LONDON FIRE BRIGADE

Decision title

Treasury Management Annual Report 2018-19

Recommendation by	Decision Number
Assistant Director, Finance	LFC-0205-D

Protective marking: **NOT PROTECTIVELY MARKED**
Publication status: Published in full

Summary

Report LFC-0205 is submitted under the London Fire Commissioner's Scheme of Governance (April 2018), Part 6 (Financial Regulations) paragraph 20(a), which delegates responsibility to the Director of Corporate Services to act in accordance with the Commissioner's Policy Statement on Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management, the latter of which recommends submitting regular reports on treasury management activity.

The London Fire Commissioner's (LFC) Treasury Management activities are carried out by the Greater London Authority (GLA) under a shared service agreement, and are delivered by GLA Group Treasury. The funds managed under this shared service are invested in the Group Investment Syndicate (GIS), of which the Director of Corporate Services is a Syndic.

The annual report on treasury management activities for 2018/19 is provided at Appendix 1, and is prepared by GLA Group Treasury. The report:

- Provides a summary and analysis of the performance on treasury management activities, in relation to the LFC; and
- Outlines the economic background against which treasury management activities were undertaken during the year.

Decision

The London Fire Commissioner notes Appendix 1 or report LFC-0205 which sets out the 2018/19 Treasury outturn results against the 2018/19 Treasury Management Strategy Statement.

Dany Cotton QFSM
London Fire Commissioner

Date 14-08-19

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LONDON FIRE BRIGADE

Report title

Treasury Management Annual Report 2018/19

Report to	Date
Corporate Services DB Commissioner's Board	23 July 2019 31 July 2019
Report by	**Report number**
Assistant Director of Finance	LFC-0205

Protective marking: **NOT PROTECTIVELY MARKED**
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Summary

This report is submitted under The London Fire Commissioner's Scheme of Governance (April 2018), Part 6 (Financial Regulations) paragraph 20(a), which delegates responsibility to the Director of Corporate Services to act in accordance with the Commissioner's Policy Statement on Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management, the latter of which recommends submitting regular reports on treasury management activity.

The London Fire Commissioner's (LFC) Treasury Management activities are carried out by the Greater London Authority (GLA) under a shared service agreement, and are delivered by GLA Group Treasury. The funds managed under this shared service are invested in the Group Investment Syndicate (GIS), of which the Director of Corporate Services is a Syndic.

The annual report on treasury management activities for 2018/19 is provided at Appendix 1, and is prepared by GLA Group Treasury. The report:

- Provides a summary and analysis of the performance on treasury management activities, in relation to the LFC; and

- Outlines the economic background against which treasury management activities were undertaken during the year;

Recommended decision

That the LFC notes Appendix 1 which sets out the 2018/19 Treasury outturn results against the 2018/19 Treasury Management Strategy Statement

Background

1. The LFC is required to meet the requirements of the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (TM Code). This requires the LFC to have appropriate treasury management arrangements in place to manage its borrowing and

cash balances, and deliver best practice. These arrangements are approved annually in the Commissioner's Treasury Management Strategy Statement (TMSS).

2. The responsibility for the execution and administration of treasury management decisions is delegated to the Director of Corporate Services, under Financial Regulations, who will act in accordance within the Commissioner's Policy Statement on Treasury Management Activities, approved as part of the TMSS.

3. The day to day management of the treasury management function is delivered by GLA Group Treasury under a shared service arrangement with the GLA, that has been in place since 1 April 2012. GLA Group Treasury also manages the Group Investment Strategy (GIS), of which the Director of Corporate Services is a syndic. By being part of the GIS the Commissioner's cash balances are pooled with other funds which allows greater investment options, to improve diversification, liquidity and returns.

Treasury Management 2018/19

4. The CIPFA TM Code recommends that those charged with governance, for Treasury matters, be updated on treasury management activities regularly (at least a Strategy, Mid-year and Annual performance reports). This report therefore meets these requirements with regard to an annual report, and ensures the Commissioner is implementing best practice in accordance with the TM Code. The annual report at Appendix 1 has been prepared by GLA Group Treasury, and provides details of performance against the TMSS 2018/19, approved on 28 March 2018 (FEP2827) and adopted by the LFC on 1 April 2018.

5. The report provides Commissioner's Board with a review of investment performance for 2018/19, together with a summary of long-term borrowing and leasing arrangements, set in the context of the general economic conditions prevailing during the year. It also reviews specific treasury management prudential indicators defined by the TM Code and approved as part of the TMSS.

