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Financial Resilience Sub-Committee

West Suffolk Council

Title	**Agenda**		
Date	**Monday 12 July 2021**		
Time	**10.30 am**		
Venue	**Facilitated by Microsoft Teams**		
Full Members	**Chair**	To be appointed by the Financial Resilience Sub-Committee on 12 July 2021.	
	Conservative Group (2)	Ian Houlder	Elaine McManus
	The Independent Group (1)	Victor Lukaniuk	
Substitutes	**Conservative Group (1)**	Robert Nobbs	
By invitation	Sarah Broughton	**Portfolio Holder for Resources and Performance**	
Note: This sub-committee is not governed by the normal Access to Information rules (The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012) in the Council. Therefore, these meetings are not open to attendance by the public.			
Interests – declaration and restriction on participation	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non-pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.		
Quorum	Three Members		
Committee administrator	**Christine Brain** Democratic Services Officer (Scrutiny) **Telephone** 01638 719729 **Email** christine.brain@westsuffolk.gov.uk		

Pages

Agenda

Note: Whilst these agenda papers are not covered by the normal Access to Information Rules (see agenda front), where items are listed as containing exempt/confidential information, members of the Sub-Committee are requested to treat them as such.

1. Substitutes

Any Member who is substituting for another Member should so indicate, together with the name of the relevant absent Member.

2. Appointment of Chair: 2021-2022

3. Apologies for absence

4. Minutes **1 - 4**

To confirm the minutes of the meeting held on 18 January 2021 (copy attached.)

5. Declarations of interest

Members are reminded of their responsibility to declare any pecuniary or local non-pecuniary interest which they have in any item of business on the agenda, **no later than when that item is reached** and, when appropriate, to leave the meeting prior to discussion and voting on the item.

6. Annual Treasury Management and Financial Resilience Report 2020 to 2021 **5 - 20**

Report number: **FRS/WS/21/003**

7. Financial Resilience Report - June 2021 **21 - 36**

Report number: **FRS/WS/21/004**

8. Dates of future meetings

The following dates for future meetings of the sub-committee are listed below. All dates are Mondays starting at 10.30am as follows:

- 8 November 2021 (MS Teams Virtual Meeting Platform)
- 17 January 2022 (MS Teams Virtual Meeting Platform)

Financial Resilience Sub-Committee

West Suffolk Council

Minutes of a meeting of the **Financial Resilience Sub-Committee** held on **Monday 18 January 2021** at **10.30am**, facilitated by Microsoft Teams.

Present **Councillors**

Chair Ian Houlder

Victor Lukaniuk Elaine McManus

Substitutes attending for a full member
Robert Nobbs

In attendance
Sarah Broughton, Cabinet Member for Resources and Performance.

25. **Election of Chair for the Meeting**

Due to the Chair, Councillor Ian Houlder being unable to the meeting, the Democratic Services Officer (Scrutiny) opened the meeting and asked for nominations to elect a Chair for the meeting.

Councillor Elaine McManus nominated Councillor Robert Nobbs as Chair. This was duly seconded by Councillor Victor Lukaniuk, and with the vote being unanimous, it was

RESOLVED:

That Councillor Robert Nobbs be elected Chair for the meeting held on 18 January 2021.

Councillor Robert Nobbs then took the Chair for the remainder of the meeting.

26. **Substitutes**

The following substitution was declared:

Councillor Robert Nobbs substituting for Councillor Ian Houlder.

27. **Apologies for absence**

Apologies for absence were received from Councillor Ian Houlder.

28. **Minutes**

The minutes of the meeting held on 9 November 2020 were confirmed as a correct record by the Chair.

29. **Declarations of interest**

Members' declarations of interest are recorded under the item to which the declaration relates.

30. **Financial Resilience Report (December 2020)**

The Sub-Committee received Report number FRS/WS/21/001, which reported on the investment activities of West Suffolk Council from 1 April 2020 to 31 December 2020.

The total amount invested at 1 April 2020 was £29,990,000 and at 31 December 2020 it was £38,900,000.

The 2020 to 2021 Annual Treasury Management and Investment Strategy Statements approved on 25 February 2020, sets out the Council's projections for the current financial year. The budget for investment income for 2020 to 2021 was £142,141, which was based on a 0.65% target average rate of return on investments.

As at the end of December 2020, the interest actually earned during the nine months of the financial year amounted to £73,250.00 (average rate of return of 0.352%) against a profiled budget for the period of £106,605 (average rate of return of 0.65%); a budgetary deficit of £33,355. The deficit related to continued low interest rates as a result of the Covid-19 pandemic which started in mid-March 2020.

The report also included a summary of the borrowing and capital costs – affordability; borrowing and income – proportionality; borrowing and asset yields; borrowing and temporary loans and other market considerations.

The Sub-Committee scrutinised the investment activity for 1 April 2020 to 31 December 2020, and asked questions to which responses were provided. In particular, the Sub-Committee discussed negative interest rates; whether the council had start-up plans for any new tenants for industrial/rental units; and what provision was in place for debt collection relating to industrial and retail units.

It was then proposed by Councillor Elaine McManus, seconded by Councillor Victor Lukaniuk, and with the vote being unanimous it was:

RECOMMENDED:

That subject to the approval of Cabinet and Council, the Financial Resilience Report (December 2020), being Report number FRS/WS/21/001, be approved.

31. **Financial Resilience - Strategy Statement 2021 to 2022 and Treasury Management Code of Practice**

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice required that, prior to the start of the financial year, the Council formally approved a Treasury Management Policy Statement

and Investment Strategy setting out the Council's treasury management policy and strategy for the forthcoming year.

The proposed Financial Resilience Strategy Statement 2021 to 2022 was attached as Appendix 1 to Report No: FRS/WS/21/002, along with the Treasury Management Code of Practice at Appendix 2.

The report also included additional supporting information on treasury advisors; borrowing strategy; investment strategy counterparty ratings and interest rate projections.

The Sub-Committee scrutinised the report in detail and asked a number of questions to which comprehensive responses were provided. In particular, discussions were held on the municipal bonds agency and internal borrowing.

In response to a question raised regarding when were the borrowing limits approved, officers explained the authorised borrowing limits changed each year based on the Councils plans and were included as part of the overall budget report approved by Council in February each year.

It was then proposed by Councillor Elaine McManus, seconded by Councillor Victor Lukaniuk and with the vote being unanimous, it was

RECOMMENDED

That:

1) **Subject to the approval of Cabinet and Council the Financial Resilience Strategy Statement 2021 to 2022, attached as Appendix 1 to Report number: FRS/WS/21/002, be approved.**

2) **Subject to the approval of Cabinet and Council, the Treasury Management Code of Practice, attached as Appendix 2 to Report number: FRS/WS/21/002, be approved.**

32. **Dates of future meetings**

The Sub-Committee noted that the next meetings of the Sub-Committee would be set to meet approximately one week prior to the July 2021, November 2021 and the January 2022 meetings of the Performance and Audit Scrutiny Committee.

The meeting concluded at 11.39am

Signed by:

Chair

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West Suffolk Council

Annual Treasury Management and Financial Resilience Report 2020 to 2021

Report number:	**FRS/WS/21/003**	
Report to and date(s):	**Financial Resilience Sub Committee**	12 July 2021
	Performance and Audit Scrutiny Committee	29 July 2021
	Cabinet	21 September 2021
	Council	28 September 2021
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**

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

1. **Notes the Annual Treasury Management Report – 2020 to 2021; and**
2. **Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**

1. Treasury Management and Financial Resilience Annual Report – 2020 to 2021

1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activities under the CIPFA Code of Practice on Treasury Management. It provides a comprehensive assessment of treasury activities from 1 April 2020 to 31 March 2021. There is an analysis of our Financial Resilience position at March 2020 as reported by CIPFA in **Appendix A** – CIPFA Financial Resilience.

Interest Earned from Treasury Investments during the year

1.2 The 2020 to 2021 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 to 2021 is £131,000 which is based on a 0.65 per cent target average rate of return on investments.

1.3 At the end of March 2021 interest actually earned during the financial year amounted to £96,767 (average rate of return of 0.354 per cent) against a budget for the year of £131,000 (average rate of return 0.65 per cent); a budgetary deficit of £34,233. The deficit relates to continued low interest rates as a result of the COVID-19 pandemic which started in mid-March. The deficit formed part of the financial outturn report received at PASC on 27 May 2021, report no PAS/WS/21/008.

