

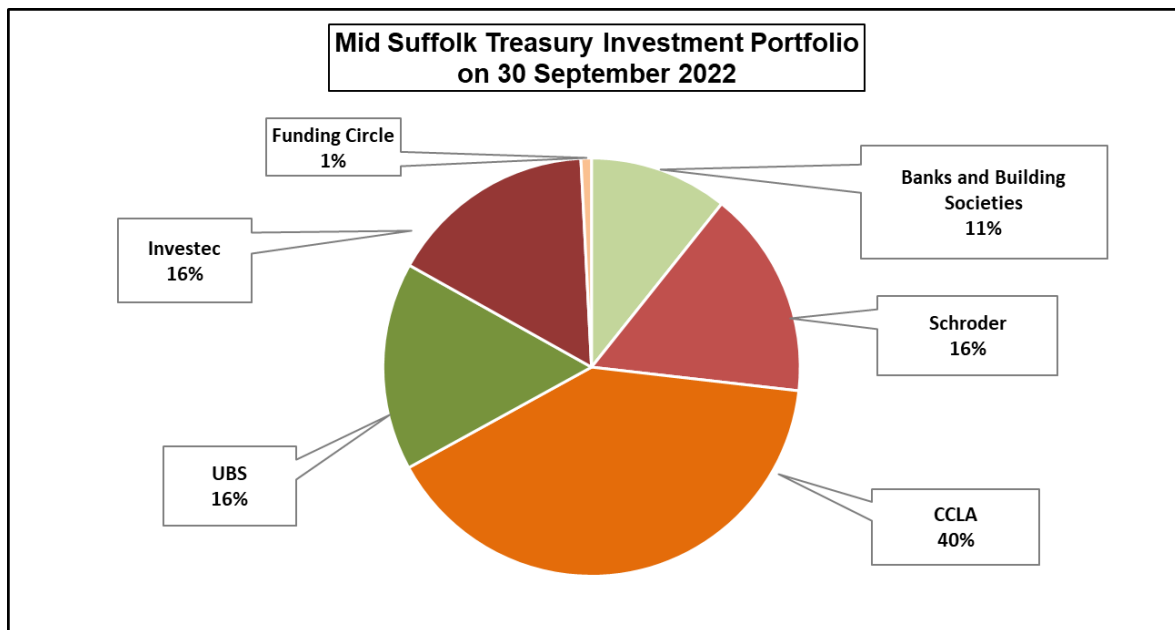
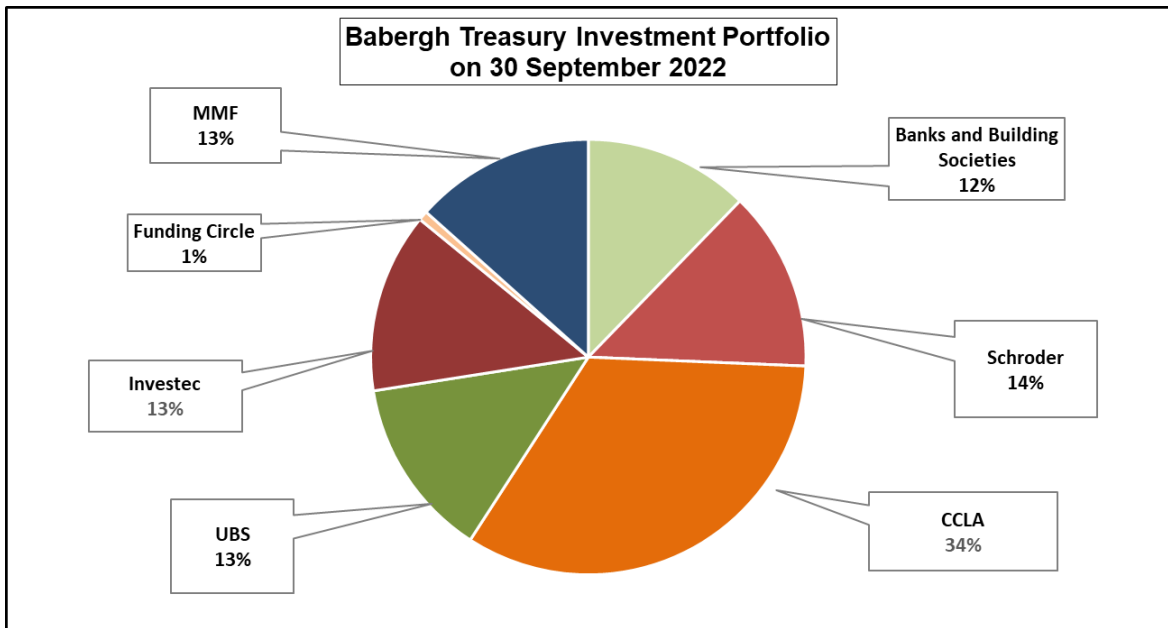
1 Treasury Investment Activity

