MOPAC | MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

DMPC Decision – PCD 773

Title: Treasury Management 2019/20 Outturn

Executive Summary:

DMPC is asked to note the performance of the Treasury Management function in 2019-20.

In 2019-20 investment income was £2.4m at an average rate of return of 0.92%, 0.28% above the benchmark. Debt interest expenditure was below budget at £10.2m. Total long term external borrowing decreased from £316.55m to £302.95m by 31 March 2020. The weighted average borrowing rate of all long term loans (weighted by size of loan and the rate of interest paid) at 31 March 2020 was 3.34% (last year 3.37%)

All investment and borrowing activity during 2019-20 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:

1. note the 2019/20 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 **Date** **27/7/20**

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 19/20 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 interim 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) 2019/20, approved by MOPAC on 25 March 2019 (PCD 552). The report provides a review of investment performance for 2019/20, 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 0.92%. This compares favourably with the London Interbank BID (LIBID) 3-month rate benchmark of 0.64%. This resulted in income of £2.4m.

Debt Management

2.2. No new long-term borrowing took place in 2019/20. As a result, the long term borrowing decreased by £13.6m, from £316.55m at the start of the year to £302.95m at 31 March 2020.

2.3. The cost of borrowing was £10.2m. The weighted average cost of borrowing of all long term loans as at 31 March 2019 was 3.34% (3.78% as at 31 March 2019).

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 2019-20 TM Strategy. All indicators were met.

3. Financial Comments

3.1. The cost of borrowing and the minimum revenue provision for 2019/20 were £10.2m and £33.25m respectively. Interest received in 2019/20 was £2.4m.

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

7. Background/supporting papers

- GLA Treasury Management Outturn 2019/20

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:
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.	✓
Commercial Issues Commercial issues are not applicable	✓
GDPR/Data Privacy GDPR compliance issues are covered in the body of the report	✓
Director/Head of Service: The interim MOPAC Chief Finance officer 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 23/7/20

GREATER LONDON AUTHORITY

GROUP TREASURY

Treasury Management Outturn for 2019/20

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 decreased from £44.67m at the 31 March 2019 to £28.39m at 31 March 2020.

The MOPAC Group's long-term outstanding borrowing has decreased from £316.55m at the 31 March 2019 to £302.95 at 31 March 2020.

Interest receivable achieved during 2019/20 was £2.38m for which there was no budgetary provision

Interest payable on external borrowing for 2019/20 was £10.22m against a budget of £12.77m.

All 2019/20 Treasury activity has been within the boundaries and levels set by the MOPAC Group in its Treasury Management Strategy Statement on 25 March 2019, DMPC Decision PCD 552.

Recommendation:

That the following is noted:

- The 2019/20 Treasury outturn results against the 2019/20 Treasury Management Strategy Statement, as approved on the 25 March 2019, DMPC PCD 552.

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 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). Authority officers provide the GLA with details of the MOPAC Group's daily cash flow requirements and monies are only transferred between the Authorities as and when required to match Authority 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 2019/20 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 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 and Interest Rates

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%, +1.1% y/y. 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 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 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 MOPAC Group is eligible.

Current Treasury Management Position

9 The table below shows the treasury management position at 31 March 2019 against the position at 31 March 2020.

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	316.55	*3.37*	302.95	*3.34*
Short term Borrowing: Market Loans				
Total External Borrowing (A)	316.55	*3.37*	302.95	*3.34*
Other Long Term Liabilities				
PFI Liability	71.22	*6.87*	66.21	*6.86*
Finance Lease liability	7.35	*10.33*	7.11	*10.67*
Total Other Long Term Liabilities(B)	79.24	*7.20*	73.32	*7.23*
Total Gross Debt (A+B)	395.79	*4.13*	376.27	*4.09*
Capital Financing Requirement	693.23		834.27	
Less Other Long Term Liabilities	79.24		73.32	
Underlying Capital Borrowing Requirement (C)	522.56		760.95	
Under/(Over) Borrowing (C-A)	206.01		458.00	
Investments (D)	44.67	*0.97*	28.39	*0.65*
Total Net Borrowing (A-D)	240.61		274.56	

*Weighted average rates as at 31 March

Borrowing Outturn

10 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.

