BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO:	**BDC Council** **MSDC Council**	**REPORT NUMBER:**	**MC/21/10**
FROM:	**Katherine Steel, Assistant Director, Corporate Resources**	**DATE OF MEETING:**	**21 September 2021** **23 September 2021**
OFFICER:	**Melissa Evans, Corporate Manager, Finance and Commissioning & Procurement** **Rebecca Hewitt, Assistant Financial Accountant**	**KEY DECISION REF NO. N/A**	

ANNUAL TREASURY MANAGEMENT REPORT – 2020/21

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 2020/21.

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 2020/21 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 December.

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 2020/21 be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2020/21.

3.2 That it be noted that both Councils treasury management activity for 2020/21 was in accordance with the approved Treasury Management Strategy, and that the Councils have 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 2020/21.

4. KEY INFORMATION

4.1 The 2020/21 Treasury Management Strategy for both Councils was approved in February 2020.

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 2020/21 was presented to Members at the Joint Audit and Standards Committee on 30 November 2020.

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 2020/21.

4.6 Key points relating to activity for the year are set out below:

- The UK unemployment rate was 5.0% in the three months to January 2021. Unemployment is still expected to increase once the various Government job support schemes come to an end. The average annual growth rate for pay excluding bonuses was 3.4% in real terms in January 2021.

- Inflation has remained low over the 12-month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England’s 2% target.

- The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting.

- The COVID-19 pandemic dominated 2020/21, and the impacts of a global lockdown. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The UK Government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

- The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown from pandemic-related lockdowns and restrictions. The institutions and durations on the Councils’ counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

- 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 short-term debt increased by £15.5m offset by a reduction in long-term debt of £1m, to take advantage of lower rates after the PWLB rates were increased. This was used towards the £19.3m of approved investment in the non-treasury investments of CIFCO Ltd.

- Mid Suffolk's short-term debt increased by £19.6m, offset by the repayment of £12.4m medium/long-term borrowing to take advantage of lower rates after the PWLB rates were increased. The increase in debt was mainly due to the £19.3m of approved investment in the non-treasury investments of CIFCO Ltd.

- Both Councils were able to take advantage of holding additional cash from government grants received relating to Covid-19 until they were paid out to support local businesses. This has increased treasury investment activity during the year.

4.7 Specific highlights relating to 2020/21 activity are provided below:

Area/Activity	**Babergh**	**Mid Suffolk**	**Comments**
Long Term Borrowing – average interest rate	3.19%	3.07%	All at fixed rates
Credit Risk Scores during the year (value weighted average)	4.88-5.38	4.49-5.20	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 all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.

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 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. 13. "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.	Probable (3)	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

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.

11.2 Both Councils have joined Arlingclose's ESG and Responsible Investment Service. This will provide advice for ESG integration in the Councils' investment portfolios.

11.3 A report was brought to this Committee (Report JAC/20/21) on 17 May 2021 which presented the key considerations for developing an ESG policy for the Councils in order to facilitate discussion on the preferred policy for the Councils.

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) Prudential Indicators	Appendix E
(f) Glossary of Terms	Appendix F

13. BACKGROUND DOCUMENTS

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

13.2 Joint Capital, Investment and Treasury Management Strategies 2020/21 (Paper JAC/19/13)

13.3 Half Year Report on Treasury Management 2020/21 (Paper JAC/20/3)

13.4 Environmental Social and Governance (ESG) Considerations for the Councils Joint Treasury Management Strategy (Paper JAC/20/21)

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 2020/21 was approved at both full Councils in February 2020. Both Councils 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' Joint Capital Strategy, for the financial year 2020/21, complying with CIPFA's Code requirement, was approved by both full Councils in February 2020.

2. External Context

2.1. Economic background:

2.2. The global pandemic dominated events in 2020/21, but some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

2.3. A Brexit trade deal was agreed with only days to spare before the 11pm 31 December 2020 deadline having been agreed with the European Union on Christmas Eve.

2.4. In its March 2021 interest rate announcement, the Bank of England (BoE) noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

2.5. Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

2.6. Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

2.7. Inflation has remained low over the 12-month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year on year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year on year (1.0% expected).

2.8. After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% quarter on quarter, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. Figures for Q1 (Jan-Mar) 2021 show a decline of 1.6% due to the national lockdown.

2.9. After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

2.10. The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

2.11. **Financial Markets:**

2.12. Financial Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

2.13. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

2.14. The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

2.15. 1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

2.16. The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

2.17. German bund yields continue to remain negative across most maturities.

2.18. **Credit background:**

2.19. After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

2.20. Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

3. <u>Local Context</u>

3.1. On 31 March 2021, Babergh had a net borrowing requirement of £119m and Mid Suffolk had £116m arising from revenue and capital income and expenditure activities. This is an increase of £18m for Babergh and £2m for Mid Suffolk from the 31 March 2020 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	31.3.20 Actual £m	2020/21 Movement £m	31.3.21 Actual £m
General Fund CFR	50.671	20.600	71.271
HRA CFR	89.260	(0.400)	88.860
Total CFR	**139.931**	**20.200**	**160.131**
Borrowing CFR			
Less: Usable reserves	(34.941)	(8.025)	(42.966)
Add / (Less): Working Capital	(3.872)	5.588	1.715
Net Borrowing Requirement	**101.118**	**17.763**	**118.881**

Mid Suffolk	31.3.20 Actual £m	2020/21 Movement £m	31.3.21 Actual £m
General Fund CFR	75.333	9.071	84.403
HRA CFR	87.359	0.000	87.359
Total CFR	**162.692**	**9.071**	**171.762**
Borrowing CFR			
Less: Usable reserves	(48.456)	(12.313)	(60.769)
Add / (Less): Working Capital	0.243	5.054	5.297
Net Borrowing Requirement	**114.479**	**1.812**	**116.291**

3.4. Babergh's net borrowing requirement has increased due to a rise in the CFR as capital expenditure was higher than the financing applied, including minimum revenue provision. Working capital increased and this was offset by an increase in usable reserves due to the timing of receipts and payments.

