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Financial Resilience Sub-Committee

Title	**Agenda**	
Date	**Monday 13 November 2023**	
Time	**10.30 am**	
Venue	**Facilitated by Microsoft Teams**	
Full Members	**Chair** Ian Houlder **Conservative Group (1)** Ian Houlder **Independents(1)** Frank Stennett **Progressive Alliance Grouping (1)** Sue Perry	
Substitutes		
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.

Financial Resilience Sub-Committee

West Suffolk Council

Minutes of a meeting of the **Financial Resilience Sub-Committee** held on **Monday 17 July 2023** at **10.30 am** facilitated by **Microsoft Teams**.

Present **Councillors**

Ian Houlder Sue Perry

Substitutes attending for a full member
Don Waldron

This being the first meeting of the Financial Resilience Sub-Committee since the Council's Annual General Meeting on 23 May 2023, the Democratic Services Officers (Scrutiny) opened the meeting.

75. **Substitutes**

The following substitution was declared:

Councillor Don Waldron substituting for Councillor Frank Stennett.

76. **Appointment of Chair: 2023 to 2024**

Councillor Sue Perry nominated Councillor Ian Houlder as Chair. This was duly seconded by Councillor Don Waldron, and with the vote being unanimous, it was

RESOLVED:

That Councillor Ian Houlder be elected Chair of the Financial Resilience Sub-Committee for 2023 to 2024.

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

77. **Apologies for absence**

Apologies for absence were received from Councillor Frank Stennett.

78. **Minutes**

The minutes of the meeting held on 16 January 2023 were confirmed as a correct record by the Chair.

79. **Declarations of interest**

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

80. **Annual Treasury Management and Financial Resilience Report 2022 to 2023**

The Sub-Committee received Report No: FRS/WS/23/003, which reported on treasury activities of West Suffolk Council from 1 April 2022 to 31 March 2023.

The 2022 to 2023 Annual Treasury Management and Investment Strategy Statements approved by Council on 22 February 2023 sets out the Council's projections for the current financial year. The budget for investment income in 2022 to 2023 was £45,000, which was based on a 0.25% target average rate of return on investments.

At the end of March 2023, interest actually earned during the financial year totalled £1,317,980.12 (average rate of return of 1.582%), against a budget for the year of £45,000; a budgetary surplus of £1,272,980.12. The surplus was primarily due to tow main reasons, the council holding considerable amounts of grant money pending distribution, meaning cash balances were higher than predicted and with the continuing volatility in the investment market, interest rates continued to change.

The Annual Treasury Management and Financial Resilience Report (2022 to 2023) included tables summarising the interest earned and average rate of return achieved; treasury management investment activity during the year; investments held as at 31 March 2023; external borrowings and temporary loans; capital financing requirement and internal borrowing.

The report contained information on the council's borrowing strategy and sources of borrowing; borrowing and capital costs (affordability); liability benchmark; borrowing and income (proportionality) and borrowing and asset yields.

Assumptions on the borrowing costs for the capital projects were 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.

The Council's external borrowing as at 31 March 2023 was £9,750,000, down from £14,000,00 at 1 April 2022. The reduction was due to the early repayment of the £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.

The Sub-Committee scrutinised the Annual Treasury Management and Financial Resilience Report 2022 to 2023, 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, with repayments over the term of the loan.

In response to a question raised on how often the Council revised the Medium-Term Financial Strategy (MTFS) due to interest rates rising, officers advised that the Council budget and MTFS which covered a 5-year period was reviewed yearly. The Council would also be taking advice from its Treasury Advisors, Arlingclose.

It was then proposed by Councillor Ian Houlder, seconded by Councillor Sue Perry, 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 (2022 to 2023), being Report number FRS/WS/23/003, be approved.

81. **Treasury Management Report (June 2023)**

The Sub-Committee received Report number FRS/WS/23/004, which provided a comprehensive assessment on investment activities for West Suffolk Council from 1 April 2023 to 30 June 2023.

