West Suffolk Council

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.

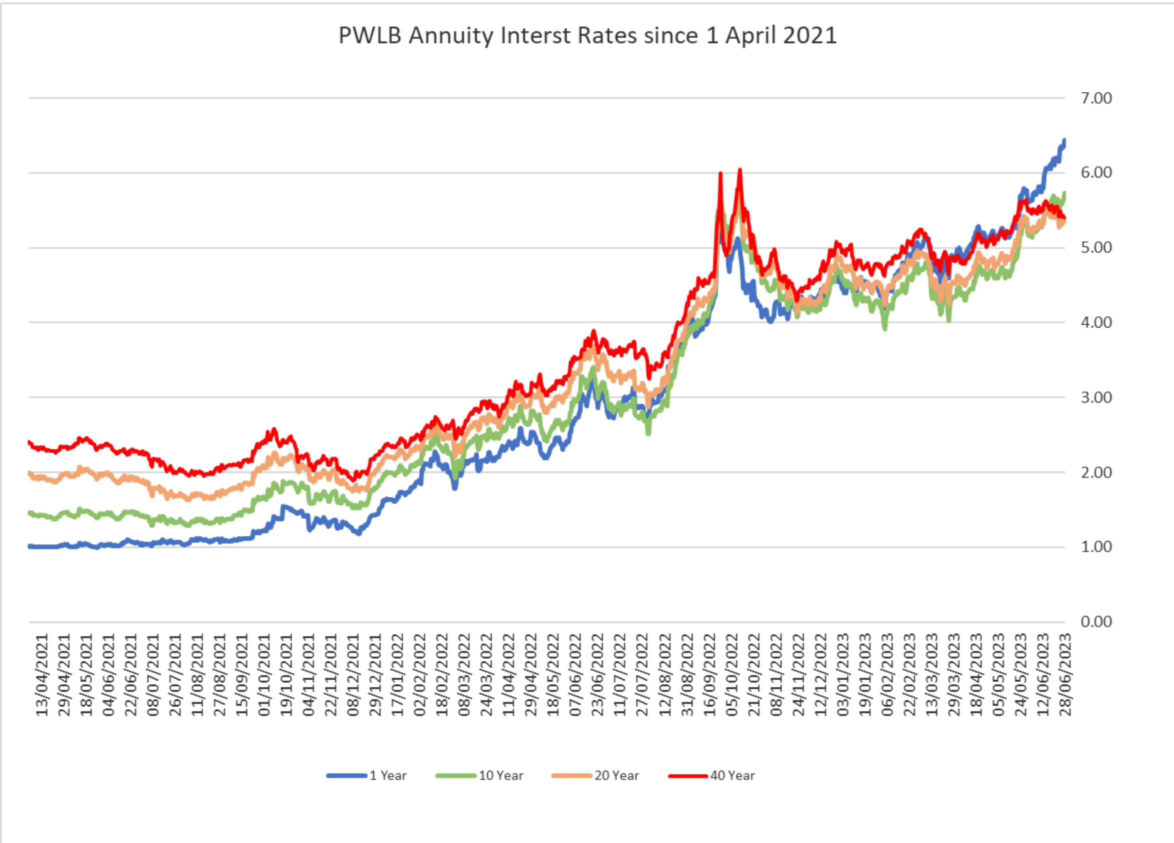
Capital Financing Requirement and Internal Borrowing			
	Balance – 1 April 2022 (£)	**In Year Movement (£)**	**Balance – 31 March 2023 (£)**
Total CFR	55,487,158	820,345	56,307,503
Less: External Borrowing	(14,000,000)	4,250,000	(9,750,000)
Internal Borrowing	**41,487,158**	**5,070,345**	**46,557,503**

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.

