London Borough of Enfield

CABINET

Meeting Date: 11 November 2020

Subject: Treasury Management Mid Year Report for 2020/21

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: 5214

Purpose of Report

1. This report reviews the activities of the Council's Treasury Management function over the half year period ended 30 September 2020.

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.

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

		See section:
Borrowing Outstanding and Net Borrowing at 30th September 2020	A reduction of £61.6m, since 31st March 2020 and now stood at £927.4m. £66m of local authority borrowing matured, paid and only £16m of project specific loans have been taken during this reporting period. Net Borrowing for this period stood at £854.7m with revised forecast at £1,058m, some £200m less than the original budget.	**13, 31 - 35**
Capital Financing Requirement (CFR) Forecast for 31st March 2021	The audited borrowing CFR for 31st March 2020 was £1,072m. The forecast for 31st March 2021 has been revised to £1,238m from £1,288m due to the ongoing Covid-19 and general capital expenditure slippage.	**36 - 38**
Average interest on total borrowing outstanding	The average interest rate forecast for this year end is 2.49% and this currently stood at 2.55% for the period. Cost of borrowing estimated for the year 2020/21 is £27.3m.	**39 - 42 & 62**
Investments & Net Borrowing, PFI & Finance Leases (Debt)	Interest earned on investments to reporting period is £0.139m. Investments portfolio stood at £72.7m for the reporting period. Net debt has decreased by £39m from £931m	**43 – 47 & 56**

	as at 31st March 2020 to £892m with revised forecast for 2020/21 as £1,094m.	
Loans Rescheduling	None undertaken.	**57**
Minimum Revenue Provision (MRP)	MRP chargeable to the General Fund (GF) for 2020/21 is £10m.	**58**
Compliance with Treasury Management & Prudential Indicators	No breaches.	**61 - 72**

Proposal(s)

4. Cabinet is asked to:

   i) Note and comment on the contents of the report

   ii) Recommend that Council consider and note the 2020/21 Mid Year Treasury Management position and approve the additional policy for 2020/21 Enfield Treasury Management Strategy Statement attached as Appendix 1 to this report.

Reason for Proposal(s)

5. To inform Council the Treasury Management performance for the half year period ended 30 September 2020

6. 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.

7. The Council's Treasury Management Strategy for 202/21 was approved at the Council's meeting on the 27th February 2020. The Council has invested and borrowed 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.

Relevance to the Council's Plan

8. Good homes in well-connected neighbourhoods.

9. Build our Economy to create a thriving place.

10. Sustain Strong and healthy Communities.

Background

11. On 31st March 2020, the Council had net borrowing of £893.6m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR),

while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31 March 2020 Actual £m
General Fund CFR	882.3
HRA CFR	226.7
Total CFR	**1,109.0**
Less: *Other debt liabilities	37.5
Borrowing CFR	**1,071.5**
External borrowing	989.0
Internal borrowing	**82.5**
Less: Usable reserves	(220.3)
Less: Working capital	42.4
Net investments	**(95.4)**

*finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

12. Lower official interest rates have lowered the cost of short-term, temporary borrowings and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.

13. The treasury management position as at 30th September 2020, the change over the six months, the original forecast position for 31st March 2020 and the revised budget position are shown in Table 2 below.

Table 2: Treasury Management Summary

	Actual Balance 31.03.20 £m	**Movement £m**	**Actual Balance 30.09.20 £m**	**Original Estimate 31.03.21 £m**	**Revised Forecast 31.03.21 £m**
Long-term borrowing	913.0	4.4	917.4	1,137.5	932.9
Short-term borrowing	76.0	(66.0)	10.0	150.0	150.0
Total borrowing	**989.0**	**(61.6)**	**927.4**	**1,287.5**	**1,082.9**
Total investments	**(95.4)**	**22.6**	**(72.7)**	**(33.5)**	**(25)**
Net borrowing	**893.6**	**(39.0)**	**854.7**	**1,254.0**	**1,057.9**

14. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, the Council considered it to be more cost effective in the near term to use internal resources or borrowed

rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in table 2 above.

