MOPAC | MAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

REQUEST FOR DMPC DECISION – PCD 330

Title: Treasury Management 2018/19

Executive Summary:

The Treasury Management strategy sets out planned capital spending, and how MOPAC will manage its borrowings and investments. The GLA Group Investment Syndicate (GIS) manages all MOPAC investments, to generate financial and risk reduction benefits. The current MOPAC Treasury Management Strategy makes use of both the GLA Group Investment Syndicate for investment purposes and has the capacity if required to make investments in its own name. This is designed to spread counter party risk.

The external debt and treasury management limits and indicators in Appendix 1 are consistent with the MOPAC medium term financial strategy and 2018-19 budget.

The GLA will continue to implement the MOPAC strategy via the Treasury Management Shared Service arrangement and the Group Investment Syndicate.

Recommendation:

That the DMPC approve the 2018-19 Treasury Management Strategy Statement and supporting detail as set out in Appendix 1.

Deputy Mayor for Policing and Crime

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct. Any such interests are recorded below.

The above request has my approval.

Signature Sophie Linden **Date** 26/03/18

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

Decision required – supporting report

1. Introduction and background

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

1.2. The Strategy Statement 2018/19 defines the policies and objectives of MOPAC's treasury management activities and roles and responsibilities. There is a requirement within the CIPFA Code to seek approval of the Mayor's Office for Policing and Crime for the Treasury Management Strategy Statement. In accordance with the scheme of delegation and consent it is the responsibility of the Deputy Mayor to approve the policy and strategy each year which are set out at Appendix 1. This provides an opportunity to review the current arrangements, and MOPAC's risk appetite.

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

1.4. In June 2013 MOPAC signed up to the GLA operated Treasury Management shared service as part of the wider GLA shared service agenda. This proposed 2018/19 TMSS includes that all MOPAC investments are made through the GLA Group Investment Syndicate (GIS).

2. Issues for consideration

Strategy Issues

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

Borrowing

2.2. The approved 2018/19 capital programme funding includes provision for new borrowing of £179.4m. MOPAC has reserves which are used to help finance the capital programme reducing the need to borrow externally. Borrowing will only be undertaken where necessary and subject to the profile of capital spend, capital receipts and other funding streams.

2.3. MOPAC currently maintains an under-borrowed position, such that the capital financing requirement has not been fully funded with loan debt but by using the cash supporting MOPAC's reserves, balances and cashflow. The delivery of the future capital programme, budgeted revenue savings, use of reserves and the phasing of new asset disposals will impact the cashflow, and will continue to be kept under review.

2.4. The proposed strategy includes that if necessary MOPAC borrow temporarily to cover any expected shortfall. This reduces the risks of holding excess balances and the cost of carry. As investment returns are low it is proposed to continue this approach. Where an opportunity to reschedule existing debt is identified this will be undertaken within the limits of this strategy.

Investment

2.5. The primary objective for MOPAC is the security of capital, followed by maintenance of liquidity, with the return on investments being a tertiary consideration.

2.6. DMPC is asked to approve the treasury indicator that outside of externally managed funds or the pooled GIS funds MOPAC will not invest any principal sums for greater than 1 year.

2.7. The proposal is to continue to invest MOPAC funds fully within the GLA GIS. This is providing security whilst generating returns in excess of the 3 month London Interbank Bid Rate (LIBID) benchmark.

2.8. Based on current balances MOPAC's proportion of the GIS is circa 3%, (although this will change with the changes in MOPAC and other GIS members balances).

<u>Benefits to MOPAC</u>

2.9. The benefits to MOPAC of remaining within the GIS arise from access to a broader range of instruments and greater stability of pooled cashflows. This enables potentially longer deposit periods and higher returns without materially affecting risk. Placing all MOPAC funds within the GIS enables investment to be focussed on the relatively stronger counterparties.

2.10. Historic MOPAC cashflow indicate expected fluctuating cash balances over the next couple of years. Using the GIS, as it operates a more dynamic approach to setting counterparty limits, diversifies credit risk on a continuous basis at all levels of total investment cash, based on a percentage of the total forecast cash.

2.11. MOPAC officers will continue to work closely with GLA colleagues and the Treasury Management advisers to review and improve the strategy where possible, and to ensure that the MOPAC investment priorities of security first, liquidity second and then return continue to be achieved.

2.12. The overachievement of the benchmark for returns MOPAC currently generates is consistent with the other GLA/Functional Bodies using the GIS for all their investments.

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

<u>Prudential Indicators and Treasury Management Limits</u>

2.14. Appendix 1C sets out the proposed 2018/19 range of prudential indicators and Treasury Management limits.

<u>Management Arrangements</u>

2.15. The day-to-day management of the treasury function will continue to be undertaken by the GLA Chief Investment Officer and team. It will be the responsibility of the GLA Assistant Director – Group Finance to ensure that the function is adequately resourced and controlled.

2.16. The MOPAC Chief Finance Officer will receive regular reporting from the GLA Chief Investment Officer on risks, performance, progress and strategic financing advice. Treasury Management advice will be provided by Link Asset Services following a re-tender of this service during 2017.

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

3. Financial Comments

3.1. The cost of borrowing for 2018/19 is currently estimated to be £20.4m for interest payable, £1.3m interest receivable and £21.8m for minimum revenue provision. Budgets for this income and expenditure are included in the MOPAC/MPS budget for 2018/19.

4. Legal Comments

4.1. Under Section 1 of the Local Government Act 2003, MOPAC as local authority defined under s23 of that Act, may borrow money for any purpose relevant to its functions under any enactment, or for the purpose of the prudent management of its financial affairs.

4.2. The Mayor is required under s3 of the Local Government Act 2003 to determine how much money the GLA and each functional body (which includes MOPAC) can afford to borrow. In complying with this duty, Regulation 2 of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 requires the Mayor to have regard to the Prudential Code for Capital Finance in Local Authorities when determining how much MOPAC can afford.

4.3. MOPAC's scheme of delegation provides that the Chief Finance Officer, as the s127 officer, is responsible for the proper administration of the MOPAC's financial affairs.

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

5. Equality Comments

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

6. Background/supporting papers

6.1. Appendix 1 Treasury Management Strategy 2018/19

Public access to information Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOIA) and will be made available on the MOPAC website following approval. If immediate publication risks compromising the implementation of the decision it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.
Part 1 Deferral: Is the publication of Part 1 of this approval to be deferred? NO If yes, for what reason: Until what date:
Part 2 Confidentiality: Only the facts or advice considered as likely to be exempt from disclosure under the FOIA should be in the separate Part 2 form, together with the legal rationale for non-publication. Is there a **Part 2** form – NO

ORIGINATING OFFICER DECLARATION

	Tick to confirm statement (✓)
Head of Unit: The Chief Finance Officer has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	
Legal Advice: Legal advice is not required.	
Financial Advice: The Strategic Finance and Resource Management Team has been consulted on this proposal.	
Equalities Advice: Equality and diversity issues are covered in the body of the report.	

