Appendices
3

NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	TREASURY MANAGEMENT OUTTURN 2015-16

AGENDA STATUS: **PUBLIC**

Cabinet Meeting Date:	7 September 2016
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 inform Cabinet of the Council's performance in relation to its borrowing and investment strategy for 2015-16, and provide an update of the same in respect of the first quarter of 2016-17.

2. Recommendations

2.1 That Cabinet recommend to Council that they note the Council's treasury management performance for 2015-16 (outturn), and treasury management data for quarter 1 of 2016-17.

3. Issues and Choices

3.1 Report Background

CIPFA Code of Practice on Treasury Management in the Public Services

3.1.1 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").

3.2 Issues

Summary of Key Headlines

3.2.1 The main headlines for the period are as follows:

- The Council continued to make use of internal borrowing to fund its capital expenditure programme, generating savings in the revenue budget. This benefits the Council's revenue budget position as the costs of external borrowing are avoided, at least until such time as the Council's cash position or interest rate conditions change and there are drivers to go to the external market. See paragraph 3.2.16 to 3.2.21

- Loans to the value of £46m were made to the University of Northampton in March 2016 to facilitate the construction of a new waterside campus. The loans were funded by PWLB borrowing of £46m at a special 'project rate' applied for by SEMLEP. See paragraphs 3.2.9 and 3.2.46

- In house investment returns received on cash balances compared favourably to the benchmarks. A return of 0.77% was achieved compared to the average 7 day LIBID benchmark of 0.36%. In respect of local authority benchmarks the NBC performance has been above the comparator group averages throughout the year. See paragraphs 3.2.27 to 3.2.34.

- The debt financing budget outturn was £624k under budget. This saving arose from a number of factors, including internal funding of borrowing requirements, higher cash balances and investment rates than budgeted and reduced Minimum Revenue Provision (MRP) requirements on borrowing to fund prior years' capital programme expenditure. See paragraphs 3.2.47 to 3.2.48

- The Council has operated throughout the year within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices. See paragraphs 3.2.49 to 3.2.51

- The borrowing position at the end of quarter 1 2016-17 has reduced by £225k due loan repayments and capitalisation of interest on government borrowing, and movements in temporary borrowing. See paragraph 3.2.22

- Investment balances during quarter 1 2016-17 averaged £73m, with a weighted average rate of interest of 0.84%. See paragraph 3.2.35 to 3.2.37

The Economic Environment

3.2.2 A detailed commentary for the quarter ending 30 June 2016 is provided in **Appendix 1** to advise Members of the latest economic position. This information has been provided by Capita Asset Services – Treasury Solutions (CAS Treasury Solutions), the Council's treasury management advisors.

3.2.3 The key UK economic messages are as follows:

- The growth rate in 2015 and the first quarter of 2016 was disappointing compared with the two previous years;
- The Governor of the Bank of England, Mark Carney, has warned that the vote for Brexit is anticipated to cause a slowing in growth, and the Monetary Policy Committee (MPC), are likely to cut the bank rate and would consider doing further quantitative easing purchasing of gilts in order to support growth;
- Sterling has fallen against the Euro by 14% from its peak in November 2015;
- The government target of achieving a UK budget surplus by 2020 has been eased;
- The May Bank of England Inflation Report forecasts inflation barely getting back up to the 2% target within the 2-3 year time horizon. However beyond that period there is likely to be an acceleration in the pace of increase in inflation

Risk implications of decisions taken and transactions executed

3.2.4 The Treasury Management Code of Practice identifies eight main treasury management risks. Definitions of these are included in the Council's Treasury Management Practices (TMPs) for 2015-16. The management of these risks during 2015-16 is covered in the following paragraphs.

a) Credit and counterparty risk – This continued to be an area of considerable risk for all local authority investors, given the prevailing uncertain economic and banking environment. The Council managed this risk extremely closely during the year through strict adherence to its treasury management policies and practices and a tightly controlled counterparty list that took into account a range of relevant factors including sovereign rating, credit ratings, inclusion in the UK banking system support package and credit default swap spreads. The advice of the Council's treasury management advisors was also an underlying feature. None of the Council's counterparties failed to meet the contractual obligations of their treasury transactions with the Council during 2015-16.

b) Liquidity risk – This was managed effectively during 2015-16 through pro-active management of the Council's cashflow, including the choice of suitable investment values and maturity dates and the maintenance of sufficient levels of liquid cash in money market funds and deposit accounts. The Council also maintained access to temporary borrowing facilities, and overnight loans from Northamptonshire County Council (NCC) were arranged on three occasions in the final quarter of the year to meet the Council's liquidity requirements.

c) Interest rate risk - The Council's upper limits for fixed and variable interest rate exposures in respect of investments, borrowing and net external debt are managed as treasury indicators. These are reported at **Appendix 2**. The indicators were not breached during 2015-16.

d) Exchange rate risk - The Council has a policy of only entering into loans and investments that are settled in £ sterling, and has no treasury management exposure to this category of risk.

e) Refinancing risk – The Council did not refinance any of its debt during 2015-16 and was therefore not exposed to this category of risk during the year.

f) Legal and regulatory risk - The Council carried out its treasury management activities for 2015-16 within the current legal and regulatory framework. LGSS officers responsible for strategic and operational treasury management decisions are required to keep abreast of new legislation and regulations impacting on the treasury management function, and have applied any changes as necessary. Legal and regulatory risks associated with other organisations with which the Council deals in its treasury management activities have been managed through counterparty risk management policies.

g) Fraud, error and corruption and contingency management – LGSS officers involved in treasury management are explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council. All treasury activities must be carried out in strict accordance with the agreed systems and procedures in order to prevent opportunities for fraud, error and corruption. The measures in place to ensure this include a scheme of delegation and segregation of duties, internal audit of the treasury function, detailed procedure notes for dealing and other treasury functions, and emergency and contingency planning arrangements (including a business continuity plan for treasury management).

h) Market risk – Investments that may be subject to fluctuations in market value in some circumstances include certificates of deposit, gilts, bonds and money market funds.

