London Borough of Enfield

COUNCIL

Meeting Date: 25 January 2023

Subject:	**Treasury Management Mid-Year Report for 2022/23**
Cabinet Member:	**Cllr Leaver**
Executive Director:	**Fay Hammond**
Key Decision:	**KD 5496**

Purpose of Report

1. This report reviews the activities of the Council's Treasury Management function over the half year period ended 30 September 2022.

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

Proposals

3. Members are asked to note the Mid-Year treasury position.

Reason for Proposals

4. To inform Council of the Treasury Management performance for the half year period ended 30 September 2022.

5. 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.

6. The Council's Treasury Management Strategy for 2022/23 was approved at the Council's meeting on the 24th February 2022. As with all organisations, the Council is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

Relevance to the Council's Corporate Plan

7. This report shows the performance of Treasury activities, including borrowing that finances the Council's investment in the borough, in line with the Council's Corporate Plan. In particular:

   a. Good homes in well-connected neighbourhoods.

   b. Build our Economy to create a thriving place.

   c. Sustain Strong and healthy Communities.

Background

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

		See section:
Borrowing Outstanding and Net Borrowing at 30th September 2022	The borrowing outstanding has reduced by £2.95m since 31st March 2022 to £1,012.2m as at 30th September 2022. Net Borrowing for this period is £969.9m with year end revised forecast of £1,170.2m.	**12**
Capital Financing Requirement (CFR)	The Council's forecast borrowing for the year is being re-evaluated as the cost of refinancing existing debt reduces the capacity and affordability on new borrowing. The CFR measures the underlying need to borrow. The forecast for 31st March 2023 is £1,410.5m, which is £172.2m more than the closing borrowing CFR position of £1,238.3m, as at 31st March 2022.	**13 & 25**
Average interest on total borrowing outstanding	The average interest rate for Enfield's external debt was 2.54% as 30 Sept 2022 compared to the average rate of 2.59% during 2022/23. The original estimated cost of borrowing for the year 2022/23 was £32.5m, revised to £30.7m.	**32, 38 & 39**
Investments & Net Borrowing, PFI & Finance Leases (Debt)	Interest earned on investments for the reporting period is £388k. The Investments portfolio at 30th September 2022 is £42.3m.	
Loans Rescheduling	None undertaken.	**55**
Minimum Revenue Provision (MRP)	MRP chargeable to the General Fund (GF) for 2022/23 is £19.6m.	**57**
Compliance with Treasury Management	No breaches. Officers introduced the new proposed CIPFA prudential and treasury indicators to test the Council's borrowing	**59 - 70**

& Prudential Indicators	position and the strength of its affordability.	
Borrowing Timing and Interest Rate Analysis	The Council entered into a forward short-term borrowing of £44m from other local authorities with an average rate of 3.7%. The start dates for these borrowings is between 3rd October 2022 to 25th November 2022. This short-term borrowing will be converted to long term debt when the rates are advantageous. There is likely to be a further requirement to borrow in this financial year.	

9. Enfield 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 Authority to approve treasury management semi-annual and annual reports. This midyear report provides an update.

10. The Council's Treasury Management strategy for 2022/23 was approved at the Council meeting on 24th February 2022. The Council's borrowing and requirement to refinance borrowing means that Enfield is exposed fluctuations in interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

11. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 24th February 2022.

12. On 30th September 2022, the Council had net borrowing of £969.9m arising from its revenue and capital income and expenditure. The treasury management position as at 30th September 2022, the change over the six months and the original forecast position for 31st March 2023 are shown in Table 1 below.

Table 1: Treasury Management Summary

	Actual Balance 31.03.22 £m	**Movement £m**	**Actual Balance 30.09.22 £m**	**Original Forecast 31.03.23 £m**	**Revised Forecast 31.03.23 £m**
Long-term borrowing	980.1	(12.9)	967.2	1,328.9	1,146.2
Short-term borrowing	35.0	10.0	45.0	0.0	59.0
Total borrowing	**1,015.1**	**(2.9)**	**1,012.2**	**1,328.9**	**1,205.2**
Total investments	**(95.6)**	**52.8**	**(42.3)**	**(35.0)**	**(35.0)**
Net borrowing	**919.5**	**(49.9)**	**969.9**	**1,293.9**	**1,170.2**

13. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 2 below.