OFFICER APPROVAL

Chief Executive Officer I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Deputy Mayor for Policing and Crime. **Signature** R. Lawrence **Date** 28/03/18

Treasury Management Strategy Statement 2018-19

Introduction/Background

1) The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of the MOPAC Group for the year 2018/19.

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 local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

4) This TMSS therefore takes into account the impact of the MOPAC Group'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 1A)

- Minimum Revenue Provision (MRP) Policy Statement (Appendix 1B)
- Prudential Code Indicators and Treasury Management Limits (Appendix 1C)
- Group Investment Syndicate (GIS) Investment Strategy (Appendix 1D)
- Treasury Management Practices: Main Principles (Appendix 1E)

5) In covering the above areas, as per its Treasury Management Policy Statement (Appendix 1A), the MOPAC Group regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Responsibility for risk management and control lies within the MOPAC Group and cannot be delegated to any outside organisation.

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

   - Credit and counterparty risk (security of investments)
   - Liquidity risk (inadequate cash resources)
   - Interest and market risk (fluctuations in interest rate levels and thereby in the value of investments)
   - Refinancing risks (impact of debt maturing in future years) 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 1E (Treasury Management Practices: Main Principles)

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

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

      - a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of its treasury management activities and
      - suitable Treasury Management Practices (TMPs), setting out the manner in which the MOPAC Group will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

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

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

   iii. The Deputy Mayor for Policing and Crime holds responsibility for the implementation and regular monitoring of the MOPAC Group's treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the MOPAC

Group Chief Finance Officer (CFO). The MOPAC Group CFO will act in accordance with the organisation's policy statement and TMPs and, if this officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

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

v. Should there be a need to revise the Treasury Management Strategy; the Treasury Management Policy Statement; the Minimum Revenue Provision Policy Statement; the Prudential Code Indicators and Treasury Management Limits; the GIS Investment Strategy and the Treasury Management Practices at times other than those stated above, then these updates will be submitted to the Deputy Mayor for Policing and Crime for approval. The MOPAC Group will be fully consulted where there is any change to borrowing limits.

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

9) The MOPAC Group CFO is required to report an annual Treasury Management Strategy to the Deputy Mayor for Policing and Crime for approval. The MOPAC Group CFO 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.

Economic Background provided by Link Asset Services

10) After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has confounded pessimistic forecasts of weak growth by coming in at 1.8%, only marginally down on the 1.9% rate for 2016. In 2017, quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 +0.3% (+1.5% y/y), quarter 3 +0.4% (+1.5% y/y) and Q4 was +0.5% (+1.5% y/y). The outstanding performance came from the manufacturing sector which showed a 1.3% increase in Q4 and +3.1% y/y helped by an increase in exports due to the lower value of sterling over the last year and robust economic growth in our main trade partners, the EU and US. It is also notable that there has been a progressive acceleration in total GDP growth during the year which gives ground for optimism looking forward into 2018.

11) While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the Monetary Policy Committee, (MPC), meeting of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak. Inflation fell to 3.0% in December.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

12) At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

13) However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

14) One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

15) Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

Prospects for Interest Rates

16) The effective management of risk around borrowing and investments and cash flow management decisions includes understanding interest rate and inflation rate movements.

17) The MOPAC Group has appointed Link Asset Services as its treasury advisor and part of its service is to assist the MOPAC Group to formulate a view on interest rates. The following table gives our central view. The PWLB Rates shown are net of the 0.2% 'certainty rate' discount.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Borrowing Strategy

Delegation/Authorisation

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

19) On the basis of the above, the MOPAC Group CFO is

- authorised to approve borrowing by the MOPAC Group, for the purposes of financing capital expenditure and subject to the necessary statutory provisions, provided that the Authorised Limit, determined by the Mayor on the recommendation the Deputy Mayor for Policing and Crime for the MOPAC Group, is not exceeded.

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

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

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

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

Internal Borrowing Approach

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

- The MOPAC Group must maintain sufficient liquidity to be certain of meeting existing borrowing and other obligations

- The measures set out in the investment strategy below substantially control credit risk

- The materiality of such risks should be considered in the light of the long term financial consequences of sub-optimal borrowing decisions

- Agreements with central government specifying particular levels of borrowing

Policy on Borrowing in Advance of Need

22) The MOPAC Group 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 MOPAC Group can ensure the security of such funds.

23) In determining whether borrowing will be undertaken in advance of need the MOPAC Group 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.

24) 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 2018/19 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

25) PWLB pricing policies currently impose a considerable spread between the rate of new loans and the rate used to calculate premiums or discounts on early redemption. This means that there are 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.

26) The MOPAC Group CFO will consider the use of intra-group transactions to offer savings on borrowing and/or risk management opportunities. The GLA Group Treasury team continues to consider the use of intergroup transactions, to offer savings on borrowing and/or risk management opportunities.

Investment Strategy

27) The MOPAC Group 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. 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.

28) The MOPAC Group 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.

29) The borrowing of monies purely to invest or on-lend and make a return is unlawful and the MOPAC Group will not engage in such activity.

30) The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decision to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end investment balances.

Core Funds and Expected Investment Balances as at 31 March

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m

Fund balances/reserves	159.60	137.40	136.40
Provisions	56.50	56.50	56.50
Other	4.50	4.50	4.50
Total Core Funds	220.60	198.40	197.40
Working Capital Surplus/(Deficit)	99.50	99.50	99.50
Internal borrowing	398.23	383.12	357.33
Expected Investments	-78.13	-85.22	-60.43

31) The MOPAC Group's short-term cash balances are invested through the GLA Group Investment Syndicate. The MOPAC Group 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 MOPAC Group CFO is the Syndic for the MOPAC Group) is attached at Appendix 1D. This Strategy effectively constitutes the MOPAC Group's Annual Investment Strategy, which is prepared and approved before the start of each financial year, with approval by the MOPAC Group.

32) The investment strategy has been updated since the previous iteration in the following respects

a. The application of geo-political risk limits for non-UK, non-financial institutions has been updated to allow consideration on a case by case basis and determined by the CIO. This is to accommodate circumstances such as an instrument being issued through a subsidiary domiciled in one country but guaranteed or otherwise secured by a parent in another. It allows for the best application of risks and appropriate country limit (if any, in the case of multinational corporations) in which to aggregate the exposure.

b. The minimum sovereign rating for exposure to non-UK institutions has been revised from AA to A.

33) The GLA intends to offer a second GIS (GIS2) for strategic reserves, in order to extend to others the benefits it has experienced with its own longer term balances invested in Residential Mortgage Backed Securities and other longer dated assets. This will operate under identical investment guidelines, except that the WAM limit will be extended to 3 years. The MOPAC Group will continue to place surplus funds within the GIS, however upon the identification of any core reserves balance, the GIS2 could be utilised to enable longer term investment.

34) The changes 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 1D. Minimisation of risk is further achieved through the maintenance of a list of highly creditworthy and diversified counterparties. These changes will come into force once all participants have had their 2018/19 TMSS's approved and the Chief Finance Officer of each participant has signed a copy of the 2018/19 GIS Investment Strategy.

