Agenda Item No:9

TREASURY MANAGEMENT REPORT QUARTER TWO

To:	**General Purposes Committee**
Meeting Date:	**29th November 2016**
From:	**Chief Finance Officer**
Electoral division(s):	**All**
Forward Plan ref:	**Not applicable** *Key decision:* **No**
Purpose:	**To provide the second quarterly update and mid-year review on the Treasury Management Strategy 2016-17, approved by Council in February 2016.**
Recommendation:	**The General Purposes Committee is recommended to:**

a) Note the Treasury Management Report; and

b) Forward to Full Council for approval.

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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 second quarter to 30th September 2016.

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 0.50% was achieved compared to the 3 month and 6 month London Interbank Bid Rate (LIBID) benchmark (0.20%, 0.31% respectively). See section 6.

- A £250k underspend is currently reported. This is largely due to falling interest rates across the yield curve resulting in lower net interest payment projections. Careful management of the Council's balance sheet and a strategy of internal borrowing will continue throughout the course of the year to optimise the treasury position and maximise savings where possible. For further information please see Section 10.

- Capita were reappointed as the Council's Treasury Advisors for a further two years following a formal procurement exercise over the summer. See Section 12.

- The UK Municipal Bonds Agency is expected to issue its first bond on behalf of local authorities in the coming months which this authority will participate in. See Section 11.

- A balance sheet review (31st March 2016) sets out how the Capital Financing Requirement is resourced from external loans and internal borrowing, and how cash backed reserves and working capital supports the cash that is invested. See Section 9.

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 30th September 2016, the significant UK headlines of this analysis were:

- The Economy remained surprisingly robust since Brexit;
- Households and firms shrugged off referendum uncertainty;
- The labour market began to soften;
- Consumer Price Index (CPI) inflation started to pick up;
- The Bank of England cut interest rates and expanded their asset purchases;
- Both the European Central Bank (ECB) and Federal Reserve kept policy unchanged;

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 30 September 2016		Revised Forecast to March 2017	
	£m	Rate %	£m	Rate %	£m	**Rate %**	**£m**	**Rate %**
Long term borrowing								
PWLB	405.0	4.3	278.6	4.3	278.6	**4.3**	278.6	**4.3**
PWLB (3rd Party Loans)	-		0	-	4.0	**2.3**	4.0	**2.3**
Market	-		0	-	45.0	**4.0**	45.0	**4.0**
LOBO	79.5	3.7	79.5	3.7	34.5	**3.3**	34.5	**3.3**
Total long term	**484.5**	**4.2**	**358.1**	**4.2**	**362.1**	**4.2**	**362.1**	**4.2**
Short term borrowing	-	-	-	-	-	**-**	**68.6**	**0.5**
Total borrowing	**484.5**	**4.2**	**358.1**	**4.2**	**362.1**	**4.2**	**430.7**	**4.2**
Investments	**5.6**	**0.5**	**10.1**	**0.5**	**19.6**	**0.5**	**10.0**	**0.4**
Total Net Debt / Borrowing	**478.9**	**-**	**348**	**-**	**342.5**	**-**	**420.7**	**-**
3rd Party Loans & Share Capital	**-**	**-**	**0.4**	**-**	**4.4**	**-**	**4.4**	**-**

4.2 The revised forecast reflects the current prudential borrowing projections in the capital programme, which is likely to fluctuate through the course of the year. This currently shows that net borrowing is likely to be significantly lower than originally forecast. 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)). A balance sheet review is included Section 9 of this report which is provides useful analysis of how the Capital Financing Requirement is resourced, and how balance sheet reserves supports the cash that is invested.

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 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. No loans were repaid during this year to date.

