

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 2019/20, Babergh's investment balance ranged between £10.5m and £24.1m. Mid Suffolk's investment balance ranged between £11.9m and £27.1m. 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.

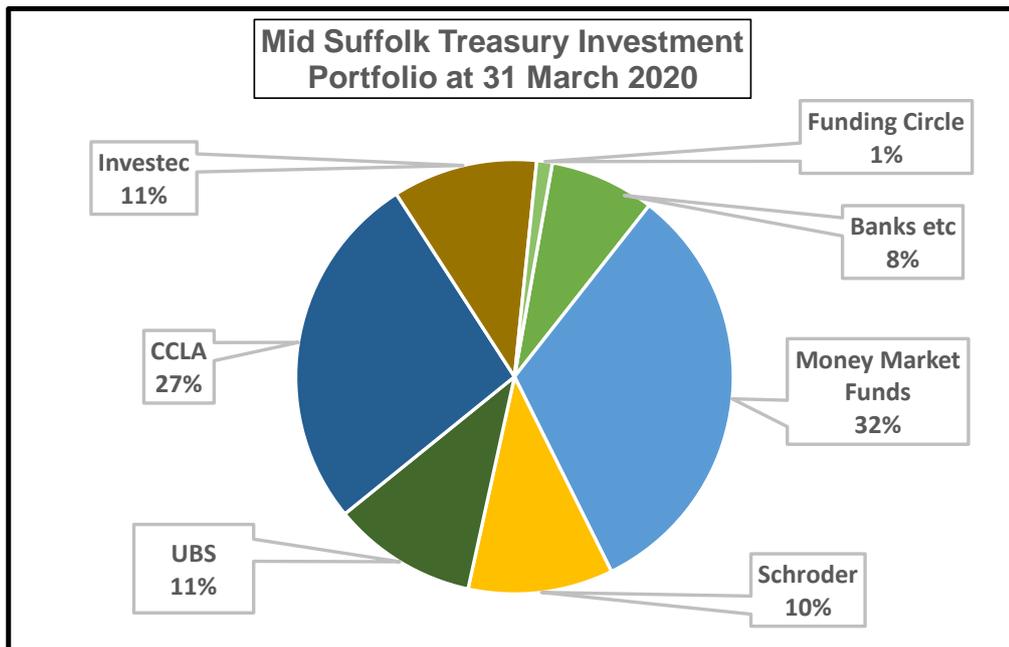
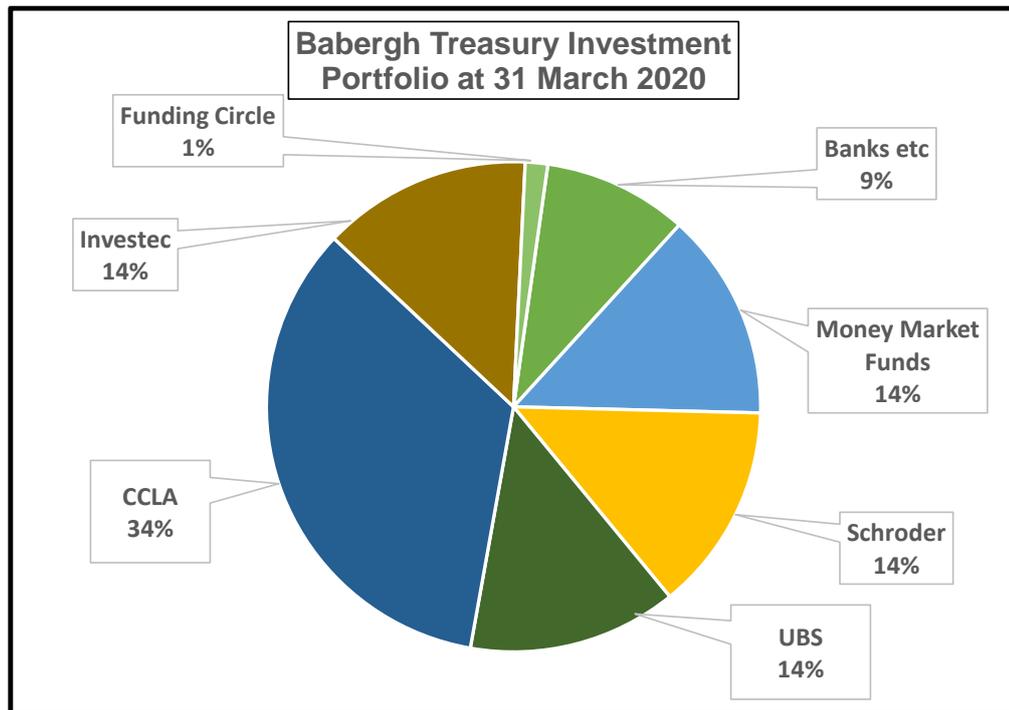
1.2. **Table 5: Treasury Investment Position**

Both Councils made a new investment during the year in the Investec Series i Diversified Income Fund on 24 May 2019.

