**London Borough of Enfield**

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| **Report Title** | 2024/25 Quarter 3 (30 November) Treasury Management Monitoring report |
| **Report to** | Cabinet |
| **Date of Meeting** | 8th January 2025 |
| **Cabinet Member** | Cllr Tim Leaver |
| **Executive Director** | Jo Moore –Executive Director of Resources |
| **Report Authors** | Olu Ayodele – Head of Finance (Capital & Treasury)<br>Milan Joshi – Assistant Head Capital & Treasury |
| **Ward(s) affected** | All |
| **Key Decision Number** | Non-Key |
| **Classification** | Part I Public |

## Purpose of Report

1. To report on activities of the Council's Treasury Management function over the eight months to 30th November and provide estimates for financial year 2024/25.

## Recommendations

Cabinet is requested to:

I. note the borrowing and investments position as at 30th November 2024 and Quarter 3 (Q3) estimates for financial year 2024/25.

## Executive summary

2. The estimated overall cost of debt to the Council's General Fund for 2024/25 is £28.2m made up of net interest and other charges £10.9m and Minimum Revenue Provision (MRP) £17.3m.

3. This is forecast to generate an underspend of £3.2m for 2024/25 against budget primarily due to the voluntary MRP for Meridian Water being deferred.

4. This is equivalent to 8.6% of the net revenue budget excluding finance leases and PFI arrangements (i.e. within the target affordability level of 10% - 12% set by the Council).

5. The accumulated gross external debt (excluding obligations under Private Finance Initiative (PFI) and finance lease contracts) as at 31st March 2024, was £1.250bn increasing to £1.296bn as at 30th November and estimated to reach £1.343bn as at 31st March 2025. The overall cost of borrowing is estimated at 3.11% compared to the budgeted 3.20%.

6. The level of debt remains in compliance with the key Prudential Indicators determining affordability: Capital Financing Requirement (CFR) and Authorised Limit.

7. The Council held £56.1m in investments as at 31st March 2024 and generated investment income of £3.3m in 2023/24. It is estimated the average level of investments during 2024/25 will be over £50m, higher than the previously estimated £35m, due to a strategy of borrowing during rate dips. These resources are invested in line with the Treasury Management Strategy (approved by Council as part of the Treasury Management Strategy).

8. To shield against expected falls in returns, loans have been advanced to selected Councils for up to two years at fixed rates to “lock in” income following creditworthiness and reputational checks together with opening higher yield short term investment accounts providing increased flexibility.

9. As a result of these measures investment returns are forecast to be in excess of £5m equating to 4.91% on average. Interest payable on new borrowing is expected to be 4.80% for HRA which includes a discount and 5.20% for non-HRA borrowing. This is an over achievement of income against budget of £2.2m.

10. The impact of mandatory changes in lease accounting (IFRS 16) effective April 2024 have been included. These affect all Councils and are presentational only with no impact on overall financial resources. Although the full impact will not be known until later in the financial year the Council will remain in compliance with Prudential indicators.

**Regulatory framework**

11. The Prudential Code for Capital Finance and Treasury Management Code (both revised 2021) require quarterly reports to be submitted to the relevant Council Committee detailing the Council’s treasury management activities. Reports to Council are required at the time the Treasury Strategy is set before commencement of the new financial year and then update reports at mid-year and at financial year end.

12. 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 of which are set out in monitoring reports appearing elsewhere on the agenda.

13. New regulations in relation to Council debt were announced by the Government on 10th April 2024 which will impact Councils from 2024/25. These are designed to ensure Councils can demonstrate a sufficiently prudent attitude to all debt by setting aside adequate financial resources for its eventual repayment.

14. Enfield Council pre-empted the financial impacts of these and included these in the approved budgets and forecasts presented in this report.

## Economic Context

15. Inflation, measured by the Consumer Prices Index (CPI) stood at 10.1% at 1st April 2023 falling steadily to 3.2% as at 31st March 2024. At 30th November it stood at 2.3% slightly higher than the Government's long-term target set at 2%.

16. The Bank of England's Monetary Policy Committee (MPC) relies on interest rates as the primary tool to combat inflation by regulating consumer demand. The base rate increased from 4.25% at 1st April 2023 to 5.25% as at 31st March 2024 and has since fallen to 4.75% as at 30th November.

17. The Council borrows mainly from the Public Works Loans Board (PWLB) at a discount of 20 basis points (bps) off the standard rate. This rate is called the 'certainty rate' and is available to Councils who have submitted details of their long-term expenditure and borrowing plans to the PWLB.

18. A further discount of 40 bps is available when accessing the HRA concessionary rate in place until June 2026 which the Council will take advantage of for HRA borrowing.

19. Table 1 below shows the recent trend of the PWLB Certainty Rate reflecting the expected reduction in interest rates.

**Table 1: PWLB Certainty Rate**

| PWLB Certainty rates for maturity loans | 1st Apr 2024 | 30th Jun 2024 | 30th Sep 2024 | 30th Nov 2024 |
|---|---|---|---|---|
| **Bank of England base rate** | **5.25%** | **5.25%** | **5.00%** | **4.75%** |
| 1 year | 5.39% | 5.37% | 4.95% | 5.16% |
| 5 years | 4.72% | 4.89% | 4.56% | 4.92% |
| 10 years | 4.80% | 4.96% | 4.83% | 5.14% |
| 20 years | 5.24% | 5.37% | 5.28% | 5.52% |
| 50 years | 5.07% | 5.18% | 5.21% | 5.31% |

*Source: Government's Debt Management Office*

## Relevance to Council Plans and Strategies

20. This report underpins the following key corporate objectives:

- Good homes in well-connected neighbourhoods
- Build our Economy to create a thriving place
- Sustain Strong and healthy Communities

## Cost of Borrowing

21. The Council's total estimated cost of interest, debt charges and MRP for 2024/25 is £28.2m made up of net interest and other charges £10.9m and MRP £17.3m. This is a £3.2m underspend against budget, due mainly to the deferral of voluntary MRP in respect of Meridian Water

22. Table 2 below shows the progression of the initial gross interest payments made by the Council to the ultimate charge to the General Fund in 2024/25.

