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Financial Resilience Sub-Committee

Title	**Agenda**	
Date	**Monday 17 July 2023**	
Time	**10.30 am**	
Venue	**Facilitated by Microsoft Teams**	
Full Members	**Chair** To be appointed by the Financial Resilience Sub-Committee on 17 July 2023.	
	Conservative Group (1)	Ian Houlder
	Independents (1)	Frank Stennett
	Progressive Alliance Grouping (1)	Sue Perry
Substitutes	**Independents (1)**	Don Waldron
By invitation	Diane Hind	**Portfolio Holder for Resources**
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, other registerable or non-registrable 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.	
Quorum	Three Members	
Committee administrator	**Christine Brain** Democratic Services Officer (Scrutiny) **Telephone** 01638 719729 **Email** democratic.services@westsuffolk.gov.uk	

Pages

Agenda

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

1. Substitutes

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

2. Appointment of Chair: 2023 to 2024

3. Apologies for absence

4. Minutes **1 - 4**

To confirm the minutes of the meeting held on 16 January 2023 (copy attached.)

5. Declarations of interest

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

6. Annual Treasury Management and Financial Resilience Report 2022 to 2023 **5 - 18**

Report number: **FRS/WS/23/003**

7. Treasury Management Report (June 2023) **19 - 32**

Report number: **FRS/WS/23/004**

8. Dates of future meetings

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

- 13 November 2023
- 15 January 2024

Financial Resilience Sub-Committee

Minutes of a meeting of the **Financial Resilience Sub-Committee** held on **Monday 16 January 2023** at **10.30 am** facilitated by Microsoft Teams

Present **Councillors**

Chair Ian Houlder

Victor Lukaniuk Robert Nobbs

In attendance
Sarah Broughton, Cabinet Member for Resources and Property

68. **Substitutes**

No substitutions were declared.

69. **Apologies for absence**

No apologies for absence were received.

70. **Minutes**

The minutes of the meeting held on 7 November 2022 were confirmed as a correct record by the Chair.

71. **Declarations of interest**

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

72. **Treasury Management Report - December 2022**

The Sub-Committee received report number FRS/WS/23/001, which provided a comprehensive assessment on investment activities for West Suffolk Council from 1 April 2022 to 31 December 2022.

The Council held investments of £71,500,000 as at 31 December 2022. Interest achieved in the first nine months of the financial year totalled £639,193.67 against a budget for the period of £33,750.

External borrowing as at 31 December 2022 was £13,750,000 a reduction of £250,000 from 1 April 2022 (this 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 £42,309,057 as at 31 December 2022. Overall borrowing, which was weighted towards internal borrowing was expected to increase over the full financial year.

Borrowing costs (Interest Payable and MRP) for the year was forecast to be £1,069,488 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 approved on 22 February 2022 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 percent target average rate of return on investments, set prior to the current economic situation.

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 and market information.

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

In response to a question raised on whether any progress had been made in relation to enquiries about paying back the £4m Barclays loan, officers advised that the Council's Treasury Advisor, Arlingclose had made enquiries and discussions were still ongoing with Barclays.

In response to a question raised on the volatility of the markets, officers advised that the Council was starting to see its investment rates rising, which were set out on page 8 of the report.

In response to a question raised regarding external borrowing, officers advised that it did not envisage the Council needing to borrow externally during the remainder of the financial year. However, if interest rates were to change significantly then the Council would revisit interest rates available at that time.

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

RECOMMENDED:

That subject to the approval of Cabinet and Council, the Treasury Management Report (December 2022), being report number FRS/WS/23/001, be approved.

73. **Financial Resilience - Strategy Statement 2023 to 2024 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 2023 to 2024 was attached as Appendix 1 to Report number: FRS/WS/23/002, along with the Treasury Management Code of Practice at Appendix 2.

A new Treasury Code of Practice was published on 20 December 2021 and changes from this Code had been incorporated into the Treasury Management Strategy 2023 to 2024. The key changes made were around knowledge and skills, as well as the inclusion of some extra treasury management prudential indicators, mainly around the liability benchmark.

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

The Sub-Committee scrutinised the report in detail and asked a number of questions to which comprehensive responses were provided. In particular, discussions were held on the meaning of short-term borrowing; capital financing which was based on the current programme of planned spending and local authority lending and local authorities who are subject to a Section 114 notice.

Officers also explained that lending to other local authorities was relatively low risk and confirmed if West Suffolk Council was to lend in future the Council would also carry out its own research along with its treasury advisor, Arlingclose.

Discussions also took place on debt management, which the members were advised was a separate issue and was not part of the Strategy Statement before the Sub-Committee as it related only to treasury investment and sundry debt.

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

RECOMMENDED

That:

1) **Subject to the approval of Cabinet and Council the Treasury Management Strategy Statement 2023 to 2024, attached as Appendix 1 to Report number: FRS/WS/23/002, 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/23/002, be approved.**

74. **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 2023, November 2023 and the January 2024 meetings of the Performance and Audit Scrutiny Committee.

The meeting concluded at 11.51am

Signed by:

Chair

Annual Treasury Management and Financial Resilience Report 2022 to 2023

Report number:	**FRS/WS/23/003**	
Report to and date(s):	**Financial Resilience Sub Committee**	17 July 2023
	Performance and Audit Scrutiny Committee	27 July 2023
	Cabinet	19 September 2023
	Council	26 September 2023
Cabinet member:	Councillor Diane Hind Cabinet Member for Resources **Tel:** 01284 706542 **Email**: diane.hind@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 – 2022 to 2023; 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 – 2022 to 2023

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 2022 to 31 March 2023.

1.2 CIPFA has adopted the following as its definition of treasury management activities:

The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

1.3 The strategy for these activities in 2022 to 2023 was laid out and approved at Performance and Audit Scrutiny Committee in January 2022.