3.5. Mid Suffolk's net borrowing requirement has increased. There was a rise in the CFR as new capital expenditure was higher than the financing applied, including minimum revenue provision. Working capital increased and this was offset by an increase in usable reserves due to the timing of receipts and payments.

3.6. 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.

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

3.8. The actual treasury management activity and position on 31 March 2021 and the year-on-year change is shown in Table 2 that follows.

Babergh	**31.3.20 Balance £m**	**2020/21 Movement £m**	**31.3.21 Balance £m**	**31.3.21 Average Rate %**
Long-term borrowing	96.023	(0.934)	95.089	3.19%
Short-term borrowing	16.500	15.500	32.000	0.46%
Total borrowing	**112.523**	**14.566**	**127.089**	
Long-term investments	11.214	(0.048)	11.166	4.07%
Cash and Cash equivalents	3.375	(1.535)	1.840	0.01%
Total investments	**14.589**	**(1.583)**	**13.006**	
Net Borrowing	**97.934**	**16.149**	**114.083**	

Mid Suffolk	**31.3.20 Balance £m**	**2020/21 Movement £m**	**31.3.21 Balance £m**	**31.3.21 Average Rate %**
Long-term borrowing	110.939	(12.367)	98.572	3.07%
Short-term borrowing	24.400	19.600	44.000	0.69%
Total borrowing	**135.339**	**7.233**	**142.572**	
Long-term investments	11.215	(0.053)	11.162	4.03%
Cash and Cash equivalents	10.448	(6.930)	3.518	0.01%
Total investments	**21.663**	**(6.983)**	**14.680**	
Net Borrowing	**113.676**	**14.216**	**127.892**	

3.9. 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.

3.10. Babergh and Mid Suffolk have both increased short-term borrowing to finance capital expenditure during the year.

3.11. Cash and cash equivalents include funds held in current bank accounts for day-to-day cashflow purposes and short-term deposits. In addition, Mid Suffolk held £1.5m in money market funds.

Appendix B

1. **Borrowing Strategy during the year**

1.1. In November 2020 the Public Works Loan Board (PWLB) published its response to the consultation on 'Future Lending Terms'. Both Councils had responded to the consultation. From 26 November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years.

1.2. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

1.3. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that the Councils unwind problematic transactions, suspending access to the PWLB and repayment of loans with penalties.

1.4. Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

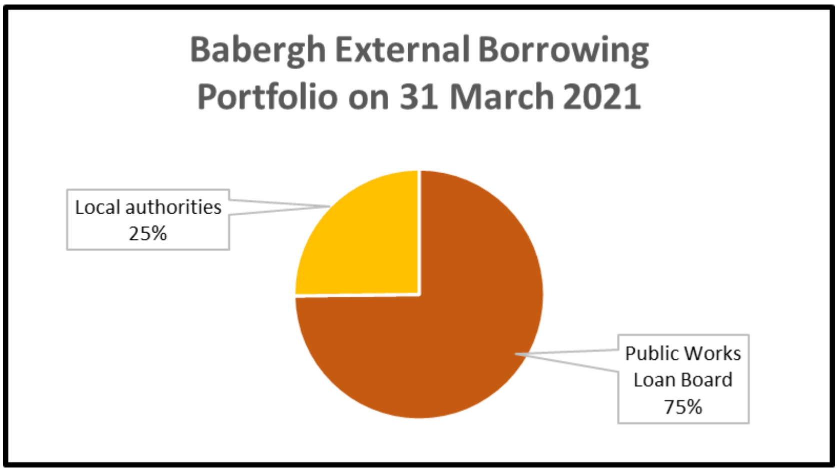
1.5. Both Councils are not planning to purchase any investment assets primarily for yield within the next three years and so are able to take advantage of the reduction in the PWLB borrowing rate.

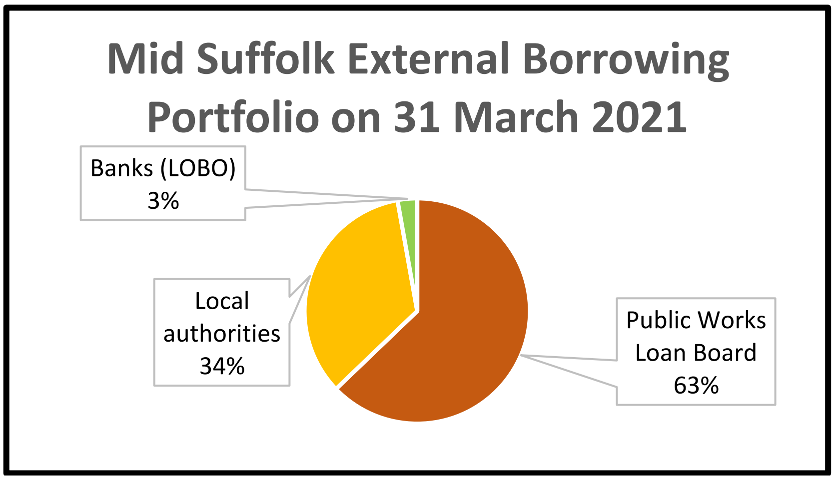
1.6. **Table 3: Borrowing Position**

Babergh	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Average Rate %
Public Works Loan Board	96.023	(0.934)	95.089	3.19%
Local authorities (short-term)	16.500	15.500	32.000	0.46%
Total borrowing	**112.523**	**14.566**	**127.089**	

