

Annual Financial Resilience Report 2019-2020

Report No:	FRS/WS/20/001	
Report to and dates:	Financial Resilience Sub Committee	13 July 2020
	Performance and Audit Scrutiny Committee	30 July 2020
	Council	29 September 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 Decisions Plan.

Wards impacted: All Wards

Recommendation: It is recommended that, the Financial Resilience Sub-Committee:

- (1) **Notes the Annual Financial Resilience Report – 2019/2020; and**
- (2) **Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**

1. Annual Report 2019 – 2020

1.1 The purpose of this report is to report on the Investment Activities of West Suffolk Council from 1 April 2019 to 31 March 2020.

1.2 Interest Earned from Treasury Investments during the year

1.3 The 2019/20 Annual Treasury Management and Investment Strategy Statements (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 in 2019/20 was £142,141 which was based on a 0.90% target average rate of return on investments.

1.4 At the end of March 2020 interest actually earned during the financial year amounted to £389,892 (average rate of return of 0.828%) against a budget for the year of £142,141 (average rate of return of 0.90%); a budgetary surplus of £247,751.

1.5 The table below summaries the interest earned and the average rate of return achieved and compares with the LIBOR 3 month average at 31 March 2020.

INTEREST EARNED & AVERAGE RATE OF RETURN SUMMARY			
Investment Category	Total Average Investment	Average Rate of Return (%)	Interest Earned
Temporary Investments (Term Deposits)	1,625,666	0.807%	161,747
Lloyds 95 Day Account	2,412,223	1.014%	28,933
Santander 365 Day Account	8,000,000	1.150%	92,252
Santander 180 Day Account	1,000,000	0.950%	9,526
Santander 95 Day Account	500,000	0.850%	4,262
Lloyds Treasury Account	5,426,798	0.629%	33,869
Barclays Deposit Account	5,287,021	0.452%	23,984
Local Authorities	4,543,379	0.768%	20,928
CCLA	3,601,036	0.756%	14,391
Total Overall Average Return on Investments %			0.828%
Total Interest Earned - 1 April 2019 to 31 March 2020			£389,892
LIBOR 3 month Average			0.652%

1.6 The table below summarises the investment activities during the period:

TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY	
	2019/20
Opening Balance 01 April 2019	42,750,000
Investments made during the year (including transfers to business reserve accounts)	123,400,000
Sub Total	166,150,000
Investments realised during the year (including withdrawals from business reserve accounts)	136,250,000
Closing Balance 31 March 2020	29,900,000

1.7 The table below shows the list of investments held as at 31 March 2020:

Investments held as at 31 March 2020				
Counterparty	Principal Amount	Interest Rate	Date Loaned	Date Returned
Lloyds 95 Day Account	2,400,000	0.45%	01/04/19	notice
Santander 365 Day Acc	8,000,000	1.15%	01/04/19	notice
Santander 180 Day Acc	1,000,000	0.95%	01/04/19	notice
Santander 90 Day Acc	500,000	0.85%	01/04/19	notice
Lloyds Treasury Account	6,000,000	0.65%	05/04/19	call
Barclays Deposit Account	6,000,000	0.45%	01/04/19	call
CCLA Money Market Fund	6,000,000	0.90%	03/09/19	call
TOTAL	29,900,000			

- *Note: No fixed term deposits were held at 31 March 2020*

2. Borrowing and Capital Costs - Affordability

2.1 The 2019/2020 Budget had, assumptions on borrowing for capital projects included within it. This borrowing was based around three main projects:

- West Suffolk Operational Hub
- Mildenhall Hub
- Investing in our Growth Fund

There is also the long-standing £4.0m loan relating to the Newmarket Leisure Centre and £2.29m of internal borrowing relating to the purchase of the Toggam Solar Farm.

2.2 The details of these Budgets is laid out below:

SUMMARY OF CAPITAL BORROWING BUDGET 2019/2020			
Project	External Borrowing Requirement (Budget + 18/19 C/Fwd)	Servicing Costs	
		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 borrowing and associated servicing costs	£63,414,009	£985,980	£682,100
% of Gross Revenue Income 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.

