MOPAC | MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

DMPC Decision – PCD 1624

Title: Treasury Management Strategy 2024/25

Executive Summary:

The Treasury Management strategy sets out how MOPAC will manage its borrowings and investments over the short and medium term.

The GLA will continue to implement the MOPAC Treasury Management strategy via the Treasury Management Shared Service arrangement. MOPAC is a member of the the London Treasury Liquidity Fund LP (LTLF) who manage all MOPAC investments to generate financial and risk reduction benefits.

The MOPAC Treasury Management Strategy will make use of both the London Treasury Liquidity Fund LP (LTLF) for investment purposes and has the capacity if required to make investments in its own name. This is designed to spread counter party risk.

The external debt and treasury management limits and indicators in Appendix 1 are consistent with the MOPAC medium term financial strategy and 2024-25 budget.

Recommendation:

The Deputy Mayor for Policing and Crime is recommended to:

1. Approve the 2024-25 Treasury Management Strategy Statement and supporting detail as set out in Appendix 1.

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 **Date** 18/03/2024

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

1. Introduction and background

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require that MOPAC adopts a Treasury Management Strategy Statement (TMSS), Treasury Management Policy Statement and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government's (CLG) Investment Guidance.

1.2. The Treasury Management Strategy Statement 2024/25 defines the policies and objectives of MOPAC's treasury management activities and roles and responsibilities. In accordance with the scheme of delegation and consent it is the responsibility of the Deputy Mayor to approve the policy and strategy each year which are set out at Appendix 1. This provides an opportunity to review the current arrangements, and MOPAC's risk appetite.

1.3. The GLA Group Treasury services provide the day to day management and delivery of the MOPAC treasury management function.

2. Issues for consideration

2.1. The MOPAC Treasury Management Strategy, in line with the CIPFA Code of Practice, states that investment priorities are security first, liquidity second and then return.

<u>Borrowing</u>

2.2. Borrowing will only be undertaken where necessary and subject to the profile of capital spend, capital receipts and other funding streams.

2.3. The approved 2024/25 capital programme funding includes provision for new borrowing of £282.6m. MOPAC currently maintains an under-borrowed position, such that the capital financing requirement has not been fully funded with loan debt but by using the cash supporting MOPAC's reserves, balances and cashflow reducing the need to borrow externally. This is unlikely to be an option in the future as reserve balances are set to reduce significantly.

2.4. 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 will continue to be kept under review.

2.5. The proposed strategy includes that if necessary MOPAC borrow temporarily to cover any expected shortfall and where this represents prudent management of MOPACs affairs. This reduces the risks of holding excess balances and the cost of carry. Where an opportunity to reschedule existing debt is identified this will be undertaken within the limits of this strategy.

<u>Investment</u>

2.6. The MOPAC Group maintains a low risk appetite consistent with good stewardship of public funds. The MOPAC Group's investment priorities will be security first, portfolio liquidity second and then yield (return). The MOPAC Group will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and within the Group's risk appetite. Investments are managed in such a way as to make realised losses at the portfolio level extremely unlikely, while capturing the optimum return within these constraints.

2.7. All MOPAC investments are carried out in line with the MOPAC Treasury Management Strategy.

Prudential Indicators and Treasury Management Limits

2.8. Appendix 1C sets out the proposed 2024/25 range of prudential indicators and Treasury Management limits.

Management Arrangements

2.9. MOPAC has an Arrangement for Delegation for the treasury management function to the GLA. It will be the responsibility of the GLA to ensure that the function is adequately resourced and controlled.

2.10. The MOPAC Chief Finance Officer will receive regular reporting from the GLA/LTL on risks, performance, progress and strategic financing advice. Treasury Management advice will be provided by Link Asset Services.

2.11. GLA Group Treasury will liaise with MOPAC/MPS for the management of cash flow.

3. Financial Comments

3.1. The cost of borrowing for 2024/25 is currently estimated to be £38.4m for interest payable, and there is budget of £94.5m for minimum revenue provision. Interest receivable is estimated at £13.3m Budgets for this income and expenditure are included in the MOPAC/MPS budget for 2024/25.

3.2. The cost of the shared service arrangement with the GLA will be met from within existing resources.

4. Legal Comments

4.1. Under Section 1 of the Local Government Act 2003, MOPAC as a 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. Paragraph 4.7 of the MOPAC Scheme of Delegation and Consent provides that the DMPC has authority for the approval of " The annual Treasury Management Strategy, which will include details of MOPAC investment and borrowing strategy".

4.4. MOPAC's scheme of delegation and consent provides that the Chief Finance Officer, as the s127 officer, is responsible for the proper administration of the MOPAC's financial affairs. Paragraph 6.3 states that the following functions are reserved to the MOPAC Chief Finance Officer "Approval of the arrangements for the Treasury Management function, including the day to day management, production of Treasury Management strategy and supporting policies and procedures, subject to DMPC approval of the strategy"

4.5. An investment strategy statement must be completed as part of risk management and good governance. The report is submitted in compliance with TMSS and DCLG requirements in this regard.

5. Commercial Issues

5.1. The provision of the Treasury Management shared service arrangement is on a cost recovery basis. The benefits of the shared service function are set out above.

6. GDPR and Data Privacy

6.1. MOPAC will adhere to the Data Protection Act (DPA) 2018 and ensure that any organisations who are commissioned to do work with or on behalf of MOPAC are fully compliant with the policy and understand their GDPR responsibilities.

6.2. The proposal does not use personally identifiable data of members of the public therefore there are no GDPR issues to be considered.

7. **Equality Comments**

7.1. MOPAC is required to comply with the public sector equality duty set out in section 149(1) of the Equality Act 2010. This requires MOPAC to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations by reference to people with protected characteristics. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

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

8. Background/supporting papers

Appendix 1 Treasury Management Strategy 2024/25

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 covered in the body of the report.	✓
GDPR/Data Privacy GDPR compliance issues are covered in the body of the report .	✓
Drafting Officer Annabel Cowell has drafted this report in accordance with MOPAC procedures.	✓
Director/Head of Service: The interim MOPAC Chief Finance Officer and Director of Corporate Services has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓

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 **Date** 18/03/2024

Treasury Management Strategy Statement 2024/25

Introduction/Background

The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of the MOPAC Group for the year 2024/25.

This TMSS has been prepared with regard to the following legislation and guidance:

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Code) and associated Guidance Notes
- The CIPFA Prudential Code and associated Guidance Notes
- The Local Government Act 2003
- The Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments and
- The DLUHC Capital Finance Guidance on Minimum Revenue Provision (MRP).

The TM Code defines treasury management activities as:

> 'The management of the local 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.'

