**Agenda Item No: 10**

# TREASURY MANAGEMENT - QUARTER THREE

| | | | |
|---|---|---|---|
| *To:* | **General Purposes Committee** | | |
| *Meeting Date:* | **21st March 2017** | | |
| *From:* | **Chief Finance Officer** | | |
| *Electoral division(s):* | **All** | | |
| *Forward Plan ref:* | **n/a** | *Key decision:* | **No** |
| *Purpose:* | **To provide the third quarterly update on the Treasury Management Strategy 2016-17, approved by Council in February 2016.** | | |
| *Recommendation:* | **The General Purposes Committee is recommended to;**<br>**a) Note the Treasury Management Quarter Three Report 2016-17** | | |



| ***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 third quarter to 31st December 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 0.35% was achieved compared to the 7 day and 3 month London Interbank Bid Rate (LIBID) benchmark (0.12%, 0.26% respectively). See section 6.
- An underspend of £1.330m is currently forecast and reported for debt charges. This is largely due to falling interest rates across the yield curve resulting in lower projections for net interest payments. 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 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 December 2016, the significant UK headlines of this analysis were:

- The Economic growth has barely lost pace despite Brexit;
- Consumer spending continued to be the key driver for economic growth;
- Labour markets recent strength seems to be diminishing;
- CPI inflation rose above 1% for the first time since October 2014;
- The chancellor eased the fiscal squeeze, but the MPC kept policy

unchanged;

- .Monetary policy in the US and the Euro-zone diverged.
- UK Government still plans to trigger Article 50 and Begin Brexit.

## 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 31st December 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 | **4.5** | 278.6 | **4.5** |
| PWLB (3rd Party Loans) | - | | 0 | - | 3.9 | **2.3** | 3.9 | **2.3** |
| Market | - | | 0 | - | 45.0 | **4.0** | 45.0 | **4.0** |
| LOBO | 79.5 | 3.7 | 79.5 | 3.7 | 34.5 | **3.2** | 34.5 | **3.3** |
| **Total long term** | **484.5** | **4.2** | **358.1** | **4.2** | **362.0** | **4.3** | **362.0** | **4.3** |
| **Short term borrowing** | - | - | - | - | 34.0 | **0.3** | **60.0** | **0.5** |
| **Total borrowing** | **484.5** | **4.2** | **358.1** | **4.2** | **396.0** | **3.9** | **422.0** | **4.2** |
| | | | | | | | | |
| **Investments** | **5.6** | **0.5** | **10.1** | **0.5** | **9.8** | **0.5** | **8.0** | **0.4** |
| | | | | | | | | |
| **Total Net Debt / Borrowing** | **478.9** | **-** | **348** | **-** | **386.2** | **-** | **414.0** | **-** |
| | | | | | | | | |
| **3rd Party Loans & Share Capital** | **-** | **-** | **0.4** | **-** | **4.3** | **-** | **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 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.

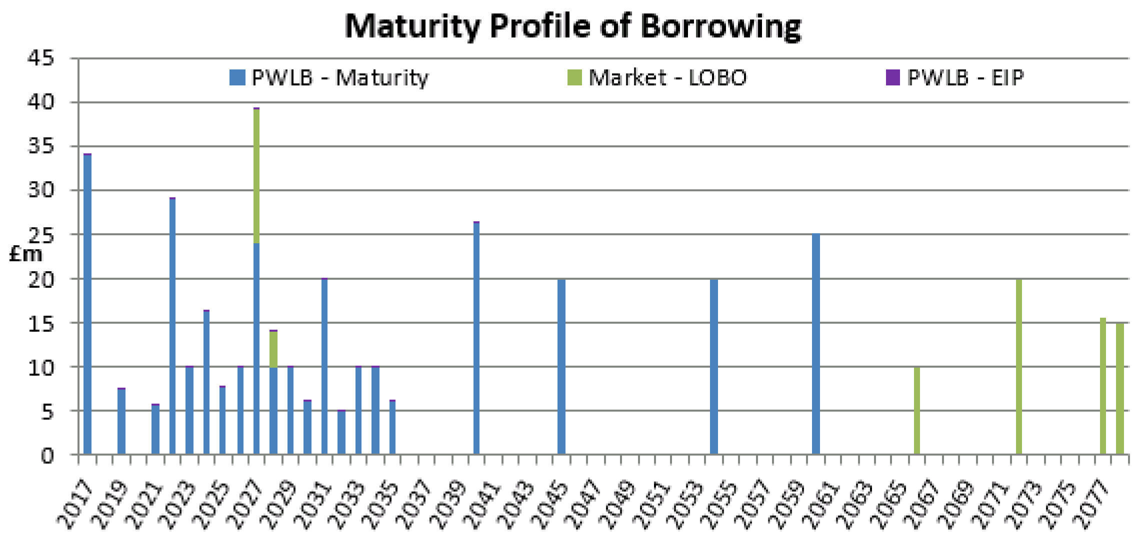
5.3 A £4m PWLB loan repayable in equal instalments over the term was raised to on-lend to the Arthur Rank Hospice Charity earlier in the year. No other long term loans were raised or repaid during the year to date.