Table 2: Balance Sheet Summary

	31 March 2022 Actual £m
General Fund CFR	969.9
HRA CFR	268.4
Borrowing CFR	**1,238.3**
External borrowing	1,015.1
Internal borrowing	**223.2**
Less: Usable reserves	(249.6)
Less: Working capital	122.0
Net investments	**(95.6)**

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

ECONOMIC BACKGROUND

14. The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

15. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation, and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

16. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August.

17. The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

18. On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

19. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

20. Gilt rates are important for Enfield as they are an indicator of PWLB borrowing rates (roughly gilt rates +0.8%).

21. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

BORROWING STRATEGY DURING 2022/23

22. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority.

23. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; Enfield has no plans to buy investment assets primarily for yield.

24. The chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

25. The 2022/23 Treasury Management Strategy sets out an operational borrowing limit of £1,355m and maximum borrowing requirements of £1,655m for the year. As at 30th September there is headroom in this approval of £338 million borrowing.

26. The Council's forecast borrowing for the year is being re-evaluated as the cost of refinancing existing debt reduces the capacity and affordability on new borrowing.

27. During 2022/23, short term new borrowing of £69m has been taken from other local authorities at an average rate of 3.7%, in keeping with the above objectives. This strategy enabled the Council to reduce net borrowing costs and the loans will be replaced with PWLB loans when borrowing rates are more favourable.

28. At 30th September 2022 the Council held £1,012.2m of loans, (a decrease of £2.95m since 1st April 2022), as part of its strategy for funding the Council's previous and current year's capital programmes. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

Type of Loan	31.3.22 Actual £m	Movement £m	30.9.22 Actual £m	31.3.23 *Original Forecast £m	31.3.23 ^Revised Forecast £m
PWLB	928.3	12.0	**916.3**	1,279.6	£1,097.0
European Investment Bank	7.9	0.2	**7.8**	7.6	0.0
GLA	1.2	0.0	**1.2**	0.8	7.6
HNIP	21.6	0.0	**21.6**	21.4	0.8
LEEF	2.1	0.3	**1.7**	1.4	21.4
MEEF	15.0	0.0	**15.0**	15.0	1.4
SALIX	4.1	0.5	**3.6**	3.1	15.0
Local Authority	35.0	10.0	**45.0**	0.0	59.0
Total	**1,015.1**	**(2.9)**	**1,012.2**	**1,328.9**	**1,205.2**

*Original Forecast as stated in TMSS 2022/23, approved by Council 24 February 2022
^Revised Forecast based on current level of activities

29. The Council has 109 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. The average interest for the period is 2.54%. The level of borrowing for this financial year has been revised down to £1,097m from £1,279.6m due to capital programme slippage.

The Capital Financing Requirement (CFR)

30. The Capital Financing Requirement measures the Council's underlying borrowing requirement.

Capital Financing Requirement (CFR)	Actual Balance 31 March 2022 £m	Original Forecast 31 March 2023 £m	Revised Forecast 31 March 2023 £m
General Fund	969.9	1,150.5	1,090.0
Housing Revenue Account	268.4	334.8	320.5
Borrowing CFR	**1,238.3**	**1,485.3**	**1,410.5**
External Borrowing	1,015.1	1,328.9	1,205.2
Internal Borrowing	223.25	156.43	205.28
Authorised Limit	**1,600.0**	**1,655.0**	**1,655.0**

Table 4: Capital Financing Requirement (CFR)

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

Other Debt Activity

31. The forecast for 31st March 2023 for Private Finance Initiative (PFI) or finance leases liabilities which represent the total debt other than borrowing for the Council is £26m after the repayment of circa £4m scheduled for the year.

Cost of Borrowing

32. The average interest rate forecast on total external debt for 2022/23 is 2.54%. Table 5 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 interest cost chargeable to the General Fund is £3.2m.

