Report

Audit Committee

Part 1

Date: 01 December 2016

Subject **Report on Treasury Management for the period to 30 September 2016**

Purpose To inform the Council of treasury activities undertaken during the period to 30 September 2016

Author Assistant Head of Finance

Ward General

Summary The Council continues to be both a s/t investor of cash and borrower to manage day-to-day cash-flow's. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day to day cash flow activities and to fund borrowing for the City Centre Redevelopment.

Discussions around the sale of the redevelopment are currently underway and are of a commercial and confidential nature. The successful conclusion of a sale will have a significant impact on the treasury activities of the authority. The outcome of the sales discussions will be known in the near future and the impact on treasury management will be updated for the '2017/18 Treasury Management Strategy', which will come to Audit Committee in January 2017.

Following the result of the BREXIT referendum there were no immediate changes to our advisor's credit advice on UK banks and building societies. However, the report provides a counterparty update which details the various indicators of credit risk which have reacted negatively to the result of the referendum.

Proposal **To note the report on treasury management activities for the period to 30 September 2016.**

Action by Head of Finance

Timetable Immediate

This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

Please list here those officers and members you have consulted on this report.

Background

1. The Council's Treasury Management Strategy and Prudential Indicators were approved by Council in February 2016 alongside the Medium Term Financial Plan and the 2016/17 Budget.

2. The Treasury Management Strategy for 2016/17 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

3. Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

4. The report has been prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code, and reviews and reports on:

- Borrowing Activity and Rescheduling
- Investment Strategy and proposed changes to the Council's approved investment limits
- Economic Background
- Compliance with Prudential Indicators approved by Council

Short and Long Term Borrowing

5. Whilst the Council has significant long term borrowing requirements, the Council's strategy of funding capital expenditure through reducing investments rather than undertaking new borrowing remains i.e. we defer taking out new l/t borrowing and fund capital expenditure from day to day positive cash-flows for as long as we can. By using this strategy the Council can minimise cash holding at a time when counterparty risk remains high. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long term borrowing.

6. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current 'low for longer' borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.

7. During the first half of the year the amount of borrowing has reduced by £8.65m, this relates mainly to borrowing associated with the Queensberry debt (reduced by £8m). This reduction in borrowing may only be temporary in nature due to positive cash flow in other areas of the Council, therefore there may be an increase in borrowing in relation to this prior to any conclusion of the scheme. The borrowing associated with this loan is kept separate from the Council's other borrowing requirements shown in Appendix C. The loan is anticipated to be paid off via capital receipts in 2016/17, therefore the Council is not required to make MRP charges to the revenue budget in relation to the Friars Walk Development loan as the borrowing will be paid off in full at the end of the scheme. If the development is not sold in the coming months, the Council will need to re-finance any existing borrowing which is due to be repaid, which will require a review of the 2017/18 Treasury Management Strategy and Indicators

8. With the exception Queensberry loans discussed above, no further long term loans have been taken out in the first half of the financial year. However, it is anticipated that the Council will need to undertake additional borrowing on a short term basis for the remainder of the year in order to cover normal day to day cash flow activity. With current estimates it is not expected that any additional long-term borrowing would be required at this stage.

9. Appendix C summarises the Council's debt position as at 30 September 2016. The changes in debt outstanding relate to the raising and repaying of temporary loans and principle repayments against EIP loans with the PWLB.

10. The value of the Council's LOBO money market loans has reduced to £30m due to a £5m LOBO with Barclays being converted to fixed rate borrowing at the same rate. No loans were called during the period. All £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans) prior to the end of this financial year. Should a change of interest rate be requested, then it will be considered in detail and a decision on how we proceed will be made in conjunction with our treasury advisors.

Investments

11. As per the agreed strategy, the Council will be a short-term investor to maintain low cash balances as required. As at 30th September 2016, there was a nil balance of short-term investments outstanding. Across a typical month, the Council both invests and borrows short term to manage day-to-day cash-flow's.

12. Following the completion of the City Centre re-development the Council may have surplus cash to invest in relation to payment received from the sale of the development. This is because the repayment could be received prior to the loans the Council took out itself in relation to this, maturing themselves. Investment of this surplus cash will need to be allocated where it minimises risk while achieving a return for the Council, prior to using the cash to repay the Council's own borrowing in relation to this scheme.

