London Borough of Enfield

CABINET

Meeting Date: 6 July 2022

Subject: TREASURY MANAGEMENT OUTTURN REPORT 2021/22

Cabinet Member: **Cllr Leaver - Cabinet Member for Finance and Procurement**

Executive Director: **Fay Hammond - Executive Director Resources**

Key Decision: **5466**

Purpose of Report

1. To report the activities of the Council's Treasury Management function during the 2021/22 financial year. The key points of the report are highlighted below:

		Section
Borrowing Outstanding on 31st March 2022	£1,015.1m, this an increment of £85m from 31st March 2021 closing position of £930.1m. £75m of new PWLB borrowing was raised for this financial year 2021/22 and £35m of short term borrowing was raised from other Local Authorities.	**11 - 18**
Capital Financing Requirement (CFR) on 31 March 2022	The borrowing CFR (this represents the underlying need to borrow) stood at £1,238.3m, an increase of £82.9m from £1,155.4m as of 31st March 2021. HRA CFR increased by £28.3m and General Fund by £54.6m over the year.	**20 – 23**
Average interest on total debt outstanding and Interest paid on external borrowing	The average interest rate has reduced to 2.54% over the year. This was due to £75m new PWLB borrowing raised during the year at very low rate. The gross cost of borrowing reduced over the period by £0.9m to £24.5m.	**16 & 25**
Investments & Net Borrowing	Interest earned on investments was £57k. Investments stood at £95.6m as of 31 March 2022. Net Borrowing increased slightly by £25m to £919.5m.	**34 & 47**
Debt Re-structuring	None undertaken	**48 – 49**

		Section
Compliance with Treasury Management & Prudential Indicators	Compliant	**50 – 68**
Minimum Revenue Provision (MRP)	MRP chargeable to the General Fund (GF) for 2021/22 is £16.5m, same as budget set at the beginning of the year.	**69**

Proposal

2. Cabinet is recommended to:

i) Note and comment on the contents of the report; and

ii) Forward the 2021/22 Treasury Management Outturn report on to Council.

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. The Council can only borrow for capital investment, it cannot borrow to fund operational, day to day expenditure. The borrowing supports the Council's capital investment programmes for both Council Housing (HRA) and General Fund, the outputs from this investment are set out in separate reports.

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 2021/22 was approved at the Council meeting on the 2nd of March 2021. 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.

11. The Council engages Treasury Management Advisers professional expertise to support informed decision making on treasury matters.

Treasury Management Position

12. The Council started the financial year 2021/22 with net borrowing of £894.5m. This section starts by describing the position at the start of the financial year and then goes on to explain the financial position at the close of the financial year.

13. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This is usually higher than the actual borrowed amount because Enfield uses internal borrowing to reduce interest costs. The starting position for financial year 2021/22 is summarised in Table 1 below.

Table 1: Opening position for 2021/22 Draft - Balance Sheet Summary

	31 March 2021 Actual £m
General Fund CFR	915.3
HRA CFR	240.2
Borrowing CFR	**1,155.4**
External borrowing	930.1
Internal borrowing	**225.3**
Less: Usable reserves	(259.9)
Less: Working capital	70.2
Net investments	**(35.6)**

14. The Council's Borrowing CFR of £1,165.7m reported in 2020/21 Treasury Management Outturn as of 31st March 2021 has been revised to £1,155.4m as shown in table 1 above.

15. The treasury management position on 31st March 2022 and the change during the year is shown in Table 2 below. All the investments shown below were in Money Market Funds (categorised as cash equivalent) for this financial year.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	Movement £m	31.3.22 Balance £m	31.3.22 Rate %
Long-term borrowing	930.1	50.0	980.1	2.58
Short-term borrowing	0.0	35.0	35.0	1.21
Total borrowing	**930.1**	**85.0**	**1,015.1**	**2.54**
Total investments	**(35.6)**	**(60.0)**	**(95.6)**	**0.20**
Net borrowing	**894.5**	**25.0**	**919.5**	

