TREASURY MANAGEMENT UPDATE REPORT 15th January 2020 AUDIT COMMITTEE	Classification: Public
Ward(s) affected None	
Group Director Ian Williams, Group Director of Finance & Corporate Resources	

1. INTRODUCTION

1.1 This report covers both the half year treasury activity report for 2019/20 - 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 2019 to December 2019 (Appendix 2).

2. RECOMMENDATION(S)

2.1 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 2019) 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 2019.

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 2019/20. 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 2019 and reflects the most recent treasury activity.

6.3 The impacts of the financial crisisare still being felt in terms of 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 2019/20, whilst the quarterly update provides details of treasury management activity covering the final 3 months of 2019 (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 capital expenditure, other capital resources, 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 remained the same at the end of December 2019 at 1.2%, compared to 1.2% in December 2018. 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 £107 million at the beginning of April 2019 to £76 million at the end of December 2019.

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 2019 and for the period October to December 2019.

Appendix 1 – Treasury Management Half Year Activity Report 2019/20

Appendix 2 – Q3 Treasury Management Activity Update Report 2019/20

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Appendix 1

TREASURY MANAGEMENT HALF YEAR ACTIVITY REPORT 2019/20 (6 MONTHS TO 30TH SEPTEMBER 2019)

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 2019/20, 1st April 2019 to 30th September 2019.

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 2019/20 was approved by full Council on 27th February 2019 and can be accessed on by the following link: http://mginternet.hackney.gov.uk/documents/s63777/Treasury%20Management%20Strategy%20201819%20FINAL.pdf

1.6 The Authority has invested substantial sums of money 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 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, is likely to remain a significant influence on the Authority's treasury management strategy for the remainder of 2019/20 and through 2020/21. UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased by 1.9%.

GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

2.2 Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

2.3 Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ring fenced banks embedded in the market.

3. Debt Management

3.1 In the beginning of the year the Council had one external debt of £2.8m 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 £80m of short term borrowing at the beginning of the year. This short term borrowing was taken during 2018-19 financial year for managing cash flow commitments.

3.3 The Authority undertook £65m of long term borrowing from PWLB during the first six months of 2019-20. The PWLB long term borrowing is being used to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration. It will be repaid in equal instalments over a 25 year period. This new borrowing was entered into in order to take advantage of the low rates that were then available from PWLB, thereby locking these in and providing some certainty over financing costs for the future, whilst also taking account of the Council's current liquidity position.

Table 1: Debt Portfolio positions as at 01/04/2019 and 30/09/2019

	Balance on 01/04/2019 £'000	**Balance on 30/09/2019 £'000**	**Avg Rate %**
Short Term Borrowing*	80,400	77,400	1.10%
Long Term Borrowing	2,400	67,200	2.00%

TOTAL BORROWING	**82,800**	**144,600**	
Other Long Term Liabilities	14,112	13,500	
TOTAL EXTERNAL DEBT	**96,912**	**158,100**	
Increase in borrowing		61,188	

***** *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 was not sustainable over the medium term and therefore, the Council borrowed externally from PWLB to finance part of its housing capital regeneration programmes.

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:** With increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Authority will now look to borrow any long-term loans from other sources including banks, pensions funds and local authorities, private lenders. It might investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

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 2019/20 the Authority's investment balances would range between £50m and £100 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 01/04/2019 and 30/09/2019

	Balance as at 01/04/2019 £'000	**Average Rate of Interest %**	**Balance as at 30/09/2019 £'000**	**Average Rate of Interest %**
Short term Investments*	32,296	-	57,376	-
Long term Investments	6,700	-	3,500	-

AAA-rated Stable Net Asset Value Money Market Funds	27,923	-	11,570	-
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	3,000	-	13,000	-
Covered Bonds	0	-	0	-
Corporate Bonds	2,356	-	0	-
Housing Associations	35,000	-	30,000	-
	107,275	**1.3**	**115,446**	**1.2**

* *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 2019/20. 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

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 very low returns from short-term unsecured bank investments, the Authority will look to diversify into more secure and/or higher yielding asset classes during 2020/21, providing security of capital can be maintained. A proportion of the Authority's cash remains invested in short-term unsecured bank deposits, and money market funds.

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.

<u>Table 3: Credit Score Analysis</u>

Date	Value Weighted Average – Credit Risk	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score

	Score	Score		
30/06/2019	A+	4.9	A+	5.4
31/07/2019	A+	5.1	A+	5.5
31/08/2019	A+	5.2	A	5.7
30/09/2019	A+	5.4	A	5.8

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 S&P revised the outlook for Landesbank Hessen-Thuringen Girozentrale (Helaba) to Stable from Positive. The short and long-term ratings were affirmed at A and A-1 respectively. Arlingclose advised against any investment with The Co-operative Bank including covered bonds. Arlingclose continued to advise clients against making deposits with Clydesdale Bank plc and Virgin Money plc. Arlingclose remained comfortable with clients using Clydesdale Bank plc for operational banking purposes, providing balances are kept to a minimum.