This TMSS therefore takes into account the impact of the MOPAC Group's Revenue Budget, Capital Spending Plan and the Balance Sheet position and covers the following areas:

- Economic Background
- Prospects for Interest Rates
- Forecast Treasury Management Position
- Borrowing Strategy
- Policy on Borrowing in Advance of Need
- Debt Rescheduling
- Investment Strategy
- Use of External Service Providers
- Treasury Training

- Treasury Management Policy Statement (Appendix A)

- Minimum Revenue Provision (MRP) Policy Statement (Appendix B)

- Prudential Code Indicators and Treasury Management Limits (Appendix C)

- The Investment Strategy (Appendix D)

- Treasury Management Practices: Main Principles (Appendix E)

In covering the above areas, as per its Treasury Management Policy Statement (Appendix A), the MOPAC Group regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Responsibility for risk management and control lies within the MOPAC Group and cannot be delegated to any outside organisation.

The Treasury Management risks the MOPAC Group is exposed to are:

- Credit and counterparty risk (security of investments)

- Liquidity risk (inadequate cash resources)

- Interest and market risk (fluctuations in interest rate levels and thereby in the value of investments)

- Refinancing risks (impact of debt maturing in future years)

- Legal and regulatory and fraud risk (non-compliance with statutory and regulatory requirements, risk of fraud)

These risks are further discussed in Appendix E (Treasury Management Practices: Main Principles)

The MOPAC Group formally adopts The TM Code through the following provisions

i. The MOPAC Group will create and maintain as the cornerstones for effective treasury management:

   - a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of its treasury management activities and

   - suitable Treasury Management Practices (TMPs), setting out the manner in which the MOPAC Group will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

   The content of the proposed policy statement and TMPs follow the recommendations contained in Sections 6 and 7 of the TM Code, subject only to amendment where necessary to reflect the circumstances of the MOPAC Group. Such amendments do not result in the MOPAC Group materially deviating from the TM Code’s key principles.

ii. The Deputy Mayor for Policing and Crime will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, quarterly and a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

iii. The Deputy Mayor for Policing and Crime holds responsibility for the implementation and regular monitoring of the MOPAC Group’s treasury management policies and practices and delegates treasury management decisions within the parameters of the TMSS to the MOPAC Group Chief Finance Officer (CFO) and the execution and administration of those decisions to the Greater London Authority (GLA), pursuant to Section 401(A) of the GLA Act 1999. The MOPAC Group CFO will act in accordance with the organisation's policy statement and TMPs and, if this officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

iv. The MOPAC Group has delegated to the MOPAC Group Audit Panel the responsibility for ensuring effective scrutiny of the treasury management strategy and policies.

v. Should there be a need to revise the Treasury Management Strategy, the Treasury Management Policy Statement, the Minimum Revenue Provision Policy Statement, the Prudential Code Indicators and Treasury Management Limits, the Investment Strategy and the Treasury Management Practices at times other than those stated above, then these updates will be submitted to the Deputy Mayor for Policing and Crime for approval with the exception for the Authorised limit which can only be changed by Mayoral Decision and consultation with the London Assembly The MOPAC Group will be fully consulted if any such changes are required.

vi. Should the MOPAC Group CFO wish to depart in any material respect from the main principles of the TM Code, the reason should be disclosed, in advance, in a report to the Deputy Mayor for Policing and Crime.

Economic Background

The Link Group has been appointed as treasury advisors to the GLA and the treasury management shared service Partners. The information and commentary provided in this section are from Link.

Link provided the following forecasts on 8th January 2024. Link expect the Monetary Policy Committee (MPC) to keep Bank Rate at 5.25% until the second half of 2024. Inflation pressures are expected to ease which may allow for potential reductions. However, the outlook is far from certain. The table below provides forecasts for Bank Rate, average earnings and PWLB certainty rates (gilt yields plus 80 bps).

Link Group Interest Rate View 08.01.24	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Source: Link

Link have stated that due to the number of variables, caution must be exercised in respect of all interest rate forecasts. It is election year for the UK and USA. The MPC will have to consider economic data releases, central government fiscal policies and international factors such as US and European policy developments, support packages to aid China's faltering economy, along with ongoing conflicts in Ukraine and the Middle East.

Forecast Treasury Management Position
The MOPAC Group's forward treasury portfolio position is summarised below. The table shows the actual external borrowing against the underlying capital borrowing requirement (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Forecast Treasury Position as at 31 March	2023-24 Forecast	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
External Borrowing				
Long term borrowing	579.6	914.6	1,111.9	1,325.0
Short term borrowing	150.0	180.0	110.0	0.0
Total External Borrowing at 31 March	729.6	1,094.6	1,221.9	1,325.0
Other Long-Term Liabilities				
PFI Liability	43.6	36.2	26.7	17.1
Finance Lease Liability	6.1	6.0	6.0	6.0
Total Other Long-Term Liabilities at 31 Marc	49.7	42.2	32.7	23.1
Total Gross Debt	779.3	1,136.7	1,254.6	1,348.1
Capital Financing Requirement	1,168.9	1,357.0	1,444.3	1,502.2
Less Other Long-Term Liabilities	49.7	42.2	32.7	23.1
Underlying Capital Borrowing Requirement	1,119.2	1,314.8	1,411.6	1,479.1
Under/(Over) Borrowing	389.7	220.3	189.8	154.2
Investments at 31 March	5.95	19.71	17.85	41.15
Net Borrowing	723.6	1,074.8	1,204.0	1,283.8

Borrowing Strategy

Delegation/Authorisation

The arrangements for borrowing, including the selection and the type and structure of debt instruments, are delegated to the MOPAC Group CFO, provided no decision contravenes the limits set out in the prevailing TMSS.

The MOPAC Group CFO is:

- authorised to approve borrowing by the MOPAC Group, for the purposes of financing capital expenditure

- authorised to make use of cash balances to fund internal borrowing when it is considered advantageous

- authorised to borrow temporarily within the Authorised Limit, where this represents prudent management of the MOPAC Group's affairs. As an example, where a cash flow requirement is short-lived, the opportunity cost of withdrawing or otherwise liquidating investments may exceed that of temporary borrowing. In such circumstances, borrowing may be the prudent action.

- authorised to borrow temporarily above the Authorised Limit where, and only where the amount of the increased limit represents the amount of any delayed payment which is due to the MOPAC Group and has not been received on the due date, and such delay has not already been provided for in the Authorised Limit, under the provisions of Section 5 of the Local Government Act 2003.

All borrowing decisions should be reported to the MOPAC Group Audit Panel at the first opportunity within the treasury management cycle.

Internal Borrowing Approach

When using cash balances to fund internal borrowing, the MOPAC Group acknowledges that this may reduce credit risk and short-term net financing costs. However, any decision to undertake internal borrowing will be tempered by the following considerations:

- The MOPAC Group must maintain sufficient liquidity to be certain of meeting existing borrowing and other obligations
- The measures set out in the investment strategy below substantially control credit risk
- The materiality of such risks should be considered in the light of the long-term financial consequences of sub-optimal borrowing decisions
- Agreements with central government specifying particular levels of borrowing and
- Investment rates are expected to remain below borrowing rates over the next 12 months.

