London Borough of Enfield

Council

Meeting Date: 24th February 2022

Subject: Treasury Management Strategy Statement for 2022/23

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: 5355

Purpose of Report

1. This report sets out the Council's proposed Treasury Management Strategy Statement (TMSS) for the period 2022/23 to 2031/32, and Annual Investment Strategy (AIS) for the year ended 31 March 2023, together with supporting information.

2. The CIPFA Code of Practice for Treasury Management in Public Services (the "TM Code") requires the Council to determine its Treasury Management Policy and Strategy for 2022/23 and the following 3 years.

3. The Local Government Act 2003 also requires Local Authorities to adopt Prudential Indicators and Minimum Revenue Provision Statements.

4. The TMSS and AIS form part of the Council's overall budget setting and financial framework and will be finalised and updated as work on the Council's 2022/23 budget is progressed in January and February 2022.

5. The Annual Treasury Management Strategy Statement sets out the Council's strategy for ensuring that:
    - its capital investment plans are prudent, affordable and sustainable;
    - the financing of the Council's capital programme and ensuring that cash flow is properly planned;
    - cash balances are appropriately invested to generate optimum returns having regard to security and liquidity of capital.

6. The Council's cashflow management, use of banks, investments and borrowing is governed by the Treasury Management Strategy (TM Strategy)

7. The Investment strategy will continue to give priority to security and liquidity of investment capital over return. It will also be prudent and transparent.

8. The strategy assumes significant growth of external borrowing to support the Council's ambitious 10 Year Capital Programme. The figures in this report

reflect the Ten Year Capital programme being presented to Cabinet on 16th February for recommendation on to Council 24th February for approval.

Proposal

9. Council is recommended to:

i) Agree the Treasury Management Strategy Statement for 2022/23 and to note the Ten Year Treasury Strategy forecast;

ii) Note the Economic context & Interest rate forecast (Appendices A and B);

iii) Agree the Prudential Indicators set out in Appendix D;

iv) Agree the Minimum Revenue Provision Statement (Appendix E); and

v) Agree Counterparty List and Limits set out in Appendix F.

10. Note the General Purposes Committee will:

vi) Receive and review the Treasury Management Practices annually; and

vii) Receive and review quarterly Treasury Management monitoring reports.

Reason for Proposal

11. The Treasury Management Strategy fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the Treasury Management Code and the MHCLG Guidance.

12. 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 and to mitigate these risks.

13. For 2022/23, the TMSS is in the same format as 2021/22 whereby it maintains the 10 year capital programme horizon extension which is beyond the required minimum. This reflects the Council's priority to ensure that revenue budgets are sustainable in the longer term. Due diligence has been carried out on the ten year capital programme projects; it should be recognised that these are provisional estimates, undertaken to inform and support the development of a robust, affordable and sustainable Treasury Strategy.

Relevance to the Council's Corporate Plan

14. Good homes in well-connected neighbourhoods.

15. Build our Economy to create a thriving place.

16. Sustain Strong and healthy Communities.

Background

17. The Council is required to receive and approve, as a minimum, three main reports each year. which incorporate a variety of policies, estimates and actuals:

    i. A treasury management strategy statement (this report) – it covers:

       - the capital spending plans (including prudential indicators);
       - the treasury management strategy (how the investments and borrowings are to be organised, the parameters on how investments are to be managed) including treasury indicators; and
       - an investment strategy report (detailing the Council's service investments and commercial investments).

    ii. A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

    iii. A treasury outturn report – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

18. The Council uses Arlingclose Limited as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and officers will ensure that undue reliance is not placed upon the external service providers.

19. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required. The training needs of treasury management officers are also periodically reviewed.

The Strategy for 2021/22 and the Current Borrowing & Investment Position and Performance

20. The Strategy for 2021/22 was approved by the full Council in March 2021 and set the following objectives: -

    i. The minimum Fitch credit ratings for the Council's investment policy:

       - Short Term: 'F1'
       - Long Term: 'A-'

    ii. Investments stood at £32.5m as at 31st December 2021 with £7.5m placed in a Call account with HSBC and the remaining £25m invested in CCLA money markets fund (MMF).

    iii. Average investments outstanding for the period (31 December 2021) was £40m with average return of 0.02%.

21. The Council's original borrowing forecast for 2021/22 was initially £1,328m but has been revised down to £1,040m due to the capital programme slippage. As

at 31st December 2021, borrowing stood at £938.6m, including £25m of PWLB new borrowing raised during the period.

22. The below table 1 show the position of the Council outstanding borrowing and investments for this financial year to 31 December 2021.

