MOPAC | MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

REQUEST FOR DMPC DECISION – PCD 479

Title: Treasury Management Mid-Year Report 2018/19

Executive Summary:

The Treasury Management strategy 2018/19 sets out planned capital spending and how MOPAC will manage its borrowings and investments during this financial year. The GLA Treasury Management team provide the operational support for this function and through the Group Investment Syndicate (GIS) manages all MOPAC investments, to generate financial and risk reduction benefits.

All investment and borrowing activity during 1 April 2018 and to 30 September 2018 was undertaken within the guidelines and objectives set out in the relevant policy and investment and borrowing strategies.

Debt management costs for the period are £9m and are forecast to be below the budget of £20.4m at year end. There was no new long term borrowing in the period. To 30 September 2018 interest income for the first half year was £0.5m, which is slightly below the expected half year budget of £0.65m due to lower cash balances and is more than offset by lower than expected borrowing costs. At 0.74%, the weighted average yield exceeds the benchmark by 0.11%.

Recommendation:

That the DMPC notes the activity and performance on the Treasury Management function for the first half year 2018/19

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** 10/12/2018

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

Decision required – supporting report

1. Introduction and background

1.1. MOPAC approved the 2018/19 Treasury Management Strategy in March 2018, PCD 330. This paper fulfils the requirement for reporting of mid-year performance to the DMPC.

2. Issues for consideration

Borrowing

2.1. There has been no new long term borrowing in the first six months of 2018-19 and, due to loan repayments, the total borrowing has reduced from £143m to £123.8m – a reduction of £19.2m. Borrowing costs for the first 6 months was £3.1m and are forecast to be £7m against a budget of £8.4m.

Investment

2.2. The weighted average yield on investments was 0.74%, compared with the LIBID 3 month benchmark of 0.63%, generating income of £0.5m. The annual budget for interest receivable is £1.3m and is forecast to be slightly below budget but the shortfall offset by the lower borrowing costs.

Prudential Indicators and Treasury Management Limits

2.3. The attached appendix sets out the detail of performance against the prudential indicators and treasury management limits. All transactions undertaken during the year met the criteria for lending to institutions and activity has been within the Prudential Code indicators set out in the TM Strategy 2018-19.

Forthcoming issues

2.4. The draft capital programme included in the budget submission envisages new borrowing to meet the further investment proposed. The revenue costs of the additional borrowing are included in the revenue budget. The delivery of the future capital programme, budgeted revenue savings, use of reserves and the phasing of new asset disposals will impact the cashflow, and any further need for borrowing will be kept under review.

3. Financial Comments

3.1. This is a financial report and the details are set out in the body of the report

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" para 4.7 SoD&C. The DMPC approved the 2018/19 Treasury Management Strategy on 26 March 2018.

4.2. The Treasury Management Strategy sets out the requirement for mid-year reporting which this paper fulfils.

5. GDPR/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 implications arising from this proposal

7. Background/supporting papers

7.1. Appendix 1 GLA Report

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.	✓
Commercial Issues Commercial issues are not applicable.	✓
GDPR/Data Privacy A DPIA is not required.	✓
Director/Head of Service: The MOPAC Chief Finance Officer has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓

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** 05/12/2018

GREATER LONDON AUTHORITY
GROUP TREASURY

MOPAC Treasury Management Mid-Year Review for 2018-19

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 a mid-year report on the activities of the MOPAC Group's treasury management operation.

Treasury activity has seen the MOPAC Group's investments outperform its investment benchmark by 0.11% over the six-month period ending 30 September 2018. Invested balances at 30 September 2018 were £12.50m.

The MOPAC Group's borrowing levels have reduced from £143.01m at 31 March 2018 to £123.78m at 30 September 2018.

All Treasury activity has been within the boundaries and levels set by the MOPAC Group and set out in the 2018/19 Treasury Management Strategy.

Recommendation:

That the following is noted:

- The 2018/19 Treasury mid-year performance against the 2018/19 Treasury Management Strategy Statement and forecasts.

Introduction/Background

1 This report provides detail of all investment and borrowing activities for the period from 1 April 2018 to 30 September 2018 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 30 September 2018 with the 18/19 full year budget and a revised 18/19 full year forecast, where relevant.

2 Under the treasury management shared service arrangement with the GLA, GLA group treasury officers carry out the MOPAC Group's day to day treasury management function, managing the MOPAC Group's investments and borrowing activities. MOPAC Group officers provide the GLA with details of the daily cash flow requirements and monies are only transferred between the Authorities as and when required to match MOPAC Group 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.

3 The 18/19 GIS Investment Strategy was approved by the MOPAC Group on 26 March 2018.

Compliance with the 2018/19 Treasury Management Strategy Statement

4 As advised by the GLA the MOPAC CFO 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.

Economic Update and Interest Rates

5 The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

6 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

7 As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3-month average regular pay, excluding bonuses) and to a one-month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming

months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

8 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, the central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, 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.

9 The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

10 The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. It is not thought that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Current Treasury Management Position

11 The table below shows the current Treasury management position.

Current Treasury Position	TMSS Forecast to 31 March 2019		Actual as at 30 September 2018		Revised Forecast to 31 March 2019	
	£m	Rate %*	£m	Rate %*	£m	Rate %*
External Borrowing						
Long Term Borrowing: PWLB	295.95	4.00	123.78	4.51	238.58	4.07
Total External Borrowing (A)	295.95		123.78		238.58	
Other Long-Term Liabilities						
PFI Liability	71.22		72.64		71.22	
Finance Lease Liability	5.00		5.08		5.00	
Total Other Long-Term Liabilities (B)	76.22		77.72		76.22	
Total Gross Debt (A+B)	372.17		201.50		314.80	
Capital Financing Requirement	770.40		651.58		701.38	
Less Other Long-Term Liabilities	76.22		77.72		76.22	
Underlying Capital Borrowing Requirement (C)	694.18		573.86		625.16	
Under/(Over) Borrowing (C-A)	398.23		450.08		386.58	
Investments (D)	-78.13	0.64	12.50	0.85	13.50	
Total Net Borrowing (A-D)	374.08		111.28		225.08	

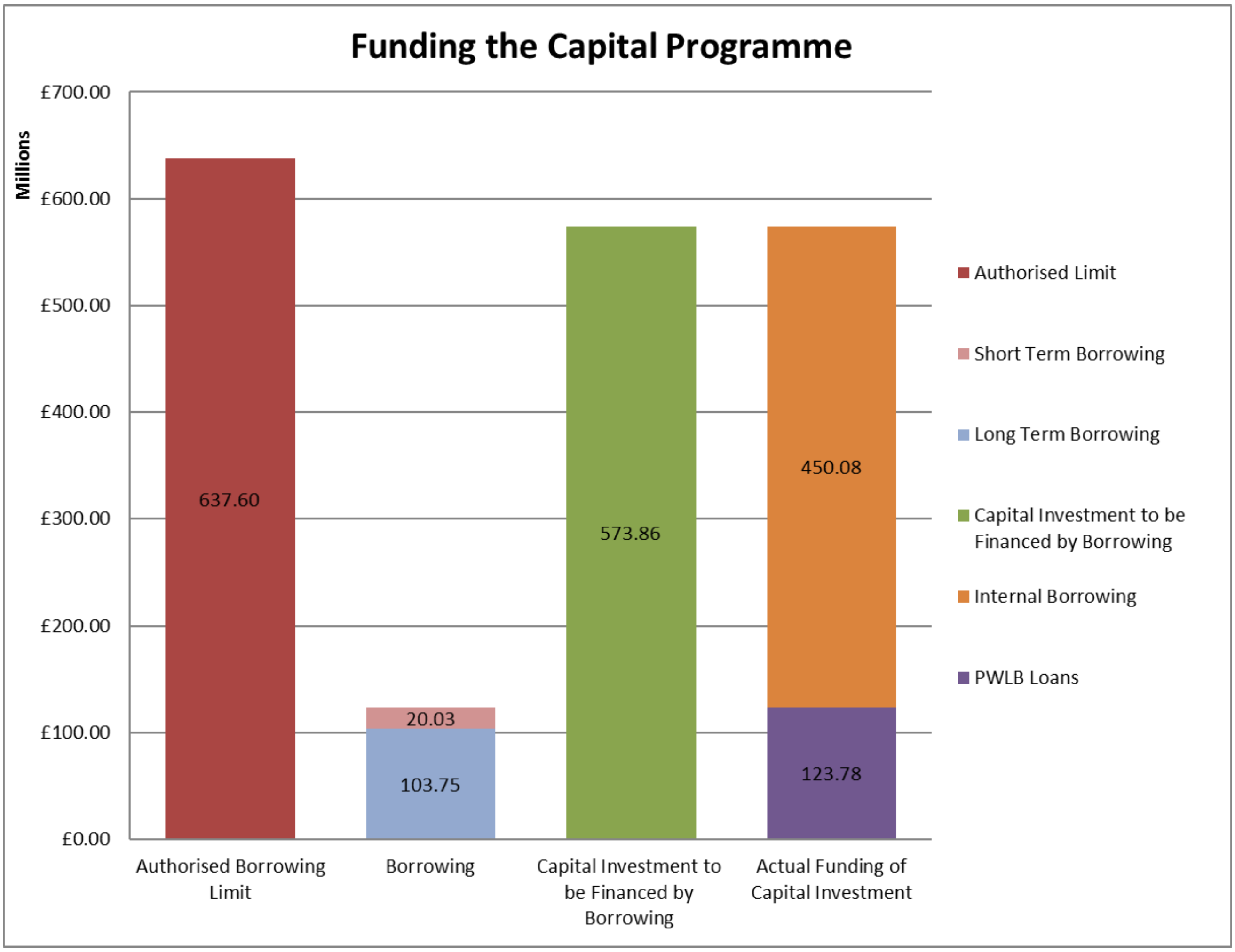
*Rate is the annualised yield as at the reporting date.