1.4 The table below summaries the interest earned and the average rate of return achieved for the financial year.

Interest Earned and Average Rate of Return Summary			
Investment Category	**Total Average Investment**	**Average Rate of Return (%)**	**Interest Earned in year**
Temporary Investments (Term Deposits)			
Lloyds 95 Day Account	2,425,581	0.108%	6,314.33
Santander 365 Day Account	8,000,000	0.789%	63,134.24
Santander 180 Day Account	1,000,000	0.632%	6,159.73
Santander 95 Day Account	500,000	0.497%	2,486.98
Lloyds Treasury Account	6,043,973	0.052%	3,169.93
Barclays Deposit Account	6,000,000	0.095%	5,672.39
CCLA MMF	4,641,096	0.170%	7,897.46
Local Authorities			
HM Debt Management Office	4,007,194	0.021%	1,932.19
Total Overall Average Return on Investments %			**0.354%**
Total Interest Earned - 1 April 2020 to 31 March 2021			**96,767**

1.5 The table below summaries the investment activity (cash investment made and funds returned based on the Councils cash flow requirements/management) during the period 1 April 2020 to 31 March 2021:

Treasury Management – Investment Activity Summary	
	2020 to 2021 (£)
Opening Balance 01 April 2020	**29,900,000**
Investments made during the year (including transfers to business reserve accounts)	132,600,000
Sub Total	162,500,000
Investments realised during the year (including withdrawals from business reserve accounts)	134,000,000
Closing Balance 31 March 2021	**28,500,000**

Please note: The Councils cash balances ended the year greater than forecast as a result of holding advanced business grant and COVID support grant payments.

1.6 The table below lists the investments held as at 31 March 2021

Investments held as at 31 March 2021				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Lloyds 95 Day Account	Nil			
Santander 365 Day	8,000,000	0.68%	01/04/20	365 day Notice
Santander 180 Day	Nil			
Santander 95 Day	500,000	0.40%	01/04/20	95 day Notice
Lloyds Treasury Account	10,000,000	0.05%	01/04/20	On call availability
Barclays Deposit Account	6,000,000	0.01%	01/04/20	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/20	On call availability
There were no other fixed term investments				
Total	**28,500,000**			

Please note: The interest rates above are the rates as at 31 March 2021. Actual rates going forward could fluctuate.

1.7 The Council has an earmarked revenue reserve to mitigate against possible adverse fluctuations in the returns received from the council's investments, called the Interest Equalisation Reserve. The balance in this reserve as at 31 March 2021 was £865,473.

2. Borrowing activity during the year

2.1 To facilitate the Councils capital investment plans for its communities such as the Mildenhall Hub, external cash injection through external borrowing had continued to be assumed during 2020 to 2021. As the Council continues to hold significant cash balances, see 1.5 and 1.6 above, the Councils approach during 2020 to 2021, supported by its advisors, was to continue to borrow internally to fund these capital investment plans and to avoid the payment of external interest rates. West Suffolk ended the year on 31 March 2021 with only £4m of external borrowing, which is the same level it held on 31 March 2020.

2.2 The table below is a summary of the borrowings and temporary loans as at 31 March 2021.

Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2020 (£)**	**In Year Movement (£)**	**Balance - 31 March 2021 (£)**	**Interest Rate**	**Maturity date**
Barclays Bank	4,000,000	0	4,000,000	4.24%	31 March 2078

2.3 Although the council did not undertake any further external borrowing in the financial year, its underlying need to borrow (Capital Financing Requirement – CFR, the amount the Council has invested in its communities) did increase which led to an increase in the level of internal borrowing the council has, as explained in 2.1 above.

2.4 The table below details the change in the councils Capital Financing Requirement (underlying need to borrow) and level of internal borrowing during the year

Capital Financing Requirement and Internal Borrowing			
	Balance – 1 April 2020 (£)	**In Year Movement (£)**	**Balance – 31 March 2021 (£)**
Total CFR	40,006,495	9,398,890	49,405,385
Less: External Borrowing	(4,000,000)	0	(4,000,000)
Internal Borrowing	**36,006,495**	**9,398,890**	**45,405,385**

3. Borrowing and Capital Costs - Affordability

3.1 The 2020 to 2021 Budget had assumptions on borrowing costs for capital investments included within it. These borrowing costs are a combination of interest payable on external borrowing, and Minimum Revenue Provision (MRP), which is an amount set aside each year to repay that borrowing requirement. The main projects which make up the majority of the Councils borrowing requirement are:

- Western Way development
- Mildenhall Hub
- West Suffolk Operational Hub
- Investing in our Growth Fund

3.2 The business cases for each of these projects considered affordability based on what each project would deliver in terms of income and savings against the borrowing requirement for the project.

3.3 Borrowing costs only form part of the Councils revenue budget once the project has been completed, so although there may be a borrowing requirement (Western Way Development as an example), until such time as the project is complete and operational there will be no MRP or interest payable as part of the revenue budget – this is in line with each of the agreed business cases.

3.4 The details of these Budgets is laid out below.

Summary of Capital Borrowing Budget 2020 to 2021			
Project – all supported by business cases	**Borrowing Requirement (Budget)**	**Borrowing Costs**	
		Minimum Revenue Provision (MRP)	**Interest Payable**
Investing in our Growth Fund	£17,244,872	£763,000	£406,700
Western Way Development	£21,560,577	£0	£0
Mildenhall Hub	£18,361,000	£57,000	£62,000
West Suffolk Operational Hub	£10,004,564	£289,000	£317,000
Newmarket Leisure Centre	£2,675,138	£103,000	£169,600
Toggam Solar Farm	£1,871,381	£107,500	£202,000
20 High St Haverhill	£1,826,032	£49,300	£54,200
113 High St Newmarket	£686,635	£24,930	£19,944
Olding Road DHL Depot	£3,657,556	£197,750	£0

Provincial House	£3,607,000	£92,500	£101,000
Vicon House, Western Way	£3,400,272	£46,500	£105,000
33-35 High St Haverhill	£375,818	£5,000	£11,300
17/18 Cornhill	£2,995,000	£0	£0
St Edmunds Guest House	£0	£0	£0
Loans and other	£6,745,000	£75,000	£82,500
Total borrowing and associated servicing costs	**£95,010,845**	**£1,810,480**	**£1,531,244**
% of Gross Revenue Income Budget *		**3.2%**	**2.7%**

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

3.5 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 per cent of the Gross Revenue Income Budget for both MRP and Interest Payable to assess the Councils affordability position. In other words, how much (in per cent terms) of our gross revenue income budget is committed to servicing our external borrowing requirements.

3.6 The position on each of these projects for the full year of 2020 to 2021 is as below

Summary of Actual Capital Borrowing for 2020 to 2021				
Project – all supported by business cases	**External Borrowing**	**Internal Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
Investing in our Growth Fund	£0	£0	£0	£0
Western Way Development	£0	£0	£0	£0
Mildenhall Hub	£0	£18,003,656	£0	£0
West Suffolk Operational Hub	£0	£9,648,709	£121,918	£0
Newmarket Leisure Centre	£4,000,000	£0	£12,278	£169,600
Toggam Solar Farm	£0	£1,910,320	£68,562	£0

20 High St Haverhill	£0	£1,845,195	£30,137	£0
113 High St Newmarket	£0	£700,130	£11,435	£0
Olding Road DHL Depot	£0	£3,704,382	£150,924	£0
Provincial House	£0	£3,545,576	£54,300	£0
Vicon House, Western Way	£0	£3,393,567	£53,205	£0
33-35 High Street, Haverhill	£0	£375,676	£5,142	£0
17/18 Cornhill	£0	£1,162,597	£0	£0
St Edmunds Guest House	£0	£1,005,213	£7,534	£0
Loans and other	£0	£1,344,505	£3,345	£0
Sub total	**£4,000,000**	**£46,639,526**	**£518,778**	**£169,600**
Newmarket Leisure Centre cumulative MRP reducing internal borrowing amount		(£1,234,141)		
Total Borrowing	**£49,405,385**		**£688,378**	
% of Gross Revenue Income (excl COVID-19 Grants)			**0.8%**	**0.1%**

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

- Use of internal borrowing instead of external borrowing during 2020 to 2021.
- Reviewing the Western Way development in light of the COVID-19 outbreak, which led to a timing delay in the project programme against what was originally forecast.
- Underspend against the Investing in our Growth Fund.

