MOPAC | MAYOR OF LONDON OFFICE FOR POLICING AND CRIME

METROPOLITAN POLICE

MPS-MOPAC JOINT AUDIT PANEL
4 October 2021

Treasury Management Outturn 2020/21

Report by: The MOPAC Chief Finance Officer and Director of Corporate Services

Report Summary

Overall Summary of the Purpose of the Report
This report sets out the performance of the 2020/21 MOPAC Treasury Management (TM) function.

Key Considerations for the Panel
To note the performance and compliance of the treasury function during 2020/21.

Interdependencies/Cross Cutting Issues
Risk register, governance, financial oversight

Recommendations

The Audit Panel is recommended to:

a. Note the treasury management 2020/21 outturn

1. Supporting Information

1.1. This paper provides a update on the Treasury Management function performance during 2020/21.

2020/21 outturn

1.2. All investment and borrowing activity during 2020-21 was undertaken within the guidelines and objectives set out in the relevant policy and investment and borrowing strategies.

1.3. MOPAC generated investment related income of £1.3m at a weighted average yield of 0.53%, which is 0.50% above the benchmark yield of 0.03% - the weighted average 3 month LIBID (London Interbank Bid Rate).

1.4. There was no new long term borrowing during 2020/21. As a result of scheduled repayments of existing debt the long term borrowing decreased by a net £13.6m, from £302.95m at the start of the year to £289.35m at 31 March 2021.

1.5. The cost of borrowing in interest was £9.6m. The weighted average cost of borrowing of all long term loans as at 31 March 2021 was 3.30% (3.34% as at 31 March 2020).

1.6. Further detail can be found in the Treasury Management Outturn 2020/21 decision on the MOPAC website.

Oversight

1.7. The MOPAC Chief Finance Officer receives regular reporting from the GLA/LTL on risks, performance, progress and strategic financing advice. Treasury Management advice is provided by Link Asset Services.

1.8. Treasury Management performance is reported to the Deputy Mayor for Policing and Crime at mid-year and outturn.

2. Equality and Diversity Impact

There are no equality and diversity implications directly arising from this report.

3. Financial Implications

3.1. The direct cost of the GLA shared service function to MOPAC in 2020/21 was £143k. This was met from within the existing MOPAC budget.

4. Legal Implications

4.1. There are no direct legal implications arising from the report.

5. Risk Implications

5.1. The investment strategy is set to reflect the low risk appetite of MOPAC, and in line with the principles of the CIPFA Code of Practice. Borrowing is currently all fixed rate and with the Public Works Loans Board (PWLB) in order to provide certainty of exposure.

5.2. Whilst every effort is made to minimise the likelihood of an incident the failure of for example a counter party would generate risks to the sum deposited and reputational risk for MOPAC

6. Contact Details

Report author – Alex Anderson, Management Accountant, MOPAC, Director Amana Humayun, MOPAC CFO and Director of Corporate Services
Email: alex.anderson@mopac.london.gov.uk

7. Appendices and Background Papers

MOPAC Treasury Management Outturn 2020/21

MOPAC | MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

DMPC Decision – PCD 1001

Title: **Treasury Management 2020/21 Outturn**

Executive Summary:

DMPC is asked to note the performance of the Treasury Management function in 2020-21.

In 2020-21 investment income was £1.3m at an average rate of return of 0.53%, 0.50% above the benchmark. Debt interest expenditure was below budget at £9.6m. Total long term external borrowing decreased from £302.95m to £289.35m by 31 March 2021. The weighted average borrowing rate of all long term loans (weighted by size of loan and the rate of interest paid) at 31 March 2021 was 3.30% (last year 3.34%)

All investment and borrowing activity during 2020-21 was undertaken within the guidelines and objectives set out in the relevant policy and investment and borrowing strategies.

Recommendation:

The Deputy Mayor for Policing and Crime is recommended to note the 2020/21 treasury management outturn results.

Deputy Mayor for Policing and Crime

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct. Any such interests are recorded below.

