

# Financial Resilience - September 2020

<b>Report number:</b>	<b>FRS/WS/20/003</b>	
<b>Report to and date(s):</b>	<b>Financial Resilience Sub Committee</b>	9 November 2020
	<b>Performance and Audit Scrutiny Committee</b>	19 November 2020
	<b>Cabinet</b>	8 December 2020
	<b>Council</b>	15 December 2020
<b>Cabinet member:</b>	Councillor Sarah Broughton Cabinet Member for Resources and Performance Telephone: 07929 305787 Email: <a href="mailto:sarah.broughton@westsuffolk.gov.uk">sarah.broughton@westsuffolk.gov.uk</a>	
<b>Lead officer:</b>	Gregory Stevenson Service Manager – Finance and Performance Telephone: 01284 757264 Email: <a href="mailto:gregory.stevenson@westsuffolk.gov.uk">gregory.stevenson@westsuffolk.gov.uk</a>	

**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 Financial Resilience Report – September 2020; and**
- 2. Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**

## 1. Treasury Management Report – September 2020

- 1.1 The purpose of this report is to report on the Investment Activities of West Suffolk Council from 1 April 2020 to 30 September 2020.
- 1.2 The total amount invested at 1 April 2020 was £29,900,000 and at 30 September 2020 £27,900,000.
- 1.3 The 2020/21 Annual Treasury Management and Investment Strategy Statements (report CAB/WS/20/005 approved 25 February 2020) sets out the Council's projections for the current financial year. The budget for investment income of 2020/21 is £142,141 which is based on a 0.65% target average rate of return on investments.
- 1.4 As at the end of September 2020 interest actually earned during the first half of the financial year amounted to £54,297.81 (average rate of return of 0.398%) against a profiled budget for the period of £71,070 (average rate of return 0.65%); a budgetary deficit of £16,772.69. The deficit relates to continued low interest rates as a result of the COVID-19 pandemic which started in mid-March. Please also see section 7 Other Market Considerations for more details.

## 2. Treasury Activities 1 April 2020 to 30 September 2020

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

<b>INTEREST EARNED AND AVERAGE RATE OF RETURN SUMMARY</b>			
<b>Investment Category</b>	<b>Total Average Investment</b>	<b>Average Rate of Return (%)</b>	<b>Interest Earned in Q1</b>
Temporary Investments (Term Deposits)			
Lloyds 95 Day Account	2,422,621	0.159%	4,145.52
Santander 365 Day Account	8,000,000	0.886%	35,517.80
Santander 180 Day Account	1,000,000	0.686%	3,436.99
Santander 95 Day Account	500,000	0.586%	1,467.80
Lloyds Treasury Account	4,553,005	0.056%	1,289.32
Barclays Deposit Account	6,000,000	0.010%	300.82
CCLA MMF	5,278,688	0.247%	6,529.70
Local Authorities			
HM Debt Management Office	6,246,212	0.036%	1,609.86
<b>Total Overall Average Return on Investments %</b>			<b>0.398%</b>
<b>Total Interest Earned - 1 April 2020 to 30 Sept 2020</b>			<b>54,297.81</b>

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

<b>TREASURY MANAGEMENT – INVESTMENT ACTIVITY SUMMARY</b>	
	<b>2020/21</b>
<b>Opening Balance 01 April 2020</b>	<b>29,900,00</b>
Investments made during the year (including transfers to business reserve accounts)	76,250,000
<b>Sub Total</b>	<b>106,150,000</b>
Investments realised during the year (including withdrawals from business reserve accounts)	78,250,000
<b>Closing Balance 30 September 2020</b>	<b>27,900,000</b>

2.3 The table below lists the investments held as at 30 September 2020:

<b>Investments held as at 30 September 2020</b>				
<b>Counterparty</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Date Loaned</b>	<b>Date Returned</b>
Lloyds 95 Day	2,400,000	0.20%	01/04/20	Notice
Santander 365 Day	8,000,000	0.75%	01/04/20	Notice
Santander 180 Day	1,000,000	0.55%	01/04/20	Notice
Santander 95 Day	500,000	0.45%	01/04/20	Notice
Lloyds Treasury Account	0.00	0.05%	01/04/20	On call availability
Barclays Deposit Account	6,000,000	0.01%	01/04/20	On call availability
CCLA MMF	4,000,000	0.25%	01/04/20	On call availability
HM Debt Man. Office	6,000,000	0.10%	01/09/20	19/10/20
<b>TOTAL</b>	<b>27,900,000</b>			

- As at 30 September 2020, notice has been placed on the Santander 180 Day account to fund a shortfall in cash flow from mid-March 2021. Based on current forecasts, notice will need to be given on the Santander 95 Day account and Lloyds 95 Day account again to fund the shortfall in cashflow from mid-March 2021.

Please note: The interest rates above are the achieved rates throughout the reporting period, actual rates going forward will be rates in force as at 1 October 2020.

