

Building on the Balance Sheet

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6th January 2017



Agenda

- **Balance Sheet - Summary Positions**
- **Building On The Strengths**
- **Economic Perspective**
- **Treasury Management Options**
- **Considerations and Risks**
- **Overview of Current Initiatives**

Balance Sheet – Summary Position

- Analysis based on 250 Balance Sheet Reviews to date
- Overview of Investment Position:-

• Reserves and Balances	£18bn
• Working Capital Surpluses	<u>£3bn</u>
• Total Potential Resources	£21bn
• Less Support for Internal Borrowing	- <u>£ 7bn</u>
• Cash, Cash Equivalents and Investments	<u>£14bn</u>

Balance Sheet – Summary Position

- Overview of Debt Position:-
 - External Borrowing – Including PFI/Leases £42bn
 - Internal Borrowing £7bn
 - Capital Financing Requirement £49bn
 - Asset Valuations £137bn
 - Ratio of debt to Asset Base 36%

Balance Sheet – District and Borough Council's

- Analysis based on 105 Balance Sheet Reviews to date
- Overview of Investment Position:-
 - Reserves and Balances £2.7bn
 - Working Capital Surpluses £0.3bn
 - Total Potential Resources £3.0bn
 - Less Support for Internal Borrowing - £0.3bn
 - Cash, Cash Equivalents and Investments £2.7bn

Balance Sheet – District and Borough Council's

- Overview of Debt Position:-
 - External Borrowing – Including PFI and Leases £5.0bn
 - Internal Borrowing £0.3bn
 - Capital Financing Requirement £5.3bn

 - Asset Valuations £17.9bn

 - Ratio of debt to Asset Base 30%

Internal Borrowing

- Council's temporarily using Reserves & Balances to support internal borrowing
- Reduces borrowing costs in current interest rate environment
- Supports Medium Term Financial Plans/budget pressures
- Additional benefit of reducing credit risk
-but what happens when Reserves are spent?
- and what happens if borrowing costs start to rise?

Reserves & Balances

- Earmarked for particular projects, plans and strategies
- Will be utilised at some point in the future, but not immediately
- General Fund Balances - supporting possible contingencies
- Will therefore need to be cash-backed at some point!
- Difficulty is in determining how long the reserves are available for?
-and how to invest them safely!

Economic Perspective - Investments

- Balances mainly invested short-term or in cash/cash equivalents
- When current investment returns are low.....
- and set to stay low?
- Longer-term opportunities – Property/Property Funds?

Bank Rate					
	NOW	Mar-17	Mar-18	Mar-19	Mar-20
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.50%

Economic Perspective - Borrowing

- PWLB borrowing rates near historic lows
- Good time to borrow and invest in the future?
- Prudential Indicators – Affordability and Sustainability
- Borrowing to on-lend?

50yr PWLB Rate					
	NOW	Mar-17	Mar-18	Mar-19	Mar-20
Capita Asset Services	2.55%	2.70%	2.80%	3.00%	3.20%
Capital Economics	2.55%	2.80%	3.10%	3.40%	3.90%

Treasury Management - Risk Management

“the ongoing activity of adjusting the Authority’s treasury exposure due to changing market and domestic circumstances in order to manage risk and achieve better value in relation to the Authority’s objectives”

- Doing nothing does not avoid or minimise risk
- Risk can be failure to take advantage of opportunities



Considerations

- Reductions in Government Grant / Funding Pressures
- Alternative funding solutions – Income Generation?
- Temporary use of cash balances?
- Access to cheaper sources of borrowing – but affordability?
- Strength of any proposed Business Plans?
- Risk appetite?
- Capacity to deliver schemes and capacity for any potential loss?

..... and Risks

- Legal Powers / Statutory Requirements
 - ✓ Investment opportunity; or
 - ✓ Policy/Service objective?
- State Aid and Interest Rates
- Due Diligence and Risk Mitigation
- Security and Collateral
- Accounting Treatment / MRP Requirements
- Loan Terms, Covenants and Credit Quality



Potential Opportunities – Practical Examples

- Housing Developments / Companies
- Property/Office Investments / Acquisitions
- Shopping Centre Developments / Redevelopments
- Regeneration Initiatives
- Leisure Centre Developments



Potential Opportunities – Practical Examples

- Solar Panels / Solar Farms
- Loans to Third Parties
- Schools / Academies
- Social Enterprise Companies
- Super-fast Broadband



Any Questions?