**Table 2: Cost of Debt – General Fund**

| **Cost of Debt - General Fund £m** | **2023/24 Outturn (pre-audit)** | **Approved budget 24/25** | **Q3 Forecast 24/25** | **(Under) /overspend** |
|---|---|---|---|---|
| **Total interest and debt charges** | **33.2** | **42.7** | **42.2** | **-0.5** |
| Meridian Water - interest capitalised | -7.5 | -9.9 | -8.7 | 1.2 |
| HRA - interest recharged | -12.2 | -15.2 | -14.2 | 1.0 |
| Companies | -4.7 | -5.9 | -5.7 | 0.2 |
| Investment & other Income | -3.9 | -3.1 | -5.1 | -2.0 |
| **Interest & other charges** | **4.9** | **8.6** | **8.5** | **-0.1** |
| MRP – Policy | 19.2 | 17.7 | 17.3 | -0.4 |
| MRP Voluntary | 0.0 | 3.2 | 0.0 | -3.2 |
| **MRP – total** | **19.2** | **20.9** | **17.3** | **-3.6** |
| **Interest & MRP – General Fund** | **24.1** | **29.5** | **25.8** | **-3.7** |
| Loan accounting & bank charges and contingency | 0.6 | 0.7 | 1.4 | 0.7 |
| Transfer to Energetik reserve | 1.0 | 1.2 | 1.0 | -0.2 |
| **Total cost of Debt – General Fund** | **25.7** | **31.4** | **28.2** | **-3.2** |

23. Interest rates assumed for new borrowing in 2024/25 have been confirmed with the Council's Treasury Advisors and is consistent with the return demanded by the Capital Markets in exchange for UK Government Bonds. The rates include an on-lending allowance to be charged by the Debt Management Office.

24. The main adjustments, relating to Meridian Water (Capital) and HRA, are sensitive to changes in assumptions which can significantly impact the ultimate charge to General Fund. Risks associated with these are set out in the Risk Management section appearing later in the report.

## Debt and Investments Position

25. Gross debt and investment positions at the start of the financial year and as at 30th November are summarised in table 3 below, with further details in appendices A and B.

**Table 3: Debt and Investments position as at 30 November 2024**

| Summary | 1 April Balance £m | Movement £m | 30th Nov Balance £m | 30th Nov Ave rate % |
|---|---|---|---|---|
| Long-term borrowing | 1,233.20 | 62.50 | 1,295.7 | 3.11 |
| Short-term borrowing | 17.0 | -17.0 | 0.0 | 0.00% |
| **Gross borrowing** | **1,250.20** | **45.50** | **1,295.70** | **3.11** |
| **Gross investments** | **56.1** | **64.0** | **120.1** | **4.75%** |

26. The increase in gross debt of £45.5m was due to new loans of £90m (£80m for HRA, £10m Housing Gateway Limited (HGL)) offset by other loan repayments of £44.5m.

27. The planned increase in investments to £120.1m is in preparation for capital investment in the remainder of the financial year. The Council aims to borrow under optimal conditions and holds the money in these investments for imminent capital expenditure which remains within the Capital Financing Requirement (CFR).

## The Capital Financing Requirement (CFR)

28. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents capital expenditure accumulated over many years for which *borrowing would have been required* (including 'internal borrowing').

29. Cash balances are used when available to ensure borrowing is kept to a minimum and is termed "internal borrowing," with external borrowing representing the Council's actual debt. Internal borrowing is also repaid over time from revenue via MRP, in line with external borrowing.

30. External borrowing was £1,295.7m as at 30th November and expected to reach £1,343.1m as at 31st March 2025. This will be below the Loans CFR of £1,452.8m and therefore in compliance with this key Prudential Indicator. The difference of £109.7m is the accumulated cash resources the Council has used over the years to reduce borrowing and represents internal borrowing.

31. Table 4 below shows the Council's Loans CFR together with PFI and Finance lease liabilities as at 31st March 2024 (pre-audit) together with the Q3 forecast

to 31st March 2025, split between the General Fund and HRA. Although the CFR for General Fund has decreased, that for the HRA is expected to exceed the approved budget (set in the Treasury Strategy Feb 2024) by £29.8m.

32. £16.4m of this increase, is due mainly to prior year capital expenditure and increased acquisitions for Temporary Accommodation this year, which was included in the Mid-Year Update approved by Cabinet 13th Nov 2024, which will be submitted for Council approval on the 22nd of January 2025.

33. The remaining £13.4m of the increase over the approved budget, is due to the acceleration of works at the HRA Ladderswood development also to be submitted for Council approval on the 22nd of January 2025.

34. The interest charge to HRA is expected to be within budget.

**Table 4: Capital Financing Requirement**

| **Capital Financing Requirement (CFR) and External borrowing** | **31 March 2024 Outturn (pre-audit) £m** | **Approved budget £m** | **Forecast 2024/25 Q3 £m** |
|---|---|---|---|
| General Fund | 1,013.5 | 1,075.4 | 1,016.9 |
| Housing Revenue Account | 371.6 | 406.2* | 436.0 |
| **Loans CFR – total** | **1,385.1** | **1,481.6** | **1,452.9** |
| PFI and other liabilities | 23.7 | 17.6 | 63.0 |
| **Total CFR** | **1,408.8** | **1,499.2** | **1,515.9** |

**increased by£16.4m to reflect prior year expenditure and TA acquisitions approved by Cabinet 13th Nov 2024, for submission to Council 22nd January 2025. Remaining increase of £13.4m due to acceleration of HRA works also to be approved by Council 22nd January 2025.*

35. The Operational Boundary shown in table 5 below is an estimate of the Council's external debt (including PFI and finance lease liabilities) based on latest estimates. This exceeds the approved budget by £45.8m due to the impact of the new disclosures required by IFRS 16, affecting how leases are disclosed in the accounts.

