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Financial Resilience Sub-Committee

Title	**Agenda**		
Date	**Monday 8 November 2021**		
Time	**10.30 am**		
Venue	**Facilitated by Microsoft Teams**		
Full Members		**Chair** Ian Houlder	
	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 Property**	
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. Apologies for absence

3. Minutes **1 - 4**

To confirm the minutes of the meeting held on 12 July 2021 (copy attached.)

4. 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.

5. Treasury Management Report - September 2021 **5 - 22**

Report number: **FRS/WS/21/005**

6. Dates of future meetings

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

- 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 12 July 2021** at **10.30 am** facilitated by Microsoft Teams.

Present **Councillors**

Chair Ian Houlder

Victor Lukaniuk Elaine McManus

In attendance
Robert Nobbs, in attendance as an observer.

This being the first meeting of the Financial Resilience Sub-Committee since the Council's Annual General Meeting on 19 May 2021, the Democratic Services Officers (Scrutiny) opened the meeting.

33. **Substitutes**

No substitutions were declared.

34. **Appointment of Chair: 2021-2022**

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

RESOLVED:

That Councillor Ian Houlder be elected Chair of the Financial Resilience Sub-Committee for 2021-2022.

Councillor Ian Houlder then took the Chair for the remainder of the meeting.

35. **Apologies for absence**

No apologies for absence were received.

36. **Minutes**

The minutes of the meeting held on 18 January 2021 were confirmed as a correct record by the Chair.

37. **Declarations of interest**

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

38. **Annual Treasury Management and Financial Resilience Report 2020 to 2021**

The Sub-Committee received Report No: FRS/WS/21/003, which reported on the investment activities of West Suffolk Council from 1 April 2020 to 31 March 2021.

The 2020 to 2021 Annual Treasury Management and Investment Strategy Statements, approved on 25 February 2020, set out the Council's projections for the current financial year. The budget for investment income in 2020 to 2021 was £131,000, which was based on a 0.65% target average rate of return on investments. At the end of March 2021, interest actually earned during the financial year totalled £96,767 (average rate of return of 0.354%), against a budget for the year of £131,000; a budgetary deficit of £34,233.

The Annual Treasury Management and Financial Resilience Report (2020 to 2021) included tables summarising the interest earned and the average rate of return achieved; treasury management investment activity during the year; investments held as at 31 March 2021; capital borrowing budget 2020 to 2021; borrowings and temporary loans.

The report included assumptions on borrowing costs for the capital projects included within it and was based around four main projects:

- West Suffolk Operational Hub;
- Mildenhall Hub;
- West Suffolk Operational Hub; and
- Investing in our Growth Fund.

During the financial year there had been no requirement to borrow externally, due to the Authority's cash balances, over and above the long-standing £4m loan relating to the Newmarket Leisure Centre. Therefore, the only interest payable for the year was £169,600 relating to this loan. The total borrowing (expressed as the Authority's capital financing requirements) between both internal and external (£4m) total £49.4m at 31 March 2021.

The report also included at Appendix A the CIPFA Financial Resilience Index 2021. The index showed a Council's position on a range of measures associated with financial risk. The graphs showed West Suffolk Council within the context of neighbouring Councils within Suffolk.

The Sub-Committee scrutinised the Annual Treasury Management and Financial Resilience Report 2020 to 2021, and asked questions to which responses were provided. Discussions were held on the Councils asset base and rental income; and the merits of currently borrowing internally verses externally to fund capital projects.

In response to a question raised relating to the Mildenhall Hub project, the Sub-Committee was advised that the Council had made an assumption in the business case that it would be funded by external borrowing. However, the Council was able to fund the project internally (from cash balances) so there was no interest payable at present. The only physical cost to the Council through borrowing internally was the loss of interest receivable.

In response to a question raised on how comparable the Council was with its Band D council tax compared to other Suffolk authorities, the Sub-Committee was advised that the Council was working through its harmonisation plan between the former Councils (Forest Health District Council and St Edmundsbury Borough Council). The national average Band D, without Parish/Town Council precepts was £195.

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

RECOMMENDED:

That subject to the approval of Cabinet and Council, the Annual Treasury Management and Financial Resilience Report (2020 to 2021), being Report number FRS/WS/21/003, be approved.

