BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Joint Audit & Standards Committee		**REPORT NUMBER: JAC/21/33**
FROM:	**Melissa Evans, Director, Corporate Resources**	**DATE OF MEETING: 25 July 2022**
OFFICER:	**Rebecca Hewitt, Corporate Manager – Finance Operations**	

ANNUAL TREASURY MANAGEMENT REPORT – 2021/22

1. PURPOSE OF REPORT

1.1 The report is part of the Councils management and governance arrangements for Treasury Management activity under the CIPFA Code of Practice on Treasury Management ("the Code"). It provides Members with a comprehensive assessment of activities for the financial year 2021/22.

1.2 The report specifically sets out the performance of the treasury management function, the effects of the decisions taken, the transactions executed in the past year and any circumstances of non-compliance with the Councils treasury management policy statement and treasury management practices.

1.3 The report also includes performance on Prudential Indicators which were set in the 2021/22 Treasury Management Strategy (shown in Appendix E).

1.4 The figures contained in this report are subject to the external auditor's review.

2. OPTIONS CONSIDERED

2.1 This report fulfils the Councils legal obligations to have regard to the Code and there are no options to consider.

3. RECOMMENDATION TO BOTH COUNCILS

3.1 That the treasury management activity for the year 2021/22 as set out in this report and appendices be noted.

3.2 That it be noted that both Councils activity was in accordance with the approved Prudential Indicators for 2021/22.

RECOMMENDATION TO BABERGH COUNCIL

3.3 That it be noted that Babergh District Council's treasury management activity for 2021/22 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds, as mentioned in Appendix C, paragraph 4.1, the Council has complied with all the Treasury Management Indicators for this period.

	RECOMMENDATION TO MID SUFFOLK COUNCIL
3.4	That it be noted that, except for one occasion when the Council exceeded its investment limits in two of its Money Market Funds by £500k, as mentioned in Appendix C, paragraph 4.1, Mid Suffolk District Council's treasury management activity for 2021/22 was in accordance with the approved Treasury Management Strategy and Treasury Management Indicators for this period.
	REASON FOR DECISION **It is a requirement of the Code of Practice on Treasury Management that full Council notes the position for the financial year 2021/22.**

4. KEY INFORMATION

4.1 The 2021/22 Treasury Management Strategy for both Councils was approved in February 2021.

4.2 The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. The attached appendices summarise the regulatory framework, economic background and information on key activities for the financial year.

4.3 The Half Year Report on Treasury Management 2021/22 was presented to Members at the Joint Audit and Standards Committee on 29 November 2021.

4.4 The Treasury Management Indicators aim to ensure that the capital investments of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice.

4.5 Appendix D shows the position on key Treasury Management Indicators for 2021/22.

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

- Major issues over the period were the economic recovery from the coronavirus pandemic, the war in Ukraine, higher inflation and higher interest rates.

- CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially it was being driven by energy price effects and inflation in the retail and hospitality sectors. However, the surges in wholesale gas and electricity prices led to CPI for February 2022 as 6.2% year on year, up from 5.5% in the previous month.

- Bank Rate was 0.10% at the beginning of the reporting period and whilst the economy gathered momentum as the pandemic restrictions were eased, market expectations were that the Bank of England would delay rate rises until 2022. However, rising inflation changed that. The Bank increased its rate from 0.10% to 0.25% in December, to 0.50% in February and 0.75% in March.

- The Government's furlough scheme had insulated the labour market from the worst effects of the pandemic. Having peaked at 5.2% in December 2020, unemployment continued to fall and the labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%.

- Investment of surplus funds - As market conditions, credit ratings and Bank ring fencing have changed during the year, institutions that the Councils invest with, and the period of the investments have been reviewed.

- Credit risk scores were within the benchmark A- credit ratings.

- Babergh's short-term debt reduced by £6m and long-term debt reduced by £0.7m. Mid Suffolk's short-term debt reduced by £13.5m, offset by an increase in medium/long-term borrowing of £6.3m to take advantage of lower short-term rates. Global rising costs, strong demand, supply shortages and transport problems have caused delays to the Council's capital programme and therefore less borrowing was required.

- Both Councils continued to hold additional cash from government grants received relating to Covid-19. This has increased treasury investment activity during the year.

4.7 Specific highlights relating to 2021/22 activity are provided below:

Area/Activity	**Babergh**	**Mid Suffolk**	**Comments**
Long Term Borrowing – average interest rate	3.20%	2.73%	All at fixed rates
Credit Risk Scores during the year (value weighted average)	4.80 – 5.38	4.38 – 5.12	Both within the score for the approved A- credit rating for investment counterparties
Compliance with Prudential Indicators	✓	✓	See Appendix E

4.8 Appendix A sets out the issues that are impacting on current and future treasury management activity.

5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Councils have the resources available underpins the ability to achieve the priorities set out in the Joint Corporate Plan.

6. FINANCIAL IMPLICATIONS

6.1 As detailed in the report and appendices.

7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

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

7.3 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

8. RISK MANAGEMENT

8.1 This report is most closely linked to the Councils’ Significant Risk Register, Risk no. 13. “We may be unable to respond in a timely and effective way to financial demands”.

8.2 Key risks are set out below:

Risk Description	**Likelihood**	**Impact**	**Mitigation Measures**
If the Councils lose the investments this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.
If the Councils achieve a poorer return on investments than planned, there will be fewer resources available to deliver services.	Probable (3)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.

9. CONSULTATIONS

9.1 Regular meetings have taken place with the Councils Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

10. EQUALITY ANALYSIS

10.1 An equality analysis has not been completed because the report content does not have any impact on the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and have regard to the Councils ambition to be carbon neutral by 2030.

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

11.3 Following a report (Report JAC/20/21) on 17 May 2021 it was resolved by this Committee to recommend that the Cabinet pushes its fund managers to filter investments in respect of the ESG considerations, looking for positive contributions to tackling our carbon reduction priorities and that the Cabinet considers withdrawing funds from investors who do not adequately address these concerns.

11.4 The Joint Audit and Standards Committee recognised that any decision to withdraw funds should be balanced against financial prudence.

12. APPENDICES

Title	Location
(a) Background, Economy and Outlook	Appendix A
(b) Borrowing Strategy	Appendix B
(c) Investment activity	Appendix C
(d) Treasury Management Indicators	Appendix D
(e) Prudential Indicators	Appendix E
(f) Glossary of Terms	Appendix F

13. BACKGROUND DOCUMENTS

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

13.2 Joint Capital, Investment and Treasury Management Strategies 2021/22 (Paper JAC/20/10)

13.3 Half Year Report on Treasury Management 2021/22 (Paper JAC/21/10)

13.4 Environmental Social and Governance (ESG) Considerations for the Councils Joint Treasury Management Strategy (Paper JAC/20/21 and Minute no.37).

