

BABERGH AND MID SUFFOLK DISTRICT COUNCILS

From: Assistant Director - Corporate Resources	Report Number: JAC82
To: Joint Audit and Standards Committee	Date of meeting: 20 June 2016

JOINT ANNUAL TREASURY MANAGEMENT REPORT - 2015/16

1. Purpose of Report

- 1.1 The report is part of the Council's 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 performance of the treasury management function, the effects of the decisions taken and the transactions executed in the past year and on any circumstances of non-compliance with the Council's treasury management policy statement and treasury management practices.
- 1.3 The report also includes performance on Prudential Indicators which were set in the 2015/16 Treasury Management Strategy.
- 1.4 The figures contained in this report are subject to the external auditors review which will conclude in September 2016.

2. Recommendations

- 2.1 That the Treasury Management activity for the year 2015/16 be noted. Further, that it be noted that performance was in line with the Prudential Indicators set for 2015/16.
- 2.2 The Committee is asked to make a recommendation to Full Council on the above matter.

3. Financial Implications

- 3.1 As detailed in the Report.

4. Legal Implications

- 4.1 None.

5. Risk Management

This report is not linked with the Council's Corporate / Significant Business Risks. Key risks, however, are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Loss of investment	Very Low	Critical	Strict lending criteria for high credit rated institutions.
Poor return on investments	High	Marginal	Focus is on security and liquidity, therefore, careful cashflow management in accordance with the TM Strategy is undertaken throughout the year.
Liquidity problems	Unlikely	Marginal	As above.
Higher than expected borrowing costs	Low	Marginal	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 2015/16 Treasury Management Strategy for both Councils was approved in February 2015.
- 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 are highlighted: Interest rates continued at very low levels

- Economic conditions have improved but no real impact on treasury activities with, for example, 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 2015/16 capital programme. Mid Suffolk reduced its short term borrowing by £1m over the year and reduced its long term borrowing by £0.5m (see Appendix B, section 1.1). All of the existing long term debt relates to the HRA for both Councils.
- Investment activity was undertaken in accordance with the approved counterparty policy (see Appendix B, sections 2.1 to 2.8 for further detailed information on investment activities and returns)

10.4 Some more specific highlights relating to 2015/16 activity are provided below:

Area/Activity	Babergh	Mid Suffolk	Comments
Borrowing – average interest rate	3.27%	3.38%	All HRA and fixed rate
Short Term Investments – average interest rate	0.36%	0.38%	Exceeded 7 day LIBID benchmark
Credit Risk Scores during the year (value weighted average)	3.71 – 5.06	3.77 – 4.98	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 and Economic Background	Attached
(b) Treasury Management Activity Summary	Attached
(c) Borrowing and Investments – Further Details	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 Capital Investment Strategy - Report JAC54 – June 2015

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Regulatory Framework and Economic Background

1. 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.

2. Economic Background

Growth, Inflation, Employment

The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year on year in February, but this was still well below the Bank of England's 2% inflation target.

The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences

The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy

The Bank of England's Monetary Policy Committee (MPC) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its inflation reports and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction

From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

3. Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Councils therefore increasingly favoured secured investment options or diversified alternatives such as pooled funds over unsecured bank and building society deposits.

Treasury Management Activity Summary

The Councils' Treasury Management and Prudential Indicators for 2015/16 were revised when the 2016/17 Treasury Management Strategies were approved in February 2016.

1. Borrowing and Debt Management

1.1 The tables show the borrowing position of each Council as at 31 March 2016.

BABERGH DISTRICT COUNCIL	Balance 31/3/2015 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance 31/3/2016 £m	Avg Rate %
CFR	95.269				99.311	
Short Term Borrowing						
Long Term Borrowing	87.797	(0.500)			87.297	3.27%
TOTAL BORROWING	87.797	(0.500)			87.297	3.27%
Other Long Term Liabilities -finance leases						
TOTAL EXTERNAL DEBT	87.797	(0.500)			87.297	3.27%
Increase/ (Decrease) in Borrowing					(0.500)	

MID SUFFOLK DISTRICT COUNCIL	Balance 31/3/2015 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance 31/3/2016 £m	Avg Rate %
CFR	103.494				106.780	
Short Term Borrowing	12.000	(26.500)		25.500	11.000	0.43%
Long Term Borrowing	76.183	(0.496)			75.687	3.67%
TOTAL BORROWING	88.183	(26.996)		25.500	86.687	3.38%
Other Long Term Liabilities -finance leases						
TOTAL EXTERNAL DEBT	88.183	(26.996)		25.500	86.687	3.38%
Increase/ (Decrease) in Borrowing					(1.496)	

1.2 The chief objectives of both Councils 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. The flexibility to renegotiate loans, should the Councils' long-term plans, change is a secondary objective.