39. Financial Resilience Report - June 2021

The Sub-Committee received Report number FRS/WS/21/004, which reported on the investment activities of West Suffolk Council from 1 April 2021 to 30 June 2021.

The Council held investments of £39,300,000 as of 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, a budgetary surplus of £5,267. Although interest rates continued 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, leading to higher overall interest achieved despite the lower rates.

External borrowing as of 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 was expected to increase over the full financial year, but not by as much as was originally budgeted for. Borrowing costs (interest payable and MRP) for the year were forecast to be £965,793 against an approved budget of £3,135,850, although this could change if more external borrowing was undertaken than was currently forecast.

The 2021 to 2022 Annual Treasury Management and Investment Strategy sets out the Council's projections for the current financial year. The budget for investment income in 2021 to 2022 was £45,000, which is based on a 0.25% target average interest rate of return on investments.

The report also included a summary of the borrowing activity during the period; borrowing strategy and sources of borrowing; borrowing and capital costs – affordability; borrowing and income – proportionality; borrowing and asset yields and CIPFA consultation on prudential code.

Attached at Appendix 1 to the report was Arlingclose economic and interest rate forecast.

Officers explained that whilst interest rates remained low in the short to medium term, and the Council held significant cash balances, Arlingclose's advice was to continue to use cash reserves and short-term borrowing where necessary. This approach avoided the cost of borrowing, for example a 40-year loan rate from Public Works Loan Board verses investment return. However, the Council was exposed to interest rate risk on both the market rate and the margin payable above/below market rates. Arlingclose therefore recommended that no more than £70m was taken in the short-term with the remainder fixed for the long-term, for example up to 20 years.

The Sub-Committee scrutinised the investment activity for 1 April 2021 to 30 June 2021 in detail and did not raise any issues to be brought to the attention of the Performance and Audit Scrutiny Committee.

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

RECOMMENDED:

That subject to the approval of Cabinet and Council, the Financial Resilience Report (June 2021), being Report number FRS/WS/21/004, be approved.

40. **Dates of future meetings**

The Sub-Committee noted the dates for future meetings, as listed below. All dates were Mondays starting at 10.30am and would be held in the venues, as indicated:

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

The meeting concluded at 11.25am

Signed by:

Chair

Treasury Management Report - September 2021

Report number:	**FRS/WS/21/005**	
Report to and date(s):	**Financial Resilience Sub-Committee**	8 November 2021
	Performance and Audit Scrutiny Committee	18 November 2021
	Cabinet	7 December 2021
	Council	14 December 2021
Cabinet member:	Councillor Sarah Broughton Cabinet Member for Resources and Property **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 Treasury Management Report – September 2021; and

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

1. Treasury Management Report – September 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 September 2021.

2. Executive Summary

2.1 The Council held investments of £52,000,000 as at 30 September 2021. Interest achieved in the first half of the financial year amounted to £34,122 against a budget for the period of £22,500.

2.2 External borrowing as at 30 September 2021 remained at £4,000,000, with the Council's level of internal borrowing increasing slightly to £48,039,000 as at 30 September 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 £965,804 against an approved budget of £3,135,850, although this could change if more external borrowing is undertaken than is currently forecast. This difference will be placed in the capital financing reserve to use towards future interest rate fluctuation.

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 September 2021 interest actually earned during the first half of the financial year amounted to £34,122 (average rate of return of 0.177 per cent) against a profiled budget for the period of £22,500 (average rate of return 0.25 per cent); a budgetary surplus of £11,622. 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 September 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	0.684%	27,423.56
Santander 180 Day Account	nil	0.380%	349.59
Santander 95 Day Account	500,000	0.402%	1,008.22
Lloyds Treasury Account	8,241,229	0.080%	3,616.99
Barclays Deposit Account*	6,000,000	0.010%	300.82
CCLA MMF	4,000,000	0.031%	612.88
Local Authorities	1,400,000	0.029%	60.27
HM Debt Management Office	4,259,720	0.010%	750.41
Total Overall Average Return on Investments %			**0.177%**
Total Interest Earned - 1 April 2020 to 30 June 2021			**34,122**

* 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)	72,750,000
Sub Total	**101,250,000**
Less Investments realised during the year (including withdrawals from business reserve accounts)	49,250,000
Closing Balance 30 June 2021	**52,000,000**