- 1.1 CIPFA revised TM Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.
- 1.2 Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2021/22, Babergh's investment balances ranged between £14.3m and £26.1m. Mid Suffolk's investment balances ranged between £12.4m and £27.2m. These movements are due to timing differences between income and expenditure.
- 1.3 The investment position and weighted average rates during the first six months of the year is shown in Table 4 that follows.
- 1.4 **Table 4: Treasury Investment Position**

Babergh	31.03.22	Movement	30.09.22	30.09.22
	Balance		Balance	Weighted Average Rate
	£m	£m	£m	%
Banks and Building Societies	1.714	0.119	1.833	1.03%
Money Market Funds	8.000	(6.000)	2.000	0.98%
Other Pooled Funds	11.105	0.000	11.105	4.56%
Total Investments	20.819	(5.881)	14.938	

Mid Suffolk	31.03.22	Movement	30.09.22	30.09.22
	Balance		Balance	Weighted Average Rate
	£m	£m	£m	%
Banks and Building Societies	2.317	(0.984)	1.333	1.00%
Money Market Funds	6.000	(6.000)	0.000	0.99%
Other Pooled Funds	11.101	0.000	11.101	4.58%
DMADF	2.000	(2.000)	0.000	0.88%
Total Investments	21.418	(8.984)	12.434	

1.5 The Councils' Investment Portfolios on 30 September 2022:



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

Appendix C cont'd

- 1.7 The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight to 7-day maturities and by nearly 3.5% for 9 to 12 month maturities.
- 1.8 By the end of September, the rates on DMADF deposits ranged between 1.85% and 3.5%. The return on the Councils' sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.46% - 0.54% p.a. at the beginning of April and between 1.62% and 1.8% at the end of September.
- 1.9 Neither Council made further investments in strategic pooled funds (e.g. pooled property, multi asset and equity funds) during the period.
- 1.10 The average rate of return is significantly higher than the comparable average returns of Arlingclose's other clients, as shown in Table 5 that follows. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking.
- 1.11 **Table 5: Investment Benchmarking – Treasury investments managed in-house**

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2022	5.04	A+	99%	1	2.44%
30.06.2022	5.15	A+	99%	1	3.19%
30.09.2022	5.20	A+	98%	1	3.87%
Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
31.03.2022	4.38	AA-	80%	2	2.57%
30.06.2022	3.99	AA-	62%	3	2.50%
30.09.2022	5.35	A+	96%	1	4.18%

Arlingclose Benchmarks for 30.09.22	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return
Similar LAs	4.34	AA-	57%	42	2.23%
All LAs	4.29	AA-	55%	18	2.06%

Appendix C cont'd

- 1.12 Bail-in involves the shareholders and creditors of a failing financial institution meeting the costs, instead of the government. Babergh and Mid Suffolk have a higher proportion of investments in strategic pooled funds compared to total investments, so their bail-in exposure is proportionately higher than the local authorities in Arlingclose's benchmarking group. Babergh and Mid Suffolk have chosen to adopt a strategy of generating higher returns by investing funds available in banks and strategic pooled funds.
- 1.13 Each Council has £11.1m of externally managed strategic pooled equity, property and multi assets funds where short-term security and liquidity are lesser considerations, and the primary objectives instead are regular revenue income and long-term price stability. Since the date of the initial investments, these have generated a total income return, used to support service provision, of £3.17m for Babergh and £3.03m for Mid Suffolk. Both Councils have achieved an average rate of return for the period of 4.6%.
- 1.14 These pooled funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Councils' investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years, but with the confidence that over a three to five-year period total returns will exceed cash interest rates. Investment in these funds has been maintained during the first six months of the year.
- 1.15 Since 2018/19, the International Financial Reporting Standards for pooled funds states that changes in valuations must be taken through the general fund. A statutory override was granted until 2022/23 so these changes will have no impact on the "bottom line" until 2023/24.
- 1.16 The Department for Levelling Up, Housing and Communities (DLUHC) undertook a consultation on the status of the statutory override, between August and October this year. Under the override, fair value movements in the value of pooled funds are recorded by local authorities in an unusable reserve rather than in the general fund. Their decision is yet to be announced.
- 1.17 It is intended to set aside any increases in valuation to a reserve to mitigate future potential losses. These pooled funds are long term investments and the Councils would not sell the units whilst their value was less than the original investment.

