MPS-MOPAC JOINT AUDIT PANEL
3 October 2022

Treasury Management Outturn 2021/22

Report by: The Interim MOPAC Chief Finance Officer and Director of Corporate Services

<u>**Report Summary**</u>

Overall Summary of the Purpose of the Report
This report sets out the performance of the 2021/22 MOPAC Treasury Management (TM) function.

Key Considerations for the Panel
To note the performance and compliance of the treasury function during 2021/22.

Interdependencies/Cross Cutting Issues
Risk register, governance, financial oversight

Recommendations

The Audit Panel is recommended to:
a. Note the treasury management 2021/22 outturn

1. Supporting Information

1.1. This paper provides an update on the Treasury Management function performance during 2021/22.

2021/22 Outturn

1.2. All investment and borrowing activity during 2021/22 was undertaken within the guidelines and objectives set out in the relevant policy and investment and borrowing strategies.

1.3. MOPAC's weighted average investment return for the contractual element of GIS investment was 0.45% against a performance benchmark rate of 0.27% and for total GIS investment was 0.56% against a performance benchmark rate of 0.35%, an out performance of 0.18% and 0.21% respectively. The benchmark is a weighted average return calculated using SONIA for core liquidity investments and the target returns for RMBS and Strategic investments. This resulted in income of £1.28m.

1.4. No new long-term borrowing took place in 2021/22. As a result, the long term borrowing decreased by £1.6m, from £289.35m at the start of the year to £287.75m at 31 March 2022.

1.5. The cost of borrowing was £9.51m. The weighted average cost of borrowing of all long term loans as at 31 March 2022 was 3.29% (3.30% as at March 2021).

1.6. The full report is attached at Appendix One.

2. Equality and Diversity Impact

There are no equality and diversity implications directly arising from this report.

3. Financial Implications

The direct cost of the GLA shared service function to MOPAC in 2021/22 was £207,000. This was met from within existing MOPAC budgets.

4. Legal Implications

There are no legal implications arising from this report

5. Risk Implications

5.1. The investment strategy is set to reflect the low risk appetite of MOPAC, and in line with the principles of the CIPFA Code of Practice. Borrowing is currently all fixed rate and with the Public Works Loans Board (PWLB) in order to provide certainty of exposure.

5.2. Whilst every effort is made to minimise the likelihood of an incident the failure of for example a counter party would generate risks to the sum deposited and reputational risk for MOPAC

6. Contact Details

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7. Appendices and Background Papers

Appendix 1 – Treasury Management 2021/22 Outturn

GREATER LONDON AUTHORITY

GROUP TREASURY

Treasury Management Outturn for 2021/22

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 £49.56m as at 31 March 2021 to £1.51m at 31 March 2022.

The MOPAC Group's long-term outstanding borrowing has decreased from £289.35m at 31 March 2021 to £287.75m 31 March 2022.

Interest receivable and investment income achieved during 2021/22 was £1.28m.

Interest payable on external borrowing for 2021/22 was £9.51m against a budget of £19.00m.

All 2021/22 Treasury activity has been within the boundaries and levels set by the MOPAC Group in its Treasury Management Strategy Statement on 11 March 2021, DMPC Decision PCD 924.

Recommendation:

That the following is noted:

The 2021/22 Treasury outturn results against the 2021/22 Treasury Management Strategy Statement, as approved on the 11 March 2021, DMPC PCD 924.

Introduction/Background

1 This report provides details of all investment and borrowing activities for the period from 1 April 2021 to 31 March 2022 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 31 March 2022 with the opening position as at 1 April 2021.

2 Under the treasury management shared service arrangement with the Greater London Authority (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. The GLA now delivers investment management through a wholly owned subsidiary, London Treasury Limited (LTL), authorised and regulated by the Financial Conduct Authority (FCA). Authority 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 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 2021/22 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 2021/22 Treasury Management Strategy Statement (TMSS), alongside best practice suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Central Government.

4 Over the last two years, the coronavirus outbreak has caused huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left the Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% on 4th February 2022 and then to 0.75% in March 2022.

5 The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business as usual, the MPC can now focus on tackling the second round of effects of inflation. However, the squeeze on real household disposable incomes arising from the utility price hikes as well as council tax, water and many phone contract prices, are strong winds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance and consequently, inflation will be an even larger drag on real incomes in 2022, than in any year since records began in 2022.