36. The new lease accounting standard (IFRS 16 - effective April 2024), whilst having no overall impact on the financial resources of the Council, changes the way leases are *presented* in the final accounts:

- Instead of being a rental agreement, all Councils are instead required to recognise the vast majority of assets held under leases, as their own asset, with a corresponding lease liability on the balance sheet
- Payments previously presented as rentals, will instead become interest and repayments of the liability, with the amount paid unchanged

37. This will have the effect of increasing the CFR although the Operational Boundary, which will increase to £1,406.1m will remain well within the Authorised Limit of £1,560.4m therefore remaining in compliance with this key Prudential indicator as shown in table 5 below

**Table 5: Operational Boundary and Authorised Limit**

| Capital Financing Requirement (CFR) and External borrowing | 31 March 2024 Outturn (pre-audit) £m | Approved budget £m | Forecast 2024/25 Q3 £m |
|---|---|---|---|
| External Borrowing* | 1,250.2 | 1,342.8 | 1,343.1 |
| PFI and other liabilities** | 23.7 | 17.6 | 63.0 |
| **Gross external debt** | **1,273.9** | **1,360.4** | **1,406.1** |
| **Operational Boundary** | **1,445.3** | **1,360.4** | **1,406.1** |
| **Authorised Limit – Statutory limit** | **1,645.3** | **1,560.4** | **1,560.4** |

******external borrowing as at 30th November £1,295.7m, details in appendix A.*

*******impact of IFRS16 in process of being quantified therefore the CFR may increase further but will remain within the Authorised Limit*

38. The Authorised Limit is statutory which can only be set by Full Council and represents the maximum debt beyond which any additional borrowing is prohibited. This limit, which includes PFI and finance lease liabilities, is set at £1,560.4m for 2024/25 approved by Council 22nd February 2024 (KD5668).

## Forward Borrowing

39. The Council did not enter into any forward borrowing arrangements during the financial year although the market will continue to be monitored should any opportunities arise.

## Debt Maturity

40. The Council has 107 loans averaging a remaining term of 16.3 years.

41. To ensure the Council is not overexposed to repayment demands accumulating in a particular year, the maturity profile is kept under review. A balance is therefore maintained between the term of new or replacement debt and its cost to ensure cash resources are not overstretched.

42. Details of the maturity profile are provided in appendix D as part of the Treasury Management and Prudential Indicators.

## Treasury Investment Activity

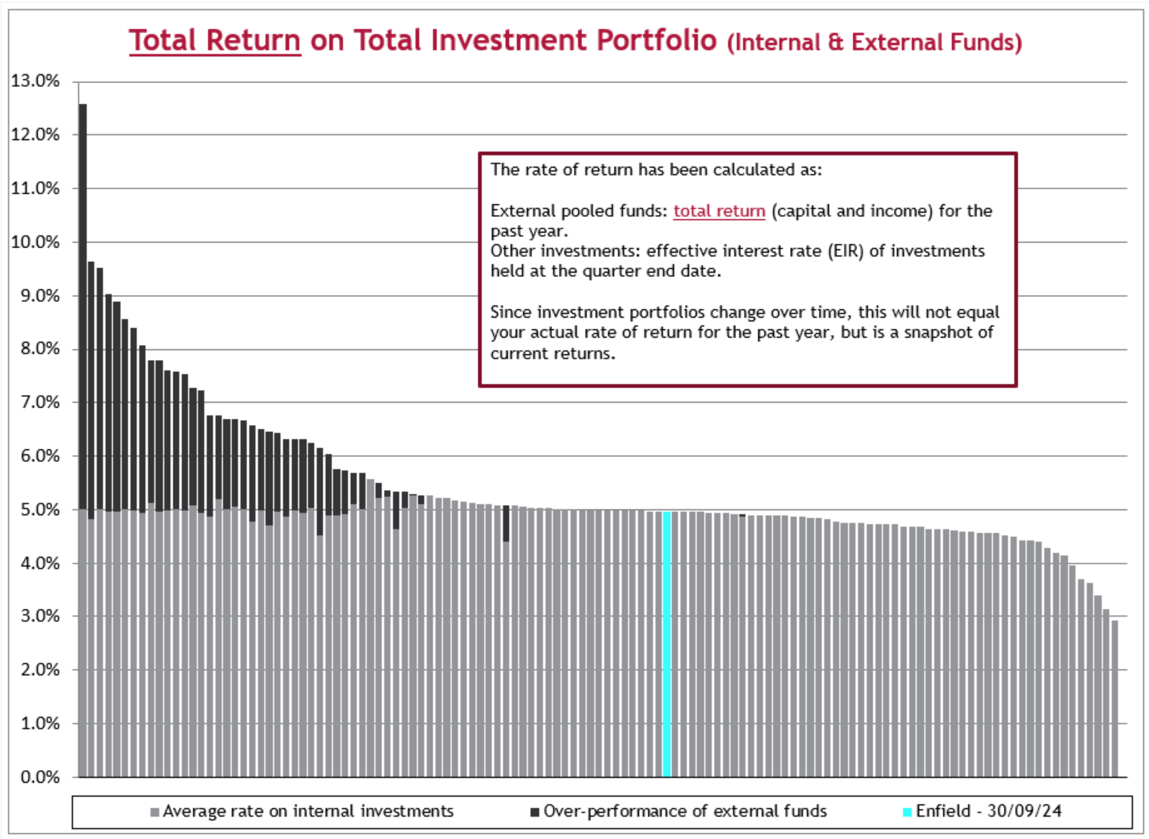
43. Total cash balances vary considerably over the year, predominantly due to significant peaks and troughs arising from payment profiles of business rates, capital expenditure, DWP payments and housing benefit payments.

44. The Treasury Management Strategy set the average level of cash balances at £35m. It is expected this average will increase to at least £50m from 2024/25 onwards which better reflects the working capital requirements of the Council.

45. Part of this expected increase has been invested longer term as a partial mitigation to the risk that Money Market Fund yields are reducing. This has been done by lending £10m to other Councils for up to two years subject to credit and reputational checks. The limit of £10m is consistent with the minimum balances required to access Money Market Funds and wider capital markets (Markets in Financial Instruments Directive 2014 (MIFID)).

46. As at 31st March 2024 the Council held £56.1m investments which generated £3.3m investment income, a return of 4.98% on average. Investment income in excess of £5m is estimated for 2024/25 based on average balances of at least £50m which incorporates the mitigations implemented to shield the Council's returns from expected declines. Figure 1 below shows how the Council's returns compare in its benchmarking group. Councils showing higher returns have access to cash resources to invest longer term in higher yield products.