Mid Suffolk	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Average Rate %
Public Works Loan Board	90.939	(1.367)	89.572	3.19%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (medium / long-term)	16.000	(11.000)	5.000	1.00%
Local authorities (short-term)	24.400	19.600	44.000	0.69%
Total borrowing	**135.339**	**7.233**	**142.572**	

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





1.8. 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 having flexibility to renegotiate loans should the Councils' long-term plans change.

1.9. 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 short-term loans instead.

1.10. The impact of Covid-19 caused delays in the Councils' capital expenditure plans which has resulted in a temporary lower funding requirement, but funding of CIFCO Ltd. was accelerated and fully invested by 31 March requiring additional short-term borrowing.

1.11. The Treasury Management Strategy shows that both Councils have increasing CFRs and estimated net borrowing requirements. 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.

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

1.13. PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e., the PWLB borrowing rate. The Councils will evaluate and pursue these lower cost solutions and opportunities with their treasury advisor, Arlingclose.

1.14. 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 2020/21.

Appendix C

1. Treasury Investment Activity

1.1. During the year both Councils received central government funding to support small and medium sized businesses during the coronavirus pandemic through grant schemes. Babergh received £38.5m and Mid Suffolk received £33.9m, in total, which was temporarily invested in short-dated, liquid instruments such as Money Market Funds. By the end of March 2021, the total grants paid out were £34.9m for Babergh and £29.9m for Mid Suffolk. The remainder is expected to be paid out during 2021/22.

1.2. Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves. During 2020/21, Babergh's investment balance ranged between £11.8m and £39m. Mid Suffolk's investment balance ranged between £12.7m and £41.3m. These movements are due to timing differences between income and expenditure.

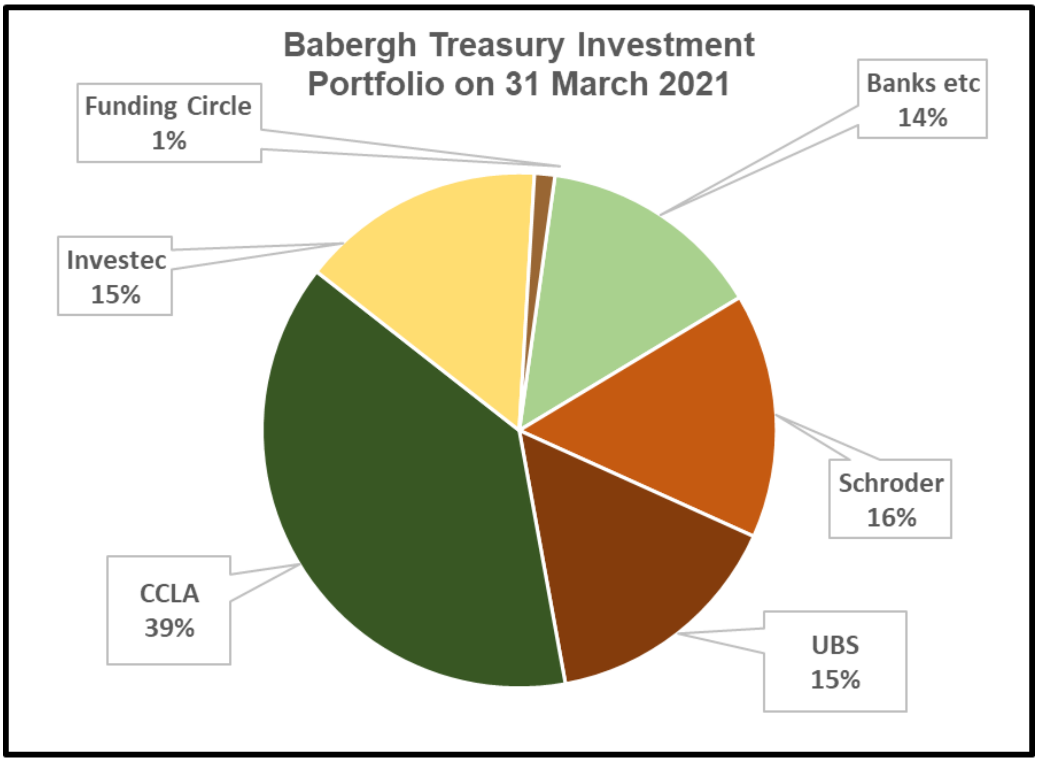
1.3. The year-end investment position and the year-on-year changes are shown in Table 4 that follows. Both Councils withdrew more of their investments in Funding Circle.

