GREATER**LONDON**AUTHORITY

REQUEST FOR MAYORAL DECISION – MD1490

Title: Treasury Management Strategy for 2015-16 (including the Treasury Management Policy; Minimum Revenue Provision Policy; Prudential Code Indicators and Treasury Management Limits; GIS Investment Strategy and Treasury Management Practices: Main Principles)

Executive Summary:

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

Decision:

That the Mayor approves the

1. Treasury Management Strategy Statement for 2015-16 (Appendix 1)
2. Treasury Management Policy Statement (Appendix 2)
3. Minimum Revenue Provision Policy Statement (Appendix 3)
4. Prudential Code Indicators and Treasury Management Limits (Appendix 4)
5. Group Investment Syndicate (GIS) Investment Strategy (Appendix 5)
6. Treasury Management Practices: Main Principles (Appendix 6)

Mayor of London

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

The above request has my approval.

Signature:	**Date:**

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

Decision required – supporting report

1. Introduction and background

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

Effective treasury management is central to the GLA's financial standing, given a scale of operations, assets and liabilities (including borrowings) in £billions; the ongoing delivery of the Crossrail funding package; responsibility for the financing of the proposed Northern Line Extension (NLE) and support for the Olympicopolis scientific, educational and cultural vision for Stratford Waterfront and the south of the Queen Elizabeth Olympic Park.

The GLA, through functional delegation arrangements, undertakes the treasury management functions of the London Fire and Emergency Planning Authority (LFEPA), London Legacy Development Corporation (LLDC), London Pensions Fund Authority (LPFA) and the Mayor's Office for Policing and Crime (MOPAC) (i.e. All of the GLA Group, excluding TfL). Investments are conducted in accordance with the Group Investment Syndicate (GIS) Investment Strategy.

2. Objectives and outcomes

2.1 Borrowing Performance

To progress the following borrowing schemes:

- Crossrail – The GLA has completed the borrowing for Crossrail. In doing so, it has outperformed against the terms of the Crossrail Prospectus: An enhanced borrowing strategy has resulted in a saving in total borrowing of £192m, thereby resulting in the total borrowing for Crossrail being £3.308bn rather than the original budgeted figure of £3.5bn; In addition, the actual borrowing rates on this £3.308bn have been lower than the targeted 6% by some 2.4%, permitting lower financing costs, which it is estimated will save the business rate taxpayers around £65m over the life time of the Business Rate Supplement (BRS). Projecting into the future, further savings in financing costs could be delivered through early repayment of the debt, as it is possible that the £3.308bn borrowing could be fully repaid by 2032/33 rather than the 2035/36 repayment date forecast in the Crossrail Prospectus. This early repayment of the full debt may be made possible, not only because there is now less debt to repay, but also because the BRS amounts required to repay the debt could be collected quicker: it is possible that BRS receipts could be higher than forecast, as a result of upward five yearly revaluations commencing in 2017 and increased economic activity, thereby enabling the total funds required to repay the debt to be available sooner than expected. Less debt to repay and increased BRS would also improve interest receivables, by increasing cash balances available for investment in-between debt repayment and financing cost payment dates.

- Northern Line Extension – Total project borrowing is forecast to be £928m: It is expected that external financing will commence in 2015/6 with the raising of an estimated £200m in this year. However, this is subject to the 'dual key' being 'turned' between Battersea Power Station Development Company, TfL and the GLA. This is because, it is only when the 'dual key' documentation is signed, does there become an irrevocable commitment to build the NLE. It is anticipated that up to 50% of the total project borrowing will be from the European Investment Bank (EIB) with the remainder from private sources (including an index linked bond issue) and/or the PWLB. On the revenue side, the Enterprise Zone (EZ) regulations are now in place, allowing full retention of business rates growth for at least 25 years. These EZ revenues will be ring-fenced to fund the NLE financing costs and repayment of debt. Significant savings in financing costs during 2015-18 are likely, as a result of the decision to seek lenders other than the PWLB, as the interest rates secured from the EIB are likely to be lower than the PWLB project interest rate. Sourcing funds from the proposed index linked bond will also bring an inflation hedge to the project.

- Housing Financial Transactions – To boost housing supply in London, the Mayor will on-lend £200m from the London Housing Bank and £200m to Housing Zones (together with £200m of grant support to such Zones).

- Olympicopolis – The GLA will be supporting the London Legacy Development Corporation's (LLDC) transformation of the Olympic Games site through loan funding. The monies for this loan funding will be met out of GLA core cash balances and in 2015-16 is expected to result in a net increase in LLDC's borrowing of some £95m.

2.2 Investment Performance

The GIS has been fully operational since mid-2013 and currently manages GLA cash balances in excess of £1bn.The GLA is on target to outperform its investment benchmark by 54% during 2014-15.

2.3 Treasury Management Budget Performance

Forecast performance against budget as at 31st March 2015 is likely to be an extra £9.89m in revenue, as a result of Treasury activities, with £6.21m more interest earned on investments than expected, and financing costs lower than expected by £3.68m.

2.4 Compliance with the Treasury Management Strategy Statement (TMSS) 2015-16 and Treasury Management Practices (TMPs)

The GLA operates within the Treasury Limits and Prudential Indicators as set out in the TMSS and complies with the Authority's Treasury Management Practices. These Indicators and Limits for 2015-18 are detailed in Appendix 4.

