BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Joint Audit & Standards Committee	**REPORT NUMBER: JAC/23/02**
FROM: Melissa Evans, Director, Corporate Resources	**DATE OF MEETING: 31 July 2023**
OFFICER: Bob Palmer, Interim Corporate Manager – Finance and Procurement	**KEY DECISION REF NO. N/A**

ANNUAL TREASURY MANAGEMENT REPORT – 2022/23

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 2022/23.

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 2022/23 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 2022/23 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 2022/23.

RECOMMENDATION TO BABERGH COUNCIL

That it be noted that Babergh District Council’s treasury management activity for 2022/23 was in accordance with the approved Treasury Management Strategy, and that, aside from exceeding the net upper limit of interest rate exposure at the end of 2022/23 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
3.3	That it be noted that Mid Suffolk District Council's treasury management activity for 2022/23 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.
	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 2022/23.**

4. KEY INFORMATION

4.1 The 2022/23 Treasury Management Strategy for both Councils was approved in February 2022.

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 2022/23 was presented to Members at the Joint Audit and Standards Committee on 28 November 2022.

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 2022/23.

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

- Major issues over the period were the war in Ukraine, higher inflation, commodity prices, higher interest rates, and the impact on household budgets and spending.

- Starting the year at 5.5%, CPI increased rapidly, peaking at 11.1% in October, and has remained stubbornly high since, with continued upward contributions coming from food and housing, despite reductions in the impact of earlier energy price surges.

- The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. This was further increased to 4.5% in May 2023.

- Babergh's short-term debt increased by £5m whilst long-term debt reduced by £0.6m. Mid Suffolk's short-term debt reduced by £6.5m and medium/long-term borrowing reduced by £6.1m.

4.7 Specific highlights relating to 2022/23 activity are provided below:

Area/Activity	**Babergh**	**Mid Suffolk**	**Comments**
Long Term Borrowing – average interest rate	3.20%	2.63%	All at fixed rates
Credit Risk Scores during the year (value weighted average)	4.90 – 5.20	3.22 – 5.35	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. 4. "We may be unable to respond in a timely and effective way to financial demands".

8.2 The operational risks relating to treasury management 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 2022/23 (Paper BC/21/33)

13.3 Joint Capital, Investment and Treasury Management Strategies 2022/23 (Paper MC/21/283)

13.4 Half Year Report on Treasury Management 2022/23 (Paper JAC/21/38)

13.5 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 2022/23 was approved at both full Councils in February 2022. 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 2022/23, complying with CIPFA's Code requirement, was approved by both full Councils in February 2022.

2. External Context

2.1. Economic background:

2.2. The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

2.3. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

2.4. Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

2.5. Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

2.6. The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

2.7. Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period growth was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

2.8. The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted for by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

2.9. After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

2.10. From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

2.11. Financial Markets

2.12. Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

2.13. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

2.14. Credit Review:

2.15. Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

2.16. In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

2.17. The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

2.18. During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

2.19. Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

2.20. On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

2.21. As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Councils counterparty list recommended by Arlingclose remains under constant review.

2.22. Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree of caution is merited with certain authorities.

3. Local Context

3.1. On 31 March 2023, Babergh had a net borrowing requirement of £109.1m and Mid Suffolk had a net borrowing requirement of £105.1m arising from revenue and capital income and expenditure activities. This is a decrease of £8.4m for Babergh and a decrease of £6.5m for Mid Suffolk from the 31 March 2022 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	**31.03.22 Actual £m**	**2022/23 Movement £m**	**31.03.23 Actual £m**
General Fund CFR	72.692	2.954	75.646
HRA CFR	92.894	1.525	94.419
Total CFR	**165.586**	**4.479**	**170.065**
Borrowing CFR			
Less: Usable reserves	(49.460)	(2.546)	(52.006)
Add / (Less): Working Capital	(15.424)	6.429	(8.995)
Net Borrowing Requirement	**100.702**	**8.362**	**109.064**

Mid Suffolk	31.03.22 Actual £m	2022/23 Movement £m	31.03.23 Actual £m
General Fund CFR	101.275	(16.350)	84.925
HRA CFR	94.241	11.598	105.839
Total CFR	**195.516**	**(4.752)**	**190.764**
Borrowing CFR			
Less: Usable reserves	(67.070)	(9.284)	(76.354)
Add / (Less): Working Capital	(16.869)	7.532	(9.337)
Net Borrowing Requirement	**111.577**	**(6.504)**	**105.073**

3.4. Both Councils net borrowing requirements are reflective of movements in their respective CFRs, which in turn balance capital expenditure against the financing applied, including minimum revenue provision. Movements in working capital and usable reserves relate to the timing of receipts and payments, reflected in movements in the balances of short-term debtors and creditors.

