London Borough of Enfield

COUNCIL

Meeting Date: 22 September 2021

Subject: ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2020/21

Cabinet Member: **Cllr Maguire**

Executive Director: **Fay Hammond**

Key Decision: **5328**

Purpose of Report

1. To report the activities of the Council's Treasury Management function during the 2020/21 financial year. The key points of the report are highlighted below:

		section
Borrowing Outstanding at 31st March 2021	£930.1m – a reduction of £58.9m from 31st March 2020. No PWLB borrowing was raised for this financial year 2020/21. Project specific borrowing was raised from MEEF(£15m), HNIP (£21.6m) and SALIX (£2.9m)	**21 - 29**
Capital Financing Requirement (CFR) at 31 March 2021	The borrowing CFR (this represents the underlying need to borrow) stood at £1,165.7m, an increase of £56.7m since 31st March 2020. HRA CFR increased by £13.5m and General Fund by £43.2m over the year.	**30 - 33**
Average interest on total debt outstanding and Interest paid on external borrowing	The average interest rate reduced to 2.64% over the year. This was due to some high coupon loans maturing during the year and very low coupon project loans raised. The gross cost of borrowing for the year was £25.4m up by £1.5m.	**27 & 38**
Investments & Net Borrowing	Interest earned on investments was £0.147m. Investments stood at £35.6m as at 31 March 2021. Net Borrowing increased slightly by £0.9m to £893.9m.	**38 & 46**
Debt Re-scheduling	None undertaken.	**55 - 56**
Compliance with Treasury Management & Prudential Indicators	No breaches.	**57 - 68**

Minimum Revenue Provision (MRP)	MRP chargeable to the General Fund (GF) for 2020/21 is £14.5m, against a revised budget of £13.8m. The key factor driving the increase was £3.2m of REFCUS (Revenue Expenditure Funded by Capital Under Statute) charged to revenue.	**69 - 70**

Proposal

2. Council is recommended to note and approve the 2020/21 Treasury Management Outturn report.

Reason for Proposals

3. The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 require that regular reports be submitted to the relevant Council Committee detailing the Council's treasury management activities.

4. This report updates members on both the borrowing and investment decisions made by the Executive Director, Resources under delegated authority in the context of prevailing economic conditions and considers the Council's Treasury Management performance.

5. The regular reporting of treasury management activities assists Members to scrutinise officer decisions and monitor progress on the implementation of its borrowing and investment strategy as approved by Full Council.

Relevance to the Council's Corporate Plan

6. Good homes in well-connected neighbourhoods

7. Build our Economy to create a thriving place

8. Sustain Strong and healthy Communities

Background

9. 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.

10. The Council's Treasury Management Strategy for 2020/21 was approved at the Council meeting on the 26th February 2020. The Council has invested and overall 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.

Economic Background

11. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895

billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year.

12. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

13. The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

14. Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

15. A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

16. Government initiatives supported the economy and in the 2021 Budget the Chancellor announced a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have helped to protect more than 11 million jobs.

17. Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

18. Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England’s 2% target. The ONS’ preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

19. **Financial markets** - Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks.

20. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

21. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

22. The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

Treasury Management Position

23. The Council started the financial year 2020/21 with the closing position as at 31st March 2020 where the Council had net borrowing of £989m arising from its revenue and capital income and expenditure.

24. 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. The starting position for financial year 2020/21 is summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31 March 2020 Actual £m
General Fund CFR	882.3
HRA CFR	226.7
Borrowing CFR	**1,109.0**
External borrowing	989.0
Internal borrowing	**120.0**
Less: Usable reserves	(215.6)
Less: Working capital	120.2
Net investments	**(95.4)**

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

25. It is worth mentioning that the Council's Borrowing CFR as at 31st March 2020 has been revised from the figures stated in the 2019/20 outturn report or the 2020/21 TMSS report to £1,109m as shown in table 1 above.

26. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

27. The treasury management position at 31st March 2021 and the change during the year is shown in Table 2 below. The Council had no short term or long term investments but investments in money market funds categorised as cash equivalent for this financial year.