6. The report shows that the balance of investments held in the GIS at the end of the financial year was £113.76m, with the achievement of an investment rate of return for 2018/19 of 0.86%, which delivered interest earnings on the GIS balances of £0.83m . This rate of return out performed the benchmark (Average 3 month LIBID - 0.71%) by 0.15%. During the year, £4m of PWLB loans were repaid reducing the balance of total external borrowing from £72.73m as at 1 April 2018 to £68.73m as at 31 March 2019, with an annualised interest rate of 4.7% (4.8% 2017/18).

7. All 2018/19 Treasury activity has been within the boundaries and levels set by the LFC in the TMSS.

8. The Director of Corporate Services confirms that, throughout the period, all treasury activities have been conducted within the parameters of the 2018/19 TMSS, alongside best practice suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Central Government

GLA Group Treasury service

9. As noted above, the shared service with the GLA on treasury management, delivered by GLA Group Treasury, has been in place since 2012/13. Since its introduction the service provided has been developed to broaden the GIS. The reports provided by GLA Group Treasury to support reporting to those charged with governance have also developed and all GIS members use a standard report template. These reports are now very much GLA Group Treasury reports, and rely on expertise and experience in that team.

10. The LFC paid the GLA £41k pa under the shared service agreement for treasury management services in 2018/19, including the cost of access to Link Asset Services, the Treasury Management Advisors.

Treasury Management Training for Those Charged with Governance

11. The TM Code states that those charged with governance have a individual responsibility for treasury matters. The London Fire Commissioner is receiving the annual report and has received appropriate training in a one to one session with the Commissioner's Treasury Advisors Link Asset Services.

Finance comments

12. This report is prepared by the Assistant Director - Finance and as such Finance comments have been incorporated into the report.

Workforce comments

13. No Workforce implications have been identified therefore no formal consultation has been undertaken.

Legal comments

14. Under section 9 of the Policing and Crime Act 2017, the London Fire Commissioner (the "Commissioner") is established as a corporation sole with the Mayor appointing the occupant of that office. Under section 327D of the GLA Act 1999, as amended by the Policing and Crime Act 2017, the Mayor may issue to the Commissioner specific or general directions as to the manner in which the holder of that office is to exercise his or her functions.

15. Section 1 of the Fire and Rescue Services Act 2004 states that the Commissioner is the fire and rescue authority for Greater London. The Commissioner is also a 'best value' authority under the Local Government Act 1999 and must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

16. The Commissioner's Scheme of Governance (April 2018) delegates responsibility for the execution and administration of Treasury Management decisions to the Director of Corporate Services who will act in accordance with the Commissioner's Policy Statement on Treasury Management Activities and Treasury Management Practices and CIPFA's "Standard of Professional Practice on Treasury Management".

17. This report is submitted pursuant to Part 6 of the Commissioner's Scheme of Governance and also meets best practice set out in the CIPFA Treasury Management Code of Practice, as referred to above in the body of the report. .

Sustainability implications

18. There are no direct sustainability implications arising from this report.

Equalities implications

19. The Public Sector Equality Duty applies to the London Fire Brigade when it makes decisions. The duty requires us to have regard to the need to:

    a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful.

b) Advance equality of opportunity between people who share a protected characteristic and those who do not.

c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

20. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

21. There are no specific equalities implications arising from this report.

List of Appendices

Appendix	Title	Protective Marking
1.	GLA Treasury Outturn Report 2018/19	

Consultation
[Note: this section is for internal reference only – consultation information for public consideration should be included within the body of the report]

Name/role	Method consulted
Kathryn Robinson – General Counsel	E-mail
Dominic Johnson – Workforce	E-mail
Paul Davis - Equalities	E-mail
Nicole Fletcher - Sustainability	E-mail

GREATER LONDON AUTHORITY

GROUP TREASURY

Treasury Management Outturn for 2018/19

London Fire Commissioner

Executive Summary:

This report is submitted in accordance with a requirement under the Treasury Management in the Public Services Code of Practice (The Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the submission of an outturn report on the activities of the Authority's treasury management operation.

The LFC's external borrowing levels have reduced from £72.73m at the 31 March 2018 to £68.73m at 31 March 2019. Total investment balances have increased from £38.54m at the 31 March 2018 to £109.70m at 31 March 2019.

Interest receivable achieved during 2018/19 was £0.83m, against a budget of £0.40m.

Interest payable for 2018/19 was £9.73m against a budget of £10.20m.

All 2018/19 Treasury activity has been within the boundaries and levels set by the Authority in its Treasury Management Strategy Statement on 29 March 2018, Document No. FEP 2827.

Recommendation:

That the following is noted:

- The 2018/19 Treasury outturn results against the 2017/18 Treasury Management Strategy Statement, as approved on the 29 March 2018, Document No. FEP 2827.

