BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO:	**BDC COUNCIL** **MSDC COUNCIL**	**REPORT NUMBER:**	**BC/21/33**
FROM:	**Co-Chair of Joint Audit and Standards Committee**	**DATE OF MEETING:**	**21 February 2022** **24 February 2022**
OFFICER:	**Rebecca Hewitt, Corporate Manager – Finance Operations** **Sue Palmer, Senior Finance Business Partner**	**KEY DECISION REF NO. Item No. N/A**	

JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2022/23

1. PURPOSE OF REPORT

1.1 This report presents the Joint Capital, Investment and Treasury Management Strategies for the financial year 2022/23.

1.2 These are in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code, the CIPFA Prudential Code, which were both updated in 2017, and the 2018 Department for Levelling-Up, Housing and Communities (DLUHC) Investment Guidance, which introduced the requirement to prepare a Capital Strategy and an Investment Strategy. The Treasury Management Strategy remained largely unchanged.

1.3 The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report that will be presented at this Cabinet meeting and the Full Council meetings in February 2022.

1.4 The Codes of Practice recommend that these strategies are subject to scrutiny before being presented to Full Council, which falls within the remit of the Joint Audit and Standards Committee.

2. OPTIONS CONSIDERED

2.1 This report fulfils the Councils legal obligations to have regard to the Code and DLUHC Guidance.

2.2 Individual strategies were considered but Joint Strategies have been prepared.

3. RECOMMENDATIONS TO BOTH COUNCILS

That the following be approved:

3.1 The Joint Capital Strategy for 2022/23, including the Prudential Indicators, as set out in Appendix A.

3.2 The Joint Investment Strategy for 2022/23, as set out in Appendix B.

3.3	The Joint Treasury Management Strategy for 2022/23, including the Joint Annual Investment Strategy as set out in Appendix C.	
3.4	The Joint Treasury Management Indicators as set out in Appendix D.	
3.5	The Joint Treasury Management Policy Statement as set out in Appendix G.	
3.6	The Joint Minimum Revenue Provision Statement as set out in Appendix H.	
3.7	That the key factors and information relating to and affecting treasury management activities set out in Appendices E, F, and I be noted.	
	REASON FOR DECISION **Local authorities are required to approve their Treasury Management Strategy (TMS), their Capital Strategy (including an overview of the TMS) and their Investment Strategy annually before the start of the financial year.**	

4. KEY INFORMATION

Introduction

4.1 The Joint Capital Strategy and the Joint Investment Strategy were new for 2019/20, as required by changes in CIPFA and DLUHC guidance. The Joint Treasury Management Strategy remained largely unchanged. This report combines an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.2 The strategies set limits and indicators that embody the risk management approach that the Councils believe to be prudent. The strategies are set against the 2022/23 budget and the four-year outlook and the context of the UK economy and projected interest rates. The information included in Appendix A to H reflects the current plans for income, expenditure and investments of both Councils.

4.3 The Joint Investment Strategy, at Appendix B, covers the non-financial assets that councils hold for financial return such as property portfolios, shares in council owned companies and loans. These are defined as investments but are not managed as part of treasury management or under treasury management delegations.

Strategic Context

4.4 In recent years the government policy frameworks have been reducing core funding for local government as part of its deficit reduction strategy. In response to this both Councils' strategy over the medium term as set out in the 2022/23 budget reports is to become self-financing and to generate more funds than are required for core services, and to enable additional investment in the districts.

4.5 The three strategies within this report set out the Councils approach to capital spend, borrowing and investment in order to deliver this.

4.6 DLUHC and the Chartered Institute of Public Finance and Accountancy (CIPFA) are aware that most local authorities are taking a more commercial approach in order to bridge the gap they face as a result of diminishing funding from government. In response to this both bodies state that they do not seek to prescribe precisely how councils invest but they clearly have concerns that some councils are taking increasing commercial risks using borrowed money. As a result, this report provides a more extensive strategy so that more of the risks that the Codes and guidance highlight are apparent to Members.

4.7 CIPFA has issued a new edition of the Prudential Code 2021 which applies with immediate effect but allows authorities to delay introducing revised reporting requirements until 2023/24. These revised requirements include changes to the capital strategy, prudential indicators and investment reporting. The general ongoing principles of the revised Prudential Code, including the requirement that an authority must not borrow to invest primarily for financial return, apply immediately.

4.8 HM Treasury also issued updated guidance in August 2021 setting out its lending policy, for Public Works Loan Board (PWLB) borrowing. The guidance provides broad definitions of permissible categories of a council's capital expenditure (service delivery, housing, regeneration, preventative action and treasury management). It also includes the stricter definition of investments primarily for yield, which lending terms restrict, and which all ongoing capital expenditure must comply with, unless a project commenced or was agreed prior to 26 November 2020.

4.9 CIPFA has also updated its Treasury Management Code and guidance. This has introduced strengthened requirements for training, and for investments that are not specifically for treasury management purposes.

4.10 The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity.

4.11 This has had an impact on the Councils' capital programmes and borrowing requirements as a result of projects falling behind schedule and supply difficulties. The Council's cash flow has been impacted by the timing of grants/support payments made to residents and local businesses and the receipt of support from Central Government. Interest rates on investment and borrowing have reduced as a result of the ongoing economic uncertainty resulting from worldwide lockdowns. However there has been an increase in the value of the Councils' long term investments held, as a result of some recovery of stock markets.

4.12 The impact of Covid19 is considered as part of the strategies within this report.

Statutory Background

4.13 This report is part of the Councils' legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance. The Councils must:

- ensure priority is given to security and portfolio liquidity, when investing treasury management funds,

- ensure the security of the principal sums invested through robust due diligent procedures for all external investments,

- have regard to CIPFA's Prudential Code when determining how much money they can afford to borrow,

- 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,

- monitor against the Prudential Code indicators each year, these are included in the Joint Capital Strategy in Appendix A, and

- set, revise, and, if there are material changes to the strategies and prudential indicators, present to Full Council for approval.

Purpose of the Strategies

Joint Capital Strategy Appendix A

4.14 The Joint Capital Strategy (Appendix A), under the requirements of the Codes, gives a high-level overview of how capital expenditure, capital financing, and treasury management activities contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.15 In terms of investment, the Councils invest their money for three broad purposes:

- because there is surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),

- to support local public services by lending to or buying shares in other organisations (service investments), and

- to earn investment income (known as investment for yield where this is the main purpose).

4.16 The Joint Capital Strategy covers all three of the above points.

Joint Investment Strategy Appendix B

4.17 The Joint Investment Strategy (Appendix B) as required by the statutory guidance issued by DLUHC, covers all three of the points in 4.12 above and shows the proportionality of investments, total investment exposure, and rate of return.

Joint Treasury Management Strategy Appendix C

4.18 The Joint Treasury Management Strategy (TMS) (Appendix C) covers the first point in 4.12 above and details of borrowing including authorised limits, economic and interest rate forecasts and treasury management indicators, which are also shown in Appendices D to G.

4.19 These three strategies together show the impact of the Councils' capital programme and Joint Investment Strategy in terms of risk, prudent levels of borrowing, associated interest costs and the net financial returns to the Councils to support core services in the medium term.

5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Joint Corporate Plan. Specific links show how these are met through financially sustainable Councils, managing the corporate assets effectively, and property investment to generate income.

6. FINANCIAL IMPLICATIONS

6.1 As outlined in this 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 The Capital Finance and Accounting Regulations 2003 – SI 2003/3146, Regulation 24, explicitly require authorities to "have regard" to the Treasury Management Code.

7.3 Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.4 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 with the Councils' Significant Risk No.13 – We may be unable to react in a timely and effective way to financial demands and also Corporate Risk No. SE05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered.

8.2 The report also links to the Councils' Significant Risk No.10 around the Capital Investment Fund – we may be unable to meet the income projections for the Councils.

8.3 Other 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 poor return on investments, there will be fewer resources available to deliver services.	Unlikely (2)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the Joint 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.
If the Councils incur higher than expected borrowing costs, there will be fewer resources available to deliver services.	Unlikely (2)	Noticeable (2)	Benchmark is to borrow from the Public Works Loan Board (PWLB), whose rates are very low and can be on a fixed or variable basis. However, access to PWLB is not available for authorities undertaking some types of commercial activity so ensure capital expenditure plans from 2022/23 are within the guidance for PWLB borrowing.

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 There are no equality and diversity implications, as the contents and recommendations of this report do not impact on those with protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 Both Councils have joined Arlingclose's ESG and Responsible Investment Service. This will provide advice for ESG integration in the Councils' investment portfolios, and is discussed within the Councils' Joint Treasury Management Strategy.

12. APPENDICES

Title	Location
(a) Joint Capital Strategy 2022/23	Attached
(b) Joint Investment Strategy 2022/23	Attached
(c) Joint Treasury Management Strategy 2022/23	Attached

(d)	Treasury Management Indicators	Attached
(e)	Economic Outlook and Interest Rate Forecast	Attached
(f)	Existing Borrowing and Investments	Attached
(g)	Treasury Management Policy Statement	Attached
(h)	Minimum Revenue Provision (MRP) Statement	Attached
(i)	Credit Ratings Criteria	Attached
(j)	Glossary of Terms	Attached

13. BACKGROUND DOCUMENTS

2017 CIPFA Treasury Management in the Public Services

2017 The Prudential Code for Capital Finance in Local Authorities

2018 Department for Levelling-Up, Housing and Communities Investment Guidance

APPENDIX A: JOINT CAPITAL STRATEGY 2022/23

1. Introduction

1.1 This Joint Capital Strategy for 2022/23 gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these often-technical areas.

1.2 Decisions made this year on capital and treasury management will have financial consequences for the Councils for many years into the future. They are therefore subject to both a national regulatory framework and a local policy framework, summarised in this report.

1.3 The strategy demonstrates that the Councils take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

2. Capital Expenditure and Financing

2.1 Capital expenditure is where the Councils spend money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance assets.

2.2 The Councils have some limited discretion on what counts as capital expenditure; for example, individual assets costing below £10k are not capitalised and are charged to revenue in the year.

Governance: Capital Expenditure

2.3 Proposed capital projects are appraised by the Senior Leadership Team based on a comparison of service priorities against financing (even if the project is fully financed from external funds) before being included in the Councils' capital programmes.

2.4 Full details of the Councils' capital programmes are included initially in the Budget reports, that were presented to Overview and Scrutiny Committees in January 2022 and will go onto Cabinet and the Full Council meetings in February 2022.

Estimated Capital Expenditure

2.5 The actual capital spend for 2020/21, the forecast outturn for 2021/22, the budget for 2022/23 and forecast from 2023/24 to 2025/26, for the General Fund and the Housing Revenue Account (HRA) as per the 2022/23 budget report is summarised as follows:

Table 1: Prudential Indicator: Estimated Capital Expenditure

Capital Expenditure						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget ** £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	4.06	5.42	17.70	1.65	1.77	1.54
Capital Investments	19.44	0.17	4.80	4.89	3.81	0.06
Total General Fund	23.50	5.59	22.50	6.54	5.58	1.60
Council Housing (HRA)	12.57	20.96	18.64	8.15	6.57	7.32
Total Capital Expenditure	**36.07**	**26.55**	**41.14**	**14.69**	**12.15**	**8.92**

Capital Expenditure						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget ** £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	7.55	9.68	9.32	1.83	1.57	1.57
Capital Investments	21.32	4.11	19.72	5.25	3.50	0.00
Total General Fund	28.87	13.79	29.03	7.08	5.07	1.57
Council Housing (HRA)	11.15	18.06	39.13	25.75	10.76	6.44
Total Capital Expenditure	**40.01**	**31.85**	**68.17**	**32.83**	**15.82**	**8.01**

** Including carry-forward from 2021/22

General Fund Capital Expenditure

2.6 The main General Fund projects included in the Capital Programme for Babergh over the period 2022/23 to 2025/26 are Replacement Refuse Freighters (£2.3m), Belle Vue, Sudbury (£2m), Housing grants (£3.8m), Community Grants (£0.5m), and ICT hardware/software (£1.2m).

2.7 The main General Fund projects included in the Capital Programme for Mid Suffolk over the period 2022/23 to 2025/26 are Replacement Refuse Freighters (£2.3m), Housing grants (£3.1m), Community Grants (£0.8m), business hub in Eye (£0.3m) and ICT hardware/software (£1.2m).

The Housing Revenue Account (HRA) Capital Expenditure

2.8 The HRA is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes purchasing houses from the private sector to increase the housing stock as well as new build schemes and maintenance to existing homes over the forecast period.

Capital Investments Capital Expenditure

2.9 There are two types of Capital investment. They are made:

- to support local public services by lending to or buying shares in other organisations (service investments), and

- to earn investment income (known as investment for yield where this is the main purpose).

These will relate to non-financial assets that the Councils hold primarily or partially to generate income and will contribute towards service delivery objectives.

2.10 The capital investments included in the 2022/23 budget for Babergh are the former Council Offices in Hadleigh (£3.2m) and developments by the Growth company (£0.5m) for housing; Borehamgate (£0.06m), a workspace development in Hadleigh (£1.3m), and further strategic investments (£9.2m) are all for regeneration purposes. Included in the forecast outturn for 2021/22 are completion of the solar carports (£0.7m), improvements at the leisure centres (£1.0m) and the purchase of vehicles and plant (£0.7m) for the public realm team (for the service being brought in house).

