BABERGH AND MID SUFFOLK DISTRICT COUNCILS

From: Assistant Director - Corporate Resources	**Report Number: JAC/17/2**
To: Joint Audit and Standards Committee	**Date of meeting: 17 July 2017**

JOINT ANNUAL TREASURY MANAGEMENT REPORT - 2016/17

1. Purpose of Report

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

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

1.3 The report also includes performance on Prudential Indicators which were set in the 2016/17 Treasury Management Strategy.

1.4 The figures contained in this report are subject to the external auditor's review which will conclude in September 2017.

2. Recommendation to both Councils

2.1 That the Treasury Management activity for the year 2016/17 be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2016/17.

3. Financial Implications

3.1 As detailed in the Report.

4. Legal Implications

4.1 None.

5. Risk Management

This report is linked to the Councils' Significant Risk Register risk 5(f) "If we do not understand our financial position and respond in a timely and effective way, then we will be unable to deliver the entirety of the Joint Strategic Plan". The key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Councils lose the investment this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.
If the Councils receive a poor return on investments, there will be fewer resources available to deliver services.	Highly Probable (4)	Noticeable (2)	Focus is on security and liquidity, therefore, careful cashflow management in accordance with the TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, they will be unable to meet their short term liabilities.	Unlikely (2)	Noticeable (2)	As above.
If the Councils incur higher than expected borrowing costs, there will be fewer resources available to deliver services.	Unlikely (2)	Noticeable (2)	Benchmark is to borrow from the Public Works Loan Board whose rates are very low and can be on a fixed or variable basis. Research lowest rates available within borrowing boundaries and use other sources of funding and internal surplus funds temporarily.

6. Consultations

6.1 None, although it should be noted that Babergh and Mid Suffolk have regular joint strategy meetings with the external treasury advisor, Arlingclose who provide updates and advice on treasury management issues as they arise.

7. Equality Analysis

7.1 None.

8. Shared Service / Partnership Implications

8.1 None directly related to this report.

9. Links to Joint Strategic Plan

9.1 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

10. Key Information

10.1 The 2016/17 Treasury Management Strategy for both Councils was approved in January 2016.

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

10.3 The following key points for the year are as follows:

- Interest rates continued at very low levels

- Economic conditions have improved but no real impact on the treasury activities for the year. Investment of surplus funds with banks and other financial institutions still operating in a 'tight' market.

- No new long term external borrowing was taken out by Babergh or Mid Suffolk to finance the 2016/17 capital programme. All the existing long term debt relates to the HRA for both Councils.

  Babergh increased its short term borrowing by £6million. Mid Suffolk increased its short term borrowing by £11.5million and reduced its long term borrowing by £0.8million (see Appendix B, Table 3).

- Investment activity was undertaken in accordance with the approved counterparty policy and investment limits (see Appendix C, Table 7)

10.4 Specific highlights relating to 2016/17 activity are provided below:

Area/Activity	**Babergh**	**Mid Suffolk**	**Comments**
Borrowing – average interest rate	3.28%	3.66%	All HRA and fixed rate
Short Term Investments – average interest rate	0.34%	0.39%	Exceeded 7 day LIBID benchmark
Credit Risk Scores during the year (value weighted average)	4.81 – 5.06	4.63 – 4.64	Both within the score for the approved A- credit rating for investment counterparties
Compliance with Prudential Indicators	✓	✓	See Appendix D

10.5 There were no breaches of the strategy or policy for either Council during the year.

11. Appendices

Title	Location
(a) Regulatory Framework, External and Local Context	Attached
(b) Borrowing activities	Attached
(c) Investment activities	Attached
(d) Prudential Indicators	Attached
(e) Glossary of Terms	Attached

12. Background Documents

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

12.2 2016/17 Treasury Management Strategy

Authorship:
Katherine Steel — 01449 724806 or 01473 826672
Assistant Director-Corporate Resources — Katherine.Steel@baberghmidsuffolk.gov.uk

Melissa Evans — 01473 825819
Corporate Manager–Financial Services — Melissa.Evans@baberghmidsuffolk.gov.uk

Appendix A

Regulatory Framework

The Councils' treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. Scrutiny of treasury policy, strategy and activity is delegated to the Joint Audit and Standards Committee.

Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management strategy

External Context

Economic background:

Politically, 2016/17 was an extraordinary twelve-month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29 March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However, the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year on year in April 2016 to 2.3% year on year in March 2017.

