MOPAC | MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

DMPC Decision – PCD 604

Title: Treasury Management 2018/19 Outturn

Executive Summary:

The Deputy Mayor for Policing and Crime is asked to note the performance of the Treasury Management function in 2018-19. In 2018-19 investment income was £1.2m at an average rate of return of 0.84%, 0.15% above the benchmark. Debt interest expenditure was below budget at £7m. Total long-term external borrowing increased from £143m to £316.55m by 31 March 2019. The weighted average borrowing rate of all long-term loans (weighted by size of loan and the rate of interest paid) at 31 March 2019 was 3.78% .

All investment and borrowing activity during 2018-19 was undertaken within the guidelines and objectives set out in the relevant policy and investment and borrowing strategies.

Recommendation:

The Deputy Mayor for Policing and Crime is recommended to note the 2018/19 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 16/9/2019

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

1. Introduction and background

1.1. The Chartered Institute of Public Finance and Accounting Code of Practice on Treasury Management (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 Treasury Management Strategy Statement (TMSS) 2018/19, approved by MOPAC on 26 March 2018 (PCD 330). The report provides a review of investment performance for 2018/19, 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 0.84%. This compares favourably with the London Interbank BID (LIBID) 3-month rate benchmark of 0.69%. This resulted in income of £1.2m.

Debt Management

2.2. As planned new long-term borrowing took place in 2018/19. A sum of £200m new long-term borrowing was accessed from the Public Works Loan Board (PWLB) in January 2019, and there was scheduled repayments of existing debt. As a result, the long-term borrowing increased by a net £173.55m, from £143m at the start of the year to £316.55m at 31 March 2019.

2.3. The cost of borrowing was £7.0m. The weighted average cost of borrowing of all long-term loans as at 31 March 2019 was 3.78% (4.33% as at 31 March 2018).

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's Chief Finance Officer (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 2018/19, 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 2018-19 TM Strategy. All indicators were met.

3. Financial Comments

3.1. The cost of borrowing and the minimum revenue provision for 2018/19 were £7m and £25.7m respectively. Interest received in 2018/19 was £1.2m.

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 CFO, as the s127 officer, is responsible for the proper administration of the MOPAC's financial affairs.

5. GDPR and Data Privacy

5.1. This report does not use personally identifiable data of members of the public therefore there are no GDPR issues to be considered.

6. Equality Comments

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

7. Background/supporting papers

7.1. GLA Treasury Management Outturn 2018/19.

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 Legal advice is not required.	✓
Equalities Advice: Equality and diversity issues are covered in the body of the report.	✓
Public Health Approach Due diligence has been given to determine whether the programme sits within the Violence Reduction Unit's public approach to reducing violence. This has been reviewed and supported by a senior manager within the VRU.	✓
Commercial Issues Commercial issues are not applicable	✓
GDPR/Data Privacy GDPR compliance issues are covered in the body of the report	✓
Director/Head of Service The MOPAC CFO has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓

Interim 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** [signature] **Date** 16/9/2019

GREATER LONDON AUTHORITY
GROUP TREASURY

Treasury Management Outturn for 2018/19

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 increased from £2.40m at the 31 March 2018 to £44.67m at 31 March 2019.

The MOPAC Group's long-term outstanding borrowing has increased from £143.01m at the 31 March 2018 to £316.55 at 31 March 2019.

Interest receivable achieved during 2018/19 was £1.18m, against a budget of £1.30m.

Interest payable on external borrowing for 2018/19 was £7.00m against a budget of £8.40.

All 2018/19 Treasury activity has been within the boundaries and levels set by the MOPAC Group in its Treasury Management Strategy Statement on 26 March 2018, DMPC Decision PCD 330.

Recommendation:

That the following is noted:

- The 2018/19 Treasury outturn results against the 2018/19 Treasury Management Strategy Statement, as approved on the 26 March 2018, DMPC PCD 330.

Introduction/Background

1 This report provides details of all investment and borrowing activities for the period from 1 April 2018 to 31 March 2019 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 31 March 2019 with the opening position as at 1 April 2018.