1.3 Affordability and the "cost of carry" remained important influences on the Councils' borrowing strategies alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

1.4 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Councils with this 'cost of carry' and breakeven analysis.

- 1.5 Mid Suffolk District Council holds £4m of Lender's Option Borrower's Option (LOBO) 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. None of these loans had options during the year.
- 1.6 The premium charge for early repayment of PWLB debt remained relatively expensive for loans in the Councils' portfolios and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.
- 1.7 In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. They issued consultation on the new governance arrangements on 12 May 2016. This consultation is about governance arrangements and does not change any of the policy or operational aspects of lending to local authorities. Both Councils intend to use the PWLB's replacement as a potential source of borrowing if required.

2. Investment Activity

- 2.1 The CLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield. The table below shows the investments made during 2015/16 and the position as at 31 March 2016.

Babergh District Council				31/03/2016		
Investments	Balance 31/3/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance £m	Avg Rate %	Avg Life (days)
Short Term Investments	10.498	90.947	(97.745)	3.700	0.36%	28
Instant Access Call Accounts (net movement)	0.500	1.500	(1.000)	1.000	0.30%	1
Long Term Investments		7.100		7.100	4.41%	
TOTAL INVESTMENTS	10.998	99.547	(98.745)	11.800		
Inc/(Dec) in Investments				0.802		

Mid Suffolk District Council				31/03/2016		
Investments	Balance 31/3/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance £m	Avg Rate %	Avg Life (days)
Short Term Investments	1.000	66.400	(66.100)	1.300	0.38%	36
Instant Access Call Accounts (net movement)	0.750	0.550	(1.300)	0.000	0.30%	1
Long Term Investments		5.100		5.100	4.53%	
TOTAL INVESTMENTS	1.750	72.050	(67.400)	6.400		
Inc/(Dec) in Investments				4.650		

2.2 **Security:** Security of capital was maintained by following each Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16, which was amended in July 2015. Investments made by the Councils during the year included:

- Deposits with the Debt Management Office (DMO)
- Deposits with other Local Authorities (Babergh only).
- Investments in AAA-rated Constant Net Asset Value Money Market Funds
- Call accounts and deposits with UK Banks and Building Societies which are systemically important to the country's banking system.
- Treasury Bills and UBS Multi Asset Fund (Babergh only).
- Churches, Charities and Local Authorities Property Fund (CCLA)
- Funding Circle

2.3 **Credit Risk:** Counterparty credit quality was assessed and monitored with reference to credit ratings; for financial institutions analysis of funding structure and susceptibility to bail-in; credit default swaps; financial statements; information on potential government support and reports in the quality financial press. The minimum long-term counterparty credit rating determined for the 2015/16 treasury strategy for both Councils was:

- The minimum criterion for specified UK investments was A- or equivalent (AA- for foreign banks with a sovereign rating of AAA) across all assigned credit rating agencies Fitch, Standard and Poors, and Moody's

2.4 An assessment is made in quarterly and annual reports of the Councils' 'credit score' based on the table below:

Long-Term Credit Rating	Score	Long-Term Credit Rating	Score
AAA	1	BBB+	8
AA+	2	BBB	9
AA	3	BBB-	10
AA-	4	Not rated	11
A+	5	BB	12
A	6	CCC	13
A-	7	C	14
		D	15

2.5 Applying this to the actual investments made produces the following overall credit score for investment activity in 2015/16:

Babergh District Council					
Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Number of Days to Maturity
30/06/2015	3.87	AA-	2.91	AA	15
30/09/2015	3.94	AA-	4.02	AA-	4
31/12/2015	3.71	AA-	4.09	AA-	3
31/03/2016	5.06	A+	8.06	BBB+	3

Mid Suffolk District Council					
Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Number of Days to Maturity
30/06/2015	4.79	A+	2.31	AA+	5
30/09/2015	3.77	AA-	3.77	AA-	1
31/12/2015	4.98	A+	9.21	BBB	4
31/03/2016	4.64	A+	9.97	BBB-	7

Notes

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit.