3.5. Rising official interest rates have increased 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 2023 and the year-on-year change is shown in Table 2 that follows.

Babergh	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m	2022/23 Average Rate %
Long-term borrowing	94.396	(0.553)	93.843	3.20%
Short-term borrowing	26.000	5.000	31.000	1.44%
Total borrowing	**120.396**	**4.447**	**124.843**	
Long-term investments	11.105	(0.050)	11.055	3.74%
Short-term investments	8.000	(5.000)	3.000	1.59%
Cash and Cash equivalents	1.714	0.002	1.716	1.90%
Total investments	**20.819**	**(5.048)**	**15.771**	
Net Borrowing	**99.577**	**9.495**	**109.071**	

Mid Suffolk	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m	2022/23 Average Rate %
Long-term borrowing	104.835	(6.107)	98.729	2.63%
Short-term borrowing	30.500	(6.500)	24.000	1.57%
Total borrowing	**135.335**	**(12.607)**	**122.729**	
Long-term investments	11.101	(0.045)	11.056	3.73%
Short-term investments	8.000	(3.000)	5.000	2.16%
Cash and Cash equivalents	2.317	(0.720)	1.597	1.94%
Total investments	**21.418**	**(3.765)**	**17.653**	
Net Borrowing	**113.917**	**(8.841)**	**105.076**	

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. 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 £3m and Mid Suffolk £5m in money market funds.

Appendix B

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. 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 functions 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).

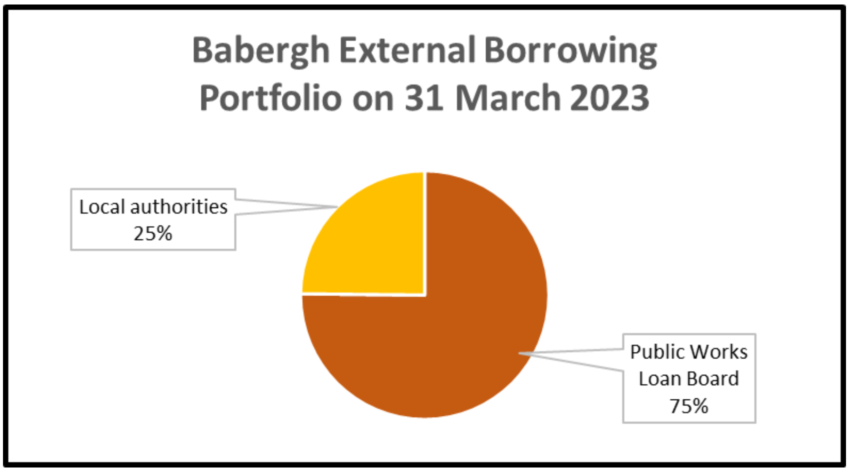
1.8. Babergh and Mid Suffolk both hold £49.8m each in commercial investments for CIFCO Ltd that were purchased prior to the change in the CIPFA Prudential Code.

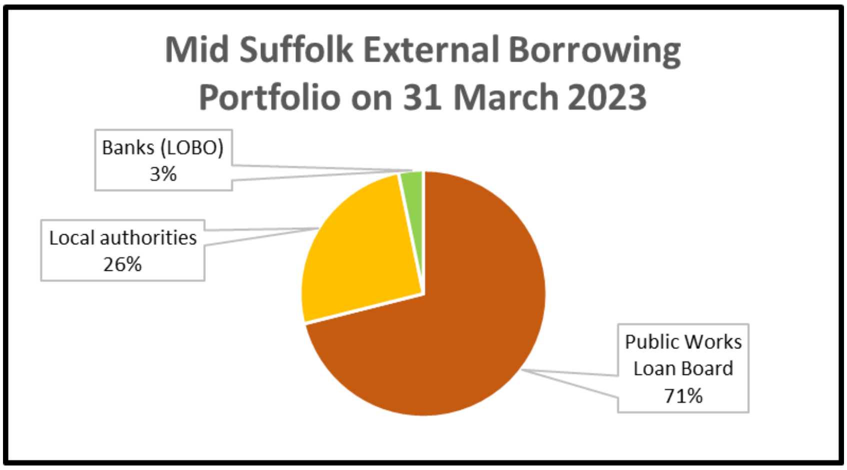
1.9. **Table 3: Borrowing Position**

Babergh	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m	2022/23 Average Rate %
Public Works Loan Board	94.396	(0.553)	93.843	3.20%
Local authorities (short-term)	26.000	5.000	31.000	1.44%
Total borrowing	**120.396**	**4.447**	**124.843**	

Mid Suffolk	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m	2022/23 Average Rate %
Public Works Loan Board	88.335	(1.107)	87.229	3.31%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (medium / long-term)	12.500	(5.000)	7.500	0.38%
Local authorities (short-term)	30.500	(6.500)	24.000	1.57%
Total borrowing	**135.335**	**(12.607)**	**122.729**	

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.