3.8 The impact of these changes and the approach to internal borrowing resulted in an in year saving of interest payable of £1,361,644 in 2020 to 2021. Where a project was complete and operational, an MRP charge was still made even if no external borrowing was undertaken.

3.9 A total of £1,050,570 was transferred to the capital financing reserve during the year, mainly as a result of the savings in interest payable detailed above. This reserve now has a total balance of £2,391,792 to be utilised in future budget periods to accommodate any fluctuations or market movements in external borrowing costs.

3.10 During the financial year there had been no requirement to borrow externally over and above the £4 million Barclays loan. Therefore, the only interest payable for the year was the £169,600 relating to this.

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 As at 31 March 2020, the Councils asset base was valued at £248.7 million. As such the budgeted borrowing requirement of £95 million would have represented 38.2 per cent of our long-term asset base. The actual borrowing requirement at the end of the financial year was £49.4 million, which represents 19.9 per cent of our long-term asset base. It is worth noting that the capital projects being undertaken would increase the overall asset base of the council, leading to the borrowing requirement being a smaller percentage of the asset base then detailed above.

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. The yield is the return on the investment, whether through additional income of savings, less the borrowing costs associated with the investment, against the value of the investment.

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.

2020 to 2021 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	£2.7	£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%
TOTAL	**£77.1**	**£55.7**	**£8.5**	**£7.3**	**£5.4**	**4.1%**

2020 to 2021 Actual	**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	£2.6	£2.1	£2.1	8.7%
Retail Units	£31.8	£0.0	£1.6	£1.4	£1.4	4.4%
Land	£10.3	£0.0	£1.0	£0.9	£0.9	8.7%
Solar Farm	£14.4	£0.0	£1.3	£0.9	£0.3	2.1%
Growth Fund		£0.0	£1.5	£1.5	£0.2	1.0%
West Suffolk Operational Hub	£4.5	£0.0	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub	£41.3	£0.0	£0.0	£0.0	£0.0	0.0%
Other		£4.0	£0.0	£0.0	£0.0	0.0%
TOTAL	**£126.7**	**£4.0**	**£8.0**	**£6.8**	**£4.9**	**3.8%**

* Includes direct operating costs

6. Appendices referenced in this report

6.1 Appendix A - CIPFA Financial Resilience Index 2021

7. Background documents associated with this report

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

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West Suffolk Council

Appendix A

CIPFA Financial Resilience Index 2021

1. Context

1.1 CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position. The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five seven years, public consultation and technical stakeholder engagement.

1.2 The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance.

1.3 These indicators are prepared by CIPFA. West Suffolk Council do not have any direct input into the calculation or creation of these individual indicators.

1.4 The timing of the index follows the release of MHCLG statistics (i.e., Revenue Outturn 2019-20 on 21st January 2020). The pandemic has fundamentally altered the Local Authority funding landscape in 2020 to 2021. In this context, the Resilience Index provides a pre-COVID picture of resilience as at the end of March 2020.

2. Financial Resilience Indicators - Overall

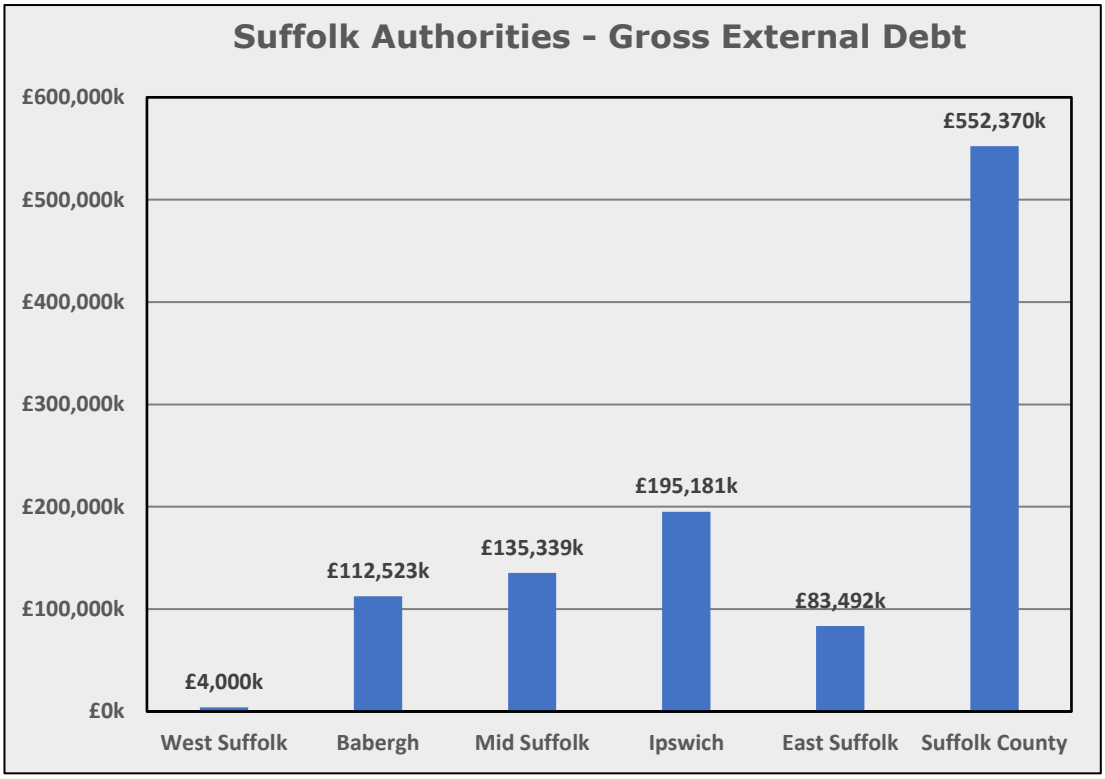
2.1 The following graphs show West Suffolk Council within the context of our neighbouring councils within Suffolk. This comparison across each indicator gives a broader picture of where West Suffolk stands in terms of its neighbouring authorities.

2.2 The overall picture for West Suffolk as set out below is one of average or lower risk across the indicators. The only higher risk indicator is that of Council tax requirement proportionate to our net revenue requirement, which reflects the Councils lower level of Council tax and its approach to diversifying its income streams through fees and charges to support its net revenue requirement. As Council tax is a statutory charge, Councils are seen to have a greater financial resilience the higher the Council tax requirement is as a proportion of net expenditure.