*** Referred to as Net Revenue Budget in previous reports and capital strategy – title amend to make relationship to West Suffolk gross revenue income budget (£52.0m) clearer.

2.3 The affordability of borrowing and capital costs is a key metric in our financial planning and resilience assessments. Current and future financial affordability and resilience to such costs is key when evaluating any new opportunities. As set out in the approved West Suffolk Capital Strategy we are using the % of the Gross Revenue Income Budget for both MRP and Interest Payable to assess the Councils affordability position. In other words, how much (in % terms) of our gross revenue income budget is committed to servicing our external debt.

2.4 The position on each of these projects for the full year of 2019/20 is as below:

SUMMARY OF CAPITAL BORROWING FOR 2019/20				
Project	External Borrowing	Use of Available Revenue Reserves (in place of External Borrowing)	Minimum Revenue Provision (MRP)	Interest Payable
Investing in our Growth Fund	£0	£4,601,877	£22,392	£0
Mildenhall Hub	£0	£11,119,696	£0	£0
West Suffolk Operational Hub	£0	£9,643,115	£59,611	£0
Newmarket Leisure Centre (FHDC)	£4,000,000	£0	£42,523	£170,994
Toggam Solar Farm	£0	£0	£24,717	£0
20 High St Haverhill	£0	£0	£29,402	£0
113 High St Newmarket	£0	£0	£11,156	£0
Olding Road DHL Depot	£0	£0	£147,243	£0
Vicon House, Western Way	£0	£3,498,679	£51,907	£0
33-35 High Street, Haverhill*	£0	£376,400	£4,992	£0
Unallocated Capital	£0	£0	£0	£0
Sub total	£4,000,000	£29,239,767	£393,943	£170,994
Total Borrowing	£33,239,767		-	
% of Gross Revenue Income			0.8%	0.3%

2.5 The original forecast position moved due to the following reasons:

- No requirement of external borrowing in 2019/20.
- £4.601m of the Growth Fund being invested in:
 - o Provincial House, Hill
 - o 17/18 Cornhill, Bury St Edmunds
 - o Elsey's Yard, Bury St Edmunds
- Haverhill Research Park loan not being required until 2020/21.

The impact of these changes was a reduction in forecast Interest Payable of £511,106 in 2019/2020.

2.6 The improvement in the Forecast Interest Payable value is due to the use of internal cash balances as oppose to externally borrowing which attracts a higher borrowing cost. The saving in the interest payable budget will be transferred to

the capital financing reserve to be utilised in future budget periods to accommodate any fluctuations/market movements in external borrowing costs.

- 2.7 As at the end of March 2020 there had been no requirement to borrow externally over and above the £4.0m Barclays loan. Therefore, the only interest payable for the year was the £170,994 relating to this. As at the end of March 2020 a total of £29.2m has been borrowed internally from available cash balances which reflects the council's underlying need to borrow.

3. Borrowing and Income - Proportionality

- 3.1 The concept of proportionality, alongside that of affordability, is a key consideration when considering funding projects through borrowing.
- 3.2 The costs and risks associated with that borrowing should be looked at as part of the whole financial position of the council in our financial planning and resilience assessments.
- 3.3 Awareness of the scale and relationship with the asset base and revenue delivery is essential to informed decision making.

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. This table shows that the £63.4m budgeted borrowing would have represented 29.1% of our Long-Term Asset (£217.4m) base. The Council receives around £8m income (gross) from its previous asset investments (as set out below) which represents 16.5% of our total gross revenue income budget.