The Council has deposits placed in money market funds whereby the underlying assets of the fund are subject to capital fluctuations as a result of interest rate risk and credit risk. However the structure of the AAA rated funds minimises the movement of capital value due to the restrictions laid down by the credit rating agencies. The Council did not experience any fluctuations in the capital value of its money market funds in 2015-16.

The Council purchased Certificates of Deposit (CDs) in 2015-16. In the main these were held to maturity and were not therefore subject to movement in capital value. Three CDs were sold prior to maturity and a capital gain was realised.

The Council did not invest in gilts or bonds during 2015-16.

Summary Portfolio Position

3.2.5 A snapshot of the Council's debt and investment position is shown in the table below:

	Actual as at 31 March 2015		TMSS 2015-16 31 March 16 Forecast (as agreed by Council Feb 2015)		Actual at 31 March 2016		Actual at 30 June 2016	
	£m	Rate %	£m	Rate %	£m	Rate %	£m	Rate %
Borrowing								
HRA	193.0	3.29%	193.0	3.29%	193.0	3.29%	193.0	3.29%
GF	15.1	3.22%	20.7	3.51%	23.2	2.94%	23.0	2.72%
GF - Third Party Loans	15.5	3.14%	15.3	3.13%	51.1	2.16%	51.1	2.16%
Total Borrowing	**223.6**	**3.28%**	**229.0**	**3.30%**	**267.3**	**3.04%**	**267.1**	**3.05%**
Investments	**64.3**	**0.73%**	**27.0**	**0.70%**	**65.9**	**0.90%**	**69.2**	**0.84%**
Total Net Debt / Borrowing	**159.3**		**202.0**		**201.4**		**197.8**	
Third party loans	**16.9**		**15.30**		**52.38**	**2.28%**	**52.29**	**2.28%**

Note – TMSS 2015-16 Third Party Loan figures exclude the loan to the University of Northampton, which at the time was planned but not budgeted (net nil budgetary effect)

3.2.6 Further analysis of borrowing and investments is covered in the following two sections.

Borrowing

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

New loans and repayment of loans:

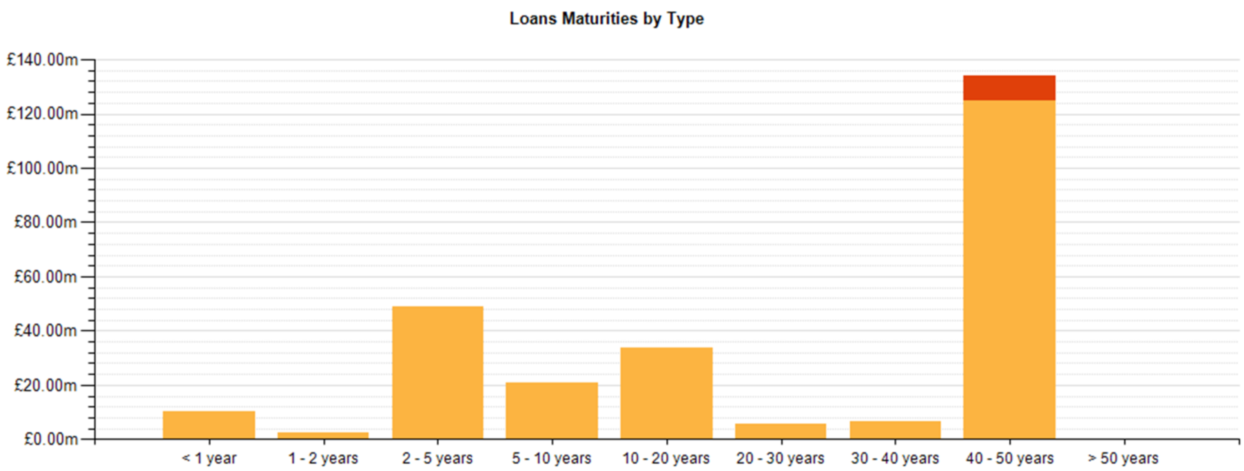
3.2.8 The table below shows the details of new long term loans raised and loans repaid during 2015-16. All borrowing movements shown relate to the General Fund.

Lender	Loan Type	Start Date	Maturity Date	£m	Interest Rate %	Duration (yrs)	Comments
Raised							
Public Works Loan Board	Maturity	10/03/2016	20/03/2021	28.50	1.38	5	To fund third party loan
Public Works Loan Board	Annuity	10/03/2016	10/03/2056	17.50	3.82	40	To fund third party loan
Repaid							
Public Works Loan Board	Maturity	12/01/2010	12/01/2016	2.02	3.47	6	Repayment on maturity
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.05	3.97	25	Repayment of annual EIP amount re borrowing to fund third party loan
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.05	3.97	25	
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.05	3.97	25	
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.05	3.97	25	
Public Works Loan Board	EIP	22/01/2014	22/01/2039	0.07	3.97	25	
Public Works Loan Board	Annuity	22/07/2014	22/07/2039	0.04	3.82	25	Repayment of annual annuity amount
Homes & Communities Agency	Annuity	01/04/1985	01/10/2033	0.02	9.25	49	

3.2.9 Loans totalling £46m were raised in 2015-16 and relate to PWLB borrowing at the project rate to fund loans to the University of Northampton to support the creation of a waterside campus. Loans repaid include a £2m PWLB maturity loan in January 2016, and annual amounts on EIP and annuity loans.