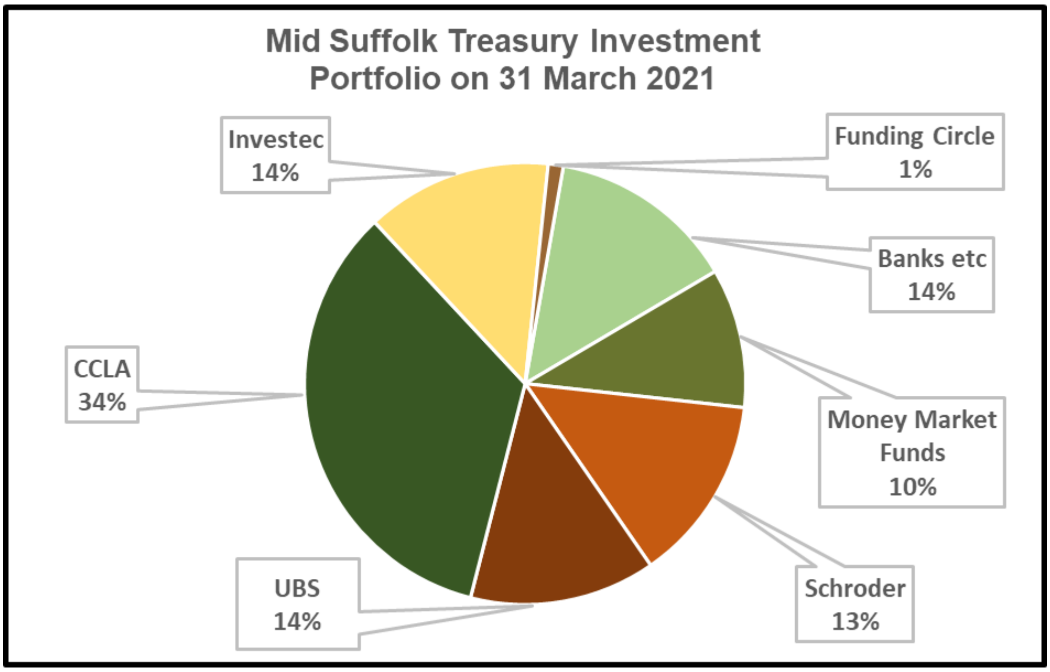
1.4. **Table 4: Treasury Investment Position**

Babergh	**31.3.20 Balance £m**	**2020/21 Movement £m**	**31.3.21 Balance £m**	**31.3.21 Average Rate %**
Banks & building societies (unsecured)	1.383	0.457	1.840	0.00%
Money Market Funds	2.000	(2.000)	0.000	0.01%
Schroder	2.000	0.000	2.000	4.76%
UBS	2.000	0.000	2.000	4.48%
CCLA	5.000	0.000	5.000	4.26%
Investec	2.000	0.000	2.000	3.72%
Funding Circle	0.214	(0.048)	0.166	3.14%
Total investments	**14.597**	**(1.591)**	**13.006**	

Mid Suffolk	**31.3.20 Balance £m**	**2020/21 Movement £m**	**31.3.21 Balance £m**	**31.3.21 Average Rate %**
Banks & building societies (unsecured)	1.450	0.567	2.018	0.00%
Money Market Funds	6.000	(4.500)	1.500	0.01%
Schroder	2.000	0.000	2.000	4.76%
UBS	2.000	0.000	2.000	4.48%
CCLA	5.000	(3.000)	2.000	4.20%
Investec	2.000	3.000	5.000	3.72%
Funding Circle	0.215	(0.053)	0.162	2.98%
Total investments	**18.665**	**(3.985)**	**14.680**	

1.5. **Table 4 - Charts: Investment Position on 31 March 2021.**





1.6. 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.

1.7. 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. Deposit rates with the government's Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.

1.9. The net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March 2020, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns.

1.10. Babergh and Mid Suffolk have both followed the treasury management strategy to move investments into long term strategic 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.

1.11. Neither Council made further investments in these pooled funds during the year but continued reducing their investments in Funding Circle.

1.12. The average rate of return for these is significantly higher than the comparable average returns of Arlingclose's other clients, as shown in Table 5. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking for the year end in Table 5 that follows.

1.13. **Table 5: Investment Benchmarking - Treasury investments managed in-house.**

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
On 31.03.2020	4.92	A+	93%	4.34%
On 31.03.2021	5.38	A+	93%	4.22%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
On 31.03.2020	4.79	A+	96%	3.85%
On 31.03.2021	5.01	A+	99%	3.75%

Arlingclose Benchmarks for 31.03.2021	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
Similar Local authorities	4.63	A+	65%	1.38%
All Local authorities	4.63	A+	63%	0.90%

1.14. 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.

1.15. Babergh has £11.17m 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 £2.5m (average rate of return for the year 4.07%) which is used to support the Councils' service provision.

1.16. Mid Suffolk has £11.16m 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 £2.3m (average rate of return for the year 4.03%) which is used to support the Councils' service provision.

1.17. During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of both Councils' pooled fund holdings and was reflected in the 31 March 2020 fund valuations with every fund registering negative capital returns over a 12-month period. Since March 2020 there here has been improvement in market sentiment which is reflected in an increase in capital values of these pooled funds in the Councils' portfolios. The capital values are shown in Tables 8.1 to 8.5 below. The recovery in UK equities has lagged behind those of US and European markets.

1.18. Similar to many other property funds, dealing (i.e., buying or selling units) in the CCLA Local Authorities' Property Fund was suspended by the fund in March 2020 and lifted in September 2020. There was also a change to redemption terms; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.