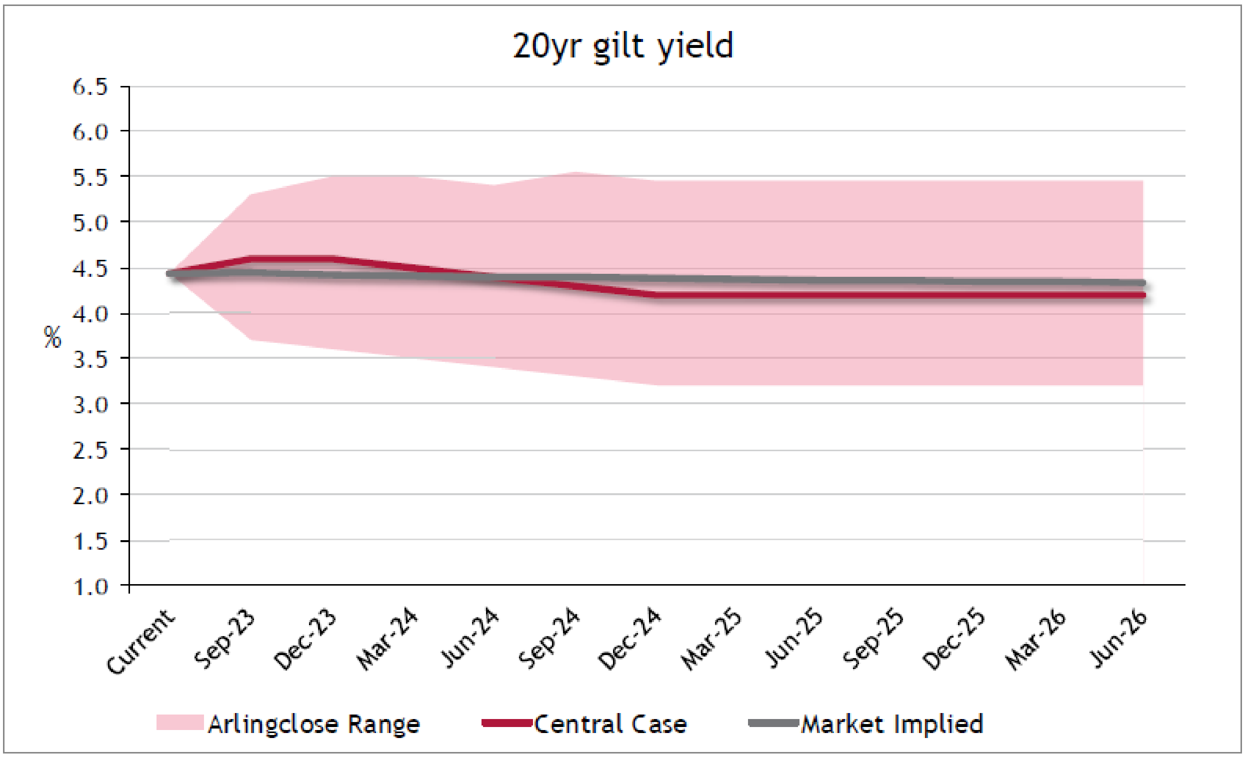
5.2 There are various sources of borrowing that the Council is able to make use of for longer term borrowing, which are detailed in the strategy statement. The traditional method for local authorities, and the default method the Council uses in all of its business cases, is to borrow from the Public 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%**

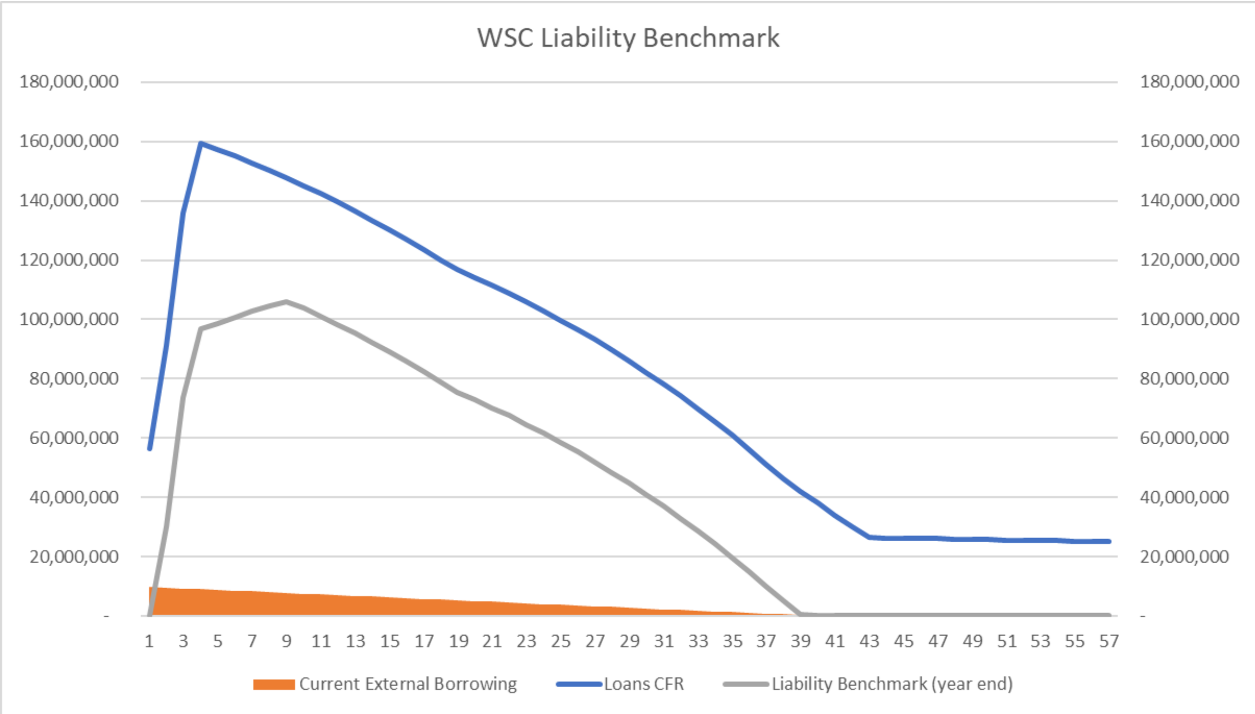
6.7 A total of £1,691,139 was transferred to the capital financing reserve during the year, mainly as a result of the savings in interest payable detailed above. This reserve now has a total balance of £6,548,067 to be utilised in future budget periods to accommodate any fluctuations or market movements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