Profile of borrowing:

3.2.10 The following graph and table show the maturity profile of the Council's loans, including borrowing to fund loans to third parties.



Year Ended	Fixed	LOBO Vanilla	Total
< 1 year	£10.088m		£10.088m
1 - 2 years	£2.496m		£2.496m
2 - 5 years	£49.039m		£49.039m
5 - 10 years	£20.753m		£20.753m
10 - 20 years	£33.513m		£33.513m
20 - 30 years	£5.715m		£5.715m
30 - 40 years	£6.416m		£6.416m
40 - 50 years	£125.000m	£9.000m	£134.000m
> 50 years			£0.000m
Grand Total	£253.020m	£9.000m	£262.020m

3.2.11 The graph is dominated by maturities in the 40-50 year period, made up of a 50 year loan of £125m taken out in March 2012 as part of the HRA self-financing and a LOBO loan of £9m assigned to the HRA (represented in red on the graph) maturing in 2066.

3.2.12 The presentation differs from that in the treasury indicator for maturity structure of borrowing at Appendix 2 in that:

a) The graph above includes borrowing to fund loans to third parties; and
b) The Council's remaining LOBO loan is included at final maturity rather than the next call date. In the current low interest rate environment the likelihood of the interest rates on this loan being raised and the loan requiring repayment at the break period is extremely low;

3.2.13 All the Council's borrowing is at a fixed interest rate which limits the Council's exposure to interest rate fluctuations.

Loan restructuring

3.2.14 When market conditions are favourable long term loans can be restructured to:

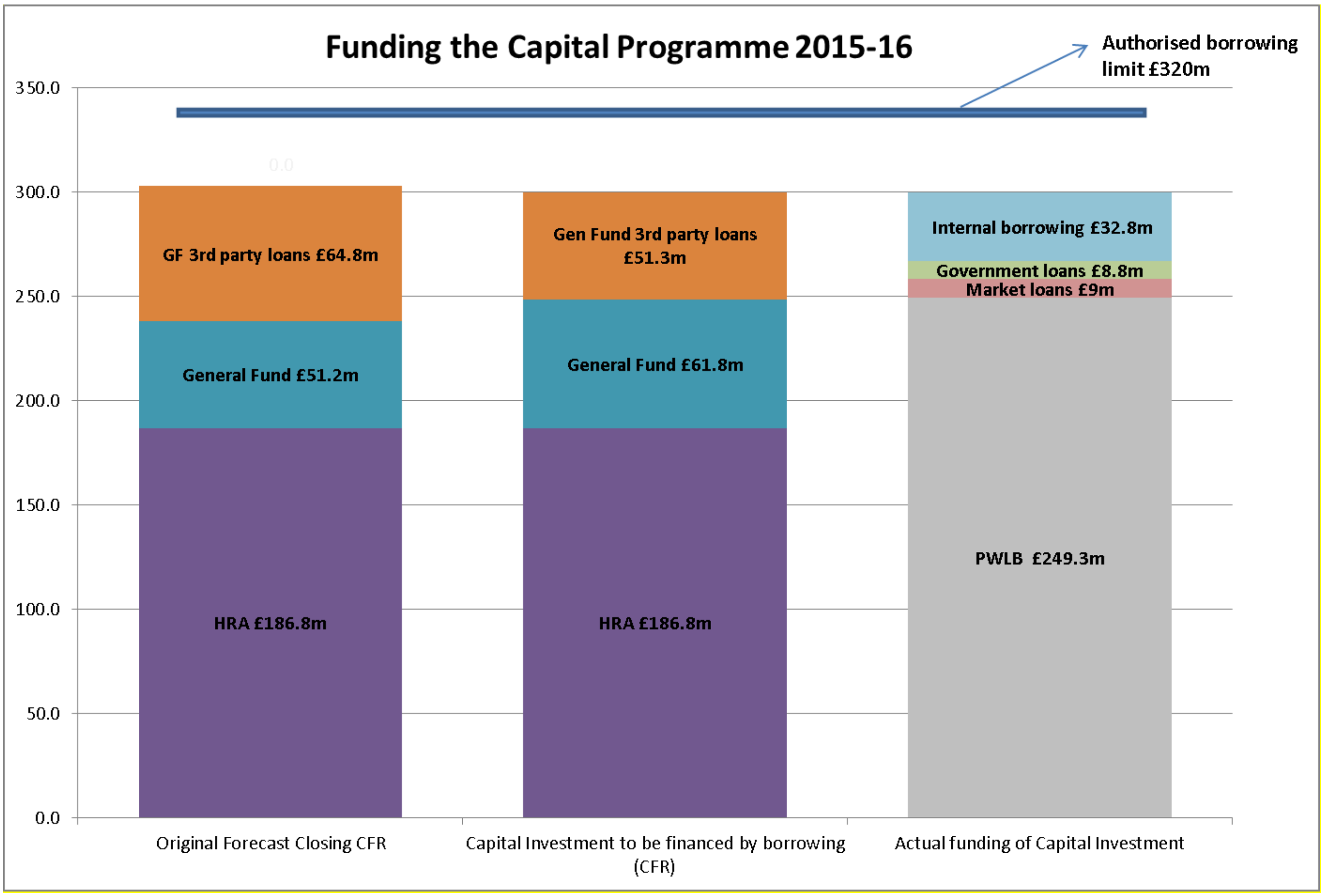
- generate cash savings,
- reduce the average interest rate,
- enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

3.2.15 During 2015-16 there were no opportunities for the Council to restructure its borrowing due to the position of the Council's debt 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 in the near future. 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

3.2.16 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 2015-16 TMSS was set, it was anticipated that the Capital Financing Requirement (CFR), the Council's liability for financing the agreed Capital Programme (including loans to third parties), would be £256.2m. This figure is naturally subject to change as a result of changes to the approved capital programme and carry forwards that might occur.