1.19. These funds have no defined maturity date but are available for withdrawal after the 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.

1.20. 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 Ministry of Housing, Communities and Local Government (MHCLG) has granted a statutory override until 2022/23 so these changes will have no impact on the "bottom line" until 2023/24.

1.21. 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.

1.22. Following the cut in Bank rate from 0.75% to 0.10% in March 2020, the Councils had expected to receive significantly lower income from their cash and short-dated money market investments, including money market funds in 2020/21, as rates on cash investments are close to zero percent. Income from most of the Councils' externally managed funds will also be lower than in 2019/20 and earlier years. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities. Comparisons of actual returns against budgeted interest receivable and payable in the year are shown in Table 7 that follows later.

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 2021 it was assessed at fair value of £2.7m. Net Income, after the deduction of direct costs, was £127k in 2020/21 (£187k in 2019/20). Income from rentals reduced due to the impact of Covid-19 on businesses. The asset is being actively managed by the Council to secure new tenants in the short term and working towards longer term investment plans for that area.

2.4 Trading Companies

2.5 On 31 March 2021 Babergh held £3.9m of equity in BDC (Suffolk Holdings) Ltd and Mid Suffolk held £3.9m of equity in MSDC (Suffolk Holdings) Ltd. Both Councils own 100% shares in each holding company.

2.6 Babergh and Mid Suffolk's respective 50% share of the loss made by CIFCO Ltd in 2020/21 was £1.9m (2019/20 was £748k) 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 seven additional assets during 2020/21 (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 2.88%.

2.7 The total equity investment by both Councils to full investment (£99.3m) totalled £9.9m (10%). Equity value will fluctuate each year to reflect any fluctuations in market value.

2.8 On 31 March 2021 Babergh and Mid Suffolk each have £44.7m of loans in CIFCO Ltd, a subsidiary of BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd. These loans have generated £3.7m (gross) of investment income for each Council since the start of trading. The net position for 2020/21, including additional interest receivable from overdraft facilities given by the Councils and after borrowing costs, is shown later in Table 7.

2.9 Mid Suffolk also held £19.3m of loans in another subsidiary of MSDC (Suffolk Holdings) Ltd, Gateway 14 Ltd, which has generated £2.4m (gross) of accrued investment income since the initial loans were advanced by the Council in August 2018.

2.10 The loss incurred by Gateway 14 Ltd was £119k resulting in a reduction in the Council's overall equity holding to £1.2m. 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.

Table 6: Trading Companies – Loan activities

Babergh	Trading Companies - Loans				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
CIFCO Ltd					
Interest Receivable	(0.868)	(1.242)	(2.110)	(1.551)	(3.661)
Interest Payable	0.129	0.316	0.445	0.276	0.721
Cumulative Net Interest received from date of investments	**(0.739)**	**(0.926)**	**(1.665)**	**(1.275)**	**(2.940)**

Mid Suffolk	Trading Companies - Loans				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Interest Receivable					
CIFCO Ltd	(0.868)	(1.242)	(2.110)	(1.551)	(3.661)
Gateway 14 Ltd	(0.469)	(0.914)	(1.383)	(1.043)	(2.426)
Total Interest Receivable	**(1.337)**	**(2.156)**	**(3.493)**	**(2.594)**	**(6.087)**
Interest Payable					
CIFCO Ltd	0.246	0.541	0.787	0.532	1.319
Gateway 14 Ltd	0.141	0.219	0.360	0.180	0.540
Total Interest Payable	**0.387**	**0.760**	**1.147**	**0.712**	**1.859**
Net Interest					
CIFCO Ltd	(0.622)	(0.701)	(1.323)	(1.019)	(2.342)
Gateway 14 Ltd	(0.328)	(0.695)	(1.023)	(0.863)	(1.886)
Cumulative Net Interest received from date of investments	**(0.950)**	**(1.396)**	**(2.346)**	**(1.882)**	**(4.228)**

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	2020/21 Budget £m	2020/21 Actual £m	Variance Adverse/ (Favourable) £m
Interest Receivable			
General Fund	(0.554)	(0.484)	0.070
Housing Revenue Account	(0.010)	(0.002)	0.008
CIFCO Ltd	(1.756)	(1.556)	0.200
Total Interest Receivable	**(2.320)**	**(2.042)**	**0.278**
Interest Payable			
General Fund	0.000	0.000	0.000
Housing Revenue Account	2.968	2.643	(0.325)
CIFCO Ltd	0.702	0.276	(0.426)
Total Interest Payable	**3.670**	**2.920**	**(0.750)**
Net Interest			
General Fund	(0.554)	(0.484)	0.070
Housing Revenue Account	2.958	2.641	(0.317)
CIFCO Ltd	(1.054)	(1.280)	(0.226)
Total Net Interest	**1.350**	**0.878**	**(0.472)**