Main Considerations for the Council

2020/21 Borrowing Update

16. The main objective when borrowing is 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 is a secondary objective.

17. On 31st March 2022 the Council held £1,015.1m of loans, an increase of £85m to previous year closing balance and this is due to the Council's funding strategy for its capital programme. Outstanding loans on 31st March 2022 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	31.3.21 Balance £m	New Borrowing £m	Repaid Borrowing £m	31.3.22 Balance £m	Average Interest %
PWLB	875.9	75.0	(22.6)	**928.3**	2.68
European Investment Bank	8.3	-	(0.3)	**8.0**	2.31
GLA	2.1	-	(0.9)	**1.2**	0.00
HNIP	21.6	-	-	**21.6**	0.18
LEEF	2.7	-	(0.7)	**2.0**	1.71
Local Authority	0.0	35.0	-	**35.0**	1.21
MEEF	15.0	-	0.0	**15.0**	1.20
SALIX	4.5	-	(0.5)	**4.0**	0.00
Total	**930.1**	**110.0**	**(25.0)**	**1,015.1**	**2.54**
Accrued Interest	*5.6*	*5.7*	*(5.6)*	***5.7***	*0.00*
Total Loans & Accrued Interest Outstanding	**935.7**	**115.7**	**(30.6)**	**1,020.7**	**2.54**

18. In keeping with these objectives, new borrowing was £110m, while £25m of existing loans matured during the period.

19. During the reported period the Council raised £75m of new PWLB loans, and £35m short-term loans were raised from other Local Authorities.

The Capital Financing Requirement (CFR)

20. 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. It represents the 2021/22 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

21. At £1,015.1m, the Council's borrowing was within the Prudential Indicator for external borrowing, namely, that borrowing should not exceed the original estimated gross CFR for 2021/22 of £1,491m. The final borrowing CFR for 2021/22 stood at £1,238.3m.

22. On 31 March 2022, the Council has maintained an under-borrowed position of £248m. 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. Table 4 below shows the details around the Council's CFR and external borrowing as of 31 March 2022, split between the General Fund and HRA.

Table 4: Capital Financing Requirement (CFR)

Capital Financing Requirement (CFR)	**(Draft Accounts) 31 March 2021 £m**	**(Draft Accounts) 31 March 2022 £m**
General Fund	915.3	969.9
Housing Revenue Account	240.2	268.4
*Other debt liabilities	33.9	30.3
Total CFR	**1,189.3**	**1,268.6**
Less: *Other debt liabilities	33.9	30.3
Borrowing CFR	**1,155.4**	**1,238.3**
External Borrowing	930.1	1,015.1
Internal borrowing	225.3	223.2
Authorised Limit	**1,600.0**	**1,668.0**

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

23. The Council will evaluate and, where economic, pursue alternative lenders to PWLB where we identify an opportunity to reduce Enfield's cost of borrowing.

Forward Borrowing

24. During 2021/22, the Council did not arrange any forward borrowing loans. Officers are monitoring market conditions and reviewing the need to borrow for either the General Fund or Housing Revenue Account (HRA).

Other Debt Activity

25. After £3.6m repayment of prior years' Private Finance Initiative/finance leases liabilities, total debt other than borrowing stood at £30.3m for this financial year end.

Cost of Borrowing

26. The average interest rate paid on total external debt in 2021/22 was 2.54% (2.64% in 2020/21). 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 £4m 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: Interest Payments and Receipts

	2020/21 (£m)	**2021/22 (£m)**
Public Works Loan Board	24.3	23.9
Local Authority	0.2	0.0
EIB	0.2	0.2
GLA	0.0	0.0
HNIP	0.0	0.0
LEEF	0.1	0.1
MEEF	0.0	0.1
Total Interest on Long Term Debt	24.8	24.3
Short term Loans	0.5	0.0
Other Costs & Commission on loans	0.1	0.2
Total Cost of Debt	**25.4**	**24.5**
Funded by:		
Housing Revenue Account	8.7	9.8
Capitalised Interest on Meridian Water	8.4	7.0
Housing Gateway Ltd (HGL)	3.0	3.1

Enfield Innovations Ltd (EIL)	0.7	0.0
Energetik	0.6	0.6
General Fund	4.0	4.0
Total Cost of Debt	**25.4**	**24.5**

