**Agenda Item No:12**

## TREASURY MANAGEMENT QUARTER FOUR

| | |
|---|---|
| *To:* | **General Purposes Committee** |
| *Meeting Date:* | **13th June 2017** |
| *From:* | **Chief Finance Officer** |
| *Electoral division(s):* | **All** |
| *Forward Plan ref:* | Not applicable     ***Key decision:***    No |
| *Purpose:* | **To provide the fourth quarterly update on the Treasury Management Strategy 2016-17, approved by Council in February 2016.** |
| *Recommendation:* | **The General Purposes Committee is recommended to note the Treasury Management Quarter Four Report 2016-17 and forward to full Council to note.** |


| ***Officer contact:*** | |
|---|---|
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## 1. BACKGROUND

**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.

**1.2** The Code was adopted via the Treasury Management Strategy Statement (TMSS), which was approved by Council in February 2016. It requires the Council to produce an annual treasury report and a half yearly report. Alongside these, General Purposes Committee are also provided with quarterly updates on progress against the Strategy.

**1.3** This report has been developed in consultation with the Council's external investment manager and treasury adviser, Capita Asset Services (CAS) and provides an update for the fourth quarter to 31st March 2017.

## 2. SUMMARY OF KEY HEADLINES

**2.1** The main highlights for the quarter are:

- Investment returns received on cash balances, compares favourably to the benchmarks. A return of 0.26% was achieved compared to the 7 day and 3 month London Interbank Bid Rate (LIBID) benchmark (0.11%, 0.23% respectively). See section 6.

- An underspend of £2.206m was delivered for the debt charges budget this year. Net interest payments were lower than budgeted because long term borrowing was deferred in favour or short term temporary loans struck at low rates of interest. Careful management of the Council's balance sheet and a strategy of internal borrowing continued throughout the course of the year to optimise the treasury position and maximise savings where possible. In addition £1.015m of the underspend reported above was achieved following receipt of interest accrued on S106 monies which had not been budgeted. For further information please see Section 9.

- The UK Municipal Bonds Agency is expected to issue its first bond on behalf of local authorities, including Cambridgeshire in the coming months. See Section 10.

## 3. THE ECONOMIC ENVIRONMENT

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

**3.2** During the quarter ended 31st March 2017, the significant UK headlines of this analysis were:

- The economy lost some momentum;
- Rising inflation started to dent household consumption;

- The labour market continued to tighten but wage growth softened;
- One MPC member voted for an increase in Bank Rate as CPI inflation exceeded the 2% target;
- The Brexit Process was started with the triggering of Article 50.

## 4. SUMMARY PORTFOLIO POSITION

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

| | TMSS 2016-17 31 Mar 2017 Forecast (as agreed by Council Feb 2016) | | Actual as at 31 March 2016 | | Actual as at 31 March 2017 | |
|---|---|---|---|---|---|---|
| | £m | Rate % | £m | Rate % | £m | Rate % |
| **Long term borrowing** | | | | | | |
| PWLB | 405.0 | 4.3 | 278.6 | 4.3 | 278.6 | **4.3** |
| PWLB (3rd Party Loans) | - | | 0 | - | 3.9 | **2.3** |
| Market | - | | 0 | - | 30.0 | **4.0** |
| LOBO | 79.5 | 3.7 | 79.5 | 3.7 | 34.5 | **3.6** |
| **Total long term** | **484.5** | **4.2** | **358.1** | **4.2** | **347.0** | **4.3** |
| **Short term borrowing** | - | - | - | - | 92.0 | **0.4** |
| **Total borrowing** | **484.5** | **4.2** | **358.1** | **4.2** | **439.0** | **3.4** |
| | | | | | | |
| **Investments** | **5.6** | **0.5** | **10.1** | **0.5** | **40.5** | **0.3** |
| | | | | | | |
| **Total Net Debt / Borrowing** | **478.9** | **-** | **348** | **-** | **398.5** | **-** |
| | | | | | | |
| **3rd Party Loans & Share Capital** | **-** | **-** | **0.4** | **-** | **4.3** | **-** |

**4.2** Net debt at 31st March 2017 is considerably less than originally set out in the Treasury Management Strategy Statement in February 2016. A balance sheet review will be carried out once draft financial statements become available in June which will provide useful detailed analysis of the Council's loans and investments in relation to its Capital Financing Requirement and reserves. The change is largely due to a stronger than anticipated working capital surplus driven by increases in capital grants received in advance (particularly City Deal and Local Enterprise Partnership (LEP)).