13. The Council does not hold any long-term (more than 364 days) investments as at 30th September 2016.

Counter Party Update

14. Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

15. Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

16. Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

17. There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

18. The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our adviser's cautious approach on these banks, reflected in their investment/lending counterparty list .

19. The Council does not currently undertake any significant investments therefore the risk is currently limited. There were no significant changes in credit ratings advised in the first half of the financial year that had implications for the approved lending list, other than Standard Chartered who have suspended investments in for unsecured investments, the Council did not have any investments in this counterparty. The long term rating of Santander UK, the Council's bankers, remains at A, above the Council's minimum level of A-. The counterparty limits for banking are shown in Appendix D.

Economic Background

20. Appendix A outlines the underlying economic environment during the first half of the financial year, as provided by the Council's Treasury Management Advisors Arlingclose.

Compliance with Prudential Indicators approved by Council

21. The Authority can confirm that it has complied with the Prudential Indicators for 2016/17 set in February 2016 as part of the Treasury Management Strategy. Details of treasury-related Prudential Indicators can be found in Appendix B (a-g).

22. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B (h-j). In the main in the first half of the year the Authority has stayed within the limits set. However, due to the borrowing undertaken for Queensberry the amount of borrowing 'due within 12 months' has exceeded the percentage limit set.

23. In setting the percentage limit for borrowing due 'within 12 months', there was the expectation that the loan outstanding from Queensberry would be repaid, therefore further borrowing in relation to this would remain under the 12 month limit. However, as the loan was not repaid earlier in the year, borrowing has still been required in relation to this as detailed earlier in the report. The level of borrowing undertaken has been taken over a short period (under 12 months), therefore exceeding the percentage limit, as there is the possibility that we would not need to re-finance the majority of these loans in the long-term therefore avoiding a cost of carry.

24. The risk associated with this is minimal, especially when the amount of borrowing with a maturity period of 12-24 months is zero. In order to continue with this prudent process for the remainder of the financial year an increase in the percentage limit to 80% would be required.

25. Details of the current counterparty limits and lending periods of UK institutions can be found in Appendix D.

Financial Summary

- There are no direct costs arising from this report.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for investment will also alleviate the risk.	Members, Head of Finance, Treasury staff, based on advice from treasury advisors
Interest Rates moving adversely against expectations	Low	Low	Base and short-term Interest rates are expected to remain at current levels until Q3 in 2016. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Governments that any investment decisions take account of security, liquidity and yield in that order.

Options Available

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Council for approval.

Note the prudential indicators and treasury management indicators have been adhered to, except for the percentage of total borrowing that has been maturity date within 12 months.

Approve the requirement to increase the percentage limit of total borrowing with a maturity date within 12 months to 80%.

Preferred Option and Why

Note the contents of the report.

Note the request to Council to approve the increase in the percentage limit of total borrowing with maturity date within 12 months to 80%.

Comments of Chief Financial Officer

There are no direct financial implications from this report. Decisions made on treasury matters will be made with a view the Treasury Management Strategy, Treasury Advisors and Prudential Indicators.

In order to reflect the potential short term nature of borrowing in relation to outstanding loans it is advised that the percentage limit of total borrowing undertaken within 12 months is increased.

Comments of Monitoring Officer

There are no legal implications. The in year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council's investment strategy.

Staffing Implications: Comments of Head of People and Business Change

There are no staffing implications arising from this report.

Comments of Cabinet Member

N/A.

Background Papers

Treasury Management Strategy report to Audit Committee January 2016.
Report to Council February 2016: 2016/17 Budget and Medium Term Financial Plan

Dated: 04 November 2016

APPENDIX A

External Context

The preliminary estimate of Q2 2016 GDP showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23rd June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23rd November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

Market reaction: Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23rd June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to

0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 below.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%.