1. Following the change to the Treasury Management Strategy in July 2015, both councils invested £100k each into Funding Circle. Whilst these were of small value in overall investment terms, the accepted bids were for periods of 3 years and 5 years. Due to the way the time weighted average is calculated, this results in a high risk score, even though the amount involved is very small in relative terms. Details of these investments can be found in the paragraph 2.9 below.
 2. At 31 March 2016 Babergh's investments included a total of £2.7m with money market funds, and a term deposit of £1m with a maturity date in early April 2016. This has impacted on the average number of days to maturity.
 3. During the year the short term investments held by Mid Suffolk were moved from a Barclays Deposit Account to Money Market Funds. Both of these investments are instant access.
- 2.6 **Liquidity:** In keeping with the CLG's Guidance on Investments, both Councils' maintained a sufficient level of liquidity through the use of overnight deposits, money market funds and call accounts.
- 2.7 **Yield:** The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained very low. The low rates of return on the Councils' investments reflect prevailing market conditions and the Councils' objective of optimising returns commensurate with the principles of security and liquidity.
- **Babergh District Council** achieved investment income of £222k against a budget of £189k. The average rate of return achieved on investments during the year was 0.36% compared with the average 7 day LIBID rate for the year (the benchmark rate) of 0.36%. Average cash balances throughout the year (calculated on a daily basis) representing the Council's reserves and working balances were £8,309k.
 - **Mid Suffolk District Council** achieved investment income of £115k against a budget of £86k. The average rate of return achieved on investments during the year was 0.38% compared with the average 7 day LIBID rate for the year (the benchmark rate) of 0.36%. The average cash balances throughout the year (calculated on a daily basis) representing the Council's reserves and working balances were £6,928k.

2.8 Long Term Investment returns:

In July 2015 changes were made to the Treasury Management Strategy and the Councils approved:

- an increase in investment and loan limits as follows:
- Pooled funds from £2m to £5m
- Investments without credit ratings from £2m to £10m
- Non-specified investments from £5m to £10m
- Loans to unrated corporates £500k to £1m

As a result both Councils invested £5m each in the Churches, Charities and Local Authorities Property Fund (CCLA) and £100k each in Funding Circle. Babergh also invested £2m in the UBS Multi Asset Fund. The amount of interest received noted in paragraph 2.7 above reflects the increased interest generated by these long term investments.

The table below shows the investments and returns for both Councils to 31 March 2016 for CCLA.

CCLA	Babergh District Council	Mid Suffolk District Council
	£	£
Amount Invested	5,000,000	5,000,000
Interest received	153,097	107,748
Management Expenses Paid	(17,242)	(12,211)
Net Income received	135,855	95,538

The table below shows the performance to 31 March 2016 for both councils for Funding Circle.

Funding Circle	Babergh District Council	Mid Suffolk District Council
Investments-		
5 Year loans	£ 9,560	£ 14,000
3 Year loans	£ 6,000	£ 4,000
Rejected bids	6	5
Unallocated Funds	£ 84,440	£ 82,000
Income received -		
Principal repaid	£ 2,266	£ 831
Interest received	£ 365	£ 435
Promotional Cashback received	£ 20	£ 20
Expenses - fees paid	-£ 41	-£ 49
Average rate of return over period	8.80%	8.40%

Another new investment opportunity was taken for Babergh by investing in the UBS Multi Asset Income Fund (UK). The Fund invests in various types of assets including cash, bonds, property and equity across various economic areas such as the US, EU and emerging markets.

Fund performance statements are received every six months, at 30 June and 31 December. The first amount of interest paid on 29 February 2016 was £18,489, for the period 1 October to 31 December 2015.

- 2.9 **Prudential Indicators** – Babergh and Mid Suffolk District Councils can confirm that they have complied with the revised Prudential Indicators for 2015/16, set in February 2015 as part of the Councils' Treasury Management Strategy Statements. Details of the revised Prudential Indicators can be found in Appendix D.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2015/16. None of the revised Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

Borrowing and Investments – Further Details

Babergh District Council						
Long-term borrowing at 31 March 2016 (all HRA)						
Start Date	Interest Rate	Value of Loan	Borrowed from	Repayment date	Fixed or Variable	Type
26/01/2006	3.70%	£ 1,100,000	PWLB	26/01/2056	Fixed	Maturity
24/08/2010	2.01%	£ 900,000	PWLB	25/08/2020	Fixed	EIP
14/07/2011	2.88%	£ 1,650,000	PWLB	14/07/2021	Fixed	EIP
28/03/2012	2.92%	£ 6,000,000	PWLB	28/03/2026	Fixed	Maturity
28/03/2012	3.42%	£ 46,647,000	PWLB	28/03/2036	Fixed	Maturity
28/03/2012	2.82%	£ 6,000,000	PWLB	28/03/2025	Fixed	Maturity
28/03/2012	3.26%	£ 25,000,000	PWLB	28/03/2031	Fixed	Maturity
Total Borrowing at year end		£ 87,297,000	Appendix B Para 1.1 refers			