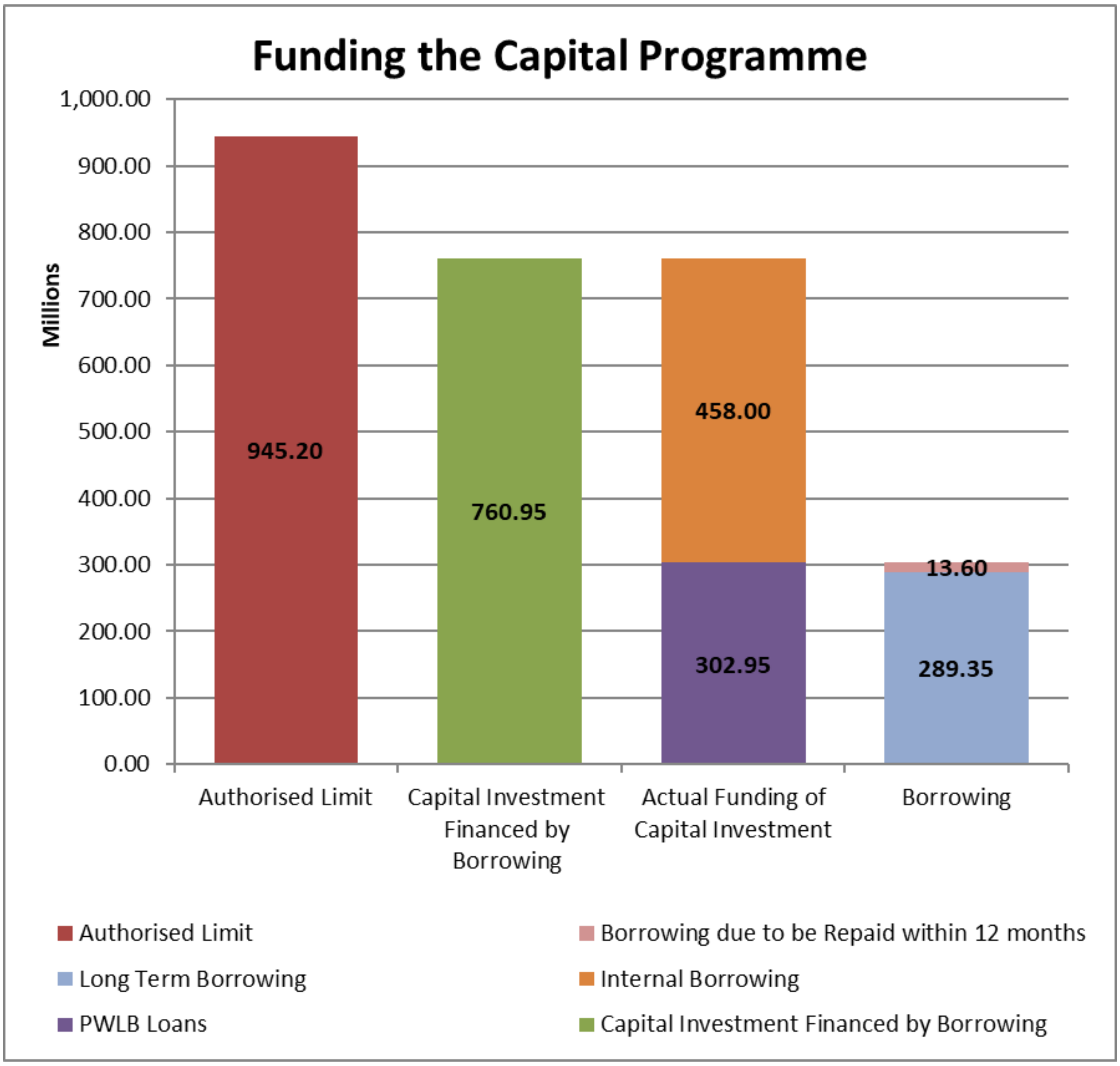
11 Private Financing Initiative (PFI) liabilities reduced by £5.01m from £71.22.m as at 31 March 2019 to £66.21m as at 31 March 2020 and finance lease liabilities reduced from £7.35m as at the 31 March 2020 to £7.11m as at 31 March 2020, both due to scheduled principal repayments made during the year.

