Hackney

TREASURY MANAGEMENT UPDATE REPORT **28th January 2019** **AUDIT COMMITTEE**	**Classification:** **Public**
Ward(s) affected **None**	
Group Director **Ian Williams, Group Director of Finance & Corporate Resources**	

1. INTRODUCTION

1.1 The half year treasury activity report for 2018/19 is the detailed update on the treasury activity for the first six months of the financial year (Appendix 1) and the Q3 treasury activity update for the period October 2018 to December 2018 (Appendix 2).

2. RECOMMENDATION(S)

2.1.1 The Audit Committee is recommended to note the treasury management activity reports at Appendices 1 and 2.

3. REASONS FOR DECISION

3.1 The Treasury Management Half Year Report is required in order to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") which the Council has adopted. The quarterly update at Appendix 2 is presented in accordance with the Council's Treasury Management Strategy.

4. Policy Context

The CIPFA code of practice requires that those charged with oversight receive regular updates on the progress of Council's treasury strategy during the year. Members are being provided with the detailed report on the first six months activity (to September 2018) with an update of the primary treasury indicators along with the Q3 Treasury Management Report which provides details of activity during the months of October to December 2018.

4.1 Equality Impact Assessment

There are no equality impact issues arising from this report

4.2 Sustainability

There are no sustainability issues arising from this report

5. RISK ASSESSMENT

There are no risks arising from this report as the information provided is in respect of past events. Clearly though the treasury management function is a significant area of risk for the Council, if the function is not properly carried out and monitored by those charged with responsibility for oversight of treasury management.

5.1 Consultations

No consultations have taken place in respect of this report.

6. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

6.1 The half yearly Treasury Activity Report provides an update to this Committee on the treasury activities undertaken on behalf of the Council for the first six months of the current financial year 2018/19. There are no direct financial consequences arising from the report as it reflects the first half year's performance. The information contained in this report will assist Members of this Committee in monitoring the treasury management activities and enable better understanding of such operations.

6.2 The third quarter's treasury report covers the latest quarter ending December 2018 and reflects the most recent treasury activity.

6.3 Whilst the financial crisis would appear to be receding, the impacts are still being felt in terms of record low interest rates and also how financial institutions are rated and in particular the steps being taken by governments around the globe to bring about stable growth and ensure that risks from banking failures are avoided in the future.

7. COMMENTS OF THE DIRECTOR OF LEGAL

7.1 The Accounts and Audit Regulations place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report demonstrates that Treasury Management is meeting these requirements and adapting to changes as they arise.

7.2 There are no immediate legal implications arising from the report.

8. BACKGROUND

8.1 The half yearly Treasury Activity Report (Appendix 1) provides a summary for the Committee on the economic background for the first six months of the current financial year 2018/19, with an update covering the final 3 months of 2018 in the Q3 Activity Report at Appendix 2.

8.2 The Council has an increasing Capital Financing Requirement due to the delivery of its capital programme and therefore may need to borrow in future years, depending on the actual level of reserves and cash balances.

8.3 With regard to the investment portfolio, security of capital remains the prime consideration, particularly given the world economy still struggling to pull itself out of recession and the continuing sovereign and institutional downgrades. The average rate of interest received on investments at the end of December 2018 was 1.2%, compared to 0.88% in December 2017. The Council has taken a longer term view of its cash balances and interest rates and invested an element of its core cash for a short duration in highly secure counterparties. The level of investments outstanding has decreased from £122 million at the beginning of April 2018 to £116 million at end of December 2018.

APPENDICES

The appendices to this report details the treasury management activities undertaken by the Council. It sets out in detail the economic background in which the treasury management function has had to operate since the beginning of the financial year and the treasury activities which have taken place in the first six months of the financial year to end of September 2018 and for the period October to December 2018.

Appendix 1 – Treasury Management Half Year Activity Report 2018/19

Appendix 2 – Q3 Treasury Management Activity Update Report 2018/19

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Appendix 1

TREASURY MANAGEMENT HALF YEAR ACTIVITY REPORT 2018/19 (6 MONTHS TO 30TH SEPTEMBER 2018)

1. Background

1.1 The Annual Treasury Management Report is a requirement of the Council's reporting procedures and this report covers the treasury activity for the first six months of the financial year 2018/19, 1st April 2018 to 30th September 2018.

1.2 The Council's Treasury Management Strategy has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

1.3 The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

1.4 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."

