

Annual Treasury Management and Financial Resilience Report 2021 to 2022

Report number:	FRS/WS/22/003	
Report to and date(s):	Financial Resilience Sub Committee	11 July 2022
	Performance and Audit Scrutiny Committee	28 July 2022
	Cabinet	20 September 2022
	Council	27 September 2022
Cabinet member:	Councillor Sarah Broughton Deputy Leader and Cabinet Member for Resources and Property Tel: 07929 305787 Email: sarah.broughton@westsuffolk.gov.uk	
Lead officer:	Gregory Stevenson Service Manager – Finance and 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 – 2021 to 2022; 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 – 2021 to 2022

- 1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activities under the CIPFA Code of Practice on Treasury Management. It provides a comprehensive assessment of treasury activities from 1 April 2021 to 31 March 2022.

2. Executive Summary

- 2.1 The Council held investments of £66,500,000 as at 31 March 2022. Interest achieved in the financial year amounted to £94,451.98 against a budget for the period of £45,000.
- 2.2 External borrowing as at 31 March 2022 £14,000,000 (from £4,000,000 at 31 March 2021), and the Council's level of internal borrowing was £41,487,158 as at 31 March 2022.
- 2.3 Borrowing costs (Interest Payable and MRP) for the year were £991,448 against an approved budget of £3,135,850. This difference was placed in the capital financing reserve to use towards future interest rate fluctuation.

3. Interest Earned from Treasury Investments during the year

- 3.1 The 2021 to 2022 Annual Treasury Management and Investment Strategy Statements (report FRS/WS/21/002 approved 23 February 2021) sets out the Council's projections for the current financial year. The budget for investment income for 2021 to 2022 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 2022 interest actually earned during the financial year amounted to £94,451.98 (average rate of return of 0.395 per cent) against a budget for the year of £45,000 (average rate of return 0.25 per cent); a budgetary surplus of £49,451.98. The surplus is primarily due to higher than predicted cash balances as a result of holding business and COVID support grants prior to distribution.

- 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	0.697%	55,732.60
Santander 95 Day Account	500,000	0.416%	2,078.77
Lloyds Treasury Account	9,145,753	0.080%	7,316.60
Barclays Deposit Account	6,000,000	0.010%	600.00
CCLA MMF	4,000,000	0.070%	2,784.90
Local Authorities	2,844,504	0.136%	3,943.56
HM Debt Management Office	3,930,458	0.075%	21,995.55
Total Overall Average Return on Investments %			0.395%
Total Interest Earned - 1 April 2021 to 31 March 2022			94,451.98

- 3.4 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 2021 to 31 March 2022:

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)	245,500,000
Sub Total	274,000.000
Investments realised during the year (including withdrawals from business reserve accounts)	208,500,000
Closing Balance 31 March 2022	65,500,000

- 3.5 The table below lists the investments held as at 31 March 2022

Investments held as at 31 March 2022				
Counterparty	Principal Amount (£)	Interest Rate	Date Loaned	Date Returned
Santander 365 Day	8,000,000	0.83%	01/04/21	365-day Notice
Santander 95 Day	500,000	0.55%	01/04/21	95-day Notice
Lloyds Treasury Account	8,000,000	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	4,500,000	0.030%	06/12/21	19/04/22
HM Debt Man. Office	4,000,000	0.105%	04/01/22	19/04/22
HM Debt Man. Office	6,000,000	0.140%	04/01/22	01/07/22
HM Debt Man. Office	5,000,000	0.220%	18/01/22	15/07/22
HM Debt Man. Office	4,500,000	0.555%	22/03/22	25/04/22
HM Debt Man. Office	7,000,000	0.550%	30/03/22	19/04/22
HM Debt Man. Office	3,000,000	0.550%	30/03/22	29/04/22
Thurrock BC	5,000,000	0.220%	06/12/21	05/12/22
There were no other fixed term investments				
Total	65,500,000			

Please note: The interest rates above are the rates as at 31 March 2022. Actual rates going forward could fluctuate.