Instrument	Month End Balance	Interest Received / (Paid)	Average Rate of Interest
	£m	£m	%
Cash Deposits	32.5	0.008	0.02
Loans to Enfield Companies	143.0	2.99	2.25
Borrowings	938.6	(18.99)	2.79

23. As at 31st December 2021 the Council has £938.6m of borrowing in total. This is split between £930.1m in Long Term Loans (99%) and £8.5m (1%) held as Short Term Loans.

24. The Council did not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

25. The Council's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Treasury Management Strategy 2022/23

26. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

27. The Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to lend on and make a return is unlawful and the Council will not engage in such activity.

28. The Treasury Management Strategy Statement covers the three main areas:

    i. Capital spending plans
        - the capital expenditure and Capital Finance Requirement (CFR);

- the Prudential Indicators (PI); and
- the Minimum Revenue Provision (MRP) policy.

ii. Treasury management considerations:
- economic and interest rates forecasts;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- maturing structure of borrowing;
- policy on borrowing in advance of need; and
- debt rescheduling.

iii. Managing cash balances:
- the current cash position and cash flow forecast;
- prospects for investment returns
- creditworthiness policy;
- service/policy investments

Developing the Strategy for 2022/23

29. The Council, in conjunction with its treasury management advisor, Arlingclose, will use Fitch, Moodys and Standard and Poor's ratings to derive its credit criteria. The Council's treasury adviser alerted officers to changes in ratings of all agencies.

30. It is worth mentioning that all the Council's Money Market Funds are Low Volatility Net Asset Value (LVNAV) funds, which used to be called Constant Net Asset Value. Under the European reforms the Constant Net Asset Value (CNAV) Funds are preserved for government funds only, and a new type of fund was introduced, named Low Volatility NAV (LVNAV) fund. LVNAV is intended to replicate some of the utility of CNAV funds, with greater sensitivity to market pricing, and extra controls built into the fund structure.

31. The money market funds (MMFs) the Council invested in have never exhibited any meaningful price volatility. Officers have been assured by the MMF managers and the Council's treasury advisor that stable price/NAV will still be maintained to avoid price volatility going forward.

32. The Annual Investment Strategy (AIS) at Section 4 provides more detail on how the Council's surplus cash investments are to be managed in 2022/23.

Capital Programme and Prudential Borrowing

33. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. In considering the affordability of its capital plans, the Council is required to consider all of the resources currently available to it estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years.

34. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the long-term stability of the debt portfolio. With short term interest rates currently lower than long term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow through short term loans instead. However, this approach will need to be managed proactively to prevent exposure to re-financing risk, the risk of interest rates moving in the future that will result in refinancing short-term loans or internal borrowing more expensive than the present time.

35. The above strategy will allow the Council reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long term fixed rates in 202/23 with a view to keeping future interest costs low, even if this causes additional cost in the short term.

36. 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.

Table 2: Balance Sheet Summary and Forecast

	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 to 31.3.32 Forecast £m
General Fund CFR	1,034.1	1,150.5	1,246.5	1,301.3	1,312.8	1,303.8	1,358.6
HRA CFR	273.6	334.8	467.6	467.6	529.6	540.6	608.2
Total / Borrowing CFR	**1,307.7**	**1,485.3**	**1,714.1**	**1,768.8**	**1,842.4**	**1,844.4**	**1,966.8**
PFI Liability	30.3	26.3	22.1	17.7	13.8	10.7	0.0
Total Debt CFR	**1,338.0**	**1,511.7**	**1,736.2**	**1,786.5**	**1,856.2**	**1,855.1**	**1,966.8**
Less: Internal borrowing	(297.5)	(182.8)	(179.3)	(175.1)	(173.2)	(171.0)	(171.9)
External borrowing	**1,040.4**	**1,328.9**	**1,557.0**	**1,611.4**	**1,683.1**	**1,684.1**	**1,794.9**
Breakdown of external borrowing:							
Existing Borrowing Profile	930.1	906.3	883.5	859.8	836.4	813.3	678.4
New Borrowing to be raised	**110.3**	**422.6**	**673.5**	**751.6**	**846.7**	**870.9**	**1,116.5**

37. It can be seen from the above table 2; the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash from the Council's reserves, balances and cash flow has been used as a temporary measure, this tactic is termed ***internal borrowing***. This strategy is prudent as investment returns are low and investments counterparty risk is still an issue that needs to be considered.

38. On 31st March 2021, the Council had total borrowing of £930m 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).

39. The need to borrow up to £1,116.5m in total from 2022/23 to 2031/32 is shown in the Table 2 above. For the financial year 2021/22, the Council is still able to borrow some £110.3m to refinance matured loans and finance its capital programme. If the Council is to borrow, the affordability of the capital programme has been included in assessing the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

40. The table below summarises the Council's capital expenditure plans, both in terms of those agreed previously, and those forming part of the current budget cycle. The table sets out the Council's current capital financing expectations.

