

APPENDIX 1

GREATER LONDON AUTHORITY GROUP TREASURY

GLA Treasury Management 2017/18 Outturn and 2018/19 Mid-Year Report

Purpose of Report:

This report outlines the Greater London Authority's Investment activities for the financial year ending 31 March 2018 and Mid-Year report to 30 September 2018.

The 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 a mid-year review and an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed during the reporting period.

Recommendation:

That the following are to be noted:

- The treasury Management activities and the performance against its benchmark in the year 2017/18 and half year to 30 September 2018.
- Balance of investment as at 31 March 2018 and 30 September 2018.
- Debt outstanding as at 31 March 2018 and 30 September 2018.
- All Treasury activities in the reporting periods have been within the boundaries and levels set by the Authority,

Summary

- Returns on cash balances for the financial year 2017/18 equated to £11.17m and for the half of 2018/19 equated to £6.72m, against Treasury Budget of £10m and a half year budget of £5.5m respectively.
- Investment balances for the year 2017/18 and half year 2018/19 were £1,953.82m and £2,210.39m respectively.
- Debt portfolio increased from £3,715.79m to £3,798.04 in 2017/18 and to £3,961.78m at the end of September 2018.
- All treasury management activities were carried out in accordance with the approved Treasury Management Strategy Statement for the reporting periods.

1. Introduction/Background

- 1.1. This report provides updates on both borrowing and investment decisions made by the treasury team under delegated authority in the year 2017/18 and half year 2018/19 ending 30 September 2018. The closing investment and debt positions at the end of both periods are stated.
- 1.2. Treasury management is defined as “the management of the Authority’s borrowing, investments and cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- 1.3. Under the Authority’s treasury management shared service arrangements, GLA treasury officers manage the Authority’s day to day investments and borrowing activities.

2. Treasury Management Strategy Statement (TMSS)

- 2.1. The Executive Director of Resources confirms that, throughout the reporting periods, all treasury activities have been conducted within the parameters of the Treasury Management Strategy Statement (TMSS) for 2017/18 and 2018/19.

3. Treasury Management Outturn Position for 2017/18 and Half-Year of 2018/19

Summary Portfolio Position

Current Treasury Management Position	Actual at 31 March 2017		Actual at 31 March 2018		Actual at 30 September 2018	
	£m	Rate %	£m	Rate %	£m	Rate %
External Borrowing						
Long Term Borrowing	3,678.56	3.43%	3,771.58	3.42%	3,936.58	3.40%
Short Term Borrowing	37.23	0.51%	26.46	0.65%	25.20	0.85%
Total External Borrowing (A)	3,715.79		3,798.04		3,961.78	
Other Long-Term Liabilities						
PFI Liability	-		-		-	
Finance Lease Liability	-		-		-	
Total Other Long-Term Liabilities (B)	-		-		-	
Total Gross Debt (A+B)	3,715.79		3,798.04		3,961.78	
*Capital Financing Requirement	3,621.61		3,800.44		3,986.49	
Less Other Long-Term Liabilities	-					
Underlying Capital Borrowing Requirement (C)	3,621.61		3,800.44		3,986.49	
Under/(Over) Borrowing (C-A)	(94.18)		2.40		24.70	
Investments (D)	1,767.03	0.60%	1,953.82	0.52%	2,210.39	0.62%
Total Net Borrowing (A-D)	1,948.76		1,844.22		1,751.39	

*CFR is subject to review when deliberation on Crossrail borrowing is completed.

4. Borrowing Activity:

- 4.1. The Authority is required to borrow to fund its capital programme. The amount of new borrowing needed each year is determined by new capital schemes approved and included in the capital programme. Temporary borrowing is required to manage operational cashflow requirements. The following table shows the movement in borrowing during the reporting period.