The above request has my approval.

Signature Sophie Linden

Date **28/7/2021**

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE DMPC

1. Introduction and background

1.1. The CIPFA Treasury Management (TM) Code recommends that organisations be updated on treasury management activities regularly (as a minimum an Treasury Management Strategy, mid-year and annual performance reports).

1.2. This report represents the annual performance report for 2020/21 and ensures MOPAC is implementing best practice in accordance with the TM Code.

1.3. The day-to-day management of the treasury management function is delivered by the GLA Group Treasury team under a shared service arrangement. GLA Group Treasury also manages the Group Investment Strategy (GIS), of which the MOPAC Chief Finance Officer is a syndicate director. By being part of the GIS, MOPAC's cash balances are pooled with other funds which allows greater investment options, improves diversification, liquidity and returns.

1.4. The annual report at Appendix 1 has been prepared by GLA Group Treasury, and provides details of performance against the TM Strategy Statement (TMSS) 2020/21, approved by MOPAC on 31 March 2020 (PCD710). The report provides a review of investment performance for 2020/21, and reviews specific Treasury Management prudential indicators defined by the Code and approved by the MOPAC in the TMSS.

2. Issues for consideration

Investment

2.1. The average return on investment was 0.53%. This compares favourably with the London Interbank BID (LIBID) 3-month rate benchmark of 0.03%. This resulted in income of £1.3m.

Debt Management

2.2. No new long-term borrowing took place in 2020/21. As a result, the long term borrowing decreased by £13.6m, from £302.95m at the start of the year to £289.35m at 31 March 2021.

2.3. The cost of borrowing was £9.6m. The weighted average cost of borrowing of all long term loans as at 31 March 2021 was 3.30% (3.34% as at 31 March 2020).

Compliance

2.4. All treasury activities were within the Treasury indicators set in the TMSS, and borrowing was within the borrowing limits set by the Mayor for MOPAC. MOPAC CFO confirms that, based on reporting and assurances from the GLA shared service function, throughout the period all treasury activities have been conducted within the parameters of the TMSS 2019/20, alongside best practice suggested by the CIPFA TM Code and Central Government.

Prudential Indicators

2.5. Appendix 1 includes the maturity profile for the borrowing portfolio, and performance against the Prudential Indicators set as part of the 2020-21 TM Strategy. All indicators were met.

3. Financial Comments

3.1. The cost of borrowing and the minimum revenue provision for 2020/21 were £9.6m and £48.6m respectively. Interest received in 2020/21 was £1.3m. The total net cost of the capital financing costs were within the approved budget.

4. Legal Comments

4.1. Under Section 1 of the Local Government Act 2003, MOPAC as a local authority defined under s23 of that Act, may borrow money for any purpose relevant to its functions under any enactment, or for the purpose of the prudent management of its financial affairs.

4.2. The Mayor is required under s3 of the Local Government Act 2003 to determine how much money the GLA and each functional body (which includes MOPAC) can afford to borrow. In complying with this duty, Regulation 2 of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 requires the Mayor to have regard to the Prudential Code for Capital Finance in Local Authorities when determining how much MOPAC can afford.

4.3. MOPAC's scheme of delegation provides that the Chief Finance Officer, as the s127 officer, is responsible for the proper administration of the MOPAC's financial affairs.

5. GDPR and Data Privacy

5.1. MOPAC will adhere to the Data Protection Act (DPA) 2018 and ensure that any organisations who are commissioned to do work with or on behalf of MOPAC are fully compliant with the policy and understand their GDPR responsibilities.

