LONDON FIRE BRIGADE

Decision title

Treasury Management Annual Report 2019/20

Recommendation by	Decision Number
Assistant Director of Finance	LFC-0401-D

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

Summary

Report LFC-0401 is submitted under the Commissioner's Financial Regulation 20(a) which requires the Director of Corporate Services to 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". Consequently, the Director of Corporate Services submits an Annual Report to those charged with governance on Treasury Management activities for the year ending 31 March 2020.

The Commissioner's 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), to which the Director of Corporate Services is the LFC's representative.

The annual report on treasury management activities for 2019/20 is provided at Appendix 1 of report LFC-0401 and is prepared by GLA Group Treasury. The report:

- Provides a summary and analysis of the performance on treasury management activities, in relation to London Fire Commissioner (LFC);

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

Decision

That the London Fire Commissioner notes the 2019/20 Treasury outturn results against the 2019/20 Treasury Management Strategy Statement, as approved on 27 March 2019, (London Fire Commisioner Decision LFC-0135D).

Andy Roe
London Fire Commissioner

Date This decision was remotely signed on Monday 21 September 2020

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LFB
LONDON FIRE BRIGADE

Report title

Treasury Management Annual Report 2019/20

Report to	Date
Corporate Services DB Commissioner's Board	4 August 2020 12 August 2020
Report by	**Report number**
Assistant Director of Finance	LFC-0401

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

Summary

This report is submitted under the Commissioner's Financial Regulation 20(a) which requires the Director of Corporate Services to 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". Consequently, the Director of Corporate Services submits an Annual Report to those charged with governance on Treasury Management activities for the year ending 31 March 2020.

The Commissioner's 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), to which the Director of Corporate Services is the LFC's representative.

The annual report on treasury management activities for 2019/20 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 London Fire Commissioner (LFC);

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

Recommended decision

That the LFC notes the 2019/20 Treasury outturn results against the 2019/20 Treasury Management Strategy Statement, as approved on 27 March 2019, (LFC-0135D).

Background

1. The LFC is required to have regard to 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 2019/20

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 regarding 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 2019/20, approved by the LFC on 27 March 2019 (LFC-0135D)

5. The report provides the Board with a review of investment performance for 2019/20, 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 Code and approved by the LFC, in the TMSS.

6. The report shows that the balance of investments held in the GIS at the end of the financial year was £66.95m, with the achievement of an investment rate of return for 2019/20 of 0.92%, which delivered interest earnings on the GIS balances of £1.23m. This rate of return out-performed the benchmark (Average 3 month LIBID - 0.64%) by 0.28%. During the year, £8m of PWLB loans were repaid reducing the balance of total external borrowing from £68.73m as at 1 April 2019 to £60.73m as at 31 March 2020, with an annualised interest rate of 4.7% (4.7% 2018/19).

7. All 2019/20 Treasury activity has been within the boundaries and levels set by the LFC in its Treasury Strategy Statement.

GLA Group Treasury service

8. 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.

Treasury Management Training for Those Charged with Governance

9. The TM Code states that those charged with governance have an individual responsibility for treasury matters. The London Fire Commissioner is receiving the Annual report and has received appropriate training with the Commissioner's Treasury Advisors Link Asset Services.

Finance comments

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

Workforce comments

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

Legal comments

12. 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.

13. 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.

14. Regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) requires that the Commissioner, in carrying out its functions under Chapter 1 of Part 1 of Local Government Act 2003, shall have regard to the code of practice contained in the document entitled "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" published by CIPFA, as amended or reissued from time to time.

15. The Commissioner's Scheme of Governance 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".

16. The Commissioner's TMSS formally adopts The TM Code and states at paragraph 8ii that, "The [LFC] will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs." .

17. This report fulfils the requirements set out above.

Sustainability implications

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

Equalities implications

19. The London Fire Commissioner and decision takers are required to have due regard to the Public Sector Equality Duty (s149 of the Equality Act 2010) when exercising our functions and taking decisions.

20. It is important to note that consideration of the Public Sector Equality Duty is not a one-off task. The duty must be fulfilled before taking a decision, at the time of taking a decision, and after the decision has been taken.