15. The Council has deferred over £200m of its capital expenditure plans which has resulted in a temporary lower funding requirement for 2020/21.

ECONOMIC BACKGROUND

16. The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing (QE) programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

17. The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again.

18. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

19. Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the ‘Eat Out to Help Out’ (EOHO) offer.

20. GDP growth contracted by a massive 19.8% Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

21. The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England’s 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics’ preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

22. The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is ‘moderately’ above the 2% average target, particularly given it has been below target for most of the last decade.

23. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

FINANCIAL MARKETS

24. Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

25. Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

26. At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

CREDIT REVIEW

27. Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those the Council's treasury advisers monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

28. Fitch revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

29. There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our counterparty list as there is this added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like.

30. The institutions on Council's counterparty list and recommended duration remain under constant review, but at the end of this reporting period no changes had been made to the names on the list or the recommended maximum duration.

BORROWING STRATEGY DURING 2020/21

31. The 2020/21 Treasury Management Strategy sets out an operational borrowing limit of £1,525m and maximum borrowing requirements of £1,328.8m for the year. As at 30th September there is still a potential for the Council to borrow up to a further £350 million, this level of borrowing has been revised because of the ongoing Covid-19 pandemic and the capital programme slippage. This

matter is being closely monitored through the Council's 10 year capital programme model and the cash flow model.

32. 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 Council's long-term plans change being a secondary objective.

33. On the 30th September 2020 the Council held £927.4m of loans, (a net decrease of £61.6m since 1st April 2020), as part of its strategy for funding the Council's capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

34. In keeping with these objectives, apart from project specifics borrowing of some £16m from HNIP, MEEF and SALIX no other borrowing was undertaken, while £66m of existing local authority loans were allowed to mature without refinancing or replacement. This strategy enabled the Council to reduce net borrowing costs despite foregone investment income and reduce overall treasury risk.

35. The Council has 95 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. The average interest for the period is 2.55%.

Table 3: Borrowing Position

Type of Loan	31.3.20 Actual £m	Movement £m	30.9.20 Actual £m	31.3.21 *Original Forecast £m	31.3.21 ^Revised Forecast £m
PWLB	897.3	(10.6)	**886.7**	1,107.5	**902.6**
European Investment Bank	8.6	(0.2)	**8.4**	-	**8.4**
HNIP	-	9.8	**9.8**	10.0	**9.8**
LEEF	3.4	(0.4)	**3.0**	10.0	**2.7**
MEEF	-	5.0	**5.0**	10.0	**5.0**
Local Authority	76.0	(66.0)	**10.0**	150.0	**150.0**
GLA	2.1	(0.4)		-	**1.6**
SALIX	1.6	1.2	**2.8**	-	**2.8**
Total	**989.0**	**(61.6)**	**927.4**	1,287.5	**1,082.9**

*Original Forecast as stated in TMSS 2020/21, approved by Council 26 February 2020
^Revised Forecast based on current level of activities

The Capital Financing Requirement (CFR)

36. The Council has an increasing CFR due to the capital programme and an increasing estimated borrowing requirement which takes into account usable reserves and working capital which are the underlying resources available for investment as shown in Table 4.

37. The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the Council's borrowing need based on realistic projections, the Council decided to take some advantage of the fall in external borrowing rates and will be borrowing a combination of short-term and medium-term repayment loans (annuity/EIP) / maturity loans. The Council plan to borrow a total of £150m medium/longer-term fixed rate loans. These loans will provide some longer-term certainty and stability to the debt portfolio.

