

REQUEST FOR MAYORAL DECISION – MD1634

Title: Treasury Management Strategy Statement 2016-17

Executive Summary:

This report sets out the GLA's Treasury Management Strategy (TMSS) for 2015-16 (including the Treasury Management Policy; Minimum Revenue Provision Policy; Investment Strategy; prudential indicators and Treasury Management Practices: Main Principles). It has been prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and relevant legislation.

Approval is also sought for the expansion of the existing treasury management shared service to cover the London Boroughs of Haringey and Southwark.

The previous year's outturn and the 15/16 mid year positions are also noted.

Decision:

That the Mayor **approves** the

1. Treasury Management Strategy Statement for 2015-16 (Appendix 1)
2. Treasury Management Policy Statement (Appendix 2)
3. Minimum Revenue Provision Policy Statement (Appendix 3)
4. Prudential Code Indicators and Treasury Management Limits (Appendix 4)
5. Group Investment Syndicate (GIS) Investment Strategy (Appendix 5)
6. Treasury Management Practices: Main Principles (Appendix 6)
7. GLA entering an arrangement to discharge treasury services to the London Boroughs of Haringey and Southwark, under the Local Authorities (Goods and Services) Act 1970, subject to conclusion of negotiations; and

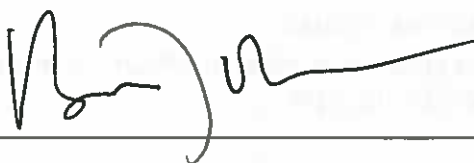
That the Mayor **notes** the 14/15 Outturn and 15/16 Mid Year positions (Appendix 7)

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

31 MARCH 2016

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

Decision required – supporting report

1. Introduction and background

The Group Treasury Management function is responsible for the management of the GLA's investments, borrowings and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; the pursuit of optimum performance consistent with those risks and the paramount issue of preserving capital.

Effective treasury management is central to the GLA's financial standing, given the £multi-billion scale of operational cash flows, assets and liabilities.

The ongoing delivery of finance for major capital projects such as Crossrail, the Northern Line Extension (NLE), Olympicopolis and the lending programmes for Housing Zones and the London Housing Bank means that the cost of debt service is the GLA largest source of revenue expenditure and its greatest source of financial risk, alongside business rates volatility.

The GLA, through functional delegation arrangements, undertakes the treasury management functions of the London Fire and Emergency Planning Authority (LFEPA), London Legacy Development Corporation (LLDC), London Pensions Fund Authority (LPFA) and the Mayor's Office for Policing and Crime (MOPAC) (i.e. All of the GLA Group, excluding TfL). Investments are largely managed collectively through the Group Investment Syndicate (GIS), an arrangement which has proved extremely successful for delivering greater liquidity and performance than would have been achievable by the participating organisations acting individually.

This report proposes that existing treasury management shared service be expanded to cover the London Boroughs of Haringey and Southwark in order to deliver further benefits and opportunities.

2. Objectives and expected outcomes

TMSS, GIS Investment Strategy and Prudential Indicators

These documents provide a strategic framework for the achievement of the following prudent objectives

Borrowing

- Proposed levels of borrowing are sustainably affordable
- The expected costs are well-matched to the relevant revenue streams to maximise budgetary certainty
- Financing is readily available when required for major capital expenditure
- The most economical sources of borrowing for a given situation are identified and made use of.

Investments

- Public funds are not lost
- Cash is available when required for essential expenditure
- Returns are maximised, so far as the above constraints allow, to offset the impact of inflation on the spending power of public funds held by the GLA.

Effective Balance Sheet Management

- A sustainable and prudent balance is struck between the use of cash balances in lieu of external borrowing and any potential risks of refinancing.

- Opportunities for intragroup borrowing/investment transactions are identified in order to reduce risks and/or costs.

The TMSS builds on previous years. The significant changes relate to investment strategy, introducing a new asset class (residential mortgage backed securities) as a diversification option and rationalising the credit policy to be consistent across deposits and bonds.

MRP Policy

Where capital expenditure is due to be funded by future revenues, this provides a means to match those costs to the period over which the relevant benefits are enjoyed in a way that is equitable to taxpayers, e.g. avoiding the risk of taxpayers at a particular time disproportionately bearing the cost of benefits enjoyed previously or subsequently.

From a cash flow perspective, the MRP policy also ensures that a prudent amount of cash is available for the repayment of borrowings.

Treasury Management Practices and Treasury Management Policy

These set out the high level objectives for the control and performance management of the function.

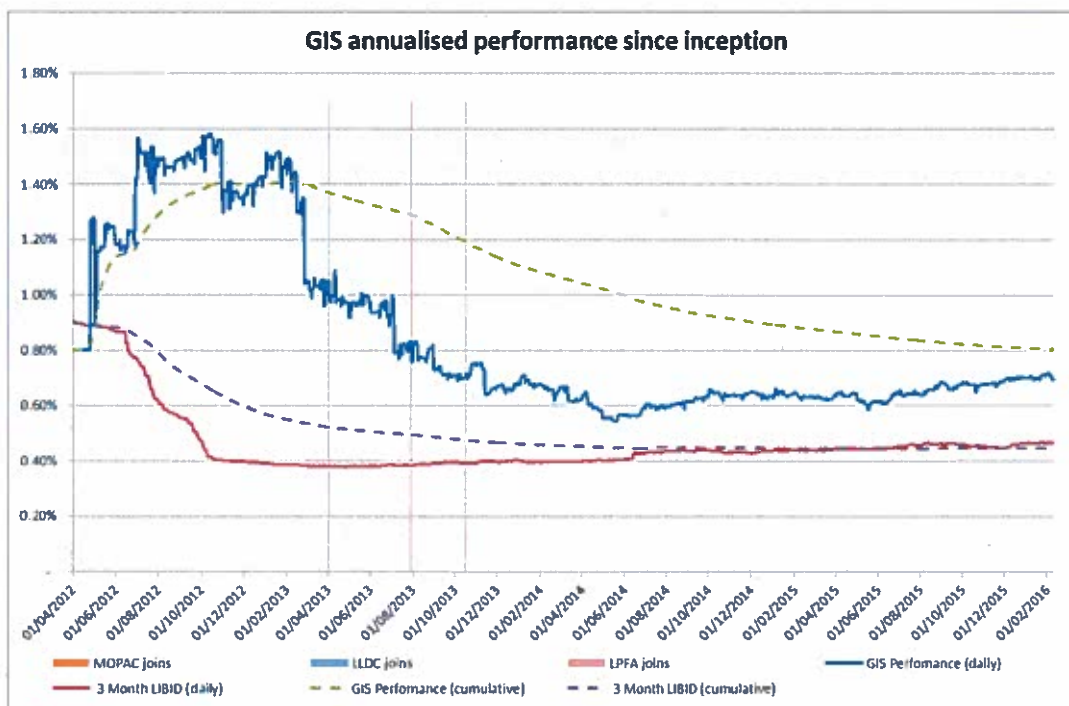
Shared Service Expansion

The GLA's experience of the existing shared service arrangements has been extremely positive.

Through the effects of pooling, the GIS has provided the Group Treasury Team with both greater and more stable minimum balances over 3 - 12 month periods than would generally have been the case for each organisation individually. This has provided increased opportunity for longer term investments providing greater yields.

In tandem, the overall increase in balances has provided greater bargaining power in respect of instant access accounts with banks, allowing the GIS to maintain yields for the shortest dated investments. By investing in a mix of overnight and longer dated products, the GIS has maintained a weighted average maturity below 3 months, while maintaining excellent overnight liquidity.

Performance is shown in the chart below:



In addition to the more stable balances and improved purchasing power, the pooled GIS balances have allowed larger individual deals to be struck. The benefits of this are twofold – one transaction is made rather than a series of individual ones (saving costs) and additionally greater opportunities for diversification arise, since a number of banks in particular operate minimum deal sizes, which would be inappropriate for the participating organisations individually.

By pooling staffing and other administrative resources, the participants have been able to maintain or reduce individual expenditure on treasury management while funding a function able to operate a more sophisticated strategy than would be feasible individually. A key example of this is the expansion of the strategy to cover corporate bonds, whereby Group Treasury have been able to reduce credit risk by further diversification and in many cases obtain superior yields for identical risk.

Because of the factors above, the GIS has significantly outperformed its benchmark, ie the rate at which banks and other large organisations typically lent to each other for 3 months. As at 9 Feb, the GIS has outperformed by 0.36% on an annualised basis since inception.

The net cash flow managed by the Group Treasury team continues to be dominated by the GLA. The introduction of a range of new organisations with different cash flow profiles has had a positive impact on relevant stability of balances, which together with scale advantages has been positive for the risk and return outcomes for all concerned.

The LPFA's balances have proved a helpful contribution. From the LPFA's perspective, access to the resources of the GLA team and the strategy it is able to deliver has improved returns significantly, with economic benefits in excess of £0.5m.

The overall increase in Group Treasury resources provided by the shared service arrangements have continued to enable development of resilient, well-qualified team delivering sector-leading innovations in both investment and borrowing and with the capacity to undertake major projects. As an example, the GLA's issue in May 2015 of the world's first CPI-linked Sterling bond providing £200m for the Northern line extension, reducing inflation risks and estimated to save the taxpayer some £34m in today's prices.