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 are anticipating 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 experienced high levels of volatility 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 2022/23.

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. Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves. During 2022/23, Babergh's investment balance ranged between £9.4m and £26.1m. Mid Suffolk's investment balance ranged between £12.4m and £45.5m. These movements are due to timing differences between income and expenditure.

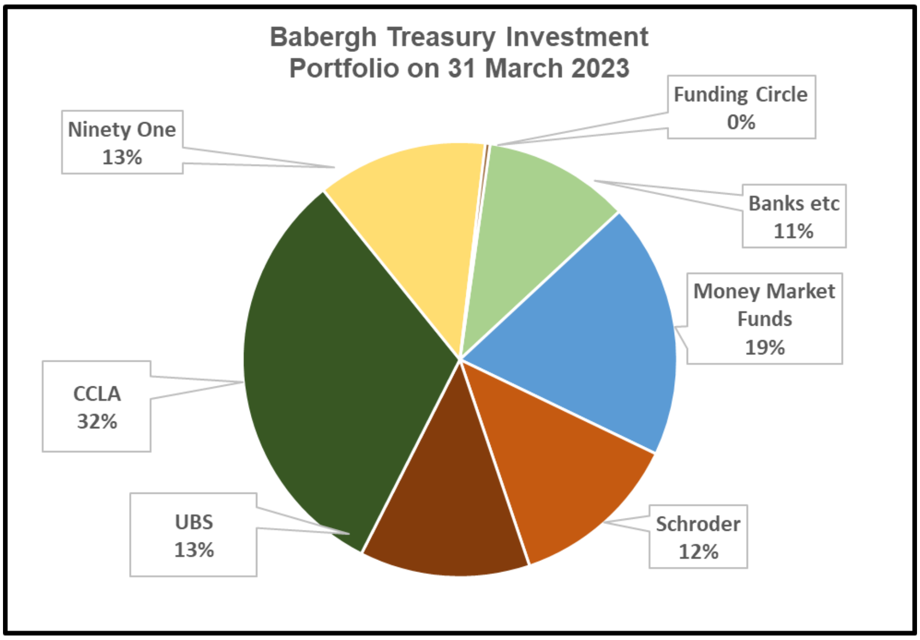
1.3. The year-end investment position and the year-on-year changes are shown in Table 4 that follows. Both Councils withdrew more of their investments in Funding Circle.

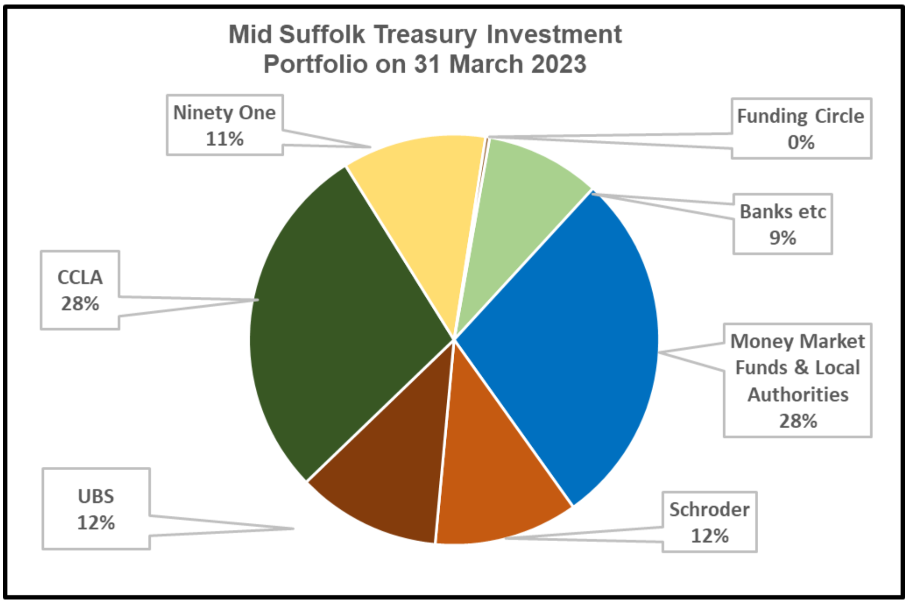
1.4. **Table 4: Treasury Investment Position**