Mid Suffolk	2020/21 Budget £m	2020/21 Actual £m	Variance Adverse/ (Favourable) £m
Interest Receivable			
General Fund	(0.540)	(0.459)	0.081
Housing Revenue Account	(0.009)	(0.001)	0.008
CIFCO Ltd	(1.756)	(1.556)	0.200
Gateway 14 Ltd	(1.033)	(1.050)	(0.018)
Total Interest Receivable	**(3.337)**	**(3.066)**	**0.271**
Interest Payable			
General Fund	0.097	0.002	(0.095)
Housing Revenue Account	2.968	2.643	(0.325)
CIFCO Ltd	0.616	0.532	(0.084)
Gateway 14 Ltd	0.421	0.180	(0.241)
Total Interest Payable	**4.102**	**3.357**	**(0.744)**
Net Interest			
General Fund	(0.443)	(0.457)	(0.014)
Housing Revenue Account	2.959	2.643	(0.316)
CIFCO Ltd	(1.140)	(1.024)	0.116
Gateway 14 Ltd	(0.612)	(0.870)	(0.259)
Total Net Interest	**0.765**	**0.291**	**(0.473)**

3.3 The interest receivable for Babergh and Mid Suffolk were both less than budgeted by £278k and £271k respectively. This is mainly due to investments in CIFCO Ltd being deferred during 2019/20 whilst suitable properties to purchase were being identified. The programme was accelerated during the year to be fully invested by the end of 2020/21.

3.4 The total interest payable for the year was under budget by £750k for Babergh and £744k 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.

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 2019/20 and 2020/21.

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				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	5.004	(0.179)	4.825	(0.034)	4.791
Cumulative Net Interest received from date of initial investment	**0.799**	**0.217**	**1.016**	**0.213**	**1.230**
Annual Performance					
Net Interest received in year	**0.216**		**0.217**		**0.213**
Average Rate of Return for year	**4.32%**		**4.35%**		**4.26%**

CCLA	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.927	(0.176)	4.750	(0.034)	4.717
Cumulative Net Interest received from date of initial investment	**0.743**	**0.215**	**0.958**	**0.210**	**1.167**
Annual Performance					
Net Interest received in year	**0.208**		**0.215**		**0.210**
Average Rate of Return for year	**4.17%**		**4.30%**		**4.20%**

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				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.876	(0.624)	1.253	0.288	1.540
Cumulative Net Interest received from date of initial investment	**0.317**	**0.143**	**0.460**	**0.095**	**0.555**
Annual Performance					
Net Interest received in year	**0.144**		**0.143**		**0.095**
Average Rate of Return for year	**7.20%**		**7.16%**		**4.76%**

Schroder Maximiser Fund	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.876	(0.624)	1.253	0.288	1.540
Cumulative Net Interest received from date of initial investment	**0.317**	**0.143**	**0.460**	**0.095**	**0.555**
Annual Performance					
Net Interest received in year	**0.144**		**0.143**		**0.095**
Average Rate of Return for year	**7.20%**		**7.16%**		**4.76%**

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				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.899	(0.242)	1.657	0.174	1.831
Cumulative Net Interest received from date of initial investment	**0.274**	**0.089**	**0.363**	**0.090**	**0.452**
Annual Performance					
Net Interest received in year	**0.082**		**0.089**		**0.090**
Average Rate of Return for year	**4.09%**		**4.43%**		**4.48%**

UBS	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.896	(0.242)	1.654	0.174	1.828
Cumulative Net Interest received from date of initial investment	**0.178**	**0.088**	**0.266**	**0.090**	**0.356**
Annual Performance					
Net Interest received in year	**0.082**		**0.088**		**0.090**
Average Rate of Return for year	**4.08%**		**4.42%**		**4.48%**

3.13 Both Councils invested in Funding Circle on 1 November 2015 and has varied the amounts invested since, gradually reducing the amount as loans have been paid off.

3.14 Table 8.4 Funding Circle Performance

Funding Circle	Babergh				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 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)	0.005	(0.046)
Accrued Interest	0.022	(0.010)	0.012	(0.007)	0.005
Valuation	**0.421**	**(0.247)**	**0.174**	**(0.050)**	**0.125**
Income received	0.099	0.014	0.113	0.006	0.119
Servicing costs	(0.012)	(0.002)	(0.013)	(0.001)	(0.014)
Cumulative Net Interest received from date of initial investment	**0.087**	**0.012**	**0.099**	**0.005**	**0.105**
Annual Performance					
Net Interest received in year	**0.025**		**0.012**		**0.005**
Average Rate of Return for year	**5.02%**		**4.83%**		**3.14%**

Funding Circle	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 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)	0.004	(0.050)
Accrued Interest	0.016	(0.005)	0.011	(0.006)	0.005
Valuation	**0.399**	**(0.227)**	**0.172**	**(0.055)**	**0.117**
Income received	0.102	0.013	0.115	0.006	0.120
Servicing costs	(0.012)	(0.002)	(0.013)	(0.001)	(0.014)
Cumulative Net Interest received from date of initial investment	**0.090**	**0.011**	**0.101**	**0.005**	**0.106**
Annual Performance					
Net Interest received in year	**0.024**		**0.011**		**0.005**
Average Rate of Return for year	**4.78%**		**4.85%**		**2.98%**

3.15 Both Councils invested in the Investec Ninety-One Diversified Income I 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**

Ninety One Series i Diversified Income Fund	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Amount Invested	0.000	2.000	2.000	0.000	2.000
Investment Valuation	0.000	1.815	1.815	0.180	1.995
Cumulative Net Interest received from date of initial investment	**0.000**	**0.075**	**0.075**	**0.074**	**0.149**
Annual Performance					
Net Interest received in year	**0.000**		**0.075**		**0.074**
Average Rate of Return for year	**0.00%**		**3.74%**		**3.72%**

