**BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL**

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| **TO: MSDC Council** | **REPORT NUMBER: MC/23/42** |
| **FROM: Karen Watling, Interim Corporate Manager: Finance (Deputy S151 Officer)** | **DATE OF MEETING:**<br>**BDC - 20 February 2024**<br>**MSDC - 22 February 2024** |
| **OFFICER: Mike Hirst, Assistant Manager – Financial Accountant**<br>**Alistair Greer, Senior Finance Business Partner**<br>**Sue Palmer, Senior Finance Business Partner** | **KEY DECISION REF NO. Item No. N/A** |

**JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2024/25**

## 1. PURPOSE OF REPORT

1.1 This report presents the Joint Capital, Investment and Treasury Management Strategies for the financial year 2024/25.

1.2 These are in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code, the CIPFA Prudential Code, which were both updated in 2021, and the 2018 Department for Levelling-Up, Housing and Communities (DLUHC) Investment Guidance, which introduced the requirement to prepare a Capital Strategy and an Investment Strategy covering service and commercial (i.e. solely for yield) investments. The Treasury Management Strategy remained largely unchanged.

1.3 The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report that will be presented to this Council meeting in February 2024 for approval.

1.4 The Codes of Practice recommend that these strategies are subject to scrutiny before being presented to Full Council, which falls within the remit of the Joint Audit and Standards Committee. JASC reviewed this report at its meeting on 29 January 2024 (report reference JAC/23/19).

## 2. OPTIONS CONSIDERED

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

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

| 3. | **RECOMMENDATIONS TO BOTH COUNCILS** |
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| | That the following be approved: |
| 3.1 | The Joint Capital Strategy for the period 2023/24 to 2027/28, including the Prudential Indicators, as set out in Appendix A. |
| 3.2 | The Joint Investment Strategy for service and commercial investments for the period 2023/24 to 2027/28, as set out in Appendix B. |
| 3.3 | The Joint Treasury Management Strategy for the period 2023/24 to 2027/28, including the Joint Annual Investment Strategy as set out in Appendix C. |
| 3.4 | The Joint Treasury Management Indicators as set out in Appendix D. |
| 3.5 | The Joint Treasury Management Policy Statement as set out in Appendix G. |
| 3.6 | The Joint Minimum Revenue Provision Policy Statement as set out in Appendix H |
| 3.7 | The amendment to the 2023/24 Joint Minimum Revenue Provision Policy Statement, also set out in Appendix H |
| 3.8 | That the key factors and information relating to and affecting treasury management activities set out in Appendices E, F, and I be noted. |
| 3.9 | That Workshops to inform and guide the evolution of the Councils investment portfolio be scheduled |
| | **REASON FOR DECISION**<br><br>**Local authorities are required to approve their Treasury Management Strategy (TMS), their Capital Strategy (including an overview of the TMS) and their Investment Strategy annually before the start of the financial year.** |

## 4. KEY INFORMATION

### Introduction

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

4.2 The strategies set limits and indicators that embody the risk management approach that the Councils believe to be prudent. The strategies are set against the 2024/25 budget and the four-year outlook and the context of the UK economy and projected interest rates. The information included in Appendix A to H reflects the current plans for income, expenditure, and investments of both Councils.

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

**Strategic Context**

4.4 In recent years the government has reduced core funding for local government as part of its deficit reduction strategy. In response to this both Councils' strategy over the medium term as set out in the 2024/25 budget reports is to become self-financing and to generate more funds than are required for core services, and to enable additional investment in the districts.

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

4.6 The administrations are committed to ensuring that the three strategies within this report are aligned with their core principles. As a consequence, environmental and social impact will be considered alongside economic returns when making investment or dis-investment decisions to drive the pro-active evolution of the Councils' investment portfolio

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

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

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

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

4.11 It is widely expected that government will introduce changes to the statutory regulations on MRP (Minimum Revenue Provision) and accounting for Expected Credit Losses to take affect from 1 April 2024. Detailed proposals on these changes were published by DLUCH on 21 December 2023 and consultation on these closed on 16 February 2024.

4.12 The proposed changes would require councils to start making MRP on its capital loans in certain circumstances to third parties which were made for commercial purposes only. The MRP Policy Statement in Appendix H includes the required revisions needed for the likely regulatory change.

4.13 In addition, the revised MRP regulations may also change the accounting treatment of loan impairments with Expected Credit Losses being an immediate loss to be financed from the revenue budget instead of it being charged as an MRP cost over the life of the asset (say over 40 to 50 years). The General Fund budget paper on this Council's meeting agenda explains this more fully. New reserves are also proposed in that report to fund the Expected Credit Losses on loans to Babergh Growth Ltd and CIFCO Ltd. The MRP Policy Statement in Appendix H of this report revises the 2023/24 MRP Policy to allow for voluntary overpayments of MRP in both this financial year 2023/24 and next in order to fund the Expected Credit Losses.

**National Economic Outlook and the state of Public Finances**

4.14 The OBR (Office for Budget Responsibility) set out its latest national economic forecast in November 2023. A summary of this follows:

- The economy has proved to be more resilient to the shocks of the pandemic and energy crisis than anticipated. By the middle of this year, the level of real GDP stood nearly 2% above its pre-pandemic level. But the OBR now expects the economy to now grow more slowly at 0.6% this year and 0.7% next year. They forecast that growth then picks up to 1.4% in 2025 and an average of 1.9% 2026 and 2028.

- While inflation (as measured by the Consumer Price Index) has more than halved from its 40-year peak of 11% at the end of last year it is expected to be more persistent than previously thought, falling below 5% by the end of this year but not returning to the Bank of England's 2% target until the first half of 2025.

- Markets now expect that interest rates have peaked but will need to remain higher for longer to bring inflation under control. The Bank of England's Monetary Policy Committee (MPC) at its meeting on 31 January 2024, voted by a majority of 6 to maintain the Bank Base Rate at 5.25%.

- In terms of the national public finances: higher and more domestically fuelled inflation – and in particular the interplay between higher nominal earnings and frozen tax thresholds – raises nominal tax receipts and reduces underlying borrowing by around £60 billion in 2027/28. But higher inflation and earnings also push up the cost of inflation-linked welfare benefits and the triple-locked state pension by around £20 billion. And higher inflation and interest rates add £15 billion to the cost of serving the government's debts. But because the Chancellor leaves departmental and other spending largely unchanged in cash terms despite higher inflation the overall net position is a £27 billion net fiscal windfall in 2027/28.

- The Chancellor announced in the Autumn Statement that he would spend this windfall on cuts in National Insurance Contributions, permanent up-front tax write-offs for business investment, and a package of welfare reforms, which together provide a modest boost to output of 0.3% in 5 years.

- No major changes to departmental spending plans were announced in the Autumn Statement despite significantly higher inflation. Departmental expenditure limits (or DELs) account for around 40% of public spending and are allocated out between departments in periodic Spending Reviews. The current Spending Review period comes to an end in 2024/25, and the next review is not scheduled until after the next General Election.

4.15 Given the forecast state of the public finances it is not likely that significant increases in funding will be given to local government over the medium term even if there is a change in national government after the General Election

4.16 The economic situation has had a direct impact on the Councils' capital programmes and borrowing costs because of projects falling behind schedule due to staffing shortages and supply difficulties whilst the increasing interest rates have had an adverse impact on borrowing costs. In addition, there has been no forecast increase in the value of the Councils' long-term investments in a property fund no increases in funds comprising of equities and bonds as a result of the volatility in stock markets.

**Statutory Background**

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

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

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

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

- ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice,

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

- at Full Council set the strategies and prudential indicators and approve any material changes or revisions required during the year.

**Joint Capital Strategy Appendix A**

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

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

**Joint Investment Strategy Appendix B**

4.20 The Councils invest their money for three broad purposes:

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

4.21 This Joint Investment Strategy for 2024/25, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

**Joint Treasury Management Strategy Appendix C**

4.22 The Joint Treasury Management Strategy (TMS) (Appendix C) covers the first point in 4.20 above and details of borrowing including authorised limits, economic and interest rate forecasts and treasury management indicators, which are also shown in Appendices D to G.

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

## 5. LINKS TO BABERGH DC AND MID SUFFOLK DC PLANS

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

## 6. FINANCIAL IMPLICATIONS

6.1 As outlined in this report and appendices.

## 7. LEGAL IMPLICATIONS

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

7.2 The Capital Finance and Accounting Regulations 2003 – SI 2003/3146, Regulation 24, explicitly require authorities to “have regard” to the Treasury Management Code.

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

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

## 8. RISK MANAGEMENT

8.1 The key risks are set out below:

| Risk Description | Likelihood 1-4 | Impact 1-4 | Key Mitigation Measures | Risk Register and Reference |
|---|---|---|---|---|
| The income projections for the Councils investment in the Capital Investment Fund (CIFCO) may not be met | 2 | 3 | Implementation of strong corporate governance<br>Engagement of independent professional advisers and preparation of annual audited accounts.<br>Business Plan 23/24 approved by Council<br>Review by Overview and Scrutiny Committee<br>Council oversight of trading companies management accounts | SRR001 |
| Income, capital and economic outcomes projected for Gateway 14 Ltd may not be delivered | 2 | 3 | Treasury management advice<br>Business plan 23/24 approved by Holding Co<br>Repayment of debt<br>Knowledgeable and experienced Board of Directors<br>Support from market leading experts<br>Delivery Partner appointment<br>Gateway14 Ltd is founding partner of Freeport East<br>Council oversight of trading companies management accounts | SRR002 |

| | | | | |
|---|---|---|---|---|
| Babergh Council may be unable to react in a timely and effective way to financial demands | 3 | 3 | Inflationary risk reserve established to cover the impacts in 2022/23<br>Quarterly budget monitoring to Cabinets<br>Reserves review<br>Finance Transformation Plan<br>Balance sheet review and monitoring<br>Internal audit review of budget monitoring arrangements during 2021/22 | SRR004BDC |
| Mid Suffolk Council may be unable to react in a timely and effective way to financial demands | 2 | 3 | Inflationary risk reserve established to cover the impacts in 2022/23<br>Quarterly budget monitoring to Cabinets<br>Reserves review<br>Finance Transformation Plan<br>Balance sheet review and monitoring<br>Internal audit review of budget monitoring arrangements during 2021/22 | SRR004MSDC |
| Babergh District Council may expose itself to financial risk through its own subsidiary companies and other commercial activities | 3 | 4 | Directors representing the Council Shareholders on the board<br>Non-Exec Directors<br>Management accounts shared with the Council Finance team monthly<br>Director of Assets and Investments is a Director on each Company Board<br>Director of Finance is provisioned with Company accounts annually in addition to receiving quarterly financial reporting<br>Quarterly risk briefing attended by Risk Management Lead<br>Discussions with external auditors - EY<br>Advice from Treasury Managers - Arlingclose | SRR017BDC |
| Mid Suffolk District Council may expose itself to financial risk through its own subsidiary companies and other commercial activities | 3 | 3 | Directors representing the Council Shareholders on the board<br>Non-Exec Directors<br>Management accounts shared with the Council Finance team monthly<br>Director of Assets and Investments is a Director on each Company Board | SRR017MSDC |

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| | | | Director of Finance is provisioned with Company accounts annually in addition to receiving quarterly financial reporting<br>Quarterly risk briefing attended by Risk Management Lead<br>Discussions with external auditors - EY<br>Advice from Treasury Managers - Arlingclose | |
| The Councils may be subject to fraud, corruption and bribery | 2 | 3 | Internal Audit annual 'Managing the Risk of Fraud and Corruption Report' approved by the Senior Leadership Team and the Joint Audit and Standards Committee<br>Prevention of Financial Crime Policy<br>Councillors and staff awareness of policies<br>Internal Audit Fraud Risk Register<br>Audit membership Suffolk Counter Fraud Group<br>Dedicated on-line Fraud Referral platform for members of the public to report allegations of fraud and corruption<br>Participation in mandatory bi-annual National Fraud Initiative (NFI) investigating data matches<br>Intelligence sharing and use of data | SRR020 |
| Non-compliance with legislation and regulatory standards. | 3 | 2 | Established policies and procedures<br>External inspections<br>Work undertaken by Internal Audit<br>Regulatory standards, procedures and guidance from central government<br>Requirment to complete statutory returns<br>Appointment of a dedicated Policy Officer<br>Appointment of a dedicated Compliance Officer<br>Established complaints and Whistleblowing procedure<br>Performance measuring<br>General managment oversight | SRR024 |

| | | | | |
|---|---|---|---|---|
| The councils may face significant increases in their borrowing costs | 3 | 3 | Review as part of treasury and investment strategy, and budget setting to ensure further decisions that incur borrowing are affordable | SRR025BDC |
| The councils may face significant increases in their borrowing costs | 3 | 2 | Review as part of treasury and investment strategy, and budget setting to ensure further decisions that incur borrowing are affordable | SRR025MSDC |

## 9. CONSULTATIONS

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

## 10. EQUALITY ANALYSIS

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

## 11. ENVIRONMENTAL IMPLICATIONS

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

## 12. APPENDICES

| Title | Location |
|---|---|
| (a) Joint Capital Strategy 2024/25 | Attached |
| (b) Joint Investment Strategy 2024/25 | Attached |
| (c) Joint Treasury Management Strategy 2024/25 | Attached |
| (d) Treasury Management Indicators | Attached |
| (e) Economic Outlook and Interest Rate Forecast | Attached |
| (f) Existing Borrowing and Investments | Attached |
| (g) Treasury Management Policy Statement | Attached |
| (h) Minimum Revenue Provision (MRP) Policy Statement | Attached |
| (i) Credit Ratings Criteria | Attached |
| (j) Glossary of Terms | Attached |

## 13. BACKGROUND DOCUMENTS

2021 CIPFA Treasury Management in the Public Services

2021 The Prudential Code for Capital Finance in Local Authorities

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

# APPENDIX A: JOINT CAPITAL STRATEGY 2024/25

## 1. Introduction

1.1 This Joint Capital Strategy for the period 2023/24 to 2027/28 gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these often-technical areas.

