MOPAC | MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

REQUEST FOR DMPC DECISION – PCD 418

Title: Treasury Management 2017-18 Outturn Report

Executive Summary:

DMPC is asked to note the performance of the Treasury Management function in 2017-18. In 2017-18 investment income was £2.1m at an average rate of return of 0.47%, 0.26% above the benchmark. Debt interest expenditure was below budget at £6.4m. Total long term external borrowing reduced from £143m to £116.6m by 31 March 2018. Short term borrowing at 31 March 2018 was £129.5m. The weighted average borrowing rate of all long term loans (weighted by size of loan and the rate of interest paid) at 31 March 2018 was 4.33%.

All investment and borrowing activity during 2017-18 was undertaken within the guidelines and objectives set out in the relevant policy and investment and borrowing strategies.

Recommendation:

The DMPC is asked to note the 2017/18 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 Sophie Linden **Date** 30/08/2018

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

Decision required – supporting report

1. Introduction and background

1.1. The CIPFA TM Code recommends that organisations be updated on treasury management activities regularly (at least a Strategy, Mid-year and Annual performance reports). This report therefore meets these requirements with regard to an annual report, and ensures MOPAC is implementing best practice in accordance with the TM Code.

1.2. The day to day management of the treasury management function is delivered by the GLA Group Treasury team under a shared service arrangement with the GLA. GLA Group Treasury also manages the Group Investment Strategy (GIS), of which the 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.

1.3. The annual report at Appendix 1 has been prepared by GLA Group Treasury, and provides details of performance against the TMSS 2017/18, approved by MOPAC on 30 March 2017 (PCD 1797). The report provides a review of investment performance for 2017/18, 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 0.47%. This compares favourably with the London Interbank BID (LIBID) 3 month rate benchmark of 0.26%. This resulted in income of £2.1m.

Debt Management

2.2. As planned no new long term borrowing took place in 2017/18, and as scheduled, long term borrowing reduced by £16.5m from £143m at the start of the year to £116.6m at 31 March 2018.

2.3. The cost of borrowing was £6.4m. The weighted average cost of borrowing of all long term loans as at 31 March 2018 was 4.33% (4.14% as at 31 March 2017).

Compliance

2.4. All treasury activities met 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 2017/18, 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 2016-17 TM Strategy. All indicators were met.

3. Financial Comments

3.1. The cost of borrowing and the minimum revenue provision for 2017/18 were £6.4m and £23.3m respectively. Interest received in 2017/18 was £2.1m.

4. Legal Comments

4.1. Under Section 1 of the Local Government Act 2003, MOPAC as 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. Equality Comments

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

6. Background/supporting papers

6.1. Appendix 1

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 (✓)
Head of Unit: The Chief Finance Officer has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓
Legal Advice: Legal advice is not required.	✓
Financial Advice: The Strategic Finance and Resource Management Team has been consulted on this proposal.	✓
Equalities Advice: Equality and diversity issues are covered in the body of the report.	✓

OFFICER APPROVAL

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** R. Lawrence **Date** 30/08/2018

Appendix 1

GREATER LONDON AUTHORITY
GROUP TREASURY

Treasury Management Outturn for 2017/18
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 £289.32m at the 31 March 2017 to £2.40m at 31 March 2018.

The MOPAC Group's long-term outstanding borrowing has reduced from £143.01m at the 31 March 2017 to £116.55m at 31 March 2018. The MOPAC Group had an additional £129.5m of short-term borrowing outstanding at the 31 March 2018.

Interest receivable achieved during 2017/18 was £2.09m, against a budget of £1.30m.

Interest payable on external borrowing for 2017/18 was £6.42m against a budget of £8.42m.

All 2017/18 Treasury activity has been within the boundaries and levels set by the MOPAC Group in its Treasury Management Strategy Statement on 30 March 2017, DMPCD Decision PCD 179.