Joint Annual Treasury Management Report – 2015/16

Babergh District Council					
Short Term Investments in 2015/16					
Start Date	Interest Rate	Value of Loan	Invested with	Repayment Date	Length of Investment (Days)
Repaid during Year					
16/10/2014	0.4000%	£ 2,000,000.00	HSBC	16/04/2015	182
05/01/2015	0.3900%	£ 1,998,035.90	K&S	07/04/2015	92
10/03/2015	0.2500%	£ 1,500,000.00	DMADF	01/04/2015	22
01/04/2015	0.7000%	£ 1,000,000.00	Standard and Chartered	01/10/2015	183
01/04/2015	0.5000%	£ 1,000,000.00	Nationwide BS	01/07/2015	91
01/04/2015	0.5000%	£ 1,000,000.00	Leeds BS	01/07/2015	91
01/04/2015	0.2500%	£ 1,000,000.00	DMADF	13/04/2015	12
07/04/2015	0.2500%	£ 2,000,000.00	DMADF	13/04/2015	6
13/04/2015	0.3500%	£ 1,499,597.37	K&S	11/05/2015	28
16/04/2015	0.3000%	£ 1,000,000.00	HSBC	18/05/2015	32
16/04/2015	0.2500%	£ 1,000,000.00	DMADF	30/04/2015	14
01/05/2015	0.2500%	£ 3,000,000.00	DMADF	19/05/2015	18
12/05/2015	0.2500%	£ 1,750,000.00	DMADF	15/05/2015	3
18/05/2015	0.3500%	£ 1,000,000.00	HSBC	20/07/2015	63
19/05/2015	0.2500%	£ 2,000,000.00	DMADF	01/06/2015	13
01/06/2015	0.4300%	£ 3,998,680.98	K&S	29/06/2015	28
29/06/2015	0.4200%	£ 3,998,711.65	K&S	27/07/2015	28
01/07/2015	0.4300%	£ 1,000,000.00	Nationwide BS	01/08/2015	31
01/07/2015	0.2500%	£ 3,000,000.00	DMADF	20/07/2015	19
20/07/2015	0.2500%	£ 1,000,000.00	DMADF	03/08/2015	14
27/07/2015	0.2500%	£ 4,000,000.00	DMADF	03/08/2015	7
03/08/2015	0.2500%	£ 8,000,000.00	DMADF	21/08/2015	18
22/07/2015	0.3000%	£ 1,000,000.00	HSBC	24/08/2015	33
24/08/2015	0.3000%	£ 1,000,000.00	HSBC	24/09/2015	31
21/08/2015	0.2500%	£ 8,000,000.00	DMADF	27/08/2015	6
27/08/2015	0.2500%	£ 3,000,000.00	DMADF	01/09/2015	5
01/09/2015	0.2500%	£ 5,000,000.00	DMADF	07/09/2015	6
07/09/2015	0.2500%	£ 4,000,000.00	DMADF	21/09/2015	14
07/09/2015	0.4300%	£ 1,000,000.00	Nationwide BS	07/10/2015	30
21/09/2015	0.2500%	£ 2,000,000.00	DMADF	01/10/2015	10
24/09/2015	0.3000%	£ 1,000,000.00	HSBC	26/10/2015	32
01/10/2015	0.2500%	£ 4,000,000.00	DMADF	19/10/2015	18
08/10/2015	0.2500%	£ 1,000,000.00	DMADF	19/10/2015	11
19/10/2015	0.2500%	£ 3,000,000.00	DMADF	02/11/2015	14
02/11/2015	0.2500%	£ 5,000,000.00	DMADF	19/11/2015	17
02/11/2015	0.2500%	£ 1,000,000.00	HSBC	02/12/2015	30
02/11/2015	0.4300%	£ 1,000,000.00	Nationwide BS	02/12/2015	30
09/11/2015	0.2500%	£ 1,250,000.00	DMADF	19/11/2015	10
19/11/2015	0.2500%	£ 4,500,000.00	DMADF	01/12/2015	12
01/12/2015	0.2500%	£ 4,500,000.00	DMADF	21/12/2015	20
02/12/2015	0.3800%	£ 1,000,000.00	Nationwide BS	04/01/2016	33
02/12/2015	0.2500%	£ 1,000,000.00	DMADF	07/12/2015	5
07/12/2015	0.4100%	£ 1,999,214.01	K&S	11/01/2016	35
21/12/2015	0.2500%	£ 1,000,000.00	DMADF	04/01/2016	14
04/01/2016	0.2500%	£ 5,250,000.00	DMADF	11/01/2016	7
11/01/2016	0.3925%	£ 5,248,419.72	K&S	08/02/2016	28
11/01/2016	0.2500%	£ 2,000,000.00	DMADF	19/01/2016	8
08/02/2016	0.2500%	£ 3,750,000.00	DMADF	01/03/2016	22
Not Repaid during Year					
04/01/2016	0.5000%	£ 1,000,000.00	Nationwide BS	04/04/2016	91
Total Investments at year end		£ 1,000,000.00			