21. The protected characteristics are: Age, Disability, Gender reassignment, Pregnancy and maternity, Marriage and civil partnership (but only in respect of the requirements to have due regard to the need to eliminate discrimination), Race (ethnic or national origins, colour or nationality), Religion or belief (including lack of belief), Sex, and Sexual orientation.

22. The Public Sector Equality Duty requires us, in the exercise of all our functions (i.e. everything we do), to have due regard to the need to:

    (a) Eliminate discrimination, harassment and victimisation and other prohibited conduct.

    (b) Advance equality of opportunity between people who share a relevant protected characteristic and persons who do not share it.

    (c) Foster good relations between people who share a relevant protected characteristic and persons who do not share it.

23. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

    (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic where those disadvantages are connected to that characteristic;

    (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;

    (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

24. The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

25. Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to—

(a) tackle prejudice, and

(b) promote understanding.

26. There are no significant equality implications anticipated to arise directly from this report.

List of Appendices

Appendix	Title	Protective Marking
1.	GLA Treasury Outturn Report 2019/20	

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GREATER LONDON AUTHORITY
GROUP TREASURY

Treasury Management Outturn for 2019/20

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 London Fire Commissioner's (LFC) external borrowing levels have reduced from £68.73m at the 31 March 2019 to £60.73m at 31 March 2020. Total investment balances have reduced from £113.76m at the 31 March 2019 to £66.95m at 31 March 2020.

Interest receivable achieved during 2019/20 was £1.23m, against a budget of £0.30m.

Interest payable for 2019/20 was £3.06m against a budget of £3.42m.

All 2019/20 Treasury activity has been within the boundaries and levels set by the Authority in its Treasury Management Strategy Statement on 27 March 2019, Document No. LFC-0135.

Recommendation:

That the following is noted:

- The 2019/20 Treasury outturn results against the 2019/20 Treasury Management Strategy Statement, as approved on the 27 March 2019 (LFC-0135-D).

Introduction/Background

1 This report provides details of all investment and borrowing activities for the period from 1 April 2019 to 31 March 2020 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 31 March 2020 with the opening position as at 1 April 2019.

2 Under the treasury management shared service arrangement with the Greater London Authority (GLA), GLA treasury officers carry out the LFC's day-to-day treasury management function, managing the LFC's investments and borrowing activities. The GLA now delivers investment management through a wholly owned subsidiary, London Treasury Limited (LTL), authorised and regulated by the Financial Conduct Authority (FCA). 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 2019/20 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 2019/20 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 & Interest Rates (provided by Treasury Advisors, Link Asset Services)

4 The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. A general election in December settled the matter once and for all by a decisive victory for the Conservative Party led by Boris Johnson: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020.

5 Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, with +1.1% year on year. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

6 After the Monetary Policy Committee (MPC) raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government.

7 Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

8 HM Treasury increased the margin over gilt yields for Public Works Loan Board (PWLB) loans in 2019-20 without any prior warning on 9 October 2019. The margin was increased by 1% over gilts on all PWLB rates. That increase was partially reversed for some forms of borrowing on 11 March 2020 but remained in place for the PWLB standard rate (Gilt+200bps) and PWLB certainty rate (Gilt+180bps) for which the GLA Group is eligible.

Current Treasury Management Position

9 The table below shows the current Treasury management position.

Current Treasury Position	Actual as at 31 March 2019		Actual as at 31 March 2020	
	£m	Rate %	£m	Rate %
External Borrowing				
Long Term Borrowing: PWLB	68.73	4.69	60.73	4.71
Long Term Borrowing: Market Loans	0		0	
Total External Borrowing (A)	68.73	4.69	60.73	4.71
Other Long Term Liabilities				
PFI Liability	45.6		44.29	
Finance Lease liability	18.43		18.43	
Total Other Long Term Liabilities(B)	64.03		62.72	
Total Gross Debt (A+B)	132.8		123.45	
Capital Financing Requirement	157.2		150.03	
Less Other Long Term Liabilities	64.03		62.72	
Underlying Capital Borrowing Requirement (C)	93.17		87.31	
Under/(Over) Borrowing (C-A)	24.45		26.59	
Investments (D)	109.70	0.65	66.95	0.92
Total Net Borrowing (A-D)	-40.98		-6.22	