Introduction/Background

1 This report provides details of all investment and borrowing activities for the period from 1 April 2018 to 31 March 2019 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 31 March 2019 with the opening position as at 1 April 2018.

2 Under the treasury management shared service arrangement with the GLA, GLA treasury officers carry out the LFC's day to day treasury management function, managing the LFC's investments and borrowing activities. LFC officers provide the GLA with details of the LFC's daily cash flow requirements and monies are only transferred between the Authorities as and when required to match LFC need. This way, surplus funds over and above daily need are continuously held with the Group Investment Syndicate (GIS), the GLA managed vehicle used by the LFC to maximise liquidity and investment return.

Compliance with the 2018/19 Treasury Management Strategy Statement

3 The Director of Corporate Services confirms that, throughout the period, all treasury activities have been conducted within the parameters of the 2018/19 Treasury Management Strategy Statement (TMSS), alongside best practice suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Central Government.

The Economic Background

4 After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4. After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

5 As for **CPI inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

6 The Conservative minority government has so far been unable to muster a majority in the Commons over its Brexit deal. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If

that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

Current Treasury Management Position

7 The table below shows the current Treasury management position.

Current Treasury Position	Actual as at 31 March 2018		Actual as at 31 March 2019	
	£m	Rate %	£m	Rate %
External Borrowing				
Long Term Borrowing: PWLB	72.73	4.69	68.73	4.69
Long Term Borrowing: Market Loans	0		0	
Total External Borrowing (A)	72.73	4.69	68.73	4.69
Other Long Term Liabilities				
PFI Liability	48.1		45.6	
Finance Lease liability	18.43		18.43	
Total Other Long Term Liabilities(B)	66.53		64.03	
Total Gross Debt (A+B)	139.3		132.8	
Capital Financing Requirement	164.5		157.2	
Less Other Long Term Liabilities	66.53		64.03	
Underlying Capital Borrowing Requirement (C)	97.93		93.17	
Under/(Over) Borrowing (C-A)	25.2		24.45	
Investments (D)	38.54	0.65	109.70	0.96
Total Net Borrowing (A-D)	34.19		-40.98	