12 The MOPAC Group did not take any new long-term borrowing in 2019/20 and instead chose to utilise internal funds. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the MOPAC Group's reserves and cash flow was used as an interim measure. The levels of internal and external borrowing being used to finance the capital programme are displayed below at paragraph 15. Furthermore, £13.60m of existing long-term loan borrowing was repaid, with the total external long-term borrowing reducing to £302.95m as at 31 March 2020.

13 A total of £107.30m in short-term borrowing was taken out in 2019/20, through 9 individual loans sourced from the inter-local authority lending market. These loans supported the MOPAC Group's cash balance on a temporary basis as required. The short-term borrowing had an average loan duration of 7 days and was at an average interest rate of 0.77%. The maximum amount of short-term borrowing outstanding at any one point during the year was £49.00m. All short-term borrowing was subsequently repaid in the same year with none outstanding as at 31 March 2020.

14 No borrowing restructuring was undertaken during the financial year, as the average 1% differential between PWLB new borrowing rates and premature repayment rates made restructuring unviable. The prohibitively expensive premia on early redemption of loans limited any opportunity to achieve interest savings through restructure.

15 The graph below compares the MOPAC Group's 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-term (internal and external borrowing with duration of less than one year) and long-term borrowing.



16 The graph shows the MOPAC Group's current capital investment that is being funded via external borrowing, as at the 31 March 2020, is £302.95m, which is £642.25m below the Authorised Borrowing Limit set for the MOPAC Group at the start of the year.

17 In addition, the graph shows how the MOPAC Group is currently funding its borrowing requirement. As at 31 March 2020, the MOPAC Group was using £458.00m 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

18 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.

19 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.

20 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.

21 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.

22 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 2019/20, 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.

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

24 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

25 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 2019 £m	TMSS Forecast to March 2020 £m	Actual as at the 31 March 2020 £m	2019-20 Variance between Forecast and Year End Actual £m
Fund balances/reserves	232.96	330.10	438.93	108.83
Provisions	28.49	30.00	34.23	4.23
Other/Capital Reserve	17.57	0.00	4.76	4.76
Total Core Funds	261.03	360.10	477.92	117.82
Working Capital Surplus	66.12	122.00	8.47*	-113.53
Under/(over) borrowing	206.01	279.35	458.00	178.65
Investments	44.67	202.75	28.39	-174.36

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

26 Investment balances as at 31 March 2020 were £28.39m, this being a decrease of £16.28m over year-end balances as at 31 March 2019. The lower than expected investment balance

as 31st March 2020 reflects the decision to defer external borrowing and utilise internal resources for funding the capital programme.