5.2. This report does not use personally identifiable data of members of the public therefore there are no GDPR issues to be considered

6. Equality Comments

6.1. MOPAC is required to comply with the public sector equality duty set out in section 149(1) of the Equality Act 2010. This requires MOPAC to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations by reference to people with protected characteristics. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

6.2. There are no equality or diversity implications arising from this report.

7. Background/supporting papers

- Appendix 1 GLA Treasury Management Outturn 2020/21

Public access to information
Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOIA) and will be made available on the MOPAC website following approval. If immediate publication risks compromising the implementation of the decision it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.
Part 1 Deferral: Is the publication of Part 1 of this approval to be deferred? NO If yes, for what reason: Until what date: N/A
Part 2 Confidentiality: Only the facts or advice considered as likely to be exempt from disclosure under the FOIA 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	*Tick to confirm statement (✓)*
Financial Advice: The Strategic Finance and Resource Management Team has been consulted on this proposal.	✓
Legal Advice: Legal advice is not required.	✓
Equalities Advice: Equality and diversity issues are covered in the body of the report.	✓
GDPR/Data Privacy GDPR compliance issues are covered in the body of the report.	✓
Director/Head of Service: The MOPAC Chief Finance Officer and Director of Corportae Services has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓

Chief Executive Officer

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Deputy Mayor for Policing and Crime.

Signature Diana Luchford. **Date 27/07/2021**

GREATER LONDON AUTHORITY
GROUP TREASURY

Treasury Management Outturn for 2020/21

MOPAC

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 MOPAC Group's treasury management operation.

The MOPAC Group's invested balances have increased from £28.39m at the 31 March 2020 to £49.56m at 31 March 2021.

The MOPAC Group's long-term outstanding borrowing has decreased from £302.95m at the 31 March 2020 to £289.35 at 31 March 2021.

Interest receivable and investment income achieved during 2020/21 was £1.30m.

Interest payable on external borrowing for 2020/21 was £9.62m against a budget of £15.10m.

All 2020/21 Treasury activity has been within the boundaries and levels set by the MOPAC Group in its Treasury Management Strategy Statement on 31 March 2020, DMPC Decision PCD 710.

Recommendation:

That the following is noted:

- The 2020/21 Treasury outturn results against the 2020/21 Treasury Management Strategy Statement, as approved on the 31 March 2020, DMPC PCD 710.

Introduction/Background

1 This report provides details of all investment and borrowing activities for the period from 1 April 2020 to 31 March 2021 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 31 March 2021 with the opening position as at 1 April 2020.

2 Under the treasury management shared service arrangement with the Greater London Authority (GLA), GLA treasury officers carry out the MOPAC Group's day to day treasury management function, managing the MOPAC Group'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). Metropolitan Police Service officers provide the GLA with details of the MOPAC Group's daily cash flow requirements and monies are only transferred between MOPAC and the GLA as and when required to match MOPAC need. This way, surplus funds over and above daily need are continuously held with the Group Investment Syndicate (GIS), the GLA vehicle used by the MOPAC Group to maximise liquidity and investment return. Should temporary borrowing be required by the MOPAC Group, GLA treasury officers will arrange loans on behalf of MOPAC.

Compliance with the 2020/21 Treasury Management Strategy Statement

3 The GLA's Chief Investment Officer confirms that, throughout the period, all treasury activities have been conducted within the parameters of the 2020/21 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 and Interest Rates

4 The financial year 2020/21 will go down in history as being the year of the pandemic. The national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09.

5 The Monetary Policy Committee (MPC) cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC then increased QE by £100bn in June and by £150bn in November to a total of £895bn. While Bank Rate remained unchanged for the rest of the year, financial markets were concerned that the MPC could cut Bank Rate to a negative rate; this was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months – by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

6 Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending.

7 Inflation has been well under 2% during 2020/21; it is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern to the MPC.

8 HM Treasury concluded the consultation review of margins over gilt yields for Public Works Loan Board (PWLB) rates, and in November 2020 announced that the standard and

certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

9 There is forecast to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%; this sets a high bar for Bank Rate to start rising.

