

Financial Resilience Sub- Committee



Title:	Agenda	
Date:	Monday 18 November 2019	
Time:	10.30 am	
Venue:	Mayor's Parlour (FR1-12) West Suffolk House Western Way Bury St Edmunds	
Full Members:	<i>Conservative Group(1)</i>	Chair Ian Houlder Ian Houlder
	<i>Spectrum Group (1)</i>	Victor Lukaniuk
	<i>The Independent Group (1)</i>	Richard Alecock
Substitutes:	<i>Conservative Group(1)</i>	Robert Nobbs
By Invitation	Sarah Broughton	Portfolio Holder for Resources and Performance
<i>Note: This Sub-Committee is not governed by the normal Access to Information rules (The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012) in the Council. Therefore these meetings are not open to attendance by the public.</i>		
Quorum:	Three Members	
Committee administrator:	Christine Brain Democratic Services Officer (Scrutiny) Tel: 01638 719729 Email: christine.brain@westsuffolk.gov.uk	

Agenda

Note: Whilst these agenda papers are not covered by the normal Access to Information Rules (see agenda front), where items are listed as containing exempt/confidential information, members of the Sub-Committee are requested to treat them as such.

1. Substitutes

Any Member who is substituting for another Member should so indicate, together with the name of the relevant absent Member.

2. Apologies for Absence

3. Minutes

1 - 4

To confirm the minutes of the meeting held on 15 July 2019 (copy attached.)

4. Treasury Management - September 2019

5 - 14

Report No: **FRS/WS/19/004**

5. Dates of Future Meetings

The following date(s) for future meetings of the Sub-Committee are listed below. All dates are Mondays starting at 10.30 am and will be held at the venue as indicated:

- 20 January 2020 at the District Offices, Mildenhall

Financial Resilience Sub-Committee



Minutes of a meeting of the **Financial Resilience Sub-Committee** held on **Monday 15 July 2019** at **10.30 am** in the **Training Room, College Heath Road, Mildenhall, Bury St Edmunds IP28 7EY**

Present: **Councillors**

Richard Alecock
Ian Houlder

Victor Lukaniuk

In attendance:

Sarah Broughton, Cabinet Member for Resources and Performance

This being the first meeting of the Financial Resilience Sub-Committee since the Council's Annual General Meeting on 22 May 2019, the Democratic Services Officers (Scrutiny) opened the meeting.

1. **Substitutes**

No substitutions were declared.

2. **Appointment of Chair: 2019/2020**

Councillor Victor Lukaniuk nominated Councillor Ian Houlder as Chair. This was duly seconded by Councillor Richard Alecock, and with the vote being unanimous, it was

RESOLVED:

That Councillor Ian Houlder be elected Chair of the Financial Resilience Sub-Committee for 2019-2020.

Councillor Ian Houlder then took the Chair for the remainder of the meeting.

3. **Apologies for Absence**

No apologies for absence were received.

4. **Annual Treasury Management Report 2018-2019 (FHDC)**

The Sub-Committee received Report No: **FRS/WS/19/001**, which presented the investment activities for the former Forest Heath District Council from 1 April 2018 to 31 March 2019.

The report included tables which summarised the interest earned and the average rate of return achieved during 2018-2019; investment activity during

the year; investments held as at 31 March 2019; capital borrowing budget 2018-2019 and borrowing and temporary loans.

The budget income from investments income in 2018-2019 was £224,000 (target average rate of return 0.75%). Interest actually earned during the financial year totalled £145,597 (average rate of return of 0.724%), against a budget for the year of £224,000; a budgetary deficit of £78,404.

The budgetary deficit was due to lower cash balances as a result of re-phasing of some income generating projects. These projects were budgeted to be funded through external borrowing, which would have boosted the cash balances and resultant interest. However, given the high cash balances of the council use of those cash balances was utilised resulting in a saving of the external borrowing costs over the short term. In addition, investments were made on a shorter term basis for liquidity resulting in lower yields.

The Sub-Committee scrutinised the Annual Treasury Management Report 2018-2019, and asked a number of questions to which comprehensive responses were provided.

