BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

COMMITTEE:	**Joint Audit and Standards Committee**	**REPORT NUMBER: JAC/19/10**
FROM:	**Katherine Steel, Assistant Director, Corporate Resources**	**DATE OF MEETING: 27 January 2020**
OFFICER:	**Melissa Evans, Corporate Manager Finance and Commissioning & Procurement** **Sue Palmer, Senior Financial Services Officer**	**KEY DECISION REF NO. N/A**

HALF YEAR REPORT ON TREASURY MANAGEMENT 2019/20

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 first six months of the financial year 2019/20.

1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, and the transactions executed during the first six months of 2019/20 and any circumstances of non-compliance with the Councils' treasury management policy statement and treasury management practices.

2. OPTIONS CONSIDERED

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

3. RECOMMENDATION TO BOTH COUNCILS

3.1 That the Treasury Management activity for the first six months of 2019/20 as set out in this report and Appendices be noted.

3.2 That it be noted that both Councils' Treasury Management activity for the first six months of 2019/20 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 Half-Year position.

4. KEY INFORMATION

4.1 The 2019/20 Treasury Management Strategy for both Councils was approved in February 2019.

4.2 The Strategy and activities are affected by several 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 first six months of 2019/20.

4.3 The Joint Treasury Management outturn report for 2018/19 was presented to Members at the Joint Audit and Standards Committee on 29 July 2019.

4.4 The Section 151 Officer is pleased to report that all treasury management activities undertaken in the first half of the year complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.

4.5 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.

4.6 Appendix D shows the position on key Treasury Management Indicators for the first six months of 2019/20.

4.7 The following key points relating to activity for the first half of the year are set out below:

- UK labour market data for the 3 months to September 2019 showed unemployment rate lower, at 3.8%, while employment was at 76%, lower than the previous quarter (76.1%). Real wages (adjusted for inflation) grew by 1.7%.
- The first estimate of Q3 GDP showed growth of 0.3%, following contraction in Q2 of 0.2%
- The Bank of England maintained the official Bank Rate at 0.75% during this period.
- 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 debt increased by £989k, mainly by reducing long term PWLB loans through making repayments and by taking out more short-term loans to cover day to day cash flow needs.
- Mid Suffolk's overall debt reduced by £2.671m. The Council lent £4.9m to Gateway 14 Ltd, which was financed from available short-term money market funds. As a result of surplus cash from council tax and business rates the need to borrow has reduced during the period.

4.8 In terms of the investment of surplus funds, Appendix A sets out the issues that are impacting on current and future activity.

4.9 Money market funds, short-term deposits and call accounts are used to make short term investments on a daily basis.

4.10 Both Councils made another investment on 24 May 2019 of £2m each in a higher yielding strategic pooled fund (Investec Diversified Income Fund) whilst reducing their investment in Funding Circle during the period.

5. LINKS TO JOINT CORPORATE PLAN

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

6. FINANCIAL IMPLICATIONS

6.1 As outlined in this 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 with the Councils’ Significant Risk Register, Risk no.13. “We may be unable to respond in a timely and effective way to financial demands”.

8.2 The 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.	Highly Probable (4)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year.

Risk Description	Likelihood	Impact	Mitigation Measures
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

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

10. EQUALITY ANALYSIS

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

11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and have regard to the Councils' ambition to be carbon neutral by 2030.

12. 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) Glossary of Terms	Appendix E

13. BACKGROUND DOCUMENTS

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

13.2 Joint Treasury Management Strategy 2019/20 (Paper JAC/18/16).

Appendix A

Background, Economy and Outlook

1. Introduction

1.1 In February 2012 both 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 2019/20 was approved at both full Councils in February 2019. Both Councils have borrowed and invested substantial sums of money and 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 are therefore central to the Councils' Treasury Management Strategy.

1.3 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.

1.4 The Statutory Guidance on Local Government Investments (MHCLG, 2018) requires local authorities to produce an investment strategy, covering investments that are not part of treasury management activity. The Councils' first Investment Strategy, for the financial year 2019/20, was also approved by both full Councils in February 2019.

2. External Context

2.1 Economic background:

2.1.1 UK Consumer Price Inflation (CPIH) increased by 1.7% for the year to September 2019, unchanged from August 2019, weaker than the consensus forecast of 1.8% and below the Bank of England's target. The most recent labour market data for the three months to September 2019 showed the unemployment rate edged back down to 3.8% while the employment rate was, at 76%, higher than a year earlier (75.5%) but lower than the previous quarter (76.1%). Nominal annual wage growth measured by the 3-month average both including and excluding bonuses was 3.6%. Adjusting for inflation, real wages were up 1.7% excluding bonuses and 1.8% including bonuses.