Table 2: Treasury Management Summary

	31.3.20 Balance £m	Movement £m	31.3.21 Balance £m	31.3.21 Rate %
Long-term borrowing	921.0	9.1	930.1	2.64
Short-term borrowing	68.0	(68.0)	0.0	0.0
Total borrowing	**989.0**	**(58.9)**	**930.1**	**2.64**
Total investments	**(95.4)**	**59.8**	**(35.6)**	**0.13**
Net borrowing	**893.6**	**0.9**	**894.5**	

Main Considerations for the Council

2020/21 Borrowing Update

28. The main 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.

29. At 31st March 2021 the Council held £930.1m of loans, a decrease of £58.9m to previous year closing balance and this is due to the Council's funding strategy for its capital programme. Outstanding loans on 31st March 2021 are summarised in Table 3 below and include loans that have been made to the LB Enfield's companies (further summarised in Table 6).

Table 3: Treasury Management Borrowing Summary

Type of Loan	31.3.19 Balance £m	New Borrowing £m	Repaid Borrowing £m	31.3.20 Balance £m	Average Interest %
PWLB	897.3	-	(21.4)	**875.9**	2.75
European Investment Bank	8.6	-	(0.3)	**8.3**	2.31
GLA	2.1	-	0	**2.1**	0.00
HNIP	0.0	21.6	0	**21.6**	0.18
LEEF	3.4	-	(0.6)	**2.7**	1.71
Local Authority	76.0	0.0	(76.0)	**0.0**	0.0
MEEF	0	15.0	0.0	**15.0**	1.20
SALIX	1.6	2.9	0	**4.5**	0.00
Total	**989.0**	**39.5**	**(98.4)**	**930.1**	**2.64**

30. In keeping with these objectives, new borrowing was kept to a minimum of £39.5m, while £98.4m of existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

31. During the reported period the Council raised no new PWLB loans, but project specific loans were raised from MEEF (£15m), HNIP (£21.6m) and SALIX (£2.9m) for capital expenditure.

The Capital Financing Requirement (CFR)

32. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital expenditure activity of the Council and resources used to pay for the capital spend. It represents the 2020/21 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

33. At £930.1m, the Council's borrowing was within the Prudential Indicator for external borrowing, namely, that borrowing should not exceed the original estimated CFR for 2020/21 of £1,329m, which was revised down in November 2020 to £1,238m. The final CFR for 2020/21 was £1,165.7m.

34. As at 31 March 2021, the Council has maintained an under-borrowed position of £235.6m. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered. Table 4 below shows the details around the Council's CFR and external borrowing as at 31 March 2021, split between the General Fund and HRA.

Table 4: Capital Financing Requirement (CFR)

Capital Financing Requirement (CFR)	**31 March 2020 £m**	**31 March 2021 £m**
General Fund	882.3	925.5
Housing Revenue Account	226.7	240.2
*Other debt liabilities	37.3	33.9
Total CFR	**1,146.3**	**1,199.6**
Less: *Other debt liabilities	37.3	33.9
Borrowing CFR	**1,109.0**	**1,165.7**
External Borrowing	989.0	930.1
Under Borrowing	120.0	235.6
Authorised Limit	**1,400.0**	**1,600.0**

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

35. As PWLB funding margins have pitched quite substantially, there remains a strong argument for diversifying this 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.

Forward Borrowing

36. The Council has not undertaken new borrowing in this financial year as projected in the 2020/21 TMSS, due to the high level of cash holdings and the effect of ongoing pandemic restrictions. Officers are monitoring market conditions and reviewing the need to borrow at current low rates if a requirement is identified for either the General Fund or Housing Revenue Account (HRA).

37. Due to the overall financial position and the underlying need to borrow for capital purposes, it is prudent for the Council to lock in affordability by placing some forward borrowing for the amounts it can be relatively certain it will need at a competitive rates in advance of need which eliminates the “cost of carry”, that is, the difference between loan interest cost and the rate of return on cash investments, whilst maintaining some forward flexibility as projects may or may not proceed within the expected timeframes.