3.2.17 The graph below compares the maximum the Council could borrow in 2015-16 with the forecast CFR at 31 March 2016 and the actual position of how this was financed as at 31 March 2016.



3.2.18 The graph shows the Council's estimated CFR at budget build and actual CFR at year end split between HRA, General Fund and GF borrowing to fund loans to third parties.

3.2.19 Council's current capital investment financed via borrowing as at 31 March 2016 was £20.1m below the Authorised Borrowing Limit set for by Council at the start of the year.

3.2.20 The Council continued to make use of internal borrowing to fund its capital expenditure programme, generating savings in the revenue budget. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally. This benefits the Council's revenue budget position as the costs of external borrowing are avoided, at least until such time as the Council's cash position or interest rate conditions change and there are drivers to go to the external market.

3.2.21 The graph shows how the Council is currently financing its borrowing requirement. As at 31 March the Council was using £32.8m of internal borrowing to finance capital investment. The strategy of internally borrowing, by carefully managing the Councils balance sheet, is currently the most appropriate strategy which enables savings to be generated and reduces the level of cash invested and credit risk associated with investing.

Quarter 1 2016-17

3.2.22 The borrowing position at the end of quarter 1 2016-17 has reduced by £225k. Movements in the period include loan repayments on Growing Places Fund loans, capitalisation of interest on Local Infrastructure Fund loans and movements in balances deposited with NBC by local organisations under long standing arrangements.

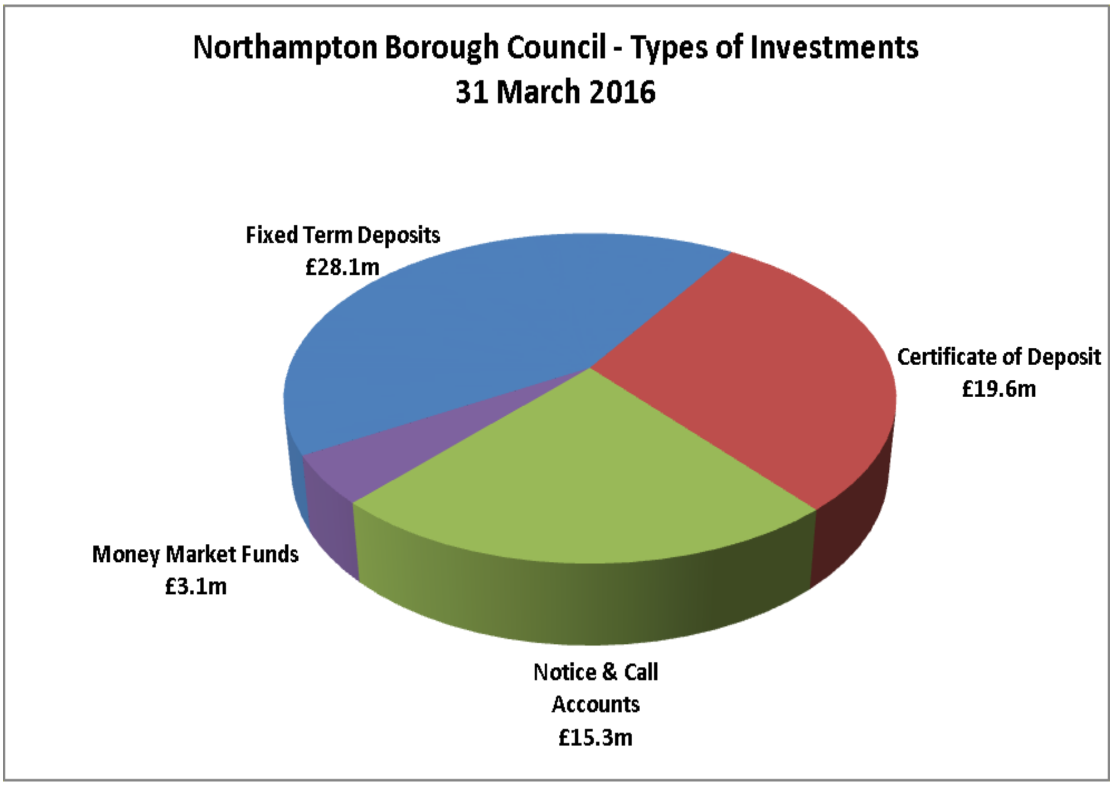
Investments

3.2.23 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 2015-16. 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

3.2.24 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.

3.2.25 The Council's investment portfolio as at 31 March 2016 is attached at **Appendix 3**. As at 31 March the level of investment totalled £65.9m. This excludes loans to third parties, which are classed as long term debtors. 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.

3.2.26 A breakdown of investments as at 31 March by type is shown in the graph below. The majority of investments are fixed term deposits with banks for periods up to one year. Investments are made within the boundaries of the Investment Strategy and credit worthiness criteria. The weighted average time to maturity is 131 days.



Investment Performance

3.2.27 The Council's average rate of return on investments in 2015-16 was 0.77%. Performance above the 7 day LIBID (London Interbank Bid Rate) of 0.36% averaged 0.41% against a target of 0.29%. The average differential to 7 day LIBID represents an uplift of £4,100 per £1m invested.

3.2.28 The ability to meet the 7 day LIBID performance target is reliant on the market providing financial products with suitable rates that also comply with the risk requirements set out within the Council's Treasury Management Strategy.

3.2.29 The Council has benchmarked its investment performance against other local authorities, using the Capita Investment Benchmarking Forum, which provides quarterly benchmarking data on investment returns, on a snapshot basis. The following table sets out the Council's performance compared with other local authorities during 2015-16 using this indicator.