Table 3: Capital Expenditure & Financing

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2026/27-2030/31 £m	Total 10 Yr. Capital Programme £m
Meridian Water	45.6	147.7	203.0	114.1	105.8	45.7	235.8	852.1
Companies	35.5	57.9	59.4	37.0	0.0	0.0	0.0	154.3
Joyce & Snells (GF)	0.0	0.0	0.0	0.0	0.0	0.0	41.3	41.3
Other General Fund	55.0	117.9	77.9	52.1	47.3	30.7	164.2	490.2
HRA	84.9	132.9	217.5	96.0	129.2	97.8	447.4	1,120.9
Total	**221.0**	**456.4**	**557.9**	**299.1**	**282.4**	**174.2**	**888.8**	**2,658.8**
Financed by:								
External Grants & Contributions	(55.5)	(163.7)	(159.8)	(111.4)	(102.1)	(58.7)	(165.6)	(761.3)
S106 & CIL	(0.4)	(1.1)	(2.2)	(1.7)	(0.2)	(0.2)	(28.5)	(33.9)
Revenue Contributions	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.8)
Capital Receipts	(13.4)	(24.8)	(60.2)	(60.7)	(39.6)	(17.4)	(128.8)	(331.5)
Earmarked Reserves	(21.7)	(21.4)	(6.9)	0.0	0.0	(19.5)	(48.6)	(96.4)
Major Repairs Allowance (MRA)	(11.2)	(11.7)	(12.1)	(14.1)	(14.5)	(15.0)	(68.2)	(135.6)
Prudential Borrowing	**118.3**	**233.6**	**316.6**	**111.1**	**125.8**	**63.3**	**448.7**	**1,299.2**

41. The Council has an increasing CFR due to the requirements of the Council's Capital Programme and will therefore be required to borrow up to £1,299.2m

over the 10-Year period forecast (2022/23 to 2031/32) to finance the £2,658.8m capital programme.

42. The current long term borrowing rate from the Public Works Loan Board is 2.38% (maturity loans) for 25 years and 2.33% (Annuity loans) for 25 years. Were the Council to temporarily borrow the necessary resources from other local authority for 3 years or 5 years, it would save the equivalent of 1.15% or 1% respectively (for maturity loan type) of the amount borrowed. The affordability of the capital programme has been calculated based upon the assumption that internal borrowing would occur initially, follow by PWLB borrowing and Short Term Borrowing based on the current low interest rate environment.

Prudential Indicators for Treasury Management

43. The Council is required by regulation to give due regard to the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. Further, the Code requires that Treasury Management decisions are taken in accordance with good professional practice. To demonstrate that local authorities have fulfilled these objectives, the Prudential Code of Practice and CIPFA Treasury Management Code of Practice set out the indicators that must be used, and the factors that must be taken into account.

44. 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 boundary set by the Council, determines the external debt levels which are not normally expected to be exceeded, whereas the authorised or affordable 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.

45. The Council has adopted the Treasury Management Code of Practice as part of its Financial Standing Orders. Prudential Indicators are set each year and approved by Council. Prudential Indicators for Treasury Management relate to:
    i. Limits for external debt;
    ii. Interest rate exposures;
    iii. Maturity structure of borrowings; and
    iv. Investment for periods of longer than one year.

46. The Prudential Code requires that these indicators are monitored and if appropriate revised to reflect changes to forecast positions. Capital and borrowing indicators for 2021/22 has been revised to reflect the year end forecast position and the 2022/23 to 2024/25 forecasts. The Treasury Prudential Indicators are shown at Appendix D for approval.

47. The Council is legally obliged to set an **affordable borrowing limit** (also termed the authorised limit for external debt) each year. The limit set for 2021/22 is £1,370m and for 2022/23 is set at £1,655m.

Treasury Management Practices (TMPs)

48. The Council has reviewed and revised its Treasury Management Practices (TMPs) Principles and Schedules to be in line with the Treasury Management (TM) Code 2017 and the MHCLG's Investment Guidance 2018, officers are currently awaiting the publication of the Guidance of the latest TM code 2021 and the TMPs will be revise again to be in line with the latest code and the guidance. The TMPs will also be reviewed on an annual basis by General Purposes Committee as part of its audit and assurance remit.