### 3. **Borrowing and Capital Costs - Affordability**

3.1 The 2020/21 Budget had, assumptions on borrowing for capital projects included within it. This borrowing was based around four main projects:

- Western Way development
- Mildenhall Hub
- Barley Homes

- Investing in our Growth Fund

There is also the long-standing £4.0m loan relating to the Newmarket Leisure Centre.

### 3.2 The details of these Budgets are laid out below:

<b>SUMMARY OF CAPITAL BORROWING BUDGET 2020/21</b>			
<b>Project</b>	<b>External Borrowing Requirement (Budget)</b>	<b>Servicing Costs</b>	
		<b>Minimum Revenue Provision (MRP)</b>	<b>Interest Payable</b>
Investing in our Growth Fund	£16,307,872	£763,000	£406,700
Western Way Development	£21,560,577	£197,750	£0
Mildenhall Hub	£9,076,049	£57,000*	£62,000*
West Suffolk Operational Hub	£0	£289,000	£317,000
Newmarket Leisure Centre (FHDC)	£4,000,000	£113,000	£169,600
Toggam Solar Farm	£0**	£107,500	£202,000
20 High St Haverhill	£0**	£49,300	£54,200
113 High St Newmarket	£0**	£24,930	£19,944
Provincial House	£0**	£92,500	£101,000
Vicon House, Western Way	£0	£46,500	£105,000
33-35 High St Haverhill	£0	£5,000	£11,300
17/18 Cornhill	£1,720,530	£0	£0
<b>Total borrowing and associated servicing costs</b>	<b>£52,665,028</b>	<b>£1,745,480</b>	<b>£1,448,744</b>
<b>% of Gross Revenue Income Budget ***</b>		<b>3.1%</b>	<b>2.6%</b>

\* Mildenhall Hub planned to be completed late 2020/21. Borrowing costs are not planned until the site is active.

\*\* Business cases assessed on the basis of borrowing. These purchases were made in prior years using available cash reserves. A full year of MRP and borrowing are budgeted.

\*\*\* Referred to as Net Revenue Budget in previous reports and capital strategy – title amend to make relationship to West Suffolk gross revenue income budget £56.1m) clearer.

3.3 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.

3.4 The forecast position on each of these projects for the full year of 2020/21 is as below:

<b>SUMMARY OF CAPITAL BORROWING FOR 2020/21</b>				
<b>Project</b>	<b>External Borrowing</b>	<b>Use of Available Revenue Reserves (in place of External Borrowing)</b>	<b>Minimum Revenue Provision (MRP)</b>	<b>Interest Payable</b>
Investing in our Growth Fund	£0	£16,271,789	£763,000	£0
Western Way Development	£0	£0	£0	£0
Mildenhall Hub	£0	£12,156,353	£57,000	£0
West Suffolk Operational Hub	£0	£0	£289,000	£0
Newmarket Leisure Centre (FHDC)	£4,000,000	£0	£113,000	£170,994
Toggam Solar Farm	£0	£0	£107,500	£0
20 High St Haverhill	£0	£0	£49,300	£0
113 High St Newmarket	£0	£0	£24,930	£0
Olding Road DHL Depot	£0	£0	£92,500	£0
Vicon House, Western Way	£0	£0	£46,500	£0
33-35 High Street, Haverhill*	£0	£0	£5,000	£0
17/18 Cornhill	£0	£1,272,183	£0	£0
<b>Sub total</b>	<b>£4,000,000</b>	<b>£29,700,325</b>	<b>£1,547,730</b>	<b>£170,994</b>
<b>Total Borrowing</b>	<b>£33,700,325</b>		<b>-</b>	
<b>% of Gross Revenue Income (excl COVID-19 Grants)</b>			<b>3.0%</b>	<b>0.3%</b>

The original forecast position moved due to the following reasons:

- No requirement of external borrowing in 2020/21.
- Reviewing the Western Way development in light of the COVID-19 outbreak.

The impact of these changes is a reduction in forecast Interest Payable of £1,277,750 in 2020/21.

- 3.5 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
- 3.6 As at the end of September 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 September 2020 a total of £29.7m is forecast to be borrowed internally from available cash balances which reflects the council's 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 in our financial planning and resilience assessments. 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. This table shows that the £52.7m budgeted borrowing would have represented 21.2% of our Long- Term Asset (£248.7m) base. The Council receives around £8.5m income (gross) from its previous asset investments (as set out below) which represents 15.2% of our total gross revenue income budget.