2 Long Term investments – Pooled Fund Performance

- 2.1 The April-September period was a very difficult environment for bonds engendered by global central banks' determination to bring high and persistent inflation under control through increases in policy rates and strong rhetoric. The sell-off in gilts, other sovereign bonds and corporate bonds with a rise in gilt/bond yields (i.e. a fall in price) was reflected in the Councils bond and multi-asset income funds.

Appendix C cont'd

- 2.2 The increase in policy rates in the UK, US and Eurozone and the prospect of low to no growth and a recessionary period ahead was also a challenging period for equities, the FTSE All Share index falling from 4187 on 31st March to 3763 on 30th September, whilst the MSCI World Index fell from 3053 to 2378 over the same period. The fall in equity valuations is reflected in the equity and multi-asset income funds.
- 2.3 Significant financial market volatility and uncertainty remain due to stagflation fears, little sight of the war in Ukraine ending soon and ongoing supply chain issues, a lingering problem over the past 30 months, yet to be fully resolved.
- 2.4 The capital value of the property fund is above that on 31 March. Market values of all the pooled funds on 31 March and 30 September 2022 are as shown in Table 6 that follows.
- 2.5 The Councils' objective is to retain these investments in pooled funds to generate an income return. These are long-term investments and would only be redeemed when capital growth had been achieved. Table 6 that follows is a summary of performance by fund from initial investment date until the most recent return valuation available and details of interest received.

2.6 **Table 6: Pooled Fund Performance**

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

2.6.2 **Table 6.1 CCLA Performance**

CCLA	Babergh				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	4.791	0.840	5.631	0.043	5.674
Cumulative Net Interest received from date of initial investment	1.224	0.189	1.413	0.093	1.506
Annual Performance					
Net Interest received in year	0.209		0.189		0.093
Average Rate of Return for year	4.19%		3.78%		3.73%

CCLA	Mid Suffolk				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount invested	5.000		5.000		5.000
Investment Valuation	4.717	0.827	5.544	0.043	5.587
Cumulative Net Interest received from date of initial investment	1.171	0.186	1.357	0.092	1.449
Annual Performance					
Net Interest received in year	0.206		0.186		0.092
Average Rate of Return for year	4.12%		3.72%		3.67%

Appendix C cont'd

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

2.6.4 Table 6.2 Schroder Performance

Schroder Maximiser Fund	Babergh				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.540	0.167	1.707	(0.307)	1.400
Cumulative Net Interest received from date of initial investment	0.558	0.108	0.666	0.065	0.731
Annual Performance					
Net Interest received in year	0.103		0.108		0.065
Average Rate of Return for year	5.16%		5.40%		6.44%

Schroder Maximiser Fund	Mid Suffolk				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.540	0.167	1.707	(0.307)	1.400
Cumulative Net Interest received from date of initial investment	0.558	0.108	0.666	0.065	0.731
Annual Performance					
Net Interest received in year	0.103		0.108		0.065
Average Rate of Return for year	5.16%		5.40%		6.44%

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

2.6.6 Table 6.3 UBS Performance

UBS	Babergh				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.831	(0.095)	1.736	(0.287)	1.449
Cumulative Net Interest received from date of initial investment	0.452	0.080	0.533	0.051	0.583
Annual Performance					
Net Interest received in year	0.103		0.080		0.051
Average Rate of Return for year	5.16%		4.01%		5.06%

Appendix C cont'd

UBS	Mid Suffolk				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.828	(0.095)	1.733	(0.287)	1.446
Cumulative Net Interest received from date of initial investment	0.361	0.080	0.441	0.051	0.492
Annual Performance					
Net Interest received in year	0.103		0.080		0.051
Average Rate of Return for year	5.16%		4.01%		5.05%

2.6.7 Both Councils invested £2m each in the Investec Ninety-One Diversified Income I Fund on 24 May 2019. This fund aims to provide monthly income with the opportunity for long-term capital growth, investing in equities, fixed income investments (e.g. corporate or government bonds) as well as cash and money market funds.