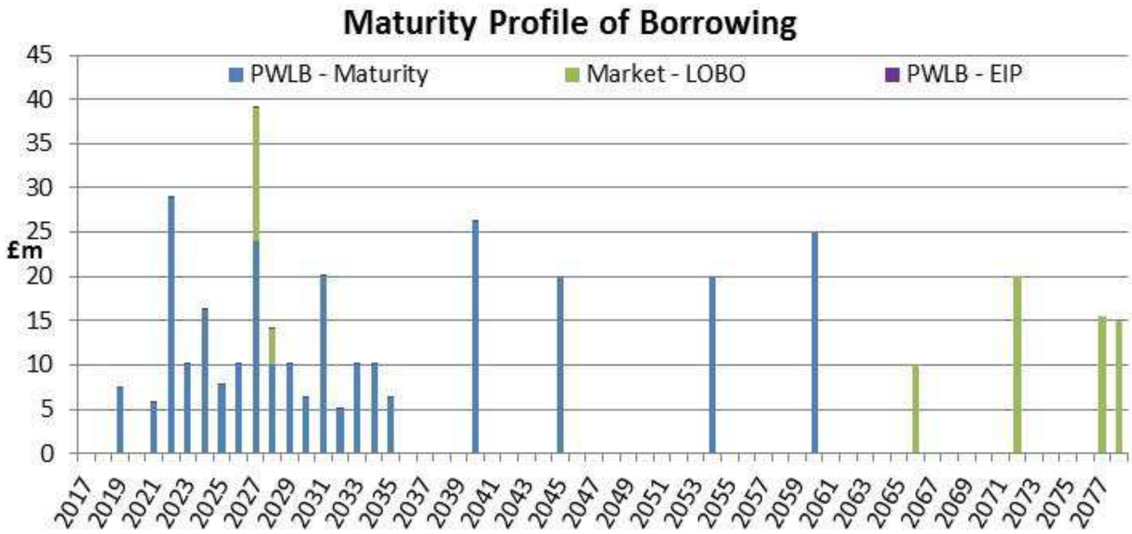
5.3 The £4m Public Works Loan Board (PWLB) loan below was raised to on-lend to the Arthur Rank Hospice Charity.

Lender	Raised / Repaid	Start Date	Maturity Date	£m	Interest Rate %	Duration (yrs)
PWLB	Raised	16/06/2016	16/06/2041	4.00	2.34%	25

Maturity profile of borrowing:

5.4 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 Borrowing Option (LOBO) Loans run to maturity) is 23.7 years.

5.5 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:

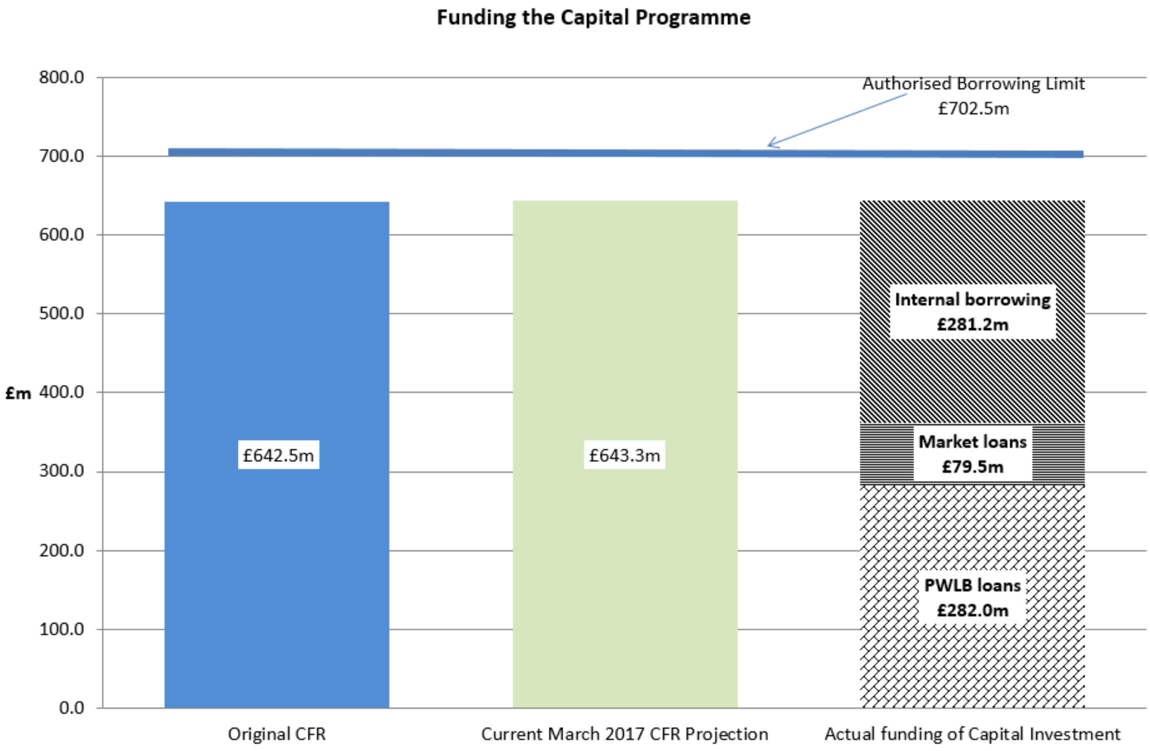
5.6 When market conditions are favourable long term loans can be restructured to:

- 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.)

5.7 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:

5.8 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, would be £642.5m. This figure is naturally subject to change as a result of changes to the approved capital programme.



5.9 The graph above 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 30th September 2016.

5.10 The graph shows the projection for the Capital Financing Requirement (CFR) is significantly below the statutory Authorised Borrowing Limit set for the Council at the start of the year.

5.11 In addition, the graph shows how the Council is currently funding its borrowing requirement, through internal and external resources. As at 30th September internal borrowing is forecast to be £281.2m at the end of the year. Internal borrowing is the use of the Council's surplus cash to finance the borrowing liability instead of borrowing externally.

5.12 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. Sources of finance include short term loans (out to 5 years) from other local authorities, the PWLB and the Municipal Bonds Agency.

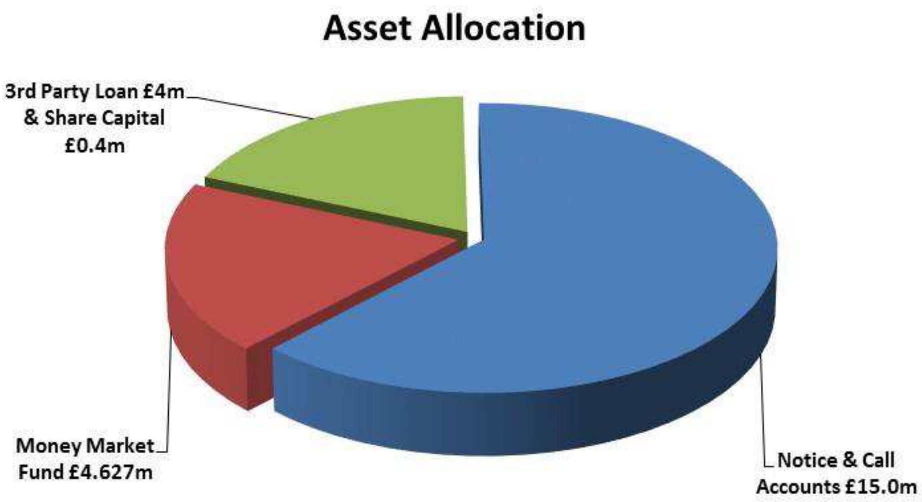
6. INVESTMENTS

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 General Purposes Committee (GPC) and Council.

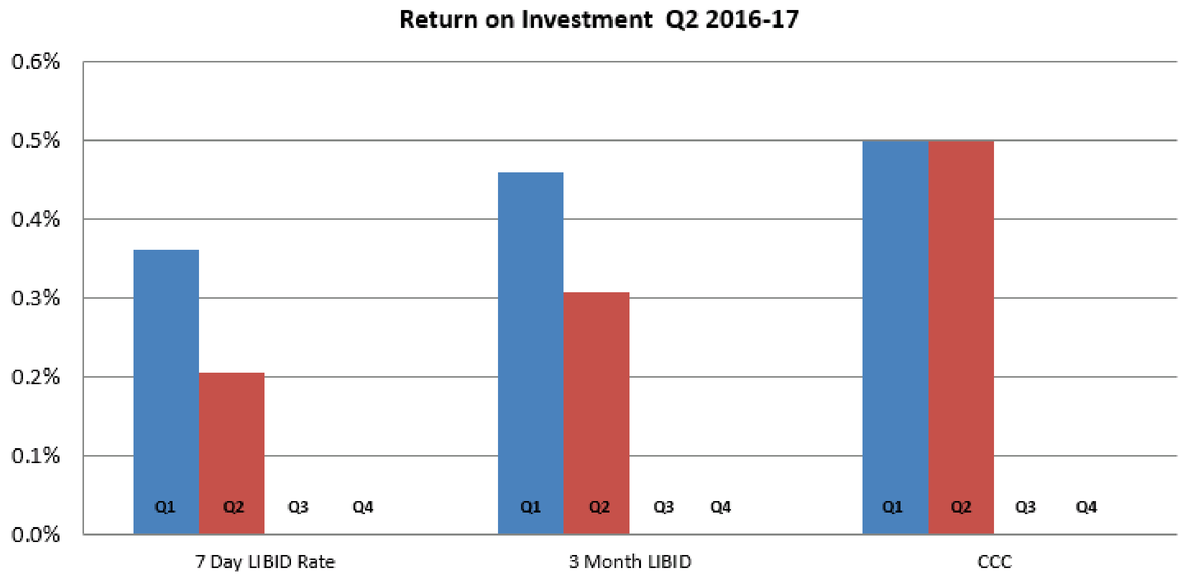
6.2 As described in paragraph 5.11, the strategy currently employed by the Council of internal borrowing also has the affect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