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

## 5. BORROWING

**5.1** The Council can take out loans in order to fund spending for its Capital Programme. The amount of new borrowing required 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:**

**5.2** The table below shows details of new long term (>1yr) loans raised and loans repaid during 2016-17.

**5.3** A £4m PWLB loan repayable in equal instalments over the term was raised to on-lend to the Arthur Rank Hospice Charity earlier in the year. No other long term loans were raised or repaid during the year to date.

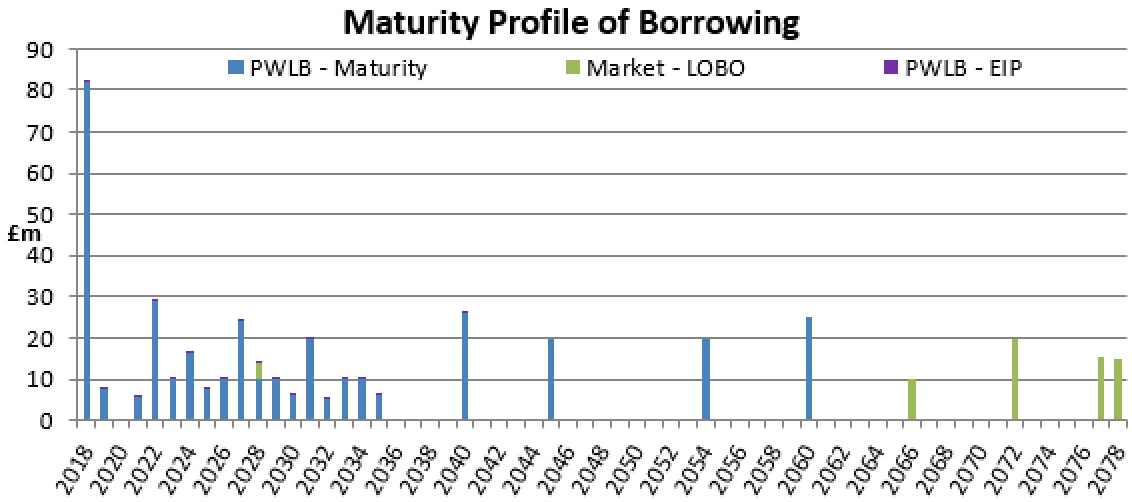
| Lender | Raised / Repaid | Start Date | Maturity Date | £m | Interest Rate % | Duration (yrs) |
|---|---|---|---|---|---|---|
| PWLB | Raised | 16/06/2016 | 16/06/2041 | 4.0 | 2.34% | 25 |

**5.4** An option in a loan contract with Siemens Financial Services allowed the Council to repay a £15m loan before it final maturity date in February 2027 and refinance with cheaper short term borrowing.

**Maturity profile of borrowing:**

**5.5** The following graph shows the maturity profile of the Council's loans. The majority of loans have a fixed interest rate and are long term which limits the Council's exposure to interest rate fluctuations. The weighted average years to maturity of the portfolio (assuming Lender Option Borrower Option (LOBO) Loans run to maturity) is 18.8 years.

**5.6** The presentation below differs from that in Treasury Indicator for maturity structure of borrowing in **Appendix 2** paragraph 4, in that the graph below includes LOBO loans 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:**

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

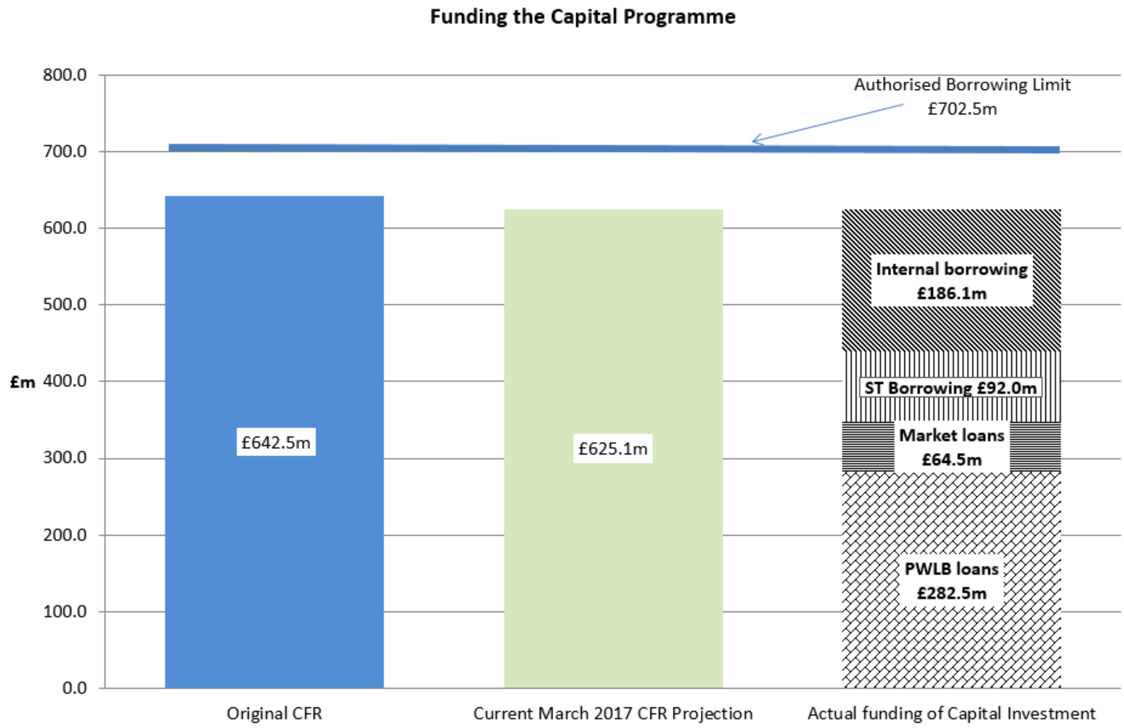
- to generate cash savings
- to reduce the average interest rate
- to enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

**5.8** During the quarter 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. 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:**

**5.9** The Treasury Management Strategy Statement (TMSS) sets out the plan for treasury management activities over the next year. It identifies the expected level 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, would be £642.5m. This figure is naturally subject to change as a result of changes to the approved capital programme.

**5.10** The Chart below compares the maximum the Council could borrow in 2016-17 with the forecast CFR at 31st March 2017 and the actual position of how this is being financed at 31st March 2017.




**5.11** As shown on the chart above, it can be seen that the council's current CFR projection is £77.4m below the statutory Authorised Borrowing Limit set for the Council at the start of the year.

**5.12** In addition, the chart shows how the Council is currently funding its borrowing requirement (through internal and external resources). At 31st March, based on current projections of the Capital Financing Requirement, internal borrowing is expected to be approximately £186.1m. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.

**5.13** The Council has now maximised this internal borrowing position to optimise the treasury position, reduce credit risk associated with investing and generate revenue savings. Therefore new loans, which have been budgeted for, will be required to maintain sufficient operational cash resources during 2017/18. Sources of finance include short term loans (out to 5 years) from other local authorities, the PWLB and the Municipal Bonds Agency.

