LONDON FIRE BRIGADE

Report title

Treasury Management Strategy Outturn 2021/22

Report to	Date
Audit Committee	14 July 2022
Investment and Finance Board	21 July 2022
Commissioner's Board	10 August 2022

Report by

Assistant Director, Finance

Report classification

For Information

Synopsis of report:

This is the annual report on treasury management activity and performance for the 2021/22 financial year

Report number – LFC- 0732

For Publication

PART I - NON-CONFIDENTIAL FACTS AND ADVICE FOR INFORMATION

Executive Summary

This report is submitted under the London Fire Commissioner's (LFC'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 2022.

The LFC'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 a syndic and the LFC's representative.

The annual report on treasury management activities for 2021/22 is provided at Appendix 1 and is prepared by GLA Group Treasury.

The report:

• provides a summary and analysis of the performance on the LFC's treasury management activities, and

• outlines the economic background against which treasury management activities were undertaken during the year.

Recommended decision:

That the London Fire Commissioner notes the 2021/22 Treasury outturn results against the 2021/22 Treasury Management Strategy Statement, as approved on 29 March 2021(LFC-0506).

1. Background

1.1 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) and the CIPFA Prudential Code for Capital Finance ("the Prudential 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 LFC's Treasury Management Strategy Statement (TMSS). The TM Code also recommends that Board is informed of treasury management activities at least twice a year.

1.2. Treasury management is defined as: "The management of the Brigade'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."

1.3. The regulatory environment places responsibility on the LFC for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the LFC's approved policies.

1.4. 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 with the Commissioner's Policy Statement on Treasury Management Activities, approved as part of the TMSS.

1.5. The day-to-day management of the treasury management function is delivered by GLA Group Treasury under a shared service arrangement, 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 LFC's cash balances are pooled with other funds which allows greater investment options, to improve diversification, liquidity and returns.

1.6 The Director of Corporate Services confirms that, throughout the period, all treasury activities have been conducted within the parameters of the 2021/22 TMSS, alongside best practice suggested by CIPFA and Central Government.

Treasury Management 2021/22

1.7 The CIPFA Treasury Management Code recommends that those charged with governance, for Treasury matters, be updated on treasury management activities regularly (at least a Treasury Management Strategy, Mid-year and Annual Outturn reports). This report therefore meets these requirements regarding an annual report, and ensures the LFC 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 2021/22, approved by the LFC on 29 March 2021, (LFC-0506)

1.8. The report provides the Board with a review of investment performance for 2021/22, 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 Authority, and adopted by the LFC, in the TMSS.

1.9 The LFC's external borrowing levels have increased from £55.73m at 31 March 2021 to £69.73m at 31 March 2022, with the balance increased by £17m due to the short-term borrowing taken to manage the delay in capital receipts, offset by the maturing of £3m of long term debt. Total investment balances have increased from £41.34m at 31 March 2021 to £112.71m at 31 March 2022. Interest receivable achieved during 2021/22 was £0.51m, against a budget of £0.80m. Interest payable for 2021/22 was £2.53m against a budget of £2.70m.

1.10 All 2021/22 Treasury activity has been within the boundaries and levels set by the LFC in its TMSS.

GLA Group Treasury service

1.11 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

1.12 The TM Code states that those charged with governance have an individual responsibility for treasury matters. Further training with the Treasury Advisors Link Asset Services is scheduled for 1st September 2022.

Finance comments

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

Workforce comments

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

Legal comments:

The report is a financial update submitted in accordance with Part 6 (Financial Regulations) of the London Fire Commissioner's ("LFC") Scheme of Governance which sets out detailed rules covering financial planning, monitoring and control.

This report fulfils the obligations set out the Commissioner's Financial Regulations which stipulates that appropriate financial information must be provided to enable budgets be monitored effectively, and that all virements (transfers of budget) of revenue budget that had not been committed be reported as part of the quarterly financial position report.