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

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

## 2. Capital Expenditure and Financing

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

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

### Governance: Capital Expenditure

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

2.4 Details of the Councils' capital programmes are included initially in the Budget reports that were presented to Overview and Scrutiny Committees in January 2024 and Cabinet in February. They are now presented to this Council meeting for approval in a separate report on this Council's agenda.

### Proposed Capital Expenditure

2.5 The actual capital spend for 2022/23, the revised budget for 2023/24, the proposed budget for 2024/25 and forecast from 2025/26 to 2027/28, for the General Fund and the Housing Revenue Account (HRA) is summarised as follows:

## Table 1: Prudential Indicator: Estimated Capital Expenditure

| Capital Expenditure | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget ** £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| General Fund | 4.70 | 3.64 | 4.99 | 12.41 | 2.06 | 2.06 |
| Capital Investments | 1.03 | 5.62 | 4.02 | 1.84 | 0.06 | 0.06 |
| **Total General Fund** | 5.73 | 9.27 | 9.01 | 14.25 | 2.12 | 2.12 |
| | | | | | | |
| **Council Housing (HRA)** | **11.49** | **10.12** | **13.71** | **14.28** | **9.72** | **9.09** |
| **Total Capital Expenditure** | **17.22** | **19.38** | **22.72** | **28.53** | **11.84** | **11.21** |

| Capital Expenditure | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget ** £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| General Fund | 5.32 | 7.47 | 22.12 | 17.17 | 1.85 | 1.85 |
| Capital Investments | 7.00 | 0.41 | 2.50 | 1.50 | 0.00 | 0.00 |
| **Total General Fund** | 12.32 | 7.88 | 24.62 | 18.67 | 1.85 | 1.85 |
| | | | | | | |
| **Council Housing (HRA)** | **21.96** | **20.66** | **20.52** | **12.04** | **8.98** | **8.93** |
| **Total Capital Expenditure** | **34.28** | **28.54** | **45.13** | **30.71** | **10.83** | **10.78** |

** Including forecast carry-forward from 2023/24. These figures have not yet been agreed by the two Councils and are therefore could be subject to change.

### General Fund Capital Expenditure

2.6 The key General Fund projects included in the Capital Programme for Babergh over the period 2023/24 to 2027/28 are the construction of a new depot to be shared with Mid Suffolk District Council (£6m), the refurbishment of Belle Vue (£1.5m), and Disabled Facilities grants (£3.3m). Budgets are also included to continue a range of annual capital initiatives such as housing and community grants.

2.7 The key General Fund projects included in the Capital Programme for Mid Suffolk over the period 2023/24 to 2027/28 are: the building of a new Skills and Innovation Centre at the Gateway 14 Freeport site (£17.8m), the building of a new shared depot (£6m), Phase 1 of a sports, leisure and health based development at Stowmarket (SHELF at £2.3m), Disabled Facilities grants (£2.9m) and CIL Funded Infrastructure grants (£2.4m).

2.8 Work is currently being undertaken on reviewing the best way of financing the building of the new depot with the aim of bringing a report on this matter to each Council in the near future. At this point in time the budget figures presented in this report assume that this is a jointly shared budget being financed through borrowing with the resultant financing charges impacting equally on the General Fund revenue budget of each council.

### The Housing Revenue Account (HRA) Capital Expenditure

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

### Capital Investments

2.10 There are two types of Capital (non-treasury management) investments. They are made:

- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as investments for yield or commercial investments) where income generation is the main purpose. Both councils no longer make any new investments of this kind, but hold historic investments made for this purpose in CIFCO Ltd, and therefore both comply with the revised Prudential Code (2021) and PWLB lending rules also introduced in 2021.

2.11 The service investments proposed in the capital programme for the period 2024/25 to 2027/28 for Babergh are proposed lending to Babergh Growth Ltd for the delivery of housing at the former Council Offices in Hadleigh (£9.2m), further strategic investments (£2.8m), and a roadside workspace development in Hadleigh (£1.9m).

2.12 The capital investments (which are service investments) in the capital programme for the period 2024/25 to 2027/28 for Mid Suffolk comprise of lending to Mid Suffolk Growth Ltd to undertake housing development (£4m) and the acquisition of strategic investments (£2.8m) for regeneration purposes as they arise.

2.13 The councils have adopted the DLUHC definition of an investment so that property and/or shares that are held primarily for service purposes, including regeneration, but also partly for income, are classed as a service investments. Further details on the Councils' capital investments can be found in section 3 and 4 of the Joint Investment Strategy in Appendix B.

### Capital Financing

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

## Table 2: Capital financing

| Capital Financing - General Fund | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| Capital Receipts | 0.00 | 0.28 | 0.33 | 0.40 | 0.00 | 0.00 |
| Capital Reserves | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Contributions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Reserves | 0.40 | 0.05 | 0.00 | 0.00 | 0.00 | 0.00 |
| Grants | 0.60 | 0.96 | 0.76 | 0.76 | 0.76 | 0.76 |
| External Contributions | 0.07 | 1.02 | 0.23 | 0.00 | 0.00 | 0.00 |
| Borrowing | 4.66 | 6.96 | 7.69 | 13.09 | 1.36 | 1.36 |
| **Total GF Capital Financing** | **5.73** | **9.26** | **9.01** | **14.25** | **2.12** | **2.12** |

| Capital Financing - HRA | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| Capital Receipts | 2.47 | 4.33 | 2.92 | 0.77 | 0.68 | 0.02 |
| Capital Reserves | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Contributions | 2.63 | 0.97 | 5.62 | 1.32 | 2.18 | 1.95 |
| Revenue Reserves | 4.83 | 4.82 | 4.91 | 5.01 | 5.11 | 5.21 |
| Grants | 0.03 | 0.00 | 0.26 | 0.26 | 0.00 | 0.00 |
| External Contributions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 1.52 | 0.00 | 0.00 | 6.93 | 1.75 | 1.91 |
| **Total HRA Capital Financing** | **11.49** | **10.12** | **13.71** | **14.28** | **9.73** | **9.09** |
| **Total ALL Capital Financing** | **17.22** | **19.38** | **22.72** | **28.53** | **11.84** | **11.21** |

| Capital Financing - General Fund | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| Capital Receipts | 0.84 | 0.00 | 0.06 | 0.00 | 0.00 | 0.00 |
| Capital Reserves | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Contributions | 0.00 | 4.23 | 3.46 | 0.61 | 0.00 | 0.00 |
| Revenue Reserves | 0.90 | 0.61 | 3.31 | 7.77 | 0.00 | 0.00 |
| Grants | 0.67 | 1.10 | 7.12 | 1.86 | 0.70 | 0.70 |
| External Contributions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 9.91 | 1.94 | 10.68 | 8.44 | 1.16 | 1.16 |
| **Total GF Capital Financing** | **12.32** | **7.88** | **24.62** | **18.67** | **1.85** | **1.85** |

| Capital Financing - HRA | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| Capital Receipts | 4.25 | 5.21 | 8.27 | 0.87 | 0.73 | 0.74 |
| Capital Reserves | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Contributions | 1.06 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Reserves | 4.62 | 4.62 | 4.71 | 4.80 | 4.90 | 5.00 |
| Grants | 0.46 | 0.00 | 0.51 | 0.00 | 0.00 | 0.00 |
| External Contributions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Borrowing | 11.58 | 10.83 | 7.02 | 6.37 | 3.35 | 3.19 |
| **Total HRA Capital Financing** | **21.96** | **20.66** | **20.52** | **12.04** | **8.98** | **8.93** |
| **Total ALL Capital Financing** | **34.28** | **28.54** | **45.13** | **30.71** | **10.83** | **10.78** |

### Capital Receipts

2.15 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Councils are currently also permitted to spend capital receipts "flexibly" on service transformation projects until 2024/25. Repayments of capital grants and loans also generate capital receipts.

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

**Table 3: Capital receipts used**

| Capital Receipts<br>Babergh District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| General Fund | 0.00 | 0.28 | 0.33 | 0.40 | 0.00 | 0.00 |
| General Fund Capital Loan Repayments | 0.24 | 0.25 | 0.26 | 0.27 | 0.28 | 0.29 |
| Council Housing (HRA) 1-4-1 Receipts | 1.35 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Council Housing (HRA) Other | 1.12 | 4.33 | 2.92 | 0.77 | 0.68 | 0.02 |
| **Total Capital Receipts** | **2.71** | **4.85** | **3.51** | **1.44** | **0.96** | **0.31** |

| Capital Receipts<br>Mid Suffolk District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| General Fund | 0.84 | 0.00 | 0.06 | 0.00 | 0.00 | 0.00 |
| General Fund Capital Loan Repayments | 24.64 | 7.97 | 0.28 | 0.71 | 4.31 | 0.31 |
| Council Housing (HRA) 1-4-1 Receipts | 2.65 | 0.17 | 1.92 | 0.00 | 0.00 | 0.00 |
| Council Housing (HRA) Other | 1.60 | 5.04 | 6.35 | 0.87 | 0.73 | 0.74 |
| **Total Capital Receipts** | **29.73** | **13.18** | **8.61** | **1.58** | **5.04** | **1.05** |

### Repayment of Debt

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

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

**Table 4: Repayment of debt from revenue**

| Repayment of Debt Finance<br>Babergh District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| MRP charged to General Fund Revenue | 1.46 | 1.56 | 1.67 | 1.90 | 2.11 | 2.16 |
| **Total Repayment of Debt Finance** | **1.46** | **1.56** | **1.67** | **1.90** | **2.11** | **2.16** |

| Repayment of Debt Finance | | | | | | |
|---|---|---|---|---|---|---|
| Mid Suffolk District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
| MRP charged to General Fund Revenue | 1.33 | 1.31 | 1.32 | 1.59 | 1.76 | 1.99 |
| **Total Repayment of Debt Finance** | **1.33** | **1.31** | **1.32** | **1.59** | **1.76** | **1.99** |

2.19 The Councils' full minimum revenue provision (MRP) policy statement is shown in Appendix H. Table 4 does not include any voluntary overpayment of MRP needed to fund Expected Credit Losses on loans to third parties as discussed in paragraph 4.13 in the main report.

**Capital Financing Requirement**

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

2.21 The CFR represents the cumulative outstanding amount of debt finance. It increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to repay debt. Principal repayments of loans owed to the council from its companies are also used to reduce the CFR total.

2.22 Babergh's CFR is expected to increase by £5.15m and Mid Suffolk's increase by £3.49m during 2023/24. Based on the above figures for expenditure (Table 1), financing (Table 2), and debt repayment (Table 4), the Councils estimate that their CFR will be as follows:

**Table 5: Prudential Indicator: Estimated Capital Financing Requirement**

| Cumulative Capital Financing Requirement (CFR) | | | | | | |
|---|---|---|---|---|---|---|
| Babergh District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
| General Fund | 20.36 | 19.91 | 22.02 | 31.26 | 30.45 | 29.59 |
| Capital Investments | 55.28 | 60.88 | 64.54 | 66.21 | 65.99 | 65.76 |
| **Total General Fund** | **75.65** | **80.80** | **86.56** | **97.48** | **96.44** | **95.35** |
| | | | | | | |
| **Council Housing (HRA)** | **94.42** | **94.42** | **94.42** | **101.35** | **103.10** | **105.01** |
| **Total CFR** | **170.06** | **175.22** | **180.98** | **198.82** | **199.54** | **200.36** |

| Cumulative Capital Financing Requirement (CFR) | | | | | | |
|---|---|---|---|---|---|---|
| Mid Suffolk District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
| General Fund | 24.21 | 24.42 | 31.28 | 36.63 | 36.03 | 35.20 |
| Capital Investments | 60.99 | 53.43 | 55.65 | 56.45 | 52.14 | 51.83 |
| **Total General Fund** | **85.20** | **77.86** | **86.93** | **93.08** | **88.17** | **87.03** |
| | | | | | | |
| **Council Housing (HRA)** | **105.84** | **116.67** | **123.69** | **130.06** | **133.40** | **136.59** |
| **Total CFR** | **191.04** | **194.53** | **210.62** | **223.13** | **221.58** | **223.62** |

## 3. The Prudential Code

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

3.2 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Councils.

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

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

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

## 4. Treasury Management

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

4.2 On 30 November 2023:

- Babergh has £112.56m total borrowing at an average interest rate of 3.42% and £13.05m of treasury investments at an average rate of 4.86%.

- Mid Suffolk has £112.67m total borrowing at an average interest rate of 3.48% and £16.07m treasury investments at an average interest rate of 4.88%.

**Borrowing strategy:**

4.3 The Councils' main objectives when borrowing is to achieve a low but certain cost of finance whilst retaining flexibility if plans should change in the future. These objectives are often conflicting, and the Councils therefore seek to strike a balance between short-term loans (currently available at around 5.25%) and long-term fixed rate loans where the future cost is known but higher (currently around 5.35% to 5.68%). The stance proposed for 2024/25 is not to undertake any long-term borrowing given that interest rates are still high and are forecast to reduce significantly over the next couple of years. To undertake long term borrowing would therefore lock the councils into paying high financing charges for a number of years.

4.4 Since the change in rules, the Councils no longer borrow to invest for the primary purpose of financial return and therefore retain full access to the Public Works Loans Board.

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

4.6 The Councils' projected levels of total outstanding debt (borrowing and leases) are shown below and compared with the capital financing requirement (in paragraph 2.22, Table 5 above).