Minimum Revenue Provision (MRP)

49. When the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008.

50. While no MRP is required to be charged in respect of assets held within the Housing Revenue Account, the Council may provide for a voluntary MRP charge so that all schemes undertaken are viable (i.e., repay all their debt over an appropriate period) and so that the HRA maintains borrowing capacity for future years.

51. Capital expenditure financed from borrowing incurred during one financial year will not be subject to an MRP charge until the asset moves into operation, except where the Section 151 officer deems it appropriate to charge it an earlier date.

52. The MRP policy can be seen in Appendix E of Annex 1 of this report and this policy will take effect from 2022/23. Government Guidance requires that an annual statement on the Council's policy for its MRP should be submitted to Council for approval before the start of the financial year to which the provision will relate. Based on the Council's latest estimate of its Capital Financing Requirement (CFR) on 31st March 2022, the MRP for 2022/23 is estimated to be £24.6m.

53. There have been a number of changes to the MRP rules in recent years. In November 2017 the predecessor to the Department for Levelling Up, Housing and Communities (DLUHC) began a consultation on changes to the MRP guidance, which was effective from the 2018/19 financial year. These changes included:
    a) The definition of prudent MRP provision was updated – it should "cover the gap between the Capital Financing Requirement (CFR) and grant income/capital receipts".
    b) Any planned overpayments in MRP must be recorded clearly as a separate section in the MRP Statement. These can then be used to offset charges future years.

c) The guidance is explicit that MRP cannot be a negative charge and can only be zero if there is the CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments.
d) A change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.
e) The guidance on asset lives has been updated, making a maximum asset life used in an MRP calculation is 50 years. This applies to any calculation method using asset lives.

54. In 2021, a new consultation was announced, with two major changes suggested:
a) That completed non-HRA assets may no longer be excluded from the MRP calculation

b) That capital receipts may no longer be used in lieu of MRP

55. The consultation closes in February 2022, with changes likely to take effect in the 2022/23 financial year. The current DLUHC consultation intends to ban the practice of applying capital receipts in year, and taking the associated savings in MRP all in one year, it has not made clear what methods of recognising the reduction in MRP are prudent, however, it can be assumed that fully funding an asset means that an individual asset no longer requires MRP in later years.

56. The s151 Officer commissioned a review of the Council MRP policy based on both the current and future guidance to ensure the Council adheres to DLUHC's guidance and the policy is prudent in this current economic climate. The outcome of this review is outlined below.

Impact of suggested changes to MRP Guidance

57. There are two significant changes proposed to the MRP guidance by DLUHC:

a) Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.

b) Prudent MRP must be determined with respect to the authority's total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the Government's statutory guidance on Minimum Revenue Provision.

58. The council's current MRP approach, will not be adversely impacted by point 2 (59b). However, there is a concern around two major projects of the council,

Meridian Water and its wholly owned companies. and the impact of the proposed wording in point 1 (59a).

59. Currently the council's MRP policy states:

g) Assets acquired with the intention of onward sale which will not be used in the delivery of services will not generally attract MRP as in these events the capital receipts generated by the loan and sale will be set aside to repay debt.

h) Loans made to third parties to enable them to incur capital expenditure are repaid by the borrower and so MRP provision does not need to be made by the Council from Council Tax. In the case of loans for investment assets, a prudent amount will be set aside for MRP in accordance with Government Guidance based on asset life.

60. This Policy is currently compliant with the guidance but will not be compliant with the proposed wording were revised regulations put in place in line with the Consultation. This policy allows the Council to fund or part fund projects using capital receipts generated by the same project, and to use the capital receipts associated with the repayment of loans advanced by the council in lieu of MRP.

61. Currently, Enfield finances all loans made to its subsidiaries, through the capital receipts generated by the companies repaying debt during the year. This is legitimate, is in line with the current guidance, and fully finances the associated CFR. However, under the current wording of the consultation, using capital receipts in this way will be prohibited.

62. However, unlike Meridian Water, the loans will generate capital receipts which fully cover the CFR. Although the Council may not reduce the MRP charge by applying capital receipts, it can apply the capital receipts to the associated CFR, reducing the MRP charge gradually over time. The impact of this approach will lead to a significant increase in MRP in the short term with the consequence of the associated CFR being extinguished in 2064, rather than 2072.

National Context

Revised CIPFA's Prudential Code

63. The final version of CIPFA's Prudential Code has been published after a consultation taking the best part of this calendar year.

64. The new version of the Code replaces wording which previously guided UK local authorities away from borrowing 'in advance of need'. The new restatement creates three new categories of investments. New restrictions on borrowing are focused on just one of these categories – investments that are made 'primarily for financial return', including commercial property.