2.11 The main capital investments for Mid Suffolk included in the 2022/23 budget are developments by the Growth company (£4.3m) and the former Council Offices at Needham Market (£0.2m) for housing; Gateway 14 (£15.3m) and further strategic investments (£3m) for regeneration purposes. Included in the forecast outturn for 2021/22 are the former Council Offices at Needham Market (£2.1m) and Gateway 14 (£2m).

2.12 The S151 officer considers that none of these projects count as 'investment assets primarily for yield' under the PWLB lending arrangements, nor as 'investments primarily for financial return' under the CIPFA Prudential Code. Further details on the Councils' capital investments can be found in section 3 and 4 of the Joint Investment Strategy in Appendix B.

Capital Financing

2.13 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Councils' own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing

Capital Financing - General Fund						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Receipts	0.01	0.00	1.10	0.00	0.00	0.00
Revenue Reserves	0.28	0.00	0.00	0.00	0.00	0.00
Grants	0.96	1.71	1.51	0.76	0.76	0.76
External Contributions	0.43	0.48	0.00	0.00	0.00	0.00
Borrowing	21.82	3.41	19.89	5.78	4.82	0.84
Total GF Capital Financing	**23.50**	**5.59**	**22.50**	**6.54**	**5.58**	**1.60**

Capital Financing - HRA						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Receipts	6.92	4.54	2.44	1.00	0.40	0.71
Revenue Contributions	0.00	2.90	2.63	2.36	0.69	0.00
Revenue Reserves	4.32	13.00	10.59	4.54	4.53	4.53
Grants	1.22	0.52	0.00	0.00	0.00	0.00
Borrowing	0.12	0.00	2.98	0.25	0.95	2.08
Total HRA Capital Financing	**12.57**	**20.96**	**18.64**	**8.15**	**6.57**	**7.32**
Total ALL Capital Financing	**36.07**	**26.56**	**41.14**	**14.69**	**12.15**	**8.92**

Capital Financing - General Fund						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Receipts	0.05	0.00	0.00	0.00	0.00	0.00
Revenue Contributions	0.44	1.82	0.01	0.00	0.00	0.00
Revenue Reserves	5.54	1.98	3.29	0.00	0.00	0.00
Grants	0.69	2.17	0.93	0.70	0.70	0.70
Borrowing	22.14	7.83	24.80	6.38	4.37	0.87
Total GF Capital Financing	**28.87**	**13.79**	**29.03**	**7.08**	**5.07**	**1.57**

Capital Financing - HRA						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Receipts	4.82	3.27	4.44	6.22	2.36	2.00
Revenue Contributions	1.22	1.60	1.27	1.33	0.00	0.00
Revenue Reserves	3.92	8.58	4.64	4.45	4.75	4.45
Grants	0.93	0.36	0.95	0.95	0.00	0.00
External Contributions	0.00	0.00	0.00	0.00	0.00	0.00
Borrowing	0.25	4.26	27.84	12.82	3.65	0.00
Total HRA Capital Financing	**11.15**	**18.06**	**39.13**	**25.76**	**10.76**	**6.44**
Total ALL Capital Financing	**40.01**	**31.85**	**68.17**	**32.84**	**15.82**	**8.01**

Capital Receipts

2.14 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, repayment of loans and investments from the Councils' trading companies and council house sales under the Right to Buy (1-4-1 receipts) and shared ownership schemes also generate capital receipts.

2.15 Capital receipts are either used to finance capital expenditure in the year the asset is sold, put into a capital reserve and used for later capital expenditure or used to repay debt. Capital receipts are expected to be used as follows:

Table 3: Capital receipts used

Capital Receipts						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	0.01	0.00	1.10	0.00	0.00	0.00
General Fund Capital Loan Repayments	0.14	0.21	0.23	2.22	5.69	4.02
Council Housing (HRA) 1-4-1 Receipts	1.74	3.34	1.37	1.00	0.40	0.71
Council Housing (HRA) Other	5.18	1.20	1.07	0.00	0.00	0.00
Total Capital Receipts	**7.07**	**4.75**	**3.77**	**3.22**	**6.09**	**4.73**

Capital Receipts						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	0.05	0.00	0.00	0.00	0.00	0.00
General Fund Capital Loan Repayments	0.14	0.21	0.23	16.91	24.64	16.71
Council Housing (HRA) 1-4-1 Receipts	2.22	3.03	2.03	2.17	2.01	2.00
Council Housing (HRA) Other	2.60	0.24	2.41	4.05	0.36	0.00
Total Capital Receipts	**5.00**	**3.48**	**4.68**	**23.13**	**27.00**	**18.71**

Repayment of Debt

2.16 Debt is only a temporary source of finance, since loans and leases must be repaid. Capital receipts may be used to replace debt finance, but usually debt is repaid over time from revenue, which is known as minimum revenue provision (MRP).

2.17 The Councils planned MRP and repayment of borrowing charged to revenue are as follows:

Table 4: Repayment of debt from revenue

Repayment of Debt Finance						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Repayment of Borrowing from HRA Revenue	0.40	0.15	0.00	0.00	0.00	0.00
MRP charged to General Fund Revenue	1.08	1.22	1.71	1.96	2.08	2.18
Total Repayment of Debt Finance	**1.48**	**1.37**	**1.71**	**1.96**	**2.08**	**2.18**

Repayment of Debt Finance						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
MRP charged to General Fund Revenue	1.18	1.30	1.56	1.78	1.82	1.85
Total Repayment of Debt Finance	**1.18**	**1.30**	**1.56**	**1.78**	**1.82**	**1.85**

2.18 The Councils' full minimum revenue provision statement is shown in Appendix H.

Capital Financing Requirement

2.19 The underlying need to borrow for capital purposes is measured by the capital financing requirement (CFR). The CFR, together with usable reserves, is one of the core drivers of both Councils' treasury management activities.

2.20 The CFR represents the cumulative outstanding amount of debt finance. It increases with new debt-financed (borrowing/leases) capital expenditure and reduces with MRP and capital receipts used to repay debt.

2.21 Babergh's CFR is expected to increase by £1.82m and Mid Suffolk's by £10.57m during 2021/22. Based on the above figures for expenditure (Table 1), financing (Table 2), and debt repayment (Table 4), the Councils estimate that their CFR will be as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement

Cumulative Capital Financing Requirement (CFR)						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	18.27	20.28	34.16	36.85	39.53	38.12
Capital Investments	53.78	53.73	57.80	56.71	51.09	47.13
Total General Fund	72.04	74.01	91.96	93.56	90.62	85.25
Council Housing (HRA)	88.17	88.02	91.00	91.25	92.20	94.28
Total CFR	**160.21**	**162.03**	**182.96**	**184.81**	**182.81**	**179.53**

Cumulative Capital Financing Requirement (CFR)						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	22.83	26.08	29.60	28.95	28.00	27.03
Capital Investments	72.18	75.25	94.73	83.07	61.93	45.22
Total General Fund	95.01	101.32	124.33	112.02	89.94	72.25
Council Housing (HRA)	88.76	93.02	120.86	133.68	137.32	137.32
Total CFR	**183.77**	**194.34**	**245.19**	**245.70**	**227.26**	**209.57**

3. The Prudential Code

3.1 The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal.

3.2 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 and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Councils.

3.3 The Prudential Code requires both Councils to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Councils. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

3.4 The Prudential Indicators included in the Joint Capital Strategy, (Appendix A Tables 1, 5, 6, 8 and 9) illustrate the affordability and impact of capital expenditure decisions and set out both Councils overall capital and treasury framework.

3.5 Effective management and decisions on funding ensure both Councils comply with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget. Using borrowing powers to undertake investment in line with the Joint Corporate Plan priority outcomes and generate a rate of return to produce additional income in order to address the funding pressures that both Councils face over the next 4 years.

4. Treasury Management

4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Councils' spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Councils are typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. Appendix F shows the current position.

4.2 As at 30 November 2021:

- Babergh has £118.67m total borrowing at an average interest rate of 2.56% and £21.63m of treasury investments at an average rate of 2.59%.

- Mid Suffolk has £132.88m total borrowing at an average interest rate of 2.37% and £19.75m treasury investments at an average interest rate of 2.84%.

Borrowing strategy:

4.3 The Councils' main objectives when borrowing are to achieve a low but certain cost of finance whilst retaining flexibility if plans should change in the future. These objectives are often conflicting, and the Councils therefore seek to strike a balance between cheap short-term loans (currently available at around 0.25%) and long-term fixed rate loans where the future cost is known but higher (currently around 1.0% to 2.0%).

4.4 The forecast movement in the CFR in coming years is one of the Prudential Indicators. The movement in actual external debt and usable reserves combine to identify the Councils' borrowing requirement and potential treasury management investment strategy in the current and future years.

4.5 The Councils' projected levels of total outstanding debt (borrowing and leases) are shown below and compared with the capital financing requirement (in paragraph 2.21, Table 5 above).

Table 6: Prudential Indicator: Gross Debt and Capital Financing Requirement

Gross Debt and Capital Financing Requirement						
Babergh District Council	**31.3.2021 Actual £m**	**31.3.2022 Forecast Outturn £m**	**31.3.2023 Budget £m**	**31.3.2024 Forecast £m**	**31.3.2025 Forecast £m**	**31.3.2026 Forecast £m**
General Fund						
Outstanding Borrowing (Debt)	(42.19)	(49.04)	(51.00)	(53.77)	(51.92)	(47.99)
Capital Financing Requirement	72.04	74.01	91.96	93.56	90.62	85.25
General Fund Headroom	**29.85**	**24.97**	**40.95**	**39.79**	**38.70**	**37.27**
HRA						
Outstanding Borrowing (Debt)	(84.90)	(84.75)	(87.73)	(87.98)	(88.92)	(91.00)
Capital Financing Requirement	88.17	88.02	91.00	91.25	92.20	94.28
HRA Headroom	**3.27**	**3.27**	**3.27**	**3.27**	**3.27**	**3.27**

Gross Debt and Capital Financing Requirement						
Mid Suffolk District Council	31.3.2021 Actual £m	31.3.2022 Forecast Outturn £m	31.3.2023 Budget £m	31.3.2024 Forecast £m	31.3.2025 Forecast £m	31.3.2026 Forecast £m
General Fund						
Outstanding Borrowing (Debt)	(73.38)	(88.07)	(104.02)	(96.68)	(72.76)	(61.72)
Capital Financing Requirement	95.01	101.32	124.33	112.02	89.94	72.25
General Fund Headroom	**21.62**	**13.25**	**20.31**	**15.34**	**17.17**	**10.53**
HRA						
Outstanding Borrowing (Debt)	(69.19)	(73.04)	(95.88)	(108.69)	(112.34)	(112.34)
Capital Financing Requirement	88.76	93.02	120.86	133.68	137.32	137.32
HRA Headroom	**19.58**	**19.98**	**24.98**	**24.98**	**24.98**	**24.98**

4.6 Statutory guidance says that debt should remain below the CFR, except in the short-term. As can be seen from Table 6 above, both Councils expect to comply with this in the medium-term.

Liability benchmark:

4.7 The Councils can internally borrow when they have generated a cash surplus on their revenue activities, for example from council tax, business rates, etc received in advance of use. This is known as a working capital surplus and can be used, in the short term, to finance capital expenditure meaning that there is not an immediate requirement to borrow from third parties.

4.8 Cash held within the Councils' reserves also reduces the requirement to borrow from third parties, until the reserves are used for their intended purpose.

4.9 To compare the Councils' actual borrowing against the lowest risk level of borrowing, a liability benchmark has been calculated. This gives an indication of the minimum amount of external borrowing required to meet the borrowing need (CFR) assuming that the Councils internally borrow up to the level of their estimated reserves balance and projected working capital surplus, whilst maintaining cash and investment balances at a minimum of treasury investments for each Council over the medium-term (the lowest level being £13.0m).

4.10 This benchmark is currently £147.82m for Babergh and £158.88m for Mid Suffolk for 2021/22 and is forecast to increase to £169.59m and £179.78m respectively over the next four years.

<u>Table 7: Borrowing and the Liability Benchmark</u>

Borrowing and Liability Benchmark						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Liability Benchmark	129.53	147.82	174.84	174.81	173.80	169.59
Outstanding Borrowing (Debt)	(127.09)	(104.40)	(93.84)	(93.28)	(86.71)	(80.12)
	2.44	**43.43**	**81.00**	**81.53**	**87.09**	**89.47**

Borrowing and Liability Benchmark Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Liability Benchmark	142.15	158.88	215.34	216.46	198.00	179.83
Outstanding Borrowing (Debt)	(142.57)	(118.34)	(98.73)	(90.10)	(88.95)	(87.79)
	-0.43	40.55	116.61	126.35	109.04	92.04

The detailed calculation of the Liability Benchmark is shown in Appendix C Table 2.

Authorised limit for external debt:

4.11 The Councils are legally obliged to set an authorised limit for external debt each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set and acts as a warning that action may be required to ensure that debt does not breach the authorised limit.

4.12 The operational boundary is set equal to the Councils' CFR, which represents the total borrowing need resulting from capital expenditure. The Councils have set an authorised limit of £15m above the operational boundary for each year to allow for working capital fluctuations or borrowing in advance of planned capital expenditure.