Babergh	31.3.19 Balance	2019/20 Movement	31.3.20 Balance	31.3.20 Average Rate
	£m	£m	£m	%
Banks & building societies (unsecured)	1.421	(0.038)	1.383	0.65%
Money Market Funds	1.000	1.000	2.000	0.65%
Schroder	2.000	0.000	2.000	7.16%
UBS	2.000	0.000	2.000	4.43%
CCLA	5.000	0.000	5.000	4.35%
Investec	0.000	2.000	2.000	3.74%
Funding Circle	0.430	(0.216)	0.214	4.83%
Total investments	11.851	2.746	14.597	

Mid Suffolk	31.3.19 Balance	2019/20 Movement	31.3.20 Balance	31.3.20 Average Rate
	£m	£m	£m	%
Banks & building societies (unsecured)	1.480	(0.030)	1.450	0.65%
Money Market Funds	1.400	4.600	6.000	0.72%
Schroder	2.000	0.000	2.000	7.16%
UBS	2.000	0.000	2.000	4.42%
CCLA	5.000	0.000	5.000	4.30%
Investec	0.000	2.000	2.000	3.74%
Funding Circle	0.423	(0.208)	0.215	4.85%
UK Central Government (DMADF)	0.000	3.000	3.000	0.50%
Total investments	12.303	9.362	21.665	

1.3. Table 5 - Charts: Investment Position at 31 March 2020.



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. The average rate of return is significantly higher than the comparable average returns of Arlingclose's other clients, as shown in the table below. 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 31.03.2019	5.17	A+	92%	4.13%
At 31.03.2020	4.92	A+	93%	4.34%
Similar Local authorities	4.11	AA-	63%	1.75%
All Local authorities	4.11	AA-	60%	1.43%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
At 31.03.2019	5.16	A+	93%	4.00%
At 31.03.2020	4.79	A+	96%	3.85%
Similar Local authorities	4.11	AA-	63%	1.75%
All Local authorities	4.11	AA-	60%	1.43%

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 £11.2m 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 £2m (average rate of return for the year 4.9%) which is used to support the Councils' service provision.

1.9. Mid Suffolk has £11.2m 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 £1.9m (average rate of return for the year 4.89%) which is used to support the Councils' 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 and 2019/20.
- 1.12. 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 Non-Treasury Holdings and Other Investment Activity

- 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

- 2.3 During 2016/17 Babergh purchased Borehamgate Shopping Centre in Sudbury for £3.6m. This has been classified as an investment property and on 31 March 2020 it was assessed at fair value of £4.1m. Net Income, after the deduction of direct costs, was £187k in 2019/20 (£177k in 2018/19). Income from rentals stabilised during the year and the asset is being actively managed by the Council to secure new tenants.

2.4 Trading Companies

- 2.5 At the 31 March 2020 Babergh held £3m of equity in BDC (Suffolk Holdings) Ltd and Mid Suffolk held £3m of equity in MSDC (Suffolk Holdings) Ltd. Both Councils own 100% shares in each holding company.
- 2.6 The holding companies have invested 50% in Babergh Growth Limited and Mid Suffolk Growth Limited during the year.
- 2.7 Babergh and Mid Suffolk’s respective 50% share of the loss made by CIFCO Ltd in 2019/20 was £748k (2018/19 was £2.3m) and is reflected in the reduced value of each of the Council’s equity holding in the company. These losses include the one-off costs of acquiring two additional assets during 2019/20 (including stamp duty and fees) and an adjustment in portfolio valuation following the annual year-end revaluation reflecting a reduction in the portfolio value of 5.66%.
- 2.8 The total equity investment by both Councils to full investment (£100m) will be £10m (10%) and total acquisition costs for the full investment are estimated to be £6.75m and as such it is anticipated that equity will reduce further to reflect the costs of acquisition to full investment as well as any fluctuations in market value.