In addition to the political fallout, the EU referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth was judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the International Labour Organisation (ILO) unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

Financial markets:

Following the EU referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31 March, both up 18% over the year. Commercial property values fell around 5% after the EU referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016/17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016/17.

Credit background:

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's (S&P) downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Councils' lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on bank's financials as at 31 December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Councils' treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as a local council unsecured investments, in a stressed scenario.

On the advice of Arlingclose, new investments with Deutsche Bank and Standard Chartered Bank were suspended in March 2016 due to the banks' relatively higher credit default swap (CDS) levels and disappointing 2015 financial results. Standard Chartered was reintroduced to the counterparty list in March 2017 following its strengthening financial position, but Deutsche Bank was removed altogether from the list.

Local Context

On 31 March 2017, Babergh had net borrowing of £76.755m and Mid Suffolk had net borrowing of £96.251m arising from the revenue and capital income and expenditure activities. This is an increase of £6.538m for Babergh and £3.336m for Mid Suffolk from the 31 March 2016 position. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in Table 1.

Table 1: Balance Sheet Summary

BDC	**31.3.16 Actual £m**	**2016/17 Movement £m**	**31.3.17 Actual £m**
General Fund CFR	12.624	5.948	18.572
HRA CFR	86.732	(0.474)	86.258
Total CFR	**99.356**	**5.474**	**104.830**
Less: Usable reserves	19.936	2.278	22.214
Less: Working capital	9.203	(3.342)	5.861
Net borrowing	**70.217**	**6.538**	**76.755**

MSDC	**31.3.16 Actual £m**	**2016/17 Movement £m**	**31.3.17 Actual £m**
General Fund CFR	20.024	2.185	22.209
HRA CFR	86.759	0.000	86.759
Total CFR	**106.783**	**2.185**	**108.968**
Less: Usable reserves	22.012	0.671	22.683
Less: Working capital	(8.144)	(1.822)	(9.966)
Net borrowing	**92.915**	**3.336**	**96.251**

Both Councils' net borrowing has increased due to a rise in the CFR as new capital expenditure was higher than the financing applied, including minimum revenue provision. This was offset by an increase in usable reserves and a decrease in working capital due to the timing of receipts and payments.

The current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

Table 2: Treasury Management Summary

The treasury management position as at 31 March 2017 and the year-on-year change is shown in Table 2 below.

BDC	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Average Rate %
Long-term borrowing	87.297	(0.500)	86.797	3.28%
Short-term borrowing	0.000	6.000	6.000	0.45%
Total borrowing	**87.297**	**5.500**	**92.797**	
Long-term investments	6.906	2.535	9.441	5.07%
Short-term investments	2.700	0.000	2.700	0.34%
Cash and cash equivalents	2.791	0.598	3.389	0.31%
Total investments	**12.397**	**3.133**	**15.530**	
Net borrowing	**74.900**	**2.367**	**77.267**	

MSDC	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Average Rate %
Long-term borrowing	75.687	(0.800)	74.887	3.92%
Short-term borrowing	11.000	11.500	22.500	0.38%
Total borrowing	**86.687**	**10.700**	**97.387**	
Long-term investments	4.879	3.805	8.684	5.27%
Short-term investments	1.300	2.000	3.300	0.39%
Cash and cash equivalents	0.672	1.914	2.586	0.20%
Total investments	**6.851**	**7.719**	**14.570**	
Net borrowing	**79.836**	**2.981**	**82.817**	

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

Babergh and Mid Suffolk have both increased net borrowing which has translated to a rise in investment balances. This strategy has generated additional returns instead of repaying long term borrowing early, due to the high costs of early repayment.

Appendix B

Borrowing Activity

At 31 March 2017, Babergh held £92.797million of loans an increase of £5.5million on the previous year. Mid Suffolk held £97.387million of loans and increase of 10.7million on the previous year. These increases are part of both councils' strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change in show in Table 3 below.

Table 3: Borrowing Position

BDC	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Average Rate %
Public Works loan Board	87.297	(0.500)	86.797	3.28%
Local authorities (short-term)	0.000	6.000	6.000	0.45%
Total borrowing	**87.297**	**5.500**	**92.797**	

MSDC	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Average Rate %
Public Works loan Board	71.687	(0.800)	70.887	3.62%
Banks (LOBO)	4.000	0.000	4.000	4.21%
Local authorities (short-term)	11.000	11.500	22.500	0.38%
Total borrowing	**86.687**	**10.700**	**97.387**	

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

All new loans for Babergh and Mid Suffolk were taken as short term local authority borrowing to take advantage of low interest rates in 2016/17. This strategy enabled the Councils' to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The "cost of carry" analysis performed by the Councils' treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

Mid Suffolk continues to holds £4million of LOBO loans (Lender's Option Borrower's Option) where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during 2016/17.