Policy on Borrowing in Advance of Need

The MOPAC Group will not borrow purely to profit from the investment of the surplus borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the MOPAC Group can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the MOPAC Group will:

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets are considered to be affordable and are within the forward approved Capital financing requirement estimate
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships and
- consider the alternative interest rates bases available, the most appropriate periods to fund and repayment profiles to use.

Debt Rescheduling

PWLB pricing policies currently impose a considerable spread between the rate of new loans and the rate used to calculate premiums or discounts on early redemption. This means that there are prohibitively expensive premia in relation to achievable savings. This emphasises the importance of attempting to optimise maturity profiles at the point of entering into borrowings.

Investment Strategy

The MOPAC Group maintains a low risk appetite consistent with good stewardship of public funds. The MOPAC Group's investment priorities will be security first, portfolio liquidity second and then yield (return). The MOPAC Group will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and within the Group's risk appetite. Investments are managed in such a way as to make realised losses at the portfolio level extremely unlikely, while capturing the optimum return within these constraints.

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 estimates of the year end investment balances.

Core Funds and Expected Investment Balances	2023-24 Forecast	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
Fund Balances/Reserves	284.6	129.0	96.6	84.3
Provisions	31.0	31.0	31.0	31.0
Total Core Funds	**315.6**	**160.0**	**127.6**	**115.3**
Working Capital Surplus	80.0	80.0	80.0	80.0
Internal borrowing	389.7	220.3	189.8	154.2
Expected Investments	**5.9**	**19.7**	**17.9**	**41.1**

MOPAC's Group's short-term cash balances are managed by the GLA's subsidiary, LTL and third-party asset managers appointed, through LTLF. The investment strategy for this arrangement is included within Appendix 4 but is subject to the agreement of all participating authorities; the MOPAC Group CFO is authorised, having taken proper advice from Link or other suitably qualified advisors, to agree amendments to this, provided that the underlying exposures of any amended strategy do not breach the limits set out in Appendix D.

Changes to the 2024/25 Investment strategy since the previous iteration have been detailed in the Annual Investment Strategy in Appendix D.

The Investment Strategy 2024/25

The Investment strategy is considered and agreed by all Partners before the start of each financial year. A common approach permits maximum efficiency of the group shared service.

Additionally, the MOPAC Group CFO may from time to time instruct LTL to invest sums independently, for instance, if the MOPAC Group identifies balances which are available for longer term investment, after proper consideration of expected future cash flows, as at the time of investment. It is proposed that the MOPAC Group adopt an identical set of parameters for such investments as those detailed in Appendix D. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Greater than 365 Days' (Appendix C section 6.3).

Following the transfer of funds to the GLA for to the Partnership, the MOPAC Group aims to have a daily net zero balance across the suite of RBS accounts it operates.

Whilst the MOPAC Group sets its Annual Investment Strategy at the start of each financial year, this need not be a once-a-year event, and the initial investment strategy may be replaced by a revised Strategy, at any time during the year, on one or more occasions, subject to the approval of the MOPAC Group. All Investment Strategies approved by the MOPAC Group will be made available to the public free of charge, on print or online.

Treasury Management Budget

The Table below provides a breakdown of the treasury management budget.

Treasury Management Budget	2023-24 Forecast	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
Interest payable	36.9	38.4	52.9	51.5
Interest Receivable	-23.4	-13.3	-10.3	-10.3
Minimum Revenue Provision for	66.2	94.5	124.4	144.9
Total	**79.6**	**119.7**	**167.1**	**186.2**

Assumptions behind the 2024/25 Budget are:

- Average rates achievable on investments will be 4.72%
- Average rates payable on new borrowing will be 3.32%.
- The MRP charge is in line with the MOPAC's MRP Policy.

Use of External Service Providers

The MOPAC Group uses the Link Group as its external treasury management advisor under a joint arrangement with the Greater London Authority. Whilst recognising the specialist skills and resources such advisors can provide, the MOPAC Group recognises that responsibility for treasury management decisions remains wholly with the organisation and will ensure that undue reliance is not placed upon external service providers. The MOPAC Group monitors and maintains the quality of this service by regular review and assessment.

MOPAC does not directly employ any external fund managers, however in the event of appointment, appointees will comply with this and subsequent Treasury Strategies. In addition, before any appointment is made, a fully costed appraisal would be performed and approval from MOPAC obtained.

RBS Plc are the MOPAC Group's bankers and continue to provide a competitive service under an annual rolling contract.

In addition to the GLA's wholly owned investment management subsidiary, LTL, under the London Treasury Liquidity Fund (LTLF), uses two external fund managers, TwentyFour Asset Management and Prytania Asset Management, for the Fund's Residential Mortgage Backed Securities (RMBS) investments. These and any future appointed managers must be authorised and regulated by the Financial Conduct Authority.

The LTLF uses State Street Bank and Northern Trust as custodians of the any tradeable instruments (such as Treasury Bills). The investment policy is that any custodian (or sub-custodian, as may be the case) shall meet the credit criteria for 12 month investments as set out in the Investment Strategy (prior to Credit Default Swaps Market or other temporary adjustments). This restriction will apply to any custodian (or sub-custodian) appointed directly by MOPAC.

Treasury Training

The Code requires that members with responsibility for treasury management receive adequate training in treasury management. Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

Member/Senior officer training is available from the MOPAC's external treasury advisors (Link Group) and will be arranged as required.

LTL officers performing regulated roles are obliged to undertake regulatory and technical training as required from time to time by LTL's Board.

LTL officers also routinely attend national forums and practitioner groups, such as the CIPFA Treasury Management Network.

LTL officers supported by Link Group, maintain a regular training programme available to all participating in the shared service and is arranged as required.

Notwithstanding the above, the training needs of Treasury officers and committee members are periodically reviewed.

Appendix A: Treasury Management Policy Statement

1. Policy Statement

1.1 This policy statement is in the form recommended by the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes, Section 6.

1. The MOPAC Group defines its treasury management activities as:

2. 'The management of the local 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.'

3. The MOPAC Group regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the MOPAC Group, and any financial instruments entered into to manage those risks.

4. The MOPAC Group acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Appendix B: Minimum Revenue Provision (MRP) Policy Statement

1. Policy Statement

1.1 MRP is the amount out of revenue funding set aside each year as a provision for debt i.e. the provision in respect of capital expenditure financed by borrowing or credit arrangements.

1.2 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) provides that for the financial year 2007/08 and subsequent financial years, the detailed MRP calculation is to be replaced with the requirement that:

1.3 'A Local Authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'.

1.4 The guidance also recommends that the annual MRP Policy is presented to the MOPAC Group for approval before the start of the financial year to which it relates. Any in-year changes must also be submitted to the MOPAC Group for approval.