**Figure 1 – Councils return on investments in England as at 30th Sep 2024**




47. The Council's benchmarking group, co-ordinated by its Treasury Advisers, publishes investment risk and return metrics, details of which are provided in appendix B.

**Non-Treasury Investments**

48. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) or for commercial purposes (made primarily for financial return).

49. The Council held £176.3m of such investments as loans to subsidiaries and Schools as at 31st March 2024, increasing to £194.3m 30th November and expected to increase to £223.4m as at 31st March 2025. Details are set out in table 6 below:

**Table 6: Council owned Companies and Schools**

| Loans to Council owned companies and Schools | HGL £m | Energetik £m | Total - HGL & Energetik £m | Loans to Schools £m |
|---|---|---|---|---|
| **31st March 2024 (pre-audit)** | **133.0** | **43.3** | **176.3** | **6.8** |
| New Borrowing – capital | - | 3.1 | 3.1 | 0.1 |
| Repaid Borrowing | -0.3 | - | -0.3 | -0.2 |
| Working Capital Facility Borrowed | 2.0 | 0.4 | 2.4 | - |
| Working Capital Facility Repaid | -2.0 | - | -2.0 | - |
| **Balance at 30th June 2024** | **132.7** | **46.8** | **179.5** | **6.7** |
| New Borrowing – capital | 5.0 | 1.8 | 6.8 | - |
| Repaid Borrowing | -0.3 | - | -0.3 | -0.2 |
| Working Capital Facility Borrowed | - | 0.4 | 0.4 | - |
| Working Capital Facility Repaid | - | - | - | - |
| **Balance at 30th September 2024** | **137.4** | **49.0** | **186.4** | **6.5** |
| New Borrowing - capital | 24.4 | 6.7 | 31.1 | - |
| Repaid Borrowing | -0.3 | -0.6 | -0.9 | -0.1 |
| Working Capital Facility Borrowed | - | - | - | - |
| Working Capital Facility Repaid | - | -0.1 | -0.1 | - |
| **Balance at 30th November 2024** | **161.5** | **55.0** | **216.5** | **6.4** |
| New Borrowing - capital | 3.0 | 4.9 | 7.9 | - |
| Repaid Borrowing | -0.3 | -0.6 | -0.9 | -0.1 |
| Working Capital Facility Borrowed | - | - | - | - |
| Working Capital Facility Repaid | - | -0.1 | -0.1 | - |
| **Forecast at 31st March 2025** | **164.2** | **59.2** | **223.4** | **6.3** |

50. These investments are not expected to generate investment income in 2024/25 and the Council held no investments for commercial purposes.

51. Loans to the HGL and Energetik are approved upon review of a satisfactory business case and are mainly annuity repayment loans with interest rates and terms reflecting the source of the funding obtained by the Council and the purpose of the loans. The loans are mainly for capital purposes although a

small proportion are in support of working capital requirements. Both companies are up to date with loan and interest payments.

52. The Council is required to recognise expected credit losses (ECLs) associated with loans extended to its subsidiaries. These are estimated at £300k per annum and are mandatory adjustments for compliance with accounting standards (IFRS 9 Financial Instruments) even if the debt is considered recoverable. Based on advice from the Council's Treasury Advisers these ECLs apply only to Energetik given the inherent business risk of the venture. Based on the same advice no such ECLs are considered necessary for HGL given the nature of the business and asset base of the entity: HGL has significant equity in the properties it owns that outweigh the associated borrowing.

53. These ECLs, which are revised annually, are intended to reflect the credit quality of loans extended to third parties and are refunded once the loan has been fully repaid at the end of the term. They reflect new statutory requirements which came into effect 10th April 2024, details of which are provided in the MRP section below.

54. Loans to schools are made in excess of the Dedicated Schools Grant which the Council holds on behalf of the Schools, and which is passported over in regular instalments. The £6.3m estimated debt outstanding as at 31st March 2025 relates to thirteen schools with loan balances up to 11 years old. The Council's Education Service is working with the Schools to ensure the debts are recoverable and to establish the Council's exposure. Interest is charged at 1% above the base rate and applied daily with and are deducted from the advances payments made to Schools.

55. The Council is also expected to advance £2.5m over the next two years to Greenwich Leisure Limited (GLL) to support the refurbishment of Edmonton Leisure Centre which is included in the assumptions used although the terms of the agreement are yet to be agreed.

## Debt Restructuring

56. This 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.

57. No restructuring is expected as PWLB and premature repayment rates make this unviable. The Council will continue to actively seek opportunities to restructure debt, if viable.

## Treasury Management Indicators

58. All treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with Treasury

Management and Prudential Indicators is demonstrated in table 7 below with details in appendix D.

**Table 7: Treasury Management & Prudential Indicators**

| Indicator | Result |
|---|---|
| **1. Authorised Limit**<br>Statutory limit on gross external debt (including PFI and finance lease liabilities) beyond which further borrowing is prohibited. This limit can only be set by Full Council. | **Complied** |
| **2. Operational Boundary**<br>Latest estimate of gross external debt based on current capital expenditure plans, financing and broader assumptions around the Council's working capital requirements.<br><br>Forecast exceeds that estimated in the Treasury Management Strategy due to introduction of new lease accounting standard affecting disclosures only. Breaches caused by liquidity requirements or changes in phasing of unfinanced capital expenditure are not regarded as a compliance failure as the Operational Boundary is based on latest information and is therefore expected to fluctuate. | **Complied** |
| **3. Liability Benchmark**<br>An estimate of how much debt the Council should be carrying based on external debt and requirements to maintain liquidity and is normally forecast for at least ten years. The Liability Benchmark remains below the Loans CFR therefore remains within limits. | **Complied** |
| **4. Debt Servicing costs as a proportion of Net Revenue Budget (NRB)**<br>An assessment of the sustainability of the Cou2ncil's borrowing commitments in the context of its revenue resources. This limit was set 10% - 12% of the General Fund Net Revenue Budget. The indicator for 2023/24 was 8.6% and that for 2024/25 is forecast to be unchanged.<br><br>This indicator would increase to 12.6% if the impact of IFRS16 *affecting disclosure only* of leases is included. This is included for information only as the accounting standard as no impact on the financial resources of the Council and the lease agreements (relating mainly to temporary accommodation) do not constitute external loan agreements. | **Complied** |
| **5. Net income from Commercial & Service Investments to NRB –**<br>Considers the Council's exposure to risk from commercial and service investment income in relation to is overall revenue resources. As the proportion of income from these sources to NRB remains insignificant no over reliance on service investments is indicated. The Council has no commercial investments | **Complied** |
| **6. Risk & Liquidity**<br>A suite of six indicators assessing the risk and liquidity of the Council's borrowing and investment portfolio:<br>• Security<br>• Liquidity<br>• Interest Rate Exposure<br>• Maturity Structure of Borrowing<br>• Principals invested over one year<br>• Investment Limits | **Complied** |
| **7. Capital Expenditure**<br>Estimates of capital expenditure remain within the approved budgets approved by Council February 2024 | **Complied** |

