

MOPACMAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

MPS-MOPAC JOINT AUDIT PANEL 17 January 2022

MOPAC Treasury Management Mid-Year Review for 2021-22

Report by: The MOPAC Chief Finance Officer

Report Summary

Overall Summary of the Purpose of the Report

This report sets out the 2021/22 Treasury mid-year performance against the 2021/22 Treasury Management Strategy Statement and forecasts.

Key Considerations for the Panel

Treasury activity has seen the MOPAC Group's investments outperform its investment benchmark by 0.23% over the six-month period ending 30 September 2021. Invested balances at 30 September 2021 were £257.67m.

The MOPAC Group's borrowing levels have reduced from £289.35m at 31 March 2021 to £288.55m at 30 September 2021.

All Treasury activity has been within the boundaries and levels set by the MOPAC Group and set out in the 2021/22 Treasury Management Strategy.

Interdependencies/Cross Cutting Issues

Risk register, governance, financial oversight

Recommendations

The Audit Panel is recommended to:

- a. Note this paper

1. Supporting Information

- 1.1. This report provides detail of all investment and borrowing activities for the period from 1 April 2021 to 30 September 2021 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 30 September 2021 with the 2021/22 full year budget and revised 2021/22 full year forecast, where relevant.
- 1.2. All treasury activities were 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

Borrowing Activity

- 1.3. The MOPAC Group is eligible to borrow at certainty rate from the PWLB but will consider alternatives to PWLB for new borrowing to ensure the most economical funding is obtained.
- 1.4. In the six months to 30 September 2021, three temporary loans totalling £62.33m were taken to support cash flow in April and were all subsequently repaid the following day. Furthermore, long-term PWLB loan principal totalling £0.80m was also repaid during this period, reducing total borrowing to £288.55m at 30 September 2021.
- 1.5. No rescheduling of debt was undertaken during the six months ending 30 September 2021.
- 1.6. As at 30 September 2021 MOPAC's capital investment being financed by borrowing was £288.55m, with a further £637.65m of internal borrowing being used to finance capital investment.

Investment Activity

- 1.7. Investment balances as at 30 September 2021 were £257.67m, this being an increase of £208.11m over the £49.56m opening balance on the 1 April 2021.
- 1.8. MOPAC has outperformed its investment benchmark by 0.23% during the six months ending the 30 September 2021, achieving a cumulative weighted average yield of 0.42% on daily balances against a benchmark of 0.19%. A further enhancement to performance is estimated at financial year end, once the realised income from strategic investments allocated to GIS members.

Treasury Management Budget

- 1.9. MOPAC is currently forecasting net interest costs of £15.18m compared to a budget of £31.8m. This is due to forecast interest payable costs being £15.96m lower than budgeted as no new long-term external borrowing was taken in 2020/21 or in the period to 30th September in 2021/22 and an increase in forecast investment income of £0.67m.

2. Equality and Diversity Impact

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

3. Financial Implications

The direct cost of the GLA shared service function to MOPAC in 2021/22 is forecast to be £207K, as compared to the budget of £223K.

4. Legal Implications

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

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7. Appendices and Background Papers

Appendix 1 – MOPAC Treasury Management Mid-Year Review for 2021-22

GREATER LONDON AUTHORITY

GROUP TREASURY

Item 10 App 1

MOPAC Treasury Management Mid-Year Review for 2021-22

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 a mid-year report on the activities of the Mayor's Office for Policing and Crime (MOPAC) Group's treasury management operation.

Treasury activity has seen the MOPAC Group's investments outperform its investment benchmark by 0.23% over the six-month period ending 30 September 2021. Invested balances at 30 September 2021 were £257.67m.

The MOPAC Group's borrowing levels have reduced from £289.35m at 31 March 2021 to £288.55m at 30 September 2021.

All Treasury activity has been within the boundaries and levels set by the MOPAC Group and set out in the 2021/22 Treasury Management Strategy.

Recommendation:

That the following is noted:

- The 2021/22 Treasury mid-year performance against the 2021/22 Treasury Management Strategy Statement and forecasts.

Introduction/Background

- 1 This report provides detail of all investment and borrowing activities for the period from 1 April 2021 to 30 September 2021 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 30 September 2021 with the 2021/22 full year budget and revised 2021/22 full year forecast, where relevant.
- 2 Under the treasury management shared service arrangement with the Greater London Authority (GLA), GLA group treasury officers carry out the MOPAC Group's day to day treasury management function, managing the MOPAC Group's investments and borrowing activities. MOPAC Group officers provide the GLA with details of the daily cash flow requirements and monies are only transferred between the GLA and MOPAC as and when required to match MOPAC Group 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 MOPAC Group to maximise liquidity and investment return.
- 3 The GLA has delegated GIS investment decisions to London Treasury Limited (LTL) a wholly GLA owned entity which is Financial Conduct Authority (FCA) authorised and regulated. In practice, the GLA's Chief Investment Officer (CIO) will still be the individual approving the current discretions, in their capacity as LTL's Managing Director.
- 4 The 2021/22 GIS Investment Strategy was approved by the MOPAC Group on 11 March 2021.

