

Annual Treasury Management and Financial Resilience Report 2023 to 2024

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|-------------------------------|--|-------------------|
| Report number: | FRS/WS/24/003 | |
| Report to and date(s): | Financial Resilience Sub Committee | 22 July 2024 |
| | Performance and Audit Scrutiny Committee | 25 July 2024 |
| | Cabinet | 17 September 2024 |
| | Council | 19 November 2024 |
| Cabinet member: | Councillor Diane Hind Cabinet Member for Resources Email: diane.hind@westsuffolk.gov.uk | |
| Lead officer: | Gregory Stevenson Service Manager – Finance and Performance 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 – 2023 to 2024; 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 – 2023 to 2024

- 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 2023 to 31 March 2024.
- 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.

[FRS/WS/23/002](#) - Financial Resilience – Strategy Statement 2023 to 2024

FRS/WS/23/002 – [Appendix 1](#) – Treasury Management Strategy 2023 to 2024

2. Executive Summary

- 2.1 The Council held investments of £38,500,000 as at 31 March 2024. Interest achieved in the financial year amounted to £2,875,525.44 against a budget for the period of £715,000. 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 4.25 per cent on 1 April 2023 and increased to 5.25 per cent by 31 March 2024). Higher than expected cash levels also contributed to the over achievement of interest receivable.
- 2.2 External borrowing as at 31 March 2024 was £9,500,000, down from £9,750,000 at 1 April 2023. The reduction is due to the annual repayment of a £250,000 from the PWLB loan the Council currently holds. The Council's level of internal borrowing was £47,761,387 as at 31 March 2024.
- 2.3 Borrowing costs (Interest Payable and Minimum Revenue Provision - MRP) for the year were £1,104,914 against an approved budget of £2,294,200. 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 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 budget for

investment income for 2023 to 2024 was £715,000 which is based on a 3.25 per cent target average rate of return on investments.

3.2 At the end of March 2024 interest actually earned during the financial year amounted to £2,875,525.44 (average rate of return of 4.90 per cent) against a budget for the year of £715,000 (average rate of return 3.25 per cent); a budgetary surplus of £2,160,525.44. The surplus is due to two main reasons, the council's cash balances were higher than predicted due to lower spend against the capital programme and interest rates remaining higher than forecast for the duration of the financial year.

3.3 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 2023 to 31 March 2024:

| 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) | 213,350,000 |
| Sub Total | 256,350,000 |
| Investments realised during the year (including withdrawals from business reserve accounts) | 217,850,000 |
| Closing Balance 31 March 2024 | 38,500,000 |

Please note: The Councils cash balances are currently greater than forecast (average annual level of cash balances forecast was £22 million) as a result of underspends on the capital programme, as well as holding funds on behalf of others.

3.4 The table below lists the investments held as at 31 March 2024

| Investments held as at 31 March 2024 | | | | |
|---|-----------------------------|----------------------|--------------------|----------------------|
| Counterparty | Principal Amount (£) | Interest Rate | Date Loaned | Date Returned |
| Santander 365 Day | 8,000,000 | 4.91% | 01/04/23 | 11/06/24 |
| Santander 95 Day | 500,000 | 4.93% | 01/04/23 | 95 day Notice |
| Lloyds Treasury Account | 1,000,000 | 1.92% | 01/04/23 | On call availability |
| Barclays Deposit 32 Day | 2,000,000 | 5.20% | 01/04/23 | 32 day notice |
| CCLA Money Market Fund | 3,000,000 | Variable | 01/04/23 | On call availability |
| HM Debt Man. Office | 3,000,000 | 5.20% | 10/11/23 | 15/04/24 |

| | | | | |
|--|-------------------|-------|----------|----------|
| HM Debt Man. Office | 5,000,000 | 5.20% | 01/12/23 | 25/04/24 |
| HM Debt Man. Office | 2,000,000 | 5.19% | 20/12/23 | 15/05/24 |
| HM Debt Man. Office | 9,000,000 | 5.18% | 02/01/24 | 29/04/24 |
| HM Debt Man. Office | 2,000,000 | 5.18% | 02/02/24 | 02/05/24 |
| HM Debt Man. Office | 3,000,000 | 5.19% | 16/02/24 | 16/05/24 |
| There were no other fixed term investments | | | | |
| Total | 38,500,000 | | | |

Please note: The interest rates above are the rates as at 31 March 2024. Actual rates going forward could fluctuate. On the advice of Arlingclose, notice was placed on the Santander 365 account on 12 June 2023, with the funds being returned on 11 June 2024.

- 3.5 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 2024 was £10,764,455.