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

| Gross Debt and Capital Financing Requirement | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **31.3.2023 Actual £m** | **31.3.2024 Forecast Outturn £m** | **31.3.2025 Budget £m** | **31.3.2026 Forecast £m** | **31.3.2027 Forecast £m** | **31.3.2028 Forecast £m** |
| **General Fund** | | | | | | |
| Outstanding Borrowing (Debt) | (40.10) | (42.03) | (46.54) | (56.90) | (60.34) | (61.00) |
| Capital Financing Requirement | 75.65 | 80.80 | 86.56 | 97.48 | 96.44 | 95.35 |
| **General Fund Headroom** | **35.55** | **38.77** | **40.03** | **40.57** | **36.10** | **34.35** |
| | | | | | | |
| **HRA** | | | | | | |
| Outstanding Borrowing (Debt) | (84.75) | (84.75) | (84.75) | (89.94) | (92.99) | (100.86) |
| Capital Financing Requirement | 94.42 | 94.42 | 94.42 | 101.35 | 103.10 | 105.01 |
| **HRA Headroom** | **9.67** | **9.67** | **9.67** | **11.40** | **10.11** | **4.15** |

| Gross Debt and Capital Financing Requirement | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **31.3.2023 Actual £m** | **31.3.2024 Forecast Outturn £m** | **31.3.2025 Budget £m** | **31.3.2026 Forecast £m** | **31.3.2027 Forecast £m** | **31.3.2028 Forecast £m** |
| **General Fund** | | | | | | |
| Outstanding Borrowing (Debt) | (49.69) | (35.86) | (42.74) | (50.59) | (52.40) | (52.37) |
| Capital Financing Requirement | 85.20 | 77.86 | 86.93 | 93.08 | 88.17 | 87.03 |
| **General Fund Headroom** | **35.50** | **41.99** | **44.19** | **42.48** | **35.77** | **34.66** |
| | | | | | | |
| **HRA** | | | | | | |
| Outstanding Borrowing (Debt) | (73.04) | (83.87) | (89.13) | (95.66) | (99.76) | (102.99) |
| Capital Financing Requirement | 105.84 | 116.67 | 123.69 | 130.06 | 133.40 | 136.59 |
| **HRA Headroom** | **32.80** | **32.80** | **34.56** | **34.39** | **33.64** | **33.60** |

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

**Liability benchmark:**

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

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

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

4.11 This benchmark is currently £135.07m for Babergh and £125.89m for Mid Suffolk for 2023/24 and is forecast to increase to £174.71m and £145.10m respectively over the next four years.

**Table 7: Borrowing and the Liability Benchmark**

| Borrowing and Liability Benchmark | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| Liability Benchmark | 125.03 | 135.07 | 149.97 | 172.38 | 172.74 | 174.71 |
| Outstanding Borrowing (Debt) | (124.84) | (126.77) | (131.28) | (146.84) | (153.33) | (161.86) |
| | **0.19** | **8.30** | **18.69** | **25.53** | **19.41** | **12.85** |

| Borrowing and Liability Benchmark | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| Liability Benchmark | 118.66 | 125.89 | 124.28 | 145.01 | 143.37 | 145.10 |
| Outstanding Borrowing (Debt) | (122.73) | (119.73) | (131.88) | (146.26) | (152.17) | (155.36) |
| | **(4.07)** | **6.16** | **(7.59)** | **(1.25)** | **(8.80)** | **(10.26)** |

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

**Authorised limit for external debt:**

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

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

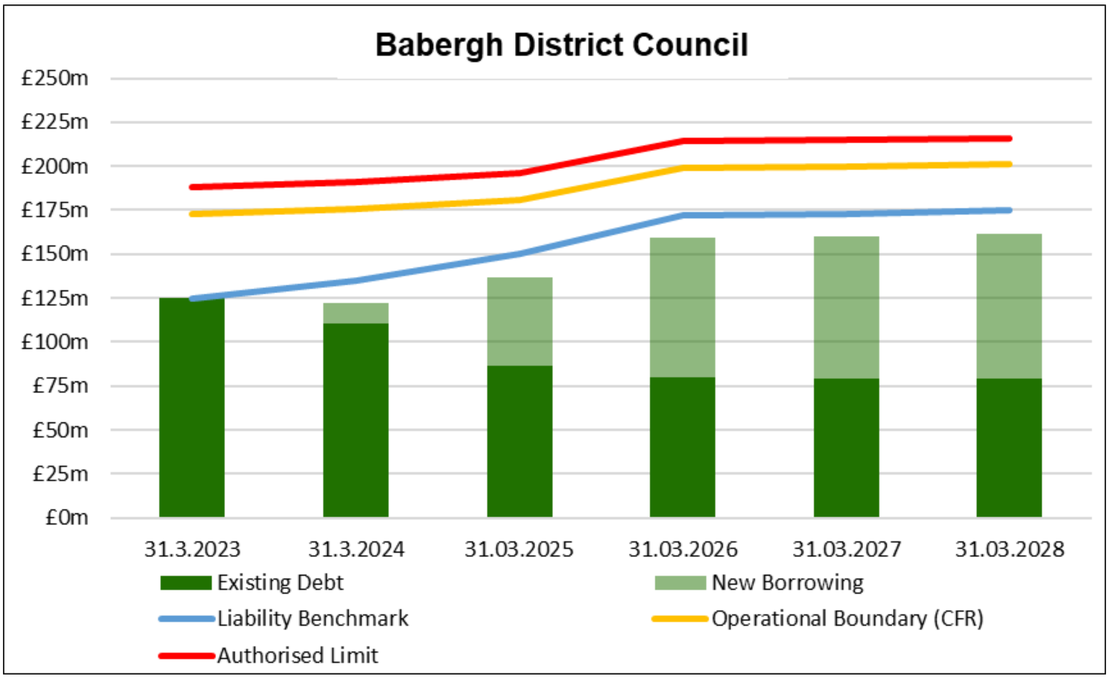
**Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt**

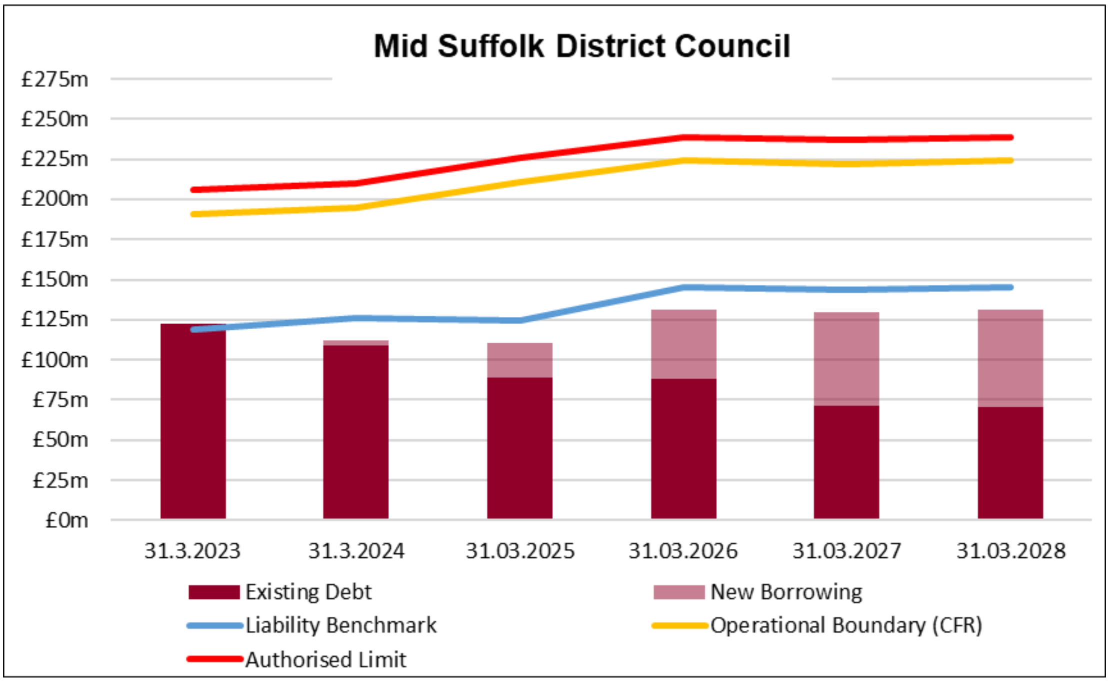
| Operational Boundary & Authorised Limit | | | | | |
|---|---|---|---|---|---|
| Babergh District Council | 2023/24 Limit £m | 2024/25 Limit £m | 2025/26 Limit £m | 2026/27 Limit £m | 2027/28 Limit £m |
| Operational Boundary | 176 | 181 | 199 | 200 | 201 |
| Authorised Limit | 191 | 196 | 214 | 215 | 216 |
| | | | | | |
| Ratio of Debt to Authorised Limit | 65.4% | 64.7% | 61.3% | 68.3% | 71.0% |

| Operational Boundary & Authorised Limit | | | | | |
|---|---|---|---|---|---|
| Mid Suffolk District Council | 2023/24 Limit £m | 2024/25 Limit £m | 2025/26 Limit £m | 2026/27 Limit £m | 2027/28 Limit £m |
| Operational Boundary | 195 | 211 | 224 | 222 | 224 |
| Authorised Limit | 210 | 226 | 239 | 237 | 239 |
| | | | | | |
| Ratio of Debt to Authorised Limit | 58.4% | 53.0% | 55.2% | 61.7% | 63.7% |

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

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




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

**Joint Treasury Investment Strategy:**

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

4.17 **Risk management:**

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

4.18 **Governance:**

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

**5. Liabilities:**

5.1 In addition to debt of £131.28m for Babergh and £131.88m for Mid Suffolk, as detailed in Table 7 above for 2024/25, the Councils are committed to making future payments to cover their pension fund deficits if these exist. However, on 31 March 2023 Babergh enjoyed a surplus valued at £8.20m whilst Mid Suffolk's surplus was £3.53m.

**6. Governance:**

6.1 Reports on the capital expenditure being incurred against the approved capital budget are taken to Cabinet as part of the budget monitoring process.

**7. <u>Revenue Budget Implications</u>**

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

7.2 For Babergh the maximum cost is 31.61% in 2026/27 and for Mid Suffolk it is 22.65% in 2025/26 for the General Fund, as shown in Table 9 below. For the HRA the levels (gross costs) are lower due to the link to the debt associated with the Councils' housing stock.

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

| Proportion of Gross Financing Costs to Net Revenue Stream | | | | | |
|---|---|---|---|---|---|
| Babergh District Council | 2023/24 Forecast Outturn | 2024/25 Budget | 2025/26 Forecast | 2026/27 Forecast | 2027/28 Forecast |
| **General Fund -** | | | | | |
| Gross Financing costs £m | 3.04 | 3.51 | 3.99 | 4.24 | 4.10 |
| Proportion of net revenue stream % | 24.45% | 24.97% | 30.47% | 31.61% | 29.85% |
| | | | | | |
| **Council Housing (HRA) -** | | | | | |
| Financing costs £m | 3.30 | 3.28 | 3.10 | 2.98 | 3.08 |
| Proportion of net revenue stream % | 17.09% | 15.42% | 14.41% | 13.59% | 13.85% |

| Proportion of Gross Financing Costs to Net Revenue Stream | | | | | |
|---|---|---|---|---|---|
| Mid Suffolk District Council | 2023/24 Forecast Outturn | 2024/25 Budget | 2025/26 Forecast | 2026/27 Forecast | 2027/28 Forecast |
| **General Fund -** | | | | | |
| Gross Financing costs £m | 2.83 | 2.68 | 4.06 | 3.25 | 3.02 |
| Proportion of net revenue stream % | 17.65% | 13.76% | 22.65% | 17.81% | 16.30% |
| | | | | | |
| **Council Housing (HRA) -** | | | | | |
| Financing costs £m | 4.63 | 4.87 | 4.54 | 4.42 | 4.45 |
| Proportion of net revenue stream % | 26.63% | 24.85% | 22.49% | 21.52% | 21.34% |

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

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

| Babergh District Council | 2023/24 Forecast Outturn £ | 2024/25 Budget £ | 2025/26 Forecast £ | 2026/27 Forecast £ | 2027/28 Forecast £ |
|---|---|---|---|---|---|
| Increase in average weekly rents | 5.41 | 30.84 | 8.85 | 13.91 | 13.00 |

| Mid Suffolk District Council | 2023/24 Forecast Outturn £ | 2024/25 Budget £ | 2025/26 Forecast £ | 2026/27 Forecast £ | 2027/28 Forecast £ |
|---|---|---|---|---|---|
| Increase in average weekly rents | 7.31 | 9.42 | 10.88 | 11.52 | 12.15 |

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

7.6 Further details of the revenue implications of capital expenditure are included in the Budget Reports that are presented as a separate report at this Council meeting.

## 8. Sustainability

8.1 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Interim Corporate Manager: Finance (Deputy S151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable over the medium term. This is due to the fact that debt remains below the CFR, (see Table 6), below the liability benchmark (see Table 7), and below the operational boundary and authorised limits (see Table 8), as well as an acceptable level of financing costs proportionate to the net revenue stream (see Table 9).

## 9. Knowledge and Skills

9.1 The Councils employ professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director - Corporate Resources is an ACCA qualified accountant with over 20 years' experience, the Assistant Manager – Financial Accountant is a CIMA qualified accountant with over 25 years' experience, and the interim Corporate Manager is a CIPFA qualified accountant with 35 years' experience including S151 experience at a number of councils. The Council employs the Director – Assets and Investments, who is a qualified chartered surveyor (MRICS) with over of 20 years' experience in both the private and public sector. The Council pays for staff to study towards relevant professional qualifications in finance such as the ICAEW, CIPFA and AAT.

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

9.3 Other advisers include Jones Lang Lasalle (JLL) as property consultants, Carter Jonas for development appraisal and Browne Jacobson for legal support. For the development of the council offices the Growth Companies were appointed, and Hamson Barron Smith are used for all technical support. This approach is more cost effective than employing such staff directly and ensures that the Councils have access to knowledge and skills commensurate with its risk appetite.

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

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

# APPENDIX B: JOINT INVESTMENT STRATEGY 2024/25

## 1. Introduction

1.1 The Councils invest their money for three broad purposes:

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

1.2 This Joint Investment Strategy is for 2024/25, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories. These are also known as non-treasury management investments and comprise of property assets, shares in companies, and loans made to the councils' companies.