FRS\WS\22\002 Financial Resilience - Strategy Statement 2022 to 2023

FRS.WS.22.002 - Appendix 1 - Treasury Management Strategy Statement 2022

2. Executive Summary

2.1 The Council held investments of £43,000,000 as at 31 March 2023. Interest achieved in the financial year amounted to £1,317,980.12 against a budget for the period of £45,000. This large over achievement of interest receivable is due in part to the increase in interest rates over the period (Bank of England Base Rate was 0.75 per cent on 1 April 2022 and increased to 4.25 per cent by 31 March 2023). Higher than expected cash levels also contributed to the over achievement of interest receivable.

2.2 External borrowing as at 31 March 2023 was £9,750,000, down from £14,000,000 at 1 April 2022. The reduction is mainly due to the early repayment of a £4,000,000 loan with Barclays Bank in March 2023. The Council's level of internal borrowing was £46,557,503 as at 31 March 2023.

2.3 Borrowing costs (Interest Payable and Minimum Revenue Provision - MRP) for the year were £1,181,407 against an approved budget of £2,268,350. This difference was placed in the Capital Projects Financing Reserve, which is intended to be used towards mitigating against potential future interest rate fluctuations.

3. Interest Earned from Treasury Investments during the year

3.1 The 2022 to 2023 Annual Treasury Management and Investment Strategy Statements (report COU/WS/23/002 approved 22 February 2022) sets out the Council's projections for the current financial year. The budget for investment income for 2022 to 2023 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 2023 interest actually earned during the financial year amounted to £1,317,980.12 (average rate of return of 1.582 per cent) against a budget for the year of £45,000 (average rate of return 0.25 per cent); a budgetary surplus of £1,272,980.12. The surplus is due to two main reasons, the council were holding considerable amounts of grant money pending distribution, so cash balances were higher 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 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	2.090%	167,066.77
Santander 95 Day Account	500,000	2.374%	11,867.79
Lloyds Treasury Account	6,592,285	2.536%	167,198.41
Barclays Deposit Account	5,660,273	0.496%	28,083.65
CCLA MMF	4,000,000	2.162%	86,482.13
Local Authorities	5,000,000	0.220%	7,473.97
HM Debt Management Office	4,234,322	1.910%	849,807.40
Total Overall Average Return on Investments %			**1.582%**
Total Interest Earned - 1 April 2022 to 31 March 2023			**1,317,980.12**

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 2022 to 31 March 2023:

3.4

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)	265,400,000
Sub Total	**330,900,000**
Investments realised during the year (including withdrawals from business reserve accounts)	287,900,000
Closing Balance 31 March 2023	**43,000,000**

3.5 The table below lists the investments held as at 31 March 2023

Investments held as at 31 March 2023				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Santander 365 Day	8,000,000	3.860%	01/04/22	365 day Notice
Santander 95 Day	500,000	3.680%	01/04/22	95 day Notice
Lloyds Treasury Account	10,000,000	2.530%	01/04/22	On call availability
Barclays Deposit Account	2,000,000	1.022%	01/04/22	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/21	On call availability
HM Debt Man. Office	4,000,000	3.080%	01/11/22	28/04/23
HM Debt Man. Office	3,000,000	3.160%	15/11/22	15/05/23
HM Debt Man. Office	2,000,000	3.570%	19/12/22	19/06/23
HM Debt Man. Office	5,500,000	3.720%	10/01/23	10/07/23
HM Debt Man. Office	2,000,000	3.870%	14/02/23	14/04/23
HM Debt Man. Office	2,000,000	3.935%	10/03/23	19/04/23
There were no other fixed term investments				
Total	**43,000,000**			

Please note: The interest rates above are the rates as at 31 March 2023. 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 2023 was £6,548,067.

4. Borrowing activity during the year

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., £8.8 million relates to Suffolk wide grants from the Department for Business, Energy and Industrial Strategy for which West Suffolk are acting as the lead partner.

4.2 With interest rates having increased and cash balances remaining healthy, no further external borrowing was undertaken in the 2022 to 2023 financial year.

4.3 The Council took advantage of the higher interest rate environment in the year to settle one of its long-term loans early. This was a £4,000,000 loan with Barclays Bank that was originally taken out in 2008, and due to mature in 2078. The loan was interest only, with no repayment of principal during the loan term. The interest rate on the loan was 4.24 per cent. The long duration of the loan, along with it being a repayment on maturity, meant this loan did not fit with the current Treasury Management strategy. With interest rates increasing, it meant that there was an opportunity to close out this loan with the early settlement cost (the cost to enable to exit the loan early) of only £72,209 (this compares to the annual interest cost of the loan being £169,600).

4.4 With this repayment of borrowing in the year, West Suffolk ended the year on 31 March 2022 with £9.75 million of external borrowing, which is a decrease of £4.25 million on the level it held on 1 April 2022.

4.5 The table below is a summary of the external borrowings and temporary loans as at 31 March 2023.

External Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2022 (£)**	**In Year Movement (£)**	**Balance - 31 March 2023 (£)**	**Interest Rate**	**Maturity date**
Barclays Bank	4,000,000	-4,000,000	0	4.24%	Repaid
PWLB	10,000,000	-250,000	9,750,000	1.84%	1 December 2061

4.6 During the year the councils underlying need to borrow (Capital Financing Requirement – CFR) increased by £820,000. With the Council repaying £4.25 million of external borrowing in the year, the level of internal borrowing the council has increased by £5.07 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.