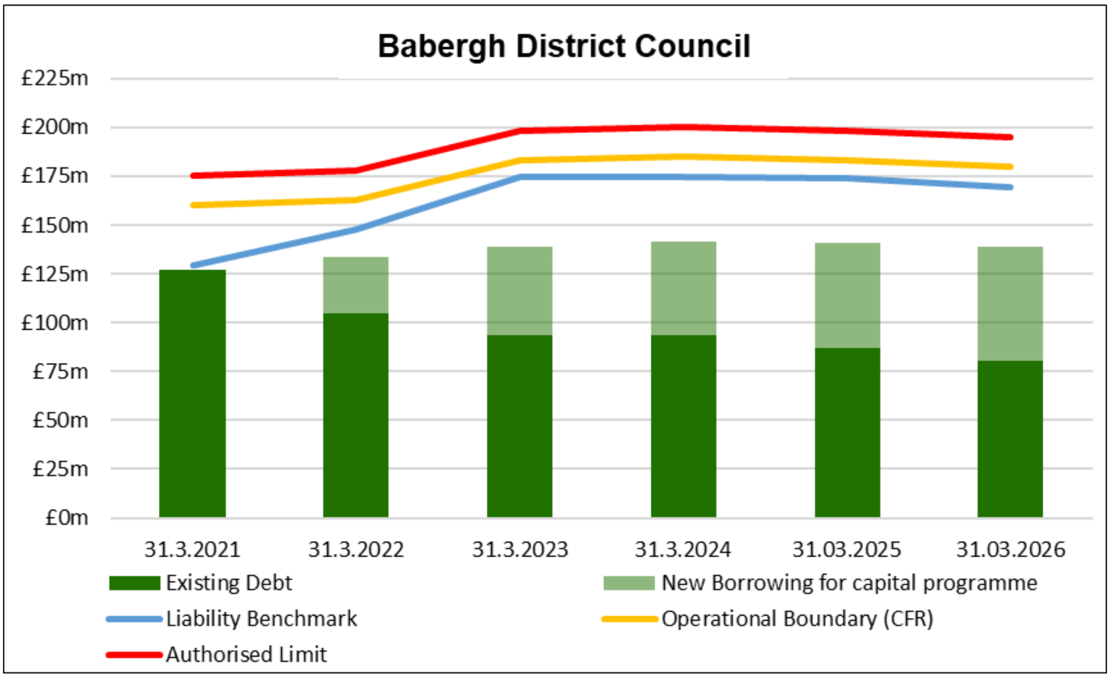
Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

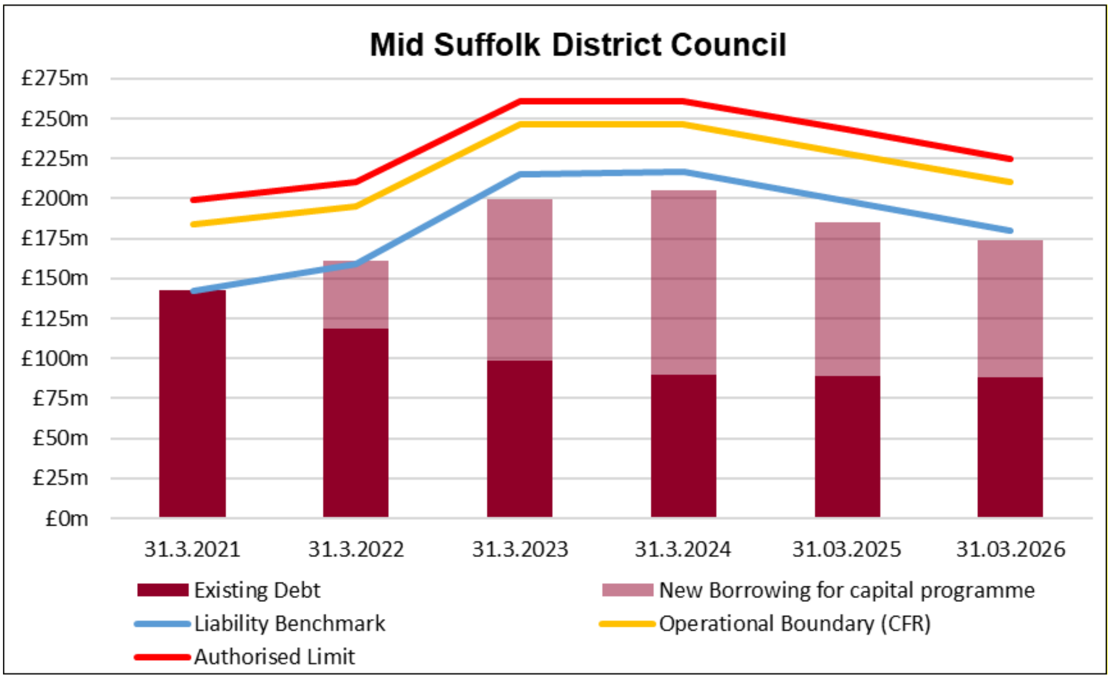
Operational Boundary & Authorised Limit Babergh District Council	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m
Operational Boundary	163	183	185	183	180
Authorised Limit	178	198	200	198	195
Ratio of Debt to Authorised Limit	71.4%	67.6%	69.4%	71.6%	72.2%

Operational Boundary & Authorised Limit Mid Suffolk District Council	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m
Operational Boundary	195	246	246	228	210
Authorised Limit	210	261	261	243	225
Ratio of Debt to Authorised Limit	67.9%	61.7%	76.6%	84.5%	82.3%

4.13 The charts that follow illustrate how outstanding debt is expected to remain below the liability benchmark, operational boundary and authorised limit for both Councils.

Chart 1: Borrowing compared to CFR, liability benchmark, operational boundary and authorised limit





4.14 Further details on borrowing are shown in Appendix C section 4 of the Joint Treasury Management Strategy.

Joint Treasury Investment Strategy:

4.15 Treasury investments arise from receiving cash before it is paid out again. The Councils hold several long-term investments as a result of this. These and all other treasury management activities are set out in the Joint Treasury Management Strategy in Appendix C. The Councils planned spend on the capital programme has an impact on the amount of surplus cash available for treasury investments and, as explained in paragraph 4.4 above, this results in the Councils need to borrow.

4.16 Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. These are explained further in the Joint Investment Strategy in Appendix B.

4.17 **Risk management:**

The effective management and control of risk are prime objectives of the Councils' treasury management activities. The Joint Treasury Management Strategy in Appendix C sets out various Prudential Indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks**.**

4.18 **Governance:**

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director, Corporate Resources (the S151 Officer) and staff, who must act in line with the treasury management strategy approved by full Council. Half yearly reports on treasury management activity are presented to the Joint Audit and Standards Committee (JASC) who is responsible for scrutinising treasury management decisions.

5. Investments for Service Purposes

5.1 Service investments are where the Councils can support the provision of local public services by lending to or buying shares in other organisations.

5.2 The Councils do not have, nor currently have any plans to make, any investments in any organisations, apart from the councils' subsidiaries, to assist in the provision of local public services over the medium-term.

6. Liabilities:

6.1 In addition to debt of £133.79m for Babergh and £161.11m for Mid Suffolk, as detailed in Table 6 above for 2021/22, the Councils are committed to making future payments to cover their pension fund deficits. At 31 March 2021 Babergh's deficit was valued at £28.756m and Mid Suffolk's was £40.664m, with contributions of £0.53m for Babergh and £0.84m for Mid Suffolk due in 2021/22.

Governance:

6.2 Reports are taken to Cabinet as part of the budget monitoring process.

7. Revenue Budget Implications

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general government grants for the General Fund and housing rents for the Housing Revenue Account (HRA).

7.2 For Babergh the maximum return (net income) is 4.05% in 2022/23 and for Mid Suffolk it is 13.12% in 2022/23 for the General Fund, as shown in Table 9 below. For the HRA the levels (net costs) are higher due to the link to the debt associated with the Councils' housing stock.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

Proportion of Net Financing Costs to Net Revenue Stream					
Babergh District Council	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
General Fund -					
Net Financing costs / (Income) £m	(1.12)	(0.56)	(0.21)	0.01	0.21
Proportion of net revenue stream %	-8.63%	-4.05%	-1.59%	0.08%	1.50%
Council Housing (HRA) -					
Net Financing costs £m	3.15	3.16	3.02	3.02	2.88
Proportion of net revenue stream %	18.26%	17.44%	15.65%	14.87%	14.21%

Proportion of Net Financing Costs to Net Revenue Stream					
Mid Suffolk District Council	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
General Fund -					
Net Financing costs / (Income) £m	(2.24)	(2.19)	(1.54)	(2.01)	(2.49)
Proportion of net revenue stream %	-13.56%	-13.12%	-9.76%	-12.66%	-15.65%
Council Housing (HRA) -					
Net Financing costs £m	2.96	3.44	5.08	6.33	7.36
Proportion of net revenue stream %	19.17%	21.45%	29.24%	32.91%	38.11%

7.3 In addition to capital receipts, grants and borrowing the housing capital programme is partly financed by income received from housing rents. Table 10 shows these contributions and associated costs as an equivalent average weekly rent.

7.4 **Table 10: Impact of Capital Decisions on HRA Rents**

Babergh District Council	2021/22 Forecast Outturn £	2022/23 Budget £	2023/24 Forecast £	2024/25 Forecast £	2025/26 Forecast £
Increase in average weekly rents	16.10	14.41	12.83	3.96	0.36

Mid Suffolk District Council	2021/22 Forecast Outturn £	2022/23 Budget £	2023/24 Forecast £	2024/25 Forecast £	2025/26 Forecast £
Increase in average weekly rents	9.73	9.16	9.93	2.72	2.73

7.5 The setting of rent levels has been determined separately through the 30-year business model and any surplus or deficit on the HRA is transferred to or from Reserves.

7.6 Further details of the revenue implications of capital expenditure are included in the Budget Report that will be presented to the next Cabinet meetings and then onto the Full Council meetings in February 2022.

8. Sustainability

8.1 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Assistant Director – Corporate Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable over the medium term. This is due to the fact that debt remains below the CFR, (see Table 6), below the liability benchmark (see Table 7), and below the operational boundary and authorised limits (see Table 8), as well as an acceptable level of financing costs proportionate to the net revenue stream (see Table 9).

9. Knowledge and Skills

9.1 The Councils employ professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Assistant Director - Corporate Resources is a CIPFA qualified accountant with 30 years' experience and the Corporate Manager – Finance, Commissioning and Procurement an ACCA qualified accountant with over 20 years' experience. The Council employs an Assistant Director – Assets and Investments, who is a qualified chartered surveyor (MRICS) of 23 years' experience in both the private and public sector. The Council pays for staff to study towards relevant professional qualifications in finance such as the ICAEW, CIPFA and AAT.

9.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Councils currently employ Arlingclose Limited as treasury management advisers.

9.3 Other advisers include Jones Lang Lasalle (JLL) as property consultants, Carter Jonas for development appraisal and Browne Jacobson for legal support. For the development of the council offices Purcell Architects, Lawson Planning Partnership, Hoggarth Cooke and Morley Riches and Ablewhite were appointed. This approach is more cost effective than employing such staff directly and ensures that the Councils have access to knowledge and skills commensurate with its risk appetite.

9.4 Both Councils are working with Norse Group Holdings Ltd to complete the developments at the sites of the former council offices, in Hadleigh and Needham Market, through the Councils' trading companies, Babergh Growth Ltd and Mid Suffolk Growth Ltd. Mid Suffolk is working with JAYNIC Properties Ltd on the development of the Gateway 14 site.

9.5 The Councils have a Learning and Development programme for staff which includes access to internal and externally provided training including attaining full professional qualifications.

APPENDIX B: JOINT INVESTMENT STRATEGY 2022/23

1. Introduction

1.1 The Councils invest their money for four broad purposes:

- because they have surplus cash as a result of their day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (known as service investments), and
- to earn investment income (known as commercial investments - for yield where income is the main purpose).
- To support economic development, regeneration or provision of housing

1.2 Both Councils have invested in third party or related organisations to provide public services (known as service investments). Both Councils are working to complete housing developments, including the sites of the former council offices, in Hadleigh and Needham Market, through the Councils' trading companies, Babergh Growth Ltd and Mid Suffolk Growth Ltd. Mid Suffolk has also invested in its subsidiary, Gateway 14 Ltd, for the purposes of regeneration and economic development.

1.3 This Joint Investment Strategy is for 2022/23, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the investments which are or will be disclosed in the Councils' annual accounts. The DLUHC defines property to be an investment (commercial) if it is held primarily or partially to generate a profit.

1.4 For each type of investment, the Councils are required to show the contribution the investments make to the Councils' objectives.

2. Treasury Management Investments

2.1 The Councils typically receive their income in cash (e.g. from taxes and grants) before they pay for their expenditure in cash (e.g. through payroll and invoices). The Councils also hold reserves for future expenditure and collect local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 For details of the Councils' treasury management investments, see section 5 of the Joint Treasury Management Strategy in Appendix C.

Contribution:

2.3 The contribution that these investments make to the objectives of both Councils is to support effective treasury management activities.

3. Investments in Property

3.1 Investments in property can take the form of using and developing council owned assets. The definition does not include the redevelopment for council housing through the HRA.

Contribution:

3.2 The Councils invest in commercial and residential property within their Districts, for the primary purpose of regeneration and economic development. They may also generate income, as a secondary objective, that will be spent on local public services.

