Appendices
3

NORTHAMPTON BOROUGH COUNCIL

CABINET REPORT

Report Title	TREASURY MANAGEMENT MID YEAR REPORT 2016-17

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	11 January 2017
Key Decision:	NO
Within Policy:	YES
Policy Document:	NO
Directorate:	LGSS
Accountable Cabinet Member:	Brandon Eldred
Ward(s)	Not Applicable

1. Purpose

1.1 To provide a mid-year update on the Treasury Management Strategy 2016-17, approved by Council in February 2016.

2. Recommendations

2.1 Cabinet is recommended to:

a) Note the Treasury Management Mid-Year Report 2016-17
b) Recommend the report to full Council

3. Issues and Choices

3.1 Report Background

3.1.1 Treasury Management is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury

Management (the Code). The Code has been developed to meet the needs of Local Authorities and its recommendations provide a basis to form clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

3.1.2 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("the Treasury Management Code of Practice").

3.1.3 The Treasury Management Code of Practice and the associated guidance notes for local authorities include recommendations on reporting requirements, including the requirement for an annual mid-year report on treasury activities.

3.1.4 Unless otherwise stated the figures and commentary in the report cover the period from 1 April 2016 to 30 September 2016.

3.2 Issues

Summary of Key Headlines

3.2.1 The main highlights for the mid-year report are:

- The average rate of investments to the end of September was 0.80%, which is 0.52% above the benchmark average 7 day Libid of 0.28%.
- The debt financing budget is currently reporting a saving of £370k in 2016-17 due to:
- Lower recharges to the general Fund. This was due to both lower opening balances than originally budgeted for and lower average rates of interest and,
- A lower than budgeted statutory set aside required to cover outstanding borrowing. This is based on the previous financial year's activity where more repayment on borrowing related to short-life assets occurred and some capital expenditure was deferred to the financial year 2016-17.
- Legal steps continue to recover outstanding monies due to the Council on third party loans to the football club.
- Compliance with agreed policies and practices has been monitored during the year to date. There have been no reported breaches.

Economic Environment and Interest Rates

3.2.2 A detailed economic commentary is provided in Appendix 1. This information has been provided by Capita Asset Services (CAS), the Council's treasury management advisors.

3.2.3 The key UK headlines from this analysis are:

- The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August 2016. However, in September, because of an equally sharp recovery in confidence it is generally expected that the economy will post positive growth numbers for the second half of 2016 and 2017albeit at a slower pace.

- The Monetary Policy Committee (MPC) in August 2016 introduced a package of measures including a cut in the Bank Rate from 0.50% to 0.25%, an additional £70bn of quantitative easing and a £100bn tranche of cheap borrowing for banks.
- The Chancellor, Phillip Hammond, announced, after the referendum, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on 23 November.
- The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. The Consumer Price index (CPI) has already started to rise in 2016 because of the low price of oil and food twelve months ago falling out of the calculation during the year and the effect of the post Brexit fall in the value of Sterling.

Summary Portfolio Position

3.2.4 A snapshot of the Council's debt and investment position is shown in the table below. The figures exclude borrowing to fund loans to third parties, and finance leases.

	TMSS Forecast for March 2017 (As agreed by Council Feb 2016)		**Actual as at 31 March 2016**		**Actual as at 30 September 2016**		**Revised Forecast to March 2017**	
	£m	Average Rate %	£m	Average Rate %	£m	Average Rate %	£m	Average Rate %
Long term borrowing								
PWLB	203		188		188		188	
Market	9		9		9		9	
Other	9		6		9		9	
Total long term	**221**		**203**	**3.31**	**206**	**3.28**	**206**	**3.27**
Short term borrowing	0		0		0		0	
Total borrowing	**221**	**3.34**	**203**	**3.31**	**206**	**3.28**	**206**	**3.27**
Investments	**61**	**0.70**	**66**	**0.90**	**68**	**0.72**	**50**	**0.72**
Total Net Debt / Borrowing	**187**		**137**		**138**		**156**	