Ninety One Series i Diversified Income Fund	Mid Suffolk				
	31.3.19 Balance £m	2019/20 Movement £m	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m
Amount Invested	0.000	2.000	2.000	0.000	2.000
Investment Valuation	0.000	1.815	1.815	0.180	1.995
Cumulative Net Interest received from date of initial investment	**0.000**	**0.075**	**0.075**	**0.074**	**0.149**
Annual Performance					
Net Interest received in year	**0.000**		**0.075**		**0.074**
Average Rate of Return for year	**0.00%**		**3.74%**		**3.72%**

4. Compliance Report

4.1. The Section 151 Officer can report that 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	2020/21 Maximum £m	31.3.21 Actual £m	2020/21 Operational Boundary	2020/21 Authorised Limit	Complied
Babergh	128.739	127.089	178.000	193.000	✓
Mid Suffolk	142.722	142.572	194.000	209.000	✓

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	2020/21 Maximum £m	31.3.21 Actual £m	2020/21 Limit £m	Complied
Any single organisation, except the UK Central Government	1.900	1.840	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	0.214	0.166	1.000	✓
Money Market Funds	2.000	2.000	2.000	✓

Mid Suffolk	2020/21 Maximum £m	31.3.21 Actual £m	2020/21 Limit £m	Complied
Any single organisation, except the UK Central Government	1.968	1.518	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	0.215	0.162	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 2020/21 was in accordance with the approved Treasury Management Strategy, and that both Councils have complied with all the Treasury Management Indicators for this period.

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	31.3.21 Actual	2020/21 Target	Complied
Babergh Portfolio average Credit Score	5.38	7.00	✓
Mid Suffolk Portfolio average Credit Score	5.01	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**

Interest rate risk indicator	31.3.21 Actual	2020/21 Limit	Complied
Babergh upper impact on Revenue of a 1% increase in rates	0.083	0.490	✓
Mid Suffolk upper impact on Revenue of a 1% increase in rates	0.264	0.708	✓

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

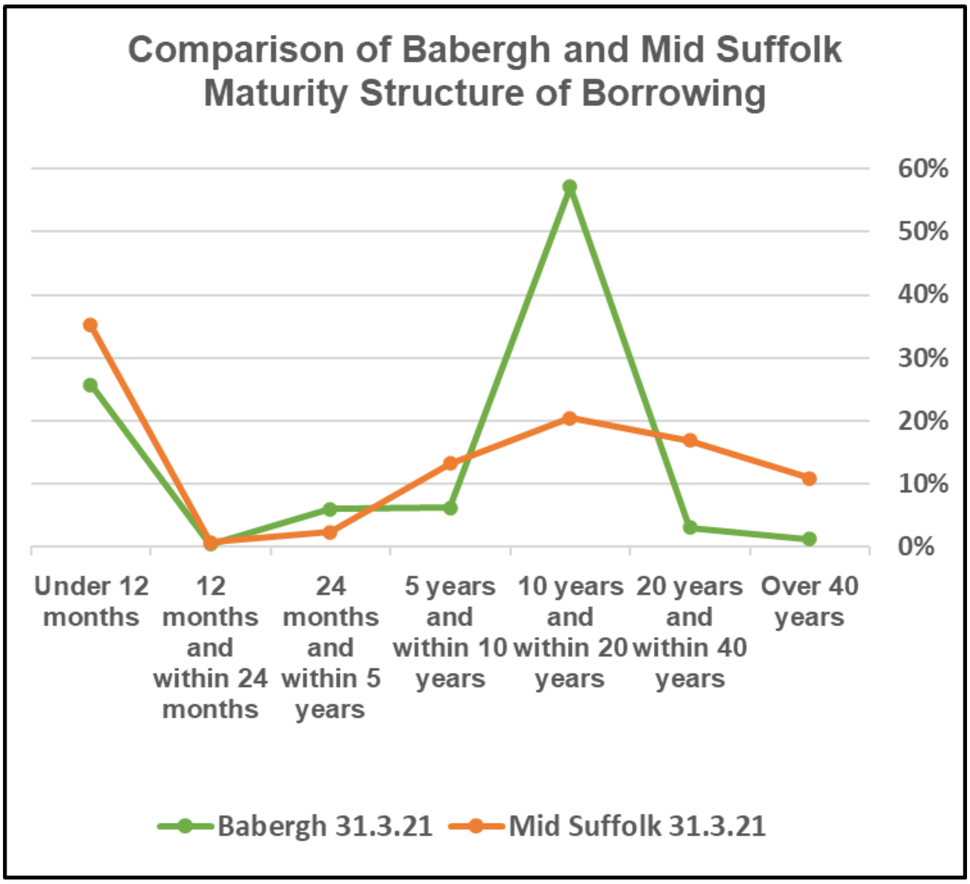
1.7. **Maturity Structure of Borrowing**: This indicator is set to control the Councils' exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are shown in Table 13 as follows.

1.8. **Table 13: Maturity Structures**

Age Profile of Maturity	Babergh 31.3.21 Actual	Mid Suffolk 31.3.21 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	25.72%	35.24%	0%	50%	✓
12 months and within 24 months	0.44%	0.78%	0%	50%	✓
24 months and within 5 years	6.08%	2.41%	0%	50%	✓
5 years and within 10 years	6.28%	13.30%	0%	100%	✓
10 years and within 20 years	57.12%	20.41%	0%	100%	✓
20 years and within 40 years	3.09%	16.95%	0%	100%	✓
Over 40 years	1.27%	10.92%	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	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£2m	£2m	£2m
Complied	✓	✓	✓

Mid Suffolk	2019/20	2021/22	2022/23
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 UBS, Schroder, Investec and Funding Circle are intended to benefit from longer term higher returns, they can be redeemed on a short-term basis. CCLA requires 90 days' notice.