Compliance with the 2020/21 Treasury Management Strategy Statement

- 5 As advised by the GLA the MOPAC Chief Finance Officer (CFO) 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.

Economic Update and Interest Rates

- 6 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it has left Bank Rate unchanged at subsequent meetings.
- 7 Repeated assurances by the Bank of England, and by other major world central banks, that inflation would spike up after Covid restrictions were abolished, but would only be transitory, allayed investor fears until August / September when high inflation was again seen as a growing danger and both central banks in the US and UK gave indications that monetary policy tightening was on the horizon.
- 8 Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the Monetary Policy Committee's 2% target after a temporary surge to around 5% in April 2022. The MOPAC Group's treasury advisor, Link Group is forecasting five increases in Bank Rate over period to March 2025, ending at 1.25%. However, with the high level of uncertainty prevailing on several different fronts it is likely that forecasts will continue to be subject to revision.
- 9 Link Group provided the following rates forecasts on 8th November 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View 8.11.21														
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60								1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

- 10 As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025.
- 11 The balance of risks to forecasts is on the upside for medium to long term PWLB rates, however, there is likely to be continued volatility and unpredictability in respect of gilt yields, and hence PWLB rates as central banks navigate the tightening of monetary policies in the midst of the recovery from the pandemic.
- 12 The MOPAC Group is eligible to borrow at certainty rate from the PWLB but will consider alternatives to PWLB for new borrowing to ensure the most economical funding is obtained.

Current Treasury Management Position

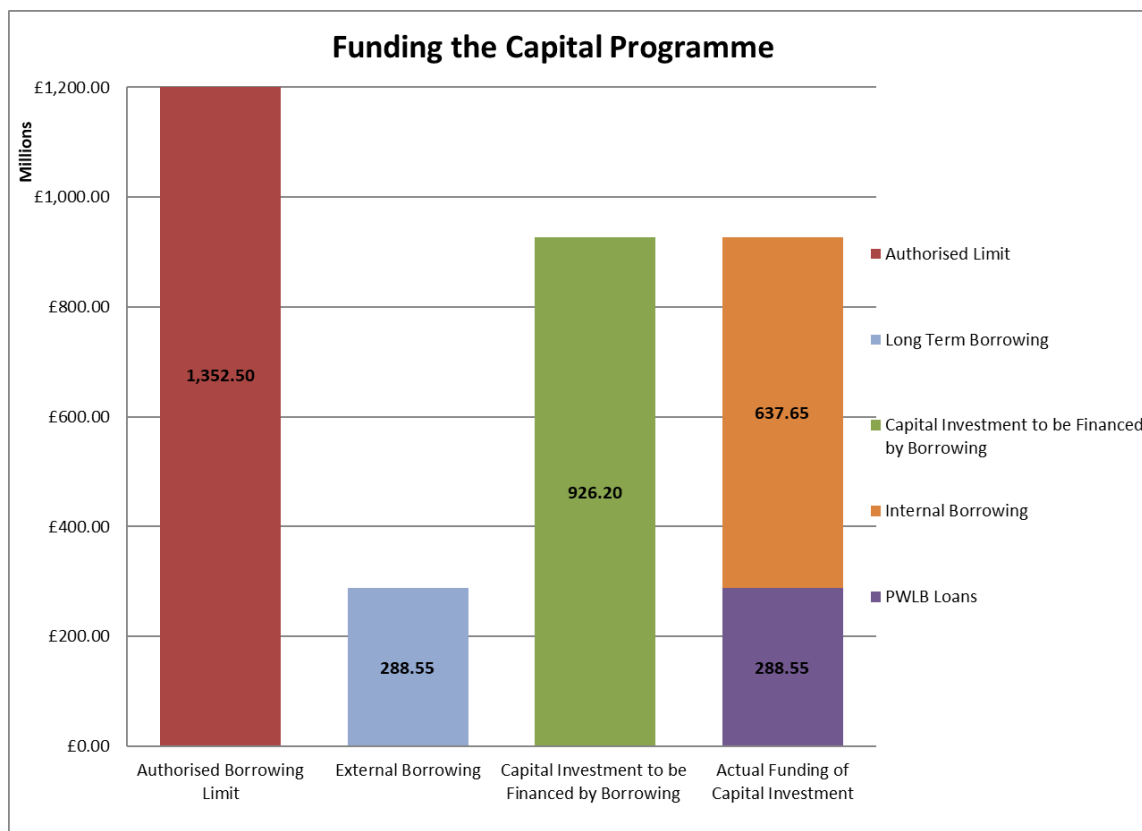
- 13 The table below shows the current Treasury management position.