Babergh	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m	2022/23 Average Rate %
Banks & building societies (unsecured)	1.714	0.002	1.716	1.90%
Money Market Funds	8.000	(5.000)	3.000	1.59%
Schroder	2.000	0.000	2.000	6.08%
UBS	2.000	0.000	2.000	5.06%
CCLA	5.000	0.000	5.000	4.07%
Ninety One	2.000	0.000	2.000	3.49%
Funding Circle	0.105	(0.050)	0.055	0.00%
Total investments	**20.819**	**(5.048)**	**15.771**	

Mid Suffolk	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m	2022/23 Average Rate %
Banks & building societies (unsecured)	2.317	(0.720)	1.597	1.94%
Money Market Funds & Local Authorities	6.000	(1.000)	5.000	2.16%
DMADF	2.000	(2.000)	0.000	2.10%
Schroder	2.000	0.000	2.000	6.08%
UBS	2.000	0.000	2.000	5.05%
CCLA	5.000	0.000	5.000	4.01%
Ninety One	2.000	0.000	2.000	3.49%
Funding Circle	0.101	(0.045)	0.056	0.00%
Total investments	**21.418**	**(3.765)**	**17.653**	

1.5. **Table 4 - Charts: Investment Position**





1.6. 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.

1.7. Ultra-low short-dated cash rates, have been a feature since March 2020 when Bank Rate was cut to 0.1% rising to 0.75% in March 2022. During the 12-month reporting period they increased steadily to 4.25% in March 2023. On 31 March, the 1-day return on the MMFs ranged between 3.98% - 4.09% p.a. for Babergh and 4.03% - 4.09% for Mid Suffolk.

1.8. 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 3.82% depending on the deposit maturity. The average return in the year on the Councils DMADF deposits was 1.09% for Babergh and 2.10% for Mid Suffolk. The Councils invest in the money market funds (MMFs) as a priority and then DMADF only when MMFs are fully invested.

1.9. Babergh and Mid Suffolk have both previously 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.

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

1.11. 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.

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

Babergh	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
On 31.03.2022	5.04	A+	99%	2.44%
On 31.03.2023	4.9	A+	100%	3.99%

Mid Suffolk	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
On 31.03.2022	4.38	AA-	80%	2.57%
On 31.03.2023	4.85	A+	100%	3.58%

Arlingclose Benchmarks for 31.03.2023	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
Similar Local authorities	4.74	A+	63%	3.57%
All Local authorities	4.71	A+	59%	3.67%

1.13. 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.

1.14. Babergh has £11.1m 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 £3.4m (average rate of return for the year 3.74%) which is used to support the Councils service provision.

1.15. Mid Suffolk has £11.1m 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 £3.3m (average rate of return for the year 3.73%) which is used to support the Councils service provision.

1.16. 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.

1.17. 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.

1.18. 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.

1.19. 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.

1.20. 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 2023 it was assessed at fair value of £2.6m. Net Income, after the deduction of direct costs, was £186k in 2022/23 (£158k in 2021/22). Income from rentals continued to increase slightly as has picked up further following the pandemic. The asset is being actively managed by the Council to secure new tenants in the short term and work continues on longer term investment plans for that area.

2.5 Trading Companies

2.6 On 31 March 2023 Babergh held £4.9m of equity in BDC (Suffolk Holdings) Ltd and Mid Suffolk held £4.9m of equity in MSDC (Suffolk Holdings) Ltd. Both Councils own 100% of the shares in each holding company.

2.7 Babergh and Mid Suffolk's respective 50% share of the loss made by CIFCO Ltd in 2022/23 was £3m (2021/22 was £3.2m profit) and is reflected in the decreased 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 a decrease 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 2023 Babergh and Mid Suffolk each have £44.4m of loans in CIFCO Ltd, a subsidiary of BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd. These loans have generated £8.1m (gross) of investment income for each Council since the start of trading. The net position for 2022/23, including additional interest receivable from overdraft facilities given by the Councils and after borrowing costs, is shown later in Table 7.

2.10 On 31 March 2023 Mid Suffolk also held £6.4m of loans in another subsidiary of MSDC (Suffolk Holdings) Ltd, Gateway 14 Ltd, which has generated £4.9m (gross) of investment income since the initial loans were advanced by the Council in August 2018.

2.11 Gateway 14 is now in the delivery phase of the development with infrastructure works and completed its first transaction in December 2022.