35) 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 1D. Variation between a MMF's list of approved counterparties and the approved counterparties of the MOPAC Group is permissible, at the discretion of the MOPAC Group CFO, providing the MMF's own rating meets the criteria of Appendix 1D.

36) Additionally, the MOPAC Group CFO may from time to time instruct the GLA Treasury team to invest sums independently of the GIS, for instance, if the MOPAC Group identifies balances which are available for longer term investment, after proper consideration of expected future cash flows, as at the time of investment. It is proposed that the MOPAC Group adopt an identical set of parameters for such

investments as those detailed in Appendix 1D, except that there shall be no requirement to maintain a weighted average maturity of no greater than three months. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Longer than 364 & 365 Days' (Appendix 1C section 6.3).

37) Following the transfer of funds to the GLA for investment through either the shared service arrangement and/or the GIS, the MOPAC Group aims to have a daily net zero balance across the suite of RBS accounts it operates.

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

Treasury Management Budget

39) The Table below provides a breakdown of the treasury management budget

Treasury Management Budget

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m
Interest payable	20.40	25.00	29.50
Interest Receivable	-1.30	-1.30	-1.30
Minimum Revenue Provision for debt repayment	21.80	29.80	39.80
Total	40.90	53.50	68.00

40) Assumptions behind the 2018/19 Budget are:

- Average rates achievable on investments will be 0.50%
- Average rates payable on new borrowing will be 3.00%
- The MRP charge is in line with the MOPAC Group's MRP Policy

Use of External Service Providers

41) The MOPAC Group uses Link 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 MOPAC Group recognises that responsibility for treasury management decisions remains wholly with the organisation and will ensure that undue reliance is not placed upon external service providers. The MOPAC Group monitors and maintains the quality of this service by regular review and assessment.

42) The MOPAC Group does not currently employ any external fund managers, however in the event of such an appointment, appointees will comply with this and subsequent Treasury Strategies.

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

44) The GLA, as Investment Manager under the GIS Investment Strategy, uses King and Shaxson Limited as a custodian of the MOPAC Group's tradeable instruments (such as Treasury Bills) with HSBC as the sub-custodian. The GLA's current 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 investment in securities as part of GIS2.

Treasury Training

45) 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.

46) A Member/Senior officer training handout and Powerpoint presentation developed by GLA Treasury as a 'framework', which was tailored to the individual needs of members/senior officers, was delivered in sessions during the 2016/17 financial year.

47) Link Asset Services run training events regularly which are attended by Treasury officers. In addition, Treasury officers attend national forums and practitioner user groups.

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

Appendix 1A: Treasury Management Policy Statement

1. Policy Statement

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

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

2. 'The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

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

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

Appendix 1B: Minimum Revenue Provision (MRP) Policy Statement

1. Policy Statement

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

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

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

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

1.5 For 2018/19 the MOPAC Group will make a minimum revenue provision (MRP) in accordance with: -

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

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

In accordance with The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 201617, MRP in respect of (a) Private Finance Initiative schemes; and (b) assets subject to finance leases, both of which are now recorded as long term liabilities, is made by recognition of an element of the annual unitary charge as repayment of principal.

Appendix 1C: CIPFA Prudential Code Indicators and Treasury Management Limits

1.0 Background

1.1 The Prudential Code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Prudential Code has a central role in capital finance decisions, including borrowing for capital investment. Its key objectives are to provide a framework for local authority capital finance that will ensure for individual local authorities that capital expenditure plans are affordable; all external borrowing and other long-term liabilities are within prudent and sustainable levels and that treasury management decisions are taken in accordance with good professional practice.

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

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

- Capital expenditure plans
- External debt
- Treasury Management

1.4 To ensure compliance with the Prudential Code in relation to the above elements, the MOPAC Group is required to set and monitor a number of Prudential Indicators. The setting of these Prudential Indicators is a circular rather than a linear process. For example, the level of external debt will follow on from the MOPAC Group's capital plans, revenue forecasts and treasury management strategy. However, if initial estimates would result in outcomes that would not be affordable or prudent, then plans for capital and/or revenue are reconsidered.

1.5 Prudential Indicators and Treasury Management Limits must be approved by the MOPAC Group and any subsequent changes to these Indicators and Limits must also be approved by the MOPAC Group.

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

2.0 Capital Expenditure

2.1 <u>Capital Expenditure</u>

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

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

Capital Expenditure

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m
Total Capital Expenditure	670.80	408.00	270.60
Financed by:			
Capital receipts	374.70	101.50	66.30

Capital grants and other contributions	56.30	47.40	41.10
Borrowing	179.40	259.10	163.20
Revenue Contributions	60.40	0.00	0.00
Net financing need for the year	0.00	0.00	0.00

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 MOPAC Group's borrowing requirement, these types of scheme include a borrowing facility and so the MOPAC Group is not required to separately borrow for these schemes.

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

Capital Financing Requirement (CFR)

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m
Total CFR*	770.40	995.55	1,113.34
Movement in CFR	152.94	225.15	117.79
Movement in CFR represented by			
Net financing need for the year (see Capital Expenditure table)	179.40	259.10	163.20
Less Capital receipts to repay borrowing	0.00	0.00	0.00
Less MRP/VRP** and other financing movements	26.46	33.95	45.41
Movement in CFR	152.94	225.15	117.79

*The MRP/VRP will include PFI/finance lease annual principal payments

3.0 External Debt Prudential Indicators

3.1 Authorised Limit for External Debt

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

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

3.1.3 The Authorised limit is the statutory limit that is determined, by the Mayor in consultation with the Assembly, under section 3 (1) of the Local Government Act 2003. It is intended to be an absolute ceiling which cannot be exceeded, except as provided under section 5 of the Local Government Act 2003, where payments expected but not yet received can temporarily result in the limit being exceeded, provided the original setting of the limit had not taken into account any delay in receipt of the payment.

Authorised Limit for External Debt

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m
Borrowing	637.60	883.10	1,032.70
Other long term liabilities	76.30	71.00	64.90
Total	713.90	954.10	1,097.60

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

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m
Borrowing	512.60	758.10	907.70
Other long term liabilities	76.30	71.00	64.90
Total	588.90	829.10	972.60

3.2.3 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

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m
Gross Debt at 31 March	372.17	612.43	756.01
Capital Financing Requirement	770.40	995.55	1,113.34

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 MOPAC Group.

Financing Costs to Net Revenue Stream

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m
Total	1.56%	1.99%	2.55%

5.0 Treasury Management Prudential Indicator

5.1 The Treasury Management Prudential Indicator requires the adoption of the latest version of the CIPFA Code of Practice for Treasury Management in the Public Services.

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

6.0 Treasury Management Limits on Activity

6.2 Limits for Maturity Structure of Borrowing

6.2.1 Local Authorities are exposed to the risk of having to refinance debt at a time in the future when interest rates may be volatile or uncertain. The maturity structure of borrowing indicator is designed to assist Authorities in avoiding large concentrations of debt that has the same maturity structure and would therefore need to be replaced at the same time. The indicator is calculated as the amount of projected borrowing that is maturing in each period expressed as a percentage of total projected borrowing. For each maturity period an upper and lower limit is set.

