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Financial Resilience Sub-Committee

West Suffolk Council

Title	**Agenda**
Date	**Monday 11 July 2022**
Time	**10.30 am**
Venue	**Facilitated by Microsoft Teams**
Full Members	**Chair** To be appointed by the Financial Resilience Sub-Committee on 11 July 2022. **Conservative Group (2)** Ian Houlder, Elaine McManus **The Independent Group (1)** Victor Lukaniuk
Substitutes	**Conservative Group (1)** Robert Nobbs
By invitation	Sarah Broughton — **Deputy Leader and 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.

Financial Resilience Sub-Committee

Minutes of a meeting of the Financial Resilience Sub-Committee held on Monday 17 January 2022 at 10.30 am facilitated by Microsoft Teams.

Present **Councillors**

Chair Ian Houlder

Victor Lukaniuk

Substitutes attending for a full member
Robert Nobbs

In attendance
Sarah Broughton, Cabinet Member for Resources and Property

47. **Substitutes**

Councillor Robert Nobbs substituting for Councillor Elaine McManus.

48. **Apologies for absence**

Apologies for absence were received from Councillor Elaine McManus.

49. **Minutes**

The minutes of the meeting held on 8 November 2021 were confirmed as a correct record by the Chair.

50. **Declarations of interest**

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

51. **Treasury Management Report - December 2021**

The Sub-Committee received Report number FRS/WS/22/001, which provided a comprehensive assessment on investment activities for West Suffolk Council from 1 April 2021 to 31 December 2021.

The Council held investments of £76,500,000 as at 31 December 2021. Interest achieved in the first nine months of the financial year amounted to £53,087 against a budget for the period of £33,750.

External borrowing as at 31 December 2021 had increased to £14,000,000, from £4,000,000 at 30 September 2021. Correspondingly the council's level of internal borrowing reduced to £37,675,406 as at 31 December 2021.

Overall borrowing, both internally and externally was expected to increase over the full financial year, but not by as much as was originally budget for.

Borrowing costs (interest payable and MRP) for the year were forecast to be £1,026,452 against an approved budget of £3,135,850, although this could change if more external borrowing was undertaken than was currently forecast. This difference would be placed in the capital financing reserve to use towards future interest rate fluctuation.

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

The report also included a summary of borrowing activity during the period; borrowing strategy and sources of borrowing; borrowing and capital costs – affordability; borrowing and income – proportionality; borrowing and asset yields; prudential code, treasury management code and MRP consultation; and market information.

Attached at Appendix 1 to the report was Arlingclose economic and interest rate forecast – December 2021.

The Sub-Committee scrutinised the report in detail and asked questions to which responses were provided. In particular discussions were held on the meaning of "certainty rate"; and whether the council regularly reviewed looking at paying off the long standing £4m.

In response to a question raised relating to the recent £10m loan taken out by the council and whether it was a repayment or interest only payment loan, officers confirmed that it was a fixed repayment loan for a 40-year period at an interest rate of 1.84%.

In response to a question raised on what the £10m loan would be used for, officers explained that the council had an underlying need to borrow, and the loan would be used to fund various capital projects. Paragraph 6.4 of the report provided details of the council's borrowing requirements per project. Up until December 2021 the council had been borrowing internally to fund capital projects.

In response to a question raised on what happens to any interest payable "underspend", the Sub-Committee was advised that this was put in the council's capital financing reserve to mitigate against future interest rate fluctuations.

At the conclusion of the discussions the Service Manager (Finance and Performance) informed the Sub-Committee that officers were still looking to set a date for the council's external treasury advisors (Arlingclose) to give a presentation and provide some training to the Performance and Audit Scrutiny Committee on treasury management.

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

RECOMMENDED:

That subject to the approval of Cabinet and Council, the Treasury Management Report (December 2021), being Report number: FRS/WS/22/001, be approved.

52. **Financial Resilience - Strategy Statement 2022 to 2023 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 Treasury Management Strategy Statement 2022 to 2023 was attached as Appendix 1 to Report number: FRS/WS/22/002, along with the Treasury Management Code of Practice at Appendix 2.

The Service Manager (Finance and Performance) explained that the Treasury Management Code of Practice sets out how the council will operate and advised that no significant changes had been made to the document from that presented last year.

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 response to a question raised relating to the borrowing strategy authorised limits, officers advised each year the borrowing strategy was presented to Council for approval.

In response to a question raised on what the total cost of the Mildenhall Hub was, officers advised the total cost was £45m, with the school element being £16m to £17m. The valuation would be presented in the 2021 to 2022 Statement of Accounts. The council had external valuers who carried out work on valuing its assets, as well as Ernst and Young who also had their own valuers.

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

<u>RECOMMENDED</u>

That:

1) **Subject to the approval of Cabinet and Council the Treasury Management Strategy Statement 2022 to 2023, attached as**

Appendix 1 to Report number: FRS/WS/22/002, 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/22/002, be approved.

53. **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 2022, November 2022 and the January 2023 meetings of the Performance and Audit Scrutiny Committee.

The meeting concluded at 12.01 pm

Signed by:

Chair

Annual Treasury Management and Financial Resilience Report 2021 to 2022

Report number:	**FRS/WS/22/003**	
Report to and date(s):	**Financial Resilience Sub Committee**	11 July 2022
	Performance and Audit Scrutiny Committee	28 July 2022
	Cabinet	20 September 2022
	Council	27 September 2022
Cabinet member:	Councillor Sarah Broughton Deputy Leader and 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**

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

1. **Notes the Annual Treasury Management Report – 2021 to 2022; 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 – 2021 to 2022

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 2021 to 31 March 2022.

2. Executive Summary

2.1 The Council held investments of £66,500,000 as at 31 March 2022. Interest achieved in the financial year amounted to £94,451.98 against a budget for the period of £45,000.

2.2 External borrowing as at 31 March 2022 £14,000,000 (from £4,000,000 at 31 March 2021), and the Council's level of internal borrowing was £41,487,158 as at 31 March 2022.

2.3 Borrowing costs (Interest Payable and MRP) for the year were £991,448 against an approved budget of £3,135,850. This difference was placed in the capital financing reserve to use towards future interest rate fluctuation.

3. Interest Earned from Treasury Investments during the year

3.1 The 2021 to 2022 Annual Treasury Management and Investment Strategy Statements (report FRS/WS/21/002 approved 23 February 2021) sets out the Council's projections for the current financial year. The budget for investment income for 2021 to 2022 was £45,000 which is based on a 0.25 per cent target average rate of return on investments.

3.2 At the end of March 2022 interest actually earned during the financial year amounted to £94,451.98 (average rate of return of 0.395 per cent) against a budget for the year of £45,000 (average rate of return 0.25 per cent); a budgetary surplus of £49,451.98. The surplus is primarily due to higher than predicted cash balances as a result of holding business and COVID support grants prior to distribution.

3.3 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)	Nil		
Santander 365 Day Account	8,000,000	0.697%	55,732.60
Santander 95 Day Account	500,000	0.416%	2,078.77
Lloyds Treasury Account	9,145,753	0.080%	7,316.60
Barclays Deposit Account	6,000,000	0.010%	600.00
CCLA MMF	4,000,000	0.070%	2,784.90
Local Authorities	2,844,504	0.136%	3,943.56
HM Debt Management Office	3,930,458	0.075%	21,995.55
Total Overall Average Return on Investments %			**0.395%**
Total Interest Earned - 1 April 2021 to 31 March 2022			**94,451.98**

3.4 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 2021 to 31 March 2022:

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)	245,500,000
Sub Total	**274,000.000**
Investments realised during the year (including withdrawals from business reserve accounts)	208,500,000
Closing Balance 31 March 2022	**65,500,000**

3.5 The table below lists the investments held as at 31 March 2022

Investments held as at 31 March 2022				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Santander 365 Day	8,000,000	0.83%	01/04/21	365-day Notice
Santander 95 Day	500,000	0.55%	01/04/21	95-day Notice
Lloyds Treasury Account	8,000,000	0.08%	01/04/21	On call availability