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. 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 MOPAC 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 offices will arrange loans on behalf of MOPAC.

Compliance with the 2018/19 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 2018/19 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 After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing country in the G7 in quarter 4. After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

5 As for **CPI inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

6 The Conservative minority government has so far been unable to muster a majority in the Commons over its Brexit deal. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were

to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

Current Treasury Management Position

7 The table below shows the treasury management position at 31 March 2019 against the position at 31 March 2018.

Current Treasury Position	Actual as at 31 March 2018		Actual as at 31 March 2019	
	£m	Rate %	£m	Rate %
External Borrowing				
Long-term Borrowing: PWLB	143.01	4.33	316.55	3.78
Short term Borrowing: Market Loans	100	0.70	0.00	
Total External Borrowing (A)	243.01	2.84	316.55	3.78
Other Long-term Liabilities				
PFI Liability	74.06		71.22	
Finance Lease liability	5.18		7.35	
Total Other Long-term Liabilities(B)	79.24		78.57	
Total Gross Debt (A+B)	322.25	5.38	395.12	4.46
Capital Financing Requirement	601.8		693.23	
Less Other Long-term Liabilities	79.24		78.57	
Underlying Capital Borrowing Requirement (C)	522.56		614.66	
Under/(Over) Borrowing (C-A)	279.55		298.11	
Investments (D)	2.40	0.65	44.67	0.96
Total Net Borrowing (A-D)	240.61		271.88	

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

Borrowing Outturn

9 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.

10 During 2018/19, Private Financing Initiative (PFI) liabilities reduced by £2.84m from £74.06m as at the 31 March 2018 to £71.22m as at the 31 March 2019. Finance lease liabilities increased, from £5.18m as at the 31 March 2018 to £7.35m as at the 31 March 2019.

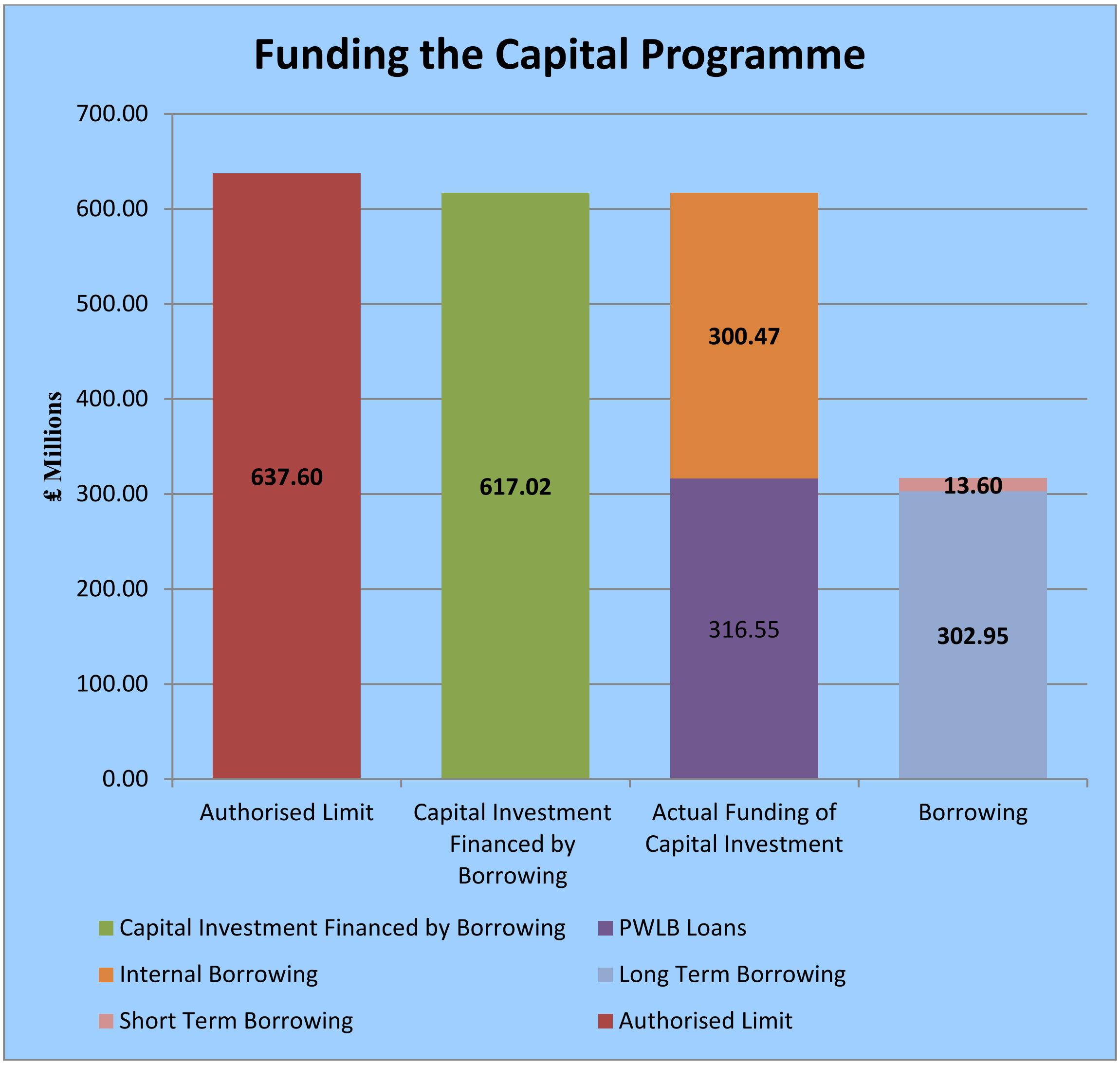
11 The MOPAC Group took £200m in new long-term borrowing from the Public Works Loan Board (PWLB) in the final quarter of 2018/19. The new borrowing will finance the major