	Long Term Borrowing (£m)	Short Term Borrowing (£m)	Total (£m)
Balance at 31/03/2017	3,678.56	37.23	3,715.79
Add New loan 2017/18	126.03	39.15	165.18
Less loan repaid	-33.00	-49.92	-82.92
Balance at 31/03/2018	3,771.59	26.46	3,798.05
Add New Loan	240	0.04	240.04
Less Loan Repaid	-75	-1.3	-76.30
Balance at 30/09/2018	3,936.59	25.20	3,961.79

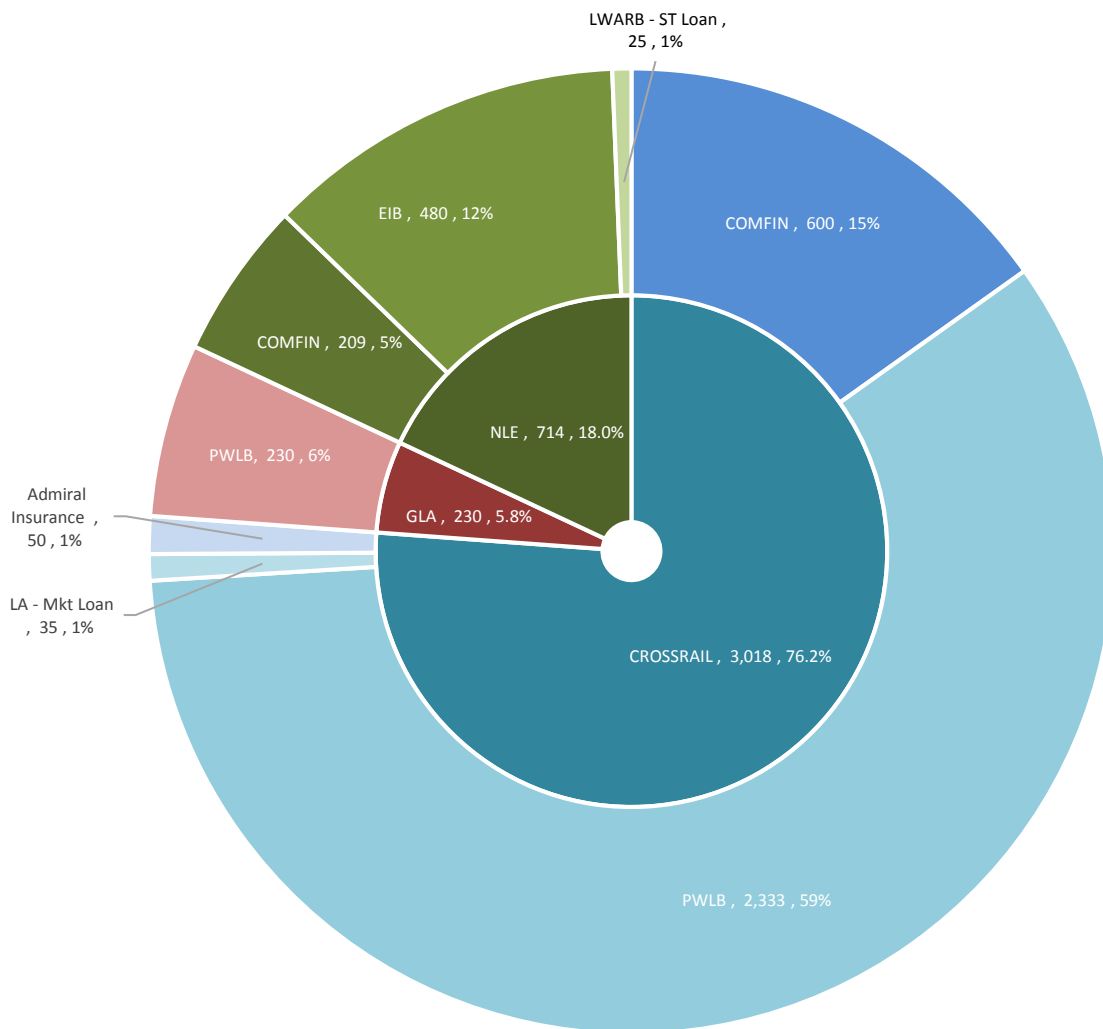
5. Long Term (LT) Borrowing:

- 5.1. **Borrowing**- A total of £366.03m Northern Line Extension (NLE) new borrowing was taken over the reporting periods. This was made up of £120m and £240m drawdowns from European Investment Bank (EIB) in May 2017 and May 2018 respectively and the balance of £6.03m was an uplift on the NLE existing index linked Community Finance Bonds.
- 5.2. **Repayments**- A total sum of £108m was repaid during the reporting period, this was made up of £25m GLA PLWB loans and £83m BRS PLWB and Market loans.
- 5.3. LT loan balances were £3,771.59 and £3,936.59 at 31 March 2018 and 30 September 2018 respectively.