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

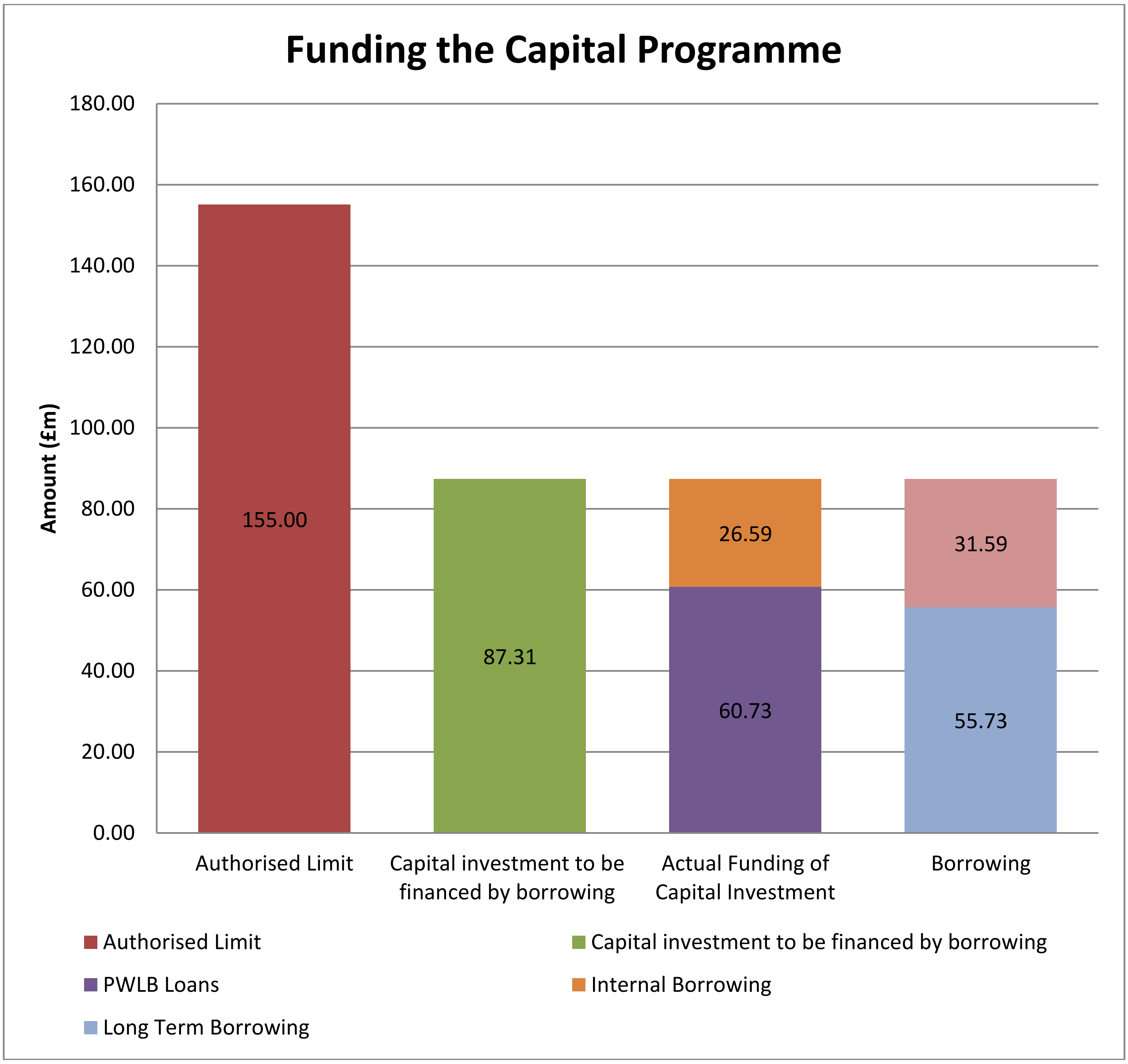
Borrowing Outturn

11 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.

