BABERGH AND MID SUFFOLK DISTRICT COUNCILS

TO:	**Joint Audit & Standards Committee**	**REPORT NUMBER: JAC/19/4**
FROM:	**Katherine Steel, Assistant Director, Corporate Resources**	**DATE OF MEETING: 29 July 2019**
OFFICER:	**Melissa Evans, Corporate Manager, Finance** **Sue Palmer, Senior Financial Services Officer**	**KEY DECISION REF NO. N/A**

ANNUAL TREASURY MANAGEMENT REPORT – 2018/19

1. PURPOSE OF REPORT

1.1 The report is part of the Councils' management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the financial year 2018/19.

1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, and the transactions executed in the past year and any circumstances of non-compliance with the Councils' treasury management policy statement and treasury management practices.

1.3 The report also includes performance on Prudential Indicators which were set in the 2018/19 Treasury Management Strategy (shown in Appendix E).

1.4 The figures contained in this report are subject to the external auditor's review which should be concluded by the end of September.

2. OPTIONS CONSIDERED

2.1 This report fulfils the Councils' legal obligations to have regard to the Code and there are no options to consider.

3. RECOMMENDATION TO BOTH COUNCILS

3.1 That the Treasury Management activity for the year 2018/19 be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2018/19.

RECOMMENDATION TO BABERGH COUNCIL

3.2 That it be noted that Babergh District Council treasury management activity for 2018/19 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds by £391k, as mentioned in Appendix C, paragraph 4.6, the Council has complied with all the Treasury Management Indicators for this period.

	RECOMMENDATION TO MID SUFFOLK COUNCIL
3.3	That it be noted that Mid Suffolk District Council treasury management activity for 2018/19 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.
	REASON FOR DECISION **It is a requirement of the Code of Practice on Treasury Management that full Council notes the position for the financial year 2018/19.**

4. KEY INFORMATION

4.1 The 2018/19 Treasury Management Strategy for both Councils was approved in February 2018.

4.2 The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the financial year.

4.3 The Half Year Report on Treasury Management 2018/19 was presented to Members at the Joint Audit and Standards Committee on 12 November 2018.

4.4 The Treasury Management Indicators aim to ensure that the capital investments of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

4.5 Appendix D shows the position on key Treasury Management Indicators for 2018/19.

4.6 The following key points relating to activity for the year are set out below:

- UK labour market data for January 2019 showed the unemployment rate at a new low of 3.9%. However real wages (adjusted for inflation) grew by 1.4%.

- Annual GDP was 1.4%, Economic growth slowed to 0.2% in the fourth quarter as weaker expansion in production, construction and services dragged down overall activity.

- The Bank of England’s Monetary Policy Committee (MPC) raised the official Bank Rate by 0.25% to 0.75% in August 2018.

- Investment of surplus funds - As market conditions, credit ratings and Bank ring fencing have changed during the year, institutions that the Councils invest with and the period of the investments have been reviewed.

- Credit risk scores were within the benchmark A- credit ratings.

- Babergh’s long-term debt increased by £10.75m offset by a reduction in short-term debt of £5m, to take advantage of low PWLB rates. This was mainly for the £12.5m of approved investment in the non-treasury investments of CIFCO Ltd.

- Mid Suffolk's long-term debt increased by £38.2m, offset by the repayment of £11m short term borrowing, to take advantage of low PWLB rates. This was mainly due to the £12.5m of approved investment in the non-treasury investments of CIFCO Ltd. and £16m in Gateway 14 Ltd.

4.7 Specific highlights relating to 2018/19 activity are provided below:

Area/Activity	**Babergh**	**Mid Suffolk**	**Comments**
Long Term Borrowing – average interest rate	2.82%	3.07%	All at fixed rates
Credit Risk Scores during the year (value weighted average)	5.17 – 6.21	5.16– 5.85	Both within the score for the approved A- credit rating for investment counterparties
Compliance with Prudential Indicators	✓	✓	See Appendix E

4.8 The Section 151 Officer can report that, except for one occasion when Babergh exceeded its daily bank account limit with Lloyds by £391k, as mentioned in Appendix C, paragraphs 4.5 and 4.6, all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.

5. LINKS TO JOINT STRATEGIC PLAN

5.1 Ensuring that the Councils have the resources available underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

6. FINANCIAL IMPLICATIONS

6.1 As detailed in the report and appendices.

7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.3 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

8. RISK MANAGEMENT

8.1 This report is most closely linked to the Councils' Significant Risk Register, Risk no. 5d. "We may be unable to respond in a timely and effective way to financial demands".

8.2 Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Councils lose the investments this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.
If the Councils achieve a poorer return on investments than planned, there will be fewer resources available to deliver services.	Unlikely (2)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.

9. CONSULTATIONS

10. Regular meetings have taken place with the Councils' Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

11. EQUALITY ANALYSIS

11.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

12. ENVIRONMENTAL IMPLICATIONS

12.1 None directly related to this report.

13. APPENDICES

Title	Location
(a) Background, Economy and Outlook	Appendix A
(b) Borrowing Strategy	Appendix B
(c) Investment activity	Appendix C
(d) Treasury Management Indicators	Appendix D
(e) Prudential Indicators	Appendix E
(f) Glossary of Terms	Appendix F

14. BACKGROUND DOCUMENTS

14.1 CIPFA's Code of Practice on Treasury Management ("the Code").

14.2 Joint Treasury Management Strategy 2018/19 (Paper JAC/17/15)

14.3 Half Year Report on Treasury Management 2018/19 (Paper JAC/18/8)

Appendix A

Background, Economy and Outlook

1. Introduction

1.1. In February 2012 the Councils adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the "CIPFA Code") which requires the Councils to approve treasury management half year and annual reports.

1.2. The Joint Treasury Management Strategy for 2018/19 was approved at both full Councils in February 2018. Babergh District Council and Mid Suffolk District Council have borrowed and invested substantial sums of money and both are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Councils' Treasury Management Strategy.

1.3. Treasury risk management at the Councils is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Councils to approve a treasury management strategy before the start of each financial year and, as a minimum, a half year and annual treasury outturn report . This report fulfils the Councils' legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.4. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils' first Capital Strategy, for the financial year 2019/20, complying with CIPFA's Code requirement, was approved by both full Councils in February 2019.

2. External Context

2.1. Economic background:

2.1.1. After spiking at over $85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over $50 in late December before steadily climbing toward $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year-on-year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low of 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

2.1.2. After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged down overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August 2018, no changes to monetary policy have been made since.

2.1.3. The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

2.1.4. With 29 March 2019, the original EU 'exit day' now been and gone, there is still uncertainty surrounding the manner of the UK's departure on the latest proposed date of 31 October 2019. This will depend on the approach taken by whoever is elected as the next Prime Minister. The EU must grant any extension and its leaders have been clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.

2.1.5. While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with the EU. The EU itself appeared to be showing signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

2.2. **Financial Markets:**

2.2.1. December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

2.2.2. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year; the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

2.2.3. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3-month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations.

2.2.4. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

2.3. **Credit background:**

2.3.1. Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

2.3.2. The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

2.3.3. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

2.3.4. There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for its senior unsecured debt and deposits.

3. <u>Local Context</u>

3.1. On 31 March 2019, Babergh had net borrowing of £101.016m and Mid Suffolk had net borrowing of £125.829m arising from revenue and capital income and expenditure activities. This is an increase of £7.499m for Babergh and £18.267m for Mid Suffolk from the 31 March 2018 position.

3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1 as follows.

3.3. **Table 1: Borrowing Summary**

Babergh	**31.3.18 Actual £m**	**2018/19 Movement £m**	**31.3.19 Actual £m**
General Fund CFR	31.170	13.956	45.126
HRA CFR	86.848	(0.175)	86.673
Total CFR	**118.018**	**13.781**	**131.799**
Borrowing CFR			
Less: Usable reserves	(27.084)	(5.626)	(32.710)
Add: Working Capital	2.583	(0.656)	1.927
Net Borrowing Requirement	**93.517**	**7.499**	**101.016**

Mid Suffolk	**31.3.18 Actual £m**	**2018/19 Movement £m**	**31.3.19 Actual £m**
General Fund CFR	35.817	30.468	66.285
HRA CFR	86.759	1.211	87.970
Total CFR	**122.576**	**31.679**	**154.255**
Borrowing CFR			
Less: Usable reserves	(30.736)	(6.119)	(36.855)
Add: Working Capital	15.722	(7.293)	8.429
Net Borrowing Requirement	**107.562**	**18.267**	**125.829**

3.4. Both Councils' net borrowing requirement has increased due to a rise in the CFR as new capital expenditure was higher than the financing applied, including minimum revenue provision. This was offset by an increase in usable reserves and a decrease in working capital due to the timing of receipts and payments and an increase in long term borrowing.

3.5. The current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, to reduce risk and keep interest costs low.

3.6. **Table 2: Treasury Management Summary**

3.7. The actual treasury management activity and position at 31 March 2019 and the year-on-year change is shown in Table 2 as follows.

Babergh	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**	**31.3.19 Average Rate %**
Long-term borrowing	86.297	10.750	97.047	2.82%
Short-term borrowing	12.000	(5.000)	7.000	0.93%
Total borrowing	**98.297**	**5.750**	**104.047**	
Long-term investments	9.638	(0.208)	9.430	4.91%
Cash and Cash equivalents	2.445	(0.024)	2.421	0.56%
Total investments	**12.083**	**(0.232)**	**11.851**	
Net Borrowing	**86.214**	**5.982**	**92.196**	

Mid Suffolk	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**	**31.3.19 Average Rate %**
Long-term borrowing	74.087	38.200	112.287	3.07%
Short-term borrowing	29.000	(11.000)	18.000	0.91%
Total borrowing	**103.087**	**27.200**	**130.287**	
Long-term investments	9.642	(0.219)	9.423	4.82%
Cash and Cash equivalents	2.394	0.486	2.880	0.59%
Total investments	**12.036**	**0.267**	**12.303**	
Net Borrowing	**91.051**	**26.933**	**117.984**	

3.8. The figures in Table 2 are from the balance sheet in the statement of accounts, adjusted to exclude operational cash, accrued interest and other accounting adjustments.

3.9. Babergh and Mid Suffolk have both increased net borrowing to finance capital expenditure mainly in relation to CIFCO Ltd (both councils) and Gateway 14 Ltd (Mid Suffolk).

Appendix B

1. Borrowing Strategy during the year

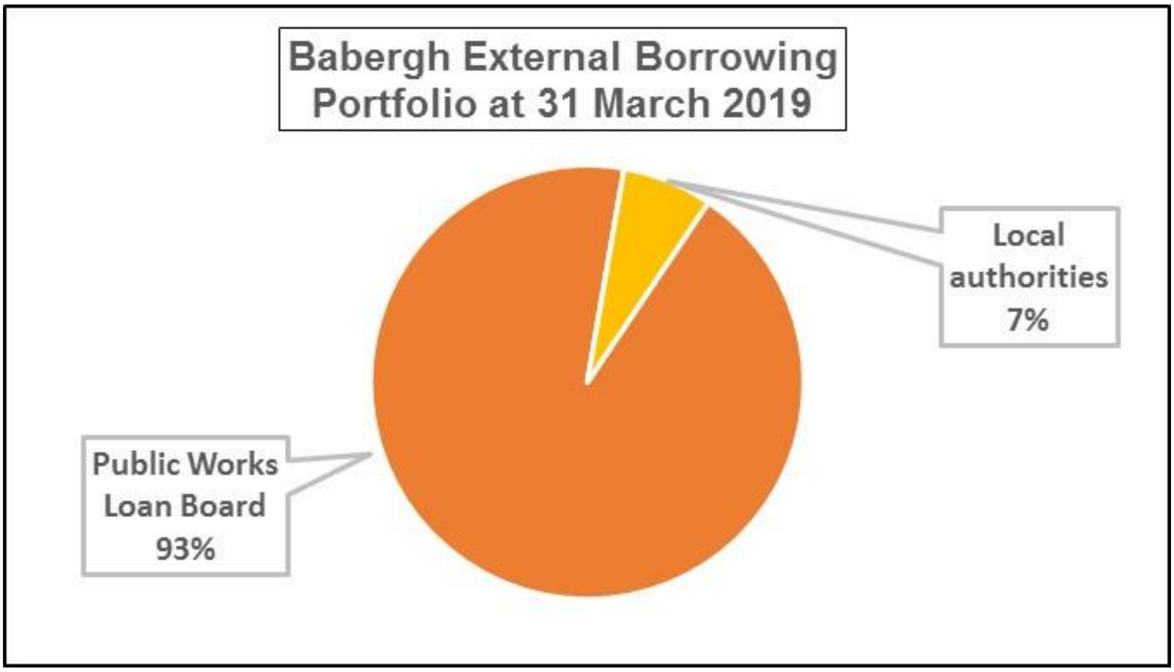
1.1. At 31 March 2019, Babergh held £104.047m of loans and Mid Suffolk £130.287m. This was an increase for Babergh of £5.75m and an increase of £27.2m for Mid Suffolk on the previous year. These increases are part of both Councils' strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change is shown in Table 3 that follows.

