APPENDIX 1: TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2021-22

Introduction

1. The Treasury Management Strategy Statement (TMSS) sets out the treasury management activities of the GLA (the Authority) for the year 2021-22.

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 and associated Guidance Notes;
   - The Local Government Act 2003;
   - The Ministry for Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments; and
   - The MHCLG Capital Finance Guidance on Minimum Revenue Provision.

3. The Code defines treasury management activities as:

   'The management of the organisation'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 Authority's Budget, Capital Spending Plan and the Balance Sheet position and covers the following areas:

   - Economic Background;
   - Borrowing Strategy;
   - Internal Borrowing Approach;
   - Policy on Borrowing in Advance of Need;
   - Debt Rescheduling;
   - Delegation / Authorisation;
   - Investment Strategy;
   - Use of External Service Providers;
   - Treasury Training;
   - Treasury Management Policy Statement (Appendix 2);
   - Minimum Revenue Provision (MRP) Policy Statement (Appendix 3);
   - Prudential Code Indicators and Treasury Management Limits (Appendix 4);
   - Investment Strategy (Appendix 5); and
   - Treasury Management Practices: Main Principles (Appendix 7).

5. In covering the above areas, as per its Treasury Management Policy Statement, the Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Final responsibility for risk management and control resides with the Authority and cannot be delegated to any outside organisation.

6. The treasury management risks the Authority is exposed to are:

   - Credit and counterparty risk (security of investments);
   - Liquidity risk (inadequate cash resources);
   - Interest and market risk (fluctuations in interest rate levels and thereby in the value of investments);
   - Refinancing risks (impact of debt maturing in future years); and

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

7. These risks are further discussed in Appendix 7 (Treasury Management Practices: Main Principles).

8. The Authority formally adopts the Code through the following provisions:

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

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

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

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

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

   iii. The Mayor holds responsibility for the implementation and regular monitoring of its treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the Executive Director of Resources. The Executive Director of Resources will act in accordance with the organisation's policy statement and TMPs and, if this officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

   iv. The Assembly has delegated the responsibility for ensuring effective scrutiny of the treasury management activities to the Audit Committee.

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

   vi. Should the Executive Director of Resources wish to depart in any material respect from the main principles of The Code, the reason should be disclosed, in advance, in a report to the Mayor.

9. The Executive Director of Resources is required to report an annual treasury management strategy to the Mayor for approval. The Executive Director of Resources is responsible for maintaining the Treasury Management Practices (TMPs) and monitoring and managing the strategy, with day to day management of this function delegated to the Chief Investment Officer and his staff.

Economic Background

10. The coronavirus outbreak caused huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen.

11. While the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary, London Treasury Limited (LTL) has observed negative yields on the safest investments, and yields so close to zero, that net of transactions costs, returns are negative.

12. There is expected to be little upward movement in rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period.

13. On 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for the Public Works Loan Board (PWLB) rates; the standard and certainty margins were reduced by 1% but conditions were introduced to deny access to borrowing from the PWLB for any local authority which has purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows:

    - PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
    - PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)

14. This outlook has the following treasury management implications:

    - Cash investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
    - Borrowing interest rates fell to historically very low rates as a result of the Covid-19 crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. Following the reduction of the PWLB margins, there is now value in longer-term borrowing from the PWLB for the purpose of certainty, where that is desirable.

Borrowing Strategy

15. The GLA's prudent approach to borrowing is characterised by matching interest rate structures to the behaviour of the relevant revenue streams used for funding interest and repayments and close matching of maturity profiles to expected cashflows available for debt repayment.

16. Whilst acknowledging the possibility that interest rates may fall further, the GLA recognises the value of budgetary certainty and notes the low cost of available borrowing by historical standards in both real and nominal terms.

17. Where possible, the GLA will focus on mitigating the risks of future interest rate rises by securing future drawdowns of funding at rates agreed in advance, while using short term finance to manage immediate cash flow needs.

18. Considering the fluctuation in the cost of PWLB borrowing, Group Treasury will continue to build relationships with other lenders and establishing a capital markets presence that will achieve the lowest possible margin above Gilts, in pursuit of long-term access to sustainable funding.

19. Where it is likely to lead to lower interest and/or administrative cost, the GLA will consider borrowing on behalf of functional bodies.

20. Where possible, the GLA will top-slice the concerned functional bodies' shares of business rates or other GLA income to fund repayment of the borrowing. This will avoid a proliferation of back to back loan agreements with the attendant cost and operational risk.

Internal Borrowing Approach

21. When using cash balances in lieu of external borrowing, the Authority acknowledges that this may reduce credit risk and short-term net financing costs, mindful of the following considerations:

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

Policy on Borrowing in Advance of Need

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

23. In determining whether borrowing will be undertaken in advance of need, the Authority will:

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

Debt Rescheduling

24. 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 interest savings. This emphasises the importance of attempting to optimise maturity profiles at the point of entering into borrowings.

25. The GLA continues to consider the use of intergroup transactions, to offer savings on borrowing and/or risk management opportunities.

Delegation / Authorisation

26. The arrangements for borrowing, including the selection and the type and structure of debt instruments, and authority to incur any incidental expenditure are delegated to the Executive Director of Resources and Chief Investment Officer, provided no decision contravenes the limits set out in the prevailing TMSS.

27. On the basis of the above, the Executive Director of Resources is:

- authorised to approve borrowing by the Authority, for the purposes of financing capital expenditure;

- 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 Authority's affairs. As an example, where a cash flow requirement is short-lived, the opportunity cost of withdrawing or otherwise liquidating investments may exceed that of temporary borrowing. In such circumstances, borrowing may be the prudent action; and

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

Investment Strategy

28. The GLA will continue to use the highly successful pooled approach to investment through the GIS and the London Strategic Reserve (LSR), seeking to combine these into a single fund.

29. Additionally, the Chief Investment Officer may, to mitigate particular risks or capture specific opportunities, with agreement from the Executive Director of Resources, cause sums to be invested independently of the GIS, subject to identical parameters as in Appendix 5, except that there shall be no requirement to maintain any particular weighted average maturity.

30. Subject to appropriate Decisions, the GLA may use treasury balances to invest on its own behalf in local projects or developments, subject to commercial returns appropriate to the relevant risks. The GLA will typically consider such investments through an appropriately constituted Investment Committee. The Chief Investment Officer will provide advice on the impact such decisions may have on the risk profile of the treasury portfolio as a whole. The Land Fund is an example of this.

31. Limits for the various high-level allocations are as follows:

Investment Category	**Limits**
Combined GIS and LSR	None
GLA 'own name' investments	No more than 10% of balances at point of investment
Land Fund (commercial strand)	• Temporary loans up to 3 months only; • Maximum aggregate exposure is £250m less current book value of outstanding investments.

NB - Aggregate non-specified investments should not exceed 50%, as set out in Appendix 5

32. The consolidated limits set out at Appendix 5 are intended to specify a target allocation over the long term and manage risks. In the case of residential mortgage backed securities (RMBS) and strategic investments, it would not be desirable to increase or reduce allocations on a frequent basis as this would risk crystalising unrealised losses. The GLA's approach seeks to balance the need to react to changing cash balance assumptions and manage concentration risks (objectives which favour percentage based limits) and avoiding the need to adjust positions more frequently than necessary (an approach which favours fixed cash limits).

33. Therefore, the GLA will provide LTL and external managers with cash limits for principal invested based on the GLA's forecasts of average balances for itself and participants in the GLA shared service. The GLA will maintain a rolling 12-month cash balance forecast and will provide LTL with updated limits quarterly or if the average balance forecast changes by more than 20%.

34. LTL (and any external managers) will report any breach of their cash limits to the GLA immediately. Additionally, Group Treasury will review exposures quarterly (based on quarterly valuations) and report any breach of the limits to the Executive Director of Resources and nominated officers of participants in the in the GIS, LSR or the proposed combined fund, as relevant.

35. Where an exception has arisen because of a manager exceeding cash limits (active exceptions) or as a result of balance forecasts and/or market values changing (passive exceptions), the choice of corrective action is delegated to the Chief Investment Officer, in consultation with the Executive Director of Resources and the participants in the GIS, LSR or the proposed combined fund, as relevant.

Use of External Service Providers

36. The GLA's treasury management investments are managed by its subsidiary company, London Treasury Limited (LTL), which is authorised and regulated by the Financial Conduct Authority (FCA) to manage investments and provide investment advice.

37. The Authority uses Link Asset Services as its external treasury management advisor under a joint arrangement with other members of the GIS. Other professional advisors may be appointed to assist with particular projects, in particular Land Fund and LSR investments. The current panel is Institutional Investment Advisors (IIA), TradeRisks and Camdor Global Advisors.

38. Whilst recognising the specialist skills and resources advisors can provide, the Authority recognises that responsibility for treasury management decisions remains wholly with the organisation and will ensure that undue reliance is not placed upon external service providers.

39. External fund managers will comply with this and subsequent treasury strategies and more detailed investment mandates prepared by the Chief Investment Officer. At the time of writing, such arrangements are already in place for the management of RMBS by TwentyFour Asset Management and Prytania.

40. The RBS group is the GLA's banker and continues to provide a competitive service under an annual rolling contract.

41. The GLA uses State Street as the custodian of the Authority's investment instruments. The GLA's policy is that any custodian (or, if relevant, sub-custodian) shall meet the GLA's credit criteria for 12-month investments (prior to Credit Default Swaps, market or other temporary adjustments).

Treasury Training

42. The Code requires that elected 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.

43. Group Treasury officers performing regulated roles while seconded to LTL are obliged to undertake regulatory and technical training as required from time to time by LTL's board.

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

45. The training needs of officers and elected Members are reviewed annually.

46. Group Treasury, supported by Link, maintain a regular training programme available to all senior officers and elected Members participating in the shared service and a record of the training provided is kept for future reference.