3. Equality comments

None directly arising from this report

4. Other considerations

4.1 Key Risks and Issues

The primary objective of the TMSS is to create a framework for the management of risks associated with borrowing, investment and cash flow management.

Wherever there is debt there is risk: risk of default and liquidity risk, as sufficient cash balances must be available to cover financing costs and debt repayments.

The GLA is very aware of these risks and has therefore put in place a robust debt management approach, underpinned by the principal of 'supported funding'. Under 'supported funding', borrowing is only undertaken if there is a ring-fenced income stream to support it. The £3.308bn Crossrail borrowing is an excellent example of this approach, whereby the borrowing is supported by a ring-fenced Business Rates Supplement (BRS) income stream, which is forecast to fully repay the debt by 2032/33.

External gross debt is forecast to be £3.6bn as at the 31st March 2015, and is expected to fall in 2015-16 to £3.5bn as Crossrail and Olympic debt repayments commence. However, in 2016-17 and 2017-18, external debt is again forecast to rise with external debt forecast to be at £3.8bn by the end of 2017-18, as the borrowing for the NLE is undertaken. However, just as with Crossrail, the principal of 'supported funding' will be 'in-situ' for the NLE debt: instead of BRS receipts, Enterprise Zone revenues and Community Infrastructure Levy (CIL)/Section 106 contributions will be used as the ring-fenced income stream to support the NLE borrowing and repay it.

Additional pressure is also placed on liquidity through

- downward pressure on investment returns, as a result of a continuing low interest rates, as policymakers seek to support the re-emergence of economic growth.
- funding the LLDC for the Olympicopolis out of cashflow. In 2015/16, this is expected to draw down an additional £95m from the GLA's cash balances.

However, with GLA cash balances of some £1bn and core cash being used for this funding, there is more than adequate liquidity to support these additional liquidity pressures.

Counterparty risk is also a concern. Under the GIS investment arrangements, the GLA manages short term investments and cash balances for all other functional bodies, except Transport for London (TfL). Cash balances under investment management are forecast to be in the region of £1.8bn (including GLA cash balances). The GLA seeks to minimise counterparty risk by only investing in high quality institutions and by keeping the majority of investments in highly liquid instruments. The recent tightening of the financial regulatory environment by governments, in so far as it has strengthened the balance sheets of financial institutions, has also helped to reduce counterparty risk.

4.2 Links to Mayoral strategies and priorities

This TMSS is intrinsic to supporting the GLA element of the Mayor's Budget and Capital Spending Plan for 2015-16 including the long term affordability of the Crossrail project and future funding obligations in respect of the NLE and the Housing Financial Transactions. .

Effective and prudent cash management is essential to protect the GLA against loss of capital and ensure adequate liquidity to meet spending obligations and aspirations.

4.3 Impact assessments and consultations

None required.

5. Financial comments

Financial implications are integral to the report and further comment is not required.

6. Legal comments

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

Section 3(1) of the 2003 Act provides that all local authorities are to determine and keep under review how much money they can borrow. Section 3(2) of the Act is more specific in relation to the

Mayor and functional bodies by providing that the determination is to be made by the Mayor following consultation with the Assembly, in the case of the GLA, or the relevant functional body. As a result, borrowing limits could be changed in-year, as well as at the start of financial years. Under section 1 of that Act the GLA and the functional bodies may borrow money for any purpose relevant to their functions under any enactment or for the purposes of the prudent management of their financial affairs; they may also invest for the same purposes under section 12.

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

Section 401A(2) of the Greater London Authority Act 1999, as amended, permits a shared service arrangement, by providing that any 'relevant London authority' (as defined in the GLA Act 1999) may enter into arrangements for the provision of administrative, professional or technical services by any one or more of them to any one or more of them, whether for consideration or otherwise.

7. Investment & Performance Board

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

Appendices and supporting papers:

Appendices

Appendix 1 Treasury Management Strategy Statement for 2015-16
Appendix 2 Treasury Management Policy Statement
Appendix 3 Minimum Revenue Provision Policy Statement
Appendix 4 Prudential Code Indicators and Treasury Management Limits
Appendix 5 Group Investment Syndicate Investment Strategy
Appendix 6 Treasury Management Practices: Main Principles

Supporting Papers

MD1325 - Treasury Management Strategy Statement, Policy and Minimum Revenue Provision Policy for 2014-15
Mayor's Final Draft Consolidated Budget 2015-16 published on 13th February 2015
Capital Spending Plan 2015-16 published on 27th February 2015

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

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

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

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form –NO

ORIGINATING OFFICER DECLARATION:	Drafting officer to confirm the following (✓)
Drafting officer: Sandra Thompson has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.	✓
Assistant Director/Head of Service: David Gallie has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.	✓
Sponsoring Director: Martin Clarke has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.	✓
Mayoral Adviser: Sir Edward Lister has been consulted about the proposal and agrees the recommendations.	
Advice: The Finance and Legal teams have commented on this proposal.	✓

EXECUTIVE DIRECTOR, RESOURCES:
I confirm that financial and legal implications have been appropriately considered in the preparation of this report.
Signature **Date**

CHIEF OF STAFF:
I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature **Date**

Appendix 1: Treasury Management Strategy Statement 2015-16

1. Introduction

1.1 The Treasury Management Strategy Statement (TMSS) sets out the Treasury management activities of the Greater London Authority (the Authority) for the year 2015-16.