Barclays Deposit Account	6,000,000	0.01%	01/04/21	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/21	On call availability
HM Debt Man Office	4,500,000	0.030%	06/12/21	19/04/22
HM Debt Man. Office	4,000,000	0.105%	04/01/22	19/04/22
HM Debt Man. Office	6,000,000	0.140%	04/01/22	01/07/22
HM Debt Man. Office	5,000,000	0.220%	18/01/22	15/07/22
HM Debt Man. Office	4,500,000	0.555%	22/03/22	25/04/22
HM Debt Man. Office	7,000,000	0.550%	30/03/22	19/04/22
HM Debt Man. Office	3,000,000	0.550%	30/03/22	29/04/22
Thurrock BC	5,000,000	0.220%	06/12/21	05/12/22
There were no other fixed term investments				
Total	**65,500,000**			

Please note: The interest rates above are the rates as at 31 March 2022. 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 and external borrowing costs, called the Capital Projects Financing Reserve. The balance in this reserve as at 31 March 2022 was £4,902,184.

4. Borrowing activity during the year

4.1 As with the 2020 to 2021 financial year, the Council continues to hold significant cash balances, see 3.4 above. A large amount of the funds currently being held are on behalf of others e.g. £14 million relates to HM Government for repayment of S31 grants, as well as £9.8 million relating to the Council Tax Rebate Grant scheme.

4.2 The Council had been using an approach during 2021 to 2022, supported by its advisors, to continue to borrow internally to fund its capital investment plans and to avoid the payment of external interest rates. This approach was continually kept under review, based on the level of cash balances the Council held, as well as the interest rates available in the market and the level of risk exposure the Council had to holding the level of internal borrowing it has against the risk of increasing market interest rates.

4.3 Due to several factors, including the market expectations of the Bank of England increasing interest rates to combat high inflationary figures, a dip in PWLB interest rates, and support from members, the Council took the decision to externalise a proportion of its internal borrowing requirement in the year. On 3 December 2021 West Suffolk fixed £10 million with the Public Works Loans Board (PWLB) for a period of 40 years at an interest rate of 1.84%. The loan was done on an Equal Instalment of Principal repayment method, meaning that there will be a repayment of £125,000 every six months of the loan.

4.4 With this extra borrowing in the year, West Suffolk ended the year on 31 March 2022 with £14 million of external borrowing, which is an increase of £10 million on the level it held on 31 March 2021.

4.5 The table below is a summary of the borrowings and temporary loans as at 31 March 2022.

Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2021 (£)**	**In Year Movement (£)**	**Balance - 31 March 2022 (£)**	**Interest Rate**	**Maturity date**
Barclays Bank	4,000,000	0	4,000,000	4.24%	31 March 2078
PWLB	0	10,000,000	10,000,000	1.84%	1 December 2061

4.6 During the year the councils underlying need to borrow (Capital Financing Requirement – CFR, the amount the Council has invested in its communities) increased by just over £6 million. With the £10 million of external borrowing taken out in the year, the level of internal borrowing the council has reduced by £3.9 million. This will help to reduce the level of interest rate risk the council is currently exposed to.

4.7 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 2021 (£)	**In Year Movement (£)**	**Balance – 31 March 2022 (£)**
Total CFR	49,405,385	6,081,773	55,487,158
Less: External Borrowing	(4,000,000)	(10,000,000)	(14,000,000)
Internal Borrowing	**45,405,385**	**(3,918,227)**	**41,487,158**

5. Borrowing and Capital Costs - Affordability

5.1 The 2021 to 2022 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
- Toggam Solar Farm
- Investing in our Growth Fund

5.2 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.

5.3 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.

5.4 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	£18,838,544	£209,500	£410,500
Western Way Development	£21,560,577	£0	£0
Mildenhall Hub	£17,438,264	£142,000	£207,650
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	£182,100	£350,900
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.

5.5 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.