Appendix C

Investment Activity

Babergh and Mid Suffolk hold invested funds, representing income received in advance of expenditure plus balances and reserves. During 2016/17, Babergh's Investment balance ranged between £11.157million and £22.017million. Mid Suffolk's investment balance ranged between £6.385million and £16.892million. These movement are due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 below.

Table 4: Investment Position

BDC	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Average Rate %
Banks & Building societies (unsecured)	2.789	(1.400)	1.389	0.47%
Government	0.000	2.000	2.000	0.15%
Money market funds	2.700	0.000	2.700	0.34%
Other Pooled Funds	7.100	2.538	9.638	5.07%
Total Investments	**12.589**	**3.138**	**15.727**	

MSDC	31.3.16 Balance £m	2016/17 Movement £m	31.3.17 Balance £m	31.3.17 Average Rate %
Banks & Building societies (unsecured)	0.646	(0.072)	0.574	0.23%
Government	0.000	2.000	2.000	0.16%
Money market funds	1.300	2.000	3.300	0.39%
Other Pooled Funds	5.100	4.542	9.642	5.27%
Total Investments	**7.046**	**8.470**	**15.516**	

Both the CIPFA Code and government guidance requires Local Authorities to invest their funds prudently, and to have regard to the security and liquidity of 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.

Babergh and Mid Suffolk have both followed a treasury strategy to move investments into long term pooled funds. These funds have generated higher returns for the Councils in a period when interest rates are falling. The remaining investments are short term and highly liquid to ensure both Councils can meet their liabilities.

The £2.538m that was available for Babergh for longer-term investment was moved from bank and building society deposits. £2m into a pooled equity fund expecting a 6% return and £0.538m into funding circle expecting a 7% return.

The £4.542m that was available for Mid Suffolk for longer-term investment has been invested, £2m into a pooled equity fund expecting a 6% return, £0.542m into funding circle expecting a 7% return and £2m into a Pooled Multi Asset Income fund expecting a 3.5% return.

As a result, credit scores and Bail-in Exposure has lowered for both Councils, Bail in exposure is the percentage of our investments that could be lost if banks were to fail. while the average rate of return has increased from 0.24 to 3.69% for Babergh and from (0.72%) to 3.50% for Mid Suffolk respectively. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking

BDC	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
31.03.2016	5.06	A+	100%	0.24%
31.03.2017	4.81	A+	61%	3.69%
Similar LAs	4.18	AA-	58%	1.68%
All LAs	4.30	AA-	60%	1.14%

MSDC	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
31.03.2016	4.64	A+	99%	(0.72%)
31.03.2017	4.63	A+	59%	3.50%
Similar LAs	4.18	AA-	58%	1.68%
All LAs	4.30	AA-	60%	1.14%

Babergh's best performing investments in 2016/17 were its £8.7m of externally managed pooled equity, property and multi asset funds. These generated an average total return on investment of 5.92% comprising of 6.44% income return used to support services in the year.

Mid Suffolk's best performing investments in 2016/17 were its £8.6m of externally managed pooled equity, property and multi asset funds. These generated an average total return on investment of 5.44% comprising of 6.72% income return used to support services in the year.

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 is regularly reviewed. In light of their strong performance and the latest cash flow forecasts, investment in these funds has been maintained for the 2017/18 financial year.

Other Investment Activity

During 2016/17 Babergh District Council purchased Borehamgate Shopping centre in Sudbury for £3.56million. This has been classified as an investment property. Net Income, after direct costs were deducted, was £143k.

Performance Report

The Councils' measure the financial performance of treasury management activities in terms of their impact on the General Fund and HRA budgets as shown in Table 6 below.