1.2 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

1.3 The Code defines treasury management activities as:

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

1.4 This TMSS therefore takes into account the impact of the Authority's Revenue Budget, Medium Term Capital Programme and the Balance Sheet position and covers the following areas:

- Economic Background (Section 2)
- Prospects for Interest Rates (Section 3)
- Forecast Treasury Management Position (Section 4)
- Borrowing Strategy (Section 5)
- Policy on Borrowing in Advance of Need (Section 6)i
- Debt Rescheduling (Section 7)
- Investment Strategy (Section 8)
- Treasury Management Budget (Section 9)
- Use of External Service Providers (Section 10)
- Treasury Training (Section 11)
- Treasury Management Policy Statement (Appendix 2)
- Minimum Revenue Provision (MRP) Policy Statement (Appendix 3)
- Prudential Code Indicators and Treasury Management Limits (Appendix 4)
- Group Investment Syndicate (GIS) Investment Strategy (Appendix 5)
- Treasury Management Practices: Main Principles (Appendix 6)

1.5 In covering the above areas, as per its Treasury Management Policy Statement (Appendix 2), the Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Responsibility for risk management and control lies within the Authority and cannot be delegated to any outside organisation.

1.6 The Treasury Management risks the Authority is exposed to are:

- Credit and counterparty risk (security of investments)

- Liquidity risk (inadequate cash resources)
- Interest and market risk (fluctuations in interest rate levels and thereby in the value of investments)
- Refinancing risks (impact of debt maturing in future years) and
- Legal and regulatory and fraud risk (non-compliance with statutory and regulatory requirements, risk of fraud)

These risks are further discussed in Appendix 5 (Treasury Management Practices: Main Principles)

1.7 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 strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

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

IV. The Assembly has delegated to the Budget and Performance Committee the responsibility for ensuring effective scrutiny of the treasury management strategy and policies.

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

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

1.8 The Executive Director of Resources is required to report an annual Treasury Management Strategy to the Mayor for approval. The Executive Director of Resources is responsible for maintaining the

Treasury Management Practices (TMPs) and monitoring and managing the strategy, with day to day management of this function delegated to his staff.

1.9 The main changes in the TMSS 2015-16 as compared to the TMSS 2014-15 are:

- Updated Economic Background (Section 2)
- Updated interest rate forecasts (Section 3)
- Revised Prudential Indicators and Treasury Management Limits (Appendix 4)
- Changes to the GIS Investment Strategy (Section 8.7)

2.0 Economic Background

2.1 After a five year recessionary period starting in 2008, the UK economy is starting to grow. In its Bank of England Inflation Report February 2015, the Bank of England forecast economic growth at 2.9%, 0.5% higher than the 2.4% forecast in the Government 2014 Autumn Statement.

2.2 This UK growth forecast is largely based on the recent rapid fall in oil prices, which, it is argued, by producing good 'low' inflation, 0.3% as at January 2015, should boost real disposable incomes and in turn generate increased consumption, from which growth can occur. The continuing decline in unemployment should also help.

2.3 However, this UK growth is by no means certain: if non–oil businesses choose to sit on their cash rather than invest and employers use the opportunity of zero inflation to dampen the rate at which pay increases, the real income boost to demand could be adversely impacted. Also, as the revenues of oil producing countries fall, UK exports to oil producing countries are likely to fall, again having a negative impact on UK growth. Finally, the uncertainty around a May general election, with a possible change of government, could also adversely affect UK growth.

2.4 Globally, the economic picture is also mixed. The USA has become stronger, so that policy action, for the first time in several years, has moved away from Quantitative Easing (QE) and associated low interest rates to the expectation that there will be an interest rate rise, possibly in the middle of 2015. However, the Eurozone is entering a period of deflation. As a result, a full programme of QE will commence in March 2015, with the aim of trying to boost the stagnant Eurozone economy. However, further instability has since been introduced, by the election of a Greek anti-austerity/anti-bailout government, at the end of January 2015.