- 3.6 The Council has an earmarked revenue reserve to mitigate against possible adverse fluctuations in the returns received from the council's investments and external borrowing costs, called the Capital Projects Financing Reserve. The balance in this reserve as at 31 March 2022 was £4,902,184.

4. Borrowing activity during the year

- 4.1 As with the 2020 to 2021 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. £14 million relates to HM Government for repayment of S31 grants, as well as £9.8 million relating to the Council Tax Rebate Grant scheme.
- 4.2 The Council had been using an approach during 2021 to 2022, 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 was continually kept under review, based on the level of cash balances the Council held, as well as the interest rates available in the market and the level of risk exposure the Council had 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 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 year. 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 £125,000 every six months of the loan.

4.4 With this extra borrowing in the year, West Suffolk ended the year on 31 March 2022 with £14 million of external borrowing, which is an increase of £10 million on the level it held on 31 March 2021.

4.5 The table below is a summary of the borrowings and temporary loans as at 31 March 2022.

Borrowings and Temporary Loans					
Lender	Balance – 1 April 2021 (£)	In Year Movement (£)	Balance - 31 March 2022 (£)	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

4.6 During the year the councils underlying need to borrow (Capital Financing Requirement – CFR, the amount the Council has invested in its communities) increased by just over £6 million. With the £10 million of external borrowing taken out in the year, the level of internal borrowing the council has reduced by £3.9 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 2021 (£)	In Year Movement (£)	Balance – 31 March 2022 (£)
Total CFR	49,405,385	6,081,773	55,487,158
Less: External Borrowing	(4,000,000)	(10,000,000)	(14,000,000)
Internal Borrowing	45,405,385	(3,918,227)	41,487,158

5. Borrowing and Capital Costs - Affordability

5.1 The 2021 to 2022 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
- Toggam Solar Farm
- Investing in our Growth Fund

5.2 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.

5.3 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.

5.4 The details of these Budgets is 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	£18,838,544	£209,500	£410,500
Western Way Development	£21,560,577	£0	£0
Mildenhall Hub	£17,438,264	£142,000	£207,650
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	£182,100	£350,900
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.

5.5 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.

5.6 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 Capital Borrowing for 2021 to 2022			
External Borrowing	Internal Borrowing	Minimum Revenue Provision (MRP)	Interest Payable
£14,000,000	£41,487,158	£761,249	£230,199
Total Borrowing	£55,489,158	£991,448	
% of Gross Revenue Income (excl COVID-19 Grants)		1.8%	0.6%

5.7 The original forecast position at paragraph 5.4, moved due to the following reasons:

- 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.
- Underspend against the Investing in our Growth Fund.

5.8 A total of £1,632,612 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 £4,902,184 to be utilised in future budget periods to accommodate any fluctuations or market movements in interest rates and external borrowing costs.

6. Borrowing and Income - Proportionality

- 6.1 The concept of proportionality, alongside that of affordability, is a key consideration when considering funding projects through borrowing.
- 6.2 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.
- 6.3 As at 31 March 2021, the Council's 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 actual borrowing requirement at the end of the financial year was £55.5 million, which represents 20.1 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.

7. Borrowing and Asset Yields

- 7.1 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.
- 7.2 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.
- 7.3 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 to 2022 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%

2021 to 2022 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	£2.9	£2.4	£2.4	8.5%
Retail Units	£20.0	£0.0	£1.8	£1.5	£1.5	7.5%
Land	£11.8	£0.0	£1.0	£0.9	£0.9	7.6%
Solar Farm	£15.0	£0.0	£1.3	£0.9	£0.3	2.1%
Growth Fund		£0.0	£0.0	£0.0	£0.0	0.0%
Other		£14.0	£0.0	£0.0	£0.0	0.0%
TOTAL	£74.9	£14.0	£7.0	£5.7	£5.1	6.8%

* Includes direct operating costs

8. Background documents associated with this report

- 8.1 Capital Strategy 2021 to 22, Treasury Management Strategy Statement 2021 to 2022 and Treasury Management Code of Practice