

Annual Treasury Management and Financial Resilience Report 2020 to 2021

Report number:	FRS/WS/21/003	
Report to and date(s):	Financial Resilience Sub Committee	12 July 2021
	Performance and Audit Scrutiny Committee	29 July 2021
	Cabinet	21 September 2021
	Council	28 September 2021
Cabinet member:	Councillor Sarah Broughton Cabinet Member for Resources and Performance Tel: 07929 305787 Email: sarah.broughton@westsuffolk.gov.uk	
Lead officer:	Gregory Stevenson Service Manager – Finance and Performance Tel: 01284 757264 Email: gregory.stevenson@westsuffolk.gov.uk	

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

Wards impacted: All

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

1. Notes the Annual Treasury Management Report – 2020 to 2021; 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 – 2020 to 2021

- 1.1 The report is part of the Councils’ management and governance arrangements for Treasury Management activities under the CIPFA Code of Practice on Treasury Management. It provides a comprehensive assessment of treasury activities from 1 April 2020 to 31 March 2021. There is an analysis of our Financial Resilience position at March 2020 as reported by CIPFA in **Appendix A** – CIPFA Financial Resilience.

Interest Earned from Treasury Investments during the year

- 1.2 The 2020 to 2021 Annual Treasury Management and Investment Strategy Statements (report CAB/WS/20/005 approved 25 February 2020) sets out the Council’s projections for the current financial year. The budget for investment income of 2020 to 2021 is £131,000 which is based on a 0.65 per cent target average rate of return on investments.
- 1.3 At the end of March 2021 interest actually earned during the financial year amounted to £96,767 (average rate of return of 0.354 per cent) against a budget for the year of £131,000 (average rate of return 0.65 per cent); a budgetary deficit of £34,233. The deficit relates to continued low interest rates as a result of the COVID-19 pandemic which started in mid-March. The deficit formed part of the financial outturn report received at PASC on 27 May 2021, report no PAS/WS/21/008.
- 1.4 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)			
Lloyds 95 Day Account	2,425,581	0.108%	6,314.33
Santander 365 Day Account	8,000,000	0.789%	63,134.24
Santander 180 Day Account	1,000,000	0.632%	6,159.73
Santander 95 Day Account	500,000	0.497%	2,486.98
Lloyds Treasury Account	6,043,973	0.052%	3,169.93
Barclays Deposit Account	6,000,000	0.095%	5,672.39
CCLA MMF	4,641,096	0.170%	7,897.46
Local Authorities			
HM Debt Management Office	4,007,194	0.021%	1,932.19
Total Overall Average Return on Investments %			0.354%
Total Interest Earned - 1 April 2020 to 31 March 2021			96,767

- 1.5 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 2020 to 31 March 2021:

Treasury Management – Investment Activity Summary	
	2020 to 2021 (£)
Opening Balance 01 April 2020	29,900,000
Investments made during the year (including transfers to business reserve accounts)	132,600,000
Sub Total	162,500,000
Investments realised during the year (including withdrawals from business reserve accounts)	134,000,000
Closing Balance 31 March 2021	28,500,000

Please note: The Councils cash balances ended the year greater than forecast as a result of holding advanced business grant and COVID support grant payments.

- 1.6 The table below lists the investments held as at 31 March 2021

Investments held as at 31 March 2021				
Counterparty	Principal Amount (£)	Interest Rate	Date Loaned	Date Returned
Lloyds 95 Day Account	Nil			
Santander 365 Day	8,000,000	0.68%	01/04/20	365 day Notice
Santander 180 Day	Nil			
Santander 95 Day	500,000	0.40%	01/04/20	95 day Notice
Lloyds Treasury Account	10,000,000	0.05%	01/04/20	On call availability
Barclays Deposit Account	6,000,000	0.01%	01/04/20	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/20	On call availability
There were no other fixed term investments				
Total	28,500,000			

Please note: The interest rates above are the rates as at 31 March 2021. Actual rates going forward could fluctuate.