Average Investment Returns 2015-16				
Benchmarking Forum Classification	**30 June 2015**	**30 Sept 2015**	**31 Dec 2015**	**31 March 2016**
Northampton Borough Council	0.75%	0.75%	0.84%	0.90%
Benchmarking Group	0.68%	0.65%	0.71%	0.69%
Non Metropolitan Districts	0.68%	0.68%	0.69%	0.74%
Whole population	0.69%	0.68%	0.70%	0.74%

3.2.30 The circumstances and risk appetite of individual local authorities will be reflected in their returns. For example some local authorities will invest in non-rated building societies and consequently have access to higher rates, but with an increased level of risk; others will limit their investments to the least risky counterparties and investment types such as the DMO and/or government gilts, but with a commensurate reduction in returns. The aim is to optimise returns within the parameters of the Council's Treasury Strategy, which reflects its assessment of risk.

3.2.31 The NBC performance has been above all the comparator group averages throughout the year.

3.2.32 Data produced by CAS shows that, for the value of risk undertaken, the returns generated are above the Model Band. Using credit ratings, the investment portfolio's historic risk of default at 31 March stood at 0.022%. This provides a calculation of the possibility of average default against the historical default rates.

3.2.33 Money market funds have been used for liquidity requirements, and core cash has been locked out for periods of up to one year in fixed term investments, including certificates of deposit, at higher rates of interest. The Council has also made use of notice accounts (up to 180 days) offered by Santander at competitive rates.

3.2.34 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 (CAS).

3.2.35 To ensure the Council is maximising the current opportunities contained in the Treasury Management Strategy it will continue to work with its external treasury management advisers to review the position, and if opportunities exist outside of the existing strategy, it will propose these to senior management and members for consideration.

Quarter 1 2016-17

3.2.36 Investment balances in quarter 1 of 2016-17 averaged £73m, with a weighted average rate of interest of 0.84%. Performance above the 7 day LIBID (London Interbank Bid Rate) of 0.36% averaged 0.48% against a target of 0.29%.

3.2.37 Following the Brexit vote, investment rates are falling and the MPC has cut the bank rate to 0.25%. It is too early to fully assess the Council's likely performance against benchmarks going forward following these changes in the interest rate environment. However the expectation is that the LIBID rate will drop and that the Council's investment performance will also gradually move downwards as existing fixed term investments fall out and are replaced by new investments at lower rates. The gap between the average monthly investment performance compared to 7 day LIBID is expected to reduce as 2016-17 proceeds, with the greatest impact being seen in 2017-18.

3.2.38 At 30 June 2016 the Council's performance continues to compare well with other councils, with a portfolio weighted average rate of return of 0.84%, compared to 0.72% for the benchmarking population average (227 authorities).

Outlook

3.2.39 The Council’s treasury advisor, Capita Asset Services, has provided the following forecast of interest rates:

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB rate	1.00%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.30%
10yr PWLB rate	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.80%	1.90%
25yr PWLB rate	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
50yr PWLB rate	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%

3.2.40 Capita Asset Services undertook a quarterly review of its interest rate forecasts on 4 July 2016 after letting markets settle down somewhat after the Brexit result of the referendum on 23 June. It is generally agreed that this outcome will result in a slowing in growth in the second half of 2016 at a time when the Bank of England has only limited ammunition in its armoury to promote growth by using monetary policy. Capita therefore expect that Bank Rate will be cut by 0.25%, probably at the 14 July MPC meeting but possibly at its quarterly Inflation Report meeting on 4 August when it has a greater opportunity to report in depth on its research and findings. Bank Rate could even be cut to 0% or 0.10% over this period. Thereafter, Capita do not expect the MPC to take any further action on Bank Rate in 2016 or 2017 as they expect the pace of recovery of growth to be weak during a period of great uncertainty as to the final agreement between the UK and the EU on arrangements after Brexit. However, the MPC may also consider renewing a programme of quantitative easing; the prospect of further purchases of gilts in this way has already resulted in 10 year gilt yields falling below 1% for the first time ever. Capita do not expect Bank Rate to start rising until quarter 2 2018 and for further increases then to be at a slower pace than before. The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and for some consumers, who have had no increases in pay, could be non-existent (other than through some falls in prices).

3.2.41 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 this year have been sufficiently robust for the Council to use its balance sheet strength and avoid taking on new borrowing.

Third Party Loans

3.2.42 The Council has made a number of loans to third parties, and details are set out in the following paragraphs

3.2.43 Cosworth - A loan of £1.4m was made to Cosworth in 2014-15 to fund the acquisition of machinery at their new factory in the Enterprise Zone. Repayments of principal are on an EIP basis, with the final payment due on 1 January 2019.

3.2.44 Northampton Town Football Club – Loans were made to Northampton Town Football Club during 2013-14 and 2014-15 to improve stadium facilities at Sixfields (£9m) and to develop a hotel at Sixfields (£1.25m). These were funded by PWLB borrowing. However, following failure by NTFC to pay due payments on the loan interest between May and September 2015, NBC made the decision to protect the public purse and exercised its rights under the loan agreement requiring immediate repayment of the remaining £10.22m of loans in totality (consisting of the original loan of £10.25m less repayments that had been made). When this did not materialise, the Council took action to formally cancel the loan agreements. In November 2015, new owners purchased NTFC. In order for NBC to recover the full £10.22m from the previous owners, the Council agreed to assign the £10.22m loan debt from NTFC back to NBC. The loan has been fully impaired in NBC's accounts for 2015-16.