1.5 The Authority's Treasury Management Strategy for 2018/19 was approved by full Council on 21st February 2018 and can be accessed on by the following link: http://mginternet.hackney.gov.uk/documents/s59421/Appendix3TreasurymanagementStrategy.pdf

1.6 The Authority has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. Economic Background

2.1 Oil prices rose by 23% over the six months to around $82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year/year, above the consensus forecast and that of the Bank of England's in its August Inflation Report, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households. The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend.

The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

2.2 The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

2.3 Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the bet change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

3. Debt Management

3.1 At the beginning of the financial year the Council had one external debt of £3.2m LEEF (London Energy Efficient Fund) loan from the European Investment Bank to fund housing regeneration. This loan is below market rate and was taken out in July 2014.

3.2 In addition, the Council had £30m short term borrowing at the beginning of the year. This short term borrowing was taken at the end of 2017-18 financial year to manage liquid cash flow.

3.3 The Authority does not expect to undertake long term borrowing externally in 2018/19. However, it is anticipated that the Council will require to externally borrow for short term cash flow purposes. The Council borrowed £25m in first six months on short term basis to meet the working capital requirement.

Table 1: Debt Portfolio positions as at 01/04/2018 and 30/09/2018

	Balance on 01/04/2018 £'000	**Balance on 30/09/2018 £'000**	**Avg Rate %**
Short Term Borrowing*	30,400	40,400	0.75%
Long Term Borrowing	2,800	2,600	1.90%
TOTAL BORROWING	**33,200**	**43,000**	
Other Long Term Liabilities	14,600	14,121	
TOTAL EXTERNAL DEBT	**47,800**	**57,121**	
Increase in borrowing		9,321	

* *Loans that mature within 1 year*

3.4 For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. However, this position will not be sustainable over the medium term and the Council expects it will need to borrow for capital purposes in due course.

3.5 **PWLB Borrowing:** The Authority qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period.

3.6 **Alternative borrowing sources:** Whilst there are several claims that a competitive, comparable equivalent to long-dated PWLB borrowing is readily available, the Council will continue to adopt a cautious and considered approach to funding from the capital markets when required.

4. Investment Activity

4.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Cash flow forecasts indicated that during 2018/19 the Authority's investment balances would range between £110m and £150 million.

4.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Table 2: Investment Portfolio positions as at 01/04/2018 and 30/09/2018

	Balance as at 01/04/2018 £'000	**Average Rate of Interest %**	**Balance as at 30/09/2018 £'000**	**Average Rate of Interest %**
Short term Investments*	51,211	-	46,303	-
Long term Investments	6,700	-	6,700	-
AAA-rated Stable Net Asset Value Money Market Funds	25,350	-	14,200	-
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	3,000	-	3,000	-
Covered Bonds	3,602	-	0	-
Corporate Bonds	6,961	-	6,853	-
Housing Associations	25,000	-	25,000	-
	121,824	**0.95**	**102,056**	**1.1**

* *Less than one year*

4.2 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19. Investments are currently held with the following below institutions:

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- AAA rated Cash enhanced Variable Net Asset Value Money Market Funds
- Deposits with UK Banks (Notice Accounts)
- UK Housing Associations
- Corporate Bond
- Corporate

4.3 Counterparty credit quality is assessed and monitored with reference to Credit Ratings (the Council's minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; sovereign support mechanisms /potential support from a well-resourced parent institution and share price.

4.4 Given the increasing risk and continued low returns from short-term unsecured bank investments the Authority has further diversified into more secure and/or higher yielding asset classes such as; covered bonds which are secured on the financial institutions' assets, pooled funds which have the advantage of diversifying investment risks without the need to own and manage the underlying investments, coupled with professional fund management, Housing Associations and sort/medium term Corporate Bonds which are excluded from Bail-in risk.

5. Credit Risk

5.1 Counterparty credit quality remains an important factor in the Council's assessment of approved counterparties. The Council continuously monitors the overall credit quality of its investment portfolio and this is clearly demonstrated by the Credit Score Analysis summarised below. The credit scores are based on the Council's quarter-end in-house investment position.

Table 3: Credit Score Analysis

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
30/06/2018	**A+**	**5.0**	**A+**	**5.0**
31/07/2018	**A+**	**5.0**	**A+**	**5.1**
31/08/2018	**A+**	**5.0**	**A+**	**5.1**
30/09/2018	**A+**	**5.0**	**A+**	**4.9**

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

6. Counterparty Update

6.1 The ring-fencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – was completed, the transfer of their business lines into retail (ring-fenced) and investment banking (non-ring-fenced) was progressing to be completed by the end of 2018.