## Minimum Revenue Provision (MRP)

59. On 10th April 2024 amended legislation and revised statutory guidance were published on MRP. The majority of the changes take effect from 2025/26, although there is a requirement for capital loans given on or after 7th May 2024 that sufficient MRP must be charged so the outstanding CFR in respect of the loan is no higher than the principal outstanding less the Expected Credit Loss (ECL) charge for that loan.

60. The regulations also require that Councils cannot exclude any amount of their CFR from their MRP calculation unless by an exception set out in law. Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP (there are specific exceptions for capital loans and leased assets).

61. The requirement to make MRP does not exclude the HRA although the guidance states prudent provision through depreciation may negate the requirement for further MRP charges. The Council had already included a voluntary MRP charge assumption in 2024/25 HRA approved budgets.

62. The Council's Treasury advisors have confirmed that HGL loans are not affected by the changes in the rules due to the nature of the business and asset base of the entity. Energetik loans for contractually committed capital works have been signed and therefore fall before the 7 May 2024 rules. Further capital loans will be subject to a refreshed business plan which will take into account any revenue risks to the Council of providing the loans. The Council has set up an Energetik Shareholder reserve in order to finance costs such as these in the future, if required.

63. A proportion of existing loans are recognised as revenue to support the working capital requirements of the companies, and these are subject to ECLs which are charged direct to the Income & Expenditure account in accordance with proper practices.

64. The Council's Annual MRP Statement, published as part of the Treasury Management Strategy Statement, (KD 5668) approved by Council 22nd February 2024, sets out the assumptions to be used in applying MRP from 1st April 2024 including the application of capital receipts and use of voluntary MRP to accelerate debt extinguishment where such opportunities exist.

## Risk Management

65. The forecasts generated are dependent on a range of assumptions, minor changes in which can significantly impact the ultimate charge to General Fund. The most significant of these are set out below.

- **Capitalisation of interest (Meridian Water)** – this is the mandatory transfer of interest costs to capital expenditure invoked by the Council under accounting standard IAS23. This is on proviso the assets remain under construction and is

affected by assumptions on when they will complete, the level of expenditure (including transfers of assets to HRA) and interest rates. Any interest capitalised increases the overall cost of the asset.
**Risk:** Changes in these assumptions can result in fluctuations in the level of interest transferred to capital and therefore the ultimate General Fund position.
**Mitigation:** The risk is mitigated by using assumptions agreed with the Meridian Water Team.

- **Transfer of interest to the HRA** – this is a statutory adjustment which is affected by the same variables above and is mitigated by using assumptions agreed with the HRA Team.
  **Risk:** Changes in these assumptions can result in fluctuations in the level of interest transferred to HRA and therefore the ultimate General Fund position.
  **Mitigation:** The risk is mitigated by using assumptions agreed with HRA.

- **Impact of new lease accounting standard (IFRS16)** –all Councils are required to implement a new way of accounting for leases which will affect disclosures only – *there will be no overall financial impact for the Council*. This will reclassify the majority of rentals to interest and lease repayment costs and recognise an obligation under these lease agreements
  **Risk:** Budgets are constructed assuming payments will continue to be recognised as rentals and not interest and lease repayment (capital financing charges) resulting in large variations at year end. Budgets for lease rentals must remain adequate to cover the ultimate capital financing charges for which there is no budget
  **Mitigation:** Heads of Finance have confirmed budgets for lease rentals will remain unspent and will cover capital financing charges.

**Financial Implications**

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

**Legal Implications**

67. Local authorities have broad powers for borrowing and investment. How they do this is largely determined by the Local Government Act 2003 (LGA 2003) and statutory instruments issued under its powers.
68. The treasury management function for both borrowing and investment forms part of the Prudential funding structure established by LGA 2003.
69. Authorities are required to have regard to a range of guidance when exercising these powers:
    - Guidance issued by the Secretary of State (3rd edition applicable from 1 April 2018)
    - Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (2021 edition)
    - CIPFA Prudential Code (2021 edition)

70. The LGA 2003, section 12 says that a local authority may invest for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs. In exercising investment, local authorities must have regard to guidance issued by the Secretary of State.

**Equalities Implications**

71. The report does not affect any group with protected characteristics therefore an Equalities Impact Assessment is not considered necessary

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**Appendices**

A – Debt position
B – Investment position and Benchmarking
C – Treasury Management and Prudential Indicators

**Background Papers**

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

(i) Treasury Management Strategy Statement 2024/25 (KD5668) approved by Council 22nd February 2024

(ii) Treasury Management Outturn Report 2023/24 (KD5743) approved by Cabinet 12th June 2024, and Council 18th September 2024

(iii) Treasury Management Quarter 1 2024/25 Monitoring report approved by Cabinet 11th September 2024

(iv) Treasury Management Quarter 2 2024/25 Monitoring report approved by Cabinet 13th November 2024