3.2.45 Northampton Town Rugby Football Club – Loans totalling £5.5m were made to the Rugby Club during 2013-14. The loan arrangements are in the form of 25 year EIP loans. Funding for the loans was through PWLB borrowing.

3.2.46 Unity Leisure – A 5 year loan of £300k was made to Northampton Leisure Trust on 10 July 2015 to facilitate the purchase a soft play facility in Northampton. Repayments of principal are on an EIP basis.

3.2.47 University of Northampton –The Council 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, which is guaranteed by HM Treasury, was drawn down by the UoN in two tranches on 10 March 2016, comprising a £28.5m 5 year maturity loan and a £17.5m 40 year annuity loan. Northamptonshire County Council, working with the Northamptonshire Enterprise Partnership (NEP) have provided a further £14m of loan funding for the same project.

Debt Financing Budget

3.2.48 The table below shows the budget, outturn and variance for the Council's General Fund debt and investment portfolio in 2015-16. This demonstrates the revenue (current) effects of the treasury transactions executed.

	Budget	Outturn	Variance
	£000	£000	£000
Interest payable	1,225	1,032	(193)
Interest receivable	(709)	(1,155)	(446)
Soft Loan Accounting Adjustments	925	925	0
MRP	1,468	1,262	(206)
Recharges from/(to) HRA – interest on balances	102	323	221
Total	**3,011**	**2,387**	**(624)**

3.2.49 The main reasons for the variances were as follows:

- Interest payable – budgeted new and replacement borrowing was funded internally from cash balances creating a saving.
- Interest receivable – cash balances and interest rates were both higher than budgeted.
- Third party loans – Included in the interest payable and receivable variances are loss of interest receivable from the cancellation of the NTFC loan agreement and additional unbudgeted net interest receipts on third party loans after allowing for PWLB borrowing costs.
- MRP – there was a lower level of funding by borrowing in 2014-15 than budgeted due to carry forwards in the capital programme. This was partially offset by budget adjustments relating to self-funded borrowing. Further savings arose from the refinancing of previous years capital expenditure, with borrowing repaid on short life assets
- HRA recharges - cash balances and interest rates achieved were both higher than budgeted.

Compliance with Treasury Limits and Prudential Indicators

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

3.2.51 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.

3.2.52 During the financial year 2015-16 the Council 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**.

Bank Contract

3.2.53 The Council has tendered for a new bank contract with effect from 1 October 2016. The contract was awarded to Barclays Bank and work is underway to deliver the work required to change to the new provider. There will be a transitional period of dual running with both HSBC and Barclays until all transactions are moved to the new accounts, but this will be kept to a minimum

3.3 Choices (Options)

3.3.1 This report is provided for information only.

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 2015-16 was approved by Council on 23 February 2015.

4.1.2 This report complies with the requirement to submit an annual treasury management review report to Council.

4.3.2 The CIPFA Treasury Management Code of Practice requires the Council to nominate the body (such as an audit or scrutiny committee) responsible for ensuring effective scrutiny of the treasury management strategy, policies and practices. The Audit Committee has been nominated for this role, which includes the review of all treasury management policies and procedures, the review of all treasury management reports to Cabinet and Council, and for making recommendations 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 debt financing budget outturn position is shown at paragraphs 3.2.47 to 3.2.48.

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.

4.2.3 The risk implications of decisions taken and transactions executed during 2014-15 financial year are discussed in the body of the report at paragraph 3.2.4.

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 2015-16, 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 14 November 2016.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 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").

4.6.2 Under the umbrella of the Treasury Management Code of Practice, the Council's Treasury Management Policy Statement "…acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management."

4.6.3 This supports the Council's priority of **Working Hard and Spending your Money Wisely**.

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4.7 Other Implications

4.7.1 No other implications have been identified.

5. Background Papers

None

Glenn Hammons, Chief Finance Officer 0300 330 7000

Appendix 1

Economic Update (provided by CAS Treasury Solutions)

Quarter Ended 30th June 2016

1. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. However, the 2015 growth rate finally came in at a disappointing 1.8% so this shows that growth had slowed down, though it still 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 again to +0.4% (2.0% y/y) in quarter 1 of 2016. 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 and uncertainty created by the Brexit referendum. However, since the peak in November 2015, sterling has fallen against the Euro by 14% which will help to make British goods and services much more competitive and will increase the value of overseas earnings by multinational companies based in the UK. In addition, the Chancellor has announced that the target of achieving a budget surplus in 2020 will have to be eased in order to help the economy recover from the expected slowing of growth during the second half of 2016.
2. The Bank of England May Inflation Report included a forecast for growth for 2016 of 2.0% and 2.3% for 2017 on the assumption that the referendum result was a vote to remain. The Governor of the Bank of England, Mark Carney, 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. In his 30 June and 1 July speeches, Carney indicated that the Monetary Policy Committee (MPC), would be likely to cut Bank Rate and would consider doing further quantitative easing purchasing of gilts, in order to support growth. However, he did also warn that the Bank cannot do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation).
3. The May Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, the falls in the price of oil and food twelve months ago will be falling out of the calculation of CPI during 2016 and in addition, the recent 10% fall in the value of sterling is likely to result in a 3% increase in CPI over a time period of 3-4 years. There is therefore likely to

be an acceleration in the pace of increase in inflation which could make life interesting for an MPC which wants to help promote growth in the economy by keeping Bank Rate low.

4. The American economy had a patchy 2015 – quarter 1 0.6% (annualised), 3.9% in quarter 2, 2.0% in quarter 3 and 1.4% in quarter 4, leaving growth in 2015 as a whole at 2.4%. Quarter 1 of 2016 came in at +1.1% but forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December 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, has caused a re-emergence of caution over the timing and pace of further increases. It is likely there will now be only one more increase in 2016.