programme of long-term investment detailed in the MOPAC's capital spending plan. At the same time, £26.46m of existing long-term loan borrowing was repaid, with the total long-term borrowing increasing to £316.55m as at 31 March 2019.

12 A total of £598.20m in short-term borrowing was taken out in 2018/19, through 40 individual loans sourced from the local authority market. These loans supported the MOPAC Group's cash balance on a temporary basis as required. The average loan duration was 29 days and the maximum short-term borrowing outstanding at any one point in time was £230m. All short-term borrowing was subsequently repaid in the same year with none outstanding as at 31 March 2019.

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

14 The graph below compares the MOPAC Group's capital investment to be financed by borrowing at 31 March 2019 and the actual position of how this is being financed at 31 March 2019. The final column shows the split between short-term (internal and external borrowing with duration of less than one year) and long-term borrowing.



15 The graph shows the MOPAC Group's current capital investment that is being funded via external borrowing, as at the 31 March 2019, is £316.55, which is £321.05m below the Authorised Borrowing Limit set for the MOPAC Group at the start of the year.

16 In addition, the graph shows how the MOPAC Group is currently funding its borrowing requirement. As at 31 March 2019, the MOPAC Group was using £300.47 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

17 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 Commissioner (LFC), 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.

18 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.

19 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.

20 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 2018/19, 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.

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

22 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

23 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 2018 £m	TMSS Forecast to March 2019 £m	Actual as at the 31 March 2019 £m	2018-19 Variance between Forecast and Year End Actual £m
Fund balances/reserves	204.09	159.60	232.96	73.36
Provisions	39.37	56.50	28.49	-28.01
Other/Capital Reserve	17.57	4.50	17.57	13.07
Total Core Funds	261.03	220.60	279.02	58.42
Working Capital Surplus	20.92	99.50	66.12	-33.38
Under/(over) borrowing	279.55	398.23	300.47	-97.76
Investments	2.40	-78.13	44.67	122.80

24 Investment balances as at 31 March 2019 were £44.67m, this being an increase of £42.27m over year-end balances as at 31 March 2018.