# Appendix A – Debt Position and Performance

| **Source & Ref** | **£m** | **Rate** | **From** | **To** |
|---|---|---|---|---|
| Bfwd 1 Apr 2024 | **1,250.2** | 3.04% | | |
| PWLB 730321* | 25.0 | 4.31% | 23-May-24 | 22-May-37 |
| PWLB 737937* | 5.0 | 4.34% | 21-Jun-24 | 20-Jun-38 |
| PWLB 737932 | 4.0 | 4.74% | 21-Jun-24 | 20-Jun-31 |
| PWLB 737934 | 1.0 | 4.74% | 21-Jun-24 | 20-Jun-37 |
| PWLB 750790* | 20.0 | 4.22% | 08-Aug-24 | 07-Aug-39 |
| PWLB 751892* | 20.0 | 4.05% | 12-Aug-24 | 11-Aug-39 |
| PWLB 760837* | 10.0 | 3.93% | 18-Sep-24 | 17-Sep-35 |
| PWLB 761501 | 4.0 | 4.56% | 20-Sep-24 | 19-Sep-34 |
| PWLB 761503 | 1.0 | 4.33% | 20-Sep-24 | 19-Sep-34 |
| **New debt taken** | **90.0** | 4.23% | | |
| Repayments | -24.0 | | | |
| **30 Sep 2024** | **1,316.2** | 3.12% | | |
| New debt taken | 0.0 | | | |
| Repayments | -20.5 | | | |
| **30 Nov 2024** | **1,295.7** | **3.11%** | | |
| **Weighted Average Maturity (years)** | **16.3** | | | |
| **Weighted Average Rate %** | **3.11%** | | | |

******Taken from PWLB using HRA concessionary rates available until June 2026*

## Appendix B – Investment Position and Performance

| Investment Position | 31st Mar 2024 £m | Investments £m | Repayments £m | 30th Nov 2024* £m | Income return % | Term remaining (days) |
|---|---|---|---|---|---|---|
| **Money Market Funds:** | | | | | | |
| Invesco | 15.0 | 14.4 | (14.4) | 15.0 | 4.80% | - |
| Deutsche | - | 182.6 | (182.6) | - | 4.75% | - |
| CCLA | - | 45.3 | (20.3) | 25.0 | 4.78% | - |
| Goldman Sachs | - | 130.0 | (130.0) | - | 4.78% | - |
| Ignis/Aberdeen | - | 60.9 | (35.9) | 25.0 | 4.68% | - |
| Prime Rate | 24.6 | 7.5 | (14.4) | 17.7 | 4.81% | - |
| AVIVA | 16.5 | 8.5 | - | 25.0 | 4.79% | - |
| HSBC | - | 111.5 | (111.5) | - | 4.75% | - |
| **Call Accounts:** | | | | | | |
| Lloyds | - | 41.2 | (38.8) | 2.4 | 4.62% | - |
| Santander | - | - | - | - | - | - |
| HSBC | - | - | - | - | 0.01% | - |
| Handelsbanken | - | - | - | - | 2.20% | - |
| **Loans to other Local Authorities:** | | | | | | |
| Lancashire County Council | - | 5.0 | - | 5.0 | 4.80% | 282 |
| Manchester City Council | - | 5.0 | - | 5.0 | 4.50% | 657 |
| **Total Cash Investments** | 56.1 | 611.9 | (547.9) | 120.1 | N/A | N/A |
| **Weighted Average Rate %** | | N/A | N/A | N/A | 4.75% | N/A |

The Council is expected to have average cash balances of at least £50m during the financial year. On average the Council's cash investment portfolio had a risk weighting equivalent to A+ credit rating in line with other similar Councils.

### Investment Benchmarking

Table below show the progression of risk and return metrics for the Enfield Investments portfolio compared with other local authorities as extracted from Arlingclose quarterly investment benchmarking as of 30th September 2024:

| Benchmarking | Credit Score* | Credit Rating | Bail-in Exposure | Weighted Average Maturity (days) | Rate of Return % |
|---|---|---|---|---|---|
| 30.09.2023 | 4.36 | AA- | 100% | 1 | 5.33% |
| 30.06.2024 | 4.79 | A+ | 100% | 1 | 5.21% |
| 30.09.2024 | 4.79 | A+ | 94% | 35* | 4.96% |
| **Similar LA's** | **4.71** | A+ | **78%** | **14** | 5.26% |
| **All LA's** | **4.60** | A+ | **62%** | **11** | 5.42% |

**Lower score indicates a better credit rating*
***includes impact of two long term investments*

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. As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments.

**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 4.79 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 and liquidity/easy access.

The credit score of money market funds is calculated from the fund's investments on the previous month end date. As part of Arlingclose investment advice an average 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.

The Council's investment portfolio of £120.1m at 30th November 2024 has 100% "bail in" exposure meaning some or all of the investment can be lost in the event Money Market Fund (MMF) fails.

Prior to 2013, failed banks were either bailed out by Government or placed into administration, with losses shared amongst most investors.

The risk of these losses has been substantially mitigated by the Council placing these investments with Eight different MMFs and One Call Account, then with each MMF subsequently invested in more than 10 institutions.

## Appendix C – Treasury Management and Prudential Indicators

### Operational Boundary and Authorised Limit

The Authorised Limit is the ultimate threshold beyond which additional borrowing is prohibited. A temporary breach of the Operational Boundary is not counted as a compliance failure if due variations in cash flow and of a relatively low value.

The impact of changes in lease disclosures, although having no impact on the financial resources of the Council, has resulted in the estimate of the Operational Boundary exceeding the original estimate by £45.8m.

As variations in the Operational Boundary have been explained and expected as part of the monitoring cycle, and remains within the Authorized Limit, the Council remains in compliance with both indicators.

| **C1: Approved Borrowing Limits 2024/25** | **Peak reached 2024/25** | **Actual 30th Nov 2024** | **Q3 estimate 2024/25** | **Operational Boundary £m** | **Authorised Limit £m** | **Complied** |
|---|---:|---:|---:|---:|---:|---:|
| Borrowing | 1,356.1 | 1,295.7 | 1,343.1 | 1,343.1 | 1,542.8 | Yes |
| PFI & Finance Leases | 63.0 | 23.7 | 63.0 | 63.0 | 17.6 | Yes* |
| **Total Debt** | **1,374.1** | **1,339.9** | **1,406.2** | **1,406.2** | **1,560.4** | **Yes** |

*****_Aggregate external borrowing below Authorised limit therefore in compliance_

### Liability Benchmark

This is an estimate of the cumulative external debt the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £50m required to manage day-to-day cash flow.