3.2.5 Further analysis of the Council's borrowing and investments is covered in the following two sections.

Borrowing

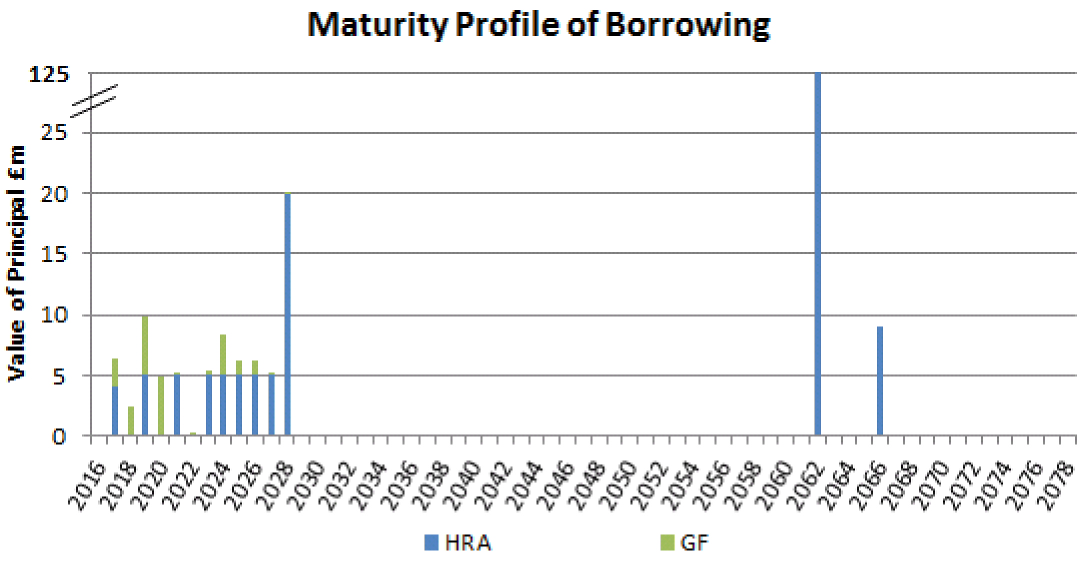
3.2.6 The Council can take out loans in order to fund spending for its Capital Programme. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, forecast reserves and current and projected economic conditions.

New loans and repayment of loans

3.2.7 No new borrowing has been undertaken so far this financial year. Repayments of loan principal under annuity and EIP (Equal Instalment Payments) loan arrangements, mainly but not exclusively relating to borrowing to fund third party loans, have totalled £243k in the year to date.

Maturity profile of borrowing

3.2.8 The following graph shows the maturity profile of the Council's mainstream loans (excluding borrowing for third party loans) split by HRA and GF. All the loans are at a fixed interest rate, which limits the Council's exposure to interest rate fluctuations. The weighted average years to maturity of the portfolio is 31.7 years.



3.2.9 The maturity structure presented above differs from that in the treasury indicators in Appendix 2 in that LOBO loans are included at their final maturity rather than their next call date. In the current low interest rate environment the likelihood of the interest rates on these loans being raised and the loans requiring repayment at the break period is extremely low

Loan restructuring

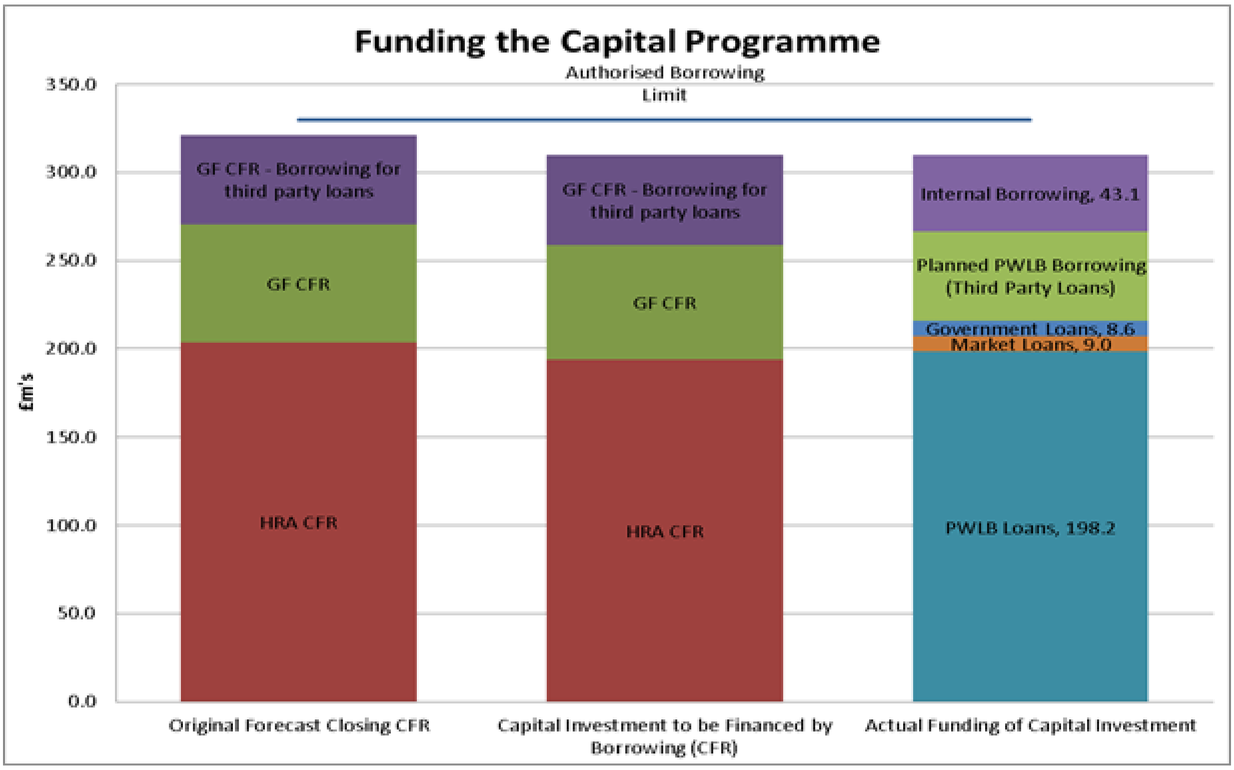
3.2.10 When market conditions are favourable long term loans can be restructured to generate cash savings, reduce the average interest rate and/or enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility (determined by the fixed/variable interest rate mix.)