For the reasons above, the GLA will continue to pursue partnerships with additional public bodies in London in a gradual fashion. In particular, developing the shared service with London Boroughs will provide an opportunity for the GLA to provide practical support, where desired, to the financing of local regeneration and infrastructure projects. The opportunity to bring LB Haringey into the shared service arose in part from GLA involvement in determining a financing solution for regeneration in Tottenham. LB Southwark has also started discussions based on interest in the GLA's capital financing experience and capabilities. It is proposed that the Executive Director of Resources approves the shared services arrangements between the GLA and both boroughs.

3. Equality comments

None directly arising from this report

4. Other considerations

Risk management is integral to the report and effective treasury management underpins the sustainability of the financing of all GLA activities.

The shared service proposal supports the corporate priority of increased budgetary efficiency and provides the opportunity to support the financing local infrastructure, housing and regeneration initiatives through the identification of financing opportunities.

There are no formal consultation requirements; however the GLA oversight committee has been apprised of the intention to expand the shared service to London Boroughs via Item 5 or the meeting of 10 March 2015. The committee indicated support for the direction of travel.

5. Financial comments

Financial implications are largely integral to the report.

The expansion of the shared service will involve additional staffing and administrative expenditure within Group Finance; however, these additional costs will be fully recovered from the participating Boroughs.

Additionally, the fixed costs of the treasury function (inter alia, systems, advisory fees and senior management) will be shared across participants in proportion to balances managed. The addition of new participants is likely to result in a reduction in net costs to existing participants including the GLA and/or provide opportunities to mitigate the impact of additional investment in systems and compliance.

6. Legal comments

Part 1 of the Local Government Act 2003 introduced a new statutory regime to regulate the borrowing and capital expenditure of local authorities. Section 23(1)(d) and (e) provides that the Greater London Authority (GLA) and the functional bodies are local authorities for this purpose.

Section 3(1) of the 2003 Act provides that all local authorities are to determine and keep under review how much money they can borrow. Section 3(2) of the Act is more specific in relation to the Mayor and functional bodies by providing that the determination is to be made by the Mayor following consultation with the Assembly, in the case of the GLA, or the relevant functional body. As a result, borrowing limits could be changed in-year, as well as at the start of financial years. Under section 1 of that Act the GLA and the functional bodies may borrow money for any purpose relevant to their functions under any enactment or for the purposes of the prudent management of their financial affairs; they may also invest for the same purposes under section 12.

Under section 127 of the Greater London Authority Act 1999 the Authority has a duty to make arrangements for the proper administration of its affairs. Responsibility for the administration of those affairs lies with the Executive Director of Resources as the statutory chief finance officer of the Authority under section 127(2)(b) of the Act. The management of the Authority's Treasury function and the development and monitoring of the Treasury strategy fall within this responsibility of the chief financial officer.

Section 401A(2) of the Greater London Authority Act 1999, as amended, permits a shared service arrangement, by providing that any 'relevant London authority' (as defined in the GLA Act 1999) may enter into arrangements for the provision of administrative, professional or technical services by any one or more of them to any one or more of them, whether for consideration or otherwise. This enables the GLA, the Functional Bodies and the LPFA to delegate the professional technical and administrative functions involved in treasury management to the GLA and for them all to jointly participate in the GIS under their common powers to borrow and invest for the prudential management of their financial affairs.

Although the LBs of Haringey and Southwark are not covered by section 401A, they and the GLA are local authorities for the purposes of the Local Authorities (Goods and Services) Act 1970. As a result the GLA may provide the same professional technical and administrative functions involved in treasury management to the two boroughs, who also share the same investment and borrowing powers.

7. Investment & Performance Board

The TMSS for 2015-16, MD1490 which governs the production of this report does not require this item to be considered by the Investment & Performance Board.

8. Planned delivery approach and next steps

The TMSS will be implemented with immediate effect from 1st April 2016.

Conclusion of scope and fees, followed implementation of the shared service proposals is expected before end June 2016.

Appendices and supporting papers:

Appendices

- Appendix 1 Treasury Management Strategy Statement for 2016-17
- Appendix 2 Treasury Management Policy Statement
- Appendix 3 Minimum Revenue Provision Policy Statement
- Appendix 4 Prudential Code Indicators and Treasury Management Limits
- Appendix 5 Group Investment Syndicate Investment Strategy
- Appendix 6 Treasury Management Practices: Main Principles
- Appendix 7 14/15 Outturn and 15/16 Mid Year positions

Supporting Papers

- MD1490 - Treasury Management Strategy Statement 2015/16
- Mayor's Final Draft Consolidated Budget 2016-17
- Capital Spending Plan 2016-17

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act 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:

Drafting officer to confirm the following (✓)

Drafting officer:

Luke Webster has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

Assistant Director/Head of Service:

David Gallie has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

Martin Clarke has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Sir Edward Lister has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

M. J. Blle

Date

31 MARCH 2016

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

Edward Lister

Date

31 MARCH 2016

Appendix 1: Treasury Management Strategy Statement 2016-17

Introduction/Background

1. The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of GLA (the Authority) for the year 2016/17.
2. 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 for Capital Finance in Local Authorities and associated Guidance Notes
 - The Local Government Act 2003
 - The Department for Communities and Local Government (DCLG) Guidance on Local Government Investments
 - The DCLG Capital Finance Guidance on Minimum Revenue Provision
3. The Code defines treasury management activities as:

‘The management of the organisation’s 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.’
4. This TMSS therefore takes into account the impact of the Authority’s Revenue Budget, Medium Term Capital Programme 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 1)
 - Minimum Revenue Provision (MRP) Policy Statement (Appendix 2)
 - Prudential Code Indicators and Treasury Management Limits (Appendix 3)
 - Group Investment Syndicate (GIS) Investment Strategy (Appendix 4)
 - Treasury Management Practices: Main Principles (Appendix 5)
5. In covering the above areas, as per its Treasury Management Policy Statement (Appendix 1), the Authority 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 Authority and cannot be delegated to any outside organisation.
6. The Treasury Management risks the Authority 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) and
 - Legal and regulatory and fraud risk (non-compliance with statutory and regulatory requirements, risk of fraud)
7. These risks are further discussed in Appendix 5 (Treasury Management Practices: Main Principles)
8. The Authority formally adopts The TM Code through the following provisions
- i. The Authority 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 Authority 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 particular circumstances of the Authority. Such amendments do not result in the Authority materially deviating from the Code's key principles.

- ii. The Mayor 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, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

- iii. The Mayor holds responsibility for the implementation and regular monitoring of its treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the Executive Director of Resources. The Executive Director of Resources 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 Assembly has delegated to the Budget and Performance Committee 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 GIS Investment Strategy and the Treasury Management Practices at times other than those stated above, then these updates will be submitted to the Mayor for approval. The Assembly will be fully consulted where there is any change to borrowing limits.
 - vi. Should the Executive Director of Resources 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 Mayor.
9. The Executive Director of Resources is required to report an annual Treasury Management Strategy to the Mayor for approval. The Executive Director of Resources is responsible for maintaining the Treasury Management Practices (TMPs) and monitoring and managing the strategy, with day to day management of this function delegated to his/her staff.
10. The main changes in the TMSS 2016/17 as compared to the TMSS 2015/16 are:
- Updated Economic Background (at paragraph 10 below)
 - Updated interest rate forecasts (at paragraph 17 below)
 - Revised Prudential Indicators and Treasury Management Limits (Appendix 3)
 - Changes to the GIS Investment Strategy (Appendix 4, Section 3)

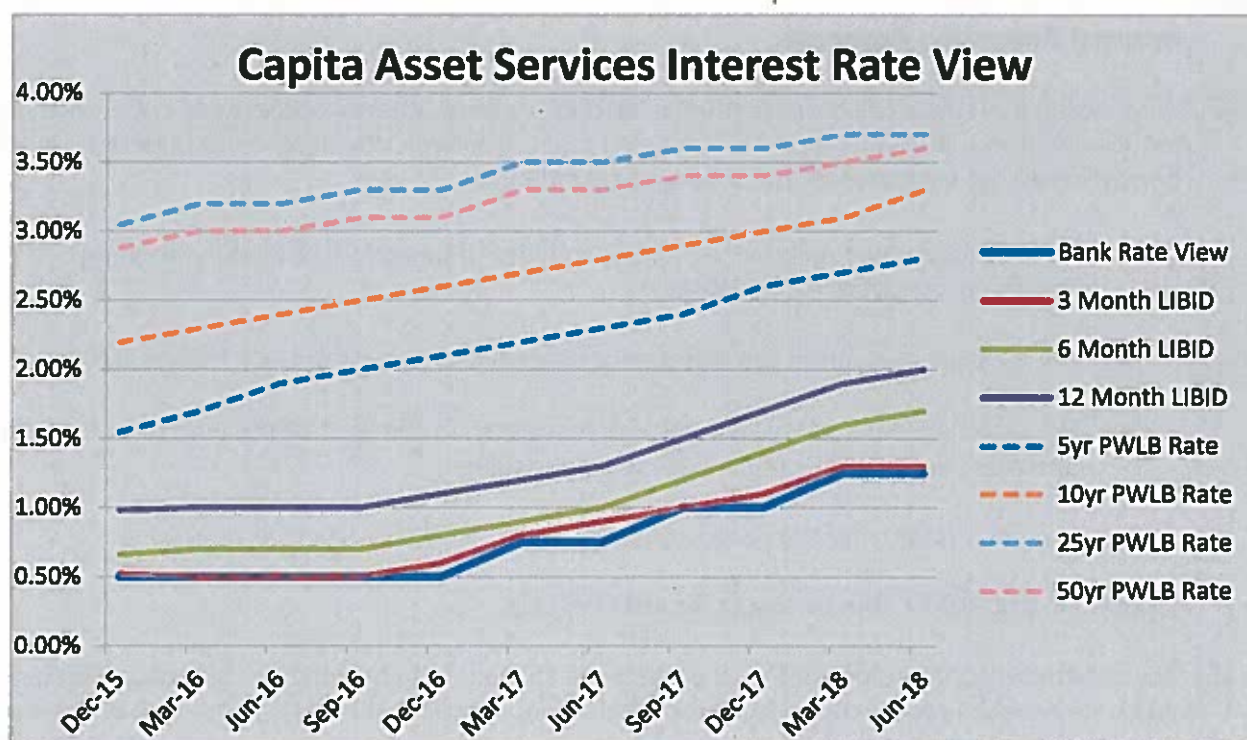
Economic Background

11. Market volatility and widespread uncertainty around growth, inflation and interest rate forecasts are dominant factors in the outlook relevant to treasury management.
12. This outlook has several treasury management implications:
- Higher quality counterparties for shorter time periods remain attractive.
 - Investment returns are likely to remain relatively low during 2016/17. The Group Treasury team has not recommended increases in budgetary assumptions for interest receivable..
 - Borrowing interest rates have and continue to be volatile, and whilst low by historical standards are expected to continue to exceed short term cash returns. The policy of avoiding new borrowing by utilising cash balances has served well over the last few years. However, this needs to remain under careful review to avoid incurring higher borrowing

costs in later times, when the organisation may not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