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

External borrowing as at 30 June 2023 was £9,625,000 a reduction of £125,000 from 1 April 2023 (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 £47,041,702 as at 30 June 2023. 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 £927,067 against an approved budget of £2,268,900 although this could change if more external borrowing was undertaken than was currently forecast.

The 2023 to 2024 Annual Treasury Management and Investment Strategy Statements sets out the Council's projections for the current financial year. The budget for investment income for 2023 to 2024 was £715,000 which was based on a 3.25 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; liability benchmark; borrowing and income – proportionality'; borrowing and asset yields and market information. Attached at Appendix 1 to the report was Arlingclose (the Council's external treasury advisor) economic and interest rate forecast as at June 2023.

The Sub-Committee scrutinised the report in detail. In particular discussions were held on the differing investment interest rates being offered by various counterparties, as set out in paragraph 3.5 of the report, to which responses were provided.

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

RECOMMENDED:

That subject to the approval of Cabinet and Council, the Treasury Management Report (June 2023), being Report number FRS/WS/23/004, be approved.

82. **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:

- 13 November 2023
- 15 January 2024

The meeting concluded at 11.24am

Signed by:

Chair

Treasury Management Report - September 2023

Report number:	**FRS/WS/23/005**	
Report to and date(s):	**Financial Resilience Sub Committee**	13 November 2023
	Performance and Audit Scrutiny Committee	23 November 2023
	Cabinet	5 December 2023
	Council	19 December2023
Cabinet member:	Councillor Diane Hind Cabinet Member for Resources **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 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 2023; and**
2. **<u>Makes recommendations</u> as appropriate via the Performance and Audit Scrutiny Committee to Cabinet and Council.**

1. Treasury Management Report – September 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 September 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 £54,500,000 as at 30 September 2023. Interest achieved in the first half of the financial year amounted to £1,271,924.94 against a budget for the period of £357,500.

2.2 External borrowing as at 30 September 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 £48,028,084 as at 30 September 2023. Overall borrowing (total of 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 £1,089,595 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 September 2023 interest actually earned during the first half of the financial year amounted to £1,271,924.94 (average rate of return of 4.69 per cent) against a profiled budget for the period of £357,500 (average rate of return 3.25 per cent); a budgetary surplus of £914,424.94. 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 September 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	4.90%	176,545.19
Santander 95 Day Account	500,000	4.70%	10,899.86
Lloyds Treasury Account	6,486,338	4.55%	147,978.95
Barclays Deposit Account	2,000,000	1.90%	19,052.05
CCLA MMF	4,000,000	4.65%	93,927.52
Local Authorities	0	0.00%	0.00
HM Debt Management Office	4,337,317	4.61%	824,151.37
Total Overall Average Return on Investments %			**4.69%**
Total Interest Earned - 1 April 2023 to 30 Sept 2023			**1,271,924.94**

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)	127,050,000
Sub Total	**170,050,000**
Less Investments realised during the year (including withdrawals from business reserve accounts)	115,550,000
Closing Balance 30 September 2023	**54,500,000**

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

3.5 The table below lists the investments held as at 30 September 2023

Investments held as at 30 September 2023				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Santander 365 Day notice	8,000,000	4.91%	01/04/23	11/06/24
Santander 95 Day notice	500,000	4.73%	01/04/23	95 day Notice
Lloyds Treasury Account	3,000,000	4.55%	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	6,000,000	5.250%	10/07/23	16/10/23
HM Debt Man. Office	5,000,000	5.280%	01/08/23	15/11/23
HM Debt Man. Office	6,000,000	5.290%	01/08/23	20/11/23
HM Debt Man. Office	3,000,000	5.195%	04/08/23	23/10/23
HM Debt Man. Office	2,000,000	5.200%	11/08/23	19/10/23
HM Debt Man. Office	3,000,000	5.450%	24/08/23	23/02/23
HM Debt Man. Office	4,000,000	5.355%	01/09/23	15/12/23
HM Debt Man. Office	7,000,000	5.365%	01/09/23	19/12/23
HM Debt Man. Office	1,000,000	5.170%	22/09/23	02/10/23
There were no other fixed term investments				
Total	**54,500,000**			

*These funds have now been withdrawn from the Barclays Deposit Account and placed in a 32 day notice account that currently has a rate of interest of 5.20%.

