West Suffolk Council

Treasury Management Report - December 2021

Report number:	**FRS/WS/22/001**	
Report to and date(s):	**Financial Resilience Sub Committee**	17 January 2022
	Performance and Audit Scrutiny Committee	27 January 2022
	Cabinet	8 February 2022
	Council	22 February 2022
Cabinet member:	Councillor Sarah Broughton Cabinet Member for Resources and Property **Tel:** 07929 305787 **Email**: sarah.broughton@westsuffolk.gov.uk	
Lead officer:	Gregory Stevenson Service Manager – Finance and Performance **Tel:** 01284 757264 **Email:** gregory.stevenson@westsuffolk.gov.uk	

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

Wards impacted: **All Wards**

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

1. **Notes the Treasury Management Report – December 2021; and**

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

1. Treasury Management Report – December 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 activities from 1 April 2021 to 31 December 2021.

2. Executive Summary

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

2.2 External borrowing as at 31 December 2021 increased to £14,000,000 (from £4,000,000 at 30 September 2021), correspondingly the Council's level of internal borrowing reduced to £37,675,406 as at 31 December 2021. Overall borrowing (both external and internal) is expected to increase over the full financial year, but not by as much as was originally budgeted for.

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

3. Interest Earned from Treasury Investments during the period

3.1 The 2021 to 2022 Annual Treasury Management and Investment Strategy Statements (report CAB/WS/21/007 approved 23 February 2021) sets out the Council's projections for the current financial year. The budget for investment income of 2021 to 2022 is £45,000 which is based on a 0.25 per cent target average rate of return on investments.

3.2 At the end of December 2021 interest actually earned during the first nine months of the financial year amounted to £53,087 (average rate of return of 0.149 per cent) against a profiled budget for the period of £33,750 (average rate of return 0.25 per cent); a budgetary surplus of £19,337. Although interest rates continue to be low as a result of the COVID-19 pandemic which started in mid-March 2020, the Council had more cash invested during the period (see note at 3.4) leading to higher overall interest achieved despite the lower rates.

3.3 The table below summaries the interest earned, and the average rate of return achieved at 31 December 2021.

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)			
Lloyds 95 Day Account	nil	0.45%	nil
Santander 365 Day Account	8,000,000	0.682%	41,135.34
Santander 180 Day Account	nil	0.380%	349.59
Santander 95 Day Account	500,000	0.401%	1,512.33
Lloyds Treasury Account	9,304,181	0.080%	5,608.00
Barclays Deposit Account*	6,000,000	0.010%	452.05
CCLA MMF	4,000,000	0.026%	770.58
Local Authorities	2,169,811	0.076%	1,196.71
HM Debt Management Office	3,246,428	0.013%	2,062.74
Total Overall Average Return on Investments %			**0.149%**
Total Interest Earned - 1 April 2020 to 31 December 2021			**53,087.34**

* 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	
	2021 to 2022 (£)
Opening Balance 01 April 2021	**28,500,000**
Investments made during the year (including transfers to business reserve accounts)	122,550,000
Sub Total	**151,050,000**
Less Investments realised during the year (including withdrawals from business reserve accounts)	74,550,000
Closing Balance 31 December 2021	**76,500,000**