Appendix A

Background, Economy and Outlook

1. Introduction

1.1. In February 2012 the Councils adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the "CIPFA Code") which requires the Councils to approve treasury management half year and annual reports.

1.2. The Joint Treasury Management Strategy for 2021/22 was approved at both full Councils in February 2021. Both Councils have borrowed and invested substantial sums of money, and both are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Councils Treasury Management Strategy.

1.3. Treasury risk management at the Councils is conducted within the framework of the CIPFA Code which requires the Councils to approve a treasury management strategy before the start of each financial year and, as a minimum, a half year and annual treasury outturn report. This report fulfils the Councils legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.4. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Councils Joint Capital Strategy, for the financial year 2021/22, complying with CIPFA's Code requirement, was approved by both full Councils in February 2021.

2. External Context

2.1. Economic background:

2.2. The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

2.3. Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

2.4. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations.

2.5. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% year on year from 4.4%.

2.6. The Government's furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

2.7. With the fading of lockdown – and, briefly, the 'pingdemic' restraints (the large-scale notification of members of the public by a contact-tracing app) – activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

2.8. Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England increased it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

2.9. In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

2.10. GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% year-on-year in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

2.11. The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp in increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated its plan to reduce its asset purchase programme which could start by May 2022.

2.12. **Financial Markets:**

2.13. The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

2.14. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

2.15. The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

2.16. The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

2.17. **Credit background:**

2.18. In the first half of 2021/22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Councils counterparty list to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

2.19. Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

2.20. The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

2.21. Having completed its full review of its credit advice on unsecured deposits, in September, Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Councils counterparty list recommended by Arlingclose remains under constant review.

3. Local Context

3.1. On 31 March 2022, Babergh had a net borrowing requirement of £98m and Mid Suffolk had £116m arising from revenue and capital income and expenditure activities. This is a decrease of £18m for Babergh and £12m for Mid Suffolk from the 31 March 2021 position.

3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1 as follows.

3.3. **Table 1: Borrowing Summary**

Babergh	**31.03.21 Actual £m**	**2021/22 Movement £m**	**31.03.22 Actual £m**
General Fund CFR	70.904	0.660	71.563
HRA CFR	89.306	(0.150)	89.156
Total CFR	**160.209**	**0.510**	**160.719**
Borrowing CFR			
Less: Usable reserves	(43.820)	(3.418)	(47.238)
Add / (Less): Working Capital	(0.104)	(15.214)	(15.318)
Net Borrowing Requirement	**116.285**	**(18.123)**	**98.162**

Mid Suffolk	**31.03.21 Actual £m**	**2021/22 Movement £m**	**31.03.22 Actual £m**
General Fund CFR	95.260	6.447	101.707
HRA CFR	88.509	6.761	95.271
Total CFR	**183.769**	**13.209**	**196.978**
Borrowing CFR			
Less: Usable reserves	(54.492)	(8.942)	(63.434)
Add / (Less): Working Capital	(1.526)	(16.142)	(17.668)
Net Borrowing Requirement	**127.751**	**(11.875)**	**115.876**

3.4. Both Councils net borrowing requirement has reduced due to a small rise in the CFR as capital expenditure was higher than the financing applied, including minimum revenue provision. Working capital and usable reserves increased due to the timing of receipts and payments, reflected in decreased short term debtors, and increased short term creditors.

3.5. The lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. Both Councils pursued their strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

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

3.7. The actual treasury management activity and position on 31 March 2022 and the year-on-year change is shown in Table 2 that follows.

Babergh	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Long-term borrowing	95.089	(0.693)	94.396	3.20%
Short-term borrowing	32.000	(6.000)	26.000	0.18%
Total borrowing	**127.089**	**(6.693)**	**120.396**	
Long-term investments	11.166	(0.031)	11.135	4.14%
Cash and Cash equivalents	1.840	(0.126)	1.714	0.01%
Total investments	**13.006**	**(0.157)**	**12.849**	
Net Borrowing	**114.083**	**(6.536)**	**107.547**	

Mid Suffolk	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Long-term borrowing	98.572	6.263	104.835	2.73%
Short-term borrowing	44.000	(13.500)	30.500	0.20%
Total borrowing	**142.572**	**(7.237)**	**135.335**	
Long-term investments	11.162	(0.031)	11.131	4.09%
Cash and Cash equivalents	3.518	(1.701)	1.817	0.01%
Total investments	**14.680**	**(1.732)**	**12.948**	
Net Borrowing	**127.892**	**(5.505)**	**122.387**	

3.8. The figures in Table 2 are from the balance sheet in the statement of accounts, adjusted to exclude operational cash, accrued interest and other accounting adjustments.

3.9. Babergh and Mid Suffolk have both reduced short-term borrowing to finance capital expenditure during the year due to the increase in reserves and working capital held as shown in paragraph 3.3. There have also been delays in fulfilling the capital programme due to rising global costs and strong demand exacerbated by supply shortages and transport dislocations.

3.10. Cash and cash equivalents include funds held in current bank accounts for day-to-day cashflow purposes and short-term deposits. In addition, Babergh held £8m and Mid Suffolk held £6m in money market funds.

1. Borrowing Strategy during the year

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

1.1. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

1.2. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

1.3. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. Both Councils will adopt the revised reporting requirements from 2023/24.

1.4. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decisions that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

1.5. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

1.6. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

1.7. The Councils are not planning to borrow to invest primarily for commercial return and so are unaffected by the changes to the Prudential Code. The Councils capital programme has been reviewed considering these changes to the CIPFA Prudential Code and PWLB lending arrangements to ensure that borrowing to invest after 2020/21 primarily for commercial return will no longer be undertaken (for example in CIFCO Ltd).

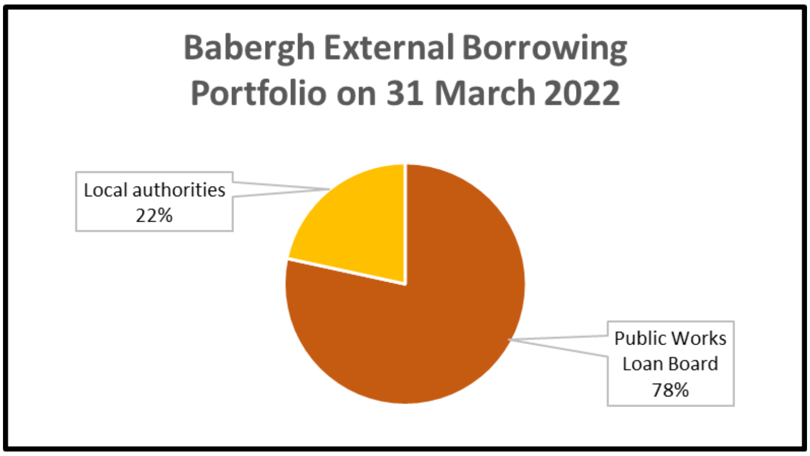
1.8. Babergh and Mid Suffolk both hold £49.8m each in commercial investments for CIFCO Ltd that were purchased prior to the change in the CIPFA Prudential Code.