Current Treasury Management Position

10 The table below shows the treasury management position at 31 March 2020 against the position at 31 March 2021.

Current Treasury Position	Actual as at 31 March 2020		Actual as at 31 March 2021	
	£m	Rate %*	£m	Rate %*
External Borrowing				
Long Term Borrowing: PWLB	302.95	*3.34*	289.35	*3.30*
Short term Borrowing: Market Loans				
Total External Borrowing (A)	302.95	*3.34*	289.35	*3.30*
Other Long-Term Liabilities				
PFI Liability	66.21	*6.86*	60.43	*6.86*
Finance Lease liability	7.11	*10.67*	6.85	*11.07*
Total Other Long-Term Liabilities(B)	73.32	*7.23*	67.28	*7.29*
Total Gross Debt (A+B)	376.27	*4.09*	356.63	*4.05*
Capital Financing Requirement	834.59		993.48	
Less Other Long-Term Liabilities	73.32		67.28	
Underlying Capital Borrowing Requirement (C)	761.27		926.20	
Under/(Over) Borrowing (C-A)	458.32		636.85	
Investments (D)	28.39	*0.71*	49.56	*0.36*
Total Net Borrowing (A-D)	240.61		239.79	

*Weighted average rate as at 31 March

Borrowing Outturn

11 The MOPAC Group is permitted 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.

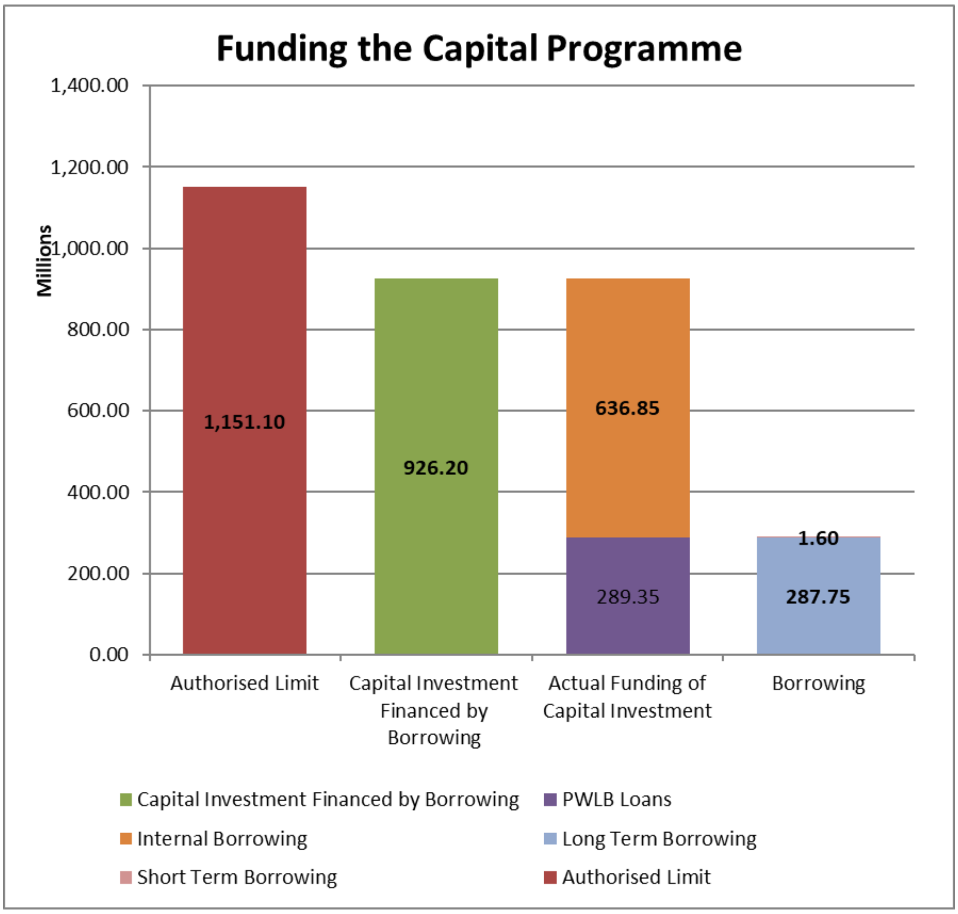
12 Private Financing Initiative (PFI) liabilities reduced by £5.78m from £66.21.m as at the 31 March 2020 to £60.43m as at the 31 March 2021. Finance lease liabilities reduced from £7.11m as at the 31 March 2020 to £6.85m as at the 31 March 2021.

13 The MOPAC Group did not take any new long-term borrowing in 2020/21 and instead chose to utilise internal funds. Furthermore, £13.60m of existing long-term loan borrowing was repaid, with the total external long-term borrowing reducing to £289.35m as at 31 March 2021.

14 The MOPAC Group undertook one overnight loan of £44.47m in 2020/21, sourced from the inter-local authority lending market. The loan supported the MOPAC Group's cash balance on a temporary basis and this short-term borrowing was subsequently repaid in the same year with none outstanding as at 31 March 2021.

15 No borrowing rescheduling was undertaken during the financial year, as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

16 The graph below compares the MOPAC Group's capital investment to be financed by borrowing at 31 March 2021 and the actual position of how this is being financed at 31 March 2021. The final column shows the split between short-term (internal and external borrowing with duration of less than one year) and long-term borrowing.



17 The above graph shows the MOPAC Group's current capital investment that is being funded via external borrowing, as at the 31 March 2021, is £289.35m, which is £861.75m below the Authorised Borrowing Limit set for the MOPAC Group at the start of the year.

18 In addition, the graph shows how the MOPAC Group is currently funding its borrowing requirement. As at 31 March 2021, the MOPAC Group was using £636.85m of internal borrowing to finance capital investment. Internal borrowing is the use of the MOPAC Group's surplus cash to finance the borrowing requirement instead of borrowing externally.

Investment Governance

19 The MOPAC 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 the GIS.

20 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-duration instruments with low price volatility.

21 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 investment.

22 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.

23 Additionally, the MOPAC Group may invest sums independently of the GIS, for instance if the MOPAC Group 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 91 days. However, each participant can place a limit on the duration of these longer-term investments. For 2020/21, the MOPAC Group opted not to enter into any investments longer than 365 days in its own name, wishing to limit counterparty risk and liquidity risk.

24 At no time does the GIS Investment Strategy conflict with the MOPAC Group's TMSS.

25 The MOPAC Group'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 MOPAC Group maintains a low risk appetite consistent with good stewardship of public funds.

Investment Outturn

26 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions 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 31 March 2020 £m	TMSS Forecast to March 2021 £m	Actual as at the 31 March 2021 £m	2020-21 Variance between Forecast and Actual £m
Fund balances/reserves	438.93	323.80	572.42	248.62
Provisions	34.23	30.00	40.67	10.67
Other/Capital Reserve	4.76	0.00	4.76	4.76
Total Core Funds	**477.92**	**353.80**	**617.85**	**264.05**
Working Capital Surplus*	2.87	150.00	68.56	-81.44
Under/(over) borrowing	452.40	257.63	636.85	379.22
Investments	**28.39**	**246.18**	**49.56**	**-196.62**

*Implied working capital derived from the difference between core funds and investments after under borrowing

27 Investment balances as at 31 March 2021 were £49.56m, this being an increase of £21.17m over year-end balances as at 31 March 2020. The lower than expected investment balance as at 31 March 2021 reflects a higher than expected reserves balance and the decision to defer external borrowing and utilise internal resources for funding the capital programme.

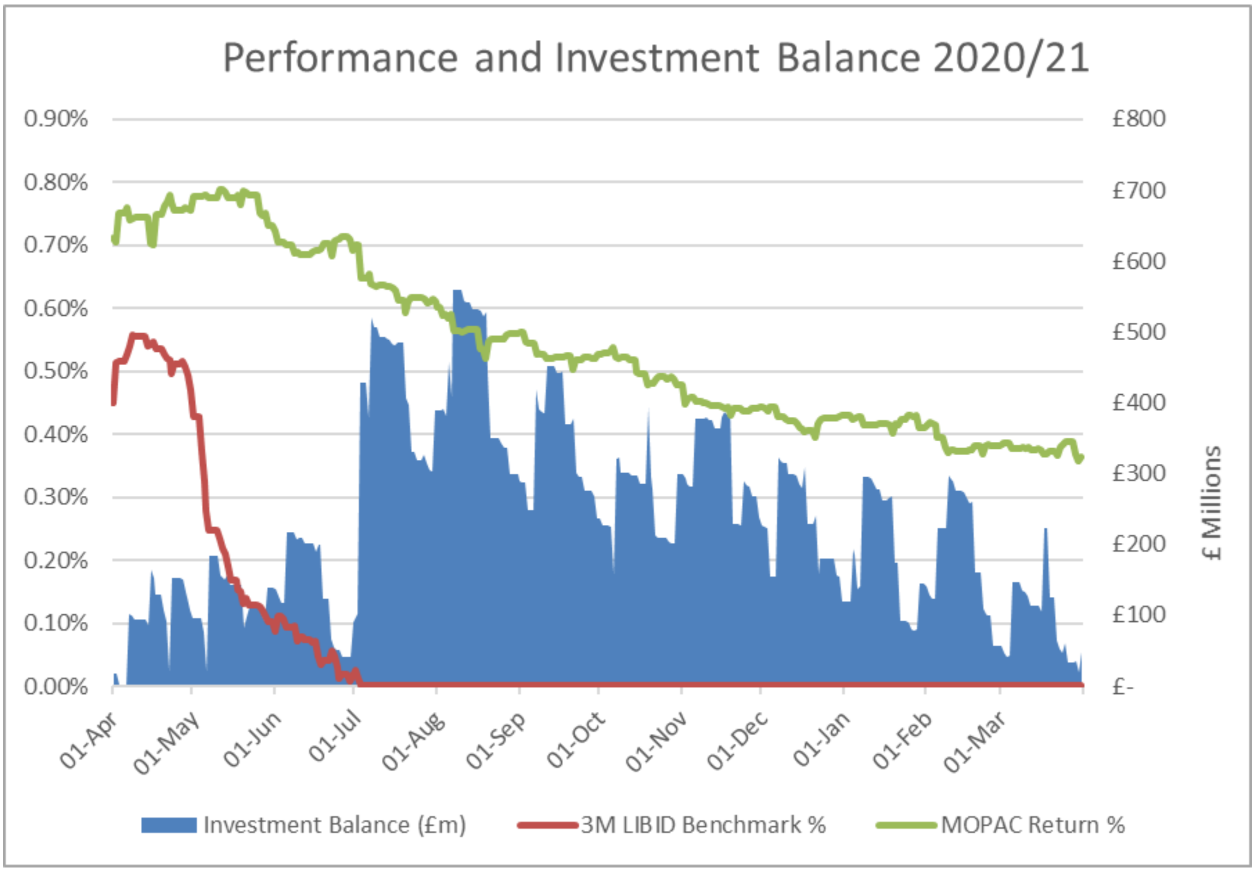
28 The MOPAC Group has outperformed its investment benchmark by 0.50% during 2020/21. It achieved a cumulative weighted average yield of 0.53% on daily balances against a cumulative weighted average 3-month LIBID of 0.03%. Throughout the period, the MOPAC Group maintained its liquidity target of a weighted average maturity (WAM) of not more than 91 days.

29 Investment performance therefore reflects the success of the decision to place investments in-house through the GLA GIS.

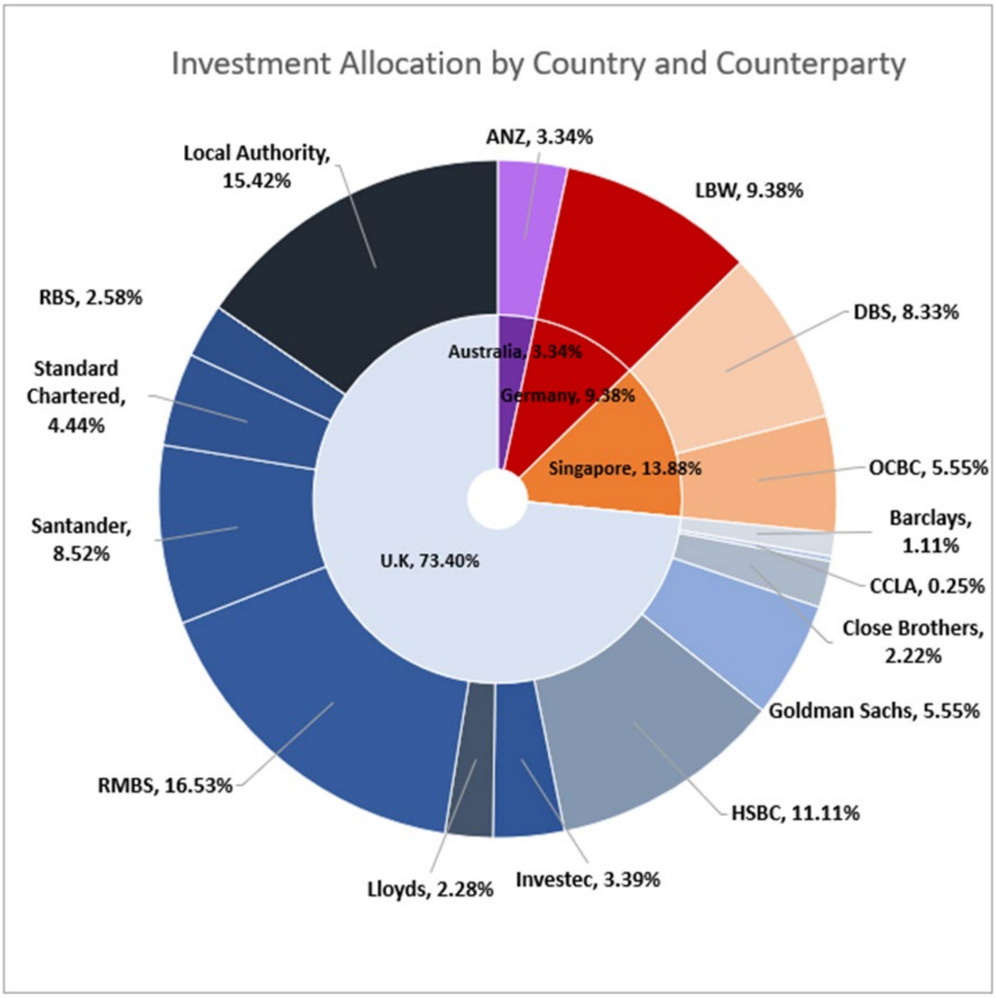
30 Methods used by the Group Treasury team during the year to manage performance have included:

- Using the strength of the GIS's £4.67bn average investment balances to obtain higher than average rates without increasing risk.
- Creating a well-diversified portfolio by country, by counterparty and by credit rating.
- Seeking to invest in attractive risk-weighted return instruments, while keeping the WAM within the GIS Investment Strategy limit of 91 days.
- Monitoring market activity and proactively seizing investment opportunities.

31 The following graph shows the MOPAC Group's outperformance described above, alongside the Group's investment balances throughout period. Fluctuations in balances reflect the differences in the timing of grants and expenditure. The significant cash increase in July represents the annual pension top-up grant.



32 The MOPAC Group's investment portfolio, as at 31 March 2021, is well diversified as is demonstrated in the chart below.



Treasury Management Budget

Treasury Management Budget	TMMS Forecast to March 2021 £m	Actual as at the 31st March 2021 £m	2020-21 Variance between Forecast and Year End Actual £m
Interest payable (excl. PFI & Finance Lease interest)	15.10	9.62	-5.48
Interest Receivable & Investment Income	-1.30	-1.30	0.00
Minimum Revenue Provision	45.70	48.63	2.93
Total	**59.50**	**56.95**	**-2.55**

33 The overall positive variance of £2.55m reflects the decision not to take any new long-term borrowing in 2020/21. The MOPAC Group utilised internal resources rather than increase long-term borrowing in order to fund the capital programme during the period, reducing the amount of interest payable within 2020/21. The variance resulting from the lower interest payable was partly offset by a higher than expected MRP provision.

