

1 Treasury Investment Activity

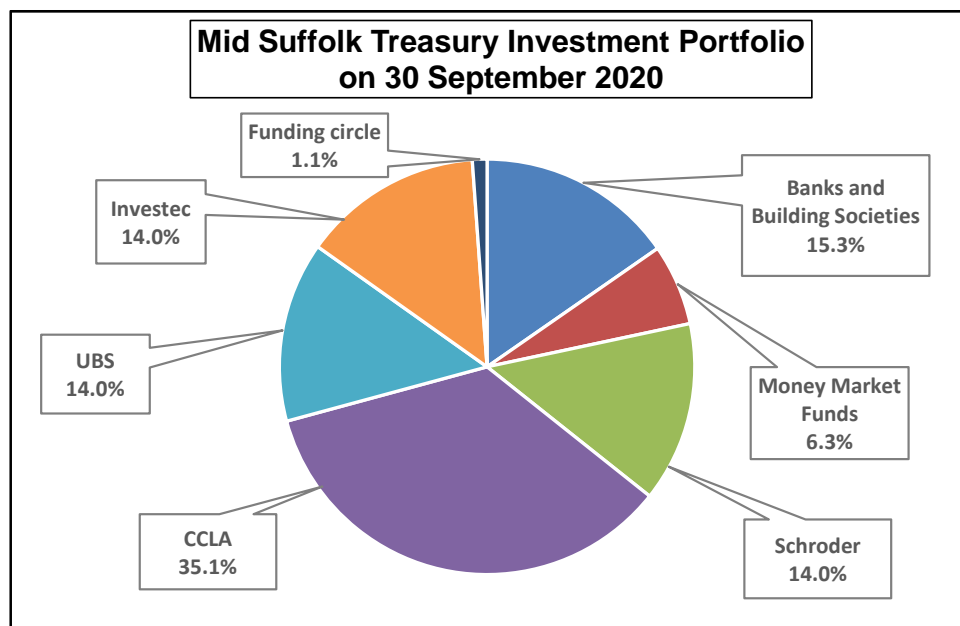
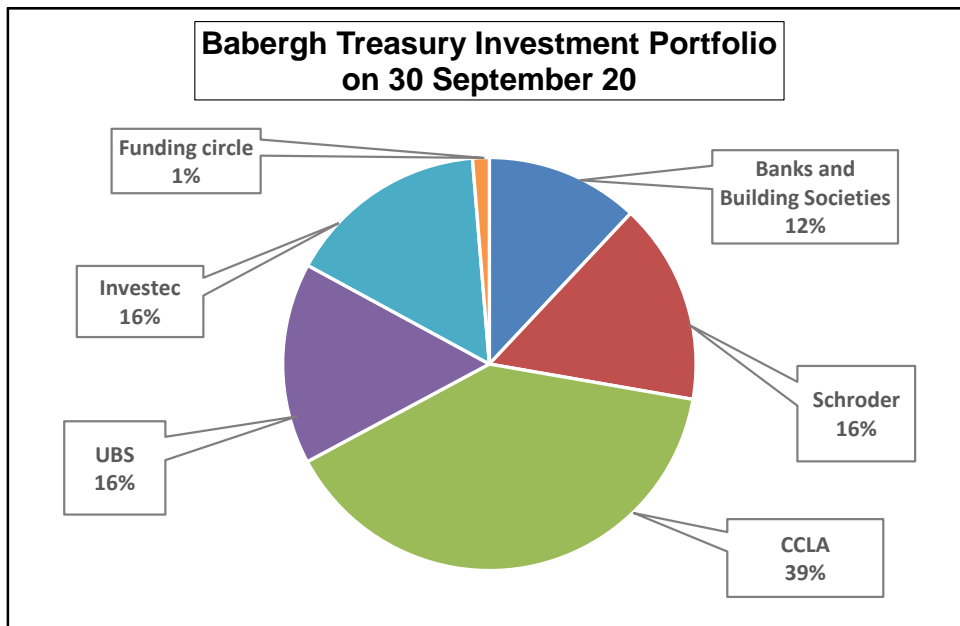
- 1.1 On 1 April 2020 both Councils received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. Babergh received £24.5m and Mid Suffolk received £21.7m, which was temporarily invested in short-dated, liquid instruments such as Money Market Funds. By the end of September £22.8m was disbursed by Babergh and £20.1m by Mid Suffolk.
- 1.2 Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2020/21, Babergh's investment balances ranged between £11.9m and £39m. Mid Suffolk's investment balances ranged between £12.7m and £41.3m. These movements are due to timing differences between income and expenditure, in particular, relating to the grant schemes discussed in paragraph 1.1 above.
- 1.3 The investment position and weighted average rates during the first six months of the year is shown in Table 4 that follows. Both Councils withdrew more of their investments in Funding Circle.