3. Financial Resilience Indicators - Detail

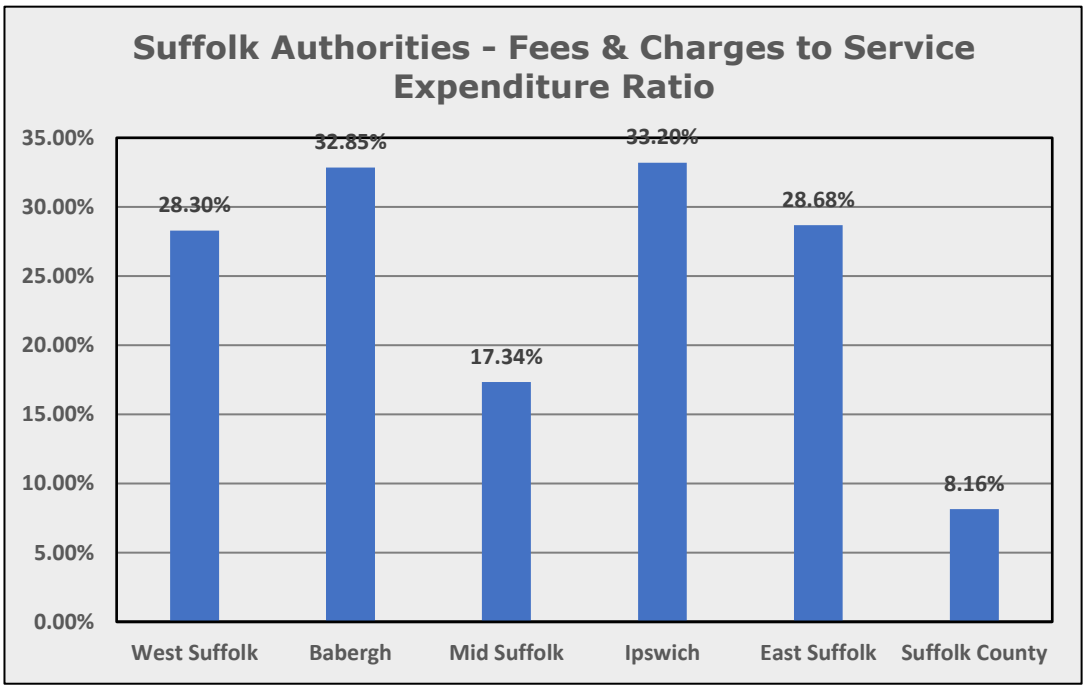
3.1 Gross External Debt

West Suffolk Council only has the £4m Lloyds long term loan as at the end of March 2020. West Suffolk has borrowed internally up to this point in order to fund our investments in our communities but each project was prudently appraised on the basis of external borrowing. Other Suffolk councils have taken on external debt to fund capital projects and investment – the position as at the 31 March 2021 is set out below.



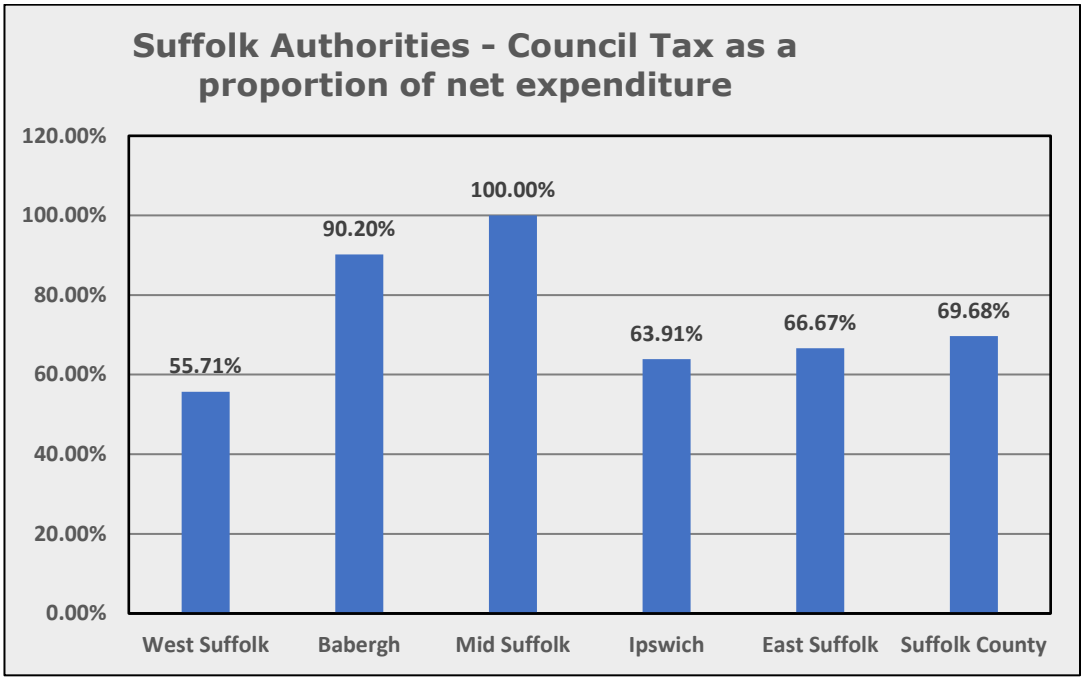
3.3 Fees and Charges

West Suffolk has successfully creating new and expanded existing revenue streams through Fees and Charges to assist with the day to day running of the council and to support some of its investment decisions. There is risk inherent in these revenue streams as has been shown by the impact on them by the COVID-19 lockdown. However, our exposure is not out of line with the other authorities in Suffolk, in particular our district peers.



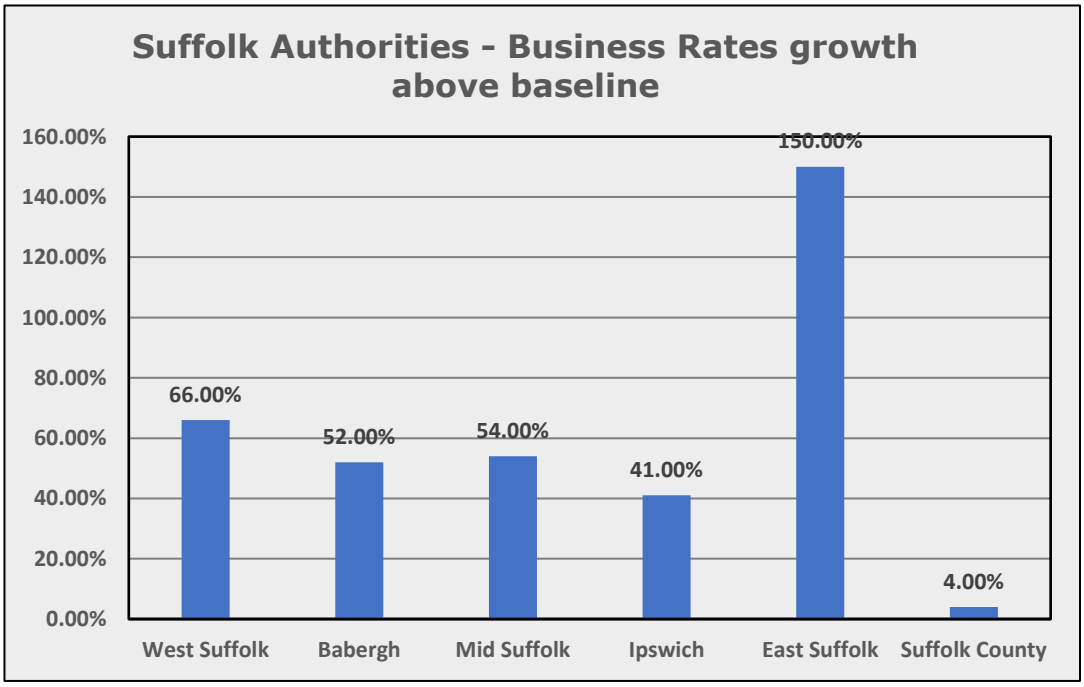
3.4 Council Tax Requirement

As counter to Fees and Charges (see above in 3.3) this metric shows the reliance of each council upon Council Tax as a source of funding as a proportion of new expenditure. West Suffolks result compared to the national position reflects its lower level of Council tax and its approach to diversifying its income streams through fees and charges to support its net revenue budget. As Council tax is a statutory charge, Councils are seen to have a greater financial resilience the higher the Council tax requirement is as a proportion of net expenditure.



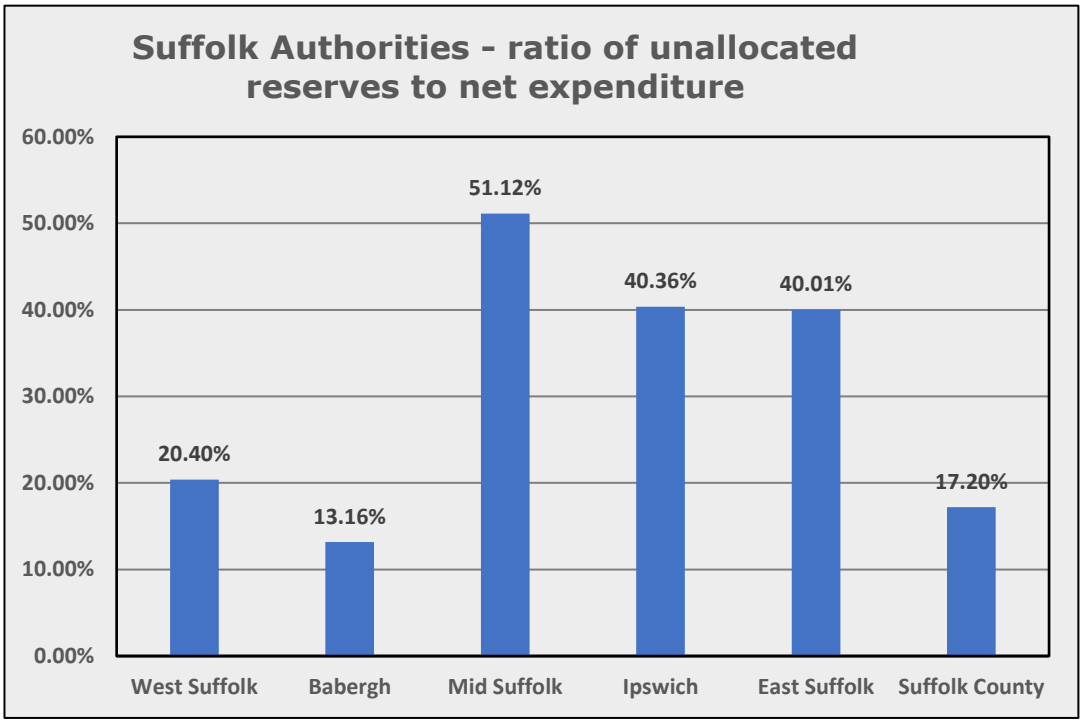
3.5 Growth above Baseline / Business Rates