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction. Borrowing eligible for the project rate can be undertaken at a 0.40% reduction.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/4/2016		0.50		0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016		0.50		0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016		0.50		0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016		0.50		0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
31/7/2016		0.50		0.15	0.45	0.42	0.52	0.64	0.77	0.47	0.47	0.54
31/8/2016		0.25		0.11	0.18	0.18	0.38	0.54	0.69	0.42	0.42	0.48
30/9/2016		0.25		0.10	0.25	0.45	0.51	0.61	0.74	0.43	0.42	0.47
Minimum		0.25		0.02	0.15	0.18	0.30	0.50	0.66	0.38	0.37	0.42
Average		0.43		0.26	0.37	0.42	0.52	0.66	0.83	0.61	0.64	0.75
Maximum		0.50		0.43	0.55	0.61	0.72	0.83	1.04	0.88	0.99	1.20
Spread		0.25		0.41	0.40	0.43	0.42	0.33	0.38	0.51	0.62	0.78

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans (Standard Rate)

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
31/7/2016	292/16	1.07	1.31	1.84	2.57	2.65	2.48	2.44
31/8/2016	336/16	1.09	1.23	1.65	2.22	2.29	2.12	2.08
30/9/2016	380/16	1.02	1.20	1.70	2.34	2.43	2.29	2.27
	Low	1.01	1.15	1.62	2.20	2.27	2.10	2.07
	Average	1.20	1.54	2.12	2.81	2.87	2.70	2.67
	High	1.40	2.00	2.71	3.40	3.46	3.31	3.28

Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans (Standard Rate)

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	292/16	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	336/16	1.12	1.25	1.67	2.02	2.23	2.31
30/9/2016	380/16	1.05	1.22	1.72	2.13	2.36	2.44
	Low	1.03	1.17	1.64	2.00	2.20	2.28
	Average	1.30	1.57	2.15	2.58	2.82	2.89
	High	1.63	2.04	2.73	3.17	3.41	3.48

Table 4: PWLB Variable Rates (standard rate)

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	**Pre-CSR**	**Pre-CSR**	**Post-CSR**	**Post-CSR**	**Post-CSR**
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
31/7/2016	0.55	0.48	0.45	1.45	1.38	1.35
31/8/2016	0.38	0.41	0.48	2.18	1.31	1.38
30/9/2016	0.38	0.40	0.48	1.28	1.30	1.38

Please note PWLB rates are standard rates

APPENDIX B

Prudential Indicators

(a) Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Head of Finance reports that the Authority had no difficulty meeting this requirement in 2015/16 and 2016/17 (to date), nor are there any difficulties envisaged for future years. This view takes into account current commitments and existing plans .

(b) Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2016/17 Approved £m	2016/17 Revised £m	2017/18 Estimate £m	2017/18 Revised £m	2018/19 Estimate £m
Total	**46.8**	**38.5**	**18.2**	**36.4**	**10.9**

Capital expenditure will be financed or funded as follows:

Capital Financing	2016/17 Approved £m	2016/17 Revised £m	2017/18 Estimate £m	2017/18 Revised £m	2018/19 Estimate £m
Capital Receipts	5.2	1.7	0.6	6.8	1.0
General Capital Grant	2.5	2.5	2.2	2.2	2.2
Other Specific Grants	13.1	15.0	4.2	13.1	2.6
S106 Contributions	5.0	2.9	0	0	0
Revenue Contributions	0.3	3.3	0	0	0
Total Financing	**26.1**	**25.4**	**7.0**	**22.1**	**5.8**
Supported borrowing	4.1	4.1	3.6	3.6	3.6
Unsupported borrowing	16.6	9.0	7.4	10.5	1.5
Finance Leases	0	0	0.2	0.2	0
Total Funding	**20.7**	**13.1**	**11.2**	**14.3**	**5.1**
Total Financing and Funding	**46.8**	**38.5**	**18.2**	**36.4**	**10.9**

The table above shows that the capital expenditure plans of the Authority cannot be funded entirely from sources other than external borrowing.

(c) Ratio of Financing Costs to Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Approved %	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
Total	8.8	8.7	8.7	8.8	8.2

(d) Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Closing Capital Financing Requirement	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total CFR	230.5	233.8	238.1	241.7	243.1

(e) Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2016/17 £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Increase / (Reduction) in Band D Council Tax*	2.88	4.24	4.46	(2.75)

Assumes a 4.0% cumulative increase in Council Tax although no decision has been taken to this effect.