3.3 The current and future service investments for council owned assets are described below.

Babergh

- **Borehamgate, Sudbury**

  Babergh purchased Borehamgate shopping precinct on 1 August 2016 for £3.5m as part of a plan to regenerate the Hamilton Road quarter of Sudbury. This prospective development is still at an early stage and amounts for minor improvements have been included in the capital programme.

- **Former Council Offices in Hadleigh**

  - In September 2016 both Councils decided to relocate from their existing Council offices in Hadleigh and Needham Market to Endeavour House in Ipswich and subsequently relocated in November 2017. In December 2018, the Councils approved investments in market led housing schemes for the former office sites to realise value from these now surplus assets.

  - Babergh approved the conversion of the former Corks Lane Council office in Hadleigh into 31 new homes and also the construction of an additional 26 new homes on the site, all for market sale.

  - The Council created a new company, Babergh Growth Ltd, on 19 March 2019, which entered into a joint venture with Norse Group Holdings Ltd, to complete the development. The Council is providing 100% of the finance.

A peak cash flow funding requirement of £3.16m is included in the capital programme. The scheme is scheduled to commence in 2022/23.

Hadleigh A1071 Roadside Economic Development Workspace

- The Council has secured a small parcel of employment land which it can directly invest in to address market failure and develop as a viable scheme to provide needed workspace, employment opportunities and support for the local community of Hadleigh and surrounding area.

Mid Suffolk

- **Former retail site, Stowmarket**
  - Mid Suffolk bought the site in Gipping Way, Stowmarket for £1.4m on 7 January 2019 for economic development purposes. A licence to operate the car park was entered into before completion enabling the development and use of this site for public pay and display car parking from December 2018.
  - Work has been undertaken to divide the site into two units with a lease being arranged with PureGym for one of the units.

- **Former Council Offices in Needham Market**
  - As stated above, both Councils decided to relocate their offices to Endeavour House in Ipswich and subsequently relocated in November 2017, with the site in Needham Market being earmarked for development predominantly for housing purposes.
  - Mid Suffolk obtained planning permission for 93 new homes on the former Council office and car park sites, in Needham Market, including 83 for market sale, 7 for affordable rent and 3 for shared ownership and a convenience store.
  - The Council created a new company, Mid Suffolk Growth Ltd on 19 March 2019, which entered into a joint venture with Norse Group Holdings Ltd, to complete the development and they will provide 50% of the finance.
  - A peak cash flow funding requirement of £2.81m is included in the capital programme. The housing for open market sale will be funded 50% by Norse. Work on site commenced in 2020/21 and the Council's contribution is included in the capital expenditure as shown in Table 1 below:

Table 1: Property held for investment purposes: Cumulative expenditure

Cumulative Expenditure on Property Investments						
Babergh District Council	2020/21 Cumulative Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Borehamgate, Sudbury	3.56	3.73	3.79	3.86	3.92	3.99
Former Council Offices, Hadleigh	0.60	0.60	3.76	3.76	3.76	3.76
A1071 Economic Development, Hadleigh	0.00	0.00	1.08	2.15	2.15	2.15
Total	**4.16**	**4.33**	**8.63**	**9.77**	**9.84**	**9.90**

Cumulative Expenditure on Property Investments						
Mid Suffolk District Council	2020/21 Cumulative Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Former Council Offices, Needham Market	0.76	2.86	3.08	3.08	3.08	3.08
Former Retail Site, Stowmarket	1.87	1.88	1.88	1.88	1.88	1.88
11 Market Place, Stowmarket	0.36	0.36	0.36	0.36	0.36	0.36
Total	**2.99**	**5.10**	**5.32**	**5.32**	**5.32**	**5.32**

Security:

3.4 In accordance with government guidance, the Councils consider a property investment to be secure if its accounting valuation is at the same level or higher than its purchase cost including taxes and transaction costs at the time of anticipated disposal.

3.5 A fair value assessment of the Councils' directly owned investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. If during the preparation of the 2021/22 year-end accounts and audit process the value of these properties are materially below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment:

3.6 As mentioned in section 8 of the main report this strategy has links to the Councils' Significant Risk Register, specifically risk No's 10 and 13 and Corporate Risk No. SE05.

3.7 The Councils assess the risk of loss before investing in and whilst holding every property investment.

3.8 The Councils also commission third parties to provide expert advice. These advisors are appointed on the basis of reputation, experience and price and their advice is scrutinised by the company board members and officers responsible for investment decisions.

3.9 Babergh purchased Borehamgate shopping precinct for £3.56m in 2016 as an investment property. The retail units generate income from leases and are subject to pressures in the retail sector as a result of the general economic conditions. The Council has accepted the risks associated with this property e.g. the previous valuations below purchase price, whilst taking a longer-term view of its future as part of the regeneration and development of the Hamilton Road area in Sudbury.

3.10 Market sale housing development:

- Purcell Architects, Lawson Planning Partnership, Hoggarth Cooke and Morley Riches & Ablewhite were appointed to support the Council with design, planning advice, feasibility and financial viability appraisals of the options for future use of the former Babergh and Mid Suffolk council office sites in Hadleigh and Needham Market.

- Proposed housing schemes were approved in principle by each Council in July 2018 and the delivery option subsequently chosen for both schemes were Joint Venture developments with a public partner (in both cases Norse Group Holdings Ltd).

- This enables the Councils to manage these schemes in a timely manner, control the quality of the housing, mitigate risk through securing an experienced socially wedded public sector partner and secure a commercial return.

3.11 Mid Suffolk bought the empty retail property in Stowmarket, including the car park and introduced managed parking. Work has been undertaken to divide the site into two units with a lease being arranged with PureGym for one of the units.

Liquidity:

3.12 Property can be relatively difficult to sell quickly because of a lack of ready and willing investors or speculators to purchase the asset and convert to cash at short notice. However, all these properties will be part of the Councils' commercial, economic development or residential regeneration schemes.

4. Investments in Shares and Loans

4.1 The Councils invest through share ownership and giving loans to their wholly owned companies, special purpose vehicles or third parties (local organisations) as part of a strategy for improving the local economy (service investments) through housing or economic developments and regeneration or generating a rate of return or financial gain (commercial investments).

4.2 The Councils invest indirectly in property, through two wholly owned holding companies, by a combination of shares (equity) and loans (debt), matching the funding requirements of the underlying investment and the returns required by the Councils. All debt financed investment complies with EU State Aid rules.

4.3 BDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Babergh, and MSDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Mid Suffolk, were both incorporated on 9 June 2017, and are investment vehicles for each Council.

Contribution:

CIFCO Ltd (Commercial Investment)

4.4 Each holding company owns 50% of the issued share capital of CIFCO Ltd which was incorporated on 12 June 2017 to invest in a portfolio of commercial property. Each Council's investment in these companies is split 10% share capital in their holding companies and 90% loan direct to CIFCO Ltd.

4.5 Each Council approved an initial investment (Tranche 1) of a total of £27.5m (£2.75m shares, £24.75m loans) of which £26.1m was invested by 31 March 2019 to acquire 11 properties.

4.6 Each Council approved a further investment (Tranche 2) of £25m (£2.5m shares, £22.5m loans) with a total achieved of £23.49m by the end of 2020/21. CIFCO Ltd may sell assets and reinvest in other properties to make changes to the portfolio.

4.7 Both Councils have classed CIFCO Ltd as a commercial investment for financial return which generates interest income to the General Fund. Neither Council will make further investments after 2020/21. This is in line with PWLB lending arrangements and the Prudential Code.

Gateway 14 Ltd (Service Investment)

4.8 MSDC (Suffolk Holdings) Limited also owns 100% of the issued share capital of Gateway 14 Ltd which was incorporated on the 1 November 2017 as a special purpose vehicle (SPV) to acquire Gateway 14, a 156-acre site located to the eastern fringe of Stowmarket and develop a business park, as part of plans to regenerate the area and meet service priorities. Mid Suffolk's initial investment in this company was split 10% share capital in the holding company and 90% loan to Gateway 14 Ltd, with further investments anticipated to be 100% loans.

4.9 Mid Suffolk Council approved an initial investment of the Gateway 14 site which was acquired for £16.5m (£1.6m shares, £14.9m loans) on 13 August 2018. Further investments of £4.16m were made in 2019/20, £0.6m in 2020/21. £2m is expected in 2021/22 and another £15.25m during 2022/23.

4.10 Further details on this project can be found in 4.23 and 4.24 below.

Babergh Growth Ltd (Service Investment)

4.11 BDC (Suffolk Holdings) Limited, also owns 50% of Babergh Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the primary purpose of meeting service priorities for delivering housing. This will be at the former council offices in Hadleigh and other residential and mixed used schemes in the future. Any financial gain from this venture will be incidental. The Council has invested in £5k of shares in the company.

Mid Suffolk Growth Ltd (Service Investment)

4.12 MSDC (Suffolk Holdings) Limited, also own 50% of Mid Suffolk Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the primary purpose of meeting service priorities for delivering housing. This will be at the former council offices in Needham Market and other residential and mixed used schemes in the future. Any financial gain from this venture will be incidental. The Council has invested in £5k of shares in the company.

4.13 **Table 2: Total Investments in shares and loans**

Cumulative Investments through Shares and Loans						
Babergh District Council	**2020/21 Cumulative Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
CIFCO Ltd (1)	25.78	25.66	25.53	25.40	25.25	25.10
CIFCO Ltd (2)	23.47	23.38	23.27	23.17	23.05	22.93
Babergh Growth Company	0.00	0.00	0.50	4.25	3.75	0.00
Total	**49.25**	**49.04**	**49.31**	**52.81**	**52.05**	**48.03**
Investment in Shares	4.96	4.96	4.96	4.96	4.96	4.96
Investment through Loans	44.30	44.08	44.35	47.85	47.10	43.07
Total	**49.25**	**49.04**	**49.31**	**52.81**	**52.05**	**48.03**

Cumulative Investments through Shares and Loans						
Mid Suffolk District Council	**2020/21 Cumulative Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
CIFCO Ltd (1)	25.78	25.66	25.53	25.40	25.25	25.10
CIFCO Ltd (2)	23.47	23.38	23.27	23.16	23.05	22.93
Gateway 14 Ltd	20.98	26.98	38.98	32.17	18.64	11.30
Mid Suffolk Growth Company	0.00	0.00	4.25	5.25	3.50	0.00
Total	**70.23**	**76.02**	**92.04**	**85.98**	**70.45**	**59.34**
Investment in Shares	6.58	6.58	6.58	6.58	6.58	6.58
Investment through Loans	63.65	69.44	85.45	79.40	63.87	52.76
Total	**70.23**	**76.02**	**92.04**	**85.98**	**70.45**	**59.34**

Risk Assessment:

4.14 As mentioned in section 8 of the main report, this strategy has links to the Councils Significant Risk Register, specifically risk no. 10, if CIFCO Ltd does not generate forecast investment returns and Gateway 14 Ltd fails to bring forward the development of the site.

4.15 CIFCO Ltd and Gateway 14 Ltd, also maintain their own risk registers and the Corporate Manager for Internal Audit attends the regular Risk Management Panel meetings.

4.16 The Councils' holding companies have appointed directors to the boards of CIFCO Ltd, Gateway 14 Ltd, Babergh Growth Ltd and Mid Suffolk Growth Ltd that offer a Council shareholder perspective (elected member directors) and commercial property expertise (industry expert directors). It is anticipated that boards of any future investment SPVs, will have a similar membership.

<u>CIFCO Ltd</u>

4.17 CIFCO Ltd.'s investment strategy targets medium to long term resilience based on:

- a strategy that balances the portfolio, so a significant number of assets are 'core' and liquid and,
- a strategy that balances other attributes such as geography, asset class and sector so that resistance to market stresses in any individual attribute can be mitigated.

4.18 Each property acquisition was approved by the CIFCO Ltd Board and reported to each holding company Board for approval before funds were released, and due diligence was done on the tenant as assets were acquired, including a Dun and Bradstreet credit check.

4.19 On a quarterly basis, CIFCO Ltd.'s fund managers Jones Lang LaSalle (JLL) provide a portfolio analysis report including market forecasts and any tenancy arrears, and the CIFCO Ltd Chair (an independent industry expert) reports on performance to simultaneous holding company board meetings and once a year to Full Council.

4.20 As part of annual business planning, JLL provide a full market conditions assessment, based on the individual attributes of each asset class targeted by CIFCO Ltd, and the CIFCO Ltd Board consider any revisions to its investment strategy based on this assessment and the ongoing quarterly portfolio analysis reports.

4.21 With financial return being the main objective, the Councils accept higher risk on investments for yield than they do with treasury management investments. The potential risks for property held for income are voids and falls in rental income. The commercial properties acquired for income are bought as long-term holdings and are professionally managed. They could be sold individually if the long-term prognosis is an underachievement of net return targets.

Gateway 14 Ltd

4.22 Mid Suffolk and its holding company delegated authority to the Board to acquire the site and develop a detailed delivery model for this business park development. Since acquisition, Avison Young has been advising the Board in respect of delivery models and partners to bring forward the development of this 156-acre business park. The Holding company will approve subsequent requests for the drawdown of capital for infrastructure and development works across the site.

4.23 Property company JAYNIC has been appointed by Gateway 14 to develop the site. Public consultation on illustrative masterplans for the site were held in Autumn 2020 with a subsequent planning application submitted in January 2021 and planning approval was granted in November 2021.