Existing debt is compared to the Liability benchmark to show the extent to which the Council will be a long-term borrower.

| C2: Balance Sheet Summary £m | 2023/24 | 2024/25 | | 2025/26 | 2026/27 |
|---|---|---|---|---|---|
| | Actual pre-audit | Budget | Q3 forecast | Forecast | Forecast |
| General Fund – core services | 448.1 | 443.9 | 445.4 | 437.3 | 424.4 |
| Meridian Water | 392.9 | 416.5 | 376.0 | 385.3 | 372.8 |
| HGL | 132.4 | 167.6 | 144.7 | 168.1 | 185.3 |
| Energetik | 40.1 | 47.4 | 50.8 | 49.3 | 47.8 |
| HRA | 371.6 | 406.2 | 436.0 | 447.7 | 499.4 |
| **Loans CFR*** | **1,385.10** | **1,481.60** | **1,452.9** | **1,487.7** | **1,529.7** |
| PFI and other liabilities | 23.7 | 17.6 | 63.0 | 51.3 | 45.6 |
| **CFR total** | **1,408.80** | **1,499.20** | **1,515.9** | **1,539.0** | **1,575.3** |
| **Loans CFR Represented as:** | | | | | |
| External Borrowing | 1,250.20 | 1,360.40 | 1,343.1 | 1,378.0 | 1,312.6 |
| Internal Borrowing | 134.9 | 121.2 | 109.7 | 109.7 | 217.1 |
| **Loans CFR*** | **1,385.10** | **1,481.60** | **1,452.8** | **1,487.7** | **1,529.7** |
| Less: Balance Sheet resources | -191.0 | -173.8 | -159.7 | -159.7 | -159.7 |
| **Net Loans Requirement** | **1,194.10** | **1,307.80** | **1,293.1** | **1,328.0** | **1,370.0** |
| Add: Allowance for liquidity | 56.1 | 35.0 | 50.0 | 50.0 | 50.0 |
| **Liability benchmark**** | **1,250.20** | **1,342.80** | **1,343.1** | **1,378.0** | **1,420.0** |
| **Existing borrowing** | 1,250.2 | N/A | 1,295.7 | N/A | N/A |

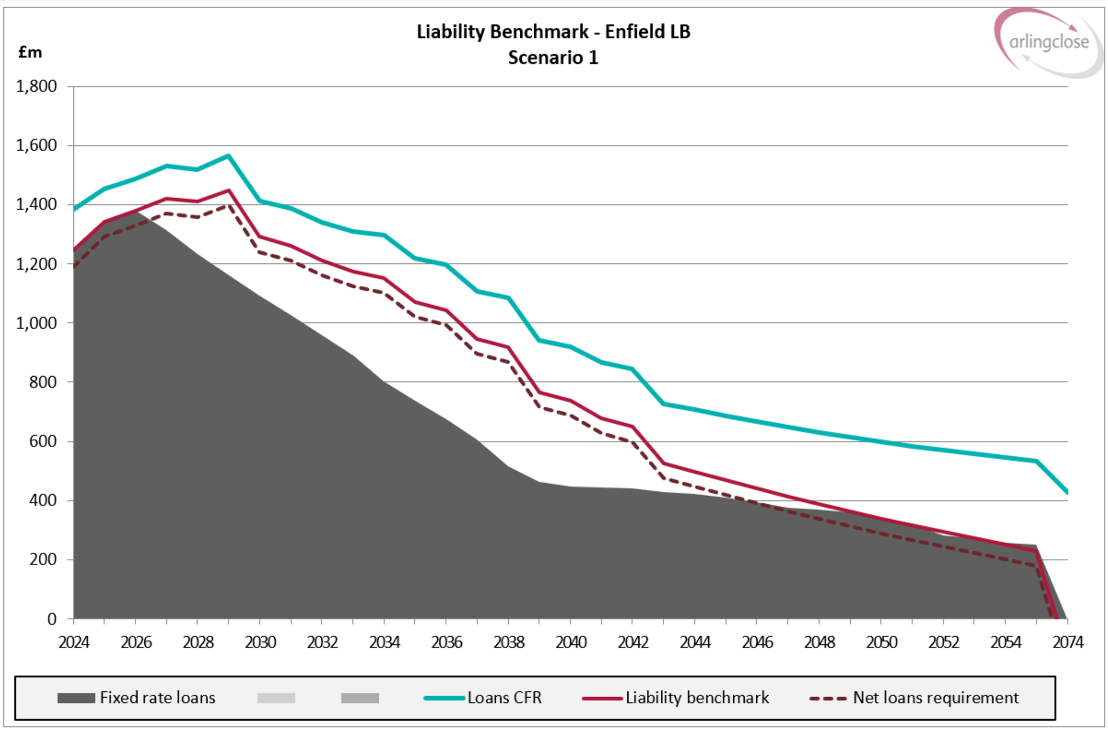
*Loans CFR: accumulated unfinanced capital expenditure for which borrowing *would have been required* had the Council not used its own cash resources (termed "internal borrowing") to offset actual borrowing (excludes PFI and finance lease liabilities)
** Liability Benchmark**:** estimate of net borrowing requirement including allowance for liquidity

The Chart below illustrates the Council's Liability Benchmark which compares the Council's current debt position to its longer-term estimates of required debt.

The grey shaded area shows the Council current loan contracts together with planned borrowing for to 31st March 2026 with the solid red line representing the requirement to borrow. The gap between the grey shaded area and the solid red line represents either additional borrowing required or excess borrowing resulting in surplus cash balances which can be invested.

The latter situation can occur where loan contracts span a given length of time the requirement to borrow changes as a result of changes in expenditure plans or working capital requirements. The intention is to provide a strategic view of the loan contract yet to be entered into and therefore the potential exposure to interest rate risk.

Minimum requirements of the Treasury Management Code 2021 is to generate this chart for three financial years although CIPFA recommends a longer term view of at least ten years.