Table 6: Trading Companies – Loan activities

Babergh	Trading Companies - Loans				
	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m	2022/23 Movement £m	31.3.23 Balance £m
CIFCO Ltd					
Interest Receivable	(3.661)	(2.209)	(5.870)	(2.198)	(8.068)
Interest Payable	0.721	0.249	0.970	0.526	1.496
Cumulative Net Interest received from date of investments	**(2.940)**	**(1.960)**	**(4.900)**	**(1.672)**	**(6.572)**

Mid Suffolk	Trading Companies - Loans				
	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m	2022/23 Movement £m	31.3.23 Balance £m
Interest Receivable					
CIFCO Ltd	(3.661)	(2.209)	(5.870)	(2.198)	(8.068)
Gateway 14 Ltd	(2.426)	(1.216)	(3.642)	(1.218)	(4.860)
Total Interest Receivable	**(6.087)**	**(3.425)**	**(9.512)**	**(3.416)**	**(12.928)**
Interest Payable					
CIFCO Ltd	1.319	0.481	1.800	0.738	2.538
Gateway 14 Ltd	0.540	0.080	0.620	0.064	0.684
Total Interest Payable	**1.859**	**0.561**	**2.420**	**0.802**	**3.222**
Net Interest					
CIFCO Ltd	(2.342)	(1.728)	(4.070)	(1.460)	(5.530)
Gateway 14 Ltd	(1.886)	(1.136)	(3.022)	(1.154)	(4.176)
Cumulative Net Interest received from date of investments	**(4.228)**	**(2.864)**	**(7.092)**	**(2.614)**	**(9.706)**

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	2022/23 Budget £m	2022/23 Actual £m	Variance Adverse/ (Favourable) £m
Interest Receivable			
General Fund	(0.584)	(0.421)	0.164
Housing Revenue Account	(0.010)	(0.203)	(0.193)
CIFCO Ltd	(2.169)	(2.201)	(0.032)
Total Interest Receivable	**(2.763)**	**(2.824)**	**(0.061)**
Interest Payable			
General Fund	0.060	0.000	(0.060)
Housing Revenue Account	3.161	2.795	(0.366)
CIFCO Ltd	0.380	0.526	0.146
Total Interest Payable	**3.601**	**3.321**	**(0.280)**
Net Interest			
General Fund	(0.524)	(0.421)	0.104
Housing Revenue Account	3.151	2.592	(0.559)
CIFCO Ltd	(1.789)	(1.675)	0.113
Total Net Interest	**0.838**	**0.497**	**(0.341)**

Mid Suffolk	2022/23 Budget £m	2022/23 Actual £m	Variance Adverse/ (Favourable) £m
Interest Receivable			
General Fund	(0.597)	(0.883)	(0.286)
Housing Revenue Account	(0.009)	0.000	0.009
CIFCO Ltd	(2.169)	(2.201)	(0.032)
Gateway 14 Ltd	(1.865)	(1.233)	0.632
Total Interest Receivable	**(4.640)**	**(4.316)**	**0.323**
Interest Payable			
General Fund	0.130	0.000	(0.130)
Housing Revenue Account	2.968	2.790	(0.178)
CIFCO Ltd	0.545	0.738	0.193
Gateway 14 Ltd	0.160	0.065	(0.095)
Total Interest Payable	**3.803**	**3.594**	**(0.209)**
Net Interest			
General Fund	(0.467)	(0.883)	(0.416)
Housing Revenue Account	2.959	2.790	(0.169)
CIFCO Ltd	(1.624)	(1.462)	0.161
Gateway 14 Ltd	(1.705)	(1.168)	0.537
Total Net Interest	**(0.837)**	**(0.723)**	**0.114**

3.3 The interest receivable for Babergh was £61k over budget, whilst the interest receivable for Mid Suffolk was £323k under budget. The HRA was the main contributor to Babergh's position and Gateway 14 Ltd was the key influence on Mid Suffolk's variance.

3.4 The total interest payable for the year was under budget by £280k for Babergh and £209k 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 2021/22 and 2022/23.