3.2.11 During the first six months of 2015-16 there were no opportunities for the Council to restructure its borrowing, due to the position of the Council's borrowing portfolio compared to market conditions. Further debt rescheduling will be considered subject to conditions being favourable but it is unlikely that opportunities will present themselves during this year. The position will be kept under review, and when opportunities for savings do arise, debt rescheduling will be undertaken to meet business needs.

Funding the Capital Programme

3.2.12 The Treasury Management Strategy Statement (TMSS) sets out the plan for treasury management activities over the next year. It identifies where the authority expects to be in terms of borrowing and investment levels. When the 2016-17 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR), the Council's liability for financing the agreed Capital Programme, at year end would be £321m (including borrowing to fund third party loans). This figure is naturally subject to change as a result of changes to the approved capital programme and the optimisation of financing.

3.2.13 The graph below compares the maximum the Council could borrow in 2016-17 (the affordable borrowing limit) with the forecast CFR at 31 March 2017 and the forecast of how this will be financed. The figures in the graph include both HRA and GF borrowing, including borrowing to fund third party loans. The majority (£193m) of external borrowing relates to the HRA, arising from the HRA self-financing reforms in March 2012, whereby the Council was required by central government to take on the debt associated with its housing stock.



3.2.14 The graph shows that the Council's planned capital investment funded by borrowing is £20.3m below the Authorised Borrowing Limit set for the Council at the start of the year.

3.2.15 The graph also shows how the Council is planning to fund its 31 March 2017 borrowing requirement. £50.8m of external borrowing from the PWLB is expected to be undertaken to fund loans to third parties (primarily the University of Northampton); and £43.1m of internal borrowing is forecast by the end of the year, to finance capital investment. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.

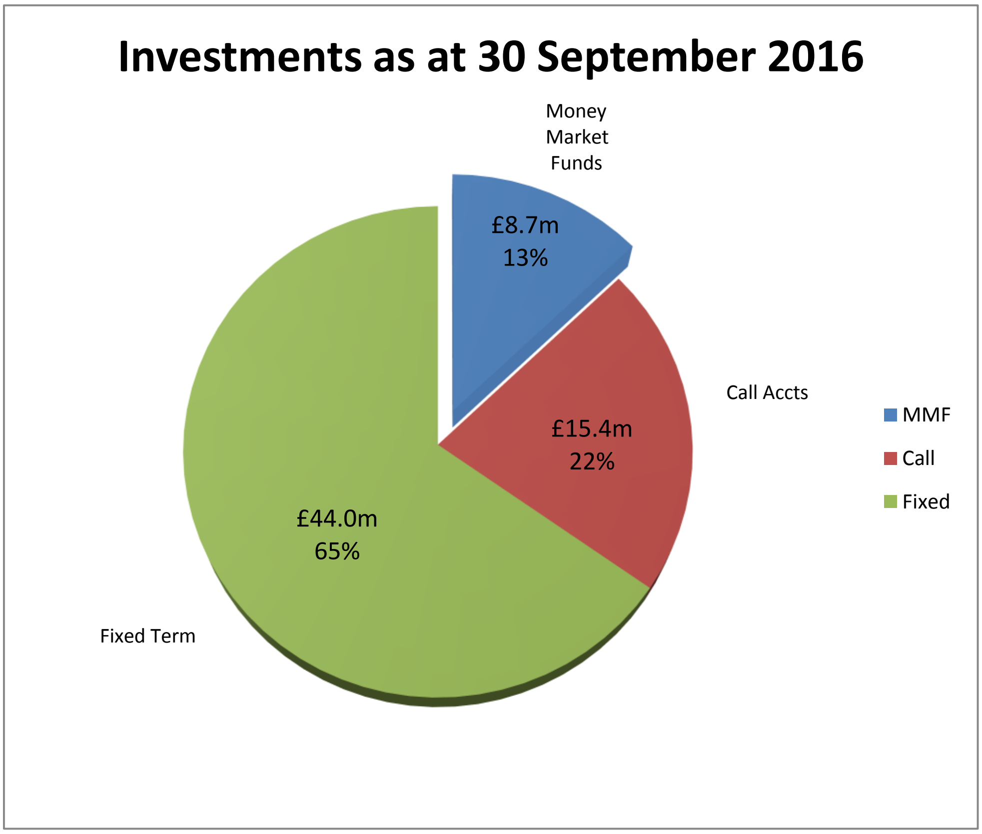
Investments

3.2.16 Investment activity is carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2016-17. This ensures that the principle of considering security, liquidity and yield, in that order (SLY), is consistently applied. The Council will therefore aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity. Any variations to agreed policies and practices are reported to Cabinet and Council.