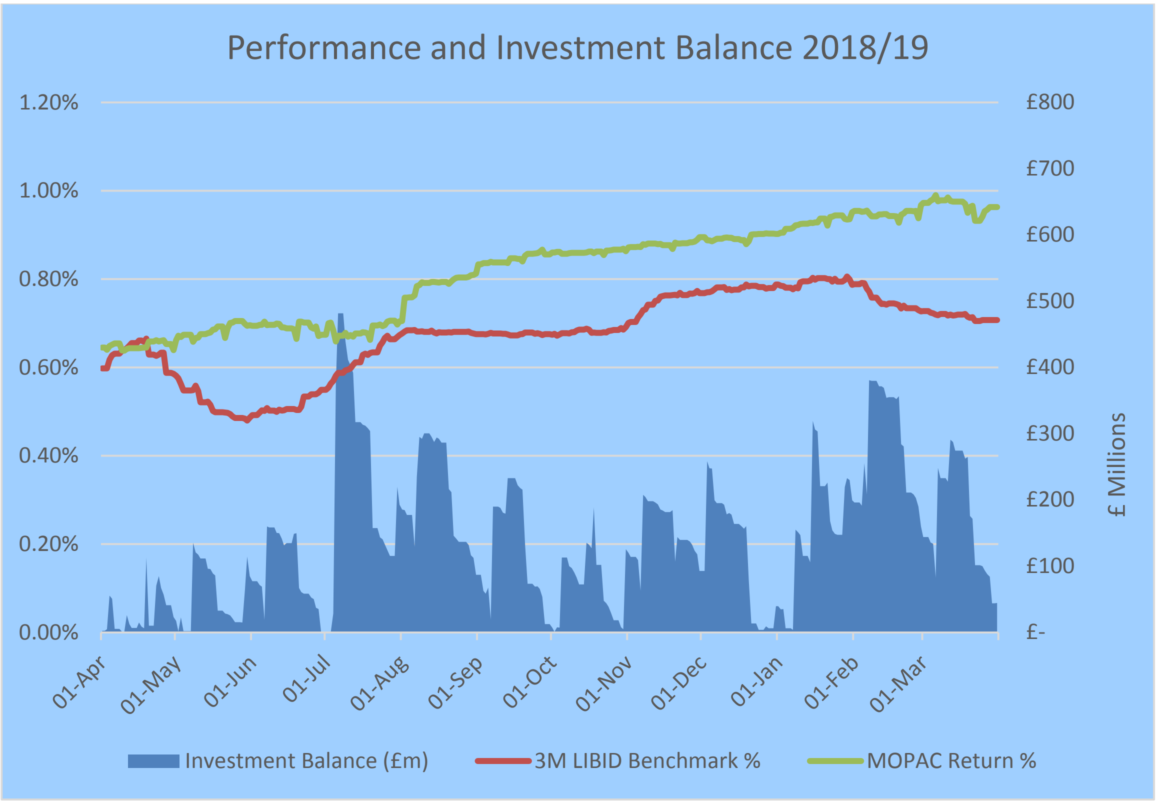
25 The MOPAC Group has outperformed its investment benchmark by 0.15% during 2018/19. It achieved a cumulative weighted average yield of 0.84% on daily balances against a cumulative weighted average 3-month LIBID of 0.69%. Throughout the period, the MOPAC Group maintained its liquidity target of a weighted average maturity (WAM) of not more than 91 days.