1.4 **Table 4: Treasury Investment Position**

Babergh	31.03.20 Balance	Movement	30.09.20 Balance	30.09.20 Weighted Average Rate
	£m	£m	£m	%
Banks and Building Societies	1.383	0.137	1.519	0.01%
Money Market Funds	2.000	(2.000)	0.000	0.21%
Other Pooled Funds	11.214	(0.048)	11.166	3.59%
Total Investments	14.597	(1.911)	12.685	

Mid Suffolk	31.03.20 Balance	Movement	30.09.20 Balance	30.09.20 Weighted Average Rate
	£m	£m	£m	%
Banks and Building Societies	1.450	0.735	2.186	0.01%
Money Market Funds	6.000	(5.100)	0.900	0.20%
Other Pooled Funds	11.215	(0.053)	11.162	3.40%
DMADF	3.000	(3.000)	0.000	0.06%
Total Investments	21.666	(7.418)	14.248	

1.5 The Councils' Investment Portfolios on 30 September 2020:



- 1.6 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.
- 1.7 Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

- 1.8 On 25 September the overnight, 1- and 2-week deposit rates on the government's Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities.
- 1.9 The return on Money Market Funds net of fees also fell over the six months and for many funds net returns range between 0% and 0.1%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.
- 1.10 Neither Council made further investments in strategic pooled funds (e.g. pooled property, multi asset and equity funds) but continued reducing their investments in Funding Circle.
- 1.11 The average rate of return is significantly higher than the comparable average returns of Arlingclose's other clients, as shown in Table 5 that follows. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking.

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

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2020	4.61	A+	96%	40	3.78%
30.06.2020	4.89	A+	96%	35	3.68%
30.09.2020	5.17	A+	92%	77	3.91%
Similar LAs	4.15	AA-	65%	51	1.31%
All LAs	4.16	AA-	64%	18	0.90%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2020	4.25	AA-	98%	19	2.83%
30.06.2020	4.49	AA-	98%	16	2.72%
30.09.2020	4.72	A+	96%	41	3.44%
Similar LAs	4.15	AA-	65%	51	1.31%
All LAs	4.16	AA-	64%	18	0.90%

- 1.13 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.

- 1.14 Each Council has £11.2m of externally managed strategic pooled equity, property and multi assets funds where short-term security and liquidity are lesser considerations and the primary objectives instead are regular revenue income and long-term price stability. Since the date of the initial investments, these have generated a total income return, used to support service provision, of £2.13m for Babergh and £1.98m for Mid Suffolk. Both Councils have achieved an average rate of return for the period of 4.8%.
- 1.15 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. Investment in these funds has been maintained during the first six months of the year.
- 1.16 Since 2018/19, the International Financial Reporting Standards for pooled funds states 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.
- 1.17 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.
- 1.18 **Readiness for Brexit:** As the end of the period of transition to exit the EU approaches (31 December 2020) and there is still uncertainty about a trade deal, 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 their accounts 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 In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.
- 2.2 Both Councils are invested in equity, multi-asset and property funds. The falls in the capital values of the underlying assets, in particular equities were reflected in the 31 March 2020 fund valuations with both funds registering negative capital returns over the 12-month period. Since 31 March there has been improvement in market sentiment which has been reflected in an increase or a stabilising of capital values of the multi-asset income funds and equity income funds in the Councils' portfolios. The capital value of the property fund is below that on 31 March. Market values of all the pooled funds on 31 March and 30 September 2020 are as shown in Table 6 that follows.

2.3 Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authority Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.

2.4 The Councils' objective is to retain these investments in pooled funds to generate an income return. These are long-term investments and would only be redeemed when capital growth had been achieved. 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.

2.5 **Table 6: Pooled Fund Performance**

2.5.1 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.