6 During the pandemic, the governments of western countries have provided massive fiscal support to their economies, which has resulted in a large increase in total government debt for each country. It has therefore become very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher levels of inflation that we have generally seen over the last couple of decades. Both the Federal Bank and the Bank of England have already changed their policy towards implementing their existing mandates on inflation and full employment, to hitting an average level of target of inflation. Higher rates of inflation would also help to erode the real value of government debt more quickly.

Current Treasury Management Position

7 The table below shows the treasury management position at 31 March 2021 against the position at 31 March 2022.

Current Treasury Position	Actual as at 31 March 2021		Actual as at 31 March 2022	
	£m	Rate %*	£m	Rate %*
External Borrowing				
Long Term Borrowing: PWLB	289.35	3.30	287.75	3.29
Short term Borrowing: Market Loans				
Total External Borrowing (A)	289.35	3.30	287.75	3.29
Other Long Term Liabilities				
PFI Liability	60.43	6.86	54.10	6.85
Finance Lease liability	6.85	11.07	6.57	11.55
Total Other Long Term Liabilities(B)	67.28	7.29	60.67	7.36
Total Gross Debt (A+B)	356.63	4.05	348.42	4.00
Capital Financing Requirement	993.48		1,019.12	
Less Other Long Term Liabilities	67.28		60.67	
Underlying Capital Borrowing Requirement (C)	926.20		958.45	
Under/(Over) Borrowing (C-A)	636.85		670.70	
Investments (D)	49.56	0.36	1.51	0.88
Total Net Borrowing (A-D)	239.79		286.24	

*Weighted average rate as at 31 March

Borrowing Outturn

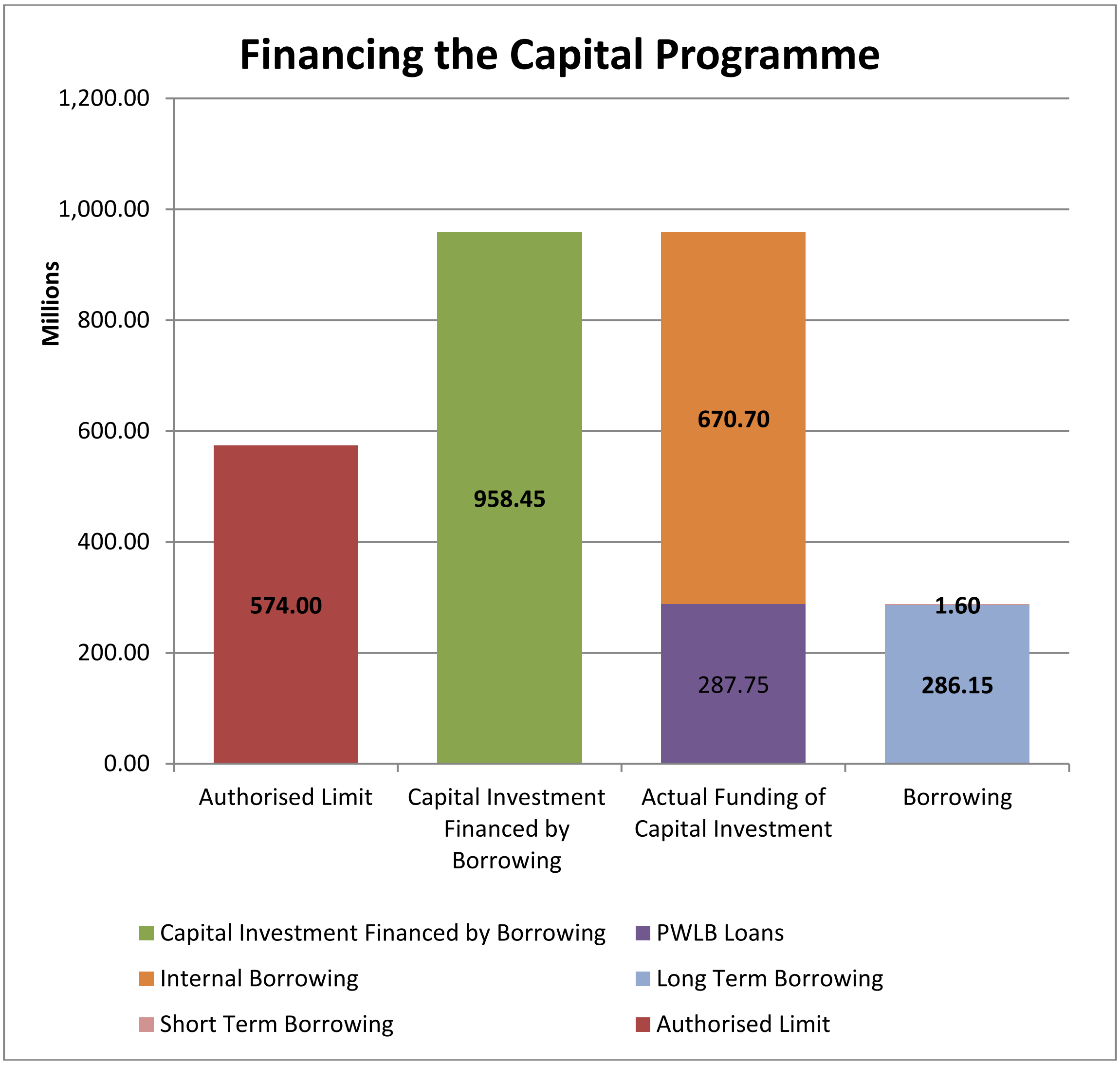
8 The MOPAC Group is permitted to borrow in order to finance spending for its Capital Programme. The amount of new borrowing needed each year is determined by new capital schemes approved and included in the Capital Programme.