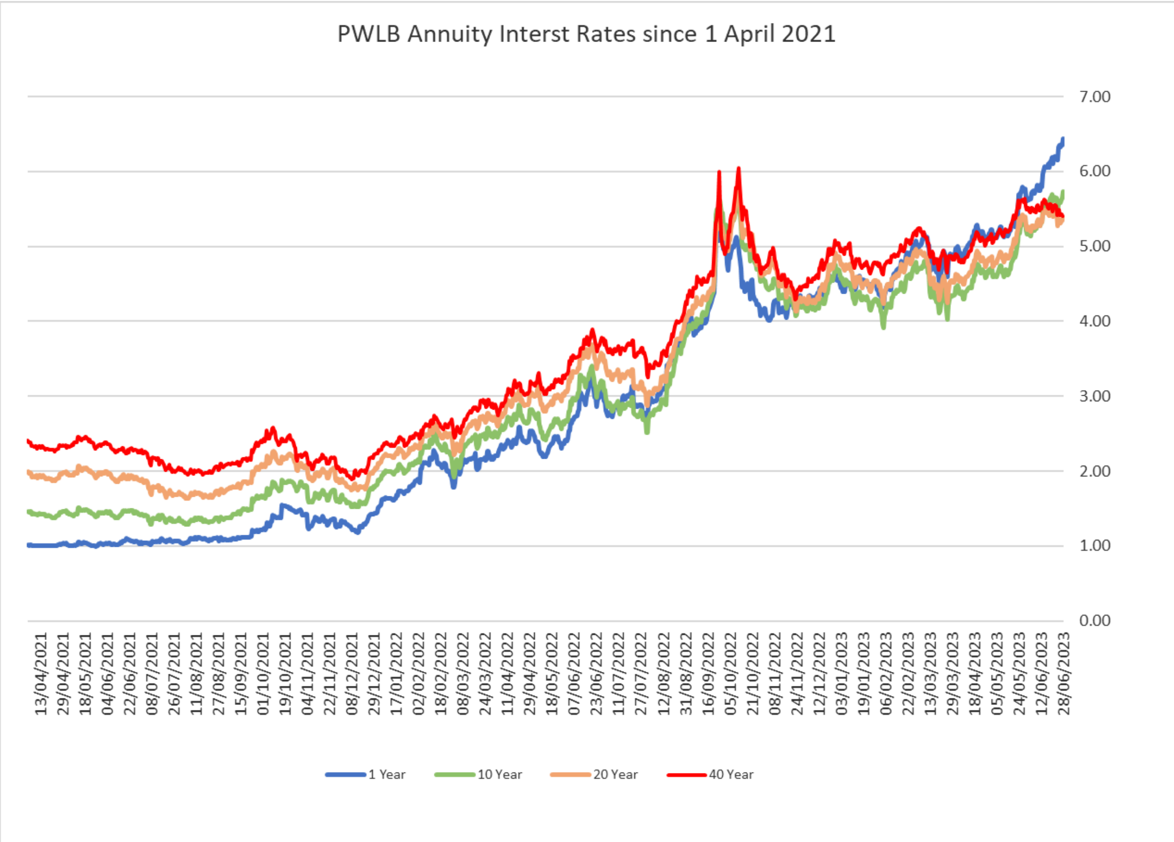
Capital Financing Requirement and Internal Borrowing			
	Balance – 1 April 2022 (£)	**In Year Movement (£)**	**Balance – 31 March 2023 (£)**
Total CFR	55,487,158	820,345	56,307,503
Less: External Borrowing	(14,000,000)	4,250,000	(9,750,000)
Internal Borrowing	**41,487,158**	**5,070,345**	**46,557,503**

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.

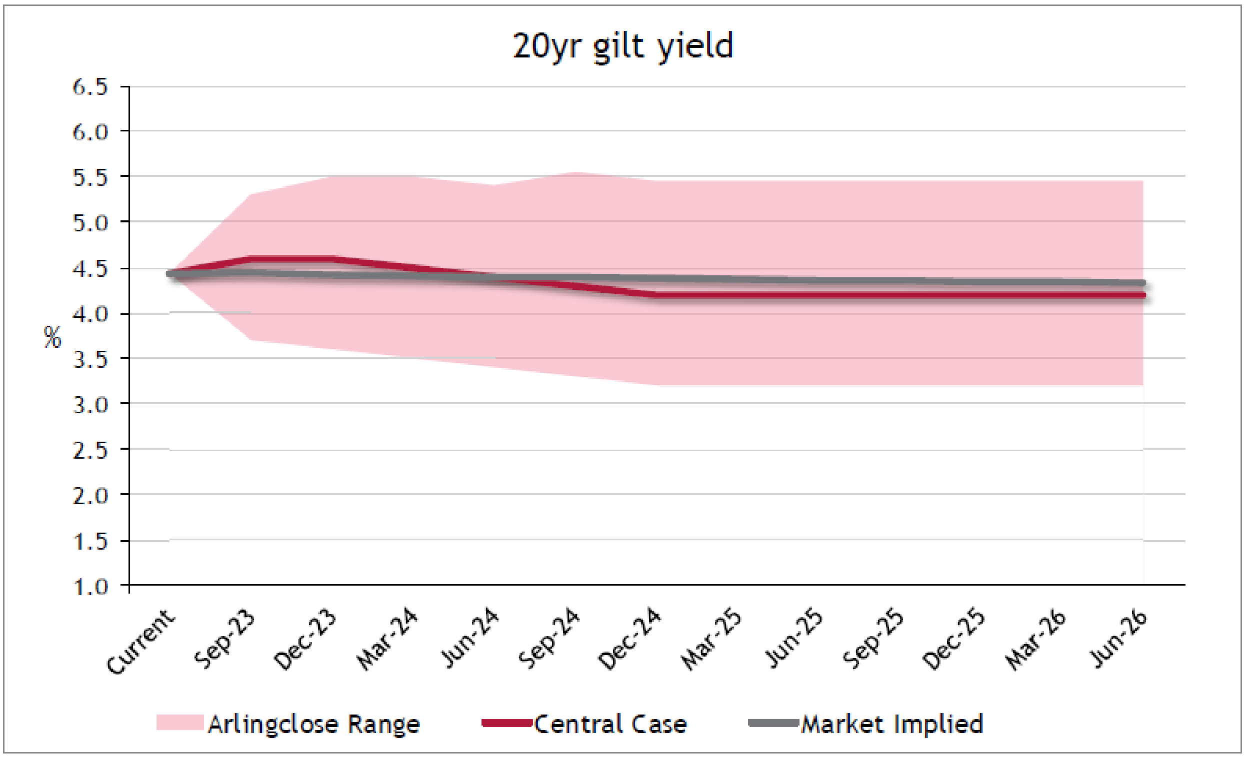
5.2 There are various sources of borrowing that the Council is able to make use of for longer term borrowing, which are detailed in the strategy statement. The traditional method for local authorities, and the default method the Council uses in all of its business cases, is to borrow from the Public 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 since 1 April 2021, 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 gone through a period of significant volatility over the past year. 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. The graph below shows forecast for 20-year UK gilt yields (as mentioned in 5.4 above, PWLB borrowing rates are directly linked to UK gilt yields). The red line is the Arlingclose forecast of where these gilt yields will be, with the grey line being what the market think will happen. Arlingclose is expecting 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.