12 No new external loan borrowing was taken out during 2019/20. £8.00m of external loan borrowing was repaid, reducing the total borrowing to £60.73m

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

14 The graph below compares the maximum the LFC could borrow in 2019/20 with the 'Capital Investment to be financed by borrowing' at 31 March 2020 and the actual position of how this is being financed at 31 March 2020. The final column shows the split between short (internal and external borrowing with duration of less than one year) and long-term borrowing.



15 The graph shows that the LFC's current capital investment that is being funded via borrowing, as at the 31 March 2020, is £87.31m, which is £67.69m below the Authorised Borrowing Limit set for the LFC at the start of the year.

16 In addition, the graph shows how the LFC is currently funding its borrowing requirement. As at 31 March 2020, the LFC was using £26.59m 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

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

18 The GIS is the GLA Group's liquidity solution for the participant within the treasury shared service. It is managed by London Treasury Limited in a similar fashion to a commercial money market fund. Participants can deposit and withdraw funds daily, which restricts investments to highly secure, short-dated instruments with low price volatility.

19 Pooling resources allows the Group Treasury team to make larger individual transactions and access 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.

20 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.

21 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 2019/20, 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.

22 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

23 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 31 March 2019 £m	Actual as at 31 March 2020 £m
Fund balances/reserves	75.43	79.12
Provisions	11.32	5.25
Other	31.51	1.51
Total Core Funds	118.26	85.88
Working Capital Surplus	11.41	7.65
Under/(over) borrowing	19.97	26.59
Investments	109.70	66.95

24 Investment balances as at 31 March 2020 were £66.95m, this being a decrease of £42.75m over year-end balances as at 31 March 2019. The higher balance of funds as at 31 March 2019 reflected the capital receipts received from the sale of the former Fire Station at Southwark. Capital receipts received during 2019/20 were significantly lower and the capital expenditure compared to 2018/19 was higher thus reducing cash balances as at 31 March 2020.

25 The LFC has outperformed its investment benchmark by 0.28% during 2019/20. It achieved a cumulative weighted average yield of 0.92% on daily balances against a cumulative weighted average 3-month LIBID of 0.64%. Throughout the period, the LFC maintained its liquidity target of a weighted average maturity (WAM) of not more than 91 days.

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

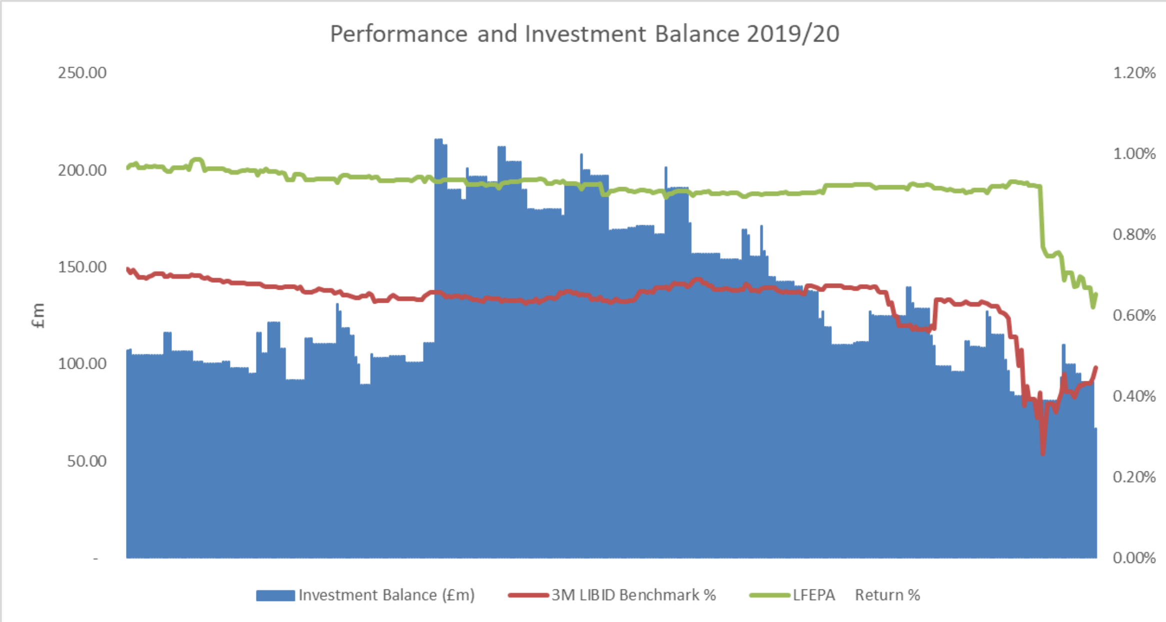
a. Using the strength of the GIS's £4.0bn investment balances to obtain higher than average rates without increasing risk.