5. 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. In response to a continuation of weak growth, at the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. At its December and March 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. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) and is expected to continue growing but at only a modest pace. The ECB is also struggling to get inflation up from near zero towards its target of 2%.

Appendix 2

Prudential & Treasury Indicators – 2015-16 Outturn Position

Background and Definitions

For the background, definitions and risk analysis for the prudential and treasury indicators for 2015-16, please see the Treasury Management Strategy 2015-16 report to Council 23 February 2015.

Prudential Indicators

Affordability

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

Ratio of financing costs to net revenue stream		
	2015-16	2015-16
	Estimate %	Actual 31 March 2016 %
General Fund	7.04%	9.43%
HRA	35.94%	34.50%

Actual financing costs on the General Fund were lower than budgeted. There was an underspend of £624k on the debt financing budget, the reasons for which are set out in the main body of the report.

Actual financing costs on the HRA were in line with the budget, other than depreciation charges, which were lower than anticipated, and interest on cash balances, which were higher than budgeted.

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	
	2015-16
	Estimate £.p
General Fund	0.47

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	
	2015-16
	Estimate £.p
HRA	20.10

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) Net borrowing and the capital financing requirement (CFR)

Gross external debt less than CFR					
	Excluding third party loans			**Including third party loans**	
	2015-16 Budgeted	2015-16 Actual 31 March 2016		2015-16 Budgeted	2015-16 Actual 31 March 2016
	£000	£000		£000	£000
Gross external debt at 31 March 2016	206,850	216,593		222,396	267,653
2014-15 Closing CFR	236,473	235,714		253,738	251,229
Changes to CFR:					
2015-16	1,533	12,859		49,082	48,674
2016-17	910	11,738		657	11,458
2017-18	7,379	10,125		7,125	9,845
Adjusted CFR	246,295	270,436		310,602	321,206
Gross external debt less than adjusted CFR	Yes	Yes		Yes	Yes

This is the key indicator of prudence. It is intended to show that external borrowing 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 requirement for the current and new two financial years.

The forward looking changes to CFR (2016-17 and 2017-18) are estimates that will be firmed up on an ongoing basis as new capital programme expenditure decisions are made and more accurate forecasts on existing schemes in the programme become available.

Gross external debt during the year, and at 31 March 2016, remained below the adjusted Capital Financing Requirement

Capital Expenditure

e) Estimate of capital expenditure

Capital Expenditure		
	2015-16	2015-16
	Estimate £000	Outturn £000
General Fund	13,187	12,655
HRA	26,593	33,693
Total	**39,780**	**46,348**
Loan to Third Parties	47,800	46,300
Total	**87,580**	**92,648**

In the General Fund and HRA the original capital programme expenditure estimate was increased by scheme carry forwards from 2015-16, and the addition of new schemes during the year, but then reduced at outturn by carry forwards to 2016-17.

Expenditure on loans to third parties was lower than budgeted due to the removal of planned loan tranches to Northampton Town Football Club from this category.

Full details of the 2015-16 capital programme outturn, variances and budget carry forwards to 2016-17 are set out in the Finance and Monitoring Outturn Report to Cabinet on 13 July 2016.

f) Estimates of capital financing requirement (CFR)

Capital Financing Requirement (Closing CFR)		
	2015-16	2015-16
	Estimate £000	31 March 2016 Actual £000
General Fund	51,203	61,770
HRA	186,803	186,803
Total	**238,006**	**248,573**
Loan to Third Parties	64,814	51,330
Total	**302,820**	**299,903**

The CFR can be understood as the Council's underlying need to borrow money long term for a capital purpose – that is, after allowing for capital funding from capital receipts, grants, third party contributions and revenue contributions. Changes to the CFR are linked directly to the use of borrowing to finance new capital expenditure (including finance leases), and to the repayment of debt through Minimum Revenue Provision (MRP).

The General Fund CFR at 31 March 2016 is higher than the estimate primarily due to existing borrowing for loans to Northampton Town Football Club being transferred to the Council's main GF loan portfolio.

The HRA CFR has remained unchanged as none of the HRA capital programme in 2015-16 was financed by borrowing.

The CFR related to loans to third parties has reduced due to the removal of loans (existing and planned) to Northampton Town Football Club from this category.

External Debt

g) Authorised limit for external debt

Authorised Limit for external debt		
	2015-16	2015-16
	Boundary £000	31 March 2016 Actual £000
Borrowing	315,000	267,304
Other long-term liabilities	5,000	348
TOTAL	**320,000**	**267,652**

The long term liabilities figure relates to finance leases.

External debt remained below the authorised limit throughout 2015-16.

h) Operational boundary for external debt

Operational boundary for external debt		
	2015-16	2015-16
	Boundary £000	31 March 2016 Actual £000
Borrowing	305,000	267,304
Other long-term liabilities	5,000	348
TOTAL	**310,000**	**267,652**

The long term liabilities figure relates to finance leases.

External debt remained below the operational boundary throughout 2015-16.

i) HRA Limit on Indebtedness

HRA Limit on Indebtedness	
2015-16	2015-16
Limit £000	Closing HRA CFR 31 March 2016 £000
208,401	186,803

The HRA limit on indebtedness is £208.041m. This is the HRA debt cap set by the Department for Communities and Local Government in “The Northampton Borough Council (Limits on Indebtedness) Determination 2015”. The HRA CFR of £186.803m, which is the measure of indebtedness, is below the limit.