Please note: The interest rates above are the rates as at 30 September 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 September 2023 was £6,548,067, with this forecast to increase to £9,575,630 by the end of the financial year.

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, for example £5.2 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 September 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 September 2023.

External Borrowings and Temporary Loans					
Lender	**Balance – 1 April 2023 (£)**	**Movement (£)**	**Balance - 30 Sept 2023 (£)**	**Interest Rate**	**Maturity date**
PWLB	9,750,000	(125,000)	9,625,000	1.84%	1 December 2062

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.

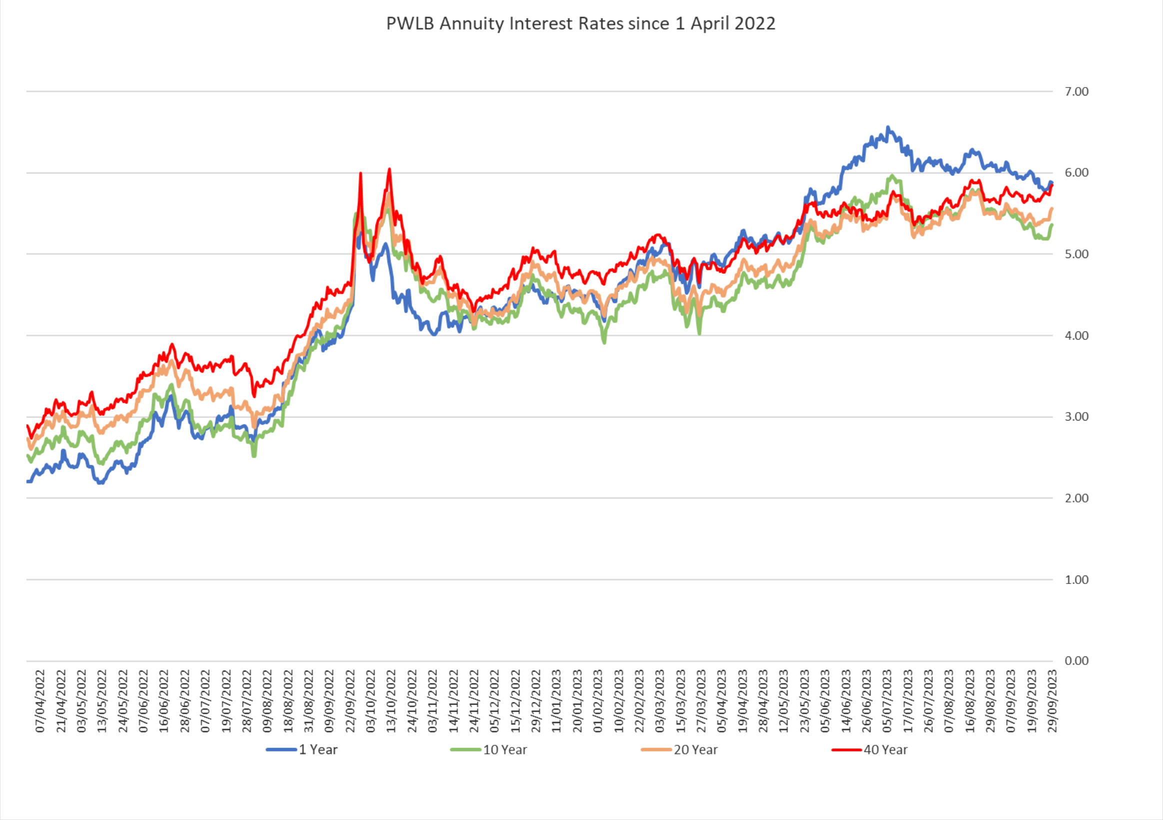
	31 March 2023 **Actual £ millions**	**31 March 2024** **Revised Budget £ millions**	**31 March 2024** **Forecast £ millions**	**31 March 2025** **Forecast £ millions**	**31 March 2026** **Forecast £ millions**
Capital Financing Requirement (CFR)	**56.31**	**76.02**	**61.38**	**91.10**	**92.05**

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.

