Hackney

TREASURY MANAGEMENT UPDATE REPORT **17th January 2018** **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 2017/18 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 2017 to December 2017 (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 2017) 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 2017.

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 2017/18. 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 2017 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 2017/18, with an update covering the final 3 months of 2017 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 2017 was 0.88%, compared to 0.86% in December 2016. Although Banks continued access to cheap funding, along with the drop in bank rate, keeps money market rates down, 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 mid to longer duration in highly secure counterparties (Local Authorities). The level of investments outstanding has decreased from £149 million at the beginning of April 2017 to £136 million at end of December 2017.

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 2017 and for the period October to December 2017.

Appendix 1 – Treasury Management Half Year Activity Report 2017/18

Appendix 2 – Q3 Treasury Management Activity Update Report 2017/18

Report Author	Pradeep Waddon, 020 8356 2757, pradeep.waddon@hackney.gov.uk
Comments of the Group Director of Finance and Resources	Michael Honeysett, 020 8356 3332 michael.honeysett@hackney.gov.uk
Comments of the Director of Legal	Suki Binjal, 020 8356 6234 suki.binjal@hackney.gov.uk

Appendix 1

TREASURY MANAGEMENT HALF YEAR ACTIVITY REPORT 2017/18 (6 MONTHS TO 30TH SEPTEMBER 2017)

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 2017/18, 1st April 2017 to 30th September 2017.

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 2017/18 was approved by full Council on 1st March 2017 and can be accessed on by the following link: http://mginternet.hackney.gov.uk/documents/s53578/Appendix4201718%2027022017%20Cabinet.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 Commodity prices fluctuated over the period with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%, its lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

2.2 The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

2.3 Gilt yields displayed significant volatility over the six-month period with the apparent change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

2.4 The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.

3. Debt Management

3.1 In the beginning of the year Council had one external debt of £3.6m 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, council had £85m short term borrowing at the beginning of the year. This short term borrowing was taken at the end of 2016-17 financial year to fund the Hackney Walk deal. This was repaid in the first six months of the year.

3.3 The Authority does not expect to undertake long term borrowing externally in 2017/18. However, the Council will require to externally borrow for short term cash flow purposes. Council borrowed £20m in Sep 2017 on short term basis to meet the working capital requirement.

Table 1: Debt Portfolio positions as at 01/04/2017 and 30/09/2017

	Balance on 01/04/2017 £'000	**Debt Maturing £'000**	**New Borrowing £'000**	**Balance on 30/09/2017 £'000**	**Avg Rate %**
Short Term Borrowing*	85,000	0.49%		20,200	2.18%
Long Term Borrowing	3,600	1.9%		3,200	1.90%
TOTAL BORROWING	**88,600**			**23,400**	
Other Long Term Liabilities	15,080			15,902	9.93%
TOTAL EXTERNAL DEBT	**103,680**			**39,302**	
(Decrease) in borrowing				(64,378)	

* *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 from 01/11/2017.

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 2017/18 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 01/04/2017 and 30/09/2017

	Balance as at 01/04/2017 £'000	Average Rate of Interest %	Balance as at 30/09/2017 £'000	Average Rate of Interest %
Short term Investments*	43,104	-	36,190	-
Long term Investments	31,500	-	19,500	-
AAA-rated Stable Net Asset Value Money Market Funds	36,660	-	32,000	-
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	3,000	-	3,000	-
Covered Bonds	7,874	-	5,703	-
Corporate Bonds	12,125	-	7,503	-
Housing Associations	15,000	-	15,000	-
	149,263	**0.81**	**118,896**	**0.78**

* *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 2017/18. 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
- UK Housing Associations
- Corporate and Covered Bonds
- Unrated UK Building Societies

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
31/07/2017	**4.37**	**AA-**	**3.64**	**AA-**
31/08/2017	**4.34**	**AA-**	**3.61**	**AA-**
30/09/2017	**4.55**	**A+**	**4.11**	**AA-**

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 UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern.

6.2 There were a few credit rating changes during the period. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3. S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

6.3 Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year.

6.4 The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019.

The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

7. Compliance with Prudential Indicators

7.1 The Council can confirm that it has to date complied with its Prudential Indicators for 2017/18, which were set in March 2017 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 2017/18 to 2019/20 are shown in the table below:

	31/03/2018 Estimated £'000	**31/03/2019 Estimated £'000**	**31/03/2020 Estimated £'000**
Gross CFR	439,873	520,379	534,189
Less: Other Long Term Liabilities	14,112	13,349	12,528
Borrowing CFR	**425,761**	**507,030**	**521,661**
Less: Existing Profile of Borrowing	3,200	2,800	2,400
Gross Borrowing Requirement/Internal Borrowing	**422,561**	**504,230**	**519,261**
Usable Reserves	100,000	100,000	100,000
Net Borrowing Requirement/(Investment) Capacity	**322,561**	**404,230**	**419,261**

- **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.