8 A further analysis of borrowing and investments is covered in the following section.

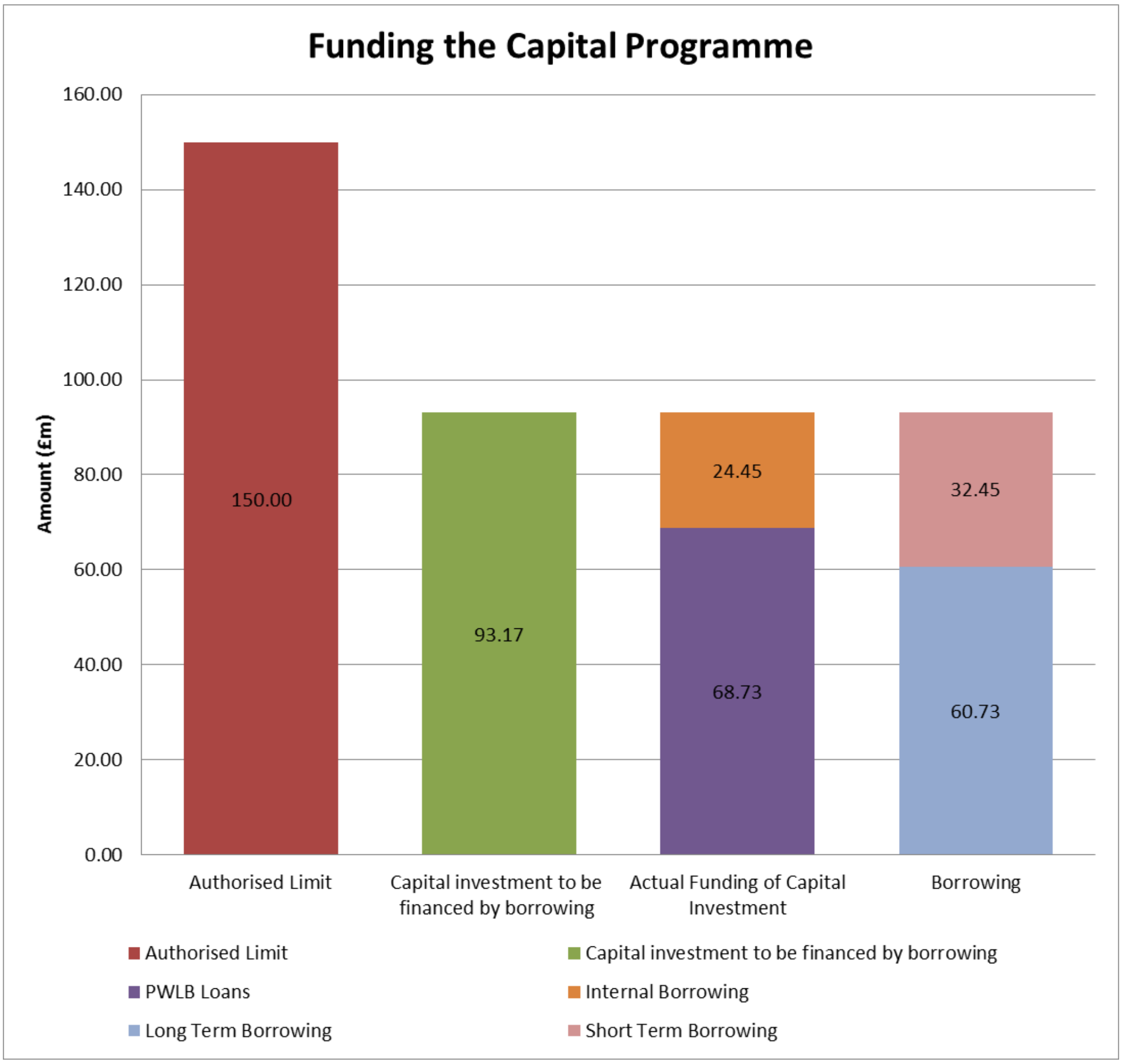
Borrowing Outturn

9 The LFC is required to borrow in order to fund spending for its Capital Programme. The amount of new borrowing needed each year is determined by new capital schemes approved and included in the Capital Programme.

10 No new external loan borrowing was taken out during 2018/19. £4.00m of external loan borrowing was repaid, reducing the total borrowing to £68.73m

11 No rescheduling of borrowing was done during the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

12 The graph below compares the maximum the LFC could borrow in 2018/19 with the 'Capital Investment to be financed by borrowing' at 31 March 2019 and the actual position of how this is being financed at 31 March 2019. The final column shows the split between short (internal and external borrowing with duration of less than one year) and long term borrowing.



13 The graph shows that the LFC's current capital investment that is being funded via borrowing, as at the 31 March 2019, is £93.17m, which is £56.83m below the Authorised Borrowing Limit set for the LFC at the start of the year.

14 In addition, the graph shows how the LFC is currently funding its borrowing requirement. As at 31 March 2019, the LFC was using £24.45m of internal borrowing to finance capital investment. Internal borrowing is the use of the LFC's surplus cash to finance the borrowing liability instead of borrowing externally.

Investment Governance

15 The LFC's short term cash balances are invested through the GLA Group Investment Syndicate (GIS). Current GIS participants are the Greater London Authority (GLA), the London Fire Commissioner (LFC), the London Legacy Development Corporation (LLDC), the London Pensions Fund Authority (LPFA), and the Mayor's Office for Policing and Crime (MOPAC), with the respective Chief Financial Officers of each GIS participant jointly controlling the GIS.

16 Pooling resources allows the Group Treasury team to make larger individual transactions and exploit the greater stability of pooled cash flows to obtain better returns. A risk sharing agreement ensures risk and reward relating to each instrument within the jointly controlled portfolio are shared in direct proportion to each participant's investment.

17 Investments are made in line with a common GIS Investment Strategy, which includes a requirement to maintain a weighted average maturity (WAM), which does not exceed 91 days, and for each participant to specify a portion of their investment to remain immediately accessible.

18 Additionally, the LFC may invest sums independently of the GIS, for instance if the LFC identifies balances which are available for longer term investment. Such investments must remain within the parameters of the GIS Investment Strategy, except that there shall be no requirement to maintain a weighted average maturity which does not exceed three months. However, each participant can place a limit on the duration of these longer term investments. For 2018/19, the LFC opted not to enter into any investments longer than 364 days in its own name, wishing to limit counterparty risk and liquidity risk.

19 The LFC's TMSS adheres to the CIPFA Prudential Code investment principle of placing security above liquidity and investment yield and then placing liquidity above investment yield. As such, the LFC maintains a low risk appetite consistent with good stewardship of public funds.

Investment Outturn

20 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decision to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are year-end investment balances.

	Actual as at the 31st March 2018 £m	Actual as at the 31st March 2019 £m
Fund balances/reserves	53.89	75.43
Provisions	5.06	11.32
Other	5.38	31.51
Total Core Funds	64.33	118.26
Working Capital Surplus	1.54	15.47

Under/(over) borrowing	25.2	19.97
Investments	40.67	113.76

21 Investment balances as at 31 March 2019 were £109.70m, this being a increase of £71.16m over year-end balances as at 31 March 2019.