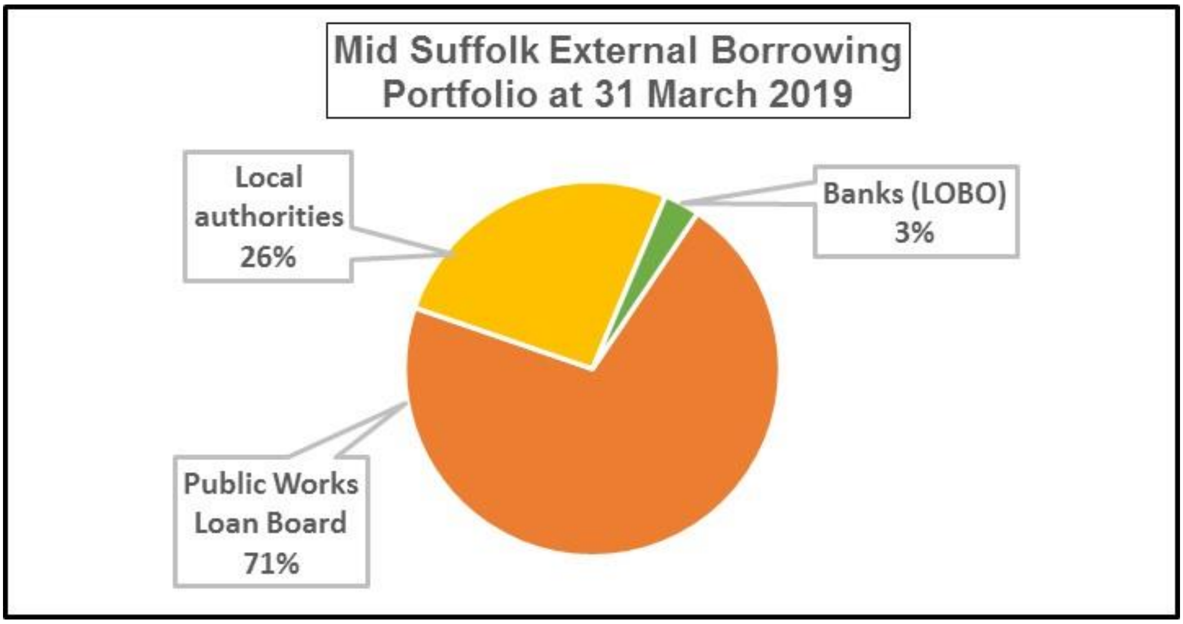
1.2. **Table 3: Borrowing Position**

Babergh	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**	**31.3.19 Average Rate %**
Public Works Loan Board	86.297	10.750	97.047	2.82%
Local authorities (short-term)	12.000	(5.000)	7.000	0.93%
Total borrowing	**98.297**	**5.750**	**104.047**	

Mid Suffolk	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**	**31.3.19 Average Rate %**
Public Works Loan Board	70.087	22.200	92.287	3.79%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (medium / long-term)	0.000	16.000	16.000	1.20%
Local authorities (short-term)	29.000	(11.000)	18.000	0.91%
Total borrowing	**103.087**	**27.200**	**130.287**	

1.3. **Table 3 - Charts: Borrowing Position**





1.4. The Councils' objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with a secondary objective of flexibility to renegotiate loans should the Councils' long-term plans change.

1.5. As the Councils have increasing CFR's due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital, Babergh borrowed an additional £11.25m and Mid Suffolk £38.5m medium/longer-term fixed rate loans during 2018/19 to provide some longer-term certainty and stability to the debt portfolio and stay within short term borrowing limits.

1.6. **Table 4 – Medium / Long Term Borrowing Position**

Babergh Long-dated Loans borrowed	**Amount £m**	**Rate %**	**Period (Years)**
PWLB Annuity Loan 1	6.250	2.63%	**50**
PWLB Annuity Loan 2	5.000	1.71%	**10**
Total borrowing	**11.250**		

Mid Suffolk Long-dated Loans borrowed	**Amount £m**	**Rate %**	**Period (Years)**
PWLB Annuity Loan 1	12.500	2.63%	**50**
PWLB Annuity Loan 2	10.000	1.71%	**10**
Local authority Maturity Loan 1	6.000	1.20%	**2**
Local authority Maturity Loan 2	5.000	1.20%	**2**
Local authority Maturity Loan 3	5.000	1.20%	**2**
Total borrowing	**38.500**		

1.7. LOBO loans: Mid Suffolk continues to hold £4m of LOBO loans (Lender's Option Borrower's Option) where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The banks did not exercise their option during 2018/19.

Appendix C

1. Treasury Investment Activity

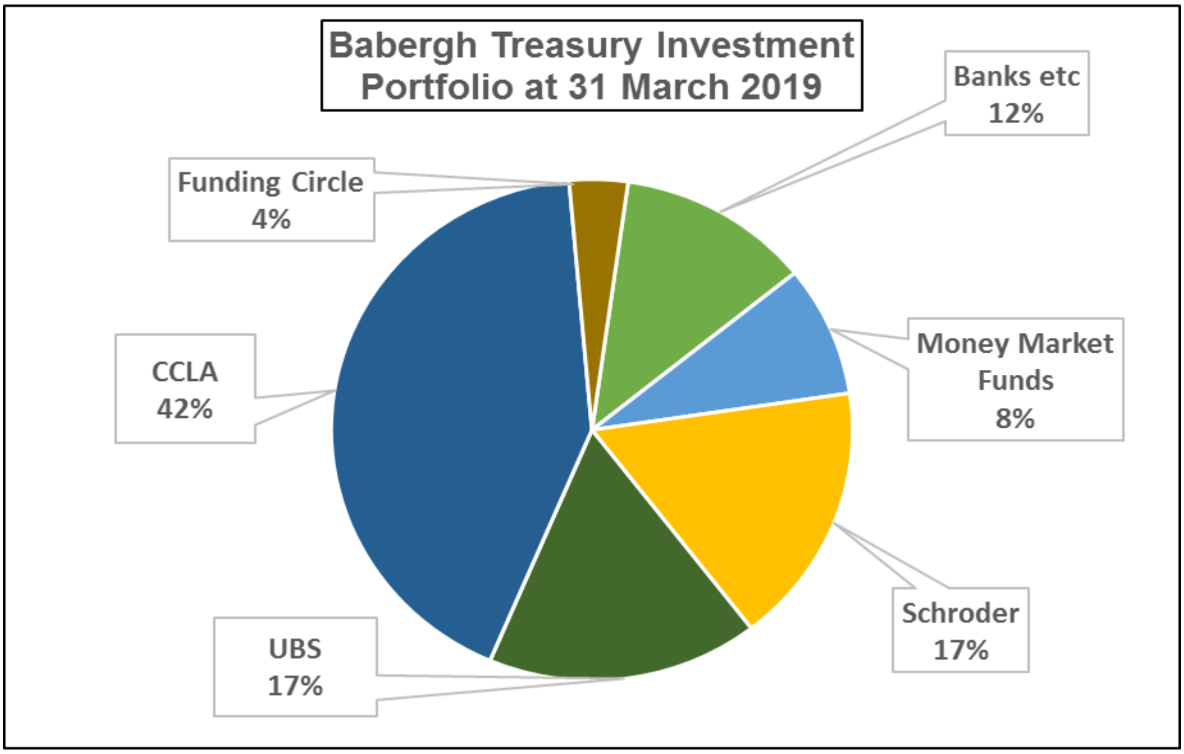
1.1. Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves. During 2018/19, Babergh's investment balance ranged between £11.105m and £28.766m. Mid Suffolk's investment balance ranged between £10.687m and £38.061m. These movements are due to timing differences between income and expenditure. The year-end investment position and the year-on-year changes are shown in Table 5 as follows.