Prospects for Interest Rates

13. The effective management of risk around borrowing and investments and cash flow management decisions includes understanding interest rate and inflation rate movements.
14. Below is a central view for short term interest rates (Bank Rate) and longer term fixed interest rates, as provided by Capita Asset Services, as at February 2016. The PWLB Rates shown are net of the 0.20% 'certainty rate' discount.



Borrowing Strategy

Delegation/Authorisation

15. The arrangements for borrowing, including the selection and the type and structure of debt instruments, are delegated to the Executive Director of Resources, provided no decision contravenes the limits set out in the prevailing TMSS.
16. On the basis of the above, the Executive Director of Resources is
 - authorised to approve borrowing by the Authority, for the purposes of financing capital expenditure and subject to the necessary statutory provisions, provided that the Authorised Limit, determined by the Deputy Mayor for Policing and Crime for GLA, is not exceeded.
 - authorised to make use of cash balances to fund internal borrowing when it is considered advantageous, provided the Authorised Limit, determined by the Deputy Mayor for Policing and Crime for GLA, is not exceeded.

- authorised to borrow temporarily within the Authorised Limit, where this represents prudent management of the Authority'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 Authority 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.

Internal Borrowing Approach

17. When using cash balances to fund internal borrowing, the Authority 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 Authority 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

Future of the Public Works Loans Board (PWLB)

18. The governing structure of the PWLB is to be the subject of a consultation, but, as at February 2016, no timetable was in place for this consultation. However, it is anticipated that once this consultation is completed and the governing structure changed, the name of the PWLB will also change. However, no changes to the function or operation of the PWLB are expected as a result of this consultation. Officers will continue to monitor the consultation progress and results.

Policy on Borrowing in Advance of Need

19. The Authority will not borrow more than or in advance of need 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 Authority can ensure the security of such funds.
20. In determining whether borrowing will be undertaken in advance of need the Authority will:
 - i. 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
 - ii. Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow

- iii. Consider the merits and demerits of alternative forms of funding , including funding from revenue, leasing and private partnerships and
 - iv. Consider the alternative interest rates bases available, the most appropriate periods to fund and repayment profiles to use.
21. Over the next 12 months the economic consensus is that investment rates are expected to remain significantly below borrowing rates. However, short-term avoidance of costs by postponing borrowing in 2016/17 will also be weighed against the potential for incurring additional long-term costs by having to enter into new external borrowing in later years, when long-term rates are expected to be higher.

Debt Rescheduling/Debt Management

22. Given short term borrowing rates are likely to be cheaper than longer term fixed interest rates, decisions may be taken to restructure the debt portfolio, by switching from long term debt to short term debt through the early redemption or replacement of loans, so as to either increase long term affordability or adjust maturity profiles for the purposes of managing liquidity and interest rate risks. Such rescheduling decisions will be reported to the Budget and Performance Committee at the first opportunity within the treasury management reporting cycle.
23. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
24. Recent changes to PWLB pricing has been to exaggerate the spread between the rate of new loans and the rate used to calculate premiums or discounts on early redemption. This means that there are far fewer opportunities for restructuring than was historically the case, due to 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.
25. Officers, following an examination of the cash and borrowing balances of the functional bodies within the GLA Family, will consider the use of intergroup transactions, to offer significant savings on borrowing and/or risk management opportunities. Such an examination will be carried out in accordance with liability benchmarking techniques, as recommended by the CIPFA Treasury Risk Management Toolkit for Local Authorities. It should be noted that members of the GLA Family comprise the London Fire and Emergency Planning Authority (GLA), the Greater London Authority (GLA), the London Legacy and Development Corporation (LLDC), the London Pension Fund Authority (LPFA), the Mayor's Office for Policing and Crime (GLA) and Transport for London (TfL).

Investment Strategy

26. The Authority maintains a low risk appetite consistent with good stewardship of public funds. At the forefront of its thinking is the principle of Security before Liquidity and Liquidity before Yield (SLY). Cash flow forecasts and prevailing market conditions determine the maximum possible prudent maturities for investments and credit considerations are used to select counterparties with whom to transact. Investments are managed in such a way as to make losses at the portfolio level extremely unlikely, while capturing the optimum return within these constraints.
27. The Authority will continually develop its investment risk methodologies with regard to advice from external advisors, relevant developments in the market and academia, benchmarking techniques and approaches employed by the Credit Ratings Agencies. These Agencies are

currently Fitch, Moodys, and Standard and Poor's and their credit ratings will be monitored on a daily basis with appropriate action taken when these ratings change.

28. The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Authority will not engage in such activity.
29. The Authority's short-term cash balances are invested through the GLA Group Investment Syndicate (GIS). The Authority is a participant of the GIS and the nature of the GIS and the GIS Investment Strategy, including creditworthiness policy and permitted instruments, as agreed between the Syndics, (The Executive Director of Resources is the Syndic for GLA) is attached at Appendix 5. This Strategy effectively constitutes the Authority's Annual Investment Strategy, which should be prepared and approved before the start of each financial year, with approval by the Authority. This GIS Investment Strategy is currently under review by all the current participants of the GIS and the Board is presented with the latest version.
30. The changes intended to be incorporated into the GIS Investment Strategy, to further strengthen the GIS Investment Strategy's aim of achieving a good return within the constraints of security first and liquidity second, are set out in Appendix 5. Minimisation of risk is further achieved through the maintenance of a list of highly creditworthy and diversified counterparties. These changes will not come into force until all participants have had their 2016/17 TMSS's approved and the Chief Finance Officer of each participant has signed a copy of the 2016/17 GIS Investment Strategy.
31. Where funds are placed in pooled vehicles such as Money Market Funds (MMFs), each MMF is only an approved counterparty while the underlying investments are instruments of the kinds listed in Appendix 1E. Variation between a MMF's list of approved counterparties and the approved counterparties of the GLA is permissible, at the discretion of the Executive Director of Resources, providing the MMF's own rating meets the criteria of Appendix 5.
32. Additionally, the Executive Director of Resources may from time to time instruct the GLA Treasury team to invest sums independently of the GIS, for instance, if the Authority 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 Authority adopt an identical set of parameters for such investments as those detailed in Appendix 5, except that there shall be no requirement to maintain a weighted average maturity of no greater than three months.
33. Following the transfer of funds to the GLA for investment through either the shared service arrangement and/or the GIS, the Authority aims to have a daily net zero balance across the suite of RBS accounts it operates.

Use of External Service Providers

34. The Authority uses Capita Asset Services 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 Authority 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. Subject to the admission of new participants, this service is likely to be reviewed in 2016/17.
35. External Fund Managers will comply with this and subsequent Treasury Strategies and more detailed Investment Mandates prepared by the Chief Investment Officer. In 2016/17, the only such appointment envisaged is for the management of Residential Mortgage Backed Securities.

36. RBS Plc are GLA's bankers and continue to provide a competitive service under an annual rolling contract.
37. The GLA uses King and Shaxson Limited as a custodian of the Authority's tradeable instruments (such as Treasury Bills) with HSBC as the sub-custodian. The GLA's policy is that any custodian (or, instead, sub-custodian) shall meet the GLA's credit criteria for 12 month investments (prior to Credit Default Swaps Market or other temporary adjustments). The GLA Investment Manager shall also use a properly appointed custodian to support any RMBS investments.

Treasury Training

38. 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.
39. The Group Treasury Team maintain a training programme available to all senior officers and Members participating in the shared service.
40. Capita Asset Services run training events regularly which are attended by Group Treasury officers. In addition, Group Treasury officers attend national forums and practitioner groups.
41. The training needs of Treasury officers and committee members are reviewed annually.

Appendix 2: 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. GLA defines its treasury management activities as:

'The management of the Authority's 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'.