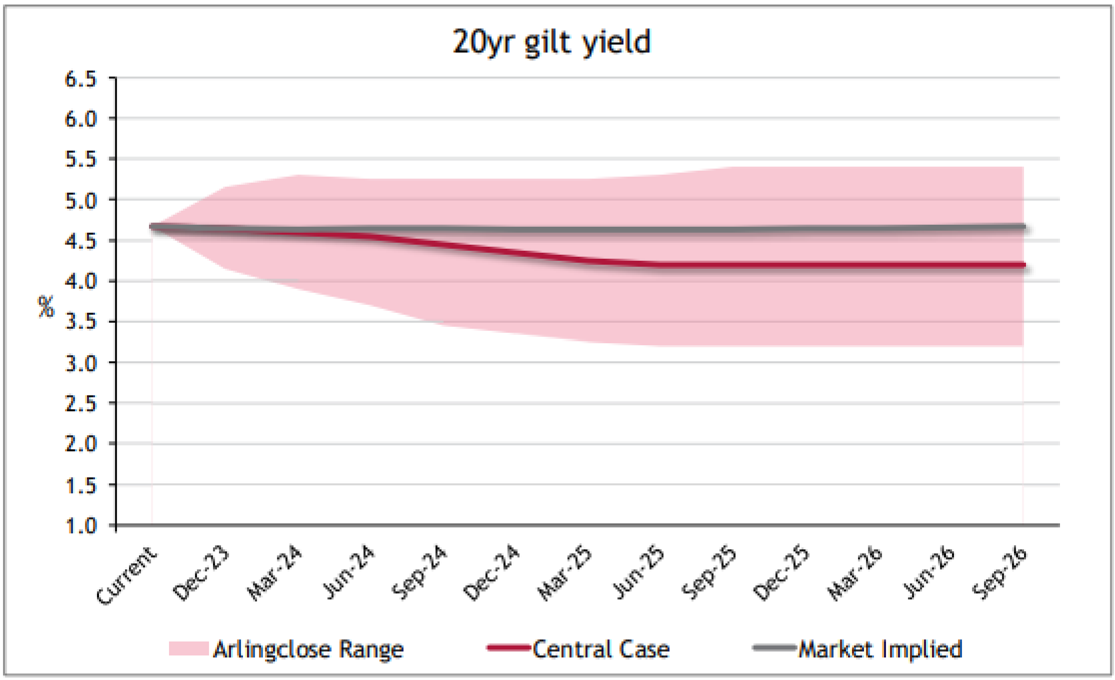
5.2 There are various sources of borrowing that the Council is able to make use of for longer term borrowing, which are detailed in the strategy statement. The traditional method for local authorities, and the default method the Council uses in all of its business cases, is to borrow from the Public 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 18 months, 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 18 months. 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 the 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 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 5.85 per cent (5.65 per cent for Certainty Rate) on 30 September 2023. Using the current value of internal borrowing of £48,028,084, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 5.65 per cent Certainty Rate, the Council would incur an initial annual interest payable cost of £2,892,492 (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 September 2023 was £6,548,067, with this forecast to increase to £9,575,630 by the end of the financial year. The Capital Projects Financing reserve is expected to be utilised across the MTFS period when external borrowing is required. As part of the 2024 to 2025 budget setting process, the adequacy of the annual interest payable budget will be access, along with the reserve balance.