Appendix C cont'd

- 2.9 At the 31 March 2020 Babergh and Mid Suffolk each have £26.9m of loans (valued at £26.4m after a £603k impairment allowance) in CIFCO Ltd, a subsidiary of BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd. These loans have generated £3m of investment income for each Council since the start of trading. The net position for 2019/20, after borrowing costs, is shown in Table 7.
- 2.10 Mid Suffolk also held £18.7m of loans (valued at £18.6m after a £112k impairment allowance) in another subsidiary of MSDC (Suffolk Holdings) Ltd, Gateway 14 Ltd, which has generated £1.4m of accrued investment income since the initial loans were advanced by the Council in August 2018.
- 2.11 The loss incurred by Gateway 14 Ltd was £119k resulting in a reduction in the Council's overall equity holding to £1.3m. 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	2019/20 Budget	2019/20 Actual	Variance Adverse/ (Favourable)
	£m	£m	£m
Interest Receivable			
General Fund	(0.469)	(0.545)	(0.076)
Housing Revenue Account	(0.010)	(0.026)	(0.016)
CIFCO Ltd	(1.545)	(1.245)	0.300
Total Interest Receivable	(2.023)	(1.816)	0.208
Interest Payable			
General Fund	0.039	0.000	(0.039)
Housing Revenue Account	3.117	2.826	(0.291)
CIFCO Ltd	0.541	0.316	(0.225)
Total Interest Payable	3.697	3.142	(0.555)
Net Interest			
General Fund	(0.430)	(0.545)	(0.115)
Housing Revenue Account	3.107	2.800	(0.307)
CIFCO Ltd	(1.004)	(0.928)	0.075
Total Net Interest	1.674	1.326	(0.347)

Mid Suffolk	2019/20 Budget	2019/20 Actual	Variance Adverse/ (Favourable)
	£m	£m	£m
Interest Receivable			
General Fund	(0.280)	(0.557)	(0.277)
Housing Revenue Account	(0.008)	(0.016)	(0.008)
CIFCO Ltd	(1.545)	(1.245)	0.300
Gateway 14 Ltd	(1.030)	(0.922)	0.108
Total Interest Receivable	(2.862)	(2.740)	0.123
Interest Payable			
General Fund	0.229	0.029	(0.200)
Housing Revenue Account	2.912	2.678	(0.234)
CIFCO Ltd	0.651	0.542	(0.109)
Gateway 14 Ltd	0.282	0.219	(0.063)
Total Interest Payable	4.074	3.469	(0.605)
Net Interest			
General Fund	(0.051)	(0.528)	(0.477)
Housing Revenue Account	2.904	2.663	(0.241)
CIFCO Ltd	(0.894)	(0.703)	0.191
Gateway 14 Ltd	(0.748)	(0.703)	0.045
Total Net Interest	1.212	0.729	(0.482)

- 3.3 The interest receivable for Babergh and Mid Suffolk were both less than budgeted by £208k and £123k respectively. This is mainly due to investments in CIFCO Ltd being deferred whilst suitable properties to purchase were being identified.
- 3.4 The total interest payable for the year was under budget by £555k for Babergh and £605k 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**
- 3.6 Babergh and Mid Suffolk have both invested in long term pooled funds. Tables 8.1 to 8.5 that follow show details of how these investments have performed during 2018/19 and 2019/20.
- 3.7 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.

3.8 Table 8.1 CCLA Performance

CCLA	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.927	0.077	5.004	(0.179)	4.825
Cumulative Net Interest received from date of initial investment	0.583	0.216	0.799	0.217	1.016
Annual Performance					
Net Interest received in year	0.227		0.216		0.217
Average Rate of Return for year	4.54%		4.32%		4.35%

CCLA	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.851	0.075	4.927	(0.176)	4.750
Cumulative Net Interest received from date of initial investment	0.534	0.208	0.743	0.215	0.958
Annual Performance					
Net Interest received in year	0.224		0.208		0.215
Average Rate of Return for year	4.47%		4.17%		4.30%

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

3.10 Table 8.2 Schroder Performance

Schroder Maximiser Fund	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.927	(0.051)	1.876	(0.624)	1.253
Cumulative Net Interest received from date of initial investment	0.173	0.144	0.317	0.143	0.460
Annual Performance					
Net Interest received in year	0.137		0.144		0.143
Average Rate of Return for year	6.86%		7.20%		7.16%

Schroder Maximiser Fund	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.927	(0.051)	1.876	(0.624)	1.253
Cumulative Net Interest received from date of initial investment	0.173	0.144	0.317	0.143	0.460
Annual Performance					
Net Interest received in year	0.137		0.144		0.143
Average Rate of Return for year	6.86%		7.20%		7.16%

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

3.12 **Table 8.3 UBS Performance**

UBS	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.923	(0.024)	1.899	(0.242)	1.657
Cumulative Net Interest received from date of initial investment	0.192	0.082	0.274	0.089	0.363
Annual Performance					
Net Interest received in year	0.075		0.082		0.089
Average Rate of Return for year	3.74%		4.09%		4.43%

UBS	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.920	(0.024)	1.896	(0.242)	1.654
Cumulative Net Interest received from date of initial investment	0.096	0.082	0.178	0.088	0.266
Annual Performance					
Net Interest received in year	0.075		0.082		0.088
Average Rate of Return for year	3.73%		4.08%		4.42%