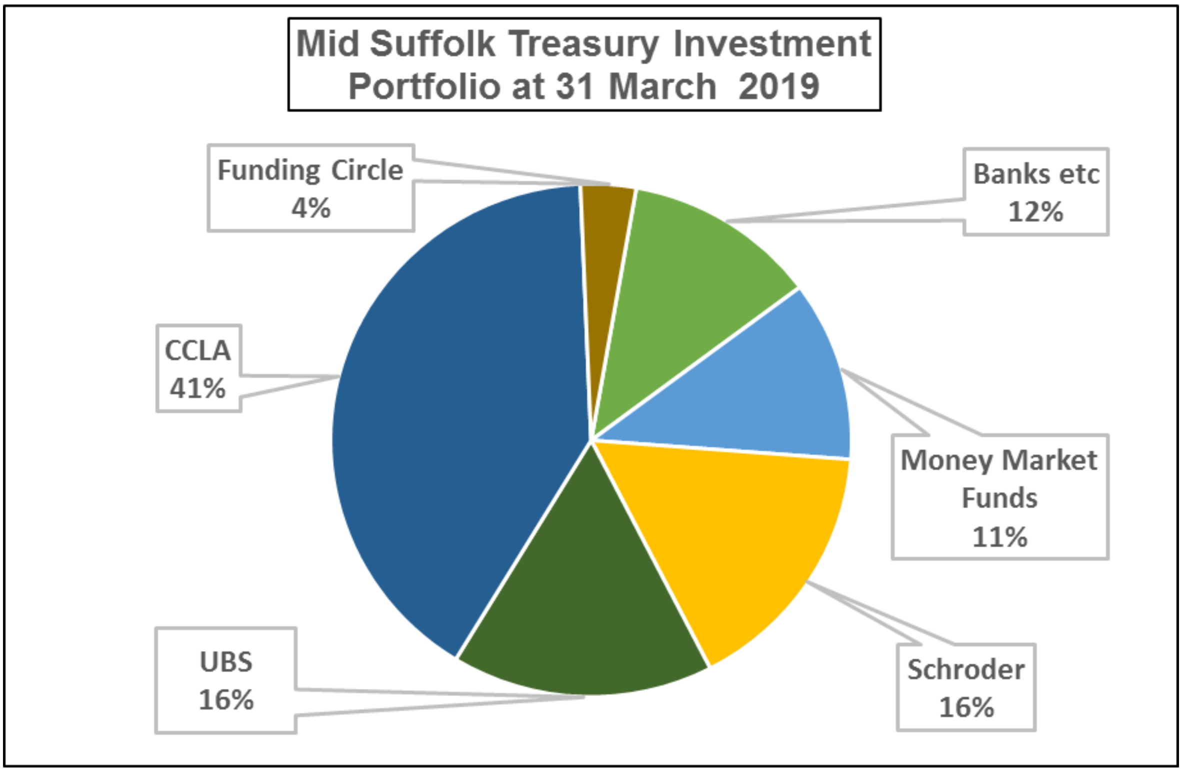
1.2. **Table 5: Treasury Investment Position**

Babergh	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**	**31.3.19 Average Rate %**
Banks & building societies (unsecured)	1.445	(0.024)	1.421	0.56%
Money Market Funds	1.000	0.000	1.000	0.56%
Schroder	2.000	0.000	2.000	7.20%
UBS	2.000	0.000	2.000	4.09%
CCLA	5.000	0.000	5.000	4.32%
Funding Circle	0.638	(0.208)	0.430	5.02%
Total investments	**12.083**	**(0.232)**	**11.851**	

Mid Suffolk	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**	**31.3.19 Average Rate %**
Banks & building societies (unsecured)	0.894	0.586	1.480	0.54%
Money Market Funds	1.500	(0.100)	1.400	0.64%
Schroder	2.000	0.000	2.000	7.20%
UBS	2.000	0.000	2.000	4.08%
CCLA	5.000	0.000	5.000	4.17%
Funding Circle	0.642	(0.219)	0.423	4.78%
Total investments	**12.036**	**0.267**	**12.303**	

1.3. **Table 5 - Charts: Investment Position at 31 March 2019.**





1.4. Both the CIPFA Code and government guidance requires Councils to invest their funds prudently, and to have regard to the security and liquidity of their treasury investments before seeking the optimum rate of return, or yield. The Councils' objectives when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

1.5. Babergh and Mid Suffolk have both followed the treasury management strategy to move investments into long term pooled funds. Given the increasing risk and falling returns from short-term unsecured bank investments, the Councils diversified into more higher yielding asset classes; pooled property, multi asset and equity funds. As a result, investment risk was diversified. While the average rate of return has reduced during the year, it is still higher than the comparable average returns of Arlingclose's other clients. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking for the year end in Table 6 that follows.

1.6. **Table 6: Investment Benchmarking - Treasury investments managed in-house**

Babergh	**Credit Score**	**Credit Rating**	**Bail-in Exposure**	**Rate of Return**
At 31.03.2018	6.21	A	85%	5.10%
At 31.03.2019	5.17	A+	92%	4.13%
Similar Local authorities	**4.13**	**AA-**	**53%**	**1.75%**
All Local authorities	**4.20**	**AA-**	**55%**	**1.45%**

Mid Suffolk	**Credit Score**	**Credit Rating**	**Bail-in Exposure**	**Rate of Return**
At 31.03.2018	5.85	A	85%	5.08%
At 31.03.2019	5.16	A+	93%	4.00%
Similar Local authorities	**4.13**	**AA-**	**53%**	**1.75%**
All Local authorities	**4.20**	**AA-**	**55%**	**1.45%**

1.7. Bail-in involves the shareholders and creditors of a failing financial institution meeting the costs, instead of the government. As Babergh and Mid Suffolk have relatively small investment portfolios their bail-in exposure is proportionately higher than the local authorities in Arlingclose's benchmarking group. Babergh and Mid Suffolk have chosen to adopt a strategy of generating higher returns by investing funds available in banks and strategic pooled funds.

1.8. Babergh has £9.430m of externally managed pooled equity, property and multi assets funds which generated an average total income return, since the date of the initial investments, of £1.380m (4.13%) which is used to support service provision.

1.9. Mid Suffolk has £9.423m of externally managed pooled equity, property and multi assets funds which generated an average total income return, since the date of the initial investments, of £1.226m (4.00%) which is used to support service provision.

1.10. These funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Councils' investment objectives are regularly reviewed. In light of their performance and the Councils' latest cash flow forecasts, investment in these funds has been maintained, except for Funding Circle which is being reduced over the period of the repayment of the remaining loans.

1.11. During the year the Ministry of Housing, Communities and Local Government (MHCLG) consulted on statutory overrides relating to the IFRS 9 Financial Instruments accounting standard effective from 2018/19. The consultation recognised that the requirement in IFRS 9 for certain investments to be accounted for as fair value through profit and loss may introduce "more income statement volatility" which may impact on budget calculations. As a result of the consultations a time-limited statutory override of 5 years was applied to pooled funds and this was applied in both Councils' statements of accounts for 2018/19.