1.3 Both councils no longer make any new investments purely for yield and therefore both comply with the revised Prudential Code (2021) and PWLB lending rules also introduced in 2021. Both councils do however hold historical investments made purely for yield in CIFCO Ltd.

## 2. Service Investments in property

2.1 Service investments comprise the use and development of council owned assets and lending to third parties in order to meet council service priorities The definition does not include the redevelopment for council housing through the HRA.

### Contribution:

2.2 The Councils invest in commercial and residential property within their Districts, for the purpose of regeneration and economic development, whilst also generating income that will be spent on local public services. They do this either directly or through share ownership and/or lending to its companies.

2.3 The current and future service investments for each council are described below.

### Babergh District Council

- **Borehamgate, Sudbury**

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

- **Former Council Offices in Hadleigh**
    - In September 2016 both Councils decided to relocate from their existing Council offices in Hadleigh and Needham Market to Endeavour House in Ipswich and subsequently relocated in November 2017. In December 2018, the Councils approved investments in market led housing schemes for the former office sites to realise value from these now surplus assets.
    - Babergh approved the conversion of the former Corks Lane Council office in Hadleigh into 31 new homes and also the construction of an additional 26 new homes on the site, all for market sale.
    - The investment is being undertaken by the council lending to Babergh Growth Ltd and this is described in more detail in section 3 of this Appendix.

- **Hadleigh A1071 Roadside Workspace Development**
    - The Council has secured a small parcel of employment land which it can directly invest in to address market failure and develop as a viable scheme to provide needed workspace, employment opportunities and support for the local community of Hadleigh and surrounding area.

**<u>Mid Suffolk District Council</u>**

- **Former retail site, Stowmarket**
    - Mid Suffolk bought the site in Gipping Way, Stowmarket for £1.4m on 7 January 2019 for economic development purposes. A licence to operate the car park was entered into before completion enabling the development and use of this site for public pay and display car parking from December 2018.
    - Work has been undertaken to divide the site into multiple units with leases agreed with PureGym and Papa Johns for two of the units. Further improvements are currently being undertaken to the other unit with a view to having occupants.

- **Former Council Offices in Needham Market**
    - As stated above, both Councils decided to relocate their offices to Endeavour House in Ipswich and subsequently relocated in November 2017, with the site in Needham Market being earmarked for development predominantly for housing purposes.
    - Mid Suffolk obtained planning permission for 93 new homes on the former Council office and car park sites, in Needham Market, including 83 for market sale, 7 for affordable rent and 3 for shared ownership and a convenience store.
    - The investment is being undertaken by the council lending to Mid Suffolk Growth Ltd and this is described in more detail in section 3 in this Appendix.

## Table 1: Service investments: Cumulative expenditure

| Cumulative Expenditure on Property Investments<br>Babergh District Council | 2022/23 Cumulative Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| Borehamgate, Sudbury | 3.69 | 3.83 | 4.00 | 4.06 | 4.12 | 4.18 |
| Former Council Offices, Hadleigh | 0.68 | 6.14 | 9.89 | 9.89 | 9.89 | 9.89 |
| A1071 Economic Development, Hadleigh | 0.00 | 0.01 | 0.11 | 1.89 | 1.89 | 1.89 |
| **Total** | **4.37** | **9.99** | **14.01** | **15.85** | **15.91** | **15.97** |

| Cumulative Expenditure on Property Investments<br>Mid Suffolk District Council | 2022/23 Cumulative Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| Former Council Offices, Needham Market | 1.62 | 1.62 | 1.62 | 1.62 | 1.62 | 1.62 |
| Former Retail Site, Stowmarket | 1.88 | 1.88 | 1.88 | 1.88 | 1.88 | 1.88 |
| 11 Market Place, Stowmarket | 0.36 | 0.36 | 0.36 | 0.36 | 0.36 | 0.36 |
| **Total** | **3.86** | **3.86** | **3.86** | **3.86** | **3.86** | **3.86** |

**Security:**

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

2.5 A fair value assessment of the Councils' directly owned service investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. If during the preparation of the 2023/24 year-end accounts and audit process the value of these properties are materially below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

**Risk assessment:**

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

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

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

2.9 Market sale housing development:

- For the development of the council offices the Growth Companies were appointed, and Hamson Barron Smith used for all technical support.

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

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

**Liquidity:**

2.10 Property investments can be relatively difficult to sell quickly because of a lack of ready and willing investors or speculators to purchase the asset and convert to cash at short notice.

## 3. Commercial and service investments in Shares and Loans

3.1 The Councils invest through share ownership and lending to their wholly owned companies, special purpose vehicles or third parties (local organisations) for housing, regeneration commercial, and other service objectives.

3.2 **Commercial Investments**: The Councils has invested indirectly in commercial property for yield, through two wholly owned holding companies, (CIFCO) by a combination of shares (equity) and loans (debt), matching the funding requirements of the underlying investment and the returns required by the Councils. All debt financed investment complied with subsidy control rules.

3.3 **Service Investments**: BDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Babergh, and MSDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Mid Suffolk, were both incorporated on 9 June 2017, and are investment vehicles for each Council. Mid Suffolk District Council also has service investments in Gateway 14 Ltd.

**CIFCO Ltd**

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

3.5 Each Council approved an initial investment (Tranche 1) of a total of £27.5m (£2.75m shares, £24.75m loans) of which £26.1m was invested by 31 March 2019 to acquire 11 properties. There will be no further purchases from this tranche.

3.6 Each Council approved a further investment (Tranche 2) of £25m (£2.5m shares, £22.5m loans) with a total achieved of £23.49m by the end of 2020/21. Although CIFCO Ltd may sell assets and reinvest to make changes to the portfolio, there has been no further investment by the Councils for commercial property purchases after 2020/21.

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

- a strategy that balances the portfolio, so a significant number of assets are 'core' and liquid and,

- a strategy that balances other attributes such as geography, asset class and sector so that resistance to market stresses in any individual attribute can be mitigated.

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

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

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

3.11 With financial return having been the main objective when the councils were allowed to make these investments (prior to 2022), the Councils accept a higher risk on the CIFCO investments than they do with treasury management investments. The potential risks for property held for income are voids and falls in rental income. The commercial properties acquired for income are bought as long-term holdings and are professionally managed. They could be sold individually if the long-term prognosis is an underachievement of net return targets.

**Babergh Growth Ltd**

3.12 BDC (Suffolk Holdings) Limited, owns 50% of Babergh Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the purpose of delivering the housing development at the former council offices at Hadleigh and possible other residential and mixed used schemes in the future. The Council has invested in £5k of shares in the company.

3.13 The Council is providing 100% of the finance of the housing development by lending to the company. A peak cash flow funding requirement of £9m is included in the capital programme. The scheme commenced in August 2022 and is planned to finish in 2025.

**Mid Suffolk Growth Ltd**

3.14 MSDC (Suffolk Holdings) Limited, owns 50% of Mid Suffolk Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the purpose of delivering the housing development at the former council offices at Needham Market and other possible residential and mixed used schemes in the future. The Council has invested in £5k of shares in the company.

3.15 The Council is providing 50% of the finance by lending to the company and the relevant funding requirements are included in the capital programme.

3.16 Work on site commenced in 2020/21. Phase 1 was completed in 2021/22 with all market and affordable homes now let and sold. Phase 2 will commence in the Spring 2024.

## Gateway 14 Ltd

3.17 MSDC (Suffolk Holdings) Limited also owns 100% of the issued share capital of Gateway 14 Ltd which was incorporated on the 1 November 2017 as a special purpose vehicle (SPV) to acquire Gateway 14, a 156-acre site located to the eastern fringe of Stowmarket and develop a business park. Mid Suffolk's initial investment in this company was split 10% share capital in the holding company and 90% loan to Gateway 14 Ltd, with further investments anticipated to be 100% loans. Jaynic was appointed as Development manager in 2020.

3.18 Mid Suffolk Council approved an initial investment of the Gateway 14 site which was acquired for £16.5m (£1.6m shares, £14.9m loans) on 13 August 2018. Further investments of £4.16m were made in 2019/20, £0.6m in 2020/21, £4.5m in 2021/22 and £7m as at end of November 2022. Gateway 14 repaid all of the principal debt and interest to the Council in December 2023. No further lending is anticipated to Gateway 14 Ltd, and this is reflected in the capital budget.

3.19 Gateway 14 is now in the delivery phase of the development with infrastructure works ongoing. The sale of a large distribution unit, was completed in December 2023.

3.20 As reported in the revenue budget report for Mid Suffolk District Council, a £20m dividend is anticipated to be received by the Council from the company's profits made to-date in 2024/25. Further dividends maybe available to the council in future years but not at this magnitude. The 2024/25 revenue and capital budget proposals include the setting aside of this income into reserves with £5m being used to fund the construction of a skills and development centre at the Gateway 14 site.

## Table 2: Total Investments in shares and loans

| Cumulative Investments through Shares and Loans | | | | | | |
|---|---|---|---|---|---|---|
| Babergh District Council | 2022/23 Cumulative Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
| CIFCO Ltd (1) | 25.53 | 25.40 | 25.25 | 25.10 | 24.95 | 24.78 |
| CIFCO Ltd (2) | 23.27 | 23.17 | 23.05 | 22.93 | 22.80 | 22.67 |
| Babergh Growth Company | 1.03 | 6.85 | 5.31 | 0.00 | 0.00 | 0.00 |
| **Total** | **49.83** | **55.41** | **53.61** | **48.03** | **47.75** | **47.45** |
| | | | | | | |
| Investment in Shares | 4.96 | 4.96 | 4.96 | 4.96 | 4.96 | 4.96 |
| Investment through Loans | 44.87 | 50.45 | 48.65 | 43.07 | 42.79 | 42.49 |
| **Total** | **49.83** | **55.41** | **53.61** | **48.03** | **47.75** | **47.45** |

| Cumulative Investments through Shares and Loans | | | | | | |
|---|---|---|---|---|---|---|
| Mid Suffolk District Council | 2022/23 Cumulative Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
| CIFCO Ltd (1) | 25.53 | 25.40 | 25.25 | 25.10 | 24.95 | 24.78 |
| CIFCO Ltd (2) | 23.27 | 23.17 | 23.05 | 22.93 | 22.80 | 22.67 |
| Gateway 14 Ltd | 24.56 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Mid Suffolk Growth Company | 1.23 | 1.60 | 4.63 | 5.55 | 0.00 | 0.00 |
| **Total** | **74.59** | **50.17** | **52.93** | **53.58** | **47.75** | **47.45** |
| | | | | | | |
| Investment in Shares | 6.58 | 6.58 | 6.58 | 6.58 | 6.58 | 6.58 |
| Investment through Loans | 68.01 | 43.59 | 46.35 | 47.00 | 41.17 | 40.87 |
| **Total** | **74.59** | **50.17** | **52.93** | **53.58** | **47.75** | **47.45** |

**Risk Assessment:**

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

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

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

3.24 The CIFCO companies are in a position to fully repay the principal and interest payments to the councils from 2024/25 onwards as they fall due as specified in the loan agreement. During 2022/23 and 2023/24 however, and with the agreement of the Council, the interest payments owing to both councils were deferred. This has had an impact on the calculation of the Expected Credit Loss forecast by Arlingclose on the loans and, as explained in the General Fund Budget Report, has meant that the creation of reserves to pay for the Expected Credit Losses is being proposed.

3.25 Following the confidential report presented to Cabinet on 4th December 2023 regarding the possible non-repayment of part of the capital loan by Babergh Growth Ltd to the council, (BCa/23/30), proposals to establish a new reserve to fund an Expected Credit Loss on this loan are also included in the General Fund Budget Report.

**Liquidity:**

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

## 4. Proportionality

4.1 Profit generating investment activity has enabled Babergh to achieve a balanced revenue budget. In the medium term both Councils will have some dependency on profit generating activity. Table 3 shows the extent to which the Councils expenditure is dependent on achieving the expected net profit from investments over the medium-term.

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

**Table 3: Proportionality of Investments**

| Proportionality of Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| Gross service expenditure | 35.83 | 36.58 | 35.96 | 36.07 | 36.92 | 37.61 |
| Gross Investment income | 2.82 | 2.77 | 2.74 | 2.73 | 2.72 | 2.70 |
| **Proportion** | **7.88%** | **7.57%** | **7.62%** | **7.57%** | **7.35%** | **7.18%** |

| Proportionality of Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| Gross service expenditure | 34.96 | 37.15 | 36.32 | 36.16 | 36.38 | 37.10 |
| Gross Investment income | 4.26 | 2.88 | 2.77 | 2.76 | 2.74 | 2.73 |
| **Proportion** | **12.20%** | **7.75%** | **7.62%** | **7.62%** | **7.54%** | **7.35%** |

## 5. Borrowing in Advance of Need

### CIPFA Prudential Code

5.1 The 2021 Prudential Code states that “local authorities must not borrow to invest primarily for financial return”.

5.2 The underlying need to borrow is reflected in the CFR adjusted for long term liabilities (see Appendix A Table 4). Neither Council plans to borrow above its CFR which is in accordance with the Prudential Code.

### DLUHC Guidance

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

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

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

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

## 6. Knowledge and Skills

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

## 7. Governance – Capital Investments

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

## 8. Investment Indicators

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

**Total risk exposure:**

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

**Table 4: Total investment exposure**

| Cumulative Investment Exposure<br>Babergh District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| Treasury Management Minimum Investments | 12.77 | 13.00 | 13.00 | 13.00 | 13.00 | 13.00 |
| Capital Investments | 54.20 | 59.94 | 58.41 | 54.67 | 54.44 | 54.20 |
| **Total Exposure** | **66.97** | **72.94** | **71.41** | **67.67** | **67.44** | **67.20** |

| Cumulative Investment Exposure<br>Mid Suffolk District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| Treasury Management Minimum Investments | 12.65 | 13.50 | 13.50 | 13.50 | 13.50 | 13.50 |
| Capital Investments | 78.45 | 54.02 | 56.79 | 57.44 | 51.61 | 51.31 |
| **Total Exposure** | **91.10** | **67.52** | **70.29** | **70.94** | **65.11** | **64.81** |

**How service and commercial investments are funded:**

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

8.4 For those investments funded by borrowing the exposure at the beginning of 2024/25 is forecast to be £59.9m for Babergh and £54.02m for Mid Suffolk as shown in Table 5 that follows.