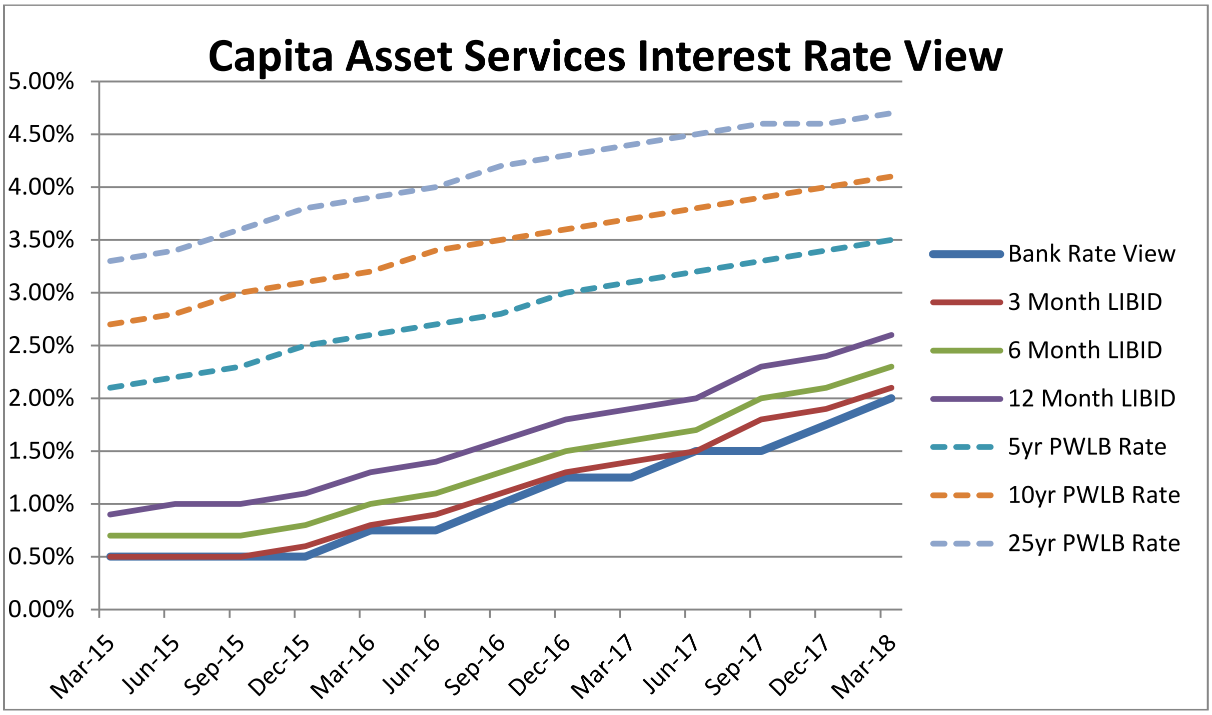
2.5 This mixed and uncertain outlook has several key treasury management implications:

- Higher quality counterparties for shorter time periods should continue to be preferred, especially against a possible backdrop of government debt to GDP ratios rising in some countries.
- Investment returns are likely to remain relatively low during 2015/16. In the UK, a rise in the base rate from its six year low of 0.5% has been further put back, with a rate rise now forecast no earlier than the first quarter of 2016, and only an increase of 0.25% to 0.75%.
- Borrowing interest rates have been volatile during 2014, as alternating bouts of good and bad news have promoted optimism and then pessimism, in financial markets. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.
- There will remain a cost of carry to any new borrowing, which causes an increase in investments, as this will incur a revenue loss between borrowing and investment returns.

3.0 Prospects for Interest Rates

3.1 The effective management of risk around borrowing and investments and cashflow management decisions includes understanding interest rate and inflation rate movements.

3.2 Capita Asset Services, Treasury Solutions is the Authority's advisor, under the GLA Group Treasury Consultancy Services contract. The provision of interest rate forecasts is one obligation under this contract that Capita Asset Services, Treasury Solutions has to meet. Below is a central view for short term interest rates (Bank Rate) and longer term fixed interest rates, as provided by Capita Asset Services, Treasury Solutions, as at February 2015. The PWLB Rates shown are net of the 0.2% 'certainty rate' discount.



4.0 Forecast Treasury Management Position

4.1 The Authority's forward treasury portfolio position is summarised below. The table shows the actual external borrowing (the treasury management operations) against the capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Forecast Treasury Position

	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
External Borrowing			
Borrowing at 1 April	3,608.30	3,507.40	3,669.20
Expected Change in Borrowing	-100.90	161.80	157.60
Other Long-Term Liabilities (OLTC) at 1 April	0.00	0.00	0.00
Expected Change in (OLTC)	0.00	0.00	0.00
Gross Borrowing at 31 March (A)	3,507.40	3,669.20	3,826.80
CFR - the borrowing need	3,464.40	3,532.90	3,644.00
Under/(over) borrowing	-43.00	-136.30	-182.80
Investments			
Investments at 31 March (B)	1,615.64	1,441.76	1,153.00
Change in investments	523.41	-173.88	-288.76
Net Borrowing (A-B)	1,891.76	2,227.44	2,673.80

4.2 Within the set of prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well defined limits. One of these is that the Authority needs to ensure that its gross borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current year and the next two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes, except to cover short term cash flows. 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.

4.3 The GLA's capital financing requirement is lower than its forecast external debt due primarily to the impact of the phasing of its agreed Crossrail borrowing profile with central government and timing issues in relation to its contribution to the Northern Line Extension. Crossrail BRS revenues not required to meet the GLA's financing costs and – until 2015-16 – its direct contribution to the Crossrail project costs, are applied within the capital financing requirement and have the effect of reducing this. This has the effect of reducing the capital financing requirement below the level of the GLA's debt accumulated in line with the borrowing profile approved by central government. Timing issues in relation to the agreed profile of the GLA's contributions to the Northern Line Extension and the associated financing through borrowing and the application of CIL and section 106 revenues have a similar impact for 2015-16 onwards. These differences reflect timing and phasing issues in relation to financing and not the affordability of Crossrail and the Northern Line Extension.

5.0 Borrowing Strategy

5.1 Delegation/Authorisation

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

5.1.2 On the basis of the above, the Executive Director of Resources is

1. authorised to approve borrowing by the Authority, for the purposes of financing capital expenditure and subject to the necessary statutory provisions, provided that the Authorised Limit, determined by the Mayor for the Authority, is not exceeded.