In particular, discussions were held on treasury management risks; the number of building society accounts held by the council; the council's treasury management team; how investments were made and the number of quotes required; the council's external treasury advisors; and how external and internal borrowing worked.

Detailed discussions were held on the loan relating to Newmarket Leisure; the reasons at the time as to why it had been taken out for 70 years; and the financial penalties involved if the loan was paid off early.

Detailed discussions were also held on the Toggam Solar Farm; the projection on income; how energy prices were guaranteed; and the need to ensure the council received the best rate of return on its investments.

It was then proposed by Councillor Victor Lukaniuk, seconded by Councillor Richard Alecock and with the vote being unanimous, it was:

RECOMMENDED:

That the Annual Treasury Management Report 2018-2019, for the former Forest Heath District Council, being Report No: FRS/WS/19/001, be approved.

5. Annual Treasury Management Report 2018-2019 (SEBC)

The Sub-Committee received Report No: **FRS/WS/19/002**, which presented the investment activities for the former St Edmundsbury Borough Council from 1 April 2018 to 31 March 2019.

The report included tables which summarised the interest earned and the average rate of return achieved during 2018-2019; investment activity during the year; investments held as at 31 March 2019 and capital borrowing budget 2018-2019.

The budget income from investments income in 2018-2019 was £308,000 (target average rate of return 0.70%). Interest actually earned during the financial year totalled £344,766 (average rate of return of 0.751%), against a budget for the year of £308,000; a budgetary surplus of £36,766.

The Sub-Committee scrutinised the Annual Treasury Management Report 2018-2019, and asked questions to which responses were provided.

It was then proposed by Councillor Victor Lukaniuk, seconded by Councillor Richard Alecock and with the vote being unanimous, it was:

RECOMMENDED:

That the Annual Treasury Management Report 2018-2019, for the former St Edmundsbury Borough Council, being Report No: FRS/WS/19/002, be approved.

6. Treasury Management (June 2019)

The Sub-Committee received Report No: **FRS/WS/19/003**, which reported on the investment activities of the new West Suffolk Council for the period 1 April 2019 to 30 June 2019.

The total amount invested at 1 April 2019 was £47,750,000 and at 30 June 2019 it was £46,250,000.

Various deposit accounts were closed in the lead up to the year end 2018-2019 in order to wind up both Forest Heath District Council and St Edmundsbury Borough Council. These balances were held in the current account until the first trading day of the new West Suffolk Council when new deposit accounts could be opened.

The 2019-2020 Annual Treasury Management and Investment Strategy Statements, which were approved on 19 February 2019 sets out the Council's projections for the current financial year. The budget for investment income in 2019-2020 was £142,141, which was based on a 0.90% target average rate of return on investments.

At the end of June 2019, interest earned during the first quarter amounted to £96,725 (average rate of return 0.812%) against a profiled budget of £35,535 (average rate of return 0.90%), creating a budgetary surplus of £61,190. The surplus related to higher than expected cash balances due to slippages in the capital programmes for both the former Forest Heath District Council and St Edmundsbury Borough Council during 2018-2019 (West Suffolk Capital Programme had been re-profiled) and also the favourable interest rates secured on the investments carried over from the previous councils.

The report also included assumptions on borrowing for the capital projects included within it, alongside the current external borrowing in respect of the previous Newmarket Leisure Centre build. This new borrowing requirement was based around three specific projects as per their agreed business cases:

- West Suffolk Operational Hub, Bury St Edmunds
- Mildenhall Hub
- Investing in our Growth Fund.

The report also included a summary of the capital borrowing budget for 2019-2020; a summary of capital borrowing for quarter one; borrowing and income – proportionality; borrowing and temporary loans as at 30 June 2019 and other market considerations.

The Sub-Committee scrutinised the investment activity for 1 April 2019 to 30 June 2019, and asked detailed questions to which responses were provided. In particular discussions were held on the Investing in our Growth Fund and what it could be used for, and the tax implications on commercial investments.

Following the consideration of the report, the Sub-Committee suggested including the following additional information in future quarterly reports under borrowing and income, which officers agreed to look into:

- Oversight of investments: setting out how projects were progressing and the cost of borrowing for each project.
- Setting out whether assets were leasehold or freehold.