Appendix 2: Treasury Management Policy Statement

1. Policy Statement

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

1. The GLA defines its treasury management activities as:

   'The management of the 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'.

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

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

Appendix 3: Minimum Revenue Provision (MRP) Policy Statement

'MRP is the amount out of revenues set aside each year to fund capital expenditure previously financed by borrowing or credit arrangements. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) provides that 'A Local Authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'

The elements of the GLA's policy are:

1. The natures of funding for the GLA's core Capital Financing Requirement (CFR) and that arising from major infrastructure projects, such as Crossrail and the Northern Line Extension, are distinct and require separate consideration from general corporate capital expenditure.
2. The policy for the MRP relating to the Crossrail CFR is 'equal to the excess of Business Rates Supplement (BRS) receipts over net financing and other revenue costs borne by the General Fund, including the making good of prior year BRS account deficits'.
3. The policy for the MRP relating to the Northern Line Extension (NLE) CFR is 'equal to the excess of NLE Enterprise Zone Revenues and Community Infrastructure Levies/ Section 106 contributions from Boroughs over net financing and other revenue costs borne by the General Fund, including the making good of prior year NLE project account deficits'.
4. This is a prudent provision for Crossrail and NLE, since it will fully fund the liability over a period of time reasonably commensurate with the benefits of the projects. Essentially, it is an amortisation of the costs with a particularly flexible profile. Other bases would cause accounting complications, inequitable to the General Fund.
5. For the MRP element arising from the GLA's non-Crossrail and non-NLE CFR, if any, the amount shall be calculated as 'the principal amount of an annuity payment based on the outstanding non-Crossrail and non-NLE CFR at 31 March of the preceding financial year, amortised over the weighted average remaining period of benefit of the capital expenditure funded by borrowing, using the GLA's aggregate rate of interest for non-Crossrail and non-NLE loans at 31 March of the preceding financial year'. 'Period of Benefit' is defined as 'asset life' (consistent with the GLA's depreciation policies) where an asset exists or, where the expenditure relates to a grant made to another body treated as capital expenditure under statute, the expected period of benefit of the capital programme the grant, to the best of the GLA's knowledge, is used to support.
6. This annuity method will provide prudent provision for capital expenditure over a period commensurate with the benefits of that expenditure in a manner which, ceteris paribus and assuming parity between CFR and external debt, would ensure an equal annual total revenue impact (sum of MRP and interest payable) over the years in question.
7. In the case of the GLA incurring statutory capital expenditure as a result of making a loan to another entity for purposes that, had the GLA undertaken these directly, would be treated as capital expenditure, then the CFR element arising from such loans shall be excluded from MRP calculations to reflect the policy that the capital receipt arising from the repayment of the loan will be applied in full to meet the initial expenditure. The Executive Director of Resources may override this exemption on the grounds of prudence, directing a provision to be made in accordance with the methodology of (5). However, the impact of such direction on the revenue account shall be accounted for as a voluntary revenue provision (VRP). Any impairment to such loans shall be treated in accordance with proper practice.

Appendix 4: CIPFA Prudential Code Indicators and Treasury Management Limits

1.0 Background

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

1.2 CIPFA is conducting a consultation to review the Treasury Management Code of Practice and the Prudential Code. The review is to focus on the clarification of:

- Paragraph 45 of the Prudential Code that states *'Authorities must not borrow more that or in advance of their needs purely in order to profit from the investment of the extra sums borrowed'*. CIPFA considers it might be helpful if more guidance to explain the provisions are included in the Prudential Code itself to assist local authorities in their decision making;
- The objective of the Prudential Code;
- The scope and status of the Prudential Code;
- The Capital Strategy - CIPFA is of the view that it is important to augment the Capital Strategy section with a focus on affordability and a need to demonstrate an understanding of what the risks are from commercial activities; and
- The number and usefulness of the Prudential Indicators.

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

1.4 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; and
- Treasury management.

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

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

1.6 These Prudential Indicators are set out below.

2.0 Capital Expenditure

2.1 Capital Expenditure

2.1.1 Capital expenditure under the approved capital spending plan is a key driver of treasury management activity.

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

Capital Expenditure £m	2020-21 Forecast Outturn	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
GLA	1,679.70	2,080.72	1,344.68	928.17
Total Capital Expenditure	**1,679.70**	**2,080.72**	**1,344.68**	**928.17**

2.1.3 The table below shows how the above capital expenditure plans are being funded by capital or revenue resources. Any shortfall of funding resources results in a borrowing need.

Financing of capital expenditure £m	2020-21 Forecast Outturn	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Capital Grants	1,184.12	1,137.08	1,038.10	808.50
Capital Receipts	187.40	2.00	76.60	25.60
Capital Reserves				
Other Revenue	113.88	108.22	41.80	56.50
Total funding	**1,485.40**	**1,247.30**	**1,156.50**	**890.60**
Net financing need for the year	194.30	833.42	188.18	37.57
Total Capital Expenditure	**1,679.70**	**2,080.72**	**1,344.68**	**928.17**

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

2.2.1 The capital financing requirement is an indication of the underlying need to borrow for capital purposes. It is the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resource.