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

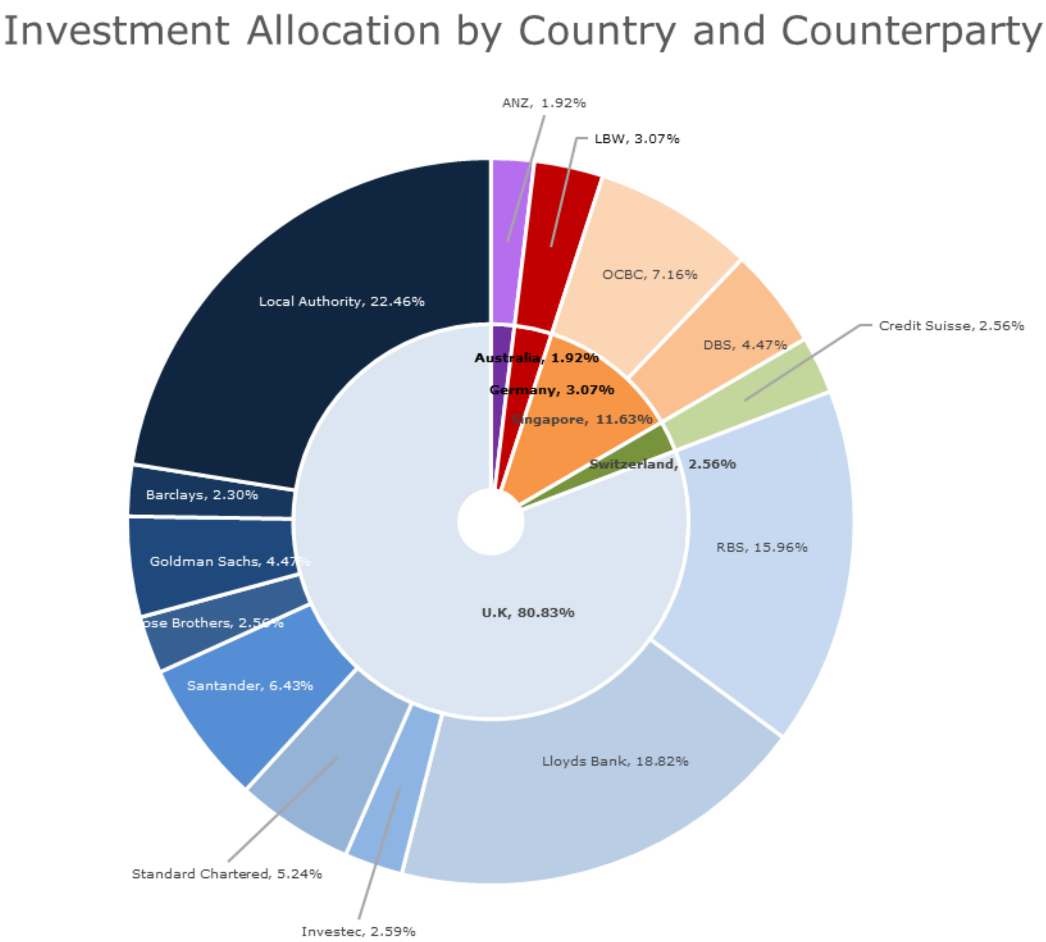
c. Seeking to invest in higher yielding longer dated instruments, while keeping the WAM within the GIS Investment Strategy limit of within 91 days.

d. Monitoring market activity and proactively seizing investment opportunities.