It was then proposed by Councillor Richard Alecock, seconded by Councillor Victor Lukaniuk and with the vote being unanimous, it was:

RECOMMENDED:

That the Treasury Management Report (June 2019), being Report No: FRS/WS/19/003, be approved.

7. Dates of Future Meetings

The Sub-Committee **noted** the dates for future meetings, as listed below. All dates were Mondays starting at 10.30 am and would be held in the venues, as indicated:

- 18 November 2019 at West Suffolk House, Bury St Edmunds
- 20 January 2020 at College Heath Road, Mildenhall

The meeting concluded at 12.05 pm

Signed by:

Chair



Treasury Management – September 2019

Report No:	FRS/WS/19/004	
Report to and dates:	Financial Resilience Sub Committee	18 November 2019
	Performance and Audit Scrutiny Committee	28 November 2019
	Cabinet	14 January 2020
	Council	24 February 2020
Cabinet Member:	Councillor Sarah Broughton Cabinet Member for Resources and Performance Tel: 07929 305787 Email: sarah.broughton@westsuffolk.gov.uk	
Lead officer:	Gregory Stevenson Service Manager (Finance and Performance) Tel: 01284 757264 Email: gregory.stevenson@westsuffolk.gov.uk	
Decisions Plan:	This item is included in the Cabinet’s Decisions Plan	
Wards impacted:	All Wards	
Recommendation:	<p>It is recommended that, the Financial Resilience Sub-Committee:</p> <p>(1) <u>Notes</u> the Treasury Management Report – September 2019; and</p> <p>(2) <u>Makes recommendations</u> as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.</p>	

1. Treasury Management Report – September 2019

- 1.1 The purpose of this report is to report on the Treasury Management Activities of West Suffolk Council from 1 April 2019 to 30 September 2019.
- 1.2 Following the creation of West Suffolk Council, the total amount invested at 1 April 2019 was £42,750,000 and at 30 September 2019 £46,900,000.
- 1.3 The 2019/20 Annual Treasury Management and Investment Strategy Statements (report TMS/SE/19/002/PAS/FH/19/007 approved 19 February 2019) sets out the Council's projections for the current financial year. The budget for investment income of 2019/20 is £142,141 which is based on a 0.90% target average rate of return on investments.
- 1.4 As at the end of September 2019 interest actually earned during the first six months of the financial year amounted to £194,249 (average rate of return of 0.793%) against a profiled budget for the period of £71,070 (average rate of return 0.90%); a budgetary surplus of £123,179. This surplus relates to higher than expected cash balances due to slippages in the Capital programme and also the favourable interest rates secured on the investments carried over from the previous councils.
- 1.5 As at the end of September 2019 a total of £14.5m has been borrowed internally from available cash balances. This has meant West Suffolk Council has not had any additional borrowing over the long-term £4m loan.

2. Treasury Investment Activities 1 April 2019 to 30 September 2019

- 2.1 The table below summaries the interest earned and the average rate of return achieved:

INTEREST EARNED AND AVERAGE RATE OF RETURN SUMMARY			
Investment Category	Total Average Investment	Average Rate of Return (%)	Interest Earned
Temporary Investments (Term Deposits)	1,664,331	0.835%	89,668
Lloyds 95 Day Account	2,405,521	1.100%	13,266
Santander 365 Day Account	8,000,000	1.150%	46,126
Santander 180 Day Account	1,000,000	0.950%	4,763
Santander 95 Day Account	500,000	0.850%	2,130
Lloyds Treasury Account	5,373,461	0.650%	17,126
Barclays Deposit Account	4,852,732	0.010%	243
Local Authorities	4,543,379	0.768%	20,927
Total Overall Average Return on Investments %			0.793%
Total Interest Earned - 1 April 2019 to 30 Sept 2019			194,249

2.2 The table below summaries the investment activity during the period:

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2019/2020
Opening Balance 01 April 2019	42,750,000
Investments made during the year (including transfers to business reserve accounts)	72,050,000
Sub Total	114,800,000
Investments realised during the year (including withdrawals from business reserve accounts)	67,900,000
Closing Balance 30 June 2019	46,900,000