6.2 There were a few credit rating changes during the period. Moody's downgraded Barclays Bank plc's long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ring-fencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody's and to A- from BBB+ by both Fitch and Standard & Poor's (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody's.

7. Compliance with Prudential Indicators

7.1 The Council can confirm that it has to date complied with its Prudential Indicators for 2018/19, which were set in March 2018 as part of the Council's Treasury Management Strategy Statement and budget setting report.

Compliance with these Indicators is detailed below -

- **Capital Financing Requirement**

Estimates of the Council's cumulative maximum external borrowing requirement for 2018/19 to 2021/22 are shown in the table below:

	31/03/2019 Estimated £m	**31/03/2020 Estimated £m**	**31/03/2021 Estimated £m**	**31/03/2022 Estimated £m**
Gross CFR	539	589	695	760
Less: Other Long Term Liabilities	18	18	17	16
Borrowing CFR	**521**	**572**	**678**	**744**
Less: Existing Profile of Borrowing	3	55	163	230
Gross Borrowing Requirement/Internal Borrowing	**518**	**516**	**515**	**514**
Usable Reserves	100	100	100	100
Net Borrowing Requirement/(Investment) Capacity	**418**	**416**	**415**	**414**

- **Gross Debt and the Capital Financing Requirement**

In the Prudential Code Amendment (November 2012), it states that the chief finance officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority 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.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

	31/03/2019 Estimate £m	**31/03/2020 Estimate £m**	**31/03/2021 Estimate £m**	**31/03/2022 Estimate £m**
CFR	539	589	695	760
Gross Debt	3	55	163	230
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**	**No**

The Group Director of Finance and Corporate Resources reports that the Authority had no difficulty meeting this requirement in to date, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

- **Usable Reserves**

Estimates of the Council's level of Usable Reserves for 2018/19 to 2020/21 are as follows:

	31/03/2019 Estimate £m	**31/03/2020 Estimate £m**	**31/03/2021 Estimate £m**	**31/03/2022 Estimate £m**
Usable Reserves	100	100	100	100

- **Estimates of Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000	31/03/2021 Estimate £'000	31/03/2022 Estimate £'000
Non-Housing	139	147	105	83
Housing	171	157	205	242
Total	**310**	**304**	**310**	**325**

Capital expenditure will be financed or funded as follows:

Capital Financing	31/03/2019 Estimate £m	31/03/2020 Estimate £m	31/03/2021 Estimate £m	31/03/2022 Estimate £m
Capital receipts	138	128	99	158
RCCO	63	50	51	52
Grants	16	46	18	18
Reserves/discretionary	39	36	31	18
S106/CIL	17	4	-	-
HRA borrowing	36	40	111	78
Total	**310**	**304**	**310**	**325**

The table above shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than external borrowing.

- **Capital Financing Requirement**

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	31/03/19 Estimate £m	31/03/20 Estimate £m	31/03/21 Estimate £m	31/03/22 Estimate £m
Total CFR	**539**	**589**	**695**	**760**

- **Authorised Limit and Operational Boundary for External Debt**

The Local Government Act 2003 requires the Council to set an **Authorised Borrowing Limit**, irrespective of their indebted status. This is a statutory limit which should not be breached.

The Council's **Authorised Borrowing Limit** was set at **£600m for 2018/19**.

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 **Operational Boundary for 2018/19 was set at £570m.**

The Group Director of Finance and Corporate Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; and current borrowing is £2.8m.

	Authorised Limit (Approved) as at 31/03/2019 £m	**Operational Boundary (Approved) as at 31/03/2019 £m**	**Actual External Debt as at 30/09/2019 £m**
Borrowing	600	570	43
Other Long-term Liabilities	18	18	13
Total	607	577	56

- **Upper Limits for Fixed Interest Rate Exposure and Variable 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.

	Limits for 2017/18 £'000
Upper Limit for Fixed Rate Exposure	100,000
Compliance with Limits:	**Yes**
Upper Limit for Variable Rate Exposure	20,000
Compliance with Limits:	**Yes**

- **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.