1.12. **Readiness for Brexit:** With little by way of political clarity as to the exact date on whether there would be an agreed deal prior to leaving the EU and to be prepared for the outside chance of a particularly disruptive Brexit (such as last-minute no-deal) on 29 March 2019, the Councils ensured there were enough accounts open at UK domiciled banks and Money Market Funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency. It is intended to adopt a similar approach to prepare for the impact of Brexit in view of the uncertainty around the latest proposed leaving date of 31 October 2019.

1.13. The Councils' borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained.

2 <u>Non-Treasury Holdings and Other Investment Activity</u>

2.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Councils as well as other non-financial assets which the Councils hold primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to include all such assets held partially for financial return.

2.2 Investment Property

2.2.1 During 2016/17 Babergh purchased Borehamgate Shopping Centre in Sudbury for £3.56m. This has been classified as an investment property and on 31 March 2019, it was assessed at fair value of £2.905m. Net Income, after the deduction of direct costs, was £177k in 2018/19 (£260k in 2017/18). The reduction in income is due to units becoming vacant and is being actively managed by officers to try and secure new tenants.

2.3 Trading Companies

2.3.1 At the 31 March 2019 Babergh held £2.610m of equity in BDC (Suffolk Holdings) Ltd. and after losses incurred by the company this is valued at £301k. Babergh also has £23.431m of loans (valued at £23.301m after £130k impairment allowance) in Capital Investment Fund Company (CIFCO Ltd), a subsidiary of BDC (Suffolk Holdings) Ltd. These loans have generated £868k of investment income since the start of trading. The net position after borrowing costs is shown in Table 7.

2.3.2 Babergh's 50% share of the loss made by CIFCO Ltd was £2.309m and is reflected in the reduced value of the Council's equity holding in the company. This was mainly due to the downward valuation of the company's investment properties which was charged to their profit or loss account.

2.3.3 At the 31 March 2019 Mid Suffolk held £4.232m of equity in MSDC (Suffolk Holdings) Ltd and after losses incurred by the company this is valued at £398k. Mid Suffolk also has £23.431m of loans (valued at £23.301m after £130k impairment allowance) in Capital Investment Fund Company (CIFCO Ltd), a subsidiary of MSDC (Suffolk Holdings) Ltd. These loans have generated £868k of investment income since the start of trading. The net position after borrowing costs is shown in Table 7.

2.3.4 Mid Suffolk also held £14.602m of loans (valued at £14.521m after £81k impairment allowance) on 31 March 2019 in another subsidiary of MSDC (Suffolk Holdings) Ltd, Gateway 14 Ltd, which has generated £469k of accrued investment income since the initial loans were advanced by the Council in August 2018.

2.3.5 Mid Suffolk also had a 50% share of the loss made by CIFCO Ltd (£2.309m), as explained in paragraph 2.3.2 above.

2.3.6 In addition, the loss incurred by Gateway 14 Ltd was £1.525m resulting in a reduction in the Council's overall equity holding of £3.834m. This company is still in the early stages of developing land and building projects for which it was created and has yet to generate income.

3 Treasury Performance

3.1 The Councils measure the financial performance of treasury management activities in terms of their impact on the General Fund and Housing Revenue Account revenue budgets as shown in Table 7 that follows.

3.2 **Table 7 Treasury Activity - Performance**

Babergh	**2018/19 Budget £m**	**2018/19 Actual £m**	**Variance Adverse/ (Favourable) £m**	**2018/19 Compared to budget %**
Interest Receivable				
General Fund	(0.437)	(0.459)	(0.022)	105.1
Housing Revenue Account	(0.015)	(0.024)	(0.010)	166.0
CIFCO Ltd	(1.064)	(0.782)	0.282	73.5
Total Interest Receivable	**(1.516)**	**(1.265)**	**0.250**	**83.5**
Interest Payable				
General Fund	0.018	0.000	(0.018)	0.0
Housing Revenue Account	2.847	2.831	(0.016)	99.4
CIFCO Ltd	0.594	0.118	(0.476)	19.9
Total Interest Payable	**3.458**	**2.949**	**(0.509)**	**85.3**
Net Interest				
General Fund	(0.419)	(0.459)	(0.040)	109.5
Housing Revenue Account	2.832	2.806	(0.026)	99.1
CIFCO Ltd	(0.470)	(0.663)	(0.193)	141.1
Total Net Interest	**1.943**	**1.684**	**(0.259)**	**86.7**

Mid Suffolk	2018/19 Budget £m	2018/19 Actual £m	Variance Adverse/ (Favourable) £m	2018/19 Compared to budget %
Interest Receivable				
General Fund	(0.437)	(0.490)	(0.053)	112.1
Housing Revenue Account	(0.010)	(0.015)	(0.005)	145.1
CIFCO Ltd	(1.064)	(0.782)	0.282	73.5
Gateway 14 Ltd	(0.470)	(0.469)	0.001	99.8
Total Interest Receivable	**(1.981)**	**(1.755)**	**0.226**	**88.6**
Interest Payable				
General Fund	0.130	0.048	(0.082)	37.0
Housing Revenue Account	2.754	2.693	(0.060)	97.8
CIFCO Ltd	1.029	0.235	(0.794)	22.8
Gateway 14 Ltd	0.000	0.141	0.141	100.0
Total Interest Payable	**3.912**	**3.117**	**(0.795)**	**79.7**
Net Interest				
General Fund	(0.307)	(0.442)	(0.135)	143.9
Housing Revenue Account	2.744	2.679	(0.065)	97.6
CIFCO Ltd	(0.035)	(0.547)	(0.511)	1,551.4
Gateway 14 Ltd	(0.470)	(0.328)	0.142	69.7
Total Net Interest	**1.932**	**1.363**	**(0.569)**	**70.5**

3.3 The interest receivable for Babergh and Mid Suffolk were both under budget by £250k and £226k respectively. This is due to investments in CIFCO Ltd and Gateway 14 Ltd being deferred whilst suitable properties to purchase were being identified.

3.4 The total interest payable for the year was under budget by £509k for Babergh and £795k for Mid Suffolk. This is due to the timing of the purchases for CIFCO Ltd as explained in 3.3 above and using short term local authority borrowing to fund CIFCO Ltd and Gateway 14 Ltd at lower rates. All Babergh's short term borrowing was attributable to CIFCO Ltd only.

3.5 **Long term investment returns**

Babergh and Mid Suffolk have both invested in long term pooled funds. Tables 8.1 to 8.4 that follow show details of how these investments have performed during 2017/18 and 2018/19.

