Appendix 1

Economic Update (provided by CAS Treasury Solutions)

Quarter Ended 30th June 2016

1. The economic recovery lost a little momentum in Q1 2016, with real GDP growth slowing from 0.7% q/q in Q4 to 0.4% – an annual rate of 2.0%. The recovery remained highly unbalanced too, with net trade subtracting from GDP growth for the second time in three quarters. And the current account deficit stood at 6.9% of GDP in Q1, only a little off the record 7.2% of GDP seen in Q4 2015. Business surveys suggest that activity slowed further in Q2 ahead of the EU referendum. Indeed, the Markit/CIPS composite PMI for May is consistent with quarterly growth slowing to 0.2% or so in Q2.
2. However, the official output data for Q2 so far have been a little more upbeat. Industrial production rose by a monthly 2% in April – which suggests that the sector may have pulled out of recession in the second quarter – and construction output rose by a monthly 2.5%. Beyond the referendum, the first PMI survey conducted after the vote – released on August 1st – will provide an initial indication of the extent to which the vote to leave has affected activity. The first post-referendum official activity data are for industrial production, due to be released on August 9th.
3. Consumers generally appear to have taken pre-referendum uncertainty in their stride, with household spending still the principal driver of economic growth. The pace of retail sales volumes growth has picked up, rising to a healthy annual rate of 6% in May. Aaway from the high street, the Bank of England's Agent's scores of consumer services turnover growth rose too. Admittedly, GfK/NOP consumer confidence has slipped back from its 2015 highs in the run-up to the referendum but remained elevated prior to the vote. Indeed, the balance for major purchases stayed at +9 in June, well above its long-run average of -6, pointing to solid growth in durable goods spending. However, consumer confidence is likely to weaken following the referendum result: the extent of any immediate impact on confidence will be evident in the next GfK/NOP data, due on July 29th.
4. The labour market performed fairly well prior to the EU referendum too, with employment rising by 55,000 in the three months to April. Admittedly, this is below the strong rises seen last year, but some easing in the pace of the jobs recovery was always to be expected given how much slack has already been eroded. Indeed, the ILO unemployment rate fell to 5.0% in the three months to April, it's lowest in over a decade. The timelier claimant count measure held at 2.2% in May. Pay growth also picked up in April – annual growth in regular pay (ex. bonuses), jumped from 1.9% to 2.5%.
5. However, the labour market story hasn't been entirely positive. At least some of April's rise in pay growth was probably down to the imposition of the National Living Wage, so may not entirely be a reflection of a tighter labour market. And much of the rise in employment in the three months to April was driven by self-employment, which may reflect people struggling to find employee roles. In any case, employment growth may slow markedly in the next few months due to the disruption associated with the vote to leave the EU.

6. Away from the labour market, inflation has been very subdued in the months preceding the EU referendum. CPI inflation has stood at just 0.3% every month so far this year, with the exception of March when Easter timing effects distorted the figures. But price pressures are likely to pick up in the months ahead. Around 80% of the difference between headline inflation and the Bank of England's 2% target is due to low food and energy price inflation. But the dampening influence of food and energy prices is set to wane as last year's sharp falls drop out of the annual comparison. What's more, sterling dropped by more than 8% following the UK's decision to leave the EU, leaving it around 14% below its mid-November peak. This should eventually feed through to higher inflation, which we expect to rise above the Bank of England's 2% target in the first half of next year.
7. This leaves the MPC with an awkward trade-off between minimising the short-term hit to the economy and overshooting its inflation target. However, given how low inflation currently is, the MPC has some room for manoeuvre. We expect interest rates to be cut from 0.5% to 0.25%, probably at the MPC's next meeting on July 14th. Indeed, in a speech on 30 June, Governor Carney stated that "some monetary easing will likely be required over the summer", and markets are pricing in a rate cut at the MPC's next meeting. A ramp-up in the Bank's asset purchase programme is also a possibility, depending on the scale of the short-term economic damage.
8. Like the Bank of England, both the Federal Reserve and the ECB kept rates on hold during Q2. However, despite leaving its economic projections largely unchanged, the FOMC nonetheless cut its interest rate projections quite sharply. Six of the 17 officials anticipate just one hike in the US this year, and median interest rate forecasts for end-2017 and 2018 were revised down too. What's more, this was before the financial market turmoil which followed the results of the UK's EU referendum. At the margin, this could delay hikes even further. Meanwhile, we expect the ECB to respond to the economic damage generated by the UK's vote to leave the EU by accelerating the pace of its asset purchases and possibly with another small cut in interest rates.
9. Turning to the public finances, the data released since March's Budget will only have added to the Chancellor's worries. Public sector net borrowing (excluding public sector banks) was only slightly down on a year earlier at £9.7bn in May, indicating that borrowing was already on course to overshoot the OBR's forecast of a 25% fall in FY 2016/17 as a whole before the effects of any post-referendum disruption are accounted for.
10. The plans laid out in the March Budget stated that fiscal tightening would intensify this year – and Chancellor Osborne has warned that he would impose an austere emergency budget following a vote to leave the EU. However, Mr Osborne has already rowed back on this threat. What's more, if the OBR projects that the four-quarter average of annual GDP growth will fall below 1%, this activates a get-out clause in the government's fiscal rules. This could lead to some of the near-term tightening described in the Budget being deferred to help reduce the damage caused by the referendum result.
11. Finally, the FTSE 100 has now recovered the ground it lost following the UK's vote to leave the EU, and stands around 3% higher than at the start of Q2. But the

multinational-heavy FTSE 100 has benefitted from sterling’s collapse, which boosts the value of firms’ overseas earnings. The FTSE 250, which better reflects the domestic economy, is down 5% since the start of the quarter. Meanwhile, 10-year bond yields have sunk to new record lows of just under 1% on the back of safe-haven demand.

Appendix 2

Prudential and Treasury Indicators at 30th June 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% to 35%	77%
Variable rate	65% to -50%	23%
Total		100%

The Interest rate exposure is calculated as a percentage of the net debt figure. The formula is shown below:

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

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

	2016-17 Limit £m	Actual £m
Investment longer than 364 days to run	80.0	0.0

Notes: This indicator is calculated by adding together all investments that have greater than 364 days to run to maturity at this point in time.

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

	Upper Limit	Actual
under 12 months	80%	24%
12 months and within 24 months	50%	2%
24 months and within 5 years	50%	9%
5 years and within 10 years	50%	3%
10 years and above	100%	62%

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 %
7.4	7.4	0.0

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

2016-17 Original Estimate (£)	2016-17 Revised Estimate (£)	Difference (£)
-0.93	-0.20	-1.13

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
668.7	645.4	448.9	219.8	196.5

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
728.7	448.9	279.8

The Authorised limit is the statutory limit on the Councils 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
698.7	448.9	249.8

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 June 2016

Class	Type	Deal Ref	Start / Purchase Date	Maturity Date	Counterparty	Profile	Rate	Principal O/S (£)
Deposit	Call (3 months notice)	NCC/6	-	-	HSBC Bank plc	Maturity	0.6868%	6,700,000.00
Deposit	Call (3 months notice)	NCC/7	-	-	HSBC Bank plc	Maturity	0.6868%	3,300,000.00
Deposit	Call (instant access)	NCC/11	-	-	Barclays Bank plc	Maturity	0.5000%	10,000,000.00
Deposit	Call (95 Day Notice)	NCC/135 (95 DAY)	-	-	Santander UK plc	Maturity	0.9000%	5,000,000.00
Deposit	Call (60 Day Notice)	NCC/135 (60 DAY)	-	-	Santander UK plc	Maturity	0.9000%	7,500,000.00
Call Total								**32,5000,000.00**
Deposit	3rd Party Loan	NCC/150	10/03/16	10/03/56	University of Northampton	Annuity	2.9200%	14,000,000.00
Deposit	Share Capital	NCC/110	25/09/14	25/09/24	The UK Municipal Bonds Agency	-	-	200,000.00
Deposit	3rd Party Loan	NCC/113	23/10/14	22/10/20	Northamptonshire County Cricket Club Ltd	Maturity	5.0265%	922,800.92
Deposit	3rd Party Loan	NCC/124	20/04/15	19/04/16	LGSS Law	Maturity	1.6400%	950,000.00
Deposit	3rd Party Loan	NCC/79	11/07/13	30/06/18	Adrenaline Alley	EIP	3.9983%	34,060.00
Deposit	3rd Party Loan	NCC/80	10/01/14	14/02/19	Northamptonshire County Cricket Club Ltd	Maturity	3.9983%	1,000,000.00
Deposit	3rd Party Loan	NCC/81	20/01/14	20/07/17	MOLA- Museum of London Archaeology	EIP	3.9818%	91,663.00
Third Party Loan Total								**17,198,523.92**
Deposit	MMF	NCC/18	-	-	Insight Liquidity Sterling C3	-	0.5221%	1,088,000.00
Money Market Fund (MMF) Total								**10,120,000.00**
Deposit Total								**50,786,523.92**