8.5 As discussed elsewhere in this report both councils no longer invest in investments purely for yield (commercial investments).

8.6 **Table 5: Capital (Service & Commercial) Investments funded by borrowing**

| Cumulative investments funded by borrowings<br>Babergh District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| Capital Investments | 54.20 | 59.94 | 58.41 | 54.67 | 54.44 | 54.20 |
| **Total Funded by borrowing** | **54.20** | **59.94** | **58.41** | **54.67** | **54.44** | **54.20** |

| Cumulative investments funded by borrowings<br>Mid Suffolk District Council | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
|---|---|---|---|---|---|---|
| Capital Investments | 78.45 | 54.02 | 56.79 | 57.44 | 51.61 | 51.31 |
| **Total Funded by borrowing** | **78.45** | **54.02** | **56.79** | **57.44** | **51.61** | **51.31** |

8.7

**Rate of return received:**

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

## Table 6: Investments net rate of return

| Investments net rate of return<br>Babergh District Council | 2022/23 Actual % | 2023/24 Forecast Outturn % | 2024/25 Budget % | 2025/26 Forecast % | 2026/27 Forecast % | 2027/28 Forecast % |
|---|---|---|---|---|---|---|
| Treasury Management Investments | 3.67 | 3.26 | 3.35 | 3.35 | 3.35 | 3.35 |
| Service (Other Capital) Investments | 7.17 | 6.33 | 7.54 | 7.54 | 7.77 | 7.77 |
| Yield Investments | 3.39 | 4.04 | 4.05 | 4.07 | 4.08 | 4.10 |
| Babergh Growth Company | - | (6.58) | (6.37) | (1.84) | - | - |
| **All investments (Average)** | **3.53** | **3.51** | **3.57** | **4.07** | **4.27** | **4.29** |

| Investments net rate of return<br>Mid Suffolk District Council | 2022/23 Actual % | 2023/24 Forecast Outturn % | 2024/25 Budget % | 2025/26 Forecast % | 2026/27 Forecast % | 2027/28 Forecast % |
|---|---|---|---|---|---|---|
| Treasury Management Investments | 4.13 | 3.12 | 3.12 | 3.12 | 3.12 | 3.12 |
| Yield Investments | 2.94 | 3.59 | 3.62 | 3.66 | 3.70 | 3.79 |
| Gateway 14 Ltd | 5.60 | 2.65 | - | - | - | - |
| Mid Suffolk Growth Company | - | 2.12 | (7.41) | (2.52) | 4.26 | - |
| **All investments (Average)** | **3.74** | **3.51** | **3.41** | **3.48** | **3.71** | **3.85** |

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

**APPENDIX C: JOINT TREASURY MANAGEMENT STRATEGY 2024/25**

## 1. Introduction

1.1 The Joint Treasury Management strategy contains the following:

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

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

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

1.4 The Councils will continue to:

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

1.5 The Local Government Act 2003 requires the Councils to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities 2021 (the Prudential Code) when determining how much money they can afford to borrow.

1.6 Treasury risk management at both Councils is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the TM Code) which requires the Councils to approve a treasury management strategy before the start of each financial year. This report fulfils the Councils legal obligation under the Local Government Act 2003 to have regard to the TM Code.

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

1.8 The Joint Treasury Management Strategy for 2024/25 continues to focus primarily on the effective management and control of risk and striking a balance between the security, liquidity and yield of those investments. The Councils' objective when investing money is to strike an appropriate balance between risk and return.

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

## 2. External Context

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

## 3. Local Context

**Interest rates on Investments and Borrowing**

3.1 For the purpose of setting the budget, it has been assumed that new short-term treasury investments will be made at an average rate of between 4.81% and 5.51%, and that new long-term loans will be borrowed at an average rate between 5.35% and 5.68%

**Capital Financing Requirement**

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Councils' current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3 On 30 November 2023, Babergh held £112.56m of borrowing and £13.05m of investments, Mid Suffolk held £112.67m of borrowing and £16.07m of investments. This is set out in further detail at Appendix F. Forecast changes in these sums are shown in the following balance sheet analysis:

**Table 1: Capital Financing Requirement Summary and forecast**

| Cumulative Capital Financing Requirement | | | | | | |
|---|---|---|---|---|---|---|
| Babergh | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
| Capital Financing Requirement | 170.06 | 175.22 | 180.98 | 198.82 | 199.54 | 200.36 |
| Less: Other Debt Liabilities * | 0.00 | 0.00 | 0.00 | (0.06) | (0.02) | 0.00 |
| **Loans CFR** | **170.06** | **175.22** | **180.98** | **198.76** | **199.52** | **200.36** |
| Less: External Borrowing** | (124.84) | (110.28) | (86.71) | (80.12) | (79.53) | (78.92) |
| **Internal (Over) Borrowing (Cumulative)** | **45.22** | **64.94** | **94.28** | **118.64** | **119.99** | **121.44** |
| Less: Balances Sheet Resources | (57.80) | (53.14) | (44.01) | (39.39) | (39.78) | (38.65) |
| **(Treasury Investments) / New Borrowing Requirement** | **(12.58)** | **11.79** | **50.27** | **79.26** | **80.21** | **82.79** |

| Cumulative Capital Financing Requirement | | | | | | |
|---|---|---|---|---|---|---|
| Mid Suffolk | 2022/23 Actual £m | 2023/24 Forecast Outturn £m | 2024/25 Budget £m | 2025/26 Forecast £m | 2026/27 Forecast £m | 2027/28 Forecast £m |
| Capital Financing Requirement | 191.04 | 194.53 | 210.62 | 223.13 | 221.58 | 223.62 |
| Less: Other Debt Liabilities * | 0.00 | 0.00 | 0.00 | (0.06) | (0.02) | 0.00 |
| **Loans CFR** | **191.04** | **194.53** | **210.62** | **223.08** | **221.56** | **223.62** |
| Less: External Borrowing** | (122.73) | (109.10) | (88.95) | (87.79) | (71.60) | (70.38) |
| **Internal (Over) Borrowing (Cumulative)** | **68.31** | **85.42** | **121.67** | **135.29** | **149.96** | **153.24** |
| Less: Balances Sheet Resources | (85.03) | (82.13) | (99.84) | (91.57) | (91.68) | (92.02) |
| **(Treasury Investments) / New Borrowing Requirement** | **(16.72)** | **3.29** | **21.83** | **43.72** | **58.28** | **61.22** |

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

3.4 The Councils have CFRs which increase over the medium term due to the requirements of the capital programme and reduction in balances. Babergh will therefore need to borrow up to £50.27m and Mid Suffolk up to £21.83m over the forecast period.

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

**Liability benchmark:**

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

3.7 A comparison of the Councils' actual borrowing against this alternative strategy was shown in Table 7 in Appendix A, paragraph 4.11. This table shows that when the Councils' expected outstanding debt is below the Liability Benchmark (lowest risk level) for the forecast period, it indicates a need to borrow.

3.8 The liability benchmark is an important tool to help establish whether the Councils are likely to be long-term borrowers or long-term investors in the future, and so shape their strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Councils must hold to fund their current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

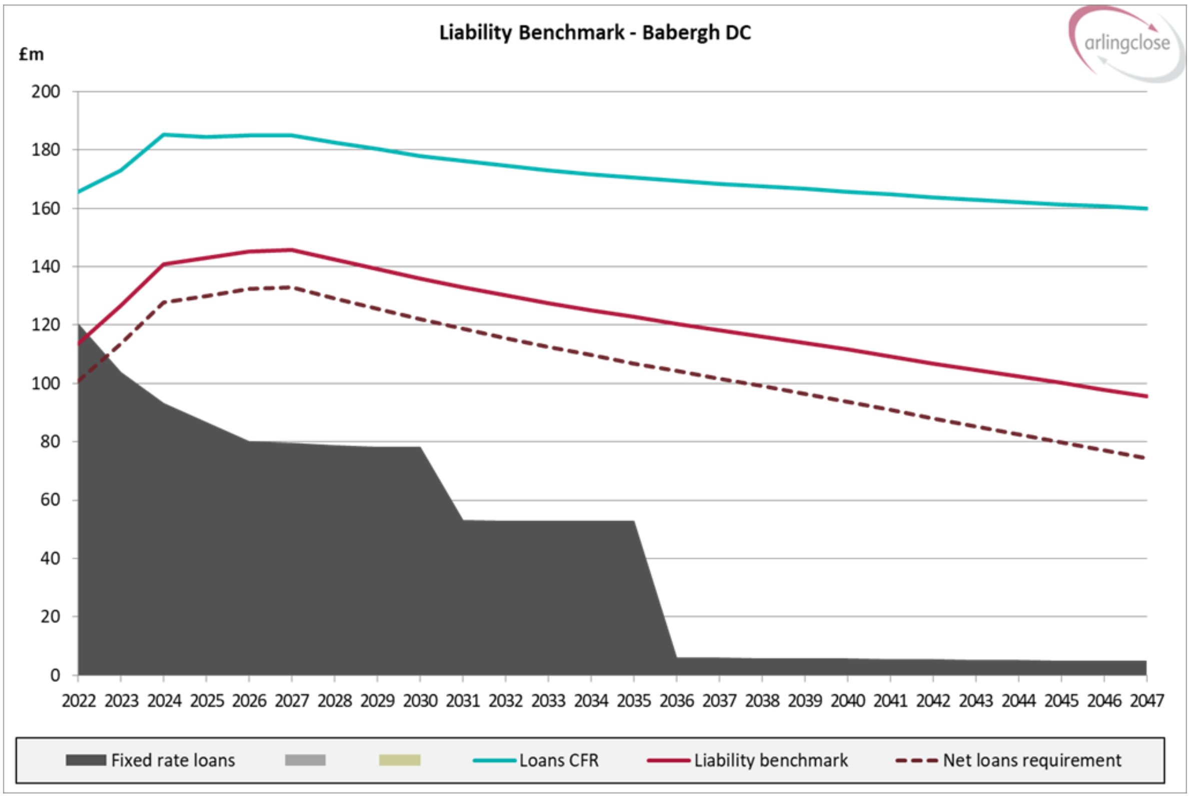
**Table 2: Prudential Indicator: Liability Benchmark**

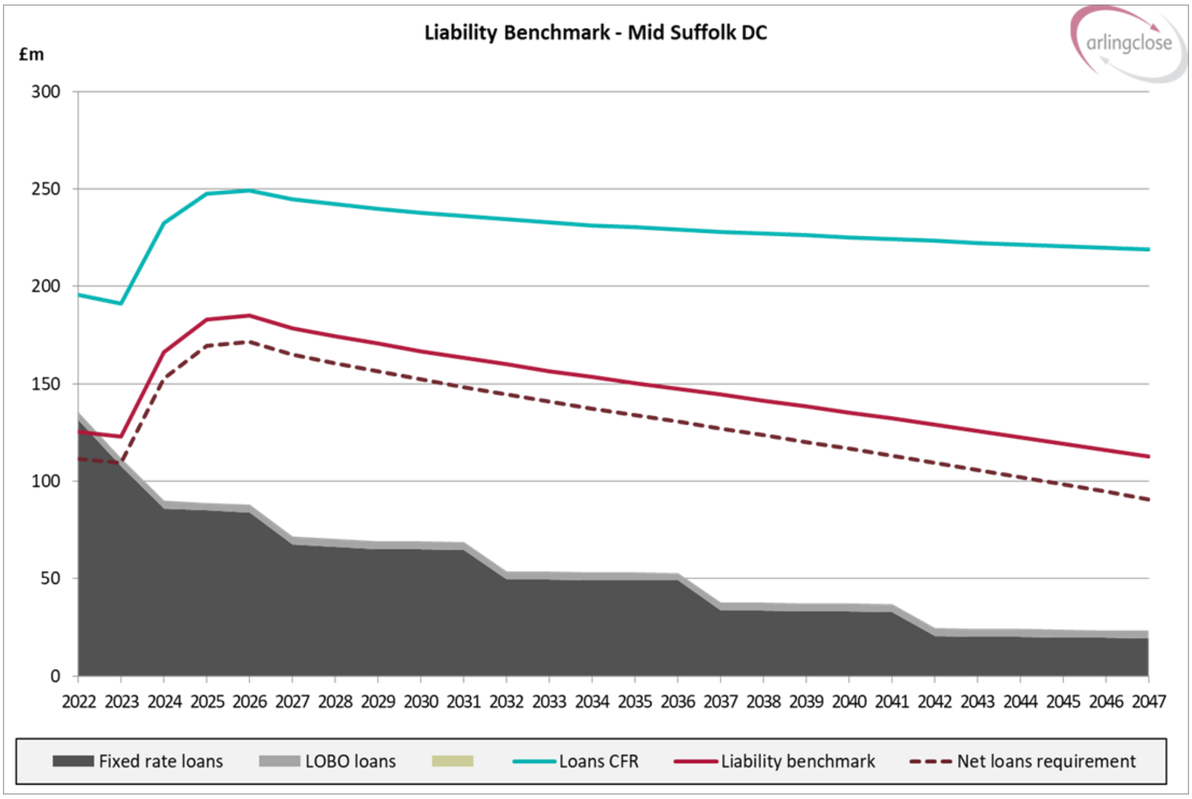
| Liability Benchmark | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| External Borrowing | 124.84 | 110.28 | 86.71 | 80.12 | 79.53 | 78.92 |
| (Investments) / New Borrowing | (12.58) | 11.79 | 50.27 | 79.26 | 80.21 | 82.79 |
| **Net Loans Requirement** | **112.26** | **122.07** | **136.97** | **159.38** | **159.74** | **161.71** |
| Minimum Investments/Liquidity Allowance | 12.77 | 13.00 | 13.00 | 13.00 | 13.00 | 13.00 |
| **Liability Benchmark** | **125.03** | **135.07** | **149.97** | **172.38** | **172.74** | **174.71** |

| Liability Benchmark | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| External Borrowing | 122.73 | 109.10 | 88.95 | 87.79 | 71.60 | 70.38 |
| (Investments) / New Borrowing | (16.72) | 3.29 | 21.83 | 43.72 | 58.28 | 61.22 |
| **Net Loans Requirement** | **106.01** | **112.39** | **110.78** | **131.51** | **129.87** | **131.60** |
| Minimum Investments/Liquidity Allowance | 12.65 | 13.50 | 13.50 | 13.50 | 13.50 | 13.50 |
| **Liability Benchmark** | **118.66** | **125.89** | **124.28** | **145.01** | **143.37** | **145.10** |

3.9 Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark, over a twenty five year period, assumes no additional capital expenditure funded by borrowing, and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below together with the maturity profile of the Councils' existing borrowing:

3.10 **Table 2: Chart: Liability Benchmark**



## 4. Borrowing Strategy

### Overview

4.1 As at 30 November 2023 Babergh held loans of £112.56m and Mid Suffolk £112.67m. These have decreased by £0.56m for Babergh and £22.61m for Mid Suffolk on the previous year, due to slippage in this year's capital programmes and capital receipts in Mid Suffolk.