3.5.1 **Table 8.1 CCLA Performance**

CCLA	Babergh 31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.778	0.149	4.927	0.077	5.004
Cumulative Net Interest received from date of initial investment	**0.356**	**0.227**	**0.583**	**0.216**	**0.799**
Annual Performance					
Net Interest received in year	**0.221**	**0.007**	**0.227**	**(0.011)**	**0.216**
Average Rate of Return for year	**4.97%**	**-0.43%**	**4.54%**	**-0.22%**	**4.32%**

CCLA	Mid Suffolk 31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.704	0.147	4.851	0.075	4.927
Cumulative Net Interest received from date of initial investment	**0.311**	**0.224**	**0.534**	**0.208**	**0.743**
Annual Performance					
Net Interest received in year	**0.215**	**0.008**	**0.224**	**(0.015)**	**0.208**
Average Rate of Return for year	**4.87%**	**-0.40%**	**4.47%**	**-0.30%**	**4.17%**

3.5.2 Babergh and Mid Suffolk both invested into the Schroder Income maximiser fund on 10 February 2017.

3.5.3 **Table 8.2 Schroder Performance**

Schroder Maximiser Fund	Babergh 31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.975	(0.048)	1.927	(0.051)	1.876
Cumulative Net Interest received from date of initial investment	**0.036**	**0.137**	**0.173**	**0.144**	**0.317**
Annual Performance					
Net Interest received in year	**0.036**	**0.102**	**0.137**	**0.007**	**0.144**
Average Rate of Return for year	**5.95%**	**0.91%**	**6.86%**	**0.35%**	**7.20%**

Schroder Maximiser Fund	Mid Suffolk 31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.975	(0.048)	1.927	(0.051)	1.876
Cumulative Net Interest received from date of initial investment	**0.036**	**0.137**	**0.173**	**0.144**	**0.317**
Annual Performance					
Net Interest received in year	**0.036**	**0.102**	**0.137**	**0.007**	**0.144**
Average Rate of Return for year	**5.95%**	**0.91%**	**6.86%**	**0.35%**	**7.20%**

3.5.4 Babergh invested in the UBS Multi Asset income fund on 26 November 2015, whilst Mid Suffolk invested in the fund on 28 March 2017.

3.5.5 **Table 8.3 UBS Performance**

UBS	**Babergh**				
	31.3.17 Balance £m	**2017/18 Movement £m**	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	2.008	(0.085)	1.923	(0.024)	1.899
Cumulative Net Interest received from date of initial investment	**0.118**	**0.075**	**0.192**	**0.082**	**0.274**
Annual Performance					
Net Interest received in year	**0.084**	**(0.009)**	**0.075**	**0.007**	**0.082**
Average Rate of Return for year	**4.19%**	**-0.45%**	**3.74%**	**0.35%**	**4.09%**

UBS	**Mid Suffolk**				
	31.3.17 Balance £m	**2017/18 Movement £m**	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	2.004	(0.084)	1.920	(0.024)	1.896
Cumulative Net Interest received from date of initial investment	**0.022**	**0.075**	**0.096**	**0.082**	**0.178**
Annual Performance					
Net Interest received in year	**0.022**	**0.053**	**0.075**	**0.007**	**0.082**
Average Rate of Return for year	**4.39%**	**-0.66%**	**3.73%**	**0.35%**	**4.08%**

3.5.6 **Table 8.4 Funding Circle Performance**

Funding Circle	**Babergh**				
	31.3.17 Balance £m	**2017/18 Movement £m**	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**
Amount Invested	0.638	(0.025)	0.613	(0.208)	0.405
Investment Valuation	0.025	0.000	0.025	0.000	0.025
Total Amount Invested	**0.663**	**(0.025)**	**0.638**	**(0.208)**	**0.430**
Bad debts to date	(0.007)	(0.008)	(0.016)	(0.015)	(0.031)
Accrued Interest	0.013	0.006	0.019	0.003	0.022
Valuation	**0.669**	**(0.027)**	**0.641**	**(0.220)**	**0.421**
Income received	0.004	0.067	0.071	0.028	0.099
Servicing costs	(0.004)	(0.004)	(0.008)	(0.003)	(0.012)
Cumulative Net Interest received from date of initial investment	**0.034**	**0.029**	**0.063**	**0.025**	**0.087**
Annual Performance					
Net Interest received in year	**0.024**	0.014	**0.038**	**(0.013)**	**0.025**
Average Rate of Return for year	**5.58%**	**-1.04%**	**4.54%**	**0.47%**	**5.02%**

Funding Circle	Mid Suffolk				
	31.3.17 Balance £m	**2017/18 Movement £m**	**31.3.18 Balance £m**	**2018/19 Movement £m**	**31.3.19 Balance £m**
Amount Invested	0.617	0.000	0.617	(0.219)	0.398
Investment Valuation	0.025	0.000	0.025	0.000	0.025
Total Amount Invested	**0.642**	**0.000**	**0.642**	**(0.219)**	**0.423**
Bad debts to date	(0.009)	(0.008)	(0.016)	(0.023)	(0.040)
Accrued Interest	0.013	0.004	0.017	(0.001)	0.016
Valuation	**0.646**	**(0.004)**	**0.643**	**(0.243)**	**0.399**
Income received	0.041	0.034	0.075	0.027	0.102
Servicing costs	(0.005)	(0.004)	(0.009)	(0.003)	(0.012)
Cumulative Net Interest received from date of initial investment	**0.036**	**0.030**	**0.066**	**0.024**	**0.090**
Annual Performance					
Net Interest received in year	**0.026**	0.013	**0.039**	**(0.016)**	**0.024**
Average Rate of Return for year	**5.70%**	**-1.07%**	**4.63%**	**0.16%**	**4.78%**

4. Compliance Report

4.1. The Section 151 Officer can report that, except for one occasion when Babergh exceeded its daily bank account limit with Lloyds by £391k, as mentioned in Paragraph 4.6 below, all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.

4.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 9 as follows.

4.3. **Table 9: Debt Limits**

Total Borrowing	**2018/19 Maximum £m**	**31.3.19 Actual £m**	**2018/19 Operational Boundary**	**2018/19 Authorised Limit**	**Complied**
Babergh	104.047	104.047	137.000	147.000	✓
Mid Suffolk	130.287	130.287	155.000	165.000	✓

4.4. Since the operational boundary is a management tool for in-year monitoring, it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

4.5. Table 10: Investment Limits

Compliance with specific investment limits is demonstrated in Table 10 as follows.