2.1.2 The first estimate of Q3 GDP showed the UK economy increased by 0.3% following the 0.2% contraction in Q2. The services sector registered an increase in growth of 0.4%, with production being flat following a fall of 1.8% in Q2 2019 (the largest fall in the industry since Q4 2012). Construction output increased by 0.6%, a reverse of the previous quarter when it decreased by 1.2%. Business investment was flat in Q3 which follows negative growth in Q2 alongside four negative consecutive quarters in 2018.

2.1.3 Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and, having failed to achieve Brexit by 31 October 2019, has now committed to leave the EU by 31 January 2020. The outcome of the General Election on 12 December 2019 has not removed all of the uncertainty.

2.1.4 China and the US are expected to announce an interim deal which will cancel, in phases, the various tariffs imposed during their trade war. In an announcement by Chinese officials, a timetable was not given but expectations include the US scrapping tariffs scheduled for 15 December 2019 on almost $160bn of Chinese imports. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the US Federal Reserve and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1 November 2019.

2.1.5 The Bank of England maintained Bank Rate at 0.75%. In its November 2019 Monetary Policy Report the Bank noted the weaker global growth, driven by trade protectionism, and the domestic impact of Brexit-related uncertainties. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction to ensure a sustainable return of inflation to the 2% target.

2.2 Financial markets:

2.2.1 After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

2.2.2 Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June 2019, the 5-year benchmark gilt yield fell to 0.32% by the end of September 2019. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

2.2.3 Recent activity in the bond markets highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June 2019, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

2.3 **Credit background:**

2.3.1 Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May 2019, the spread on non-ringfenced bank, NatWest Markets plc fell back to around 80bps by the end of September 2019, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.

2.3.2 There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3, and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

3 Outlook for the remainder of 2019/20:

3.1 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.

3.2 Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

3.3 Brexit has been delayed until 31 January 2020 and a key concern is the limited transitionary period following exit date, which will maintain and create additional uncertainty over the next few years.

3.4 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

3.5 The Councils' treasury advisor, Arlingclose, expects the Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on political outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be broadly balanced.

3.6 Arlingclose – Forecast rates

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Official Bank Rate													
Upside Risk	0.00	0.00	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside Risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75

4 Local Context

4.1 On 31 March 2019, Babergh had net borrowing requirement of £101m and Mid Suffolk had net borrowing requirement of £125.8m arising from revenue and capital income and expenditure.

4.2 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 are summarised in Table 1 that follows.

4.3 **Table 1: Balance Sheet Summary**

Balance Sheet Summary	**31.3.19 Babergh £m**	**31.3.19 Mid Suffolk £m**
General Fund CFR	45.126	66.285
HRA CFR	86.673	87.970
Total CFR	**131.799**	**154.255**
(Less): Usable reserves	(32.710)	(36.855)
(Less) / Add: Working capital	1.927	8.429
Net borrowing requirement	**101.016**	**125.829**

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

4.4 The treasury management position at 30 September 2019 and the change during the half year is show in Table 2 that follows.

4.5 Table 2: Treasury Management Summary

Babergh	**31.3.19 Balance £m**	**Movement £m**	**30.9.19 Balance £m**	**30.9.19 Rate %**
Long-term borrowing	97.047	(0.511)	96.536	3.17%
Short-term borrowing	7.000	1.500	8.500	0.79%
Total borrowing	**104.047**	**0.989**	**105.036**	
Long-term investments	9.430	1.784	11.214	4.98%
Short-term investments	1.000	(0.500)	0.500	0.65%
Cash and Cash equivalents	1.421	(0.599)	0.822	0.65%
Total Investments	**11.851**	**0.685**	**12.536**	
Net borrowing	**92.196**		**92.500**	

Mid Suffolk	**31.3.19 Balance £m**	**Movement £m**	**30.9.19 Balance £m**	**30.9.19 Rate %**
Long-term borrowing	112.287	(0.671)	111.616	2.88%
Short-term borrowing	18.000	(2.000)	16.000	0.80%
Total borrowing	**130.287**	**(2.671)**	**127.616**	
Long-term investments	9.423	1.792	11.215	4.95%
Short-term investments	1.400	0.100	1.500	0.62%
Cash and Cash equivalents	1.480	(0.253)	1.227	0.65%
Total Investments	**12.303**	**1.639**	**13.942**	
Net borrowing	**117.984**		**113.674**	

Appendix B

1 Borrowing Strategy

1.1 At 30 September 2019 Babergh held £105m of loans, an increase of £989k, Mid Suffolk held £127.6m of loans, a decrease of £2.6m.