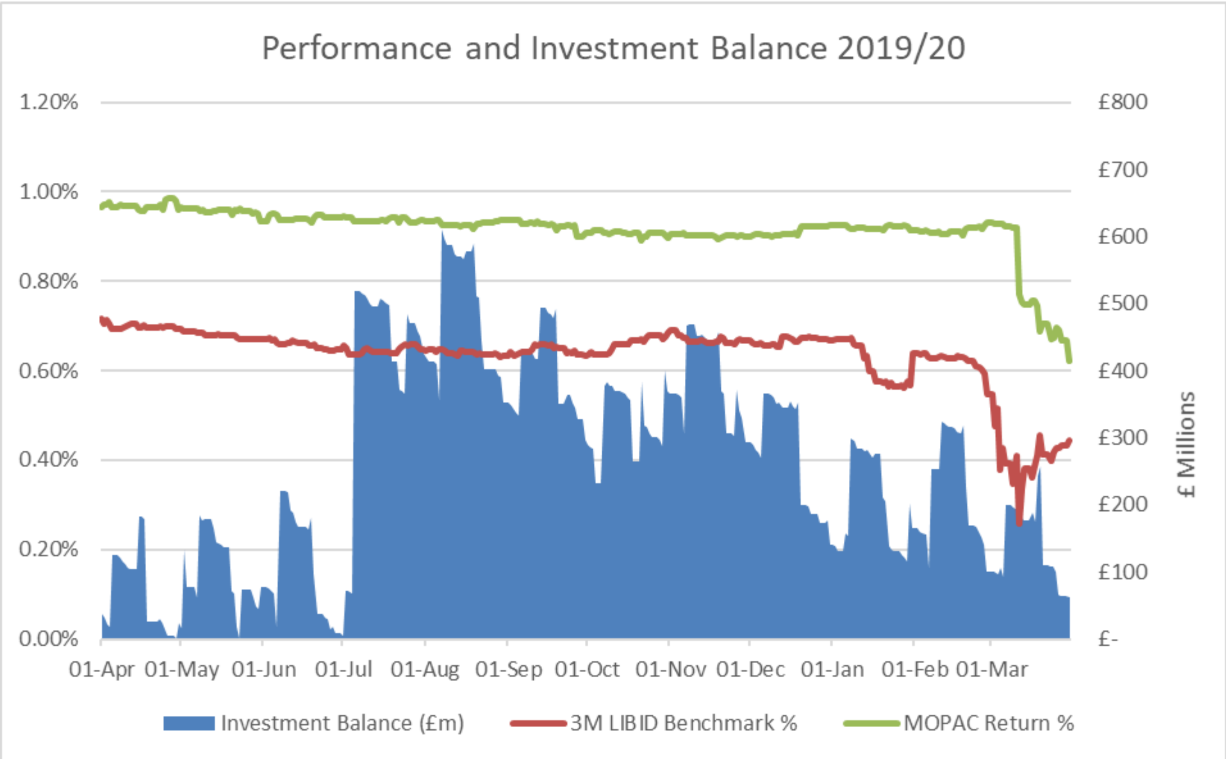
27 The MOPAC Group has outperformed its investment benchmark by 0.28% during 2019/20. It achieved a cumulative weighted average yield of 0.92% on daily balances against a cumulative weighted average 3-month LIBID of 0.64%. Throughout the period, the MOPAC Group maintained its liquidity target of a weighted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

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

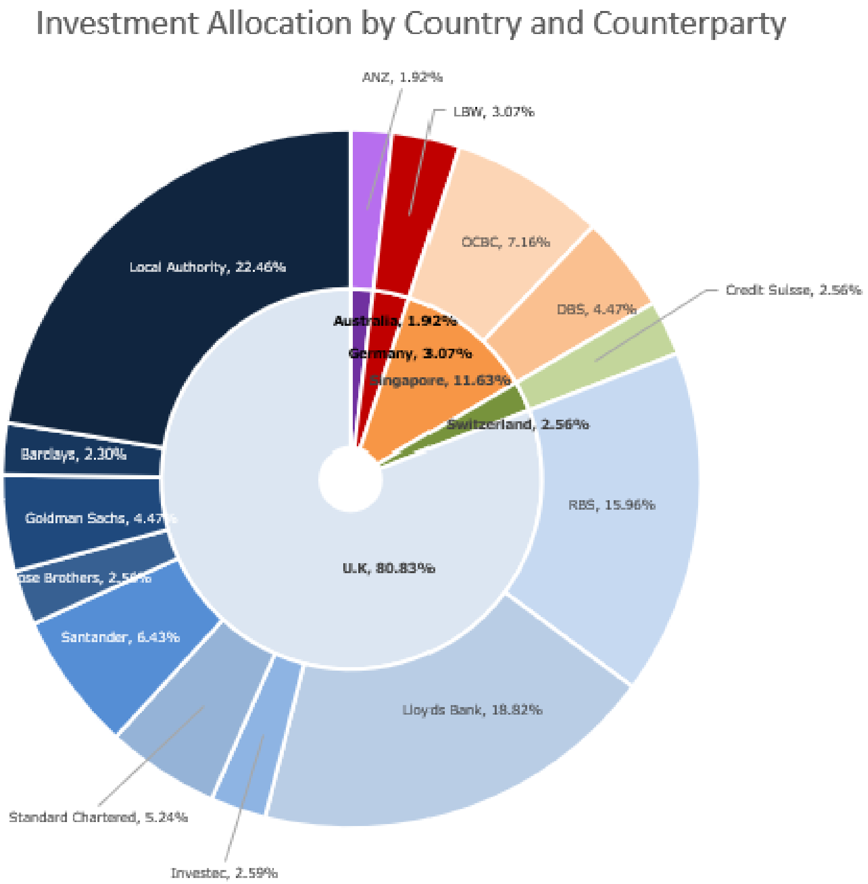
29 Methods used by the Group Treasury team during the year to manage performance have included:

- Using the strength of the GIS's £4.00bn 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 higher yielding longer dated instruments, while keeping the WAM within the GIS Investment Strategy limit of 91 days.
- Monitoring market activity and proactively seizing investment opportunities.