4.2 The balance sheet forecast for borrowing in Table 1 above shows that Babergh could need to borrow up to £50.27m and Mid Suffolk could borrow up to £21.83m in 2024/25. The Councils may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £196m for Babergh and £226m for Mid Suffolk, as shown in Appendix A Table 8.

### Objectives

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

### Strategy

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

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

4.6 Its output may determine whether the Councils borrow additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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

4.8 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Councils intend to avoid this activity in 2024/25 and beyond in order to retain its access to PWLB loans.

4.9 Alternatively, the Councils may arrange forward starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

**Sources of borrowing**

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

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

**Other sources of debt finance**

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

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

**Municipal Bonds Agency**

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

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

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

**LOBOs**

4.14 Mid Suffolk holds £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost.

The Council has two loans and they both have options during 2023/24. Interest rates are currently 4.2% on £2m and 4.22% on £2m and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Council will take the option to repay LOBO loans to reduce refinancing risk in later years, by taking out equivalent loans from PWLB. Total borrowing via LOBO loans will be limited to £4m.

**Short-term and variable rate loans**

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

**Local Application**

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

4.17 Consideration will be given to all forms of borrowing/financing in relation to any future capital investment plans. This is most likely to be via the Public Works Loan Board (PWLB) but consideration will also be given to borrowing from other sources such as other local authorities, commercial banks, the money markets, capital markets (stock issues, commercial paper and bills) and leasing. The Councils will receive the “certainty rate” discount of 0.2% on PWLB loans. An “infrastructure rate” discount of an additional 0.4% is also available for lending to support nominated infrastructure projects. From 15th June 2023 the government introduced the HRA rate which applies an interest rate of the gilt yield plus 40 basis points (0.40%). This rate is solely intended for use in Housing Revenue Accounts and primarily for new housing delivery.

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

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

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

4.20 The General Fund revenue budget for 2024/25 will include provision for interest payments relating to external borrowing and the statutory Minimum Revenue Provision (MRP) to ensure the principal is repaid. Different arrangements apply to the Housing Revenue Account (Council Housing) in that there is no MRP. The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. Appendices D, E, F, G, H and I summarise the regulatory framework, economic background and information on key activities for the year.

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

**Debt rescheduling**

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

## 5. Treasury Investment Strategy

5.1 The Councils hold significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months, Babergh's treasury investment balances have ranged between £12.5m and £23.3m. Mid Suffolk's treasury investment balances ranged between £11.2m and £25.1m

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

**Objectives**

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

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

5.5 Where balances are expected to be invested for more than one year, the Councils will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation (in order to maintain the spending power of the sum invested). The Councils aim to be responsible investors and will consider environmental, social and governance (ESG) issues when investing.

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

**Table 3: Treasury management investments**

| Treasury Management Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **31.03.2023 Actual £m** | **31.03.2024 Forecast Outturn £m** | **31.03.2025 Budget £m** | **31.03.2026 Forecast £m** | **31.03.2027 Forecast £m** | **31.03.2028 Forecast £m** |
| Long Term Investments | 11.06 | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 |
| Cash and Cash Equivalents | 1.72 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| **Total TM Investments** | **12.77** | **13.00** | **13.00** | **13.00** | **13.00** | **13.00** |

| Treasury Management Investments | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **31.03.2023 Actual £m** | **31.03.2024 Forecast Outturn £m** | **31.03.2025 Budget £m** | **31.03.2026 Forecast £m** | **31.03.2027 Forecast £m** | **31.03.2028 Forecast £m** |
| Short Term Investments | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Long Term Investments | 11.06 | 11.00 | 11.00 | 11.00 | 11.00 | 11.00 |
| Cash and Cash Equivalents | 1.10 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| **Total TM Investments** | **12.65** | **13.50** | **13.50** | **13.50** | **13.50** | **13.50** |

**Governance – Treasury Management:**

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

5.8 There will be Joint half Yearly and Joint Annual Outturn Reports on treasury management activity presented to Council and treasury management indicators reports to Cabinet on a quarterly basis. The Joint Audit and Standards Committee is responsible for scrutinising treasury management decisions.

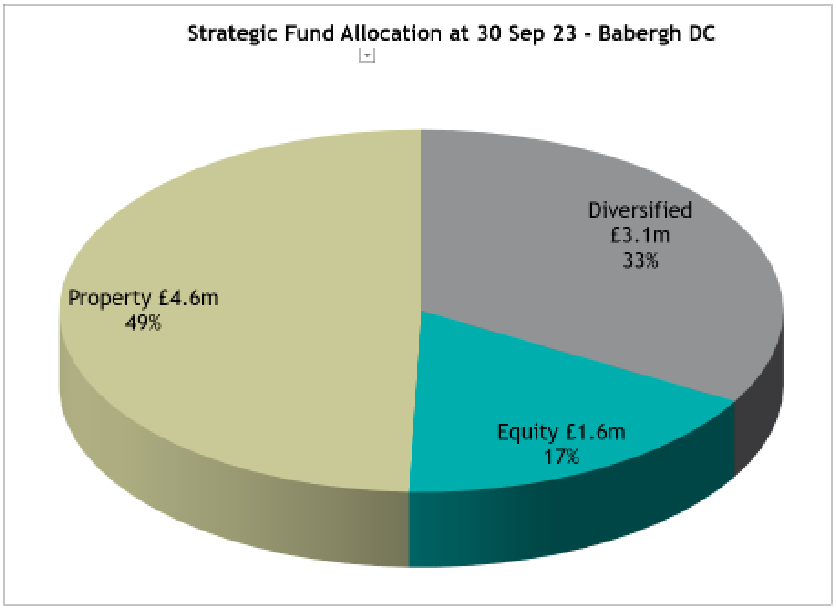
**Strategy**

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

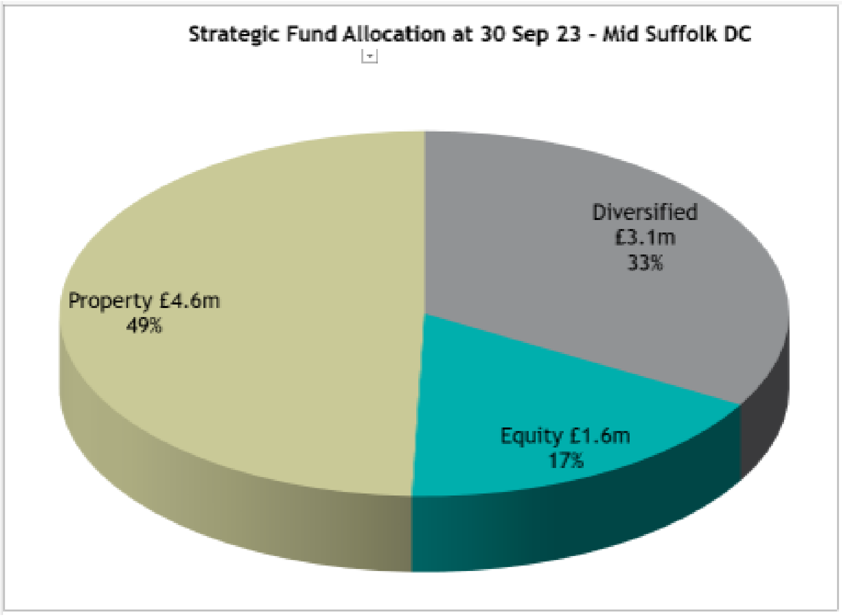
5.10 The value of these funds can fluctuate and they are therefore considered to be long term investments. The Councils have invested in a number of strategic pooled funds, across a variety of asset classes to minimise risk, as shown below.

**<u>Chart 1: Strategic pooled funds asset class allocation for both Councils</u>**

Babergh



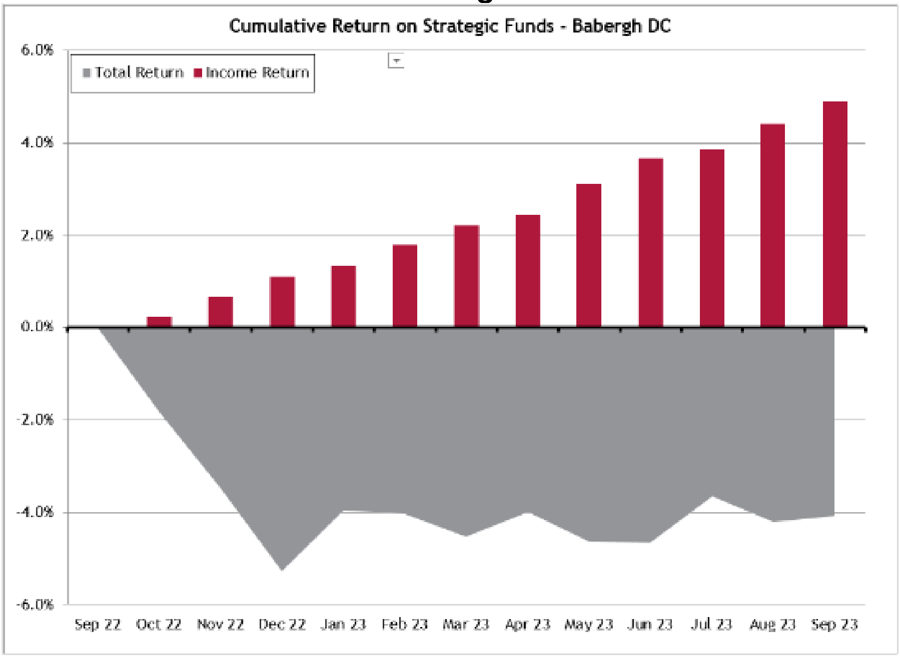

Mid Suffolk



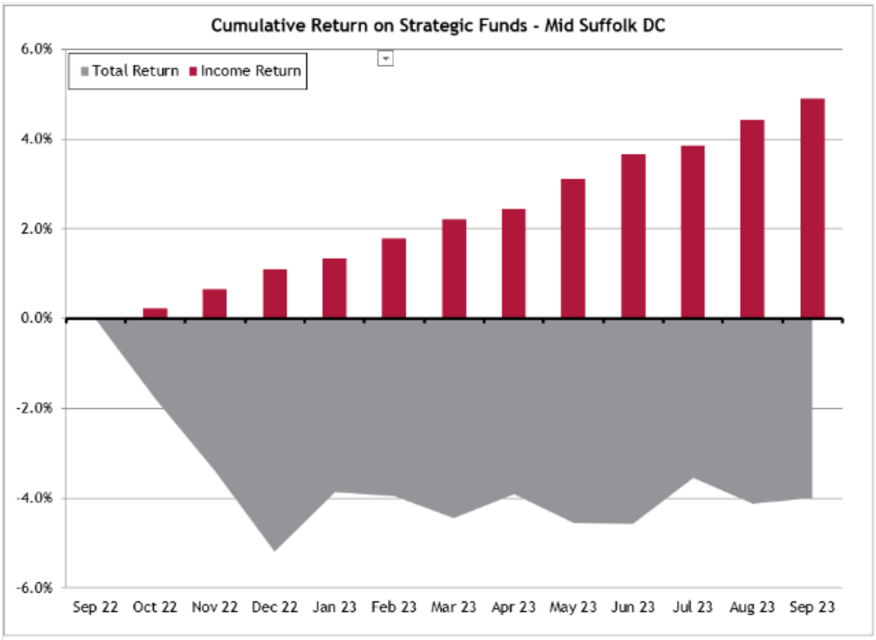

5.11 Although these funds have incurred unrealised capital losses, the overall total return for each has been positive with a total return of 5.94% for Babergh and 5.86% for Mid Suffolk up to September 2023 as illustrated in the following charts:

**Chart 2: Cumulative return on strategic pooled funds**

**Babergh**




**Mid Suffolk**




**Environment, social and governance (ESG) policy**

5.12 In 2019 the Councils declared a climate emergency reflecting the concern that the Councils have over climate change, and the commitment of the Councils to address the issue with regards to evaluating the climate change impact of all our decisions.

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

5.14 The CIPFA Treasury Management Code and DLUHC Investment Guidance state that the main principles in investing are Security, Liquidity and Yield in that order. However, as part of the 2021 Code, CIPFA now requires local authorities to have some consideration of ESG factors when investing.

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

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

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

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

5.18 For direct investments, the Council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have no direct investment in Fossil Fuel companies prior to investing.

5.19 For additional investments into Pooled Funds the Council will seek to ensure that any fund used does not have direct exposure to Fossil Fuel investments prior to investing.

5.20 Short term ESG investments: When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. The Authority may also consider options for investment of up to a total of £5 million of short-term funds with institutions who ring fence the use of such funds for ESG related matters.