2.2.2 It is a measure of the Authority's yet unfunded capital expenditure, i.e. its underlying borrowing need. Any capital expenditure above, which has not immediately been charged to the revenue account or matched to capital grants, receipts or reserves, will increase the CFR. The annual MRP acts to spread the revenue impact of this over the aggregate useful life of the assets in question.

2.2.3 The Mayor is asked to note the CFR projections below:

Capital Financing Requirement (CFR) (£m)	2019-20 Actual	2020-21 Forecast Outturn	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate
Total CFR	5,204.93	5,267.44	5,995.94	6,029.74	5,889.25
Movement in CFR	962.24	62.51	728.50	33.81	-140.49

Movement in CFR represented by					
Net financing need for the year (above)	1,278.05	194.30	833.42	188.18	37.57
Less MRP/VRP and other financing movements	-315.81	-131.80	-104.90	-154.37	-178.06
Movement in CFR	962.24	62.51	728.52	33.81	-140.49

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 - Group

GLA	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	7,200.00	7,200.00	7,200.00
Other long-term liabilities			
Total	7,200.00	7,200.00	7,200.00

MOPAC	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	1,352.47	1,594.77	1,803.37
Other long-term liabilities	58.35	52.16	47.40
Total	1,410.82	1,646.93	1,850.77

LFC	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	175.00	175.00	175.00
Other long-term liabilities	70.00	70.00	70.00
Total	245.00	245.00	245.00

*TfL Corporation	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	14,494.80	14,494.80	14,494.80
PFI and other long-term liabilities	820.80	778.90	733.50
Total	15,315.60	15,273.70	15,228.30
*TfL Group			
Borrowing	14,494.80	14,494.80	14,494.80
PFI and other long-term liabilities	3,155.60	3,079.20	3,000.40
Total	17,650.40	17,574.00	17,495.20

LLDC	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	520.00	520.00	550.00
Other long-term liabilities			
Total	520.00	520.00	550.00

GLA Group	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	23,742.27	23,984.57	24,223.17
Other long-term liabilities	3,283.95	3,201.36	3,117.80
Total	**27,026.22**	**27,185.93**	**27,340.97**

**TfL Corporation figures are included in the TfL Group figures*

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 a prudent level of borrowing required to meet capital expenditure and maintain sufficient liquidity.

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 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 – Group

GLA	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	6,800.00	6,800.00	6,800.00
Other long-term liabilities			
Total	6,800.00	6,800.00	6,800.00

MOPAC	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	1,227.47	1,469.77	1,678.37
Other long-term liabilities	58.35	52.16	47.40
Total	1,285.82	1,521.93	1,725.77

LFC	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	170.00	170.00	170.00
Other long-term liabilities	70.00	70.00	70.00
Total	240.00	240.00	240.00

*TfL Corporation	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	13,162.50	13,127.50	13,092.50
Other long-term liabilities	570.80	528.90	483.50

Total	13,733.30	13,656.40	13,576.00
*TfL Group			
Borrowing	13,162.50	13,127.50	13,092.50
Other long-term liabilities	2,761.00	2,671.00	2,577.30
Total	15,923.50	15,798.50	15,669.80

LLDC	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	520.00	520.00	550.00
Other long-term liabilities			
Total	520.00	520.00	520.00

GLA Group	2021-22 Proposed £m	2022-23 Proposed £m	2023-24 Proposed £m
Borrowing	21,879.97	22,087.27	22,290.87
Other long-term liabilities	2,889.35	2,793.16	2,694.70
Total	**24,769.32**	**24,880.43**	**24,985.57**

**TfL Corporation figures are included in the TfL Group figures*

3.4 Gross Debt and the Capital Financing Requirement

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

Gross Debt and the Capital Financing Requirement	2019-20 Actual £m	2020-21 Projected £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Gross Debt at 31 March	5,202.81	5,155.09	4,814.59	4,467.59	4,193.59
Capital Financing Requirement	5,204.93	5,267.44	5,995.94	6,029.74	5,889.25

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

4.0 Affordability Prudential Indicators

4.1 Ratio of Financing Costs to Net Revenue Stream

4.1.1 This indicator compares the total principal and net interest payments on external debt to the overall revenue spending of the Authority (not including amounts paid to functional bodies from group funding sources such as retained business rates).

Financing Costs to Net Revenue Stream	2020-21 Estimate %	2021-22 Estimate %	2022-23 Estimate %
Total	20.50	22.08	24.73

These ratios indicate the significance of debt service to GLA's spending and the need for extremely prudent management of the relevant risks.

4.2 Interest cover ratio

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

5.0 Treasury Management Prudential Indicator

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

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

6.0 Treasury Management Limits on Activity

6.1 Limits for Maturity Structure of Borrowing

6.1.1 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.