9 Private Financing Initiative (PFI) liabilities reduced by £6.33m from £60.43m as at the 31 March 2021 to £54.10m as at 31 March 2022. Finance lease liabilities reduced from £6.85m as at the 31 March 2021 to £6.57m as at the 31 March 2022.

10 The MOPAC Group did not take any new long-term borrowing in 2021/22 and instead chose to utilise internal funds. Furthermore, £1.6m of existing long-term loan borrowing was repaid, with the total external long-term borrowing reducing to £287.75m as at 31 March 2022.

11 No borrowing rescheduling was undertaken during the financial year, as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

12 The graph below compares the MOPAC Group's capital investment to be financed by borrowing at 31 March 2022 and the actual position of how this is being financed at 31 March 2022. The final column shows the split between short-term (internal and external borrowing with duration of less than one year) and long-term borrowing.



13 The above graph shows the MOPAC Group's current capital investment that is being funded via external borrowing, as at the 31 March 2022, is £287.75m, which is £286.25m below the revised Authorised Borrowing Limit.

14 In addition, the graph shows how the MOPAC Group is currently funding its borrowing requirement. As at 31 March 2022, the MOPAC Group was using £670.70m of internal borrowing to finance capital investment. Internal borrowing is the use of the MOPAC Group's surplus cash to finance the borrowing requirement instead of borrowing externally.

Investment Governance

15 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.

16 The GIS is the GLA Group's liquidity solution for the participant within the treasury shared service. It is managed by LTL in a similar fashion to a commercial money market fund. Participants can deposit and withdraw funds daily, which restricts investments to highly secure, short-duration instruments with low price volatility.

17 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 investment.

18 Investments are made in line with a common GIS Investment Strategy, which includes a requirement to maintain a core liquidity allocation, of minimum 55% of the total portfolio, to a weighted average life which does not exceed 90 days. In addition, each participant can specify a portion of their investment to remain immediately accessible.

19 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 90 days. However, each participant can place a limit on the duration of these longer-term investments. For 2021/22, the MOPAC Group opted not to enter into any investments longer than 365 days in its own name, wishing to limit counterparty risk and liquidity risk.

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

21 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

22 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions 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 2021 £m	TMSS Forecast to March 2022 £m	Actual as at the 31 March 2022 £m	2021-22 Variance between Forecast and Actual £m
Fund balances/reserves	572.42	331.90	575.92	244.02
Provisions	40.67	30.00	36.56	6.56
Other/Capital Reserve	4.76	0.00	2.47	2.47
Total Core Funds	**617.85**	**361.90**	**614.95**	**253.05**
Working Capital Surplus*	68.56	150.00	57.26	-92.74
Under/(over) borrowing	636.85	374.04	670.70	296.66
Investments	**49.56**	**137.86**	**1.51**	**-136.35**

*Implied working capital derived from the difference between core funds and investments after under borrowing

23 Investment balances as at 31 March 2022 were £1.51m, this being an decrease of £48.05m over year-end balances as at 31 March 2021. The lower than expected investment balance as at 31 March 2022 reflects the decision to defer external borrowing and utilise internal resources for funding the capital programme.