Compliance

j) 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 adoption is included in the Council’s Constitution, approved by the Council on 14 March 2011, at paragraph 6.10 of the Financial Regulations

Treasury Indicators

l) Upper limits on interest rate exposures

Upper limits on interest rate exposures - Investments and Borrowing		
	2015-16	2015-16
	Limit %	Actual 31 March 2016 %
Fixed Interest Rate Exposures	150%	105%
Variable Interest Rate Exposures	150%	-5%

Upper limits on interest rate exposures - Investments		
	2015-16	2015-16
	Limit %	Actual 31 March 2016 %
Fixed Interest Rate Exposures	100%	72%
Variable Interest Rate Exposures	100%	28%

Upper limits on interest rate exposures - Borrowing		
	2015-16	2015-16
	Limit %	Actual 31 March 2016 %
Fixed Interest Rate Exposures	100%	97%
Variable Interest Rate Exposures	100%	3%

The purpose of these three indicators is to express the Council's appetite for exposure to variable interest rates, which may, subject to other factors, lead to greater volatility in payments and receipts. However this may be offset by other benefits such as lower rates. Separate indicators have been set and monitored for debt and investments, as well as for the net borrowing position. Maximum exposure for fixed and variable rates during the year may add up to more than 100% (or 150% in the case of the combined indicator) as each is likely to occur on a different date. Actual exposure at 31 March 2016, and during the year, remained within the agreed limits.

m) Total principal sums invested for periods longer than 364 days

Upper limit on investments for periods longer than 364 days		
	2015-16	2015-16
	Upper Limit £000	Actual 31 March 2016 £000
Investments longer than 364 days	4,000	0

Investment periods have generally been kept to 364 days or below to maintain liquidity and to minimise counterparty risk in line with the Council's treasury strategy.

k) Maturity Structure of Borrowing

The table excludes PWLB borrowing taken by the Council to fund loans to third parties. Repayment of such borrowing is matched to loan repayments from the third party, and the loan maturity profile does not therefore have a direct impact on the Council's cash flows.

Maturity structure of borrowing			2015-16	2015-16
	Lower Limit %	Upper Limit %	Actual 31 March 2016 %	Actual 31 March 2016 £000
Under 12 months	0%	20%	7%	15,619
1-2 years	0%	20%	0%	-
2-5 years	0%	20%	9%	20,127
5-10 years	0%	20%	12%	25,463
10-20 years	0%	40%	13%	27,212
20-30 years	0%	60%	0%	319
30-40 years	0%	80%	0%	-
Over 40 years	0%	100%	58%	125,000

The Treasury Management Code of Practice requires the maturity of borrowing to be determined by reference to the earliest date on which the lender can require payment. The Council's has one LOBO loan, which is shown as maturing within 12 months, due to the six monthly break clauses, whereby the lender can opt to increase the rate, and the Council can choose to accept or decline the new rate. In the current interest rate environment it is not to the lender's advantage to increase the rate at the break dates and this option is not likely to be exercised.

Appendix 3

NBC Investment Portfolio as at 31 March 2016

Class	Type	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Deposit	Fixed	28/04/15	26/04/16	Bank of Scotland plc	Maturity	1.0000%	-2,000,000.00
Deposit	Fixed	14/05/15	13/05/16	Royal Bank of Scotland plc	Maturity	0.8700%	-5,000,000.00
Deposit	Fixed	01/06/15	27/05/16	Skandinaviska Enskilda	Maturity	0.8100%	-5,000,000.00
Deposit	Fixed	04/06/15	02/06/16	Royal Bank of Scotland plc	Maturity	0.8900%	-5,000,000.00
Deposit	Fixed	04/08/15	02/08/16	Skandinaviska Enskilda	Maturity	0.7700%	-3,000,000.00
Deposit	Fixed	09/09/15	07/09/16	Royal Bank of Scotland plc	Maturity	0.9400%	-5,000,000.00
Deposit	Fixed	16/12/14	16/12/16	Blaenau Gwent County	Maturity	0.9300%	-2,500,000.00
Deposit	Fixed	06/11/15	06/05/16	Nationwide Building Society	Maturity	0.6600%	-3,000,000.00
Deposit	Fixed	09/11/15	07/11/16	The Toronto-Dominion Bank	Maturity	0.8900%	-2,000,000.00
Deposit	Fixed	24/11/15	22/11/16	Landesbanken Hessen-	Maturity	1.0700%	-3,000,000.00
Deposit	Fixed	18/12/15	16/12/16	The Toronto-Dominion Bank	Maturity	0.9900%	-4,000,000.00
Deposit	Fixed	07/01/16	07/07/16	Landesbanken Hessen-	Maturity	0.7900%	-2,500,000.00
Deposit	Fixed	16/02/16	16/08/16	Landesbank Baden	Maturity	0.7250%	-2,500,000.00
Deposit	Fixed	19/02/16	17/02/17	Landesbanken Hessen-	Maturity	0.9200%	-3,000,000.00
Fixed Total						**0.8771%**	**-47,500,000.00**
Deposit	Call	07/12/15		Santander UK plc	Maturity	1.1500%	-7,000,000.00
Deposit	Call	06/10/15		Santander UK plc	Maturity	0.9000%	-5,000,000.00
Deposit	Call	07/12/15		Santander UK plc	Maturity	1.0500%	-3,000,000.00
Deposit	Call	31/03/14		HSBC Bank plc	Maturity	0.0700%	-250,000.00
Call Total						**1.0307%**	**-15,250,000.00**
Deposit	MMF	01/07/14		LGIM Sterling Liquidity 4	Maturity	0.4968%	-20,000.00
Deposit	MMF	31/03/14		Insight Liquidity Sterling C3	Maturity	0.5176%	-2,671,000.00
Deposit	MMF	31/03/14		SLI Sterling Liquidity/Cl 2	Maturity	0.5039%	-454,000.00
MMF Total						**0.5155%**	**-3,145,000.00**
Deposit Total						**0.8954%**	**-65,895,000.00**