4. Borrowing activity during the year

- 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. £2.6 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 2023 to 2024 financial year.
- 4.3 West Suffolk ended the year on 31 March 2024 with £9.50 million of external borrowing, which is a decrease of £0.25 million on the level it held on 1 April 2023. This relates to the repayment plan for the £10 million PWLB, 40-year loan.
- 4.4 The table below is a summary of the external borrowings and temporary loans as at 31 March 2024.

| External Borrowings and Temporary Loans | | | | | |
|--|---|-------------------------------------|--|--------------------------|--------------------------|
| Lender | Balance – 1 April 2023 (£) | In Year Movement (£) | Balance - 31 March 2024 (£) | Interest Rate | Maturity date |
| PWLB | 9,750,000 | -250,000 | 9,500,000 | 1.84% | 1 December 2061 |

4.5 During the year the councils underlying need to borrow (Capital Financing Requirement – CFR) increased by £953,884. With the Council repaying £0.25 million of external borrowing in the year, the level of internal borrowing the council has increased by £1.20 million.

4.6 The table below details the change in the councils Capital Financing Requirement (underlying need to borrow) and level of internal borrowing during the year.

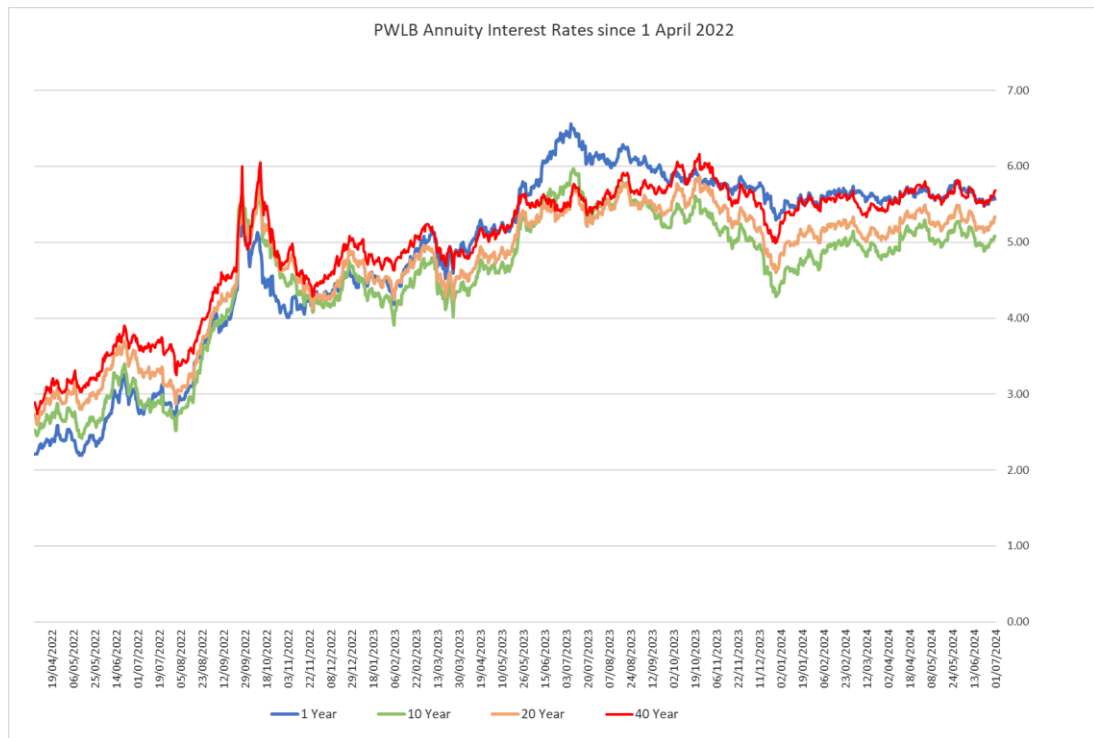
| Capital Financing Requirement and Internal Borrowing | | | |
|---|-----------------------------------|-----------------------------|------------------------------------|
| | Balance – 1 April 2023 (£) | In Year Movement (£) | Balance – 31 March 2024 (£) |
| Total CFR | 56,307,503 | 953,884 | 57,261,387 |
| Less: External Borrowing | (9,750,000) | 250,000 | (9,500,000) |
| Internal Borrowing | 46,557,503 | 1,203,884 | 47,761,387 |

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 (which offers long term interest cost certainty but whilst the council hold cash balances will come with short term holding costs – we would be paying external interest costs when we don't need to).

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.