Performance

The Authority's weighted average investment return for the contractual element of GIS investment was 0.45% against a performance benchmark rate of 0.27% and for total GIS investment was 0.56% against a performance benchmark rate of 0.35%, an out performance of 0.18% and 0.21% respectively. The benchmark is a weighted average return calculated using SONIA for core liquidity investments and the target returns for RMBS and Strategic investments.

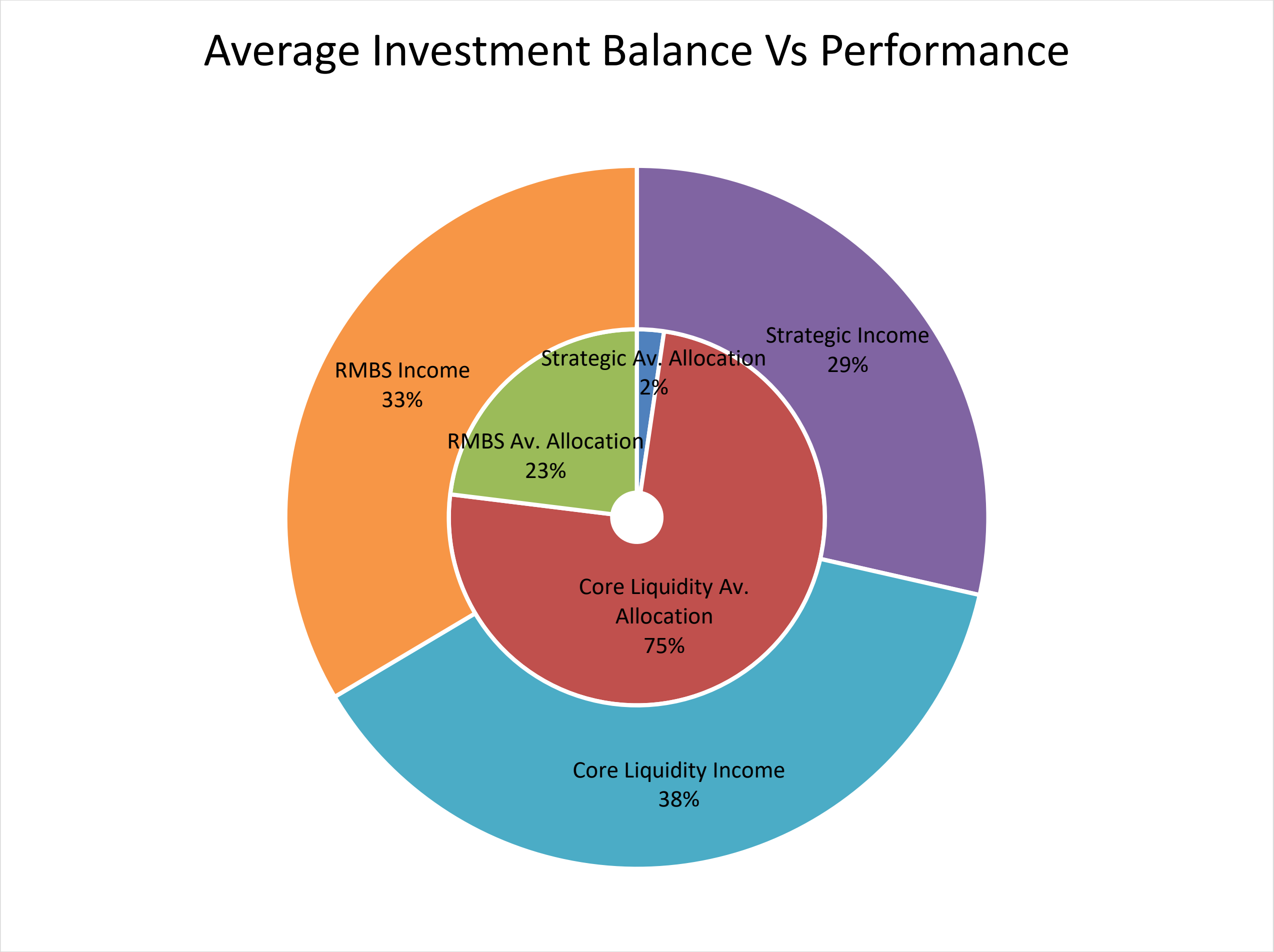
Average Investment and Performance

Average investments over the reporting period were £241.65m. The Investment portfolio consist of three elements:

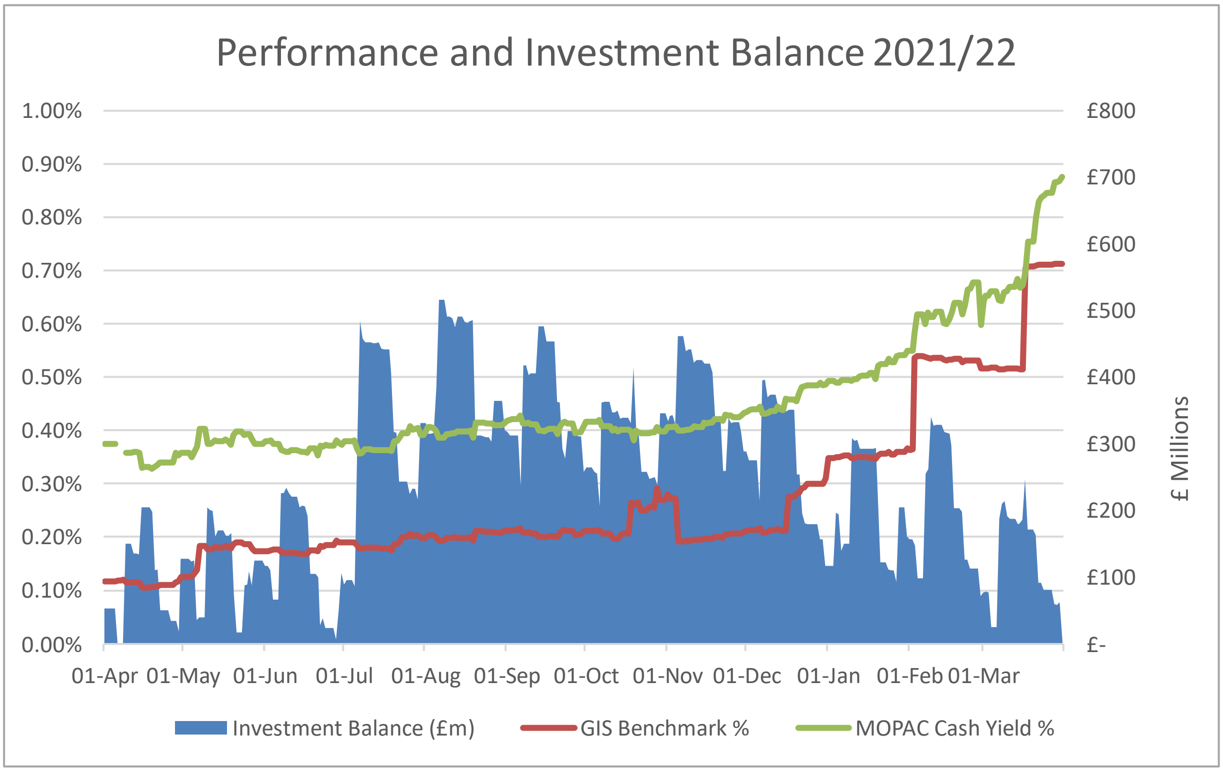
- Strategic Investment
- Short Term Investment (Other)
- Short Term Investment (RMBS)

The table and chart below show the split of investment and return on each element of investment in the financial year 2021/22.