5.6 Whilst the budget for interest payable are derived from the business cases of each individual project, when borrowing actually occurs is a treasury management decision and is generally not directly linked to any specific project. It is therefore not easy to match the interest payable the Council will actually incur to specific projects. The table below therefore gives an overall summary of forecast capital borrowing for 2021 to 2022 but does not split it out by project.

Summary of Capital Borrowing for 2021 to 2022			
External Borrowing	**Internal Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
£14,000,000	£41,487,158	£761,249	£230,199
Total Borrowing	**£55,489,158**	**£991,448**	
% of Gross Revenue Income (excl COVID-19 Grants)		**1.8%**	**0.6%**

5.7 The original forecast position at paragraph 5.4, moved due to the following reasons:

- 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.
- Underspend against the Investing in our Growth Fund.

5.8 A total of £1,632,612 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 £4,902,184 to be utilised in future budget periods to accommodate any fluctuations or market movements in interest rates and external borrowing costs.

6. Borrowing and Income - Proportionality

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

6.2 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.

6.3 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 actual borrowing requirement at the end of the financial year was £55.5 million, which represents 20.1 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.

7. Borrowing and Asset Yields

7.1 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.

7.2 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.

7.3 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 to 2022 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%
Other		£5.7	£0.0	£0.0	£0.0	0.0%
TOTAL	**£77.1**	**£55.7**	**£8.5**	**£7.3**	**£5.4**	**7.0%**

2021 to 2022 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	£28.1	£0.0	£2.9	£2.4	£2.4	8.5%
Retail Units	£20.0	£0.0	£1.8	£1.5	£1.5	7.5%
Land	£11.8	£0.0	£1.0	£0.9	£0.9	7.6%
Solar Farm	£15.0	£0.0	£1.3	£0.9	£0.3	2.1%
Growth Fund		£0.0	£0.0	£0.0	£0.0	0.0%
Other		£14.0	£0.0	£0.0	£0.0	0.0%
TOTAL	**£74.9**	**£14.0**	**£7.0**	**£5.7**	**£5.1**	**6.8%**

* Includes direct operating costs

8. Background documents associated with this report

8.1 Capital Strategy 2021 to 22, Treasury Management Strategy Statement 2021 to 2022 and Treasury Management Code of Practice

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Treasury Management Report - June 2022

Report number:	**FRS/WS/22/004**	
Report to and date(s):	**Financial Resilience Sub Committee**	11 July 2022
	Performance and Audit Scrutiny Committee	28 July 2022
	Cabinet	20 September 2022
	Council	27 September 2022
Cabinet member:	Councillor Sarah Broughton Deputy Leader and 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 in included in the Decisions Plan.**

Wards impacted: **All**

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

1. **Notes the Treasury Management Report – June 2022; and**
2. **Makes recommendations as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**

1. Treasury Management Report – June 2022

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 2022 to 30 June 2022.

2. Executive Summary

2.1 The Council held investments of £66,500,000 as at 30 June 2022. Interest achieved in the first quarter of the financial year amounted to £90,077.11 against a budget for the period of £11,250.

2.2 External borrowing as at 30 June 2022 was £13,875,000, a reduction of £125,000 from 1 April 2022 (relates to the repayment plan for the recent PWLB £10 million 40-year loan), with the Council's level of internal borrowing increasing slightly to £41,536,828 as at 30 June 2022. Overall borrowing (both external and internal) is expected to increase over the full financial year.

2.3 Borrowing costs (Interest Payable and MRP) for the year are forecast to be £1,090,606 against an approved budget of £2,268,350, 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 2022 to 2023 Annual Treasury Management and Investment Strategy Statements (report COU/WS/22/002 approved 22 February 2022) sets out the Council's projections for the current financial year. The budget for investment income of 2022 to 2023 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 2022 interest actually earned during the first quarter of the financial year amounted to £90,077.11 (average rate of return of 0.582 per cent) against a profiled budget for the period of £11,250 (average rate of return 0.25 per cent); a budgetary surplus of £78,827.11. The surplus is due to two main reasons, the council were holding considerable amounts of grant money pending distribution and the frenzy of activity in the investment market which has seen interest rates rising almost daily.