7. Compliance with Prudential Indicators

7.1 The Council can confirm that it has to date complied with its Prudential Indicators for 2019/20, which were set in March 2019 as part of the Council's Treasury Management Strategy Statement.

Compliance with these Indicators is detailed below -

- **Capital Financing Requirement**

Estimates of the Council's cumulative maximum external borrowing requirement for 2019/20 to 2022/23 are shown in the table below:

	31/03/20 Estimated £'000	**31/03/21 Estimated £'000**	**31/03/22 Estimated £'000**	**31/03/23 Estimated £'000**
Gross CFR	488	496	550	663
Less: Other Long Term Liabilities	13	13	12	11
Borrowing CFR	**475**	**483**	**538**	**652**
Less: Existing Profile of Borrowing	65	65	115	215
Gross Borrowing Requirement/Internal Borrowing	**410**	**418**	**423**	**437**
Usable Reserves	340	330	320	310
Net Borrowing Requirement/(Investment Capacity)	**70**	**88**	**103**	**127**

- **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.

	31/03/2020 Estimate £m	**31/03/2021 Estimate £m**	**31/03/2022 Estimate £m**	**31/03/2023 Estimate £m**
CFR	488	496	550	663
Gross Debt	65	65	115	215
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 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 2019/20 to 2021/23 are as follows:

	31/03/2020 Estimate £m	**31/03/2021 Estimate £m**	**31/03/2022 Estimate £m**	**31/03/2023 Estimate £m**
Usable Reserves	340	330	320	310

- **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	**31/03/2020 Estimate £'000**	**31/03/2021 Estimate £'000**	**31/03/2022 Estimate £'000**	**31/03/2023 Estimate £'000**

Non-HRA	118	161	54	72
HRA	126	144	145	178
Total	**244**	**305**	**199**	**250**

Capital expenditure will be financed or funded as follows:

Capital Financing	31/03/2020 Estimate £m	31/03/2021 Estimate £m	31/03/2022 Estimate £m	31/03/2023 Estimate £m
Prudential Borrowing	88	134	84	134
S106	6	6	-	-
Capital receipts	44	9	9	9
Grants	35	54	31	40
Reserves/Discretionary	26	50	23	14
RCCO	45	52	52	53
Total Financing	**244**	**305**	**199**	**250**

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	31/03/20 Estimate £m	31/03/21 Estimate £m	31/03/22 Estimate £m	31/03/23 Estimate £m
Total CFR	**488**	**496**	**550**	**663**

- **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 **£687m for 2019/20**.

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 2019/20 was set at £657m.**

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 borrowing stands at £144.6m.

	Authorised Limit (Approved) as at 31/03/2020 £m	Operational Boundary (Approved) as at 31/03/2020 £m	Actual External Debt as at 30/09/2019 £m
Borrowing	669	639	144,600
Other Long-term Liabilities	18	18	13,500
Total	**687**	**657**	**158,100**

- **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 2019/20 £'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 30/09/19	% Fixed Rate Borrowing as at 30/09/19	Compliance with Set Limits?
under 12 months	0	100	77,400	1.1%	Yes
12 months and within 24 months	0	100	400	1.90%	Yes
24 months and within 5 years	0	100	1,800	1.90%	Yes
5 years and within 10 years	0	100	0	0	Yes
10 years and within 20 years	0	100	0	0	Yes
20 years and within 30 years	0	100	65,000	2.04%	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 2019/20 was set at £90m.

During the reporting period, the Council had a total of £13.5m 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 2019/20 TMSS.

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 2019/20. 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 2019/20 (OCTOBER 2019 to DECEMBER 2020)

1. Economic Highlights in Q3 2019/20

- **Growth**: The third estimate of Q3 GDP showed the UK economy increased by 0.4% over the quarter and 1.1% year-on-year.

- **Inflation:** The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month rate was also 1.5% in November 2019, unchanged from October. The Consumer Prices Index (CPI) 12-month inflation rate was also 1.5% in October 2019, also remains unchanged. Core inflation remained at 1.7%.

- **Monetary Policy:** At its meeting ending on 18 December 2019, the MPC voted by a majority of 7-2 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.

2. Borrowing & Debt Activity

2.1 The Authority currently has £2.4m 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, the council has £65m short term borrowing to meet the working capital requirements.

2.2 In addition, the Authority had £63.7m long term borrowing from PWLB during the first six months of 2019-20. The PWLB long term borrowing is being used to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration. It will be repaid in equal instalments over a 25 year period. This new borrowing was entered into in order to take advantage of the low rates currently available from PWLB, thereby locking these in and providing some certainty over financing costs for the future, whilst also taking account of the Council's current liquidity position.