6.3 As at 30th September the level of investment totalled £19.6m, 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 30th September is 22 days. Where possible deposits are placed for longer durations with appropriate counterparties to obtain enhanced rates of return in an environment of falling interest rates.



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



6.6 It can be seen from the graph that investments returned 0.50% during the quarter which is more than both the 7 day London Interbank Bid Rate (LIBID) (0.20%), 3 month LIBID (0.31%) benchmarks.

6.7 Using credit ratings, the investment portfolio's historic risk of default stands at 0.009%. 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 Council's Treasury Advisors (CAS) which shows that, for the value of risk undertaken and duration of investments, the returns generated are in line with the Model Band.

6.8 A further cut in Bank Rate will result in falling returns on the Council's investment portfolio. However interest rates have fallen across all parts of the yield curve right out to 50 years, so the revenue pressure resulting from falling interest rates has been more than offset by lower borrowing costs.

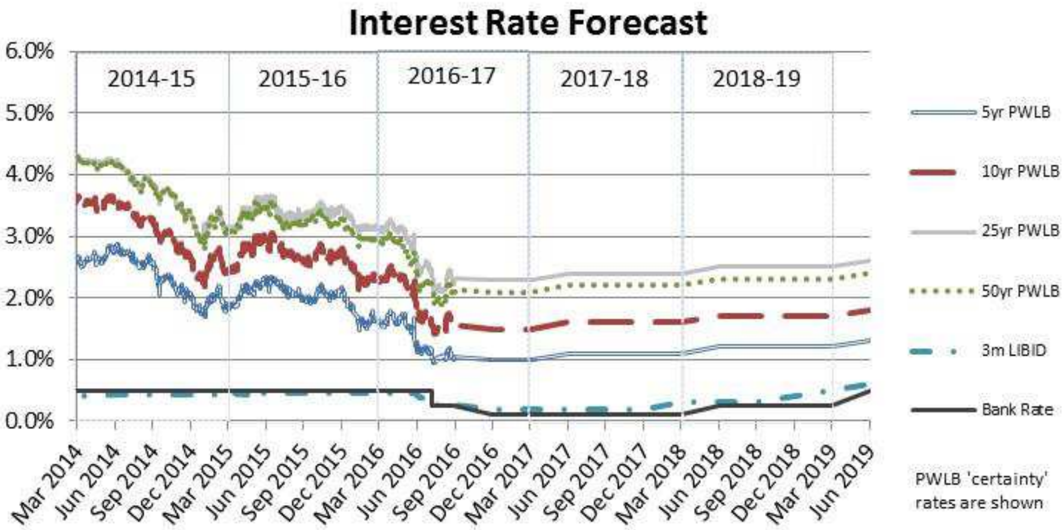
6.9 Leaving market conditions to one side, the Council's return on investment is influenced by a number of factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument. Credit risk is a measure of the likelihood of default and is controlled 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, 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 below. Forward guidance had suggested that a further cut in Bank Rate to near zero was likely, but this view has now faded. Clearly the performance of the economy over the coming months will be critical to this decision. The forecast now is for increases in Bank Rate in

June 2018 to 0.25% and then to 0.5% in 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 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 borrowing undertaken. However during 2016-17 it is anticipated that some new additional borrowing will be required 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 principle repayments for this loan, will be paid in accordance with the loan agreements.

9. BALANCE SHEET REVIEW 31ST MARCH 2016

9.1 A balance sheet review has been carried out following completion of the final accounts. This shows:

- The underlying borrowing requirement rose by £52m to £559m. The borrowing requirement was financed by external loans of £359m (down £23m y/y) resulting in internal borrowing of £202m.

- Reserves and balances in the balance sheet amounted to £122m (up £29m y/y). Cash investments totalled £1m, resulting in a difference of £121m representing internal investments.