22 The LFC has outperformed its investment benchmark by 0.15% during 2018/19. It achieved a cumulative weighted average yield of 0.86% on daily balances against a cumulative weighted average 3-month LIBID of 0.709%. Throughout the period, the LFC maintained its liquidity target of a weighted average maturity (WAM) of not more than 91 days.

23 Methods used by the Group Treasury team during the year to manage performance have included:

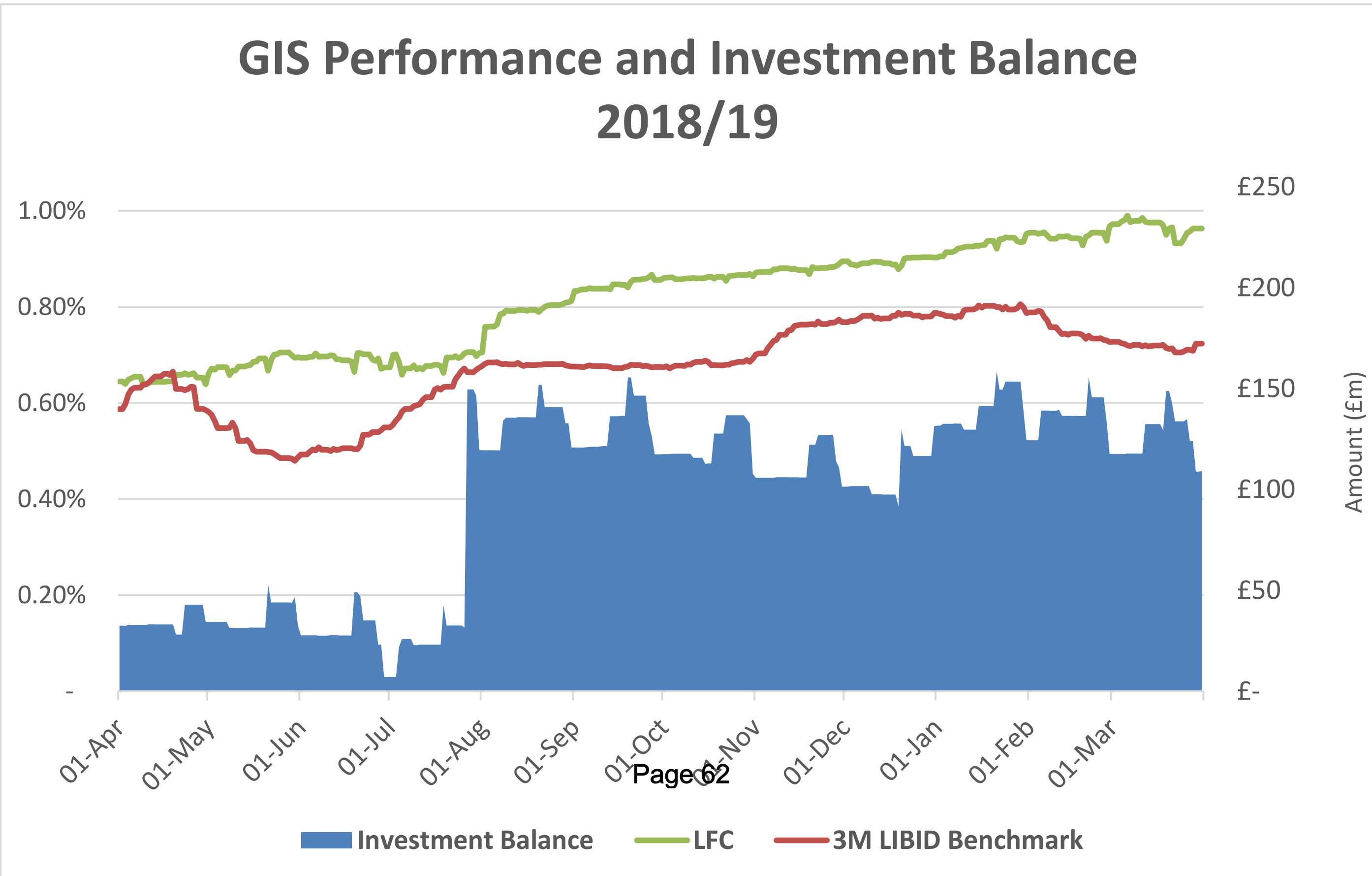
a. Using the strength of the GIS's £2.9bn investment balances to obtain higher than average rates without increasing risk

b. Creating a well-diversified portfolio by country, by counterparty and by credit rating.