2.5.2 **Table 6.1 CCLA Performance**

CCLA	Babergh				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	5.004	(0.179)	4.825	(0.201)	4.624
Cumulative Net Interest received from date of initial investment	0.798	0.217	1.014	0.098	1.112
Annual Performance					
Net Interest received in year	0.216		0.217		0.098
Average Rate of Return for year	4.32%		4.35%		3.91%

CCLA	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	4.927	(0.176)	4.750	(0.198)	4.553
Cumulative Net Interest received from date of initial investment	0.752	0.213	0.965	0.096	1.061
Annual Performance					
Net Interest received in year	0.213		0.215		0.096
Average Rate of Return for year	4.27%		4.30%		3.82%

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

2.5.4 **Table 6.2 Schroder Performance**

Schroder Maximiser Fund	Babergh				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.876	(0.624)	1.253	(0.052)	1.200
Cumulative Net Interest received from date of initial investment	0.317	0.143	0.460	0.047	0.507
Annual Performance					
Net Interest received in year	0.144		0.143		0.047
Average Rate of Return for year	7.20%		7.16%		4.68%

Schroder Maximiser Fund	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.876	(0.624)	1.253	(0.052)	1.200
Cumulative Net Interest received from date of initial investment	0.317	0.143	0.460	0.047	0.507
Annual Performance					
Net Interest received in year	0.144		0.143		0.047
Average Rate of Return for year	7.20%		7.16%		4.68%

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

2.5.6 **Table 6.3 UBS Performance**

UBS	Babergh				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.899	(0.242)	1.657	0.122	1.778
Cumulative Net Interest received from date of initial investment	0.274	0.089	0.363	0.044	0.407
Annual Performance					
Net Interest received in year	0.082		0.089		0.044
Average Rate of Return for year	4.09%		4.43%		4.43%

UBS	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.896	(0.242)	1.654	0.121	1.775
Cumulative Net Interest received from date of initial investment	0.178	0.090	0.268	0.044	0.313
Annual Performance					
Net Interest received in year	0.082		0.090		0.044
Average Rate of Return for year	4.08%		4.52%		4.42%

2.5.7 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.

2.5.8 Table 6.4 Investec Performance

Investec	Babergh				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount invested	0.000	2.000	2.000	0.000	2.000
Investment Valuation	0.000	1.815	1.815	0.116	1.931
Cumulative Net Interest received from date of initial investment	0.000	0.062	0.062	0.041	0.103
Annual Performance					
Net Interest received in year			0.062		0.041
Average Rate of Return for year			3.11%		6.18%

Investec	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount invested	0.000	2.000	2.000	0.000	2.000
Investment Valuation	0.000	1.815	1.815	0.116	1.931
Cumulative Net Interest received from date of initial investment	0.000	0.062	0.062	0.041	0.103
Annual Performance					
Net Interest received in year			0.062		0.041
Average Rate of Return for year			3.11%		6.18%

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

2.5.10 Table 6.5 Funding Circle Performance

Funding Circle	Babergh				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount Invested - National	0.405	(0.191)	0.214	(0.048)	0.166
Amount Invested - Local	0.025	(0.025)	0.000	0.000	0.000
Total Amount Invested	0.430	(0.216)	0.214	(0.048)	0.166
Bad debts to date	(0.031)	(0.021)	(0.052)	0.002	(0.050)
Accrued Interest	0.022	(0.010)	0.012	(0.009)	0.003
Valuation	0.421	(0.247)	0.174	(0.055)	0.120
Income received	0.099	0.014	0.113	0.004	0.117
Servicing costs	(0.012)	(0.001)	(0.013)	(0.001)	(0.014)
Cumulative Net Interest received from date of initial investment	0.087	0.013	0.100	0.003	0.103
Annual Performance					
Net Interest received in year	0.025		0.013		0.003
Average Rate of Return for year	5.02%		4.83%		3.33%

Funding Circle	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	6 months Movement £m	30.9.20 Balance £m
Amount Invested - National	0.398	(0.183)	0.215	(0.053)	0.162
Amount Invested - Local	0.025	(0.025)	0.000	0.000	0.000
Total Amount Invested	0.423	(0.208)	0.215	(0.053)	0.162
Bad debts to date	(0.040)	(0.015)	(0.055)	0.001	(0.054)
Accrued Interest	0.016	(0.005)	0.011	(0.008)	0.003
Valuation	0.399	(0.227)	0.172	(0.060)	0.112
Income received	0.102	0.013	0.115	0.002	0.117
Servicing costs	(0.012)	(0.002)	(0.014)	0.000	(0.014)
Cumulative Net Interest received from date of initial investment	0.090	0.011	0.101	0.002	0.103
Annual Performance					
Net Interest received in year	0.024		0.011		0.002
Average Rate of Return for year	4.78%		4.85%		2.73%

3 Non-Treasury Holdings and 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.

Investment Property

- 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 2020, it was assessed at Fair Value of £4.07m.