The Director of Corporate Services has responsibility for the administration of the LFC's financial affairs under section 127 of the Greater London Authority Act 1999, and is required to ensure arrangements for all financial and accounting matters, the security of money, and other assets are economic, efficient and effective.

Sustainability implications

There are no direct sustainability implications arising from this report.

Equalities impact

The London Fire Commissioner and the Greater London Authority are required to have due regard to the Public Sector Equality Duty (s149 of the Equality Act 2010) when taking decisions. This in broad terms involves understanding the potential impact of policy and decisions on those with protected characteristics taking this into account and then evidencing how decisions were reached.

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.

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.

The Public Sector Equality Duty requires decision-takers in the exercise of all their functions, 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.

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.

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

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.

This report relates to treasury management performance and is therefore not considered to have any equalities impact.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents: Local Government Act 2003 CIPFA Code of Practice on Treasury Management (2017) CIPFA The Prudential Code (2017) CIPFA The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2018) Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 Financial Regulations CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities incl Police and Fire Authorities (2018) Department for Levelling Up, Housing & Communities (DLUHC) Guidance on Local Government Investment The DLUHC Capital Finance Guidance on Minimum Revenue Provision	
Proper officer	Director of Corporate Services

Contact officer	Princess Christian-Iwuagwu
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Email	princess.christianiwuagwu@london-fire.gov.uk

List of Appendices

Appendix	Title	Protective Marking
1.	Greater London Authority Group Treasury – London Fire Commissioner Treasury Management Outturn for 2021/22	None

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – /NO

ORIGINATING OFFICER DECLARATION:	Drafting officer to confirm the following (✓)
Drafting officer Princess Christian-Iwuagwu has drafted this report and confirms the following:	
Assistant Director/Head of Service Adrian Bloomfield has reviewed the documentation and is satisfied for it to be referred to Board for consideration.	
Advice Legal team has commented on this proposal; Thomas Davies, Legal Advisor, on behalf of General Counsel (Head of Law and Monitoring Officer) Princess Christian-Iwuagwu, Financial Advisor, on behalf of the Chief Finance Officer	

GREATER LONDON AUTHORITY

GROUP TREASURY

Treasury Management Outturn for 2021/22

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 increased from £55.73m at 31 March 2021 to £69.73m at 31 March 2022. Total investment balances have increased from £41.34m at 31 March 2021 to £112.71m at 31 March 2022

Interest receivable achieved during 2021/22 was £0.51m, against a budget of £0.80m.

Interest payable for 2021/22 was £2.53m against a budget of £2.70m.

All 2021/22 Treasury activity has been within the boundaries and levels set by the Authority in its Treasury Management Strategy Statement on 29 March 2021, Document No. LFC-0506.

Recommendation:

That the following is noted:

- The 2021/22 Treasury outturn results against the 2021/22 Treasury Management Strategy Statement, as approved on the 29 March 2021, Document No. LFC-0506.

Introduction/Background

1 This report provides details of all investment and borrowing activities for the period from 1 April 2021 to 31 March 2022 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 31 March 2022 with the opening position as at 1 April 2021.

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 2021/22 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 2021/22 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

4 Over the last two years, the coronavirus outbreak has caused huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left the Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% on 4th February 2022 and then to 0.75% in March 2022.

5 The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business as usual, the MPC can now focus on tackling the second round of effects of inflation. However, the squeeze on real household disposable incomes arising from the utility price hikes as well as council tax, water and many phone contract prices, are strong winds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance and consequently, inflation will be an even larger drag on real incomes in 2022, than in any year since records began in 2022.

6 During the pandemic, the governments of western countries have provided massive fiscal support to their economies, which has resulted in a large increase in total government debt for each country. It has therefore become very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher levels of inflation that we have generally seen over the last couple of decades. Both the Federal Bank and the Bank of England have already changed their policy towards implementing their existing mandates on inflation and full employment, to hitting an average level of target of inflation. Higher rates of inflation would also help to erode the real value of government debt more quickly.

Current Treasury Management Position

7 The table below shows the current Treasury management position.

Current Treasury Position	Actual as at 31 March 2021		Actual as at 31 March 2022	
	£m	Rate %	£m	Rate %
External Borrowing				
Long Term Borrowing: PWLB	55.73	4.73	52.73	4.73
Long Term Borrowing: Market Loans	0		17.00	0.10
Total External Borrowing (A)	55.73	4.73	69.73	3.60
Other Long Term Liabilities				
PFI Liability	44.29		42.91	
Finance Lease Liability	18.43		18.43	
Total Other Long Term Liabilities(B)	62.72		61.34	
Total Gross Debt (A+B)	118.45		131.07	
Capital Financing Requirement	158.26		152.40	
Less Other Long Term Liabilities	62.72		61.34	
Underlying Capital Borrowing Requirement (C)	95.54		91.06	
Under/(Over) Borrowing (C-A)	39.82		21.34	
Investments (D)	41.34	0.53	112.71	0.88
Total Net Borrowing (A-D)	14.39		-42.99	

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

Borrowing Outturn

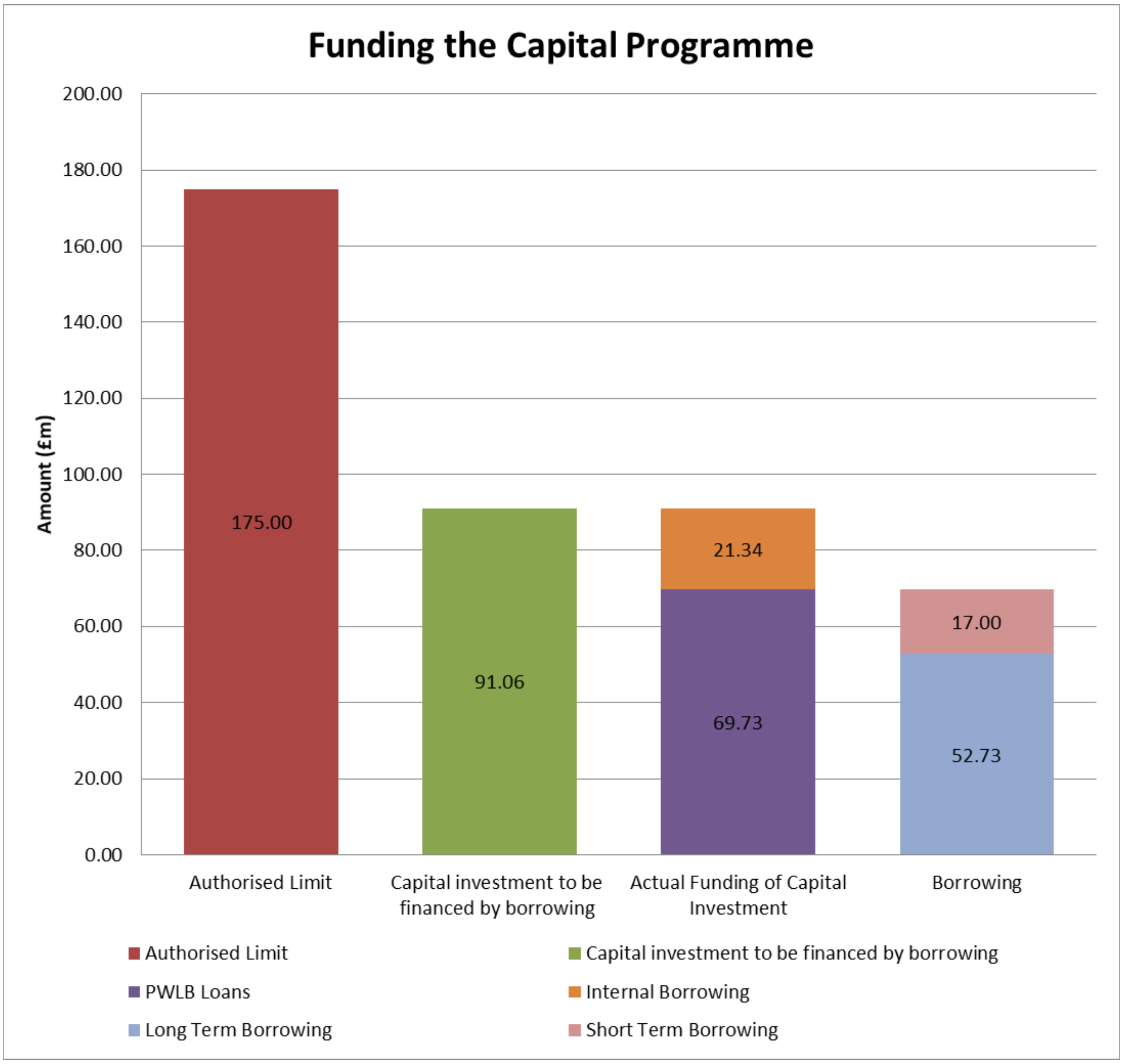
9 The LFC is required to borrow in order to fund spending for its Capital Programme. The amount of new borrowing needed each year is determined by new capital schemes approved and included in the Capital Programme.

10 No new long term external loan borrowing was taken out during 2021/22. £3m of long term external loan borrowing was repaid, reducing the total long term borrowing to £52.73m.

11 A total of £17m in short term borrowing was taken out in June 2021/22, sourced from the inter-local authority lending market at an average rate of 0.10%. This borrowing was taken out for a period of 12 months to support the LFC's cash balances.

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

13 The graph below compares the maximum the LFC could borrow in 2021/22 with the 'Capital Investment to be financed by borrowing' at 31 March 2022 and the actual position of how this is being financed at 31 March 2022. The final column shows the split between short (internal and external borrowing with duration of less than one year) and long term borrowing.



14 The graph shows that the LFC's current capital investment that is being funded via borrowing, as at the 31 March 2022, is £91.06, which is £83.94m below the Authorised Borrowing Limit set for the LFC at the start of the year.

15 In addition, the graph shows how the LFC is currently funding its borrowing requirement. As at 31 March 2022, the LFC was using £21.34m 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

16 The LFC's Group'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 them.

17 The GIS is the GLA Group's liquidity solution for the participant within the treasury shared service. It is managed by LTL 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.

18 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.

19 Investments are made in line with a common GIS Investment Strategy, which includes a requirement for the core cash allocation to maintain a weighted average life (WAL), which does not exceed 90 days, and for each participant to specify a portion of their investment to remain immediately accessible.

20 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 life which does not exceed 90 days. However, each participant can place a limit on the duration of these longer term investments. For 2021/22, the LFC opted not to enter into any investments longer than 365 days in its own name, wishing to limit counterparty risk and liquidity risk. This limit does not apply to externally managed funds or to pooled monies within the Group Investment Syndicate.

21 The LFC's TMSS adheres to the CIPFA Prudential Code investment principle of prioritising security, liquidity and yield in that order. As such, the LFC maintains a low risk appetite consistent with good stewardship of public funds.

Investment Outturn

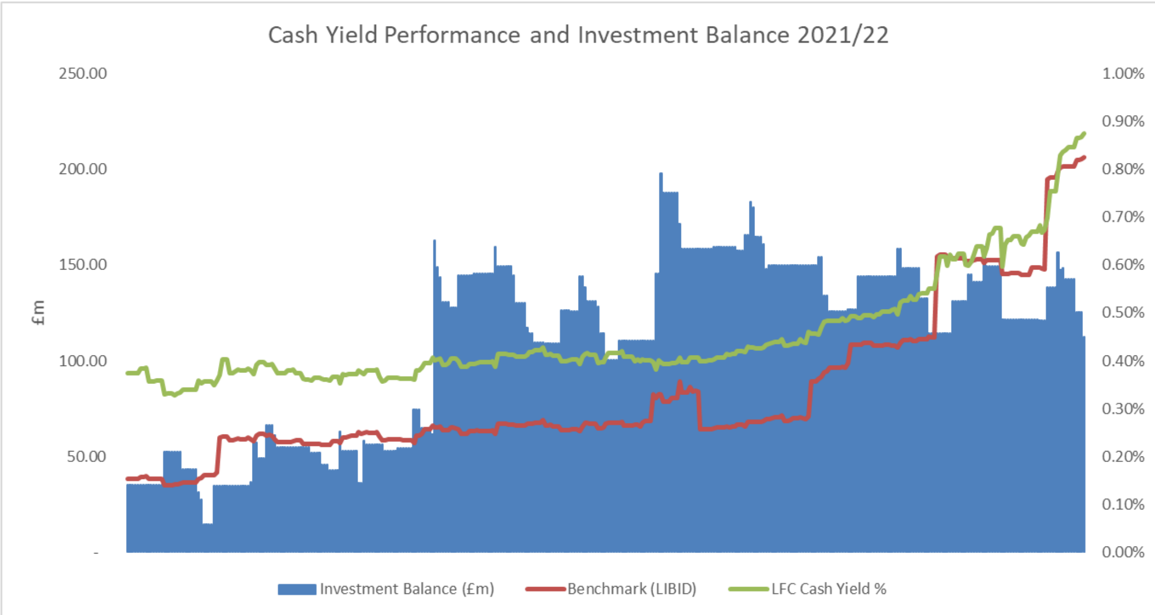
22 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decision to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are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

	Actual as at 31 March 2021 £m	Actual as at 31 March 2022 £m
Fund balances/reserves	70.94	92.8
Provisions	2.82	6.48
Other	3.78	16.7
Total Core Funds	77.54	115.98
Working Capital Surplus	3.62	18.07
Under/(over) borrowing	39.82	21.34
Investments	41.34	112.71

23 Investment balances as at 31 March 2022 were £112.71m, this being an increase of £71.37m over year-end balances as at 31 March 2021.

24 The Authority's weighted average investment return for the contractual element of GIS investment was 0.47% against a performance benchmark rate of 0.30% and for total GIS investment return was 0.56% against a performance benchmark rate of 0.36%, an out performance of 0.20%

25 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 2021/22 there was circa £112.71m 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.



Average Investment and Performance

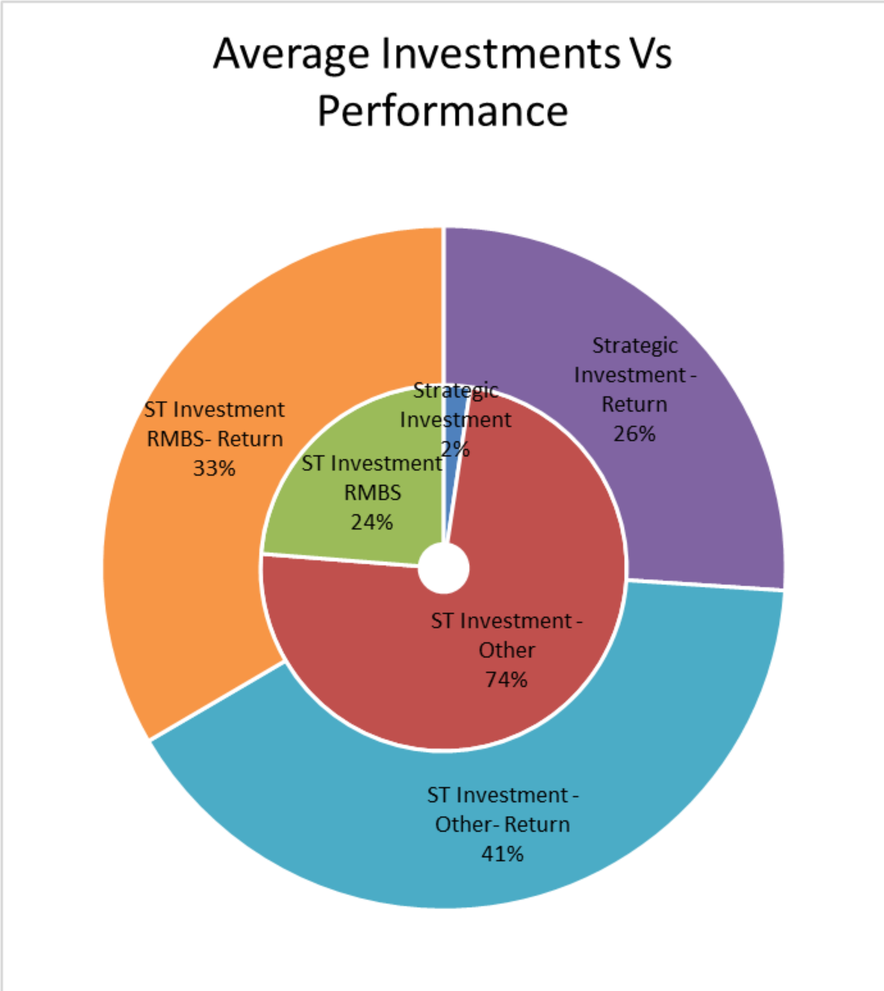
26 Average investments over the reporting period were £109.35m.

The Investment portfolio consist of three elements:

- Strategic Investment
- Short Term Investment (Other)
- Short Term Investment (RMBS)

The table and chart below show the split of investment and the associated return on each element of investment in the financial year 2021/22.

	Strategic Investment	ST Investment - Other	ST Investment RMBS	**Total**
Average (£m)	2.57	80.80	25.97	109.35
Proportion %	2%	74%	24%	100%
Interest (£m)	0.16	0.25	0.20	0.61
Proportion %	26.05%	41%	33%	100%



Average proportion of the Strategic Investment and RMBS were 2% and 24% over the period and these two elements of the portfolio achieved 26% and 33% of total return in the financial year.

GLA Strategic Reserve LP

27 GLA Strategic Reserve LP, a new Scottish Limited Partnership (SLP) was established in January 2021, with the GLA becoming a limited partner in the SLP (See Mayoral Decision 2616). GIS participants agreed to jointly invest in Strategic Investment from the start of this financial year and GIS participants will eventually become limited partners (LPs) in GLA Strategic Reserve LP, with the partnership becoming an alternative investment fund (AIF) successor to the GIS. Consistent with this aim, GIS assets are gradually being transferred into the partnership. The assets with the most complex accounting treatments have been prioritised in order to simplify the individual asset reporting requirements for existing GIS participants.

28 The existing Strategic Investments, RMBS and five security holdings were transferred into GLA Strategic Reserve LP in March 2022. Balance of Investment transferred was £1,768m as at 31st March 2022, of which the LFC owned 2.60%, amounting to the value of £45.96m.

New investment Instruments

29 The following strategic investments were added during the reporting period:

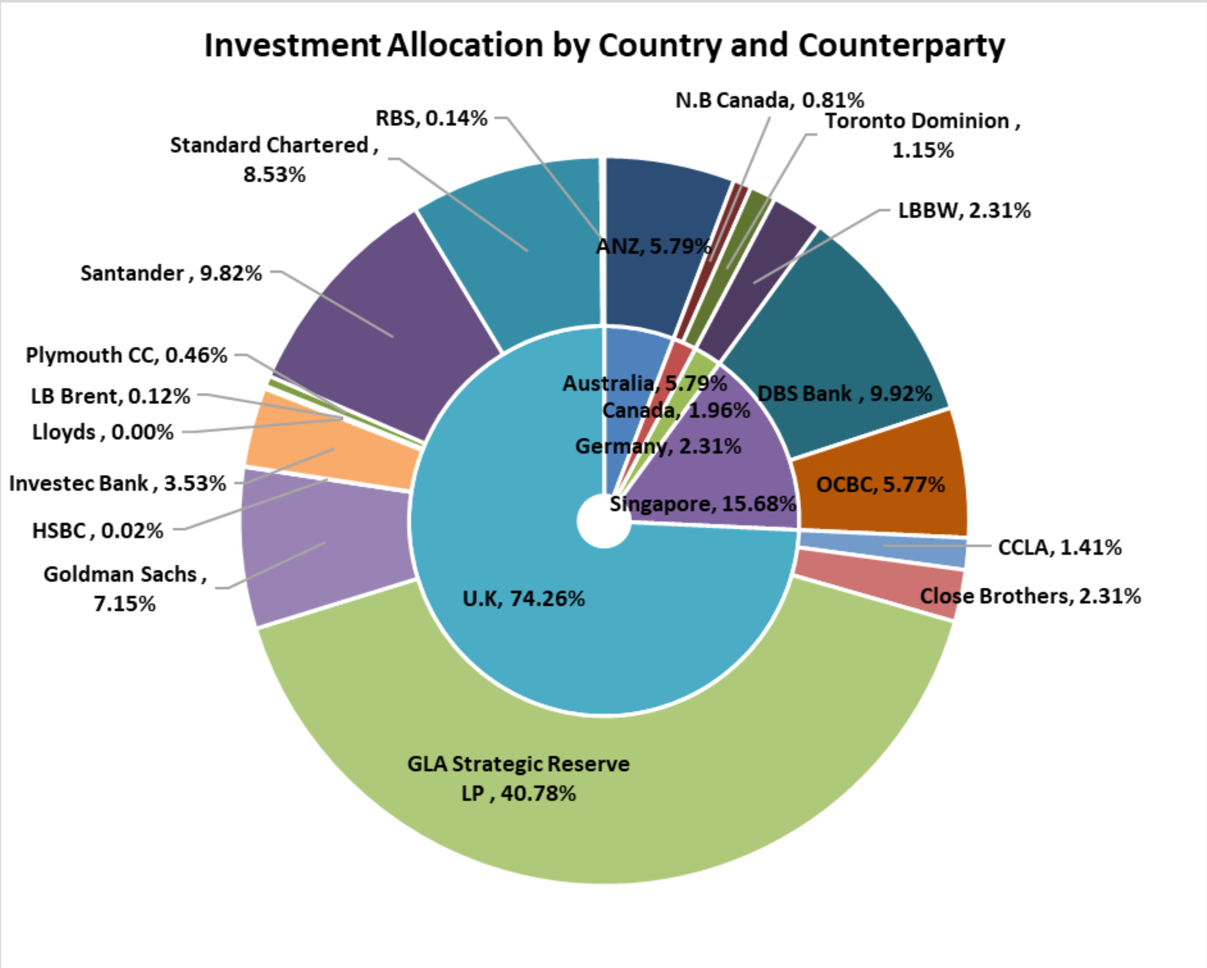
- Beechbrook UK SME III – a private debt fund, predominantly lending to UK SMEs
- Beechbrook Co-Investment – a low fee structure for co-investment in the existing Beechbrook

UK SME fund portfolio companies

- TwentyFour AM ARC Fund- liquid income units in a short term bond fund which focuses on investing in high grade fixed income opportunities
- NRP Maritime Credit Fund - a fund focused on providing secured loans to small and medium sized shipowners.

Investment Counterparties

30 The chart below illustrates the breakdown of the LFC's investment balance of £112.71m as at 31 March 2022, demonstrating a diversified portfolio by Counterparty, Country and Credit Rating.



Treasury Management Budget

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

Treasury Management Budget	Actual as at 31 March 2021 £m	TMSS Forecast to 31 March 2022 £m	Actual as at 31 March 2022 £m	Variance between Forecast and Actual £m
Interest payable	2.73	2.70	2.53	0.17
Interest Receivable	-0.53	-0.80	-0.51	-0.29
Minimum Revenue Provision	5.82	5.80	7.30	-1.50
Total	8.03	7.70	9.33	-1.63

32 The small decrease in interest payable year-on-year reflects the scheduled repayment of PWLB loans during the year. Interest receivable was £0.29m lower than the budget forecast, due to the low interest rate environment resulting from the COVID-19 pandemic

CIPFA Prudential Code Indicators and Treasury Management Limits

Background

33 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.

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

35 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

36 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.

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

Capital Expenditure

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

39 The capital expenditure for 2021/22 is shown in the table below.

	Actual as at 31 March 2021 £m	TMSS Forecast to 31 March 2022 £m	Actual as at 31 March 2022 £m	2021/22 Variance between Forecast and Actual £m
Total Capital Expenditure	19.20	58.60	17.66	-40.94

40 The capital expenditure for 2021/22, at £17.66m was £40.94m 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

41 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.

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

43 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.

44 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.

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

	Actual as at 31 March 2021 £m	TMSS Forecast to 31 March 2022 £m	Actual as at 31 March 2022 £m	2021/22 Variance between Forecast and Actual £m
Total CFR	158.30	163.87	152.40	-11.47

External Debt Prudential Indicators

Authorised Limit for External Debt

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

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

48 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	2021-22 Authorised Limit £m	Actual External Debt as at 31 March 2022 £m	Headroom £m
Borrowing	175.00	69.73	105.28
Other long term liabilities	70.00	61.34	8.66
Total	**245.00**	**131.07**	**113.94**

49 The authorised limit headroom for external debt is £113.94m as at 31 March 2022.

Operational Boundary for External Debt

50 The operational boundary is based on the same estimates as the authorised limit. However, it reflects an estimate of 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.

51 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.

52 Authorised Limit for Operational Boundary	2021-22 Operational Boundary £m	Actual External Debt as at 31 March 2022 £m	Headroom £m
Borrowing	170.00	69.73	100.28
Other long term liabilities	70.00	61.34	8.66
Total	**240.00**	**131.07**	**108.94**

53 The operational boundary headroom for external debt is £108.94m as at 31 March 2022.

Gross Debt and the Capital Financing Requirement

54 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.

55 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 2022 £m
131.07

Preceding Year CFR £m	2022-23 Estimated Additional CFR £m	2023-24 Estimated Additional CFR £m	2024-25 Estimated Additional CFR £m	Total CFR over 4 years £m
158.12	26.02	7.62	3.23	194.99

Amount Gross Debt < Total CFR over 4 years £m
63.93

56 Gross debt, as at 31 March 2022, is £63.93m 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

57 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.

58 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 2021 %	TMSS Forecast to 31 March 2022 %	Actual as at the 31st March 2022 %	Variance between Forecast and Year End Actual %
Total	3.93	2.61	4.15	1.32

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

Incremental Impact of Capital Investment Decisions on the Council Tax

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

61 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.

62 The LFC's capital investment decisions have had no financial impact on the Council Tax payer in 2021/22, having been fully contained within agreed budgets.

Treasury Management Prudential Indicator

63 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.

64 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 2022		Actual as at 31 March 2021	Actual as at 31 March 2022
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	20	0	5	30
12 months and within 24 months	20	0	7	3
24 months and within 5 years	50	0	19	16
5 years and within 10 years	75	0	26	17
10 years and above	90	25	42	34

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

66 The upper limit for the Under 12 month maturity bracket is exceeded as at 31 March 2022 as a result of the £17m temporary borrowing that was taken out during the year.

Limits for Principal Sums Invested for Periods Longer than 365 days

67 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.

68 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.

69 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.

70 There are currently no plans to invest for periods longer than one year in the LFC's own name, because the LFC does not expect to have core cash balances which permit such investment durations. The Treasury Management Limit 'Limits for Principal Sums Invested for Periods Longer than 365 Days' is therefore set at zero. However, considering potential capital receipts this position will be kept under review and any move to invest funds long-term will be put to the Board for consideration. (This limit does not apply to externally managed funds or to pooled monies within the Group Investment Syndicate).

<u>New Long-Term Borrowing taken between 01/04/21 and 31/03/22</u>

71 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.

72 No new long-term borrowing was taken during 2021/22.