Joint Annual Treasury Management Report – 2015/16

Babergh District Council					
Short Term Investments in Money Market Fund Balances at:					
Deposited with	31/03/2015	30/06/2015	30/09/2015	31/12/2015	31/03/2016
Goldman Sachs	£ 1,000,000	£ 1,500,000	£ 1,000,000	£ 2,000,000	£ -
Ignis	£ 1,000,000	£ 1,000,000	£ 1,000,000	£ 1,900,000	£ 700,000
Federated	£ 1,000,000	£ 1,000,000	£ 1,000,000	£ 1,700,000	£ 1,000,000
Blackrock	£ 1,000,000	£ 1,000,000	£ 1,600,000	£ 2,000,000	£ 1,000,000
Total	£ 4,000,000	£ 4,500,000	£ 4,600,000	£ 7,600,000	£ 2,700,000

Babergh District Council	
Total Short Term Investments at 31 March 2016 :	£ 3,700,000
As per Appendix B, paragraph 2.1	

Mid Suffolk District Council						
Long-term borrowing at 31 March 2016 (all HRA)						
Start Date	Interest Rate	Value of Loan	Borrowed from	Repayment date	Fixed or Variable	Type
26/05/1987	9.125%	500,000	PWLB	27/01/2017	Fixed	Maturity
09/05/1992	10.250%	500,000	PWLB	27/07/2017	Fixed	Maturity
21/09/1993	7.875%	1,000,000	PWLB	27/07/2053	Fixed	Maturity
26/04/2007	4.600%	3,500,000	PWLB	27/07/2047	Fixed	Maturity
26/04/2007	4.550%	3,500,000	PWLB	27/07/2052	Fixed	Maturity
01/05/2007	4.600%	3,831,140	PWLB	27/07/2053	Fixed	Maturity
09/09/2011	2.430%	1,650,000	PWLB	09/09/2021	Fixed	EIP
28/03/2012	3.010%	15,000,000	PWLB	28/03/2027	Fixed	Maturity
28/03/2012	3.300%	15,000,000	PWLB	28/03/2032	Fixed	Maturity
28/03/2012	3.440%	12,206,000	PWLB	28/03/2037	Fixed	Maturity
28/03/2012	3.500%	15,000,000	PWLB	28/03/2042	Fixed	Maturity
22/08/2008	4.200%	2,000,000	LOBO	22/08/2078	Fixed	Maturity
22/08/2008	4.220%	2,000,000	LOBO	22/08/2078	Fixed	Maturity
Total Borrowing at year end		£ 75,687,140	Appendix B Para 1.1 refers			

Joint Annual Treasury Management Report – 2015/16

Mid Suffolk District Council					
Short Term Borrowing in 2015/16					
Start Date	Interest Rate	Value of Loan	Borrowed from	Repayment Date	Length of Investment (Days)
Repaid during Year					
24/12/2014	0.4500%	£ 1,000,000.00	Babergh District Council	01/04/2015	98
26/02/2015	0.4200%	£ 4,000,000.00	Leciester City Council	13/04/2015	46
13/03/2015	0.3700%	£ 1,000,000.00	Ceredigion	13/04/2015	31
16/03/2015	0.4000%	£ 3,000,000.00	Crawley Borough Council	13/04/2015	28
16/03/2015	0.4500%	£ 2,000,000.00	Manchester City Council	13/04/2015	28
30/03/2015	0.4000%	£ 1,000,000.00	Bridgend	30/04/2015	31
13/04/2015	0.4000%	£ 5,500,000.00	Leciester City Council	13/07/2015	91
13/04/2015	0.4000%	£ 2,000,000.00	Vale of Glamorgan Council	13/07/2015	91
13/07/2015	0.4200%	£ 2,000,000.00	Vale of Glamorgan Council	25/02/2016	227
13/07/2015	0.4500%	£ 4,000,000.00	Police West Yorkshire	13/01/2016	184
07/03/2016	0.4200%	£ 1,000,000.00	Carmarthenshire County Council	31/03/2016	24
Not Repaid during Year					
22/02/2016	0.4500%	£ 3,000,000.00	Kingston upon Hull	22/04/2016	60
25/02/2016	0.5000%	£ 2,000,000.00	Vale of Glamorgan Council	25/04/2016	60
15/03/2016	0.5000%	£ 3,000,000.00	City & Council Swansea Pension Fund	15/04/2016	31
21/03/2016	0.5000%	£ 2,000,000.00	Shropshire Council	21/04/2016	31
24/03/2016	0.5000%	£ 1,000,000.00	Erewash	29/04/2016	36
Total Borrowing at year end		£ 11,000,000.00	Appendix B para 1.1 refers		