- A net working capital surplus of £78m, which when added to internal investments equals £199m (internal borrowing).

- The above shows that cash balance remained strong during the year and were able to sufficiently support the internal borrowing strategy adopted. This strategy optimises net interest payable and revenue savings that flow from that and mitigates credit risk. PWLB loans totalling £23m, running at 3.9% were repaid and not refinanced. Given the underlying borrowing required is forecast to rise over the coming years borrowing options are actively being considered. See **Appendix** 4 for further information.

10. DEBT FINANCING BUDGET

10.1 Overall an under spend of £250k is currently forecast and reported for Debt Charges. The variance is largely due to the continuation of the Internal Borrowing strategy resulting in lower than budgeted interest net interest payable.

- Interest rates across the yield curve have softened since the referendum result in June and the Bank of England Bank Rate cut to 0.25% in August. This has impacted the Council's investment returns, however the adverse variance is more than offset by falling borrowing rates resulting in lower interest payable.

	Budget	**Estimated Outturn**	**Variance**
	£m	**£m**	**£m**
Interest payable	16.363	16.053	-0.310
Interest receivable	-0.459	-0.319	0.140
Internal recharges & Other	0.568	0.468	-0.100
Technical	-0.085	-0.065	0.020
MRP	8.560	8.560	0.000
Total	**24.947**	**24.697**	**-0.250**

10.2 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.

11. MUNICIPAL BONDS AGENCY

11.1 The UK Municipal Bonds Agency is now ready to issue bonds on behalf of local authorities and the first issuance is expected in the autumn. 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.

12. TREASURY MANAGEMENT ADVISORY CONTRACT

12.1 The Council's Treasury Management Advisory Contract was put out to public tender in July in a joint procurement process with LGSS partners and customers (Northamptonshire County Council, Northampton Borough Council and Norwich City Council). This was concluded in September and the contract was awarded to Capita Asset Services for a two year period.

13. COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

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

13.2 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.

13.3 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.

14. ALIGNMENT WITH CORPORATE PRIORITIES

14.1 **Developing the local economy for the benefit of all**

There are no significant implications for this priority.

14.2 **Helping people live healthy and independent lives**

There are no significant implications for this priority.

14.3 **Supporting and protecting vulnerable people**

There are no significant implications for this priority.

15. SIGNIFICANT IMPLICATIONS

15.1 **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.

15.2 **Statutory, Risk and Legal 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**.

15.3 **Equality and Diversity Implications**
There are no significant implications in this category

15.4 **Engagement and Consultation Implications**
There are no significant implications in this category.

15.5 **Localism and Local Member Involvement**
There are no significant implications in this category

15.6 **Public Health Implications**
There are no significant implications in this category

Source Documents	**Location**
None	N/A

Implications	**Officer Clearance**
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Chris Malyon
Has the impact on Statutory, Legal and Risk implications been cleared by LGSS Law?	Yes Name of Legal Officer: Fiona McMillan
Are there any Equality and Diversity implications?	No Name of Officer: Dan Thorp
Have any engagement and communication implications been cleared by Communications?	No Name of Officer: Mark Miller
Are there any Localism and Local Member involvement issues?	No Name of Officer: n/a
Have any Public Health implications been cleared by Public Health	No Name of Officer: n/a

Appendix 1

Economic Update (provided by CAS Treasury Solutions)

