

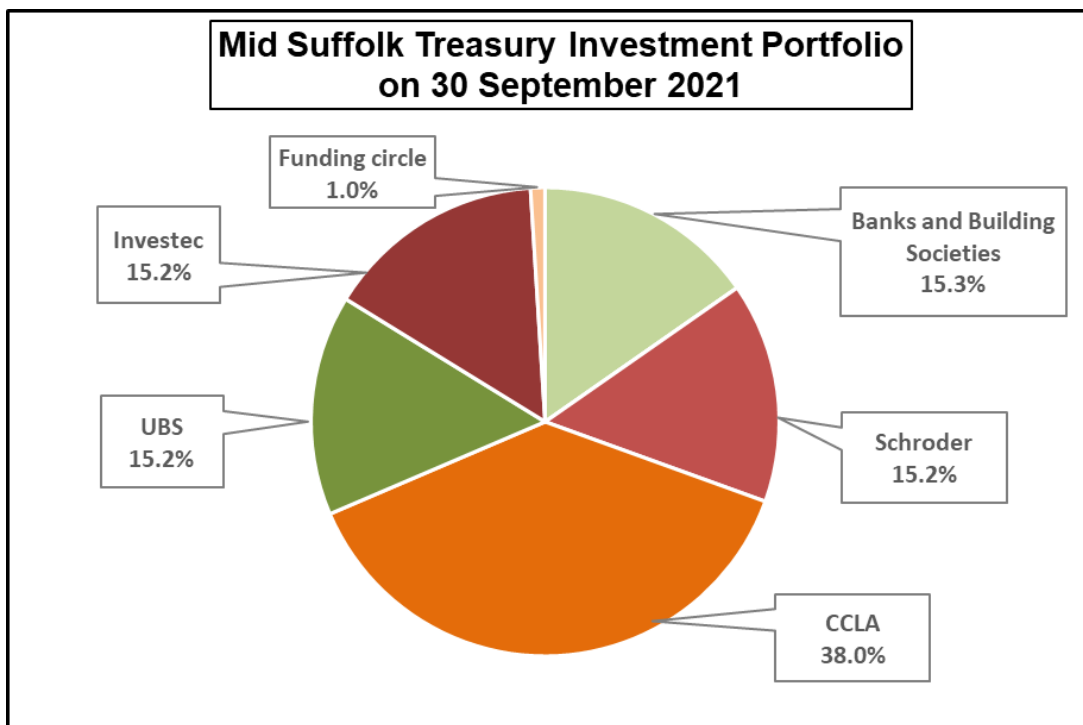
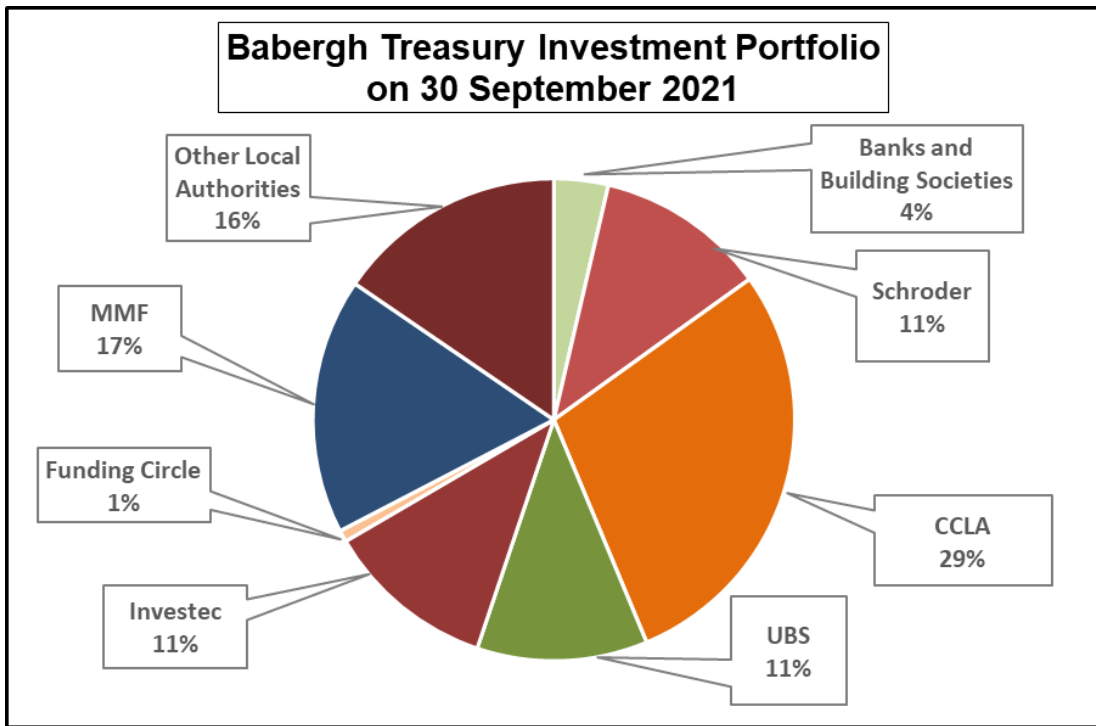
1 Treasury Investment Activity