2. GLA 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 GLA, and any financial instruments entered into to manage those risks.
3. GLA 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 3: Minimum Revenue Provision (MRP) Policy Statement

1. Policy Statement

- 1.1 MRP is the amount out of revenues set aside each year to fund capital expenditure previously 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 DCLG Capital Finance: Guidance on MRP, February 2012, also recommends that the annual MRP Policy is presented to the Mayor for approval before the start of the financial year to which it relates. Any in-year changes must also be submitted to the Mayor for approval.
- 1.5 The elements of the GLA's policy are:
 1. The natures of funding the GLA's core Capital Financing Requirement (CFR) and that arising from the Tax Increment Financing deals, such as Crossrail and the Northern Line Extension, are distinct and require separate consideration from general corporate capital expenditure.
 2. The proposed policy for the MRP relating to the Crossrail CFR is 'equal to the excess of Business Rates Supplement (BRS) receipts over net financing and other revenue costs borne by the General Fund, including the making good of prior year BRS account deficits'.
 3. The proposed policy for the MRP relating to the Northern Line Extension (NLE) CFR is 'equal to the excess of NLE Enterprise Zone Revenues and Community Infrastructure Levies/ Section 106 contributions from Boroughs over net financing and other revenue costs borne by the General Fund, including the making good of prior year NLE project account deficits'.
 4. This is a prudent provision for Crossrail and NLE, since it will fully fund the liability over a period of time reasonably commensurate with the benefits of the projects. Essentially, it is an amortisation of the costs with a particularly flexible profile. Other bases would cause accounting complications, inequitable to the General Fund.
 5. For the MRP element arising from the GLA's non-Crossrail and non-NLE CFR, if any, the amount shall be calculated as 'the principal amount of an annuity payment based on the outstanding non-Crossrail and non-NLE CFR at 31 March of the preceding financial year, amortised over the weighted average remaining period of benefit of the capital expenditure funded by borrowing, using the GLA's aggregate rate of interest for non-Crossrail and non-NLE loans at 31 March of the preceding financial year'. 'Period of Benefit' is defined as 'asset life' (consistent with the GLA's depreciation policies) where an asset exists or, where the expenditure relates to a grant made to another body treated as capital expenditure under statute, the expected period of benefit of the capital programme the grant, to the best of the GLA's knowledge, is used to support.
 6. This annuity method will provide prudent provision for capital expenditure over a period commensurate with the benefits of that expenditure in a manner which, ceteris paribus and assuming parity between CFR and external debt, would ensure equal total revenue impact (sum of MRP and interest payable) over the years in question.

7. In the case of the GLA incurring statutory capital expenditure as a result of making a loan to another entity for purposes that, had the GLA undertaken these directly, would be treated as capital expenditure, then the CFR element arising from such loans shall be excluded from MRP calculations to reflect the policy that the capital receipt arising from the repayment of the loan will be applied in full to meet the initial expenditure. The executive Director of Resources may override this exemption on the grounds of prudence, directing a provision to be made in accordance with the methodology of (5). However, the impact of such direction on the revenue account shall be accounted for as a voluntary revenue provision (VRP). Any impairment to such loans shall be treated in accordance with proper practice.

Appendix 4: 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 Authority 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 Authority'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 Authority and any subsequent changes to these Indicators and Limits must also be approved by the Authority.
- 1.6 These Prudential Indicators are set out below and reviewed for compliance.

2.0 Capital Expenditure

2.1 Capital Expenditure

- 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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Total Capital Expenditure	812.1	1,073.7	623.1

2.2. Capital Financing Requirement (CFR)

- 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 Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
- 2.2.3 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual charge which broadly reduces the borrowing in line with each assets life.
- 2.2.4 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes.
- 2.2.5 This borrowing is not associated with particular items or types of capital expenditure.

Capital Financing Requirement (CFR)	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Total CFR	3,764.0	3,994.0	4,009.0

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	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Borrowing	4,800.0	4,900.0	5,000.0
Other long term liabilities	0.0	0.0	0.0
Total	4,800.0	4,900.0	5,000.0

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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	4,300.0	4,360.0	4,460.0
Other long term liabilities	0.0	0.0	0.0
Total	4,300.0	4,360.0	4,460.0

3.2.4 Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence seeking to identify whether or not a Local Authority's financial strategy is prudent and sustainable by measuring the extent to which a Local Authority is using borrowing to fund revenue expenditure in the short and medium term. Since financing costs have to be repaid from revenue, borrowing to fund revenue expenditure may be affordable in the short term, but not in the medium term. It therefore follows that in the medium term borrowing should only be funding capital expenditure and this indicator seeks to check that this is so, by identifying 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. In making this comparison between gross debt and the CFR, CIPFA guidance provides that, if in any of these years, there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with the gross external debt.

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	2015-16 Projected £m	2016-17 Estimate	2017-18 Estimate	2018-19 Estimate
Gross Debt at 31 March	3,644.0	3,764.0	3,994.0	4,009.0
Capital Financing Requirement	3,644.0	3,764.0	3,994.0	4,009.0

4.0 Affordability Prudential Indicators

4.1 Ratio of 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 authority.

Financing Costs to Net Revenue Stream	2016-17 Estimate %	2017-18 Estimate %	2018-19 Estimate %
Total	49.8	48.3	48.6

4.2 Incremental impact of capital investment decisions on the council tax

- 4.2.1 This indicator measures the changes in the council tax as a result of incremental changes in capital investment decisions.

Incremental Impact on Council Tax	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Council Tax Band D	0.0	0.0	0.0

4.3 Local Affordability Indicators

The GLA sets two local affordability indicators to support its Standard & Poor's credit rating. This credit rating was re-affirmed in November 2015 as, AA+, with a stable outlook.

4.3.1 Deficit after capital accounts (% of total revenues)

The GLA 'AA+' credit rating has been awarded against a 'deficit balance after capital accounts ratio' of 10.7% for the year ending March 2015. The GLA will continue to target for a ratio lower than the S&P trigger ratio of 22.5%. For ratios above 22.5%, S&P may consider additional factors to support its decision. The stable outlook reflects the GLA's ongoing strong support from the UK government and its exceptional liquidity position.

4.3.2 Interest cover ratio

Given the scaling of financing costs involved in the Crossrail borrowing and forthcoming NLE borrowing, the financing arrangements for these two projects included the requirement that the GLA will always hold at least 80% of the cash required to cover six months' worth of interest.

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 Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

6.0 **Treasury Management Limits on Activity**

- 6.1 Net Borrowing Upper Limits to Fixed and Variable Rate Interest Rates Exposure

- 6.1.1 The upper limit on interest rate exposure sets an upper limit to exposure to the effects of changes in interest rates. These limits are presented as a percentage of the net principal sum outstanding on the Local Authority's borrowing. The calculation formula is therefore

Total Fixed (or Variable Rate) Borrowings less Total Fixed (or Variable Rate) Investments

Divided by

Total Borrowing less Total Investments

Fixed rate calculation:

(Fixed rate borrowing* less Fixed rate investments*)

Divided by

Total Borrowing less Total Investments

*Defined as greater than 1 year to run to maturity

Variable rate calculation:

(Variable rate borrowing** less Variable rate investments**)

Divided by

Total Borrowing less Total Investments

**Defined as less than 1 year to run to maturity, or in the case of Lenders Option, Borrowers Option (LOBO) borrowing, the call date falling within the next 12 months.

Upper limit on interest rate exposure on net debt

Upper limit on interest rate exposure on net debt	2016/17 %	2017/18 %	2018/19 %
Fixed rate	150.0	150.0	150.0
Variable rate	10.0	10.0	10.0

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, such as in a LOBO loan, the maturity date will be deemed to be the next call date.

Limits for Maturity Structure of Borrowing for 2016/17	Upper Limit %	Lower Limit %
Under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	10	0
5 years and within 10 years	45	15
10 years and above	100	70

6.3 Limits for Principal Sums Invested for Periods Longer than 364 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 Authority'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 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

Limits for Principal Sums Invested for Periods Longer than 364 days

	Maximum principal sums invested >364 days		
	2016/17 £m	2017/18 £m	2018/19 £m
Principal sums invested >364 days	100.0	100.0	100.0

6.3.3 This limit does not apply to externally managed funds or to pooled monies within the Group Investment Syndicate, providing the weighted average maturity of investments does not exceed 3 months.

Appendix 5: Investment Strategy 2016-17 (incorporating the GIS Investment Strategy 2016-17)

1. Introduction

- 1.1 The Authority has a Shared Service Agreement with the GLA, under which the GLA has delegated authority to manage the Authority's investments.
- 1.2 A two fold approach applies to the management of the Authority's investments under this Shared Service Agreement.
- 1.3 Cash balances can be invested in the Authority's own name. This normally arises where the Authority identifies balances which are available for longer term investments

or

Cash balances can be invested through the GLA Group Investment Syndicate (GIS), in which case the investments are jointly controlled assets owned proportionately by each of the participating Authorities.

- 1.4 The investment strategy for the GIS and cash balances invested in the Authority's own name is identical, except that the requirement to maintain a weighted average maturity (WAM) which does not exceed 3 months applies only to the GIS and the prudential indicator 'Principal Sums Invested for Periods Longer than 364 days' applies only to 'own name' investments.

2.0 GIS Investment Strategy Introduction

- 2.1 The GIS is a vehicle for investing pooled short term cash balances belonging to 'participants', currently the Greater London Authority (GLA), the London Fire and Emergency Planning Authority (LFEPA), the London Legacy Development Corporation (LLDC), the London Pensions Fund Authority (LPFA) and the Mayor's Office for Policing and Crime (GLA). The GLA acts as the Investment Manager under the supervision of the Syndics (the participants' respective chief financial officers).
- 2.2 By pooling resources, the participants can achieve economies of scale through larger individual transactions; can exploit the greater stability of pooled cash flows to obtain better returns and can achieve greater levels of diversification.
- 2.3 A risk sharing agreement ensures risk and reward relating to each investment within the jointly controlled portfolio are shared in direct proportion to each participants' investment.
- 2.4 The Investment Manager (the GLA) operates the GIS cash balances in accordance with the GIS Investment Strategy.