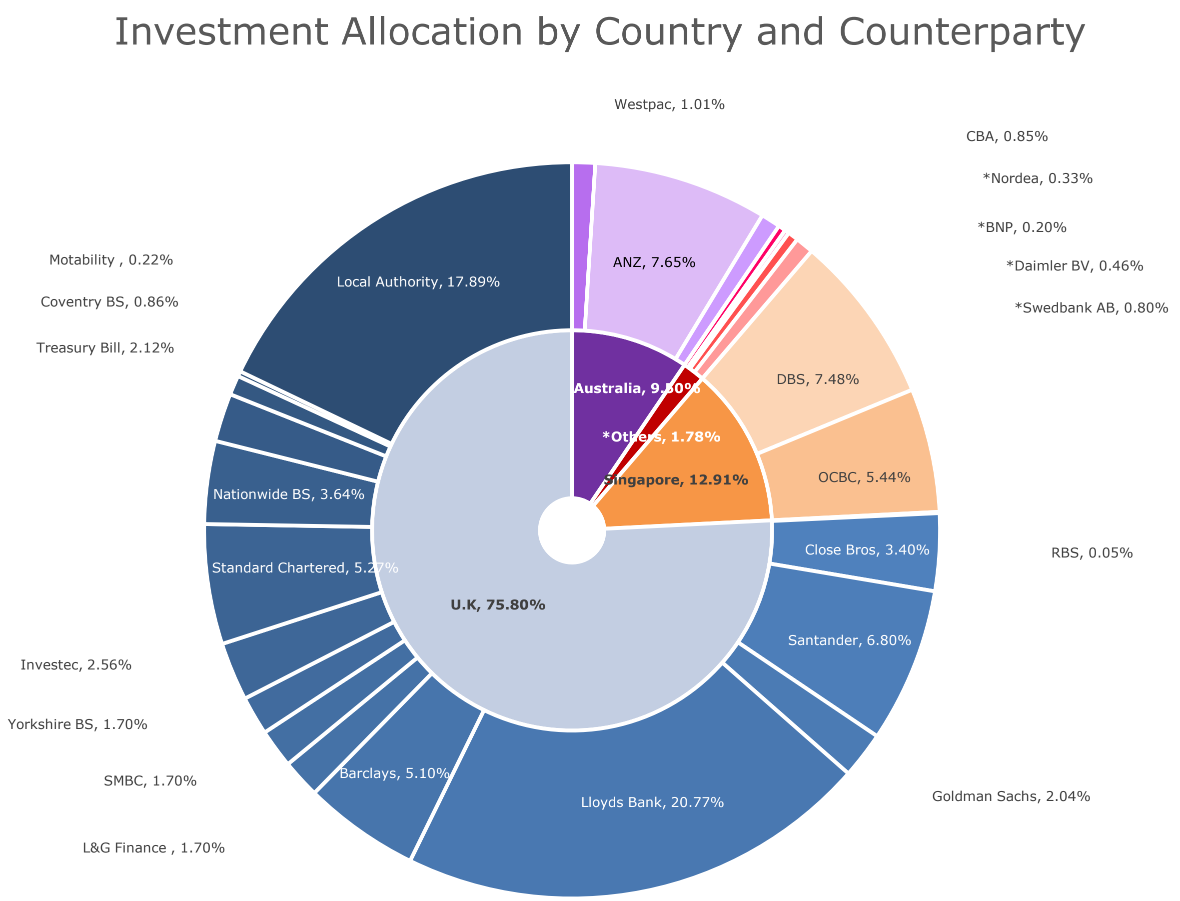
c. Seeking to invest in higher yielding longer dated instruments, while keeping the WAM within the GIS Investment Strategy limit of within 91 days.

d. Monitoring market activity and proactively seizing investment opportunities

24 The following graph shows the outperformance described above, alongside the LFC's investment balances for the period. Fluctuations in balances reflect changes in cash flow needs over the year, but throughout 2018/19 there was circa £7m of cash balances which were not required for daily needs and therefore could be regarded as 'core' cash and available for investment throughout the year.



25 In addition, that the GIS investment portfolio is well diversified is demonstrated in the piechart below



Treasury Management Budget

26 The table below compares the Treasury management budget with previous year.

Treasury Management Budget	Actual as at the 31st March 2018 £m	TMSS Forecast to 31st March 2019 £m	Actual as at the 31st March 2019 £m	Variance between Forecast and Actual £m
Interest payable	3.58	3.52	3.32	0.20
Interest Receivable	-0.45	-0.40	-0.83	0.43
Minimum Revenue Provision	7.07	7.05	7.26	-0.21
Total	16.35	10.17	9.75	0.42

27 The small decrease in interest payable year-on-year reflects the repayment of PWLB loans and other long-term liabilities. Interest receivable was £0.43m higher than the budget forecast, due to higher investment balances and a 0.25% hike of the Bank of England base rate in August 2018.