3.2.17 The strategy currently employed by the Council of internal borrowing also has the effect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

3.2.18 As at 30 September the level of investments totalled £68.1m. The level of cash available for investment is as a result of reserves, balances and working capital the Council holds. These funds can be invested in money market deposits, placed in funds or used to reduce external borrowings.

3.2.19 All investments are made according to the requirements of the Council's Investment Strategy and agreed credit worthiness criteria. A breakdown of investments by type (Fixed Term, Money Market Funds, Call Accounts) are shown in the pie chart overleaf.



3.2.20 The table below compares the investment returns achieved over the six month period with 7 day Libid rate, which is used to benchmark performance.

3.2.21

Investment Returns	7 day Libid	Average rate	Uplift to 7 day Libid Rate
	%	%	%
Apr-16	0.36	0.85	0.49
May-16	0.36	0.85	0.49
Jun-16	0.36	0.81	0.45
Jul-16	0.35	0.81	0.46
Aug-16	0.14	0.80	0.66
Sep-16	0.12	0.69	0.57
Average to end of September	**0.28**	**0.80**	**0.52**

3.2.22 From the table, it can be seen that average rate of investments over the period was 0.80%, which is 0.52% above the average 7 day Libid of 0.28%.

3.2.23 Where appropriate, investments have been locked out for periods of up to one year with suitable counterparties, including the UK part nationalised banks, at higher rates of interest. In a rising interest rate environment it is appropriate to keep investments fairly short in duration so as to take advantage of interest rate rises as soon as they occur. The weighted average time to maturity of investments at 30 September is 95 days, and 146 days when excluding Call

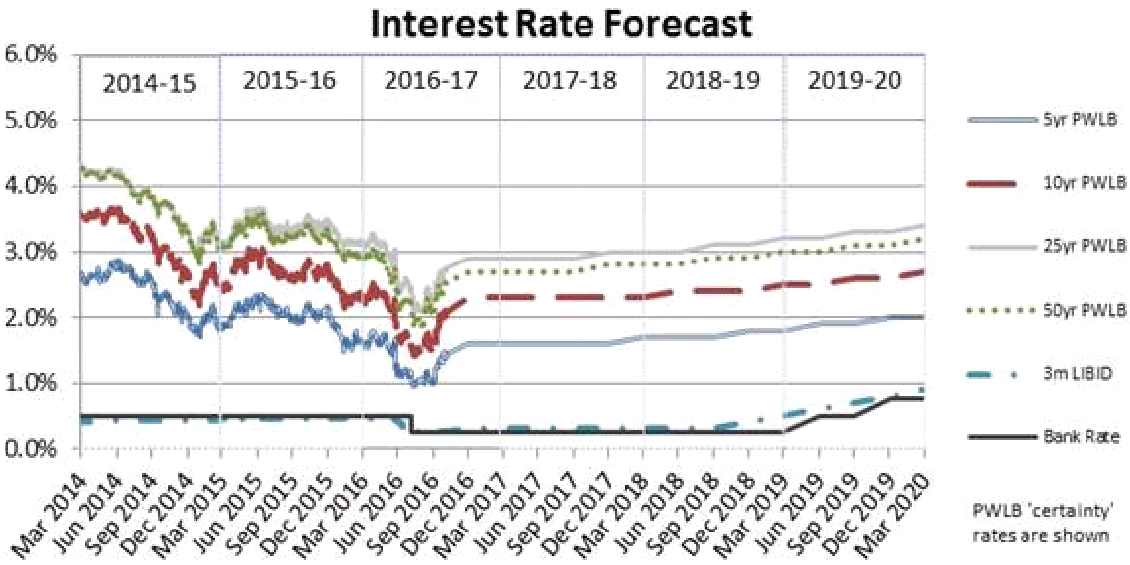
Accounts and Money Market Fund investments.

3.2.24 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled through the creditworthiness policy approved by Council. The duration of an investment introduces liquidity risk; the risk that funds can't be accessed when required, and interest rate risk; the risk that arises from fluctuating market interest rates. These factors and associated risks are actively managed by the LGSS Treasury team together with the Council's Treasury Advisors.

3.2.25 During the six month period, none of the Council's counterparties with live investments have been affected by changes that have resulted in downgrades by Capita to the recommended investment period.