38. During 2020/21, the Council did not arrange any forward borrowing loans.

Other Debt Activity

39. After £3.4m repayment of prior years’ Private Finance Initiative/finance leases liabilities, total debt other than borrowing stood at £33.9m for this financial year end.

Cost of Borrowing

40. The average interest rate paid on total external debt in 2020/21 was 2.64% (2.69% in 2019/20). Table 6 shows the Council’s 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 £4.6m due to ability of officers obtaining favourable low interest bearing project specific borrowings and not borrowing up to the forecast set for the period.

Table 5: Cost of Borrowing

	2019/20 (£m)	**2020/21 (£m)**
Public Works Loan Board	22.5	24.3
Local Authority	0.1	0.2
EIB	0.2	0.2
GLA	0.0	0.0
HNIP	0.0	8.4

LEEF	0.1	0.1
MEEF	0.0	0.0
Total Interest on Long Term Debt	22.9	24.8
Short term Loans	1.1	0.5
Commission on loans	(0.1)	0.1
Total Interest Paid	**23.9**	**25.4**
Interest Income Receipts from:		
Housing Revenue Account	8.9	8.7
Capitalised Interest on Meridian Water	7.7	8.4
HGL	2.8	2.9
EIL	0.7	0.7
Energetik	0.5	0.6
General Fund	3.2	4.6
Total Cost of Debt	**23.9**	**25.4**

41. duced by £0.2m over this financial year as some the Council's high coupon loans matured during the year although HRA borrowing has increased by some £13.5m over the year this new borrowing and the matured loans had been replaced by low interest loans.

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

Debt Maturity

43. The Council has 87 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.

44. Table 6 shows the maturity structure of the Council's debt portfolio as at 31 March 2021:

Table 6: Profile of Maturing Debt

	Loans Outstanding as at 31 March 20 (£m)	**Loans Outstanding as at 31 March 21 (£m)**
Under 1 year	98.6	25.0
1-5	67.8	70.3
5-10	124.7	134.6
10-15	126.1	130.4
15-25	181.0	188.8
25-30	58.5	70.2
30-40	141.4	132.0
40+	188.8	178.8
Total	**988.9**	**930.1**

Treasury Investment Activity

45. 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.

46. During the year the Council's investment balance ranged between £35 million and £135million due to timing differences between income and expenditure.

47. The investment position at the year end is shown in table 7 below:

Table 7: Treasury Investments

Counterparties	31.3.20 Balance £m	Cumulative Sums Invested £m	Cumulative Sums Repaid £m	31.3.21 Balance £m
Money Market Funds				
Goldman Sachs	8.5	59.2	(67.7)	**0**
Deutsche	12.0	108.8	(120.8)	**0**
Aberdeen (Ignis)	14.0	53.7	(67.7)	**0**
Federated	14.0	83.5	(97.5)	**0**
CCLA	11.0	29.6	(26.6)	**14.0**
HSBC Liquidity		13.0	(13.0)	**0**
Invesco	11.0	55.7	(66.7)	**0**
Aviva Investors	0.0	45.0	(45.0)	**0**
Call Accounts				
HSBC	24.9	327.1	(330.4)	**21.6**
Handelsbanken	0.0	19.0	(19.0	**0.0**
	95.4	**794.6**	**(854.4)**	**35.6**

48. The Council generated investment income of £0.147m on cash balances held in call accounts and money market funds during this financial year. On average the Council's cash investment portfolio had a risk weighting equivalent to A+ credit rating.

Investment Benchmarking

49. 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.

50. The progression of risk and return metrics are shown in the extracts from Arlingclose' s quarterly investment benchmarking in Table 8 below.

Table 8 – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2021	4.76	A+	100%	1	0.02%
31.03.2020	4.25	AA-	100%	1	0.30%
Similar LAs	**4.96**	**A+**	**69%**	**33**	**0.76%**
All Las	**4.53**	**A+**	**77%**	**14**	**0.90%**

Non-Treasury Investments

51. 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.