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 September 2021

Investments held as at 30 September 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	0.08%	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	3,000,000	0.01%	24/06/21	20/12/21
HM Debt Man. Office	6,000,000	0.01%	02/08/21	19/10/21
HM Debt Man. Office	1,500,000	0.01%	10/08/21	10/01/22
HM Debt Man. Office	4,000,000	0.01%	01/09/21	22/11/21
HM Debt Man. Office	3,000,000	0.01%	01/09/21	10/01/22
HM Debt Man. Office	1,000,000	0.01%	14/09/21	10/01/22
HM Debt Man. Office	1,000,000	0.01%	27/09/21	10/01/22
Sth Somerset DC	1,000,000	0.02%	18/08/21	10/01/22
Epping Forest DC	3,000,000	0.04%	20/09/21	10/01/22
There were no other fixed term investments				
Total	**52,000,000**			

Please note: The interest rates above are the rates as at 30 September 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 September 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 September 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 (although they have risen in the past month) 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 0.177 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 September 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.

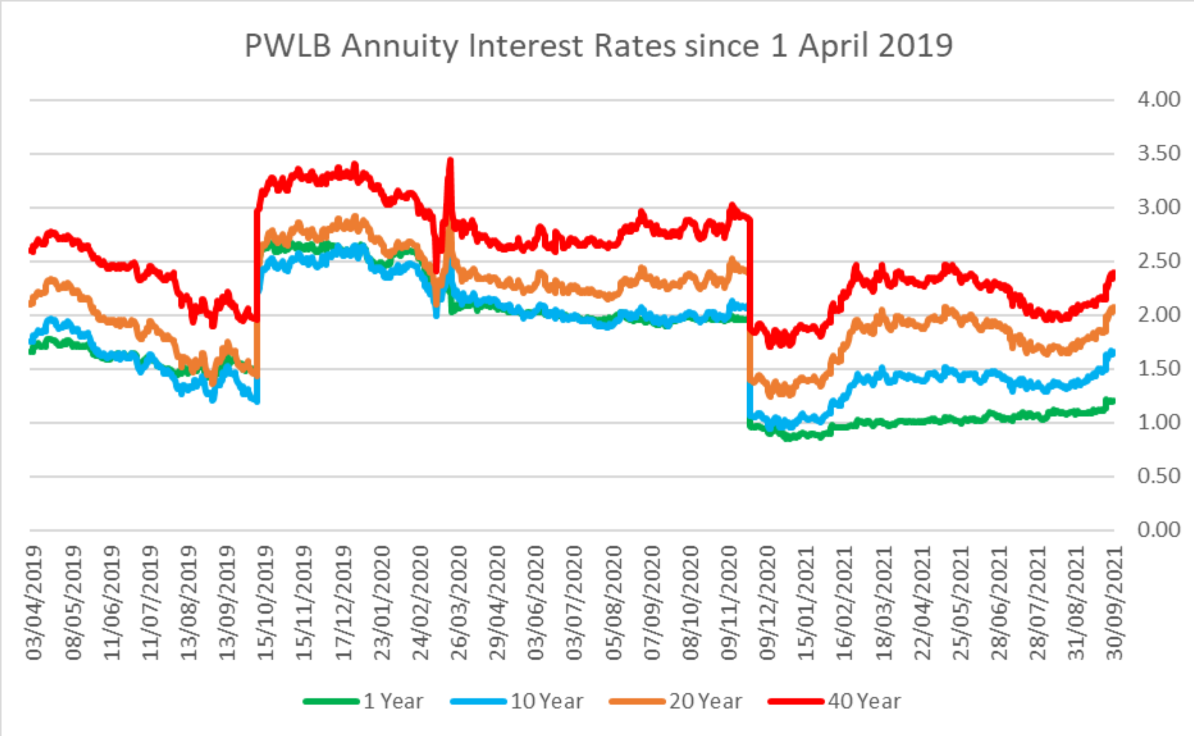
	31 March 2021 Actual £ millions	31 March 2022 Approved Budget £ millions	31 March 2022 Forecast £ millions	31 March 2023 Budget £ millions	31 March 2024 Budget £ millions
Capital Financing Requirement (CFR)	**49.405**	**96.179**	**54.345**	**154.198**	**207.963**

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 either through short-term loans or long-term fixed rate loans. As interest rates remain low and the Council has an underlying need to borrow this option of externalising some of the internal borrowing is being continually monitored, along with Arlingclose (treasury advisors), as the rates and forecasts for these options move to determine which is the most optimal strategy.