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

3.5 The table below lists the investments held as at 31 December 2021

Investments held as at 31 December 2021				
Counterparty	**Principal Amount (£)**	**Interest Rate**	**Date Loaned**	**Date Returned**
Lloyds 95 Day Account	Nil			
Santander 365 Day	8,000,000	0.68%	01/04/21	365 day Notice
Santander 180 Day	Nil			
Santander 95 Day	500,000	0.40%	01/04/21	95 day Notice
Lloyds Treasury Account	10,000,000	0.08%	01/04/21	On call availability
Barclays Deposit Account	6,000,000	0.01%	01/04/21	On call availability
CCLA Money Market Fund	4,000,000	Variable	01/04/21	On call availability
HM Debt Man. Office	1,500,000	0.010%	10/08/21	10/01/22
HM Debt Man. Office	3,000,000	0.010%	01/09/21	10/01/22
HM Debt Man. Office	1,000,000	0.010%	14/09/21	10/01/22
HM Debt Man. Office	1,000,000	0.010%	27/09/21	10/01/22
HM Debt Man. Office	6,000,000	0.010%	01/10/21	10/01/22
HM Debt Man. Office	2,000,000	0.010%	08/10/21	15/02/22
HM Debt Man. Office	2,500,000	0.010%	18/10/21	10/01/22
HM Debt Man. Office	6,500,000	0.045%	01/11/21	17/01/22
HM Debt Man. Office	1,000,000	0.010%	09/11/21	09/02/22
HM Debt Man. Office	1,000,000	0.050%	11/11/21	28/03/22
HM Debt Man. Office	3,500,000	0.010%	30/11/21	21/03/22
HM Debt Man. Office	1,500,000	0.050%	01/12/21	15/02/22
HM Debt Man. Office	4,000,000	0.010%	01/12/21	21/02/22
HM Debt Man. Office	4,500,000	0.030%	06/12/21	19/04/22
Sth Somerset DC	1,000,000	0.020%	18/08/21	10/01/22
Epping Forest DC	3,000,000	0.040%	20/09/21	10/01/22
Thurrock BC	5,000,000	0.220%	06/12/21	05/12/22
There were no other fixed term investments				
Total	**76,500,000**			

Please note: The interest rates above are the rates as at 31 December 2021. 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, called the Interest Equalisation Reserve. The balance in this reserve as at 31 December 2021 was £865,473.

4. Borrowing activity during the period

4.1 As with the 2020 to 2021 financial year, the Council continues to hold significant cash balances, see 3.4 above. This level is due to reduce significantly by the end of the financial year, with current forecasts suggesting the balance will be between £35 million - £40 million. A large amount of the funds currently being held are on behalf of others e.g. £22.3 million is due to be paid in early February to HM Government for repayment of S31 grants, as well precept payments due to Suffolk County Council.

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

4.3 Due to several factors, including the forecast level of cash balances at the year end, market expectations of the Bank of England increasing interest rates to combat high inflationary figures, a dip in PWLB interest rates, and support from members, the Council took the decision to externalise a proportion of its internal borrowing requirement in the period. On 3 December 2021 West Suffolk fixed £10 million with the Public Works Loans Board (PWLB) for a period of 40 years at an interest rate of 1.84%. The loan was done on an Equal Instalment of Principal repayment method, meaning that there will be a repayment of £250,000 every year of the loan. With interest rates remaining low and cash balances remaining healthy, it is unlikely that any further external borrowing will need to be undertaken in the short term, although this is kept under constant review and may change if circumstances and advice changes.

4.4 The table below is a summary of the external borrowings and temporary loans as at 31 December 2021.

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

4.5 The Council's 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 over the medium to longer term.

4.6 The table below details the forecast for the councils Capital Financing Requirement (underlying need to borrow) over the next 3 years.

	31 March 2021 Actual £ millions	31 March 2022 Approved Budget £ millions	31 March 2022 Forecast £ millions	31 March 2023 * Budget £ millions	31 March 2024 * Budget £ millions
Capital Financing Requirement (CFR)	**49.405**	**96.179**	**56.240**	**154.198**	**207.963**

