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Financial Resilience Sub-Committee

West Suffolk Council

Title	**Agenda**		
Date	**Monday 7 November 2022**		
Time	**10.30am**		
Venue	**Facilitated by Microsoft Teams**		
Full Members		**Chair** Ian Houlder	
	Conservative Group (2)	Ian Houlder	Robert Nobbs
	The Independent Group (1)	Victor Lukaniuk	
Substitutes	**Conservative Group (1)**	Nick Clarke	
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 11 July 2022 (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 2022 **5 - 18**

Report number: **FRS/WS/22/005**

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:

- 16 January 2023 (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 11 July 2022** at **10.30 am** facilitated by Microsoft Teams.

Present **Councillors**

Chair Ian Houlder

Elaine McManus Victor Lukaniuk

In attendance
Sarah Broughton, Cabinet Member for Resources and Property

54. **Substitutes**

No substitutions were declared.

55. **Appointment of Chair: 2022 to 2023**

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

RESOLVED:

That Councillor Ian Houlder be elected Chair of the Financial Resilience Sub-Committee for 2022 to 2023.

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

56. **Apologies for absence**

No apologies for absence were received.

57. **Minutes**

The minutes of the meeting held on 17 January 2022 were confirmed as a correct record by the Chair.

58. **Declarations of interest**

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

59. **Annual Treasury Management and Financial Resilience Report 2021 to 2022**

The Sub-Committee received Report number FRS/WS/22/003, which reported on treasury activities of West Suffolk Council from 1 April 2021 to 31 March 2022.

The 2021 to 2022 Annual Treasury Management and Investment Strategy Statements, approved on 23 February 2021, sets out the Council's projections for the current financial year. The budget for investment income in 2021 to 2022 was £45,000, which was based on a 0.25% target average rate of return on investments.

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

The Annual Treasury Management and Financial Resilience Report (2021 to 2022) 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 2022; borrowings and temporary loans; capital financing requirement and internal borrowing.

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

- Western Way Development;
- Mildenhall Hub;
- West Suffolk Operational Hub;
- Toggam Solar Farm; and
- Investing in our Growth Fund.

During the financial year the Councils underlying need to borrow (Capital Financing Requirement – the amount the Council had invested in its communities) had increased by just over £6m. With the £10m of external borrowing taken out in December 2021, the level of internal borrowing the Council had reduced by £3.9m. This would help to reduce the level of interest rate risk the Council was currently exposed to. Officers took members through the current interest rate risk exposure and the advice from Arlingclose that rates are projected to return to lower levels in the medium term.

The Sub-Committee scrutinised the Annual Treasury Management and Financial Resilience Report 2021 to 2022, and asked questions to which responses were provided.

In response to a question raised relating to the £10m loan, officers explained that the loan was taken out at a fixed rate of 1.84% over a 40-year period. The loan was not allocated to any specific capital project but would be used towards the capital financing requirements of projects as set out in the report.

In response to a question raised on how would the Council rebuild its cash balance, officers advised that the intention was the Council would need to borrow externally. Over the next 12 months the Council would need to make provision from March 2023 to borrow externally.

It was then proposed by Councillor Ian Houlder, seconded by Councillor Elaine MacManus, 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 (2021 to 2022), being Report number FRS/WS/22/003, be approved.

60. **Treasury Management Report - June 2022**

The Sub-Committee received Report number FRS/WS/22/004, which provided a comprehensive assessment on investment activities for West Suffolk Council from 1 April 2022 to 30 June 2022.

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

External borrowing as at 30 June 2022 was £13,875,000, a reduction of £125,000 from 1 April 2022 (this relates to the repayment plan for the recent PWLB £10m, 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 was expected to increase over the full financial year.

Borrowing costs (interest payable and MRP) for the year were forecast to be £1,090,606 against an approved budget of £2,268,350 although this could change if more external borrowing was undertaken than was currently forecast.

The 2022 to 2023 Annual Treasury Management and Investment Strategy Statements sets out the Council's projections for the current financial year. The budget for investment income for 2022 to 2023 was £45,000 which was based on a 0.25 per cent 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; PWLB rule changes; and market information.

Finally, officers explained that future reports would include a section on "liability benchmark". At the end of 2021 a CIPFA consultation was issued with a proposal to include a new indicator for the "liability benchmark" in the Treasury Management Code. The liability benchmark was effectively the net borrowing requirement of a local authority, plus a liquidity allowance over the long-term life of any external loans. This showed the funding position of a local authority after taking into account reserves and the working capital cash

position. It then measured current and committed external borrowing against that need and reflected the current capital programme.