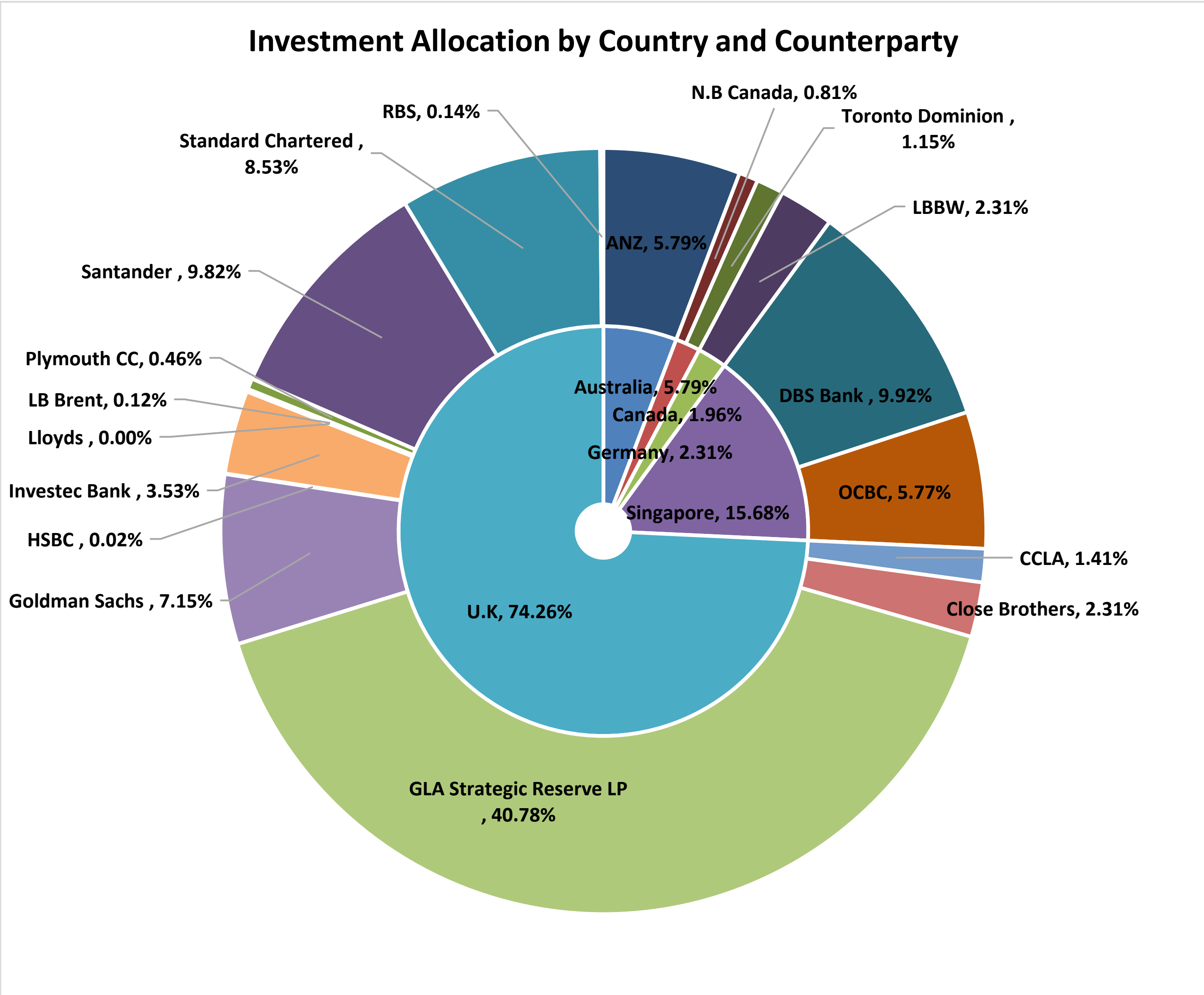
	Strategic Investment	Core Liquidity Investment	RMBS Investment	**Total**
Average (£m)	5.61	180.35	55.69	241.65
Proportion %	2%	75%	23.05%	100%
Interest (£m)	0.36	0.48	0.43	1.28
Proportion %	28.55%	38%	34%	100%



24 The following graph shows the MOPAC Group's outperformance described above, alongside the Group's investment balances throughout period. Fluctuations in balances reflect the differences in the timing of grants and expenditure.



25 The MOPAC Group’s investment portfolio, as at 31 March 2022, is well diversified as is demonstrated in the chart below.