Table 6: Performance

BDC	2016/17 Actual £m	2016/17 Budget £m	2016/17 Over/ (under) £m	2016/17 Actuals Compared to budget %	2016/17 Over/(under) Budget %
Interest receivable	0.370	0.317	0.053	116.7%	16.7%
GF Interest Payable	0.000	0.000	0.000	0.0%	0.0%
HRA Interest Payable	2.863	2.824	0.039	101.39%	1.39%

MSDC	2016/17 Actual £m	2016/17 Budget £m	2016/17 Over/ (under) £m	2016/17 Actuals Compared to budget %	2016/17 Over/(under) Budget %
Interest receivable	0.309	0.201	0.108	153.7%	53.7%
GF Interest Payable	0.031	0.067	(0.036)	46.3%	(53.7%)
HRA Interest Payable	2.770	3.017	(0.247)	91.82%	(8.18%)

The Interest receivable income for Both Babergh and Mid Suffolk were above budget by £53k and £108k respectively. This is due to the new investments and higher than expected returns from long term pooled funds in the CCLA, UBS, Funding Circle and Schroder Income Maximiser Fund.

The short term interest payable for the year was under budget by £36k for Mid Suffolk due to the decrease in bank interest rates in August. The budgets for the PWLB interest payable (HRA only) were slightly understated for Babergh and overstated for Mid Suffolk. These have been reviewed for 2017/18.

Long term investment returns

Babergh and Mid Suffolk both have investments in long term pooled funds, below are details of how these investments have performed from investment date to 31 March 2017.

CCLA	**Babergh District Council**	**Mid Suffolk District Council**
Amount Invested	£5,000,000	£5,000,000
Interest received	£401,544	£352,352
Management Expenses Paid	(£47,164)	(£41,670)
Net Interest received	**£354,380**	**£310,682**
Return 2016/17	**4.97%**	**4.87%**

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

Schroder Maximiser Fund	**Babergh District Council**	**Mid Suffolk District Council**
Amount Invested	£2,000,000	£2,000,000
Net Interest received	**£35,500**	**£35,500**
Return 2016/17	**5.95%**	**5.95%**

Babergh District Council invested into the UBS on 26 November 2015, whilst Mid Suffolk invested into the fund on 28 March 2017.

UBS	**Babergh District Council**	**Mid Suffolk District Council**
Amount Invested	£2,000,000	£2,000,000
Net Interest received	**£117,624**	**£21,598**
Return 2016/17	**4.19%**	**4.39%**

Funding Circle	**Babergh District Council**	**Mid Suffolk District Council**
Amount Invested - National	£638,000	£617,000
Amount Invested - Local	£25,000	£25,000
Bad debts	(£7,101)	(£8,580)
Net Investments	**£655,899**	**£633,420**
Income received	£37,996	£40,959
Cash back	£20	£20
Servicing costs	(£4,469)	(£4,843)
Net Income received	**£33,547**	**£36,136**
Invested but still Unallocated - National	£85,759	£31,213
Invested but still Unallocated - Local	£23,000	£23,000
Return 2016/17	**5.58%**	**5.70%**

Table 7: Investment Limits

Babergh District Council

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£2m 5 years	£2m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£2m 5 years	£2m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£2 m 4 years	£2m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£2m 3 years	£2m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£2m 2 years	£2m 3 years	£2m 5 years	£1m 3 years	£1m 5 years
A	£2 m 13 months	£2m 2 years	£2m 5 years	£1 m 2 years	£1m 5 years
A-	£2m 6 months	£2m 13 months	£2m 5 years	£1m 13 months	£1m 5 years
None	£1m 6 months	n/a	£1m 25 years	£50,000 5 years	£1m 5 years
Pooled Funds		£5m per fund			

Mid Suffolk District Council

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£1m 5 years	£1m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£1m 5 years	£1m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£1 m 4 years	£1m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£1m 3 years	£1m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£1m 2 years	£1m 3 years	£1m 5 years	£1m 3 years	£1m 5 years
A	£1 m 13 months	£1m 2 years	£1m 5 years	£1 m 2 years	£1m 5 years
A-	£1m 6 months	£1 m 13 months	£1m 5 years	£1m 13 months	£1m 5 years
None	£1m 6 months	n/a	£1m 25 years	£50,000 5 years	£1m 5 years
Pooled funds		£5m per fund			

Compliance Report

The Section 151 Officer is pleased to report that all treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice. The Council's approved Treasury Management Strategy Compliance with specific investment limits is demonstrated in Table 7 above.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 8 below.