6.2.2 The maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. Where the lender has the right to increase the interest rate payable without limit, 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 2018-19

	Upper Limit	Lower Limit
	%	%
Under 12 months	100.00	0.00
12 months and within 24 months	100.00	0.00
24 months and within 5 years	100.00	0.00
5 years and within 10 years	100.00	0.00
10 years and above	100.00	0.00

6.3 Limits for Principal Sums Invested for Periods Longer than 364 & 365 Days

6.3.1 This indicator seeks to contain the risk inherent in the maturity structure of an Authority's investment portfolio, since investing too much for too long could

- adversely impact on the MOPAC Group's liquidity and in turn its ability to meet its payment obligations and
- also lead to the loss of some of its principal if it is forced to seek early repayment or redemption of principal sums invested.

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

Limits for Principal Sums Invested for Periods Longer than 364 & 365 days

	2018-19 £m	2019-20 £m	2020-21 £m
Principal sums invested >364 & 365 days	0.00	0.00	0.00

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 1D: Investment Strategy 2018-19
(incorporating the GIS Investment Strategy 2018-19)

1. Introduction

1.1 The MOPAC Group has a Shared Service Agreement with the GLA, under which the GLA has delegated authority to manage the MOPAC Group's investments.

1.2 A two fold approach applies to the management of the MOPAC Group's investments under this Shared Service Agreement.

1.3 Cash balances can be invested independently of the GLA Group Investment Syndicate (GIS), in the MOPAC Group's own name. This normally arises where the MOPAC Group identifies balances which are available for longer term investments

or

Cash balances can be invested through the GLA GIS, in the name of the GIS.

1.4 Cash balances invested in the MOPAC Group's own name are subject to the GIS Investment Strategy, except that there is no requirement to maintain a weighted average maturity which does not exceed 3 months.

1.5 Cash balances invested in the name of the GIS are subject to the GIS Investment Strategy.

1.6 All the MOPAC Group investments must therefore fully consider the GIS Investment Strategy. This Strategy is outlined below:

2. 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 (the MOPAC Group). The GLA acts as the Investment Manager under the supervision of the Syndics (the participants' respective chief financial officers).

2.2 On an individual basis, shorter investments can give rise to additional transaction costs and lower returns; but 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. GIS Investment Strategy

Appendix 1

GREATER LONDON AUTHORITY

Dated: 1st April 2018

GREATER LONDON AUTHORITY

and

LONDON FIRE AND EMERGENCY PLANNING AUTHORITY

and

LONDON LEGACY DEVELOPMENT CORPORATION

and

MAYOR'S OFFICE FOR POLICING AND CRIME

and

LONDON PENSIONS FUND AUTHORITY

GIS INVESTMENT STRATEGY 2018-19

Contents

GIS Investment Strategy 2018-19

Limits and Compliance

1.0 **All limits, unless explicitly stated otherwise, refer to the composition of the daily balance of the GIS**; for compliance purposes, all limits will be assessed daily.

2.0 The making of any investment which causes a breach of limits is not permitted and constitutes an **active exception.**

3.0 **Active exceptions of any size will be reported immediately** upon identification to the CIO, Syndics and their nominated substitutes. Relevant committees or boards will be notified as specified in each Participant's TMSS.

4.0 Additionally, breaches of daily limits may occur due to changes in the GIS balance or the credit assessment of existing investments, including the credit status of the country of domicile. Such an occurrence constitutes a **passive exception**. Passive exceptions will be reported immediately to the CIO, the GLA's statutory CFO and his deputy. Subsequent reporting will be threshold based as follows:

Passive Exception Level (lower of)	Temporary: ≤ 3 consecutive days	Persistent: >3 days
<5% or £25m	Logged and reported quarterly to Syndics within 1 month of quarter end	Logged and reported quarterly to Syndics within 1 month of quarter end
5-10% or £50m	Logged and reported quarterly to Syndics within 1 month of quarter end	Reported to Syndics immediately
>10% or £50m	Reported to Syndics immediately	Reported to Syndics immediately

The percentage limits above apply to total daily balance of the GIS or the total number of days in the case of limits expressed as days.

5.0 As an additional, prudent measure, forward looking diversification limits for new, internally-managed investments shall be maintained. These limits **apply to the forecast average GIS balance over the life of the investment being considered**; for operational expediency the forecasts shall be produced up to the last day of the following maturity 'buckets' given in days and limits applied accordingly:

O/N	2-7	8-30	31-60	61-90	91-120	12-150	151-180	181-210	211-240	241-270	271-300	301-330	331-397	398-730

6.0 If an investment is made in breach of these forward-looking limits, it is an active breach of investment strategy and will be reported per 3.0. Where changes in cash flow forecasts or counterparty and/or instrument status result in forward-looking limits being exceeded by existing investment positions, the CIO will be notified, who may then modify investment tactics to reduce the likelihood of a passive exception as defined in 4.0 occurring. Such an occurrence does not constitute an exception of any kind and need not be reported further.

7.0 Mitigating actions for all breaches will in the first instance be taken at the discretion of the CIO (or the GLA's statutory CFO, or his deputy). Such decisions must be supported by an analysis of the costs and benefits of attempting to reduce the overexposure in question versus tolerating it. In all cases a file note of the decision will be retained and circulated to the Syndics. A majority of the Syndics may instruct alternative action.

Risk Appetite Statement

8.0 Capital preservation is the primary GIS objective at the portfolio level, followed by provision of liquidity to meet Participants' cash flow needs.

9.0 In order to deliver best value on public funds, the Participants are prepared to take some investment risk to the extent outlined below, where such risk is rewarded by yields above UK government securities held to maturity.

10.0 The risk of loss through default in the entire portfolio (or any subsection delegated to an external manager) should not exceed risk of loss through default equivalent to a 1-year exposure to a typical AA-rated issuer.

11.0 No individual instrument/investment should pose a greater risk of loss through default than a 90-day exposure to a typical BBB issuer.

12.0 The Participants will tolerate price volatility where there is an expectation of holding an investment to maturity; where the expectation is that sale before maturity is likely or where the investment is in a variable NAV fund, the combined risk of loss through default and crystallised falls in price should not exceed the risk tolerance specified in 10.0.

13.0 This strategy sets out risk controls and limits that, in the opinion of the Participants, deliver these objectives.

14.0 Alternative controls and limits, save for the overarching requirements of 14.0 – 16.0 and 20.0may be used by external managers appointed in accordance with18.0, if those limits are judged by the Syndics, on the advice of the CIO or other independent professional advice, to be appropriately effective.

Permissible Investments

15.0 All investments must be Sterling-denominated financial instruments.

16.0 Specified Investments (i.e. 'low risk' instruments as defined by Statutory Guidance) shall constitute at least 50% of the portfolio at any time.