Table 5: Cost of Borrowing

Type of Loan	Actual for 31.03.22 £,000	Original Forecast 31.03.23 £,000	Revised Forecast 31.03.23 £,000	Actual as at 30.09.22 £,000
Public Works Loan Board	23,946.3	23,754	29,766.1	12,415.8
Local Authority Long-Term	0.0	8,225	0.0	0.0
EIB	188.9	181.0	181.0	91.5
GLA	0.0	0.0	0.0	0.0
HNIP	20.7	18.0	18.5	10.7
LEEF	42.2	31.0	30.8	16.9
MEEF	149.2	180.0	179.5	89.3
Total Interest on Long Term Debt	**24,347.1**	**32,388**	**30,175.9**	**12,624.1**
Short term Loans	0.0	0.0	417.6	8.3
Other Costs & Commission	200.0	101.0	111.7	0

on loans				
Total Cost of Debt	**24,547.1**	**32,489**	**30,705.2**	**12,632.4**
Funded by:				
Housing Revenue Account	9,833.0	12,072	13,387.6	0.0
Capitalised Interest on Meridian Water	6,942.3	9,218	9,790.8	0.0
Housing Gateway Ltd (HGL)	3,126.8	3,387.5	3,285.5	1,507.7
Energetik	613.1	780.5	907.2	637.8
Schools Debt Recharges	137.3	0	131.8	0
Investment Income	194.7	0	0	388.3
General Fund	3,700.0	7,031	3,202.2	10,098.5
Total Cost of Debt	**24,547.1**	**32,489**	**30,705.2**	**12,632.4**

33. The original estimated cost of borrowing was £32.5m, this has been revised down to £30.7m has the level of borrowing for this financial year has been reduced due to capital programme slippage and the prevailing higher interest rate environment.

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

Loans Maturity

35. The Council has 109 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.

36. Table 6 shows the maturity structure of the Council's Loans portfolio as at 31 March 2021 and forecast for 31 March 2022:

Table 6: Profile of Maturing Loans

	Loans Outstanding Actual as at 31 March 22	**Loans Outstanding Forecast for 31 March 23**
	£m	**£m**
Under 1 year	61.1	101.4
1 – 2 years	25.0	91.5
2 – 5 years	51.7	84.9
5 – 10 years	147.1	197.1
10 – 15 years	139.0	139.0
15 – 20 years	152.2	152.2

20 – 25 years	49.8	49.8
25 – 30 years	69.5	69.5
30 – 35 years	85.0	85.0
35 – 40 years	41.0	41.0
40 – 45 years	88.8	88.8
45+ years	105.0	105.0
	1,015.1	**1,205.2**

Treasury Investment Activity

37. The Council holds some invested funds, representing income received in advance of expenditure plus balances and reserves held. 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.

38. During this reporting period the Council's investment balance ranged between £15m and £98m due to timing differences between income and expenditure. The investment position at 30th September 2022 is shown in table 7 below.

Table 7: Treasury Investments

Counterparties	**31.3.22 Actual £m**	**Movement £m**	**30.9.22 Actual £m**
Money Market Funds			
Aberdeen (Ignis)	25.0	(25.0)	**0.0**
Aviva	10.0	1.9	**11.9**
CCLA	25.0	(25.0)	**0.0**
Deutsche	0.0	0.0	**0.0**
Federated	10.0	(4.2)	**5.8**
Goldman Sachs	25.0	(25.0)	**0.0**
HSBC Liquidity	0.0	0.0	**0.0**
Invesco	0.0	24.7	**24.7**
Call Accounts			
Santander	0.6	(0.6)	**0.0**
HSBC	0.0	0.0	**0.0**
	95.6	**(53.4)**	**42.3**

39. The Council generated investment income of £388k on cash balances held in call accounts and money market funds for this reporting period. On average

the Council's cash investment portfolio had a risk weighting equivalent to A-credit rating.

40. 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.

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

42. The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.

43. By end September, the rates on DMADF deposits ranged between 1.85% and 3.5%. The return on the Council's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.9% - 1.1% p.a. in early April and between 1.8% and 2.05% at the end of September.

44. Given the risk of the Council's portfolio having all the investments in Money Market Funds and the risk of the short-term unsecured bank investments, officers are proposing to invest in alternative and higher yielding asset classes. The Council needs to maintain its professional status in alignment with MiFID II requirements, hence officers are arranging to invest at least £10m for a longer-term by considering investment in Secured Deposits via the Repo Market / covered bonds / corporate bonds / RP facilities, pooled property/bond/equity/multi-asset funds as deemed appropriate.

45. In 2022/23 the Council expects to receive better income from its cash and short-dated money market investments than it did in 2021/22.

Investment Benchmarking

46. 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.

Table 8 – Treasury investments managed in-house

	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**

31.03.2022 30.06.2022	4.90 4.86	A+ A+	100% 100%	1 1	0.52% 1.10%
30.09.2022	**4.78**	**A+**	**100%**	**1**	**2.12%**
Similar LAs ***All LAs***	***4.30*** ***4.29***	***AA-*** ***AA-***	***62%*** ***55%***	***37*** ***17***	***1.79%*** ***1.72%***

47. 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.