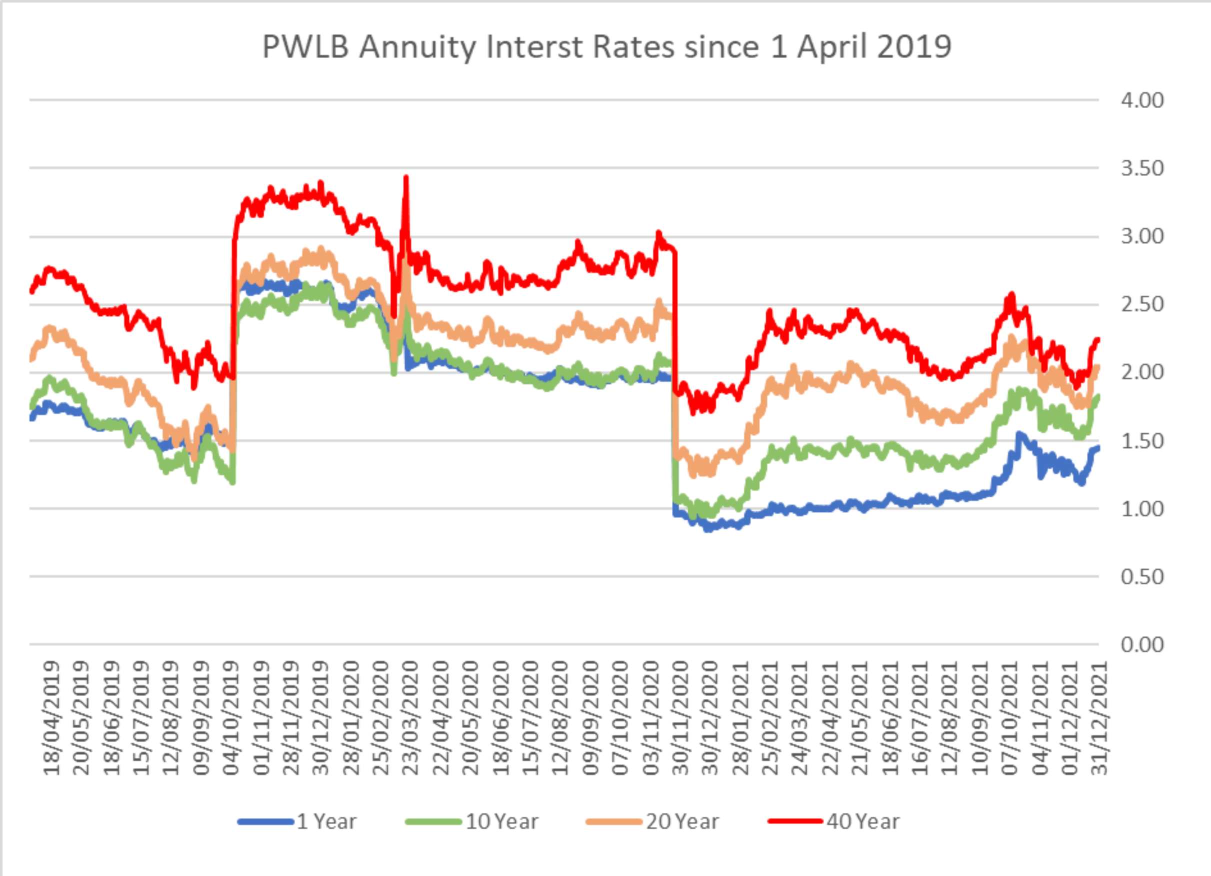
* These figures will be updated as part of the 2022 to 2023 budget setting process.

5. Borrowing Strategy and Sources of Borrowing

5.1 As detailed in the 2021 to 2022 Treasury Management Strategy Statement, the borrowing strategy for the year is to make short-term use of internal funds (internal borrowing) or to borrow either through short-term loans or long-term fixed rate loans. Up until 3 December 2021, the Council was following the short-term use of internal funds element of the strategy. However, as described at 4.3 above, the Council took the decision to externalise some of its internal borrowing and took out a long-term fixed rate loan. As interest rates remain low and the Council still has an underlying need to borrow this option of externalising some more of its internal borrowing is being continually monitored, along with Arlingclose (treasury advisors), as the rates and forecasts for these options move to determine which is the most optimal strategy to manage cash flow requirements and interest risk management.

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) – which is where the Council fixed the £10 million loan on 3 December 2021.