6.1.2 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 2021-22	Upper Limit %	Lower Limit %
Under 12 months	15	0
12 months and within 24 months	15	0
24 months and within 5 years	30	0
5 years and within 10 years	50	10
10 years and above	100	20

6.2 Limits for Principal Sums Invested for Periods Longer than 365 days

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

- adversely impact on the Authority's liquidity and in turn its ability to meet its payment obligations; and

- also lead to the loss of some of its principal if it is forced to seek early repayment or redemption of principal sums invested.

6.2.2 Under this indicator the Authority is therefore required to set an upper limit for each financial year period for the maturing of its long-term investments.

	Maximum principal sums invested 365 days			
	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Land Fund	250.00	250.00	250.00	250.00
Treasury - Strategic Investments	300.00	15% of rolling 1-year cash balance forecast		

GLA 2019/20 Treasury Management Outturn & 2020/21 Mid-Year Report

1. Summary of performance

1.1 Investment balance for the GLA was £3,890.79m as at 31 March 2020 and £4,035.31m at 30 September 2020.

1.2 Total returns on cash balances for the financial year 2019/20 equated £31.11m, against a Treasury Budget of £13.70m, an outperformance of more than 100% in 2019/20.

1.3 Return on the London Strategic Reserve (LSR) investments for the half-year of 2020/21 equated £0.86m representing 5.68% return on the LSR investments.

1.4 Returns on cash balances for the half-year of 2020/21 equated to £13.36m, against an annual Budget of £17.40m.

1.5 The debt portfolio increased from £4,255.12m at the start of 2019/20 to £5,202.81m at 31 March 2020 and reduced to £5,194.55m as at 30 September 2020.

2. Treasury Management Strategy Statement (TMSS) 2019/20 & 2020/21

2.1 The Executive Director of Resources confirms that, throughout the reporting period, all treasury activities have been conducted within the parameters of the Treasury Management Strategy Statement.

3. Treasury Management Outturn Position for 2019/20 & Update for Half-Year of 2020/21

Summary Portfolio Position

Treasury Management Position	**Actual as at 31.03.2019**		**Actual as at 31.03.2020**		**Actual as at 30.09.2020**	
	£m	Rate %	£m	Rate %	£m	Rate %
External Borrowing						
Long Term Borrowing	4,231.61	3.28	5,179.42	3.01	5,172.92	3.01
Variable Rate Borrowing	23.51	0.96	23.39	0.62	21.63	0.47
Total External Borrowing (A)	**4,255.12**		**5,202.81**		**5,194.55**	
Other Long-Term Liabilities						
PFI Liability	0		0		0	
Finance Lease Liability	0		0		0	

Total Other Long-Term Liabilities (B)	0		0		0	
Total Gross Debt (A+B)	**4,255.12**		**5,202.81**		**5,194.55**	
Capital Financing Requirement	4,242.69		5,204.93		5,203.59	
Less Other Long-Term Liabilities	0		0		0	
Underlying Capital Borrowing Requirement (C)	**4,242.69**		**5,204.93**		**5,203.59**	
Under/(Over) Borrowing (C-A)	-12.43		2.12		9.04	
Investments: Short/Long Term (D)	2,772.25	0.9	3,890.79	0.97	4,035.31	0.71
Total Net Borrowing (A-D)	**1,482.87**		**1,312.02**		**1,159.24**	

4. Borrowing Activities

4.1 The Authority is required to borrow to fund its capital programme. The amount of new borrowing needed each year is determined by new capital schemes approved and included in the capital programme. Temporary borrowing is required to manage operational cashflow requirements. The following table shows the movement in borrowing during the reporting period and the split of borrowing between the GLA, Crossrail and the Northern Line Extension.

	Long Term (LT) Borrowing			**Total LT Borrowing £m**	**ST Borrowing**	**Total**
	GLA	**Crossrail £m**	**NLE £m**			**£m**
Balance at 31/03/2019	**230.00**	**3,307.50**	**694.10**	**4,231.60**	**23.51**	**4,255.12**
Add New Loan in 2019/20	0	889.00	203.82	**1,092.82**	5.27	**1,098.09**
Less Loan Repaid in 2019/20	0	-145.00	0	**-145.00**	-5.40	**- 150.40**
Balance at 31/03/2020	**230.00**	**4,051.50**	**897.92**	**5,179.42**	**23.39**	**5,202.81**

Add New Loan in 2020/21	0	46.00	0	**46.00**	0.04	**46.04**
Less Loan Repaid in 2020/21	-17.50	-35.00	0	**- 52.50**	-1.80	**-54.30**
Balance at 30/09/2020	**212.50**	**4,062.50**	**897.92**	**5,172.92**	**21.63**	**5,194.55**

5. Investment Activities

5.1 The table below shows a split between investment balances for the reporting period.

Investments	**Long Term – (LSR)** **£m**	**Short Term** **£m**	**Total** **£m**
Balance at 01.04.2019	223.95	2,548.31	2,772.26
Balance at 31.03.2020	**247.9**	**3,642.89**	**3,890.79**
Net Movement	*23.95*	*1,094.58*	*1,118.53*
Balance at 01.04.2020	247.9	3,642.89	3,890.79
Balance at 30.09.2020	**38.73**	**3,996.57**	**4,035.31**
Net Movement	*-209.17*	*353.68*	*144.52*

