

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 December 2023
Cabinet member:	Councillor Diane Hind Cabinet Member for Resources Email: diane.hind@westsuffolk.gov.uk	
Lead officer:	Gregory Stevenson Service Manager – Finance & 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. **Notes the Treasury Management Report – September 2023; and**
2. **Makes recommendations 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%	93,297.52
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 e.g. £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 & 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	31 March 2024	31 March 2024	31 March 2025	31 March 2026
	Actual £ millions	Revised Budget £ millions	Forecast £ millions	Forecast £ millions	Forecast £ millions
Capital Financing Requirement (CFR)	56.31	76.02	61.38	91.10	92.05

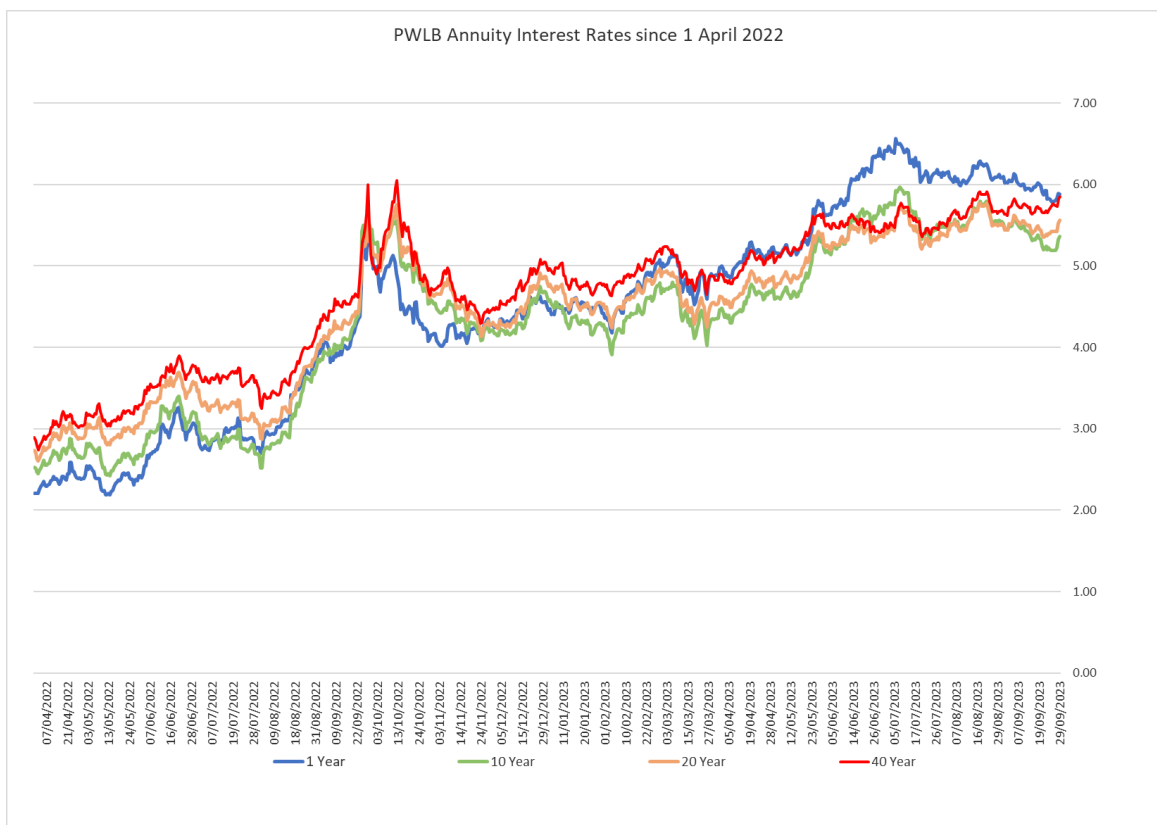
5. Borrowing Strategy and Sources of Borrowing

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.