Maturity Structure of Fixed Rate Borrowing	**Lower Limit %**	**Upper Limit %**	**Actual Fixed Rate Borrowing as at 30/09/18**	**% Fixed Rate Borrowing as at 30/09/18**	**Compliance with Set Limits?**
under 12 months	0	100	30,400	2.69%	Yes
12 months and within 24	0	100	10,400	2.60%	Yes

months					
24 months and within 5 years	0	100	1,200	1.90%	Yes
5 years and within 10 years	0	100	1,000	1.90%	Yes
10 years and within 20 years	0	100	0	0	Yes
20 years and within 30 years	0	100	0	0	Yes
30 years and within 40 years	0	100	0	0	Yes
40 years and within 50 years	0	100	0	0	Yes
50 years and above	0	100	0	0	Yes

- **Total principal sums invested for periods longer than 364 days**

  This indicator allows the Council to manage the risk inherent in investments longer than 364 days.

  The limit for 2018/19 was set at £90m.

  During the reporting period, the Council had a total of £11.5m in a fixed term investment over 365 years.

- **Credit Risk**

  This indicator has been incorporated to review the Council's approach to credit risk. The Council confirms it considers security, liquidity and yield, in that order, when making investment decisions.

  Credit ratings remain an important element of assessing credit risk, but they are not the sole feature in the Authority's assessment of counterparty credit risk. The authority considers the following tools to assess credit risk:

  - Published credit ratings of the financial institution and its sovereign;
  - Sovereign support mechanisms;
  - Credit default swaps (where quoted);

- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum.

The Council can confirm that all investments were made in line with minimum credit rating criteria set in the 2017/18 TMSS.

- **HRA Limit on Indebtedness**

  Further to changes in government legislation, there is no longer a Housing Revenue Account debt cap.

10. Summary

10.1 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 the first two quarters of 2018/19. As indicated in this report none of the 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.

Appendix 2

Q3 TREASURY MANAGEMENT UPDATE 2018/19 (OCTOBER 2018 to DECEMBER 2019)

1. Economic Highlights in Q3 2018/19

- **Growth**: The third estimate of Q3 GDP showed the UK economy expanded by 0.6% over the quarter and 1.5% year-on-year.

- **Inflation:** The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month rate was 2.2% in November 2018, unchanged from October 2018. The Consumer Prices Index (CPI) 12-month rate was 2.3% in November 2018, a decrease from 2.4% in October 2018.

- **Monetary Policy:** In December 2018 The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 19 December 2018, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion. Brexit uncertainties have intensified considerably since the Committee's last meeting. These uncertainties are weighing on UK financial markets. The further intensification of Brexit uncertainties, coupled with the slowing global economy, has also weighed on the near-term outlook for UK growth.

2. Borrowing & Debt Activity

2.1 The Authority currently has £2.8m in long-term external borrowing. This is made up of a single London Energy Efficiency Fund (LEEF) loan from the European Investment Bank to fund housing regeneration. In addition, council has £40m short term borrowing to meet the working capital requirements.

2.2 Close analysis of the Council's cashflow requirements and its Capital Financing Requirement (CFR is an indicator of the overall need to borrow), as it is currently known, indicates that new borrowing, including borrowing proposed in the HRA business plan, will be required in the next 3 years.

3. Investment Policy and Activity

3.1 The Council held average cash balances of £148 million during the three month period, compared to £143 million for the same period last financial year.

Table 1: Movement in Investment Balances 01/10/18 to 31/12/18

	Balance as at 01/10/2018 £'000	**Average Rate of Interest %**	**Balance as at 31/12/2018 £'000**	**Average Rate of Interest %**
Short term Investments*	46,303	-	46,339	-
Long term Investments	6,700	-	6,700	-
AAA-rated Stable Net Asset Value Money Market Funds	14,200	-	22,848	-
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	3,000	-	3,000	-
Covered Bonds	0	-	0	-
Corporate Bonds	6,853	-	2,356	-
Housing Associations	25,000	-	35,000	-
	102,056	**1.1**	**116,243**	**1.2**

*deposits less than one year

3.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

3.3 The Council's specific policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital; liquidity of the invested capital; and,
- an optimum yield which is commensurate with security and liquidity.

3.4 The ongoing investment strategy remained cautious but counterparty credit quality remains strong, as can be demonstrated by the Credit Score Analysis summarised below:

Table 3: Credit Score Analysis

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
31/10/2018	4.8	A+	4.8	A+
30/11/2018	4.8	A+	4.8	A+
31/12/2018	5.0	A+	5.2	A+

-Value we-weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 27
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