Quarter ending 30th September 2016

1. The economic recovery regained some momentum in Q2 2016, with real GDP growth accelerating from 0.4% in Q1 to 0.7% in Q2 – an annual rate of 2.1%. Both households and firms appeared to shrug off pre-referendum uncertainty, driving the acceleration in Q2. However, growth remained unbalanced, with net trade making a big negative contribution to GDP growth for the third quarter out of the last four and the current account deficit close to 6% of GDP.
2. Moreover, growth looks to have slowed considerably in Q3. The average level of the Markit/CIPS Composite PMI in July and August points to GDP growth of barely above zero. Other surveys, such as the CBI's composite growth indicator, paint only a marginally more upbeat picture.
3. The limited official output data we have so far supports this view of slowing growth, but no outright recession. Services output rose by 0.4% in July, industrial production rose by 0.1%, and construction output was flat. Meanwhile, the drop in the pound appears to be having a positive impact on exports, with goods volumes up by 2% on the month. However, we would caution reading too much into the monthly figures as they are volatile and prone to revision.
4. Meanwhile, the strong trend in household spending suggests that consumers are coping well post-referendum. Despite August's slight dip, retail sales volumes have generally been rising robustly and annual growth stands at a robust 6.2%. Admittedly, consumer confidence slumped immediately after the referendum, but this was not too surprising given the political upheaval at the time. Confidence has since bounced back to pre-referendum levels and above its long-run average on the GfK measure. This is unsurprising given that the fundamentals – such as low interest rates and inflation – remain supportive. However, spending growth is unlikely to maintain its pace for much longer as the labour market softens and rising inflation begins to squeeze on household spending power.
5. Granted, the labour market performed strongly prior to the referendum and is yet to show signs of damage from the leave vote. Employment growth rose by 174,000 in the three months to July, up from 172,000 in June. What's more, the unemployment rate has remained at its post-crisis low of 4.9% for the past three months and the employment rate stands at its highest since records began in 1971. The timelier claimant count measure has held steady at 2.2% so far in Q3.
6. Nonetheless, the leave vote is likely to cause some firms to start putting hiring decisions on hold and cut back on headcounts altogether. Indeed, employment surveys suggest that the worst is yet to come. What's more, pay growth has also showed some signs of slowing, with the headline average weekly earnings growth (including bonuses) falling from 2.5% y/y in June to 2.2% in July.

7. Meanwhile, after months of subdued price growth, inflation picked up in Q3. Headline CPI stood at 0.6% in July and August, driven by a rise in food and fuel inflation. What's more, there are signs that price pressures are building at the start of the production pipeline, with producer input costs rising by an annual 7.6% in August. This will feed through to higher prices in shops in time. As such, we expect inflation to break through the MPC's 2% target by mid-2017. Indeed, the Monetary Policy Committee (MPC) revised up its inflation forecasts in the August Inflation Report to show inflation remaining above the target from the latter half of 2017 onwards.
8. Despite this, the MPC implemented a package of policy measures to cushion the economy from the adverse effects of the Brexit vote: -
9. a cut in Bank Rate from 0.50% to 0.25%
10. new gilt purchases of £60bn
11. corporate bond purchases of £10bn
12. a new Term Funding Scheme (TFS) to provide cheap funds to banks
13. Granted, the continued resilience of post-referendum data has led to some suggestions that the August loosening package was premature and unnecessary. Nonetheless, the package is probably part of the reason why the economy has bounced back. Although the MPC left policy untouched in September's meeting, it signalled a further cut of Bank Rate to around 0.10% in November, so long as the incoming data was in line with its August forecasts.
14. However, unlike the Bank of England, both the Federal Reserve and the ECB kept rates on hold during Q3. Nonetheless, 14 out of the 17 FOMC officials still expect at least one rate hike this year, suggesting the Fed is still on track for a hike in December (although this depends on the outcome of the election). However, officials did revise down their projections for rate hikes in future years. The median estimate now shows only two rate hikes next year (previously three), taking the fed funds rate to between 1.00% and 1.25% by year-end. Meanwhile, although the ECB left policy unchanged in Q3, President Mario Draghi stated again that the Bank was "ready, willing and able to act" if required. In particular, he stressed that asset purchases would continue until at least March 2017.
15. On the fiscal policy front, new Chancellor Phillip Hammond will set out how the government will use tax and spending to bolster the UK economy at the Autumn Statement on the 23rd November. In light of the vote to leave the EU, the chancellor said there is an opportunity to "reset fiscal policy" in the Autumn Statement. We suspect this is likely to involve a slowdown in the pace of fiscal tightening and an increase in infrastructure spending on short and medium term projects.
16. However, an outright loosening looks unlikely. After all, while the public finances in Q3 have improved on a year earlier, they are nonetheless still on track to miss the OBR March forecast. What's more, this improvement is unlikely to continue as the

post-referendum economic slowdown begins to bite. So austerity will be less intense but could drag on for a few more years than previously planned.

17. Turning to markets, the FTSE 100 is up by around 10% since the vote to leave, the FTSE 250 with a higher exposure to the domestic market, is only up by 3%. However, the even more domestically focused FTSE local which only includes firms from which 70% of their sales are generated in the UK, is down by over 5%. Meanwhile, 10-year bond yields continued to fall to new record lows of around 0.6% and sterling is still down some 10% since the referendum on a trade-weighted basis.