2. authorised to make use of cash balances to fund internal borrowing when it is considered advantageous, provided the Authorised Limit, determined by the Mayor for the Authority, is not exceeded.

3. 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.

4. 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.

5.1.3 All borrowing decisions should be reported to the Budget and Performance Committee at the first opportunity within the Treasury Management cycle.

5.4 Internal Borrowing Approach

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

1. The Authority must maintain sufficient liquidity to be certain of meeting existing borrowing and other obligations

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

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

4. Agreements with central government specifying particular levels of borrowing

5.5 Future of the Public Works Loans Board (PWLB)

5.5.1 The Government informed Local Authorities on 24 December 2014 that they have tabled an amendment to the National Infrastructure Bill, which is currently going through the House of Lords. Initially it was thought that the amendment would enable the Government to abolish the PWLB and transfer its lending functions to another body using the process set out in the Public Bodies Act 2011. However, the understanding of the current PWLB secretary is that it is the role of the PWLB Commissioners that will be removed and the PWLB will be renamed, and not abolished.

5.5.2 There is an expectation that the current lending arrangements will remain in place going forward and that it is the governance arrangements that will change. Officers will monitor the progress of the Bill and any consultation issued related to the PWLB and its functions.

6.0 Policy on Borrowing in Advance of Need

6.1 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

6.2 In determining whether borrowing will be undertaken in advance of need the Authority will:

1. Ensure the on-going 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

2. Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow

3. Consider the merits and demerits of alternative forms of funding , including funding from revenue, leasing and private partnerships and

4. Consider the alternative interest rates bases available, the most appropriate periods to fund and repayment profiles to use.

6.3 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 2015-16 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.

7.0 Debt Rescheduling

7.1 Given short term borrowing rates are likely to be cheaper than longer term fixed interest rates, decisions may be taken to restructure the debt portfolio, by switching from long term debt to short term debt through the early redemption or replacement of loans, so as to either increase long term affordability or adjust maturity profiles for the purposes of managing liquidity and interest rate risks. Such rescheduling decisions will be reported to the Budget and Performance Committee at the first opportunity within the treasury management reporting cycle.

7.2 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

7.3 Recent changes to PWLB pricing has been to exaggerate the spread between the rate of new loans and the rate used to calculate premiums or discounts on early redemption. This means that there are far fewer opportunities for restructuring than was historically the case, due to prohibitively expensive premia in relation to achievable savings. This emphasises the importance of attempting to optimise maturity profiles at the point of entering into borrowings.

8.0 Investment Strategy

8.1 The Authority maintains a low risk appetite consistent with good stewardship of public funds. At the forefront of its thinking is the principle of Security before Liquidity and Liquidity before Yield (SLY). Cash flow forecasts and prevailing market conditions determine the maximum possible prudent maturities for investments and credit considerations are used to select counterparties with whom to transact. Investments are managed in such a way as to make losses at the portfolio level extremely unlikely, while capturing the optimum return within these constraints.

8.2 The Authority will continually develop its investment risk methodologies with regard to advice from external advisors, relevant developments in the market and academia, benchmarking techniques and approaches employed by the Credit Ratings Agencies. These Agencies are currently Fitch, Moodys, and Standard and Poors and their credit ratings will be monitored on a daily basis, with appropriate action taken when these ratings change.

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

8.4 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 on-going 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.

Year End Core Funds and Expected Investment Balances

	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
Fund balances	4.90	4.90	4.90
Reserves	253.60	213.00	145.87
Capital Reserves	497.25	289.60	21.47
Provisions	137.66	118.73	118.73
Total Core Funds	**893.41**	**626.23**	**290.97**
Working Capital *	584.23	584.23	584.23
Under/(over) borrowing	-43.00	-136.30	-182.80
Expected Investments	1,520.64	1,346.76	1,058.00

*Working capital balances shown are estimated year end: these may be higher mid year

8.5 The Authority's short-term cash balances are invested through the GLA Group Investment Syndicate (GIS). The Authority is a participant of the GIS and the nature of the GIS and the GIS Investment Strategy, including creditworthiness policy and permitted instruments, as agreed between the Syndics, is attached at Appendix 4. This Strategy effectively constitutes the Authority's Annual Investment Strategy, which should be prepared and approved before the start of each financial year, with approval by the Authority. This GIS Investment Strategy is currently under review by all the current participants of the GIS and the Board is presented with the latest version.

8.6 The changes intended to be incorporated into the GIS Investment Strategy to further strengthen the GIS Investment Strategy's aim of achieving a good return within the constraints of security first and liquidity second are provided below. Minimisation of risk is further achieved through the maintenance of a list of highly creditworthy and diversified counterparties. These changes will not come into force until all participants have had their 2015-16 TMSS's approved and the Chief Finance Officer of each participant has signed a copy of the 2015-16 GIS Investment Strategy.

8.7 <u>2015-16 GIS Investment Strategy Changes.</u>

8.7.1 The GIS Investment Strategy is considered and agreed by participants. A common approach permits maximum efficiency of the shared group service.