2.3 The table below lists the investments held as at 30 September 2019:

Investments held as at 30 September 2019				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Leeds B/Soc	1,000,000	1.00%	18/03/19	27/01/20
Leeds B/Soc	1,000,000	1.00%	18/03/19	20/01/20
Coventry B/Soc	2,000,000	0.97%	21/05/19	24/01/19
Nottingham B/Soc	1,000,000	1.08%	03/06/19	19/12/19
Newcastle B/Soc	1,000,000	1.17%	03/06/19	19/12/19
Leeds B/Soc	4,000,000	0.72%	01/07/19	15/11/19
Nat Counties B/Soc	1,000,000	0.95%	01/07/19	07/10/19
Principality B/Soc	1,000,000	0.79%	01/07/19	07/10/19
Yorkshire B/Soc	1,000,000	0.72%	01/07/19	07/10/19
Nationwide B/Soc	1,000,000	0.67%	02/08/19	21/10/19
Skipton B/Soc	1,000,000	0.51%	02/08/19	21/10/19
Nottingham B/Soc	1,000,000	0.83%	08/08/19	15/11/19
Nat Counties B/Soc	1,000,000	0.81%	08/08/19	21/10/19
Principality B/Soc	1,000,000	0.75%	08/08/19	21/10/19
Newcastle B/Soc	1,000,000	0.75%	08/08/19	21/10/19
Yorkshire B/Soc	1,000,000	0.74%	12/08/19	10/02/20
Coventry B/Soc	4,000,000	0.66%	30/08/19	29/10/19
Nationwide B/Soc	1,000,000	0.74%	30/08/19	21/02/20
Nationwide B/Soc	4,000,000	0.64%	02/09/19	19/11/19
Skipton B/Soc	1,000,000	0.50%	02/09/19	19/02/20
Lloyds 95 Day	2,400,000	1.10%	01/04/19	95 Day
Santander 365 Day	8,000,000	1.15%	01/04/19	365 Day
Santander 180 Day	1,000,000	0.95%	01/04/19	180Day
Santander 95 Day	500,000	0.85%	01/04/19	95 Day
Lloyds Treasury Account	3,000,000	0.65%	01/04/19	On call availability
Barclays Deposit Account	1,000,000	0.01%	01/04/19	On call availability
CCLA MMF	1,000,000	Variable	03/09/19	On call availability
TOTAL	46,900,000			

- As at 30 September 2019, NO notice had been placed on any of the call accounts.

3. Treasury Borrowing Activities 1 April 2019 to 30 September 2019

Borrowing and Capital Costs - Affordability

3.1 The 2019/20 Budget has assumptions on borrowing for the capital projects included within it, alongside the current £4m external borrowing in respect of the previous Newmarket Leisure Centre build. This new borrowing requirement was based around three specific projects;

- West Suffolk Operational Hub, Bury St Edmunds
- Mildenhall Hub
- Investing in our Growth Fund

The details on these Budgets are laid out below:

SUMMARY OF CAPITAL BORROWING BUDGET 2019/20			
Project	External Borrowing Requirement (Budget + 18/19 C/Fwd)	Minimum Revenue Provision (MRP)	Interest Payable
Investing in our Growth Fund	£27,211,713	£316,500	£144,000
Mildenhall Hub	£18,391,029	£0*	£0*
West Suffolk Operational Hub	£7,436,208	£72,000	£79,000
Newmarket Leisure Centre (FHDC)	£4,000,000	£113,000	£169,600
Toggam Solar Farm	£0**	£91,000	£51,000
20 High St Haverhill	£0**	£49,300	£14,000
113 High St Newmarket	£0**	£24,930	£5,000
Olding Road DHL Depot	£0**	£197,750	£32,000
Vicon House, Western Way	£3,375,059	£46,500	£105,000
Unallocated Capital	£3,000,000	£75,000	£82,500
Total Value of Investments	£63,414,009	£985,980	£682,100
% of Net Revenue Budget		2.1%	1.4%

* Mildenhall Hub will not be completed within 2019/20. Borrowing costs are not planned until the site is active.