65. The new Code does not introduce any new restrictions on councils borrowing for purposes core to their core aims, such as for housing and regeneration

projects, or for treasury management purposes. What it does do is state that it is not prudent for authorities to undertake borrowing that has the main aim of producing commercial income.

66. The new Code states that authorities “must not borrow to invest primarily for financial return”. It also says that it is not prudent for them to make any investment or spending decision that could increase the need for borrowing, unless related to the functions of the authority and where financial returns are “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

67. There were concerns over the wording included in the consultation document that could force authorities into a ‘fire sale’ of their existing commercial investments. A spoke person from CIPFA said that the text only required authorities to review their options for exiting existing commercial investments before undertaking new borrowing.

68. The wording was aimed at ensuring councils considered the value for money of undertaking new borrowing versus realising the value of their existing commercial assets. However, responding to the confusion, CIPFA has clarified the wording to “Authorities with existing commercial investments (including property) are not required by this code to sell these investments”. Such authorities may carry out prudent active management and re-balancing of their portfolios.”

69. Authorities which have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their annual treasury management or investment strategies.

70. The options should include using the sale proceeds to repay debt or reduce new borrowing requirements. The reviews should evaluate whether to meet planned borrowing needs by taking new borrowing or by repaying investments, based on a financial appraisal which takes account of financial implications and risk reduction benefits.

71. Authorities with commercial land and property may also invest in maximising its value, including repair, renewal and updating of the properties.

72. The tightened code will sit alongside measures taken by central Government to reduce the risks taken by some local authorities in their investment activity.

73. Stated below are CIPFA’s “legitimate examples of prudent borrowing”:

- financing capital expenditure primarily related to the delivery of a local authority’s functions

- temporary management of cash flow within the context of a balanced budget

- securing affordability by removing exposure to future interest rate rises

- refinancing current borrowing, including adjusting levels of internal borrowing, to manage risk, reduce costs or reflect changing cash flow circumstances

- other treasury management activity that seeks to prudently manage treasury risks without borrowing primarily to invest for financial return.

74. The code revisions aim to provide a further safeguard, while also closing off the option of using borrowing from the private market to fund commercial investments aimed at making a return.

The three new categories of local authority investment

75. The term ‘investments’ in the Code covers all financial investments of the authority, together with other assets held primarily for financial return such as commercial property.

76. Local authority investments (including commercial property) may be categorised in accordance with the primary purpose of the investment, requiring chief finance officers to make a judgement as to the primary purpose of investments.

77. The term ‘investments’ in the Code covers all financial investments of the authority, together with other assets held primarily for financial return such as commercial property.

78. Local authority investments (including commercial property) may be categorised in accordance with the primary purpose of the investment, requiring chief finance officers to make a judgement as to the primary purpose of investments.

79. For the purposes of the Code, all investments and investment income must be attributed to the following purposes (these definitions are in the Revised Treasury Management Code):

Treasury management

80. Arising from the organisation’s cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.

81. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

82. Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure.

83. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial

viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

84. Investments held primarily for financial return with no treasury management or direct service provision purpose.

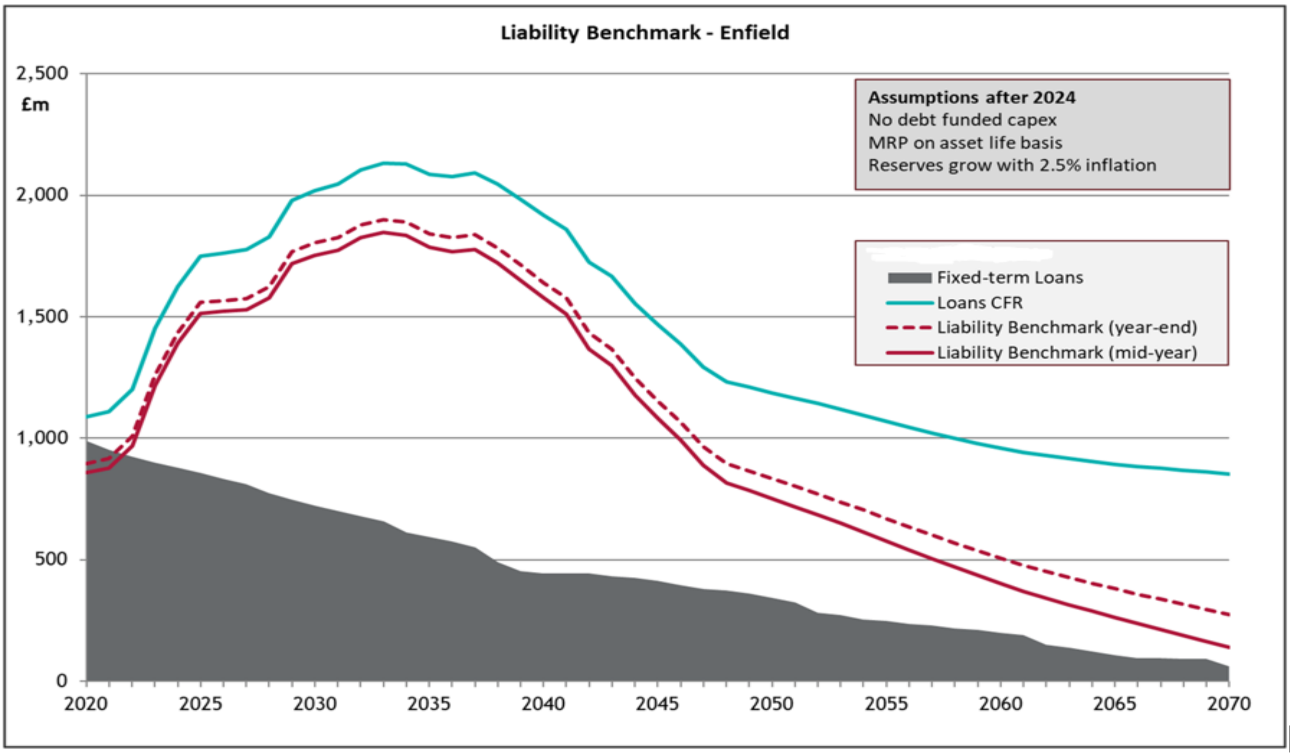
85. Risks on such investments should be proportionate to council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