## 6. INVESTMENTS

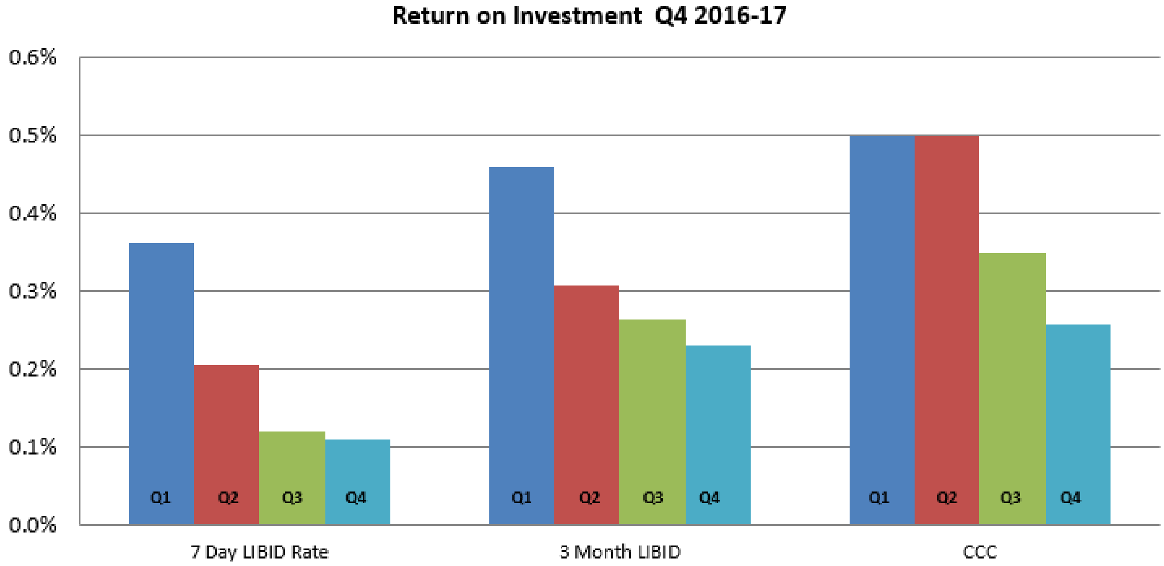
**6.1** Investment activity is carried out within the Council's counterparty policies and criteria, and with a clear strategy of risk management in line with the Council's treasury strategy for 2016-17. This ensures that the principle of considering security, liquidity and yield, in that order (SLY), 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 GPC and Council.

**6.2** As described in paragraph 5.12, the strategy currently employed by the Council of internal borrowing also has the affect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

**6.3** As at 31st March the level of investment totalled £40.5m, excluding 3rd party loans and share capital which are classed as capital expenditure. 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.

**6.4** A breakdown of investments by asset allocation are shown in the graph below, with detail at **Appendix 3**. The majority of investments are in notice and call accounts and money market funds to meet the liquidity demands of the Council. The weighted average time to maturity of investments at 31st March is 1 day. Where possible deposits are placed for longer durations with appropriate counterparties to obtain enhanced rates of return.

**6.5** The graph below compares the returns on investments with the relevant benchmarks for the each quarter this year.




**6.6** It can be seen from the graph that investments returned 0.26% during the quarter which is more than both the 7 day London Interbank Bid Rate (LIBID) (0.11%), 3 month LIBID (0.23%) benchmarks.

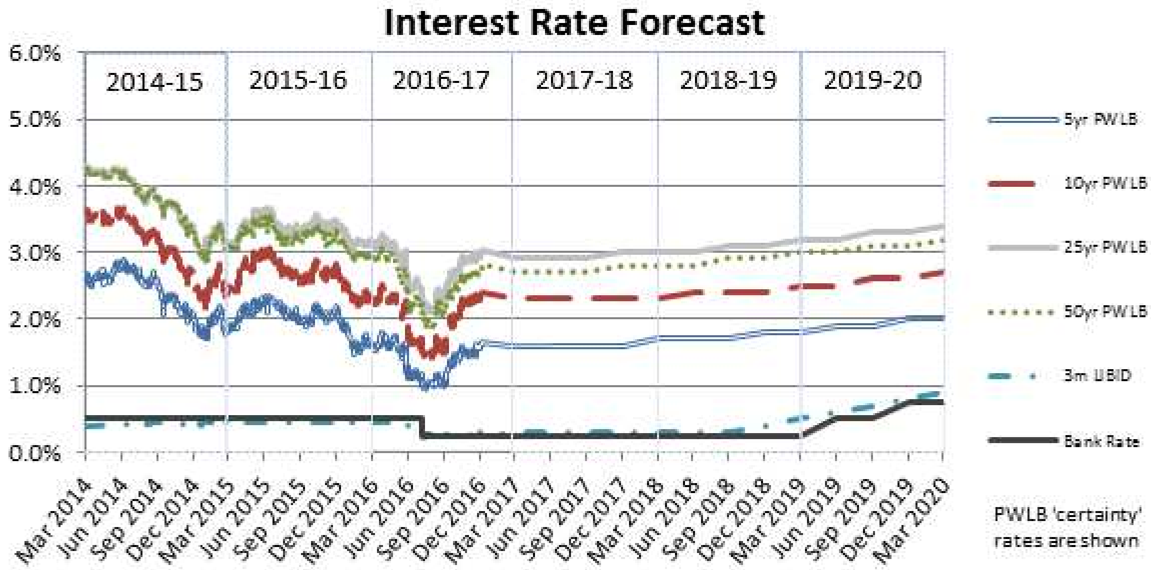
**6.7** Using credit ratings, the investment portfolio's historic risk of default stands at 0.0001%. This simply provides a calculation of the possibility of average default against the historical default rates. The Council is also a member of a benchmarking group run by CAS which shows that, for the value of risk undertaken and duration of investments, the returns generated are currently below the Model Band. This is because the Council maintains low cash balances compared to the size of its balance sheet, and a high proportion of these balances are held in a low interest bearing instant access account with Barclays, to meet business needs.