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				
	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.791	0.841	5.631	(0.928)	4.703
Cumulative Net Interest received from date of initial investment	**1.230**	**0.182**	**1.412**	**0.204**	**1.615**
Annual Performance					
Net Interest received in year	**0.213**		**0.182**		**0.204**
Average Rate of Return for year	**4.26%**		**3.64%**		**4.07%**

CCLA	Mid Suffolk				
	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested	5.000	0.000	5.000	0.000	5.000
Investment Valuation	4.717	0.828	5.544	(0.914)	4.630
Cumulative Net Interest received from date of initial investment	**1.167**	**0.179**	**1.347**	**0.201**	**1.547**
Annual Performance					
Net Interest received in year	**0.210**		**0.179**		**0.201**
Average Rate of Return for year	**4.20%**		**3.58%**		**4.01%**

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				
	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.540	0.167	1.707	(0.091)	1.616
Cumulative Net Interest received from date of initial investment	**0.555**	**0.110**	**0.665**	**0.122**	**0.786**
Annual Performance					
Net Interest received in year	**0.095**		**0.110**		**0.122**
Average Rate of Return for year	**4.76%**		**5.49%**		**6.08%**

Schroder Maximiser Fund	Mid Suffolk				
	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.540	0.167	1.707	(0.091)	1.616
Cumulative Net Interest received from date of initial investment	**0.555**	**0.110**	**0.665**	**0.122**	**0.786**
Annual Performance					
Net Interest received in year	**0.095**		**0.110**		**0.122**
Average Rate of Return for year	**4.76%**		**5.49%**		**6.08%**

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				
	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.831	(0.094)	1.736	(0.288)	1.448
Cumulative Net Interest received from date of initial investment	**0.452**	**0.083**	**0.535**	**0.101**	**0.637**
Annual Performance					
Net Interest received in year	**0.090**		**0.083**		**0.101**
Average Rate of Return for year	**4.48%**		**4.15%**		**5.06%**

UBS	Mid Suffolk				
	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.828	(0.094)	1.733	(0.287)	1.446
Cumulative Net Interest received from date of initial investment	**0.356**	**0.083**	**0.439**	**0.101**	**0.540**
Annual Performance					
Net Interest received in year	**0.090**		**0.083**		**0.101**
Average Rate of Return for year	**4.48%**		**4.14%**		**5.05%**

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				
	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested - National	0.166	(0.061)	0.105	(0.050)	0.055
Total Amount Invested	**0.166**	**(0.061)**	**0.105**	**(0.050)**	**0.055**
Bad debts to date	(0.046)	0.002	(0.044)	0.002	(0.042)
Accrued Interest	0.005	(0.003)	0.002	(0.002)	0.000
Valuation	**0.125**	**(0.062)**	**0.063**	**(0.050)**	**0.014**
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	**0.105**	**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 for year	**3.14%**		**4.30%**		**0.00%**

Funding Circle	Mid Suffolk				
	31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested - National	0.162	(0.061)	0.101	(0.045)	0.056
Total Amount Invested	**0.162**	**(0.061)**	**0.101**	**(0.045)**	**0.056**
Bad debts to date	(0.050)	0.003	(0.047)	0.001	(0.046)
Accrued Interest	0.005	(0.004)	0.001	(0.001)	0.000
Valuation	**0.117**	**(0.062)**	**0.055**	**(0.045)**	**0.010**
Income received	0.119	0.002	0.121	0.001	0.122
Servicing costs	(0.014)	0.000	(0.014)	(0.000)	(0.014)
Cumulative Net Interest received from date of initial investment	**0.105**	**0.002**	**0.107**	**0.001**	**0.108**
Annual Performance					
Net Interest received in year	**0.005**		**0.001**		**0.000**
Average Rate of Return for year	**2.98%**		**4.20%**		**0.00%**

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 31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.995	(0.097)	1.898	(0.103)	1.796
Cumulative Net Interest received from date of initial investment	**0.149**	**0.071**	**0.221**	**0.070**	**0.291**
Annual Performance					
Net Interest received in year	**0.074**		**0.071**		**0.070**
Average Rate of Return for year	**3.72%**		**3.57%**		**3.49%**

Ninety One Series i Diversified Income Fund	Mid Suffolk 31.03.21 Balance £m	2021/22 Movement £m	31.03.22 Balance £m	2022/23 Movement £m	31.03.23 Balance £m
Amount Invested	2.000	0.000	2.000	0.000	2.000
Investment Valuation	1.995	(0.097)	1.898	(0.103)	1.796
Cumulative Net Interest received from date of initial investment	**0.149**	**0.071**	**0.221**	**0.070**	**0.291**
Annual Performance					
Net Interest received in year	**0.074**		**0.071**		**0.070**
Average Rate of Return for year	**3.72%**		**3.57%**		**3.49%**

4. <u>Compliance Report</u>

4.1. It should be noted that both Council's treasury management activity for 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, except:

- Investments: On 21 April 2022, Mid Suffolk's bank account balance went above the limit by £508,000 due to receiving £809,000 in completion funds for the sale of 3 properties. Funds were received after the cut-off point for investing into the money market funds but were invested the next day.