The Sub-Committee scrutinised the report in detail and asked questions to which responses were provided.

In response to a question raised around future borrowing, officers explained that based on evidence available today, the Council was not looking to borrow externally over the next 12 months, but if interest rates significantly dropped, officers will revisit that decision.

In response to a question raised relating to covid grants, officers explained that the Council had finished paying out covid business grants. However, there was a holding balance on some schemes and once reconciled, would be paid back to the Government.

The Sub-Committee referred to table 6.4, on page 22 of the report (summary of capital borrowing budget 2022 to 2023) and suggested including a timeline setting out the projected start/completion date for each capital project, which officers agreed to look into further.

It was then proposed by Councillor Ian Houlder, seconded by Councillor Elaine McManus, 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.

61. **Dates of future meetings**

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

- 7 November 2022 (Venue: to be confirmed)
- 16 January 2023 (Venue to be confirmed)

The meeting concluded at 11.34 am

Signed by:

Chair

West Suffolk Council

Treasury Management Report - September 2022

Report number:	**FRS/WS/22/005**	
Report to and date(s):	**Financial Resilience Sub Committee**	7 November 2022
	Performance and Audit Scrutiny Committee	17 November 2022
	Cabinet	6 December 2022
	Council	13 December 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 Procurement) **Tel:** 01284 757264 **Email:** gregory.stevenson@westsuffolk.gov.uk	

Decisions Plan: **This item is included in the Cabinet Decisions Plan.**

Wards impacted: **All**

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

1. **<u>Notes</u> the Treasury Management Report – September 2022; and**

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

1. Treasury Management Report – September 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 September 2022.

2. Executive Summary

2.1 The Council held investments of £78,000,000 as at 30 September 2022. Interest achieved in the first half of the financial year amounted to £317,734 against a budget for the period of £22,500.

2.2 External borrowing as at 30 September 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 £41,699,661 as at 30 September 2022. Overall borrowing (weighted towards 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 £1,069,488 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 percent target average rate of return on investments (set prior to the current economic situation).

3.2 At the end of September 2022 interest actually earned during the first half of the financial year amounted to £317,734 (average rate of return of 0.943 percent) against a profiled budget for the period of £22,500 (average rate of return 0.25 percent); a budgetary surplus of £295,234. The surplus is due to two main reasons, the council were holding considerable amounts of grant money pending distribution, so cash balances were highly than predicted and with the continuing volatility in the investment market, interest rates continue to change (overall increasing) almost daily.

3.3 The table below summaries the interest earned, and the average rate of return achieved at 30 September 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	1.140%	45,762.19
Santander 95 Day Account	500,000	0.936%	2,346.57
Lloyds Treasury Account	7,669,836	0.080%	3,119.45
Barclays Deposit Account*	6,000,000	0.010%	300.82
CCLA MMF	4,000,000	0.938%	18,818.71
Local Authorities	5,000,000	0.220%	5,515.07
HM Debt Management Office	4,241,388	1.120%	241,871.43
Total Overall Average Return on Investments %			**0.943%**
Total Interest Earned - 1 April 2022 to 30 Sept 2022			**317,734.24**

* 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)	129,750,000
Sub Total	**195,250,000**
Less Investments realised during the year (including withdrawals from business reserve accounts)	117,250,000
Closing Balance 30 September 2022	**78,000,000**

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 September 2022

Investments held as at 30 September 2022				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Santander 365 Day	8,000,000	1.140%	01/04/22	365-day Notice
Santander 95 Day	500,000	0.930%	01/04/22	95-day Notice
Lloyds Treasury Account	4,500,000	0.080%	01/04/22	On call availability
Barclays Deposit Account	6,000,000	0.010%	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	1.075%	22/04/22	21/10/22
HM Debt Man. Office	3,000,000	0.990%	28/04/22	27/10/22
HM Debt Man. Office	2,500,000	1.030%	29/04/22	28/10/22
HM Debt Man. Office	6,000,000	1.595%	15/06/22	14/12/22
HM Debt Man. Office	4,000,000	1.665%	01/07/22	19/12/22
HM Debt Man. Office	2,500,000	1.800%	12/07/22	10/01/23
HM Debt Man. Office	5,000,000	1.960%	19/07/22	17/01/23
HM Debt Man. Office	5,000,000	1.935%	01/08/22	30/01/23
HM Debt Man. Office	3,000,000	1.795%	08/08/22	09/11/22
HM Debt Man. Office	3,000,000	2.110%	12/08/22	10/02/23
HM Debt Man. Office	6,000,000	1.875%	01/09/22	17/10/23
HM Debt Man. Office	4,000,000	2.535%	01/09/22	28/02/23
Thurrock BC	5,000,000	0.220%	06/12/21	05/12/22
There were no other fixed term investments				
Total	**78,000,000**			

Please note: The interest rates above are the rates as at 30 September 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 September 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, for example £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 and Crime Commissioner.