Treasury Management Budget

Treasury Management Budget	TMMS Forecast to March 2022 £m	Actual as at the 31st March 2022 £m	2021-22 Variance between Forecast and Year End Actual £m
Interest payable: PWLB	19.00	9.51	-9.49
Interest payable: Other Long-Term Liabilities	13.10	13.46	0.36

Interest Receivable & Investment Income	-0.30	-1.28	-0.98
Minimum Revenue Provision	63.40	64.22	0.82
Total	82.10	72.45	-9.65

26 The overall positive variance of £9.65m reflects the decision not to take any new long-term borrowing in 2021/22. The MOPAC Group utilised internal resources rather than increase long-term borrowing in order to fund the capital programme during the period, reducing the amount of interest payable within 2021/22.

CIPFA Prudential Code Indicators and Treasury Management Limits

Background

27 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.

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

29 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

30 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.

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

Capital Expenditure

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

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

	Actual 2020-21 £m	TMSS Forecast to 31 March 2022 £m	Revised Forecast to 31 March 2022 £m	Actual 2021-22 £m	2021-22 Variance between Forecast and Actual £m
Total Capital Expenditure	328.9	385.20	271.80	247.20	-24.60

The capital expenditure for 2021/22 at £247.20m, was £24.60m less than the budgeted revised forecast.

Capital Financing Requirement

34 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.

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

36 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 asset's life.

37 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.

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

	Actual 2020-21 £m	TMSS Forecast to 31 March 2022 £m	Revised Forecast to 31 March 2022 £m	Actual 2021-22 £m	2021-22 Variance between Forecast and Actual £m
Total CFR	993.48	1,195.86	1,056.40	1019.12	-37.28

39 The capital financing requirement at 31 March 2022 is £37.28m lower than forecast at the start of the year.

External Debt Prudential Indicators

Authorised Limit for External Debt

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

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

42 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	2021-22 Authorised Limit £m	2021-22 Revised Authorised Limit £m	Actual External Debt as at 31 March 2022 £m	Headroom £m
Borrowing	1352.50	574.00	287.75	286.25
Other long term liabilities	58.40	60.70	60.67	0.03
Total	1410.90	634.70	348.42	286.28

43 The authorised limit headroom for external debt is £286.28m at 31 March 2022.

44 Operational Boundary for External Debt

45 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.

46 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	2021-22 Operational Boundary £m	2021-22 Revised Operational Boundary £m	Actual External Debt as at 31 March 2022 £m	Headroom £m
Borrowing	1227.50	449.00	287.75	161.25
Other long term liabilities	58.40	60.70	60.67	0.03
Total	1285.90	509.70	348.42	161.28

The operational boundary headroom for external debt is £161.28m at 31 March 2022.

Gross Debt and the Capital Financing Requirement

47 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 (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) 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.

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

Actual Gross Debt as at 31 March 2022 £m	Preceding Year CFR £m	2021-22 Additional CFR £m	2022-23 Estimated Additional CFR £m	2023-24 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
348.42	993.48	25.64	213.68	100.90	1333.7	985.28

49 Gross debt, as at 31 March 2022, is £985.28m 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

50 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.

51 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.

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

Financing Costs to Net Revenue Stream	Actual as at the 31 March 2021 %	TMSS Forecast to March 2022 %	Actual as at the 31 March 2022 %	2021-22 Variance between Forecast and Year End Actual %
Total	2.38	3.18	2.88	-0.30

Treasury Management Prudential Indicator

53 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.

54 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

55 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 2022		Actual as at the 31st March 2021	Actual as at the 31st March 2022
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	50.0	0.0	0.6	0.6
12 months and within 24 months	20.0	0.0	0.6	2.3
24 months and within 5 years	20.0	0.0	6.5	6.2
5 years and within 10 years	30.0	0.0	5.5	4.0
10 years and above	100.0	40.0	86.9	87.0

56 The above table shows that the MOPAC Group has a risk appropriate dispersion of debt over the years.

Limits for Principal Sums Invested for Periods Longer than 365 days

57 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

58 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.

59 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.

New Investments Maturing after 365 days taken between 01/04/21 and 31/03/22

60 No new investment maturing after 365 days was taken during 2021/22.

New Long-Term Borrowing taken between 01/04/21 and 31/03/22

61 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.

62 No new long-term borrowing was taken during 2021/22.