** Business cases assessed on the basis of borrowing. These purchases were made in 2018/19 using available cash reserves. A full year of MRP is budgeted but interest only from the planned borrowing date of January 2020.

The affordability of borrowing and capital costs is a key metric in terms of evaluating any new opportunities. As set out in the Capital Strategy we are using the % of the Net Revenue Budget for both MRP and Interest Payable.

3.2 As at 30 September 2019, the forecast position for 2019/20 on each of these projects is detailed below:

SUMMARY OF CAPITAL BORROWING: Q2 2019/2020				
Project	External Borrowing	Use of Available Balances (in place of External Borrowing)	Minimum Revenue Provision (MRP)	Interest Payable
Investing in our Growth Fund	£27,211,713	£0	£316,500	£144,000
Mildenhall Hub	£1,959,419	£9,686,000	£0	£0
West Suffolk Operational Hub	£3,151,106	£4,285,102	£72,000	£33,477
Newmarket Leisure Centre (FHDC)	£4,000,000	£0	£113,000	£169,600
Toggam Solar Farm	£0	£0	£91,000	£51,000
20 High St Haverhill	£0	£0	£49,300	£14,000
113 High St Newmarket	£0	£0	£24,930	£5,000
Olding Road DHL Depot	£0	£0	£197,750	£32,000
Vicon House, Western Way	£0	£3,375,059	£46,500	£105,000
Unallocated Capital	£3,000,000	£0	£75,000	£82,500
Total Value of Investments	£39,322,238	£17,346,161	£985,980	£636,577
% of Net Revenue Forecast			2.0%	1.3%

The improvement in the Forecast Interest Payable as % of Net Revenue Forecast and Forecast MRP as % of Net Revenue Forecast is due to a slight increase in Net Revenue alongside the small saving in Interest Payable from the WSOH.

3.3 This position has moved due to the following reasons:

- The purchase of Vicon House in Bury St Edmunds which did not require external borrowing.

- The available balances that enable part payment for Mildenhall Hub and West Suffolk Operational Hub.

- 3.4 Therefore the forecast position for Interest Payable reduces to £636,577 in 2019/20 which is a saving of £45,523. Borrowing is forecast to occur during 2019/20 based on cash flow requirements and advice from our external advisors - Arlingclose.
- 3.5 As opportunities for growth fund investment arise, the borrowing and MRP position will be reviewed as each business case is developed and the MRP and interest payable will be vired to each opportunity.
- 3.6 As at the end of Quarter 2 (September 2019) there has been no requirement for any additional external borrowing over and above the long-term £4.0m Barclays loan. As at the end of September 2019 a total of £14.5m has been borrowed internally from available cash balances which reflects the council underlying need to borrow.

4. Borrowing and Income - Proportionality

- 4.1 The concept of proportionality, alongside that of affordability, is a key consideration when considering funding projects through borrowing.
- 4.2 The costs and risks associated with that borrowing should be looked at as part of the whole financial position of the council. Awareness of the scale and relationship with the asset base and revenue delivery is essential to informed decision making.
- 4.3 This relationship and trend between borrowing, asset base and yield (expressed as income as % of net revenue) from the investments that the council has made are laid out in the tables below. These are split by asset type.

2019/20 BUDGET	Asset Value £m	Borrowing £m	Borrowing as % of Long Term Assets	Annual Income £m	Yield: Income as % of Asset Value	Income as % of Total Net Revenue
Industrial Units	£24.2	£0.0	0%	£2.9	12.0%	6.0%
Retail Units	£28.2	£0.0	0%	£1.3	4.6%	2.7%
Land	£10.3	£0.0	0%	£1.0	9.7%	2.1%
Solar Farm*	£13.8	£0.0	0%	£1.5	10.9%*	3.1%
Growth Fund		£30.6	14.0%	£0.5		1.0%
West Suffolk Operational Hub		£7.4	3.4%	£0.1		0.2%
Mildenhall Hub		£18.4	8.4%	£0.1		0.2%
Other		£7.0	3.2%	£0.6		1.2%
TOTAL		£63.4	29.1%	£8.0		16.5%