<b>2020/21 BUDGET</b>	<b>Asset Value £m</b>	<b>External Borrowing £m</b>	<b>Borrowing as % of Long-Term Assets (£248.7m)</b>	<b>Annual Income £m</b>	<b>% Proportion of Total Gross Revenue Income Budget</b>
Industrial Units	£24.2	£0.0	0%	£2.7	4.8%
Retail Units	£28.2	£0.0	0%	£1.8	3.2%
Land	£10.3	£0.0	0%	£1.0	1.8%
Solar Farm	£13.8	£0.0	0%	£1.5	2.7%
Growth Fund		£16.3	6.6%	£1.5	2.7%
Western Way Development		£21.6	8.7%	£0.0	0.0%
Mildenhall Hub		£9.1	3.7%	£0.0	0.0%
Other		£5.7	2.3%	£0.0	0.0%
<b>TOTAL</b>		<b>£55.7</b>	<b>21.2%</b>	<b>£8.5</b>	<b>15.2%</b>

- 4.4 The forecast position for the financial year 2020/21 for borrowing and income is laid out below:

<b>2020/21</b>	<b>Asset Value £m</b>	<b>External Borrowing £m</b>	<b>Borrowing as % of Long-Term Assets (£248.7m)</b>	<b>Annual Income £m</b>	<b>% Proportion of Total WSC Gross Revenue Income (excl. Grants)</b>
Industrial Units	£24.2	£0.0	0%	£2.6	5.3%
Retail Units	£31.8	£0.0	0%	£1.7	3.4%
Land	£10.3	£0.0	0%	£0.9	1.8%
Solar Farm	£13.8	£0.0	0%	£1.3	2.6%
Growth Fund		£16.3	6.5%	£1.5	3.0%
Western Way Development		£0.0	0%	£0.0	0.0%
Mildenhall Hub		£0.0	0%	£0.0	0.0%
Other		£4.0	1.6%	£0.0	0.0%
<b>TOTAL</b>		<b>£20.3</b>	<b>8.1%</b>	<b>£8.0</b>	<b>16.1%</b>

- 4.5 The change in % of Gross Revenue Income (based on total gross revenue income budget of £56.1m) is caused by reduced forecasts in other income areas (car parks and planning in particular).

## 5. Borrowing and Asset Yields

- 5.1 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.
- 5.2 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.
- 5.3 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.

<b>2020/21 BUDGET</b>	<b>Asset Value £m</b>	<b>Borrowing £m</b>	<b>Annual Income £m</b>	<b>Net Return (Excl. Borrowing Costs ****)</b>	<b>Net Return (Incl. Borrowing Costs)</b>	<b>Yield % (E/A)</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
Industrial Units	£24.2	£0.0	£2.7	£2.2	£2.2	9.1%
Retail Units	£28.2	£0.0	£1.8	£1.5	£1.5	5.3%
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		£16.3	£1.5	£1.5	£0.2	1.0%
Western Way Development		£21.6	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub		£9.1	£0.0	£0.0	£0.0	0.0%
Other		£5.7	£0.0	£0.0	£0.0	0.0%
<b>TOTAL</b>	<b>£77.1</b>	<b>£55.7</b>	<b>£8.5</b>	<b>£7.3</b>	<b>£5.4</b>	<b>4.1%</b>



<b>2020/21</b>	<b>Asset Value £m</b>	<b>Borrowing £m</b>	<b>Annual Income £m</b>	<b>Net Return (Excl. Borrowing Costs ****)</b>	<b>Net Return (Incl. Borrowing Costs)</b>	<b>Yield % (E/A)</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
Industrial Units	£24.2	£0.0	£2.6	£2.1	£2.1	8.7%
Retail Units	£31.8	£0.0	£1.7	£1.4	£1.4	4.4%
Land	£10.3	£0.0	£0.9	£0.9	£0.9	8.7%
Solar Farm	£14.4	£0.0	£1.3	£0.9	£0.3	2.1%
Growth Fund		£16.3	£1.5	£1.5	£0.2	1.0%
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	£0.0	£0.0	£0.0	0.0%
<b>TOTAL</b>	<b>£80.7</b>	<b>£20.3</b>	<b>£8.0</b>	<b>£6.8</b>	<b>£4.9</b>	<b>4.8%</b>

\*\*\*\* Includes direct operating costs.

## 6. Borrowing and Temporary Loans

- 6.1 Below is a summary of the borrowings and temporary loans as at 30 September 2020:

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

## 7. Other Market Considerations

- 7.1 The COVID-19 pandemic continues to play havoc with the financial markets around the world. Combined with the UK's imminent exit from Europe, interest rates and investment returns remain at an all-time low.
- 7.2 Base rate has remained at 0.10%, with little prospect of any increase in the foreseeable future. Indeed, many analysts are predicting zero or negative rates before we see any increase in rates.
- 7.3 The major credit rating agencies continue to review financial institutions and based on their current ratings only major high street banks and one building society remain available to the Council for investment under the criteria laid

out the Treasury Management Strategy Statement and Treasury Management Code of Practice 2020-21.

- 7.4 In order to maintain a degree of security in these uncertain times, the majority of the Council's funds are being held in high street banks and the Debt Management Account Deposit Facility operated by HM Government.
- 7.5 The treasury team will continue to monitor the situation and provide updated information as it becomes available.

## **8. Background documents associated with this report**

- 8.1 Capital Strategy 2020-21, Treasury Management Strategy Statement 2020-2021, and Treasury Management Code of Practice.