Table 4: Capital Financing Requirement (CFR)

Capital Financing Requirement (CFR)	Actual 31 March 2020 £m	Original Budget 31 March 2021 £m	Revised Budget 31 March 2021 £m
General Fund	882.3	1,073.2	997.1
Housing Revenue Account	226.7	255.6	276.6
Total CFR	**1,109.0**	**1,328.8**	**1,273.7**
Less: *Other debt liabilities	37.3	41.3	35.7
Borrowing CFR	**1,071.7**	**1,287.5**	**1,238.0**
External Borrowing	988.9	1,254.0	1,082.9
Under Borrowing	84.8	33.5	155.1
Authorised Limit	**1,400.0**	**1,600.0**	**1,600.0**

*Total CFR includes finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

38. As PWLB funding margins have pitched quite substantially, there remains a strong argument for diversifying source of funding, particularly if lower rate borrowing can be achieved from alternative sources at rates below gilt yields plus 0.80%, for General Fund capital expenditure. The Council will evaluate and pursue these lower cost solutions and opportunities when available.

Other Debt Activity

39. The forecast for 31st March 2021 Private Finance Initiative/finance leases liabilities which represent the total debt other than borrowing for the Council will stood at £35.7m after the repayment of £1.6m scheduled for the year.

Cost of Borrowing

40. The average interest rate forecast on total external debt for 2020/21 is 2.49% (2.69% in 2019/20). Table 6 shows the Council total cost of maintaining its debt portfolio, as well as how the debt cost has been recharged to the HRA and to LBE Companies. The overall cost to the General Fund was £4.9 million.

Table 5: Cost of Borrowing

Type of Loan	Actual for 31.03.20	Actual as at 30.09.20	Forecast for 31.03.21
	£m	**£m**	**£m**
Public Works Loan Board	22.5	12.2	26.2
Local Authority	0.1	0.1	0.3
EIB	0.2	0.1	0.2
GLA	-	-	-
LEEF	0.1	-	0.1
MEEF	-	-	-
Salix	-	-	-
Total Interest on Long Term Debt	12.4	12.5	26.6
Short term Loans	1.1	0.5	0.6
Commission on loans	(0.1)	-	(0.1)
Total Interest Paid	**23.9**	**13.0**	**27.3**
Interest Income Receipts from:			
Housing Revenue Account	8.9	4.9	9.5
Capitalised Interest on Meridian Water	7.7	4.1	8.2
HGL	2.8	2.0	3.7
EIL	0.7	0.0	0.0
Energetik	0.5	0.2	0.8
General Fund	3.2	1.9	5.1
Total Cost of Debt	23.9	13.0	27.3

41. Energetik pay a premium on their interest rate to meet the State Aid regulations set by the European Union.

Loans Maturity

42. 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. Table 6 shows the maturity structure of the Council's Loans portfolio as at 31 March 2020:

Table 6: Profile of Maturing Loans

	Loans Outstanding Actual as at 31 March 20	Loans Outstanding Forecast for 31 March 21
	£m	**£m**
Under 1 year	99.0	24.6
1-2	24.4	73.5
2-5	44.8	95.3
5-10	125.0	131.4
10-15	126.1	124.1
15-20	156.2	146.9
20-25	24.8	31.1
25-30	58.5	68.3
30-35	101.9	87.7
35-40	39.5	44.3
40-45	83.8	88.8
45+	105	166.9
	989.0	**1,082.9**

Treasury Investment Activity

43. 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.

44. During this reporting period the Council's investment balance ranged between £5 million and £147 million due to timing differences between income and expenditure. The investment position at 30th September 2020 is shown in table 7 below.

Table 7: Treasury Investments

Counterparties	31.3.20 Actual £m	Movement £m	30.9.20 Actual £m
Money Market Funds			
Goldman Sachs	8.5	(8.5)	0
Deutsche	12.0	(12.0)	0

Aberdeen (Ignis)	14.0	6.0	20.0
Federated	14.0	(11.5)	2.5
CCLA	11.0	9.0	20.0
HSBC Liquidity	0	10.2	10.2
Invesco	11.0	(11.0)	0
Aviva	0	20.0	20.0
Call Accounts			
Santander	0	0.0	0
HSBC	24.9	(24.9)	0
Handelsbanken	0	0.0	0
	95.4	**(22.6)**	**72.7**

45. The Council generated investment income of £0.139m on cash balances held in call accounts and money market funds for this reporting period. On average the Council's cash investment portfolio had a risk weighting equivalent to AA+ credit rating.