3.0 2016-17 GIS Investment Strategy Changes.

- 3.1 The GIS Investment Strategy is considered and agreed by participants. A common approach permits maximum efficiency of the shared group service.
- 3.2 This shared strategy is subject to on-going development and review, with the result that the following changes and additions have been incorporated into the 2016-17 strategy.

- i. Cash Exposure Limits: Maximum exposure limits have been reduced in several categories of investment, reflecting the greater opportunities for diversification the Group Treasury team will have access to on adoption of this strategy. The limits approach has been simplified, replacing changing limits across 3, 6 and 12 month bands with a single exposure limit for exposures beyond overnight. This is because duration risk will be more effectively and consistently controlled by the revised portfolio risk management set out below.

- ii. Modification to Capita CDS Spread Overlay Methodology: The credit rating score, under the Capita Asset Services Credit Worthiness Policy, is adjusted downwards if the Credit Default Swap (CDS) spreads exceed certain barrier levels (Section 4.22). In November 2015, these barrier levels were changed by Capita, to make the CDS credit overlay more effective, as since late 2013, the credit risk environment has become more benign, compared with 2008-11.

- iii. Move to a consistent, portfolio-level credit risk management approach

Due to the scope of available services and information, different credit rating methodologies have been used within the GIS Investment Strategy for term deposits/certificates of deposit and corporate bonds.

The inconsistency is undesirable and following investment in internal systems and extensive development with Capita Asset Services (as Treasury advisers, including the provision of ratings), a methodology capturing the benefit of both approaches has been developed.

The new approach will permit slightly more investment flexibility in terms of counterparties, although will result in a lower risk portfolio by imposing an overall portfolio credit risk limit monitored at a much more granular level.

References to approved or operational lists have been removed – these are not strategic issues and will be covered in the Treasury Management Practices approved by each participant's statutory Chief Financial Officer.

- iv. Clarification and consistency of counterparty categorisation

The previous strategy contained ambiguity over the treatment of bonds of Type A counterparties (UK government, rated financial institutions and most supranational organisations). Due to low relative levels of investment in these instruments (driven by lack of availability) this has not caused a practical problem, however, the specified investments limits and definitions have been amended to make clear that senior unsecured short term bonds issued by Type A are treated on the same footing as deposits and certificates of deposit, as the credit risk is equivalent. For the avoidance of doubt, such bonds do not count towards the 20% corporate bonds limit, which is intended to control the exposure to Type B counterparties, reflecting the fact the Group Treasury Team currently have access to more detailed analysis of Type A.

- v. Addition of Residential Mortgage Backed Securities

It is proposed to add Residential Mortgage Backed Securities (RMBS) to the list of Non Specified Investment Instruments.

The motivation for this is diversification away from the current concentration of credit risk in financial institutions.

RMBS are a type of bond whose cash flows come from residential debt such as mortgages and home equity loans. A pool of mortgage loans created by banks or other financial institutions is used to provide security for the bond.

The European model is completely different from that of the US, where certain mortgage backed securities proved to bear extreme risk despite high ratings. The key distinctions of the European regulatory regime are that the securities are associated with the same institution that issued the mortgages, the mortgages selected for securitisation are an independently certified random sample from the wider mortgage book (to ensure no 'cherry picking') and the issuing institution shares the credit risk and first loss over the life of the security.

European RMBS have, over the last 10 years, proved themselves to be an asset class of high credit quality, even during the financial crash of 2008-09. This credit strength is demonstrated by Fitch's EMEA RMBS Loss Experience 2000-2014, published February 2015, under which, of the 4 UK RMBS asset classes in existence, 3 experienced a zero loss: 'UK Prime', 'UK Buy to Let' and 'UK Other', while 'UK Non-conforming' experienced a small loss of 0.5%, restricted to the lowest rated tranches. In fact there have been no losses on any "AAA" rated European RMBS over the monitoring period since 2000.

Only the highest rated examples of the 'UK Prime' or 'UK Buy to Let' categories are being considered at this stage.

Stress tests indicate that losses at the UK AAA rated level would require a national fall in house prices of over 50% coupled with a mortgage default rate of 50%. The worst UK experience over housing crashes since 1989 has been 25% and 2.73% respectively.

Other strengths of RMBS are:

- Fully immunised from bail-in risk (the risk that depositors will be called upon to support the institution they have lent money to in the event of that institution defaulting). RMBS are secured on legally segregated mortgage assets and so are fully bankruptcy-remote from the issuing institution (originator).
- High liquidity, as the market for buying and selling them is large, with strong demand and well established.
- Good performance, as historically RMBS have outperformed competitor investment products such as covered bonds and senior unsecured certificates of deposit.
- Minimal interest rate exposures, since the returns on RMBS are floating rates.
- Increased diversification and reduced exposure to bank risk within the investment portfolio.
- High visibility and transparency, from the ability to carry out a full and rigorous assessment of individual mortgages and to stress test projected cash flows, both prior to their launch and on an on-going basis. Regular, detailed, reporting on underlying asset performance is also available on a monthly basis.

- A risk profile that improves significantly as the instruments mature, reflecting the relevant mortgages being repaid, in turn decreasing loan to value ratios and the credit protection available. Principal and interest is paid out on a tranche by tranche basis, starting with the highest rated.

It is possible to invest in RMBS by purchasing them through the GIS and/or in the name of an individual participant. It is expected that RMBS will be purchased for terms of 2 to 3 years. An external fund manager will be appointed to actively manage the RMBS and also to monitor them and comply with the monitoring and reporting activities required by regulatory bodies. A custodian will be appointed to hold these securities on behalf of GIS and/or in the name of an individual participant.

4.0 GIS Investment Strategy 2016-17 Detail

- 4.1 The Investment Manager (the GLA) will generally use call accounts and short-dated or highly liquid money market instruments in order to maintain liquidity and will maintain the weighted average maturity of the short term portfolio arising from investing GIS balances, so that the weighted average maturity does not exceed 3 months. The majority of investments will, therefore, be 'Specified' investments rather than 'Non-Specified' investments. For example, RMBS is a 'Non-Specified' investment and given RMBS investment durations are typically greater than 3 months, it is unlikely that GIS balances will be used for RMBS investments.
- 4.2 Performance benchmarks may be set from time to time by unanimous agreement of the Syndics.
- 4.3 The Investment Manager may delegate the management of a portion, not exceeding the forecast minimum GIS balance for the next 12 months, of the GIS to external fund managers if this is deemed prudent. As a result of very large scale pooling, such managers may be able to engage in trading¹ which is impractical for the GLA. Therefore, a slightly broader range of instruments are available to those managers. However, any delegation would be within the agreed investment strategy and would give a fund manager no greater discretion than the GLA treasury team presently have.
- 4.4 As well as seeking high liquidity, the Investment Manager will seek high security, adopting the prudent investment policy recommended in the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments (revised 2010). This states that Security should come before Liquidity, and Liquidity before Yield.
- 4.5 To identify investment options with relatively high security and liquidity, the GIS Investment Strategy adopts the concept of "Specified" and "Non-Specified" Investments, as defined in the DCLG Guidance on Local Government Investments (revised 2010).

Specified Investments

- 4.6 An investment is a Specified investment if all of the following apply:
 - i. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;

¹ Trading here means purchasing instruments with a high likelihood of selling them before their natural maturity, either to crystallise a gain or to provide liquidity for investors. The internal team at the GLA by contrast will only generally purchase an instrument if they have reasonable confidence of being able to hold to maturity

- ii. The investment is not a long-term investment (i.e. due or required to be repaid within 12 months);
- iii. The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146 as amended) (i.e. the investment is not share capital in a body corporate)
- iv. The investment is made with a body or in an investment scheme of high *credit quality* (see below) or with one of the following public-sector bodies:
 - The United Kingdom Government
 - A local authority in England or Wales (as defined in section 23 of the 2003 Local Government Act) or a similar body in Scotland or Northern Ireland
 - A parish council or community
 - High credit quality is defined as a minimum credit rating as outlined in the table 'Criteria for Specified Investments' provided below

Non Specified Investments

4.7 Non-Specified Investments are defined as those not meeting the definition of Specified Investments, but still deemed prudent for use.

4.8 Criteria for Specified Investments²

Specified Investments				
Investment	Minimum Credit Criteria (Expressed as Capita's colour band, Fitch PCF or raw ratings)	Managed: Internally (I) or Externally (E)	Maximum percentage of total investment	Maximum Duration (months)
Debt Management Agency Deposit Facility (DMADF)	--	I	100%	6
Term Deposit – UK public body (e.g. Local, Police or Fire Authority)	Eligible for PWLB or National Loans Fund finance	I/E	100%	12
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – Rated Bank or Building Society	Fitch credit Factor ≤10.0; domicile long term sovereign rating equivalent to Fitch AA or better	I/E	100%	12

² The subsequent definition of "bond" includes all transferable rated debt securities e.g. Medium Term Notes, Floating Rate Notes, Commercial Paper. Where a specific term is used it is to highlight a particular set of limits.