27 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 2019/20 there was circa £66.95m 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.



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



Treasury Management Budget

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

Treasury Management Budget	Actual as at 31 March 2019 £m	TMSS Forecast to 31 March 2020 £m	Actual as at 31 March 2020 £m	Variance between Forecast and Actual £m
Interest payable	3.32	3.05	3.06	-0.01
Interest Receivable	-0.83	-0.30	-1.23	0.93
Minimum Revenue Provision	7.26	6.75	7.17	-0.42
Total	16.35	9.50	9.00	0.50

30 The small decrease in interest payable year-on-year reflects the scheduled repayment of PWLB loans during the year. Interest receivable was £0.93m higher than the budget forecast, due to higher investment balances and a higher return being achieved than was forecast.

CIPFA Prudential Code Indicators and Treasury Management Limits

Background

31 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.

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

33 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

34 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.

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

Capital Expenditure

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

37 The capital expenditure for 2019/20 is shown in the table below.

	Actual as at 31 March 2019	TMSS Forecast to 31 March 2020	Actual as at 31 March 2020	2019/20 Variance between Forecast and Actual
	£m	£m	£m	£m
Total Capital Expenditure	13.40	40.00	31.06	-8.94

38 The capital expenditure for 2019/20, at £31.06m was £8.94m less than that expected at the start of the year. Details of the capital underspend are shown in the financial outturn report

Capital Financing Requirement

39 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.

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

41 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 asset's life.

42 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.

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

	Actual as at 31 March 2019	TMSS Forecast to 31 March 2020	Actual as at 31 March 2020	2019/20 Variance between Forecast and Actual
	£m	£m	£m	£m
Total CFR	157.20	150.49	150.03	-0.46

External Debt Prudential Indicators

Authorised Limit for External Debt

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

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

46 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	2019-20 Authorised Limit £m	Actual External Debt as at 31 March 2020 £m	Headroom £m
Borrowing	155.00	60.73	94.28
Other long-term liabilities	70.00	62.72	7.28
Total	**225.00**	**123.45**	**101.56**

47 The authorised limit headroom for external debt is £101.56m as at 31 March 2020.

Operational Boundary for External Debt

48 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.

49 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	2019-20 Operational Boundary £m	Actual External Debt as at 31 March 2020 £m	Headroom £m
Borrowing	150.00	60.73	89.28

Other long-term liabilities	70.00	62.72	7.28
Total	**220.00**	**123.45**	**96.56**

50 The operational boundary headroom for external debt is £96.56m as at 31 March 2020.

Gross Debt and the Capital Financing Requirement

51 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.

52 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 2020 £m	Preceding Year CFR £m	2020-21 Estimated Additional CFR £m	2021-22 Estimated Additional CFR £m	2022-23 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
123.45	150.03	0.00	19.80	0.00	169.83	46.39

53 Gross debt, as at 31 March 2020, is £46.39m 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

54 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.

55 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 31st March 2019 %	TMSS Forecast to 31 March 2020 %	Actual as at the 31st March 2020 %	Variance between Forecast and Year

				End Actual %
Total	3.82	2.67	3.80	1.13

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

Incremental Impact of Capital Investment Decisions on the Council Tax

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

58 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.

59 The LFC's capital investment decisions have had no financial impact on the Council Tax payer in 2019/20, having been fully contained within agreed budgets.

Treasury Management Prudential Indicator

60 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.

61 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 31 March 2020		Actual as at 31 March 2019	Actual as at 31 March 2020
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	20.00	0.00	11.64	8.23
12 months and within 24 months	20.00	0.00	20.00	0.00
24 months and within 5 years	50.00	0.00	50.00	0.00
5 years and within 10 years	75.00	75.00	0.00	25.06
10 years and above	90.00	25.00	90.00	25.00

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

Limits for Principal Sums Invested for Periods Longer than 365 days

63 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.

64 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.

65 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.

New Investments Maturing after 365 days taken between 01/04/19 and 31/03/20

66 No new investment maturing after 365 days was taken during 2019/20.

New Long-Term Borrowing taken between 01/04/19 and 31/03/20

67 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.

68 No new long-term borrowing was taken during 2019/20.