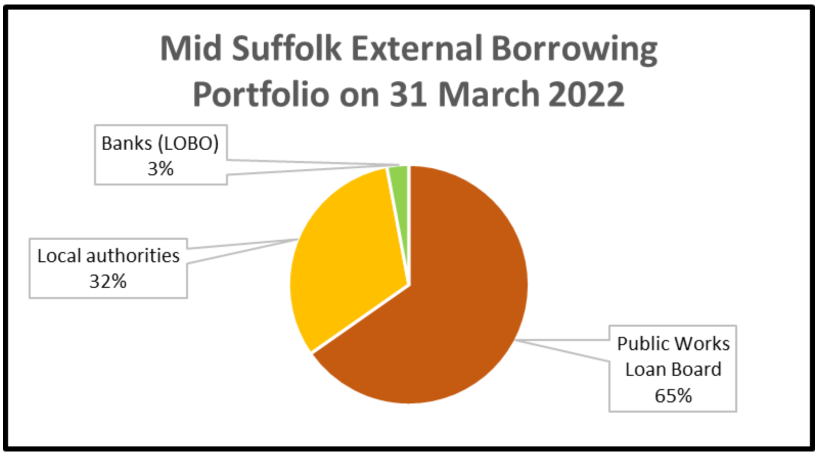
1.9. **Table 3: Borrowing Position**

Babergh	**31.03.21 Balance £m**	**2021/22 Movement £m**	**31.03.22 Balance £m**	**2021/22 Average Rate %**
Public Works Loan Board	95.089	(0.693)	94.396	3.20%
Local authorities (short-term)	32.000	(6.000)	26.000	0.18%
Total borrowing	**127.089**	**(6.693)**	**120.396**	

Mid Suffolk	**31.03.21 Balance £m**	**2021/22 Movement £m**	**31.03.22 Balance £m**	**2021/22 Average Rate %**
Public Works Loan Board	89.572	(1.237)	88.335	3.29%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (medium / long-term)	5.000	7.500	12.500	0.67%
Local authorities (short-term)	44.000	(13.500)	30.500	0.20%
Total borrowing	**142.572**	**(7.237)**	**135.335**	

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





1.11. The Councils objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with a secondary objective of having flexibility to renegotiate loans should the Councils long-term plans change.

1.12. With short-term interest rates remaining much lower than long-term rates, the Councils considered it more cost effective in the near term to use short-term loans instead.

1.13. The extended impact of Covid-19 on the economy caused delays in the Councils capital expenditure plans which has resulted in a temporary lower funding requirement.

1.14. The Treasury Management Strategy shows that both Councils have increasing CFRs and estimated net borrowing requirements. The Councils borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing was maintained.

1.15. Babergh did not take out any new medium or long-term borrowing in the period. Mid Suffolk took out £7.5m of medium-term loans from other local authorities to benefit from good rates on local authority borrowing for a longer period and reduce refinancing risk.

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

1.17. LOBO loans: Mid Suffolk continues to hold £4m of LOBO loans (Lender's Option Borrower's Option) where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The banks did not exercise their option during 2021/22.

Appendix C

1. Treasury Investment Activity

1.1. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

1.2. During the year both Councils received further central government funding to cover the costs of Covid-19 and to support small and medium sized businesses during the coronavirus pandemic through grant schemes. The Councils also received money from Government on 30 March 2022 for the Council Tax Energy Rebate, which was to be paid to residents during 2022/23. Babergh received £5.0m and Mid Suffolk £5.4m. These funds were temporarily invested in short-dated, liquid instruments such as Money Market Funds.

1.3. Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves. During 2021/22, Babergh's investment balance ranged between £12.3m and £33.4m. Mid Suffolk's investment balance ranged between £12.4m and £26.9m. These movements are due to timing differences between income and expenditure.

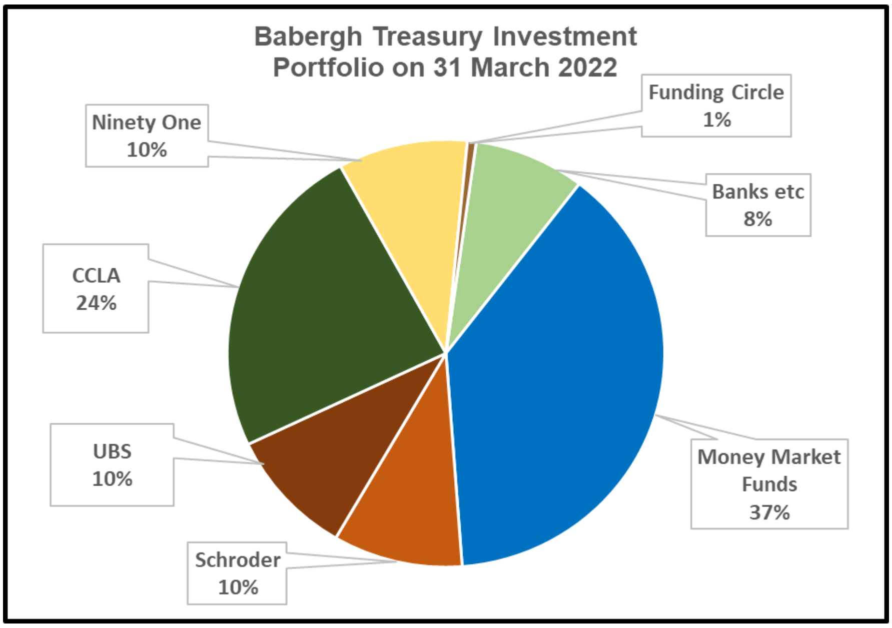
1.4. The year-end investment position and the year-on-year changes are shown in Table 4 that follows. Both Councils withdrew more of their investments in Funding Circle.