46. Because the Council's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.

47. In 2020/21 the Council expects to receive significantly lower income from its cash and short-dated money market investments than it did in 2019/20 and earlier years.

Investment Benchmarking

48. Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

49. The progression of risk and return metrics are being measured and monitor. An extract of the metrics being used from Arlingclose's quarterly investment benchmarking are shown in Table 8 below for the reporting period.

50. Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

Table 8 – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2020 **30.09.2020**	4.25 **4.44**	AA- **AA-**	100% **100%**	1 **1**	0.30% **0.07%**
Similar LAs **All Las**	**4.33** **4.16**	**AA-** **AA-**	**75%** **64%**	**71** **18**	**0.67%** **0.90%**

51. On 25th September the overnight, 1- and 2-week deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities.

52. The return on Money Market Funds net of fees also fell over the six months and for many funds net returns range between 0% and 0.1%. The Council earned 0.07%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return

Non-Treasury Investment

53. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return.

54. This is replicated in the Investment Guidance issued by Ministry of Housing, Communities and Local Government's (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

55. The Council held £132.8m of such investments. Which currently consist solely loans but in future it will includes provision of working capital and injection of equities into the companies. Please see Appendix 1 of this report which detailed the working capital policy to govern the management and administration of such facility. A list of the Council's non-treasury investments is shown in below table 9:

Table 9: Non-Treasury Investments

Loans made to LBE Companies	31.3.20 Balance £m	Movement £m	31.9.20 Balance £m
HGL	**118.4**	0.7	**119.1**
Energetik	**9.0**	3.9	**12.9**
EIL	**3.7**	(2.9)	**0.8**
Total	**131.1**	**1.7**	**132.8**

Net Debt (Borrowing, PFI & Leases)

56. The Council's net debt has reduced from £930.9m closing position of 2019/20 to £892m as demonstrated in Table 10. The estimated budget position for 2020/21 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 10: Net Debt

	31.03.20 Actual £m	30.09.20 Actual £m	2020/21 Original Budget £m	2020/21 Revised Budget £m	2020/21 Interest Forecast £m
Companies	131.1	132.8	216.1	162.3	4.4
Meridian Water	294.2	294.2	342.1	342.1	8.1
Other GF*	359.2	298.7	473.7	311.9	4.3
HRA	201.7	201.7	255.6	266.7	9.7
Total borrowing	**989.0**	**927.4**	**1,287.5**	**1,082.9**	**26.5**
PFI & Finance leases	*37.3*	*37.3*	*41.3*	35.7	0.7
Total debt	**1,026.3**	**964.7**	**1,328.8**	**1,118.6**	**27.2**
Total treasury investments	**(95.4)**	**(72.7)**	**(74.8)**	**(25.0)**	**(0.3)**
Net Debt	**930.9**	**892.0**	**1,254.0**	**1,093.6**	**26.9**

Loans Restructuring

57. Loans restructuring normally involves prematurely replacing existing loans (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.

58. 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 restructure debt, if viable.

Minimum Revenue Provision

59. In accordance with the Local Government Act 2003, the Council is required to pay off an element of the accumulated General Fund capital expenditure, which was funded from borrowing, through an annual revenue charge known as the Minimum Revenue Provision (MRP).

60. In the 2020/21 TMSS that was approved by Council at its meeting in February 2020 had MRP budget for 2020/21 as £10m and interest chargeable to the General Fund of £8.9m.

Compliance with Treasury Management Indicators

61. 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.

62. Since the beginning of this financial year 2020/21 the total loan debt was kept within the limits approved by the Council against an authorised limit of £1,600 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.

63. Officers reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy or explain the areas of non-compliance. Compliance with specific investment limits is demonstrated in tables below.

64. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 11 below.

Table 11: Prudential Indicators

Debt Limits	**30.9.20 Actual £m**	**2020/21 Maximum £m**	**2020/21 Operation-al Boundary £m**	**2020/21 Authorised Limit £m**	**Complied?** Yes/No
Borrowing	927.4	989.0	1,400	1,500.0	Yes
PFI and Finance Leases	37.3	37.3	75.0	100.0	Yes
Total debt	**964.7**	**1,026.3**	**1,525.0**	**1,600.0**	Yes

65. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Although total debt was not above the operational boundary during this reporting financial year.

Treasury Management Indicators

66. The Council measures and manages its exposures to treasury management risks using the following indicators.

67. Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 12: Credit Risk

	30.9.20 Actual	2020/21 Target	Complied?
Portfolio average credit rating	AA-	A-	Yes
Portfolio average credit score	4.44	4.75	Yes

68. Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Table 13: Liquidity Risk Indicator

	30.9.20 Actual	2020/21 Target	Complied?
Total cash available within 3 months	£72.7m	£25m	Yes

69. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The Council held no variable interest rate debt during 2019/20. However, the Council's Treasury Management Strategy does permit variable interest rate loans.

Table 14: Interest Rate Risk Indicator

	30.9.20 Actual	2020/21 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	Nil	+£4m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	Nil	+£4m	Yes

70. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

71. **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 15: Maturity Structure

	30.9.20 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	5.0%	30%	0%	Yes

12 months & within 24 months	2.5%	35%	0%	Yes
24 months and within 5 years	4.9%	40%	0%	Yes
5 years and within 10 years	14.2%	45%	0%	Yes
10 years and above	73.5%	100%	0%	Yes

72. Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 16: Sum Invested Over One Year

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	Nil	Nil	Nil
Limit on principal invested beyond year end	£15m	£15m	£15m
Complied?	Yes	Yes	Yes

Safeguarding Implications

73. 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

Public Health Implications

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

Equalities Impact of the Proposal

75. 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.

Environmental and Climate Change Considerations

76. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

77. Lack of robust governance inevitably involves a degree of risk. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

78. Not approving the report recommendations and not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Council's treasury activities.

Financial Implications

79. This is a noting report which fulfils the requirement to report annually the performance of the Council's treasury management activities. Financial implications are set out in the body of the report.

Legal Implications

80. The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

81. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003.

82. This noting report of the Executive Director of Resources advises Council of the Council's borrowing and investment activities for the half-year ending 30th September 2020 and is consistent with the key principles expressed in the Treasury Management Code. The Executive Director of Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

Workforce Implications

83. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance and having a significant reduction in cost of borrowing will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

84. This report helps in addressing value for money through benchmarking the Council's performance against other Local Authority and London Boroughs.

Property Implications

85. None

Other Implications

86. None

Options Considered

87. The CIPFA TM code require that the Council establishes arrangements for monitoring its investments and borrowing activities hence the performance and activities of the Council’s treasury operations is being reported to this Committee on a regular basis.

This report is required to comply with the Council’s Treasury Management Policy statement, agreed by Council.

Conclusions

88. The Council held outstanding investments of £72.7m as at 30th September 2020. This portfolio earned interest of £0.139m for the reporting period.

89. Gross Debt (Council’s total borrowing, PFI and Finance Leases) stood at £964.7m, this is a reduction from the opening balance of £1,026.3m. The original gross debt forecast for 2020/21 was £1,328.8m and now revised down to £1,118.6m due to capital programme slippage and the ongoing Covid 19 pandemic effects. For more details, see sections 56 & 64.