- 1.1 Since April 2020 both Councils have received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. At 30th September 2021 Babergh had a balance of £2.4m that was received but yet to be paid out and Mid Suffolk had a balance of £2.6m, which was temporarily invested in short-dated, liquid instruments such as Money Market Funds.
- 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 2021/22, Babergh's investment balances ranged between £12.4m and £24.1m. Mid Suffolk's investment balances ranged between £12.4m and £25.4m. 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.
- 1.4 **Table 4: Treasury Investment Position**

Babergh	31.03.21	Movement	30.09.21	30.09.21
	Balance		Balance	Weighted Average Rate
	£m	£m	£m	%
Banks and Building Societies	1.840	(1.203)	0.637	0.00%
Money Market Funds	0.000	3.000	3.000	0.01%
Other Pooled Funds	11.166	(0.031)	11.135	5.02%
Other Local Authorities	0.000	2.700	2.700	0.01%
Total Investments	13.006	4.466	17.472	

Mid Suffolk	31.03.21	Movement	30.09.21	30.09.21
	Balance		Balance	Weighted Average Rate
	£m	£m	£m	%
Banks and Building Societies	2.018	(0.006)	2.012	0.00%
Money Market Funds	1.500	(1.500)	0.000	0.01%
Other Pooled Funds	11.162	(0.031)	11.131	5.03%
Total Investments	14.680	(1.537)	13.143	

1.5 The Councils' Investment Portfolios on 30 September 2021:



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.

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- 1.7 Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.
- 1.8 Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.
- 1.9 Neither Council made further investments in strategic pooled funds (e.g. pooled property, multi asset and equity funds) during the period.
- 1.10 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.
- 1.11 **Table 5: Investment Benchmarking – Treasury investments managed in-house**

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2021	5.38	A+	93%	11	4.22%
30.06.2021	4.81	A+	100%	3	3.01%
30.09.2021	4.80	A+	100%	3	3.72%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2021	5.01	A+	99%	6	3.75%
30.06.2021	4.89	A+	100%	4	3.56%
30.09.2021	5.12	A+	99%	3	4.19%

Arlingclose Benchmarks for 30.09.21	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
Similar LAs	4.66	A+	69%	32	1.20%
All LAs	4.69	A+	69%	10	0.78%

- 1.12 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.
- 1.13 Each Council has £11.1m 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 £2.72m for Babergh and £2.57m for Mid Suffolk. Both Councils have achieved an average rate of return for the period of 4.1%.
- 1.14 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.
- 1.15 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 then MHCLG granted a statutory override until 2022/23 so these changes will have no impact on the "bottom line" until 2023/24.
- 1.16 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.

2 Long Term investments – Pooled Fund Performance

- 2.1 In a relatively short period since the onset of the COVID-19 pandemic in March 2020 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, reflected in the 31 March 2020 fund valuations, with both funds registering negative capital returns over the 12-month period had made some recovery by 31 March 2021.

2.3 The improved market sentiment in the past 6 months is reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Councils' equity and multi-asset income funds in their portfolios. The prospect of higher inflation and rising bond yields resulted in muted bond fund performance.

2.4 The capital value of the property fund is above that on 31 March. Market values of all the pooled funds on 31 March and 30 September 2021 are as shown in Table 6 that follows.