Borrowing Activity

12 In the six months to 30 September 2018, short-term borrowing decreased from £100m as at 31st March 2018 to nil at 30 September 2018. Long-term PWLB loans of £19.23m were also repaid during this period, reducing total borrowing to £123.78m at 30 September 2018.

13 No rescheduling of debt was undertaken during the six months ending 30 September 2018.

14 The chart below compares the maximum the MOPAC Group could borrow in 2018/19 with the ‘capital investment to be financed by borrowing’ at 31 March 2019 and the actual position of how this is being financed as at 30 September 2018.



15 The chart shows that the MOPAC Group's capital investment being financed by borrowing was £123.78m as at 30 September 2018. It also shows that the MOPAC Group was using £450.08m of internal borrowing to finance capital investment.

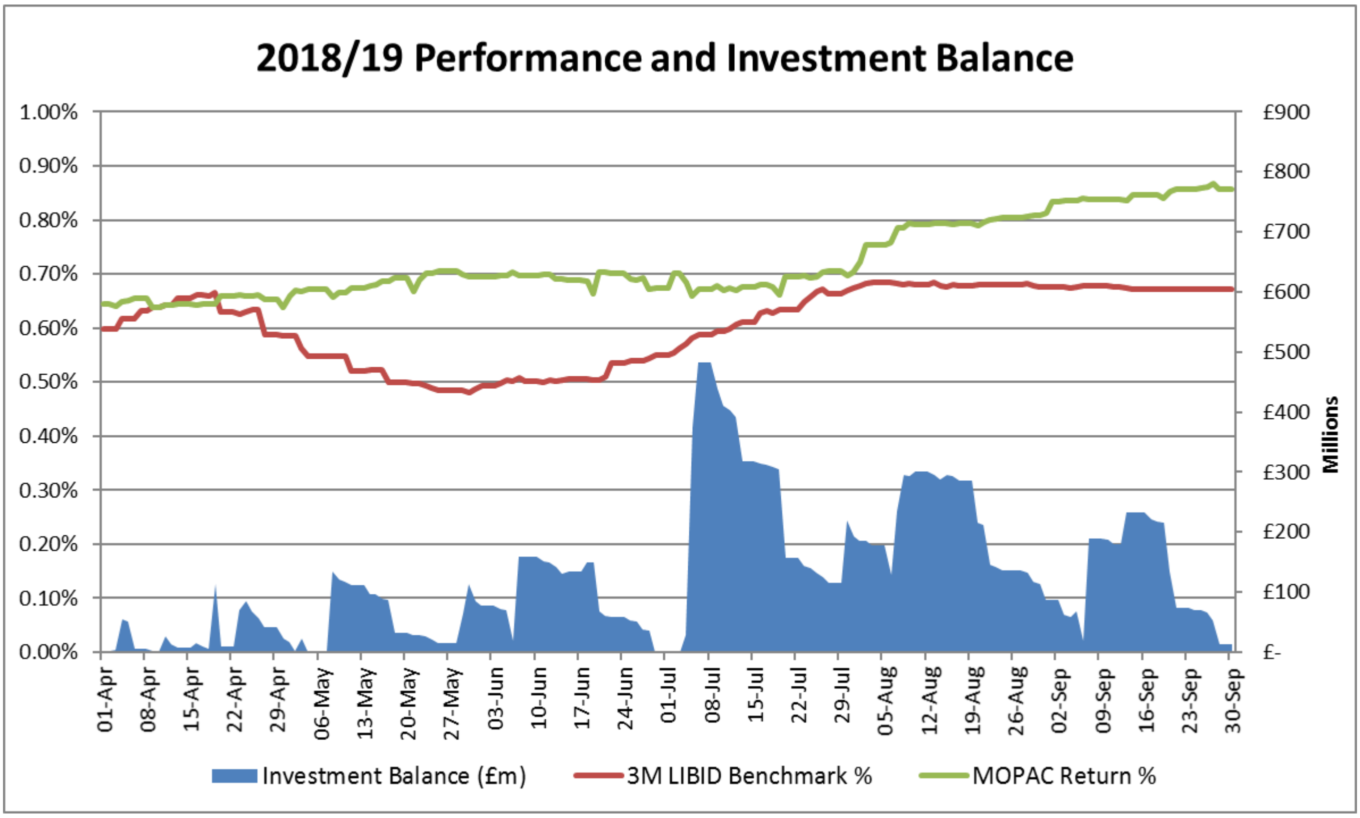
Investment Activity

16 Investment balances as at 30 September 2018 were £12.50m, this being an increase of £10.10m over the £2.40m opening balance on the 1 April 2018.

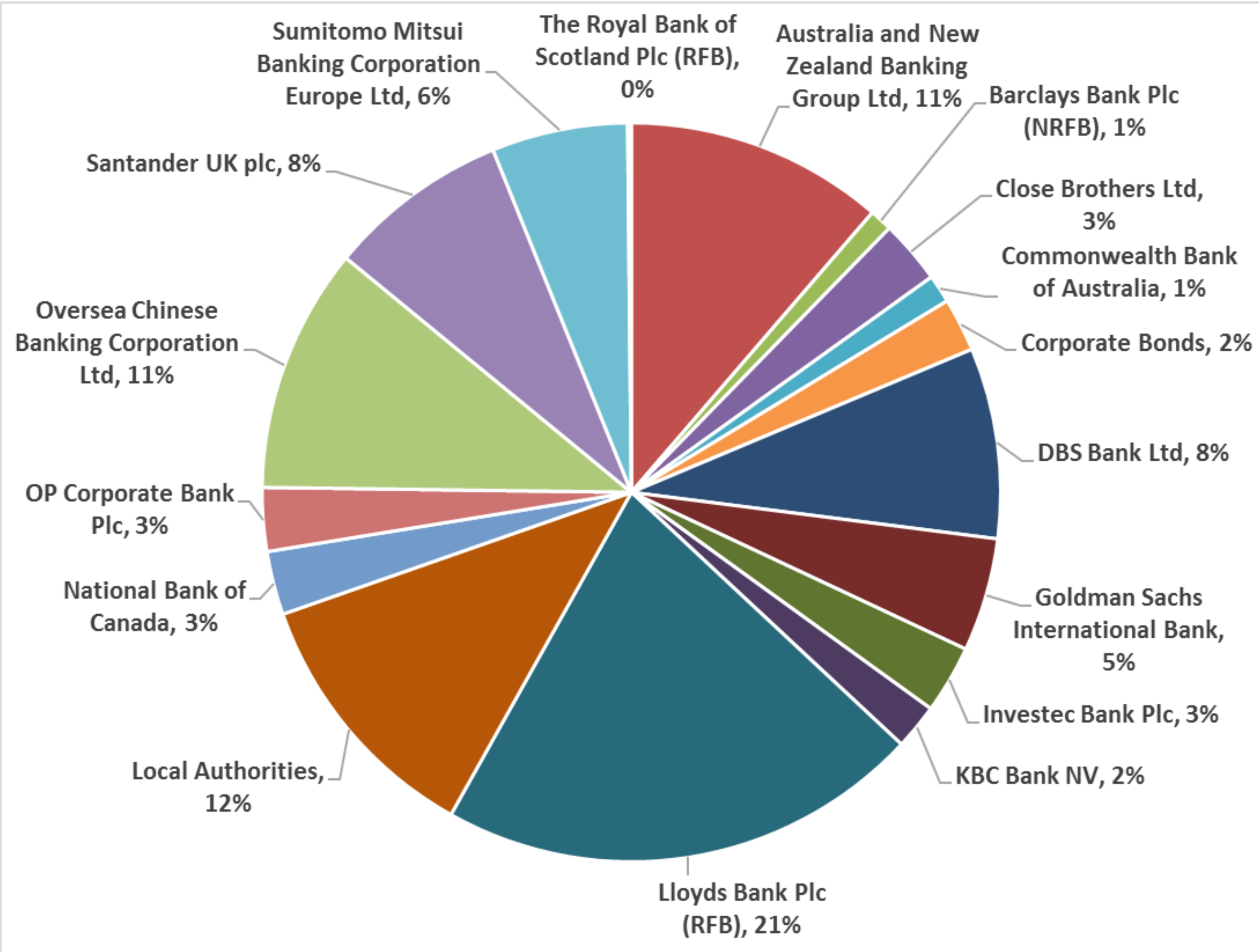
17 The MOPAC Group has outperformed its investment benchmark by 0.11% during the six months ending the 30 September 2018. It has achieved a cumulative weighted average yield of 0.74% on daily balances against a cumulative weighted average 3-month LIBID of 0.63%.