Mid Suffolk District Council	
Total Borrowings at 31 March 2016 :	£ 86,687,140
As per Appendix B, paragraph 1.1	

Joint Annual Treasury Management Report – 2015/16

Mid Suffolk District Council					
Short Term Investments in 2015/16					
Start Date	Interest Rate	Value of Loan	Invested with	Repayment Date	Length of Investment (Days)
Repaid during Year					
01/04/2015	0.2500%	£ 1,000,000.00	Debt Management Office	13/04/2015	12
14/04/2015	0.2500%	£ 1,000,000.00	Debt Management Office	15/04/2015	1
15/04/2015	0.2500%	£ 1,000,000.00	Debt Management Office	30/04/2015	15
01/05/2015	0.2500%	£ 500,000.00	Debt Management Office	19/05/2015	18
14/05/2015	0.2500%	£ 1,500,000.00	Debt Management Office	26/05/2015	12
01/06/2015	0.2500%	£ 1,000,000.00	Debt Management Office	22/06/2015	21
15/06/2015	0.2500%	£ 500,000.00	Debt Management Office	01/07/2015	16
01/07/2015	0.2500%	£ 1,500,000.00	Debt Management Office	13/07/2015	12
13/07/2015	0.2500%	£ 1,000,000.00	Debt Management Office	27/07/2015	14
14/07/2015	0.2500%	£ 2,000,000.00	Debt Management Office	20/07/2015	6
03/08/2015	0.2500%	£ 1,000,000.00	Debt Management Office	21/08/2015	18
14/08/2015	0.2500%	£ 2,000,000.00	Debt Management Office	21/08/2015	7
14/08/2015	0.2500%	£ 500,000.00	Debt Management Office	24/08/2015	10
21/08/2015	0.2500%	£ 1,500,000.00	Debt Management Office	01/09/2015	11
28/08/2015	0.2500%	£ 1,000,000.00	Debt Management Office	01/09/2015	4
01/09/2015	0.2500%	£ 3,750,000.00	Debt Management Office	07/09/2015	6
07/09/2015	0.2500%	£ 3,750,000.00	Debt Management Office	21/09/2015	14
14/09/2015	0.2500%	£ 2,000,000.00	Debt Management Office	15/09/2015	1
21/09/2015	0.2500%	£ 2,000,000.00	Debt Management Office	01/10/2015	10
01/10/2015	0.2500%	£ 3,000,000.00	Debt Management Office	19/10/2015	18
14/10/2015	0.2500%	£ 3,500,000.00	Debt Management Office	29/10/2015	15
16/11/2015	0.2500%	£ 1,000,000.00	Debt Management Office	19/11/2015	3
14/12/2015	0.2500%	£ 3,250,000.00	Debt Management Office	21/12/2015	7
04/01/2016	0.2500%	£ 1,500,000.00	Debt Management Office	13/01/2016	9
14/01/2016	0.2500%	£ 1,000,000.00	Debt Management Office	19/01/2016	5
Total Investments at year end		£ -	Appendix B para 2.1 refers		

Mid Suffolk District Council					
Short Term Investments in Money Market Fund Balances at:					
Deposited with	31/03/2015	30/06/2015	30/09/2015	31/12/2015	31/03/2016
Federated	£ 1,000,000	£ 1,000,000	£ 1,100,000	£ 1,700,000	£ 1,000,000
Blackrock	£ -	£ -	£ 1,000,000	£ 800,000	£ 300,000
Total	£ 1,000,000	£ 1,000,000	£ 2,100,000	£ 2,500,000	£ 1,300,000

