	**12,700**	130,000	(133,100)	**9,600**
Handelsbanken	**15,000**			**15,000**
	37,700	**378,500**	**(337,100)**	**79,100**

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 Council to approve any increase.

7.3. Throughout the period to the 30th September 2019 the total loan debt was kept within the limits approved by the Council against an authorised limit of £1,400 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. 9 October 2019, HM Treasury increase the Public Works Loan Board (PWLB) rate by 100 basis points (1%), the new margin above gilts is now 180 basis points (1.8%) for certainty rate loans. Early repayment rate margins are unchanged. The sharp increase to the PWLB borrowing rate was due to the pace at which councils had been borrowing from the facility during the summer for their capital projects, housing and regeneration schemes; £2.0bn was taken in August and £1.6bn in September.

7.5. With the PWLB only £2.3bn away from its £85bn statutory limit for liabilities, the decision to extend the cap by £10bn to £95bn was taken at the same time as the rate rise since the HM Treasury was worried the extra money could be drawdown within or less than a year, which would leave them with another decision on whether to raise the cap again. HM Treasury also said, "they are restoring interest rates to levels available in 2018" and the "restoration of normal PWLB lending rates.

7.6. This policy change has far reaching consequences for our current treasury management activity as the Council has a large funding requirement and we could experience a significant increase in interest costs. The margin of 180 basis points (1.8%) appears very expensive for most authorities and, in general borrowing at this rate should be avoided. This increase in PWLB rate meant we would have to revise our budget estimates for 2019/20.

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

Table 4: Debt Limits

	30 Sept 2019 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied?
	£m	£m	£m	£m
Borrowing	917	1,200	1,300	Yes
PFI and Finance Leases	45	75	100	Yes
Total Debt	**962**	**1,275**	**1,400**	

7.8. The Council's Treasury Management Strategy permits up to 30% of its debt to mature in one year (equivalent to £242 million as at 30 September 2019). This limit was not breached. The actual position as at 30 September 2019 was £121m (13%), which includes the short-term loans from Local Authorities (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.

Table 5

Profile Maturing Debt	Debt Outstanding as at 31 March 2019	Debt Outstanding as at 30 September 2019
Years	**(£m)**	**(£m)**
Under 1 year	164.6	117.0
1- 5	67.1	67.1
6-10	85.0	85.0
11-15	151.8	151.8
16-25	67.6	187.6
26-30	58.5	58.5
31-40	141.4	141.4
41+	108.8	108.8
Total	**844.8**	**917.2**

Investment Prudential Indicators

7.9. **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	30.9.19 Actual	2019/20 Target	Complied?
Portfolio average credit	AA-	A-	Yes

7.10. There have been no breaches of investments in the period ended 30th September 2019. Any breach would be report to the Director of Finance.

Table 6: Investment Limits	30.9.19 Actual	2019/20 Max Limit to any one counterparty	Complied?
	£000	£000	
Any single organisation, except the UK Government	15,000	15,000	Yes

7.11. 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 2019/20.

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 2019/20 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 2019/20.

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.