

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 2016 and 30 September 2016. During this period both Councils have made both short and long term investments.

The Councils hold invested funds, representing income received in advance of expenditure plus balances and reserves held.

Babergh District Council Investments	Balance on 01/04/2016 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 30/09/2016 £000	Average Rate %
Uk Government					
DMADF	0	3,500	(3,500)	0	0.15%
Unsecured Investments	2,000	1,000	(1,000)	2,000	0.46%
Money Market Funds	2,700	31,550	(32,550)	1,700	0.48%
Pooled Property funds (CCLA)	5,000	0	0	5,000	4.78%
Pooled Multi Assets Income funds	2,000	0	0	2,000	3.39%
Loans to small businesses via Funding Circle	100	363	(25)	438	3.64%
Total Investments	11,800			11,138	
Increase/(Decrease) in Investments				(662)	

Mid Suffolk District Council Investments	Balance on 01/04/2016 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 30/09/2016 £000	Average Rate %
Uk Government					
DMADF	0	20,100	(19,100)	1,000	0.19%
Unsecured Investments	0	3,000	(2,000)	1,000	0.20%
Money Market Funds	1,300	21,250	(20,450)	2,100	0.47%
Pooled Property funds (CCLA)	5,000	0	0	5,000	4.78%
Loans to small businesses via Funding Circle	100	367	(25)	442	3.88%
Total Investments	6,400			9,542	
Increase/(Decrease) in Investments				3,142	

1.3 Budgeted Income and Outturn

The UK Bank Rate was reduced to 0.25% in August 2016. It is now forecast to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels (see tables above). Following the reduction in Bank Rate, rates for very short-dated periods (overnight – 1 month) fell to between 0.1% and 0.2%. Debt Management Account Deposit Facility (DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 – 6 month deposits.

The anticipated interest receivable for 2016/17 is as follows:

	BDC £000	MSDC £000
Original Budget 2016/17	317	201
Forecast Outturn 2016/17	315	237

1.4 Security: 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 2016/17.

	Each Council's Target	BDC Actual 30/09/16	MSDC Actual 30/09/16
Portfolio average credit rating	7.00	5.17	4.97

1.5 New investments can be made with the following institutions and instruments for both councils unless specified otherwise:

- 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

1.6 Credit Risk: 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;
- financial statements
- 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.

1.7 The tables below show counterparty credit quality as measured by credit ratings and the percentage of the investment portfolio exposed to bail-in risk.

Babergh District Council	Value Weighted Average Credit Rating Score	Value Weighted Average Credit Rating Rating	Time Weighted Average Credit Rating Score	Time Weighted Average Credit Rating Rating	Investments exposed to bail-in risk
31/03/2016	5.06	A+	8.06	BBB+	100%
30/06/2016	4.85	A+	5.3	A+	100%
30/09/2016	5.17	A+	10.69	BB+	91%

Mid Suffolk District Council	Value Weighted Average Credit Rating Score	Value Weighted Average Credit Rating Score	Value Weighted Average Credit Rating Score	Value Weighted Average Credit Rating Score	Investments exposed to bail-in risk
31/03/2016	4.64	A+	9.97	BBB-	99%
30/06/2016	4.16	AA-	4.16	AA-	100%
30/09/2016	4.97	A+	10.68	BB+	73%

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
- Aim = A- or higher credit rating, with a score of 7 or lower, to reflect the current investment approach with the main focus being on security of the investment.

1.8 Long Term Investment returns

In July 2015 changes were made to the Treasury Management Strategy and as a result both Councils invested £5m each in the Churches, Charities and Local Authorities Property Fund (CCLA) and since then has invested over £400k each in Funding Circle.

Babergh also invested £2m in the UBS Multi Asset Fund on 1 October 2015. 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.

The amount of interest received noted in paragraph 1.3 above reflects the increased interest generated by these long term investments.

The table below shows the investments and returns for both Councils to 30 September 2016 for CCLA.

CCLA	Babergh District Council	Mid Suffolk District Council
	£	£
Amount Invested	5,000,000	5,000,000
Interest received	(279,968)	(232,660)
Management Expenses paid	32,405	27,140
Net Income	(247,562)	(205,520)

The table below shows the performance to 30 September 2016 for both councils for Funding Circle.

Funding Circle National	Babergh District Council	Mid Suffolk District Council
	£	£
5 years and Over	171,007	171,770
3 years and Over	96,403	94,026
Under 3 years	147,958	155,698
Unallocated Funds	2,404	348
Investments total	417,772	421,842
Interest received	(6,252)	(6,636)
Promotional Cashback received	(20)	(20)
Total Income received	(6,272)	(6,656)
Expenses - fees paid	719	762
Net Income	(5,553)	(5,894)

Funding Circle Local	Babergh District Council	Mid Suffolk District Council
	£	£
Under 3 years	2,000	2,000
Unallocated Funds	23,000	23,000
Investments total	25,000	25,000
Interest received	(13)	(13)
Total Income received	(13)	(13)
Expenses - fees paid	2	2
Net Income	(11)	(11)

Babergh's UBS Multi Asset Fund performance dividends are received every quarter. The amount of interest received for the period 1 October 2015 to 30 September 2016 was £40,598.

1.9 Investment / Counterparty Update

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

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests.

The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

Fitch also upgraded Svenska Handelsbanken's long-term rating from AA- to AA reflecting the agency's view that the bank's earnings and profitability will remain strong, driven by robust income generation, good cost efficiency and low loan impairments.