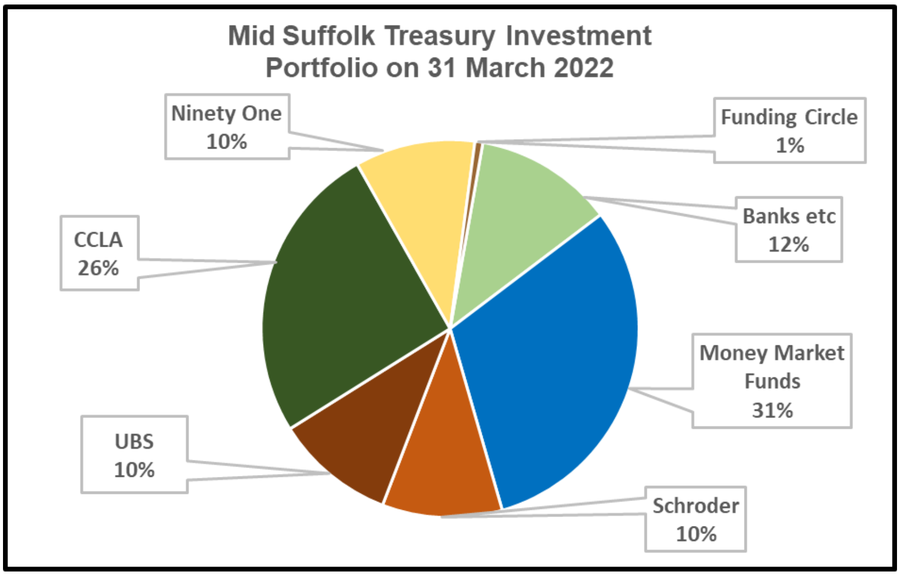
1.5. **Table 4: Treasury Investment Position**

Babergh	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Banks & building societies (unsecured)	1.840	(0.126)	1.714	0.00%
Money Market Funds	0.000	8.000	8.000	0.01%
Schroder	2.000	0.000	2.000	5.49%
UBS	2.000	0.000	2.000	4.15%
CCLA	5.000	0.000	5.000	3.64%
Ninety One	2.000	0.000	2.000	3.57%
Funding Circle	0.166	(0.031)	0.135	3.86%
Total investments	**13.006**	**7.843**	**20.849**	

Mid Suffolk	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2021/22 Average Rate %
Banks & building societies (unsecured)	2.018	0.299	2.317	0.00%
Money Market Funds	1.500	4.500	6.000	0.01%
Schroder	2.000	0.000	2.000	5.49%
UBS	2.000	0.000	2.000	4.14%
CCLA	5.000	0.000	5.000	3.58%
Ninety One	2.000	0.000	2.000	3.57%
Funding Circle	0.162	(0.031)	0.131	3.69%
Total investments	**14.680**	**4.768**	**19.448**	

1.6. **Table 4 - Charts: Investment Position on 31 March 2022.**





1.7. Both the CIPFA Code and government guidance requires Councils to invest their funds prudently, and to have regard to the security and liquidity of their treasury investments before seeking the optimum rate of return, or yield. The Councils objectives when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

1.8. Ultra-low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. On 31 March, the 1-day return on the MMFs ranged between 0.46% - 0.50% p.a. for Babergh and 0.48% - 0.54% for Mid Suffolk

1.9. Similarly, deposit rates with the government's Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1% but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return in the year on the Councils DMADF deposits was 0.01% for Babergh and 0.07% for Mid Suffolk. The Councils invest in the money market funds (MMFs) as a priority and then DMADF only when MMFs are fully invested. The majority of investments were made in the early part of the year, when interest rates were lower.

1.10. Babergh and Mid Suffolk have both followed the treasury management strategy to move investments into long term strategic pooled funds. Given the increasing risk and falling returns from short-term unsecured bank investments, the Councils diversified into more higher yielding asset classes; pooled property, multi asset and equity funds. As a result, investment risk was diversified.

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

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

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

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
On 31.03.2021	5.38	A+	93%	4.22%
On 31.03.2022	5.04	A+	99%	2.44%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
On 31.03.2021	5.01	A+	99%	3.75%
On 31.03.2022	4.38	AA-	80%	2.57%

Arlingclose Benchmarks for 31.03.2022	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
Similar Local authorities	4.36	AA-	61%	1.18%
All Local authorities	4.39	AA-	60%	0.97%

1.14. Bail-in involves the shareholders and creditors of a failing financial institution meeting the costs, instead of the government. As Babergh and Mid Suffolk have relatively small investment portfolios their bail-in exposure is proportionately higher than the local authorities in Arlingclose's benchmarking group. Babergh and Mid Suffolk have chosen to adopt a strategy of generating higher returns by investing funds available in banks and strategic pooled funds.

1.15. Babergh has £11.14m of externally managed pooled equity, property and multi assets funds which generated an average total income return, since the date of the initial investments, of £2.9m (average rate of return for the year 4.14%) which is used to support the Councils service provision.

1.16. Mid Suffolk has £11.13m of externally managed pooled equity, property and multi assets funds which generated an average total income return, since the date of the initial investments, of £2.8m (average rate of return for the year 4.09%) which is used to support the Councils service provision.

1.17. In the nine months to December, improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of both Council's property, equity and multi-asset income funds in their portfolios. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January- March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

1.18. In light of Russia's invasion, Arlingclose contacted the fund managers of our MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

1.19. 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 are regularly reviewed. In light of their performance and the Councils latest cash flow forecasts, investment in these funds has been maintained, except for Funding Circle which is being reduced over the period of the repayment of the remaining loans.

1.20. Since 2018/19, the International Financial Reporting Standards for pooled funds states that changes in valuations must be taken through the Comprehensive Income and Expenditure Statement. The Ministry of Housing, Communities and Local Government (MHCLG) granted a statutory override until 2022/23 so these changes will have no impact on the "bottom line" until 2023/24.

1.21. It is intended to set aside any increases in valuation to a reserve to mitigate future potential losses. These pooled funds are long term investments, and the Councils would not sell the units whilst their value was less than the original investment.

2 Non-Treasury Holdings and Other Investment Activity

2.1 The definition of investments in CIPFA's revised 2021 Treasury Management Code now covers all the financial assets of the Councils as well as other non-financial assets which the Councils hold primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

2.2 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

2.3 Investment Property

2.4 During 2016/17 Babergh purchased Borehamgate Shopping Centre in Sudbury for £3.6m. This has been classified as an investment property and on 31 March 2022 it was assessed at fair value of £2.7m. Net Income, after the deduction of direct costs, was £158k in 2021/22 (£127k in 2020/21). Income from rentals increased slightly as use began to pick up after the pandemic. The asset is being actively managed by the Council to secure new tenants in the short term and working towards longer term investment plans for that area.

2.5 Trading Companies

2.6 On 31 March 2022 Babergh held £3.9m of equity in BDC (Suffolk Holdings) Ltd and Mid Suffolk held £3.9m of equity in MSDC (Suffolk Holdings) Ltd. Both Councils own 100% shares in each holding company.