- Interest rate exposure: these limits were set in the Treasury Management Strategy when interest rates, and predicted interest rates, were very low. The majority of Babergh's borrowing was at the end of 2022/23 when interest rates had risen to their highest rate since 2020. It resulted in the net upper limits on the one-year revenue impact, which had been set at £15,000, being exceeded as the actual impact was £32,000.

4.2. Compliance with the authorised limit and operational boundary for external debt is shown in Table 9 below.

4.3. **Table 9: Debt Limits**

Total Borrowing	2022/23 Maximum £m	31.03.23 Actual £m	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied
Babergh	124.853	124.843	183.000	198.000	✓
Mid Suffolk	135.335	122.729	246.000	261.000	✓

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 the one item of non-compliance has been explained in 4.1 above.

Babergh	2022/23 Maximum £m	31.03.23 Actual £m	2022/23 Limit £m	Complied
Any single organisation, except the UK Central Government	1.841	1.716	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	0.105	0.055	1.000	✓
Any single Money Market Fund	2.000	2.000	2.000	✓

Mid Suffolk	2022/23 Maximum £m	31.03.23 Actual £m	2022/23 Limit £m	Complied
Any single organisation, except the UK Central Government	2.509	1.097	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	0.101	0.056	1.000	✓
Any single Money Market Fund	2.000	2.000	2.000	✓

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	31.3.23 Actual	2022/23 Target	Complied
Babergh Portfolio average Credit Score	4.90	7.00	✓
Mid Suffolk Portfolio average Credit Score	4.85	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	31.3.23 Actual £m	2022/23 Limit £m	Complied
Babergh upper impact on Revenue of a 1% increase in rates	0.032	0.015	x
Mid Suffolk upper impact on Revenue of a 1% increase in rates	0.029	0.073	✓

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.

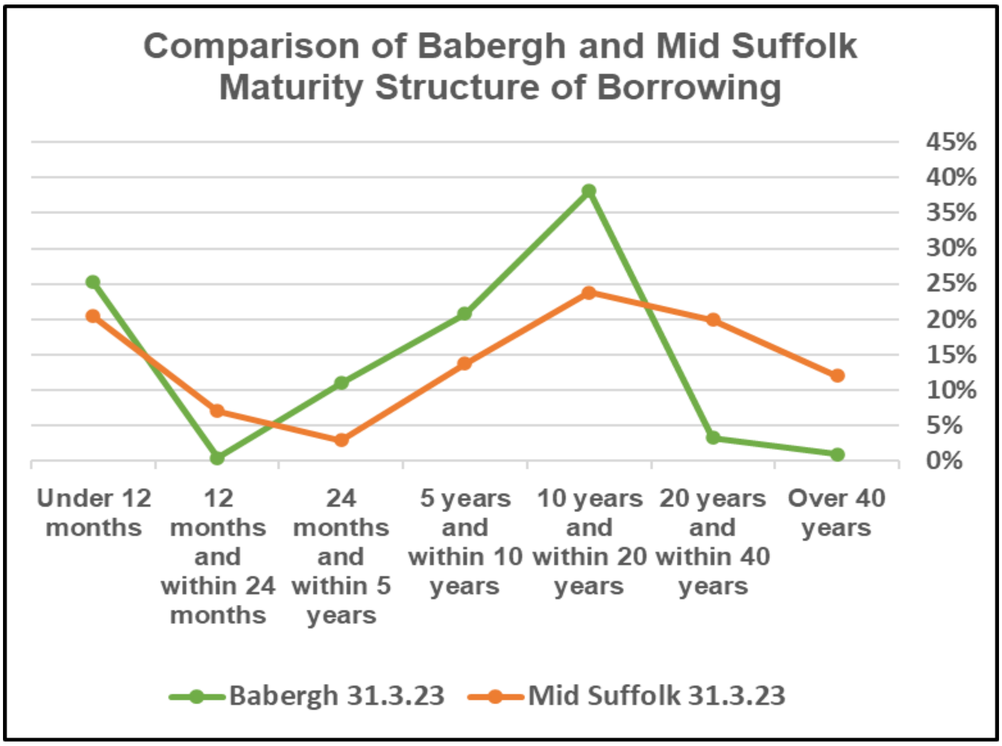
1.7. **Maturity Structure of Borrowing**: This indicator is set to control the Councils exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are shown in Table 13 as follows.