52. 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.

53. The Council held £134.1m of such investments. 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	New Borrowing £m	Repaid Borrowing £m	31.3.21 Nominal Balance £m	2020/21 Accounting Impairment £m	31.3.21 Accounting Balance £m
HGL	**118.4**	3.7	(1.2)	**120.9**	*0.0*	***120.9***
Energetik	**11.5**	1.7	(0.2)	**12.9**	*4.8*	***8.1***
EIL	**3.7**	0	(3.5)	**0.2**	*0.2*	***0.0***
Total	**133.6**	**5.4**	**(4.9)**	**134.1**	*5.0*	***129.1***

IFRS 9

54. It is worth noting that £5m of accounting impairment charges were applied to these investments as at 31 March 2021; £4.8m impairment charges to Energetic loans and £0.2m to EIL.

55. The Council injected £5m share capital into Energetik during the reporting financial year and the fair value of this investments as at 31st March 2021 is £4.797m. The Council also invested £5m, share capital with HGL and the fair value of this investment as at 31st March 2021 was £4.906m.

Net Gross Debt

56. The Council’s net gross debt reduced slightly from £930.9m to £928.4m in 2020/21 as demonstrated in Table 10. 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 10: Net Debt

	31.03.20 Actual £m	**31.03.21 Actual £m**	**Original Budget £m**	**Actual interest £m**	**Budget interest £m**
Total Borrowing	**989.0**	**930.1**	**1,328.8**	**24.8**	**36.2**
Companies	(129.4)	(140.0)	(216.1)	(3.6)	(4.5)
Meridian Water	(307.2)	(328.5)	(342.1)	(8.4)	(12.0)
HRA	(226.7)	(240.2)	(255.6)	(8.7)	(10.8)
General Fund	**325.6**	**221.5**	**515.0**	**4.1**	**8.9**
PFI & Finance leases	*37.3*	*33.9*	*33.9*	3.4	3.4
Gross Debt	**1026.3**	**964.0**	1,362.7	(28.2)	(39.6)
Total treasury investments	**(95.4)**	**(35.6)**	**(25.0)**	**(0.2)**	**(0.2)**
Net Gross Debt	**930.9**	**928.4**	**1,337.7**	**-**	**-**

Debt Restructuring

57. 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.

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.

Compliance with Treasury Management Indicators

59. 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.

60. Throughout 2020/21 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, 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.

61. Officers report 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.

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

Table 11: Prudential Indicators

Debt Limits	**2020/21 Maximum £m**	**31.3.21 Actual £m**	**2020/21 Operation-al Boundary £m**	**2020/21 Authorised Limit £m**	**Complied?** Yes/No
Borrowing	989.0	930.1	1,525	1,600.0	Yes
PFI and Finance Leases	41.3	41.3	75.0	100.0	Yes
Total debt	**1,030.3**	**971.4**	**1,600.0**	**1,700.0**	Yes

63. 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

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

65. 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

	31.3.21 Actual	2020/21 Target	Complied?
Portfolio average credit rating	A+	-	Yes
Portfolio average credit score	4.76	6.0	Yes

66. 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

	31.3.21 Actual	2020/21 Target	Complied?
Total cash available within 3 months	£35.6m	£25m	Yes

67. **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 2020/21. However, the Council's Treasury Management Strategy does permit variable interest rate loans.

Table 14: Interest Rate Risk Indicator

	31.3.21 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

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

69. **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

	31.3.21 Actual	31.3.21 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	£25.0	10.55%	30%	0%	Yes
12 months & within 24 months	£23.8	1.33%	35%	0%	Yes
24 months and within 5 years	£46.5	5.50%	40%	0%	Yes
5 years and within 10 years	£134.6	12.55%	45%	0%	Yes
10 years and above	£700.2	70.07%	100%	0%	Yes

70. 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

Minimum Revenue Provision

71. 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).