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:

- Mildenhall Hub
- West Suffolk Operational Hub
- Investing in our Growth Fund
- 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 are 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	£0	£0	£0
Olding Road site – Immediate Works	£1,000,000	£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	**£78,420,005**	**£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.

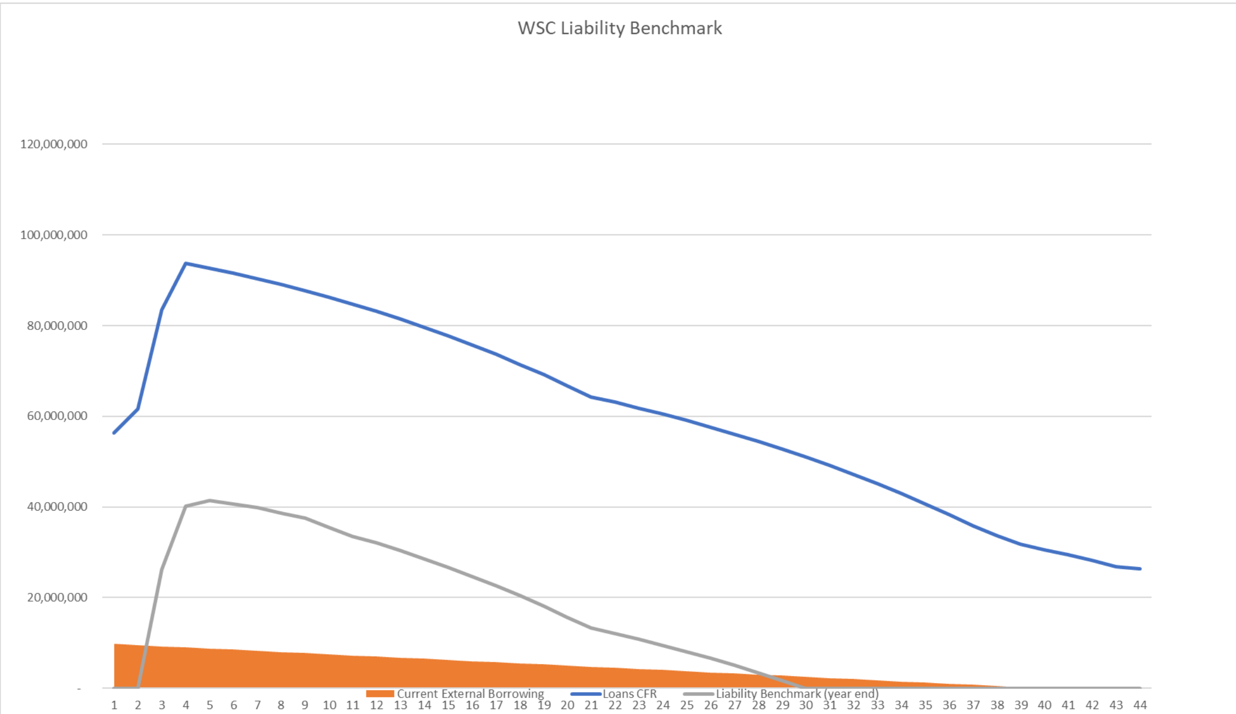
6.6 Whilst the budget for interest payable is derived from the business cases of each individual project, when borrowing actually occurs is a treasury management decision and is generally not directly linked to any specific project. It is therefore not feasible to match the interest payable the Council 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	£51,880,749	£910,690	£178,905
Total Borrowing	**£61,380,749**	**£1,089,595**	
% of Gross Revenue Income		**1.4%**	**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-to-day 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 than 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 or 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	£3.3	£2.1	£1.6	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**	**£9.6**	**£7.2**	**£6.0**	**8.8%**

* Includes direct operating costs

10. Treasury Management Prudential Indicators

The Treasury Management Strategy Statement 2023 to 2024 detailed the treasury management prudential indicators that the Council measures and uses to manage its exposure to treasury management risks. **Appendix 1** has details of how the Council is performing against these indicators as at 30 September 2023.