6. Short Term Borrowing

- 6.1. Short term borrowings were taken and repaid to manage cash flow during the reporting periods. Short term loan balances were £26.46 and £25.20 at 31 March 2018 and 30 September 2018 respectively.
- 6.2. The following chart shows the structure of GLA's loan portfolio as at 30 September 2018.

GLA Loan Portfolio (£m) at 30 Sept. 2018



7. London Waste and Recycling Board (LWARB)

- 7.1. The GLA continues to hold LWARB's cash as loan on a rolling basis, with LWARB being able to make withdrawal by giving at least two days' notice. Interest payable equates the daily rate of return on the Group Investment Syndicate (GIS) and accrued interest is credited quarterly to the balance of loan. LWARB's loan balance represents temporary loan of £25.2m as at 30 September 2018 in the above chart. This has proved a cheaper way of funding cash flow requirement than borrowing from Local Authorities via Market Brokers. The loan was used to meet BRS and NLE cash flow requirement over the reporting period.

8. Investment Activities

8.1. During the reporting period, the Authority invested the majority of its surplus cash on a temporary basis (i.e. up to 364 days) through the GLA Group Investment Syndicate (GIS). The remaining balance was invested for longer than 364 days in Residential Mortgage Backed Security (RMBS) through the GLA's Fund Managers (Twenty-Four Asset Management and Prytania). RMBS investment has a weighted Average maturity (WAM) of three years.

8.2. The table below shows a split between investment balance for the periods.

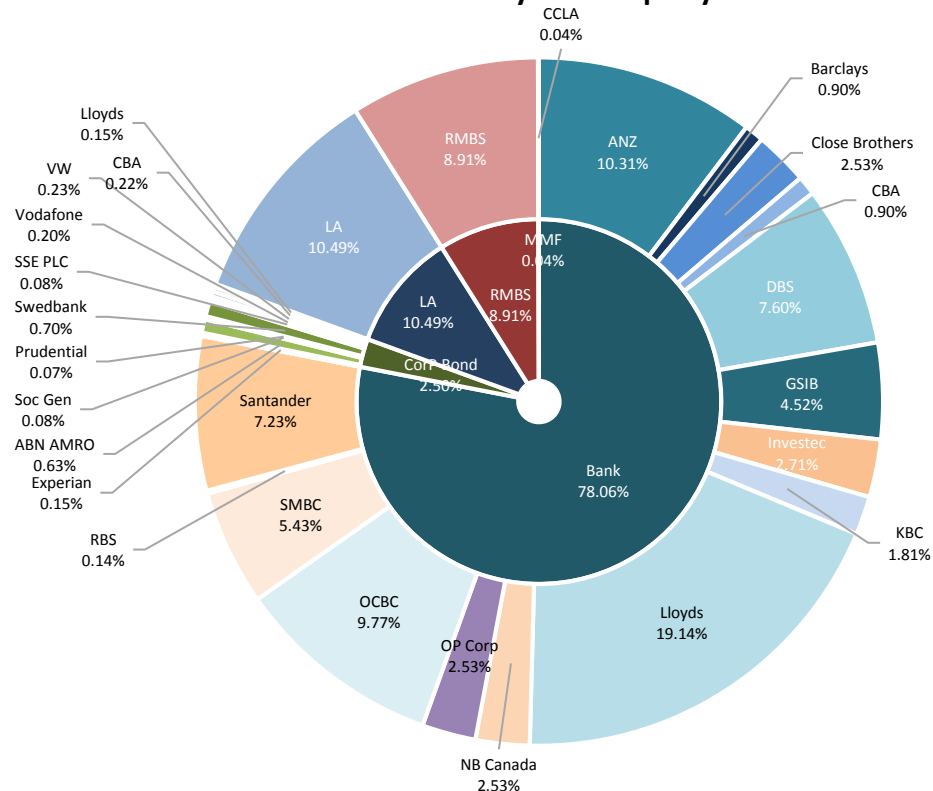
Investment	Long Term (RMBS) £m	Short Term £m	Total £m
Balance at 31/03/2017	215.37	1,551.66	1,767.03
Balance at 31/03/2018	229.56	1,953.82	2,183.38
Balance at 30/09/2018	216.23	2,210.37	2,426.60

8.3. Investment balance increased from £1,767.03m to £2,183.38m in the year 2017/18 and to £2,426.60 as at 30 September 2018, representing an increase of £416.35m (24%) and £243.22 (11%) over the reporting periods. The increase was due to the reprofiling of London settlement Housing grants.

