MOPAC | MAYOR OF LONDON OFFICE FOR POLICING AND CRIME

METROPOLITAN POLICE

MPS-MOPAC JOINT AUDIT PANEL
18 January 2021

Treasury Management Update

Report by: The Interim MOPAC Chief Finance Officer

Report Summary

Overall Summary of the Purpose of the Report

This report provides the annual update to Audit Panel on the Treasury Management function, including the 2019/20 outturn performance, the MOPAC Treasury Management (TM) 2020/21 strategy, and the year to date 2020/21 performance.

Key Considerations for the Panel

To note the performance, strategy and operational arrangements for the management of treasury functions.

Interdependencies/Cross Cutting Issues

Risk register, governance, financial oversight

Recommendations

The Audit Panel is recommended to:

a. Note the current position regarding treasury management

1. Supporting Information

1.1. This paper provides a update on the 2020 Treasury Management function following previous annual updates.

2019/20 performance

1.2. 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.

1.3. MOPAC generated investment related income of £2.4m at a weighted average yield of 0.92%, which is 0.28% above the benchmark yield of 0.64% - the weighted average 3 month LIBID (London Interbank Bid Rate).

1.4. There was no new long term borrowing during 2019/20. As a result of scheduled repayments of existing debt the long term borrowing decreased by a net £13.6m, from £316.5m at the start of the year to £302.95m at 31 March 2020.

1.5. The cost of borrowing in interest was £10.2m. The weighted average cost of borrowing of all long term loans as at 31 March 2020 was 3.34% (3.78% as at 31 March 2019).

1.6. Further detail can be found in the Treasury Management Outturn 2019/20 decision on the MOPAC website.

2020/21 strategy

1.7. The 2020/21 Treasury Management Strategy was approved in March 2020. MOPAC maintains a low risk appetite approach to its treasury strategy - operating on the principles of security, liquidity and yield in that order.

1.8. There were two issues of note in respect of investments:

- MOPAC will continue to invest its surplus funds fully within the GLA GIS. This is providing security whilst generating returns in excess of the 3 month London Interbank Bid Rate (LIBID) benchmark. From April 2020 within the GIS the GLA intends to make full use of the 20% Residential Mortgage Backed Securities (RMBS) allocation subject to approval of the following amendment "Maturity for the purposes of weighted average maturity calculations will be the number of days until the next interest reset, rather than either the legal maturity or expected final maturity."

- In respect of lending to local authorities and the recent press interest in them investing in commercial activities, in order to understand better the risk profile when considering lending to local authorities the GLA will replicate the PWLB's questions to borrowers relating to affordable borrowing limit and lawful use of funds and rely on the existing wording "The CIO may restrict the use of any counterparty for any reason related to the management of risk, including reputational risk to any Participant. Such restrictions may be overturned by any majority of Syndics".

Borrowing

1.9. MOPAC currently maintains an under-borrowed position, such that the capital financing requirement has not been fully funded with loan debt but by using the cash supporting MOPAC's reserves, balances and cashflow. The delivery of the future capital programme, budgeted revenue savings, use of reserves and the phasing of new asset disposals will impact the cashflow, and will continue to be kept under review.

1.10. The proposed strategy includes that if necessary MOPAC borrow temporarily to cover any expected shortfall. This reduces the risks of holding excess balances and the cost of carry. As investment returns are low it is proposed to continue this approach.

Oversight

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

1.12. The GLA has now delegated investment decisions to London Treasury Limited (LTL) a wholly GLA owned entity which is Financial Conduct Authority ('FCA') authorised and regulated. LTL will be referred to as the Manager in the investment strategy and most references to the Chief Investment Officer (CIO) will be replaced by references to the Manager, reflecting LTL's corporate accountability. In practice, the CIO will still be the individual approving the current discretions, in his capacity as LTL's Managing Director.

1.13. The creation and use of LTL was undertaken to

- Assist in the professionalisation and separation of duties recommended by the GLA's independent treasury advisors, and to
- Facilitate the expansion of services to London Boroughs who, under the relevant legislation for shared services, cannot delegate investment functions to the GLA itself.

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

2020/21 performance to date

1.15. As at 30 September 2019 investments were £236.94m, with a cumulative return of 0.61%, against a benchmark of 0.05%. Forecast investment income is £1.3m against a budget of £1.3m. Total borrowing is £290.15m, and forecast borrowing costs are within the budget of £28.2m. There are no reported breaches of the strategy.

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 is £153k p.a. This is met from within the existing MOPAC budget.

3.2. The income generated from investment returns in 2019/20 was £2.4m which was used to support the costs of policing. The interest cost of borrowing in 2019/20 was £10.2m, which was within the MPS budget. Forecast income and borrowing costs for 2020/21 are within 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.

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 Jo Moore, Interim MOPAC CFO
Email: alex.anderson@mopac.london.gov.uk

7. Appendices and Background Papers

None