86. During the consultation period officers assessed Enfield's position against the new proposed Prudential and Treasury Indicators. There are three new indicators which are not mandatory yet, but we are introducing these into this year 2022/23 TMSS:

   i. **Liability benchmark** – CIPFA recommends that the liability benchmark is produced for at least 10 years and should ideally cover the debt profile of a local authority, it is a new indicator to measure borrowing levels and the profile of its debt overtime.

      a. The Chart below illustrates the Council's treasury position as per the approved 2021/22 Treasury Management Strategy Statement. The indicator demonstrated that the Enfield Council's debt profile does not exceed the liability benchmarks.

Chart 1: Liability Benchmark



b. This indicator is based on the Council's future cash flows and its minimum revenue payment (MRP) forecast for repayment of debt in the future.

c. If debt exceeds the liability benchmark the authority has a cash surplus and is holding on deposit.

d. It is a measure of the Council's existing (and committed) loans portfolio compared with its forecast loan needs.

e. This benchmark should enable the authority to understand and manage its exposure to treasury risks.

f. Using the benchmark maturity profile or net loans benchmark enables the authority to minimise its treasury risks by matching its maturity profile to the liability benchmark.

g. The liability benchmark is not a single measure but requires graphical presentation of the net loans requirement and compares this with the Capital Financing Requirement and actual debt.

h. This is to promote good practice and understanding of local authority's debt management in relation to capital investment.

ii. **External Debt to Net Revenue Stream ratio** as a new prudential indicator to assess proportionality. To ensure that the amount of debt incurred is proportionate to a local authority's total service expenditure on a taxation basis and helps a local authority to understand the relationship of debt to an authority's resources used to support services and demonstrate a local authority's financial sustainability.

iii. **Net income from Commercial and Service Investments to Net Revenue Stream** – This ratio considers the Council's exposure to risk from commercial and service investment income. To allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions in commercial and service investments compared to the net resources it expends to support services on a taxation basis. The below table indicates the estimated Council's positions based on 2022/23 Draft Treasury Management Strategy Statement.

Table 4: External Debt and Net Income Prudential Indicators

New prudential indicator	Actual 2020/21	Estimate 2021/22	Forecast 2022/23
External debt to net revenue stream ratio	4.4:1	4.1:1	5.2:1
Income from commercial and service investments to net revenue stream	8.0%	9.1%	9.8%

87. From the above table, it is evident that the level of the Council's capital activity is growing, and the income being generated from such activities has been estimated to increase by 1.1% over the year to 31 March 2022; that is from 8% to 9.1%.

Borrowing Timing and Interest Rate Analysis

88. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. With short term interest rates currently much lower than long term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow short term loans instead.

89. However, given the size of the Council's Capital Programme, and the need to diversify the Council's debt portfolio, long term borrowing will also be required during 2022/23, the strategy is to fulfil the Council's borrowing requirement with a mixture of long and short term borrowing.

90. By taking short term borrowing, the Council is able to reduce net borrowing costs. The benefits of short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring longer term borrowing into future years when long term borrowing rates are forecast to rise modestly.