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

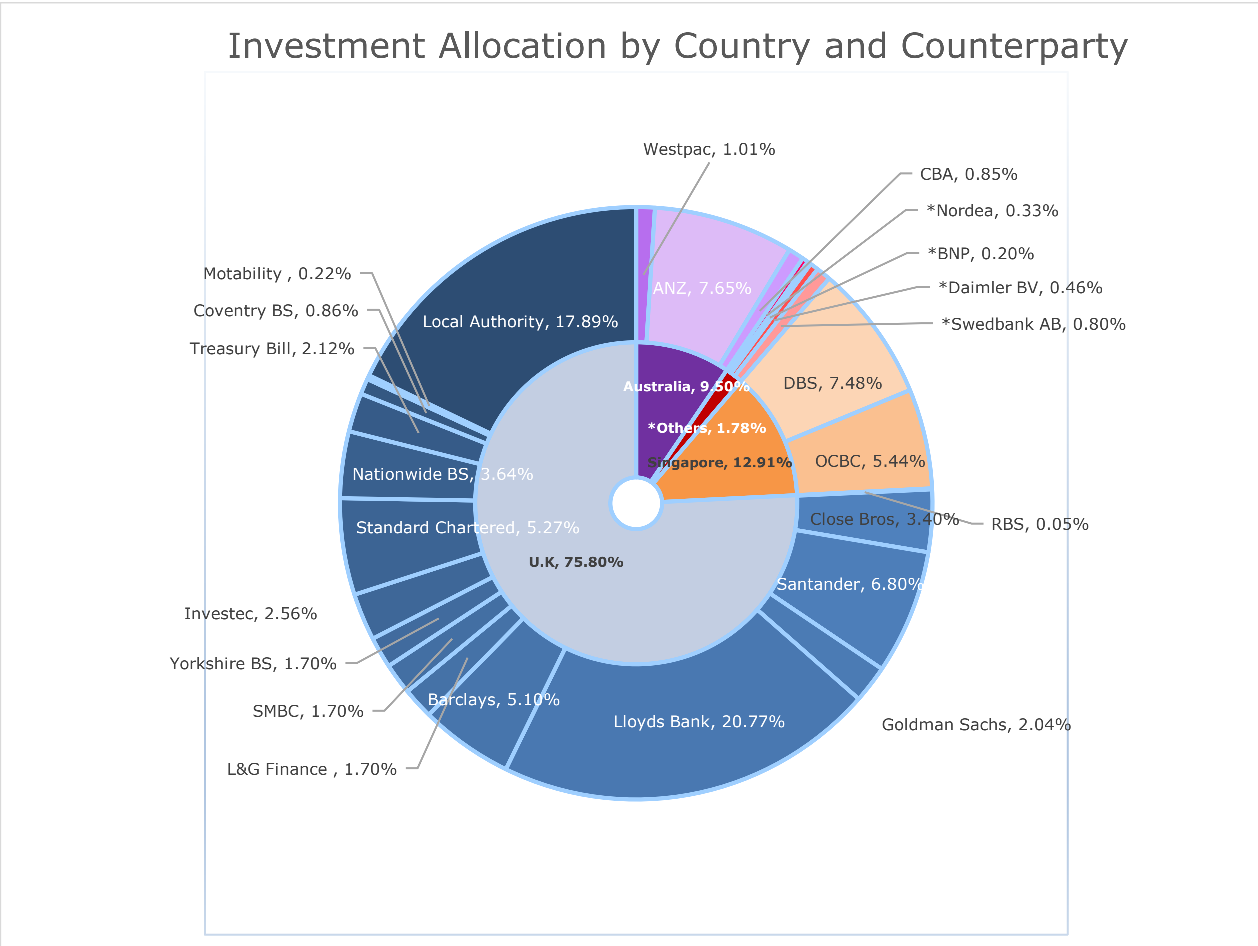
27 Methods used by the Group Treasury team during the year to manage performance have included:

- Using the strength of the GIS's £2.94bn 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 18/19 GIS Investment Strategy limit of 91 days.
- Monitoring market activity and proactively seizing investment opportunities

28 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.



29 In addition, that the investment portfolio, as at 31 March 2019, is well diversified as is demonstrated in the chart below.



Treasury Management Budget

Treasury Management Budget	TMMS Forecast to 31 March 2019 £m	Actual as at 31 March 2019 £m	2018-19 Variance between Forecast and Year End Actual £m
Interest payable (excl. PFI & Finance Lease interest)	8.40	7.00	-1.40
Interest Receivable	-1.30	-1.18	0.12
Minimum Revenue Provision	21.80	22.7	0.9
Total	28.90	28.52	-0.38

30 The variance of £1.40m in interest payable reflects the timing of the new long-term borrowing, which was taken in the final quarter of the financial year, reducing the amount of interest payable within 2018/19. Interest receivable was marginally lower than forecast with a variance of £0.12m. This is due to a lower average investment balance being held during the year as the long-term borrowing was deferred to the end of the year.

CIPFA Prudential Code Indicators and Treasury Management Limits

Background

31 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.

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

33 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

34 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.

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

Capital Expenditure

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

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

	Actual 2017-18	TMSS Forecast to 31st March 2019	Actual 2018-19	2018-19 Variance between Forecast and Actual
	£m	£m	£m	£m
Total Capital Expenditure	431.52	670.8	232.02	-438.78

38 The capital expenditure for 2018/19, at £232.02, was £438.78 less than that budgeted at the start of the year. A significant portion of the variance is accounted for by the decision to bring forward the purchase of Empress State Building into 2017/18, from 2018/19, as had been assumed within the capital programme at the time of this forecast.

Capital Financing Requirement

39 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.

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

41 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.

42 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.

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

	Actual 2017-18	TMSS Forecast to 31st March 2019	Actual 2018-19	2018-19 Variance between Forecast and Actual
	£m	£m	£m	£m
Total CFR	601.8	770.4	693.23	-77.17

44 The capital financing requirement at 31 March 2019 is £77.17m lower than forecast.

External Debt Prudential Indicators

Authorised Limit for External Debt

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

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

47 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	2018-19 Authorised Limit £m	Actual External Debt as at 31 March 2019 £m	Headroom £m
Borrowing	637.60	316.55	321.05
Other long-term liabilities	76.30	78.57	-2.27
Total	713.90	395.12	318.78

48 The authorised limit headroom for external debt is 318.78m at 31 March 2019.

49 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	2018-19 Operational Boundary £m	Actual External Debt as at 31 March 2019 £m	Headroom £m
Borrowing	512.6	316.55	196.05
Other long-term liabilities	76.3	78.57	-2.27
Total	588.9	395.12	193.78

The operational boundary headroom for external debt is £193.78m at 31 March 2019.

Gross Debt and the Capital Financing Requirement

52 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the MOPAC 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 (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the MOPAC is not borrowing to support revenue expenditure. This indicator allowed the MOPAC some flexibility to borrow in advance of its immediate capital needs. The table below highlights the MOPAC's gross borrowing position against the CFR.

53 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 2019 £m	Preceding Year CFR £m	2018-19 Actual Additional CFR £m	2019-20 Estimated Additional CFR £m	2020-21 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
395.12	601.70	91.53	302.32	117.79	1113.34	718.22

54 Gross debt, as at 31 March 2019, is £718.22m 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

55 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.

56 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.

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

Financing Costs to Net Revenue Stream	Actual as at the 31 March 2018 %	TMSS Forecast to March 2019 %	Actual as at the 31 March 2019 %	2018-19 Variance between Forecast and Year End Actual %
Total	1.58	1.56	1.65	0.09

Treasury Management Prudential Indicator

58 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.

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

Treasury Management Limits on Activity

Limits for Maturity Structure of Borrowing

60 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 2019		Actual as at 31 March 2018	Actual as at 31 March 2019
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	100	0	18.5	4.3
12 months and within 24 months	100	0	9.5	4.3
24 months and within 5 years	100	0	11.7	3.1
5 years and within 10 years	100	0	21.7	8.2
10 years and above	100	0	38.6	80.1

61 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

62 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

63 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.

64 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 & 365 days, the weighted

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

65 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.

New Investments Maturing after 364 & 365 days taken between 01/04/18 and 31/03/19

66 No new investment maturing after 364 & 365 days was taken during 2018/19.

New Long-Term Borrowing taken between 01/04/18 and 31/03/19

67 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.

68 £200m of new long-term borrowing was taken from the PWLB during 2018/19.