| 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 |

**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 LOBO Loans run to maturity) is 21.4 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:

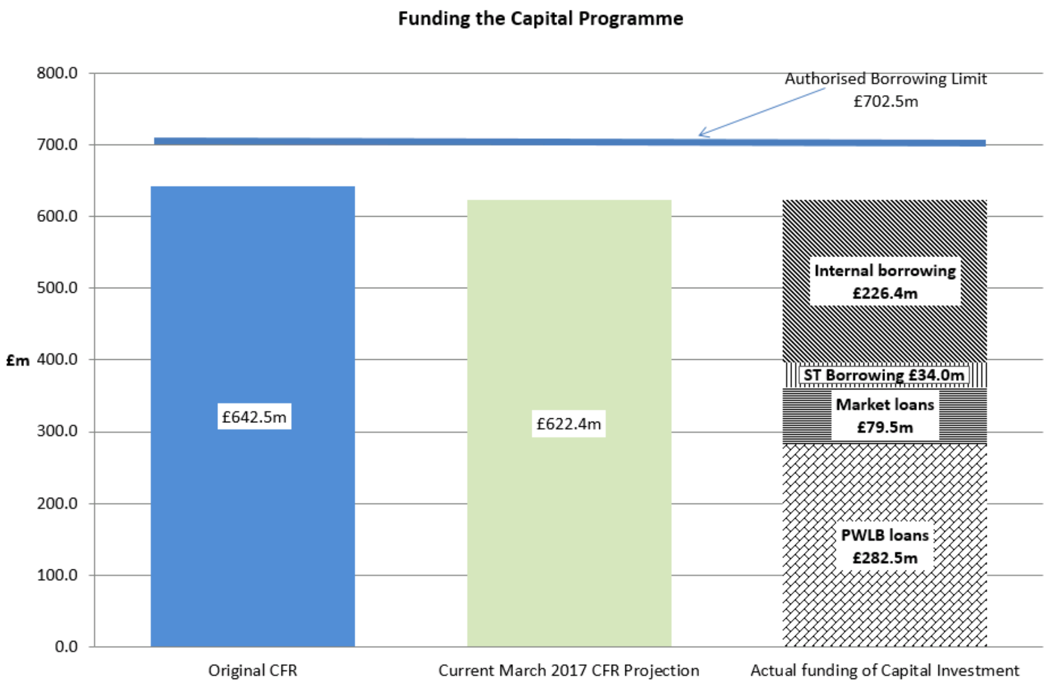
- to generate cash savings
- to reduce the average interest rate
- to enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

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 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 December 2016.




5.10 As shown on the chart above, it can be seen that the council's current CFR projection is £80.1m below the statutory Authorised Borrowing Limit set for the Council at the start of the year.

5.11 In addition, the chart shows how the Council is currently funding its borrowing requirement (through internal and external resources). As at 31st December, internal borrowing is forecasted to be £226.4m to finance capital investment by 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.

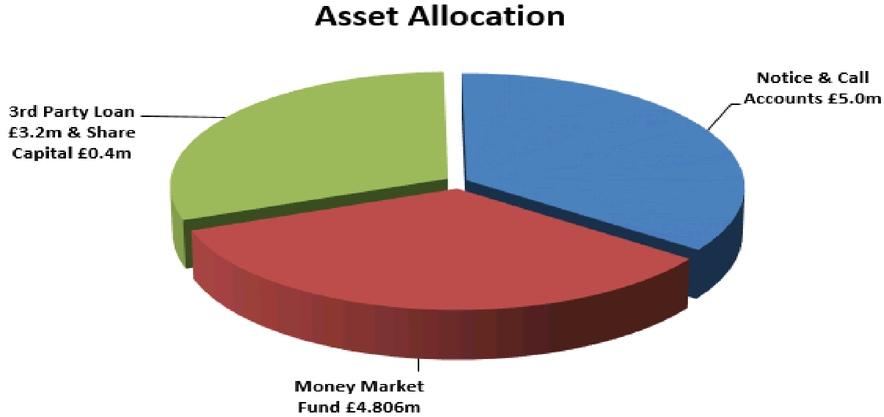
## 6. INVESTMENTS

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 GPC and Council.