1.2 Babergh has increased net overall borrowing by reducing long term PWLB loans through making repayments and by taking out more short-term loans to cover day to day cash flow needs.

1.3 Mid Suffolk lent £4.9m to Gateway 14 Ltd, which was financed from available short-term money market funds. As a result of surplus cash from council tax and business rates the need to borrow has reduced during the period.

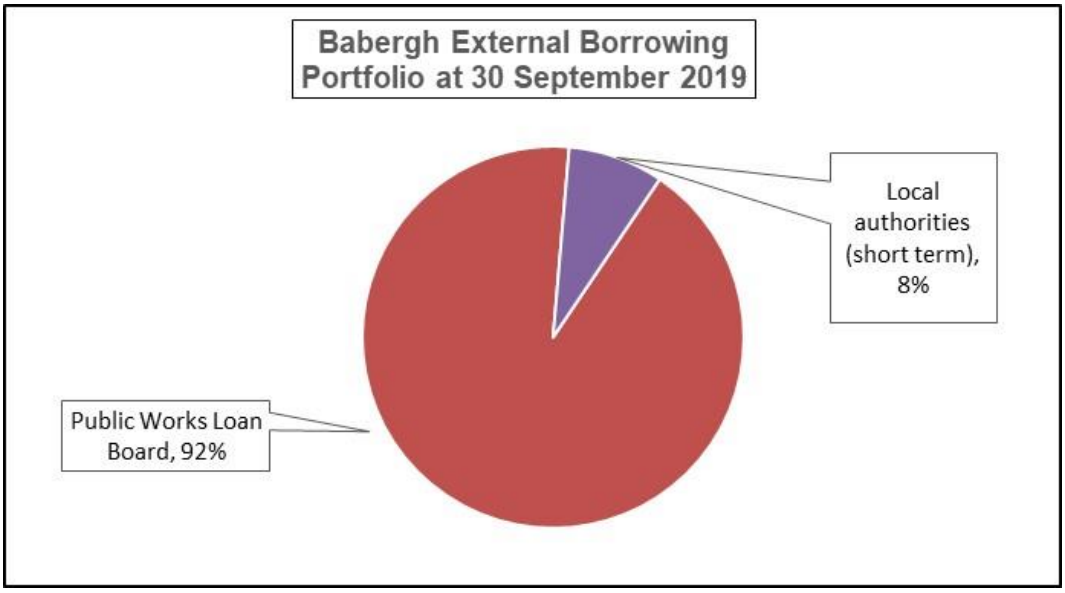
1.4 The borrowing position at 30 September 2019 is shown in Table 3 that follows.

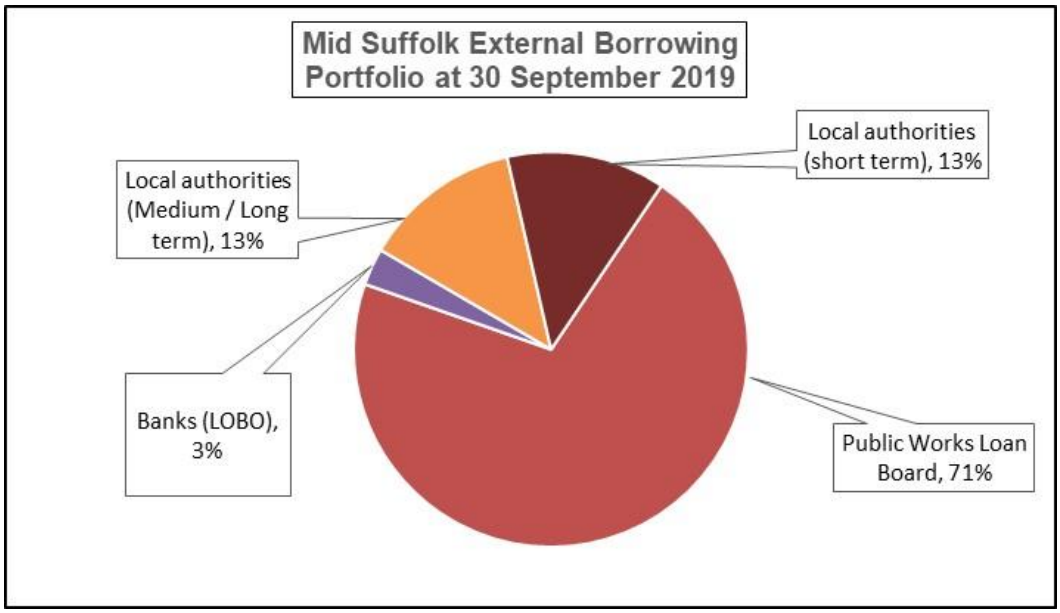
1.5 **Table 3: Borrowing Position**

Babergh	**31.3.19 Balance £m**	**Movement £m**	**30.9.19 Balance £m**	**30.9.19 Weighted Average Rate %**
Public Works Loan Board	97.047	(0.511)	96.536	3.17%
Local authorities (short term)	7.000	1.500	8.500	0.79%
Total borrowing	**104.047**	**0.989**	**105.036**	