3.3 The table below summaries the interest earned, and the average rate of return achieved at 30 June 2022.

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)	nil		nil
Santander 365 Day Account	8,000,000	0.970%	19,346.85
Santander 95 Day Account	500,000	0.740%	922.47
Lloyds Treasury Account	8,337,912	0.080%	1,663.01
Barclays Deposit Account*	6,000,000	0.010%	149.59
CCLA MMF	4,000,000	0.655%	6,534.36
Local Authorities	5,000,000	0.220%	2,742.47
HM Debt Management Office	4,585,579	0.630%	58,718.36
Total Overall Average Return on Investments %			**0.582%**
Total Interest Earned - 1 April 2022 to 30 June 2022			**90,077.11**

* 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	
	2022 to 2023 (£)
Opening Balance 01 April 2022	**65,500,000**
Investments made during the year (including transfers to business reserve accounts)	68,250,000
Sub Total	**133,750,000**
Less Investments realised during the year (including withdrawals from business reserve accounts)	67,250,000
Closing Balance 30 June 2022	**66,500,000**

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

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

Investments held as at 30 June 2022				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Santander 365 Day	8,000,000	0.97%	01/04/22	365-day Notice

Santander 95 Day	500,000	0.74%	01/04/22	95-day Notice
Lloyds Treasury Account	4,000,000	0.08%	01/04/22	On call availability
Barclays Deposit Account	6,000,000	0.01%	01/04/22	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/22	On call availability
HM Debt Man. Office	6,000,000	0.14%	04/01/22	01/07/22
HM Debt Man. Office	5,000,000	0.22%	18/01/22	15/07/22
HM Debt Man. Office	6,000,000	1.075%	22/04/22	21/10/22
HM Debt Man. Office	3,000,000	0.99%	28/04/22	27/10/22
HM Debt Man. Office	2,500,000	1.03%	29/04/22	28/10/22
HM Debt Man. Office	1,500,000	0.95%	10/05/22	22/07/22
HM Debt Man. Office	2,000,000	1.045%	18/05/22	15/09/22
HM Debt Man. Office	7,000,000	1.01%	01/06/22	19/07/22
HM Debt Man. Office	6,000,000	1.595%	15/06/22	14/12/22
Thurrock BC	5,000,000	0.22%	06/12/21	05/12/22
There were no other fixed term investments				
Total	**66,500,000**			

Please note: The interest rates above are the rates as at 30 June 2022. 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 and external borrowing costs, called the Capital Projects Financing Reserve. The balance in this reserve as at 30 June 2022 was £4,902,184.

4. Borrowing activity during the period

4.1 As with the 2021 to 2022 financial year, the Council continues to hold significant cash balances, see 3.4 above. A large amount of the funds currently being held are on behalf of others e.g. £14 million relates to HM Government for repayment of S31 grants, as well as council tax receipts held on behalf of Suffolk County Council and Suffolk Police & Crime Commissioner.

4.2 On 30 June 2022 West Suffolk had £13.875 million of external borrowing, which is £125,000 less than it held on 1 April 2022, this relates to the repayment plan for the recent PWLB £10 million 40-year loan. With interest rates having increased and cash balances remaining healthy, it is unlikely that any further external borrowing will need to be undertaken in the 2022 to 2023 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 3.50 per cent at the date of publishing this report) than we would get back from investing the extra surplus cash (current average return on our treasury investments of 0.582 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 2022.

External Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2022 (£)**	**Movement (£)**	**Balance - 30 June 2022 (£)**	**Interest Rate**	**Maturity date**
Barclays Bank	4,000,000	0	4,000,000	4.24%	31 March 2078
PWLB	10,000,000	(125,000)	9,875,000	1.84%	1 December 2061

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.