Current Treasury Position	TMSS Forecast to 31 March 2022	Actual as at 30 September 2021		Revised Forecast to 31 March 2022	
	£m	£m	Rate %*	£m	Rate %*
External Borrowing					
Long Term Borrowing: PWLB	761.15	288.55	3.30	489.35	2.96
Total External Borrowing	761.15	288.55		489.35	
Other Long-Term Liabilities					
PFI Liability	54.10	60.43		54.10	
Finance Lease Liability	6.57	6.85		6.57	
Total Other Long-Term Liabilities	60.67	67.28		60.67	
Total Gross Debt	821.82	355.83		550.02	
Capital Financing Requirement	1,195.86	993.48		1,038.62	
Less Other Long-Term Liabilities	60.67	67.28		60.67	
Underlying Capital Borrowing Requirement	1,135.19	926.20		977.95	
Under/(Over) Borrowing	374.04	637.65		488.60	
Investments	137.86	257.67	0.41	47.35	0.50
Total Net Borrowing	623.29	30.88		442.00	

*Rate is the annualised yield as at the reporting date.

Borrowing Activity

- 14 In the six months to 30 September 2021, three temporary loans totalling £62.33m were taken to support cash flow in April and were all subsequently repaid the following day. Furthermore, long-term PWLB loan principal totalling £0.80m was also repaid during this period, reducing total borrowing to £288.55m at 30 September 2021.
- 15 No rescheduling of debt was undertaken during the six months ending 30 September 2021.
- 16 The chart below compares the maximum the MOPAC Group can borrow in 2021/22 with the 'capital investment to be financed by borrowing' at 30 September 2021 and the actual position of how this is being financed as at 30 September 2021.



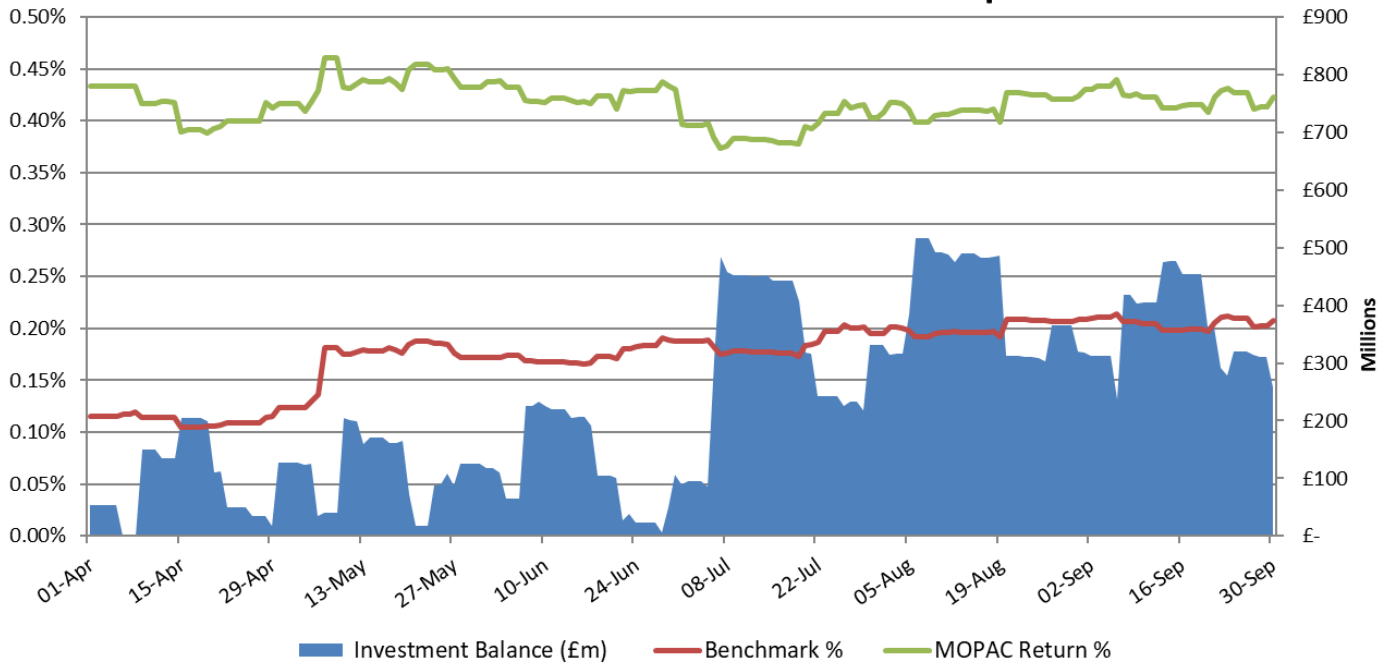
- 17 The chart shows that the MOPAC Group's capital investment being financed by borrowing was £288.55m as at 30 September 2021. It also shows that the MOPAC Group was using £637.65m of internal borrowing to finance capital investment.