17.0 Approved Specified (S) and non-Specified (NS) Investments:

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of daily balance
Senior Unsecured Debt • UK Gilts and T-Bills • Deposits • Call Accounts • Notice Accounts • Certificates of Deposit • Loans • Commercial Paper • All other senior unsecured bonds	Issuer (and security where separately rated) Investment Grade (IG) defined per 37.0 OR UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) OR Issuer not meeting general criteria but instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per 32.0.	S	NS	100%

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of daily balance
Constant Net Asset Value Money Market Funds	Fitch AAA_{mmf} or above See 37.0 for equivalents from other agencies. Daily liquidity	S	*N/A*	100% *Not more than 20% per fund*
Other Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)	Fitch AAA_{f} or equivalent from other agencies per 37.0.	NS	*Not permitted.*	20%
Senior UK Prime or Buy to Let Residential Mortgage Backed Securities (RMBS)	Bond rating Fitch $AA+_{sf}$ or above or equivalent from other agencies per 37.0.	NS	NS	20%
Covered bonds	Bond rating Fitch $AA+_{sf}$ or equivalent from other agencies per 37.0 AND Issuer rated Fitch A- or above or equivalent from other agencies per 37.0	NS	NS	20%
Repurchase Agreements (Repo)	Counterparty meets senior unsecured criteria AND proposed collateral (Min 100%) itself meets permitted investment criteria Or Collateralisation is >102% with UK Gilts / T-Bills	S – UK gilts or T-Bills AND Counterparty meets senior unsecured criteria NS – other	*Not permitted.*	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria.

18.0 The Syndics 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.

Liquidity and Maturity Limits

19.0 Portfolio Weighted Average Maturity (WAM) ≤ 91days.

[Maturity here refers to the final expected maturity or if relevant the first call option of the instrument; in the case of funds the maturity will be the redemption period; in the case of call or notice accounts, the notice period.]

20.0 Sub-portfolio (managed by an external manager) WAM ≤ 3years.

Individual maturity limit, internally managed instruments: ≤ 2 years.

[In the exceptional event of the internal team taking possession of repo collateral, e.g. gilts that exceed this limit, the expectation is that these will be sold at the earliest opportunity, subject to market conditions.]

21.0 Individual maturity limit, externally managed instruments: ≤ 5 years.

[Note – in the case of RMBS these limits apply to the date by which all principal is expected to be received, based on analysis of the underlying mortgage pool and indicated call dates – the legal maturity date, based on the longest dated mortgage in the relevant pool, is not limited given the extremely low probability of the bond failing to be repaid by that time;

In the case of covered bonds, these limits apply to the expected maturity date, which may not include the exercise of the extension option.]

22.0 Limit for total exposure >12months: ≤25% of total daily balance.

23.0 Forward Dealing limit: aggregate value of outstanding forward deals ≤20% of daily balance; forward deals must not be struck with an individual counterparty if the limit forecasts defined in 5.0 indicate this is likely to cause an exception. See also 43.0 for credit risk management of forward deals.

[The GIS defines 'forward' as negotiated more than 4 banking days in advance of delivery. The CIO may make exceptions to this limit where the counterparty is a GIS Participant and the forward period is less than 3 months.]

24.0 Internally managed investments should only be made where GIS cash flow forecasts or best estimates suggest the instrument may be held to maturity. Externally managed investments may be purchased with lower certainty subject to the provisions of 12.0.

Appendix 1

Counterparty Concentration Limits

(Apply individually and cumulatively to groups)

25.0 The total exposure to a group of companies (a parent company and any subsidiaries, i.e. companies of which it owns 20% or more of authorised share capital) shall not exceed the maximum individual exposure limit of the constituents of the group.

26.0 Maximum unsecured exposure to company or group: ≤5% (subject to enhancements below).

27.0 Enhanced limits apply for UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) and institutions covered by Capita's Colour Banding Methodology:

Cash Exposure Limits – applied to individual counterparties		
Band	**Overnight**	**> 1 day**
UK Sovereign	100%	100%
Yellow	50%	25%
Purple	50%	20%
Orange	25%	15%
Red	25%	10%
Green	10%	5%
No Colour	5%	5%

28.0 The Bands above are calculated based on a range of credit ratings data, including published rating Watches and Outlooks. Where the price of 5-year Credit Default Swaps for a given counterparty exceeds barrier levels proposed by Capita with regard to market history, the Band will normally be adjusted downwards. The CIO may postpone such adjustments in consultation with the Syndics, for instance, if it is felt that changes in CDS prices do not reflect an increase in the individual credit risk of a particular counterparty.

29.0 Additionally, an enhanced overnight limit of 100% applies to the GIS banker, RBS.

30.0 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.

31.0 Maximum aggregate exposure including indirect or collateralised exposures:

Security Type	Cumulative Enhancement
Non-specified Repo	2.5%
Covered Bond	5%
RMBS	7.5%
Specified Repo	10%

[These enhancements are cumulative so the maximum possible total enhancement is 10% above is the counterparty's senior unsecured limit.]

Geo-political risk limits

32.0 The GIS will seek to reduce exposure to geo-political impact on credit risk by investing in companies that operate in stable economies. In particular, the GIS recognises a particular linkage between countries' national finances and their banking sectors, and considers sovereign credit ratings to be related to national financial stability.

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

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

34.0 Where more than one rating is available the lowest common denominator will be used, unless in the opinion of the CIO there is an overriding reason to favour or disregard a particular agency's view. The use of this discretion will be reported in the following weekly report to the Syndics.

35.0 For non-UK, non-financial institutions, or in circumstances such as an instrument being issued through a subsidiary domiciled in one country but guaranteed or otherwise secured by a parent in another, the risks and appropriate country limit (if any, in the case of multinational corporations) in which to aggregate the exposure will be considered on a case by case basis and determined by the CIO. A written copy of the assessment of each such counterparty and/or instrument will be filed with the investment and shared with the Syndics at the next quarterly review meeting.

36.0 Any member of the investment team may decline to place an investment and the CIO may indefinitely suspend any counterparty or group of counterparties on the basis of geo-political risk considerations, howsoever arising. Such use of discretion will be reviewed at weekly team meetings and where restrictions are imposed or subsequently withdrawn, this will be shared with the Syndics as part of weekly reporting.

Credit Risk Limits

37.0 Permitted issuer credit ratings and equivalence mappings.

Senior Unsecured Bond and/or Issuer Ratings

Long term			Short term		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA	F1+	P-1	A-1+
AA-	Aa3	AA-			
A+	A1	A+			
A	A2	A	F1	P-1	A-1
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB	F2	P-2	A-2

Structured Finance Ratings

Fitch	Moody's	S&P
AAA$_{sf}$	Aaa (sf)	AAA (sf)
AA+$_{sf}$	Aa1(sf)	AA+ (sf)

Money Market Fund Ratings

Fitch	Moody's	S&P
AAA$_{mmf}$	Aaa-mf	AAAm

Other Permitted Fund Ratings

Fitch	Moody's	S&P
AAA$_{f}$	Aaa-bf	AAAf

38.0 Where more than one rating is available the lowest common denominator will be used, unless in the opinion of the CIO there is an overriding reason to favour or disregard one particular agency's view. The use of this discretion will be reported immediately to the Syndics.

