

**REQUEST FOR DMPC DECISION – PCD 1580**

**Title**     **Mid-Year Treasury Management Review as at Quarter 2 30 September 2023**

**Executive Summary:**

The end of June 2023 saw the completion of the restructure of the GLA Group Investment Syndicate (GIS) into London Treasury Liquidity Fund (LTLF). Each GIS participant, including MOPAC, joined LTLF as a limited partner, replacing its GIS interest with an equivalent interest directly in LTLF.

Returns on MOPAC's investments during the Reporting Period were £15.69 million at an average rate of 5.46%.

No additional short or long term borrowing has been undertaken and MOPAC Group's borrowing levels have decreased from £486.15m at 31 March 2023 to £485.35m at 30 September 2023.

All Treasury activity has been within the boundaries and levels set by the MOPAC Group and set out in the 2023/24 Treasury Management Strategy.

**Recommendation:**

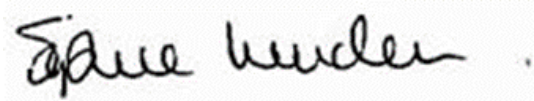
The Deputy Mayor for Policing and Crime is asked to note the activity and performance on the Treasury Management function for the first half year 2023/24.

**Deputy Mayor for Policing and Crime**

I confirm that I have considered whether 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** 16/02/2024

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

### Decision required – supporting report

#### 1. Introduction and Background

- 1.1. The Treasury Management Strategy for 2023/24 was approved in March 2023 (PCD 1389). This report is submitted in accordance with a requirement under the CIPFA code for Treasury Management which requires the submission of a mid-year report on Treasury Management activities.
- 1.2. This report provides detail of all investment and borrowing activities for the period from 1 April 2023 to 30 September 2023. It provides a comparison of the closing investment and debt positions as at 30 September 2023 with the 2023/24 full year budget and revised 2023/24 full year forecast, where relevant.

#### 2. Issues for Consideration

##### Economic Update and Interest Rates

- 2.1. The financial year began with rates at 4.25% with subsequent rate rises ending the Reporting Period at 5.25%. In its latest monetary policy meeting on 2 November 2023, the Bank of England left interest rates unchanged at 5.25%.
- 2.2. The Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in December 2023. The economic outlook remains uncertain.
- 2.3. Link (MOPACs Treasury Management advisors) believe that the Bank of England will keep interest rates at the probable peak of 5.25% until the second half of 2024, after which interest rates are forecast to start to fall.
- 2.4. The table below sets out the PWLB rate forecasts for the Certainty Rate (i.e. the PWLB standard interest rate reduced by 20 basis points, calculated as Gilts plus 80 basis points) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View		07.11.23												
		Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE		5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings		5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings		5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings		5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB		5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB		5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB		5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB		5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

### **Borrowing Activity**

- 2.5. The table below shows the Treasury Management position as at 30 September 2023. MOPAC's Interim CFO is currently reviewing the need to borrow.

<b>External Borrowing (£m)</b>	<b>Long-Term</b>	<b>Short-Term</b>	<b>Total</b>
Balance at 31 March 2023	486.15	0.00	<b>486.15</b>
Add New Loans	0.00	0.00	<b>0.00</b>
Less Loans Repaid	0.80	0.00	<b>0.80</b>
Balance at 30 September 2023	485.35	0.00	<b>485.35</b>

### **Investment Activity**

- 2.6. On 30 June 2023, MOPAC joined LTLF as a limited partner and transferred its GIS interest to LTLF. The investment strategy and underlying investments remained unchanged by the transition from the GIS to LTLF, in accordance with MOPAC's investment strategy.
- 2.7. MOPAC's investment balances increased from £202.68 million at 31 March 2023 to £500.97 million at 30 September 2023 due to the Home Office making a large £470m grant up front at the beginning of April.
- 2.8. Returns on MOPAC's investments during the Reporting Period were £15.69 million at an average rate of 5.46%.

### **CIPFA Prudential Code Indicators and Treasury Management Limits**

- 2.9. It is a statutory requirement to determine and keep under review prudential and treasury management indicators for MOPAC. Due to a forecast overspend on the capital programme of £49m, the capital financing requirement indicator has been breached by a corresponding amount. However, the operational and authorised debt prudential indicators have not been exceeded.
- 2.10. Further detail of performance against the prudential indicators and treasury management limits is included at Appendix One.

## **3. Financial Comments**

- 3.1. As at 30 September MOPAC had received net interest of £7.73 million. Net interest receivable of £9.30 million is forecast against the approved budget of net interest payable of £13.05 million.

	<b>Budget £m</b>	<b>Actuals £m</b>	<b>Forecast £m</b>	<b>Variance £m</b>
Interest Payable for External Borrowing	21.80	7.96	15.80	-6.00
Interest Receivable	-8.75	-15.69	-25.10	-16.35
Net position	13.05	-7.73	-9.30	-22.35

- 3.2. Throughout the period, all treasury activities have been conducted within the parameters of the 2023/24 Treasury Management Strategy Statement (TMSS), alongside best practice suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Central Government.

#### **4. Legal Comments**

- 4.1. The DMPC has the authority to approve the “annual Treasury Management Strategy, which will include details of MOPAC investment and borrowing strategy” see para 4.7 of the MOPAC Scheme of Delegation and Consent. The DMPC approved the 2021/22 Treasury Management Strategy on 31 March 2022. The Treasury Management Strategy sets out the requirement for mid-year reporting which this paper fulfils.

#### **5. GDPR and Data Privacy**

- 5.1. GDPR matters have been discussed with the Data Protection Officer, who has confirmed that no Data Protection Impact Assessment (DPIA) is required for this area of spend. However, the personal details of any individuals or organisations with whom contract is made for the purposes of the engagement will be managed in accordance with MOPAC’s wider Privacy Notice.

#### **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 and diversity implications arising from this report.

#### **7. Background/supporting papers**

- 7.1. Appendix 1 London Treasury Mid Year Report

## 7.2. MOPAC

### 2023-24 Mid-Year Treasury Management Report

#### 1 Introduction

- 1.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments. It provides details of MOPAC's investment and borrowing activities for the period from 1 April 2023 to 30 September 2023 (the Reporting Period) and highlights any relevant issues.
- 1.2 MOPAC's investment balances in the London Treasury Liquidity Fund (LTLF) were £500.97 million at 30 September 2023. Returns on MOPAC's investments during the Reporting Period were £15.69 million. The forecast position is a return of £25.10 million against a budget of £8.8m. The forecast is under review and an updated position will be reported as part of the next Treasury Management Report.
- 1.3 MOPAC's external borrowing reduced from £486.15 million at 31 March 2023 to £485.35 million at 30 September 2023.
- 1.4 All treasury activities have been conducted within the parameters of MOPAC's Treasury Management Strategy Statement for 2023-24 (TMSS) which was approved on 31<sup>st</sup> March 2023.
- 1.5 Treasury management has been delegated to the Greater London Authority (the GLA) under Section 401(A) of the GLA Act. The GLA relies on its own officers together with those of London Treasury Limited (LTL), its wholly owned subsidiary authorised and regulated by the Financial Conduct Authority (FCA), to deliver its treasury management shared service. This is governed by the arrangements for delegation for the provision of treasury management functions from MOPAC to the GLA entered into in 2014.
- 1.6 The end of June 2023 saw the completion of the restructure of the GLA Group Investment Syndicate (GIS) into LTLF, a more conventional fund structure. Prior to this, the GLA was the sole investor in LTLF, with the GIS participants, including MOPAC's, owning a pro-rata share of the GLA's interest in LTLF through the GIS. On 30 June 2023, the GIS contractual arrangement was terminated and each GIS participant, including MOPAC's, joined LTLF as a limited partner, replacing its GIS interest with an equivalent interest directly in LTLF.
- 1.7 The investment strategy and underlying investments remained unchanged by the transition from the GIS to LTLF, in accordance with MOPAC's investment strategy. The new fund, structured as an Alternative Investment Fund (AIF), provides additional regulatory oversight and assurance via its management by an independent Alternative Investment Fund Manager (AIFM), is more scalable and reduces individual participants' accounting burdens.

## 2 Economic Update

- 2.1 The Link Group (Link) has been appointed as treasury advisors to the GLA and the treasury management shared service participants. The information and commentary provided in this section are from Link.
- 2.2 The financial year began with rates at 4.25% with subsequent rate rises ending the Reporting Period at 5.25%. In its latest monetary policy meeting on 2 November 2023, the Bank of England left interest rates unchanged at 5.25%.
- 2.3 The Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in December 2023. The economic outlook remains uncertain.
- 2.4 Link believes that the Bank of England will keep interest rates at the probable peak of 5.25% until the second half of 2024.

## 3 Interest Rate Forecasts

- 3.1 As part of its advisory services, Link provides interest rate forecasts. Link's latest forecasts dated 7 November 2023 are set out in the table below.
- 3.2 The PWLB rate forecasts set out below are for the Certainty Rate (i.e. the PWLB standard interest rate reduced by 20 basis points, calculated as Gilts plus 80 basis points) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View 07.11.23													
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
<b>BANK RATE</b>	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Source: Link

#### 4 Treasury Management Strategy Statement and Investment Strategy Update

- 4.1 There are no changes to MOPAC's TMSS and investment strategy.
- 4.2 During the Reporting Period, all treasury management operations have been conducted in full compliance with MOPAC's Treasury Management Practices (TMP's) as set out in MOPAC's TMSS.
- 4.3 MOPAC is both a participant in the GLA treasury management shared service and a limited partner in LTLF. As part of its shared service, the GLA provide MOPAC with a monthly cashflow, investment and borrowing report. As principal portfolio manager of LTLF, LTL also provides MOPAC with monthly and quarterly investment reports in relation to its investment in LTLF.

#### 5 Treasury Management Outturn Position at 30 September 2023

Treasury Management Position	TMSS Forecast to 31 March 2024	Actual at 30/09/23		Revised Forecast to 31 March 2024	
		Amount (£m)	Rate (%)	Amount (£m)	Rate (%)
Long-Term Borrowing	675.70	485.35	3.27	579.80	
Short-Term Borrowing (Variable Rate)	0	0			
<b>Total External Borrowing (A)</b>	<b>675.70</b>	<b>485.35</b>	<b>3.27</b>	<b>579.80</b>	<b>3.57</b>
PFI Liabilities	43.6	47.04		47.04	
Finance Lease Liabilities	6.10	6.09		6.10	
<b>Total Other Long-Term Liabilities (B)</b>	<b>49.70</b>	<b>53.13</b>		<b>53.14</b>	
<b>Total Gross Debt (A+B)</b>	<b>725.40</b>	<b>538.48</b>		<b>632.94</b>	
Capital Financing Requirement	1167.10	1131.00		1159.00	
Less Other Long-Term Liabilities	<b>49.70</b>	<b>53.13</b>		<b>53.14</b>	
<b>Underlying Capital Borrowing Requirement (C)</b>	<b>1117.40</b>	<b>1077.87</b>		<b>1105.86</b>	
Under/(Over) Borrowing (C-A)	441.70	592.52		526.06	
Investments: Short/Long-Term (D)	63.20	500.97	<b>5.46</b>	<b>33.26</b>	<b>5.43</b>
<b>Total Net Borrowing (A-D)</b>	<b>612.50</b>	<b>-15.62</b>		<b>546.54</b>	

Please note the borrowing and investment revised forecasts are based on information received at the time of writing this report.

## 6 Borrowing Activities

6.1 The table below shows the movement in external borrowing during the Reporting Period.

<b>External Borrowing (£m)</b>	<b>Long-Term</b>	<b>Short-Term</b>	<b>Total</b>
Balance at 31 March 2023	486.15	0.00	<b>486.15</b>
Add New Loans	0.00	0.00	<b>0.00</b>
Less Loans Repaid	0.80	0.00	<b>0.80</b>
Balance at 30 September 2023	485.35	0.00	<b>485.35</b>

6.2 No additional short or long term borrowing has been undertaken in the period.

6.3 MOPAC officers are reviewing the need to borrow.

## 7 Investment Activities

7.1 On 30 June 2023, MOPAC joined LTLF as a limited partner and transferred its GIS interest to LTLF. The investment strategy and underlying investments remained unchanged by the transition from the GIS to LTLF, in accordance with MOPAC's investment strategy.

7.2 MOPAC's investment balances increased from £202.68 million at 31 March 2023 to £500.97 million at 30 September 2023. This was due to a large £470m grant paid by the Home Office up front, in a lump sum on the 11/04/23.

<b>MOPAC investments (£m)</b>	<b>GIS</b>	<b>Core commitment LTLF</b>	<b>Loan contributions LTLF</b>	<b>Total</b>
Balance at 01/04/2023	202.68	NA	NA	<b>NA</b>
Balance at 29/06/2023	281.34	NA	NA	<b>NA</b>
Return	5.78	NA	NA	<b>NA</b>
<b>Balance at 29/06/2023 (including return)</b>	<b>287.12</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Balance at 30/06/2023	NA	7.25	279.87	<b>287.12</b>
Balance at 30/09/2023	NA	7.25	493.72	<b>500.97</b>
Return	NA	0.95	8.96	<b>9.91</b>
<b>Balance at 30/09/2023 (including return)</b>	<b>NA</b>	<b>8.2</b>	<b>502.68</b>	<b>510.88</b>

Source: GIS and LTL



## 8 Investment Performance

- 8.1 Returns on MOPAC's investments during the Reporting Period were £15.69 million. The forecast position of £25.10m is currently under review and an updated position will be reported as part of the next Treasury Management report.

	Budget £m	Actuals £m	Forecast £m	Variance £m
Interest Receivable	-8.75	-15.69	-25.10	-16.35

## 9 Prudential and Treasury Management Indicators

- 9.1 It is a statutory requirement to determine and keep under review prudential and treasury management indicators for MOPAC.

### *Capital Expenditure Prudential Indicators*

Capital Expenditure and Capital Financing Requirement	Original Budget £m	Revised Budget £m	Forecast £m	Variance £m
Capital Expenditure	360.80	286.60	335.60	-49.00
Capital Financing Requirement	1,167.10	1,110.00	1,159.00	-49.00

Please note that the CFR estimate in 2023/24 has been breached, due to an overspend of £49m on capital expenditure. However, the operational and authorised debt prudential indicators have not been exceeded.

### *External Debt Prudential Indicators*

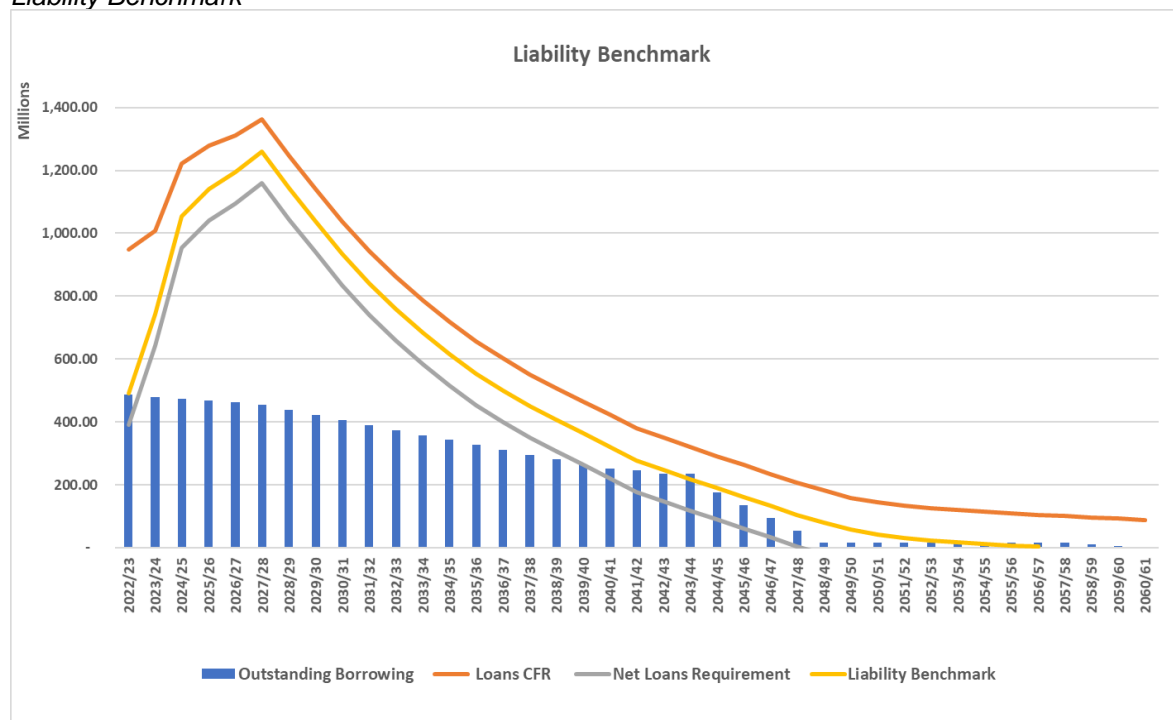
Authorised Limit for External Debt (£m)	2023-24
Authorised Limit (External debt only excluding PFI liabilities)	887.70
External Debt at 30 September 2023	485.35
Headroom	402.35

Operational Boundary for External Debt (£m)	2023-24
Operational Boundary (External debt only – excluding PFI Liabilities)	762.70
External Debt at 30 September 2023	485.35
Headroom	277.35

## Treasury Management Prudential Indicators

Limits for Maturity Structure of Borrowing (%)	Upper Limit	Lower Limit	Actual at 30/09/23
Under 12 months	50	0	1
12 months and within 2 years	20	0	1
2 years and within 5 years	20	0	2
5 years and within 10 years	35	0	15
10 to 20 years	35	0	30
20 to 30 years	50	0	48
30 to 40 years	25	0	3
40 to 50 years	20	0	0

### Liability Benchmark



Source: Calculations based on data provided by MOPAC.

The Liability Benchmark graph above demonstrates that the Outstanding Borrowing is within the Loans CFR and Liability Benchmark up to 2043/44. It shows that the Authority is potentially under borrowed from 2023 to 2043 and any future borrowing or refinancing of debt should be kept below the Liability Benchmark marker.

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:**

*to confirm statement*  
(☐)

Financial Advice:  
The Strategic Finance and Resource Management Team has been consulted on this proposal.

p

Legal Advice:  
Legal advice is not required.

p

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

p

GDPR and Data Privacy  
GDPR compliance issues are covered in the body of the report. A DPIA is not required.

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Head of Unit:  
The Deputy CFO and Head of Financial Management MOPAC has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.

p

**OFFICER APPROVAL**

**Chief Executive**

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.

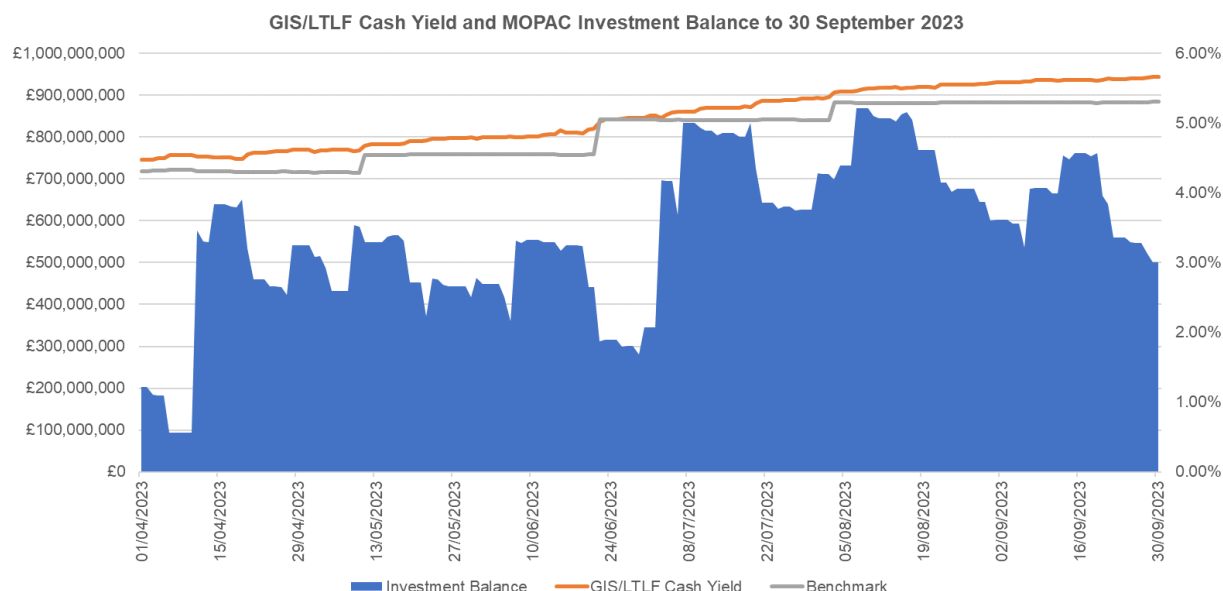
Signature

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Date 31/01/2024

## APPENDIX ONE

The following chart shows MOPAC'S cash balances, for the period alongside the LTLF Cash Yield and the Benchmark. 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.



NB Cash yield is exclusive of non-contractual income from RMBS and strategic investments.

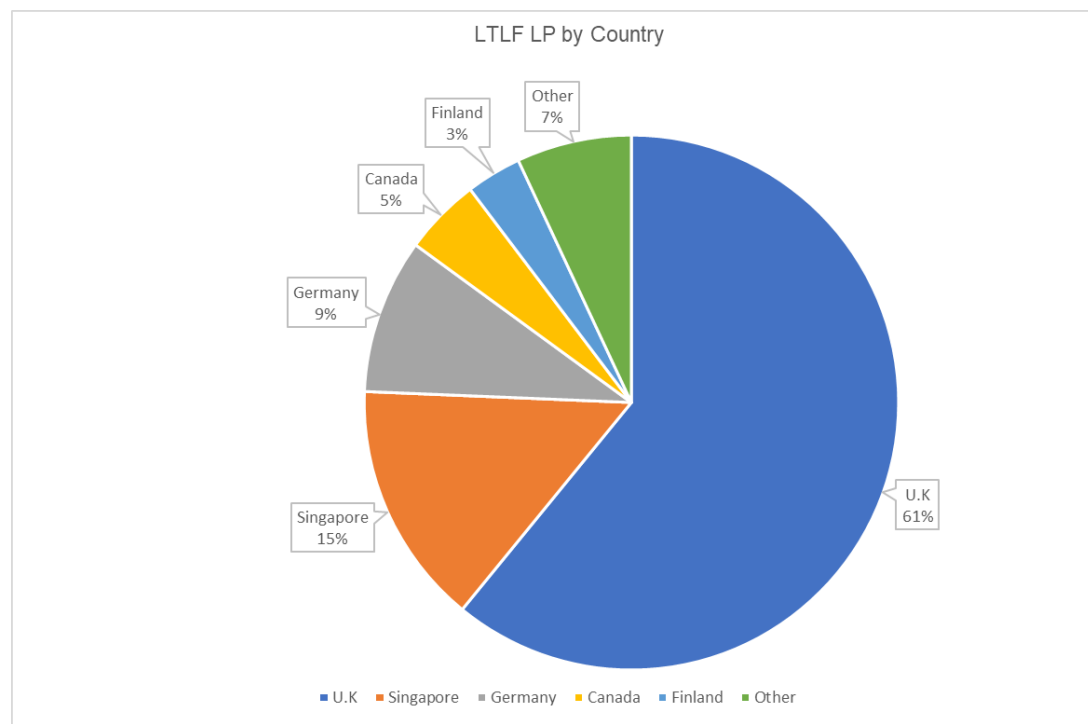
Source: GIS and LTL

Benchmark: Product of SONIA on Core Liquidity, SONIA + 0.25% on RMBS and SONIA + 4% on contractual strategic income, weighted to reflect actual portfolio composition.

Past performance is not a reliable indicator of future results.

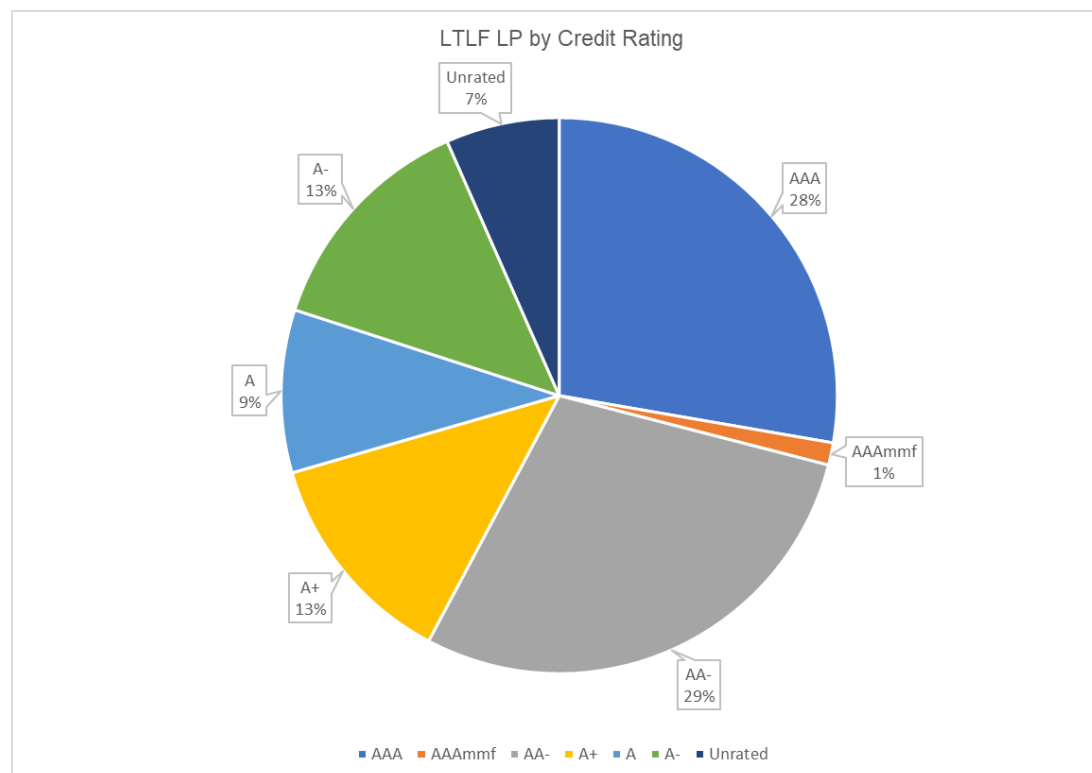
## Investment Counterparties

The charts below illustrate the breakdown of the investments of the LTLF as at the 30th September 2023, demonstrating a diversified portfolio by both Counterparty and Country.



Source: LTL

Asset allocation is subject to change.



Source: LTL

Asset allocation is subject to change.

**Disclaimer**

The information contained within this report has been prepared by London Treasury Limited ('LTL') on behalf of the GLA or the relevant functional body under the Treasury Shared Services arrangements in place, based on the borrowings and cash balance forecasts provided by the GLA or functional body. LTL does not assert any verification or review of the information provided. LTL does not accept any liability arising from any inaccuracies in the report as a result of the use of these estimates.

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