18. Finally, in regards to Brexit, there is still not much detail to the government's plans for the new UK-EU relationship. Indeed, it would appear that Article 50 won't be triggered until Q1 next year at the earliest. What's more, the chance of a "hard Brexit" deal appears to have grown over recent weeks.

Appendix 2

Prudential and Treasury Indicators at 30th September 2016

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%	96.8%
Variable rate	65%	3.2%
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:

$$\frac{\textit{(Fixed rate borrowing £331.6m* - Fixed rate investments £0m*)}}{\textit{Total borrowing £362.1m - Total investments £19.627m}} = 96.83\%$$

*Defined as greater than 1 year to run

Variable Rate calculation:

$$\frac{\textit{(Variable rate borrowing £30.5m** - Variable rate investments £19.627m**)}}{\textit{Total borrowing £362.1m - Total investments £19.627m}} = 3.17\%$$

** 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%	8%
12 months and within 24 months	50%	1%
24 months and within 5 years	50%	6%
5 years and within 10 years	50%	21%
10 years and above	100%	63%

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	6.96	-3.57

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

2016-17 Original Estimate £	2016-17 Revised Estimate £	Difference £
21.27	(37.36)	-58.63

This indicator has fallen significantly as a result reductions to the Debt Charges budget in respect of lower Minimum Revenue Provision of £9.3m 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	643.3	362.1	280.4	281.2

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	362.1	340.4

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	362.1	310.4

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 30th September 2016

Class	Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Share Capital	Share Capital	CCC/59			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%	4,000,000.00
3rd Party Loans & Share Capital Total							**3.3400%**	**4,400,000.00**
Deposit	Call	CCC/CE/6			Barclays Bank plc	Maturity	0.2000%	5,000,000.00
Deposit	95 Day Notice	CCC/84 (60 DAY)	20/10/15	24/10/2016	Santander UK plc	Maturity	0.6500%	5,000,000.00
Deposit	95 Day Notice	CCC/85 (95DAY)	20/10/15	29/11/2016	Santander UK plc	Maturity	0.6500%	5,000,000.00
Call Total							**0.5000%**	**15,000,000.00**
Deposit	Money Market Fund	CCC/ST/3	31/03/14		SLI Sterling Liquidity/Cl 2	Maturity	0.3687%	4,627,000.00
MMF Total							0.3687%	4,627,000.00
Deposit Total							**0.9392%**	**24,027,000.00**

Appendix 4

A balance sheet review has been carried out following completion of the draft accounts. This analysis provides useful information on how we are resourcing the Capital Financing Requirement (i.e. through internal and external borrowing). The analysis also explains how cash backed reserves and working capital surplus supports the cash that is invested.

	31st March 2016 £m		31st March 2015 £m	
Capital Financing Requirement (CFR)	685		621	
PFI & Finance Lease Liabilities	126		114	
Underlying borrowing requirement	**559**		**507**	
	£m	%	£m	%
External loans				
PWLB	279	50	302	60
LOBO	35	6	80	16
Market	45	8	0	0
Local Authorities	0	0	0	0
Internal resources		=£199m		=£125m
Internal investments	121	22	55	11
Working capital surplus	78	14	70	13
Total	**559**	**100**	**507**	**100**
Investments Analysis				
Cash backed reserves, provisions & balances	122	-	93	-
Internal Investments	(121)	-	(55)	-
Actual cash investment	**1**	**-**	**38**	**-**

Key Points:

- The underlying borrowing requirement has increased by £52m from £507m to £559m

- External borrowing fell by £23m during the year to £359m as two PWLB loans were repaid and not replaced.

- Internal borrowing has increased from £125m to £199m. This is resourced from two areas;
    1) internal investments of £121m at 31st March 2016 (£122m cash backed reserves and balances compared to £1m investments)
    2) working capital surplus of £78m

- The Council has maintained a robust use of its balance sheet to maximise revenue savings (net interest payable) and mitigate credit risk, by continuing with the implementation of the internal borrowing strategy. Both cash backed reserves and the working capital surplus improved during the course of the year enabling PWLB loans totalling £23m running at 3.9% to be repaid during the year without refinancing. Much of this improvement is in relation to City Deal and LEP money which the Council has received and not yet spent. However, we need to ensure that we don't become a forced borrower over the next couple of years as capital spend gains momentum. Impact of the funding of future capital schemes will be carefully monitored to ensure that the internal investment position is prudent in light of the potential for interest rates to rise from the current historical lows in the future.