4.2 On 30 September 2022, West Suffolk had £13.875 million of external borrowing, which is £125,000 less than it held on 1 April 2022, this reduction 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 4.6 percent 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 0.943 percent). 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 2022.

External Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2022 (£)**	**Movement (£)**	**Balance - 30 Sept 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.

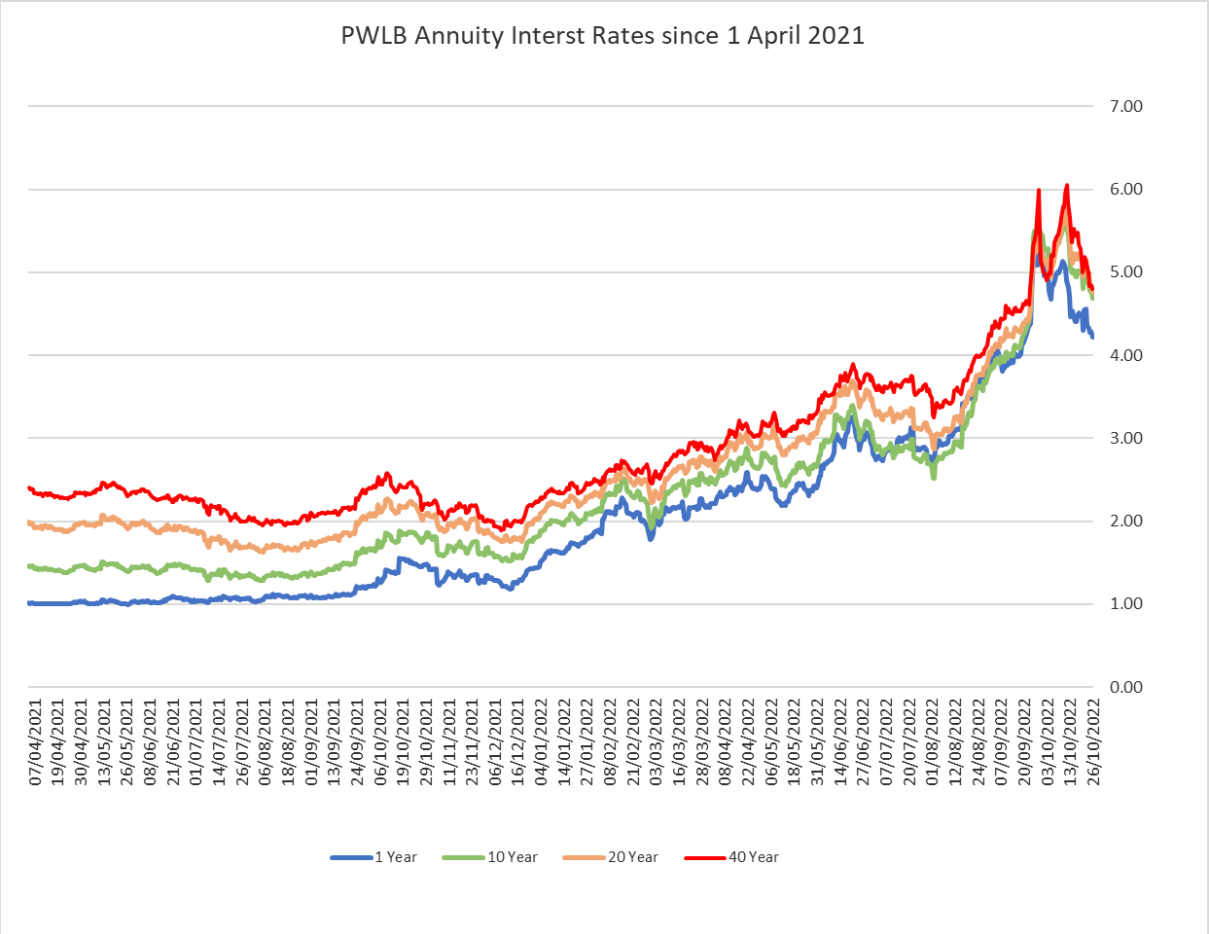
	31 March 2022 **Actual £ millions**	**31 March 2023** **Approved Budget £ millions**	**31 March 2023** **Forecast £ millions**	**31 March 2024** **Forecast £ millions**	**31 March 2025** **Forecast £ millions**
CFR	**55.49**	**81.07**	**58.86**	**118.56**	**159.84**

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.