Recommendation:

That the following is noted:

- The 2017/18 Treasury outturn results against the 2017/18 Treasury Management Strategy Statement, as approved on the 30 March 2017, DMPCD PCD 179.

Introduction/Background

1 This report provides details of all investment and borrowing activities for the period from April 2017 to 31 March 2018 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 31 March 2018 with the opening position as at 1 April 2017.

2 Under the treasury management shared service arrangement with the 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. MOPAC/MPS 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 managed 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 2017/18 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 2017/18 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

4 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

5 The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected. Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017/18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

6 PWLB borrowing rates increased correspondingly to the above developments with the shorter-term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year) compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June,

December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

7 The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.

Current Treasury Management Position

8 The table below shows the treasury management position at 31 March 2018 against the position at 31 March 2017.

Current Treasury Position	Actual as at 31 March 2017		Actual as at 31 March 2018	
	£m	Rate %	£m	Rate %
External Borrowing				
Long Term Borrowing: PWLB	159.46	4.14	143.01	4.33
Short term Borrowing: Market Loans	0	-	100.00	0.70
Total External Borrowing (A)	159.46	4.14	243.01	2.84
Other Long Term Liabilities				
PFI Liability	77.95	6.85	74.06	6.87
Finance Lease liability	5.36	12.45	5.18	12.88
Total Other Long Term Liabilities(B)	83.31	7.21	79.24	7.26
Total Gross Debt (A+B)	242.77	5.19	322.25	3.93
Capital Financing Requirement	611.93		601.8	
Less Other Long Term Liabilities	83.31		79.24	
Underlying Capital Borrowing Requirement (C)	528.62		522.56	
Under/(Over) Borrowing (C-A)	369.16		279.55	
Investments (D)	287.59	0.51	2.40	0.65
Total Net Borrowing (A-D)	-128.13		240.61	

9 A further analysis of borrowing and investments is covered in the following two sections.

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.

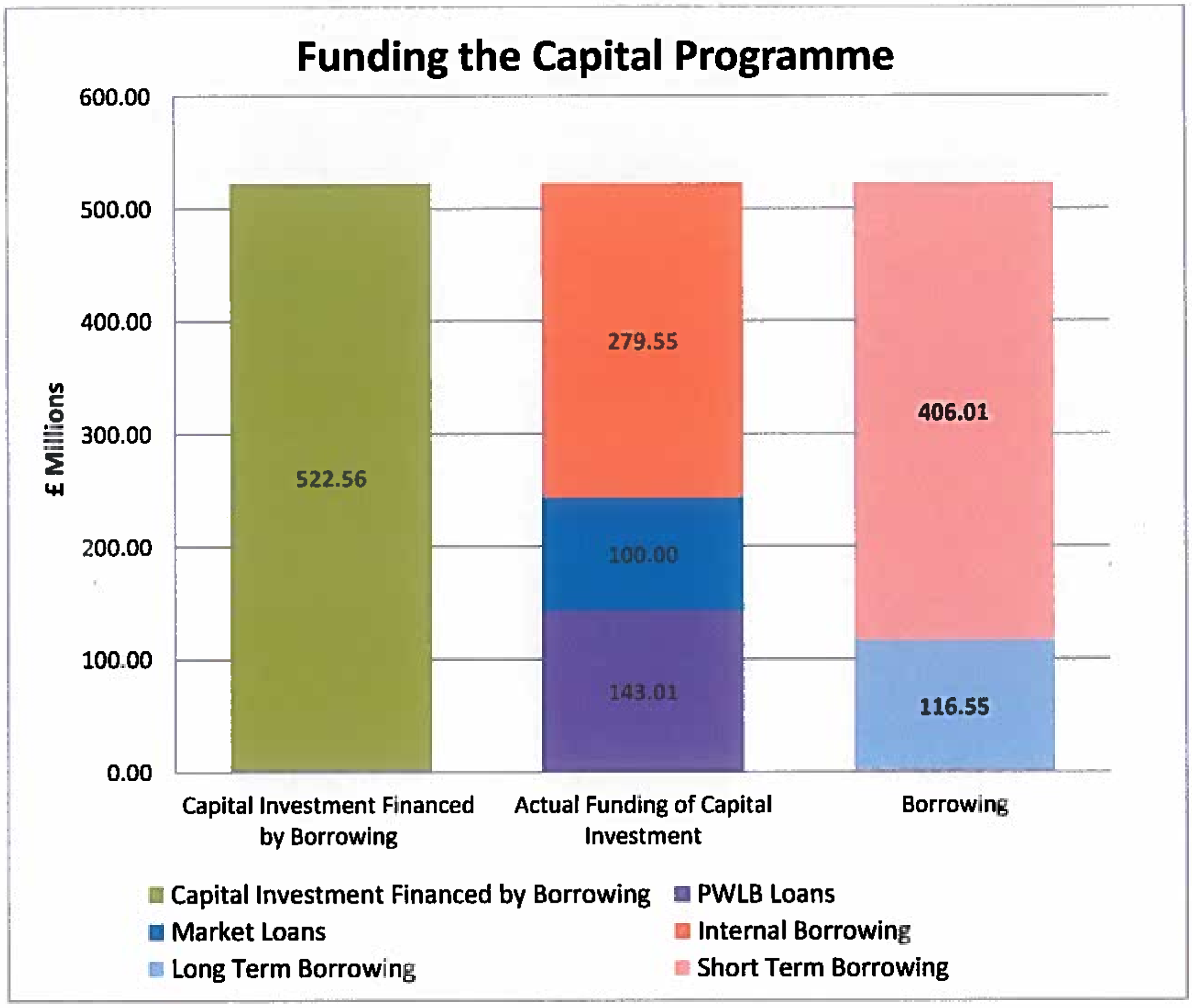
11 During 2017/18, Private Financing Initiative (PFI) liabilities reduced by £3.89m from £77.95 as at the 31 March 2017 to £74.06m as at the 31 March 2018. Finance lease liabilities also reduced, from £5.36m as at the 31 March 2017 to £5.18m as at the 31 March 2018.

12 No new long-term external loan borrowing was taken out during 2017/18. Instead £14.46m of external long-term loan borrowing was repaid, reducing the total long-term borrow to £143.01m.

13 A total of £100.00m in short-term borrowing was taken out on 22 March 2018, this was to support the MOPAC Group's cash flow over the financial year end, following the significant capital expenditure around the purchase of Empress State Building. The full amount remained outstanding at 31 March 2018.

14 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

15 The graph below compares the MOPAC Group's capital investment to be financed by borrowing at 31 March 2018 and the actual position of how this is being financed at 31 March 2018. 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 2018, is £243.01m, which is £241.59m 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 2018, the MOPAC Group was using £279.55m of internal borrowing to finance capital investment. Internal borrowing is the use of the MOPAC Group's surplus cash to finance the borrowing liability 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 and Emergency Planning Authority (LFEPA), 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 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's investment.

20 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.

21 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 three months. However, each participant can place a limit on the duration of these longer-term investments. For 2017/18, the MOPAC Group opted not to enter into any investments longer than 364 days in its own name, wishing to limit counterparty risk and liquidity risk.

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

23 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

24 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decision 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 2017 £m	TMSS Forecast to March 2018 £m	Actual as at the 31 March 2018 £m	2017-18 Variance between Forecast and Year End Actual £m
Fund balances/reserves	240.24	110.60	204.09	93.49
Provisions	57.48	62.29	39.37	-22.92
Other/Capital Reserve	349.78	167.29	17.57	-149.72
Total Core Funds	647.50	340.18	261.03	-79.15
Working Capital Surplus	9.25	44.31	20.92	-13.26
Under/(over) borrowing	369.16	154.87	279.55	134.81
Investments	287.59	229.62	2.40	-227.22

25 Investment balances as at 31 March 2018 were £2.40m, this being a decrease of £285.19m over year-end balances as at 31 March 2017. The decrease in investment balances is a result of significant capital expenditure during the year.

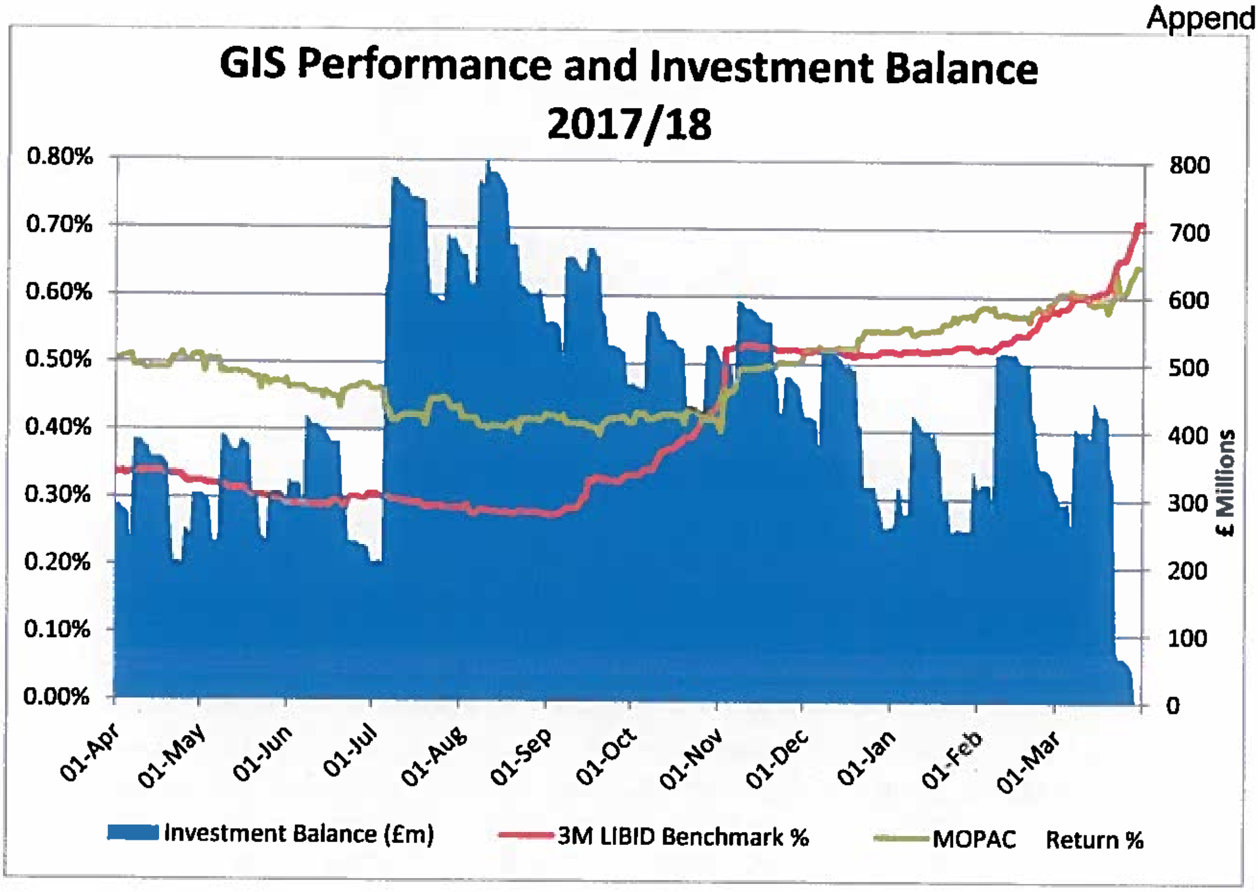
26 The MOPAC Group has outperformed its investment benchmark by 79% during 2017/18. It achieved a cumulative weighted average yield of 0.47% on daily balances against a cumulative weighted average 3-month LIBID of 0.26%. Throughout the period, the MOPAC Group maintained its liquidity target of a weighted average maturity (WAM) of not more than 91 days.

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

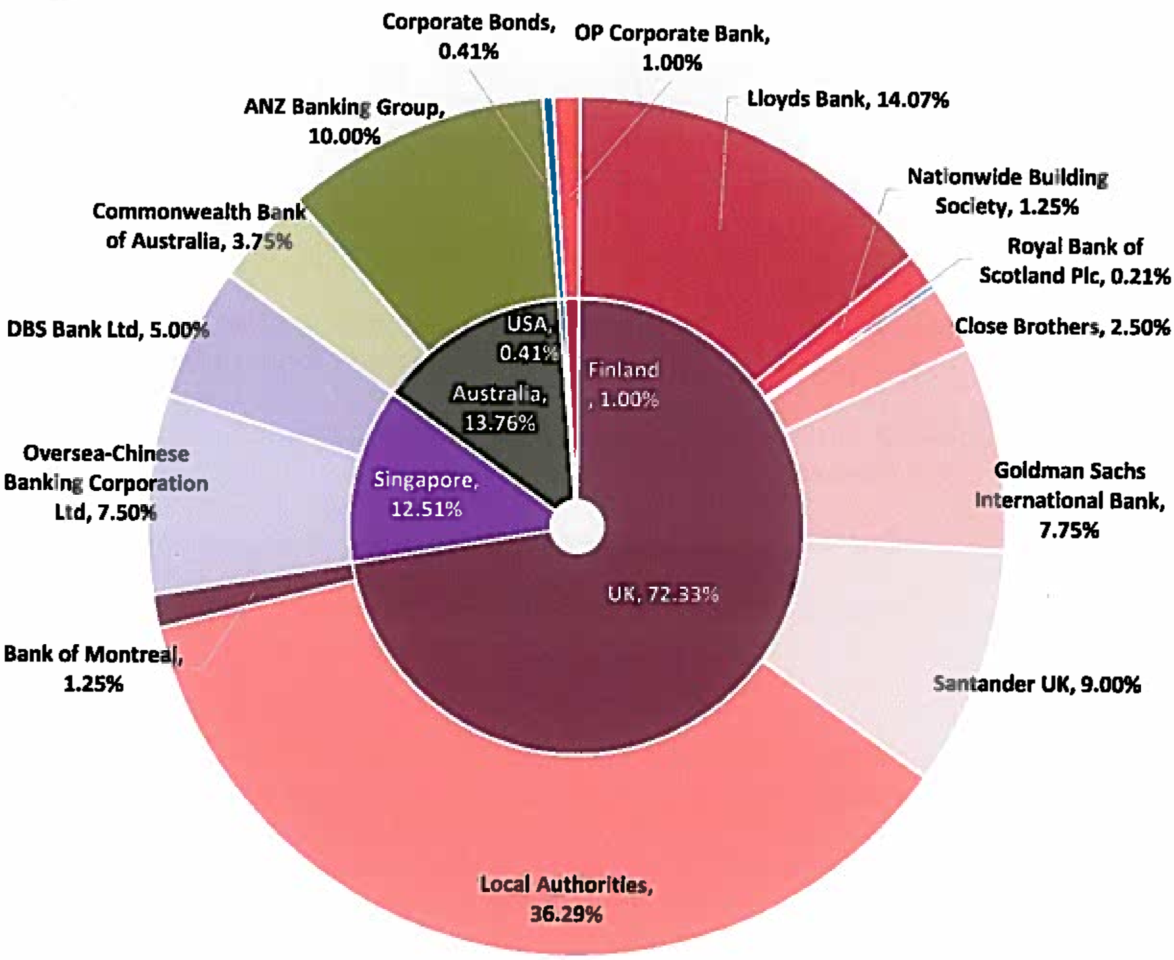
28 Methods used by the Group Treasury team during the year to manage performance have included:

- Using the strength of the GIS's £2.49bn 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 17/18 GIS Investment Strategy limit of 91 days.
- Monitoring market activity and proactively seizing investment opportunities

29 The following graph shows the MOPAC Group's outperformance described above, alongside investment balances during period. Fluctuations in balances reflect changes in cash flow needs over the year. The significant cash increase in July represents the annual pension top-up grant and decrease in March results from the capital expense of Empress State Building.



30 In addition, that the investment portfolio, as at 31 March 2018, is well diversified is demonstrated in the chart below.



Treasury Management Budget

Treasury Management Budget	TMMS Forecast to March 2018 £m	Actual as at the 31st March 2018 £m	2017-18 Variance between Forecast and Year End Actual £m
Interest payable (excl. PFI & Finance Lease interest)	8.42	6.42	-2.00
Interest Receivable	-1.30	-2.09	-0.79
Minimum Revenue Provision	22.68	23.33	0.65
Total	29.80	27.66	-2.14

31 The small decrease in interest payable year-on-year reflects the repayment of PWLB loans. Interest payable outturn was £2.00m less than budgeted due to no new long-term borrowing being taken out. Interest receivable increased year-on-year and the outturn was £0.79m higher than budgeted, largely due to a 0.25% hike of the Bank of England base rate in November 2017.

CIPFA Prudential Code Indicators and Treasury Management Limits

Background

32 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.

33 The Prudential Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.

34 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

35 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.

36 These Prudential Indicators are set out below and reviewed by officers for compliance.

Capital Expenditure

37 Capital expenditure results from the approved capital spending plan and proposed borrowing limits. It is the key driver of Treasury Management activity.

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

	Actual 2016-17 £m	TMSS Forecast to 31st March 2018 £m	Actual 2017/18 £m	2017/18 Variance between Forecast and Actual £m
Total Capital Expenditure	177.05	366.3	431.52	65.22

39 The capital expenditure for 2017/18, at £431.52m, was £65.22m more than that budgeted at the start of the year.

Capital Financing Requirement

40 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.

41 Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

42 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual charge which broadly reduces the borrowing in line with each assets life.

43 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.

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

	Actual 2016-17 £m	TMSS Forecast to 31st March 2018 £m	Actual 2017/18 £m	2017/18 Variance between Forecast and Actual £m
Total CFR	611.93	593.74	601.80	8.06

45 The capital financing requirement at 31 March 2018 is £8.06m higher than forecast but remained broadly in line with expectations.

External Debt Prudential Indicators

Authorised Limit for External Debt

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

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

48 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	2017/18 Authorised Limit £m	Actual External Debt as at 31 March 2018 £m	Headroom £m
Borrowing	484.60	243.01	241.59
Other long-term liabilities	79.30	79.24	0.06
Total	563.90	322.25	241.65

49 Actual external debt is not directly comparable to the authorised limit, since the actual external debt reflects the position at one point in time, whereas the authorised limit is set as a ceiling for the whole year. Notwithstanding this, there is substantial borrowing headroom.

Operational Boundary for External Debt

50 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.

51 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	2017/18 Operational Boundary £m	Actual External Debt as at 31 March 2018 £m	Headroom £m
Borrowing	359.6	243.01	116.59
Other long-term liabilities	79.3	79.24	0.06

Total	438.9	322.25	116.65

52 Actual external debt is not directly comparable to the operational boundary, since the actual external debt reflects the position at one point in time, whereas the operational boundary is set as a ceiling for the entire year. Notwithstanding this, there is substantial borrowing headroom.

Gross Debt and the Capital Financing Requirement

53 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 (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) 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.

54 For the purposes of the Prudential Code, gross debt refers to the sum of borrowing and other long term liabilities.

Actual External Debt as at 31 March 2018 £m	Preceding Year CFR £m	2017/18 Actual Additional CFR £m	2018-19 Estimated Additional CFR £m	2019-20 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
322.25	611.93	0.00	60.90	88.36	761.19	438.94

55 Gross debt, as at 31 March 2018, is £438.94m 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

56 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.

57 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.

Financing Costs to Net Revenue Stream	Actual as at the 31 March 2017 %	TMSS Forecast to March 2018 %	Actual as at the 31 March 2018 %	2017-18 Variance between Forecast and Year End Actual %
Total	1.65	1.67	1.58	-0.09

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

Incremental Impact of Capital Investment Decisions on the Council Tax

59 This indicator measures the changes in the council tax as a result of incremental changes in capital investment decisions.

60 It allows the effect of the totality of the MOPAC Group's plans to be considered at budget setting time and the achievement of these plans to be assessed at year end.

	Actual as at the 31 March 2017 £	TMSS Forecast to March 2018 £	Actual as at the 31 March 2018 £	2017-18 Variance between Forecast and Year End Actual £
Council Tax Band D	1.3	-0.02	0.34	0.36

61 The MOPAC Group's capital investment decisions in 2017/18 have had an incremental increase on Council Tax compared with the TMSS forecast.

Treasury Management Prudential Indicator

62 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.

63 The MOPAC Group has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Treasury Management Limits on Activity

Fixed and Variable Rate Interest Rates Exposure

64 The following technical prudential indicators reflect the MOPAC Group's exposure to changing interest rates.

Fixed rate ratio:

(Fixed rate borrowing* less Fixed rate investments*)
Total Borrowing less Total Investments

Variable rate ratio:

(Variable rate borrowing** less Variable rate investments**)

Total Borrowing less Total Investments

*Defined as greater than 1 year to run to maturity
**Defined as less than 1 year to run to maturity

In consequence of the formulae above, the sum of the two indicators must be 100%

65 To achieve certainty over its borrowing costs in support of prudent long-term planning, the MOPAC Group has only ever entered in to fixed rate loans; however, concerns over liquidity and credit risk mean that in practice all the MOPAC Group's investments mature within one year so are categorised as variable rate. The fixed rate ratio as at 31 March 2018 is 48% and the variable rate ratio is therefore 52%. The positive variable rate ratio indicates that fluctuating rates could increase borrowing costs without being matched by increased investment income.

Limits for Maturity Structure of Borrowing

66 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. For the purposes of this indicator only, all borrowing is treated as fixed rate.

	TMSS Forecast to March 2018		Actual as at the 31st March 2017	Actual as at the 31st March 2018
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	100	0	10.3	18.5
12 months and within 24 months	100	0	16.6	9.5
24 months and within 5 years	100	0	18.1	11.7
5 years and within 10 years	100	0	16.3	21.7
10 years and above	100	0	38.7	38.6

67 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 364 days

68 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

69 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.

70 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 364 days, the weighted average maturity is restricted to 91 days, adding to the reduction of the risk this indicator is seeking to address.

71 Finally, to further protect the liquidity and principal sums of a Local Authority, two additional constraints are placed on Local Authorities

i. The Local Government Act 2003, section 15(1) requires an Authority to have regard to the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments 2010, which requires firstly the achievement of security (protecting the capital sum from loss), then liquidity (keeping the money readily available for expenditure when needed), and then lastly investment yield. This investment strategy is endorsed by the Prudential Code. The MOPAC Group complies with this Guidance by adopting a low risk appetite in its TMSS.

ii. The Prudential Code states that Authorities must not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. The MOPAC Group does not borrow more than or in advance of its need purely to profit from the investment of extra sums borrowed.

<u>New Investments Maturing after 364 days taken between 01/04/17 and 31/03/18</u>

72 No new investment maturing after 364 days was taken during 2017/18.

<u>New Long-Term Borrowing taken between 01/04/17 and 31/03/18</u>

73 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.

74 No new long-term borrowing was taken during 2017/18.