Investment Activity

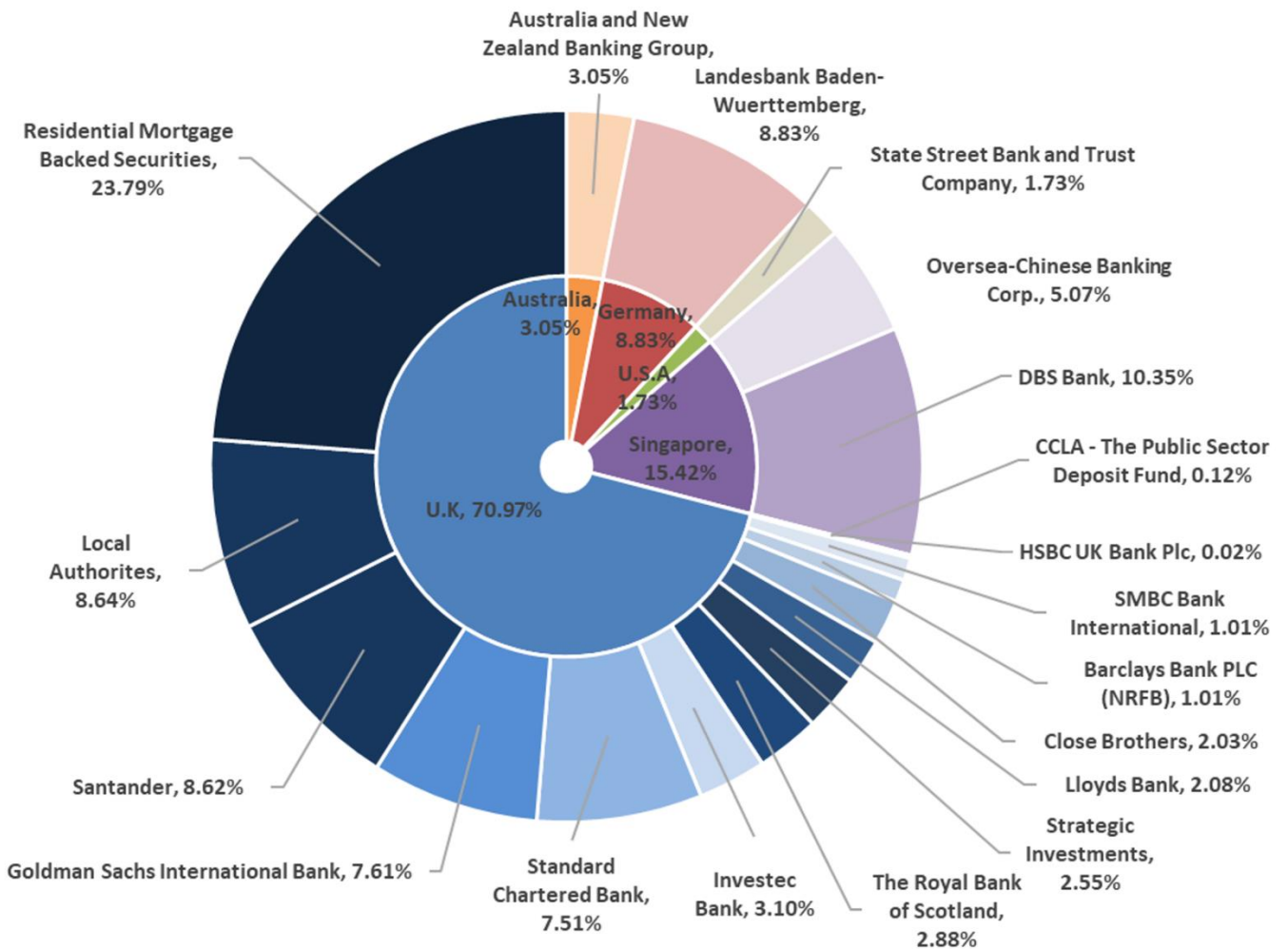
- 18 Investment balances as at 30 September 2021 were £257.67m, this being an increase of £208.11m over the £49.56m opening balance on the 1 April 2021.
- 19 The MOPAC Group has outperformed its investment benchmark by 0.23% during the six months ending the 30 September 2021. It has achieved a cumulative weighted average yield of 0.42% on daily balances against a benchmark of 0.19%. A further enhancement to performance is estimated at financial year end, once the realised income from strategic investments allocated to GIS members.
- 20 The following chart shows the outperformance described above, alongside the MOPAC Group's total investment balances for the period. Fluctuations in balances reflect changes in