2.7 Babergh and Mid Suffolk's respective 50% share of the profit made by CIFCO Ltd in 2021/22 was £3.2m (2020/21 was £2.4m loss) and is reflected in the increased value of each of the Council's equity holding in the company. This includes changes in portfolio valuation following the annual year-end revaluation reflecting an increase in the portfolio value of 12%.

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

2.9 On 31 March 2022 Babergh and Mid Suffolk each have £44.7m of loans in CIFCO Ltd, a subsidiary of BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd. These loans have generated £5.9m (gross) of investment income for each Council since the start of trading. The net position for 2021/22, including additional interest receivable from overdraft facilities given by the Councils and after borrowing costs, is shown later in Table 7.

2.10 Mid Suffolk also held £23.8m of loans in another subsidiary of MSDC (Suffolk Holdings) Ltd, Gateway 14 Ltd, which has generated £3.6m (gross) of accrued investment income since the initial loans were advanced by the Council in August 2018.

2.11 The loss incurred by Gateway 14 Ltd was £174k resulting in a reduction in the Council's overall equity holding from £1,151k to £978k. This company is still developing land and building projects for which it was created and has yet to generate income.

Table 6: Trading Companies – Loan activities

Babergh	Trading Companies - Loans				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m
CIFCO Ltd					
Interest Receivable	(2.110)	(1.551)	(3.661)	(2.209)	(5.870)
Interest Payable	0.445	0.276	0.721	0.249	0.970
Cumulative Net Interest received from date of investments	**(1.665)**	**(1.275)**	**(2.940)**	**(1.960)**	**(4.900)**

Mid Suffolk	Trading Companies - Loans				
	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m
Interest Receivable					
CIFCO Ltd	(2.110)	(1.551)	(3.661)	(2.209)	(5.870)
Gateway 14 Ltd	(1.383)	(1.043)	(2.426)	(1.216)	(3.642)
Total Interest Receivable	**(3.493)**	**(2.594)**	**(6.087)**	**(3.425)**	**(9.512)**
Interest Payable					
CIFCO Ltd	0.787	0.532	1.319	0.481	1.800
Gateway 14 Ltd	0.360	0.180	0.540	0.080	0.620
Total Interest Payable	**1.147**	**0.712**	**1.859**	**0.561**	**2.420**
Net Interest					
CIFCO Ltd	(1.323)	(1.019)	(2.342)	(1.728)	(4.070)
Gateway 14 Ltd	(1.023)	(0.863)	(1.886)	(1.136)	(3.022)
Cumulative Net Interest received from date of investments	**(2.346)**	**(1.882)**	**(4.228)**	**(2.864)**	**(7.092)**

3 Treasury Performance

3.1 The Councils measure the financial performance of treasury management activities in terms of their impact on the General Fund and Housing Revenue Account revenue budgets as shown in Table 7 that follows.

3.2 **Table 7 Treasury Activity - Performance**

Babergh	2021/22 Budget £m	2021/22 Actual £m	Variance Adverse/ (Favourable) £m
Interest Receivable			
General Fund	(0.554)	(0.450)	0.104
Housing Revenue Account	(0.010)	(0.003)	0.007
CIFCO Ltd	(2.180)	(2.209)	(0.029)
Total Interest Receivable	**(2.744)**	**(2.662)**	**0.082**
Interest Payable			
General Fund	0.000	(0.000)	(0.000)
Housing Revenue Account	3.161	2.797	(0.364)
CIFCO Ltd	0.380	0.249	(0.131)
Total Interest Payable	**3.541**	**3.045**	**(0.496)**
Net Interest			
General Fund	(0.554)	(0.450)	0.104
Housing Revenue Account	3.151	2.793	(0.358)
CIFCO Ltd	(1.800)	(1.960)	(0.161)
Total Net Interest	**0.797**	**0.383**	**(0.414)**

Mid Suffolk	2021/22 Budget £m	2021/22 Actual £m	Variance Adverse/ (Favourable) £m
Interest Receivable			
General Fund	(0.540)	(0.448)	0.092
Housing Revenue Account	(0.009)	(0.001)	0.008
CIFCO Ltd	(2.180)	(2.209)	(0.029)
Gateway 14 Ltd	(1.631)	(1.216)	0.415
Total Interest Receivable	**(4.360)**	**(3.874)**	**0.486**
Interest Payable			
General Fund	0.097	0.021	(0.076)
Housing Revenue Account	2.968	2.643	(0.325)
CIFCO Ltd	0.565	0.481	(0.084)
Gateway 14 Ltd	0.175	0.080	(0.095)
Total Interest Payable	**3.805**	**3.225**	**(0.580)**
Net Interest			
General Fund	(0.443)	(0.428)	0.015
Housing Revenue Account	2.959	2.642	(0.317)
CIFCO Ltd	(1.615)	(1.728)	(0.113)
Gateway 14 Ltd	(1.456)	(1.135)	0.320
Total Net Interest	**(0.555)**	**(0.649)**	**(0.094)**

3.3 The interest receivable for Babergh and Mid Suffolk were both less than budgeted by £82k and £486k respectively. This is mainly due to the low interest rates during the year. The investment programme in CIFCO Ltd was accelerated and fully invested at the end of 2020/21.

3.4 The total interest payable for the year was under budget by £496k for Babergh and £580k for Mid Suffolk. All Babergh's short term borrowing was attributable to CIFCO Ltd.

3.5 **Long term investment returns**

3.6 Babergh and Mid Suffolk have both invested in long term pooled funds. Tables 8.1 to 8.5 that follow show details of how these investments have performed during 2020/21 and 2021/22.

3.7 Both Councils invested £5m each into the CCLA Local Authority Property Fund. Babergh purchased 1.657m units on 31 August 2015 and Mid Suffolk 1.632m units on 29 October 2015. The valuations are based on the number of units owned.