27. Interest has increased by £1.1m over this financial year as HRA borrowing has increased by £18.2m.

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

29. Table 6 below shows how the interest is funded, broken down by fund. The impact on the General Fund in 2021/22 of £20.5m (made up of £16.5m MRP charge and £4m of interest payments) is therefore net off:

a) Housing Revenue Account recharge of £9.8m, which is funded by rents

b) Income generated by companies, which have separate sound business cases

c) £7.1m Capitalised interest on Meridian Water (inclusive of loan arrangement fees), which will be repaid by capital receipts, and which is anticipated to be completely repaid by 2043/44 and the difference of which will then be used to finance other aspects of the Capital Programme.

Table 6 - Breakdown of Actual Interest paid/payable for 2021/22 and beyond

	Actual	**Original Budget**	**Revised Budget**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**
	2021/22	**2021/22**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£'000s	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**	**£'000s**
Gross Interest	24,300	32,937	27,235	32,388	40,347	45,721	48,420	50,114
Debt Fees	200	125	90	101	121	59	66	41
Total Debt Cost	**24,500**	**33,062**	**27,325**	**32,489**	**40,468**	**45,780**	**48,486**	**50,155**
Recharges:								
Meridian Water	(6,900)	(8,838)	(9,876)	(9,218)	(10,578)	(10,015)	(10,857)	(10,681)
Companies	(3,700)	(4,898)	(3,729)	(4,125)	(5,530)	(8,063)	(8,723)	(8,607)
Joyce & Snells	0	(17)	0	0	0	0	0	0
HRA	(9,800)	(10,448)	(10,019)	(12,072)	(14,622)	(16,054)	(17,164)	(17,990)
Debt Fees	(200)	(60)	(67)	(43)	(68)	(13)	(23)	(4)
Interest Charged to Gen. Fund	**4,000**	**8,801**	**3,635**	**7,031**	**9,669**	**11,634**	**11,718**	**12,873**
MRP	16,454	16,454	17,198	19,578	22,680	19,346	21,492	20,973
Total Financing Cost Charged to Gen. Fund	**20,454**	**25,255**	**20,832**	**26,609**	**32,349**	**30,980**	**33,210**	**33,846**

Debt Maturity

30. The Council has 87 loans spread over 50 years with the average maturity being 21 years. The maturity profile allows the Council to spread the risk of high interest rates when debt matures in any one year.

31. Table 7 shows the maturity structure of the Council's debt portfolio as of 31 March 2022:

Table 7: Profile of Maturing Debt

	Loans Outstanding as of 31 March 2021 (£m)	**Loans Outstanding as of 31 March 2022 (£m)**
Under 1 year	25.0	61.1
1 – 5 years	23.8	25.0
5 – 10 years	46.5	51.7
10 – 15 years	134.6	147.1
15 – 20 years	130.4	139.0
20 – 25 years	155.4	152.2
25 – 30 years	33.4	49.8
30 – 35 years	70.2	69.5
35 – 40 years	87.7	85.0
40+ years	44.3	105.0
Total	**930.1**	**1,015.1**

Treasury Investment Activity

32. 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.

33. During the year the Council's investment balance ranged between £30 million and £150million due to timing differences between income and expenditure.

34. The investment position at the year end is shown in Table 8 overleaf.

Table 8: Treasury Investments

Counterparties	31.3.21 Balance £m	Cumulative Sums Invested £m	Cumulative Sums Repaid £m	31.3.22 Balance £m
Money Market Funds				
Goldman Sachs	0.0	44.0	(19.0)	25.0
Deutsche	0.0	0.0	0.0	0.0
Aberdeen (Ignis)	0.0	125.0	(115.0)	10.0
Federated	0.0	108.8	(98.8)	10.0
CCLA	14.0	38.0	(27.0)	25.0
HSBC Liquidity	0.0	0.0	0.0	0.0
Invesco	0.0	67.0	(67.0)	0.0
Aviva Investors	0.0	74.3	(49.3)	25.0
Call Accounts				
HSBC	21.6	369.8	(390.8)	0.6
Handelsbanken	0.0	0.0	0.0	0.0
Santander	0.0	0.0	0.0	0.0
	35.6	**826.9**	**(766.9)**	**95.6**