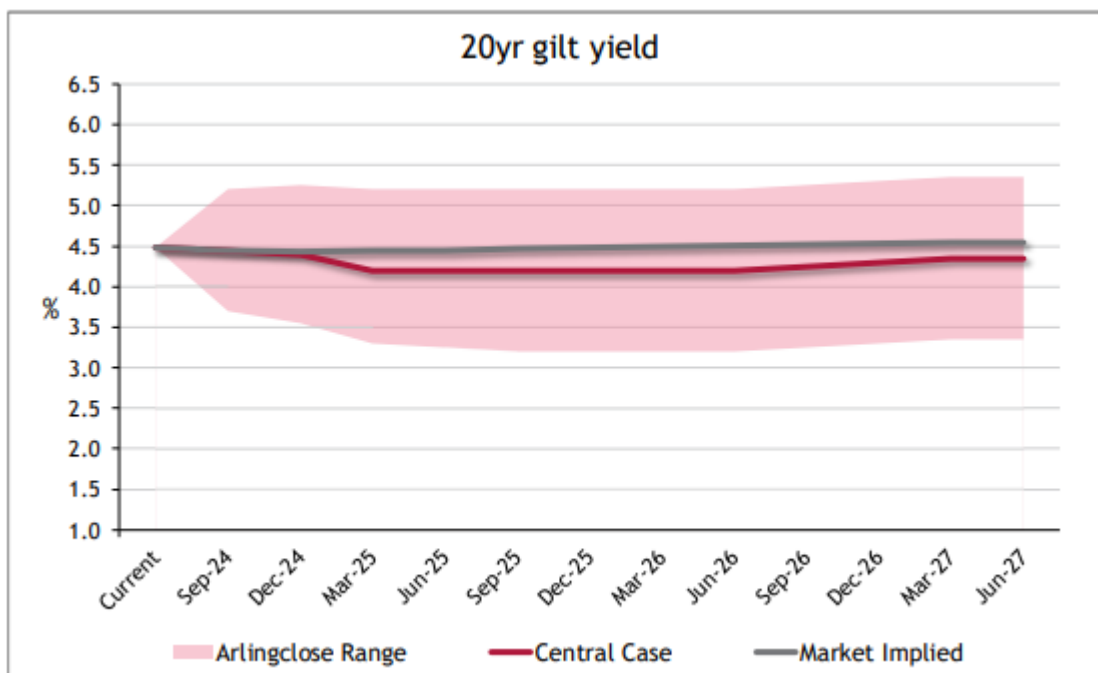
5.3 The graph below shows historic PWLB interest rates since 1 April 2022, for different durations based on borrowing using the annuity method.



- 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 couple of years, although somewhat less so in the past 12 months. This is largely as a result of global inflation being at high levels. 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. Inflation rates are now at levels closer to targets, and markets are starting to price in expectations for interest rate reductions over the coming months.

- 5.6 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 to remain in the short to medium term, dropping slightly with inflationary pressures subsiding and the expectation of slowed growth with the major economies.



5.6 PWLB interest rates for 40-year borrowing using the annuity method were 5.42 percent (5.22 percent for Certainty Rate) on 31 March 2024 – although at the time of writing this report they were at 5.72 per cent (5.52 per cent for Certainty Rate). Using the current value of internal borrowing of £47,761,387, if we were to transfer all of that internal borrowing to a 40-year PWLB loan using the 5.22 percent Certainty Rate, the Council would incur an initial annual interest payable cost of £2,665,025 (including our current external borrowing). This compares to our interest payable budget for 2023 to 2024 of £1,509,100.

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 2024 was £10,764,455.

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 2023 to 2024 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:

- Net Zero / Community Energy Plan

- Mildenhall Hub
- West Suffolk Operational Hub
- Advanced Manufacturing Units on Suffolk Business Park
- 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 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 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 |
| 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 | £25,300 | £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 | £785,100 | £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 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 2023 to 2024 but does not split it out by project.

| Summary of Capital Borrowing for 2023 to 2024 | | | |
|--|---------------------------|--|-------------------------|
| External Borrowing | Internal Borrowing | Minimum Revenue Provision (MRP) | Interest Payable |
| £9,500,000 | £47,761,387 | £933,033 | £171,881 |
| Total Borrowing | £57,261,387 | £1,104,914 | |
| % of Gross Revenue Income | | 1.3% | 0.2% |

- 6.7 A net total of £4,216,388.63 was transferred to the capital financing reserve during the year, mainly as a result of the savings in interest payable detailed above, the over achievement against budget of interest receivable detailed in paragraph 3.2, as well as interest received from HMRC relating to the successful VAT claim on the historic treatment of leisure services. This reserve now has a total balance of £10,764,455 to be utilised in future budget periods to