39.0 For internally managed investments Credit Factors will also be calculated individually and Portfolio Credit Factor (PCF) on a book value weighted average basis with reference to the following tables:

Credit Factors based on Issuer Default Rating (Fitch and Fitch Equivalents)
Use instrument rating or if not rated, rating of Issuer.

Days	AAA	AA+	AA	AA–	A+	A	A–	BBB+	BBB
O/N	0.01	0.01	0.01	0.01	0.02	0.03	0.04	0.07	0.10
2-7	0.02	0.04	0.06	0.10	0.15	0.20	0.30	0.50	0.80
8-30	0.10	0.15	0.25	0.40	0.60	0.75	1.30	2.10	3.50
31-60	0.20	0.30	0.50	0.80	1.20	1.50	2.60	4.20	7.00
61-90	0.25	0.50	0.75	1.25	1.50	2.50	5.00	7.50	10.00
91-120	0.35	0.65	1.00	1.50	2.30	3.30	6.60	10.00	13.50
121-150	0.40	0.80	1.25	2.10	2.90	4.20	8.30	12.50	16.50
151-180	0.50	1.00	1.50	2.50	3.50	5.00	10.00	15.00	20.00
181-210	0.60	1.20	1.75	3.00	4.00	5.80	11.70	17.50	23.50
211-240	0.70	1.30	2.00	3.30	4.70	6.60	13.30	20.00	27.00
241-270	0.75	1.50	2.25	3.75	5.25	7.50	15.00	22.50	30.00
271-300	0.80	1.70	2.50	4.20	5.80	8.30	16.70	25.00	33.50
301-330	0.90	1.85	2.75	4.60	6.50	9.20	18.50	27.50	37.00
331-397	1.00	2.00	3.00	5.00	7.00	10.00	20.00	30.00	40.00
398-730	2.70	5.30	8.00	13.00	19.00	27.00	43.00	69.00	106.00

Other treatments	
UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance)	Treat as AAA above Except: 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
Instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per 32.0.	Use Credit Factors appropriate to guarantor strictly for the period of the guarantee, reverting to rating of issuer thereafter
Repo	Use Credit Factors appropriate to repo counterparty, not collateral; Unrated or sub-BBB counterparty with >102% Gilt/T-bill collateralisation – treat as BBB
Approved fund, e.g. AAA_f or AAA_{mmf}	Use Credit Factor of 1.5
Covered Bonds or RMBS	Use Credit Factor of 5

40.0 Where a counterparty's (or its country of domicile's) 5-year CDS spreads exceed barrier levels from time to time agreed by the Syndics on the advice of Capita or the CIO, the Credit Factor used for the PCF calculation will be from the factor set of one or more notches below the issuer or security rating (e.g. If a AA+ counterparty's CDS spread exceeds the first barrier level, AA factors will be used to calculate the PCF).

41.0 The following limits apply at all times:

- Maximum Credit Factor of any single security: 10.00
- Maximum PCF: 5.00

42.0 The PCF will be calculated and recorded daily.

43.0 The total contractual exposure of any transaction with counterparty, i.e. in the case of a forward deal, the forward period PLUS the eventual length of the deal should be considered at the time of the transaction and compared to table 39.0 – the Credit Factor for the total exposure period at the counterparty's credit rating at the time of the deal must not exceed 10.

Deposit Facility of Last Resort

44.0 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 Account 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.

45.0 In the instance of technical failures or unexpected monies being received after the cut-off time for sending payments, the GLA, as the GIS 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.

Custody Arrangements

46.0 Internally or externally managed securities may be held by a Custodian; in such circumstances:

a. The Custodian or any Sub-Custodian employed by the Custodian (whichever actually holds the GIS securities) must be Fitch A- rated or equivalent;
b. Any cash held by the Custodian or any Sub-Custodian pending transactions must be properly identified as an unsecured deposit and consolidated into the PCF calculation;
c. The Custodian or any Sub-Custodian shall not be entitled to invest such cash in any money market fund or other product without the permission of the GIS. Any such investment must meet the criteria of17.0.

47.0 The above applies to any Custodian or Sub Custodian holding collateral on behalf of the GIS in respect of a Repo transaction. Note – 'Held in Custody' Repos where collateral is held at the borrower's custodian in the borrower's title are NOT permitted.

CIO Discretions

48.0 The CIO may restrict the use of any counterparty for any reason related to the management of risk, including reputational risk to any Participant. Such restrictions may be overturned by any majority of Syndics.

49.0 When postponing CDS-driven adjustments to exposure limits, the Group Treasury team will notify the Syndics of the CIO's decision immediately. Syndics will have until 12pm to register concerns otherwise the decision will be implemented for that day. Any majority of Syndics may reverse the decision subsequently.

50.0 All above mentioned CIO discretions may also be exercised by the GLA's statutory CFO and his deputy.

Responsible Investment

51.0 All investment will be made in accordance with the following policy with respect to fossil fuel companies:

GLA Group Responsible Investment Statement on Climate Change

The Mayor's Office for Policing and Crime (the MOPAC Group) is committed to a number of principles which guide their investment decisions. The MOPAC Group will consider non-financial factors when investing, such as alignment of the activities of investment counterparties with Mayoral policy on environmental and social impact, providing no compromise of fiduciary duty arises from such considerations.

Regarding climate change in particular, the MOPAC Group will not actively invest in companies or projects ("fossil fuel companies" and "fossil fuel projects") that derive more than 10% of revenues from the extraction of fossil fuels, ignore the impact and risks associated with the use of fossil fuels, and are unable to demonstrate a commitment to achieving environmental benefits, in particular through a plan to limit climate change in line with the Paris Agreement:

http://unfccc.int/paris_agreement/items/9485.php

The MOPAC Group notes a distinction between Natural Gas, which will continue to play a valuable role out to 2030, both for heating and for electricity generation, and other fossil fuels; nevertheless, the MOPAC Group would expect a demonstrable commitment to achieving environmental benefits from companies involved in gas extraction.

In order to assess the level of commitment to achieving environmental benefits, the MOPAC Group will make use of the Transition Pathway Initiative, as adopted by a range of leading institutional investors:

http://www.lse.ac.uk/GranthamInstitute/tpi/about/

Where such investments are already in place, and opportunities for engagement and reform of the company or project do not exist, the MOPAC Group will make all reasonable efforts to divest provided that this will result in no material financial detriment (either through cost or increased investment risk).

The MOPAC Group views divestment and avoidance of any long term financial exposure to such companies or projects as entirely consistent with its fiduciary duty to protect and obtain best value from public funds. This is also consistent with the Mayor of London's climate change goals and commitment to ensuring that optimum low carbon investment decisions are taken, to help to maximise social and economic benefits.

To explain these statements concisely the MOPAC Group makes the following definitions, with examples of application:

"invest" – in this context, investment means the acquiring ownership of all or part of a fossil fuel company or otherwise providing financial support to such a company or any project which ignores the environmental impact and risks associated with Fossil Fuels;

"actively" – means making a choice to invest based on a direct assessment of that company or project or to knowingly create a long term economic interest in such companies or projects;

"environmental benefits" – means reducing net carbon emissions over time;

"opportunities for engagement" – means the ability to meaningfully influence the strategy or development of the company or project. This might be through the exercise of voting rights, either individually or alongside like-minded investors or other routes;

"ignoring the impact and risks associated with fossil fuels" – means continuing or developing new business activities contributing to climate change through fossil fuel emissions or environmental damage resulting from relevant fuel extraction without regard to development of new and sustainable alternatives or other transition planning towards a lower environmental impact;

"long term financial exposure" – means exposure for more than 12 months, either through actual investment or commitments to invest (contingent or otherwise) where the length of the commitment plus the expected duration of the investment exceeds this period;

Examples of application:

- Making a loan to a fossil fuel company in order fund expansion of conventional extraction activities would meet the definition of investment for these purposes; making a loan to a fossil fuel company to develop an alternative technology would not.
- Purchasing a fossil fuel company bond, from another bond holder would not meet the definition as it does not lead to ownership or engagement, nor provide new financial assistance to the company. Participating in the purchase of newly issued long term bonds may or may not classify as investment depending on the proposed use of proceeds.
- Commercial Paper or other debt instruments with less than a year to maturity would not constitute investment in this context as there is no associated ownership or engagement, nor do the longer-term risks associated with exposure to unsustainable industries (which this strategy seeks to mitigate) apply over the life of such instruments.
- Directly purchasing equity in a fossil fuel company would constitute an active investment.
- Buying units in an exchange-traded tracker fund, where the index is known to contain fossil fuel companies may or may not constitute an active investment. It would be active if the intent was for the allocation to be a permanent part of the investment portfolio *and* the composition of the index was weighted more than 10% towards fossil fuel companies; it would not if the purchase was made to maintain broad market exposure, for instance during a transition between active portfolios. In any circumstance, the MOPAC Group seeks to influence the composition of the market (reflected in passive investments) through its own active decisions and those of likeminded partners.
- Circumstances involving conglomerates with a mixture of subsidiaries, some of which may meet the fossil fuels company definition (whereas others may, for example, be focused on renewable energy), would be considered on a case-by-case basis, with investment being possible if the overall corporate strategy appears to be environmentally sustainable and offset the financial risks this statement seeks to mitigate.

Explanatory Notes

Background to the GIS Investment Strategy

i. 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).

ii. 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.

iii. A risk sharing agreement ensures risk and reward relating to each investment within the jointly controlled portfolio are shared in direct proportion to each participant's daily investment.

iv. The Investment manager (the GLA) operates the GIS cash balances in accordance with the GIS Investment Strategy.

4.0

i. Reporting thresholds are capped at £25m and £50m, these limits are conservative based on the expected scale of the GIS – based on the GIS composition as at 1 January 2018, the absolute exposure reporting thresholds for each participant would be:

£m	25	50
GLA	20.4	40.8
LFEPA	0.2	0.5
MOPAC	0.2	0.3
LPFA	2.8	5.7
LLDC	0.2	0.4

17.0

i. The concept of "Specified" and "Non-Specified" Investments is defined in the DCLG Guidance on Local Government Investments (revised 2010).

<u>Specified Investments</u>

ii. An investment is a Specified investment if all of the following apply:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
b) The investment is not a long-term investment (i.e. due or required to be repaid within 12 months);
c) 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);
d) The investment is made with a body or in an investment scheme of high credit quality (defined by the minimum credit ratings outlined in table17.0) 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

<u>Non-Specified Investments</u>

iii. Non-Specified Investments are defined as investments assessed by the GIS Participants to be appropriate and prudent, but not meeting the one or more of the Specified Investments criteria.

iv. Reflecting increased market risk and difficulties in diversifying, this strategy includes the highly secure option of UK Residential Mortgage Backed Securities, which provides a genuine diversification away from institutional credit risk and additional options for secured lending, enabling limits to be increased with existing counterparties in exchange for security of some sort of asset in the event of the borrower becoming insolvent.

v. RMBS

- Since the approval of the GIS Participants' Treasury Strategies, which all set out the rationale for senior UK Prime and Buy to Let RMBS, the GLA has appointed two managers to manage £100m each of GLA core cash in this asset class.

  Almost half of the investments were made prior to the market turbulence following the EU referendum, enabling the GLA to reduce its exposure to banks; additionally, this action has provided an excellent market test of extreme conditions for the asset class. Unlike a number of banks and the UK itself, the ratings of UK RMBS were untouched by the negative market perception of the UK's actions and liquidity in the asset class was no worse than any other within the current investment strategy. Yield remains higher than other available options.

- 15 UK Banks and Building Societies have over £100bn of AAA-rated RMBS outstanding, via bankruptcy-remote issuing companies, which ensures full credit de-linkage.

- This report therefore recommends inclusion of UK RMBS in the GIS subject to the limits proposed and the overall GIS WAM limit, in order to reduce risk and improve returns. The 20% limit reflects the fact that the GIS currently has a 91-day WAM limit and most of these instruments will have a WAM > 1 year.

- Only senior RMBS are permitted at this stage, i.e. the GIS has first priority over the cash flows from the underlying pools of thousands of diversified UK residential prime or buy-to-let mortgages. These to date have always been AAA rated at inception with some isolated cases of downgrades to AA+ due to lower ratings of associated counterparties within the RMBS structure such as the bank servicing the mortgages, rather than the underlying mortgages, reflecting the increased risk of possible payment disruption should the servicing bank fail (though no increased risk of non-payment). The strategy does not exclude these downgraded senior notes as the risk of loss is still very low but it should be noted that changes to RMBS structures since 2008 make this circumstance very unlikely in future.

- The cash flows from RMBS are generated by both interest and principal repayments of the mortgages in the relevant pool. In particular, when homeowners refinance (or move house) the pool experiences principal inflows, which are then passed through to the RMBS bondholders (which the most senior tranches, proposed here, receive before all others). Refinancing typically occurs much earlier than the final date of the mortgage, therefore it is not proposed to limit the legal maturity of RMBS, as these are set with reference to the longest dated mortgage in the pool and do not reflect the expected maturity date. In addition, RMBS deals are structured with financial penalties for the issuer beyond the expected maturity date, to ensure that deals mature as expected.

- The strong cash flow characteristics of senior RMBS mean that principal is repaid incrementally, therefore a proposed WAM limit of 3 years per security for the whole RMBS portfolio is proposed alongside a 5 year expected final maturity limit per security.

vi. Covered Bonds

- Covered bonds are also secured on mortgage assets, but do not depend on mortgages for the cash flows. They are more like a normal bond issued by the relevant bank or building society except that should the issuer default, the covered bond holders will have security over the banks' mortgage assets, which could be sold to another bank to meet the obligation.

- Whilst the credit risk is clearly lower than unsecured lending to the issuer, the situation is different to RMBS and when the issuer is downgraded, covered bonds are typically downgraded too. Accordingly, the strategy does not permit the use of covered bonds issued by counterparties who do not themselves meet approved investment criteria.