35. The Council generated investment income of £57k 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

36. Table 9 below show the progression of risk and return metrics for Enfield Investments portfolio compared with other local authorities as extracted from Arlingclose' s quarterly investment benchmarking as of 31st March 2022:

Table 9 – Enfield Treasury Investments Benchmarking Outcome

Enfield	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2021	4.76	A+	100%	1	0.02%
31.03.2022	**4.90**	**A+**	**100%**	**1**	**0.52%**
Similar LAs	***4.38***	***AA-***	***62%***	***40***	***0.77%***
All LAs	**4.39**	**AA-**	**60%**	**14**	**0.97%**

37. 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.

38. **Credit score** and **credit rating** measures the credit risk of the Council’s investment portfolio. At the end of the reporting period our investment portfolio has been assigned a credit score of 4.90 based on an average long-term credit rating from Fitch as A+. it is worth noting that this is expected of our investment portfolio as all the investments are in money market funds with average maturity of 1 day for instant liquidity/easy access.

39. The credit score of money market funds is calculated from the fund’s underlying investments on the previous month end date. As part of Arlingclose investment advice an average long-term credit rating from Fitch, Moody’s and Standard & Poor’s are converted to a number, for example AAA=1, AA+=2, etc. Higher numbers therefore indicate higher risk.

40. Before 2013, failed banks were either ‘bailed out’ by government or placed into administration, with losses shared amongst most investors. Since then, failing banks will be “bailed in” for losses, meaning investors can lose some or all of their investment which will be used to recapitalise the bank.

41. The Council’s investment portfolio has 100% bail in exposure as all the investments were with banking institutions (money market funds (MMF)). These investments are diversified which reduces risk as the investments are with different counterparties. Enfield had £95.6m invested with six different money markets funds and each MMF subsequently invested in more than 10 institutions.

Non-Treasury Investments

42. 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.

43. 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.

44. The Council held £134.1m of such investments, both in Enfield’s wholly owned companies. A list of the Council’s non-treasury investments is shown overleaf in Table 10.

Table 10: Non-Treasury Investments

Loans made to LBE Companies	2020/21 Nominal Balance £m	New Borrowing £m	Repaid Borrowing £m	2021/22 Nominal Balance £m	2021/22 In-year Accounting Impairment £m	2021/22 Fair Value (FV) Accounting Balance £m
HGL	122.0	6.0	(0.6)	**127.4**	*0.0*	***127.4***
Energetik	13.0	2.5	(0.2)	**15.3**	*(5.9)*	***9.4***
Total	**135.0**	**8.5**	**(0.8)**	**142.7**	***(5.9)***	***136.8***

45. £5.9m of accounting impairment charges were applied to these investments as of 31 March 2022. The impairment charges applied to Energetik loans for 2020/21 was £4.8m.

46. No share capital was injected into the companies for 2021/22. The Council injected £5m share capital into Energetik in 2020/21 and the Council also invested £5m share capital with HGL.

Net Gross Debt

47. The Council's net gross debt increased from £928.4m to £949.8m in 2021/22 as demonstrated in Table 11. 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 11: Net Debt

	31.03.21 Actual £m	Original Budget £m	Revised Budget £m	31.03.22 Actual £m	Actual interest £m	Estimated interest £m
Total Borrowing	**930.1**	**1,328.3**	**1,170.8**	**1,015.1**	**24.5**	**33.1**
Companies	139.6	203.7	210.9	147.3	3.7	4.9
Meridian Water	336.9	399.9	399.9	375.5	7.0	8.8
Joyce & Snells (GF)	-	1.4	-	-	-	0.1
General Fund	213.4	427.6	275.4	223.9	4.0	8.8
HRA	240.2	295.7	283.6	268.4	9.8	10.4
PFI & Finance leases	***33.9***	***40.0***	***30.3***	***30.3***	***3.6***	***3.6***
Gross Debt	**964.0**	**1,368.3**	**1,201.1**	**1,045.4**	**28.1**	**36.7**
Total treasury investments	***(35.6)***	***(25.0)***	***(35.0)***	***(95.6)***	***(0.1)***	***(0.0)***
Net Gross Debt	**928.4**	**1,343.3**	**1,166.1**	**949.8**	**-**	**-**

Debt Restructuring

48. 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.