2019/20 BUDGET	Asset Value £m	External Borrowing £m	Borrowing as % of Long-Term Assets (£217.4m)	Annual Income £m	% Proportion of Total Gross Revenue Income Budget
Industrial Units	£24.2	£0.0	0%	£2.9	6.0%
Retail Units	£28.2	£0.0	0%	£1.3	2.7%
Land	£10.3	£0.0	0%	£1.0	2.1%
Solar Farm	£13.8	£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%

- 3.4 The final position for the financial year 2019/20 for borrowing and income is laid out below:

2019/20	Asset Value £m	External Borrowing £m	Borrowing as % of Long-Term Assets (£217.4m)	Annual Income £m	% Proportion of Total WSC Gross Revenue Income
Industrial Units	£24.2	£0.0	0%	£2.7	5.2%
Retail Units	£31.8	£0.0	0%	£1.8	3.5%
Land	£10.3	£0.0	0%	£0.9	1.9%
Solar Farm	£13.8	£0.0	0%	£1.6	3.0%
Growth Fund		£0.0	10.6%	£0.0	0.0%
West Suffolk Operational Hub		£0.0	0%	£0.0	0.0%
Mildenhall Hub		£0.0	0%	£0.0	0.0%
Other		£4.0	3.2%	£0.5	1.0%
TOTAL		£30.0	13.8%	£7.5	14.5%

- 3.5 At the end of the year income is slightly below the budget expectations as Industrial and Land rental dipped at the end of the year. The change in % of Gross Revenue Income (based on total gross revenue income budget of £52.0m) is caused by increased forecasts in other income areas (business rates, trade waste).

4. Borrowing and Asset Yields

- 4.1 Borrowing, whether internally from available cash balances or externally from other institutions, bears a cost which will affect the yield of investments made with that money.
- 4.2 West Suffolk Council makes investment decisions to support its strategic priorities which are not solely focussed on financial return, in line with our agreed Investing in our Growth Agenda Strategy. There are therefore a range of yield returns delivered by these investments that varies from project to project dependant on the wider blended socio-economic returns that these projects give.

- 4.3 In order to aid comparison between projects and returns from 'normal' treasury management cash investment (section 2 above), the table below shows the income and net return from the current project portfolio.

2019/20 BUDGET	Asset Value £m	Borrowing £m	Annual Income £m	Net Return (Excl. Borrowing Costs ****)	Net Return (Incl. Borrowing Costs)	Yield % (E/A)
	A	B	C	D	E	F
Industrial Units	£24.2	£0.0	£2.9	£2.4	£2.4	10.0%
Retail Units	£28.2	£0.0	£1.3	£1.1	£1.1	3.9%
Land	£10.3	£0.0	£1.0	£1.0	£1.0	9.7%
Solar Farm	£14.4	£0.0	£1.5	£1.1	£0.5	3.3%
Growth Fund		£30.6	£0.5	£0.5	£0.2	0.5%
West Suffolk Operational Hub		£7.4	£0.1	£0.0	£0.0	0.0%
Mildenhall Hub		£18.4	£0.0	£0.0	£0.0	0.0%
Other		£7.0	£0.6	£0.3	£0.1	1.4%
TOTAL	£77.1	£63.4	£8.0	£5.6	£5.0	3.6%

2019/20	Asset Value £m	Borrowing £m	Annual Income £m	Net Return (Excl. Borrowing Costs ****)	Net Return (Incl. Borrowing Costs)	Yield % (E/A)
	A	B	C	D	E	F
Industrial Units	£24.2	£0.0	£2.7	£2.1	£2.1	8.7%
Retail Units	£31.8	£0.0	£1.8	£1.5	£1.5	4.7%
Land	£10.3	£0.0	£0.9	£0.9	£0.9	8.7%
Solar Farm	£14.4	£0.0	£1.6	£1.3	£0.7	4.9%
Growth Fund		£0.0	£0.0	£0.0	£0.0	0.0%
West Suffolk Operational Hub		£0.0	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub		£0.0	£0.0	£0.0	£0.0	0.0%
Other		£4.0	£0.5	£0.3	£0.1	2.5%
TOTAL	£80.7	£4.0	£7.5	£6.1	£5.3	6.2%

**** Includes direct operating costs

5. Borrowing and Temporary Loans

5.1 Below is a summary of the borrowings and temporary loans as at 31 March 2020.

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 Uncertainty continued around the Brexit negotiations throughout the year, the financial markets remained volatile with low rates of return being offered by the banks and building societies. The outbreak of the COVID-19 pandemic in the fourth quarter for the year has only increased that uncertainty and will continue to be closely monitored through the coming year.