Mid Suffolk	**31.3.19 Balance £m**	**Movement £m**	**30.9.19 Balance £m**	**30.9.19 Weighted Average Rate %**
Public Works Loan Board	92.287	(0.671)	91.616	3.24%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (Medium / Long term)	16.000	0.000	16.000	1.20%
Local authorities (short term)	18.000	(2.000)	16.000	0.80%
Total borrowing	**130.287**	**(2.671)**	**127.616**	

1.6 **Table 3 - Charts - The Councils' Borrowing Portfolios at 30 September 2019:**





1.7 The Councils' chief 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 the secondary objective of having flexibility to renegotiate loans should the Councils' long-term plans change.

1.8 With short-term interest rates remaining much lower than long-term rates, the Councils considered it more cost effective in the near term to use internal resources or short-term loans instead.

1.9 The Treasury Management Strategy shows that both Councils have increasing CFR's and estimated net borrowing requirements which are for further expenditure on CIFCO Ltd and Gateway 14 Ltd.

1.10 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.

1.11 The Councils did not take out any new medium or long-term borrowing in the period.

1.12 LOBO loans: Mid Suffolk continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans 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. No banks exercised their option during the first half of 2019/20.

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 held. During the first half of 2019/20, Babergh's investment balances ranged between £10.5m and £20.2m. Mid Suffolk's investment balances ranged between £11.9m and £19m. These movements are due to timing differences between income and expenditure.

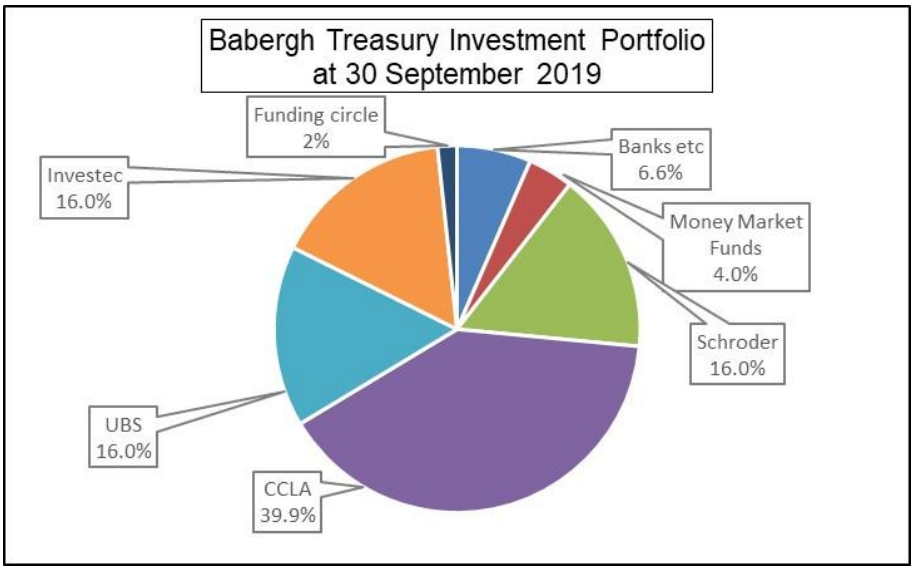
1.2 The investment position and weighted average rates during the first six months of the year is shown in Table 4 as follows. Both Councils invested £2m each in a new pooled fund (Investec Diversified Income Fund) during the period and withdrew more of their investments in Funding Circle.

