

Treasury Management (June 2019)

Report No:	FRS/WS/19/003	
Report to and dates:	Financial Resilience Sub-Committee	15 July 2019
	Performance and Audit Scrutiny Committee	25 July 2019
	Cabinet	10 September 2019
Cabinet Member:	Councillor Sarah Broughton Cabinet Member for Resources and Performance Tel: 01284 703894 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: It is recommended that, the Financial Resilience Sub-Committee:

- (1) **Notes the Treasury Management Report (June 2019); and**
- (2) **Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**

1. Treasury Management Report (June 2019)

- 1.1 The purpose of this report is to report on the Investment Activities of West Suffolk Council from 1 April 2019 to 30 June 2019.
- 1.2 Following the creation of West Suffolk Council, the total amount invested at 1 April 2019 was £47,750,000 and at 30 June 2019 £46,250,000. Various deposit accounts were closed in the lead up to year end 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 West Suffolk Council when new deposit accounts could be opened.
- 1.3 The 2019/2020 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 2019/2020 is £142,141 which is based on a 0.90% target average rate of return on investments.
- 1.4 As at the end of June 2019, interest actually earned during the first quarter of the financial year amounted to £96,725 (average rate of return of 0.812%) against a profiled budget for the period of £35,535 (average rate of return 0.90%); a budgetary surplus of £61,190. This surplus relates to higher than expected cash balances due to slippages in the Capital programmes of both Forest Heath District Council and St Edmundsbury Borough Council during 2018/2019 (West Suffolk Capital Programme has been re-profiled) and also the favourable interest rates secured on the investments carried over from the previous councils.

2. Treasury Activities (1 April 2019 to 30 June 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 in Q1
Temporary Investments (Term Deposits)	1,700,549	0.883%	37,451
Lloyds 95 Day Account	2,402,194	1.100%	6,588
Santander 365 Day Account	8,000,000	1.150%	22,937
Santander 180 Day Account	1,000,000	0.950%	2,368
Santander 95 Day Account	500,000	0.850%	1,060
Lloyds Treasury Account	5,601,293	0.650%	8,678
Barclays Deposit Account	4,525,824	0.010%	114
Local Authorities	4,696,629	0.765%	17,529
Total Overall Average Return on Investments %			0.812%
Total Interest Earned - 1 April 2019 to 30 June 2019			96,725

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

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2018/2019
Opening Balance 01 April 2019	47,750,000
Investments made during the year (including transfers to business reserve accounts)	35,850,000
Sub Total	83,600,000
Investments realised during the year (including withdrawals from business reserve accounts)	37,350,000
Closing Balance 30 June 2019	46,250,000

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

Investments held as at 30 June 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	4,000,000	0.79%	15/05/19	30/08/19
Coventry B/Soc	2,000,000	0.97%	21/05/19	24/01/20
Nationwide B/Soc	5,000,000	0.74%	03/06/19	19/08/19
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
Lloyds 95 Day	2,400,000	1.10%	01/04/19	On call availability
Santander 365 Day	8,000,000	1.15%	01/04/19	On call availability
Santander 180 Day	1,000,000	0.95%	01/04/19	On call availability
Santander 95 Day	500,000	0.85%	01/04/19	On call availability
Lloyds Treasury Acc	6,000,000	0.65%	01/04/19	On call availability
Barclays Deposit Acc	5,350,000	0.01%	01/04/19	On call availability
Telford & Wrekin	5,000,000	0.78%	13/05/19	19/07/19
Tewkesbury	3,000,000	0.78%	01/05/19	24/07/19
TOTAL	46,250,000			

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

3. Borrowing and Capital Costs - Affordability

3.1 The 2019/2020 Budget has 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;

- 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 2019/2020			
Project	External Borrowing (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 2019/2020. Capital costs are not incurred until the site is active.

** Business cases assessed on the basis of borrowing. These purchases were made in 2018/2019 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 The forecast position for 2019/2020 on each of these projects as at 30 June 2019 is detailed below:

SUMMARY OF CAPITAL BORROWING Q1 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	£8,705,029	£9,686,000	£0	£0
West Suffolk Operational Hub	£4,209,147	£3,227,061	£72,000	£44,717
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	£47,125,889	£3,375,059	£985,980	£647,817
% 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.

Therefore the forecast position for Interest Payable reduces to of £647,817 in 2019/20 which is a saving of £34,283. Borrowing is forecast to occur during 2019/20 based on cash flow requirements and advice from our external advisors - Arlingclose.

- 3.4 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.
- 3.5 As at the end of Quarter 1 (June 2019) there has been no requirement for any additional external borrowing over and above the long-term £4.0m Barclays loan.

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.

2019/2020 BUDGET	Borrowing £m	Borrowing as % of Long Term Assets	Annual Income £m	Income as % of Total Net Revenue
Industrial Units	£0.0	0%	£2.9	6.0%
Retail Units	£0.0	0%	£1.3	2.7%
Land	£0.0	0%	£1.0	2.1%
Solar Farm	£0.0	0%	£1.5	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 June 2019 borrowing and income is laid out below:

2019/2020 FORECAST	Borrowing £m	Borrowing as % of Long Term Assets (£217.4m)	Annual Income £m	Income as % of Total Net Revenue
Industrial Units	£0.0	0%	£2.9	5.9%
Retail Units	£0.0	0%	£1.3	2.6%
Land	£0.0	0%	£1.0	2.0%
Solar Farm	£0.0	0%	£1.5	3.1%
Growth Fund	£27.2	12.5%	£0.5	1.0%
West Suffolk Operational Hub	£4.2	1.9%	£0.1	0.2%
Mildenhall Hub	£8.7	4.0%	£0.1	0.2%
Other	£7.0	3.2%	£0.6	1.2%
TOTAL	£47.1	21.7%	£8.0	16.3%

- 4.4 At this stage in the year the income forecasts are unchanged from the budget expectations. The slight change in % of Net Revenue (based on total net revenue of £49.1m) is caused by increased forecasts in other income areas (business rates, trade waste).

5. Borrowing and Temporary Loans

- 5.1 Below is a summary of the borrowings and temporary loans as at 30 June 2019:

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

6. Other Market Considerations

- 6.1 With uncertainty still surrounding Brexit, the financial markets remain 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