72. In the 2020/21 TMSS, that was approved by the Council at its meeting in February 2020, the MRP budget for 2020/21 was £10m, it was revised in November 2020 to £13.8m to recognised the ignored non-refinanced REFCUS that was identified during the year end closing of Accounts process, consequently, these have been charged to revenue. This led to a capital financing charge of £14.5m.

CIPFA consultations

73. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee’s recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

74. In the Prudential Code the key area being addressed is the statement that ***“local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed”.*** Other proposed changes include ***the sustainability of capital expenditure in accordance with an authority’s corporate objectives***, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, ***replacing the “gross debt and the CFR”*** with the ***liability benchmark as a graphical prudential indicator***.

75. Proposed changes to the Treasury Management Code include requiring job specifications and “knowledge and skills” schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16

76. The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

Changes to PWLB Terms and Conditions and Updated Guidance

77. The “PWLB Guidance for Applicants” first published in November 2020 has been updated. This does not change the purpose for which local authorities can borrow for but will act to further clarify the guidance that was initially published and make it clearer.

78. The responses the Government may take if local authorities do not follow the guidance has also been updated.

79. This guidance applies to major authorities in England, Scotland and Wales which can borrow without explicit Government approval and are required to have regard to the Prudential Code.

80. From 8th September 2021 the following changes will take effect:

    - The settlement time for a PWLB loan will increase from two working days (T+2) to five working days (T+5). This is to give the Government sufficient time to review capital plans submitted and ensure they are consistent with the PWLB’s lending policy.

    - The minimum interest rate for PWLB loans will be set at 1 basis point (1bp) or 0.01%. This means that if the benchmark gilt yield plus margin is lower than 1bp the loan will be issued at 1bp.

    - The interest rate charged on late loan repayments will be the higher of the Bank of England Base Rate or 0.1%. Previously the charge was the Bank of England Base Rate.

81. A new electronic template will be launched on 8th September 2021. This will include additional questions to make the return more suitable for authorities that are undertaking debt for yield activity but who are accessing the PWLB for refinancing purposes.

Safeguarding Implications

82. 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

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

Equalities Impact of the Proposal

84. 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

85. 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

86. 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

87. 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

88. 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

89. This report sets out the lawful basis for the recommendation to approve the 2020/21 Treasury Outturn 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 2020/21.

Workforce Implications

90. 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.

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

Property Implications

92. None

Other Implications

93. None

Options Considered

94. 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.

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

Conclusions

96. The Council held outstanding investments of £35.6m as at 31st March 2021. This portfolio earned interest of £0.147m for the year.

97. The actual borrowing CFR increased by £56.7m to £1,165.7m from last year closing position of £1,109m. The original borrowing CFR forecast for 2020/21 was £1,329m, this was revised down in October 2020 to £1,238m, comparing this with the actual borrowing CFR, this gives a difference of £129m for the year, which is due to some capital expenditure slippage.

98. The actual debt at year end stood at £930.1m, a decrease of £58.9m over 2019/20 closing balance. The original total debt forecast for 2020/21 was £1,295m and this was revised down in October 2020 to £1,118.6m, this is £188.5m more than the actual gross debt for the year.

99. During the financial year a total of £39.5m was raised as projects specific loans with interest rate ranging from 0% to 1.2%. The loans were raised from as thus: MEEF (£15m @ 0.17%), HNIP (£21.6m @ 1.2%) and SALIX (£2.9m @ 0%)

100. The gross interest paid for financing external borrowing for the year were £25.4m and the proportion of interest charged to the General Fund for the year was £4.6m. Although gross interest forecast for 2020/21 was £36.2m with chargeable budget of £9m to the General Fund. The favourable variance is due to not borrowing to the forecast limit and the ability of officers to sought out alternative low interest bearing project specific borrowings to fund the Council's capital expenditures for this reporting period.

101. 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.

Finance Manager – Pensions & Treasury
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Date of report 4th June 2021

Appendices
None

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 Outturn Template for 2020/21
iii) Arlingclose – Enfield Benchmarking-credit-scores for March 2021