49. No restructuring was done during the year as the new PWLB borrowing rates and premature repayment rates made restructuring unviable. The Council will continue to actively seek opportunities to restructure debt, if viable.

Compliance with Treasury Management Indicators

50. 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. The authorised borrowing limit represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited. Only Council can approve an increase in the authorised borrowing limit.

51. Throughout 2021/22 the total loan debt was kept within the limits approved by the Council against an authorised limit of £1,668 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.

52. 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.

53. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 12 overleaf.

Table 12: Prudential Indicators

Debt Limits	**2021/22 Maximum £m**	**2021/22 Actual £m**	**2021/22 Operational Boundary £m**	**2020/21 Authorised Limit £m**	**Complied?** Yes/No
External Borrowing	1,015.1	1,015.1	1,328	1,368	Yes
PFI and Finance Leases	33.9	30.3	40	300	Yes
Total debt	**1,046.0**	**1,045.4**	**1,368**	**1,668**	Yes

54. 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.

55. External Debt to Net Revenue Stream ratio is a new prudential indicator, this is 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.

56. 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.

Treasury Management Indicators

57. The Council measures and manages its exposure to treasury management risks using the following indicators.

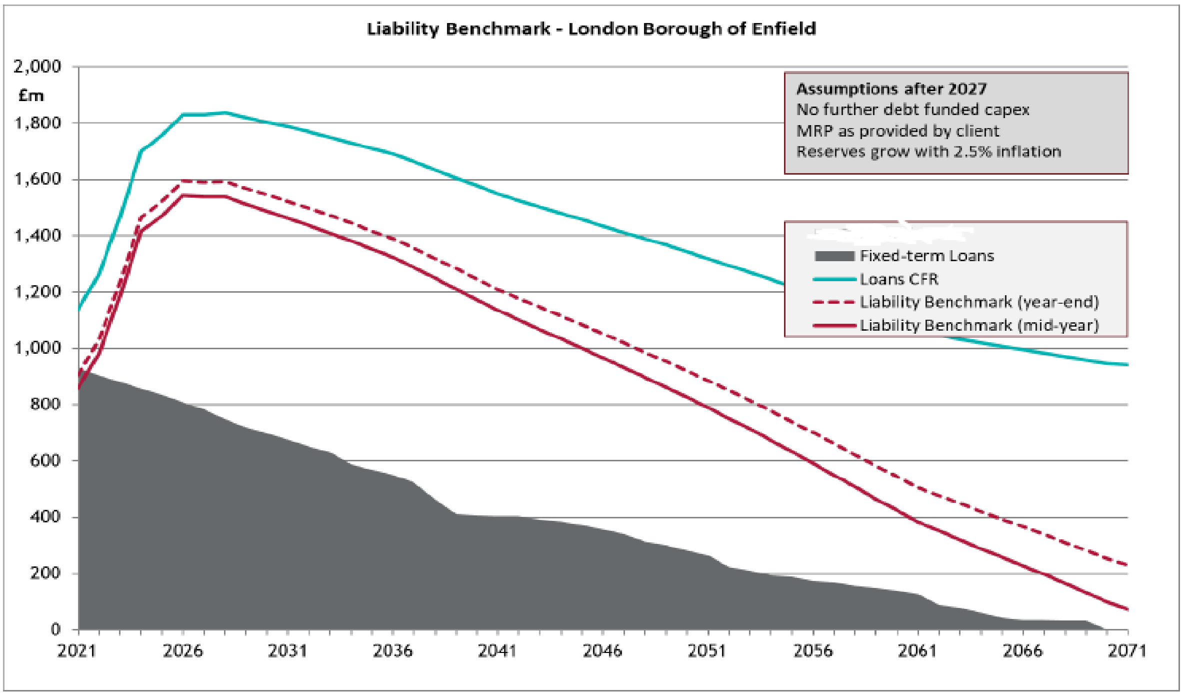
58. **Liability benchmark** (gross loans requirement) – CIPFA recommends that the liability benchmark is produced for at least 10 years and should ideally cover the debt profile of a local authority, it is a new indicator to measure borrowing levels and the profile of its debt overtime.

