West Suffolk Council

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: **Wards impacted:**	**This item is included in the Cabinet's Decisions Plan** **All Wards**	
Recommendation:	**It is recommended that, the Financial Resilience Sub-Committee:** **(1) Notes the Treasury Management Report – September 2019; and** **(2) Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**	

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:

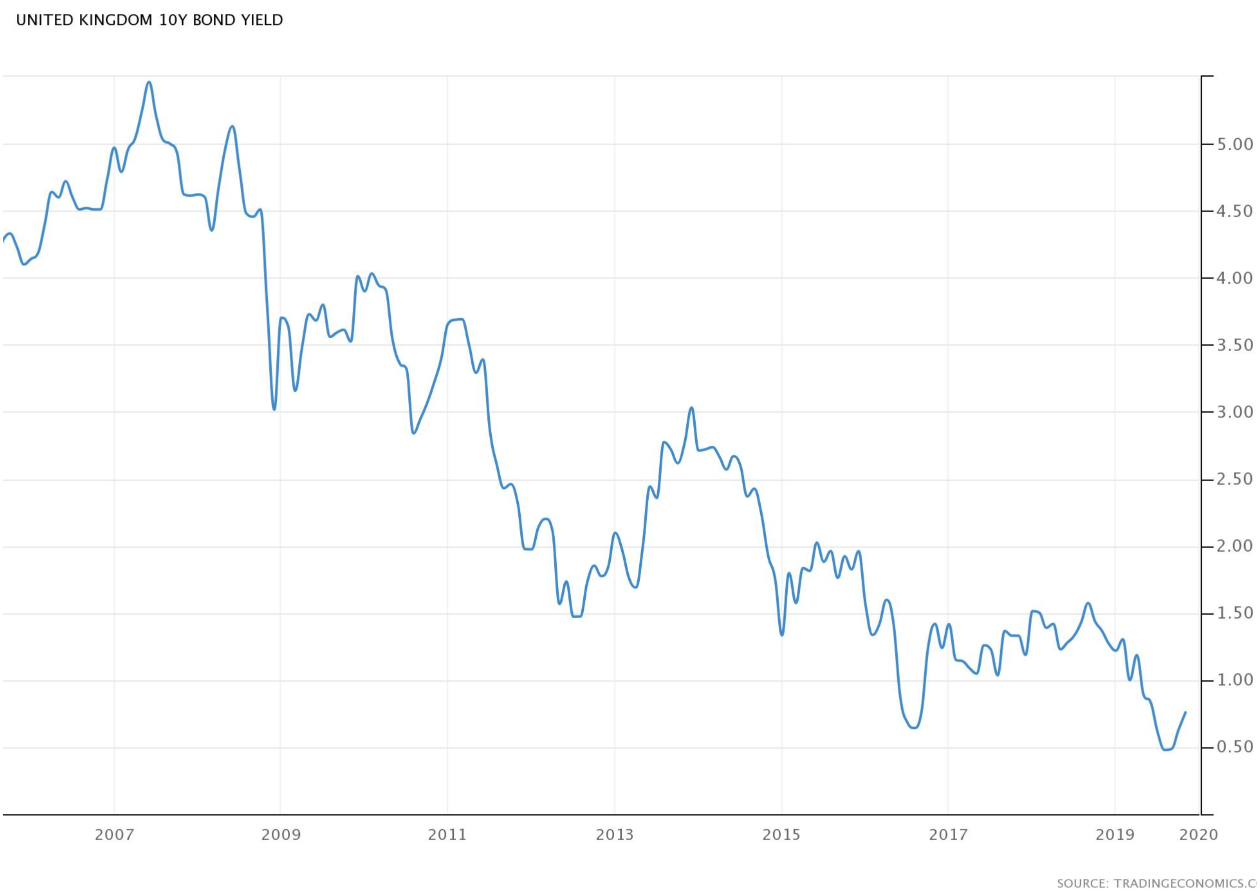
'Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is

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.



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