91. The Council's Treasury Advisers Arlingclose assist the Council with this "cost of carry" and breakeven analysis. Its output may determine to what extent the Council borrows additional sums at long term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short term. The strategy is to have no more than 30% of temporary/short-term loans in the borrowing portfolio.

92. **Municipal Bonds Agency (MBA):** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from this Agency will therefore be the subject of a separate report to full Council.

93. 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.

LIBOR – London Inter-Bank Offered Rate

94. On 5th March 2021 the FCA announced the cessation of the LIBOR benchmark from the start of 2022. This deadline has now passed and as a result some LIBOR benchmarks have been discontinued, although others will continue to be set by the Bank of England as a theoretical "synthetic" rate. The publication of most LIBOR settings ended 1 January 2022.

95. LIBOR has primarily been replaced by the SONIA benchmark as the new widespread reference rate. The Council do not have direct contractual exposure to LIBOR, but there could be indirect to loans, PFI and other contracts that incorporate it in some capacity, and it is widely used as an investment benchmark.

96. The Council use it and LIBID for interest calculations, sharing or benchmarking. We currently checking financial contracts (loans, investments, PFI, leases), treasury strategy documents, SLAs etc. for references to LIBOR.

97. Contractual changes to reflect the cessation of LIBOR will need to be agreed by all parties, replacing LIBOR with a new appropriate reference rate, which should be the market-recognised Fallback Rate calculated by Bloomberg. Until these changes are agreed, the contractual reference rate may temporarily revert to synthetic LIBOR rates.

Safeguarding Implications

98. No safeguarding implications arising from this report.

Public Health Implications

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

Equalities Impact of the Proposal

100. 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

101. 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

102. There is inevitably a degree of risk inherent in all treasury activity.

103. The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

104. Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

105. The Council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Arlingclose who specialise in Local Authority treasury issues.

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

106. 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

107. This report provides Treasury Management budget for 2022/23 and forecasts for 2023/24 to 2031/32 financial years. Also included is the 10 year capital expenditure for prudent and sustainability check.

108. Under this 10 year Treasury Management Strategy, the Council has committed some £154m of investments in HGL and Energetik and a commitment of over £852m for Meridian Water project for the same period.

109. The Council held outstanding investments of £32.5m as at 31st December 2021. This portfolio has receivable interest of £8k to date.

110. The impact of the TMSS is reflected in the five year MTFP report as follows: £9.5m growth in revenue budgets from 2021/22 to 2026/27. The table below demonstrates the impact on revenue and how the financing reserves act to protect the General Fund budget.

111. Detailed breakdowns of the interest budgets including the Housing Revenue Account charges can be reviewed in the Treasury Management Strategy Statement in Table 5

Table 5: Financing Costs

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Interest Charged to General Fund	**3,635**	**7,031**	**9,669**	**11,634**	**11,718**	**12,873**	**13,224**	**13,834**	**13,171**	**13,636**	**14,579**
MRP	17,198	19,578	22,680	19,346	21,492	20,973	20,306	17,562	17,051	16,093	18,632
Total Financing Cost Charged to General Fund	**20,832**	**26,609**	**32,349**	**30,980**	**33,210**	**33,846**	**33,530**	**31,396**	**30,222**	**29,729**	**33,211**
Budget	**22,565**	**26,495**	**29,288**	**33,238**	**35,036**	**36,036**	**37,036**	**38,036**	**39,036**	**40,036**	**41,036**
Variance	**(1,733)**	**114**	**3,061**	**(2,258)**	**(1,826)**	**(2,190)**	**(3,506)**	**(6,640)**	**(8,814)**	**(10,307)**	**(7,825)**
Reserves	**25,150**	**25,037**	**21,976**	**24,234**	**26,061**	**28,250**	**31,756**	**38,396**	**47,210**	**57,517**	**65,342**

Legal Implications

112. The Council will be in breach of the CIPFA TM code if it does not approve the strategy before the start of the year.

113. The Local Government Act 2003 (‘the 2003 Act’) 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.

114. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (‘the 2003 Regulations’) 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 2003 Act. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

115. It is a key principle of the Treasury Management Code that an authority should put in place “comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities”. Treasury management activities cover the management of the Council’s investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to adopt the strategies and policies proposed in the report.

116. The report proposes that the Treasury Management Strategy will incorporate prudential indicators. The 2003 Regulations also requires the Council to have regard to the CIPFA publication “Prudential Code for Capital Finance in Local Authorities” (“the Prudential Code”) when carrying out its duty under the Act to determine an affordable borrowing limit.

117. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the Council. If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such deviation.

118. The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority’s borrowing, investments or capital expenditure, or for determining the authority’s minimum revenue provision, is a matter that should not be the sole responsibility of the authority’s executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Council.

119. The report sets out the recommendations of the Executive Director of Resources in relation to the Council’s minimum revenue provision, treasury management strategy and its annual investment strategy. 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.

120. Due to financial impacts of the Covid-19 pandemic, the Government made regulations in November 2020 permitting local authorities to balance their budgets over three years (2021-2024) rather than one. The ‘collection fund’ is the account in which a local authority places its council tax and business rates income. The regulations apply only to budget shortfalls accumulated in 2020-2021. Where authorities have such a deficit, the regulations state that they must spread it across the three years in question. The Government has published guidance and a ‘deficity spreading tool’ to assist local authorities to calculate whether they are eligible for these provisions.

121. When considering its approach to the treasury management matters set out in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector equality duty).

Workforce Implications

122. 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 more easily and could also make resources available for other corporate priorities.

123. This report helps in addressing value for money through benchmarking the Council’s performance against other Local Authority and London boroughs.

Property Implications

124. None

Other Implications

125. None

Options Considered

126. 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.

Conclusions

127. The Treasury Strategy is largely unchanged from previous year, however, the ten year borrowing strategy has been revised to reflect the updated 10 Year Capital Programme and HRA Business Plan.

128. The Council notes in its 10 year plan that its capital programme would entail borrowing sums of approximately £1,299 million taking the overall borrowing portfolio to just under £2 billion. The Council's programme over the next 5 years is £1,770m, of which £850.5m is being funded through borrowing.

129. The borrowing CFR estimate for 2022/23 is £1,485m which is £177m in excess of 2021/22 estimated closing position of £1,308m. The MRP charge for 2022/23 is estimated to be £24.6m based on estimated closing Gross CFR of 2021/22 of £1,338m. Although the borrowing CFR is £1,308m, with MRP chargeable to GF as £19.6m. See Appendix E of Annex 1 for more details.

130. The Total Borrowing for 2021/22 is estimated to be £1,040m which is a revised value down by £288m from original forecast of £1,328m approved for 2020/21 Annual TMSS. The total borrowing forecast for 2022/23 is £1,329m. Indicating a borrowing need of some £399m more than the closing position of £930m for 2021/22 financial year. For more details, see section 3.3 of Annex 1.

131. The Council loans to its companies is forecast to be £155.4m as at 31st March 2022 and to be £212m by end 2022/23 financial year. The TMSS has been updated with provision of working capital and injection of equities into the companies as agreed by Council in November 2020. For more details, see section 5.15 of the attached Annex 1.

132. Treasury management (TM) and the prudential indicators (PI) are set out in Appendix D of Annex 1 to enable all treasury management activities to be carried out in accordance with the approved limits. Although the 10 Year Capital Programme has moved on one year, the gross borrowing limits/ceiling remains under £2bn, this is a self-imposed cap.

133. For 2021/22, the Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing for the year, set at £1,370 million.

134. Loans from the PWLB cannot be used to finance expenditure relating to commercial investments for yield generation. Failure to comply with the revised terms would result in suspension of access to the PWLB; repayment of loans (with penalties).

135. The Council will continue to seek other funding opportunities such as borrowing from the marketplace. To borrow efficiently, the Council may need to have a credit rating in order to raise finance in the bond markets.

136. CIPFA launched a consultation on its Prudential Code and TM code for the best part of 2021 and the revised codes have now been published sometime last month. The two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

137. The new prudential code takes immediate effect (presumably meaning from the 20th December 2021 publication date), except that authorities may defer introducing the revised reporting requirements (e.g. strategy reports) until the 2023/24 financial year if they wish. It particularly highlights that the

requirement that local authorities must not borrow to invest primarily for financial return applies with immediate effect.

138. Possible changes around classifying pooled funds as commercial investments, a stronger focus on Environmental, Social and Governance (ESG) and the mandatory treasury management committee have mostly been averted.

139. We await the publication of the TM Guidance Notes for Local Authorities for final details of the TM prudential indicators, including the liability benchmark.

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Appendices
Annex 1 – Treasury Management Strategy Statement For 2022/23

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

i) TM Strategy Statement 2021/22 (Approved by Council March 2021)
ii) Section 3 Local Government Act 2003
iii) Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
iv) MHCLG Guidance on Minimum Revenue Provision (fourth edition) February 2018
v) MHCLG Capital Finance Guidance on Local Government Investments Feb 2018
vi) CIPFA Prudential Code for Capital Finance in Local Authorities, 2017