Liquidity:

4.24 Loans are repaid often over a long time and consist of principal and interest in accordance with the loan agreements. The interest is a revenue receipt and is available for use immediately. The Councils have a charge on the properties acquired by CIFCO Ltd and the land acquired for Gateway 14 which gives the Councils security.

5. Proportionality

5.1 Both Councils have some dependency on profit generating investment activity to achieve a balanced revenue budget. Table 3 shows the extent to which the Councils expenditure is dependent on achieving the expected net profit from investments over the medium-term.

Should the Councils fail to achieve the expected net profit, both Councils have contingency plans for continuing to provide these services by reducing overheads, continuing to make services more efficient and through digital transformation.

Table 3: Proportionality of Investments

Proportionality of Investments						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Gross service expenditure	34.69	32.66	33.54	33.69	34.27	34.93
Gross Investment income	2.04	2.76	2.75	2.74	2.73	2.72
Proportion	**5.88%**	**8.46%**	**8.21%**	**8.14%**	**7.96%**	**7.79%**

Proportionality of Investments						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Gross service expenditure	34.09	30.80	37.05	31.93	32.47	33.19
Gross Investment income	3.10	4.38	4.63	4.27	4.85	5.44
Proportion	**9.09%**	**14.21%**	**12.50%**	**13.39%**	**14.95%**	**16.39%**

6. Borrowing in Advance of Need

CIPFA Prudential Code (the Code)

6.1 The 2021 Prudential Code states that "an authority must not borrow to invest primarily for financial return".

6.2 In order to comply with the Code, both Councils will not make any more investments in CIFCO Ltd (a commercial investment) after 2020/21. Any future investments in the Councils' other trading companies will be for the primary purpose of meeting service priorities.

DLUHC Guidance

6.3 Government guidance issued in October 2018 has extended the Prudential Code definition to include borrowing to finance the acquisition of non-financial as well as financial investments that the organisation holds primarily or partially to generate a profit. This includes all loans and property investments.

6.4 Both Councils' have borrowed to invest in their own properties and to give loans to CIFCO Ltd and Gateway 14 Ltd and other special purpose vehicles. These make a profit to reinvest in Council services and help achieve a balanced revenue budget. The Councils' view of this activity is that it meets the service needs and is within their CFR as per the CIPFA definition.

6.5 The Councils' policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing are:

- When exercising the power to invest, the Councils will act for a proper purpose and act in a reasonable manner, its fiduciary duty to obtain value for money and whether the investments are proportionate and properly balanced against the anticipated benefits as well as the wider interests of the Councils' local Business Rate and Council Taxpayers.
- To have regard to the regeneration and development strand of the Councils' Joint Asset and Investment Strategy when investing for profit, acknowledging that the Councils have a key role to play in using their own assets and enabling/facilitating the use of private and other public sector assets to deliver housing and economic growth and regeneration. To appoint independent industry expert directors to the Councils' investment and SPV company boards
- For the SPVs to prepare a business case for each purchase and report to the Council on expected cost and benefits
- To appoint relevant expert advisors when assessing, entering and holding an investment.
- When investing in development projects, where possible and appropriate, to contract with an experienced development partner.
- To prioritise medium to long term resilience of investments, over short-term gain.
- To fund and structure each investment to optimise risks and rewards, having regard to the previous bullet point.

7. Knowledge and Skills

7.1 As per section 10 of the Joint Capital Strategy in Appendix A

8. Governance – Capital Investments

8.1 The Capital Programme is approved as part of the annual budget setting process by Cabinet and Full Council in February. Other investment decisions occurring outside of this process that exceed £150k qualify as a key decision as per Part One of the Councils' constitution and is approved by Cabinet and Full Council.

9. Investment Indicators

9.1 The Councils have set the following quantitative indicators to allow elected members and the public to assess the Councils' total risk exposure as a result of their investment decisions. These are shown in Tables 4, 5 and 6 that follow.

Total risk exposure:

9.2 The first indicator shows the Councils' cumulative total exposure to potential investment losses.

Table 4: Total investment exposure

Cumulative Investment Exposure						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Treasury Management Investments	13.01	13.09	13.06	13.05	13.03	13.00
Capital Investments	53.42	53.37	57.94	62.58	61.89	57.93
Total Exposure	**66.42**	**66.47**	**71.00**	**75.63**	**74.92**	**70.94**

Cumulative Investment Exposure						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Treasury Management Investments	14.68	13.09	13.06	13.05	13.03	13.00
Capital Investments	73.22	81.12	97.35	91.29	75.76	64.65
Total Exposure	**87.90**	**94.21**	**110.41**	**104.34**	**88.79**	**77.65**

How investments are funded:

9.3 Government guidance is that these indicators should include how investments are funded. Since the Councils do not normally associate particular assets with particular liabilities, this guidance is difficult to apply. However, the following investments could be described as funded by borrowing.

9.4 For those investments funded by borrowing the exposure at the beginning of 2022/23 is forecast to be £53.4m for Babergh and £81.1m for Mid Suffolk as shown in Table 5 that follows.

Table 5: Investments funded by borrowing

Cumulative investments funded by borrowings						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Investments	53.42	53.37	57.94	62.58	61.89	57.93
Total Funded by borrowing	**53.42**	**53.37**	**57.94**	**62.58**	**61.89**	**57.93**

Cumulative investments funded by borrowings						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Investments	73.22	81.12	97.35	91.29	75.76	64.65
Total Funded by borrowing	**73.22**	**81.12**	**97.35**	**91.29**	**75.76**	**64.65**

Rate of return received:

9.5 This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 6: Investments net rate of return

Investments net rate of return						
Babergh District Council	2020/21 Actual %	2021/22 Forecast Outturn %	2022/23 Budget %	2023/24 Forecast %	2024/25 Forecast %	2025/26 Forecast %
Treasury Management Investments	2.63	2.73	3.11	3.11	3.11	3.12
Other Capital Investments	3.13	3.53	3.53	3.53	3.53	3.53
CIFCO Ltd (1)	3.44	3.35	3.34	3.38	3.42	3.47
CIFCO Ltd (2)	3.41	3.98	3.98	3.53	3.08	2.65
Babergh Growth Company	0.00	0.00	2.72	5.23	2.76	2.77
All investments (Average)	**3.40**	**3.64**	**3.65**	**3.54**	**3.47**	**3.20**
Investments net rate of return						
Mid Suffolk District Council	**2020/21 Actual %**	**2021/22 Forecast Outturn %**	**2022/23 Budget %**	**2023/24 Forecast %**	**2024/25 Forecast %**	**2025/26 Forecast %**
Treasury Management Investments	2.82	2.79	3.24	3.25	3.25	3.26
CIFCO Ltd (1)	2.43	2.57	2.63	2.71	2.77	2.84
CIFCO Ltd (2)	3.19	3.98	3.98	3.53	3.08	2.65
Gateway 14 Ltd	4.20	6.36	4.88	5.30	5.77	6.69
Mid Suffolk Growth Company	0.00	0.00	5.88	5.95	4.77	2.38
All investments (Average)	**3.21**	**4.25**	**4.00**	**4.33**	**4.29**	**4.01**

Note: The returns for Gateway 14 and the Growth companies varies due to the timing of repayments as properties are sold/developed and loans repaid in full.

APPENDIX C: JOINT TREASURY MANAGEMENT STRATEGY 2022/23

1. Introduction

1.1 The Joint Treasury Management strategy contains the following:

- Borrowing Strategy (section 4)
- Annual Investment Strategy (section 5)
- Treasury Management Indicators (Appendix D)
- Economic and Interest Rate Forecast (Appendix E)
- Existing Investment and Debt Portfolio (Appendix F)
- Treasury Management Policy Statement (Appendix G)

1.2 Treasury management is the management of the Councils' cash flows, borrowing and investments, and the associated risks. Babergh and Mid Suffolk invest surplus funds and both Councils borrow to fund capital investment and manage cash flows. Both Councils are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

1.3 The successful identification, monitoring and control of financial risk are therefore central to the Councils' prudent financial management.

1.4 The Councils will continue to:

- Make use of call accounts, if necessary
- Use the strongest/lowest risk non-credit rated building societies
- Use covered bonds (secured against assets) for longer term investments
- Consider longer term investments in property or other funds

1.5 The Local Government Act 2003 requires the Councils to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities 2017 (the Prudential Code) when determining how much money they can afford to borrow.

1.6 Treasury risk management at both 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 TM Code) which requires the Councils to approve a treasury management strategy before the start of each financial year. This report fulfils the Councils legal obligation under the Local Government Act 2003 to have regard to the TM Code.

1.7 The DLUHC Investment Guidance 2018, in paragraph 21, requires local authorities to prioritise Security, Liquidity and Yield in that order of importance.

1.8 The Joint Treasury Management Strategy for 2022/23 continues to focus primarily on the effective management and control of risk and striking a balance between the security, liquidity and yield of those investments. The Councils' objective when investing money is to strike an appropriate balance between risk and return.

1.9 Details of investments held for service purposes or for commercial profit are included in the Joint Investment Strategy shown in Appendix B.

2. External Context

2.1 A detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix E.

3. Local Context

Interest rates on Investments and Borrowing

3.1 For the purpose of setting the budget, it has been assumed that new short-term investments will be made at an average rate of between 0.01% and 0.08%, and that new long-term loans will be borrowed at an average rate between 1.8% and 2.8%.

Capital Financing Requirement

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. The Councils' current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3 As at 30 November 2021, Babergh held £118.67m of borrowing and £21.63m of investments, Mid Suffolk held £132.88m of borrowing and £19.75m of investments. This is set out in further detail at Appendix F. Forecast changes in these sums are shown in the following balance sheet analysis:

Table 1: Capital Financing Requirement Summary and forecast

Cumulative Capital Financing Requirement						
Babergh	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Total CFR	160.21	162.03	182.96	184.81	182.81	179.53
Less: Other Debt Liabilities *	0.00	0.00	(0.30)	(0.22)	(0.14)	(0.05)
Loans CFR	**160.21**	**162.03**	**182.65**	**184.59**	**182.68**	**179.48**
Less: External Borrowing**	(127.09)	(104.40)	(93.84)	(93.28)	(86.71)	(80.12)
Internal (Over) Borrowing (Cumulative)	**33.12**	**57.63**	**88.81**	**91.31**	**95.97**	**99.36**
Less: Balances & Reserves-General Fund	(24.23)	(18.33)	(17.74)	(17.55)	(17.45)	(17.37)
Less: Balances & Reserves-HRA	(19.59)	(9.10)	(3.57)	(5.63)	(4.73)	(5.70)
Less: Working Capital Surplus	0.13	0.13	0.13	0.13	0.13	0.13
New Net (Investment) / Borrowing Requirement	**(10.57)**	**30.33**	**67.64**	**68.26**	**73.92**	**76.42**

Cumulative Capital Financing Requirement						
Mid Suffolk	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Total CFR	183.77	194.34	245.19	245.70	227.26	209.57
Less: Other Debt Liabilities *	0.00	0.00	(0.34)	(0.24)	(0.14)	(0.05)
Loans CFR	**183.77**	**194.34**	**244.85**	**245.46**	**227.12**	**209.52**
Less: External Borrowing**	(142.57)	(118.34)	(98.73)	(90.10)	(88.95)	(87.79)
Internal (Over) Borrowing (Cumulative)	**41.20**	**76.01**	**146.13**	**155.36**	**138.17**	**121.73**
Less: Balances & Reserves-General Fund	(45.66)	(43.73)	(38.17)	(37.77)	(37.46)	(37.16)
Less: Balances & Reserves-HRA	(8.84)	(3.01)	(2.92)	(2.70)	(3.02)	(3.77)
Add: Working Capital Deficit	(1.81)	(1.81)	(1.81)	(1.81)	(1.81)	(1.81)
New Net (Investment) / Borrowing Requirement	**(15.11)**	**27.46**	**103.22**	**113.07**	**95.88**	**78.99**

* leases form part of the Councils' total debt
** shows only loans to which the Councils are currently committed and excludes optional refinancing.

3.4 The Councils have CFRs which increase in the short term and then decrease by the end of the medium term. This is due to the requirements of the capital programme, and investments and will therefore need to borrow up to £52.4m for Babergh and £113m for Mid Suffolk over the forecast period.

3.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Councils' total debt should be lower than their highest forecast CFR over the next three years. Table 1 above shows that the Councils expect to comply with this recommendation over the forecast period.

Liability benchmark:

3.6 A liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of Treasury Investments for each Council over the medium-term (the lowest being £13m) to maintain sufficient liquidity but minimise credit risk.

3.7 A comparison of the Councils' actual borrowing against this alternative strategy was shown in Table 7 in Appendix A, paragraph 4.10. This table shows that when the Councils' expected outstanding debt is below the Liability Benchmark (lowest risk level) for the forecast period, it indicates a need to borrow.