Specified Investments

Investment	Minimum Credit Criteria (Expressed as Capita's colour band, Fitch PCF or raw ratings)	Managed: Internally (I) or Externally (E)	Maximum percentage of total investment	Maximum Duration (months)
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – Financial Institution in significant part owned by UK Government	Blue	I/E	100%	12
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – Institutions not meeting general criteria but instruments explicitly guaranteed by sovereign national Government rated AA or above (Fitch long term)	None	I/E	100%	12 or matching relevant guarantee, if shorter
UK Government Gilts held to maturity	--	I/E	100%	12
UK Treasury Bills held to maturity	--	I/E	100%	12
Bonds issued by multilateral development banks (e.g. The European Investment Bank) held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moody's)	I/E	100%	12
Corporate bonds explicitly guaranteed by UK Government held to maturity	Rating equivalent to UK Government	I/E	100%	12 or matching relevant guarantee, if shorter
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -				
Government Liquidity Funds	Fitch AAmmf; or S&P AAAm; or Moody's Aaa.	I/E	100%	n/a [not a fixed term investment]

Specified Investments				
Investment	Minimum Credit Criteria (Expressed as Capita's colour band, Fitch PCF or raw ratings)	Managed: Internally (I) or Externally (E)	Maximum percentage of total investment	Maximum Duration (months)
Money Market Funds	Fitch AAmmf; or S&P AAAM; or Moody's Aaa.	I/E	100%	n/a [as above]

- 4.9 Forward term deposits may be negotiated with institutions meeting the criteria above with the sum of the forward period and duration of the deal subject to a maximum of 12 months. Total forward dealt exposure may not exceed 20% of the forecast average daily balance at the time. The GIS defines 'forward' as negotiated more than 4 banking days in advance of deposit. Shorter forward periods are viewed as normal cash management practice providing cash resources are certain. The Investment Manager may make exceptions to this limit where the counterparty is a member of the GLA Group.

4.10 Criteria for Non-Specified Investments

Non-Specified Investments

Aggregate exposure to non-specified investment shall not exceed 50% of total forecast daily average balances, as at the date of investment.

Non-Specified Investments highlighted in bold can only be entered into by external fund managers, appointed in accordance with the Authority's TMSS.

Investment	Minimum Credit Criteria (Expressed as Capita's colour band, Fitch PCF or raw ratings)	Use: Internal (I) or Externally (E) managed	Maximum percentage of total investments	Maximum Duration (months)
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – institutions eligible for Specified investments	Defined as per specified investments	I/E	50%	24

Non-Specified Investments

Aggregate exposure to non-specified investment shall not exceed 50% of total forecast daily average balances, as at the date of investment.

Non-Specified Investments highlighted in bold can only be entered into by external fund managers, appointed in accordance with the Authority's TMSS.

Investment	Minimum Credit Criteria (Expressed as Capita's colour band, Fitch PCF or raw ratings)	Use: Internal (I) or Externally (E) managed	Maximum percentage of total investments	Maximum Duration (months)
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – unrated institutions covered by explicit and unconditional parental guarantee from institution meeting criteria as above.	For parental guarantor: Fitch credit Factor ≤ 10.0 ; domicile long term sovereign rating, equivalent to Fitch AA or better.	I/E	50%	24 [or extent of guarantee if this is lower]
UK Government Gilts held to maturity	--	I/E	50%	240
UK Government Gilts held for trading	--	E	50%	600
UK Treasury Bills held for trading	--	E	50%	12
Corporate bonds explicitly guaranteed by UK Government held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moody's)	I/E	50%	240 [or extent of guarantee if this is lower]
Corporate bonds explicitly guaranteed by UK Government held for trading	Long term AAA (Fitch or S&P) or Aaa (Moody's)	E	50%	300 [or extent of guarantee if this is lower]
Bonds issued by multilateral development banks held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moody's)	I/E	10%	120

Non-Specified Investments

Aggregate exposure to non-specified investment shall not exceed 50% of total forecast daily average balances, as at the date of investment.

Non-Specified Investments highlighted in bold can only be entered into by external fund managers, appointed in accordance with the Authority's TMSS.

Investment	Minimum Credit Criteria (Expressed as Capita's colour band, Fitch PCF or raw ratings)	Use: Internal (I) or Externally (E) managed	Maximum percentage of total investments	Maximum Duration (months)
Bonds issued by multilateral development banks held for trading	Long term AAA (Fitch or S&P) or Aaa (Moody's)	E	10%	300
Floating Rate Notes (multilateral development banks issuances only)	Long term AAA (Fitch or S&P) or Aaa (Moody's)	I/E	10%	120
Corporate Bonds or commercial paper held to maturity	Fitch credit Factor ≤ 10.0	I/E	20%	24
Residential Mortgage Backed Securities (RMBS) [note: full approval pending]	Fitch Structured Finance AA+ or above	E	20%	Target weighted average life < 3 years

4.11 The limits above are under review at the time of writing.

Creditworthiness Policy:

4.12 The investment manager may, in principle, invest in any instrument or deposit of investment grade, defined as bearing a credit rating in the range equivalent to Fitch Ratings AAA-BBB.

4.13 For clarity, the mappings used by the investment manager are

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+

Long term			Short term		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
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

4.14 As a proxy for geopolitical risk, the investment manager shall exclude the securities of issuers domiciled in foreign countries with a Fitch long-term sovereign rating below AA (or equivalent from another agency). This approach is under review;

4.15 Additionally the investment manager shall have regard to a portfolio credit factor (PCF) determined with reference to the following table:

Credit Risk Factors by Security, Rating and Maturity

Days	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB
0/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

4.16 The investment manager will monitor the weighted (by principal value) average PCF and maintain the following limits for internally managed investments:

Maximum duration: 730 days (24 months)

Maximum credit factor of any single security: 10.00

Maximum portfolio credit factor (PCF): 5.00

Therefore:

- instruments with green-shaded scores are always consistent with the risk limits for the portfolio;
- instruments with an amber-shaded score could be used, but would need to be balanced by the use of lower scoring investments; whereas
- instruments with red-shaded scores may not be used at all, as they lie outside the participants' risk appetite.

- 4.17 *The table expresses relative risk based on expectations of defaults. This is a helpful tool for articulating the GIS risk appetite.*
- 4.18 *The overall limit of 5.00 corresponds to the overall risk to capital not exceeding that of a 1 year deposit with a AA- rated bank, e.g. HSBC.*
- 4.19 *The individual limit of 10.00 implies the riskiest permitted assets would be no worse than, say, a 4 month deposit Skipton Building Society or Clydesdale Bank, or else a 3 month bond issued by a major corporate such as Carlsberg Breweries, Renault, or Deutsche Telecom.*
- 4.20 Additionally, the following restrictions or exceptional treatments shall apply for individual categories of counterparty.

Rated Financial Institutions (Type A counterparties)

- 4.21 The Investment Manager has regard to the sophisticated creditworthiness methodology developed and maintained by Capita Asset Services. The methodology uses an average of the ratings from all three of the Ratings Agencies to arrive at a score which places the institution into the bands for investment.
- 4.22 Following this initial classification, the score (hence, potentially, the band) is adjusted downwards to account for negative rating watches or outlooks (i.e. indications by the Agencies that a downgrade is being considered). Scores are further adjusted downwards if Credit Default Swap (CDS) spreads exceed certain barrier levels. For the purposes of the PCF calculation, the counterparty shall also be downgraded one notch in credit quality. UK banks in the Blue band are excepted from these further steps due to the security offered by their nationalised or semi-nationalised status.
- 4.23 The adjusted band is used to determine the following concentration limits:

Cash Exposure Limits – applied to individual counterparties		
Band	Overnight	> 1 day
UK Sovereign	100%	50%
Yellow	50%	25%
Purple	50%	20%
Blue (1)	100%	25%

Cash Exposure Limits – applied to individual counterparties		
Band	Overnight	> 1 day
Orange	25%	15%
Red	25%	10%
Green	10%	5%
No Colour	5%	5%

- For overnight investments, percentages are applied to the GIS daily balance.
- For investments longer than overnight, percentages are applied to forecast average GIS balance over the term of the proposed investment as at the date of investment.

4.24 (1) The Blue band applies to only nationalised or semi-nationalised UK Banks. There is no pre-determined level of holding which will result automatically in a loss of this banding: a change in this banding will be triggered instead by Government 'intention'. E.g. A Government holding of 15% with a stated intention not to sell any more shares could result in the banding remaining blue, whilst a Government holding of 20% with a stated intention to sell the remaining holding within 6 months could result in the banding being removed and the assessment of the semi-nationalised UK Bank switching to its stand-alone rating. In practice, this currently applies only to RBS and its guaranteed subsidiaries.

Corporate Bonds - non-financial institutions (Type B counterparties)

4.25 The use of corporate bonds increases the potential for diversification, liquidity and yield although there can be additional risk arising from potentially less complete ratings information for certain bonds. For this reason, the overall exposure to instruments of this type is set at 20%. Exposure to these counterparties, via bond investments, shall be governed as follows:

- Maximum exposure to single Type B counterparty (or group): 5%
- The rating of the bond itself, not the rating of the issuer, will be used in the credit factor assessment

4.26 UK Local Authority bonds will generally be treated as rated equivalent to UK Government and subject to the relevant Type A limits. This is on the basis that participants would not generally take an alternative view on the credit quality of another Public Body to that taken by HM Treasury acting through the PWLB. However, officers may ask of such bodies' statutory chief finance officers whether their borrowing falls within their affordable limit as defined by the Local Government Act 2003 and may restrict investments with individual counterparties where there may be a risk that any delay in repayment could disadvantage the participants' operations.

4.27 If, in the judgement of the Chief Investment Officer, the structure of a bond associated with a local authority is such that the credit risk is not identical to a bilateral loan with that authority, the rating of the bond itself will be used and the 5% limit will apply.