**6.8** 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 cannot 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).

## 7. OUTLOOK

**7.1** The current interest rate forecast is shown in the graph below. The performance of the economy over the coming months will be critical for any further monetary policy easing or tightening. The central forecast now is for increases in Bank Rate to commence in quarter ending June 2019, but these 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.

7.2 Geopolitical events, sovereign debt crisis developments and slowing emerging market economies make forecasting Public Works Loan Board (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.




7.3 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 to limit the amount of new long term borrowing undertaken. However during 2016-17 additional borrowing, albeit short term, has been undertaken as the Council experiences an increasing Capital Financing Requirement.

## 8. THIRD PARTY LOANS

8.1 A loan to Arthur Rank Hospice Charity of £4m was approved in 2015-16 and advanced in the form of a secured loan in June 2016 to enable the charity to build a 24 bedded hospice.

8.2 Interest and principal repayments for this loan have been made accordance with the loan agreements.

## 9. DEBT FINANCING BUDGET

9.1 Overall an under spend of £2.206m is currently forecasted and reported for Debt Charges. The variance is largely due to the continuation of the Internal Borrowing strategy resulting in lower than budgeted net interest payments. The positive variance for interest receivable includes interest of £1.015m received on S106 monies which was not budgeted.

| | Budget | Estimated Outturn | Variance |
|---|---|---|---|
| | £m | £m | £m |
| Interest payable | 16.363 | 14.962 | -1.401 |
| Interest receivable | -0.459 | -1.552 | -1.093 |
| Internal recharges & Other | 0.491 | 0.408 | -0.083 |
| MRP | 8.560 | 8.930 | 0.370 |
| **Total** | **24.955** | **22.748** | **-2.206** |

**9.2** Although there is link between the capital programme, net borrowing and the revenue budget, the Debt Charges budget is impacted by the timing of long term borrowing decisions. These decisions are made in the context of other factors including, interest rate forecasts, forecast levels of cash reserves and the borrowing requirement for the Council over the life of the Business Plan and beyond.

## 10. MUNICIPAL BONDS AGENCY

**10.1** The UK Municipal Bonds Agency is now ready to issue bonds on behalf of local authorities and the first issuance is expected imminently. This authority has approved the relevant documents and guarantees that allow borrowing from the Agency and it is anticipated that Cambridgeshire will participate in the first bond issue to raise a small amount of borrowing.

## 11. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

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

**11.2** 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.

**11.3** 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.**

## 12. ALIGNMENT WITH CORPORATE PRIORITIES

### 12.1 Developing the local economy for the benefit of all

There are no significant implications for this priority.

### 12.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

**12.3 Supporting and protecting vulnerable people**

There are no significant implications for this priority.

## 13. SIGNIFICANT IMPLICATIONS

**13.1 Resource Implications**

This report provides information on performance against the Treasury Management Strategy. Section 10 shows the impact of treasury decisions impacting the Debt Charges Budget, which are driven by the capital programme and the Council's overall financial position.

**13.2 Procurement/Contractual/Council Contract Procedure Rules Implications**

There are no significant implications in this category

**13.3 Statutory, Legal and Risk Implications**

The Council continues to operate within the statutory requirements for borrowing and investments. Further details can be found within the Prudential Indicators in **Appendix 2**.

**13.4 Equality and Diversity Implications**

There are no significant implications in this category

**13.5 Engagement and Communications Implications**

There are no significant implications in this category.