6. Investment Performance

6.1 LSR investments – the performance of the LSR investments is shown in the table below:

LSR Investments

2019/20	Investment Balance (£m)	Return (£m)
RMBS	235.40	3.48
SME Lending	9.74	0.23
Renewable energy and sustainable infrastructure	2.76	-
	247.90	**3.71**
2020/21		
SME Lending	10.97	0.48
Renewable energy and sustainable infrastructure	2.76	0.34
Social Infrastructure	25.00	0.05
	38.73	**0.86**

6.2 RMBS – RMBS formed part of the LSR in 2019/20 but was moved into the GIS at the start of 2020/21.

7. Short Term Investments

7.1 Returns earned on short-term investments during the reporting period were as follows:

- 2019/20 - £27.39m against a budget of £13.70m
- 2020/21 (Half-year) - £13.36m against an annual budget of £17.40m

8. Total Return

8.1 The treasury function achieved a total return of £31.11m on investments in 2019/20 and £14.22m in the half-year of 2020/21.

9. Treasury Management Financing costs

	2019/20 Budget £m	Actual at 31.03.20 £m	2020/21 Budget £m	Actual at 30.09.20 £m
Interest Payable: PWLB, Bonds and Market Loans	150.40	147.90	159.50	78.39
Interest Payable: Other LT Liabilities	0	0	0	0
Total Interest Receivable	(13.70)	(31.11)	(17.40)	(14.22)

10. CIPFA Prudential Code Indicators and Treasury Management Limits

10.1 Capital Expenditure

	2019/20 Budget (£m)	2019/20 Actual (£m)	2019/20 Variance (£m)
Capital Expenditure	1,982.20	1,975.70	6.50
Capital Financing Requirement	5,293.22	5,520.74	(227.52)

10.2 External Debt Prudential Indicators

i) Authorised Limit for External Debt

	2019/20 (£m)	2020/21 (£m)
Authorised Limit	6,100.00	6,100.00
Actual External Debt as at	5,202.81	5,194.55
Headroom	897.19	905.45

ii) Operational Boundary for External Debt

	2019/20 (£m)	2020/21 (£m)
Operational Boundary	5,700.00	5,700.00
External Debt as at 30.09.2019	5,202.81	5,194.55
Headroom	497.19	505.45

iii) Limits for Maturity Structure of Borrowing

2019/20	Upper Limit %	Lower Limit %	31.03.20 %
Under 12 months	10	0	1.85
12 months and within 2 years	10	0	6.97
2 years and within 5 years	20	0	14.63
5 years and within 10 years	45	15	29.59
10 years and above	100	30	46.96
2020/21			
Under 12 months	10	0	1.86
12 months and within 2 years	15	0	8.14
2 years and within 5 years	30	0	16.75
5 years and within 10 years	45	10	32.42
10 years and above	100	20	40.83

Appendix 5 – Investment Strategy

Background

This appendix sets out a high-level framework for the investments within a combined GIS and LSR. This is subject to collective agreement by the GIS participants, currently the GLA, the London Fire Commissioner (LFC), the Mayor's Office for Policing and Crime (MOPAC), the London Legacy Development Corporation (LLDC), the London Pensions Fund Authority (LPFA) and the London Boroughs expected as new joiners.

Agreeing a strategy with the other participants is delegated to the Executive Director of Resources, provided the limits in this appendix are not exceeded.

The proposed asset allocation for the collective investment strategy is as follows:

		Allocation	**Expected Return**
Core liquidity: Managed with a weighted average life of 90 days	Overnight liquidity	10%	0.00%
	Local Authority <12mths	15%	0.10%
	Banks <12mths	30%	0.10%
Medium term: Weighted average life < 3years	Senior RMBS	35%	0.70%
Long term core balance	Other Strategic Investments	10%	4.00%
		100%	0.69%

The portfolio 95% VaR (value at risk) limit should not exceed 2%. Assumptions for VaR calculations should be assessed semi-annually with regard to appropriate professional advice.

Counterparty and Investment Limits

Table 1 sets out the range of specified and non-specified investments permitted by the GLA. The following key applies:

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

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

NS* = Non-Specified, only used under delegation to a professional manager properly authorised under the Financial Services and Markets Act 2000.

The Chief Investment Officer will make best efforts to maintain at least 50% of all investments (or underlying investments) in the form of Specified Investments.