11. Market Information

11.1 The Council's treasury management advisors provide economic and interest rate forecasts on a monthly basis. **Appendix 2** has details from this forecast from September 2023.

12. Background documents associated with this report

12.1 Capital Strategy 2023 to 2024

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

13. Appendices

13.1 Appendix 1 – Treasury Management Prudential Indicators

13.2 Appendix 2 – Market information

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Treasury Management Prudential Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators, as set out in the Treasury Management Strategy Statement 2023 to 2024.

Performance against these indicators for September 2023 is detailed within each indicator below.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on the perceived risk.

Credit risk indicator	Target	Sept 23
Portfolio average credit score	6.0	4.17

This target of 6.0 represents an average credit rating score across the portfolio of A, on the scale of AAA to unsecured.

West Suffolk's score of 4.17 for September 2023 represents and average credit rating across the portfolio of AA-, which is a higher rating than the target.

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments on instant access, without additional borrowing.

Liquidity risk indicator	Target	Sept 23
Total cash available on instant access	£5 million	£9 million

As at the end of September 2023, West Suffolk had access to £9 million of cash available on instant access (i.e. it could get access to that cash on the same day). There is a balance of having enough cash available on instant access to meet unexpected payments, but not having too much in instant access that you are losing out on interest receipts.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit	Sept 23
Under 12 months	100%	0%	2.56%
12 months and within 24 months	20%	0%	2.56%
24 months and within 5 years	20%	0%	7.69%
5 years and within 10 years	20%	0%	12.82%
10 years and above	100%	0%	74.36%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

West Suffolk's current borrowing portfolio has a maturity structure which complies with the approved limits.

Long-term treasury management investments: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment if its investment. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	2023 to 2024	2024 to 2025	2025 to 2026
Limit on principal invested beyond year end	£30 million	£30 million	£30 million

Price risk indicator	2023 to 2024	2024 to 2025	2025 to 2026
Amount invested beyond year end as at 30 September 2023	£8 million	£0	£0

Currently the only amount that is invested beyond the end of the 2023 to 2024 year end is £8 million with Santander in a 365 day notice account. Notice was given on this account in June 2023 with these funds due to be returned to West Suffolk on 11 June 2024.

Arlingclose Economic and Interest Rate Forecast – September 2023

UK inflation and wage growth remain elevated, but the August Consumer Price Index (CPI) data suggested that inflation was falling more rapidly. In a narrow 5-4 vote, the Monetary Policy Committee (MPC) took the opportunity to hold rates at 5.25 per cent, a level we see as the peak. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy inevitability slides into recession.

While the MPC vote was close, and the minutes contained the warning about the need for further tightening if inflationary pressures persist, both the decline in closely watched inflation measures and confidence that wage growth had peaked, clearly allowed policymakers to focus on the weaker activity data.

The UK economy has so far been resilient. However, recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will be soft, so offer little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.

Employment demand has weakened and unemployment has increased, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and wage growth, and we expect unemployment to rise.

Consumer confidence has improved due to signs of real wage growth amid strength in the labour market, but household spending will remain weak as mortgaged households suffer higher interest payments and unemployment rises. Business investment / spending will fall back due to higher borrowing costs and weaker demand.

Inflation will fall continue to fall over the next 12 months, albeit with upside risk. The MPC's attention will remain on underlying inflation measures and wage data. Policy rates will remain at the peak for another 10 to 12 months, until the MPC is comfortable the risk of further second round effects have diminished.

Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling (as the recent PMI data indicate), will require significant policy loosening in the future to boost demand and inflation.

Global bond yields remain volatile. Like the UK, the Federal Reserve and other central banks see persistently higher policy rates through 2023 to 2024 as key to dampening domestic inflationary pressure. Data points will therefore prompt changes in bond yields as global interest rate expectations shift.

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