<u>Table 2: Liability Benchmark</u>

Liability Benchmark						
Babergh	**2020/21 Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
CFR	160.21	162.03	182.96	184.81	182.81	179.53
Less: Usable Reserves	(43.82)	(27.43)	(21.31)	(23.18)	(22.18)	(23.07)
Less: Working Capital Surplus	0.13	0.13	0.13	0.13	0.13	0.13
Plus: Minimum Investments	13.01	13.09	13.06	13.05	13.03	13.00
Liability Benchmark	**129.53**	**147.82**	**174.84**	**174.81**	**173.80**	**169.59**

Liability Benchmark						
Mid Suffolk District Council	**2020/21 Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
CFR	183.77	194.34	245.19	245.70	227.26	209.57
Less: Usable Reserves	(54.49)	(46.74)	(41.10)	(40.47)	(40.48)	(40.93)
Add: Working Capital Deficit	(1.81)	(1.81)	(1.81)	(1.81)	(1.81)	(1.81)
Plus: Minimum Investments	14.68	13.09	13.06	13.05	13.03	13.00
Liability Benchmark	**142.15**	**158.88**	**215.34**	**216.46**	**198.00**	**179.83**

4. Borrowing Strategy

Overview

4.1 As at 30 November 2021 Babergh held loans of £118.67m and Mid Suffolk £132.88m. These have increased by £11.66m for Babergh and £9.62m for Mid Suffolk on the previous year, due to funding previous years' capital programmes.

4.2 The balance sheet forecast for borrowing in Table 1 above shows that Babergh would be able to borrow up to £43.64m and Mid Suffolk could borrow up to £103.22m in 2022/23. The Councils may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £198m for Babergh and £261m for Mid Suffolk, as shown in Appendix A Table 8.

Objectives

4.3 The Councils' chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. A secondary objective is the flexibility to renegotiate loans should the Councils' long-term plans change.

Strategy

4.4 Given the significant cuts to public expenditure and in particular to local government funding, the Councils' borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolios. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. This position will be monitored and evaluated on an ongoing basis to ensure both Councils achieve value for money.

4.5 By doing so, the Councils are able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose (the Councils' treasury advisers) will assist the Councils with this 'cost of carry' and breakeven analysis.

4.6 Its output may determine whether the Councils borrow additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.7 The Councils have previously raised the majority of their long-term borrowing from the PWLB but will consider borrowing any long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the Treasury Management Code.

4.8 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Councils intend to avoid this activity in 2022/23 and beyond in order to retain its access to PWLB loans.

4.9 Alternatively, the Councils may arrange forward starting loans during 2022/23, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.10 In addition, the Councils may borrow more short-term loans to cover unplanned cash flow shortages.

Sources of borrowing

4.11 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Suffolk County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Municipal Bonds Agency

4.12 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons:

- borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason, and

- there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council

LOBOs

4.13 Mid Suffolk holds £4m of LOBO (Lender's Option Borrower's Option) loans 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. All of these loans have options during 2022/23, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £4m.

Short-term and variable rate loans

4.14 These loans leave the Councils exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Other sources of debt finance

4.15 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Local Application

4.16 The Councils have previously raised the majority of their long-term borrowing from the PWLB, but continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

4.17 Consideration will be given to all forms of borrowing/financing in relation to any future capital investment plans. This is most likely to be via the Public Works Loan Board (PWLB) but consideration will also be given to borrowing from other sources such as other local authorities, commercial banks, the money markets, capital markets (stock issues, commercial paper and bills) and leasing. The Councils will receive the “certainty rate” discount of 0.2% on PWLB loans. An “infrastructure rate” discount of 0.4% is also available for lending to support nominated infrastructure projects.

4.18 In conjunction with advice from Arlingclose, both Councils will keep these sources of finance under review.

4.19 Officers will take advice on the optimum time to undertake additional borrowing and will adopt a flexible approach in consultation with their treasury advisors, after consideration of the following:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risks
- Borrowing source

4.20 The General Fund revenue budget for 2022/23 will include provision for interest payments relating to external borrowing and the statutory Minimum Revenue Provision (MRP) to ensure the principal is repaid. Different arrangements apply to the Housing Revenue Account (Council Housing) in that there is no MRP. The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. Appendices D, E, F, G, H and I summarise the regulatory framework, economic background and information on key activities for the year.

4.21 In accordance with the DLUHC Guidance, the Councils will be asked to approve a revised Treasury Management Strategy if the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large, unexpected change in interest rates, or in the Councils’ capital programmes or in the level of investment balances.

Debt rescheduling

4.22 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Councils may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. <u>Annual Treasury Investment Strategy</u>

5.1 The Councils hold significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months, Babergh's treasury investment balances have ranged between £12.3m and £24.2m. Mid Suffolk's treasury investment balances ranged between £12.3m and £27.6m.

5.2 Balances fluctuated more than in previous years due to timing differences between funding to support Covid19 payments received from central Government and the payments being made by the Councils.

Objectives

5.3 CIPFA's TM Code requires the Councils to invest their treasury funds prudently, and to have regard to the security and liquidity of their investments before seeking the highest 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.

5.4 Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy and the Councils may request their money back at short or up to 90 days' notice.

5.5 Where balances are expected to be invested for more than one year, whilst the Councils aim to achieve a total return that is equal to or higher than the prevailing rate of inflation (in order to maintain the spending power of the sum invested) it may be harder to do so, as the inflation rate is currently increasing. However, the expectation is that this will be a short term position and that inflation will reduce after 2022/23.

5.6 Table 3 shows the planned level of investments for treasury management purposes over the medium-term. Long term investments are those made for more than one year. Cash and cash equivalents include money market funds and current bank accounts.

Table 3: Treasury management investments

Treasury Management Investments						
Babergh District Council	31.03.2021 Actual £m	31.03.2022 Forecast Outturn £m	31.03.2023 Budget £m	31.03.2024 Forecast £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m
Long Term Investments	11.17	11.09	11.06	11.05	11.03	11.00
Cash and Cash Equivalents	1.84	2.00	2.00	2.00	2.00	2.00
Total TM Investments	**13.01**	**13.09**	**13.06**	**13.05**	**13.03**	**13.00**

Treasury Management Investments						
Mid Suffolk District Council	31.03.2021 Actual £m	31.03.2022 Forecast Outturn £m	31.03.2023 Budget £m	31.03.2024 Forecast £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m
Long Term Investments	11.16	11.09	11.06	11.05	11.03	11.00
Cash and Cash Equivalents	3.02	2.00	2.00	2.00	2.00	2.00
Total TM Investments	**14.68**	**13.09**	**13.06**	**13.05**	**13.03**	**13.00**

Governance – Treasury Management:

5.7 Decisions on treasury management investment and borrowing are made daily and are delegated to the Assistant Director - Corporate Resources (the S151 Officer) and Finance staff, who must act in line with the Joint Treasury Management Strategy approved by Full Council in February each year.

5.8 There is a Joint Half Year and Joint Annual Outturn Report on treasury management activity presented to Council. The Joint Audit and Standards Committee is responsible for scrutinising treasury management decisions.

Negative interest rates

5.9 The COVID-19 pandemic increased the risk that the Bank of England might set its Bank Rate at or below zero, which could feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested. As the Bank of England increased rates in December 2021, this situation is now less likely.

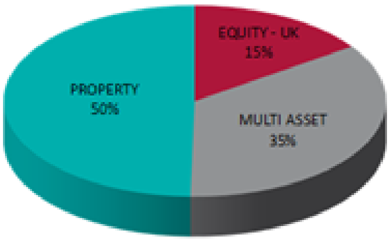
Strategy

5.10 Given the increasing risk and very low returns from short-term unsecured bank investments, both Councils have diversified into higher yielding asset classes. This diversification represents a continuation of the strategy adopted in 2015/16.

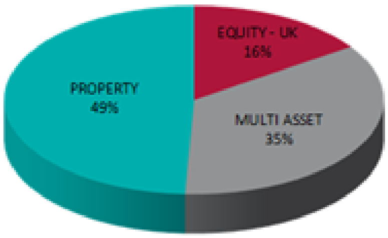
5.11 The value of these funds can fluctuate and they are therefore considered to be long term investments. The Councils have invested in a number of strategic pooled funds, across a variety of asset classes to minimise risk, as shown below.

Chart 1: Strategic pooled funds asset class allocation for both Councils

Babergh



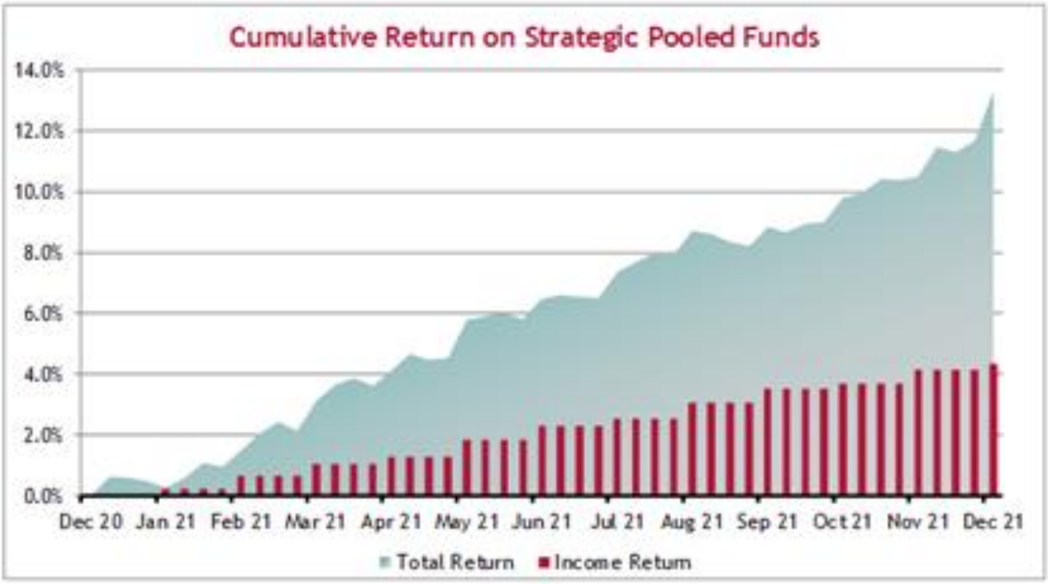
Mid Suffolk



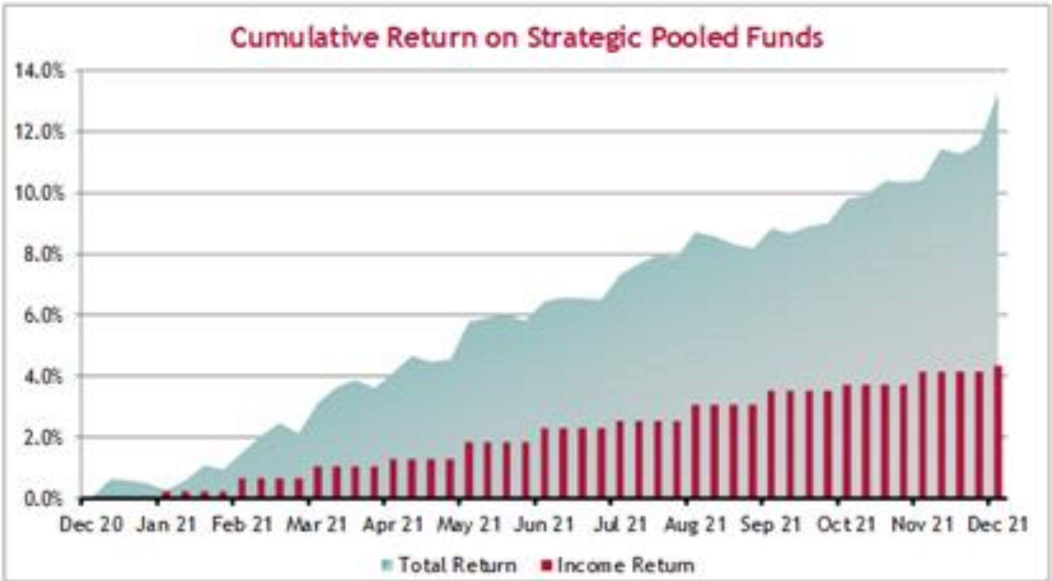
5.12 Although these funds have incurred unrealised capital losses, the overall total return for each has been positive with a total return of 13.3% for Babergh and 13.26% for Mid Suffolk in 2021 as illustrated in the following charts:

Chart 2: Cumulative return on strategic pooled funds

Babergh



Mid Suffolk



Environment, social and governance (ESG) issues

5.13 In 2019 the Councils declared a climate emergency with the ambition to make the Councils carbon neutral by 2030.

5.14 In light of climate change-related risks in particular, increasing attention is being given to responsible investment by investors globally, resulting in an increasing appreciation that assessing ESG factors is not only a moral issue to be addressed, but also a key part of understanding long-term investment risk.

5.15 The United Nations gives the following examples of ESG issues within its Principles for Responsible Investment;

Environmental	**Social**	**Governance**
• Climate change • Greenhouse gas emissions • Resource depletion • Waste and pollution • Deforestation	• Human rights • Working conditions (including slavery and child labour) • Local communities • Employee relations and diversity	• Bribery and Corruption • Board diversity and structure • Executive pay • Political lobbying and donations • Tax strategy

5.16 An increasing number of ESG focussed funds are emerging that follow certain criteria for investments, such as abiding with the UN Principles of Responsible Investment, or not investing in certain industries such as weapons, fossil fuels or alcohol and tobacco.

5.17 Although regulations on ESG investments are gaining more clarity and standardisation, with the Government publishing a report in October 2021 called Greening Finance: A Roadmap to Sustainable Investing, careful due diligence is still required to ensure that a fund lives up to the claims being made and its ESG principles match the Councils' priorities for environmental / ethical investing.