5.21 The criteria for credit rating of security of such deposits will need to remain in line with the wider Authority policy, however where appropriate and at the Authorities discretion, some flexibility will be provided to allow for slightly longer durations of investment and potentially lower returns in order to support the ESG focus.

5.22 Any investment will be subject to agreement of the S151 Officer taking these factors into consideration. Direct involvement and financing of green energy projects is treated as capital expenditure, and as such is not covered within the remit of treasury management.

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

5.24 The evolving ESG criteria of the Mid Suffolk District council investment profile will be a factor in future investment decisions, reflecting the importance the administration places upon ensuring that their portfolio not only generates economic returns but also has a positive environmental and social impact. Investments will be assessed using this broader lens, rather than the narrow prism of income generation and ESG progress monitored in future iterations of this paper.

**Business Models**

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

**Approved counterparties**

5.26 The minimum proposed investment criteria for UK counterparties in the 2024/25 Treasury Management Strategy remains at A-. (See Appendix I for a list). (Note: This would be the lowest credit rating determined by credit rating agencies).

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

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

| Sector | Time limit | Counterparty limit | Sector limit |
|---|---|---|---|
| The UK Government | 3 years | Unlimited | n/a |
| Babergh & Mid Suffolk District Councils | 3 years | £5m | 100% |
| Local authorities & other government entities | 3 years | £2m | 100% |
| Secured investments * | 3 years | £2m | 100% |
| Banks (unsecured) * | 13 months | £2m | 100% |
| Building societies (unsecured) * | 13 months | £2m | 25% |
| Registered providers (unsecured) * | 3 years | £1m | 25% |
| Money market funds * | n/a | £2m | 100% |
| Strategic pooled funds | n/a | £5m | 100% |
| Other investments * | 3 years | £1m | 10% |

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

* **Minimum Credit rating**

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

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

- **Government**
  Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 3 years.

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

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

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

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

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

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

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

**Council banker and Operational bank accounts**

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

**Risk assessment and credit ratings**

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

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

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

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

**Other information on the security of investments**

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

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

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

**Investment limits**

5.35 The Councils’ total General Fund reserves available to cover investment losses are forecast to be £8.5m for Babergh and £26m for Mid Suffolk on 31 March 2024. In order to minimise the available reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) for the majority of sectors will be £2m.

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

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

**Table 5: Additional Investment limits for Babergh and Mid Suffolk**

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

**Liquidity management**

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

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

**APPENDIX D: TREASURY MANAGEMENT INDICATORS**

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

## 1. Security

1.1 The Councils have adopted a voluntary measure of their exposure to credit risk by monitoring the value-weighted average credit score of their internally managed investment portfolios (i.e. excluding external pooled funds). This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. Positions at the 30 September 2023 were Babergh 4.93 and Mid Suffolk 4.77 respectively.

| | **Target** |
|---|---|
| Portfolio average credit score | 7.0 |

## 2. Liquidity risk

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

| **Liquidity risk indicator** | |
|---|---|
| **Total sum borrowed in past 3 months without prior notice** | **2024/25 Target £m** |
| Babergh District Council | £5m |
| Mid Suffolk District Council | £5m |

## 3. Interest rate exposures

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

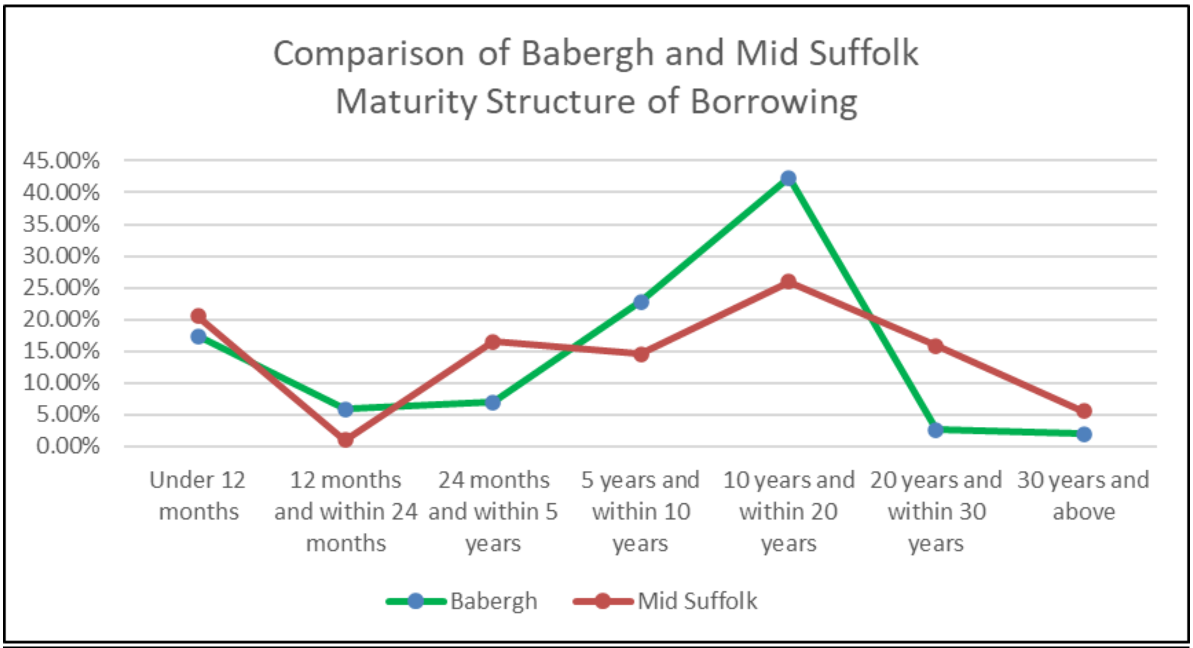
| **Interest rate risk indicator** | |
|---|---|
| **Upper impact on Revenue of a 1% increase in rates** | **2024/25 Limit £m** |
| Babergh District Council | 0.050 |
| Mid Suffolk District Council | 0.086 |

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

## 4. Maturity structure of borrowing

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

| Refinancing rate risk indicator | | | | |
|---|---|---|---|---|
| % of total borrowing | Babergh 30.11.2023 Proportion | Mid Suffolk 30.11.2023 Proportion | Lower Limit % | Upper Limit % |
| Under 12 months | 17.38% | 20.54% | 0.00 | 50.00 |
| 12 months and within 24 months | 5.84% | 1.03% | 0.00 | 50.00 |
| 24 months and within 5 years | 6.93% | 16.51% | 0.00 | 50.00 |
| 5 years and within 10 years | 22.82% | 14.53% | 0.00 | 100.00 |
| 10 years and within 20 years | 42.34% | 25.94% | 0.00 | 100.00 |
| 20 years and within 30 years | 2.68% | 15.86% | 0.00 | 100.00 |
| 30 years and above | 2.00% | 5.59% | 0.00 | 100.00 |




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

## 5. Long Term treasury management investments

5.1 The purpose of this indicator is to control the Councils' exposure to the risk of incurring losses by seeking early repayment of their investments. The prudential limits on the long-term treasury management investments will be:

| Price risk indicator | | | | |
|---|---|---|---|---|
| Limit on principal invested beyond year end | 2023/24 | 2024/25 | 2025/26 | No fixed maturity date |
| | Limit | Limit | Limit | Limit |
| | £m | £m | £m | £m |
| Babergh District Council | £2m | £2m | £2m | £11.1m |
| Mid Suffolk District Council | £2m | £2m | £2m | £11.1m |

5.2 Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

## 6. <u>Related Matters</u>

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

**Policy on the use of financial derivatives**

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

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

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

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

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

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

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

**Markets in Financial Instruments Directive**

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

**Financial Implications**

6.9 The budget for investment income in 2024/25 is £2.75m for Babergh and £2.78m for Mid Suffolk, based on an average investment portfolio of £71.3m for Babergh and £68.5m Mid Suffolk. The average return is 3.86% for Babergh and 4.06% for Mid Suffolk.

6.10 The budget for debt interest payable in 2024/25 is £5.13m for Babergh and £6.2m for Mid Suffolk, based on an average debt portfolio of £131.3m for Babergh and £131.9m for Mid Suffolk. The average cost is 3.91% for Babergh and 4.7% for Mid Suffolk.

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

**Other Options Considered**

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

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

| | | |
|---|---|---|
| Borrow short-term or variable loans instead of long-term fixed rates | Debt interest costs will initially be lower | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain |
| Reduce level of borrowing | Saving on debt interest is likely to exceed lost investment income | Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain |

## APPENDIX E: ECONOMIC & INTEREST RATE FORECAST (NOVEMBER 2023)

### 1 Economic background

1.1 The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

1.2 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

1.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

1.4 Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

1.5 ONS figures showed the UK economy grew by 0.2% between April and June 2022. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

1.6 The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

1.7 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.

1.8 US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.

1.9 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

## 2 <u>Credit outlook</u>

2.1 Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

2.2 On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

2.3 Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

2.4 Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

2.5 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

2.6 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

## 3 Interest Rate Forecast (November 2023)

3.1 Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

3.2 Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

3.3 Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

### 3.4 Table 1 Interest Rate Forecast

| | Current | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Official Bank Rate** | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.25 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 |
| Central Case | 5.25 | 5.25 | 5.25 | 5.25 | 5.00 | 4.75 | 4.25 | 4.00 | 3.75 | 3.50 | 3.25 | 3.00 | 3.00 |
| Downside risk | 0.00 | 0.00 | -0.25 | -0.50 | -0.75 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **3-month money market rate** | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.25 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 |
| Central Case | 5.40 | 5.40 | 5.40 | 5.30 | 5.15 | 4.80 | 4.30 | 4.10 | 3.80 | 3.50 | 3.25 | 3.05 | 3.05 |
| Downside risk | 0.00 | 0.00 | -0.25 | -0.50 | -0.75 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **5yr gilt yield** | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.50 | 0.70 | 0.70 | 0.85 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Central Case | 4.28 | 4.35 | 4.30 | 4.25 | 4.10 | 4.00 | 3.75 | 3.50 | 3.40 | 3.30 | 3.30 | 3.30 | 3.35 |
| Downside risk | 0.00 | -0.55 | -0.75 | -0.85 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **10yr gilt yield** | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.50 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| Central Case | 4.32 | 4.40 | 4.35 | 4.30 | 4.25 | 4.15 | 4.00 | 3.80 | 3.75 | 3.65 | 3.60 | 3.65 | 3.70 |
| Downside risk | 0.00 | -0.55 | -0.75 | -0.85 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **20yr gilt yield** | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.50 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| Central Case | 4.78 | 4.70 | 4.65 | 4.55 | 4.45 | 4.35 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 |
| Downside risk | 0.00 | -0.55 | -0.75 | -0.85 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| **50yr gilt yield** | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.50 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| Central Case | 4.38 | 4.30 | 4.25 | 4.20 | 4.15 | 4.15 | 4.10 | 4.10 | 4.10 | 4.10 | 4.10 | 4.10 | 4.10 |
| Downside risk | 0.00 | -0.55 | -0.75 | -0.85 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |

## 4 Underlying assumptions for the economy and interest rate forecast (at November 2023)

**Underlying assumptions:**

4.1 UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.

4.2 The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.

4.3 The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.

4.4 Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.

4.5 Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.

4.6 Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.

4.7 Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

4.8 There is a heightened risk of geo-political events causing substantial volatility in yields.

**Forecast:**

4.9 The MPC held Bank Rate at 5.25% in November. Arlingclose believes this is the peak for Bank Rate.

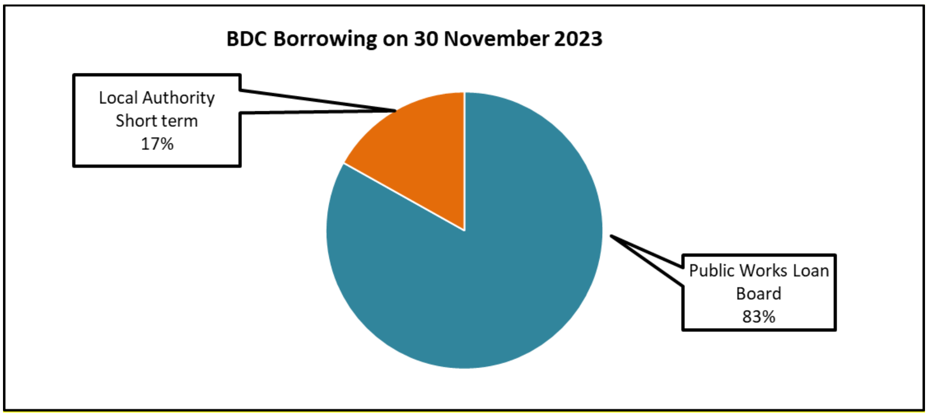
4.10 The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

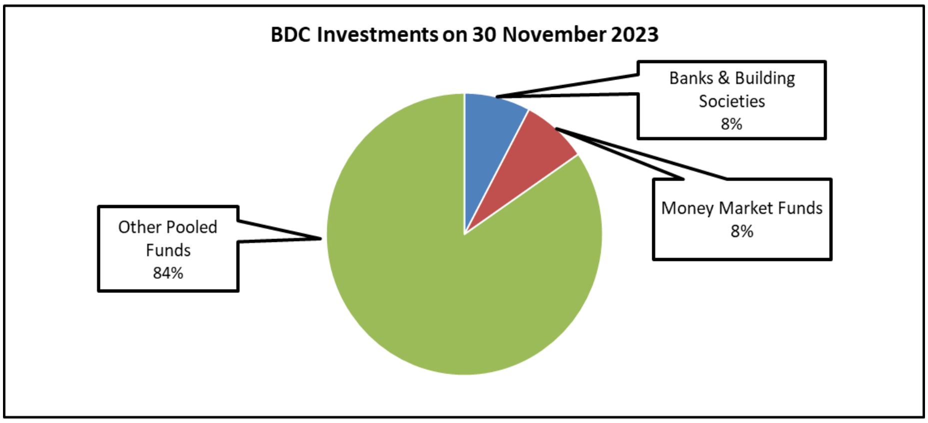
4.11 The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.