8.7.2 This shared strategy is subject to on-going development and review, with the result that the following changes and additions have been incorporated into the 2015-16 Strategy.

i. The investment strategy has been reviewed for robustness against the consequences of a tighter regulatory framework and possible removal of implied sovereign support levels by Rating Agencies in 2015. (Appendix 5, Section 3.10.4 and 5 and 6).

ii. The approach in relation to Lloyds Bank and RBS investments has been updated to reflect latest Government intentions regarding the sale of its shareholding in these counterparties. (Appendix 5, Section 3.10.7).

iii. The Credit Worthiness Policy has been updated to reflect the June 2014 change in Capita Asset Services, Treasury Solutions' creditworthiness methodology. Capita Asset Services, Treasury Solutions made changes to its credit methodology, in response to the main rating agencies indicating that they are considering removing implied sovereign support levels, originally introduced in response to the 2008 financial crisis, but now no longer considered in keeping with regulations either in force or being imposed through 2015 and beyond. (Appendix 5, Section 3.10.1).

iv. The Credit Worthiness Policy has been updated to reflect the latest criteria for the award of a "blue" banding to a counterparty. The blue banding of 1 year investment duration still only applies to nationalised or semi-nationalised UK Banks, but there is no longer a requirement that the Government stake is greater than 20%. Rather the requirement is based on the Government's 'intentions' regarding its stake. Therefore, a 15% stake and no intention to further sell in the near future could result in the retention of the blue banding, while a larger stake with an intention by the Government to reduce its holding to nil in the near future, could result in the removal of the blue banding from a counterparty. (Appendix 5, Section 3.10.1).

v. The deposit protection scheme offered by German banks has been removed from the Strategy, following an adverse legal opinion about enforceability.

vi. The sovereign national Government rating has been changed from 'AA+ or above' to 'AA or above' for Term deposits, Call Accounts and Certificates of Deposit – Institutions not meeting general criteria but instruments explicitly guaranteed by sovereign national Government (Specified Investments) to achieve consistency across ratings for instruments. (Appendix 5, Section 3.8).

vii. Specified and Non-Specified Investments definitions have been refreshed to reaffirm the GIS Investment Strategy's commitment to high security and high liquidity. (Appendix 5, Section 3.6 and 3.7).

viii. Corporate Bonds investment duration has been increased from 13 months to 24 months. This will give the opportunity to take advantage of higher yields through longer term investments, without significantly increasing the overall risk taken by the GIS. Under the Credit Risk Factors table adopted for corporate bond investment decisions, only the highest quality counterparties rated by Fitch as 'AAA' or 'AA+' or 'AA/F1+' (or the equivalent from other Rating Agencies) will be involved in corporate bond investment decisions between 13 months and 24 months. (Appendix 5, Section 3.9).

ix. The percentage for Cash Exposure limits for investments greater than one day are to be applied to the forecast average cash balance over the term of the proposed investment instead of to the forecast annual average cash balance. This change will reduce the impact of cash flow characteristics outside the relevant investment horizon. (Appendix 5, Section 3.15.1).

8.8 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 5. Variation between a MMF's list of approved counterparties and the approved counterparties of a member of the GIS is permissible, at the discretion of the Executive Director of Resources, providing the MMF's own rating meets the criteria of Appendix 5.

8.9 Additionally, the Executive Director of Resources may from time to time instruct the Group Treasury team to invest sums independently of the GIS, for instance, if the Authority identifies balances which are available for longer term investment, after proper consideration of expected future cashflow, as at the time of investment. It is proposed that the Authority adopt an identical set of parameters for such investments as those detailed in Appendix 4, 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 Days' (Appendix 5 section 6.3). For 2015-16, this Indicator states that GLA total exposure to instruments maturing in more than 364 days shall not exceed 20% of the minimum GLA forecast balance for the next 12 months (as at the date of investment).

8.10 In the interests of preventing cross subsidy, cash flows relating to Tax Increment Financing (TIF) schemes, such as Crossrail and the Northern Line Extension (NLE), will continue to be separately identified and the investment returns relating to the relevant balances shall be attributed to the relevant TIF account.

8.11 The GLA is to deploy some of its surplus cash balances to fund policy investments. This will include the GLA using some of its surplus cash balances to support the borrowing needs of the London Legacy Development Corporation, as it progresses new initiatives and service improvements, including the Olympicopolis project, aimed at further developing the Queen Elizabeth Olympic Park following the 2012 Olympic and Paralympic Games.

8.12 Whilst the Authority 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 Authority. All Investment Strategies approved by the Authority will be made available to the public free of charge, on print or online.

9.0 Treasury Management Budget

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

Treasury Management Budget

	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
Interest payable			
Crossrail (financed by BRS)	**118.10**	**115.30**	**115.30**
Northern Line Extension (NLE)	**4.06**	**8.06**	**10.27**
Non Crossrail	**7.00**	**7.00**	**7.00**
Total Interest Payable	129.16	130.36	132.57
Interest Receivable	-10.40	-12.00	-12.00
Crossrail Minimum Revenue Provision	90.90	102.70	102.70
Other Minimum Revenue Provision	10.20	10.50	10.50
Total	219.86	231.56	233.77

9.2 Assumptions behind the 2015-16 Budget are:

- Average rates achievable on investments will be 0.6%
- New borrowing to fund the capital programme will be financed by long term borrowing at a rate of no more than the PWLB project rate, which is set at 0.04% below the PWLB rate. For NLE

borrowing, the benchmark PWLB rate is therefore likely to be the 20 year PWLB project rate, which in the last days of March 2015, was around 2.95%.'

- Replacement borrowing will also be benchmarked against PWLB rates.

- The MRP charge is in line with the Authority's MRP Policy

10.0 Use of External Service Providers

10.1 The GLA uses Capita Asset Services, Treasury Solutions 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 GLA 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. GLA monitors and maintains the quality of this service by regular review and assessment.

10.2 The GLA 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. This Strategy empowers the Executive Director of Resources to appoint such external manager to manage a proportion of the GLA's investment portfolio, should he feel this would be advantageous. Situations in which this might be advantageous include benchmarking the performance of the internal GLA Treasury team; benefiting from the often extensive credit risk and economic modelling resources of external fund managers and the resources necessary to hold liquid instruments for trading.

10.3 RBS are the GLA's bankers and continue to provide a competitive service under an annual rolling contract.

10.4 The GLA Investment Manager, under the GIS Investment Strategy, uses King and Shaxson Limited as a custodian of the Authority's tradeable instruments (such as Treasury Bills) with HSBC as the sub-custodian. The GLA's policy is that any custodian (or, instead, sub-custodian) shall meet the GLA's credit criteria for 12 month investments (prior to CDS or other temporary adjustments).

11.0 Treasury Training

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

11.2 The Syndics of the GIS Investment Strategy will collectively receive investment training on the 23rd March 2015.

11.3 Capita Asset Services, Treasury Solutions run training events regularly which are attended by Treasury officers. In addition, Treasury officers attend national forums and practitioner user groups.

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

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 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

1. Policy Statement

1.1 MRP is the amount out of revenues 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 DCLG Capital Finance: Guidance on MRP, February 2012, also recommends that the annual MRP Policy is presented to the Authority for approval before the start of the financial year to which it relates. Any in-year changes must also be submitted to the Authority for approval.

1.5 The recommended statement for the GLA is set out below:

1. The natures of funding the GLA's core Capital Financing Requirement (CFR) and that arising from the Tax Increment Financing deals, such as Crossrail and the Northern Line Extension, are different and require separate consideration.

2. The proposed policy for the MRP relating to the Crossrail CFR is 'equal to the excess of Business Rates Supplement (BRS) receipts over financing and other revenue costs borne by the General Fund, including the making good of prior year BRS account deficits'.

3. The proposed policy for the MRP relating to the Northern Line Extension (NLE) CFR is 'equal to the excess of NLE Enterprise Zone Revenues and Community Infrastructure Levies/ Section 106 contributions from Boroughs over financing and other revenue costs borne by the General Fund, including the making good of prior year NLE 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: It is therefore permissible under the revised MRP regulations. Essentially, it is an amortisation of the costs with an unusually flexible profile. Other bases would cause accounting complications, inequitable to the General Fund.

5. For the MRP element arising from the GLA's non-Crossrail and non-NLE CFR, if any, the amount shall be calculated as 'the principal amount of an annuity payment based on the outstanding non-Crossrail and non-NLE CFR at 31 March of the preceding financial year, amortised over the weighted average remaining period of benefit of the capital expenditure funded by borrowing, using the GLA's aggregate rate of interest for non-Crossrail and non-NLE loans at 31 March of the preceding financial year'. 'Period of Benefit' is defined as 'asset life' (consistent with the GLA's depreciation policies) where an asset exists or, where the expenditure relates to a grant made to another body treated as capital expenditure under statute, the expected period of benefit of the capital programme the grant, to the best of the GLA's knowledge, is used to support.

6. This annuity method will provide prudent provision for capital expenditure over a period commensurate with the benefits of that expenditure in a manner which, ceteris paribus and assuming parity between CFR and external debt, would ensure equal total revenue impact (sum of MRP and interest payable) over the years in question.

7. In the exceptional 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 (4). However, the impact of such direction on the revenue account shall be accounted for as a voluntary revenue provision (VRP). Any impairment to such loans shall be treated in accordance with proper practice.

Appendix 4 CIPFA Prudential Code Indicators and Treasury Management Limits

1.0 Background

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

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

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

- Capital expenditure plans
- External debt
- Treasury Management

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

1.5 Prudential Indicators and Treasury Management Limits must be approved by the Mayor and any subsequent changes to these Indicators and Limits must also be approved by the Mayor. The Full Assembly must be consulted on any changes to borrowing limits.

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

2. 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

	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
Total Capital Expenditure	1,014.71	1,008.32	952.68
Financed by:			
Capital receipts	-55.86	-16.55	-35.58
Capital grants	-906.97	-569.67	-424.67
Capital reserves	25.22	-221.51	-268.13
Revenue	-9.00	0.00	0.00
Net financing need for the year	68.10	200.60	224.30

2.2. Capital Financing Requirement (CFR)

2.2.1 The CFR 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 This borrowing is not associated with particular items or types of capital expenditure.