5.6 PWLB interest rates for 40-year borrowing using the annuity method were 4.90 percent (4.70 percent for Certainty Rate) on 31 March 2023 – although at the time of writing this report they were at 5.41 per cent (5.21 per cent for Certainty Rate). Using the current value of internal borrowing of £46,557,503, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 4.70 percent Certainty Rate, the Council would incur an initial annual interest payable cost of £2,368,202 (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 31 March 2023 was £6,548,067.

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 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 made up the majority of the Councils budgeted 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 (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.

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
Incubation Units, Suffolk Business Park	£12,100,000	£0	£0
Net Zero / Community Energy Plan	£2,590,000	£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
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 per cent terms) of our gross revenue income budget is committed to servicing our external borrowing requirements.

6.6 Whilst the budget for interest payable is 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. The table below therefore gives an overall summary of actual capital borrowing for 2022 to 2023 but does not split it out by project.

Summary of Capital Borrowing for 2022 to 2023			
External Borrowing	**Internal Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
£9,750,000	£46,557,503	£840,799	£340,608
Total Borrowing	**£56,307,503**	**£1,181,407**	
% of Gross Revenue Income (excl COVID-19 Grants)		**1.5%**	**0.6%**

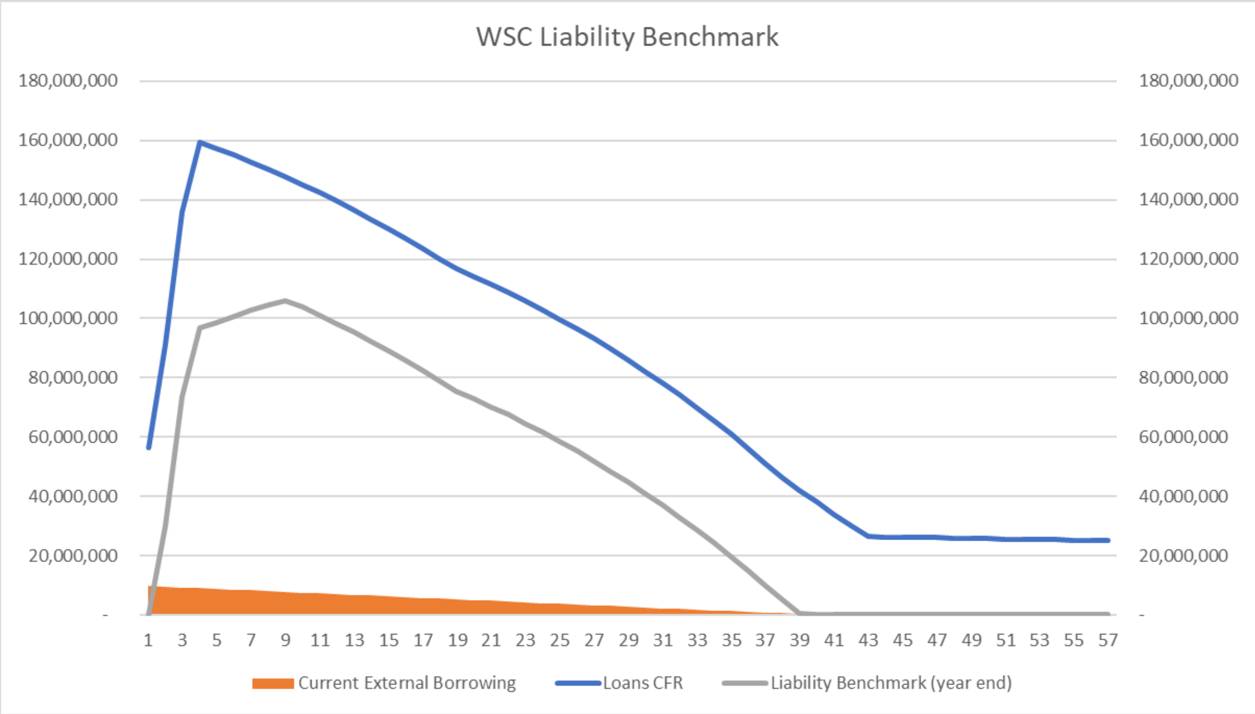
6.7 A total of £1,691,139 was transferred to the capital financing reserve during the year, mainly as a result of the savings in interest payable detailed above. This reserve now has a total balance of £6,548,067 to be utilised in future budget periods to accommodate any fluctuations or market movements in interest rates and external borrowing costs.

7. Liability Benchmark

7.1 One of the core tools the Council uses to determine when it might need to borrow additional external funds, and over what period is the Liability Benchmark. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-today cash flow.