Table 13: Balance Sheet position at the year end of 2021/22.

Enfield Balance Sheet Summary		
	31 March 2021 **Actual £m**	**31 March 2022** **Actual £m**
General Fund CFR	915.3	969.9
HRA CFR	240.2	268.4
Borrowing CFR	**1,155.4**	**1,238.3**
External borrowing	930.1	1,015.1
Internal borrowing	**225.3**	**223.2**
Less: Usable reserves	(259.9)	(259.9)
Less: Working capital	70.2	132.3
Net investments	**(35.6)**	**(95.6)**
Minimum Investment Balance	(10)	(10)
Liability Benchmark (year-end)	**884.5**	**909.5**
Peak to Trough Cash Flow	(48)	(49)
Liability Benchmark (mid-year)	**932.6**	**958.8**

59. The Chart below illustrates the Council's treasury position on 31 March 2022. It shows that the borrowing the Council already has (shaded in grey) does not exceed the borrowing amount required in total (red line). This chart uses data of the capital programme up to 2027 only.

Figure 14: Liability benchmark



60. 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 15: Credit Risk

	31.3.22 Actual	**2021/22 Target**	**Complied?**
Portfolio average credit rating	A+	A	Yes
Portfolio average credit score	4.9	6.0	Yes

61. 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 16: Liquidity Risk Indicator

	31.3.22 Actual	**2021/22 Target**	**Complied?**
Total cash available within 3 months	£95.6m	£25m	Yes

62. **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 2021/22. However, the Council's Treasury Management Strategy does permit variable interest rate loans.

Table 17: Interest Rate Risk Indicator

	31.3.22 Actual	**2021/22 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

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

64. **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 18: Maturity Structure

	31.3.22 Actual £m	**31.3.22 Actual**	**Upper Limit**	**Lower Limit**	**Complied?**
Under 12 months	61.1	6.0%	30%	0%	Yes
12 months & within 24 months	25.0	2.5%	35%	0%	Yes
24 months and within 5		5.1%	40%	0%	Yes

years	51.7				
5 years and within 10 years	147.1	14.5%	45%	0%	Yes
10 years and above	730.2	71.9%	100%	0%	Yes

65. 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 1: Sum Invested Over One Year

	2021/22	**2022/23**	**2023/24**
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

66. 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).

67. The actual MRP charge for 2021/22 was £16.5m MRP, equal to the budget set. Total Financing Cost Charged to General Fund for 2021/22 was £20.5m.

68. The Council's MRP Policy was amended during the reporting financial year and approved by Council at its meeting of 24th February 2022.

MRP Consultation and Enfield Council's MRP Policy Review

69. During 2021/22, The Department for Levelling Up, Housing and Communities announced a consultation which proposed two major changes to the MRP framework:

   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

70. In practice, the proposed new guidance no longer allows the council to decide not to make MRP today, based on expected future capital receipts. Funding projects up front with capital receipts the council has on balance sheet will still be allowed.

71. The consultation closed in February 2022, with any changes likely to take effect in the 2023/24 financial year. The outcome of the consultation has not been published. If the wording is adopted as it was in the consultation, Enfield will be impacted in two areas: the loans to council companies and the Meridian Water project.

72. Loans made to council owned companies currently use the capital receipts from repayments to reduce the MRP. This is allowed under current guidance but as the consultation currently words the changes to guidance, it would no longer be allowed. Instead, the Council would be able to use the capital receipts to fund future projects, reducing the MRP charge gradually over time. This would lead to a significant increase in MRP in the short term.