- 1.7 The Council has an earmarked revenue reserve to mitigate against possible adverse fluctuations in the returns received from the council's investments, called the Interest Equalisation Reserve. The balance in this reserve as at 31 March 2021 was £865,473.

2. Borrowing activity during the year

2.1 To facilitate the Councils capital investment plans for its communities such as the Mildenhall Hub, external cash injection through external borrowing had continued to be assumed during 2020 to 2021. As the Council continues to hold significant cash balances, see 1.5 and 1.6 above, the Councils approach during 2020 to 2021, supported by its advisors, was to continue to borrow internally to fund these capital investment plans and to avoid the payment of external interest rates. West Suffolk ended the year on 31 March 2021 with only £4m of external borrowing, which is the same level it held on 31 March 2020.

2.2 The table below is a summary of the borrowings and temporary loans as at 31 March 2021.

Borrowings and Temporary Loans					
Lender	Balance – 1 April 2020 (£)	In Year Movement (£)	Balance - 31 March 2021 (£)	Interest Rate	Maturity date
Barclays Bank	4,000,000	0	4,000,000	4.24%	31 March 2078

2.3 Although the council did not undertake any further external borrowing in the financial year, its underlying need to borrow (Capital Financing Requirement – CFR, the amount the Council has invested in its communities) did increase which led to an increase in the level of internal borrowing the council has, as explained in 2.1 above.

2.4 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 2020 (£)	In Year Movement (£)	Balance – 31 March 2021 (£)
Total CFR	40,006,495	9,398,890	49,405,385
Less: External Borrowing	(4,000,000)	0	(4,000,000)
Internal Borrowing	36,006,495	9,398,890	45,405,385

3. Borrowing and Capital Costs - Affordability

3.1 The 2020 to 2021 Budget had assumptions on borrowing costs for capital investments included within it. These borrowing costs are a combination of interest payable on external borrowing, and Minimum Revenue Provision (MRP), which is an amount set aside each year to repay that borrowing requirement. The main projects which make up the majority of the Councils borrowing requirement are:

- Western Way development
- Mildenhall Hub
- West Suffolk Operational Hub
- Investing in our Growth Fund

3.2 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.

3.3 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.

3.4 The details of these Budgets is laid out below.

Summary of Capital Borrowing Budget 2020 to 2021			
Project – all supported by business cases	Borrowing Requirement (Budget)	Borrowing Costs	
		Minimum Revenue Provision (MRP)	Interest Payable
Investing in our Growth Fund	£17,244,872	£763,000	£406,700
Western Way Development	£21,560,577	£0	£0
Mildenhall Hub	£18,361,000	£57,000	£62,000
West Suffolk Operational Hub	£10,004,564	£289,000	£317,000
Newmarket Leisure Centre	£2,675,138	£103,000	£169,600
Toggam Solar Farm	£1,871,381	£107,500	£202,000
20 High St Haverhill	£1,826,032	£49,300	£54,200
113 High St Newmarket	£686,635	£24,930	£19,944
Olding Road DHL Depot	£3,657,556	£197,750	£0

Provincial House	£3,607,000	£92,500	£101,000
Vicon House, Western Way	£3,400,272	£46,500	£105,000
33-35 High St Haverhill	£375,818	£5,000	£11,300
17/18 Cornhill	£2,995,000	£0	£0
St Edmunds Guest House	£0	£0	£0
Loans and other	£6,745,000	£75,000	£82,500
Total borrowing and associated servicing costs	£95,010,845	£1,810,480	£1,531,244
% of Gross Revenue Income Budget *		3.2%	2.7%

* Referred to as Net Revenue Budget in previous reports and capital strategy – title amend to make relationship to West Suffolk gross revenue income budget (£56.1 million) clearer.