Babergh	2018/19 Maximum	31.3.19 Actual	2018/19 Limit	Complied
Any single organisation, except the UK Central Government	£2.391m	£1.421m	£2m	x
Any group of organisations under the same ownership	£0m	£0m	£1m	✓
Any group of pooled funds under the same management	£5m	£5m	£5m	✓
Negotiable instruments held in a broker's nominee account	£0m	£0m	£10m	✓
Foreign countries	£0m	£0m	£2m	✓
Registered Providers	£0m	£0m	£5m	✓
Unsecured investments with Building Societies	£0m	£0m	£2m	✓
Loans to unrated corporates	£0.638m	£0.430m	£1m	✓
Money Market Funds	£2m	£2m	£2m	✓

Mid Suffolk	2018/19 Maximum	31.3.19 Actual	2018/19 Limit	Complied
Any single organisation, except the UK Central Government	£1.927m	£1.480m	£2m	✓
Any group of organisations under the same ownership	£0m	£0m	£1m	✓
Any group of pooled funds under the same management	£5m	£5m	£5m	✓
Negotiable instruments held in a broker's nominee account	£0m	£0m	£10m	✓
Foreign countries	£0m	£0m	£2m	✓
Registered Providers	£0m	£0m	£5m	✓
Unsecured investments with Building Societies	£0m	£0m	£2m	✓
Loans to unrated corporates	£0.642m	£0.423m	£1m	✓
Money Market Funds	£2m	£2m	£2m	✓

4.6. It should be noted that both Council's treasury management activity for 2018/19 was in accordance with the approved Treasury Management Strategy, and that, except for one day when Babergh exceeded its daily bank account limit with Lloyds by £391k, both Councils have complied with all the Treasury Management Indicators for this period. This was due to the timing of a refund from a Money Market Fund not being returned when expected, causing the limit to be exceeded.

Appendix D

1. Treasury Management Indicators

1.1. The Councils measure and manage their exposure to treasury management risks using the following indicators:

1.2. **Security:** Babergh and Mid Suffolk have adopted a voluntary measure of their exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolios. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. These are shown in Table 11 that follows.

1.3. **Table 11: Credit Scores**

Credit Scores	31.3.19 Actual	2018/19 Target	Complied
Babergh Portfolio average Credit Score	5.17	7.00	✓
Mid Suffolk Portfolio average Credit Score	5.16	7.00	✓

1.4. **Interest Rate Exposures**: This indicator is set to control the Councils' exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed are shown in Table 12 that follows.

1.5. **Table 12: Fixed Interest rate exposure**

Fixed Interest rate exposure	31.3.19 Actual £m	2018/19 Limit £m	Complied
Babergh Upper limit on fixed interest rate exposure	97.05	136.00	✓
Babergh Upper limit on variable interest rate exposure	7.00	35.00	✓
Mid Suffolk Upper limit on fixed interest rate exposure	112.29	154.00	✓
Mid Suffolk Upper limit on variable interest rate exposure	18.00	40.00	✓

1.6. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

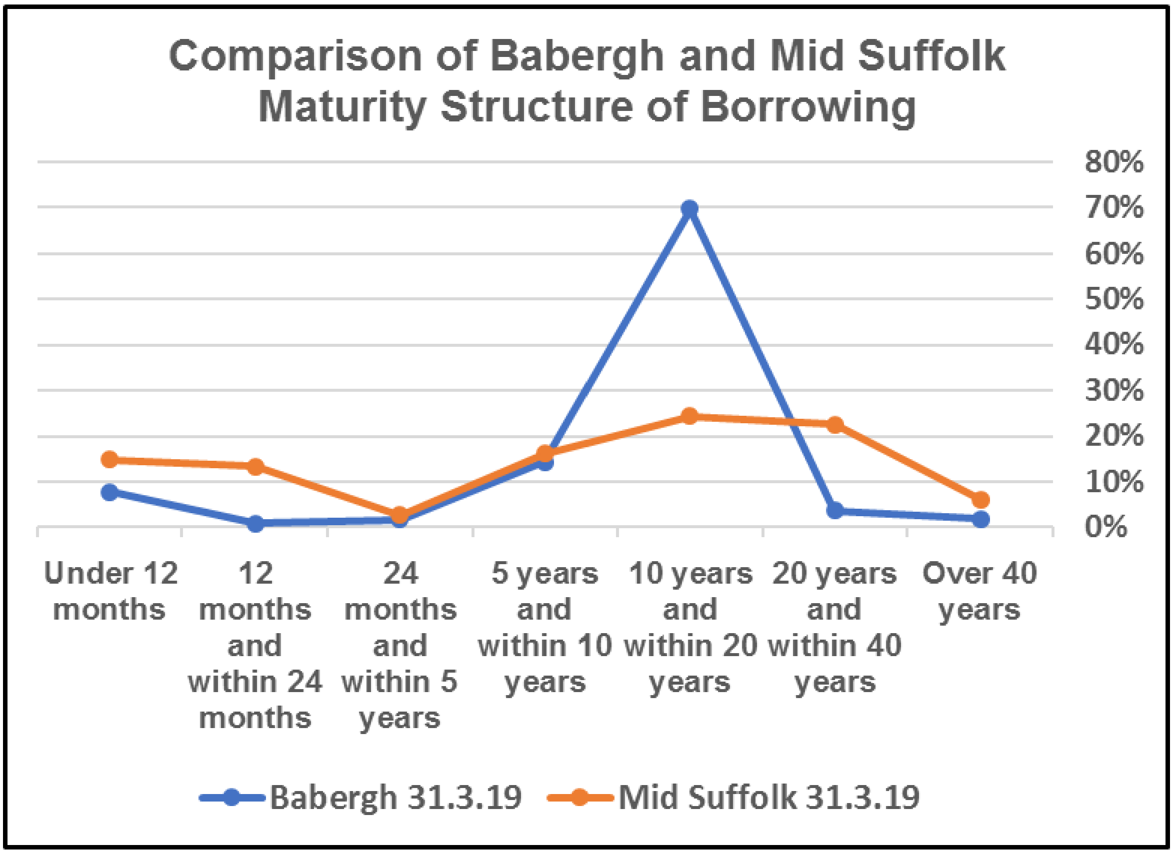
1.7. **Maturity Structure of Borrowing**: This indicator is set to control the Councils' exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are shown in Table 13 as follows.

1.8. **Table 13: Maturity Structures**

Age Profile of Maturity	Babergh 31.3.19 Actual	Mid Suffolk 31.3.19 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	7.71%	14.85%	0%	50%	✓
12 months and within 24 months	0.90%	13.33%	0%	50%	✓
24 months and within 5 years	1.74%	2.66%	0%	50%	✓
5 years and within 10 years	14.39%	16.08%	0%	100%	✓
10 years and within 20 years	69.73%	24.41%	0%	100%	✓
20 years and within 40 years	3.64%	22.57%	0%	100%	✓
Over 40 years	1.89%	6.10%	0%	100%	✓

1.9. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.10. **Table 13 Chart: Maturity Structures**



1.11. **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Councils' exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end are shown in Table 14 that follows.

1.12. **Table 14: Principal Sums**

Babergh	**2018/19**	**2019/20**	**2020/21**
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£2m	£2m	£2m
Complied	✓	✓	✓

Mid Suffolk	**2018/19**	**2019/20**	**2020/21**
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£2m	£2m	£2m
Complied	✓	✓	✓

1.13. Whilst the investments that have been made in CCLA, UBS, Schroder and Funding Circle are intended to benefit from longer term higher returns, they can be redeemed on a short-term basis.

Appendix E

1. <u>**Prudential Indicators**</u>

1.1. **Introduction**

1.1.1. The Local Government Act 2003 requires the Councils to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that councils have fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1.1.2. This report compares the approved indicators with the outturn position for 2018/19. Actual figures have been taken from, or prepared on a basis consistent with, the Councils' Statements of Accounts for 2018/19.