1.5 For 2024/25 the MOPAC Group will make a minimum revenue provision (MRP) in accordance with: -

(a) the capital financing requirement method for any borrowing undertaken prior to 2008/09, and for all borrowing undertaken since that date supported through the revenue grant settlement, and

(b) the asset life method for unsupported borrowing undertaken in 2008/09 and subsequent years as permitted by the flexibilities provided under the Prudential Code.

In accordance with The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting, MRP in respect of (a) Private Finance Initiative schemes and (b) assets subject to finance leases, both of which are now recorded as long term liabilities, is made by recognition of an element of the annual unitary charge as repayment of principal.

Appendix C: CIPFA Prudential Code Indicators and Treasury Management Limits

1.0 Background

1.1 The Prudential Code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Prudential 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.

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

1.3 Any such framework for the internal control and self-management of capital finance must therefore deal with all three of the following elements:

- Capital expenditure plans
- External debt
- Treasury Management

1.4 To ensure compliance with the Prudential 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 forecasts 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.

1.5 Prudential Indicators and Treasury Management Limits must be approved by the MOPAC Group and any subsequent changes to these Indicators and Limits must also be approved by the MOPAC Group. As stated previously the one exception to this relates to the Authorised limit which can only be changed by Mayoral Decision and consultation with the London Assembly.

1.6 These Prudential Indicators are set out below and reviewed for compliance.

2.0 Capital Expenditure

2.1 <u>Capital Expenditure</u>

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

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

Capital Expenditure	2023-24 Forecast	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
Total Capital Expenditure	335.6	340.5	254.5	249.2
Financed by:				
Capital Grants & Third Party Contributions	63.1	46.0	29.8	32.1
Revenue Contributions	3.7	0.0	12.3	3.3
Capital Receipts	15.3	11.9	0.8	10.9
Net financing need for the year	**253.5**	**282.6**	**211.6**	**202.9**

2.2. Capital Financing Requirement (CFR) - the Authority's borrowing need

2.2.1 The capital financing requirement is an indication 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.

2.2.2 It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been charged to the revenue account, will increase the CFR. The annual MRP acts to spread the revenue impact over the aggregate useful life of the assets in question.

Capital Financing Requirement (CFR) £m	2023-24 Forecast	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
Opening CFR	982	1,169	1,357	1,444
Net financing need for the year (see Capital Expenditure table)	254	283	212	203
Less MRP/VRP** and other financing movements	(66)	(95)	(124)	(145)
Closing CFR	**1,169**	**1,357**	**1,444**	**1,502**

*The MRP/VRP includes PFI/finance lease annual principal payments

3.0 External Debt Prudential Indicators

3.1 Authorised Limit for External Debt

3.1.1 The Authorised limit is the expected maximum borrowing needed with some headroom for unexpected developments such as unusual cash movements.

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

3.1.3 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	2023-24 Revised	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
Borrowing	997.0	1,261.0	1,391.7	1,485.3
Other long-term liabilities	49.7	42.2	32.7	23.1
Total	**1,046.7**	**1,303.2**	**1,424.4**	**1,508.4**

3.2 Operational Boundary for External Debt

3.2.1 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.

3.2.2 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	2023-24 Forecast	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
Borrowing	872.0	1,136.0	1,266.7	1,360.3
Other long-term liabilities	49.7	42.2	32.7	23.1
Total	**921.7**	**1,178.2**	**1,299.4**	**1,383.4**

3.3 Gross Debt and the Capital Financing Requirement

This indicator seeks to ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

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

Gross Debt and the Capital Financing Requirement	2023-24 Forecast	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
Gross Debt at 31 March	779.3	1,136.7	1,254.6	1,348.1
Capital Financing Requirement	1,168.9	1,357.0	1,444.3	1,502.2

4.0 Affordability Prudential Indicators

4.1 Ratio of Net Financing Costs to Net Revenue Stream

4.1.1 This indicator compares the total principal and net interest payments on external debt to the overall revenue spending of the MOPAC Group.

Net Financing Costs to Net Revenue Stream	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
Total	3%	4%	5%	5%

5.0 Treasury Management Prudential Indicator

5.1 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.

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

6.0 Treasury Management Limits on Activity

6.2 Limits for Maturity Structure of Borrowing

6.2.1 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 debt that has the same maturity structure and would therefore need to be replaced at the same time. The indicator is calculated as the amount of projected borrowing that is maturing in each period expressed as a percentage of total projected borrowing. For each maturity period an upper and lower limit is set.

6.2.2 The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. Where the lender has the right to increase the interest rate payable without limit, the maturity date will be deemed to be the next call date.

Limits for Maturity Structure of Borrowing	Upper Limit	Lower Limit
	%	%
Under 12 months	50.00	0.00
12 months to 2 years	20.00	0.00
2 years to 5 years	20.00	0.00
5 years to 10 years	35.00	0.00
10 years to 20 years	35.00	0.00
20 years to 30 years	50.00	0.00
30 years to 40 years	25.00	0.00
40 years to 50 years	20.00	0.00

6.3 Limits for Principal Sums Invested for Periods Greater than 365 Days

6.3.1 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 MOPAC Group's 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.

6.3.2 Under this indictor the MOPAC Group is therefore required to set an upper limit for each financial year period for the maturing of its long-term investments.

6.3.3 This limit does not apply to externally managed funds or to pooled monies within the LTLF. This is one of the key benefits of the pooled arrangement, allowing MOPAC to obtain diversification and returns that would not be possible on a standalone basis.

Upper limit for principal sums invested for longer than 365 days	**Maximum principal sums invested >365 days**		
	2023-24	**2024-25**	**2025-26**
Principal sums invested for longer than 365 days	0.00	0.00	0.00

7.0 Liability Benchmark

7.1.1 The Authority is required to estimate and measure the forthcoming financial year and the following two financial years, as a minimum.