3.8 **Table 8.1 CCLA Performance**

CCLA	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.825	(0.034)	4.791	0.841	5.631
Cumulative Net Interest received from date of initial investment	**1.016**	**0.213**	**1.230**	**0.182**	**1.412**
Annual Performance					
Net Interest received in year	**0.217**		**0.213**		**0.182**
Average Rate of Return for year	**4.35%**		**4.26%**		**3.64%**

CCLA	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.750	(0.034)	4.717	0.828	5.544
Cumulative Net Interest received from date of initial investment	**0.958**	**0.210**	**1.167**	**0.179**	**1.347**
Annual Performance					
Net Interest received in year	**0.215**		**0.210**		**0.179**
Average Rate of Return for year	**4.30%**		**4.20%**		**3.58%**

3.9 Babergh and Mid Suffolk both invested into the Schroder Income maximiser fund on 10 February 2017.

3.10 **Table 8.2 Schroder Performance**

Schroder Maximiser Fund	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.253	0.288	1.540	0.167	1.707
Cumulative Net Interest received from date of initial investment	**0.460**	**0.095**	**0.555**	**0.110**	**0.665**
Annual Performance					
Net Interest received in year	**0.143**		**0.095**		**0.110**
Average Rate of Return for year	**7.16%**		**4.76%**		**5.49%**

Schroder Maximiser Fund	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.253	0.288	1.540	0.167	1.707
Cumulative Net Interest received from date of initial investment	**0.460**	**0.095**	**0.555**	**0.110**	**0.665**
Annual Performance					
Net Interest received in year	**0.143**		**0.095**		**0.110**
Average Rate of Return for year	**7.16%**		**4.76%**		**5.49%**

3.11 Babergh invested in the UBS Multi Asset income fund on 26 November 2015, whilst Mid Suffolk invested in the fund on 28 March 2017.

3.12 **Table 8.3 UBS Performance**

UBS	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.657	0.174	1.831	(0.094)	1.736
Cumulative Net Interest received from date of initial investment	**0.363**	**0.090**	**0.452**	**0.083**	**0.535**
Annual Performance					
Net Interest received in year	**0.089**		**0.090**		**0.083**
Average Rate of Return for year	**4.43%**		**4.48%**		**4.15%**

UBS	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.654	0.174	1.828	(0.094)	1.733
Cumulative Net Interest received from date of initial investment	**0.266**	**0.090**	**0.356**	**0.083**	**0.439**
Annual Performance					
Net Interest received in year	**0.088**		**0.090**		**0.083**
Average Rate of Return for year	**4.42%**		**4.48%**		**4.14%**

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

3.14 **Table 8.4 Funding Circle Performance**

Funding Circle	Babergh				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested - National	0.214	(0.048)	0.166	(0.031)	0.135
Amount Invested - Local	0.000	0.000	0.000	0.000	0.000
Total Amount Invested	**0.214**	**(0.048)**	**0.166**	**(0.031)**	**0.135**
Bad debts to date	(0.052)	0.005	(0.046)	0.003	(0.044)
Accrued Interest	0.012	(0.007)	0.005	(0.004)	0.002
Valuation	**0.174**	**(0.050)**	**0.125**	**(0.032)**	**0.093**
Income received	0.113	0.006	0.119	0.001	0.120
Servicing costs	(0.013)	(0.001)	(0.014)	(0.000)	(0.014)
Cumulative Net Interest received from date of initial investment	**0.099**	**0.005**	**0.105**	**0.001**	**0.106**
Annual Performance					
Net Interest received in year	**0.012**		**0.005**		**0.005**
Average Rate of Return for year	**4.83%**		**3.14%**		**3.86%**

Funding Circle	Mid Suffolk				
	31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested - National	0.215	(0.053)	0.162	(0.031)	0.131
Amount Invested - Local	0.000	0.000	0.000	0.000	0.000
Total Amount Invested	**0.215**	**(0.053)**	**0.162**	**(0.031)**	**0.131**
Bad debts to date	(0.055)	0.004	(0.050)	0.004	(0.047)
Accrued Interest	0.011	(0.006)	0.005	(0.003)	0.001
Valuation	**0.172**	**(0.055)**	**0.117**	**(0.031)**	**0.086**
Income received	0.115	0.006	0.120	0.001	0.121
Servicing costs	(0.013)	(0.001)	(0.014)	(0.000)	(0.014)
Cumulative Net Interest received from date of initial investment	**0.101**	**0.005**	**0.106**	**0.000**	**0.107**
Annual Performance					
Net Interest received in year	**0.011**		**0.005**		**0.005**
Average Rate of Return for year	**4.85%**		**2.98%**		**3.69%**

3.15 Both Councils invested in the Ninety-One Diversified Income I Fund (formerly Investec) on 24 May 2019. This fund aims to provide monthly income with the opportunity for long-term capital growth, investing in equities, fixed income investments (e.g., corporate or government bonds) as well as cash and money market funds.

3.16 **Table 8.5 Ninety-One Series i Performance**

Ninety One Series i Diversified Income Fund	Babergh 31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.815	0.180	1.995	(0.097)	1.898
Cumulative Net Interest received from date of initial investment	**0.075**	**0.074**	**0.149**	**0.071**	**0.221**
Annual Performance					
Net Interest received in year	**0.075**		**0.074**		**0.071**
Average Rate of Return for year	**3.74%**		**3.72%**		**3.57%**

Ninety One Series i Diversified Income Fund	Mid Suffolk 31.03.20 Balance £m	2020/21 Movement £m	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.815	0.180	1.995	(0.097)	1.898
Cumulative Net Interest received from date of initial investment	**0.075**	**0.074**	**0.149**	**0.071**	**0.221**
Annual Performance					
Net Interest received in year	**0.075**		**0.074**		**0.071**
Average Rate of Return for year	**3.74%**		**3.72%**		**3.57%**

4. Compliance Report

4.1. It should be noted that both Council's treasury management activity for 2021/22 was in accordance with the approved Treasury Management Strategy, and that both Councils have complied with all the Treasury Management Indicators for this period, except on:

- 9 June 2021, Babergh's bank account balance went above the limit by £136k due to Lloyds bank online banking system being unavailable for the day and no balances could be invested.

- 10 March 2022, two of Mid Suffolk's money market funds (Federated and Blackrock) were each overinvested by £500k. The procedures in place at the time did not identify this but have since been reviewed and updated to ensure this does not occur again.

4.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 9 as follows.

4.3. **Table 9: Debt Limits**

Total Borrowing	2021/22 Maximum £m	31.03.22 Actual £m	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied
Babergh	129.089	120.396	163.000	178.000	✓
Mid Suffolk	142.572	135.335	195.000	210.000	✓

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

4.5. **Table 10: Investment Limits**

Compliance with specific investment limits is demonstrated in Table 10 as follows and non-compliance has been explained in 4.1 above.