Mid Suffolk District Council	
Total Short Term Investments at 31 March 2016 :	£ 1,300,000
As per Appendix B, paragraph 2.1	

Prudential Indicators**1. Capital Financing Requirement**

Estimates of the Councils' revised cumulative maximum external borrowing requirement for 2015/16 are shown in the tables below:

Babergh District Council	31/3/2016 Estimate	31/3/2016 Actual
	£m	£m
Capital Financing Requirement	102.345	99.311
Less :		
Existing Profile of Borrowing	(87.297)	(87.297)
Cumulative Maximum External Borrowing Requirement	15.048	12.014

Mid Suffolk District Council	31/3/2016 Estimate	31/3/2016 Actual
	£m	£m
Capital Financing Requirement	109.811	106.780
Less :		
Existing Profile of Borrowing	(75.700)	(86.687)
Cumulative Maximum External Borrowing Requirement	34.111	20.093

2. Prudential Indicator Compliance**(a) Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit (Authorised Limit), irrespective of their indebted status. This is a statutory limit which should not be breached. It is based on the estimated borrowing to finance the capital programme plus an allowance to cover any cash flow shortfalls that might arise during the year.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Section 151 Officer for Babergh and Mid Suffolk District Councils confirms that there were no breaches to the Authorised Limit and the

Operational Boundary during the year by either council. Borrowing at its peak was £87.797m Babergh District Council, £87.183m for Mid Suffolk District Council.

Babergh District Council	Operational Boundary (Approved) as at 31/3/2016	Authorised Limit (Approved) as at 31/3/2016	Actual External Debt as at 31/3/2016
Operational Boundary	£m	£m	£m
Borrowing	102.000	105.000	87.297
Total	102.000	105.000	87.297

Mid Suffolk District Council	Operational Boundary (Approved) as at 31/3/2016	Authorised Limit (Approved) as at 31/3/2016	Actual External Debt as at 31/3/2016
Operational Boundary	£m	£m	£m
Borrowing	110.000	113.000	86.687
Total	110.000	113.000	86.687

(b) Upper Limits for Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

Babergh District Council	Limits for 2015/16	Maximum during 2015/16
	£m	£m
Upper Limit for Fixed Rate Exposure	127	88
Compliance with Limits:	-	Yes
Upper Limit for Variable Rate Exposure	20	(22)
Compliance with Limits:	-	Yes

Mid Suffolk District Council	Limits for 2015/16	Maximum during 2015/16
	£m	£m
Upper Limit for Fixed Rate Exposure	136	88
Compliance with Limits:	-	Yes
Upper Limit for Variable Rate Exposure	40	(4)
Compliance with Limits:	-	Yes

(c) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.
- Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which a lender can demand payment.

Babergh District Council					
Fixed Rate Borrowing as at 31/3/16					
Maturity Structure of Fixed rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate Borrowing (£m)	Proportion of Fixed rate Borrowing	Compliance with Set Limits?
Under 12 months	50%	0%	£ 0.500	0.57%	Yes
12 months and within 24 months	50%	0%	£ 0.500	0.57%	Yes
24 months and within 5 years	50%	0%	£ 1.400	1.60%	Yes
5 years and within 10 years	100%	0%	£ 0.150	0.17%	Yes
10 years and within 20 years	100%	0%	£ 37.000	42.38%	Yes
20 years and within 30 years	100%	0%	£ 46.647	53.43%	Yes
40 years and above	100%	0%	£ 1.100	1.26%	Yes
Total Borrowing at year end			£ 87.297		

Mid Suffolk District Council					
Fixed Rate Borrowing as at 31/3/16					
Maturity Structure of Fixed rate Borrowing	Upper Limit	Lower Limit	Actual Fixed Rate Borrowing (£m)	Proportion of Fixed rate Borrowing	Compliance with Set Limits?
Under 12 months	50%	0%	£ 11.300	13.04%	Yes
12 months and within 24 months	50%	0%	£ 0.300	0.35%	Yes
24 months and within 5 years	50%	0%	£ 0.900	1.04%	Yes
5 years and within 10 years	100%	0%	£ 0.150	0.17%	Yes
10 years and within 20 years	100%	0%	£ 30.000	34.61%	Yes
20 years and within 30 years	100%	0%	£ 27.706	31.96%	Yes
30 years and above	100%	0%	£ 16.331	4.61%	Yes
Total Borrowing at year end			£ 86.687		

(d) Capital Expenditure

The capital expenditure of the two Councils and the financing is summarised below.