7.2 The graph below shows the Council's liability benchmark (grey line) against the Council's forecast capital financing requirement (blue line). The difference between these two lines is the forecast level of resources the Council is able to utilise as internal borrowing, therefore reducing the level of external borrowing required. The orange block shows the current external borrowing the Council has.

7.3 The liability benchmark will change as capital spending plans evolve, and reserve levels change.



8. Borrowing and Income - Proportionality

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

8.2 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.

8.3 As at 31 March 2023, the Councils asset base was valued at £262 million. As such the budgeted borrowing requirement of £81.07 million would have represented 30.94 per cent of our long-term asset base. The actual borrowing requirement at the end of the financial year was £56.3 million, which represents 21.49 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.

9. Borrowing and Asset Yields

9.1 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.

9.2 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.

9.3 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 to 2023 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%**

2022 to 2023 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	£2.8	£2.5	£2.3	8.1%
Retail Units	£20.0	£0.0	£1.9	£1.6	£1.6	8.0%
Land	£11.8	£0.0	£1.2	£1.0	£1.0	8.4%
Solar Farm	£15.0	£0.0	£2.0	£1.6	£1.0	5.3%
Growth Fund		£0.0	£0.0	£0.0	£0.0	0.0%
Other		£9.8	£0.9	£0.8	£0.5	0.0%
TOTAL	**£74.9**	**£9.8**	**£8.8**	**£7.5**	**£6.2**	**8.3%**

* Includes direct operating costs

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 (report number: FRS/WS/23/002)

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Treasury Management Report - June 2023

Report number:	**FRS/WS/23/004**	
Report to and date(s):	**Financial Resilience Sub Committee**	17 July 2023
	Performance and Audit Scrutiny Committee	27 July 2023
	Cabinet	19 September 2023
	Council	26 September 2023
Cabinet member:	Councillor Diane Hind Cabinet Member for Resources **Tel:** 01284 706542 **Email**: diane.hind@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 Treasury Management Report – June 2023; and**

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

1. Treasury Management Report – June 2023

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 2023 to 30 June 2023.

1.2 CIPFA has adopted the following as its definition of treasury management activities:

The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

1.3 The strategy for these activities in 2023 to 2024 was laid out and approved at Performance and Audit Scrutiny Committee in January 2023.

2. Executive Summary

2.1 The Council held investments of £49,500,000 as at 30 June 2023. Interest achieved in the first quarter of the financial year amounted to £494,653.64 against a budget for the period of £178,750.

2.2 External borrowing as at 30 June 2023 was £9,625,000, a reduction of £125,000 from 1 April 2023 (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 £47,041,702 as at 30 June 2023. 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 currently forecast to be £927,067 against an approved budget of £2,268,900, 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 2023 to 2024 Annual Treasury Management and Investment Strategy Statements (report COU/WS/23/002 approved 21 February 2023) sets out the Council's projections for the current financial year. The annual budget for investment income for 2023 to 2024 is £715,000 which is based on a 3.25 per cent target average rate of return on investments.

3.2 At the end of June 2023 interest actually earned during the first quarter of the financial year amounted to £494,653.64 (average rate of return of 3.84 per cent) against a profiled budget for the period of £175,750 (average rate of return 3.25 per cent); a budgetary surplus of £315,930.64. The surplus is due to two main reasons, the council were holding higher levels of cash balances than anticipated and the rising Bank of England base rate having a knock-on effect on investment returns.

3.3 The table below summaries the interest earned and the average rate of return achieved at 30 June 2023.

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	4.11%	81,974.79
Santander 95 Day Account	500,000	3.93%	4,899.04
Lloyds Treasury Account	8,177,325	2.76%	53,177.26
Barclays Deposit Account*	2,000,000	1.90%	567.12
CCLA MMF	4,000,000	3.89%	38,755.29
Local Authorities	0	0.00%	0.00
HM Debt Management Office	4,399,230	4.02%	315,280.14
Total Overall Average Return on Investments %			**3.84%**
Total Interest Earned - 1 April 2022 to 30 June 2022			**494,653.64**

* 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	
	2023 to 2024 (£)
Opening Balance 01 April 2023	**43,000,000**
Investments made during the year (including transfers to business reserve accounts)	53,000,000
Sub Total	**96,000,000**
Less Investments realised during the year (including withdrawals from business reserve accounts)	46,500,000
Closing Balance 30 June 2023	**49,500,000**

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 2023

Investments held as at 30 June 2023				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Santander 365 Day	8,000,000	3.86%	01/04/23	365-day Notice
Santander 95 Day	500,000	3.68%	01/04/23	95-day Notice
Lloyds Treasury Account	7,500,000	2.76%	01/04/23	On call availability
Barclays Deposit Account	2,000,000	1.90%	01/04/23	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/23	On call availability
HM Debt Man. Office	5,500,000	3.72%	10/01/23	10/07/23
HM Debt Man. Office	6,000,000	4.16%	03/04/23	19/07/23
HM Debt Man. Office	5,000,000	4.38%	10/05/23	17/07/23
HM Debt Man. Office	3,500,000	4.59%	01/06/23	15/08/23
HM Debt Man. Office	4,500,000	4.61%	01/06/23	21/08/23
HM Debt Man. Office	3,000,000	4.755%	21/06/23	24/08/23
There were no other fixed term investments				
Total	**49,500,000**			

Please note: The interest rates above are the rates as at 30 June 2023. Actual rates going forward could fluctuate. On the advice of Arlingclose notice was placed on the Santander 365 account on 12 June 2023.

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 2023 was £6,548,067.

4. Borrowing activity during the period

4.1 As with the 2022 to 2023 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., £8.8 million relates to Suffolk wide grants from the Department for Business, Energy and Industrial Strategy for which West Suffolk are acting as the lead partner, as well as council tax receipts held on behalf of Suffolk County Council and Suffolk Police and Crime Commissioner.