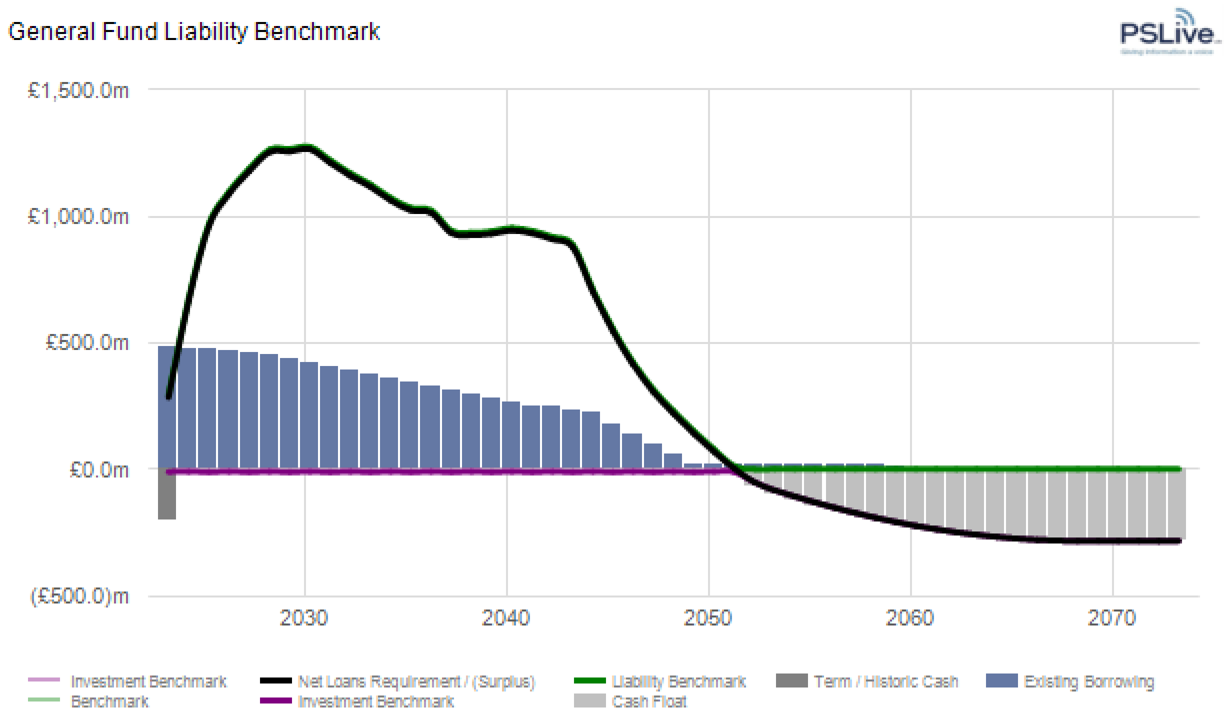
7.1.2 There are four components to the LB: -

a) **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.

b) **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

c) **Net loans requirement**: this shows the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

d) **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



7.1.3 The chart indicates a sizeable gap between external borrowing and the liability benchmark. Factoring in the 20 year capital strategy shows the benchmark level of external loans peaking at £1.27bn in 29/30 before net loans requirement turns into a net surplus by 2050/51.

7.1.4 This net position takes account of the Capital Financing Requirement (red line) and its amortisation as debt is resourced, as well as Other Balance Sheet Items (yellow line) which compromise reserves, balances, provisions, working capital etc. These Other Balance Sheet Items (positive balances) are projected to reduce from over £600m to just under £300m by 28/29. The net indebtedness therefore is increasing over the period both as a result of increases in the CFR as Prudential Borrowing, and a reduction in the level of positive balances.

7.1.5 As the Other Balance Sheet Items are projected to remain flat at c£300m, once the CFR amortises and is reduced to a value less than £300m, the authority is in a net surplus and therefore investment balances will be projected to rise as the net surplus increases.

7.1.6 The chart demonstrates a clear future borrowing requirement, on current estimates of up to £850m required by 29/30 on an amortising structure no longer than 25 years.

The main changes in the Investment Strategy are summarised below:

1. A new Strategic Lending allocation of 5% of the fund is to be created by taking 5% from Core Liquidity (now 50% rather than 55%). Liquidity has been maintained by reducing the maximum Weighted Average Life (WAL) of Core Liquidity from 90 days to 60 days.
2. Strategic Lending (a new 5% allocation) and Strategic Investments (the existing 10% allocation) have performance benchmarks of SONIA + 200bps and + 300bps respectively, giving LTLF the flexibility to take advantage of a wider range of investment opportunities. Previously, Strategic Investments had a benchmark return of SONIA + 400bps, set in a very different interest rate environment and which ruled out a number of investments that could usefully contribute to achieving the targeted return while remaining within acceptable risk parameters.
3. In section 3, Counterparty and Investment Limits, investments are categorised as Specified (S) or Non-Specified (NS) in accordance with the statutory guidance. Previously there was a NS* category where the investments concerned had to be managed by an FCA regulated manager. Since all investments have to be managed by FCA regulated managers under the current fund structure, this category is redundant and has been replaced by NS.
4. Section 3.3 has been redrafted to clarify how the exposure limits are calculated, in particular, how forecast average balances are used for measuring limits for longer-term investments. This highlights how important it is that the Partners work in partnership to create accurate forecast cash-flow information, which then enables LTL to meet the Partners' liquidity requirements in the most efficient manner possible.
5. In Table 5, the cash exposure limits have been reduced to individual counterparties. These reduced limits promote a diversification of counterparties and better reflects how the portfolio is run in practice.
6. A new limit of 10% of the portfolio to any Local Authority counterparty (previously not limited) has been introduced. This reflects the fact that while Local Authorities are considered to carry UK Sovereign risk by Link Asset Services, there is nevertheless the possibility of stressed Local Authority cash-flows in the short term.
7. To bring consistency, a maximum limit on any new investment has been proposed across both Strategic Lending and Strategic Investments of 3% of assets under management at the point of commitment.
8. With Strategic Investments, while seen as longer-term investments, the intention is to have regular liquidity. This will come from a diversified portfolio of closed investments returning capital each year plus investments that offer redemption options within 12 months. An initial limit of at least 33% of the portfolio being liquid within one year was included in the 2023-24 investment strategy. Reviewing the investment opportunities available, to avoid overly restricting opportunities, it is proposed to set the percentage at 25% rather than 33%.

Appendix D: Investment Strategy 2024-25

1. Background

1.1. This document sets out the investment strategy for the London Treasury Liquidity Fund (LTLF) for the financial year 2024-25.

2. Strategic Asset Allocation

2.1. The proposed strategic asset allocation for the investment strategy is as follows:

Asset type		**Allocation**	**Gross expected return**
Core liquidity WAL ≤ 60 days	Overnight liquidity	10%	SONIA
	Short-term deposits or investment grade debt	40%	SONIA
Medium-term	Senior RMBS Expected WAL ≤ 3.5 years	35%	SONIA + 30bps
	Strategic lending Expected WAL ≤ 5 years	5%	SONIA + 200bps
Long-term core balance	Other strategic investments	10%	SONIA + 300bps
Total		**100%**	**SONIA + 50bps**

Glossary

RMBS:	Residential Mortgage-Backed Securities
SONIA:	Sterling Overnight Index Average rate
WAL:	Weighted Average Life
Gross expected return:	Expected gross return before fees and expenses incurred directly by LTLF

2.2. LTLF has the following objectives and risk profile:

Security of Capital

The portfolio 95% VaR (value at risk) should not exceed 2%.

The VaR will be assessed at least semi-annually using appropriate professional advice.

Liquidity

LTLF aims to meet all properly constituted withdrawal requests from its Limited Partners.

Yield

LTLF targets a net return of at least SONIA + 40 bps over a rolling three-year period.

3. Counterparty and Investment Limits

3.1. Table 1 sets out the range of specified and non-specified investments permitted by LTLF. Specified and non-specified investments are as defined in the Statutory Guidance on Local Government Investments issued by the Department for Levelling Up, Housing and Communities (DLUHC) under the Local Government Act 2003.

The following key applies:

S = Specified (These are sterling investments with high credit quality and a maturity period of not more than 365 days, or those which could be for a longer period but where the lender has the right to be repaid within 365 days if it wishes. These are low risk assets where the possibility of loss of principal or investment income is negligible. The instruments and credit criteria to be used are set out in the table below.)

NS = Non-Specified (Non-specified investments are any other type of investment. They normally offer the prospect of higher returns but carry a higher risk.)

3.2. LTLF will make best efforts to maintain at least 50% of all investments (or underlying investments) in the form of Specified Investments.

Table 1

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure (see 3.3)
Senior Unsecured Debt, e.g. • **Deposits** • **Call Accounts** • **Notice Accounts** • **Certificates of Deposit** • **Loans** • **Commercial Paper** • **UK Gilts and T-Bills** • **All other senior unsecured bonds**	Issuer (and security where separately rated) Investment Grade (IG) defined per **Table 3** OR UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) OR Issuer not meeting general criteria but instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per **Table 2**	S	NS	Aggregate 100%, individual limits determined by **Table 5**
Money Market Funds	Fitch AAA_{mmf} or above	S	*N/A*	100%

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure (see 3.3)
	See **Table 3** for equivalents from other agencies Daily liquidity			Not more than 20% per fund
Other Collective Investment Schemes e.g. Enhanced Cash Funds	Fitch AAA_f or equivalent from other agencies per **Table 3**	NS	*N/A*	20%
Covered Bonds	Bond rating Fitch $AA+_{sf}$ or equivalent from other agencies per **Table 3** AND Issuer rated Fitch A- or above or equivalent from other agencies per **Table 3**	NS	NS	20%
Repurchase Agreements (Repo)	Counterparty meets senior unsecured criteria AND proposed collateral (Min 100%) itself meets permitted investment criteria OR Collateralisation is >102% with UK Gilts / T-Bills	S – UK gilts or T-Bills AND counterparty meets senior unsecured criteria NS – other	*Not permitted*	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria
Senior UK Prime or Buy-to-Let Residential Mortgage-Backed Securities (RMBS)	Bond rating Fitch $AA+_{sf}$ or above or equivalent from other agencies per **Table 3**	NS	NS	35%
Medium-Term Strategic Lending	See **Section 5**	NS	NS	5%
Other Strategic Investments	See **Section 6**	NS	NS	10%

3.3. LTLF's assets under management ("AUM") can vary in the short-term as its Limited Partners deposit and withdraw their treasury funds in the normal course of business.

- For short-term core liquidity assets, exposure is measured against LTLF's AUM on the day.

- For medium and long-term assets, LTLF measures exposure against the forecast average daily AUM for the year ahead ("Forecast AUM") based on forecast cash-flows provided by its Limited Partners. The Forecast AUM is used to fix cash limits for the quarter ahead with such limits being recalculated at least quarterly. If revised forecast cash-flows are received during a quarter that adjust the Forecast AUM by more than 20%, then new cash limits will be set during that quarter.

4. Credit Ratings and Country Limits

4.1. Maximum direct exposures to non-UK financial institutions apply by country, based on the relevant sovereign ratings outlined in the table below:

Table 2 – Country Limits

Max. Aggregate Exposure (%)	Fitch Sovereign Rating	S&P Sovereign Rating	Moody's Sovereign Rating
25	AAA	AAA	Aaa
15	AA+	AA+	Aa1
5	A	A	A

Note: for non-UK, non-financial institutions, or in circumstances such as an instrument being issued through a subsidiary domiciled in one country but guaranteed or otherwise secured by a parent in another, the risks and appropriate country limit (if any, in the case of multinational corporations) in which to aggregate the exposure will be considered on a case-by-case basis and determined by the relevant portfolio manager.

4.2. Table 3 sets out the range of investment grade ratings used by LTLF and its portfolio managers.

Table 3 – Permitted Credit Ratings and Equivalence Mappings and Senior Unsecured Bond Ratings					
Long-term			**Short-term**		
Fitch	**Moody's**	**S&P**	**Fitch**	**Moody's**	**S&P**
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA	F1+	P-1	A-1+
AA-	Aa3	AA-			
A+	A1	A+			
A	A2	A	F1	P-1	A-1
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB	F2	P-2	A-2
Structured Finance Ratings					
Fitch		**Moody's**		**S&P**	
AAA_{sf}		Aaa (sf)		AAA (sf)	
$AA+_{sf}$		Aa1(sf)		AA+ (sf)	
Money Market Fund Ratings					
Fitch		**Moody's**		**S&P**	
AAA_{mmf}		Aaa-mf		AAAm	
Other Permitted Fund Ratings					
Fitch		**Moody's**		**S&P**	
AAA_{f}		Aaa-bf		AAAf	

4.3. For core liquidity investments, lower ratings are balanced by higher ones in order to maintain a credit risk on rated instruments that is no greater than a 12-month deposit with an AA- institution. This is determined by assigning a credit factor to each rated investment per Table 4 and calculating a weighted average portfolio credit factor (PCF). This must remain below 5 and no single instrument may exceed 10.

Table 4 – Credit Factors

Credit Factors based on Issuer Default Rating (Fitch and Fitch Equivalents) Use instrument rating or if not rated, rating of Issuer									
Days	AAA	AA+	AA	AA−	A+	A	A−	BBB+	BBB
O/N	0.01	0.01	0.01	0.01	0.02	0.03	0.04	0.07	0.10
2-7	0.02	0.04	0.06	0.10	0.15	0.20	0.30	0.50	0.80
8-30	0.10	0.15	0.25	0.40	0.60	0.75	1.30	2.10	3.50
31-60	0.20	0.30	0.50	0.80	1.20	1.50	2.60	4.20	7.00
61-90	0.25	0.50	0.75	1.25	1.50	2.50	5.00	7.50	10.00
91-120	0.35	0.65	1.00	1.50	2.30	3.30	6.60	10.00	13.50
121-150	0.40	0.80	1.25	2.10	2.90	4.20	8.30	12.50	16.50
151-180	0.50	1.00	1.50	2.50	3.50	5.00	10.00	15.00	20.00
181-210	0.60	1.20	1.75	3.00	4.00	5.80	11.70	17.50	23.50
211-240	0.70	1.30	2.00	3.30	4.70	6.60	13.30	20.00	27.00
241-270	0.75	1.50	2.25	3.75	5.25	7.50	15.00	22.50	30.00
271-300	0.80	1.70	2.50	4.20	5.80	8.30	16.70	25.00	33.50
301-330	0.90	1.85	2.75	4.60	6.50	9.20	18.50	27.50	37.00
331-397	1.00	2.00	3.00	5.00	7.00	10.00	20.00	30.00	40.00
398-730	2.70	5.30	8.00	13.00	19.00	27.00	43.00	69.00	106.00

4.4. For the purposes of the above, UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) securities are treated as the long-term UK Sovereign rating, reflecting the UK's highly centralised and interdependent public finance regime.