This metric is to show how much each authority has gained, above the 2013 baseline, as a result of business rate retention scheme. The higher the growth above the baseline the higher the risk involved in the longer-term local trends and central government funding reforms which looks to re-baseline the scheme.



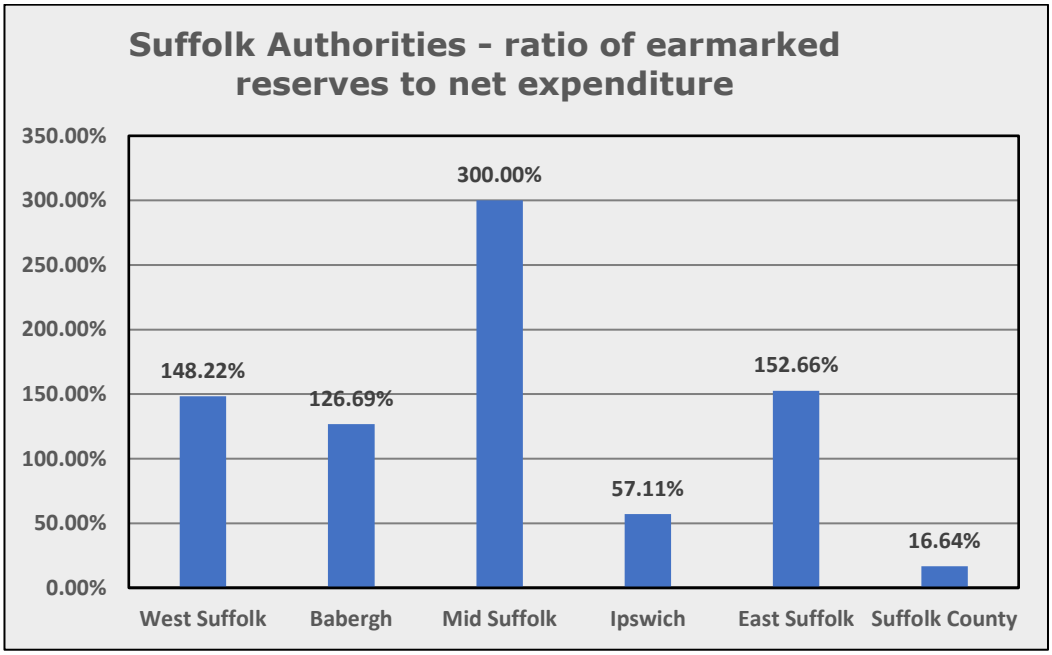
3.6 Unallocated Reserves

The West Suffolk General Fund balance of £5m is the extent of our unallocated reserves. This is one of the lower proportions amongst our neighbour councils but has been sufficient so far through the COVID-19 outbreak. The level of a Councils general fund balance is subject to an annual assessment/review by the Councils Chief Financial Officer taking into account the overall budget assumptions, risks and level of reserves.



3.7 Earmarked Reserves

Our earmarked reserves are significantly more than the unallocated (see 3.6) but obviously these are specific reserves allocated for funding specific projects and investment.


Suffolk Authorities - ratio of earmarked reserves to net expenditure
350.00%
300.00%
250.00%
200.00%
150.00%
100.00%
50.00%
0.00%
148.22%
126.69%
300.00%
57.11%
152.66%
16.64%
West Suffolk
Babergh
Mid Suffolk
Ipswich
East Suffolk
Suffolk County

West Suffolk Council

Financial Resilience Report - June 2021

Report number:	**FRS/WS/21/004**	
Report to and date(s):	**Financial Resilience Sub Committee**	12 July 2021
	Performance and Audit Scrutiny Committee	29 July 2021
	Cabinet	21 September 2021
	Council	28 September 2021
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 Financial Resilience Report – June 2021; and**

2. **Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**

1. Treasury Management Report – June 2021

1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activities under the CIPFA Code of Practice on Treasury Management. It provides a comprehensive assessment of activities from 1 April 2021 to 30 June 2021.

2. Executive Summary

2.1 The Council held investments of £39,300,000 as at 30 June 2021. Interest achieved in the first quarter of the financial year amounted to £16,517 against a budget for the period of £11,250.

2.2 External borrowing as at 30 June 2021 remained at £4,000,000, with the Council's level of internal borrowing increasing slightly to £46,712,000 as at 30 June 2021. Overall borrowing (both external and internal) is expected to increase over the full financial year, but not by as much as was originally budgeted for.

2.3 Borrowing costs (Interest Payable and MRP) for the year are forecast to be £965,793 against an approved budget of £3,135,850, although this could change if more external borrowing is undertaken than is currently forecast.

3. Interest Earned from Treasury Investments during the period

3.1 The 2021 to 2022 Annual Treasury Management and Investment Strategy Statements (report CAB/WS/21/007 approved 23 February 2021) sets out the Council's projections for the current financial year. The budget for investment income of 2021 to 2022 is £45,000 which is based on a 0.25 per cent target average rate of return on investments.

3.2 At the end of June 2021 interest actually earned during the first quarter of the financial year amounted to £16,517 (average rate of return of 0.245 per cent) against a profiled budget for the period of £11,250 (average rate of return 0.25 per cent); a budgetary surplus of £5,267.

Although interest rates continue to be low as a result of the COVID-19 pandemic which started in mid-March 2020, the Council had more cash invested during the period (see note at 3.4) leading to higher overall interest achieved despite the lower rates.

3.3 The table below summaries the interest earned and the average rate of return achieved at 30 June 2021.

Interest Earned and Average Rate of Return Summary			
Investment Category	**Total Average Investment**	**Average Rate of Return (%)**	**Interest Earned in period**
Temporary Investments (Term Deposits)			
Lloyds 95 Day Account	nil	0.45%	nil
Santander 365 Day Account	8,000,000	0.687%	13,711.78
Santander 180 Day Account	nil	0.380%	nil
Santander 95 Day Account	500,000	0.404%	504.11
Lloyds Treasury Account	8,241,229	0.080%	1,642.85
Barclays Deposit Account*	6,000,000	0.010%	149.59
CCLA MMF	4,000,000	0.039%	263.13
Local Authorities			
HM Debt Management Office	4,923,077	0.010%	245.48
Total Overall Average Return on Investments %			**0.245%**
Total Interest Earned - 1 April 2020 to 30 June 2021			**16,517**

* An annual interest bonus is paid at the end of the financial year if no withdrawals take place.

3.4 The table below summaries the investment activity during the period

Treasury Management – Investment Activity Summary	
	2021 to 2022 (£)
Opening Balance 01 April 2021	**28,500,000**
Investments made during the year (including transfers to business reserve accounts)	34,600,000
Sub Total	**63,100,000**
Less Investments realised during the year (including withdrawals from business reserve accounts)	23,800,000
Closing Balance 30 June 2021	**39,300,000**

Please note: The Councils cash balances are currently greater than forecast as a result of holding advanced business grant and COVID support grant payments.