4.2 On 30 June 2023, West Suffolk had £9.625 million of external borrowing, which is £125,000 less than it held on 1 April 2023, 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 2023 to 2024 financial year, although this is kept under constant review and may change if circumstances and advice changes.

4.3 The table below is a summary of the external borrowings and temporary loans as at 30 June 2023.

External Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2023 (£)**	**Movement (£)**	**Balance - 30 June 2023 (£)**	**Interest Rate**	**Maturity date**
PWLB	9,750,000	(125,000)	9,625,000	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 2023	**31 March 2024**	**31 March 2024**	**31 March 2025**	**31 March 2026**
	Actual £ millions	**Approved Budget £ millions**	**Forecast £ millions**	**Forecast £ millions**	**Forecast £ millions**
Capital Financing Requirement (CFR)	**56.31**	**93.42**	**75.84**	**142.50**	**168.45**

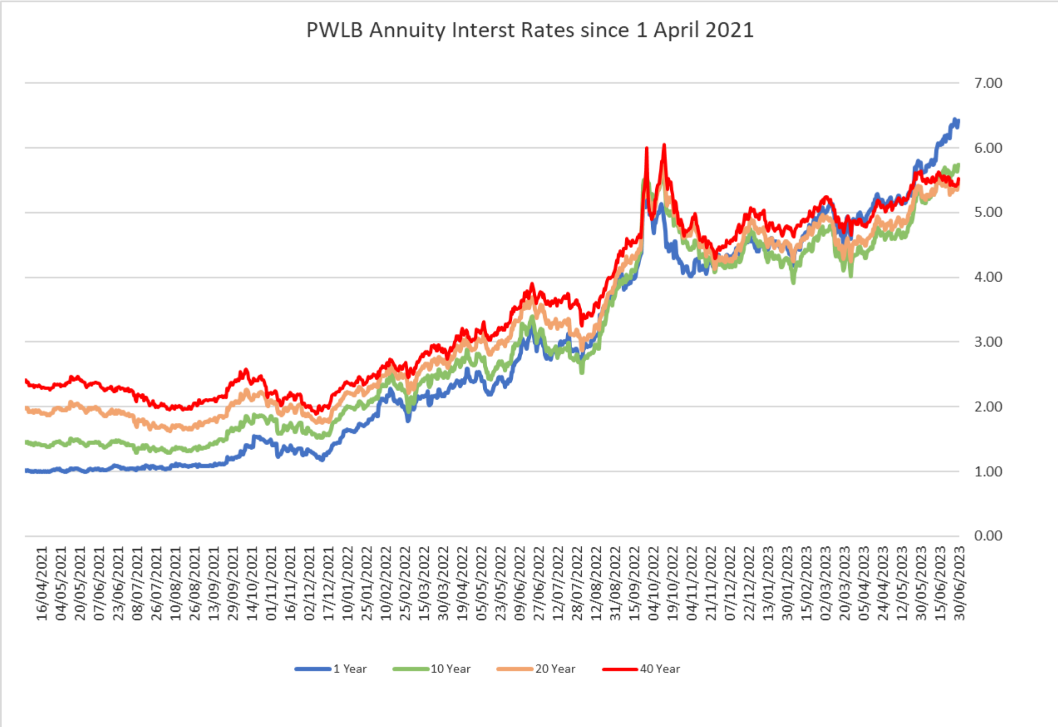
5. Borrowing Strategy and Sources of Borrowing

5.1 As detailed in the 2023 to 2024 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

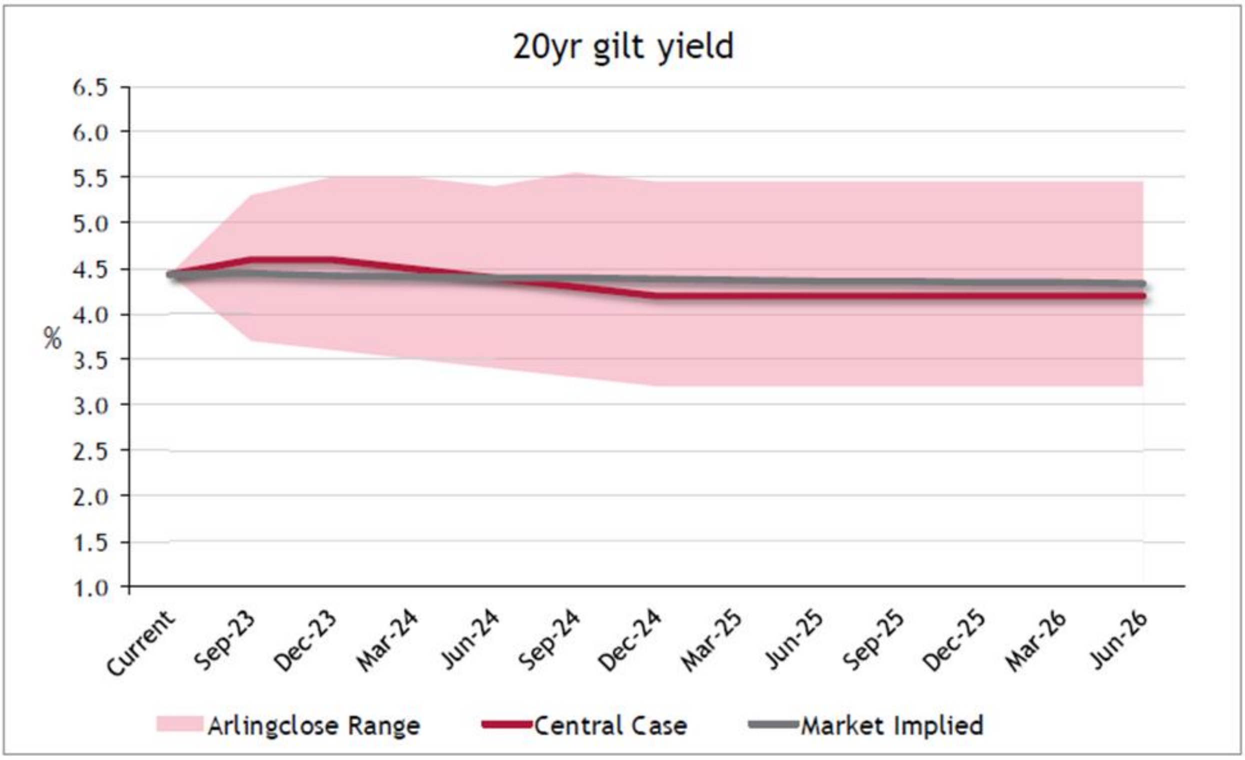
Council uses in all of its business cases, is to borrow from the Public Works Loans Board (PWLB). In the medium term, if the Council were to look at fixing out some of its internal borrowing into a long term external loan then it could do so by borrowing through the PWLB.