4.5. Exposure limits to individual counterparties are determined by the colour bands assigned under the Colour Banding Methodology supplied by Link Asset Services.

Table 5 – Concentration Limits

Cash Exposure Limits – applied to individual counterparties		
Band	Overnight	> 1 day
UK Sovereign (see 4.7)	100%	100%
UK Local Authorities (see 4.7)	10%	10%
Yellow	20%	20%
Purple	20%	15%
Orange	15%	15%
Red	15%	10%
Green	10%	5%
No Colour	5%	5%

4.6. The bands above are calculated based on a range of credit ratings data, including published rating watches and outlooks.

4.7. Exposure to an individual counterparty in the UK Sovereign band has been set at 100% to cater for a severe market disruption scenario when all funds might be best placed with a UK Government institution. Notwithstanding their UK Sovereign status, Local Authorities' cash-flows may be temporarily stressed. Following the principles of good portfolio management and diversification, cash exposure to an individual Local Authority is limited to 10% of LTLF's AUM.

5. Medium-Term Strategic Lending

5.1. Medium-term strategic lending is a portfolio of individual lending or financing transactions seeking to earn higher returns than the core liquidity or RMBS assets but with a low risk of capital impairment.

5.2. Such opportunities may involve situations where market capacity may be limited or restricted despite ample security being available or where flexibility is sought by the borrower e.g. around early repayment without penalty. An example transaction would be the provision of secured loan finance to an investment fund.

Gross expected return	SONIA + 200bps
Concentration risk	No individual medium-term strategic lending investment to exceed 3% of LTLF's Forecast AUM at the point of commitment

5.3. The expected WAL of medium-term strategic lending will not exceed 5 years.

5.4. Medium-term strategic lending will be secured on assets or cash-flows except where the borrower is (or is guaranteed by) an investment-grade counterparty (Fitch BBB or better, see Table 3) or a public body with credible sovereign support.

6. Long-Term Core Balance – Other Strategic Investments

6.1. In general terms, the other strategic investments allocation is seeking returns similar to those expected of a well-funded institutional pension fund.

Gross expected return	SONIA + 300bps

6.2. The other strategic investments allocation will be deployed on a best ideas basis across a range of asset classes, seeking investments anticipated to achieve the expected return and demonstrate a level of volatility that will keep the overall expected VaR within the limit set in Section 2.2 above.

6.3. The following limits will apply to the other strategic investments allocation:

Criteria	**Limit**
Overall expected portfolio volatility	95% VaR ≤ 2%
Concentration risk	No individual other strategic investment to exceed 3% of LTLF's Forecast AUM at the point of commitment
Sector diversification	
Infrastructure (debt and equity)	< 50% of other strategic investments allocation
Real estate (debt and equity)	< 50% of other strategic investments allocation
SME (debt and equity)	< 50% of other strategic investments allocation
Other debt and equity (public and private)	< 50% of other strategic investments allocation

6.4. LTLF will not directly hold land or property.

6.5. While the other strategic investments allocation is made up of medium to longer term investments, liquidity remains important. Investments will be managed to ensure a regular flow of capital distributions, and where funds lack contractual redemption windows or other clear options to exit, the expected final maturity dates will be appropriately diversified.

Investments capable of redemption or sale on a recognised market within 12 months plus expected capital distributions from other strategic investments within 12 months	> 25% of other strategic investments allocation

6.6. LTL may seek the approval of the Alternative Investment Fund Manager (AIFM) and the Limited Partners' Advisory Committee (LPAC) of LTLF in relation to new investment opportunities under the other strategic investments allocation, where such new investment opportunities are in a new fund or in a new product (the Reserved Investment Decisions).

7. Hedging

7.1. Investments denominated in foreign currency may be made under the medium-term strategic lending and other strategic investments allocations, provided that any currency risk is captured in the regular VaR analysis of LTLF and where necessary or desirable, such investments are hedged into sterling within the investment itself or with an overlay, with the related terms and level of hedging to be determined by LTLF after consultation with the LPAC.

7.2. Any portfolio managers undertaking hedging will be required to maintain appropriate policies on the use of hedging instruments, which must provide that any credit or liquidity risk arising from such instruments is limited to counterparties that meet the criteria of LTLF's core liquidity allocation.

7.3. The denomination of Limited Partners' investment in LTLF will always be sterling.

8. Investment Limit Exceptions

8.1. Any active exception (i.e. an exception due to an action by a portfolio manager) to the investment limits set out in the investment strategy requires the prior approval of the AIFM and the LPAC.

8.2. Where passive exceptions (i.e. exceptions due to changes in the value of the portfolio) to the investment limits set out in the investment strategy occur, they will be reported to the Investment Committee of LTL and to the AIFM. Any rebalancing of the portfolio in the event of passive exceptions will be at the discretion of the Chief Investment Officer of LTL (or such officer's designated deputy, in cases of absence).

9. Environmental Social and Governance (ESG) Considerations

9.1. LTLF's investment portfolio will be managed in accordance with the GLA Group Responsible Investment Policy.

Appendix E: Treasury Management Practices: Main Principles

1.0 INTRODUCTION

1.1 The Treasury Management Practices (TMPs): Main Principles below set out the manner in which the MOPAC Group will seek to achieve its Treasury policies and objectives. These TMPs: Main Principles follow the wording recommended by the latest edition of the CIPFA Treasury Management Code.

1.2 TMPs: Main Principles are supported by TMPs: Schedules, which provide specific details of the systems and routines employed and the records to be maintained to deliver the TMPs: Main Principles. These Schedules are maintained and updated as necessary, being operational procedures and forming an integral part of the MOPAC Group's treasury management manual.

1.3 Approval and monitoring of TMPs is a matter for local decision. As such the TMPs: Principles will be approved by the MOPAC Group and monitored by the MOPAC Group CFO and annually reviewed by the MOPAC Group before the start of the year.

1.4 TMPs: Schedules will be approved, monitored and annually reviewed by the Executive Director of Resources.

1.5 Scrutiny of the approval and monitoring of TMPs will be performed by the MOPAC Group Audit Panel following recommendations by the MOPAC Group CFO.

2.0 TMP1 RISK MANAGEMENT

2.1 <u>General statement</u>

2.1.1 The MOPAC Group CFO will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the MOPAC Group's objectives in this respect, all in accordance with the procedures set out in TMP6 'Reporting requirements and management information arrangements. In addition, any relevant Environmental, Social and Governance (ESG) factors influencing the Authority's Investment Strategy will also be considered.