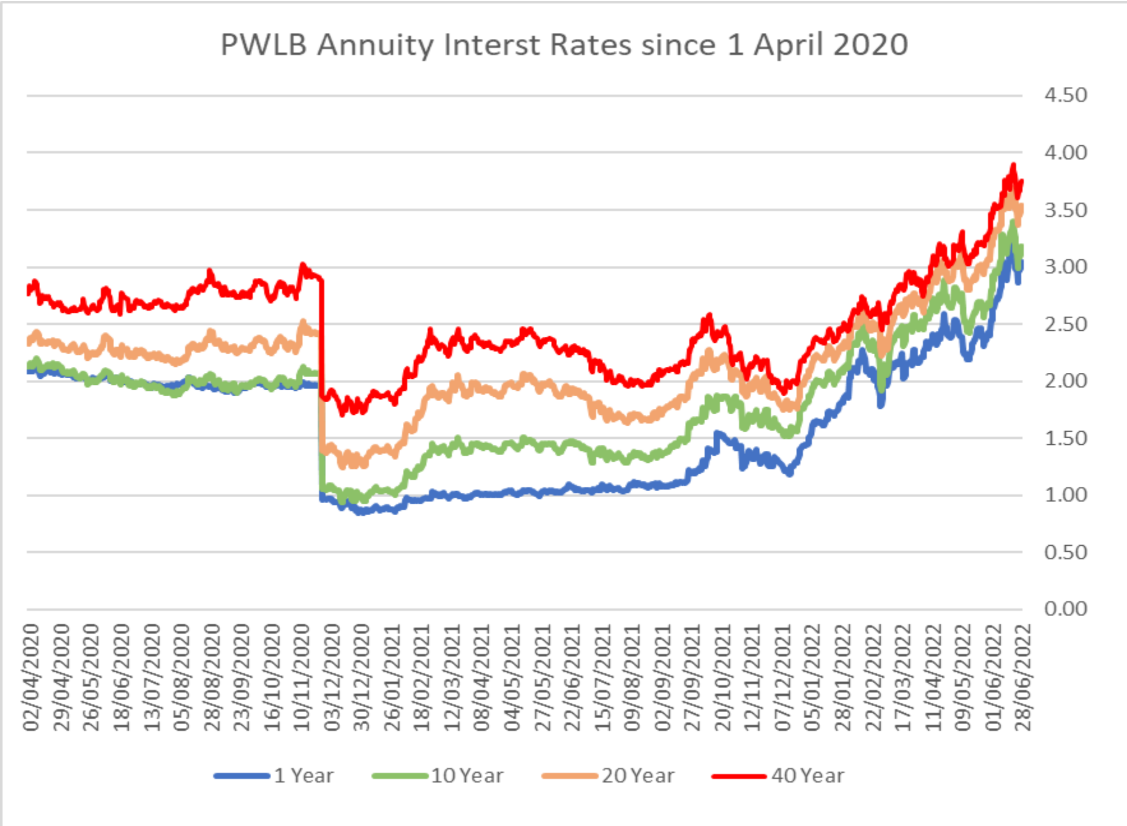
	31 March 2022 **Actual £ millions**	**31 March 2023** **Approved Budget £ millions**	**31 March 2023** **Forecast £ millions**	**31 March 2024** **Forecast £ millions**	**31 March 2025** **Forecast £ millions**
Capital Financing Requirement (CFR)	**55.49**	**81.07**	**69.49**	**118.56**	**159.84**

5. Borrowing Strategy and Sources of Borrowing

5.1 As detailed in the 2022 to 2023 Treasury Management Strategy Statement, the current borrowing strategy is still to make short-term use of internal funds (internal borrowing). 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.