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.

5.5 As you can see from the graph above, PWLB rates have gone through a period of significant volatility over the past year. 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. The graph below shows forecast for 20-year UK gilt yields (as mentioned in 5.4 above, PWLB borrowing rates are directly linked to UK gilt yields). The red line is the Arlingclose forecast of where these gilt yields will be, with the grey line being what the market think will happen. Arlingclose is expecting 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 (**Appendix 1**).



5.6 PWLB interest rates for 40-year borrowing using the annuity method were 5.51 per cent (5.31 per cent for Certainty Rate) on 30 June 2023. Using the current value of internal borrowing of £47,041,702, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 5.31 per cent Certainty Rate, the Council would incur an initial annual interest payable cost of £2,676,819 (including our current external borrowing). This compares to our interest payable budget for 2023 to 2024 of £1,509,100. 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 2023 was £6,548,067.

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 2023 to 2024 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
- Incubation Units on Suffolk Business Park
- Net Zero / Community Energy Plan
- 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 2023 to 2024			
Project – all supported by business cases	**Borrowing Requirement (Budget)**	**Borrowing Costs**	
		Minimum Revenue Provision (MRP)	**Interest Payable**
Investing in our Growth Fund	£12,108,692	£0	£0
Western Way Development	£16,000,000	£0	£0
Incubation Units, Suffolk Business Park	£8,546,263	£0	£0
Net Zero / Community Energy Plan	£5,617,595	£0	£0
Mildenhall Hub	£17,557,777	£149,900	£200,400
West Suffolk Operational Hub	£9,341,980	£177,800	£301,950
Newmarket Leisure Centre	£2,726,911	£13,350	£169,600
Toggam Solar Farm	£1,669,494	£193,550	£338,800
20 High St Haverhill	£1,754,605	£30,300	£55,000
113 High St Newmarket	£664,709	£12,000	£21,800
Olding Road DHL Depot	£3,549,684	£0	£0
Provincial House	£3,377,518	£56,950	£96,700

Vicon House, Western Way	£3,235,932	£52,300	£99,200
33-35 High St, Haverhill	£359,330	£5,600	£10,700
17/18 Cornhill	£2,767,735	£40,700	£83,400
Elsey's Yard	£234,624	£5,500	£10,900
St Edmunds Guest House	£971,929	£10,650	£35,100
Brandon Leisure Centre	£238,227	£11,200	£10,550
Loans and other	£2,697,000	£0	£75,000
Total borrowing and associated servicing costs	**£93,420,005**	**£759,800**	**£1,509,100***
% of Gross Revenue Income Budget		**1.2%**	**2.4%**

* 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.

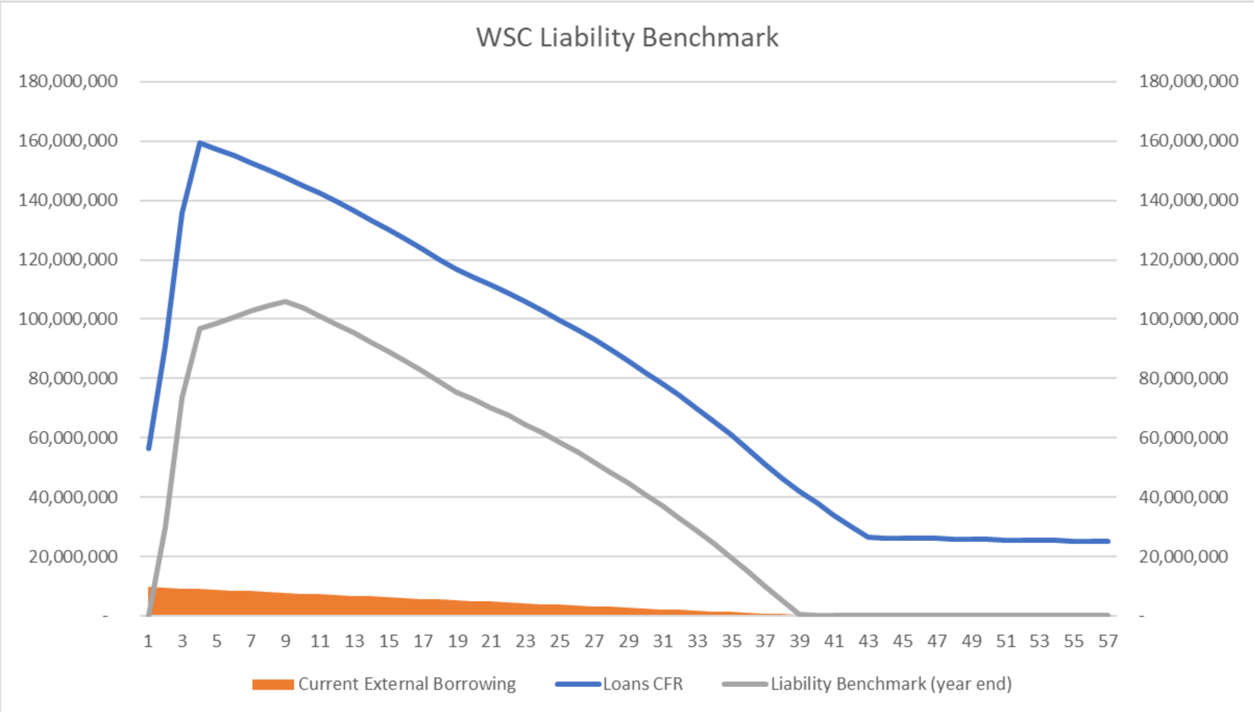
6.6 Whilst the budget for interest payable are derived from the business cases of each individual project, when borrowing actually occurs is a treasury management decision and is generally not directly linked to any specific project. It is therefore not easy to match the interest payable the Council will actually incur to specific projects. The table below therefore gives an overall summary of forecast capital borrowing for 2023 to 2024 but does not split it out by project.