1.2. **Capital Expenditure**

1.2.1. The Councils' capital expenditure and financing may be summarised as follows:

1.2.2. Table 15: Capital Expenditure and Financing

Babergh District Council			
Capital Expenditure and Financing	**2018/19 Budget £m**	**2018/19 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	16.460	15.665	(0.795)
HRA	13.860	7.226	(6.634)
Total Expenditure	**30.320**	**22.891**	**(7.429)**
Capital Receipts	1.220	1.519	0.299
Grants and Contributions	0.400	0.396	(0.004)
Revenue Contributions and Reserves	10.220	2.236	(7.984)
Major Repairs Reserve	3.300	3.530	0.230
Borrowing	15.180	15.210	0.030
Total Financing	**30.320**	**22.891**	**(7.429)**

Mid Suffolk District Council			
Capital Expenditure and Financing	**2018/19 Budget £m**	**2018/19 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	36.880	34.711	(2.169)
HRA	11.650	9.954	(1.696)
Total Expenditure	**48.530**	**44.665**	**(3.865)**
Capital Receipts	3.440	3.407	(0.033)
Grants and Contributions	1.000	1.120	0.120
Revenue Contributions and Reserves	6.590	3.855	(2.735)
Major Repairs Reserve	3.400	3.761	0.361
Borrowing	34.100	32.522	(1.578)
Total Financing	**48.530**	**44.665**	**(3.865)**

2. <u>Prudential Indicator Compliance</u>

2.1. Capital Financing Requirement

2.1.1. The Capital Financing Requirement (CFR) measures the Councils' underlying need to borrow for capital purposes.

2.1.2. **Table 16: Capital Financing Requirement**

Babergh District Council			
Capital Expenditure and Financing	**31.3.19 Budget £m**	**31.3.19 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	45.420	45.126	(0.294)
HRA	86.350	86.673	0.323
Total CFR	**131.770**	**131.799**	**0.029**

Mid Suffolk District Council			
Capital Expenditure and Financing	**31.3.19 Budget £m**	**31.3.19 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	67.750	66.285	(1.465)
HRA	88.080	87.970	(0.110)
Total CFR	**155.830**	**154.255**	**(1.575)**

2.1.3. The CFR increased during the year for Babergh by £13.781m and for Mid Suffolk by £31.678m as capital expenditure financed by debt outweighed resources put aside for debt repayment. These figures are shown in Appendix A Table 1.

3. Actual Debt

3.1. The Councils' actual debt at 31 March 2019 was as follows:

3.1.1. **Table 17: Total Debt**

Total Debt	**31.3.19 Budget £m**	**31.3.19 Actual £m**	**Variance Adverse / (Favourable) £m**
Babergh District Council	113.880	104.047	(9.833)
Mid Suffolk District Council	133.830	130.287	(3.543)

4. Gross Debt and the Capital Financing Requirement

4.1. In order to ensure that over the medium-term debt will only be for a capital purpose, the Councils should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

4.2. The total debt remained below the CFR during the forecast period.

4.2.1. **Table 18: Debt and Capital Financing Requirement**

Babergh District Council			
Debt and CFR	**31.3.19 Actual £m**	**31.3.20 Estimate £m**	**31.3.21 Estimate £m**
Total Debt	104.047	147.680	169.700
Capital financing requirement	131.799	162.470	184.630
Headroom	**27.752**	**14.790**	**14.930**

Mid Suffolk District Council			
Debt and CFR	**31.3.19 Actual £m**	**31.3.20 Estimate £m**	**31.3.21 Estimate £m**
Total Debt	130.287	166.120	187.580
Capital financing requirement	154.255	188.150	208.620
Headroom	**23.968**	**22.030**	**21.040**

5. Operational Boundary for External Debt

5.1. The operational boundary is based on the Councils' estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Councils' estimates of capital expenditure, the capital financing requirement, and cash flow requirements, and is a key management tool for in-year monitoring.

5.1.1. **Table 19: Operational Boundary and Total Debt**

Operational Boundary and Total Debt	31.3.19 Boundary £m	31.3.19 Actual Debt £m	Complied
Babergh District Council	133.000	104.047	✓
Mid Suffolk District Council	156.000	130.287	✓

6. Authorised Limit for External Debt

6.1. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Councils can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

6.1.1. **Table 20: Authorised Limit and Total Debt**

Authorised Limit and Total Debt	31.3.19 Limit £m	31.3.19 Actual Debt £m	Complied
Babergh District Council	148.000	104.047	✓
Mid Suffolk District Council	171.000	130.287	✓

7. Ratio of Financing Costs to Net Revenue Stream

7.1. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income (shown as a percentage).

7.2. **Table 21: Ratio of Financing Costs to Net Revenue Stream**

Babergh District Council			
Ratio of Financing Costs to Net Revenue Stream	**31.3.19 Budget %**	**31.3.19 Actual %**	**Variance Adverse / (Favourable) %**
General Fund	(2.33)	(1.22)	1.11
HRA	18.00	17.55	(0.45)

Mid Suffolk District Council			
Ratio of Financing Costs to Net Revenue Stream	**31.3.19 Budget %**	**31.3.19 Actual %**	**Variance Adverse / (Favourable) %**
General Fund	(7.83)	(2.93)	4.90
HRA	19.59	18.58	(1.01)

8. Adoption of the CIPFA Treasury Management Code

8.1. Both Councils adopted the Chartered Institute of Public Finance and Accountancy's "Treasury Management in the Public Services: Code of Practice 2011 Edition" in February 2012.

9. HRA Limit on Indebtedness

9.1. The limit imposed on the Council's HRA borrowing by the Ministry for Housing, Communities and Local Government (MHCLG) has now been removed.

Appendix F

Glossary of Terms

BPS	Base Points. A unit of percentage measure equal to 0.01%. Basis points are commonly used when discussing changes to interest rates, equity indices, and fixed-income securities.
CDS	Credit Default Swap. In effect, insurance against non-payment. Through a CDS, the buyer can mitigate the risk of their investment by shifting all or a portion of that risk onto an insurance company or other CDS seller in exchange for a periodic fee. In this way, the buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the debt security.
CFR	Capital Financing Requirement. The underlying need to borrow to finance capital expenditure.
CIPFA	The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services.
CPI	Consumer Price Index. This measures changes in the price level of consumer goods and services purchased by households.
CCLA	Churches, Charities and Local Authority Property Fund
DMADF	Debt Management Account Deposit Facility.
Funding Circle	Accounts set up to lend money to local and national businesses at competitive rates
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
LIBID	London Interbank Bid Rate. The interest rate at which banks bid to take short-term deposits from other banks in the London interbank market.
LOBO	Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan.
MHCLG	Ministry of Housing, Communities and Local Government. This is a ministerial department.
MPC	Monetary Policy Committee. A committee of the Bank of England which decides the Bank of England's Base Rate and other aspects of the Government's Monetary Policy.
MRP	Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
UBS	UBS Multi Asset Income Fund (UK) – a pooled fund.