Table 8: Debt Limits

	2016/17 Maximum	31.3.17 Actual	2016/17 Operational Boundary	2016/17 Authorised Limit	Complied
BDC Borrowing	£92.797m	£92.797m	£107m	£110m	✓
MSDC Borrowing	£97.387m	£97.387m	£111m	£114m	✓

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

Treasury Management Indicators

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

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

Table 9: Credit Scores

	31.3.17 Actual	2016/17 Target	Complied
Babergh Portfolio average credit score	4.81	7.0	✓
Mid Suffolk Portfolio average credit score	4.63	7.0	✓

Interest Rate Exposures: This indicator is set to control the Councils’ exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

Table 10: Fixed Interest rate exposure

	31.3.17 Actual	**2016/17 Limit**	**Complied**
BDC Upper limit on fixed interest rate exposure	£86.797m	£104m	✓
BDC Upper limit on variable interest rate exposure	£6.000m	£35m	✓
MSDC Upper limit on fixed interest rate exposure	£74.887m	£112m	✓
MSDC Upper limit on variable interest rate exposure	£22.500m	£40m	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Councils’ exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

Table 11: Maturity Structures

Babergh District Council	**31.3.17 Actual**	**Lower Limit**	**Upper Limit**	**Complied**
under 12 months	7.00%	0%	50%	✓
12 months and within 24 months	0.54%	0%	50%	✓
24 months and within 5 years	1.13%	0%	50%	✓
5 years and within 10 years	12.93%	0%	100%	✓
10 years and within 20 years	77.21%	0%	100%	✓
20 years and within 30 years	0.00%	0%	100%	✓
30 years and above	1.19%	0%	100%	✓

Mid Suffolk District Council	**31.3.17 Actual**	**Lower Limit**	**Upper Limit**	**Complied**
under 12 months	23.93%	0%	50%	✓
12 months and within 24 months	0.31%	0%	50%	✓
24 months and within 5 years	0.77%	0%	50%	✓
5 years and within 10 years	15.40%	0%	100%	✓
10 years and within 20 years	15.40%	0%	100%	✓
20 years and within 30 years	27.94%	0%	100%	✓
30 years and above	16.26%	0%	100%	✓

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.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 12: Principal Sums

	2016/17	**2017/18**	**2018/19**
	£m	**£m**	**£m**
BDC Actual principal invested beyond year end	0.000	0.000	0.000
MSDC Actual principal invested beyond year end	0.000	0.000	0.000
Limit on principal invested beyond year end	**2.000**	**2.000**	**2.000**
BDC Complied	✓	✓	✓
MSDC Complied	✓	✓	✓

Whilst the investments that have been made in CCLA, UBS, Schroder and Funding Circle are intended to benefit from longer term higher returns, they can be redeemed on a short term basis.

Appendix D

Prudential Indicators

Introduction

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

This report compares the approved indicators with the outturn position for 2016/17. Actual figures have been taken from or prepared on a basis consistent with, the Councils' statements of accounts.

1. Capital Expenditure

The Councils' capital expenditure and financing may be summarised as follows:

Babergh District Council		
Capital Expenditure and Financing	**2016/17 Estimate £m**	**2016/17 Actual £m**
General Fund	3.289	7.932
HRA	8.420	7.259
Total Expenditure	**11.709**	**15.191**
Capital Receipts	1.466	1.082
Grants and Contributions	0.707	0.925
Reserves	0.042	0.122
Revenue contributions including the Major Repairs Reserve	6.613	6.189
Borrowing	2.881	6.873
Total Financing	**11.709**	**15.191**

Mid Suffolk District Council		
Capital Expenditure and Financing	**2016/17 Estimate £m**	**2016/17 Actual £m**
General Fund	3.412	5.392
HRA	10.989	9.307
Total Expenditure	**14.401**	**14.699**
Capital Receipts	1.518	2.807
Grants and Contributions	0.711	0.574
Reserves	0.042	1.802
Revenue contributions including the Major Repairs Reserve	9.124	6.363
Borrowing	3.006	3.153
Total Financing	**14.401**	**14.699**

2. Prudential Indicator Compliance

(a) Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Councils' underlying need to borrow for a capital purpose.

Babergh District Council			
Capital Expenditure and Financing	**31.3.17 Estimate £m**	**31.3.17 Actual £m**	**Difference £m**
General Fund	20.938	18.572	(2.366)
HRA	86.258	86.258	0.000
Total CFR	**107.196**	**104.830**	**(2.366)**

Mid Suffolk District Council			
Capital Expenditure and Financing	**31.3.17 Estimate £m**	**31.3.17 Actual £m**	**Difference £m**
General Fund	22.710	22.209	(0.501)
HRA	86.759	86.759	0.000
Total CFR	**109.469**	**108.968**	**(0.501)**

As shown in Table 1 in appendix A, the CFR for Babergh increased during the year by £5.474m and the CFR for Mid Suffolk increased during the year by £2.185m as capital expenditure financed by debt outweighed resources put aside for debt repayment.