5.18 The subject has been debated by both Joint Audit and Standards Committee in May 2021 and the Cabinets in January 2022. The Cabinets agreed to monitor treasury management investments in relation to all three aspects of ESG reporting as this develops and look to make changes to investments at an appropriate time that would strengthen ESG performance but be within acceptable financial considerations.

Business Models

5.19 Under the new IFRS 9 standard, accounting for certain investments depends on the Councils' "business model" for managing them. The Councils aim to achieve value from their internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties

5.20 The minimum proposed investment criteria for UK counterparties in the 2022/23 Treasury Management Strategy remains at A-. (See Appendix I for a list). (Note: This would be the lowest credit rating determined by credit rating agencies).

5.21 In line with advice received from Arlingclose the Councils may invest surplus funds with any of the counterparty types in Table 4 that follows, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits for Babergh and Mid Suffolk

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£2m	100%
Secured investments *	25 years	£2m	100%
Banks (unsecured) *	13 months	£2m	100%
Building societies (unsecured) *	13 months	£2m	25%
Registered providers (unsecured) *	5 years	£1m	25%
Money market funds *	n/a	£2m	100%
Strategic pooled funds	n/a	£5m	100%
Other investments *	5 years	£1m	10%

Table 4 should be read in conjunction with the following notes:

- **Minimum Credit rating**
  Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

  For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) as part of a diversified pool e.g. via a peer-to-peer platform.

- **Government**
  Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

- **Secured investments**
  Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

- **Banks and building societies (unsecured)**
  Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

- **Registered providers (unsecured)**
  Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

- **Money market funds**
  Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Councils will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

- **Strategic pooled funds**
  Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Councils' investment objectives will be monitored regularly.

- **Real estate investment trusts**
  Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

- **Other investments**

  This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Councils' investment at risk.

Council banker and Operational bank accounts

5.22 The Councils may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Councils maintaining operational continuity. Both Councils bank with Lloyds Bank plc which currently has a credit rating of A+.

Risk assessment and credit ratings

5.23 Credit ratings are obtained and monitored by the Councils treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.24 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.25 See the table in Appendix I for an explanation of the credit ratings issued by the main credit ratings agencies.

Other information on the security of investments

5.26 The Councils understand that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Councils treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.27 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Councils will restrict investments to those organisations of higher credit quality and reduce the maximum duration of investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

5.28 If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Councils' cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office (DMADF) or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits

5.29 The Councils' total General Fund reserves available to cover investment losses are forecast to be £6.7m for Babergh and £18.5m for Mid Suffolk on 31 March 2022. In order to minimise the available reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) for the majority of sectors will be £2m.

5.30 A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as per Table 5. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, as the risk is diversified over many countries.

5.31 Credit risk exposures arising from non-treasury investments, financial derivatives and operational bank accounts count against the relevant investment limits.

Table 5: Additional Investment limits for Babergh and Mid Suffolk

Investment Limits	**Cash limit**
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£2m per country

Liquidity management

5.32 The Councils use purpose-built cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Councils being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Councils medium-term budget planning and cash flow forecasts.

5.33 The Councils will spread their liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

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:

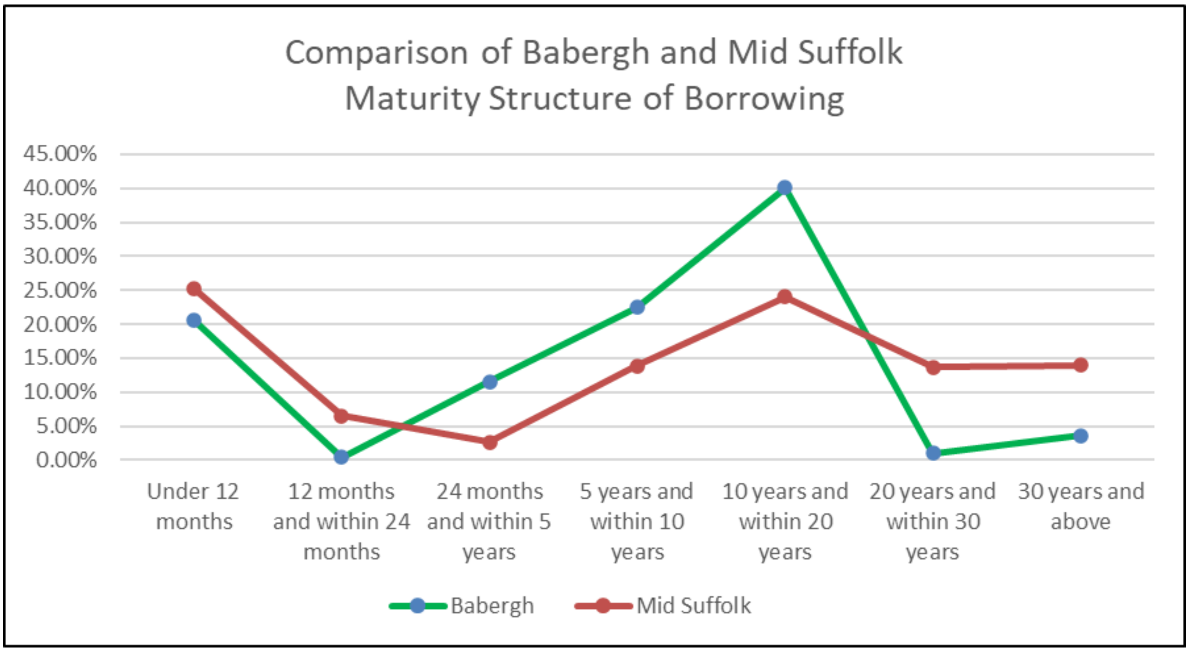
Interest rate risk indicator	
Upper impact on Revenue of a 1% increase in rates	**2022/23 Limit £m**
Babergh District Council	0.015
Mid Suffolk District Council	0.073

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

APPENDIX E: ECONOMIC & INTEREST RATE FORECAST

1 Economic background

1.1 The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Councils' treasury management strategy for 2022/23.

1.2 The Bank of England (BoE) raised the Bank Rate by 0.15% on 16th December 2021 to 0.25% and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 to raise rates and unanimously to maintain the asset purchase programme. Within the December 2021 Monetary Policy Report, the Bank expected consumer price index (CPI) inflation to peak at around 6% in April 2022, about 1% higher than previous projections largely reflecting the pass-through of rises in wholesale gas and electricity prices.

1.3 UK Consumer Price Inflation (CPI) for November 2021 registered 5.1% year on year, up from 3.1% in the September. Core inflation, which excludes the more volatile components, also rose to 4.0% year on year. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will fall to 4% compared to the previous forecast of 4.5%.

1.4 In August 2021, the headline 3-month average annual growth rate for wages were 7.2% for total pay and 6.0% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 4.7% while regular pay was up 3.4%. These figures should be interpreted with caution, however, as the underlying wage growth is falling back from current rates, Moreover, there has also been a fall in the number and proportion of lower paid jobs, helping to push up the average earnings figure.

1.5 GDP grew by 5.5% in the second calendar quarter of 2021, compared to a fall of -1.6% quarter on quarter in the previous three months, with the annual rate jumping to 23.6% from -6.1%. Here too, base effects from 2020 have resulted in the high Q2 2021 data. Monthly GDP estimates have shown the economy is recovering, with the economy now just 0.8% below its pre-pandemic level. Looking ahead, the BoE's November 2021 Monetary Policy Report forecasts economic growth will rise by 1.5% in Q3 2021, 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022. GDP growth is now expected to be around 5% in 2022 (revised down from 6%), before slowing to 1.5% in 2023 and 1% in 2024.

1.6 GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.1% year-on-year (y/y) in October, the fourth successive month of inflation. Core CPI inflation was 2.1% y/y in October, the third month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

1.7 The US economy expanded at an annualised rate of 2.0% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its November 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme. Having bought $120 billion of bonds each month during the pandemic to keep interest rates low, the Fed confirmed that purchases will be scaled back, starting with a $15 billion reduction in November 2021. In terms of the timing of any interest rate hikes, Fed Chair Jerome Powell said the central bank can be patient about doing so.

2 **Credit outlook**

2.1 Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

2.2 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable.

2.3 Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

3 **Underlying assumptions**

3.1 The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.

3.2 Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.

3.3 The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.

3.4 These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.

3.5 The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 2021 and Q1 2022 activity could be weak at best.

3.6 Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.

3.7 The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring down inflation whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

4 Interest Rate Forecast

4.1 The Authority's treasury management adviser, Arlingclose, is forecasting that BoE Bank Rate will rise to 0.50% in Q1 of 2022, but then remain there. Risks to the forecast are initially weighted to the upside but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

4.2 Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank rate have maintained short term gilt yields at higher levels. Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations. The risks around the gilt yield forecasts vary. The risk for short and medium-term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

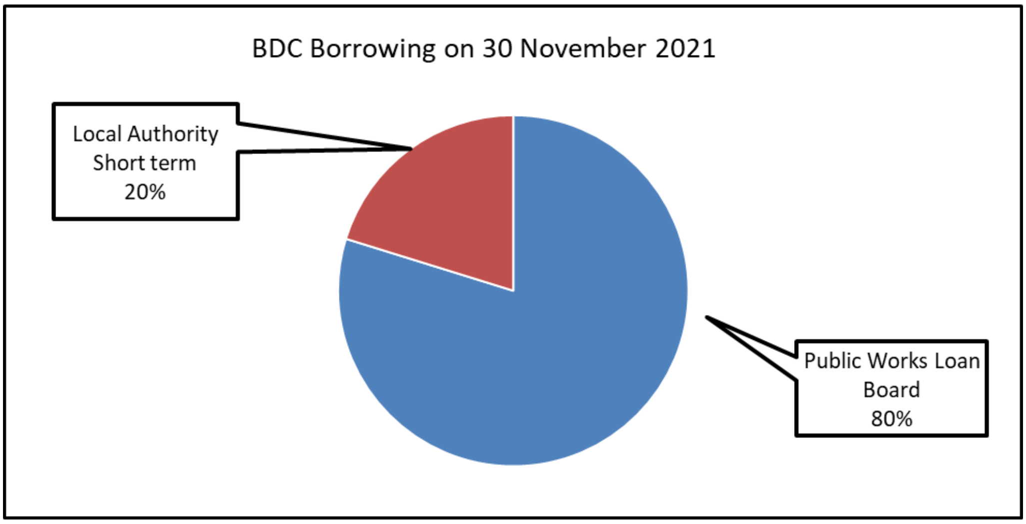
4.3 Table 1 Interest Rate Forecast

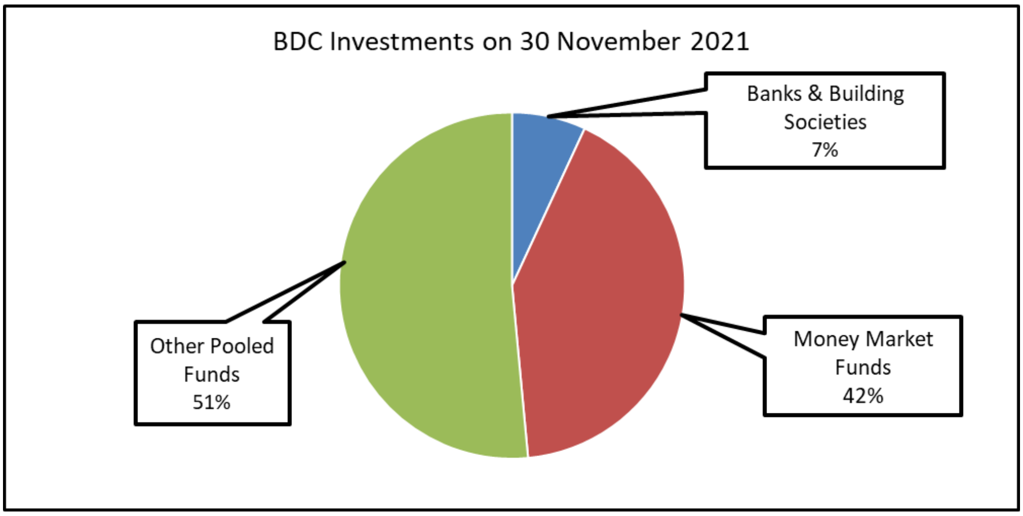
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

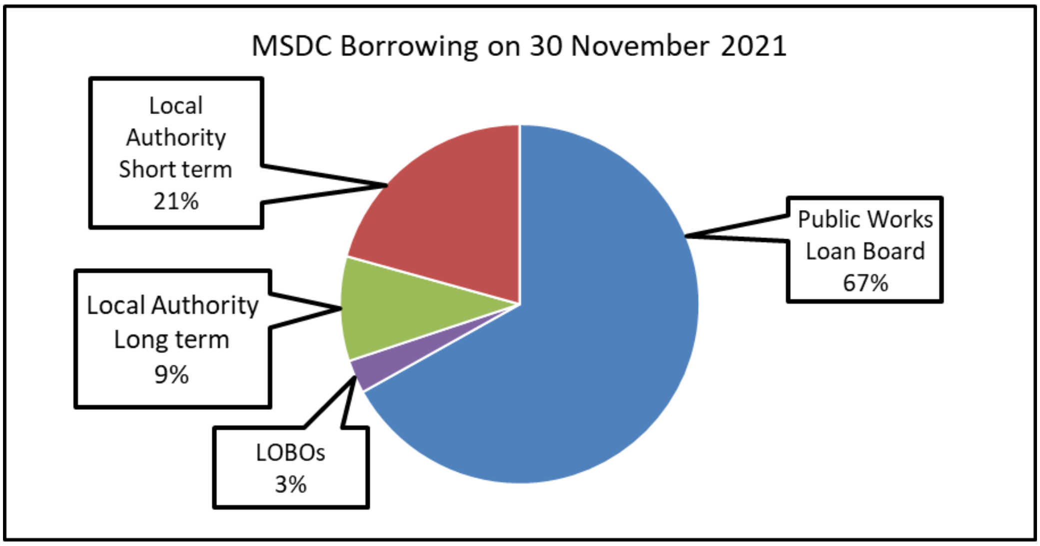
APPENDIX F: EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