The forecast position as at the end of September 2019 for borrowing and income is laid out below:

2019/20 FORECAST	Asset Value £m	Borrowing £m	Borrowing as % of Long Term Assets (£217.4m)	Annual Income £m	Yield: Income as % of Asset Value	Income as % of Total Net Revenue
Industrial Units	£24.2	£0.0	0%	£2.9	12.0%	5.9%
Retail Units	£28.2	£0.0	0%	£1.3	4.6%	2.6%
Land	£10.3	£0.0	0%	£1.0	9.7%	2.0%
Solar Farm*	£13.8	£0.0	0%	£1.5	10.9%*	3.1%
Growth Fund		£27.2	12.5%	£0.5		1.0%
West Suffolk Operational Hub		£3.2	1.9%	£0.1		0.2%
Mildenhall Hub		£2.0	4.0%	£0.0		0.0%
Other		£7.0	3.2%	£0.5		1.2%
TOTAL		£39.3	18.1%	£7.8		15.2%

* -This is a Gross Income Yield%. For the Solar Farm in particular there are significant running costs associated with this income. If these costs are included the Net Yield % comes down to 8.7% (before borrowing costs) and 4.1% (after borrowing costs) based on the current £13.8m valuation. If based off the purchase price of £14.4m the yield is 8.3% (before borrowing costs) and 3.9% (after borrowing costs).

- 4.4 At this stage in the year the income forecasts are broadly similar to the budget expectations. The slight change in % of Net Revenue (based on total net revenue of £51.3m) is caused by increased forecasts in other income areas (business rates, trade waste).

5. Current Borrowing

- 5.1 Below is a summary of the borrowings as at 30 September 2019:

BORROWINGS		
Lender / Loan number	Balance outstanding	Maturity date
Barclays Loan	£4,000,000	31 March 2078

6. Other Market Considerations

- 6.1 Central Government announced unexpectedly on 9 October 2019 that they would be raising the margin applied to PWLB (Public Works Loans Board) loans by 1%. The rate is now gilts +1.80%; up from gilts +0.80%. This was unexpected and the explanation from the Treasury was as follows:

'Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is

therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.'

- 6.2 These government concerns are driven by local authorities borrowing to invest in commercial property with no or limited connection to their geographical area. In contrast West Suffolk Council are continuing to look to achieve blended returns through investment within West Suffolk itself.
- 6.3 This increase in PWLB borrowing rates, albeit it does increase the cost of borrowing, does not, however, materially impact the interest payable assumptions on our existing projects. Those business cases were made on prudent assumptions on the cost of borrowing which are now more in line with PWLB rates rather than including a reasonable contingency element.
- 6.4 This increase in rate does impact the interest rate risk of carrying internal borrowing as oppose to fixing into external borrowing rates. However given the cost of borrowing versus when cash balances are still available (and the returns received on these are significantly lower than the borrowing costs), it is still advised that we continue to make use of internal cash balances. This position will change during the remaining part of this financial year when external borrowing is likely to take place. It is worth noting also that longer term; borrowing is still viewed as historically 'cheap' based on UK Gilt and interest rate projections.

UNITED KINGDOM 10Y BOND YIELD



SOURCE: TRADINGECONOMICS.COM

- 6.5 The advice we have received from Arlingclose is that there is no need to panic. There are other options available on the market that could be used in place of PWLB and still offer attractive, predictable interest rates.
- 6.6 We are lobbying The Treasury for the creation of a separated source of funding with a reduced rate for projects that will deliver a blended return of regeneration and social and economic factors such as our development plans for Western Way.
- 6.7 At the time of writing this report, uncertainty still surrounded Brexit, the financial markets remained volatile with relatively low rates of return still being offered by the financial institutions. The treasury team will continue to monitor the situation and provide updated information as it becomes available.

7. Background Documents

- 7.1 Capital Strategy 2019-2021, Treasury Management Strategy Statement 2019-2020 and Treasury Management Code of Practice:

[TMS/SE/19/002](#) and [PAS/FH/19/007](#)

This page is intentionally left blank