Babergh	2021/22 Maximum £m	31.03.22 Actual £m	2021/22 Limit £m	Complied
Any single organisation, except the UK Central Government	2.136	1.714	2.000	X
Any group of organisations under the same ownership	0.000	0.000	1.000	✓
Any group of pooled funds under the same management	5.000	5.000	5.000	✓
Negotiable instruments held in a broker's nominee account	0.000	0.000	10.000	✓
Foreign countries	0.000	0.000	2.000	✓
Registered Providers	0.000	0.000	5.000	✓
Unsecured investments with Building Societies	0.000	0.000	2.000	✓
Loans to unrated corporates	0.166	0.135	1.000	✓
Any single Money Market Fund	2.000	2.000	2.000	✓
Mid Suffolk	**2021/22 Maximum £m**	**31.03.22 Actual £m**	**2021/22 Limit £m**	**Complied**
Any single organisation, except the UK Central Government	1.944	1.817	2.000	✓
Any group of organisations under the same ownership	0.000	0.000	1.000	✓
Any group of pooled funds under the same management	5.000	5.000	5.000	✓
Negotiable instruments held in a broker's nominee account	0.000	0.000	10.000	✓
Foreign countries	0.000	0.000	2.000	✓
Registered Providers	0.000	0.000	5.000	✓
Unsecured investments with Building Societies	0.000	0.000	2.000	✓
Loans to unrated corporates	0.162	0.131	1.000	✓
Any single Money Market Fund	2.500	2.000	2.000	X

Appendix D

1. Treasury Management Indicators

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

1.2. **Security:** Babergh and Mid Suffolk have adopted a voluntary measure of their exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolios. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. These are shown in Table 11 that follows.

1.3. **Table 11: Credit Scores**

Credit Scores	31.3.22 Actual	2021/22 Target	Complied
Babergh Portfolio average Credit Score	5.04	7.00	✓
Mid Suffolk Portfolio average Credit Score	4.38	7.00	✓

1.4. **Interest Rate Exposures**: This indicator is set to control the Councils exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates are shown in Table 12 that follows.

1.5. **Table 12: Interest rate exposure**

Interest rate risk indicator	31.3.22 Actual	2021/22 Limit	Complied
Babergh upper impact on Revenue of a 1% increase in rates	0.067	0.111	✓
Mid Suffolk upper impact on Revenue of a 1% increase in rates	0.124	0.210	✓

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

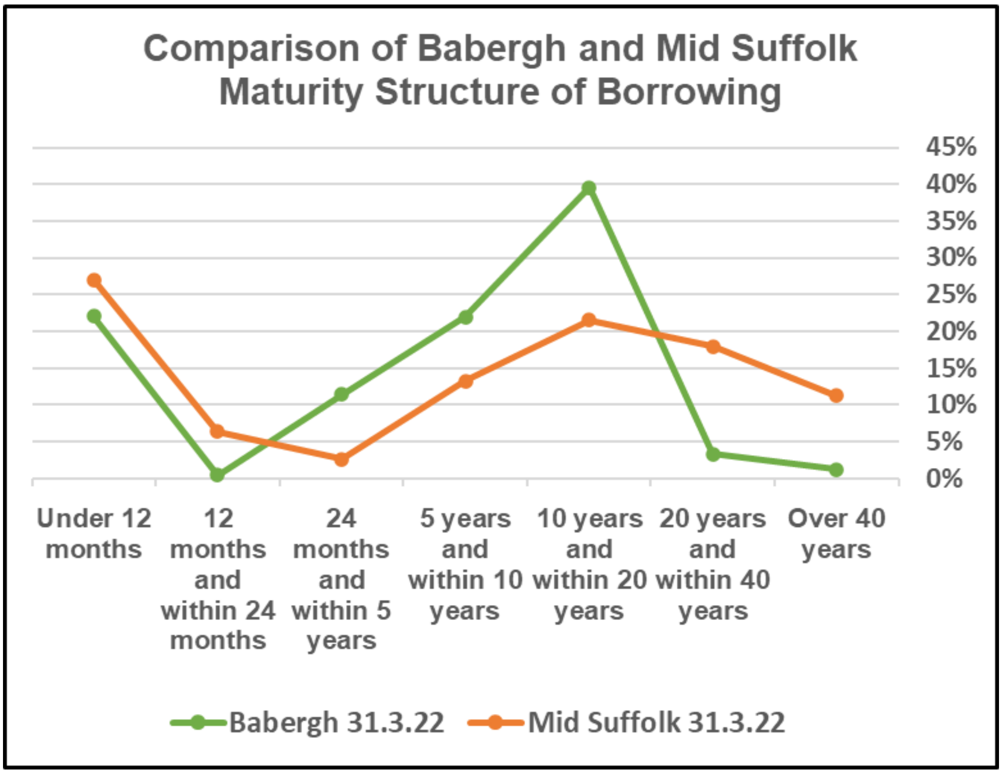
1.7. **Maturity Structure of Borrowing**: This indicator is set to control the Councils exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are shown in Table 13 as follows.

1.8. **Table 13: Maturity Structures**

Age Profile of Maturity	Babergh 31.3.22 Actual	Mid Suffolk 31.3.22 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	22.05%	27.05%	0%	50%	✓
12 months and within 24 months	0.47%	6.37%	0%	50%	✓
24 months and within 5 years	11.42%	2.59%	0%	50%	✓
5 years and within 10 years	21.98%	13.25%	0%	100%	✓
10 years and within 20 years	39.55%	21.54%	0%	100%	✓
20 years and within 40 years	3.33%	17.96%	0%	100%	✓
Over 40 years	1.19%	11.23%	0%	100%	✓

1.9. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.10. **Table 13 Chart: Maturity Structures**



1.11. **Principal Sums Invested for Periods Longer than 365 days:** The purpose of this indicator is to control the Councils exposure to the risk of incurring losses by seeking early repayment of investments. The limits on the long-term principal sum invested to final maturities beyond the period end are shown in Table 14 that follows.

1.12. **Table 14: Principal Sums**

Babergh	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£2m	£2m	£2m
Complied	✓	✓	✓

Mid Suffolk	2019/20	2022/23	2023/24
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£2m	£2m	£2m
Complied	✓	✓	✓

1.13. Whilst the investments that have been made in UBS, Schroder, Ninety-One (formerly Investec) and Funding Circle are intended to benefit from longer term higher returns, they can be redeemed on a short-term basis. CCLA requires 90 days' notice.

Appendix E

1. **Prudential Indicators**

1.1. **Introduction**

1.2. The Local Government Act 2003 requires the Councils to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that Councils have fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1.3. This report compares the approved indicators with the outturn position for 2021/22. Actual figures have been taken from, or prepared on a basis consistent with, the Councils draft Statements of Accounts for 2021/22.

1.4. **Capital Expenditure**

1.5. The Councils capital expenditure and financing for 2021/22 compared to budget is summarised in Table 15 that follows.