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

3.14 **Table 8.4 Funding Circle Performance**

Funding Circle	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 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)	(0.021)	(0.052)
Accrued Interest	0.019	0.003	0.022	(0.010)	0.012
Valuation	0.641	(0.220)	0.421	(0.247)	0.174
Invested but still Unallocated - National	0.166	(0.009)	0.156	(0.087)	0.069
Invested but still Unallocated - Local	0.024	0.001	0.025	(0.025)	0.000
Income received	0.071	0.028	0.099	0.014	0.113
Servicing costs	(0.008)	(0.003)	(0.012)	(0.002)	(0.013)
Cumulative Net Interest received from date of initial investment	0.063	0.025	0.087	0.012	0.099
Annual Performance					
Net Interest received in year	0.038		0.025		0.012
Average Rate of Return for year	4.54%		5.02%		4.83%

Appendix C cont'd

Funding Circle	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 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)	(0.015)	(0.055)
Accrued Interest	0.017	(0.001)	0.016	(0.005)	0.011
Valuation	0.643	(0.243)	0.399	(0.227)	0.172
Invested but still Unallocated - National	0.178	(0.029)	0.150	0.000	0.150
Invested but still Unallocated - Local	0.024	0.001	0.025	(0.025)	0.000
Income received	0.075	0.027	0.102	0.013	0.115
Servicing costs	(0.009)	(0.003)	(0.012)	(0.002)	(0.013)
Cumulative Net Interest received from date of initial investment	0.066	0.024	0.090	0.011	0.101
Annual Performance					
Net Interest received in year	0.039		0.024		0.011
Average Rate of Return for year	4.63%		4.78%		4.85%

3.15 Both Councils invested in the Investec Series i 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.

3.16 Table 8.5 Investec Performance

Investec Series i Diversified Income Fund	Babergh				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Amount Invested	0.000	0.000	0.000	2.000	2.000
Investment Valuation	0.000	0.000	0.000	1.815	1.815
Cumulative Net Interest received from date of initial investment	0.000	0.000	0.000	0.075	0.075
Annual Performance					
Net Interest received in year	0.000		0.000		0.075
Average Rate of Return for year	0.00%		0.00%		3.74%

Investec Series i Diversified Income Fund	Mid Suffolk				
	31.3.18 Balance £m	2018/19 Movement £m	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m
Amount Invested	0.000	0.000	0.000	2.000	2.000
Investment Valuation	0.000	0.000	0.000	1.815	1.815
Cumulative Net Interest received from date of initial investment	0.000	0.000	0.000	0.075	0.075
Annual Performance					
Net Interest received in year	0.000		0.000		0.075
Average Rate of Return for year	0.00%		0.00%		3.74%

4. **Compliance Report**

- 4.1. The Section 151 Officer can report that, except for one occasion when Mid Suffolk exceeded its daily bank account limit with Lloyds by £129k, 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	2019/20 Maximum £m	31.3.20 Actual £m	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied
Babergh	112.523	112.523	157.000	172.000	✓
Mid Suffolk	135.339	135.339	175.000	190.000	✓

- 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	2019/20 Maximum £m	31.3.20 Actual £m	2019/20 Limit £m	Complied
Any single organisation, except the UK Central Government	1.886	1.375	2.000	✓
Any group of organisations under the same ownership	0.000	0.000	1.000	✓
Any group of pooled funds under the same management	5.000	5.000	5.000	✓
Negotiable instruments held in a broker's nominee account	0.000	0.000	10.000	✓
Foreign countries	0.000	0.000	2.000	✓
Registered Providers	0.000	0.000	5.000	✓
Unsecured investments with Building Societies	0.000	0.000	2.000	✓
Loans to unrated corporates	0.430	0.214	1.000	✓
Money Market Funds	2.000	2.000	2.000	✓
Mid Suffolk	2019/20 Maximum £m	31.3.20 Actual £m	2019/20 Limit £m	Complied
Any single organisation, except the UK Central Government	2.129	0.948	2.000	x
Any group of organisations under the same ownership	0.000	0.000	1.000	✓
Any group of pooled funds under the same management	5.000	5.000	5.000	✓
Negotiable instruments held in a broker's nominee account	0.000	0.000	10.000	✓
Foreign countries	0.000	0.000	2.000	✓
Registered Providers	0.000	0.000	5.000	✓
Unsecured investments with Building Societies	0.000	0.000	2.000	✓
Loans to unrated corporates	0.423	0.215	1.000	✓
Money Market Funds	2.000	2.000	2.000	✓

- 4.6. It should be noted that both Council's treasury management activity for 2019/20 was in accordance with the approved Treasury Management Strategy, and that, except for one day when Mid Suffolk exceeded its daily bank account limit with Lloyds by £129k, both Councils have complied with all the Treasury Management Indicators for this period. This was due to the timing of a large value CIL payment being received too late in the banking day to be invested, causing the limit to be exceeded.