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



5.4 The graph above shows how PWLB rates fluctuate on a daily basis, as they are linked to UK Gilt rates – current PWLB rates are 1.00 per cent above the relevant UK Gilt rate. West Suffolk Council has access to PWLB Certainty Rates which are only 0.80 per cent above the relevant UK Gilt rate. In October 2019, PWLB increased the margin above UK Gilts from 1.00 per cent (0.80 per cent for Certainty Rate) to 2.00 per cent (1.80 per cent for Certainty Rate) overnight as a result of significant increases in the level of borrowing from PWLB. After undertaking consultation on changes to PWLB lending terms, the margin over UK Gilts was dropped back to 1.00 per cent (0.80 per cent for Certainty Rate) in November 2020.

5.5 PWLB interest rates for 40-year borrowing using the annuity method were 2.24 per cent (2.04 per cent for Certainty Rate) on 31 December 2021 (down from 2.39 per cent (2.19 per cent for Certainty Rate) on 30 September 2021. Using the current value of internal borrowing of £37,675,000, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 2.04 per cent Certainty Rate, the Council would incur an initial annual interest payable cost of £768,570. This compares to our interest payable budget for 2021 to 2022 of £2,053,000. If PWLB rates were to increase by 0.50 percent, then the interest payable cost would increase to £1,310,545, and an increase of 1.00 per cent in PWLB rates would lead to a cost of £1,498,920.

5.6 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 2021 to 2022 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
- 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 2021 to 2022			
Project – all supported by business cases	Borrowing Requirement (Budget)	Borrowing Costs	
		Minimum Revenue Provision (MRP)	Interest Payable
Investing in our Growth Fund	£15,838,544	£209,500	£410,500
Western Way Development	£21,560,577	£0	£0
Mildenhall Hub	£17,438,264	£243,150	£476,550
West Suffolk Operational Hub	£11,177,329	£168,500	£311,250
Newmarket Leisure Centre	£2,753,610	£12,250	£169,600
Toggam Solar Farm	£1,829,369	£80,950	£82,000
20 High St Haverhill	£1,816,595	£28,600	£56,700
113 High St Newmarket	£688,830	£11,300	£22,500

Olding Road DHL Depot	£3,550,381	£154,000	£113,350
Provincial House	£3,491,626	£53,950	£99,700
Vicon House, Western Way	£3,344,267	£49,300	£102,200
33-35 High St, Haverhill	£370,376	£5,300	£11,000
17/18 Cornhill	£2,695,394	£0	£0
St Edmunds Guest House	£929,850	£10,650	£35,100
Loans and other	£8,693,954	£55,400	£162,550
Total borrowing and associated servicing costs	**£96,178,966**	**£1,082,850**	**£2,053,000***
% of Gross Revenue Income Budget		**2.6%**	**4.9%**

* This represents an average interest rate of 2.75 per cent.

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 2021 to 2022 but does not split it out by project.

Summary of Forecast Capital Borrowing for 2021 to 2022			
External Borrowing	**Internal Borrowing**	**Minimum Revenue Provision (MRP)**	**Interest Payable**
£14,000,000	£42,239,766	£796,193	£230,259
Total Borrowing	**£56,239,766**	**£1,026,452**	
% of Gross Revenue Income (excl COVID-19 Grants)		**2.0%**	**0.5%**

6.7 The original budget position has moved due to the following reasons:

- Forecast use of internal borrowing instead of external borrowing during 2021 to 2022.
- Reviewing the Western Way development in light of the COVID-19 outbreak, which led to a timing delay in the project programme against what was originally forecast.
- Forecast underspend against the Investing in our Growth Fund.

7. Borrowing and Income - Proportionality

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

7.2 The costs and risks associated with that borrowing should be looked at as part of the whole financial position of the council in our financial planning and resilience assessments. Awareness of the scale and relationship with the asset base and revenue delivery is essential to informed decision making.

7.3 As at 31 March 2021, the Councils asset base was valued at £266.6 million. As such the budgeted borrowing requirement of £96.18 million would have represented 36.07 per cent of our long-term asset base. The forecast borrowing requirement at the end of the financial year is £56.24 million, which represents 21.10 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.

8. Borrowing and Asset Yields

8.1 Borrowing, whether internally from available cash balances or externally from other institutions, bears a cost which will affect the yield of investments made with that money. The yield is the return on the investment, whether through additional income of savings, less the borrowing costs associated with the investment, against the value of the investment.