(b) Actual Debt

The Councils' actual debt at 31 March 2017 was as follows:

Babergh District Council			
Debt	31.3.17 Estimate £m	31.3.17 Actual £m	Difference £m
Borrowing	102.031	92.797	(9.234)
Total Debt	**102.031**	**92.797**	**(9.234)**

Mid Suffolk District Council			
Debt	31.3.17 Estimate £m	31.3.17 Actual £m	Difference £m
Borrowing	99.892	97.387	(2.505)
Total Debt	**99.892**	**97.387**	**(2.505)**

(c) Gross Debt and the Capital Financing Requirement

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

Babergh District Council			
Debt and CFR	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Estimate £m
Total Debt	92.797	118.889	135.561
Capital financing requirement	104.830	122.654	137.814
Headroom	**12.033**	**3.765**	**2.253**

Mid Suffolk District Council			
Debt and CFR	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Estimate £m
Total Debt	97.387	117.118	133.505
Capital financing requirement	108.968	127.309	142.666
Headroom	**11.581**	**10.191**	**9.161**

The total debt remained below the CFR during the forecast period.

(d) Operational Boundary for External Debt

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

Babergh District Council			
Operational Boundary and Total Debt	**31.3.17 Boundary £m**	**31.3.17 Actual Debt £m**	**Complied**
Borrowing	107.000	92.797	√
Total Debt	**107.000**	**92.797**	**√**

Mid Suffolk District Council			
Operational Boundary and Total Debt	**31.3.17 Boundary £m**	**31.3.17 Actual Debt £m**	**Complied**
Borrowing	111.000	97.387	√
Total Debt	**111.000**	**97.387**	**√**

(e) Authorised Limit for External Debt

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

Babergh District Council			
Authorised Limit and Total Debt	**31.3.17 Limit £m**	**31.3.17 Actual Debt £m**	**Complied**
Borrowing	110.000	92.797	√
Total Debt	**110.000**	**92.797**	**√**

Mid Suffolk District Council			
Authorised Limit and Total Debt	**31.3.17 Limit £m**	**31.3.17 Actual Debt £m**	**Complied**
Borrowing	114.000	97.387	√
Total Debt	**114.000**	**97.387**	**√**

(f) Ratio of Financing Costs to Net Revenue Stream

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

Babergh District Council			
Ratio of Financing Costs to Net Revenue Stream	**31.3.17 Estimate %**	**31.3.17 Actual %**	**Difference %**
General Fund	3.98%	4.08%	0.10%
HRA	17.50%	17.50%	0.00%

Mid Suffolk District Council			
Ratio of Financing Costs to Net Revenue Stream	**31.3.17 Estimate %**	**31.3.17 Actual %**	**Difference %**
General Fund	6.66%	4.67%	(1.99)%
HRA	21.15%	19.14%	(2.01)%

(g) Adoption of the CIPFA Treasury Management Code

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

(h) HRA Limit on Indebtedness

The Councils' HRA CFRs should not exceed the limit imposed by the Department for Communities and Local Government.

Babergh District Council			
HRA CFR	**31.3.17 Limit £m**	**31.3.17 Actual £m**	**Complied**
HRA Capital Financing Requirement	97.849	86.258	√

Mid Suffolk District Council			
HRA CFR	**31.3.17 Limit £m**	**31.3.17 Actual £m**	**Complied**
HRA Capital Financing Requirement	90.851	86.759	√

Appendix E

Glossary of Terms

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.
CLG	Department for Communities and Local Government. This is a ministerial department.
CPI	Consumer Price Index. This measures changes in the price level of consumer goods and services purchased by households.
CCLA	Churches, Charities and Local Authority Property Fund
DMADF	Debt Management Account Deposit Facility.
Funding Circle	Accounts set up to lend money to local and national businesses at competitive rates
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
MPC	Monetary Policy Committee. A committee of the Bank of England which decides the Bank of England's Base Rate and other aspects of the Government's Monetary Policy.
MRP	Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing
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.
PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
T Bills	Treasury Bill. A short term Government Bond.
UBS	UBS Multi Asset Income Fund (UK) – a pooled fund.