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 2.39 per cent (2.19 per cent for Certainty Rate) on 30 September 2021 (up from 2.25 per cent (2.05 per cent for Certainty Rate) on 30 June 2021. Using the current value of internal borrowing of £48,039,000, if we were to transfer all of that internal borrowing to a 40 -ear PWLB loan using the 2.19 per cent Certainty Rate, the Council would incur an initial annual interest payable cost of £1,052,054. 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 £1,292,249, and an increase of 1.00 per cent in PWLB rates would lead to a cost of £1,532,444.

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 are 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	£9,656,968	£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	£3,174,210	£13,857	£0
Sub total	**£4,000,000**	**£51,592,086**	**£796,204**	**£169,600**
Newmarket Leisure Centre cumulative MRP reducing internal borrowing amount		**(£1,246,940)**		
Total Borrowing	**£54,345,146**		**£965,804**	
% 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 £54.35 million, which represents 20.39 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 than 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%**

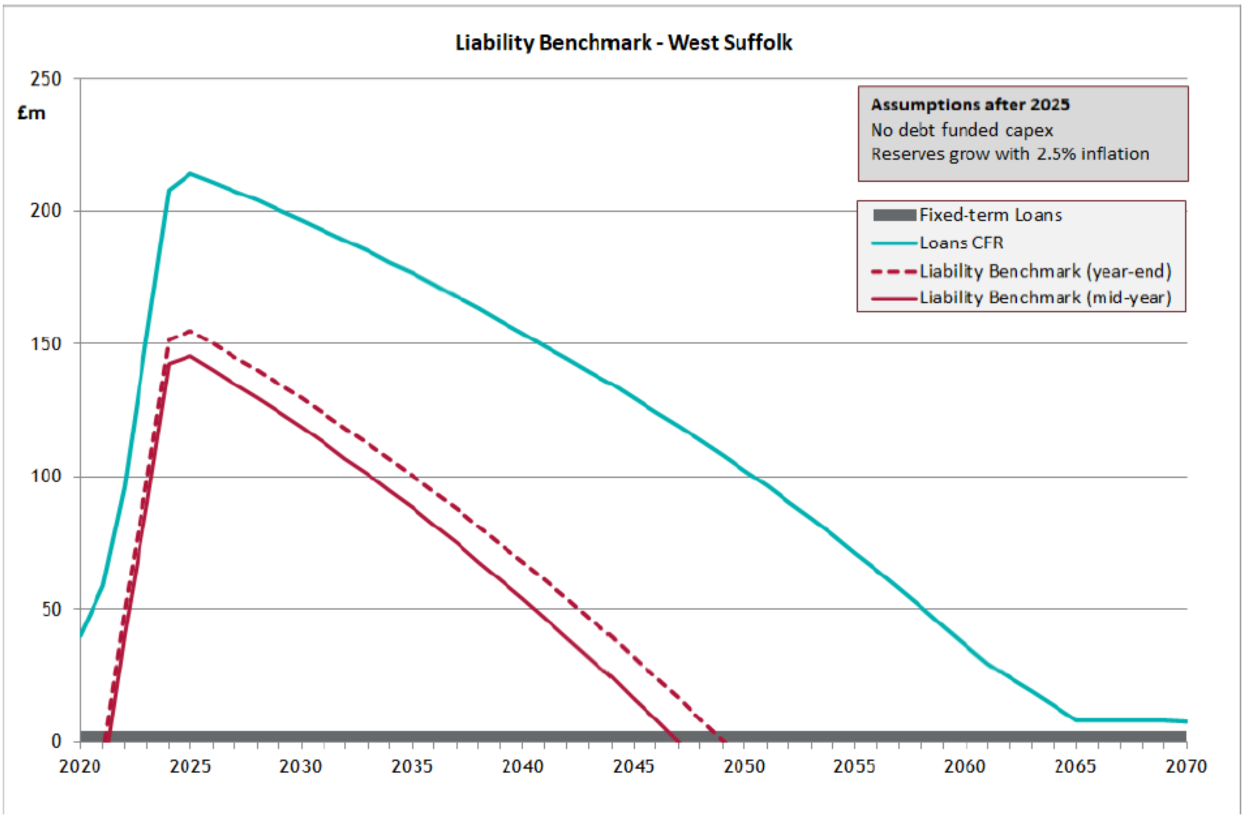
2021/22 FORECAST	**Asset Value £m**	**Borrowing (Int & Ext) £m**	**Annual Income £m**	**Net Return (Excl. Borrowing Costs *)**	**Net Return (Incl. Borrowing Costs)**	**Yield % (E/A)**
	A	**B**	**C**	**D**	**E**	**F**
Industrial Units	£24.2	£0.0	£2.6	£2.1	£2.1	8.7%
Retail Units	£31.8	£0.0	£1.7	£1.4	£1.4	4.4%
Land	£10.3	£0.0	£0.9	£0.9	£0.9	8.7%
Solar Farm	£14.4	£1.8	£1.3	£0.9	£0.3	2.1%
Growth Fund		£15.8	£0.7	£0.7	£0.2	1.0%
West Suffolk Operational Hub		£9.7	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub		£17.8	£0.0	£0.0	£0.0	0.0%
Other		£10.5	£0.7	£0.6	£0.6	5.7%
TOTAL	**£80.7**	**£55.6**	**£7.7**	**£6.6**	**£5.5**	**4.0%**