cash flow requirements during the period, alongside the timing of grant receipts. The investment balance increased significantly in July due to the receipt of an annual pensions top-up grant.

Performance and Investment Balance to 30 September 2021



21 The investment portfolio is well diversified as is demonstrated in the chart below, as at 30 September 2021.



Treasury Management Budget

Treasury Management Budget	2021-22 Original Estimate £m	2021-22 Actual as at 30.09.21 £m	2021-22 Revised Estimate £m	2020-21 Variance between Original Estimate and Revised Estimate £m
Interest payable: PWLB	19.00	4.77	11.59	-7.41
Interest payable: Other Long-Term Liabilities	13.10	2.28	4.55	-8.55
Investment Income	-0.30	-0.49	-0.97	-0.67
Total	31.80	6.57	15.18	-16.62

22 The decrease in forecast interest payable of £15.96m against the original estimate reflects a lower than expected external borrowing balance, as no new long-term external borrowing was taken in FY 2020/21 or in the period to 30th September in 2021/22.

23 The increase in forecast investment income of £0.67m against the original estimate reflects a more positive rate environment than was expected at the time of budget setting, alongside the successful implementation of strategy changes which include the increased exposure limit for RMBS and the new allocation to longer-dated strategic investments.

CIPFA Prudential Code Indicators and Treasury Management Limits

24 The tables below show the MOPAC Group's treasury position as at 30 September 2021, relative to the prudential indicator limits set in the 2021/22 Treasury Management Strategy.

25 All treasury activity for the period has been conducted within the limits set.

Capital Expenditure

Capital Expenditure	2021-22 Original Estimate £m	2021-22 Actual as at 30.09.21 £m	2021-22 Revised Estimate £m	2020-21 Variance between Original Estimate and Revised Estimate £m
Total Capital Expenditure	385.20	81.00	271.80	-113.40

26 The reduction in forecast capital expenditure of £113.40m against the original forecast has arisen due to slippage on the capital programme.

Capital Financing Requirement

Capital Financing Requirement (CFR)	2021-22 Original Estimate £m	2021-22 Revised Estimate £m	2021-22 Variance between Original Estimate and Revised Estimate £m
Total CFR	1,195.86	1,038.62	-157.24

Authorised Limit for External Debt

Authorised Limit for External Debt	2021-22 Original Authorised Limit £m	2021-22 Actual External Debt as at 30.09.21 £m	Headroom £m
Borrowing	1,352.50	288.55	1,063.95
Other long-term liabilities	58.40	67.28	-8.88
Total	1,410.90	355.83	1,055.07

27 External debt balances are forecast to remain within the original authorised limit, which remains unchanged and continues to provide headroom for additional external borrowing.

Operational Boundary for External Debt

Operational Boundary for External Debt	2021-22 Original Operational Boundary £m	2021-22 Actual External Debt as at 30.09.21 £m	Headroom £m
Borrowing	1,026.10	288.55	737.55
Other long-term liabilities	64.90	67.28	-2.38
Total	1,091.00	355.83	735.17

28 External debt balances are forecast to remain within the original operational boundary, which remains unchanged and continues to provide headroom for additional external borrowing.

Limits for Maturity Structure of Borrowing

Limits for Maturity Structure of Borrowing for 2021-22	Original Upper Limit	Original Lower Limit	As at 30.09.21
	%	%	%
Under 12 months	50.00	0.00	0.55
12 months and within 24 months	20.00	0.00	0.55
24 months and within 5 years	25.00	0.00	6.52
5 years and within 10 years	50.00	0.00	5.46
10 years and above	100.00	40.00	86.92

Principal Sums Invested for Periods Greater than 365 days

29 No new investment maturing after 365 days was undertaken between 1 April 2021 and the 30 September 2021. This excludes GIS investments.

New Long-Term Borrowing taken between 01/04/21 and 30/09/21

30 No new long-term borrowing was undertaken between 1 April 2021 and the 30 September 2021.