APPENDIX D: TREASURY MANAGEMENT INDICATORS

The Councils measure and manage their exposure to treasury management risks using the following indicators:

1. Security

1.1 The Councils have adopted a voluntary measure of their exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolio. 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. Positions at the 30 September 2021 were Babergh 4.80 and Mid Suffolk 5.12 respectively.

	Target
Portfolio average credit score	7.0

2. Liquidity risk

2.1 The Councils have adopted a voluntary measure of their exposure to liquidity risk by monitoring the amount they can borrow each quarter without giving prior notice.

Liquidity risk indicator	
Total sum borrowed in past 3 months without prior notice	**2022/23 Target £m**
Babergh District Council	£5m
Mid Suffolk District Council	£5m

3. Interest rate exposures

3.1 This indicator is set to control the Councils' exposure to interest rate risk. The boundary on the one-year revenue impact of a 1% rise in interest rates will be:

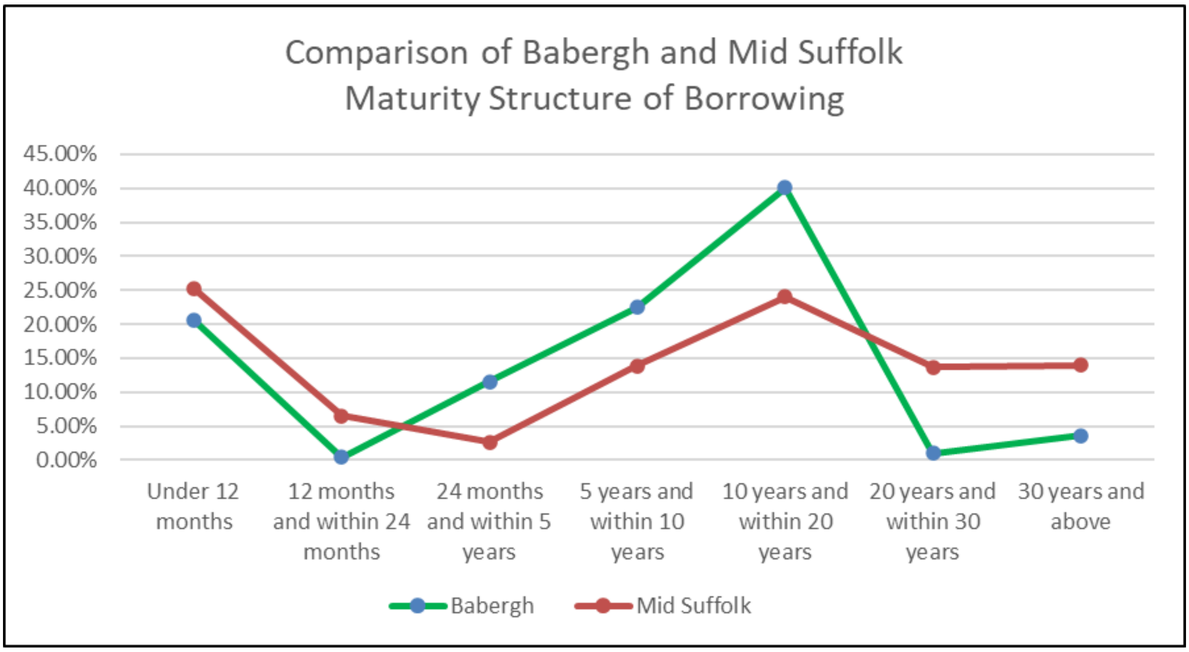
Interest rate risk indicator	
Upper impact on Revenue of a 1% increase in rates	**2022/23 Limit £m**
Babergh District Council	0.015
Mid Suffolk District Council	0.073

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

4. Maturity structure of borrowing

4.1 This indicator is set to control the Councils exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator				
% of total borrowing	Babergh 30.11.2021 Proportion	Mid Suffolk 30.11.2021 Proportion	Lower Limit %	Upper Limit %
Under 12 months	20.69%	25.28%	0.00	50.00
12 months and within 24 months	0.47%	6.48%	0.00	50.00
24 months and within 5 years	11.58%	2.61%	0.00	50.00
5 years and within 10 years	22.52%	13.88%	0.00	100.00
10 years and within 20 years	40.12%	24.02%	0.00	100.00
20 years and within 30 years	1.05%	13.70%	0.00	100.00
30 years and above	3.58%	14.01%	0.00	100.00



4.2 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.

5. Principal sums invested for periods longer than a year

5.1 The purpose of this indicator is to control the Councils exposure to the risk of incurring losses by seeking early repayment of their investments. The limits on the long-term principal sum invested to final maturities beyond the period will be:

Price risk indicator			
Limit on principal invested beyond year end	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m
Babergh District Council	£2m	£2m	£2m
Mid Suffolk District Council	£2m	£2m	£2m

6. Related Matters

6.1 The CIPFA TM Code requires the Councils to include the following in their Joint Treasury Management Strategy.

Policy on the use of financial derivatives

6.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

6.3 The Councils will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Councils are exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

6.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

6.5 In line with CIPFA's TM Code, the Councils will seek external advice and will consider that advice before entering into financial derivatives to ensure that they fully understand the implications.

Policy on apportioning interest to the Housing Revenue Account (HRA)

6.6 On 1 April 2012, the Councils notionally split each of their existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

6.7 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually, and interest transferred between the General Fund and HRA at each Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive

6.8 The Councils have opted up to professional client status with their providers of financial services, including advisers, banks, brokers and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Councils' treasury management activities, the S151 Officer believes this to be the most appropriate status.

Financial Implications

6.9 The budget for investment income in 2022/23 is £2.76m for Babergh and £4.63m for Mid Suffolk, based on an average investment portfolio of £71.57m for Babergh and £103.94m Mid Suffolk. The average return is 3.86% for Babergh and 4.46% for Mid Suffolk.

6.10 The budget for debt interest payable in 2022/23 is £3.64m for Babergh and £4.32m for Mid Suffolk, based on an average debt portfolio of £139.03m for Babergh and £200.23m for Mid Suffolk. The average cost is 2.62% for Babergh and 2.16% for Mid Suffolk.

6.11 If actual levels of investments and borrowing, or actual interest rates, differ from that forecast, performance against budget will be correspondingly different.

Other Options Considered

6.12 The CIPFA TM Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in the following table.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

Alternative	Impact on income and expenditure	Impact on risk management
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain