

**DMPC Decision – PCD 1389**

**Title: Capital Strategy 2022/23-41/42 and Treasury Management Strategy 2023/24**

**Executive Summary:**

The Capital Strategy sets out the capital investments MOPAC anticipates making for the long term, whilst the Treasury Management strategy summarises that planned capital spending and sets out how MOPAC will manage its borrowings and investments over the short and medium term.

The GLA will continue to implement the MOPAC Treasury Management strategy via the Treasury Management Shared Service arrangement. MOPAC is currently a member of the GLA Group Investment Syndicate (GIS), and manages all MOPAC investments via the syndicate. These arrangements are in the process of being changed. From April 1<sup>st</sup> 2023 the London Treasury Liquidity Fund LP (LTLF) will manage all MOPAC investments to generate financial and risk reduction benefits. GIS assets are currently being transitioned from the GLA into the London Treasury Liquidity Fund LP (LTLF), MOPAC will join LTLF as a limited partner, replacing its GIS interest with an equivalent interest directly in LTLF. These new arrangements will provide additional regulated oversight and assurance.

The MOPAC Treasury Management Strategy will make use of both the London Treasury Liquidity Fund LP (LTLF) for investment purposes and has the capacity if required to make investments in its own name. This is designed to spread counter party risk.

The external debt and treasury management limits and indicators in Appendix 2 are consistent with the MOPAC medium term financial strategy and 2023-24 budget.

**Recommendation:**

The Deputy Mayor for Policing and Crime is recommended to:

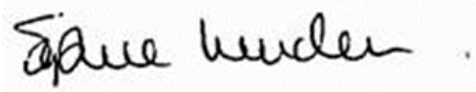
1. Approve the 2022/23-2041/42 Capital Strategy as set out in Appendix 1, and
2. Approve the 2023-24 Treasury Management Strategy Statement and supporting detail as set out in Appendix 2.

**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

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Date

31/03/2023

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

### **1. Introduction and background**

- 1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) requires the production and publication of a Capital Strategy. In addition, CIPFA's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require that MOPAC adopts a Treasury Management Strategy Statement (TMSS), Treasury Management Policy Statement and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government's (CLG) Investment Guidance.
- 1.2. The purpose of the Capital Strategy is to drive the Mayor's capital investment ambition, whilst ensuring the sustainable, long term delivery of services.
- 1.3. The Treasury Management Strategy Statement 2023/24 defines the policies and objectives of MOPAC's treasury management activities and roles and responsibilities. In accordance with the scheme of delegation and consent it is the responsibility of the Deputy Mayor to approve the policy and strategy each year which are set out at Appendix 2. This provides an opportunity to review the current arrangements, and MOPAC's risk appetite.
- 1.4. The GLA Group Treasury services provide the day to day management and delivery of the MOPAC treasury management function.
- 1.5. In June 2013 MOPAC signed up to the GLA operated Treasury Management shared service as part of the wider GLA shared service agenda.

### **2. Issues for consideration**

#### Capital Strategy 2022/23-2041/42

- 2.1. This sets out the MOPAC Capital Programme 2022/23-2026/27 on an annual basis, and the anticipated capital expenditure for the following 15 years in five year 'tranches'. The expected funding streams to finance the capital expenditure is also set out and the consequent funding gap which is assumed to be financed by borrowing.
- 2.2. For MOPAC the benefits of producing a Capital Strategy are the transparent alignment of scarce capital resources to priorities, and ensuring a sustainable, long term delivery of services which gives due regard to risk and reward.

#### TM Strategy Issues

- 2.3. The MOPAC Treasury Management Strategy, in line with the CIPFA Code of Practice, states that investment priorities are security first, liquidity second and then return.

#### Borrowing

- 2.4. The approved 2023/24 capital programme funding includes provision for new borrowing of £196.1m. MOPAC has reserves which are used to help finance the capital programme reducing the need to borrow externally. Borrowing will only be

undertaken where necessary and subject to the profile of capital spend, capital receipts and other funding streams.

- 2.5. 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.
- 2.6. The proposed strategy includes that if necessary MOPAC borrow temporarily to cover any expected shortfall and where this represents prudent management of MOPACs affairs. This reduces the risks of holding excess balances and the cost of carry. Where an opportunity to reschedule existing debt is identified this will be undertaken within the limits of this strategy.

#### Investment

- 2.7. The primary objective for MOPAC is the security of capital, followed by maintenance of liquidity, with the return on investments being a tertiary consideration.
- 2.8. MOPAC is currently a member of the GLA Group Investment Syndicate (GIS), and uses the GIS to manage all MOPAC investments. These arrangements are in the process of being changed. The last quarter of 2022-23 will see the completion of the transition of the Group Investment Syndicate (GIS) assets from the GLA into London Treasury Liquidity Fund LP (LTLF). The current GIS contractual arrangement will cease on 31 March 2023, with each GIS participant (including MOPAC) joining LTLF as a limited partner, replacing its GIS interest with an equivalent interest directly in LTLF.
- 2.9. The underlying investments and the investment strategy remain unchanged by the transition to LTLF. The new fund structure, an Alternative Investment Fund (AIF), will provide additional regulated oversight and assurance via an independent Alternative Investment Fund Manager (AIFM) and depository. The establishment of LTLF will facilitate the participation of bodies outside the GLA family, growing the fund and passing resulting economies of scale back to its participants.
- 2.10. The proposal is to invest MOPAC funds fully within the LTLF, consistent with the current investments strategy. This will provide security and liquidity and as with the current arrangements is expected to continue to generate returns in excess of the composite benchmark.
- 2.11. Based on current balances MOPAC's proportion of the LTLF will be circa 9%, (although this will change with the changes in MOPAC and other GIS members balances).

#### Benefits to MOPAC

- 2.12. As with the current arrangements through the GIS, being a member of the LTLF will provide access to a broader range of instruments and greater stability of pooled cashflows. This enables potentially longer deposit periods and higher returns without materially affecting risk. Placing all MOPAC funds within the LTLF will enable investment to be focussed on the relatively stronger counterparties.

- 2.13. In addition to the benefits that being a member of the GIS bought with it, investing MOPAC funds through the LTLF will provide additional regulated oversight and assurance via an independent Alternative Investment Fund Manager.
- 2.14. MOPAC officers will continue to work closely with GLA colleagues and the Treasury Management advisers to review and improve the strategy where possible, and to ensure that the MOPAC investment priorities of security first, liquidity second and then return continue to be achieved.
- 2.15. All MOPAC investments are carried out in line with the MOPAC Treasury Management Strategy.

#### Prudential Indicators and Treasury Management Limits

- 2.16. Appendix 2C sets out the proposed 2023/24 range of prudential indicators and Treasury Management limits.

#### Management Arrangements

- 2.17. MOPAC has an Arrangement for Delegation for the treasury management function to the GLA. It will be the responsibility of the GLA to ensure that the function is adequately resourced and controlled.
- 2.18. 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.
- 2.19. GLA Group Treasury will liaise with MOPAC/MPS for the management of cash flow.

### **3. Financial Comments**

- 3.1. The cost of borrowing for 2023/24 is currently estimated to be £34.9m for interest payable, and there is budget of £69.1m for minimum revenue provision. Interest receivable is estimated at £8.5m Budgets for this income and expenditure are included in the MOPAC/MPS budget for 2023/24.
- 3.2. The cost of the shared service arrangement with the GLA will be met from within existing resources.

### **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. Paragraph 4.7 of the MOPAC Scheme of Delegation and Consent provides that the DMPC has authority for the approval of “ The annual Treasury Management Strategy, which will include details of MOPAC investment and borrowing strategy”.
- 4.4. MOPAC’s scheme of delegation and consent provides that the Chief Finance Officer, as the s127 officer, is responsible for the proper administration of the MOPAC’s financial affairs. Paragraph 6.3 states that the following functions are reserved to the MOPAC Chief Finance Officer “Approval of the arrangements for the Treasury Management function, including the day to day management, production of Treasury Management strategy and supporting policies and procedures, subject to DMPC approval of the strategy”
- 4.5. An investment strategy statement must be completed as part of risk management and good governance. The report is submitted in compliance with TMSS and DCLG requirements in this regard.

## **5. Commercial Issues**

- 5.1. The provision of the Treasury Management shared service arrangement is on a cost recovery basis. The benefits of the shared service function are set out above.

## **6. GDPR and Data Privacy**

- 6.1. 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.
- 6.2. The proposal does not use personally identifiable data of members of the public therefore there are no GDPR issues to be considered.

## **7. Equality Comments**

- 7.1. 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.
- 7.2. There are no equality or diversity implications arising from this report.

## **8. Background/supporting papers**

- 8.1. Appendix 1 Capital Strategy 2022/23-2041/42
- 8.2. Appendix 2 Treasury Management Strategy 2023/24



**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:**

The MPS legal team has been consulted on the proposal.

✓

**Equalities Advice:**

Equality and diversity issues are covered in the body of the report.

✓

**Commercial Issues**

Commercial issues are covered in the body of the report.

✓

**GDPR/Data Privacy**

GDPR compliance issues are covered in the body of the report .

✓

**Drafting Officer**

Alex Anderson and Annabel Cowell has drafted this report in accordance with MOPAC procedures.

✓

**Director/Head of Service:**

The MOPAC Chief Finance Officer and Director of Corporate 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**

*Samuel Ford.*

**Date**

28/03/2023