2.6.8 Table 6.4 Investec Ninety-One Performance

Investec Ninety One Series i Diversified Income Fund	Babergh				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.995	(0.097)	1.898	(0.163)	1.735
Cumulative Net Interest received from date of initial investment	0.137	0.071	0.209	0.038	0.247
Annual Performance					
Net Interest received in year	0.075		0.071		0.038
Average Rate of Return for year	3.75%		3.57%		3.82%

Investec Ninety One Series i Diversified Income Fund	Mid Suffolk				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount invested	2.000		2.000		2.000
Investment Valuation	1.995	(0.097)	1.898	(0.163)	1.735
Cumulative Net Interest received from date of initial investment	0.137	0.071	0.209	0.038	0.247
Annual Performance					
Net Interest received in year	0.075		0.071		0.038
Average Rate of Return for year	3.75%		3.57%		3.82%

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

2.6.10 Table 6.5 Funding Circle Performance

Funding Circle	Babergh				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount Invested - National	0.166	(0.061)	0.105	0.000	0.105
Total Amount Invested	0.166	(0.061)	0.105	0.000	0.105
Bad debts to date	(0.046)	0.003	(0.044)	0.001	(0.043)
Accrued Interest	0.005	(0.004)	0.002	(0.001)	0.000
Valuation	0.125	(0.062)	0.063	(0.001)	0.062
Income received	0.119	0.002	0.121	0.000	0.121
Servicing costs	(0.014)	(0.000)	(0.014)	(0.000)	(0.014)
Cumulative Net Interest received from date of initial investment	0.100	0.002	0.107	0.000	0.107
Annual Performance					
Net Interest received in year	0.013		0.002		0.000
Average Rate of Return	3.14%		4.30%		4.40%

Funding Circle	Mid Suffolk				
	31.03.21 Balance £m	2020/21 Movement £m	31.03.22 Balance £m	6 months Movement £m	30.09.22 Balance £m
Amount Invested - National	0.162	(0.061)	0.101	0.000	0.101
Total Amount Invested	0.162	(0.061)	0.101	0.000	0.101
Bad debts to date	(0.050)	0.004	(0.047)	0.000	(0.046)
Accrued Interest	0.005	(0.003)	0.001	(0.001)	0.000
Valuation	0.116	(0.060)	0.056	(0.001)	0.055
Income received	0.119	0.001	0.121	0.000	0.121
Servicing costs	(0.014)	0.000	(0.014)	(0.000)	(0.014)
Cumulative Net Interest received from date of initial investment	0.106	0.001	0.107	(0.000)	0.107
Annual Performance					
Net Interest received in year	0.005		0.001		(0.000)
Average Rate of Return	2.98%		4.20%		4.20%

3 Non-Treasury Holdings and Other Investment Activity

- 3.1 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Councils as well as other non-financial assets which the Councils hold primarily for financial return.
- 3.2 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).

Appendix C cont'd

- 3.3 Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return.

Investment Property

- 3.4 On 5 August 2016 Babergh purchased Borehamgate Shopping centre in Sudbury for £3.56m. This has been classified as an investment property and on 31 March 2022, it was assessed at Fair Value of £2.67m.