Outlook

3.2.26 The current interest rate forecast from Capita Asset Services is shown in the graph below.



3.2.27 The current interest rate forecast, updated following the referendum result to take account of the Monetary Policy Committee meeting of the 4th August which cut Bank Rate from 0.5% to 0.25%, is shown in the graph above. The Bank Rate was further confirmed by the MPC on 3 November 2016 when it was held at 0.25%. Clearly, the performance of the economy over the coming months will be critical to this decision. The forecast now is for an increase in Bank Rate in June 2019 to 0.5%, but this will very much depend on how strongly and how soon the economy makes a gradual recovery, and so start a process of very gradual increases in Bank Rate over a prolonged period

3.2.28 Geopolitical events, sovereign debt crisis developments and slowing emerging market economies make forecasting PWLB rates highly unpredictable in the shorter term. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

3.2.29 From a strategic perspective, the Council is continually reviewing options as to the timing of any potential borrowing and also the alternative approaches around further utilising cash balances and undertaking shorter term borrowing which could potentially generate savings subject to an assessment of the interest rate risks involved. Cash flows in the last couple of years have been sufficiently robust for the Council to use its balance sheet strength and avoid taking on new borrowing. New external borrowing will be required at some point in the near to medium term to support the Councils capital programme.

Third Party Loans

3.2.30 As at 30 September £51.7m of third party loans to local organisations were in place, of which £50.8m were funded by PWLB borrowing.

3.2.31 The majority of the outstanding loan balance relates to the University of Northampton where the Council has worked with the South East Midlands Local Enterprise Partnership (SEMLEP) to secure the LEP project rate from PWLB for a loan facility of £46 million to support the creation of a waterside campus. The loan was drawn down on 10 March 2016.

3.2.32 Other loans included in the balance are to Cosworth, Unity Leisure and Northampton Rugby Football Club. The loan to Northampton Town Football Club is no longer included in this balance,

3.2.33 Interest and principal repayments for all of loans included in the balance have been paid in accordance with the loan agreements.

Regular Monitoring

3.2.34 An investment register is maintained, and updated on a daily basis, showing current investments and deposit account balances with counterparties used, investment durations and interest rates achieved.

3.2.35 Monthly reconciliations are completed for outstanding investment principal, interest received, outstanding borrowing principal and interest paid to ensure all transactions have been made and recorded accurately.

3.2.36 The debt financing budget has been monitored monthly since the start of the year, with any significant variances reported as part of the corporate financial performance reports.

3.2.37 Prudential and treasury indicators are monitored on a regular basis, and any variances or breaches of the indicators are reported to Cabinet and Council on a timely basis.

Debt Financing Budget

3.2.38 The debt financing budget is currently forecast to underspend by £370k, as set out in the table below.

DEBT FINANCING BUDGET 2016-17	As at 30 September 2016		
	Budget	Forecast	Variance to Budget
	£000	£000	£000
Debt Financing & Interest			
Interest Payable	1,784	1,785	1
Interest Receivable	(1,755)	(1,704)	51
Soft Loan Adjustments	0	0	0
Minimum Revenue Provision	1,429	1,152	(277)
Recharges from/(to) HRA - Interest on cash balances	393	248	(145)
Total Debt Financing & Interest	**1,851**	**1,481**	**(370)**

3.2.39 The forecast underspend is primarily due to the following:

- **Interest receivable on investments £51k** – Lower average rates of interest on investments have been achieved than anticipated at the time the budget was set (0.60% compared to 0.90% budgeted).

- **MRP (£227k)** – Significant savings were generated due to the repayment of borrowing on short-life assets during 2015-16 and the carrying forward of some capital expenditure into 2016-17. The MRP calculation is based on the 2015/16 activity, so the 2016/17 budget impact is now fixed and will not change.

- **Recharges from/(to) the HRA (£145k)** – This charge is forecast below budget due to lower opening balances than originally budgeted and lower average rate of interest assumed on investments (0.60% compared to 0.90% budgeted).

Compliance with Treasury Limits and Prudential Indicators

3.2.40 With effect from 1st April 2004 The Prudential Code became statute as part of the Local Government Act 2003 and was revised in 2011.

3.2.41 The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable. To ensure compliance with this the Council is required to set and monitor a number of Prudential Indicators.

3.2.42 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 2. There have been no breaches of any indicators during the first half of the financial year.

Variations (if any) from or to agreed policies and practices

3.2.43 Compliance with agreed policies and practices has been monitored during the year to date. There have been no reported breaches in the first six months of this year.

Bank Overdraft Facilities

3.2.44 A cost-benefit exercise was undertaken in late 2014-15 to determine what level of overdraft facility represented best value for money for the Council, based on a risk assessment of possible overdrawn scenarios. As the Council maintains very tight control of its cash balances, it was determined that the most cost effective approach was not to renew the overdraft facility when it came up for renewal in April 2015. This change to the Council's Treasury Strategy was approved by the Chief Finance Officer.