30 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.



31 The MOPAC Group's investment portfolio, as at 31 March 2020, is well diversified as is demonstrated in the chart below.



Treasury Management Budget

Treasury Management Budget	TMMS Forecast to March 2020 £m	Actual as at the 31st March 2020 £m	2019-20 Variance between Forecast and Year End Actual £m
Interest payable (excl. PFI & Finance Lease interest)	12.77	10.22	-2.55
Interest Receivable	0.00	-2.38	-2.38
Minimum Revenue Provision	32.90	33.25	0.35
Total	45.67	41.09	-4.58

32 The variance of £2.55m in interest payable reflects the decision not to take any new long-term borrowing in 2019/20. 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 2019/20. Furthermore, interest receivable was £2.38m as a result of higher than expected investment balances.

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 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.

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

	Actual 2018-19	TMSS Forecast to 31st March 2020	Actual 2019-20	2019-20 Variance between Forecast and Actual
	£m	£m	£m	£m
Total Capital Expenditure	232.02	388.00	249.60	-138.4

40 The capital expenditure for 2019/20, at £249.60, was £138.40 less than that budgeted at the start of the year. The variance is largely accounted for by a reprofiling in quarter 2 which amended the forecast to £274.3m, which followed a detailed review of programme requirements, including evaluating the impact of accommodating the additional officers funded through the Government uplift.

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 to the revenue budget, 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 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.

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

	Actual 2018-19 £m	TMSS Forecast to 31st March 2020 £m	Actual 2019-20 £m	2019-20 Variance between Forecast and Actual £m
Total CFR	693.23	917.58	834.27	-83.31

46 The capital financing requirement at 31 March 2020 is £83.31m lower than forecast at the start of the year.

External Debt Prudential Indicators

Authorised Limit for External Debt

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

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

49 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	945.20	302.95	642.25
Other long term liabilities	71.00	73.32	-2.32
Total	1016.20	376.27	639.93

50 The authorised limit headroom for external debt is £639.93m at 31 March 2020.

51 Operational Boundary for External Debt

52 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.

53 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	2019-20 Operational Boundary £m	Actual External Debt as at 31 March 2020 £m	Headroom £m
Borrowing	820.20	302.95	517.25
Other long term liabilities	71.00	73.32	-2.32
Total	891.20	376.27	514.93

The operational boundary headroom for external debt is £514.93m at 31 March 2020.

Gross Debt and the Capital Financing Requirement

54 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 (2018/19) plus the estimates of any additional capital financing requirement for the current (2019/20) 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.

55 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 2020 £m	Preceding Year CFR £m	2019-20 Actual Additional CFR £m	2020-21 Estimated Additional CFR £m	2021-22 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
376.27	693.23	141.04	250.19	149.60	1234.06	857.79

56 Gross debt, as at 31 March 2020, is £857.79m 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

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.

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

Financing Costs to Net Revenue Stream	Actual as at the 31 March 2019 %	TMSS Forecast to March 2020 %	Actual as at the 31 March 2019 %	2019-20 Variance between Forecast and Year End Actual %
Total	1.65	2.05	1.85	-0.2

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 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

62 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.

	TMSS Forecast to March 2019		Actual as at the 31st March 2019	Actual as at the 31st March 2020
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	40.0	0.0	4.3	4.5

12 months and within 24 months	20.0	0.0	4.3	0.5
24 months and within 5 years	25.0	0.0	3.1	4.9
5 years and within 10 years	35.0	0.0	8.2	6.8
10 years and above	100.0	40.0	80.1	83.3

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

Limits for Principal Sums Invested for Periods Longer than 365 days

64 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

65 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.

66 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 01/04/19 and 31/03/20

67 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

68 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.

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