90. The revised borrowing CFR forecast for 2020/21 is in excess of last year closing position of £1,071.7m by some £166.3m to £1,238m. The MRP charge for 2020/21 is £10m. See section 37 for more details.

91. The Total Borrowing for the reporting period stood at £927.4m, a reduction of £61.6m over 2019/20 closing balance of £989m. The original total borrowing forecast for 2020/21 was £1,287.5m, now revised down to £1,082.9m, this equates to some £205m reduction in borrowing need for this financial year. For more details, see section 64.

92. The net borrowing is the difference between total investments outstanding and the total borrowing outstanding. For this reporting period, it stood at £854.7m and the net debt (borrowing including PFI and finance leases) position is £892m. For more details, see section 13.

93. The gross interest forecast for financing external borrowing for the year are £27.3m and the proportion of interest chargeable to the General Fund for the 2020/21 is £5.1m. For more details, see section 40.

94. The Council loans to its companies stood at £132.8m for this reporting period. Future provisions to the companies will include provision of working capital and injection of equities into the companies. Appendix 1 attached to this report detailed the new drafted working capital policy to govern the management and administration of this facility. For more details, see section 55.

95. Over the reporting year 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. For more details, see section 66 – 72.

BORROWING UPDATE

96. On 9th October 2019 the Public Works Loan Board (PWLB) raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available; however, the financial strength of individual local authorities will be scrutinised by investors and commercial lenders.

97. The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction.

98. The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield. The consultation also proposes the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

99. The consultation closed on 31st July 2020 with the announcement and implementation of the revised lending terms expected in the latter part of this calendar year or early next year. The Council responded to the consultation.

100. Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor.

101. If the Council intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

102. It is also worth mentioning that the UK sovereign rating has been downgraded by Moody's to Aa3 and we could see bumped up in some local authority private placements rate spreads.

Report Author: Bola Tobun
Finance Manager – Pensions & Treasury
Bola.Tobun@enfield.gov.uk
Tel no. 020 8132 1588

Date of report 8th October 2020

Appendices
Appendix 1 – Additional Policy for 2020/21 Enfield Treasury Management Strategy Statement

Background Papers

The following documents have been relied on in the preparation of this report:

i) Treasury Management Strategy Statement 2020/21 (Approved by Council February 2020)
ii) Arlingclose – Treasury Mid Year Template for 2020/21
iii) Arlingclose – Enfield Benchmarking-credit-scores for September 2020

Appendix 1 – Additional Policy for 2020/21 Enfield Treasury Management Strategy Statement

1.1. **Lending to Wholly Owned Council Companies:** The Council can loan to its wholly owned companies, but a business case must be undertaken and a review process that demonstrates that they are a sound option (non-loss making) and support the Council's Medium Term Financial Plan Objectives. This is subject to existing requirements for taking Key Decisions set out in the Council's Constitution.

1.2. **Lending to Joint ventures (JVs), Associates and Similar entities:** The Council can invest in such organisations when they meet the same conditions as above. Moreover, there are instances when the Council is de facto required to invest or to deliver an alternative scheme (such as the North London Waste Authority).

1.3. **Lending to Third Parties:** The Council may lend to third parties that deliver services supporting the Medium-Term Financial Plan but any loans under such arrangements must be fully secured and on a commercial basis.

1.4. **Working Capital Facilities:** These are explicitly not capital expenditure because they exist to manage cashflows and are not of a long-term nature. Such facilities are limited to wholly owned Council companies and Joint Ventures and subject to existing requirements for taking Key Decisions set out in the Council's Constitution.

i) Regular reviews of cashflow are a requirement, taking place no less than on a quarterly basis.

ii) One key aspect that must be considered in relation to working capital is:

- that the cashflow review is to demonstrate the financial good health of the borrower and ability to repay plus interest
- to ensure that the loan is not being used for capital purposes and is solely due to the timing of cashflows. The latter requires a different governance process as noted within the financial regulations.