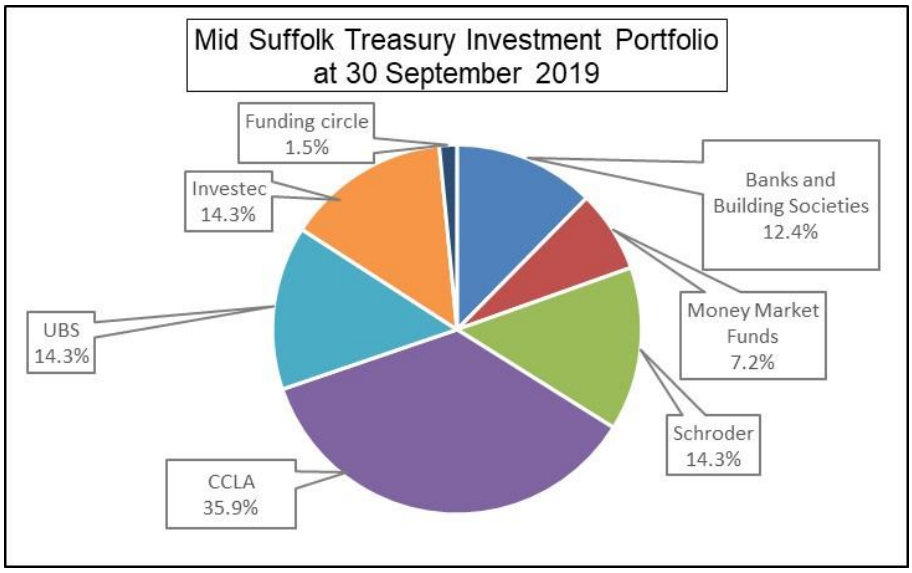
1.3 Table 4: Treasury Investment Position

Babergh	**31.3.19 Balance £m**	**Movement £m**	**30.9.19 Balance £m**	**30.9.19 Weighted Average Rate %**
Banks and Building Societies	1.421	(0.599)	0.822	0.65%
Money Market Funds	1.000	(0.500)	0.500	0.65%
Other Pooled Funds	9.430	1.784	11.214	4.98%
Total Investments	**11.851**	**0.685**	**12.536**	

Mid Suffolk	**31.3.19 Balance £m**	**Movement £m**	**30.9.19 Balance £m**	**30.9.19 Weighted Average Rate %**
Banks and Building Societies	1.480	0.247	1.727	0.65%
Money Market Funds	1.400	(0.400)	1.000	0.62%
Other Pooled Funds	9.423	1.792	11.215	4.95%
Total Investments	**12.303**	**1.639**	**13.942**	

1.4 The Councils' Investment Portfolios at 30 September 2019:





1.5 Both the CIPFA Code and government guidance requires the 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' objective 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.

1.6 Given the increasing risk and low returns from short-term unsecured bank investments, each Council made another investment of £2m in a higher yielding fund to provide monthly income and long-term capital growth (Investec Diversified Income Fund). This is in line with the strategy for pooled funds (e.g. pooled property, multi asset and equity funds) and reduced their investments in Funding Circle.

1.7 As a result, investment risk was diversified while the average rate of return has increased. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 that follows.

1.8 Table 5: Investment Benchmarking – Treasury investments managed in-house

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2019	5.17	A+	92%	210	4.13%
30.06.2019	5.28	A+	91%	97	4.20%
30.09.2019	5.21	A+	86%	147	4.62%
Similar LAs	4.26	AA-	61%	80	1.68%
All LAs	4.28	AA-	62%	28	1.34%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2019	5.16	A+	93%	173	4.00%
30.06.2019	5.11	A+	95%	54	3.81%
30.09.2019	4.94	A+	93%	75	4.21%
Similar LAs	4.26	AA-	61%	80	1.68%
All LAs	4.28	AA-	62%	28	1.34%

1.9 Bail-in involves the shareholders and creditors of a failing financial institution meeting the costs, instead of the government. Babergh and Mid Suffolk have a higher proportion of investments in strategic pooled funds compared to total investments, so 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.

1.10 Babergh has £11.2m of externally managed strategic pooled equity, property and multi assets funds where the primary objectives are regular revenue income and long-term price stability. This has generated an average total income return, since the date of the initial investments, of £1.7m (4.92%) which is used to support service provision.

1.11 Mid Suffolk has £11.2m of externally managed strategic pooled equity, property and multi assets funds which has generated an average total income return, since the date of the initial investments, of £1.6m (4.94%) which is used to support service provision.

1.12 These pooled 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. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years, but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

1.13 Recent changes to International Financial Reporting Standards for pooled funds mean that changes in valuations must be taken through the Comprehensive Income and Expenditure Statement. The MHCLG has granted a statutory override until 2022/23 so these changes will have no impact on the "bottom line" until 2023/24.

1.14 It is intended to set aside any increases in valuation to a reserve to mitigate future potential losses. These pooled funds are long term investments and the Councils would not sell the units whilst their value was less than the original investment.

1.15 **Readiness for Brexit:** The scheduled date for the UK to leave the EU is now 31 January 2020. A deal has been agreed with the EU and as the exit date approaches the Councils will ensure there are enough accounts open at UK domiciled banks and Money Market Funds to hold sufficient liquidity required in the near term and that its account with the government's Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

2 Long Term investments – Pooled Fund Performance

2.1 Both Councils' have investments in pooled funds to generate an income return. Table 6 that follows is a summary of performance by fund from initial investment date until the most recent return valuation available and details of interest received.