3.3 Choices (Options)

3.3.1 This report asks Cabinet to note the performance of the treasury management function against the Treasury Management Strategy Statement 2016/17 that was approved by Council in February 2016 and as such provides no options for Members to decide on.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The Council is required to adopt the latest CIPFA Treasury Management Code of Practice, and to set and agree a number of policy and strategy documents. These policy documents are reported to Cabinet and Council as part of the budget setting process. The Council's Treasury Strategy for 2016-17 was approved by Council on 29 February 2016.

4.1.2 This report complies with the requirement to submit a mid-year treasury management review report to Council.

4.2 Resources and Risk

4.2.1 The resources required for the Council's debt management and debt financing budgets are agreed annually through the Council's budget setting process. The latest debt financing budget position is shown in the body of the report.

4.2.2 The risk management of the treasury function is specifically covered in the Council's Treasury Management Practices (TMPs), which are reviewed annually. Treasury risk management forms an integral part of day-to-day treasury activities.

4.3 Legal

4.3.1 The Council is obliged to carry out its treasury management activities in line with statutory requirements and associated regulations and professional guidance.

4.4 Equality and Health

4.4.1 An Equalities Impact Assessment was carried out on the Council's Treasury Strategy for 2016-17, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs. The EIA assessment is that a full impact assessment is not necessary, as no direct or indirect relevance to equality and diversity duties has been identified

4.5 Consultees (Internal and External)

4.5.1 Consultation on treasury management matters is undertaken as appropriate with the Council's treasury advisors, Capita Asset Services, and with the Portfolio holder for Finance.

4.5.2 Under the regulatory requirements, the Audit Committee has been nominated by Council as the body responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. This role includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and the making of recommendations to Council. This report will be presented to Audit Committee at their meeting of 18 January 2017.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 Management of performance in relation to treasury management activities supports the Council's priority of making every £ go further.

4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

5.1 Treasury Management Strategy Statement 2016/17

Glenn Hammons, Chief Finance Officer 0300 330 7000

Appendix 1

Economic Update provided by Capita Asset Services for the period to 30 September 2016

UK

GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which was interpreted as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post positive growth numbers through the second half of 2016 and in 2017, albeit at a slower pace than in the first half of 2016.

The Monetary Policy Committee (MPC) meeting on 4th August was dominated by consideration of the initial shock fall in business surveys and the expected sharp slowdown in growth. The result was a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing for banks to use to lend to businesses and individuals. The Bank of England quarterly Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8% and the forecast for 2018 to 1.8%. However, some forecasters think that the Bank has been too pessimistic with its forecasts; since then, later statistics and the sharp recovery in business surveys have provided support for this view. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor, Phillip Hammond, announced, after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on 23rd November.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI had already started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 18% fall in the value of sterling on a trade weighted basis, (as at late October), is likely to result in additional upward pressure on CPI. However, this further increase in inflationary pressures will take 2-3 years to gradually work its way through the economy so is unlikely to cause major concern to the MPC unless the increases are stronger than anticipated. The MPC is, therefore, on balance, expected to look thorough this one off upward blip in inflation from the devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures *arising from within* the UK economy. The Bank of England will most probably have to revise its inflation forecasts significantly higher in its 3rd November quarterly Inflation Report: this rise in inflation expectations has caused investors in gilts to demand a sharp rise in longer term gilt yields, which have already risen by around fifty basis points since mid-August. It should be noted that 27% of gilts are held by overseas investors who will have seen the value of their gilt investments fall by 18% as a result of the devaluation of sterling, (if their investments had not been currency hedged). In addition, the price of gilts has fallen further due to a reversal of the blip up in gilt prices in early August after further quantitative easing was announced - which initially drove yields down, (i.e. prices up). Another factor that is likely to dampen gilt investor sentiment will be a likely increase in the supply of gilts if the Chancellor slows down the pace of austerity and the pace of reduction in the budget deficit in the Autumn Statement - as he has already promised. However, if there was a more serious escalation of upward pressure on gilt yields, this could prompt the MPC to respond by embarking on even more quantitative easing, (purchases of gilts), to drive gilt yields back down.

USA

The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Federal Reserve embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December 2016. Overall, despite some data setbacks, the US is still probably the best positioned of the major world economies to make solid progress towards a balanced combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis.

EZ

In the Eurozone, the ECB commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016, (1.7% y/y), but slowed to +0.3%, (+1.6% y/y), in quarter 2. Forward indications are that economic growth in the EU is likely to continue at moderate levels with Germany continuing to outperform other major European economies. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant political risks within the EZ in as much as Spain has held two general elections since December 2015 and still been unable to form a functioning government holding a majority of seats, while the Netherlands, France and Germany face general elections in 2017. A further cause of major political tension and political conflict, is one of the four core principals of the EU – the free movement of people within the EU, (note – not in just the Eurozone common currency area). In addition, Greece has been a cause of major concern in terms of its slowness in delivering on implementing fundamental reforms required by the EU to reduce its budget deficit in exchange for the allocation of further bailout money.