4.28 In addition to these high level principles, the Group Treasury team may apply a variety of additional market data and media due diligence measures prior to committing funds to a Type B Counterparty. These will be detailed in the Group Treasury Management Practices (TMPs).

Un-Rated Organisations (Type C Counterparties)

4.29 The Investment Manager may lend to organisations without credit ratings in the following circumstances only:

- The organisation has an explicit, financially credible guarantee from a foreign sovereign state of at least Fitch AA (or equivalent) rating:
 - Treated as rated equivalent to the sovereign, subject to the duration of investment not exceeding the term of the guarantee;
- The organisation is explicitly guaranteed by a parent company meeting Type A or B criteria:
 - Treated as rated equivalent to its parent, subject to the duration of deals not exceeding the term of the guarantee;
- The organisation is a UK Public Body meeting criteria for loans from the PWLB or National Loans Fund (e.g. Local Authorities, Police and Fire Authorities):
 - Treated as UK government securities. However, officers may ask of such bodies' statutory chief finance officers whether their borrowing falls within their affordable limit as defined by the Local Government Act 2003 and may restrict investments with individual counterparties where there may be a risk that any delay in repayment could disadvantage the participant's operations.

4.30 All limits above are overlaid with the following considerations:

- Companies within the same group shall be subject to group limits, defined as the limits applying to the highest rated member of the group; and
- When placing new investments, other than overnight, the exposure to organisations domiciled in any one state, excepting the United Kingdom, shall not exceed 25% for AAA rated states, 15% for AA+ rated states or 5% for AA rated states, relative to the forecast average GIS balance.
- All limits are strictly applied to daily activity, i.e. No transaction may be undertaken that will, to the best available information, result in a breach; all limits will be monitored daily and any accidental breach or passive breach, arising from changing market conditions or changes to the status of pre-existing investments, will be reported immediately to the Syndics and Chief Investment Officer (CIO). The CIO, in consultation with the Syndics, will decide on what remedial action (if any) need be taken and all breaches will be reported to each participant's relevant committee at the following regular reporting interval.

Deposit Facility of Last Resort

4.31 In the circumstance of being unable to place funds with counterparties within approved limits, the Investment Manager will attempt to place the surplus funds with the Debt Management Agency Deposit Facility (DMADF). This facility may, of course, also be used in other circumstances if it offers rates above equivalent market levels, though in past experience this is unlikely. Where the sums to be invested were large or durations significant, officers would

investigate the use of UK government securities held to maturity (or MMFs investing solely in these instruments) and within the parameters of the overall strategy adopt the financially preferable course.

- 4.32 In the instance of technical failures or unexpected monies being received after the cut-off time for sending payments, the Investment Manager will have no choice but to leave the funds with the GLA's bankers, RBS. In such circumstances, the funds will be moved to the GLA's call account at RBS. At present, however, the quasi-governmental security of RBS arising from the high level public ownership means it ranks as a 'blue' counterparty and enjoys a 100% overnight limit.

Appendix 6: 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 Authority 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 Authority'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 Authority and monitored by the Executive Director of Resources and annually reviewed by the Authority 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 Budget and Performance Committee following recommendations by the Executive Director of Resources.

2.0 TMP1 RISK MANAGEMENT

2.1 General statement

- 2.1.1 The Executive Director of Resources 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 Authority's objectives in this respect, all in accordance with the procedures set out in TMP6 'Reporting requirements and management information arrangements'.
- 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 TMPs: Schedules.

2.2 Credit and counterparty risk management

- 2.2.1 The Executive Director of Resources regards a key objective of the Authority's treasury management activities to be the security of the principal sums it invests. Accordingly, he/she 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 TMPs: Schedules. The Executive Director of Resources also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which the Authority may borrow, or with whom it may enter into other financing arrangements.

2.3 Liquidity risk management

- 2.3.1 The Executive Director of Resources will ensure the Authority 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 Executive Director of Resources 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.
- 2.4 Interest rate risk management
- 2.4.1 The Executive Director of Resources will manage Authority 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 Executive Director of Resources will achieve this by the prudent use of Authority 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 Executive Director of Resources will manage its exposure to fluctuations in exchange rates, so as to minimise any detrimental impact on its budgeted income/expenditure levels.
- 2.6 Refinancing risk management
- 2.6.1 The Executive Director of Resources will ensure that Authority 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 Authority as can reasonably be achieved in the light of market conditions prevailing at the time.
- 2.6.2 The Executive Director of Resources will actively manage Authority 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.
- 2.7 Legal and regulatory risk management
- 2.7.1 The Executive Director of Resources will ensure that all Authority treasury management activities comply with statutory powers and regulatory requirements. He/She will demonstrate such compliance, if required to do so, to all parties with whom the Authority deals in such activities. In framing its credit and counterparty policy under TMP[1] 'credit and counterparty risk management', he/she will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Authority, particularly with regard to duty of care and fees charged.
- 2.7.2 The Executive Director of Resources 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 Authority.

2.8 Fraud, error and corruption, and contingency management

- 2.8.1 The Executive Director of Resources will ensure that he/she has identified the circumstances which may expose the Authority to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, he/she will maintain effective contingency management arrangements, to these ends.

2.9 Market risk management

- 2.9.1 The Executive Director of Resources will seek to ensure that the Authority'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 Authority from the effects of such fluctuations.

3.0 TMP2 PERFORMANCE MEASUREMENT

- 3.1 The Executive Director of Resources is committed to the pursuit of value for money in the Authority's treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the Authority's treasury management policy statement.
- 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 TMPs: Schedules.

4.0 TMP3 DECISION-MAKING AND ANALYSIS

- 4.1 The Executive Director of Resources will maintain full records of Authority 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 demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching these decisions are detailed in the TMPs: Schedules.

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

- 5.1 The Executive Director of Resources will undertake Authority 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 Executive Director of Resources considers it essential, for the purposes of the effective control and monitoring of the Authority'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 Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Executive Director of Resources 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 Executive Director of Resources 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 Executive Director of Resources will also ensure that at all times those engaged in treasury management will follow the policies and procedures. The present arrangements are detailed in the TMPs: Schedules.
- 6.5 The Executive Director of Resources will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the TMPs: Schedules
- 6.6 The delegations to the Executive Director of Resources in respect of treasury management are set out in the TMPs: Schedules. The Executive Director of Resources will fulfil all such responsibilities in accordance with the Authority'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 Executive Director of Resources will ensure that regular reports are prepared and considered on the implementation of Authority 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 Authority 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.
- 7.3 The GLA/MPS 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 GLA/MPS 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 TMPs: Schedules.

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

- 8.1 The Executive Director of Resources will prepare, and the Authority 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 Executive Director of Resources 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 Executive Director of Resources will account for the Authority'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 this Authority will be under the control of the Executive Director of Resources, 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 Executive Director of Resources will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1.3) 'Liquidity risk management'. The present arrangements for preparing cash flow projections, and their form are set out in the TMPs: Schedules.

10.0 TMP9 MONEY LAUNDERING

- 10.1 The Executive Director of Resources is alert to the possibility that the Authority 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. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the TMPs: Schedules.

11.0 TMP10 TRAINING AND QUALIFICATIONS

- 11.1 The Executive Director of Resources 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. He/She 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 Executive Director of Resources will recommend and implement the necessary arrangements.

- 11.2 The Executive Director of Resources will ensure that Authority 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 The present arrangements are detailed in the TMPs: Schedules.

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

- 12.1 The Authority recognises that responsibility for the treasury management decisions remains with the Authority 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 arrangements rests with the Executive Director of Resources, and details of the current arrangements are set out in the TMPs: Schedules.

13.0 TMP12 CORPORATE GOVERNANCE

- 13.1 The Authority 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 This Authority has adopted and implemented the key principles of the TM Code. This, together with the other arrangements detailed in the TMPs; Schedules, are considered vital to the achievement of proper corporate governance in treasury management, and the Executive Director of Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Appendix 7: Treasury Management Outturn position for 2014/15 and mid-year position for 2015/16

1. Summary Portfolio Position

Current Treasury Management Position	Actual as at 31 March 2014		Actual as at 31 March 2015		Actual as at 30 September 2015	
	£m	Av. Rate	£m	Av. Rate	£m	Av. Rate
External Borrowing						
Long Term Borrowing	3,254.25	3.69%	3,563.25	3.50%	3,745.25	3.35%
Short Term Borrowing	0.00	0.00	35.00	0.75%	30.00	0.63%
Total External Borrowing (A)	3,254.25		3,598.25		3,775.25	
Other Long Term Liabilities						
PFI Liability	0.00		0.00		0.00	
Finance Lease Liability	0.00		0.00		0.00	
Total Other Long Term Liabilities (B)	0.00		0.00		0.00	
Total Gross Debt (A+B)	3,254.25		3,598.25		3,775.25	
Capital Financing Requirement*	3,195.28		3,630.12		3,644.00	
Less Other Long Term Liabilities	0.00		0.00		0.00	
Underlying Capital Borrowing Requirement (C)	3,195.28		3,630.12		3,644.00	
Under/(Over) Borrowing (C-A)	-58.97		31.87		-131.25	
Investments (D)	1,031.43	0.68%	998.95	0.72%	1,365.09	0.70%
Net Borrowing/(Investments) (A-D)	2,222.82		2,599.30		2,410.16	