1.14. **Other Treasury Matters**

1.15. **CIPFA consultations:** In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year. Both Councils responded to these consultations.

1.16. In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e., recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

1.17. Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

1.18. **IFRS 16:** The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

Appendix E

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

1.1. **Introduction**

1.2. 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.

1.3. This report compares the approved indicators with the outturn position for 2020/21. Actual figures have been taken from, or prepared on a basis consistent with, the Councils' draft Statements of Accounts for 2020/21.

1.4. **Capital Expenditure**

1.5. The Councils' capital expenditure and financing for 2020/21 compared to budget is summarised in Table 15 that follows.

1.6. **Table 15: Capital Expenditure and Financing**

Babergh District Council			
Capital Expenditure and Financing	**2020/21 Budget including c/fwds £m**	**2020/21 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	37.284	23.229	(14.055)
HRA	28.824	12.602	(16.222)
Total Expenditure	**66.108**	**35.831**	**(30.277)**
Capital Receipts	0.720	6.931	6.211
Grants and Contributions	2.680	2.615	(0.065)
Revenue Contributions and Reserves	3.220	0.151	(3.069)
Major Repairs Reserve	3.310	4.316	1.006
Borrowing	56.178	21.818	(34.360)
Total Financing	**66.108**	**35.831**	**(30.277)**

Mid Suffolk District Council			
Capital Expenditure and Financing	**2020/21 Budget including c/fwds £m**	**2020/21 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	34.189	26.463	(7.726)
HRA	24.868	11.146	(13.721)
Total Expenditure	**59.057**	**37.610**	**(21.447)**
Capital Receipts	2.840	4.819	1.979
Grants and Contributions	4.500	1.688	(2.812)
Revenue Contributions and Reserves	12.150	5.738	(6.412)
Major Repairs Reserve	3.710	3.918	0.208
Borrowing	35.857	21.446	(14.411)
Total Financing	**59.057**	**37.610**	**(21.447)**

2. Prudential Indicator Compliance

2.1. Capital Financing Requirement

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

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

Babergh District Council			
Capital Financing Requirement	**31.3.21 Budget £m**	**31.3.21 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	79.334	71.271	(8.062)
HRA	98.440	88.860	(9.580)
Total CFR	**177.774**	**160.131**	**(17.643)**

Mid Suffolk District Council			
Capital Financing Requirement	**31.3.21 Budget £m**	**31.3.21 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	97.784	84.403	(13.381)
HRA	95.627	87.359	(8.268)
Total CFR	**193.411**	**171.762**	**(21.649)**

2.4. The CFR increased during the year for Babergh by £20m and for Mid Suffolk by £9m 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 on 31 March 2021 was as follows:

3.2. **Table 17: Total Debt**

Total Debt	31.3.21 Budget £m	31.3.21 Actual £m	Variance Adverse / (Favourable) £m
Babergh District Council	138.210	127.089	(11.121)
Mid Suffolk District Council	169.900	142.572	(27.328)

4. Gross Debt and the Capital Financing Requirement

4.1. In order to ensure that over the medium-term debt will only be used 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, which shows compliance with the indicator.

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

Babergh District Council		
Debt and CFR	**31.3.21 Actual £m**	**31.3.22 Estimate £m**
Capital financing requirement	160.131	174.810
Total Debt	(127.089)	(138.730)
Headroom	**33.042**	**36.080**

Mid Suffolk District Council		
Debt and CFR	**31.3.21 Actual £m**	**31.3.22 Estimate £m**
Capital financing requirement	171.762	219.750
Total Debt	(142.572)	(184.970)
Headroom	**29.190**	**34.780**

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.

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

Operational Boundary and Total Debt	31.3.21 Boundary £m	31.3.21 Actual Debt £m	Complied
Babergh District Council	163.000	127.089	✓
Mid Suffolk District Council	189.000	142.572	✓

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.

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

Authorised Limit and Total Debt	31.3.21 Limit £m	31.3.21 Actual Debt £m	Complied
Babergh District Council	178.000	127.089	✓
Mid Suffolk District Council	204.000	142.572	✓

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	31.3.21 Budget %	31.3.21 Actual %	Variance Adverse / (Favourable) %
General Fund	(3.50)	(3.79)	(0.29)
HRA	18.92	17.21	(1.71)

Mid Suffolk District Council			
Ratio of Financing Costs to Net Revenue Stream	31.3.21 Budget %	31.3.21 Actual %	Variance Adverse / (Favourable) %
General Fund	(5.04)	(6.59)	(1.55)
HRA	19.92	18.29	(1.64)

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 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.
Investec	Investec Diversified Income Fund (UK) – a pooled fund.
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.
Schroder	Schroder Income Maximiser Fund
SONIA	Sterling Overnight Index Average. Replacing LIBOR (the London Interbank interest rate) as the Bank of England's preferred short term interest rate benchmark for the UK.
UBS	UBS Multi Asset Income Fund (UK) – a pooled fund.