2.2 Table 6: Pooled Fund Performance

2.1.1 Both Councils invested £5m each into the CCLA Local Authority Property Fund. Babergh purchased 1.657m units on 31 August 2015 and Mid Suffolk 1.632m units on 29 October 2015. The valuations are based on the number of units owned.

2.1.2 **Table 6.1 CCLA Performance**

CCLA	Babergh				
	31.3.18 Balance	**2018/19 Movement**	**31.3.19 Balance £m**	**6 months Movement £m**	**30.9.19 Balance £m**
Amount invested	5.000		5.000		5.000
Investment Valuation	4.927	0.077	5.004	(0.047)	4.957
Cumulative Net Interest received from date of initial investment	**0.581**		**0.798**		**0.907**
Annual Performance					
Net Interest received in year	**0.227**		**0.217**		**0.109**
Average Rate of Return for year	**4.54%**		**4.33%**		**4.36%**

CCLA	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	4.851	0.075	4.927	(0.046)	4.881
Cumulative Net Interest received from date of initial investment	**0.539**		**0.752**		**0.860**
Annual Performance					
Net Interest received in year	**0.224**		**0.213**		**0.108**
Average Rate of Return for year	**4.47%**		**4.27%**		**4.29%**

2.1.3 Both Councils invested £2m each into the Schroder Income Maximiser Fund on 10 February 2017.

2.1.4 **Table 6.2 Schroder Performance**

Schroder Maximiser Fund	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.927	(0.051)	1.876	0.107	1.983
Cumulative Net Interest received from date of initial investment	**0.178**		**0.322**		**0.419**
Annual Performance					
Net Interest received in year	**0.137**		**0.144**		**0.097**
Average Rate of Return for year	**6.86%**		**7.20%**		**9.70%**

Schroder Maximiser Fund	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.927	(0.051)	1.876	0.107	1.983
Cumulative Net Interest received from date of initial investment	**0.178**		**0.322**		**0.419**
Annual Performance					
Net Interest received in year	**0.137**		**0.144**		**0.097**
Average Rate of Return for year	**6.86%**		**7.20%**		**9.70%**

2.1.5 Babergh invested £2m in the UBS Multi Asset Income Fund on 26 November 2015, whilst Mid Suffolk invested £2m on 28 March 2017.

2.1.6 **Table 6.3 UBS Performance**

UBS	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.923	(0.024)	1.899	0.024	1.923
Cumulative Net Interest received from date of initial investment	**0.192**		**0.274**		**0.321**
Annual Performance					
Net Interest received in year	**0.075**		**0.082**		**0.047**
Average Rate of Return for year	**3.74%**		**4.09%**		**4.67%**

UBS	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.920	(0.024)	1.896	0.024	1.919
Cumulative Net Interest received from date of initial investment	**0.096**		**0.178**		**0.225**
Annual Performance					
Net Interest received in year	**0.075**		**0.082**		**0.047**
Average Rate of Return for year	**3.73%**		**4.08%**		**4.66%**

2.1.7 Both Councils invested £2m each into the Investec Diversified Income Fund on 24 May 2019. This fund aims to provide monthly income with the opportunity for long-term capital growth, investing in equities, fixed income investments (e.g. corporate or government bonds) as well as cash and money market funds.

2.1.8 **Table 6.4 Investec Performance**

Investec	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount invested			0.000	2.000	2.000
Investment Valuation			0.000	1.977	1.977
Cumulative Net Interest received from date of initial investment					**0.031**
Annual Performance					
Net Interest received in year					**0.031**
Average Rate of Return for year					**6.20%**

Investec	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount invested			0.000	2.000	2.000
Investment Valuation			0.000	1.977	1.977
Cumulative Net Interest received from date of initial investment					**0.031**
Annual Performance					
Net Interest received in year					**0.023**
Average Rate of Return for year					**4.65%**

2.1.9 Both Councils invested in Funding Circle on 1 November 2015 and has varied the amounts invested since.

2.1.10 **Table 6.5 Funding Circle Performance**

Funding Circle	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount Invested - National	0.613	(0.208)	0.405	(0.191)	0.214
Amount Invested - Local	0.025	0.000	0.025	(0.025)	0.000
Total Amount Invested	**0.638**	**(0.208)**	**0.430**	**(0.216)**	**0.214**
Bad debts to date	(0.016)	(0.015)	(0.031)	(0.009)	(0.040)
Accrued Interest	0.019	0.003	0.022	(0.019)	0.003
Valuation	**0.641**	**(0.220)**	**0.421**	**(0.244)**	**0.177**
Income received	0.071		0.099		0.107
Servicing costs	(0.008)		(0.012)		(0.013)
Cumulative Net Interest received from date of initial investment	**0.063**		**0.087**		**0.095**
Annual Performance					
Net Interest received in year	**0.038**		**0.025**		**0.007**
Average Rate of Return for year	**4.54%**		**5.02%**		**4.96%**