73. Meridian Water is modelled to be funded partly by MRP and partly through capital receipts generated during the life of the project. If the current proposed wording is not altered to allow self financing projects, then this may lead to a significant impact to the revenue budget. Although the capital receipts generated by Meridian Water will be used to fund future stages of Meridian Water or other projects upfront, the MRP charge would increase in the medium term. The potential impact of this will be included in the Meridian Water financial model refresh.

74. The s151 Officer commissioned an independent review of the Council’s MRP policy from the Council’s Treasury Advisors to ensure the Council adheres to DLUHC’s guidance, the policy is prudent and to quantify the potential impact of the consultation on Enfield. Enfield is working with other impacted local authorities in London and across the country in order to better understand the issue, the potential financial impact and respond to any future consultations. Consideration of the potential financial impact will be included in the Capital Strategy and Medium Term Financial Plan development.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

75. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

76. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

77. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year, which is the decision of this Authority.

78. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments. The Code states that local authorities should not take new borrowing if financial investments for commercial purposes can reasonably be realised instead, based on a financial appraisal which takes account of financial implications and risk reduction benefits.

79. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority’s function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

80. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

81. The Council has not borrowed purely for commercial yield and therefore, this change has not impacted on Enfield.

82. Enfield Council has elected to follow the same process as the Prudential Code, that is delaying changes in reporting requirements to the 2023/24 financial year with soft introduction of changes to 2022/23 reports.

83. The DLUCH has written to a number of local authorities with concerns about their borrowing/commercial activities. Enfield Council did not receive such letter.

Safeguarding Implications

84. 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

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

Equalities Impact of the Proposal

86. 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

87. 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

88. 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

89. 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

90. 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

91. This report sets out the lawful basis for the recommendation to approve the 2021/22 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 2021/22. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs. The Local Government Act 1972 brought in the current regime for capital finance for local authorities.

Workforce Implications

92. 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.

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

Property Implications

94. None

Other Implications

95. None

Options Considered

96. 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 Cabinet and Council on a regular basis.

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

Conclusions

98. The Council held outstanding investments of £95.6m as of 31st March 2022. This portfolio earned interest of £57k for the year.

99. The actual borrowing CFR increased by £82.9m to £1,238.3m from last year closing position of £1,155.4m. The original borrowing CFR forecast for 2021/22 was £1,451m, this was revised down in November 2021 to £1,307.7m, comparing the original position with the actual borrowing CFR, this gives a difference of £212.7m for the year, which is due to capital expenditure slippage.

100. The actual debt at year end stood at £1,015.1m, an increase of £85m over 2020/21 closing balance. The original total debt forecast for 2021/22 was £1,328m, this means the council actual total borrowing for the year was £312.9m less than the forecast.

101. During the financial year a total of £25m of borrowing matured and a total of £110m borrowing was raised.

102. The gross interest paid for financing external borrowing for the year was £24.5m and the proportion of interest charged to the General Fund for the year was £4m. Although gross interest forecast for 2021/22 was £33m with chargeable interest cost budget of £8.8m to the General Fund as detailed in table 6 of section 29.

103. 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.

Summary on Prudential and TM Codes - Published December 2021

104. A local authority must not borrow to invest primarily for financial return

105. It is not prudent to make any investment or spending decision that will increase the CFR, and lead to new borrowing, unless directly and primarily related to the LA's functions

106. The code does not require existing commercial investments to be sold, but options to exit investments as an alternative to borrowing should be reviewed in the TM strategy

107. Investment risks should be proportionate to financial capacity so that plausible losses can be absorbed in budgets or reserves without unmanageable detriment to local services

108. Investment counterparty policy to include Environmental, Social and Governance (ESG) considerations

109. Detailed requirements on knowledge and skills including on monitoring and review of policy and schedules

110. Prudential indicators to be reported to members quarterly not necessarily to full council

111. New indicators: liability benchmark and income from service and commercial investments

112. Strategy and indicator changes can be delayed until 2023/24 reports

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Appendices
None

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

i) Treasury Management Strategy Statement 2021/22 (Approved by Council March 2021)
ii) Arlingclose – Treasury Outturn Template for 2021/22
iii) Arlingclose – Enfield Benchmarking-credit-scores for March 2022