	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
CFR	425,761	507,030	521,661
Gross Debt	39,142	122,175	136,800
Borrowed in excess of CFR? (Yes/No)	**No**	**No**	**No**

The Group Director of Finance and Corporate Resources reports that the Authority had no difficulty meeting this requirement in 2017/18 (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 2017/18 to 2019/20 are as follows:

	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
Usable Reserves	100.000	100.000	100.000

- **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	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
Non-HRA	177,077	115,429	150,495
HRA	186,929	246,491	260,196
Total	**364,006**	**361,920**	**410,691**

Capital expenditure will be financed or funded as follows:

Capital Financing	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
Borrowing - Supported			
Borrowing - Unsupported	136,394	84,799	24,444
S106	774	0	6,450
Capital receipts	104,885	206,281	253,505
Grants	27,451	6,718	44,337
Reserves	7,265	3,887	1,470
RCCO	50,000	48,700	66,748
Discretionary	37,237	11,535	13,737
Total Financing	**364,006**	**361,920**	**410,691**

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	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Total CFR	**425,761**	**507,030**	**521,661**

- **Incremental Impact of Capital Investment Decisions**

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2016/17 £	2017/18 Estimate £	2018/19 Estimate £
Increase in Band D Council Tax	0	0	30.55
Increase in Average Weekly Housing Rents	0	0	(1.01)

The Council's capital plans, as estimated in forthcoming financial years, have a neutral impact on council tax and/or housing rents. This reflects the fact that capital expenditure is predominantly financed from internal resources (grants, contributions, revenue and capital receipts). There is therefore no effect on Council Tax or Housing Rents. The other possible revenue consequences of the capital programme such as running costs are also assumed to be revenue neutral in this calculation.

- **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 **£507m for 2017/18**.

  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 2017/18 was set at £478 m.**

  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 at its peak was £4.0m.

	Authorised Limit (Approved) as at 31/03/2018 £m	**Operational Boundary (Approved) as at 31/03/2018 £m**	**Actual External Debt as at 30/09/2018 £m**
Borrowing	506.873	477.873	23.400
Other Long-term Liabilities	0	0	15.904
Total	506.873	477.873	

- **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 30/09/17	% Fixed Rate Borrowing as at 30/09/17	Compliance with Set Limits?
under 12 months	0	100	20,400	2.18%	Yes
12 months and within 24 months	0	100	400	1.90%	Yes
24 months and within 5 years	0	100	1,600	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 2017/18 was set at £90m.

  During the reporting period, the Council had a total of £24.5m in a fixed term investment over 365 years.

  In addition, the Council had £7 million in Corporate Bonds for longer than 365 days. Although these bonds could be sold through the market at any point, the Council implements a buy and hold strategy and therefore will hold these bonds until they mature.

- **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 2016/17 TMSS.

- **HRA Limit on Indebtedness**

This purpose of this indicator is for the Council to report on the level of the limit imposed at the time of implementation of self-financing by the Department for Communities and Local Government. The actual HRA borrowing requirement has remained within this limit and the capital programme will be managed in future to ensure that it remains so.

HRA Limit on Indebtedness	**31/03/2018 Estimated £m**	**31/03/19 Estimated £m**	**31/03/20 Estimated £m**
HRA Debt Cap	178,353	178,353	178,353

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 2017/18. 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 2017/18
(OCTOBER 2017 to DECEMBER 2017)

1. Economic Highlights in Q3 2017/18

- **Growth**: The third estimate of Q3 GDP showed the UK economy expanded by 0.4% over the quarter and 1.7% year-on-year.

- **Inflation:** The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month rate was 2.8% in November 2017, the same as in October representing the highest rate since March 2012. The Consumer Prices Index (CPI) 12-month rate was 3.1%, increased from 3.0% in October 2017.

- **Monetary Policy:** 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. Having increased the bank base rate of interest at its November (?) meeting, at its meeting ending on 13 December 2017, the MPC voted unanimously to maintain Bank Rate at 0.5%. 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 £3.2m 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 £15m 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 £143 million during the three month period, compared to £196 million for the same period last financial year.

Table 1: Movement in Investment Balances 01/10/17 to 31/12/17

	Balance as at 01/10/2017 £'000	**Average Rate of Interest %**	**Balance as at 31/12/2017 £'000**	**Average Rate of Interest %**
Short term Investments*	36,190	-	45,214	-
Long term Investments	19,500	-	12,500	-
AAA-rated Stable Net Asset Value Money Market Funds	32,000	-	37,350	-
AAA rated Cash enhanced Variable Net Asset Value Money Market Funds	3,000	-	3,000	-
Covered Bonds	5,703	-	5,703	-
Corporate Bonds	7,503	-	7,463	-
Housing Associations	15,000	-	25,000	-
	118,896	**0.78**	**136,230**	**0.88**

*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
31/10/2017	4.73	A+	4.16	AA-
30/11/2017	4.60	A+	4.17	AA-
31/12/2017	4.69	A+	4.47	AA-