(f) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Authority to set an 'Authorised Borrowing Limit', irrespective of their indebted status. This is a statutory limit which should not be breached.
The 'Operational Boundary' is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The Authority confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2016/17 to date:

	Authorised Limit 2016/17 £000s	Operational Boundary 2016/17 £000s	Actual Debt as at 30/09/2016 £000s	Estimated Debt as at 31/03/2016 £000s
Borrowing	350,000	330,000	211,762	231,762
Other Long-term Liabilities	47,000	47,000	51,201	51,201
Total	**397,000**	**377,000**	**262,963**	**282,963**

(g) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 29th June 2009.

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

Treasury Management Indicators

(h) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Approved Limits for 2016/17 £/%	Maximum during 2016/17 £/%
Upper Limit for Fixed Rate Exposure	100%	100%
Compliance with Limits:		Yes
Upper Limit for Variable Rate Exposure	50%	0%
Compliance with Limits:		Yes

(i) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 30/9/2016 £000s	% Fixed Rate Borrowing as at 30/9/2016	Compliance with Set Limits?
under 12 months	40%*	0%	94,976	45%	No
12 months and within 24 months	20%	0%	0	0	Yes
24 months and within 5 years	70%	0%	44,153	21%	Yes

5 years and within 10 years	50%	0%	37,695	18%	Yes
10 years and within 20 years	30%	0%	11,930	6%	Yes
20 years and within 30 years	20%	0%	0		Yes
30 years and within 40 years	20%	0%	1,950	1%	Yes
40 years and within 50 years	20%	0%	16,058	7%	Yes
50 years and above	20%	0%	5,000	2%	Yes
Total			**211,762**		

(The 2011 revision to the CIPFA Treasury Management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date[1])

* To be revised to 80% due to potential short term nature of borrowing relating to Friars Walk.

(j) Upper Limit for Total principal sums invested for periods longer than 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2016/17 Approved £m	30/9/2016 Actual £m	31/03/2017 Estimate £m	31/03/18 Estimate £m
TOTAL	100	0	0	0

APPENDIX C

Loan Debt Activity – 1 April 2016 – 30 September 2016

Newport City Council Debt	Outstanding as at 31/03/16 £000's	Debt Raised £000's	Debt Repaid £000's	Outstanding as at 30/09/2016 £000's
Public Works Loans Board	72,437	0	650	71,787
Market Loans	35,000	0	0	35,000
Stock Issue	40,000	0	0	40,000
Other Soft Loans (IFRS)				
Queensbury Real Estate Debt **	72,975	79,500	87,500	64,975
Total Long Term Loans	**220,412**	79,500	88,150	**211,762**
Temporary Debt*				
Total Long Term and Temporary Debt	**220,412**	**79,500**	**88,150**	**211,762**

* The temporary debt relates to the normal activities of the Council

**This relates to additional borrowing undertaken to fund the Newport City Centre redevelopment between the Council and Queensberry Real Estate (Newport) Ltd.

Total Investments Administered Newport City Council	Outstanding as at 31/03/16 £000's	Raised £000's	Repaid £000's	Outstanding as at 30/09/2016 £000's
Total	**3,100**	**216,095**	**219,195**	**0**

APPENDIX

COUNTERPARTY LIMITS FOR BANKING – UK INSTITUTIONS

	Unsecured Investments		**Secured Investments**	
Counterparty - Banking UK Institutions	**Maximum Counterparty Limit and Group Limit (if applicable)**	**Maximum Lending Period**	**Maximum Counterparty Limit and Group Limit (if applicable)**	**Maximum Lending Period**
Bank of Scotland	£5,000,000	13 Months	£10,000,000	2 years
Barclays Bank Plc.	£5,000,000	100 Days	£10,000,000	2 years
Close Brothers Ltd	£5,000,000	6 Months	£10,000,000	2 years
Goldman Sachs International Bank	£5,000,000	100 Days	£10,000,000	2 years
HSBC Bank Plc.	£5,000,000	13 Months	£10,000,000	2 years
Lloyds Bank Plc.	£5,000,000	13 Months	£10,000,000	2 years
National Westminster Bank Plc.	£2,500,000	35 Days	£10,000,000	2 years
Nationwide Building Society	£5,000,000	6 Months	£10,000,000	2 years
Royal Bank of Scotland	£2,500,000	35 Days	£10,000,0000	2 years
Santander UK Plc. (Banco Santander Group)	£5,000,000	6 Months	£10,000,000	2 years
Standard Chartered Bank (suspended)	£5,000,000	6 Months	£10,000,000	2 years