**13.6 Localism and Local Member Involvement**

There are no significant implications in this category

**13.7 Public Health Implications**

There are no significant implications in this category

**List of Appendices**
**Appendix 1:** Economic Update (provided by Capita Asset Services Treasury Solutions)
**Appendix 2:** Capital and Treasury Prudential Indicators
**Appendix 3:** Investment Portfolio

| Source Documents | Location |
|---|---|
| None | Not applicable |

| Implications | Officer Clearance |
|---|---|
| | |
| **Have the resource implications been cleared by Finance?** | Yes<br>Name of Financial Officer: Chris Malyon |
| | |
| **Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by Finance?** | Not applicable |
| | |
| **Has the impact on statutory, legal and risk implications been cleared by LGSS Law?** | Yes<br>Name of Legal Officer: Fiona McMillan |
| | |
| **Have the equality and diversity implications been cleared by your Service Contact?** | Not applicable |
| | |
| **Have any engagement and communication implications been cleared by Communications?** | Yes<br>Christine Birchall |
| | |
| **Have any localism and Local Member involvement issues been cleared by your Service Contact?** | Not applicable |
| | |
| **Have any Public Health implications been cleared by Public Health** | Yes<br>Tess Campbell |

**Appendix 1**

## Economic Update (provided by CAS Treasury Solutions)

## Quarter Ended 31st March 2017

1. Having finished 2016 strongly, the economy looks to have lost a little momentum in Q1 of 2017. Quarterly GDP growth of 0.7% in Q4 2016 marked an acceleration of growth from 0.5% in the preceding quarter. However, the Markit/CIPS all-sector PMI fell from an average of 54.5 in Q4 to an average of 53.9 in January and February, which is consistent with quarterly GDP growth of about 0.5%.

2. A slowdown in consumer spending, which was the key driver of growth in 2016, looks to be behind this overall slowdown in growth. While retail sales rose by 1.4% on the month in February, that followed three consecutive monthly declines. Indeed, retail sales would have to post a monthly increase of over 3% in March to prevent sales from falling on a quarterly basis in Q1. That said, retail sales only account for around a third of household spending and recent evidence on other areas of household spending has been more encouraging; e.g. the Bank of England's Agents' Score of consumer services turnover has held steady at a fairly high level.

3. But some marginal slowdown in household consumption seems inevitable. Q4's National Accounts revealed a second consecutive quarterly decline in households' real disposable incomes. As a result, the 0.7% rise in overall household spending in the same quarter had to be funded entirely through households reducing the proportion of income that they save. With wage growth still subdued and inflation continuing to rise, it seems unlikely that households will be able to maintain that pace of spending growth.

4. Indeed, wage growth slowed a touch in January. Headline annual average weekly earnings growth eased from 2.6% to 2.2%. However, that slowdown is at odds with the tight labour market with the unemployment rate falling from 4.8% to 4.7%, the equal-lowest since 1975. What's more, despite the limited number of individuals still looking for work, annual employment growth has maintained its recent pace of around 1%. Looking ahead, we doubt that Brexit-related job losses will put a significant dent in employment. Indeed, survey measures of firms' employment intentions are consistent with private sector employment continuing to grow at its current pace in the near-term.

5. Meanwhile, inflation has picked up faster than had been expected. CPI inflation rose from an average of 1.2% in Q4 2016, to 1.9% in January and 2.3% in February, breaching the MPC's 2% target for the first time since November 2013. The February print was an upside surprise to both the market and the Bank of England, who had expected inflation of 2.1%. The increase was mainly due to inflation on exchange rate-sensitive components as the pound's post Brexit-vote depreciation fed into higher prices on imported goods.

6. Producer input price inflation has also picked up markedly, reaching around 20% in January and February up from an average of around 14% in Q4. Given the substantial time it takes for changes in producer input prices to work their way through to CPI inflation, further increases in the latter are in the pipe line. We expect

CPI inflation to reach a peak of around 3.3% in October before starting to fall back as the effects of the fall in the exchange rate on consumer price inflation statistics starts to fade.

7. While the March MPC meeting came before the latest increase in inflation, the Committee's tolerance for higher inflation appeared to have already diminished somewhat. Kristen Forbes voted for a Bank Rate increase while it would reportedly take "little further upside news on the prospects for activity or inflation", for some other members to join her. However, given subdued domestically generated inflation, as emphasized by the recent slowdown in wage growth, we think the majority of the MPC will "look-through" an exchange rate driven bout of inflation as they have previously said that they would do. Indeed, we expect rates to remain on hold until around mid-2018.