3.5 The table below lists the investments held as at 30 June 2021

Investments held as at 30 June 2021				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Lloyds 95 Day Account	Nil			
Santander 365 Day	8,000,000	0.68%	01/04/20	365 day Notice

Santander 180 Day	Nil			
Santander 95 Day	500,000	0.40%	01/04/20	95 day Notice
Lloyds Treasury Account	7,800,000	0.08%	01/04/20	On call availability
Barclays Deposit Account	6,000,000	0.01%	01/04/20	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/20	On call availability
HM Debt Man. Office	5,000,000	0.01%	14/04/21	19/08/21
HM Debt Man. Office	5,000,000	0.01%	01/06/21	19/07/21
HM Debt Man. Office	3,000,000	0.01%	24/06/21	20/12/21
There were no other fixed term investments				
Total	**39,300,000**			

Please note: The interest rates above are the rates as at 30 June 2021. Actual rates going forward could fluctuate.

3.6 The Council has an earmarked revenue reserve to mitigate against possible adverse fluctuations in the returns received from the council's investments, called the Interest Equalisation Reserve. The balance in this reserve as at 30 June 2021 was £865,473.

4. Borrowing activity during the period

4.1 As with the 2020 to 2021 financial year, the Council continues to hold significant cash balances, see 1.5 and 1.6 above. With this being the case, the Councils approach, supported by its advisors, will be to continue to borrow internally to fund its capital investment plans and to avoid the payment of external interest rates. This approach is continually kept under review and is based on the level of cash balances the Council holds, as well as the interest rates currently available in the market and the level of risk exposure the Council has to holding the level of internal borrowing it has against the risk of increasing market interest rates.

4.2 On 30 June 2021 West Suffolk had £4 million of external borrowing, which is the same level it held on 1 April 2021. With interest rates remaining low and cash balances remaining healthy, it is unlikely that any further external borrowing will need to be undertaken in the 2021 to 2022 financial year, although this is kept under constant review and may change if circumstances and advice changes. The use of internal funds is beneficial whilst we still have available cash, as we would be paying interest at a much higher rate (around 2.00 per cent) than we would get back from investing the extra surplus cash (current average return on our treasury investments of 0.245 per cent). This means we would have a significant cost of carrying external loans that are not currently required from a cash management perspective.

4.3 The table below is a summary of the external borrowings and temporary loans as at 30 June 2021.

External Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2021 (£)**	**Movement (£)**	**Balance - 30 June 2021 (£)**	**Interest Rate**	**Maturity date**
Barclays Bank	4,000,000	0	4,000,000	4.24%	31 March 2078

4.4 Although the council has not undertaken any further external borrowing in the period, its underlying need to borrow (Capital Financing Requirement – CFR, the amount the Council has invested in its communities) is forecast to increase which will lead to an increase in the level of borrowing (either external or internal) the council will have.

4.5 The table below details the forecast for the councils Capital Financing Requirement (underlying need to borrow) over the next 3 years.

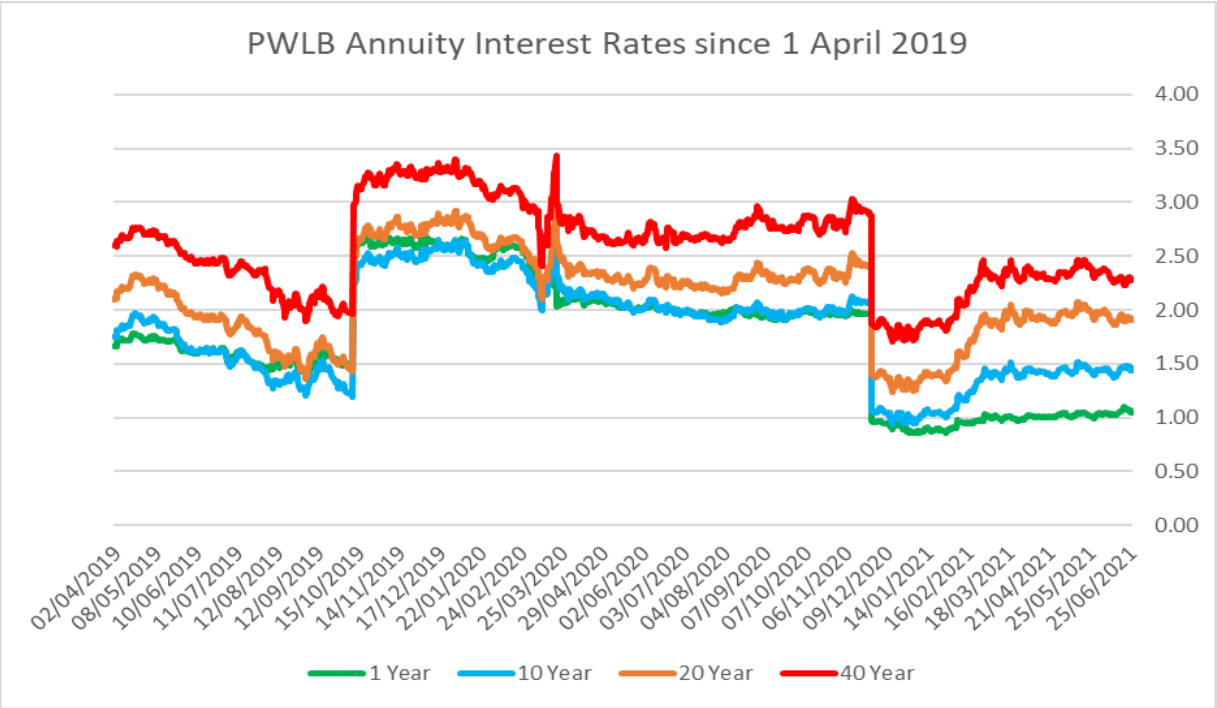
	31 March 2021 **Actual £ millions**	**31 March 2022** **Approved Budget £ millions**	**31 March 2022** **Forecast £ millions**	**31 March 2023** **Forecast £ millions**	**31 March 2024** **Forecast £ millions**
Capital Financing Requirement (CFR)	**49.405**	**96.179**	**56.964**	**154.198**	**207.963**

5. Borrowing Strategy and Sources of Borrowing

5.1 As detailed in the 2021 to 2022 Treasury Management Strategy Statement, the current borrowing strategy is still to make short-term use of internal funds (internal borrowing) or to borrow short-term loans. This is being continually monitored by the Council, along with Arlingclose (treasury advisors), to determine whether this is still the most optimal strategy or whether to look at borrowing additional sums at long-term fixed rates.

5.2 There are various sources of borrowing that the Council is able to make use of for longer term borrowing, which are detailed in the strategy statement. The traditional method for local authorities, and the default method the Council uses in all of its business cases, is to borrow from the Public Works Loans Board (PWLB). In the medium term, if the Council were to look at fixing out some of its internal borrowing into a long-term external loan then it could do so by borrowing through the PWLB.

5.3 The graph below shows historic PWLB interest rates over the previous 2 years, for different durations based on borrowing using the annuity method.



5.4 The graph above shows how PWLB rates fluctuate on a daily basis, as they are linked to UK Gilt rates – current PWLB rates are 1.00 per cent above the relevant UK Gilt rate. West Suffolk Council has access to PWLB Certainty Rates which are only 0.80 per cent above the relevant UK Gilt rate. In October 2019, PWLB increased the margin above UK Gilts from 1.00 per cent (0.80 per cent for Certainty Rate) to 2.00 per cent (1.80 per cent for Certainty Rate) overnight as a result of significant increases in the level of borrowing from PWLB. After undertaking consultation on changes to PWLB lending terms, the margin over UK Gilts was dropped back to 1.00 per cent (0.80 per cent for Certainty Rate) in November 2020.

5.5 PWLB interest rates for 40-year borrowing using the annuity method were 2.25 per cent (2.05 per cent for Certainty Rate) on 30 June 2021. Using the current value of internal borrowing of £46,712,000, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 2.05 per cent Certainty Rate, the Council would incur an initial annual interest payable cost of £957,600. This compares to our interest payable budget for 2021 to 2022 of £2,053,000. If PWLB rates were to increase by 0.50 percent, then the interest payable cost would increase to £1,191,150, and an increase of 1.00 per cent in PWLB rates would lead to a cost of £1,424,700.