CIPFA Prudential Code Indicators and Treasury Management Limits

Background

28 The Prudential Code has been developed by CIPFA. The Code has a central role in capital finance decisions, including borrowing for capital investment. Its key objectives are to provide a framework for local authority capital finance that will ensure for individual local authorities that capital expenditure plans are affordable; all external borrowing and other long-term liabilities are within prudent and sustainable levels and that treasury management decisions are taken in accordance with good professional practice.

29 The Prudential Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

30 Any such framework for the internal control and self-management of capital finance must therefore deal with all three of the following elements:

a. Capital expenditure plans

b. External debt

c. Treasury Management

31 To ensure compliance with the Code in relation to the above elements, the LFC is required to set and monitor a number of Prudential Indicators. The setting of these Prudential Indicators is a circular rather than a linear process. For example, the level of external debt will follow on from the LFC's capital plans, revenue forecast and treasury management strategy. However, if initial estimates would result in outcomes that would not be affordable or prudent, then plans for capital and/or revenue are reconsidered.

32 These Prudential Indicators are set out below and reviewed by officers for compliance.

Capital Expenditure

33 Capital expenditure results from the approved capital spending plan and proposed borrowing limits. It is the key driver of Treasury Management activity.

34 The capital expenditure for 2018/19 is shown in the table below.

	Actual 2017/18	TMSS Forecast to 31st March 2019	Actual 2018/19	2018/19 Variance between Forecast and Actual
	£m	£m	£m	£m

Total Capital Expenditure	21.0	39.0	13.4	-25.6

35 The capital expenditure for 2018/19, at £13.40 was £25.60m less than that expected at the start of the year. Details of the capital underspend are shown in the financial outturn report on the same agenda.

Capital Financing Requirement

36 The capital financing requirement is an indicator of the underlying need to borrow for capital purposes. It is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resource.

37 Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

38 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual charge which broadly reduces the borrowing in line with each assets life.

39 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the LFC's borrowing requirement, these types of scheme include a borrowing facility and so the LFC is not required to separately borrow for these schemes.

40 This borrowing is not associated with particular items or types of capital expenditure.

	Actual 2017/18	TMSS Forecast to 31st March 2019	Actual 2018/19	2018/19 Variance between Forecast and Actual
	£m	£m	£m	£m
Total CFR	164.5	158.4	157.2	-1.2

External Debt Prudential Indicators

Authorised Limit for External Debt

41 The authorised limit is the expected maximum borrowing needed with some headroom for unexpected developments such as unusual cash movements

42 For the purposes of the Prudential Code borrowing is distinguished from other long term liabilities.

43 The authorised limit is the statutory limit that is determined, by the Mayor in consultation with the Assembly, under section 3 (1) of the Local Government Act 2003. It is intended to be an absolute ceiling which cannot be exceeded, except as provided under section 5 of the Local Government Act 2003, where payments expected but not yet received can temporarily result in the limit being exceeded, provided the original setting of the limit had not taken into account any delay in receipt of the payment.

Authorised Limit for External Debt	2018-19 Authorised Limit £m	Actual External Debt as at 31 March 2019 £m	Headroom £m
Borrowing	150	68.73	81.28
Other long term liabilities	75	64.03	10.97
Total	**225**	**132.755**	**92.25**

44 The authorised limit headroom for external debt is £92.25m as at 31 March 2019.

Operational Boundary for External Debt

45 The operational boundary is based on the same estimates as the authorised limit. However, it reflects an estimate1of the most likely prudent but not worst case scenario. It equates to the maximum level of external debt under the capital spending plans approved by the Mayor and excludes the headroom included within the authorised limit.

46 The operational boundary is set as a warning signal that external debt has reached a level nearing the authorised limit and must be monitored carefully. It is probably not significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary would be significant, requiring further investigation and action as appropriate.

Authorised Limit for Operational Boundary	2018-19 Operational Boundary £m	Actual External Debt as at 31 March 2019 £m	Headroom £m
Borrowing	145	68.73	76.28
Other long term liabilities	75	64.03	10.97
Total	220	132.755	87.25

47 The operational boundary headroom for external debt is £87.25m as at 31 March 2019.

Gross Debt and the Capital Financing Requirement

48 This is a key indicator of prudence seeking to identify whether or not a Local Authority's financial strategy is prudent and sustainable by measuring the extent to which a Local Authority is using borrowing to fund revenue expenditure in the short and medium term. Since financing costs have to be repaid from revenue, borrowing to fund revenue expenditure may be affordable in the short term, but not in the medium term. It therefore follows that in the medium term borrowing should only be funding capital expenditure and this indicator seeks to check that this is so, by identifying that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. In making this comparison between gross debt and the CFR, CIPFA guidance provides that, if in any of these years, there is a reduction in the CFR, this

reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with the gross external debt.