Babergh District Council	2015/16 Approved	2015/16 Actual
Capital Expenditure	£m	£m
General Fund	8.625	5.818
HRA	7.127	5.430
Total For Year	15.752	11.248

Mid Suffolk District Council	2015/16 Approved	2015/16 Actual
Capital Expenditure	£m	£m
General Fund	7.679	4.519
HRA	6.306	5.375
Total For Year	13.985	9.894

Capital expenditure has been and will be financed or funded as follows:

Babergh District Council	2015/16 Approved	2015/16 Actual
Capital Financing	£m	£m
Capital Receipts	0.593	0.596
Government Grants and Contributions	0.335	0.451
Revenue Contributions to Capital	5.089	3.226
Major Repairs Reserve	-	0.245
Capital Reserves	1.661	1.661
Total Financing For Year	7.678	6.179
Borrowing	8.074	5.069
Total Financing and Funding For Year	15.752	11.248

Mid Suffolk District Council	2015/16 Approved	2015/16 Actual
Capital Financing	£m	£m
Capital Receipts	2.278	1.217
Government Grants and Contributions	0.466	0.631
Revenue Contributions to Capital	2.692	1.202
Major Repairs Reserve	-	1.414
Capital Reserves	1.509	1.509
Total Financing For Year	6.945	5.973
Borrowing	7.040	3.920
Total Financing and Funding For Year	13.985	9.894

These tables show that the capital expenditure plans for both Councils could not be funded entirely from sources other than external borrowing.

(e) Capital Financing Requirement

The Capital Financing Requirement measures the Council's underlying need to borrow for a capital purpose.

Babergh District Council	2015/16 Revised Estimate	2015/16 Actual	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement	£m	£m	£m	£m
General Fund	15.613	12.579	17.701	17.616
HRA	86.732	86.732	86.232	85.732
Total	102.345	99.311	103.933	103.348

Mid Suffolk District Council	2015/16 Revised Estimate	2015/16 Actual	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement	£m	£m	£m	£m
General Fund	23.052	20.021	25.112	25.289
HRA	86.759	86.759	86.759	86.759
Total	109.811	106.780	111.871	112.048

(f) 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 year and the next two financial years. This is a key indicator of prudence.

Babergh District Council	31/3/2016 Actual	31/3/2017 Estimate	31/3/2018 Estimate
Gross Debt and Capital Financing Requirement	£m	£m	£m
Borrowing	87.297	90.178	91.090
Total Debt	87.297	90.178	91.090

Mid Suffolk District Council	31/3/2016 Actual	31/3/2017 Estimate	31/3/2018 Estimate
Gross Debt and Capital Financing Requirement	£m	£m	£m
Borrowing	86.687	74.887	74.087
Total Debt	86.687	74.887	74.087

Total debt is expected to remain below the CFR in the forecast period.

(g) 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.
- The ratio is based on costs net of investment income

Babergh District Council	2015/16 Approved	2015/16 Actual
Ratio of Financing Costs to Net Revenue Stream	%	%
General Fund	8.64%	3.68%
HRA	17.44%	16.30%

Mid Suffolk District Council	2015/16 Approved	2015/16 Actual
Ratio of Financing Costs to Net Revenue Stream	%	%
General Fund	11.16%	4.11%
HRA	22.12%	18.26%

(h) Total principal sums invested for periods longer than 364 days

- This indicator allows Councils to manage the risk inherent in investments longer than 364 days.
- The policy of both Babergh and Mid Suffolk District Councils during 2015/16 was not to make investments for a period longer than 364 days. No investments were made for a period greater than 364 days during the year to 31 March 2016.

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

(i) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Councils adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Councils approved the adoption of the CIPFA Treasury Management Code at their meetings on 9 th February 2012 (Babergh District Council) and on 23 rd February 2012 (Mid Suffolk District Council).

(j) Incremental impact of capital investment decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and on average rent levels.

Babergh District Council	2015/16 Estimate	2015/16 Actual
Incremental impact of capital investment decisions -	£	£
On Band D Council Tax	8.34	10.05
On Average Housing Rent levels per week (for a 52 week year)	9.42	13.58

Mid Suffolk District Council	2015/16 Estimate	2015/16 Actual
Incremental impact of capital investment decisions -	£	£
On Band D Council Tax	10.31	3.06
On Average Housing Rent levels per week (for a 52 week year)	(3.18)	(0.42)

The impact on council tax and rents is accounted for by changes in the capital programmes.

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.
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.
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.