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

49. The Money Market Funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed.

50. The return on Money Market Funds net of fees has improved significantly, the Council is currently earning 2.12% and above on investments.

Non-Treasury Investment

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

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

53. For this reporting period, the Council investments to its subsidiaries stood at £156.6m. Which currently consist solely of loans but in future it will includes provision of working capital and injection of equities into the companies. A list of the Council's non-treasury investments is shown in below table 9:

Table 9: Non-Treasury Investments

Loans made to LBE Companies	31.3.22 Balance £m	Movement £m	30.9.22 Balance £m
HGL	127.4	(0.3)	127.1
Energetik	15.2	14.3	29.56
Total	**142.6**	**14.0**	**156.6**

Net Debt (Borrowing, PFI & Leases)

54. The estimated budget position for 2022/23 recognises that future capital expenditure will need to be financed from external borrowing and will create pressure on the revenue budget. In light of the current economic conditions, the Council is reviewing its borrowing forecast for 2022/23.

Table 10: Net Debt

	31.03.22 Actual £m	**2022/23 Original Budget £m**	**2022/23 Revised Budget £m**	**2022/23 Interest Forecast £m**
Companies	147.3	212.0	177.7	4.3
Meridian Water	350.9	406.1	413.8	9.8
Other GF*	471.7	532.5	498.5	3.2
HRA	268.4	334.8	320.5	13.4
Total Loans CFR	1,238.3	1,485.3	1,410.5	30.7
Add: PFI & Finance leases	30.3	26.3	26.3	0.0
Less Internal Borrowing	(253.6)	(182.8)	(231.6)	0.0
Total External Borrowing	**1,015.1**	**1,328.9**	**1,205.2**	**30.7**
Total treasury investments	(35.5)	(35.0)	(35.0)	-
Net Debt	**979.6**	**1,293.9**	**1,170.2**	-

Loans Restructuring

55. Loans restructuring normally involves prematurely replacing existing loans (at a premium or discount) with new loans to secure net savings in interest payable or a smoother maturity profile. Restructuring can involve the conversion of fixed rate interest loans to variable rate loans and vice versa.

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

Minimum Revenue Provision

57. In accordance with the Local Government Act 2003, the Council is required to make provision for repayment of 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).

58. The 2022/23 TMSS that was approved by Council at its meeting in February 2022 had MRP budget for 2022/23 as £19.6m and interest chargeable to the General Fund (GF) of £7m.

Compliance with Treasury Management Indicators

59. Within the prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. For example, the operational borrowing limit set by the Council determines the external debt levels which are not normally expected to be exceeded, whereas the authorised borrowing limit represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs full council to approve any increase.

60. Since the beginning of this financial year 2022/23 the total loan debt was kept within the limits approved by the Council against an authorised limit of £1,655m. The authorised `limit (as defined by the Prudential Code) was set as a precaution against the failure, to receive a source of income or a major unexpected expenditure. In the unlikely event of this happening, the Council would need to borrow on a temporary basis to cover the shortfall in cash receipts. Any significant breach must be reported to the Council.

61. Officers report that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

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

Table 11: Prudential Indicators

Debt Limits	30.9.22 Actual £m	2022/23 Maximum £m	2022/23 Operational Boundary £m	2022/23 Authorised Limit £m	Complied? Yes/No
Borrowing	1,012.2	1,013.4	1,329	1,629.0	Yes
PFI and Finance Leases	26.3	26.3	26.0	26.0	Yes
Total debt	**1,038.5**	**1,039.7**	**1,355**	**1,655.0**	Yes

63. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to

variations in cash flow, and this is not counted as a compliance failure. Although total debt was not above the operational boundary during this reporting financial year.

Treasury Management Indicators

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

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

Table 12: Credit Risk

	30.9.22 Actual	**2022/23 Target**	**Complied?**
Portfolio average credit rating	A+	A	Yes
Portfolio average credit score	4.78	6	Yes

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

Table 13: Liquidity Risk Indicator

	30.9.22 Actual	**2022/23 Target**	**Complied?**
Total cash available within 3 months	£46.3	£25m	Yes

67. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The Council held no variable interest rate debt during 2022/23. However, the Council's Treasury Management Strategy does permit variable interest rate loans.