49 For the purposes of the Prudential Code, gross debt refers to the sum of borrowing and other long term liabilities.

Actual External Debt as at 31 March 2019 £m
132.755

Preceding Year CFR £m	2019-20 Estimated Additional CFR £m	2020-21 Estimated Additional CFR £m	2021-22 Estimated Additional CFR £m	Total CFR over 4 years £m
157.20	-5.9	1.64	7.92	160.86

Amount Gross Debt < Total CFR over 4 years £m
28.1

50 Gross debt, as at 31 March 2019, is £28.10m less than the estimated total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This indicates that the LFC's current financial strategy is prudent and sustainable, in that borrowing is only used to fund capital expenditure in the medium term.

Affordability Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream

51 This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

52 The aim of using net revenue stream is to identify the amounts to be met from government grants and taxpayers and hence excludes capital grants, contributions and donated assets. It is also net of contributions from (or to) reserves and balances.

Financing Costs to Net Revenue Stream	Actual as at the 31 March 2018 %	TMSS Forecast to 31 March 2019 %	Actual as at the 31 March 2019 %	Variance between Forecast and Year End Actual %
Total	4.23	2.55	3.82	1.68

53 Financing costs to net revenue stream are in line with expectations.

Incremental Impact of Capital Investment Decisions on the Council Tax

54 This indicator measures the changes in the council tax as a result of incremental changes in capital investment decisions.

55 It allows the effect of the totality of the LFC's plans to be considered at budget setting time and the achievement of these plans to be assessed at year end.

56 The LFC's capital investment decisions have had no financial impact on the Council Tax payer in 2018/19, having been fully contained within agreed budgets.

Treasury Management Prudential Indicator

57 The Treasury Management Prudential Indicator requires the adoption of the latest version of the CIPFA Code of Practice for Treasury Management in the Public Services.

58 The LFC has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Treasury Management Limits on Activity

Limits for Maturity Structure of Borrowing

Local Authorities are exposed to the risk of having to refinance debt at a time in the future when interest rates may be volatile or uncertain. The maturity structure of borrowing indicator is designed to assist Authorities in avoiding large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time. For each maturity period an upper and lower limit is set. This indicator is calculated as the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate. For the purposes of this indicator only, all borrowing is treated as fixed rate.

Limits for Maturity Structure of Borrowing	TMSS Forecast to March 2018		Actual as at the 31st March 2018	Actual as at the 31st March 2019
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	20	0	8	12
12 months and within 24 months	20	0	8	7
24 months and within 5 years	50	0	17	13
5 years and within 10 years	75	0	22	25
10 years and above	90	25	45	43

59 The above table shows that the LFC has a risk appropriate dispersion of debt over the years.

Limits for Principal Sums Invested for Periods Longer than 364 days

60 This indicator seeks to contain the risk inherent in the maturity structure of an Authority's investment portfolio, since investing too much for too long could

i. adversely impact on the Authority's liquidity and in turn its ability to meet its payment obligations and

ii. also lead to the loss of some of its principal if it is forced to seek early repayment or redemption of principal sums invested

iii. Under this indicator the Local Authority is therefore required to set an upper limit for each financial year period for the maturing of its long-term investments.

61 The LFC has set an upper limit of £0.00, although this limit does not apply to externally managed funds or to pooled monies within the GIS. However, whilst the pooled portfolio may contain instruments maturing in more than 364 days, the average maturity is restricted to 91 days, adding to the reduction of the risk this indicator is seeking to address.

62 Finally, to further protect the liquidity and principal sums of a Local Authority, two additional constraints are placed on Local Authorities

iv. The Local Government Act 2003, section 15(1) requires an Authority to have regard to the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments 2010, which requires firstly the achievement of security (protecting the capital sum from loss), then liquidity (keeping the money readily available for expenditure when needed), and then lastly investment yield. This investment strategy is endorsed by the Prudential Code. The LFC complies with this Guidance by adopting a low risk appetite in its TMSS.

v. The Prudential Code states that Authorities must not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. The LFC does not borrow more than or in advance of its need purely to profit from the investment of extra sums borrowed.

<u>New Investments Maturing after 364 days taken between 01/04/18 and 31/03/19</u>

63 No new investment maturing after 364 days was taken during 2018/19.

<u>New Long-Term Borrowing taken between 01/04/18 and 31/03/19</u>

64 The Code requires that all long term borrowing is taken out with due consideration to affordability, prudence and sustainability. This is incorporated in the TMSS.

65 No new long-term borrowing was taken during 2018/19.

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