### Debt Servicing Costs as a Proportion of Net Revenue Budget (NRB)

From 2024/25 the Council has approved the indicator "Ratio of Financing costs to Net Revenue Budget" as the primary measure of affordability for its debt. Council approved on 22 February 2024 the Capital Strategy (KD 5502) and Treasury Management Strategy Statement (KD 5668) which both set an annual target of 10% to 12%. Table C3 shows the ratio was within these limits for 2023/24 and expected to remain unchanged in 2024/25.

| **C3: Financing as a Proportion of Revenue Resources** | **2023/24 Outturn (pre-audit)** | **2024/25 Forecast Excl impact of finance leases*** |
|---|---|---|
| General Fund | 8.6% | 8.6% |

*****_Becomes 12.6% after including disclosure requirements required by IFRS16 which affects disclosures of leases – no impact on financial resources of the Council therefore included for information only_

### Net income from Service and Commercial Investments to NRB

The primary purpose of the Council's investments in Housing Gateway Limited and Lea Valley Heat Networks Limited are the provision of temporary accommodation (a statutory duty) and the provision of sustainable and low-cost energy to the Borough's residents and businesses, respectively.

Similarly, the Council's share of the Joint Venture at Montagu Industrial Estate is primarily for the economic regeneration of the area which will have wider benefits for residents and businesses withing the Borough.

The Council holds only service investments and no commercial investments. Any income generated will be incidental to the provision of services and not driven for pure commercial gain.

During 2023/24 net income from the Council's investment properties made up 2.6% of the Net Revenue Budget. The forecast for 2024/25 is 2.2% which is considered neither significant nor a risk and is incidental to the provision of the Council's wider services.

| **C4: Total net income from service and commercial investments** | **2023/24 Outturn (pre-audit)** | **2024/25 forecast** |
|---|---|---|
| Net income – investment properties | £7.4m | £6.8m |
| Proportion of net revenue budget | 2.6% | 2.2% |

## Risk & Liquidity

**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, summarised in table C5 below.

| **C5: Credit Risk** | **30th Sep Actual** | **2024/25 Target** | **Complied?** |
|---|---|---|---|
| Portfolio average credit rating | A+ | A | Yes |
| Portfolio average credit score* | 4.79 | 6 | Yes |

**Lower value indicates a stronger credit score*

**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, summarised in table C6 below.

Although the Treasury Management Strategy, approved by Council February 2024, estimated liquid resources within three months to be £35m, current working capital demands indicate a requirement of at least £50m as indicated in the table below.

The Council will continue to borrow to meet its working capital requirements with all money borrowed expended within six months in accordance with the terms of loan agreements entered into with the UK Debt Management Office.

| **C6: Liquidity Risk** | **30th Jun Actual £m** | **30th Sep Actual £m** | **30th Nov Actual £m** | **2024/25 Estimate £m** | **Complied?** |
|---|---|---|---|---|---|
| Total cash available within 3 months | 146.3 | 144.1 | 110.1 | 50.0 | Yes |
| Total cash available after 3 months | 0.0 | 10.0* | 10.0* | 10.0* | Yes |
| Total sum borrowed in past 3 months without prior notice | 0.0 | 0.0 | 0.0 | 0.0 | Yes |

***Loans to two other Councils totalling £10m were extended in September to shield the Council from expected declines in investment returns***

**Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. Although the Council holds no variable interest rate debt the Treasury Management Strategy does permit these. Table C7 shows the estimated impact a 1% fluctuation in loans exposed to variabilities and the impact is within limits approved in the Treasury Management Strategy.

| C7: Interest Rate Risk | 2024/25 estimate | 2024/25 Limit | Complied? |
|---|---|---|---|
| Upper limit on one-year revenue impact of a 1% rise in interest rates | +£0.1m | +£4m | Yes |
| Upper limit on one-year revenue impact of a 1% fall in interest rates | -£0.1m | -£4m | Yes |

**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 are summarised in table C8 below.

| C8: Maturity Structure | 30th Nov 2024 Actual £m | 30th Nov 2024 Actual % | Upper Limit | Lower Limit | Complied? |
|---|---|---|---|---|---|
| Under 12 months | 19.80 | 1.54% | 30.0% | 0.0% | Yes |
| 12 months & within 24 months | 50.10 | 3.87% | 35.0% | 0.0% | Yes |
| 24 months and within 5 years | 175.10 | 13.51% | 40.0% | 0.0% | Yes |
| 5 years and within 10 years | 292.60 | 22.57% | 45.0% | 0.0% | Yes |
| 10 years and above | 758.10 | 58.51% | 100.0% | 0.0% | Yes |
| **Total** | **1,295.70** | **100.00%** | | | |

**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 prudential limits on the long-term treasury management limits are set out below:

| C9: Principal invested over one year | 2023/24 | 2024/25 | 2025/26 | 2026/27 | No fixed date |
|---|---|---|---|---|---|
| Limit on principal invested beyond one year | £25m | £25m | £25m | £25m | Nil |
| Actual principal invested beyond one year* | Nil | £10m | £5m | Nil | Nil |
| Complied? | Yes | Yes | Yes | Yes | Yes |

**£10m loaned to two Council in September to shield the Council from expected declines in investment returns. The MIFID (Markets in Financial Instruments Directive) requires a minimum of £10m in investments to be maintained for continued access to Professional Status which enables broader access to the financial markets and specialist advice.*

**Investment limits:** All treasury management activities undertaken during the quarter complied fully with the principles in the Treasury Management Code and the Council's approved Treasury Management Strategy as set out below.

The Council will limit the risk of loss from a default from lending to any one organisation (other than the UK Government). A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

| **C10: Investment limits** | **2024/25 Peak reached** | **30th Nov 2024 Actual** | **2024/25 Limit** | **Complied? Yes/No** |
|---|---:|---:|---:|---:|
| Any group of pooled funds under the same management | £25m per manager | £25m Limit | £25m per manager | Yes |
| Negotiable instruments held in a broker's nominee account | £25m per broker | 0 | £25m per broker | Yes |
| Foreign countries | £10m per country | 0 | £10m per country | Yes |

**END**