CIPFA Prudential Code Indicators and Treasury Management Limits

Background

34 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.

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

36 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

37 To ensure compliance with the Code in relation to the above elements, the MOPAC Group 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 MOPAC Group'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.

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

Capital Expenditure

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

40 All capital expenditure is stated, not just that covered by borrowing.

	Actual 2019-20 £m	TMSS Forecast to 31st March 2021 £m	Actual 2020-21 £m	2020-21 Variance between Forecast and Actual £m
Total Capital Expenditure	249.60	405.60	328.90	-76.70

41 The capital expenditure for 2020/21, at £328.90m, was £76.70m less than that budgeted at the start of the year.

Capital Financing Requirement

42 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.

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

44 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.

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

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

	Actual 2019-20 £m	TMSS Forecast to 31st March 2021 £m	Actual 2020-21 £m	2020-21 Variance between Forecast and Actual £m
Total CFR	834.59	1,084.46	993.48	-90.98

47 The capital financing requirement at 31 March 2021 is £90.98m lower than forecast at the start of the year.

External Debt Prudential Indicators

Authorised Limit for External Debt

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

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

50 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	2020-21 Authorised Limit £m	Actual External Debt as at 31 March 2021 £m	Headroom £m
Borrowing	1,151.10	289.35	861.75
Other long-term liabilities	64.90	67.28	-2.38
Total	**1,216.00**	**356.63**	**859.37**

51 The authorised limit headroom for external debt is £859.37m at 31 March 2021.

52 Operational Boundary for External Debt

53 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.

54 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.

Operational Boundary for External Debt	2020-21 Operational Boundary £m	Actual External Debt as at 31 March 2021 £m	Headroom £m
Borrowing	1,026.10	289.35	736.75
Other long-term liabilities	64.90	67.28	-2.38
Total	**1,091.00**	**356.63**	**734.37**

The operational boundary headroom for external debt is £734.37m at 31 March 2021.

Gross Debt and the Capital Financing Requirement

55 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not,

except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR.

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

Actual Gross Debt as at 31 March 2021 £m	Preceding Year CFR £m	2020-21 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
356.63	834.59	158.89	149.6	111.30	1,254.38	897.75

57 Gross debt, as at 31 March 2021, is £897.75m 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 MOPAC Group'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

58 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.

59 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.

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

Financing Costs to Net Revenue Stream	Actual as at the 31 March 2020 %	TMSS Forecast to March 2021 %	Actual as at the 31 March 2021 %	2020-21 Variance between Forecast and Year End Actual %
Total	1.85	2.51	2.38	-0.13

Treasury Management Prudential Indicator

61 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.

62 The MOPAC Group 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

63 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.

	TMSS Forecast to March 2020		Actual as at the 31st March 2020	Actual as at the 31st March 2021
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	50.0	0.0	4.5	0.6
12 months and within 24 months	20.0	0.0	0.5	0.6
24 months and within 5 years	25.0	0.0	4.9	6.5
5 years and within 10 years	50.0	0.0	6.8	5.5
10 years and above	100.0	40.0	83.3	86.9

64 The above table shows that the MOPAC Group has a risk appropriate dispersion of debt over the years.

Limits for Principal Sums Invested for Periods Longer than 365 days

65 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:

- adversely impact on the Authorities liquidity and in turn its ability to meet its payment obligations and

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

66 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.

67 The MOPAC Group 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 365 days, the weighted average maturity is restricted to 91 days, adding to the reduction of the risk this indicator is seeking to address.

New Investments Maturing after 365 days taken between 01/04/20 and 31/03/21

68 No new investment maturing after 365 days was taken during 2020/21.

New Long-Term Borrowing taken between 01/04/20 and 31/03/21

69 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.

70 No new long-term borrowing was taken during 2020/21.