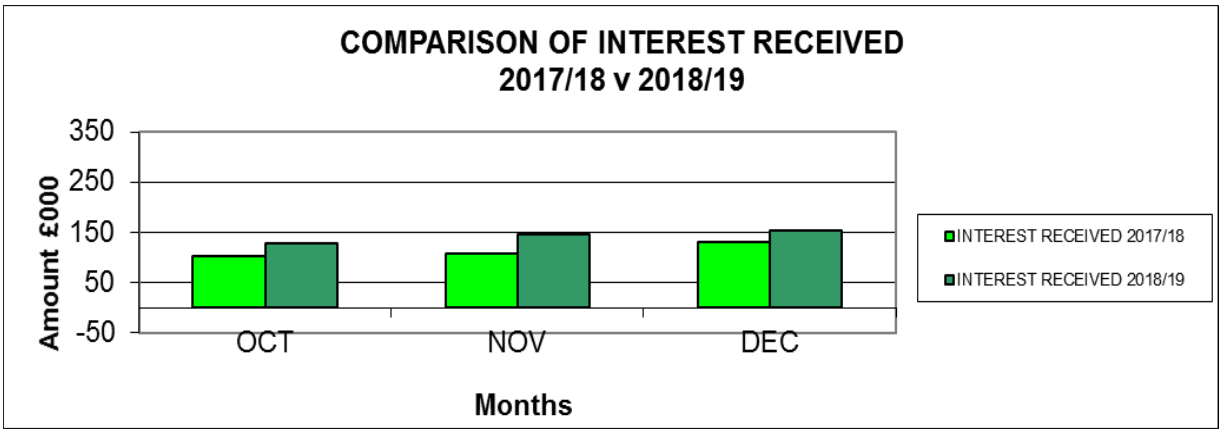
3.5 The Council continues to utilise AAAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances, together with high credit rated call accounts. This type of investment vehicle has continued to provide very good security and liquidity, although yield has suffered in recent months

4. Comparison of Interest Earnings

4.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, longer term investments have been placed in highly rated UK Government institutions, thus ensuring creditworthiness whilst increasing yield's through the duration of the deposits.

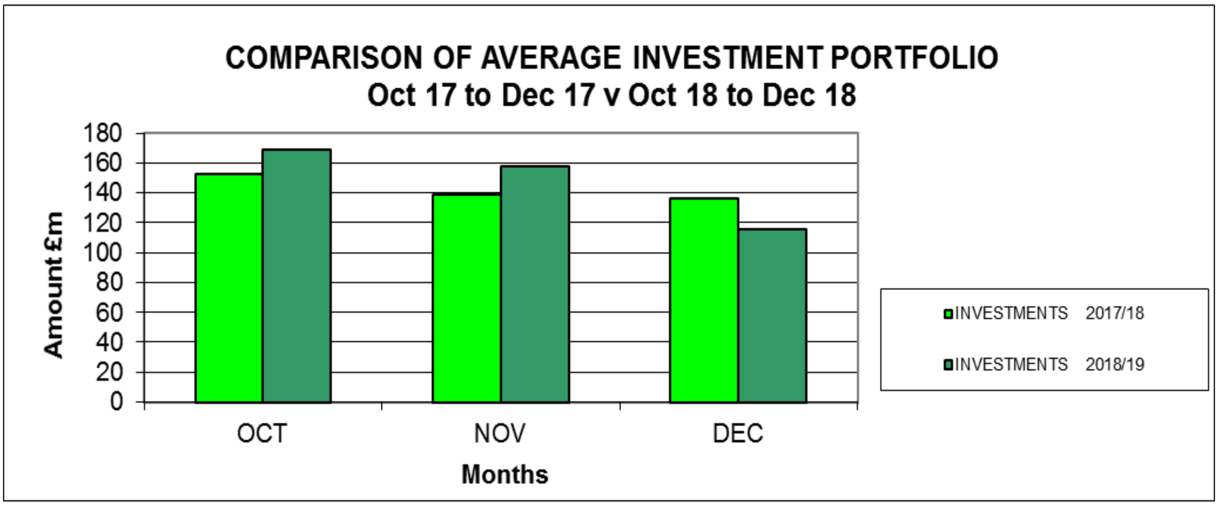
4.2 The graph below provides a comparison of interest earnings for 2018/19 against the same period for 2017/18. The graph highlights that the Council's longer term investment approach is paying dividends with high levels on interest received when taking into account the investment market environment.

Average interest received for the period October to December 2018 was £142k compared to £114k for the same period last financial year.



5. Movement in Investment Portfolio

5.1 Average investment levels for period October to December 2018 were £148 million in comparison to the same period last year of £143million.



7. Summary

7.1 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 the third quarter of the financial year 2018/19. As indicated in this report, a prudent approach has been taking in relation investment activity with priority being given to security and liquidity over yield.