18 Throughout the period, the MOPAC Group maintained its liquidity target of a weighted average maturity (WAM) of not more than 91 days.

19 The following chart shows the outperformance described above, alongside the MOPAC Group's total investment balances for the period. 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.



20 The investment portfolio is well diversified as is demonstrated in the chart below, as at 30 September 2018.



Treasury Management Budget

Treasury Management Budget	2018-19 Original Estimate £m	2018-19 Actual as at 30.09.18 £m	2018-19 Revised Estimate £m	2018-19 Variance between Original Estimate and Revised Estimate £m
Interest payable: PWLB	8.40	3.11	6.96	1.44
Interest payable: Other Long-Term Liabilities	12.00	5.88	12.00	0.00
Interest Receivable	-1.30	-0.46	-0.98	-0.32
Total	19.10	8.52	17.98	1.12

21 The decrease in forecast interest receivable of £0.47m against original estimate reflects a lower than expected investment balance.

CIPFA Prudential Code Indicators and Treasury Management Limits

22 The tables below show the MOPAC Group's treasury position as at 30 September 2018, relative to the prudential indicator limits set in the 2018/19 Treasury Management Strategy.

23 All treasury activity for the period has been conducted within the limits set.

Capital Expenditure

Capital Expenditure	2018-19 Original Estimate £m	2018-19 Actual as at 30.09.18 £m	2018-19 Revised Estimate £m	2018-19 Variance between Original Estimate and Revised Estimate £m
Total Capital Expenditure	670.80	71.31	249.17	421.63
Capital Expenditure Excluding ESB	420.80	71.31	249.17	171.63

24 The reduction in forecast capital expenditure of £171.63m against original forecast has arisen due to changes in profile of the capital programme.

Capital Financing Requirement

Capital Financing Requirement (CFR)	2018-19 Original Estimate £m	2018-19 Actual as at 30.09.18 £m	2018-19 Revised Estimate £m	2018-19 Variance between Original Estimate and Revised Estimate £m
Total CFR	770.40	651.58	701.38	69.02

Authorised Limit for External Debt

Authorised Limit for External Debt	2018-19 Original Authorised Limit £m	2018-19 Actual External Debt as at 30.09.18 £m	Headroom £m
Borrowing	637.60	123.78	513.82
Other long-term liabilities	76.30	77.72	-1.42
Total	713.90	201.50	512.40

Operational Boundary for External Debt

Operational Boundary for External Debt	2018-19 Original Operational Boundary £m	2018-19 Actual External Debt as at 30.09.18 £m	Headroom £m
Borrowing	512.60	123.78	388.82
Other long-term liabilities	76.30	77.72	-1.42
Total	588.90	201.50	387.40

Gross Debt and the Capital Financing Requirement

2018-19 Actual Gross Debt as at 30.09.18 £m	Preceding Year CFR £m	2018-19 Estimated 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
201.50	601.80	0.00	225.15	117.79	944.74	743.24

Limits for Maturity Structure of Borrowing

Limits for Maturity Structure of Borrowing for 2018-19	Original Upper Limit	Original Lower Limit	As at 30.09.18
	%	%	%
Under 12 months	100.00	0.00	16.18
12 months and within 24 months	100.00	0.00	10.99
24 months and within 5 years	100.00	0.00	3.88
5 years and within 10 years	100.00	0.00	25.04
10 years and above	100.00	0.00	43.91

Principal Sums Invested for Periods Greater than 364 & 365 days

25 No new investment maturing after 364 days was undertaken between 1 April 2018 and the 30 September 2018.

New Long-Term Borrowing taken between 01/04/18 and 30/09/18

26 No new long-term borrowing was undertaken between 1 April 2018 and the 30 September 2018.