* 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. 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". Another proposed change which is likely to come into effect is 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 graph below shows what West Suffolk's liability benchmark indicator might look like – this graph was produced by Arlingclose for West Suffolk.



9.3 Following feedback from local authorities, CIPFA has made amendments to its initial proposals and started a further round of consultation on these – see link ([The Prudential Code for Capital Finance in Local Authorities | CIPFA]) . This consultation will close in November and West Suffolk will look to give its responses to it.

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 September 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.

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Arlingclose Economic and Interest Rate Forecast – September 2021

The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

While Q2 UK Gross Domestic Product (GDP) expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the Monetary Policy Committee (MPC) has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

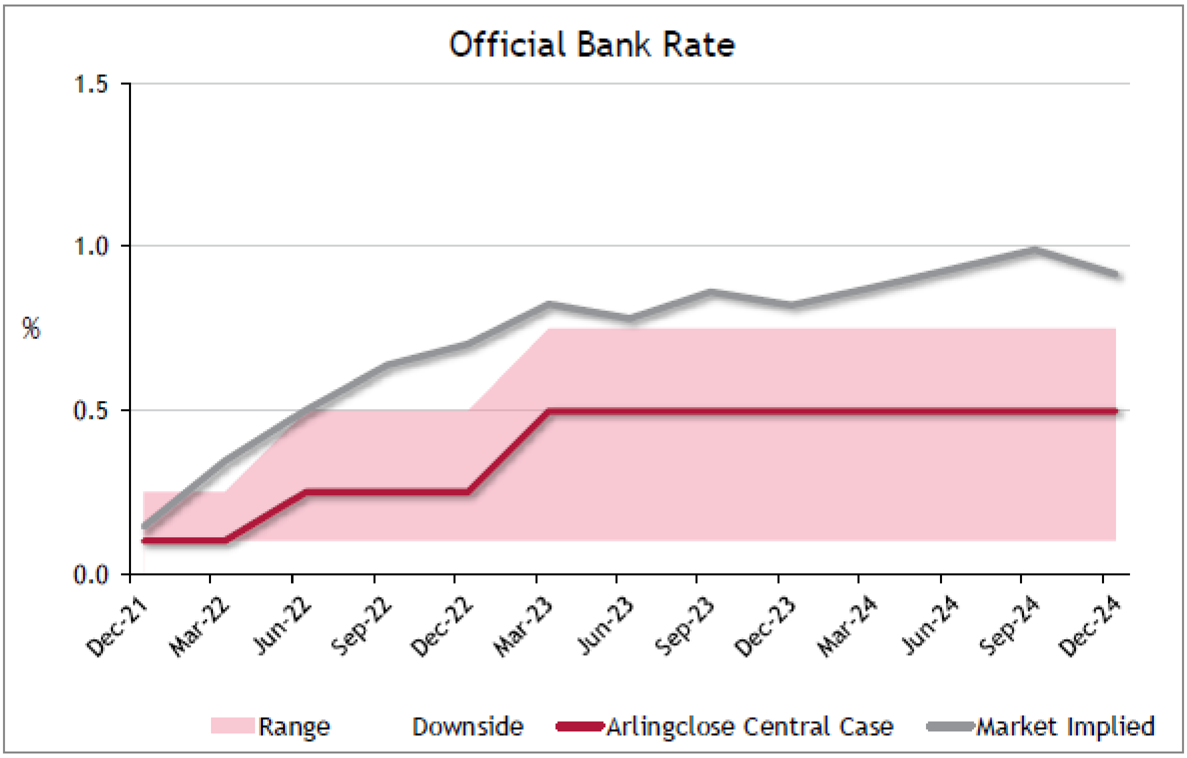
Government bond yields increased sharply following the September Federal Open Market Committee (FOMC) and Monetary Policy Committee (MPC) minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled-down on these signals in spite of softer economic data. Bond investors expect higher near term interest rates but are also clearly uncertain about central bank policy.

The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank's desire to move from emergency levels as by fears of inflationary pressure. Given the current outlook, we believe this could be a policy mistake.

Investors have priced in multiple rises in Bank Rate to 1% by 2024. While we believe Bank Rate will rise, it is by a lesser extent than expected by markets.

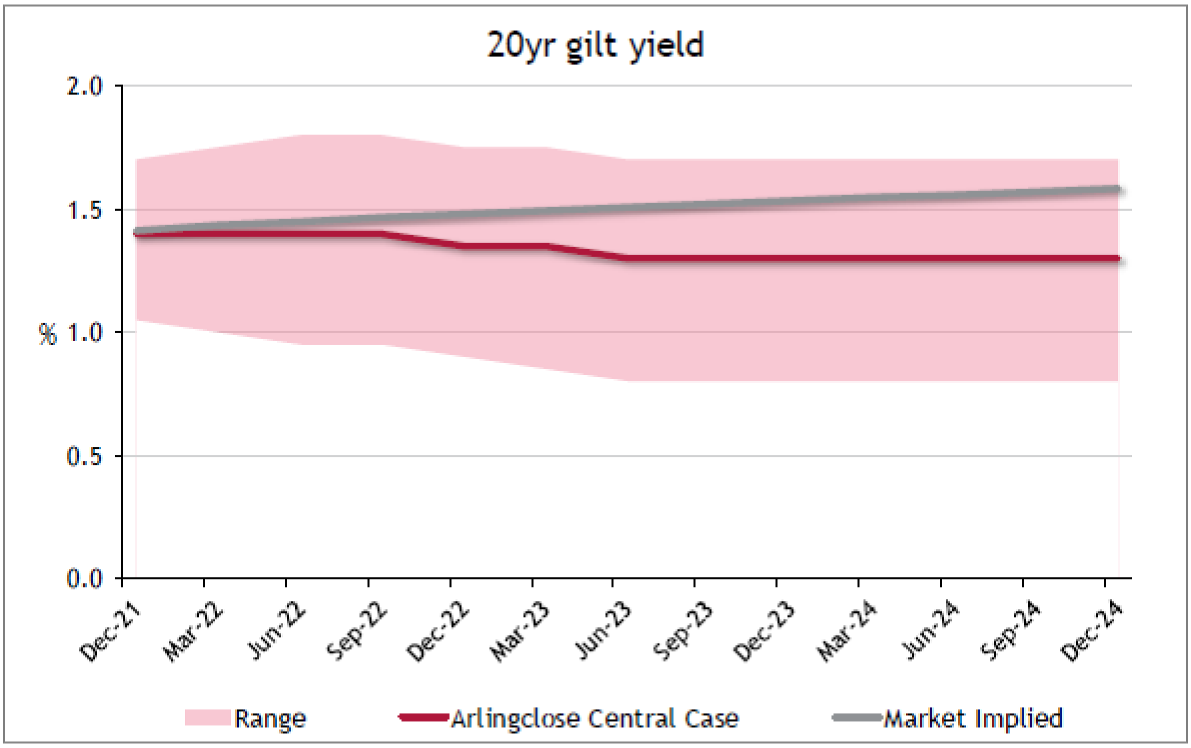
The graph below shows the Arlingclose central case along with market implied and downside risks for Official Bank of England Base Rate.



Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, we believe that gilt yields will be broadly steady, before falling as inflation decreases and market expectations fall into line with our forecast.

The risk around our forecasts for Bank Rate is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later.

The graph below shows the Arlingclose central case along with the market implied risks for 20 year gilt yields.



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