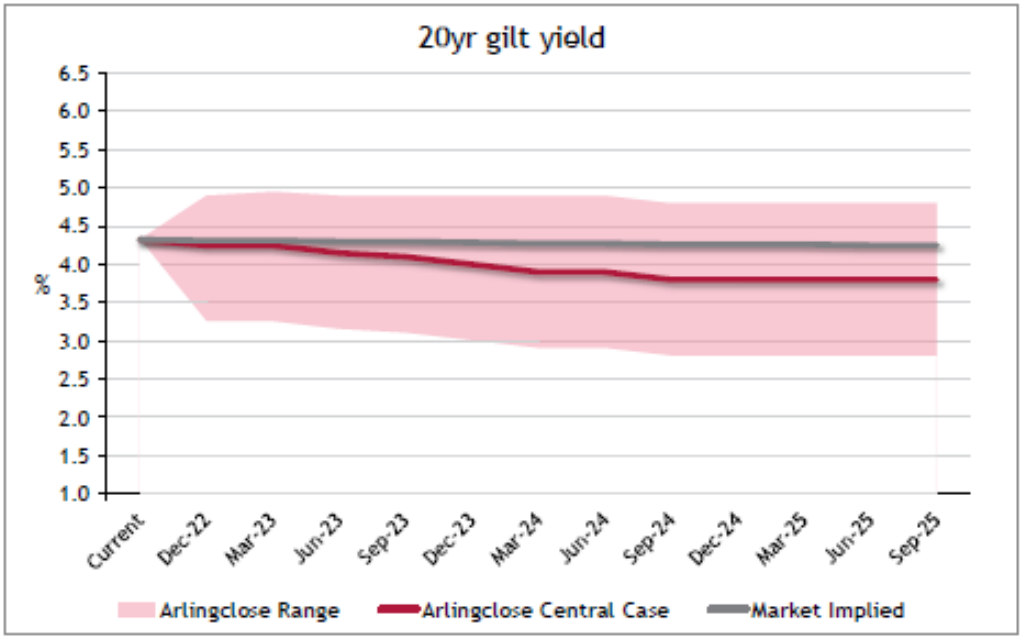
5.3 The graph below shows historic PWLB interest rates over the previous 2 years, for different durations based on borrowing using the annuity method.



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 percent above the

relevant UK Gilt rate. West Suffolk Council has access to PWLB Certainty Rates which are only 0.80 percent above the relevant UK Gilt rate.

5.5 As you can see from the graph above, PWLB rates have been steadily increasing over the past 6 months, with a significant volatility 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 slightly 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 4.96 percent (4.76 percent for Certainty Rate) on 30 September 2022 – although such is the current market volatility only two days prior on the 28 September rates were as high as 6.00 percent (5.80 percent for Certainty Rate). Using the current value of internal borrowing of £41,699,661, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 4.76 percent Certainty Rate, the Council would incur an initial annual interest payable cost of £2,335,217 (including our current external borrowing). This compares to our interest payable budget for 2022 to 2023 of £1,529,400.

5.7 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 September 2022 was £4,902,184.

5.8 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 percent.

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	£45,107,984	£719,175	£350,313
Total Borrowing	**£58,857,984**	**£1,069,488**	
% 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 £58.86 million, which represents 22.47 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 FORECAST	**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	£2.7	£2.1	£1.9	6.7%
Retail Units	£20.0	£0.0	£1.9	£1.5	£1.5	7.5%
Land	£11.8	£0.0	£1.0	£1.0	£1.0	8.4%
Solar Farm	£15.0	£0.0	£1.9	£1.4	£0.8	5.3%
Growth Fund		£0.0	£0.0	£0.0	£0.0	0.0%
Other		£14.0	£0.8	£0.7	£0.4	0.0%
TOTAL	**£74.9**	**£14.0**	**£8.3**	**£6.7**	**£5.6**	**7.5%**

* Includes direct operating costs

9. Market Information

9.1 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 2022.

10. Background documents associated with this report

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

Arlingclose Economic and Interest Rate Forecast – September 2022

Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty

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