Summary of Forecast Capital Borrowing for 2023 to 2024			
External Borrowing	**Internal Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
£9,500,000	£65,240,662	£748,162	£178,905
Total Borrowing	**£75,841,088**	**£927,067**	
% of Gross Revenue Income		**1.2%**	**0.3%**

7. Liability Benchmark

7.1 One of the core tools the Council uses to determine when it might need to borrow additional external funds, and over what period is the Liability Benchmark. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-today cash flow.

7.2 The graph below shows the Council's liability benchmark (grey line) against the Council's forecast capital financing requirement (blue line). The difference between these two lines is the forecast level of resources the Council is able to utilise as internal borrowing, therefore reducing the level of external borrowing required. The orange block shows the current external borrowing the Council has.



7.3 The liability benchmark will change as capital spending plans evolve, and reserve levels change.

8. Borrowing and Income - Proportionality

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

8.2 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.

8.3 As at 31 March 2023, the Councils asset base was valued at £261.9 million. As such the budgeted borrowing requirement of £93.42 million would have represented 35.67 per cent of our long-term asset base. The forecast borrowing requirement at the end of the financial year is £75.84 million, which represents 28.96 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.

9. Borrowing and Asset Yields

9.1 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.

9.2 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.

9.3 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.

2023/24 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	£22.6	£15.3	£2.6	£2.1	£1.9	8.4%
Retail Units	£20.0	£2.8	£1.9	£1.6	£1.4	7.0%
Land	£11.8	£0.0	£1.0	£1.0	£1.0	8.4%
Solar Farm	£13.9	£1.7	£3.2	£2.0	£1.5	10.8%
Growth Fund		£12.1	£0.0	£0.0	£0.0	0.0%
Other		£61.5	£0.8	£0.5	£0.1	0.0%
TOTAL	**£68.3**	**£93.4**	**£9.5**	**£7.2**	**£5.9**	**8.6%**

2023/24	**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	£22.6	£0.0	£2.6	£2.1	£1.9	8.4%
Retail Units	£20.0	£0.0	£1.9	£1.6	£1.4	7.0%
Land	£11.8	£0.0	£1.0	£1.0	£1.0	8.4%
Solar Farm	£13.9	£0.0	£3.2	£2.0	£1.5	10.8%
Growth Fund		£0.0	£0.0	£0.0	£0.0	0.0%
Other		£9.5	£0.8	£0.4	£0.1	0.0%
TOTAL	**£68.3**	**£9.5**	**£9.5**	**£7.1**	**£5.9**	**8.6%**

* Includes direct operating costs

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 2023.

11. Background documents associated with this report

11.1 Capital Strategy 2023 to 2024
Treasury Management Strategy Statement 2023 to 2024 and Treasury Management Code of Practice (report number: FRS/WS/23/002)

12. Appendices

12.1 Appendix 1 - Arlingclose Economic and Interest Rate Forecast – June 2023

Arlingclose Economic and Interest Rate Forecast – June 2023

UK inflation and wage growth has proven to be even more stubborn, with headline rates remaining steady, core rates rising, and wage growth accelerating. As a result, the Bank of England sought to shock markets and underline its inflation fighting credentials by increasing Bank Rate by 50 basis points to 5.0 per cent. However, this is unlikely to be the peak.

The UK economy has been resilient in the face of the dual headwinds of inflation and interest rates, albeit the majority rise in Bank Rate is yet to impact households. Government cost of living support, stronger wage growth and household savings have had an offsetting effect, while timing issues around mortgage resets have delayed the impact of monetary tightening.

Employment demand has remained strong and, alongside inflation expectations, has driven stronger wage growth. This in turn is adding upward pressure to inflation, particularly services inflation. Core Consumer Price Index and services inflation have increased of late despite previous monetary tightening.

The Bank's credibility issues mean that it can no longer afford to wait until the effect of past increases in Bank Rate affect activity. This suggests that further monetary tightening is necessary to have the desired immediate effect on inflation.

However, the lagged effect of aggressive monetary tightening will increasingly pressure economic activity. A recession appears inevitable. Household spending will be affected by increases in mortgage payments, while business investment/spending will fall back due to higher borrowing costs. Unemployment will increase.

Inflation will fall sharply this year, albeit at a slower pace than expected. Recessionary conditions eventually create downside risks for inflation and will entail monetary easing in the medium term to stimulate economic activity.

Global bond yields remain volatile, although UK gilt yields have been more affected by its seemingly idiosyncratic inflation issues. The Federal Reserve and other central banks see persistently higher policy rates through 2023 as key to dampening. domestic inflationary pressure.

Downside risks for bond yields arising from a global economic slowdown are increasing.

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