Funding Circle	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	6 months Movement £m	30.9.19 Balance £m
Amount Invested - National	0.617	(0.219)	0.398	(0.183)	0.215
Amount Invested - Local	0.025	0.000	0.025	(0.025)	0.000
Total Amount Invested	**0.642**	**(0.219)**	**0.423**	**(0.208)**	**0.215**
Bad debts to date	(0.016)	(0.023)	(0.040)	(0.006)	(0.046)
Accrued Interest	0.017	(0.001)	0.016	(0.013)	0.003
Valuation	**0.643**	**(0.243)**	**0.399**	**(0.227)**	**0.172**
Income received	0.075		0.102		0.110
Servicing costs	(0.009)		(0.012)		(0.013)
Cumulative Net Interest received from date of initial investment	**0.066**		**0.090**		**0.097**
Annual Performance					
Net Interest received in year	**0.039**		**0.024**		**0.007**
Average Rate of Return for year	**4.63%**		**4.78%**		**4.89%**

3 Other Investment Activity

3.1 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.

3.2 On 5 August 2016 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 £2.66m.

3.3 Babergh holds £2.726m of equity in Babergh Holdings Ltd and has £24.537m of loans in Capital Investment Fund Company (CIFCO Ltd), a subsidiary of Babergh Holdings Ltd. These loans have generated £1.472m of investment income since the start of trading.

3.4 Mid Suffolk holds £2.726m of equity in Mid Suffolk Holdings Ltd and has £24.537m of loans in Capital Investment Fund Company (CIFCO Ltd), a subsidiary of Mid Suffolk Holdings Ltd. These loans have generated £1.472m of investment income since the start of trading.

3.5 Mid Suffolk also holds £21.152m of investment in another subsidiary of Mid Suffolk Holdings Ltd, Gateway 14 Ltd, which has generated £0.886m of accrued investment income since 13 August 2018.

4 Table 7: Debt Limits

4.1 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table that follows.

Borrowing	Actual Maximum	30.9.19 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied
Babergh	£108m	£108m	£164m	£179m	✓
Mid Suffolk	£130m	£128m	£189m	£204m	✓

4.2 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.

5 Compliance

5.1 The Section 151 Officer is pleased to report that all treasury management activities undertaken during the period complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in Table 8 that follows.

5.2 Table 8: Investment Limits

Babergh	Actual Maximum	30.9.19 Actual	2019/20 Limit	Complied
Lloyds Bank	£1.743m	£0.822m	£2m	✓
Money market funds	41.40%	3.99%	50%	✓
DMADF	Nil	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.430m	£0.214m	£1m	✓

Mid Suffolk	Actual Maximum	30.9.19 Actual	2019/20 Limit	Complied
Lloyds Bank	£1.912m	£1.227m	£2m	✓
Barclays Bank	£0.500m	£0.500m	£2m	✓
Svenska Handelsbanken	Nil	Nil	£2m	✓
Money market funds	35.34%	7.17%	50%	✓
DMADF	£3m	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.423m	£0.215m	£1m	✓

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:** The Councils have adopted a voluntary measure of 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.

Portfolio Average Credit Score	30.9.19 Actual	2019/20 Target	Complied
Babergh	5.21	7.0	✓
Mid Suffolk	4.94	7.0	✓

1.3 **Liquidity:** The Councils have adopted a voluntary measure of exposure liquidity risk by monitoring the amount it can borrow each period without giving prior notice.

Total sum borrowed in the past 3 months without prior notice	30.9.19 Actual	2019/20 Target	Complied
Babergh District Council	Nil	£5m	✓
Mid Suffolk District Council	Nil	£5m	✓

1.4 **Interest Rate Exposures:** This indicator is set to control the Councils' exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest was:

Upper impact on Revenue of a 1% increase in rates	30.9.19 Actual	2019/20 Target	Complied
Babergh District Council	£0.067m	£0.376m	✓
Mid Suffolk District Council	£0.080m	£0.490m	✓