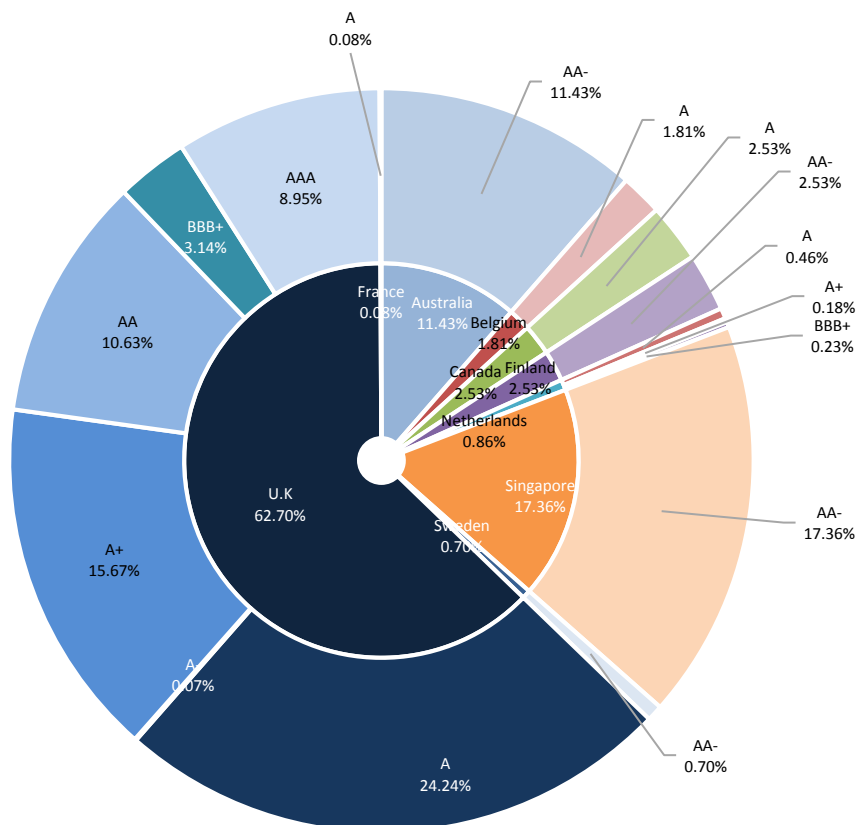
8.4. All investments were made in line with the GLA Investment Strategy, which includes the requirement to maintain a weighted average maturity (WAM), which does not exceed three months.

8.5. The following charts provides a breakdown of investment by Counterparty and by Country/Credit rating as at 30 September 2018, showing a well-diversified investment portfolio.

Investment By Counterparty



Investment by Country/Credit Rating



9. Performance – Short Term Investment

- 9.1. The Authority's weighted average investment return was 0.52% in 2017/18 and 0.76% in the half year of 2018/19 against weighted average 3-month LIBID rate of 0.29% and 0.61% respectively meaning the GLA outperformed its benchmark by 0.33% in 2017/18 and 0.15%. The liquidity target of a weighted average maturity (WAM) of not more than three months was maintained throughout the reporting periods.
- 9.2. The GIS benchmarks against the average 3-month LIBID, this is a comparable performance indicator for the GIS investment return. The LIBID is the London Interbank Bid Rate; it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.

10. Performance – Long Term Investment - RMBS

- 10.1. The RMBS achieved a cumulative performance of 1.11% in 2018/19 and 1.24% in the half year of 2018/19. The investment has a targeted WAM of three years and it maintained a WAM of lower than the three years throughout the reporting period.

11. Custodian Arrangement

- 11.1. The custodian of RMBS Bonds changed from King & Shaxson to State Street after a competitive tendering procurement process during the reporting periods.