1.8. **Table 13: Maturity Structures**

Age Profile of Maturity	Babergh 31.3.23 Actual	Mid Suffolk 31.3.23 Actual	Lower Limit	Upper Limit	Complied
Under 12 months	25.28%	20.47%	0%	50%	✓
12 months and within 24 months	0.46%	7.05%	0%	50%	✓
24 months and within 5 years	11.04%	2.91%	0%	50%	✓
5 years and within 10 years	20.79%	13.77%	0%	100%	✓
10 years and within 20 years	38.16%	23.80%	0%	100%	✓
20 years and within 40 years	3.27%	19.93%	0%	100%	✓
Over 40 years	1.00%	12.07%	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	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£0	£0	£0
Limit on principal invested beyond year end	£2m	£2m	£2m
Complied	✓	✓	✓

Mid Suffolk	2022/23	2023/24	2024/25
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. <u>**Prudential Indicators**</u>

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 2022/23. Actual figures have been taken from, or prepared on a basis consistent with, the Councils draft Statements of Accounts for 2022/23.

1.4. **Capital Expenditure**

1.5. The Councils capital expenditure and financing for 2022/23 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	**2022/23 Budget including c/fwds £m**	**2022/23 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	23.628	5.728	(17.900)
HRA	22.644	11.490	(11.154)
Total Expenditure	**46.272**	**17.218**	**(29.054)**
Capital Receipts	3.540	2.472	(1.068)
Grants and Contributions	1.510	0.696	(0.814)
Revenue Contributions	2.630	2.633	0.003
Revenue Reserves	6.310	0.405	(5.905)
Major Repairs Reserve	4.280	4.830	0.550
Borrowing	28.002	6.182	(21.820)
Total Financing	**46.272**	**17.218**	**(29.054)**

Mid Suffolk District Council			
Capital Expenditure and Financing	**2022/23 Budget including c/fwds £m**	**2022/23 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	35.135	12.318	(22.817)
HRA	43.123	21.962	(21.162)
Total Expenditure	**78.258**	**34.280**	**(43.979)**
Capital Receipts	4.440	5.357	0.917
Grants and Contributions	1.880	1.086	(0.794)
Revenue Contributions	1.280	1.058	(0.222)
Revenue Reserves	4.020	0.935	(3.085)
Major Repairs Reserve	3.910	4.622	0.712
Borrowing	62.728	21.222	(41.506)
Total Financing	**78.258**	**34.280**	**(43.978)**

2. Prudential Indicator Compliance

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	**31.03.23 Budget £m**	**31.03.23 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	91.959	75.646	(16.313)
HRA	90.997	94.419	3.422
Total CFR	**182.956**	**170.065**	**(12.891)**

Mid Suffolk District Council			
Capital Financing Requirement	**31.03.23 Budget £m**	**31.03.23 Actual £m**	**Variance Adverse / (Favourable) £m**
General Fund	124.331	84.925	(39.406)
HRA	120.859	105.839	(15.020)
Total CFR	**245.190**	**190.764**	**(54.426)**

2.4. The CFR increased during the year by £4.48m for Babergh and decreased by £4.75m for Mid Suffolk, being the movement in the balance of capital expenditure financed by debt against 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 2023 was as follows:

3.2. **Table 17: Total Debt**

Total Debt	31.03.23 Budget £m	31.03.23 Actual £m	Variance (Adverse) / Favourable £m
Babergh District Council	(138.730)	(124.843)	13.887
Mid Suffolk District Council	(199.896)	(122.729)	77.167

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	**31.03.23 Actual £m**	**31.03.23 Estimate £m**
Capital financing requirement	170.065	182.956
Total Debt	(124.843)	(138.730)
Headroom	**45.222**	**44.226**

Mid Suffolk District Council		
Debt and CFR	**31.03.23 Actual £m**	**31.03.23 Estimate £m**
Capital financing requirement	190.764	245.190
Total Debt	(122.729)	(199.896)
Headroom	**68.035**	**45.294**

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	31.03.23 Limit £m	31.03.23 Actual Debt £m	Complied
Babergh District Council	(183.000)	(124.843)	✓
Mid Suffolk District Council	(246.000)	(122.729)	✓

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	31.03.23 Limit £m	31.03.23 Actual Debt £m	Complied
Babergh District Council	(198.000)	(124.843)	✓
Mid Suffolk District Council	(261.000)	(122.729)	✓

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	31.03.23 Budget %	31.03.23 Actual %	Variance Adverse / (Favourable) %
General Fund	(7.86)	(5.68)	2.18
HRA	18.05	14.65	(3.40)

Mid Suffolk District Council			
Ratio of Financing Costs to Net Revenue Stream	31.03.23 Budget %	31.03.23 Actual %	Variance Adverse / (Favourable) %
General Fund	(16.69)	(14.78)	1.91
HRA	19.31	18.00	(1.31)

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.