Trading Companies

- 3.5 Babergh holds £5m of equity in Babergh Holdings Ltd and Mid Suffolk holds the same in Mid Suffolk Holdings Ltd.
- 3.6 The Capital Investment Fund Company (CIFCO Ltd) is a jointly owned subsidiary of both Babergh Holdings Ltd and Mid Suffolk Holdings Ltd (50% each) and both Councils have loans of £44.7m in CIFCO Ltd. These loans have generated £6.97m (gross) of investment income for each Council since the start of trading.
- 3.7 Mid Suffolk also holds £1.622m of equity and £28.8m of loans in another subsidiary of Mid Suffolk Holdings Ltd, Gateway 14 Ltd, which has generated £4.4m of accrued investment income since 13 August 2018.
- 3.8 Mid Suffolk holds £1.26m of loans in another subsidiary of Mid Suffolk Holdings Ltd, Mid Suffolk Growth Ltd.
- 3.9 Further details are shown in Table 7 that follows.

3.10 **Table 7: Trading Companies activity**

Babergh	Trading Companies - Loans				
	31.3.21	2021/22	31.3.22	6 Months	30.9.22
	Balance	Movement	Balance	Movement	Balance
	£m	£m	£m	£m	£m
CIFCO Ltd					
Interest Receivable	(3.661)	(2.209)	(5.870)	(1.099)	(6.969)
Interest Payable	0.721	0.249	0.970	0.123	1.093
Cumulative Net Interest received from date of investments	(2.940)	(1.960)	(4.900)	(0.976)	(5.876)

Appendix C cont'd

Mid Suffolk	Trading Companies - Loans				
	31.3.21	2021/22	31.3.22	6 Months	30.9.22
	Balance	Movement	Balance	Movement	Balance
	£m	£m	£m	£m	£m
Interest Receivable					
CIFCO Ltd	(3.661)	(2.209)	(5.870)	(1.099)	(6.969)
Gateway 14 Ltd	(2.426)	(1.216)	(3.642)	(0.748)	(4.390)
Mid Suffolk Growth	0.000	(0.022)	(0.022)	0.000	(0.022)
Total Interest Receivable	(6.087)	(3.447)	(9.534)	(1.847)	(11.359)
Interest Payable					
CIFCO Ltd	1.319	0.481	1.800	0.227	2.027
Gateway 14 Ltd	0.540	0.080	0.620	0.024	0.644
Total Interest Payable	1.859	0.561	2.420	0.251	2.671
Net Interest					
CIFCO Ltd	(2.342)	(1.728)	(4.070)	(0.872)	(4.942)
Gateway 14 Ltd	(1.886)	(1.136)	(3.022)	(0.724)	(3.746)
Cumulative Net Interest received from date of investments	(4.228)	(2.864)	(7.092)	(1.596)	(8.688)

4 Compliance Report

- 4.1 The Section 151 Officer can report that all treasury management activities undertaken complied fully with the CIPFA Code of Practice and the Councils' approved Treasury Management Strategy, except for one occasion, on 21 April 2022, when Mid Suffolk's bank account balance went above the limit by £509k due to an unexpected capital receipt received too late in the day for the additional balance to be invested.

5 Table 8: Debt Limits

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

Borrowing	Actual Maximum	30.09.22 Actual	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied
Babergh	£127m	£121m	£183m	£198m	✓
Mid Suffolk	£145m	£135m	£246m	£261m	✓

- 5.2 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.
- 5.3 Compliance with specific investment limits is demonstrated in Table 9 that follows.

5.4 **Table 9: Investment Limits**

Babergh	Actual Maximum	30.09.22 Actual	2021/22 Limit	Complied
Lloyds Bank	£1.841m	£1.833m	£2m	✓
Money market funds	45.08%	13.39%	50%	✓
DMADF	Nil	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.105m	£0.105m	£1m	✓

Mid Suffolk	Actual Maximum	30.09.22 Actual	2021/22 Limit	Complied
Lloyds Bank	£2.509m	£0.833m	£2m	☒
Barclays Bank	£0.500m	£0.500m	£2m	✓
Money market funds	31.71%	0.00%	50%	✓
DMADF	£3m	Nil	No limit	✓
CCLA	£5m	£5m	£5m	✓
UBS	£2m	£2m	£5m	✓
Investec	£2m	£2m	£5m	✓
Schroder	£2m	£2m	£5m	✓
Funding Circle	£0.101m	£0.101m	£1m	✓

5.5 It should be noted that both Council's treasury management activity for the first six months of 2022/23 was in accordance with the approved Treasury Management Strategy, and that, both Councils have complied with all the Treasury Management Indicators for this period.