8.2 West Suffolk Council makes investment decisions to support its strategic priorities which are not solely focussed on financial return, in line with our agreed Investing in our Growth Agenda Strategy. There are therefore a range of yield returns delivered by these investments that varies from project-to-project dependant on the wider blended socio-economic returns that these projects give.

8.3 In order to aid comparison between projects and returns from ‘normal’ treasury management cash investment (section 2 above), the table below shows the income and net return from the current project portfolio.

2021/22 BUDGET	Asset Value £m	Borrowing £m	Annual Income £m	Net Return (Excl. Borrowing Costs *)	Net Return (Incl. Borrowing Costs)	Yield % - net of Borrowing Costs (E/A)
	A	B	C	D	E	F
Industrial Units	£24.2	£0.0	£2.6	£2.2	£2.2	9.0%
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	9.6%
Solar Farm	£14.4	£1.8	£1.4	£1.1	£0.4	2.7%
Growth Fund		£15.8	£0.7	£0.7	£0.2	1.0%
Western Way Development		£21.6	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub		£17.4	£0.0	£0.0	£0.0	0.0%
Other		£11.2	£0.7	£0.6	£0.6	0.0%
TOTAL	**£77.1**	**£67.8**	**£8.2**	**£7.1**	**£5.9**	**4.1%**

2021/22 FORECAST	Asset Value £m	Borrowing (Int & Ext) £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	£1.7	£1.4	£1.4	4.4%
Land	£10.3	£0.0	£0.9	£0.9	£0.9	8.7%
Solar Farm	£14.4	£1.8	£1.3	£0.9	£0.3	2.1%
Growth Fund		£17.1	£0.7	£0.7	£0.2	1.0%
West Suffolk Operational Hub		£9.7	£0.0	£0.0	£0.0	0.0%
Mildenhall Hub		£17.8	£0.0	£0.0	£0.0	0.0%
Western Way Development		£2.0	£0.0	£0.0	£0.0	0.0%
Other		£7.9	£0.7	£0.6	£0.6	5.7%
TOTAL	**£80.7**	**£56.2**	**£7.7**	**£6.6**	**£5.5**	**4.0%**

* Includes direct operating costs

9. Prudential Code, Treasury Management Code and MRP Consultation

9.1 Over the past year, CIPFA has undertaken some consultation on proposed changes to the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services: Code of Practice. The Prudential Code is a professional code of practice to support local authorities in taking decisions on capital investments. Key objectives of the code of practice are to ensure that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported. The Treasury Management Code is a code of practice to support local authorities to effectively manage and control the treasury management functions of the Council. As a result of these consultations, new revisions to both of these documents were published on 20 December 2021.

9.2 The main change to the Prudential Code was to amend the code's wording to restrict local authority borrowing for yield from "purely for profit" to "primarily for profit". Another proposed change which is likely to come into effect is the introduction of a liability benchmark as an indicator in the code. This assesses the lowest borrowing options available to an authority, by comparing debt levels to future liquidity. The main change to the Treasury Management Code is the introduction of a requirement to produce a knowledge and skills schedule for what is required in order to fulfil the needs of the treasury management function.

9.3 The Department for Levelling Up, Housing and Communities (DLUHC) has recently published a consultation on proposed changes to capital finance regulations in respect of Minimum Revenue Provision (MRP). There are two main changes proposed to take effect from the 2023 to 2024 financial year, which are aimed at stopping local authorities from not making an MRP for certain assets (mainly investment assets and capital loans), which is deemed by DLUHC to not be prudent. The closing date for responses to this consultation is 8 February 2022, to which the Council will submit a response.

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 December 2021.

11. Appendices referenced in this report

11.1 Appendix 1 – Arlingclose Close Economic and Interest Rate Forecasts

12. Background documents associated with this report

12.1 Capital Strategy 2021 to 2022, Treasury Management Strategy Statement 2021 to 2021 and Treasury Management Code of Practice.