4.12 Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

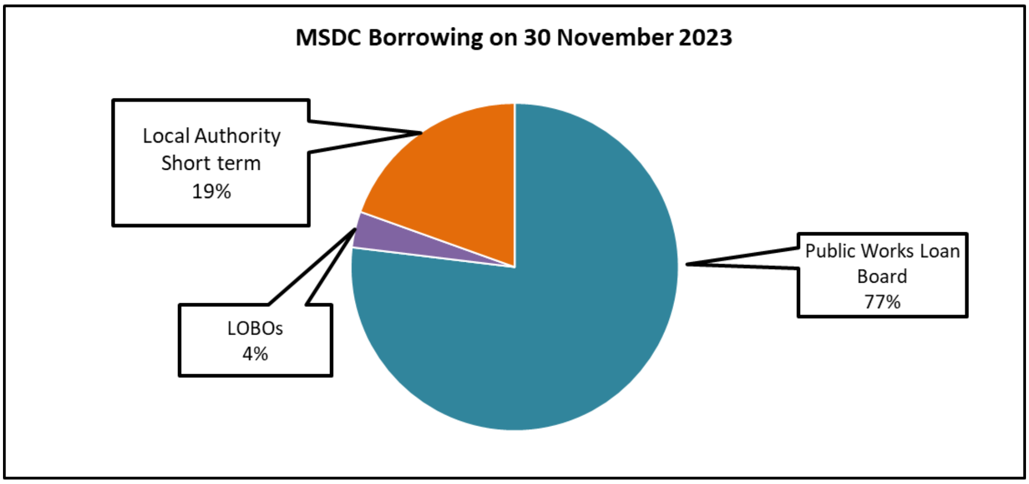
## APPENDIX F: EXISTING INVESTMENT & DEBT PORTFOLIO POSITION FOR GENERAL FUND AND HRA

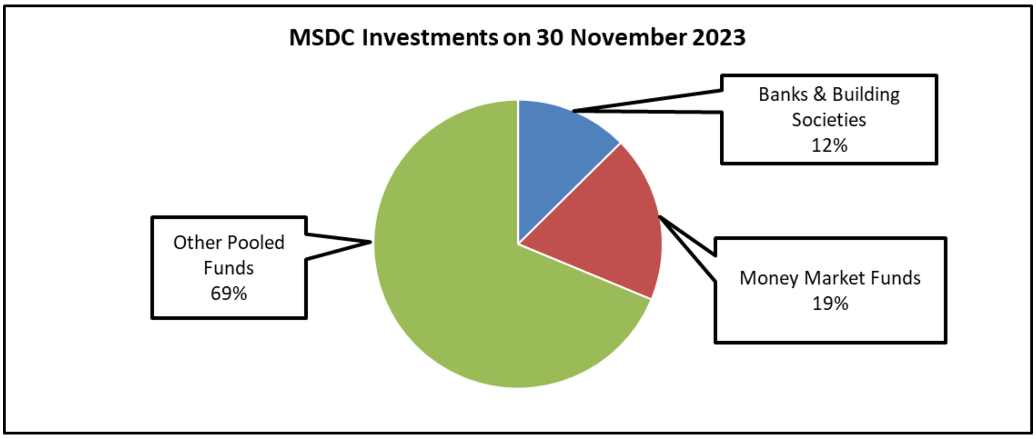
| Babergh | 30.11.2023 Portfolio £m | Average Rate % |
|---|---|---|
| **External Borrowing:** | | |
| Public Works Loan Board | 93.56 | 3.21% |
| Local Authority Short term | 19.00 | 4.45% |
| **Total External borrowing** | **112.56** | 3.42% |
| **Treasury Investments:** | | |
| Banks & Building Societies | 1.01 | 4.24% |
| Money Market Funds | 1.00 | 5.18% |
| Other Pooled Funds | 11.04 | 4.89% |
| **Total Treasury Investments** | **13.05** | 4.86% |
| **Net Debt** | **99.51** | |



| Mid Suffolk | 30.11.2023 Portfolio £m | Average Rate % |
|---|---|---|
| **External Borrowing:** | | |
| Public Works Loan Board | 86.67 | 3.32% |
| LOBOs | 4.00 | 4.21% |
| Local Authority Short term | 22.00 | 4.00% |
| **Total External borrowing** | **112.67** | 3.48% |
| **Treasury Investments:** | | |
| Banks & Building Societies | 2.02 | 4.73% |
| Money Market Funds | 3.00 | 4.92% |
| Other Pooled Funds | 11.05 | 4.90% |
| **Total Treasury Investments** | **16.07** | 4.88% |
| **Net Debt** | **96.60** | |




1.1 For both Councils the majority of PWLB loans were taken out at the time of self-financing the HRA in 2012. The current repayment profiles of all of the HRA loans are shown in the tables that follow.

| Babergh PWLB Loans for HRA as at 30 November 2023 | | | | |
|---|---|---|---|---|
| **Start Date** | **Amount £m** | **Rate (Fixed)** | **Annual Interest £m** | **Repayment Date** |
| 26/01/2006 | £ 1.10 | 3.70% | £ 0.04 | 26/01/2056 |
| 28/03/2012 | £ 6.00 | 2.92% | £ 0.18 | 28/03/2026 |
| 28/03/2012 | £ 46.65 | 3.42% | £ 1.60 | 28/03/2036 |
| 28/03/2012 | £ 6.00 | 2.82% | £ 0.17 | 28/03/2025 |
| 28/03/2012 | £ 25.00 | 3.26% | £ 0.82 | 28/03/2031 |
| **Total** | **£ 84.75** | | **£ 2.80** | |

| Mid Suffolk PWLB Loans for HRA as at 30 November 2023 | | | | |
|---|---|---|---|---|
| **Start Date** | **Amount £m** | **Rate (Fixed)** | **Annual Interest £m** | **Repayment Date** |
| 21/09/1993 | £ 1.00 | 7.88% | £ 0.08 | 27/07/2053 |
| 26/04/2007 | £ 3.50 | 4.60% | £ 0.16 | 27/07/2047 |
| 26/04/2007 | £ 3.50 | 4.55% | £ 0.16 | 27/07/2052 |
| 01/05/2007 | £ 3.83 | 4.60% | £ 0.18 | 27/07/2053 |
| 28/03/2012 | £ 15.00 | 3.01% | £ 0.45 | 28/03/2032 |
| 28/03/2012 | £ 15.00 | 3.30% | £ 0.50 | 28/03/2027 |
| 28/03/2012 | £ 12.21 | 3.44% | £ 0.42 | 28/03/2042 |
| 28/03/2012 | £ 15.00 | 3.50% | £ 0.53 | 28/03/2037 |
| **Total** | **£ 69.04** | | **£ 2.47** | |

# APPENDIX G: TREASURY MANAGEMENT POLICY STATEMENT

## 1. Introduction and Background

1.1 The Councils adopt the key recommendations of the CIPFA Code of Practice on Treasury Management in Public Services 2021 Edition (the TM Code) as described in Section 5 of the Code.

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

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

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

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

- Investment management practices (IMPs) for investments that are not for treasury management purposes

1.4 The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of the Councils. Such amendments will not result in the Councils materially deviating from the TM Code's key principles.

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

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

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

## 2. Policies and Objectives of Treasury Management Activities

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

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

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

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

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

**APPENDIX H: ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT 2024/25, AND AMENDMENT TO 2023/24 STATEMENT**

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

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

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

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

1.5 The four MRP options available are:

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

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

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

1.8 For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability. Where former operating leases have been brought onto the balance sheet on 1 April 2024 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

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

1.10 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Councils will make no MRP charge, unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year. The Council will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This is recommended as being a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

1.11 No MRP will be charged in respect of assets held within the Housing Revenue Account, but depreciation on those assets will be charged in line with regulations.

1.12 Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25 and capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26.

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

1.14 Based on the Councils' latest estimates of their Capital Financing Requirements (CFR) on 31 March 2024, the budget for MRP for 2024/25 has been set as follows:

| Estimated Capital Financing Requirement | | |
|---|---|---|
| **Babergh District Council** | **31.3.2024 Estimated CFR £m** | **2024/25 Estimated MRP £m** |
| Capital expenditure before 01.04.2008 | (0.38) | - |
| Unsupported capital expenditure after 31.3.2008 | 31.40 | 1.67 |
| Transferred debt to HRA | (0.33) | - |
| Loans to other bodies repaid in instalments | 50.10 | - |
| **Total General Fund** | **80.80** | **1.67** |
| Assets in the Housing Revenue Account | 15.00 | - |
| HRA subsidy reform payment | 79.10 | - |
| Transferred debt from GF | 0.33 | - |
| **Total Housing Revenue Account** | **94.42** | **-** |
| **Total CFR** | **175.21** | **1.67** |

| Estimated Capital Financing Requirement | | |
|---|---|---|
| **Mid Suffolk District Council** | **31.3.2024 Estimated CFR £m** | **2024/25 Estimated MRP £m** |
| Capital expenditure before 01.04.2008 | 7.88 | 0.09 |
| Unsupported capital expenditure after 31.3.2008 | 25.98 | 1.48 |
| Transferred debt to HRA | (1.76) | - |
| Loans to other bodies repaid in instalments | 45.76 | - |
| **Total General Fund** | **77.86** | **1.56** |
| Assets in the Housing Revenue Account | 57.70 | - |
| HRA subsidy reform payment | 57.21 | - |
| Transferred debt from GF | 1.76 | - |
| **Total Housing Revenue Account** | **116.67** | **-** |
| **Total CFR** | **194.53** | **1.56** |

1.15 The relationship between the Councils CFR and MRP charges over the medium term are shown in the following table.

| MRP compared to CFR | | | | | | |
|---|---|---|---|---|---|---|
| **Babergh District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| MRP charged to General Fund Revenue | 1.46 | 1.56 | 1.67 | 1.90 | 2.11 | 2.16 |
| General Fund CFR | 75.65 | 80.80 | 86.56 | 97.48 | 96.44 | 95.35 |
| **MRP as a Proportion of CFR** | **1.9%** | **1.9%** | **1.9%** | **2.0%** | **2.2%** | **2.3%** |

| MRP compared to CFR | | | | | | |
|---|---|---|---|---|---|---|
| **Mid Suffolk District Council** | **2022/23 Actual £m** | **2023/24 Forecast Outturn £m** | **2024/25 Budget £m** | **2025/26 Forecast £m** | **2026/27 Forecast £m** | **2027/28 Forecast £m** |
| MRP charged to General Fund Revenue | 1.33 | 1.31 | 1.32 | 1.59 | 1.76 | 1.99 |
| General Fund CFR | 85.20 | 77.86 | 86.93 | 93.08 | 88.17 | 87.03 |
| **MRP as a Proportion of CFR** | **1.6%** | **1.7%** | **1.5%** | **1.7%** | **2.0%** | **2.3%** |

1.16 It is also proposed that the following additional paragraph be inserted into the 2023/24 MRP Statement:

“Under proposed changes to the MRP regulations proposals (expected to come into force in 2024/25), it is expected that any expected credit loss arising from the loans undertaken to CIFCO and Babergh Growth Ltd must be charged to the revenue budgets of the Councils in the year that the loss is recognised. The Council proposes to pre-empt this requirement by make the following overpayments of MRP in the 2023/24 financial year: a) BDC; £538k in respect of the loan to CIFCO and £400k in respect of the loan to Babergh Growth Ltd: b) MSDC; £538k in respect of the loan to CIFCO

The reason for make the overpayment in 2023/24 is to clearly set the amount aside to finance capital expenditure, rather than leaving it in a revenue reserve, which would give the impression that it is available for other purposes. There would be scope to unwind some or all the provision in future years if it was deemed that the provision was not required”.

## APPENDIX I: INSTITUTIONS MEETING HIGH CREDIT RATINGS CRITERIA

1.1 Detailed below is the list of the banks and building societies that both Councils can lend to (based on information on credit risk and credit ratings available in November 2023). This will be continuously monitored as the position changes throughout the year as credit ratings are reviewed and additional market information is evaluated.

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

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

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

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

**Long Term Investments Grades - Fitch**

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

**Long Term Investments Grades – Moody’s**

| Agency - Moody’s | |
|---|---|
| **Rating** | **Definition** |
| Aaa | Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk. |
| Aa1 | Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. |
| Aa2 | |
| Aa3 | |
| A1 | Obligations rated A are considered upper-medium grade and are subject to low credit risk. |
| A2 | |
| A3 | |

## Long Term Investments Grades – Standard & Poor's

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

**APPENDIX J: GLOSSARY OF TERMS**

| | |
|---|---|
| CCLA | Churches, Charities and Local Authority Property Fund |
| CFR | Capital Financing Requirement. The underlying need to borrow to finance capital expenditure. |
| CIPFA | The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services. |
| DLUHC | Department for Levelling Up, Housing and Communities. This is a ministerial department. |
| DMADF | Debt Management Account Deposit Facility. |
| Funding Circle | Accounts set up to lend money to local and national businesses at competitive rates |
| GDP | Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time. |
| HRA | Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents. |
| LOBO | Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan. |
| MIFID II | Markets in Financial Instruments Directive 2014/65/EU. Effective from 1 January 2018. The Councils have met the conditions to opt up to professional status. The Councils will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. |
| MPC | Monetary Policy Committee – A committee of the Bank of England which meets each month to decide the official interest in the UK. It is also responsible for other aspects of the Government's monetary policy framework such as quantitative easing and forward guidance. |
| MRP | Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing. |

| | |
|---|---|
| PWLB | Public Works Loan Board - offers loans to local authorities below market rates. |
| QE | Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply. |
| SONIA | Sterling Overnight Index Average. The average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. |
| T Bills | Treasury Bill. A short-term Government Bond. |
| UBS | UBS Multi Asset Income Fund (UK) - a pooled fund |