Appendix C: Investment Activity

1.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Councils' aim is to achieve a yield in line with these principles.

1.2 The table below shows the activity on investments between 1 April 2015 and 30 September 2015. During this period both Councils have only made short term investments.

Babergh Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2015 £m
Short term Investments (call accounts, deposits) Banks and Building Societies with ratings of A- or higher Local Authorities	£3.5m	£8m	(£8m)	£3.5m
UK Government: DMADF Treasury Bills	£3.5m	£52.3m	(£53.8m)	£2m
Money Market Funds	£4m	£20.4m	(£18.8m)	£5.6m
Pooled Funds CCLA Property fund		£5m		£5m
TOTAL INVESTMENTS	£11m	£85.7m	(£80.6m)	£16.1m
Increase/ (Decrease) in Investments £m				£5.1m

Mid Suffolk Investments	Balance on 01/04/2015 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2015 £m
Short term Investments (call accounts, deposits) Banks and Building Societies with ratings of A- or higher Local Authorities	£0.75m	£0.55m	(£0.3m)	£1m
UK Government: DMADF Treasury Bills		£28.5m	(£26.5m)	£2m
Money Market Funds	£1m	£20.8m	(£19.7m)	£2.1m
TOTAL INVESTMENTS	£1.75m	£49.85m	(£46.5m)	£5.1m
Increase/ (Decrease) in Investments £m				£3.35m

1.3 Investments held by Babergh increased from £11m at 1 April 2015 to £16.1m at 30 September 2015. Interest receivable for the period was £28,329 and the average interest rate was 0.40%.

1.4 Investments held by Mid Suffolk decreased from £1.75m at 1 April 2015 to £5.1m at 30 September 2015. Interest receivable for the period was £10,661 and the average interest rate was 0.40%.

1.5 ***Budgeted Income and Outturn***: The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2016/17. Short-term money market rates have remained at very low levels for investments, (see table below). The anticipated interest receivable for 2015/16 is as follows:

£'000	**BDC**	**MSDC**
Average money market rate	0.42%	0.45%
Budget for 2015/16	17	14
Predicted Outturn for 2015/16	169	115

Note - The predicted outturn reflects new investments within the CCLA property fund with a current forecast interest rate of 4.8% for the second half of the year.

1.6 ***Security of capital***: This remains the Councils main investment objective. This has been maintained by following the Councils counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16. New investments can be made with the following institutions and instruments for both councils unless specified otherwise:-

- Other Local Authorities;
- AAA-rated Stable Net Asset Value Money Market Funds;
- Deposits with banks and building societies;
- Deposits with the Debt Management Account Deposit Facility;
- Treasury Bills; and
- Pooled Funds.

1.7 Counterparty credit quality is assessed and monitored with reference to:-

- Credit ratings, the Councils minimum long-term counterparty rating of A- (or equivalent) across rating agencies Fitch, Standard and Poor's 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;
- Share price.

1.8 Credit (Security) Risk: The aim is to have an average credit rating of A- or higher, with a score of 7 or lower, to reflect the current investment approach with the main focus being on security of the investment.

BDC	**Value Weighted Average – Credit Risk Score**	**Value Weighted Average – Credit Rating**	**Time Weighted Average – Credit Risk Score**	**Time Weighted Average – Credit Rating**
31/03/2015	3.38	AA	3.34	AA
30/06/2015	3.87	AA-	2.91	AA

MSDC	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2015	5.30	A+	5.30	A+
30/06/2015	4.79	A+	2.31	AA+

Information at 30/09/15 not available at the time the report was written.

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 = 26

1.9 ***Investment/Counterparty Update:*** All three credit ratings agencies have reviewed their ratings in the six months to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions have seen upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS) to BBB+ from A, Deutsche Bank to A from A+, Bank Nederlandse Gemeeten to AA+ from AAA and ING to A from A+. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody’s concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thueringen.

S&P reviewed UK and German banks in June downgrading Barclays’ long-term rating to A- from A. S&P has also revised the outlook of the UK as a whole to negative from stable, citing concerns around a planned referendum on EU membership and its effect on the economy.

At the end of July, Arlingclose advised extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis.