Appendix 1

Economic Update (provided by CAS Treasury Solutions)

Quarter Ended 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% to 35%	73%
Variable rate	65% to -50%	27%
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%	23%
12 months and within 24 months	50%	2%
24 months and within 5 years	50%	10%
5 years and within 10 years	50%	2%
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 %
7.4	6.4	-1.0

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

2016-17 Original Estimate (£)	2016-17 Revised Estimate (£)	Difference (£)
-0.93	-24.30	-25.23

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	662.2	462.9	205.8	199.2

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
728.7	462.9	265.8

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	462.9	235.8

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 September 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	0.4786%	6,700,000.00
Deposit	Call (3 months notice)	NCC/7	-	-	HSBC Bank plc	Maturity	0.4786%	3,300,000.00
Deposit	Call (instant access)	NCC/11	-	-	Barclays Bank plc	Maturity	0.3000%	10,000,000.00
Call Total								**13,143,000.00**
Deposit	3rd Party Loan	NCC/150	10/03/16	10/03/56	University of Northampton	Annuity	2.9200%	13,906,603.39
Deposit	Share Capital	NCC/110	25/09/14		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	4.4355%	922,800.92
Deposit	3rd Party Loan	NCC/124	20/04/15	notice	LGSS Law	Maturity	1.6400%	950,000.00
Deposit	3rd Party Loan	NCC/79	11/07/13	30/06/18	Adrenaline Alley	EIP	3.8193%	29,815.00
Deposit	3rd Party Loan	NCC/80	10/01/14	14/02/19	Northamptonshire County Cricket Club Ltd	Maturity	3.0193%	1,000,000.00
Deposit	3rd Party Loan	NCC/81	20/01/14	20/07/17	MOLA- Museum of London Archaeology	EIP	3.7451%	66,664.00
Third Party Loans & Share Capital Total								**17,075,883.31**
Deposit Total								**30,218,883.31**

Appendix 4

A balance sheet review has been carried out following completion of the final 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)	797		743	
PFI & Finance Lease Liabilities	193		184	
Underlying borrowing requirement	**604**		**559**	
	£m	%	£m	%
External loans				
PWLB	289	48	261	46
LOBO	130	22	150	27
Market & Local Authorities	36	6	5	1
Internal resources		=£150m		=£143m
Internal investments	86	14	95	17
Working capital surplus	64	10	48	9
Total	**604**	**100**	**559**	**100**
Investments Analysis				
Cash backed reserves, provisions & balances	132		160	
Internal Investments	(86)		(95)	
Actual cash Invested	**46**		**65**	

Key Points:

- The underlying borrowing requirement has increased by £45m from £559m to £604m
- External borrowing rose to £455m from £416m as PWLB loans were raised during the year.
- Internal borrowing has increased from £143m to £150m. This is resourced from two areas;
    1) internal investments of £86m at 31st March 2016 (£132m cash backed reserves and balances compared to £46m investments)
    2) working capital surplus of £64m
- The Council has maintained a robust use of its balance sheet to maximise revenue savings, however new borrowing was raised at opportune points in the year to finance the gap arising due to the increasing CFR and reducing Cash Backed Reserves & Balances. We need to ensure that we don't become a forced borrower over the next year or two as there is to be a further reduction in cash backed reserves and increases in CFR.
- A line by line analysis is shown in the schedule produced by the Council's Treasury Management advisors on the next page.

CAPITA

NORTHAMPTONSHIRE COUNTY COUNCIL

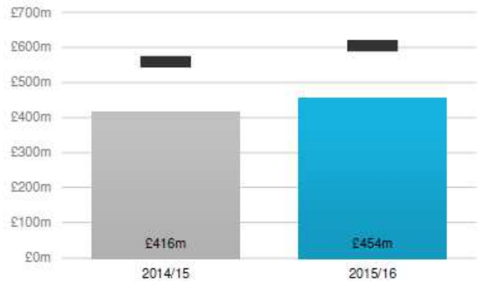
2015/16 Desktop Balance Sheet Review

Asset Services
Treasury solutions

CAPITAL FINANCING AND BORROWING (£'000)

	2014/15	2015/16
Capital Financing Requirement	£743,279	**£796,874**
Underlying Borrowing Requirement	£559,017	**£604,098**
External Borrowing	£415,830	**£454,291**
Under Borrowing	£143,187	**£149,807**
Net Borrowing (exc TFR debt)	£351,102	**£407,805**

External Borrowing vs Underlying Borrowing Requirement

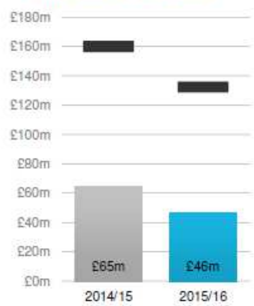


2014/15 (£'000)		2015/16 (£'000)	Change (£'000)
	Capital Financing Requirement (CFR)		
1,060,701	Property, Plant & Equipment	1,067,507	
8,550	Investment Property	19,926	
5,763	Intangible Assets	7,496	
20,364	Assets Held for Sale	26,316	
1,848	Capital Long-term Debtors	17,029	
(102,934)	Revaluation Reserve	(105,806)	
(251,013)	Capital Adjustment Account	(235,594)	
743,279	**CFR (as per Prudential Code)**	**796,874**	**53,595**
(183,770)	PFI Liability	(192,543)	
(492)	Finance Lease Liability	(233)	
559,017	**Underlying Borrowing Requirement**	**604,098**	**45,081**
	External Borrowing		
(125,400)	Short-Term	(130,520)	
(290,430)	Long-Term	(323,771)	
(415,830)	**TOTAL External Borrowing (Principal)**	**(454,291)**	**(38,461)**
143,187	**Under Borrowing**	**149,807**	**6,620**

RESERVES / BALANCES AND INVESTMENTS (£'000)

	2014/15	2015/16
Balances Available for Investment	£159,892	**£132,486**
External Investments	£64,728	**£46,486**
(Internal Investments)	£95,164	**£86,000**

Investments vs Balances



Analysis of (Internal Investments)

2014/15 (£'000)		2015/16 (£'000)	Change (£'000)
	Reserves / Balances		
(12,009)	General Fund Balance	(12,010)	
(4,238)	Collection Fund Adjustment Account	(5,053)	
(103,167)	Earmarked reserves / other balances	(59,963)	
(7,491)	Capital Receipts Reserve	(22,527)	
(12,387)	Provisions (exc. any accumulating absences)	(13,658)	
(20,600)	Capital Grants Unapplied	(19,275)	
(159,892)	**Amount Available for Investment**	**(132,486)**	**27,406**
	Investments		
60,423	Short-Term	30,243	
1	Long-Term	1	
4,304	Cash & Cash Equivalents	16,242	
64,728	**TOTAL Investments**	**46,486**	**(18,242)**
(95,164)	**(Internal Investments)**	**(86,000)**	**9,164**

WORKING CAPITAL (£'000)

	2014/15	2015/16
TOTAL Working Capital (Surplus)	-£48,026	**-£63,807**

Analysis of Working Capital

2014/15 (£'000)		2015/16 (£'000)	Change (£'000)
	Working Capital		
88,791	Debtors	89,180	389
(118,851)	Creditors	(128,419)	(9,568)
(15,523)	Capital Grants Receipts In Advance	(17,338)	
(6,311)	Cash Overdrawn	(11,264)	
590	Stock / WIP	692	
(51,304)	**NET Working Capital (Surplus)**	**(67,149)**	**(15,845)**
	Other		
7,512	Balance LT Debtors	7,351	
(2,503)	Balance of LT Liabilities	(2,546)	
(1,720)	FIAA - Premiums, (Discounts) etc	(1,457)	
(11)	Balance of Available for Sale (Rev)	(6)	
3,278	**Other Long-Term Working Capital**	**3,342**	**64**
(48,026)	**TOTAL Working Capital (Surplus)**	**(63,807)**	**(15,781)**