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

Babergh District Council			
Capital Expenditure and Financing	**2021/22 Budget including c/fwds £m**	**2021/22 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	20.792	4.632	(16.160)
HRA	27.505	16.798	(10.707)
Total Expenditure	**48.297**	**21.430**	**(26.867)**
Capital Receipts	4.880	3.535	(1.345)
Grants and Contributions	2.340	2.531	0.191
Revenue Contributions	3.030	2.586	(0.444)
Revenue Reserves	10.440	6.086	(4.354)
Major Repairs Reserve	4.280	4.595	0.315
Borrowing	23.327	2.098	(21.229)
Total Financing	**48.297**	**21.430**	**(26.867)**

1.7.

Mid Suffolk District Council			
Capital Expenditure and Financing	**2021/22 Budget including c/fwds £m**	**2021/22 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	30.028	13.592	(16.436)
HRA	39.959	13.923	(26.036)
Total Expenditure	**69.987**	**27.515**	**(42.472)**
Capital Receipts	6.100	2.722	(3.378)
Grants and Contributions	2.570	2.186	(0.384)
Revenue Contributions	1.510	1.021	(0.489)
Revenue Reserves	9.240	3.375	(5.865)
Major Repairs Reserve	3.910	3.468	(0.442)
Borrowing	46.657	14.742	(31.915)
Total Financing	**69.987**	**27.515**	**(42.472)**

2. <u>Prudential Indicator Compliance</u>

2.1. Capital Financing Requirement

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

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

Babergh District Council			
Capital Financing Requirement	**31.03.22 Budget £m**	**31.03.22 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	84.287	71.563	(12.724)
HRA	90.525	89.156	(1.369)
Total CFR	**174.813**	**160.719**	**(14.093)**

Mid Suffolk District Council			
Capital Financing Requirement	**31.03.22 Budget £m**	**31.03.22 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	110.156	101.707	(8.449)
HRA	109.595	95.271	(14.324)
Total CFR	**219.752**	**196.978**	**(22.774)**

2.4. The CFR increased during the year by £0.51m for Babergh and by £13.2m for Mid Suffolk as capital expenditure financed by debt outweighed resources put aside for debt repayment. These figures are shown in Appendix A Table 1.

3. Actual Debt

3.1. The Councils actual debt on 31 March 2022 was as follows:

3.2. **Table 17: Total Debt**

Total Debt	31.03.22 Budget £m	31.03.22 Actual £m	Variance (Adverse) / Favourable £m
Babergh District Council	(138.730)	(120.396)	18.334
Mid Suffolk District Council	(184.970)	(135.335)	49.635

4. Gross Debt and the Capital Financing Requirement

4.1. In order to ensure that over the medium-term debt will only be used for a capital purpose, the Councils should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

4.2. The total debt remained below the CFR during the forecast period, which shows compliance with the indicator.

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

Babergh District Council		
Debt and CFR	**31.03.22 Actual £m**	**31.03.22 Estimate £m**
Capital financing requirement	160.719	174.813
Total Debt	(120.396)	(138.729)
Headroom	**40.323**	**36.084**

Mid Suffolk District Council		
Debt and CFR	**31.03.22 Actual £m**	**31.03.22 Estimate £m**
Capital financing requirement	196.978	219.752
Total Debt	(135.335)	(184.970)
Headroom	**61.643**	**34.782**

5. Operational Boundary for External Debt

5.1. The operational boundary is based on the Councils estimate of the most likely (i.e., prudent but not worst case) scenario for external debt. It links directly to the Councils estimates of capital expenditure, the capital financing requirement, and cash flow requirements, and is a key management tool for in-year monitoring.

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

Operational Boundary and Total Debt	31.03.22 Limit £m	31.03.22 Actual Debt £m	Complied
Babergh District Council	(163.000)	(120.396)	✓
Mid Suffolk District Council	(195.000)	(135.335)	✓

6. Authorised Limit for External Debt

6.1. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Councils can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

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

Authorised Limit and Total Debt	31.03.22 Limit £m	31.03.22 Actual Debt £m	Complied
Babergh District Council	(178.000)	(120.396)	✓
Mid Suffolk District Council	(210.000)	(135.335)	✓

7. Ratio of Financing Costs to Net Revenue Stream

7.1. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income (shown as a percentage).

7.2. **Table 21: Ratio of Financing Costs to Net Revenue Stream**

Babergh District Council			
Ratio of Financing Costs to Net Revenue Stream	31.03.22 Budget %	31.03.22 Actual %	Variance Adverse / (Favourable) %
General Fund	(3.55)	(5.02)	(1.47)
HRA	19.38	17.01	(2.37)

Mid Suffolk District Council			
Ratio of Financing Costs to Net Revenue Stream	31.03.22 Budget %	31.03.22 Actual %	Variance Adverse / (Favourable) %
General Fund	(6.29)	(7.85)	(1.55)
HRA	20.10	18.02	(2.09)

8. Adoption of the CIPFA Treasury Management Code

8.1. Both Councils adopted the Chartered Institute of Public Finance and Accountancy's "Treasury Management in the Public Services: Code of Practice 2011 Edition" in February 2012.

9. HRA Limit on Indebtedness

9.1. The limit imposed on the Council's HRA borrowing by the Ministry for Housing, Communities and Local Government (MHCLG) has been removed.

Appendix F

Glossary of Terms

BPS	Base Points. A unit of percentage measure equal to 0.01%. Basis points are commonly used when discussing changes to interest rates, equity indices, and fixed-income securities.
CDS	Credit Default Swap. In effect, insurance against non-payment. Through a CDS, the buyer can mitigate the risk of their investment by shifting all or a portion of that risk onto an insurance company or other CDS seller in exchange for a periodic fee. In this way, the buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the debt security.
CFR	Capital Financing Requirement. The underlying need to borrow to finance capital expenditure.
CIPFA	The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services.
CPI	Consumer Price Index. This measures changes in the price level of consumer goods and services purchased by households.
CCLA	Churches, Charities and Local Authority Property Fund
DMADF	Debt Management Account Deposit Facility.
Funding Circle	Accounts set up to lend money to local and national businesses at competitive rates
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
LIBID	London Interbank Bid Rate. The interest rate at which banks bid to take short-term deposits from other banks in the London interbank market.
LOBO	Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan.
MHCLG	Ministry of Housing, Communities and Local Government. This is a ministerial department.
MPC	Monetary Policy Committee. A committee of the Bank of England which decides the Bank of England's Base Rate and other aspects of the Government's Monetary Policy.
MRP	Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing
Ninety-One	Ninety-One (formerly Investec) Diversified Income Fund (UK) – a pooled fund.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
Schroder	Schroder Income Maximiser Fund
SONIA	Sterling Overnight Index Average. Replacing LIBOR (the London Interbank interest rate) as the Bank of England's preferred short term interest rate benchmark for the UK.
UBS	UBS Multi Asset Income Fund (UK) – a pooled fund.