-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

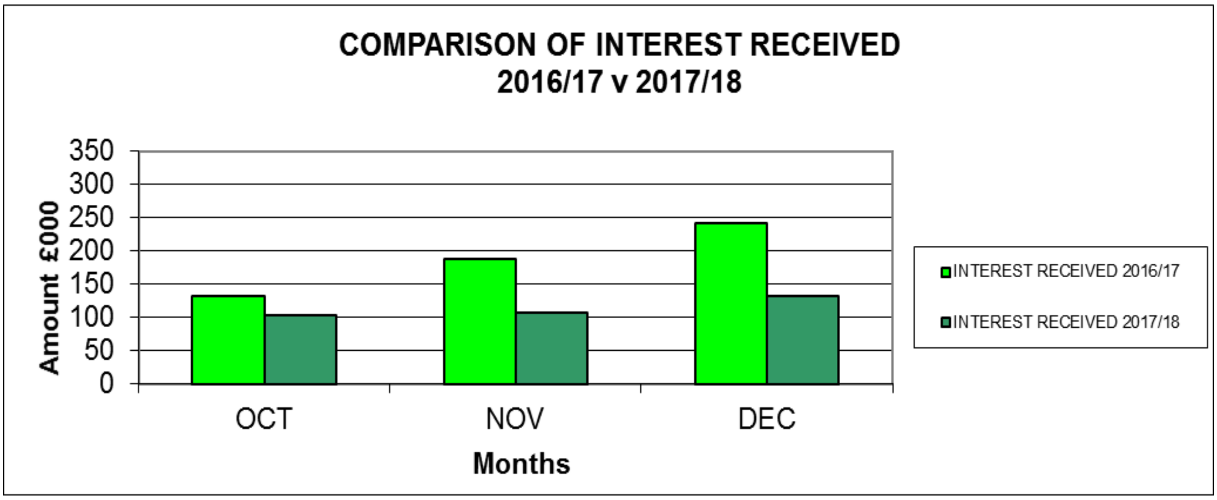
3.5 The Council continues to utilise AAAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances, together with high credit rated call accounts. This type of investment vehicle has continued to provide very good security and liquidity, although yield has suffered in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

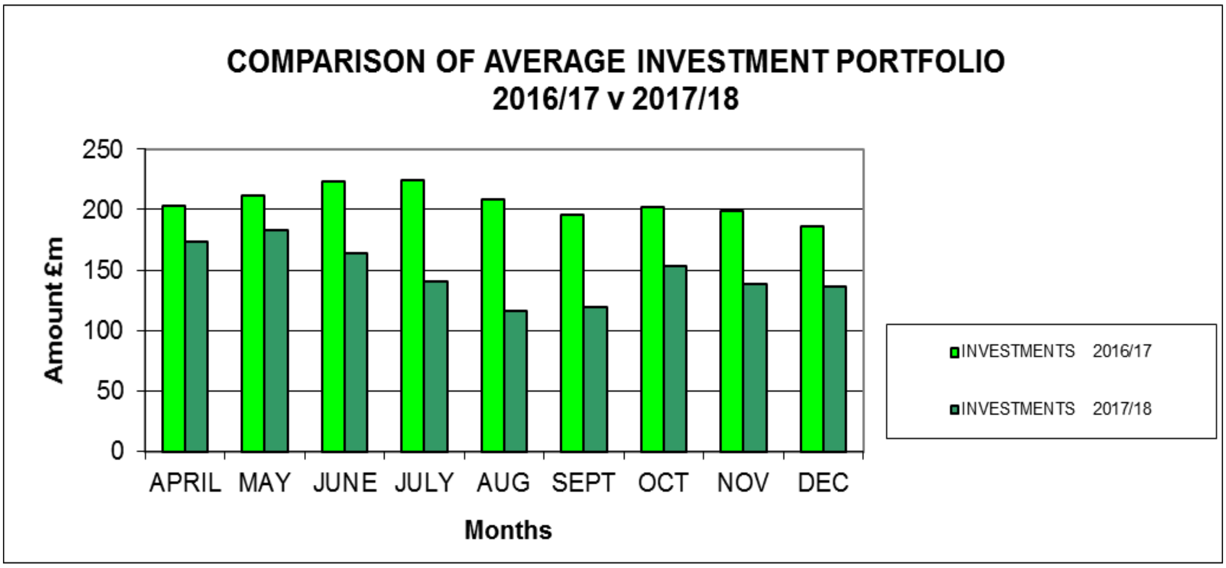
4.2 The graph below provides a comparison of interest earnings for 2017/18 against the same period for 2016/17. The graph highlights that the Council's longer term investment approach is paying dividends with high levels on interest received when taking into account the investment market environment.

Average interest received for the period October to December 2017 was £114k compared to £188k for the same period last financial year.



5. Movement in Investment Portfolio

5.1 Average investment levels have decreased to £147 million at the end of December In comparison to the same period last year of £206 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 2017/18. 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.