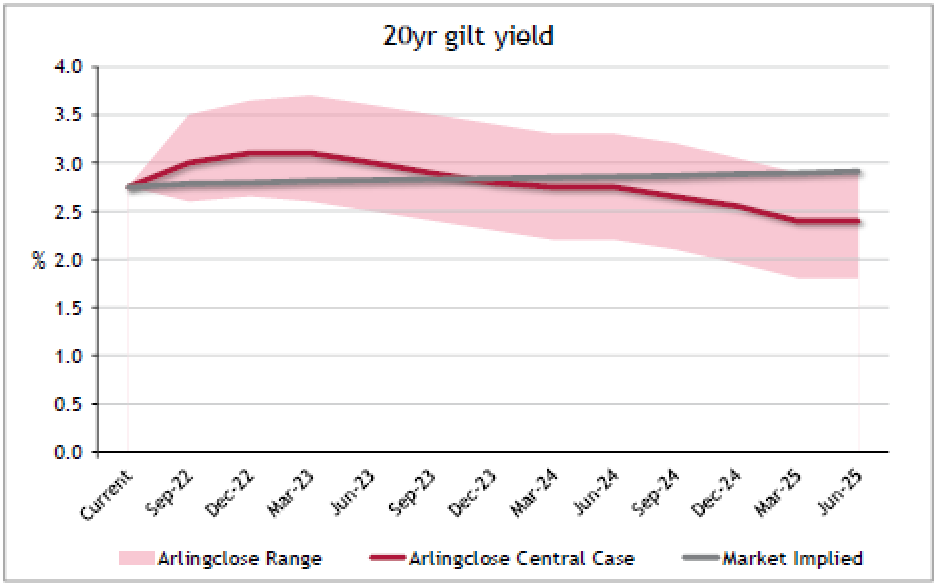
5.2 There are various sources of borrowing that the Council is able to make use of for longer term borrowing, which are detailed in the strategy statement. The traditional method for local authorities, and the default method the Council uses in all of its business cases, is to borrow from the Public 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 As you can see from the graph above, PWLB rates have been steadily increasing over the past 6 months, with a sharp increase over the past month. This is largely as a result of global inflation being at high levels, with the market expectation that these high levels will last longer than originally anticipated. This has led to central banks in the UK, US and EU to raise central interest rates and follow policies of monetary tightening beyond original expectations. These higher rates are expected to remain in the short to medium term, but then drop back down when inflationary pressures have subsided on the expectation of slowed growth with the major economies. See graph below.



5.6 PWLB interest rates for 40-year borrowing using the annuity method were 3.69 per cent (3.49 per cent for Certainty Rate) on 30 June 2022. Using the current value of internal borrowing of £41,536,828, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 3.49 per cent Certainty Rate, the Council would incur an initial annual interest payable cost of £1,801,290 (including our current external borrowing). This compares to our interest payable budget for 2022 to 2023 of £1,529,400. As detailed in 4.1 and 4.2, the council is currently holding significant cash balances and as such does not need to transfer this level of internal borrowing to external. The Council also has an earmarked revenue reserve to mitigate against possible adverse fluctuations in interest and borrowing rates, called the Capital Projects Financing Reserve. The balance in this reserve as at 30 June 2022 was £4,902,184.

5.7 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 2022 to 2023 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
- Toggam Solar Farm
- 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 2022 to 2023			
Project – all supported by business cases	**Borrowing Requirement (Budget)**	**Borrowing Costs**	
		Minimum Revenue Provision (MRP)	**Interest Payable**
Investing in our Growth Fund	£4,319,027	£0	£0
Western Way Development	£5,600,000	£0	£0
Mildenhall Hub	£16,175,947	£145,600	£204,050
West Suffolk Operational Hub	£9,383,968	£173,000	£306,750
Newmarket Leisure Centre	£2,740,261	£12,800	£169,600
Toggam Solar Farm	£1,756,244	£188,050	£344,950
20 High St Haverhill	£1,784,905	£29,400	£55,900
113 High St Newmarket	£676,709	£11,700	£22,100
Olding Road DHL Depot	£3,549,684	£0	£0
Provincial House	£3,434,468	£55,450	£98,200
Vicon House, Western Way	£3,288,232	£50,800	£100,700
33-35 High St, Haverhill	£364,930	£5,450	£10,850
17/18 Cornhill	£2,655,845	£39,550	£84,550
Elsey’s Yard	£240,124	£5,300	£11,100
St Edmunds Guest House	£982,579	£11,050	£34,700
Incubation Units, Suffolk Business Park	£12,100,000	£0	£0

Net Zero / Community Energy Plan	£2,590,000	£0	£0
Loans and other	£9,425,800	£10,800	£85,950
Total borrowing and associated servicing costs	**£81,068,723**	**£738,950**	**£1,529,400***
% of Gross Revenue Income Budget		**1.3%**	**2.6%**

* 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 Whilst the budget for interest payable are derived from the business cases of each individual project, when borrowing actually occurs is a treasury management decision and is generally not directly linked to any specific project. It is therefore not easy to match the interest payable the Council will actually incur to specific projects. The table below therefore gives an overall summary of forecast capital borrowing for 2022 to 2023 but does not split it out by project.