- A line by line analysis is shown in the schedule produced by the Council's Treasury Management advisors on the next page.

CAPITA

CAMBRIDGESHIRE COUNTY COUNCIL

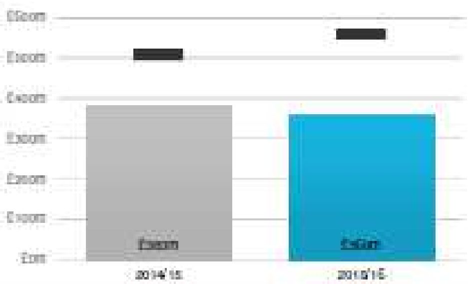
2015/16 Desktop Balance Sheet Review

Asset Services
Treasury solutions

CAPITAL FINANCING AND BORROWING (£'000)

	2014/15	2015/16
Capital Financing Requirement	£620,649	£684,771
Underlying Borrowing Requirement	£507,061	£558,647
External Borrowing	£382,747	£359,733
Under Borrowing	£124,314	£198,914
Net Borrowing (exc TFR debt)	£344,973	£358,270

External Borrowing vs Underlying Borrowing Requirement



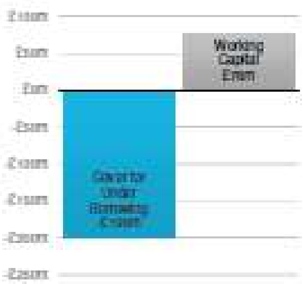
2014/15 (£'000)		2015/16 (£'000)	Change (£'000)
	Capital Financing Requirement (CFR)		
1,758,615	Property, Plant & Equipment	1,782,169	
-	Investment Property	2,658	
1,098	Assets Held for Sale	614	
(432,081)	Revaluation Reserve	(481,822)	
(706,983)	Capital Adjustment Account	(618,848)	
620,649	**CFR (as per Prudential Code)**	684,771	64,122
(113,492)	PFI Liability	(126,032)	
(96)	Finance Lease Liability	(92)	
507,061	**Underlying Borrowing Requirement**	558,647	51,586
	External Borrowing		
(26,557)	Short-Term	(3,428)	
(356,190)	Long-Term	(356,305)	
(382,747)	**TOTAL External Borrowing (Principal)**	(359,733)	23,014
124,314	**Under Borrowing**	198,914	74,600

RESERVES / BALANCES AND INVESTMENTS (£'000)

	2014/15	2015/16
Balances Available for Investment	£97,662	£122,114
External Investments	£37,774	£1,463
(Internal Investments)	£59,888	£120,651

Investments vs Balances

Analysis of (Internal Investments)



2014/15 (£'000)		2015/16 (£'000)	Change (£'000)
	Reserves / Balances		
(16,001)	General Fund Balance	(18,921)	
60	Collection Fund Adjustment Account	(257)	
(54,648)	Earmarked reserves / other balances	(66,676)	
(1,439)	Capital Receipts Reserve	-	
(9,784)	Provisions (exc. any accumulating absences)	(9,270)	
(15,850)	Capital Grants Unapplied	(26,990)	
(97,662)	**Amount Available for Investment**	(122,114)	(24,452)
	Investments		
50	Short-Term	-	
-	Long-Term	400	
37,724	Cash & Cash Equivalents	1,063	
37,774	**TOTAL Investments**	1,463	(36,311)
(59,888)	**(Internal Investments)**	(120,651)	(60,763)

WORKING CAPITAL (£'000)

	2014/15	2015/16
TOTAL Working Capital (Surplus)	-£64,426	-£78,263

Analysis of Working Capital

2014/15 (£'000)		2015/16 (£'000)	Change (£'000)
	Working Capital		
65,508	Debtors	53,593	(11,915)
(121,312)	Creditors	(98,448)	22,864
(12,975)	Capital Grants Receipts In Advance	(42,024)	
(262)	Cash Overdrawn	-	
671	Stock / WIP	951	
(68,370)	**NET Working Capital (Surplus)**	(85,928)	(17,558)
	Other		
3,139	Balance LT Debtors	25,598	
(526)	Balance of LT Liabilities	2,087	
1,331	FIAA - Premiums, (Discounts) etc	1,280	
-	Deferred credits / receipts (non capital)	(21,300)	
3,944	**Other Long-Term Working Capital**	7,665	3,721
(64,426)	**TOTAL Working Capital (Surplus)**	(78,263)	(13,837)