Trading Companies

- 3.3 Babergh holds £3.161m of equity in Babergh Holdings Ltd and Mid Suffolk holds the same in Mid Suffolk Holdings Ltd.
- 3.4 The Capital Investment Fund Company (CIFCO Ltd) is a jointly owned subsidiary of both Babergh Holdings Ltd and Mid Suffolk Holdings Ltd (50% each) and both Councils have loans of £28.445m in CIFCO Ltd. These loans have generated £2.795m (gross) of investment income for each Council since the start of trading.
- 3.5 Mid Suffolk also holds £1.622m of equity and £18.756m of loans in another subsidiary of Mid Suffolk Holdings Ltd, Gateway 14 Ltd, which has generated £1.893m of accrued investment income since 13 August 2018.
- 3.6 Mid Suffolk holds £59k of loans in another subsidiary of Mid Suffolk Holdings Ltd, Mid Suffolk Growth Ltd.
- 3.7 Further details are shown in Table 7 that follows.

3.8 **Table 7: Trading Companies activity**

Babergh	Trading Companies				
	31.3.19	2019/20	31.3.20	6 months	30.9.20
	Balance	Movement	Balance	Movement	Balance
	£m	£m	£m	£m	£m
CIFCO Ltd					
Interest Receivable	0.868	1.242	2.110	0.685	2.795
Interest Payable	(0.129)	(0.316)	(0.445)	(0.147)	(0.592)
Cumulative Net Interest received from date of investments	0.739	0.926	1.665	0.538	2.203

Mid Suffolk	Trading Companies				
	31.3.19	2019/20	31.3.20	6 months	30.9.20
	Balance	Movement	Balance	Movement	Balance
	£m	£m	£m	£m	£m
Interest Receivable					
CIFCO Ltd	0.868	1.242	2.110	0.685	2.795
Gateway 14 Ltd	0.469	0.914	1.383	0.510	1.893
Total Interest Receivable	1.337	2.156	3.493	1.195	4.688
Interest Payable					
CIFCO Ltd	(0.246)	(0.541)	(0.787)	(0.269)	(1.056)
Gateway 14 Ltd	(0.141)	(0.219)	(0.360)	(0.099)	(0.459)
Total Interest Payable	(0.387)	(0.760)	(1.147)	(0.368)	(1.515)
Net Interest					
CIFCO Ltd	0.622	0.701	1.323	0.416	1.739
Gateway 14 Ltd	0.328	0.695	1.023	0.411	1.434
Cumulative Net Interest received from date of investments	0.950	1.396	2.346	0.827	3.173

4 Estimates for investment income and borrowing costs for 2020/21

- 4.1 The corporate world is still adjusting to the economic shock, with probably more to come, and it is still too early to tell which companies will withstand the economic damage in the short- to medium-term or which will choose to conserve cash in very difficult economic conditions simply to survive.
- 4.2 Investment income in the Councils' 2020/21 budget was set against a very different economic backdrop. Bank Rate, which was 0.75% in February 2020, now stands at 0.1%. Interest earned from short-dated money market investments will be significantly lower. In relation to income from the Councils' externally managed strategic funds, dividends and income distributions will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced or voluntary dividend cuts or deferral.
- 4.3 The Councils have reviewed expectations for investment income from treasury management activities for 2020/21 and in the quarterly budget monitoring report for Q2 are forecasting reduced income of £82k for Babergh and £83k for Mid Suffolk. Monitoring will be ongoing throughout the year.
- 4.4 Investments relating to non-treasury activities have also been delayed. The borrowing costs, as reported in the quarterly budget monitoring for Q2, are forecast to reduce by £420k for Babergh and £85k for Mid Suffolk. Investment income is also forecast to be lower than budget by £256k for Babergh and £256k for Mid Suffolk.

5 Table 8: Debt Limits

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

Borrowing	Actual Maximum	30.09.20 Actual	2020/21 Operational Boundary	2020/21 Authorised Limit	Complied
Babergh	£108m	£106m	£178m	£193m	✓
Mid Suffolk	£124m	£118m	£194m	£209m	✓

- 5.2 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.

6 Compliance

- 6.1 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 9 that follows.

6.2 **Table 9: Investment Limits**

Babergh	Actual Maximum	30.09.20 Actual	2020/21 Limit	Complied
Lloyds Bank	£1.899m	£1.519m	£2m	✓
Money market funds	43.31%	0.00%	50%	✓
DMADF	Nil	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.214m	£0.166m	£1m	✓

Mid Suffolk	Actual Maximum	30.09.20 Actual	2020/21 Limit	Complied
Lloyds Bank	£1.968m	£1.685m	£2m	✓
Barclays Bank	£0.500m	£0.500m	£2m	✓
Money market funds	31.35%	6.32%	50%	✓
DMADF	£3m	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.215m	£0.162m	£1m	✓