8. In contrast, the US Fed hiked rates, as had been widely anticipated, by 25 bp in March, taking the Fed funds target range to between 0.75% and 1.00%. Meanwhile, the ECB stuck to its plan of slowing the pace of its asset purchases from April 2017, and then continuing purchases at the lower level until December 2017, and has been quick to counter speculation that tightening could be around the corner given the improvement in the economic data. As a result, we have seen what we think will prove the beginnings of a historically-unusual divergence in Western monetary policy over the next year or so.

9. Meanwhile, the public finances improved much faster than the OBR had forecast at the time of the Autumn Statement. PSNB ex in the first eleven months of the fiscal year of £47.8bn was 29% below that from a year earlier whereas the OBR had forecast a 10% reduction.

10. But OBR judged the negative effects of Brexit on activity and the public finances to have been merely delayed rather than diminished in their spring Budget forecast, denying the Chancellor a vastly lower borrowing forecast. In terms of measures, the Budget was a quiet affair, at least from a fiscal point of view. Chancellor Hammond delivered a small increase in social care spending which was set to be offset by a rise in national insurance contributions, until the latter was reversed within days. But given that the OBR forecast that the cyclically adjusted budget deficit in 2020-21 will be 1.1% of GDP, below Hammond's target of 2%, the Chancellor still has some wriggle room.

11. In the US, President Trump's difficulty in getting support from Congress and the Senate is likely to be a sign that it will take longer than originally anticipated to pass a fiscal stimulus. By next year, however, we see tax cuts being passed in contrast to continued austerity in the UK. We think that US GDP will rise by 2.7% in 2017 and 2.2% in 2018.

12. Meanwhile, in financial markets, the FTSE 100 rose by 2.5% between the quarter ends of Q4 and Q1, and touched a fresh record high in the interim reflecting the continuing improvement of global inflation and growth data. As for the FTSE UK local index, which only includes firms for which most of their sales are generated in the UK, (this excludes the boost to equity prices from the lower pound), this has recovered to its pre-referendum level. Meanwhile, 10-year gilt yields fell back by 10bps to around 1.1% during Q1, but that only partially reversed the 50bps rise seen in Q4.

13. Finally, the UK Government triggered Article 50 at the end of March. The initial exchanges have been constructive, with both sides seemingly wanting to pursue a free trade deal, but talks on that will only begin once the EU is satisfied with progress on the terms of Britain's withdrawal. The withdrawal negotiations will begin in June with the UK's exit bill the first potential sticking point. The outcome of the negotiations is set to be ratified by the UK and EU parliaments in late 2018. But any future trade deal can't be officially agreed until the UK has left the EU. Therefore, upon the UK's exit in March 2019, a transitional arrangement is likely while the details of a future trading relationship are finalised.

**Appendix 2**

**Prudential and Treasury Indicators at 31st March 2017**

**Monitoring of Prudential and Treasury Indicators: approved by Council in February 2016.**

1. **Has the Council adopted 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. This is a key element of the Treasury Strategy 2016-17 which was approved by Council in February 2016.

2. **Limits for exposure to fixed and variable rate net borrowing (Borrowing less investments)**

| | **Limits** | **Actual** |
|---|---|---|
| Fixed rate | 150% | 82.18% |
| Variable rate | 65% | 17.82% |
| Total | | 100% |

The Interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or negative depending upon the component parts of the formula. The formula is shown below:

$$\frac{\textit{Total Fixed (or Variable) rate exposure}}{\textit{Total borrowing – total investments}}$$

Fixed Rate calculation:

$$\frac{\textit{(Fixed rate borrowing £327.5m* - Fixed rate investments £0m*)}}{\textit{Total borrowing £439m - Total investments £40.5m}} = \textit{82.18\%}$$

*Defined as greater than 1 year to run

Variable Rate calculation:

$$\frac{\textit{(Variable rate borrowing £111.5m** - Variable rate investments £40.5m**)}}{\textit{Total borrowing £439m - Total investments £40.5m}} = \textit{17.82\%}$$

** Defined as less than 1 year to run or in the case of LOBO borrowing the call date falling within the next 12 months.

3. **Total principal sums invested for periods longer than 364 days**

| | 2016-17 Limit £m | Actual £m |
|---|---|---|
| Investment longer than 364 days to run | 7.0 | 0.0 |

Notes: This indicator is calculated by adding together all investments that have greater than 364 days to run to maturity at the reporting date.