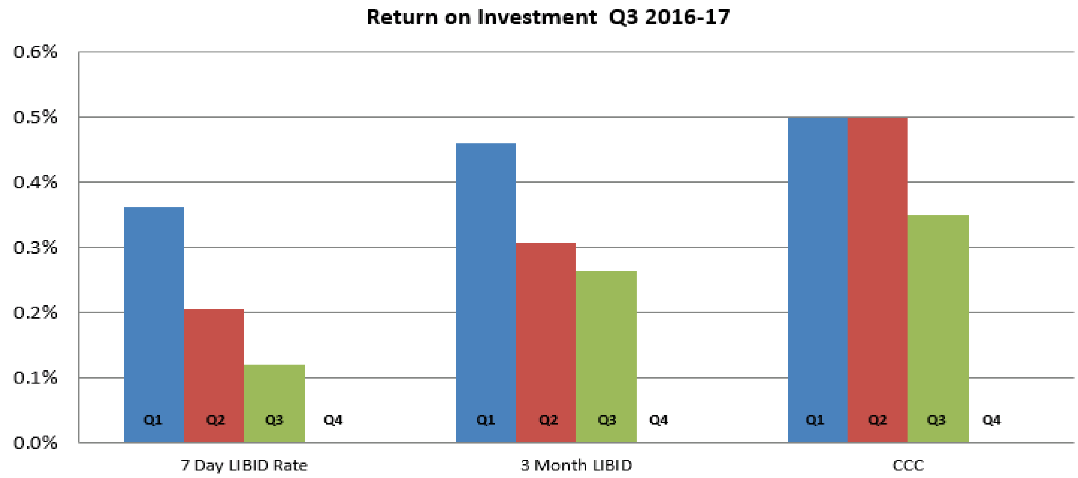
6.2 As described in paragraph 5.11, the strategy currently employed by the Council of internal borrowing also has the affect of limiting the Council's investment exposure to the financial markets, thereby reducing credit risk.

6.3 As at 31st December the level of investment totalled £9.8m, 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 December is 1 day. 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 each quarter this year.




6.6 It can be seen from the graph that investments returned 0.35% during the quarter which is more than both the 7 day LIBID (0.12%), 3 month LIBID (0.26%) benchmarks.

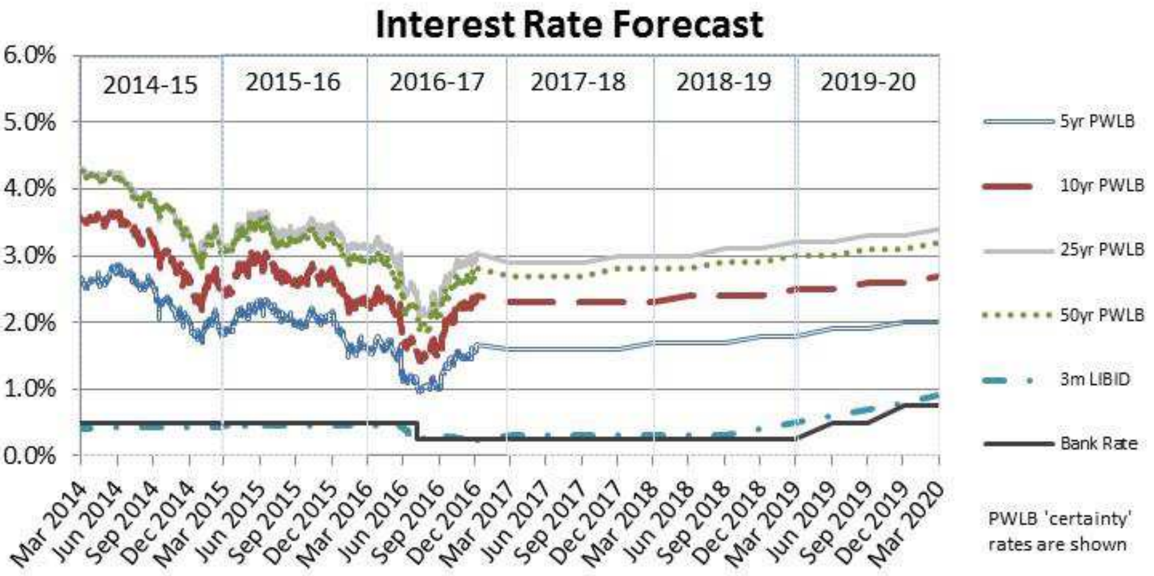
6.7 Using credit ratings, the investment portfolio's historic risk of default stands at 0.0001%. This simply provides a calculation of the possibility of average default against the historical default rates. The Council is also a member of a benchmarking group run by CAS which shows that, for the value 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 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).

## 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 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 additional borrowing 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 £1.33m is currently forecasted and reported for Debt Charges (**as at January 2017**). The variance is largely due to the continuation of the Internal Borrowing strategy resulting in lower than budgeted forecast net interest payments. The positive variance for interest receivable includes interest of £380k received on S106 for Clay Farm which was not budgeted.

| | Budget | Estimated Outturn | Variance |
|---|---|---|---|
| | £m | £m | £m |
| Interest payable | 16.363 | 15.031 | -1.332 |

| | | | |
|---|---|---|---|
| Interest receivable | -0.459 | -0.894 | -0.435 |
| Internal recharges & Other | 0.568 | 0.614 | 0.046 |
| Technical | -0.085 | -0.065 | 0.020 |
| MRP | 8.560 | 8.931 | 0.371 |
| **Total** | **24.947** | **23.617** | **-1.330** |

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 and Performance 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 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.

### 13.3 Equality and Diversity Implications

There are no significant implications in this category

### 13.4 Engagement and Consultation Implications

There are no significant implications in this category.

### 13.5 Localism and Local Member Involvement

There are no significant implications in this category

### 13.6 Public Health Implications

There are no significant implications in this category

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

**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 | N/A |

**Appendix 1**

**Economic Update (provided by CAS Treasury Solutions)**

**Quarter Ended 31st December 2016**

1. Economic growth appears to have barely lost pace, despite the vote for Brexit. Indeed, quarterly GDP growth in Q3 of 2016 is now estimated to have been 0.6%, up from the initial estimate of 0.5%: Q2's growth rate was also nudged down from 0.7% to 0.6%. Moreover, the average level of the Markit/CIPS all-sector PMI in October and November was 54.8, compared to an average of 51.4 in Q3. On the basis of past form, this is consistent with quarterly GDP growth of about 0.5%. And the sharp rise in the manufacturing PMI in December suggests the sector ended the year solidly.
2. Consumer spending continued to be the key driver of growth in Q4. Admittedly, retail sales only rose by a monthly 0.2% in November. But this followed a whopping 1.8% monthly increase in October. As a result, even if sales volumes were flat in December, they would have risen by 2.1% over Q4 as a whole, the largest increase since Q2 2014 and up from Q3's 1.9% rise.
3. This does not look sustainable though. Q3's National Accounts revealed a fall in households' real disposable incomes, and as a result the 0.7% rise in overall household spending was funded entirely through a fall in the household saving ratio. With inflation having picked up and employment growth having slowed in Q4, it looks likely that the saving ratio may have fallen further.
4. The labour market's recent strength seems to be waning. Employment actually fell in the three months to October, the first fall since Q2 2015. Annual growth in employment remained positive, albeit weak, at 1.1%. Granted, the unemployment rate held steady at its post-crisis low of 4.8%. But note that this was due to people moving into inactivity rather than employment.
5. Note that some slowdown in employment growth was inevitable, regardless of the outcome of the referendum, as labour market slack has diminished. Indeed the unemployment rate is now around the level often thought to be its "natural" rate. Looking ahead, we doubt that any job losses will be particularly severe or sustained. Survey measures of firms' employment intentions are consistent with annual growth in private sector employment of about 1% over the coming months.
6. Meanwhile, perhaps in response to past tightening in the labour market, there have been some more optimistic signs on the wages front, with annual growth in average weekly earnings (including bonuses) holding broadly stable at 2.5% in the three months to October, following a 2.4% rise in Q3.
7. At the current time, this is enough to outpace inflation. CPI inflation picked up from 0.7% in Q3 to average 1.1% in October and November. The 1.2% level reached in November was the highest since October 2014, although this still remains low by historical standards. However, inflation is on a steep upward trajectory.

Components of inflation that typically respond quite quickly to exchange rate movements, such as petrol and food prices, have had big upward influences on the headline rate recently, and will continue to do so as the drop in the pound makes its way through the inflation pipeline.

8. Price pressures at the beginning of the pipeline are already building rapidly. Producer input price inflation rose from 6.5% in Q3 to an average of 12.6% in October and November. There is typically quite a long lag between producer prices and CPI inflation, but we should start to see this feed through to higher prices on the high street over the course of 2017. Indeed, CPI inflation is still on track to breach the 2% inflation target in spring 2017, and should peak at around 3% by spring 2018.

9. For now at least, the MPC doesn't appear to be too fazed by this overshoot of the 2% inflation target: it left interest rates unchanged at 0.25% during Q4. Given the uncertainty about the economic outlook, and especially the impact from the two year window for Brexit negotiations from March 2017, interest rates look set to remain on hold for a long while yet.

10. By contrast, the US Fed pressed ahead and raised interest rates by 25bp in December, as expected, taking the Fed funds target range to between 0.50% and 0.75%. At the same time, the ECB announced that it would slow the pace of its asset purchases from April 2017, but committed to extending the purchases by another nine months (to December 2017). This highlights the unusual divergence in western monetary policy set to occur over the next year or so.

11. Meanwhile, the latest data suggests that the public finances are broadly on track to meet the recently revised OBR's near-term forecasts. Borrowing on the PSNB ex measure in the first eight months of the fiscal year so far was about 11% lower than last year. This compares to the OBR's expectations of a 10% fall for the fiscal year as a whole.

12. But hopes of a complete "reset" of fiscal policy were dashed in November's Autumn Statement. Chancellor Philip Hammond did lessen the fiscal squeeze a bit, but the UK still faces another bout of austerity over the coming years. Of course, the new fiscal rules – which include achieving a cyclically-adjusted budget deficit of below 2% by 2020/21 – do offer the Chancellor a bit of room for manoeuvre if the economy were to turn out much weaker. On the basis of the OBR's new forecasts, the deficit will be about 0.8% on this measure by that point, leaving him about 1.2% of GDP to play with.

13. Ongoing deficit reduction in the UK is in contrast to the US, where we expect a major fiscal stimulus on the back of Trump's victory. Indeed, we have revised up our US GDP growth forecast for 2017 from 2% to 2.7%.

14. Meanwhile, in financial markets, the FTSE 100 rose by 2.4% between Q3 and Q4 of 2016, taking it to a record high. This partly reflected the 3.5% drop in the trade-weighted value of sterling, (which boosts the sterling value of UK firms' overseas profits), but also the generally positive market reaction to Trump's victory in the US election. That said, Brexit worries are still lingering, with the FTSE UK Local Index,

which only includes firms of which more than 70% of their sales are generated in the UK, falling by 5.4%. Meanwhile, reflecting a combination of rising US Treasury yields on the back of Trump's victory, as well as fears about the sterling-driven rise in inflation over the next few years in the UK, 10-year UK government bond yields rose by close to 50bp during Q4.

15. Finally, the UK government still plans to trigger Article 50 and begin Brexit negotiations by the end of March, and has promised to lay out its plans before it does so. A soft(ish) form of Brexit still looks in prospect. Granted, controlling immigration and ending the influence of the European Court of Justice appear to be key priorities, but the government has stated it wants to retain a very close trading relationship, and that a transitional deal may be considered in order to smooth the process.

**Appendix 2**

**Prudential and Treasury Indicators at 31st December 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% | 85.84% |
| Variable rate | 65% | 14.16% |
| 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:

$$\frac{\textit{(Fixed rate borrowing £331.6m* - Fixed rate investments £0m*)}}{\textit{Total borrowing £396.1m - Total investments £9.806m}} = \textit{85.84\%}$$

*Defined as greater than 1 year to run

Variable Rate calculation:

$$\frac{\textit{(Variable rate borrowing £64.5m** - Variable rate investments £9.806m**)}}{\textit{Total borrowing £396.1m - Total investments £9.806m}} = \textit{14.16\%}$$

** 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% | 16% |
| 12 months and within 24 months | 50% | 1% |
| 24 months and within 5 years | 50% | 10% |
| 5 years and within 10 years | 50% | 16% |
| 10 years and above | 100% | 57% |

**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 | 6.71 | -3.82 |

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

| 2016-17 Original Estimate £ | 2016-17 Revised Estimate £ | Difference £ |
|---|---|---|
| 21.27 | (41.42) | -62.69 |

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 | 622.4 | 362.0 | 280.5 | 260.4 |

**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 | 362.0 | 340.5 |

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 | 362.0 | 310.5 |

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 December 2016

| 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 | 0.2781% | 4,806,000.00 |
| **MMF Total** | | | | | | | **0.2781%** | **4,806,000.00** |
| **Deposit Total** | | | | | | | **1.0746%** | **- 14,126,000.00** |
| **Grand Total** | | | | | | | | **14,126,000.00** |