Table 14: Interest Rate Risk Indicator

	30.9.22 Actual	**2022/23 Limit**	**Complied?**
Upper limit on one-year revenue impact of a 1% rise in interest rates	Nil	+£4m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	Nil	+£4m	Yes

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

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

Table 15: Maturity Structure

	30.9.22 Actual	30.9.22 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	£84.0m	8.3%	30%	0%	Yes
12 months & within 24 months	£26.1m	2.6%	35%	0%	Yes
24 months and within 5 years	£51.2m	5.1%	40%	0%	Yes
5 years and within 10 years	£147.5m	14.6%	45%	0%	Yes
10 years and above	£704.3m	69.5%	100%	0%	Yes

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

Table 16: Sum Invested Over One Year

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	Nil	Nil	Nil
Limit on principal invested beyond year end	£15m	£15m	£15m
Complied?	Yes	Yes	Yes

Safeguarding Implications

71. None arising from this report

Public Health Implications

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

Equalities Impact of the Proposal

73. 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

74. 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

75. 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

76. 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

77. 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

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

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

80. This noting report of the Executive Director of Resources advises Council of the Council's borrowing and investment activities for the half-year ending 30th September 2021 and is consistent with the key principles expressed in the Treasury Management Code. The Executive Director of Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

Workforce Implications

81. No direct workforce implications

Property Implications

82. None

Other Implications

83. None

Options Considered

84. The CIPFA TM code require that the Council establishes arrangements for monitoring its investments and borrowing activities hence the performance and activities of the Council's treasury operations is being reported to this Committee on a regular basis. This report is required to comply with the Council's Treasury Management Policy statement, agreed by Council.

Conclusions

85. Over the reporting year all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement. For more details, see section 54 – 65.

86. The Council held outstanding investments of £42.3m as at 30th September 2022. This portfolio earned an interest of £388k for the reporting period.

87. Gross Debt (Council's total borrowing, PFI and Finance Leases) stood at £1,012.2m, this is a reduction from the opening balance of £1,015.1m. The original gross debt forecast for 2022/23 was £1,328.9m and now revised down to £1,205.2m due to capital programme slippage.

88. The revised borrowing CFR forecast for 2022/23 is in excess of last year closing position of £1,238.3m by some £172.2m to £1,410.5m. See section 30 for more details.

89. The MRP charge for 2022/23 is £19.6m, see section 53 for more details.

90. The Total Borrowing for the reporting period stood at £1,012.2m, a reduction of £2.9m over 2021/22 closing balance of £1,015.1m. The original total borrowing forecast for 2022/23 was £1,328.9m, has been revised down to £1,205.2m, this equates to some £123.7m reduction in borrowing need for this financial year. For more details, see section 49.

91. The net borrowing is the difference between total investments outstanding and the total borrowing outstanding. For this reporting period, it stood at £969.9m and the net debt (borrowing including PFI and finance leases) position is £991.2m. For more details, see section 14.

92. The original gross interest forecast for financing external borrowing for the year are £32.5m and this has been revised to £30.7m due to capital programme activity levels and the prevailing higher interest. The proportion of interest chargeable to the General Fund for the 2022/23 is £7m. For more details, see section 32.

93. The Council loans to its companies stood at £156.6m for this reporting period. Future provisions to the companies will include provision of working capital and injection of equities into the companies. For more details, see section 48.

94. Over the reporting year all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement. For more details, see section 63 – 76.

95. From this reporting period to end of this financial year, the Council plan to borrow a total of £193m medium/longer-term fixed rate loans, for refinancing matured loans and to fund planned capital expenditure. These loans should provide some longer-term certainty and stability to the debt portfolio.

96. While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

97. Yields are expected to remain broadly at current levels over the medium-term, with 5-year, 10-year and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium, and longer-term yields are judged to be broadly balanced over the forecast horizon. There will undoubtedly be short-term volatility due to economic and political uncertainty and events.