Another area of major concern is that many Italian banks are exposed to substantial amounts of underperforming loans and are undercapitalised. Some German banks are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also ‘too big, and too important to their national economies, to be allowed to fail’.

Appendix 2

Prudential and Treasury Indicators as at 30 September 2016

Prudential Indicators

Affordability

a) Estimate of the ratio of financing costs to net revenue stream

Ratio of financing costs to net revenue stream		
	2016-17	2016-17
	Estimate %	Forecast as at 30 September 2016
General Fund	6.90%	5.86%
HRA	35.56%	35.64%

b) Estimate of the incremental impact of capital investment decisions on the council tax

Estimates of incremental impact of new capital investment decisions on the Council Tax	
	2016-17
	Estimate £.p
General Fund	0.59

This indicator is set before the start of the financial year, in the context of the budget setting process, which feeds into the setting of Council Tax and Housing Rents. As these are set and fixed for the financial year ahead, any capital investment decisions made during the year cannot impact on the existing Council Tax and Housing rent levels. This means that new capital investment plans approved during the year must be funded externally or from within existing resources.

c) Estimate of the incremental impact of capital investment decisions on the housing rents

Estimates of incremental impact of new capital investment decisions on weekly housing rents	
	2016-17
	Estimate £.p
HRA	0.25

This indicator is set before the start of the financial year, in the context of the budget setting process, which feeds into the setting of Council Tax and Housing Rents. As these are set and fixed for the financial year ahead, any capital investment decisions made during the year cannot impact on the existing Council Tax and Housing rent levels. This means that new capital investment plans approved during the year must be funded externally or from within existing resources.

Prudence

d) Gross debt and the capital financing requirement (CFR)

Gross external debt less than CFR					
	Excluding third party loans			**Including third party loans**	
	2016-17 Budgeted	2016-17 Forecast at 30 Sep 2016		2016-17 Budgeted	2016-17 Forecast at 30 Sep 2016
	£000	£000		£000	£000
Gross external debt at 30 Sep 2016	215,998	216,155		267,328	266,989
2015-16 Closing CFR	248,431	248,573		299,761	299,913
Changes to CFR:					
2016-17	11,738	10,114		11,458	9,834
2017-18	10,126	9,021		9,846	8,741
2018-19	7,215	6,691		6,935	6,411
Adjusted CFR	277,510	274,399		328,000	324,899
Gross external debt less than adjusted CFR	Yes	Yes		Yes	Yes

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure		
	2016-17	2016-17
	Estimate £000	Outturn Forecast at 30 Sep 2015 £000
General Fund	14,532	21,888
HRA	34,592	34,592
Total	**49,124**	**56,480**
Loan to Third Parties	0	0
Total	**49,124**	**56,480**

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)		
	2016-17	2016-17
	Estimate £000	Forecast at 30 Sep 16 £000
General Fund	66,651	64,769
HRA	194,518	193,918
Total	**260,169**	**258,687**
Loan to Third Parties	51,050	51,060
Total	**311,219**	**309,747**

<u>External Debt</u>

g) Authorised limit for external debt

Authorised Limit for external debt		
	2016-17	2016-17
	Boundary £000	Actual as at 30 Sep 2016 £000
Borrowing	325,000	266,640
Other long-term liabilities	5,000	348
TOTAL	**330,000**	**266,988**

h) Operational boundary for external debt

Operational boundary for external debt		
	2016-17	2016-17
	Boundary £000	Actual as at 30 Sep 2016 £000
Borrowing	315,000	266,640
Other long-term liabilities	5,000	348
TOTAL	**320,000**	**266,989**

i) HRA Limit on Indebtedness

HRA Limit on Indebtedness	
2016-17	2016-17
£000	Forecast Closing HRA CFR 31 March 2015 as at 30 Sep 2016 £000
217,001	193,918

i) Adoption of the CIPFA code of Practice for Treasury Management in the Public Services

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Code). The adoption is included in the Council's Constitution (Feb 2013) at paragraph 6.10 of the Financial Regulations.