Table 1

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of forecast daily balance
Senior Unsecured Debt, e.g. • **Deposits** • **Call Accounts** • **Notice Accounts** • **Certificates of Deposit** • **Loans** • **Commercial Paper** • **UK Gilts and T-Bills** • **All other senior unsecured bonds**	Issuer (and security where separately rated) Investment Grade (IG) defined per **Table 3** OR UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance) OR Issuer not meeting general criteria but instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per **Table 2**	S	NS	Aggregate 100%, individual limits determined by tables
Money Market Funds	Fitch AAA_{mmf} or above See **Table 3** for equivalents from other agencies Daily liquidity	S	*N/A*	100% Not more than 20% per fund
Other Collective Investment Schemes e.g. Enhanced Cash Funds	Fitch AAA_{f} or equivalent from other agencies per **Table 3**	NS	*N/A*	20%
Senior UK Prime or Buy to Let Residential Mortgage Backed Securities (RMBS)	Bond rating Fitch $AA+_{sf}$ or above or equivalent from other agencies per **Table 3**	NS*	NS*	35%
Covered bonds	Bond rating Fitch $AA+_{sf}$	NS*	NS*	20%

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 forecast daily balance
	or equivalent from other agencies per **Table 3** AND Issuer rated Fitch A- or above or equivalent from other agencies per **Table 3**			
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
Other strategic investments	Any sterling-denominated investment with risk and return characteristics appropriate to the collective investment arrangement and mutually agreed by all participants	NS*	NS*	10%

The GLA will forecast average daily balances for the year ahead and translate the above percentage limits into cash limits to be supplied to London Treasury Limited (LTL) and any external managers. The GLA will provide such limits on a quarterly basis at minimum, providing revised limits if the forecast average balance changes by more than 20%.

<u>Credit Ratings and Country Limits</u>

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

Table 2 – Country Limits

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

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

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

Table 3 – Permitted credit ratings and equivalence mappings

Issuer and/or Senior Unsecured Bond Ratings					
Long term			**Short term**		
Fitch	**Moody's**	**S&P**	**Fitch**	**Moody's**	**S&P**
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA	F1+	P-1	A-1+
AA-	Aa3	AA-			
A+	A1	A+			
A	A2	A	F1	P-1	A-1
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB	F2	P-2	A-2

Structured Finance Ratings		
Fitch	**Moody's**	**S&P**
AAA$_{sf}$	Aaa (sf)	AAA (sf)
AA+$_{sf}$	Aa1(sf)	AA+ (sf)
Money Market Fund Ratings		
Fitch	**Moody's**	**S&P**
AAA$_{mmf}$	Aaa-mf	AAAm
Other Permitted Fund Ratings		
Fitch	**Moody's**	**S&P**
AAA$_{f}$	Aaa-bf	AAAf

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

Table 4 – Credit Factors

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

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

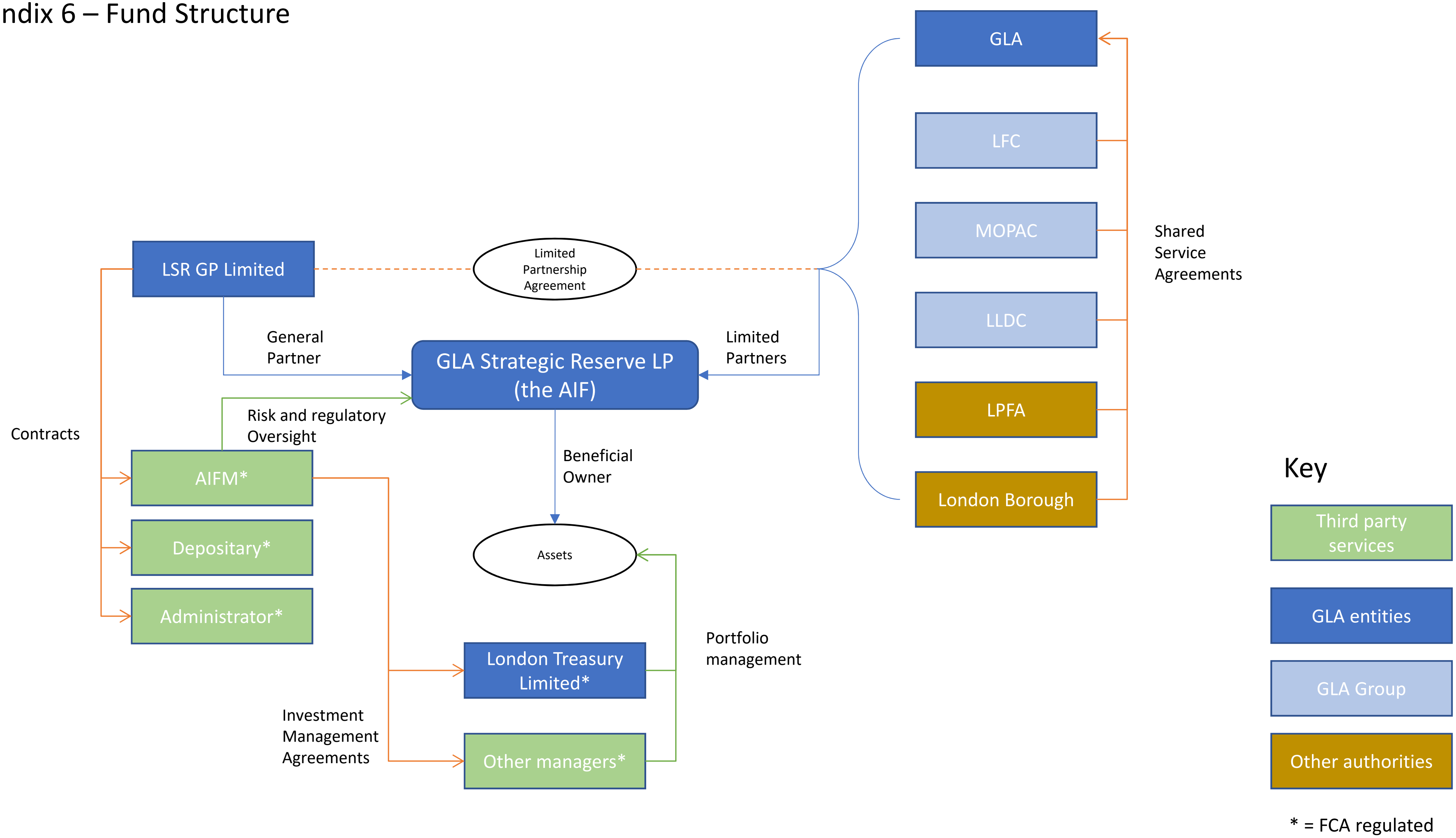
Enhanced limits apply for these counterparties and institutions covered by Link Asset Services' Colour Banding Methodology:

Table 5 – Concentration Limits

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%

The Bands above are calculated based on a range of credit ratings data, including published rating Watches and Outlooks.

Appendix 6 – Fund Structure



Appendix 7: Treasury Management Practices: Main Principles

1.0 INTRODUCTION

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

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

1.3 Approval and monitoring of TMPs is a matter for local decision. As such the TMPs: Main Principles will be approved by the Authority and monitored by the Executive Director of Resources and annually reviewed by the Authority before the start of the year.

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

2.0 TMP1 RISK MANAGEMENT

2.1 General statement

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

2.1.2 In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the TMPs: Schedules.

2.2 Credit and counterparty risk management

2.2.1 The Executive Director of Resources regards a key objective of the Authority's treasury management activities to be the security of the principal sums it invests. Accordingly, he/she will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods and techniques referred to in the TMP4 Approved instruments, methods and techniques and listed in the TMPs: Schedules. The Executive Director of Resources also recognises the need to have and maintain a formal counterparty policy in respect of those organisations from which the Authority may borrow, or with whom it may enter into other financing arrangements.

2.3 Liquidity risk management

2.3.1 The Executive Director of Resources will ensure the Authority has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to achieve its business /service objectives.

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

2.4 Interest rate risk management

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

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

2.5 Exchange rate risk management

2.5.1 The Executive Director of Resources will manage any exposure to fluctuations in exchange rates to minimise any detrimental impact on the budgeted income/expenditure levels.

2.6 Refinancing risk management

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

2.6.2 The Executive Director of Resources will actively manage the Authority'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 Executive Director of Resources will ensure that all Authority treasury management activities comply with statutory powers and regulatory requirements. He/she will demonstrate such compliance, if required to do so, to all parties with whom the Authority deals in such activities. In framing its credit and counterparty policy under TMP1 'credit and counterparty risk management', he/she will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions that they may effect with the Authority, particularly with regard to duty of care and fees charged.

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

2.8 Fraud, error and corruption, and contingency management

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

2.9 Market risk management

2.9.1 The Executive Director of Resources will seek to ensure that the Authority's stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect the Authority from the effects of such fluctuations.

3.0 TMP2 PERFORMANCE MEASUREMENT

3.1 The Executive Director of Resources is committed to the pursuit of value for money in the Authority's treasury management activities, and to the use of performance measurement in support of that aim, according to methodology determined from time to time by the Executive Director of Resources.

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.

4.0 TMP3 DECISION-MAKING AND ANALYSIS

4.1 The Executive Director of Resources will maintain full records of Authority treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

5.1 The Executive Director of Resources will undertake Authority treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 'Risk management'.

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

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

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

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

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

6.5 The Executive Director of Resources will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

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

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

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

7.2 As a minimum:

The Mayor 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.

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

8.2 The Executive Director of Resources will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 'Reporting requirements and management information arrangements'.

8.3 The Executive Director of Resources will account for the Authority's treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

9.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this Authority will be under the control of the Executive Director of Resources and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Executive Director of Resources will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (2.3) 'Liquidity risk management'.

10.0 TMP9 MONEY LAUNDERING

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

11.0 TMP10 TRAINING AND QUALIFICATIONS

11.1 The Executive Director of Resources recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. He/she will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Executive Director of Resources will recommend and implement the necessary arrangements.

11.2 The Executive Director of Resources will ensure that elected 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.

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

12.1 The Authority recognises that responsibility for the treasury management decisions always remains with the Authority. 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, documented, and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Executive Director of Resources.

13.0 TMP12 CORPORATE GOVERNANCE

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

13.2 This Authority has adopted and implemented the key principles of the TM Code. This is considered vital to the achievement of proper corporate governance in treasury management, and the Executive Director of Resources will monitor and, if and when necessary, report upon the effectiveness of these arrangements.