3. Investment Policy and Activity

3.1 The Council held average cash balances of £99 million during the three month period, compared to £148 million for the same period last financial year.

Table 1: Movement in Investment Balances 01/10/19 to 31/12/19

	Balance as at 01/10/2019 £'000	Average Rate of Interest %	Balance as at 31/12/2019 £'000	Average Rate of Interest %
Short term Investments*	57,376	-	35,424	-
Long term Investments	3,500	-	3,500	-
AAA-rated Stable Net Asset Value Money Market Funds	11,570	-	9,200	-
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	13,000	-	13,000	-
Housing Associations	30,000	-	15,000	-
	115,446	**1.2**	**76,124**	**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
31/10/2019	5.3	A+	5.9	A
30/11/2019	5.2	A+	5.9	A

31/12/2019	5.1	A+	5.9	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

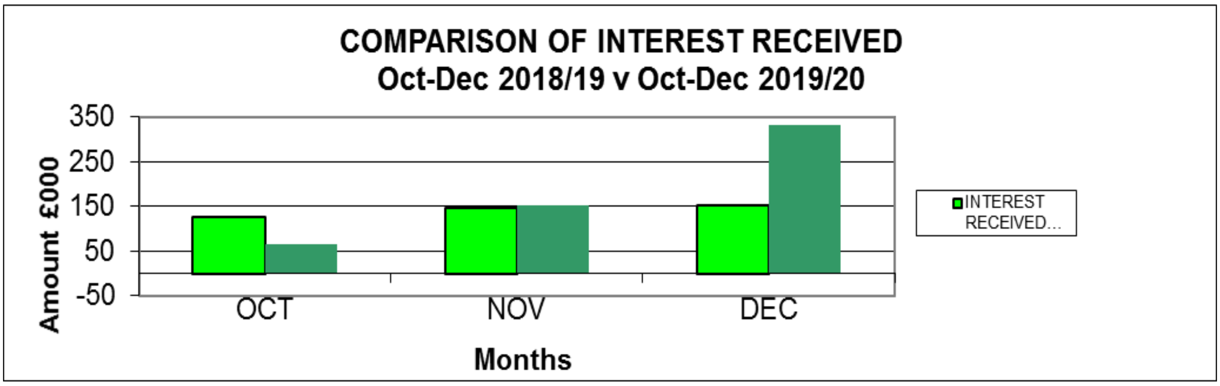
3.5 The Council continues to utilise AAAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances, together with high credit rated call accounts. This type of investment vehicle has continued to provide very good security and liquidity, although yield has suffered in 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 are placed in highly rated UK Government institutions, thus ensuring creditworthiness whilst increasing yield's through the duration of the deposits.

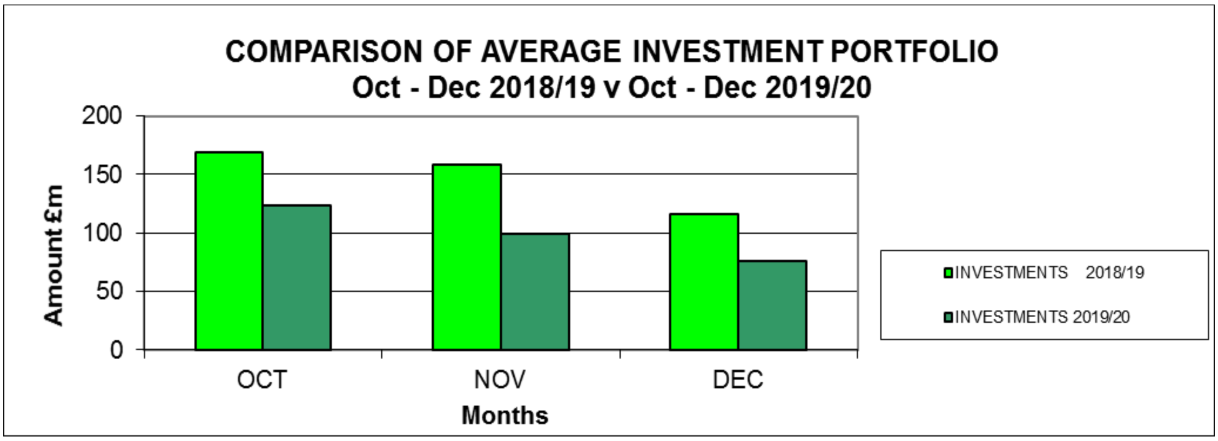
4.2 The graph below provides a comparison of interest earnings for 2019/20 against the same period for 2018/19. The graph highlights that the Council's longer term investment approach is paying dividends with high levels of interest received when taking into account the investment market environment.

Average interest received for the period October to December 2019 was £183k compared to £142k for the same period last financial year.



5. Movement in Investment Portfolio

5.1 Average investment levels for the period October to December 2019 were £99 million in comparison to the same period last year of £148 million.



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 2019/20. As indicated in this report, a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.