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Date of report 2nd October 2022

Appendices

Appendix 1 – Economic commentary & Interest Rate Forecast November 2022

Appendix 2 - BoE Monetary Policy Report – November 2022

Background Papers

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

(i) Treasury Management Strategy Statement 2022/23 (Approved by Council, 24 February 2022)

(ii) Arlingclose – Enfield Benchmarking-credit-scores for September 2022

Appendix 1 - Arlingclose's Economic Commentary and Interest Rate Forecast

Economic and Interest Rate Forecast 7th November 2022

i) UK interest rate expectations have eased following the explosive mini budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remains highly uncertain.

ii) Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates, and tighten economies into recession.

iii) The new Chancellor dismantled the mini budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.

iv) The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short to medium term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.

v) Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce

vi) has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.

vii) Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.

viii) However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Arlingclose Interest Rate Forecast - November 2022

a) The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.

b) Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

c) The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.

d) Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.

e) Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

Arlingclose Interest Rate Forecast - November 2022

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90

Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.24**	**3.40**	**3.40**	**3.40**	**3.40**	**3.40**	**3.30**	**3.30**	**3.30**	**3.30**	**3.30**	**3.30**	**3.30**
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

a) The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.

b) Following the exceptional 75bp rise in November, we believe the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

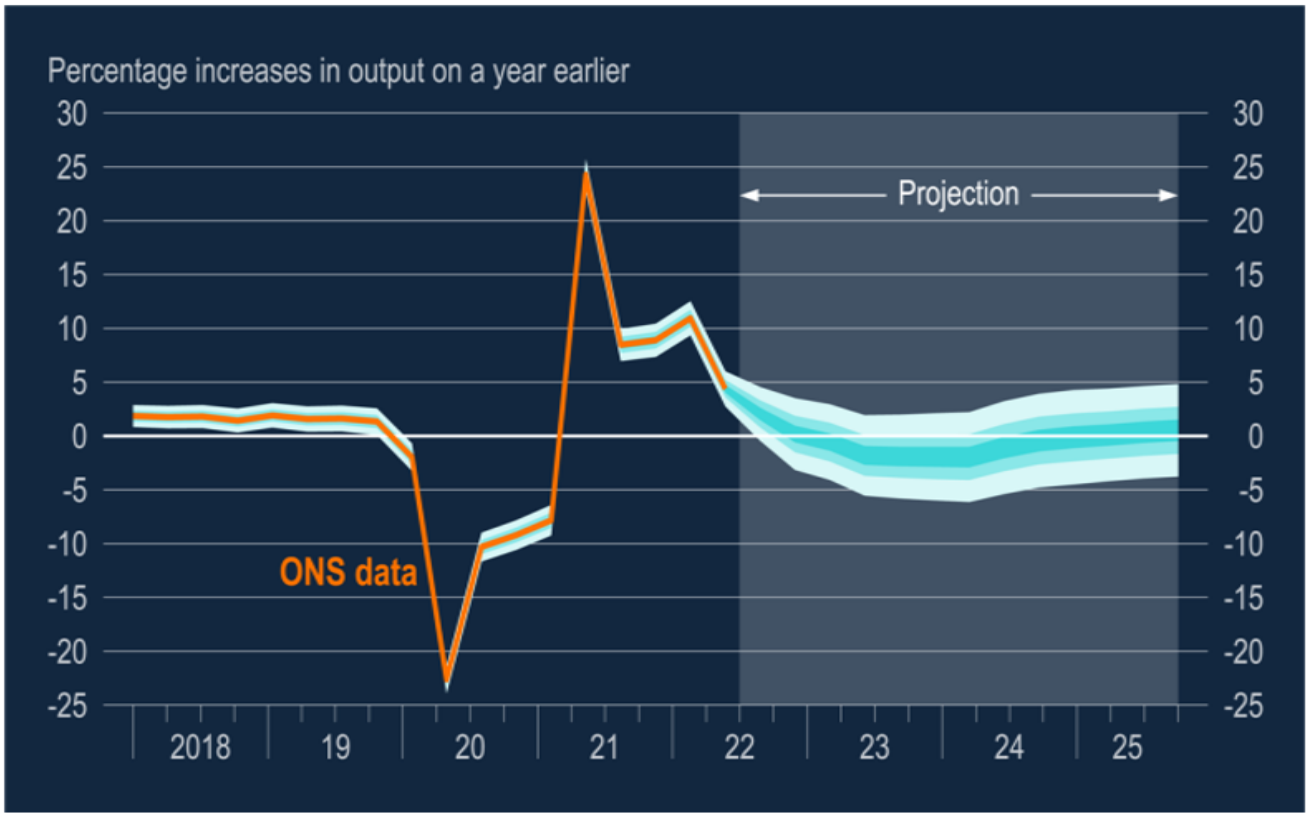
c) The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.

d) Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.