4. **Limits for maturity structure of borrowing**

| | Upper Limit | Actual |
|---|---|---|
| under 12 months | 80% | 25% |
| 12 months and within 24 months | 50% | 2% |
| 24 months and within 5 years | 50% | 8% |
| 5 years and within 10 years | 50% | 15% |
| 10 years and above | 100% | 50% |

**Note:** The guidance for this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity.

**Affordability**

5. **Ratio of financing costs to net revenue stream**

| 2016-17 Original Estimate % | 2016-17 Revised Estimate % | Difference % |
|---|---|---|
| 10.53 | 6.41 | -4.12 |

6. **Estimated incremental impact of capital investment decisions on band D council tax**

| 2016-17 Original Estimate £ | 2016-17 Revised Estimate £ | Difference £ |
|---|---|---|
| 21.27 | -46.39 | -67.66 |

This indicator has fallen significantly as a result reductions to the Debt Charges budget in respect of lower Minimum Revenue Provision of £8.56m adjustments to the debt charges budget during budget setting and savings reported to date.

**Prudence:**

7. **Gross borrowing and the Capital Financing Requirement (estimated borrowing liability excluding PFI)**

| Original 2016-17 Capital Financing Requirement (CFR) £m | 2016-17 CFR (based on latest capital information) £m | Actual Gross Borrowing £m | Difference between actual borrowing and original CFR £m | Difference between actual borrowing and latest CFR £m |
|---|---|---|---|---|
| 642.5 | 625.1 | 347.0 | 295.5 | 278.1 |

**Capital Expenditure**

8. **Estimates of capital expenditure**

For details of capital expenditure and funding please refer to the monthly capital report.

**External Debt**

9. **Authorised limit for external debt**

| 2016-17 Authorised Limit £m | Actual Borrowing £m | Headroom £m |
|---|---|---|
| 702.5 | 347.0 | 355.5 |

The Authorised limit is the statutory limit on the Council's level of debt and must not be breached. This is the absolute maximum amount of debt the Council may have in the year.

10. **Operational boundary for external debt**

| 2016-17 Operational Boundary £m | Actual Borrowing £m | Headroom £m |
|---|---|---|
| 672.5 | 347.0 | 325.5 |

The operational boundary is set as a warning signal that debt has reached a level nearing the Authorised limit and must be monitored carefully.

**Appendix 3**

## Investment Portfolio as at 31st March 2017

| Class | Type | Deal Ref | Start / Purchase Date | Maturity Date | Counterparty | Profile | Rate | Principal O/S (£) |
|---|---|---|---|---|---|---|---|---|
| Share Capital | Share Capital | CCC/59 | 25/09/14 | 25/09/24 | The UK Municipal Bonds Agency | - | - | 400,000.00 |
| 3rd Party Loan | Fixed | CCC/88 | 16/06/16 | 16/06/41 | Arthur Rank Hospice Charity | EIP | 3.3400% | 3,920,000.00 |
| **3rd Party Loans & Share Capital Total** | | | | | | | **3.3400%** | **4,320,000.00** |
| Deposit | Call | CCC/CE/6 | 01/12/14 | | Barclays Bank plc | Maturity | 0.1500% | 5,000,000.00 |
| **Call Total** | | | | | | | **0.1500%** | **5,000,000.00** |
| Deposit | MMF | CCC/ST/7 | 22/07/15 | | Deutsche Managed Sterling Platinum | Maturity | 0.2540% | 15,454,000.00 |
| Deposit | MMF | CCC/ST/3 | 31/03/14 | | SLI Sterling Liquidity/Cl 2 | Maturity | 0.2846% | 20,000,000.00 |
| **MMF Total** | | | | | | | **0.2713%** | **35,454,000.00** |
| **Deposit Total** | | | | | | | **0.5240%** | **- 44,774,000.00** |
| **Grand Total** | | | | | | | | **44,774,000.00** |