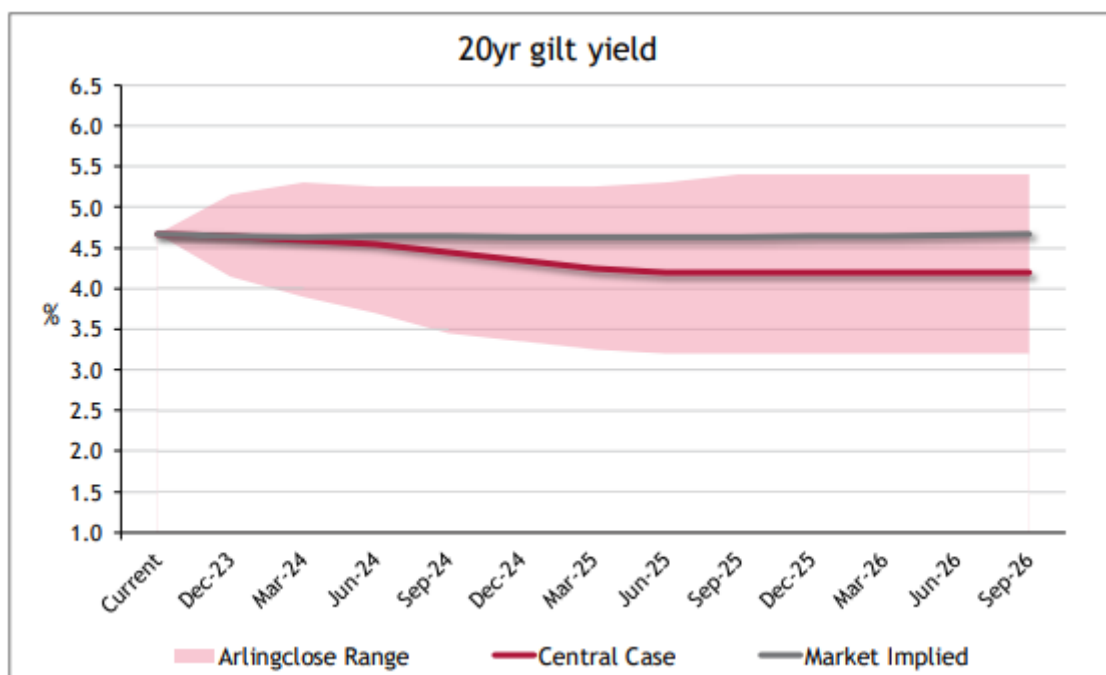
5.3 The graph below shows historic PWLB interest rates over the previous 18 months, for different durations based on borrowing using the annuity method.



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
Elsley'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.

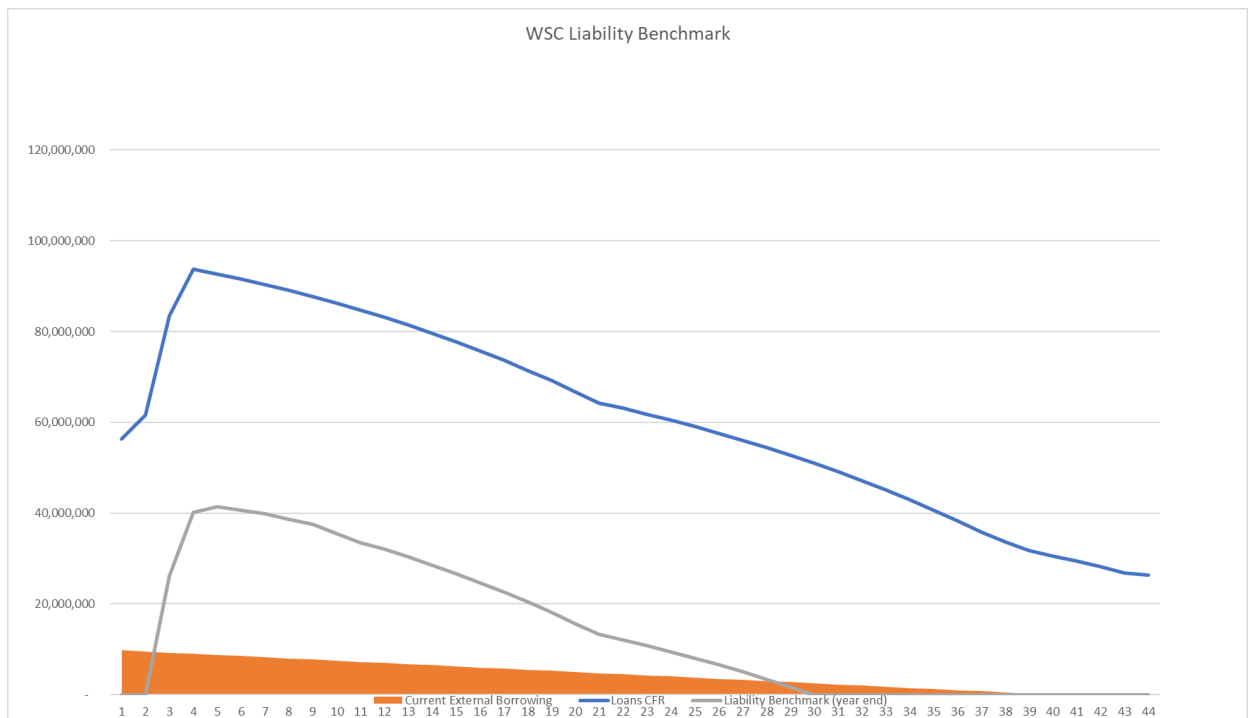
- 6.5 The affordability of borrowing and capital costs is a key metric in our financial planning and resilience assessments. Current and future financial affordability and resilience to such costs is key when evaluating any new opportunities. As set out in the approved West Suffolk Capital Strategy we 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 FORECAST	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	11.8%
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.