5.6 The Council, along with Arlingclose, will continue to explore alternative sources of borrowing to ensure the Council will be ready to externally borrow in the most advantageous way when it needs to.

6. Borrowing and Capital Costs - Affordability

6.1 The 2021 to 2022 Budget had assumptions on borrowing costs for capital projects included within it. These borrowing costs are a combination of interest payable on external borrowing, and Minimum Revenue Provision (MRP), which is an amount set aside each year to repay that borrowing requirement. The main projects which make up the majority of the Councils borrowing requirement are:

- Western Way development
- Mildenhall Hub
- West Suffolk Operational Hub
- Investing in our Growth Fund

6.2 The business cases for each of these projects considered affordability based on what each project would deliver in terms of income and savings against the borrowing requirement for the project.

6.3 Borrowing costs only form part of the Councils revenue budget once the project has been completed, so although there may be a borrowing requirement, until such time as the project is complete there will be no MRP or interest payable as part of the revenue budget.

6.4 The details of these Budgets is laid out below.

Summary of Capital Borrowing Budget 2021 to 2022			
Project – all supported by business cases	**Borrowing Requirement (Budget)**	**Borrowing Costs**	
		Minimum Revenue Provision (MRP)	**Interest Payable**
Investing in our Growth Fund	£15,838,544	£209,500	£410,500
Western Way Development	£21,560,577	£0	£0
Mildenhall Hub	£17,438,264	£243,150	£476,550
West Suffolk Operational Hub	£11,177,329	£168,500	£311,250
Newmarket Leisure Centre	£2,753,610	£12,250	£169,600
Toggam Solar Farm	£1,829,369	£80,950	£82,000
20 High St Haverhill	£1,816,595	£28,600	£56,700
113 High St Newmarket	£688,830	£11,300	£22,500
Olding Road DHL Depot	£3,550,381	£154,000	£113,350

Provincial House	£3,491,626	£53,950	£99,700
Vicon House, Western Way	£3,344,267	£49,300	£102,200
33-35 High St, Haverhill	£370,376	£5,300	£11,000
17/18 Cornhill	£2,695,394	£0	£0
St Edmunds Guest House	£929,850	£10,650	£35,100
Loans and other	£8,693,954	£55,400	£162,550
Total borrowing and associated servicing costs	**£96,178,966**	**£1,082,850**	**£2,053,000***
% of Gross Revenue Income Budget		**2.6%**	**4.9%**

* This represents an average interest rate of 2.75 per cent.

6.5 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 per cent of the Gross Revenue Income Budget for both MRP and Interest Payable to assess the Councils affordability position. In other words, how much (in percentage terms) of our gross revenue income budget is committed to servicing our external debt.

6.6 The forecast position on each of these projects for the year of 2021 to 2022 is as below – assuming internal borrowing continues for the full year (note this is constantly reviewed with our advisors as our approach).

Summary of Forecast Capital Borrowing for 2021 to 2022				
Project – all supported by business cases	**External Borrowing**	**Internal Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
Investing in our Growth Fund	£0	£0	£0	£0
Western Way Development	£0	£2,000,000	£0	£0
Mildenhall Hub	£0	£17,760,506	£243,150	£0
West Suffolk Operational Hub	£0	£9,516,968	£131,741	£0

Newmarket Leisure Centre	£4,000,000	£0	£12,799	£169,600
Toggam Solar Farm	£0	£1,840,044	£70,276	£0
20 High St Haverhill	£0	£1,814,305	£30,890	£0
113 High St Newmarket	£0	£688,409	£11,721	£0
Olding Road DHL Depot	£0	£3,549,684	£154,697	£0
Provincial House	£0	£3,489,918	£55,658	£0
Vicon House, Western Way	£0	£3,339,032	£54,535	£0
33-35 High Street, Haverhill	£0	£370,380	£5,296	£0
17/18 Cornhill	£0	£2,915,000	£0	£0
St Edmunds Guest House	£0	£993,629	£11,584	£0
Loans and other	£0	£6,520,347	£13,945	£0
Sub total	**£4,000,000**	**£54,210,646**	**£796,193**	**£169,600**
Newmarket Leisure Centre cumulative MRP reducing internal borrowing amount		**(£1,246,940)**		
Total Borrowing	**£56,963,706**		**£965,793**	
% of Gross Revenue Income (excl COVID-19 Grants)			**2.0%**	**0.4%**

6.7 The original budget position has moved due to the following reasons:

- Forecast use of internal borrowing instead of external borrowing during 2021 to 2022.
- Reviewing the Western Way development in light of the COVID-19 outbreak, which led to a timing delay in the project programme against what was originally forecast.
- Forecast underspend against the Investing in our Growth Fund.

7. Borrowing and Income - Proportionality

7.1 The concept of proportionality, alongside that of affordability, is a key consideration when considering funding projects through borrowing.

7.2 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.

7.3 As at 31 March 2021, the Councils asset base was valued at £266.6 million. As such the budgeted borrowing requirement of £96.18 million would have represented 36.07 per cent of our long-term asset base. The forecast borrowing requirement at the end of the financial year is £56.96 million, which represents 21.37 per cent of our long-term asset base. It is worth noting that the capital projects being undertaken would increase the overall asset base of the council, leading to the borrowing requirement being a smaller percentage of the asset base then detailed above.

8. Borrowing and Asset Yields

8.1 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. The yield is the return on the investment, whether through additional income of savings, less the borrowing costs associated with the investment, against the value of the investment.

8.2 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.

8.3 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.

2021/22 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	£2.6	£2.2	£2.2	9.0%
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	9.6%
Solar Farm	£14.4	£1.8	£1.4	£1.1	£0.4	2.7%
Growth Fund		£15.8	£0.7	£0.7	£0.2	1.0%
Western Way Development		£21.6	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub		£17.4	£0.0	£0.0	£0.0	0.0%

Other		£11.2	£0.7	£0.6	£0.6	0.0%
TOTAL	**£77.1**	**£67.8**	**£8.2**	**£7.1**	**£5.9**	**4.1%**

2021/22	**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	£2.6	£2.2	£2.2	8.7%
Retail Units	£31.8	£0.0	£1.8	£1.5	£1.5	4.4%
Land	£10.3	£0.0	£1.0	£1.0	£1.0	8.7%
Solar Farm	£14.4	£0.0	£1.4	£1.1	£0.4	2.1%
Growth Fund		£0.0	£0.7	£0.7	£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	£0.7	£0.6	£0.6	0.0%
TOTAL	**£80.7**	**£4.0**	**£8.2**	**£7.1**	**£5.9**	**4.2%**

* Includes direct operating costs

9. CIPFA Consultation on Prudential Code

9.1 In February 2021, CIPFA undertook some consultation on proposed changes to the Prudential Code for Capital Finance in Local Authorities – see link (Prudential Code Consultation | CIPFA). The Prudential Code is a professional code of practice to support local authorities in taking decisions on capital investments. Key objectives of the code of practice are to ensure that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

9.2 The main proposed change was to amend the code's wording to restrict local authority borrowing for yield from "purely for profit" to "primarily for profit". Following feedback from local authorities, CIPFA has said that it will give more detail on what borrowing is allowed, as well as which sources of finance are prudent, and which are restricted.

9.3 Another proposed change which are likely to come into effect are the introduction of a liability benchmark as an indicator in the code. This assesses the lowest borrowing options available to an authority, by

comparing debt levels to future liquidity. The next monitoring report will include an introduction to the liability benchmark.

10. Market Information

10.1 The Council's treasury management advisors provide economic and interest rate forecasts on a monthly basis. **Appendix 1** has details from this forecast from June 2021.

11. Appendices referenced in this report

11.1 Appendix 1 - Arlingclose Economic and Interest Rate Forecast

12. Background documents associated with this report

12.1 Capital Strategy 2021 to 2022, Treasury Management Strategy Statement 2021 to 2021 and Treasury Management Code of Practice.

Arlingclose Economic and Interest Rate Forecast – June 2021

The medium term global economic outlook has continued to improve with the rollout of vaccination programmes. The UK has continued to benefit from its initial rapid vaccine rollout and has shifted focus onto second vaccinations to increase protection to counter a potential third COVID wave.