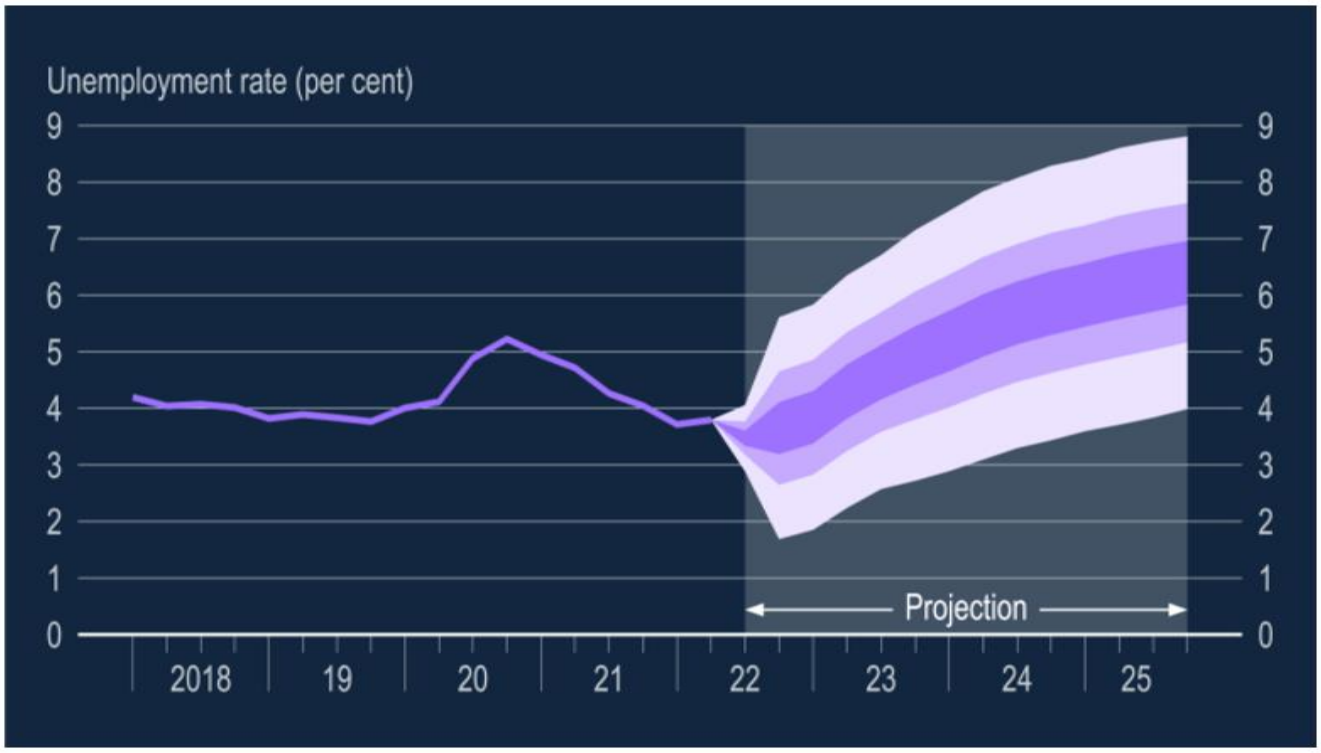
e) Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

Appendix 2 - BoE Monetary Policy Report (November 2022)

1. Outlook for UK GDP growth



2. Outlook for UK Unemployment



3. Outlook for UK CPI inflation

i) There has been a material tightening in financial conditions, including the elevated path of market interest rates. In addition, high energy prices continue to weigh on spending, despite an assumption of some fiscal support for household energy bills beyond the current six-month period of the Energy Price Guarantee. As a result, the UK economy is expected to remain in recession throughout 2023 and 2024 H1, and GDP is expected to recover only gradually thereafter.

ii) Although there is judged to be a greater margin of excess demand currently, continued weakness in spending leads to an increasing degree of economic slack emerging from 2023 H1, including a rising unemployment rate.

iii) Despite a decline in global price pressures and a significant fall in the contribution of household energy prices to CPI inflation, domestic inflationary pressures remain strong over the next year. But an increasing degree of economic slack depresses domestic pressures further out. Conditioned on the elevated path of market interest rates, CPI inflation declines to below the 2% target in the medium term, although the Committee judges that the risks to the inflation projections are skewed to the upside.