* includes on balance sheet PFI schemes and finance leases

2. Treasury Management Budget

	2014-15 Opening Estimate £m	2014-15 Year End Actual £m	Variance between Opening Estimate and Year end Actual £m	2015-16 Opening Estimate £m	2015-16 Actual as at 30.9.15 £m	2015-16 Revised Estimate £m	Variance between Opening Estimate and Revised Estimate £m
PWLB Interest payable	128.40	124.72	-1.23	125.10	62.88	125.17	0.07
Interest receivable	-2.00	-8.21	-6.21	-8.30	-4.41	-9.81	-1.51
Minimum Revenue Provision & Vol Revenue Provision	11.90	9.96	-1.94	101.10	5.10	101.10	0.00
Total	40.50	36.31	-4.19	217.90	63.57	216.46	-1.44

3. Prudential Code Indicators and Treasury Management Limits

i) Capital Financing Requirement

	2014-15 Original Estimate £m	2014-15 Year End Actual £m	2014-15 Variance between Original Estimate and Year End Actual £m	2015-16 Original Estimate £m	2015-16 Revised Estimate £m	2015-16 Variance between Original Estimate and Revised Estimate £m
Total CFR	4,000.00	3,630.12	-369.88	3,464.40	3,664.00	199.60

ii) Authorised Limit for External Debt

	2014-15 Final Authorised Limit £m	2014-15 Actual External Debt £m	Headroom £m	2015-16 Original Authorised Limit £m	2015-16 Actual External Debt As At 30.09.15 £m	Headroom £m	2015-16 Revised Authorised Limit £m
Borrowing	4,500.00	3,598.25	901.75	4,600.00	3,775.25	824.75	4,600.00
Other long term liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	4,500.00	3,598.25	901.75	4,600.00	3,775.25	824.75	4,600.00

iii) Operational Boundary for External Debt

	2014-15 Final Operational Boundary £m	2014-15 Actual External Debt £m	Headroom £m	2015-16 Original Operational Boundary £m	2015-16 Actual External Debt As At 30.09.15 £m	Headroom £m	2015-16 Revised Operational Boundary £m
Borrowing	4,190.00	3,598.25	591.75	4,290.00	3,775.25	514.75	4,290.00
Other long term liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	4,190.00	3,598.25	591.75	4,290.00	3,775.25	514.75	4,290.00

iv) Gross Debt and Capital Financing Requirement

2014-15 Actual Gross Debt As At 31.03.15 £m	Preceding Year CFR £m	2014-15 Additional CFR £m	2015-16 Estimated Additional CFR £m	2016-17 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
3,598.25	3,195.28	434.84	0.00	68.50	3,698.62	100.37

2015-16 Actual Gross Debt As At 30.09.15 £m	Preceding Year CFR £m	2015-16 Estimated Additional CFR £m	2016-17 Estimated Additional CFR £m	2017-18 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
3,775.25	3,630.12	33.88	100.00	230.00	3,994.00	218.75

v) Ratio of Financing Costs to Net Revenue Stream

Financing Costs to Net Revenue Stream 2014-15			
	2014-15 Opening Estimate %	2014-15 Year End Actual %	Variance between Opening Estimate and Year End Actual %
Crossrail	54.00	53.48	-0.52
Non Crossrail	10.50	4.50	-6.00
Total	64.50	57.98	-6.52
Financing Costs to Net Revenue Stream 2015-16			
	2015-16 Opening Estimate %	2015-16 Revised Estimate %	Variance between Opening Estimate and Revised Estimate %
Crossrail	53%	53%	0%
Non Crossrail (incl NLE)	1%	4.5%	4%
Total	0.54	58%	4%

vi) Net Borrowing Upper Limits to Fixed and Variable Interest Rate Exposure

	Opening 2014-15	As at 30.03.15	Opening 2015-16	As at 30.09.15
	%	%	%	%
Fixed rate	100.00	138.43	100.00	148.34
Variable rate	20.00	-38.43	0.00	-48.34

NB: when the limits were set they were set on the basis of Gross debt, whilst the definition of the indicator refers to net debt. All current long term debt is on a fixed rate basis whilst by definition investments will be variable as they are set for less than one year. The use of the net indicator therefore logically will always result in a fixed rate upper limit in excess of 100%.

vii) Limits for Maturity Structure of Borrowing

Limits for Maturity Structure of Borrowing for 2014-15					
			Upper Limit	Lower Limit	As at 31.03.15
			%	%	%
Under 12 months			20.00	0.00	7.02
12 months and within 24 months			25.00	0.00	1.06
24 months and within 5 years			40.00	0.00	8.46
5 years and within 10 years			50.00	0.00	23.33
10 years and above			100.00	0.00	60.13

Limits for Maturity Structure of Borrowing for 2015-16					
			Upper Limit	Lower Limit	As at 30.09.15
			%	%	%
Under 12 months			100.00	0.00	3.98
12 months and within 24 months			100.00	0.00	1.63
24 months and within 5 years			100.00	0.00	10.62
5 years and within 10 years			100.00	0.00	23.55
10 years and above			100.00	0.00	60.22

viii) Limits for principle sums invested for longer than 364 days

Long Term Cash Investments				
as part of pooled monies within the GIS taken between 01/04/14 and 31/03/15				
Date of Deal	Counter Party	£m	Interest Rate %	Maturity Date
20.05.14	Overseas Chinese Banking Corporation Ltd	35.31	0.90	20-May-15
06.08.14	The Royal Bank of Scotland Plc	23.54	1.07	6-Aug-15
01.10.14	Cooperatieve Centrale Raiffeisen Boerenleenbank BA	11.77	0.94	01-Oct-15
Total		70.62		

Long Term Cash Investments				
as part of pooled monies within the GIS taken between 01/04/15 and 30/09/15				
Date of Deal	Counter Party	£m	Interest Rate %	Maturity Date
20.05.15	Overseas Chinese Banking Corporation Ltd	43.67	0.90	20-May-16
Total		43.67		

New Long term Borrowing taken between 1/4/14 and 31/3/15 and between 1/4/15 and 30/9/15

New Long Term Borrowing taken between 01/04/14 and 31/03/15				
Lender	Date	£m	Interest Rate %	Duration (years)
London Borough of Bromley	01/04/2014	15.00	1.14%	2.00
London Borough of Barnet	01/04/2014	10.00	1.04%	2.00
Lincoln City Council	01/04/2014	2.00	0.95%	1.50
Police and Crime Commissioner For Devon & Cornwall	01/04/2014	5.00	0.98%	1.50
City of Coventry Council	01/04/2014	8.00	0.70%	1.00
London Borough of Hounslow	01/04/2014	10.00	1.05%	1.76
London Borough of Richmond-Upon-Thames	01/04/2014	5.00	1.03%	1.67
Nottinghamshire Office of the Police	01/04/2014	5.00	1.05%	1.95
London Borough of Wansdworth	01/04/2014	12.50	1.12%	1.82
London Borough of Wansdworth	01/04/2014	12.50	1.12%	1.88
London Borough of Wansdworth	01/04/2014	12.50	1.12%	1.93
London Borough of Wansdworth	01/04/2014	12.50	1.12%	1.97
London Borough of Newham	01/04/2014	20.00	1.72%	3.34
North West Leicestershire District Council	03/04/2014	3.00	1.50%	3.00
West Mids Police	09/04/2014	10.00	0.75%	1.00
London Borough of Havering	14/04/2014	5.00	1.00%	1.50
London Borough of Hackney	14/04/2014	5.00	1.50%	2.84
Oldham MBorough Council	15/04/2014	5.00	0.90%	1.50
Warwick District Council	15/04/2014	2.00	0.95%	1.50
London Borough of Hounslow	15/04/2014	10.00	1.00%	1.50
Hampshire County Council	17/04/2014	10.00	2.05%	4.08
Hampshire County Council	17/04/2014	10.00	2.00%	3.92
West Mids Police	22/04/2014	10.00	1.00%	1.50
Torbay Borough Council	22/04/2014	5.00	1.05%	1.75
Admiral Insurance Gibraltar Ltd	23/04/2014	10.00	2.50%	4.66
Admiral Insurance Gibraltar Ltd	23/04/2014	10.00	2.50%	4.75
Admiral Insurance Gibraltar Ltd	23/04/2014	10.00	2.50%	4.84
Admiral Insurance Gibraltar Ltd	23/04/2014	5.00	2.50%	4.92
Admiral Insurance Company Ltd	23/04/2014	15.00	2.50%	5.00
Solihull Borough Council	30/04/2014	5.00	1.00%	1.50
Surrey Heath Borough Council	30/04/2014	2.00	0.95%	1.50
Luton Borough Council	30/04/2014	2.00	0.95%	1.75
Bolton District Council	30/04/2014	10.00	1.05%	1.76
Cornwall Council	30/04/2014	10.00	2.00%	4.50
Cornwall Council	30/04/2014	10.00	2.00%	4.00
Cornwall Council	15/05/2014	10.00	2.00%	4.00
London Borough of Hackney	30/05/2014	5.00	1.00%	1.50
Total		309.00		

New Long Term Borrowing taken between 01/04/15 and 30/09/15				
Lender	Date	£m	Interest Rate %	Duration (years)
Community Finance Company	13/05/2015	200.00	2.34%	21.55
Total		200.00		

4. Crossrail Monitoring

	Totals as at		
	31/03/2015 £m	30/09/2015 £m	31/03/2016 £m
Total borrowing of project	3,343.25	3,320.25	3,251.25
In year interest paid	117.80	59.10	118.10
In year interest receivable	0.86	0.06	0.13
Net in year interest paid	116.94	59.04	117.97
In year BRS receipts	220.70	106.80	218.30
In year payments to TfL	530.00	-	-