The opening up of the UK economy in the second and third quarter of 2021 will see sharp increases in GDP. The more upbeat assessment is that GDP will have grown by 5.5 per cent in Quarter 2, up from the 4.3 per cent May forecast, suggesting the economy has less catching up to do in the second half of 2021 to regain the pre-Covid peak.

Inflation has moved above the Bank of England's 2 per cent target. Alongside the increase in commodity prices, the Monetary Policy Committee has acknowledged the prospect of a sharper upturn in inflation, with the potential CPI could rise above 3 per cent in the coming months. However, the nature of the commodity price rise and the base effect easing, this is likely a transitory effect.

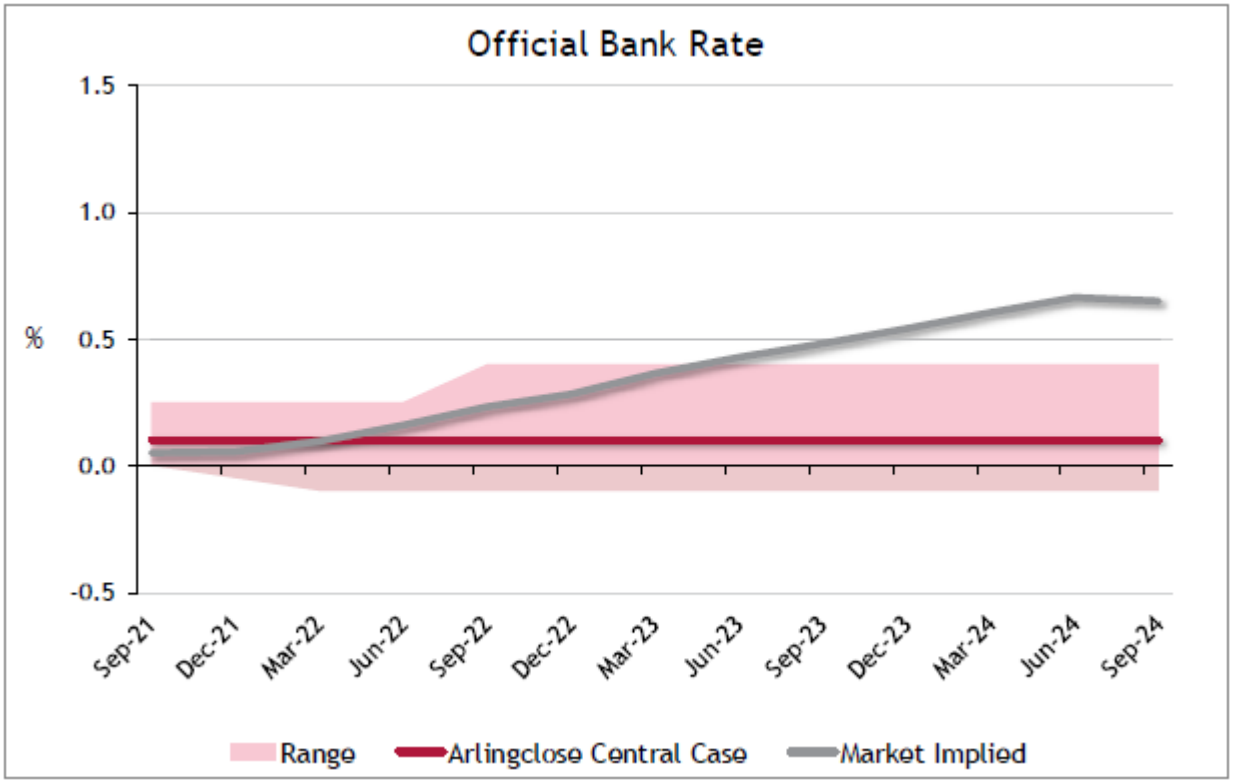
While downside risks seem to have reduced after recent trends in GDP and labour, the increase in near term inflation, being driven primarily by supply issues, is likely to have negative effects on output growth, providing a further reason for central banks not to tighten policy.

Longer term yields have declined over the last month largely due to the previous pricing in of potential monetary policy changes. As these have receded, the longer dated yields has shifted, with shorter term rates increasing slightly. Uncertainty remains with potential upside and downside risks providing a volatile intraday market.

Some upward pressure on gilt yields could remain in the short term due to the preponderance of strong data, but this is likely to ease once inflation fears recede as the effect of weak base effects subsides and growth figures return to more normal levels.

Arlingclose expects Bank Rate to remain at the current 0.1 per cent level. The risk of movement in Bank Rate in the short term is low, although the risks are leaning to the upside.

The graph below shows the Arlingclose central case along with upside and downside risks for Official Bank of England Base Rate.

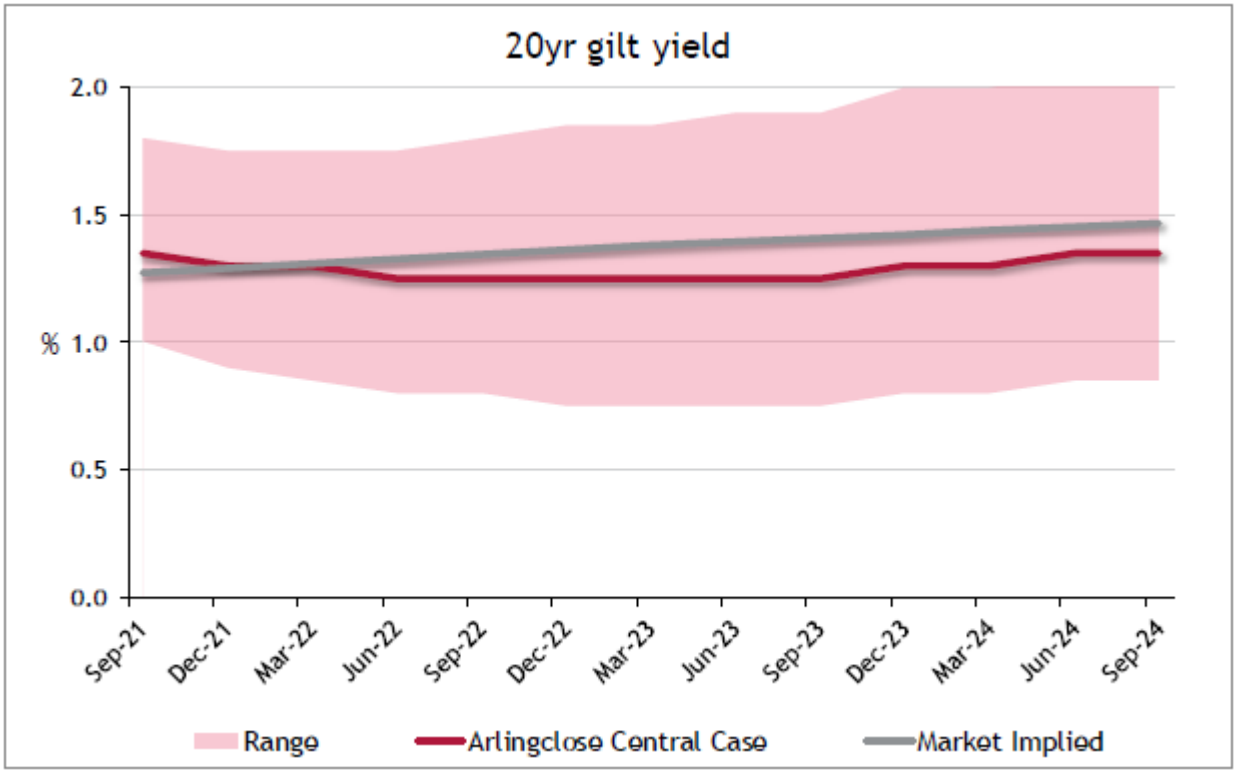


Gilt yields could increase in the short term, but will begin to plateau and reduce once the market's expectations of rises in Bank Rate and inflation fears subside.

Longer term yields may face upward pressure towards the end of the forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.

Downside risks remain as the risk of further virus mutations including the delta variant could destabilise the recovery.

The graph below shows the Arlingclose cenral case along with the upside and downside risks for 20 year gilt yields.


20yr gilt yield
2.0
1.5
% 1.0
0.5
0.0
Sep-21
Dec-21
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23
Mar-24
Jun-24
Sep-24
Range
Arlingclose Central Case
Market Implied

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