2.5 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.

2.6 **Table 6: Pooled Fund Performance**

2.6.1 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.

2.6.2 **Table 6.1 CCLA Performance**

CCLA	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	4.825	(0.034)	4.791	0.334	5.125
Cumulative Net Interest received from date of initial investment	1.014	0.209	1.224	0.092	1.316
Annual Performance					
Net Interest received in year	0.216		0.209		0.092
Average Rate of Return for year	4.35%		4.19%		3.67%

CCLA	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	4.750	(0.034)	4.717	0.329	5.046
Cumulative Net Interest received from date of initial investment	0.965	0.206	1.171	0.089	1.260
Annual Performance					
Net Interest received in year	0.215		0.206		0.089
Average Rate of Return for year	4.30%		4.12%		3.55%

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

2.6.4 **Table 6.2 Schroder Performance**

Schroder Maximiser Fund	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.253	0.288	1.540	0.046	1.586
Cumulative Net Interest received from date of initial investment	0.460	0.098	0.558	0.062	0.620
Annual Performance					
Net Interest received in year	0.143		0.143		0.062
Average Rate of Return for year	7.16%		7.16%		6.14%

Schroder Maximiser Fund	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.253	0.288	1.540	0.046	1.586
Cumulative Net Interest received from date of initial investment	0.460	0.098	0.558	0.062	0.620
Annual Performance					
Net Interest received in year	0.143		0.103		0.062
Average Rate of Return for year	7.16%		5.16%		6.14%

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

2.6.6 **Table 6.3 UBS Performance**

UBS	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.657	0.174	1.831	0.004	1.834
Cumulative Net Interest received from date of initial investment	0.363	0.090	0.452	0.044	0.496
Annual Performance					
Net Interest received in year	0.089		0.103		0.044
Average Rate of Return for year	4.43%		5.16%		4.35%

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UBS	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.654	0.174	1.828	0.004	1.831
Cumulative Net Interest received from date of initial investment	0.268	0.093	0.361	0.044	0.405
Annual Performance					
Net Interest received in year	0.090		0.103		0.044
Average Rate of Return for year	4.52%		5.16%		4.34%

2.6.7 Both Councils invested £2m each 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.

2.6.8 Table 6.4 Investec Ninety-One Performance

Investec Ninety One Series i Diversified Income Fund	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.815	0.180	1.995	(0.056)	1.939
Cumulative Net Interest received from date of initial investment	0.062	0.075	0.137	0.042	0.179
Annual Performance					
Net Interest received in year	0.062		0.075		0.042
Average Rate of Return for year	3.11%		3.75%		4.20%

Investec Ninety One Series i Diversified Income Fund	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.815	0.180	1.995	(0.056)	1.939
Cumulative Net Interest received from date of initial investment	0.062	0.075	0.137	0.042	0.179
Annual Performance					
Net Interest received in year	0.062		0.075		0.042
Average Rate of Return for year	3.11%		3.75%		4.20%

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

2.6.10 Table 6.5 Funding Circle Performance

Funding Circle	Babergh				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount Invested - National	0.214	(0.048)	0.166	(0.031)	0.135
Total Amount Invested	0.214	(0.048)	0.166	(0.031)	0.135
Bad debts to date	(0.052)	0.005	(0.046)	0.001	(0.045)
Accrued Interest	0.012	(0.007)	0.005	(0.002)	0.003
Valuation	0.174	(0.050)	0.125	(0.031)	0.093
Income received	0.113	0.006	0.119	0.001	0.120
Servicing costs	(0.013)	(0.001)	(0.014)	0.000	(0.014)
Cumulative Net Interest received from date of initial investment	0.100	0.005	0.105	0.001	0.106
Annual Performance					
Net Interest received in year	0.013		0.005		0.001
Average Rate of Return for year	4.83%		3.14%		3.33%

Funding Circle	Mid Suffolk				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	6 months Movement £m	30.9.21 Balance £m
Amount Invested - National	0.215	(0.053)	0.162	(0.031)	0.131
Total Amount Invested	0.215	(0.053)	0.162	(0.031)	0.131
Bad debts to date	(0.055)	0.004	(0.050)	0.003	(0.048)
Accrued Interest	0.011	(0.006)	0.005	(0.002)	0.003
Valuation	0.172	(0.055)	0.116	(0.030)	0.086
Income received	0.115	0.005	0.120	0.001	0.121
Servicing costs	(0.014)	0.000	(0.014)	0.000	(0.014)
Cumulative Net Interest received from date of initial investment	0.101	0.005	0.106	0.001	0.107
Annual Performance					
Net Interest received in year	0.011		0.005		0.001
Average Rate of Return for year	4.85%		2.98%		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 2021, it was assessed at Fair Value of £2.7m.