- Another feature of covered bonds are extension clauses, typically of 2 years. For this reason, the strategy only permits the use of counterparties of A- rating or above to allow for downgrades over the extension period, should it be invoked.

- Because they are lower risk than unsecured lending to a given counterparty, covered bond yields are generally lower. Accordingly, the main circumstance in which they would be used in the current environment is to increase exposure to a strong and well understood counterparty already at its unsecured concentration limit.

vii. Repurchase Agreements "Repos"

- Repos are a form of secured lending whereby rather than lend directly to a counterparty, the GIS would buy from them a security e.g. a bond and agree to sell it back at an agreed (higher) price at a future date. The profit on this transaction replaces interest in a normal lending agreement but there is the additional feature that if the borrower becomes insolvent, the GIS may keep the security, which is referred to as collateral.

- For this reason, only securities that meet GIS criteria may be accepted as collateral, however the duration limits of 21.0and 20.0 do not apply since the expectation is that the collateral will be disposed of at the first opportunity and over-collateralisation provides mitigation for any price movement.

- Furthermore, if such a default occurred, the GIS may need to sell the collateral for cash flow reasons so there may be some price risk between the default and the sale. Therefore, minimum levels of collateral, expressed as a percentage of the market value of collateral relative to the purchase price, are proposed.

- The strategy permits very limited repo exposure (2.5% and 10% in aggregate) to counterparties not meeting unsecured investment criteria. In this case, minimum collateral is set at 102% (in line with minimum standards for repo use by AAA rated money market funds) and the provision is designed to enable transactions with pension funds engaged in liability hedging activities, to mutual advantage.

- There are a number of ways to implement a repo. This is delegated to officers and their advisors or external managers, however per 47.0, legal title to the collateral must be unequivocally obtained and safe custody arrangements be in place.

- Repos will provide a further tool for balancing GIS risk and return: the risk is very much lower than unsecured lending to banks and others, although not as low as T-bills, however repo returns are slightly higher than T-Bills and there is more flexibility with maturity dates.

20.0

i. For the purposes of this limit, WAM is the sum of each expected nominal cashflow and its respective expected incidence in days from the calculation date, divided by the total nominal cashflows; the use of expectations rather than contractual maturities reflects the use of instruments like RMBS which are subject to uncertain repayments. The Syndics place reliance on the systems and investment process of appointed managers to monitor and implement this limit.

28.0

i. Credit Default Swaps (CDS) are effectively insurance contracts against a given counterparty defaulting; their price (typically expressed as an additional interest cost or 'spread' in basis points – i.e. 100ths of one percent). Higher prices may therefore reflect greater market perception of risk, although other supply and demand factors can distort this, including the activity of speculators. For this reason, the CIO has discretion to propose postponements to the impact of CDS data on limits.

ii. Although the GIS typically participates in short term investments, it refers to 5-year CDS prices as this market has higher volumes of trading and therefore more accurately reflects market sentiment.

iii. The GIS's advisor and data provider, Capita, proposes barrier levels dependent on market conditions as indicated by one of the main CDS indices, ITRAXX 5-year senior financials.

iv. When the ITRAXX is below 100 basis points, a counterparty's limit band will be adjusted down one notch if their CDS price is between 100 and 150 or to 'no colour' if above 150.

v. When the ITRAXX is above 100, a counterparty's limit band will be adjusted down one notch if their CDS price between 1 and 50 basis points above the ITRAXX or to 'no colour' if more than 50 basis points above.

39.0

i. Book value weighted average here means the sum of the products of principal sums invested (plus any capitalised interest, less any impairments or partial repayments but excluding any accrued interest or unrealised gains or losses) and the respective Credit Factors at the date of calculation, divided by the sum of principal sums invested (plus any capitalised interest, less any impairments or partial repayments but excluding any accrued interest or unrealised gains or losses).

50.0

i. In the absence of the CIO, the senior member of the Group Treasury team present should assume responsibility for reviewing circumstances where discretion might be used, and make appropriate recommendations to the CFO or deputy, who will decide whether to exercise their powers under this strategy.

Approved by Signatories:

MARTIN CLARKE
Syndic, GLA
Date: ....

SUE BUDDEN
Syndic, LFEPA
Date: ....

GERRY MURPHY
Syndic, LLDC
Date: ....

SIOBHAN PETERS
Syndic, MOPAC Group
Date: ....

ABIGAIL LEECH
Syndic, LPFA
Date: ....

Appendix 1E: Treasury Management Practices: Main Principles

1.0 INTRODUCTION

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

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

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

1.4 TMPs: Schedules will be approved, monitored and annually reviewed by the MOPAC Group CFO.

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

2.0 TMP1 RISK MANAGEMENT

2.1 <u>General statement</u>

2.1.1 The MOPAC Group CFO will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the MOPAC Group's objectives in this respect, all in accordance with the procedures set out in TMP6 'Reporting requirements and management information arrangements'.

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

2.2.1 The MOPAC Group CFO regards a key objective of the MOPAC Group's treasury management activities to be the security of the principal sums it invests. Accordingly, 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 MOPAC Group CFO also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which the MOPAC Group may borrow, or with whom it may enter into other financing arrangements.

2.3 <u>Liquidity risk management</u>

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

2.3.2 The MOPAC Group CFO will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

2.4 Interest rate risk management

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

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

2.5 Exchange rate risk management

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

2.6 Refinancing risk management

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

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

2.7 Legal and regulatory risk management

2.7.1 The MOPAC Group CFO will ensure that all the MOPAC Group's 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 MOPAC Group 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 MOPAC Group, particularly with regard to duty of care and fees charged.

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

2.8 Fraud, error and corruption, and contingency management

2.8.1 The MOPAC Group CFO will ensure that he/she has identified the circumstances which may expose the MOPAC Group 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 MOPAC Group CFO will seek to ensure that the MOPAC Group's stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect the MOPAC Group from the effects of such fluctuations.

3.0 TMP2 PERFORMANCE MEASUREMENT

3.1 The MOPAC Group CFO is committed to the pursuit of value for money in the MOPAC Group's treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the MOPAC Group'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 MOPAC Group CFO will maintain full records of the MOPAC Group's treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for 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 MOPAC Group CFO will undertake the MOPAC Group's treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 'Risk management'.

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

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

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

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

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

6.5 The MOPAC Group CFO will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the TMPs: Schedules

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

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

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

7.2 As a minimum:

The MOPAC Group will receive

- an annual report on the proposed strategy and plan to be pursued in the coming year
- a mid-year review
- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

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

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

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

7.6 The present arrangements and the form of these reports are detailed in the TMPs: Schedules.

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

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

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

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

9.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the MOPAC Group will be under the control of the MOPAC Group CFO, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the MOPAC Group CFO will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (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 MOPAC Group CFO is alert to the possibility that the MOPAC Group may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. 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 MOPAC Group CFO recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. 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 MOPAC Group CFO will recommend and implement the necessary arrangements.

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

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

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

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

13.0 TMP12 CORPORATE GOVERNANCE

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

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