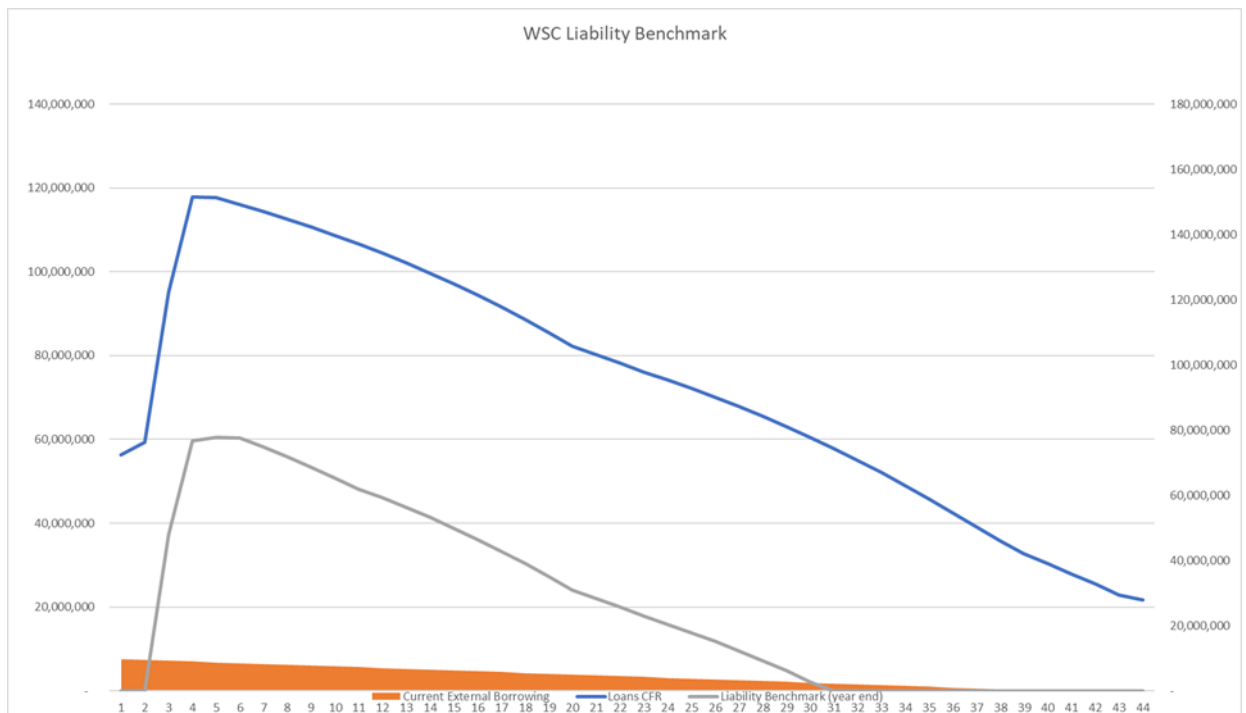
accommodate any fluctuations or market movements in interest rates and external borrowing costs.

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 2024, the Councils asset base was valued at £262 million. As such the budgeted borrowing requirement of £78.42 million would have represented 29.93 per cent of our long-term asset base. The actual borrowing requirement at the end of the financial year was £57.26 million, which represents 21.85 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 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.

| 2023 to 2024 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 to 2024 Actual | Asset Value £m | Borrowing £m | Annual Income £m | Net Return | Net Return (Incl. Borrowing Costs) | Yield % (E/A) |
|---------------------|-------------------|-----------------|---------------------|------------|---------------------------------------|------------------|
|---------------------|-------------------|-----------------|---------------------|------------|---------------------------------------|------------------|

| | | | | (Excl. Borrowing Costs *) | | |
|------------------|--------------|-------------|-------------|---------------------------|-------------|-------------|
| | A | B | C | D | E | F |
| Industrial Units | £22.6 | £0.0 | £2.7 | £2.1 | £1.9 | 8.4% |
| Retail Units | £20.0 | £0.0 | £1.8 | £1.6 | £1.4 | 7.0% |
| Land | £11.8 | £0.0 | £1.1 | £1.0 | £1.0 | 8.5% |
| Solar Farm | £13.9 | £0.0 | £3.3 | £2.1 | £1.6 | 11.5% |
| 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 | £9.7 | £7.2 | £6.0 | 8.8% |

* Includes direct operating costs

10. Background documents associated with this report

10.1 Capital Strategy 2023 to 2024.

[Treasury Management Strategy Statement 2023 to 2024](#)

[Treasury Management Code of Practice 2023 to 2024](#)