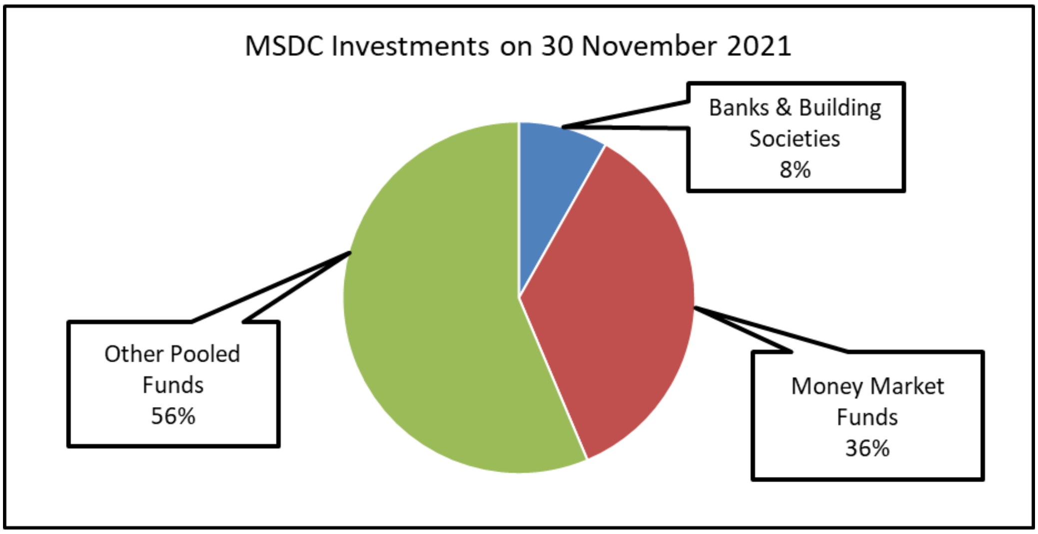
Babergh	30.11.2021 Portfolio £m	Average Rate %
External Borrowing:		
Public Works Loan Board	94.67	3.19%
Local Authority Short term	24.00	0.08%
Total External borrowing	**118.67**	2.56%
Treasury Investments:		
Banks & Building Societies	1.49	0.00%
Money Market Funds	9.00	0.01%
Other Pooled Funds	11.14	5.02%
Total Treasury Investments	**21.63**	2.59%
Net Debt	**97.04**	





Mid Suffolk	30.11.2021 Portfolio £m	Average Rate %
External Borrowing:		
Public Works Loan Board	88.88	3.28%
LOBOs	4.00	4.21%
Local Authority Long term	12.50	0.00%
Local Authority Short term	27.50	0.23%
Total External borrowing	**132.88**	2.37%
Treasury Investments:		
Banks & Building Societies	1.62	0.00%
Money Market Funds	7.00	0.01%
Other Pooled Funds	11.13	5.03%
Total Treasury Investments	**19.75**	2.84%
Net Debt	**113.13**	





APPENDIX G: TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and Background

1.1 The Councils adopt the key recommendations of the CIPFA Code of Practice on Treasury Management in Public Services 2017 Edition (the TM Code) as described in Section 5 of the Code.

1.2 In addition, the Department for Levelling-Up, Housing and Communities (DLUHC) revised guidance on Local Councils Investments issued in 2018 requires councils to approve a treasury management investment strategy before the start of each financial year.

1.3 Accordingly, the Councils will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

- Suitable treasury management practices (TMPs), setting out the manner in which the Councils will seek to achieve those policies and objectives, and prescribing how they will manage and control those activities.

1.4 The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of the Councils. Such amendments will not result in the Councils materially deviating from the TM Code's key principles.

1.5 The Full Council meeting for Babergh and Mid Suffolk will receive recommendations from the Joint Audit & Standards Committee on their treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a half-year review and an annual outturn report after its close.

1.6 The Councils delegate responsibility for the implementation of their treasury management policies and practices to the Cabinet, monitoring to the Joint Audit and Standards Committee and the execution and administration of treasury management decisions to the Section 151 Officer and/or Corporate Manager - Financial Services, who will act in accordance with the Councils policy statement, the TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.7 The Joint Audit and Standards Committee is responsible for ensuring effective scrutiny of the Joint Treasury Management Strategy and policies.

2. Policies and Objectives of Treasury Management Activities

2.1 The Councils define their treasury management activities in line with the TM Code definition as: "the management of the organisations investments and cash flows, their banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance associated with those risks."

2.2 The Councils regard the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of their treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Councils and any financial instruments entered into to manage these risks.

2.3 The Councils recognise that effective treasury management will provide support towards the achievement of their business and service objectives. They are therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.

2.4 Both Councils' borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Councils transparency and control over their debt.

2.5 Both Councils' primary objectives in relation to investments remain the security of capital. The liquidity or accessibility of the Councils investments followed by the yield earned on investments remain important but are secondary considerations.

APPENDIX H: ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT 2022/23

1.1 Where the Councils finance their capital expenditure by debt, they must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Councils to have regard to the former DLUHC's on Minimum Revenue Provision (the DLUHC Guidance) most recently issued in 2018 effective from 1 April 2018.

1.2 The broad aim of the DLUHC Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by grant income that has been rolled into Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

1.3 The DLUHC has published a consultation on proposed changes to capital finance regulations in respect of MRP. The closing date for responses is 8 February 2022. It can be accessed at https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision. It is proposed that these changes would be effective from 2023/24.

1.4 A charge to a revenue account for MRP cannot be a negative charge.

1.5 The DLUHC Guidance requires Full Council to approve an Annual MRP Statement each year and recommends a number of options for calculating an amount of MRP that they consider to be prudent. The following paragraph lists the options recommended in the Guidance.

1.6 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

1.7 For capital expenditure incurred before 1 April 2008, MRP will be determined in accordance with the former regulations that applied on 31 March 2008, incorporating an "Adjustment A" of £2.4m for Mid Suffolk (Option 1). Babergh does not have any capital expenditure incurred before 1st April 2008 on which to charge MRP.

1.8 For capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis using an interest rate equivalent to the average PWLB annuity rate for the year of expenditure. MRP charges start in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (Option 3).

1.9 For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where former operating leases have been brought onto the balance sheet on 1 April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

1.10 Where investments are made in the Councils' subsidiaries for the purpose of the companies purchasing land and buildings, MRP will be charged over 40 years.

1.11 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Councils will make no MRP charge, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the DLUHC Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

1.12 No MRP will be charged in respect of assets held within the Housing Revenue Account. However, voluntary MRP contributions from the HRA may be made.

1.13 Capital expenditure incurred during 2021/22 will not be subject to an MRP charge until 2022/23 and capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24.

1.14 If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Full Council at that time.

1.15 Based on the Councils' latest estimates of their Capital Financing Requirements on 31 March 2022, the budget for MRP for 2022/23 has been set as follows:

Estimated Capital Financing Requirement		
Babergh District Council	**31.3.2022 Estimated CFR £m**	**2022/23 Estimated MRP £m**
Capital expenditure before 01.04.2008	(0.375)	-
Unsupported capital expenditure after 31.3.2008	30.083	1.709
Transferred debt to HRA	(0.325)	-
Loans to other bodies repaid in instalments	44.628	-
Total General Fund	**74.011**	**1.709**
Assets in the Housing Revenue Account	8.597	-
HRA subsidy reform payment	79.097	-
Transferred debt from GF	0.325	-
Total Housing Revenue Account	**88.019**	**-**
Total CFR	**162.030**	**1.709**

Estimated Capital Financing Requirement		
Mid Suffolk District Council	**31.3.2022 Estimated CFR £m**	**2022/23 Estimated MRP £m**
Capital expenditure before 01.04.2008	8.057	0.085
Unsupported capital expenditure after 31.3.2008	28.494	1.476
Transferred debt to HRA	(1.750)	-
Loans to other bodies repaid in instalments	66.522	-
Total General Fund	**101.322**	**1.561**
Assets in the Housing Revenue Account	34.064	-
HRA subsidy reform payment	57.206	-
Transferred debt from GF	1.750	-
Total Housing Revenue Account	**93.021**	**-**
Total CFR	**194.343**	**1.561**

APPENDIX I: INSTITUTIONS MEETING HIGH CREDIT RATINGS CRITERIA

1.1 Detailed below is the list of the banks and building societies that both Councils can lend to (based on information on credit risk and credit ratings available in November 2021). This will be continuously monitored as the position changes throughout the year as credit ratings are reviewed and additional market information is evaluated.

1.2 This is based on UK Banks and Building Societies A-, Money Market Funds, Foreign Banks AA-. Foreign banks must be in a country with a sovereign rating of AAA.

Counterparty	**Long term rating - Fitch**	**Duration**
UK BANKS		
Bank of Scotland PLC	A+	100 days
Barclays Bank PLC	A+	100 days
Barclays Bank UK PLC	A+	100 days
Handelsbanken PLC	AA	100 days
HSBC Bank PLC	AA-	100 days
HSBC UK Bank PLC	AA-	100 days
Lloyds Bank PLC	A+	100 days
National Westminster Bank	A+	100 days
Natwest Markets PLC	A+	100 days
Royal Bank of Scotland PLC	A+	100 days
Santander UK PLC	A+	100 days
Standard Chartered Bank	A+	100 days
UK BUILDING SOCIETIES		
Nationwide Building Society	A+	100 days
FOREIGN BANKS		
Australia		
Australia and NZ Banking Group	A+	100 days
Commonwealth Bank of Australia	A+	100 days
National Australia Bank	A+	100 days
Westpac Banking Group	A+	100 days
Canada		
Bank of Montreal	AA	100 days
Bank of Nova Scotia	AA	100 days
Canadian Imperial Bank of Commerce	AA	100 days
National Bank of Canada	AA-	100 days
Royal Bank of Canada	AA	100 days
Toronto-Dominion Bank	AA	100 days
Finland		
Nordea Bank ABP	AA	100 days
Netherlands		
Cooperative Rabobank	AA-	100 days

Counterparty	Long term rating - Fitch	Duration
MONEY MARKET FUNDS (MMF)		
Aberdeen Standard Sterling Liquidity Fund	AAAmmf	Overnight
Goldman Sterling Liquid Reserves Fund	AAAmmf	Overnight
Insight Sterling Liquidity Fund	AAAmmf	Overnight
Federated Investors (UK) Sterling Liquidity Fund	AAAmmf	Overnight
Invesco AIM STUC Sterling Liquidity Portfolio	AAAmmf	Overnight
Blackrock Institutional Sterling Liquidity Fund	AAAmmf	Overnight

1.3 MMFs – Federated is domiciled in the UK for tax and administration purposes, Standard Life, Goldman Sachs, BlackRock, Invesco and Insight are domiciled in Ireland for tax and administration purposes.

Long Term Investments Grades - Fitch

Agency - Fitch	
Rating	**Definition**
AAA	Highest credit quality – 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality – 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Long Term Investments Grades – Moody's

<table>
<tr><th colspan="2">Agency - Moody's</th></tr>
<tr><th>Rating</th><th>Definition</th></tr>
<tr><td>Aaa</td><td>Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.</td></tr>
<tr><td>Aa1</td><td rowspan="3">Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.</td></tr>
<tr><td>Aa2</td></tr>
<tr><td>Aa3</td></tr>
<tr><td>A1</td><td rowspan="3">Obligations rated A are considered upper-medium grade and are subject to low credit risk.</td></tr>
<tr><td>A2</td></tr>
<tr><td>A3</td></tr>
</table>

Long Term Investments Grades – Standard & Poor's

Agency - Standard & Poor's	
Rating	**Definition**
AAA	An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poor's.
AA	An obligator rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only to a small degree.
A	An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.

APPENDIX J: GLOSSARY OF TERMS

CCLA	Churches, Charities and Local Authority Property Fund
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.
DLUHC	Department for Levelling Up, Housing and Communities. This is a ministerial department.
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.
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.
MIFID II	Markets in Financial Instruments Directive 2014/65/EU. Effective from 1 January 2018. The Councils have met the conditions to opt up to professional status. The Councils will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.
MPC	Monetary Policy Committee – A committee of the Bank of England which meets each month to decide the official interest in the UK. It is also responsible for other aspects of the Government’s monetary policy framework such as quantitative easing and forward guidance.
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.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
T Bills	Treasury Bill. A short-term Government Bond.
UBS	UBS Multi Asset Income Fund (UK) - a pooled fund