2.1.2 In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the GLA's Group Treasury Management Practices TMP's.

2.2 <u>Credit and counterparty risk management</u>

2.2.1 The MOPAC Group CFO regards a key objective of the MOPAC Group's treasury management activities to be the security of the principal sums it invests. Accordingly, they will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods and techniques referred to in the TMP4 Approved instruments, methods and techniques and listed in the GLA's Group Treasury Management Practices TMP's. The MOPAC Group CFO also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which the MOPAC Group may borrow, or with whom it may enter into other financing arrangements.

2.2.2 The MOPAC Group's credit and counterparty policies set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and the MOPAC Group's ESG policy does not currently include ESG scoring or other real-time ESG criteria at individual investment level.

2.3 Liquidity risk management

2.3.1 The MOPAC Group CFO will ensure the MOPAC Group has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

2.3.2 The MOPAC Group CFO will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities or to ensure an adequate level of short-term investments to provide liquidity for the organisation.

2.4 Interest rate risk management

2.4.1 The MOPAC Group CFO will manage the MOPAC Group's exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 'Reporting requirements and management information arrangements'.

2.4.2 The MOPAC Group CFO will achieve this by the prudent use of the MOPAC Group's approved instruments, methods, and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

2.5 Exchange rate risk management

2.5.1 The MOPAC Group CFO will manage its exposure to fluctuations in exchange rates, so as to minimise any detrimental impact on its budgeted income/expenditure levels.

2.6 Inflation risk management

2.6.1 The MOPAC Group CFO will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

2.7 Refinancing risk management

2.7.1 The MOPAC Group CFO will ensure that the MOPAC Group's borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the MOPAC Group as can reasonably be achieved in the light of prevailing market conditions.

2.7.2 The MOPAC Group CFO will actively manage the MOPAC Group's relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

2.8 Legal and regulatory risk management

2.8.1 The MOPAC Group CFO will ensure that all the MOPAC Group's treasury management activities comply with statutory powers and regulatory requirements. They will demonstrate such compliance, if required to do so, to all parties with whom the MOPAC Group deals in such activities. In framing its credit and counterparty policy under TMP[1] 'credit and counterparty risk management', they will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the MOPAC Group, particularly with regard to duty of care and fees charged.

2.8.2 The MOPAC Group CFO recognises that future legislative or regulatory changes may impact on treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the MOPAC Group.

2.9 Operational risk, including fraud, error and corruption

2.9.1 The MOPAC Group CFO will ensure that they has identified the circumstances which may expose the MOPAC Group to the risk of loss through inadequate or failed internal processes, people and systems or from external events. Accordingly, they will employ suitable systems and procedures and will maintain effective contingency management arrangements, to these ends.

2.10 Market/Price risk management

2.10.1 The MOPAC Group CFO will seek to ensure that the MOPAC Group's stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect the MOPAC Group from the effects of such fluctuations.

3.0 TMP2 PERFORMANCE MEASUREMENT

3.1 The MOPAC Group CFO is committed to the pursuit of value for money in the MOPAC Group's treasury management activities, and to the use of performance methodology in support of that aim, according to methodology determined from time to time by the MOPAC Group's CFO.

3.2 Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the TMP's. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

4.0 TMP3 DECISION-MAKING AND ANALYSIS

4.1 The MOPAC Group CFO will maintain full records of the MOPAC Group's treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for accountability, e.g. demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

5.1 The MOPAC Group CFO will undertake the MOPAC Group's treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 'Risk management'.

6.0 TMP5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

6.1 The MOPAC Group CFO considers it essential, for the purposes of the effective control and monitoring of the MOPAC Group's treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

6.2 The principal on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

6.3 If and when the MOPAC Group intends, as a result of lack of resources or other circumstances, to depart from these principles, the MOPAC Group CFO will ensure that the reasons are properly reported in accordance with TMP6 'Reporting requirements and management information arrangements', and the implications properly considered and evaluated.

6.4 The MOPAC Group CFO will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The MOPAC Group CFO will also ensure that at all times those engaged in treasury management will follow the policies and procedures.

6.5 The MOPAC Group CFO will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

6.6 The delegations to the MOPAC Group CFO in respect of treasury management are set out in the TMSS. The MOPAC Group CFO will fulfil all such responsibilities in accordance with the MOPAC Group's policy statement and TMPs and if a CIPFA member, the 'Standard of Professional Practice on Treasury Management'.

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

7.1 The MOPAC Group CFO will ensure that regular reports are prepared and considered on the implementation of the MOPAC Group's treasury management policies on the effects of decisions taken and transactions executed in pursuit of those policies on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities and on the performance of the treasury management function.

7.2 As a minimum:

The MOPAC Group will receive

- an annual report on the proposed strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.
- Quarterly reports to monitor and report performance against all forward-looking prudential indicators highlighting any significant actual, or forecast deviations from the approved

indicators. The quarterly reports should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring

7.3 The MOPAC Group Audit Panel, as the body with responsibility for the scrutiny of treasury management policies and practices, will receive regular monitoring reports on treasury management activities and risks.

7.4 The MOPAC Group Audit Panel responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

7.5 Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.

7.6 The present arrangements and the form of these reports are detailed in the GLA's Group Treasury Management Practices TMP's.

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

8.1 The MOPAC Group CFO will prepare, and the MOPAC Group will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 'Risk management', TMP2 'Performance measurement', and TMP4 'Approved instruments, methods and techniques.

8.2 The MOPAC Group CFO will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 'Reporting requirements and management information arrangements.

8.3 The MOPAC Group CFO will account for the MOPAC Group's treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory requirements in force for the time being.

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

9.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the MOPAC Group will be under the control of the MOPAC Group CFO and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the MOPAC Group CFO will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (2.3) 'Liquidity risk management', and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate).

10.0 TMP9 MONEY LAUNDERING

10.1 The MOPAC Group CFO is alert to the possibility that the MOPAC Group may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

11.0 TMP10 TRAINING AND QUALIFICATIONS

11.1 The MOPAC Group CFO recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. They will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The MOPAC Group CFO will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

11.2 The MOPAC Group CFO will ensure that the MOPAC Group's members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

11.3 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

11.4 In order to accurately reflect all of the above and the technical expertise of the Treasury Management Function, a knowledge and skills register for officers and members involved in the treasury management function is held and regularly updated to record all training and relevant knowledge and skills development.

11.5 The present arrangements are detailed in the TMPs: Schedules.

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

12.1 The MOPAC Group recognises that responsibility for the treasury management decisions remains with the MOPAC Group at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangement rests with the MOPAC Group CFO.

13.0 TMP12 CORPORATE GOVERNANCE

13.1 The MOPAC Group is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principals and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

13.2 The MOPAC Group has adopted and implemented the key principles of the TM Code. This, together with the other arrangements detailed in the Treasury Management Practices TMP's, are considered vital to the achievement of proper corporate governance in treasury management, and the MOPAC Group CFO will monitor and, if and when necessary, report upon the effectiveness of these arrangements.