- 3.5 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.
- 3.6 The position on each of these projects for the full year of 2020 to 2021 is as below

Summary of Actual Capital Borrowing for 2020 to 2021				
Project – all supported by business cases	External Borrowing	Internal Borrowing	Minimum Revenue Provision (MRP)	Interest Payable
Investing in our Growth Fund	£0	£0	£0	£0
Western Way Development	£0	£0	£0	£0
Mildenhall Hub	£0	£18,003,656	£0	£0
West Suffolk Operational Hub	£0	£9,648,709	£121,918	£0
Newmarket Leisure Centre	£4,000,000	£0	£12,278	£169,600
Toggam Solar Farm	£0	£1,910,320	£68,562	£0

20 High St Haverhill	£0	£1,845,195	£30,137	£0
113 High St Newmarket	£0	£700,130	£11,435	£0
Olding Road DHL Depot	£0	£3,704,382	£150,924	£0
Provincial House	£0	£3,545,576	£54,300	£0
Vicon House, Western Way	£0	£3,393,567	£53,205	£0
33-35 High Street, Haverhill	£0	£375,676	£5,142	£0
17/18 Cornhill	£0	£1,162,597	£0	£0
St Edmunds Guest House	£0	£1,005,213	£7,534	£0
Loans and other	£0	£1,344,505	£3,345	£0
Sub total	£4,000,000	£46,639,526	£518,778	£169,600
Newmarket Leisure Centre cumulative MRP reducing internal borrowing amount		(£1,234,141)		
Total Borrowing		£49,405,385	£688,378	
% of Gross Revenue Income (excl COVID-19 Grants)			0.8%	0.1%

3.7 The original forecast position moved due to the following reasons:

- Use of internal borrowing instead of external borrowing during 2020 to 2021.
- Reviewing the Western Way development in light of the COVID-19 outbreak, which led to a timing delay in the project programme against what was originally forecast.
- Underspend against the Investing in our Growth Fund.

3.8 The impact of these changes and the approach to internal borrowing resulted in an in year saving of interest payable of £1,361,644 in 2020 to 2021. Where a project was complete and operational, an MRP charge was still made even if no external borrowing was undertaken.

3.9 A total of £1,050,570 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 £2,391,792 to be utilised in future budget periods to accommodate any fluctuations or market movements in external borrowing costs.

- 3.10 During the financial year there had been no requirement to borrow externally over and above the £4 million Barclays loan. Therefore, the only interest payable for the year was the £169,600 relating to this.

4. Borrowing and Income - Proportionality

- 4.1 The concept of proportionality, alongside that of affordability, is a key consideration when considering funding projects through borrowing.
- 4.2 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.
- 4.3 As at 31 March 2020, the Councils asset base was valued at £248.7 million. As such the budgeted borrowing requirement of £95 million would have represented 38.2 per cent of our long-term asset base. The actual borrowing requirement at the end of the financial year was £49.4 million, which represents 19.9 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.

5. Borrowing and Asset Yields

- 5.1 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.
- 5.2 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.
- 5.3 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.

2020 to 2021 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%
Western Way Development		£21.6	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub		£9.1	£0.0	£0.0	£0.0	0.0%
Other		£5.7	£0.0	£0.0	£0.0	0.0%
TOTAL	£77.1	£55.7	£8.5	£7.3	£5.4	4.1%

2020 to 2021 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	£24.2	£0.0	£2.6	£2.1	£2.1	8.7%
Retail Units	£31.8	£0.0	£1.6	£1.4	£1.4	4.4%
Land	£10.3	£0.0	£1.0	£0.9	£0.9	8.7%
Solar Farm	£14.4	£0.0	£1.3	£0.9	£0.3	2.1%
Growth Fund		£0.0	£1.5	£1.5	£0.2	1.0%
West Suffolk Operational Hub	£4.5	£0.0	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub	£41.3	£0.0	£0.0	£0.0	£0.0	0.0%
Other		£4.0	£0.0	£0.0	£0.0	0.0%
TOTAL	£126.7	£4.0	£8.0	£6.8	£4.9	3.8%

* Includes direct operating costs

6. Appendices referenced in this report

6.1 Appendix A - CIPFA Financial Resilience Index 2021

7. Background documents associated with this report

7.1 Capital Strategy 2020-21, Treasury Management Strategy Statement 2020-2021 and Treasury Management Code of Practice