Treasury Indicators

1a. Upper Limits on interest rate exposures – investments

Upper limits on interest rate exposures - Investments		
	2016-17	2016-17
	Limit %	Actual as at 30 September 2016 %
Fixed Interest Rate Exposures	150%	110%
Variable Interest Rate Exposures	150%	-10%

1b. Upper limits on interest rate exposures – Borrowing

Upper limits on interest rate exposures - Borrowing		
	2016-17	2016-17
	Limit %	Actual as at 30 September 2016 %
Fixed Interest Rate Exposures	100%	65%
Variable Interest Rate Exposures	100%	35%

Figures exclude borrowing for third party loans

1c. Upper limits on interest rate exposures - Net borrowing

Upper limits on interest rate exposures - Investments and Borrowing		
	2016-17	2016-17
	Limit %	Actual as at 30 September 2016 %
Fixed Interest Rate Exposures	100%	96%
Variable Interest Rate Exposures	100%	4%

Figures exclude borrowing for third party loans

2. Total principal sums invested for periods longer than 364 days

Upper limit on investments for periods longer than 364 days		
	2016-17	2016-17
	Upper Limit £000	Actual at 30 Sep 2016 £000
Investments longer than 364 days	4,000	0

3. Maturity Structure of Borrowing

Maturity structure of borrowing			
	2016-17	2016-17	2016-17
	Lower Limit %	Upper Limit %	Actual at 30 Sep 2016 %
Under 12 months	0%	20%	7%
1-2 years	0%	20%	1%
2-5 years	0%	20%	9%
5-10 years	0%	20%	12%
10 -20 years	0%	40%	12%
20-30 years	0%	60%	0%
30-40 years	0%	80%	0%
Over 40 years	0%	100%	58%

The table shows the maturity structure of Council's mainstream loans (excluding borrowing to fund third party loans).

The guidance for this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity. The Council's LOBO loan is therefore included in the figure maturing in less than 12 months.

Appendix 3

NBC Investment Portfolio as at 30 September 2016

Class	Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Deposit	Fixed	NBC/LT/77	16/12/2014	16/12/2016	Blaenau Gwent County Borough Council	Maturity	0.93%	-2,500,000.00
Deposit	Fixed	NBC/CE/121	18/12/2015	16/12/2016	The Toronto-Dominion Bank	Maturity	0.99%	-4,000,000.00
Deposit	Fixed	NBC/ST/134	19/02/2016	17/02/2017	Landesbanken Hessen-Thueringen Girozentrale (Helaba)	Maturity	0.92%	-3,000,000.00
Deposit	Fixed	NBC/ST/142	06/05/2016	05/05/2017	The Toronto-Dominion Bank	Maturity	0.90%	-5,000,000.00
Deposit	Fixed	NBC/ST/143	02/06/2016	02/12/2016	Sumitomo Mitsui Banking Corporation Europe Ltd	Maturity	0.70%	-5,000,000.00
Deposit	Fixed	NBC/ST/144	10/06/2016	10/03/2017	Bank of Montreal	Maturity	0.68%	-5,000,000.00
Deposit	Fixed	NBC/ST/145	07/07/2016	06/01/2017	Nationwide Building Society	Maturity	0.55%	-5,000,000.00
Deposit	Fixed	NBC/ST/148	02/08/2016	31/07/2017	Landesbanken Hessen-Thueringen Girozentrale (Helaba)	Maturity	0.62%	-3,000,000.00
Deposit	Fixed	NBC/ST149	04/08/2016	03/02/2017	Goldman Sachs International Bank	Maturity	0.59%	-2,500,000.00
Deposit	Fixed	NBC/ST/117	09/11/2015	07/11/2016	The Toronto-Dominion Bank	Maturity	0.89%	-2,000,000.00
Deposit	Fixed	NBC/ST/118	24/11/2015	22/11/2016	Landesbanken Hessen-Thueringen Girozentrale (Helaba)	Maturity	1.07%	-3,000,000.00
Deposit	Fixed	NBC/ST/153	07/09/2016	06/09/2017	The Toronto-Dominion Bank	Maturity	0.57%	-4,000,000.00
Fixed Total							**1.57%**	**-44,000,000.00**
Deposit	Call	NBC/ST/119 (180 DAY)	07/12/2015		Santander UK plc	Maturity	0.90%	-7,000,000.00
Deposit	Call	NBC/CE/115 (95 DAY)	06/10/2015		Santander UK plc	Maturity	0.65%	-5,000,000.00
Deposit	Call	NBC/ST/120 (120 DAY)	07/12/2015		Santander UK plc	Maturity	0.80%	-3,000,000.00
Deposit	Call	NBC/CE/1	31/03/2014		HSBC Bank plc	Maturity	0.07%	-410,000.00
Call Total							**0.78%**	**-15,410,000.00**
Deposit	MMF	NBC/CE/4	31/03/2014		Insight Liquidity Sterling C3	Maturity	0.35%	-2,367,000.00
Deposit	MMF	NBC/CE/3	31/03/2014		SLI Sterling Liquidity/Cl 2	Maturity	0.37%	-4,110,000.00
Deposit	MMF	NBC/CE/63	01/07/2014		LGIM Sterling Liquidity 4	Maturity	0.35%	-2,210,000.00
MMF Total							**0.36%**	**-8,687,000.00**
Deposit Total							**1.38%**	**-68,097,000.00**