Trading Companies

- 3.3 Babergh holds £5m 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 £44.7m in CIFCO Ltd. These loans have generated £4.77m (gross) of investment income for each Council since the start of trading.
- 3.5 Mid Suffolk also holds £1.622m of equity and £21.6m of loans in another subsidiary of Mid Suffolk Holdings Ltd, Gateway 14 Ltd, which has generated £3m of accrued investment income since 13 August 2018.
- 3.6 Mid Suffolk holds £1m 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				
	31.3.20	2020/21	31.3.21	6 months	30.9.21
	Balance	Movement	Balance	Movement	Balance
	£m	£m	£m	£m	£m
CIFCO Ltd					
Interest Receivable	2.110	1.551	3.661	1.105	4.766
Interest Payable	(0.446)	(0.264)	(0.709)	(0.049)	(0.758)
Cumulative Net Interest received from date of investments	1.664	1.287	2.952	1.056	4.007

Mid Suffolk	Trading Companies				
	31.3.20	2020/21	31.3.21	6 months	30.9.21
	Balance	Movement	Balance	Movement	Balance
	£m	£m	£m	£m	£m
Interest Receivable					
CIFCO Ltd	2.110	1.551	3.661	1.105	4.766
Gateway 14 Ltd	1.383	1.043	2.426	0.576	3.002
Total Interest Receivable	3.493	2.594	6.087	1.681	7.768
Interest Payable					
CIFCO Ltd	(0.789)	(0.494)	(1.283)	(0.108)	(1.391)
Gateway 14 Ltd	(0.360)	(0.180)	(0.540)	(0.038)	(0.578)
Total Interest Payable	(1.149)	(0.675)	(1.823)	(0.145)	(1.969)
Net Interest					
CIFCO Ltd	1.321	1.056	2.378	0.997	3.375
Gateway 14 Ltd	1.023	0.863	1.886	0.539	2.424
Cumulative Net Interest received from date of investments	2.344	1.919	4.263	1.536	5.799

4 Table 8: Debt Limits

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

Borrowing	Actual Maximum	30.09.21 Actual	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied
Babergh	£127m	£122m	£178m	£193m	✓
Mid Suffolk	£145m	£135m	£227m	£242m	✓

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

5 Compliance

- 5.1 The Section 151 Officer can report that, except for one occasion when Babergh exceeded its daily bank account limit with Lloyds by £136k, as mentioned in Paragraph 5.4 below, all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy.

- 5.2 Compliance with specific investment limits is demonstrated in Table 9 that follows.

5.3 Table 9: Investment Limits

Babergh	Actual Maximum	30.09.21 Actual	2021/22 Limit	Complied
Lloyds Bank	£2.136m	£0.637m	£2m	☒
Money market funds	44.87%	17.14%	50%	✓
DMADF	Nil	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.166m	£0.166m	£1m	✓

Mid Suffolk	Actual Maximum	30.09.21 Actual	2021/22 Limit	Complied
Lloyds Bank	£1.943m	£1.512m	£2m	✓
Barclays Bank	£0.500m	£0.500m	£2m	✓
Money market funds	32.10%	13.38%	50%	✓
DMADF	£3m	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.162m	£0.162m	£1m	✓

- 5.4 It should be noted that both Council's treasury management activity for the first six months of 2021/22 was in accordance with the approved Treasury Management Strategy, and that, except for one day when Babergh exceeded its daily bank account limit with Lloyds by £136k, both Councils have complied with all the Treasury Management Indicators for this period. The Babergh exception was due to Lloyds bank online banking system being unavailable for the day and no balances could be invested, causing the limit to be exceeded.