1.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

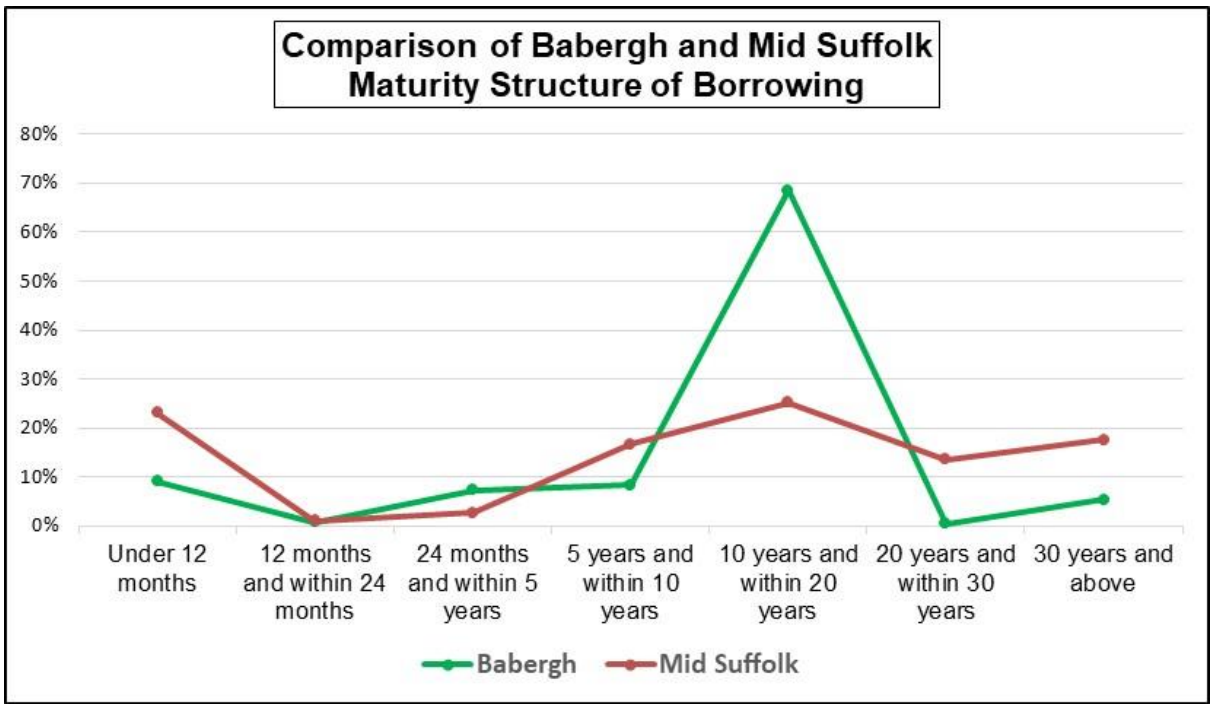
1.6 **Maturity Structure of Borrowing:** This indicator is set to control the Councils' exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing are shown in the following table:

1.7 Table to show Maturity Structure of Borrowing:

Babergh	30.9.19 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	9.07%	0	50%	✓
12 months and within 24 months	0.80%	0	50%	✓
24 months and within 5 years	7.31%	0	50%	✓
5 years and within 10 years	8.31%	0	100%	✓
10 years and within 20 years	68.62%	0	100%	✓
20 years and within 30 years	0.46%	0	100%	✓
30 years and above	5.43%	0	100%	✓

Mid Suffolk	30.9.19 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	23.13%	0	50%	✓
12 months and within 24 months	1.12%	0	50%	✓
24 months and within 5 years	2.73%	0	50%	✓
5 years and within 10 years	16.69%	0	100%	✓
10 years and within 20 years	25.16%	0	100%	✓
20 years and within 30 years	13.60%	0	100%	✓
30 years and above	17.57%	0	100%	✓

1.8 Chart to show the Maturity Structure of Borrowing:



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 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Councils' exposure to the risk of incurring losses by seeking early repayment of their investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Actual Principal invested beyond year end	**2019/20**	**2020/21**	**2021/22**
Babergh Actual	Nil	Nil	Nil
Mid Suffolk Actual	Nil	Nil	Nil
Limit on principal invested beyond year end	**£2m**	**£2m**	**£2m**
Babergh Complied	✓	✓	✓
Mid Suffolk Complied	✓	✓	✓

Appendix E

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.
CPIH	Consumer Price Index Housing. A measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH).
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 revenue costs are charged for 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.
LVNAV	Low Volatility Net Asset Value. A new type of Low Volatility Net Asset Value Money Market Fund - a new fund category introduced as part of a new regulatory reform of the sector in Europe.

MHCLG	A Government department – The Ministry of Housing, Communities and Local Government
MiFID	The Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). The EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.
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
NAV	Net Asset Value. The NAV is the value of a fund's assets less the value of its liabilities on a per unit basis.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
T Bills	Treasury Bill. A short-term Government Bond.
UBS	UBS Multi Asset Income Fund (UK) – a pooled fund.