Treasury Management Budget

	2017/18 Revised Opening Est. £m	2017/18 Actual at 31.03.18 £m	2017/18 Variance Surplus (+) Deficit (-) £m	2018/19 *Half-year Budget £m	Actual 30.09.18 £m	30.09.18 Variance Surplus (+) Deficit (-) £m
Interest payable: PWLB, Bonds and Market Loans	131.60	128.53	+3.07	67.75	65.25	+2.50
Interest payable: Other LT Liabilities	-	-	-	-	-	-
Interest Receivable	-10.00	-11.17	+1.17	-6.50	-8.13	+1.63
Minimum Revenue Provision & Vol Revenue provision	117.34	112.59	+4.75	-	-	-
Total	238.94	229.95	+8.99	61.25	57.12	+4.13

**Note: Half-Year budget is half of the annual budget for the year*

12. CIPFA Prudential Code Indicators and Treasury Management Limits

12.1. The Prudential Code has been developed to support Local Authorities in taking decisions on capital investment. Key objectives of the Code are to ensure, within a clear framework, that Local Authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported. These Prudential Indicators are set out below.

13. Capital Expenditure

13.1. Capital expenditure results from the approved capital spending plan and proposed borrowing limits.

	2017/18 Revised Estimate £m	2017/18 Actual £m	2017/18 Variance £m	2018/19 Estimate £m
Capital Expenditure	669.60	891.58	-221.98	858.90
Capital Financing Requirement	3,736.84	3,800.44	-63.60	3,986.49

**CFR is subject to review when deliberation on Crossrail borrowing is completed.*

i) Capital Financing Requirement

13.2. The capital financing requirement (CFR) is an indicator of the underlying need to borrow for capital purposes. It is the capital expenditure which has been incurred but not yet paid for. Any new capital expenditure in the year, which is not immediately paid for, will increase the CFR. Discussion is ongoing on the level of additional borrowing required this year and the next for Crossrail, once this is completed, the CFR will be reviewed, and new figure reported at year end.

14. External Debt Prudential Indicators

ii) Authorised Limit for External Debt

Authorised Limit for External Debt	2017/18 Authorised Limit £m	2017/18 Actual External Debt £m	Headroom £m	2017/18 Authorised Limit £m
Borrowing	4,800	3,798.04	1,001.96	4,800
Other LT liabilities	-	-	-	-
Total	4,800	3,798.04	1,001.96	4,800

iii) Operational Boundary for External Debt

Operational Boundary for External Debt	2017/18 Operational Boundary £m	2017/18 Actual External Debt £m	Headroom £m	2018/19 Operational Boundary £m
Borrowing	4,300	3,798.04	501.96	4,300
Other LT liabilities	-	-	-	-
Total	4,300	3,798.04	501.96	4,300

iv) Limits for Maturity Structure of Borrowing

	Upper Limit %	Lower Limit %	As at 31.03.2018 %	As at 30.09.2018 %
Under 12 months	10	0	4.65	3.70
12 months and within 24 months	10	0	3.32	2.65
24 months and within 5 years	15	0	12.94	14.16
5 years and within 10 years	45	15	25.86	29.64
10 years and above	100	50	53.24	49.84

14.1. These are the upper and lower limits of debt maturing within periods set. Assumptions have been made about the limit of new borrowing, in case of premature repayment or restructuring of debts.

Crossrail Monitoring

	Total 31/03/2017 £m	Loan Addition £m	Loan Repayment £m	Total 31/03/2018 £m	Loan Addition £m	Loan Repayment £m	Total 30/09/2018 £m
Total borrowing of project	3,137.74	28.14	-98.38	3,057.50	-	-35.00	3,022.50
In year interest paid	-116.39			-115.43			-57.32
In year interest received	0.14			0.21			0.37
Net in year interest paid	-116.25			-115.22			-56.95
In year payments to TfL	-			-			-
In year BRS receipts	219.00			273.59			135.70
Cash Balance	0.27			96.10			139.84

NLE Monitoring

	Total 31/03/2017 £m	Loan Addition £m	Loan Repayment £m	Total 31/03/2018 £m	Loan Addition £m	Loan Repayment £m	Total 30/09/2018 £m
Total borrowing of project	323.06	152.49	-	475.54	240.04	-1.30	714.28
In year interest paid	-3.15			-6.13			-4.67
In year interest received	0.70			0.56			0.49
Net in year interest paid	-2.45			-5.57			-4.18
In year payments to TfL	160.60			174.89			67.61
Cash Balance	82.11			60.80			227.75