Summary of Forecast Capital Borrowing for 2022 to 2023			
External Borrowing	**Internal Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
£13,750,000	£55,740,662	£738,950	£351,656
Total Borrowing	**£69,490,662**	**£1,090,606**	
% of Gross Revenue Income (excl COVID-19 Grants)		**1.4%**	**0.7%**

6.7 The original budget position, as set out in paragraph 6.4, has moved due to the following reasons:

- Forecast use of internal borrowing instead of external borrowing during 2022 to 2023.

- 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 2022, the Councils asset base was valued at £261.9 million. As such the budgeted borrowing requirement of £81.07 million would have represented 30.95 per cent of our long-term asset base. The forecast borrowing requirement at the end of the financial year is £69.49 million, which represents 26.53 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.

2022/23 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	£28.1	£13.4	£2.6	£2.1	£1.7	6.0%

Retail Units	£20.0	£2.6	£2.0	£1.6	£1.5	7.5%
Land	£11.8	£0.0	£1.0	£1.0	£1.0	8.4%
Solar Farm	£15.0	£1.8	£1.8	£1.3	£0.7	4.7%
Growth Fund		£4.3	£0.0	£0.0	£0.0	0.0%
Other		£33.4	£0.5	£0.4	£0.1	0.0%
TOTAL	**£74.9**	**£81.1**	**£7.9**	**£6.4**	**£5.0**	**6.7%**

2022/23	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	£28.1	£0.0	£2.6	£2.1	£2.0	3.4%
Retail Units	£20.0	£0.0	£2.0	£1.6	£1.6	8.0%
Land	£11.8	£0.0	£1.0	£1.0	£1.0	8.4%
Solar Farm	£15.0	£0.0	£1.8	£1.3	£0.7	4.7%
Growth Fund		£0.0	£0.0	£0.0	£0.0	0.0%
Other		£14.0	£0.5	£0.4	£0.0	0.0%
TOTAL	**£74.9**	**£14.0**	**£7.9**	**£6.4**	**£5.3**	**7.1%**

* Includes direct operating costs

9. PWLB Rule Changes

9.1 Updated guidance from PWLB in May 2022 advised that the PWLB would be able to restrict new borrowing to local authorities where there is a more than negligible risk that the newly advanced loan will not be repaid without future government support. However, it does state that HM Treasury considers compliance with the Prudential Framework generally provides sufficient assurance regarding the risk of non-repayment help by a local authority. As such, local authorities should not expect any change in their ability to access PWLB loans unless contacted by HM Treasury regarding specific concerns. West Suffolk has not been contacted by HM Treasury regarding any investment or borrowing concerns.

9.2 The Department for Levelling Up, Housing and Communities (DLUHC) has also published proposed new intervention powers to directly tackle excessive risk within the local government capital system in England. The powers should provide the government the flexibility to intercede where it is appropriate and necessary to do so based on the government's assessment of risk. This could require authorities to provide specific information, undertake commissioned reviews, place borrowing caps in relation to a range of risky activities or take specific actions to reduce its level of risk.

9.3 There are a range of metrics which the government will have regard to in determining whether it is appropriate to use the statutory powers, which include:

- Proportionality of debt
- Proportion of capital assets which are investments taken in order to generate net financial return or profit
- Estimates show that the authority is not meeting its statutory duty to make sufficient provision to repay debt
- Proportion of debt held by the local authority where the counterparty is not local or central government.

These metrics will serve as a trigger for review, rather than intervention.

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 2022.

11. Background documents associated with this report

11.1 Capital Strategy 2022 to 2023, Treasury Management Strategy Statement 2022 to 2023 and Treasury Management Code of Practice.