2.2.3 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

Capital Financing Requirement (CFR)

	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
Total CFR	3,464.40	3,532.90	3,644.00
Movement in CFR (Increase/(Decrease))	-51.93	68.47	111.10
Movement in CFR represented by			
Net financing need for the year (see Capital Expenditure table)	68.10	200.60	224.30
Less MRP and other financing movements	120.03	132.13	113.20
Movement in CFR	-51.93	68.47	111.10

3. 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

	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
Borrowing	4,600.00	4,750.00	5,000.00
Other long term liabilities	0.00	0.00	0.00
Total	4,600.00	4,750.00	5,000.00

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 cashflow. 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

	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
Borrowing	4,290.00	4,540.00	4,780.00
Other long term liabilities	0.00	0.00	0.00
Total	4,290.00	4,540.00	4,780.00

3.3 Gross Debt and the Capital Financing Requirement

3.3.1 This is a key indicator of prudence seeking to identify whether or not the Authority's financial strategy is prudent and sustainable by measuring the extent to which the 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 (CFR) in the preceding year plus the estimates of any additional CFR 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.

3.3.2 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

	2013-14 Actual £m	2014-15 Projected £m	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
External Borrowing at 31 March	3,254.25	3,608.30	3,507.40	3,669.20	3,826.80
CFR - the borrowing need	3,195.28	3,516.40	3,464.40	3,532.90	3,644.00

3.3.3 Debt does exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current planning year and the next two financial years. An explanation for this is provided at Appendix 1 section 4.3

4. 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. The calculations treat funding provided through business rates retention as being the revenue of the functional body which the Mayor has determined will receive this. Statutorily this funding is the GLA's and therefore this methodology overstates this financing ratio.

Financing Costs to Net Revenue Stream

	2015-16 Estimate %	2016-17 Estimate %	2017-18 Estimate %
Crossrail	53.00	51.00	49.00
Other	1.00	3.00	6.00

Crossrail financing costs are being met from the ring fenced Crossrail BRS revenue stream

NLE financing costs will be met from a ring fenced NLE revenue stream and are forecast to commence from 15/16 onwards. For the above projections, NLE financing costs are, however, included in 'Other Financing Costs'. They will be separated out in later reports.

Other financing costs (excluding NLE) are being met from general revenues

4.2 Incremental impact of capital investment decisions on the council tax

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

Incremental Impact on Council Tax

	2015-16 Estimate £	2016-17 Estimate £	2017-18 Estimate £
Council Tax Band D	0.00	0.00	0.00

4.3 Local Affordability Indicators

The GLA sets two local affordability indicators to support its Standard & Poor's credit rating. This credit rating was re-affirmed in November 2014 as, AA+, with a stable outlook.

4.3.1 Balance after capital accounts (% of total revenues)

The GLA 'AA+' credit rating has been awarded against a balance after capital accounts ratio averaging 71% between 2010/11 to 2012/13, improving to 57% in 2013/14. The GLA will therefore target to ensure that there is no deterioration in this ratio, and ideally aim for a ratio lower than the S&P trigger ratio of 22.5%. For ratios above 22.5%, S&P may consider additional factors to support its rating decision. Currently, the extraordinary UK government support received by the GLA is a key mitigating factor for its balance after capital accounts ratio being higher than the international norm.

4.3.2 Interest cover ratio

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

5. 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. Treasury Management Limits on Activity

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

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

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

Divided by

Total Borrowing less Total Investments

Fixed rate calculation:

(Fixed rate borrowing* less Fixed rate investments*)
Total Borrowing less Total Investments

*Defined as greater than 1 year to run to maturity

Variable rate calculation:

(Variable rate borrowing** less Variable rate investments**)
Total Borrowing less Total Investments

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

Upper limit on interest rate exposure on net debt

	2015-16	2016-17	2017-18
	%	%	%
Fixed rate	180.00	180.00	180.00
Variable rate	20.00	20.00	20.00

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 fixed rate 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 fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate. 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 Lenders Option, Borrowers Option (LOBO) loan, the maturity date will be deemed to be the next call date.

Limits for Maturity Structure of Borrowing for 2015-16

	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 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 Authorities liquidity and in turn its ability to meet its payment obligations and
- also lead to the loss of some of its principal if it is forced to seek early repayment or redemption of principal sums invested.

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

Limits for Principal Sums Invested for Periods Longer than 364 days

	Maximum principal sums invested >364 days		
	2015-16 £m	2016-17 £m	2017-18 £m
Principal sums invested >364 days	Total exposure to instruments maturing in more than 364 days shall not exceed 20% of the minimum GLA forecast balance for the next 12 months, as at the date of investment	Total exposure to instruments maturing in more than 364 days shall not exceed 20% of the minimum GLA forecast balance for the next 12 months, as at the date of investment	Total exposure to instruments maturing in more than 364 days shall not exceed 20% of the minimum GLA forecast balance for the next 12 months, as at the date of investment

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

Appendix 5: Investment Strategy 2015-16 (incorporating the GIS Investment Strategy 2015-16)

1.0 Introduction

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

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

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

or

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

1.4 Cash balances invested in the Authority'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 Authority investments must therefore fully consider the GIS Investment strategy. This Strategy is outlined below:

2.0 GIS Investment Strategy 2015-16 Introduction

2.1 The Group Investment Syndicate (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 (MOPAC). 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.

3.0 GIS Investment Strategy 2015-16 Detail

3.1 The Investment Manager (the GLA) will generally use call accounts and short-dated or highly liquid instruments in order to maintain liquidity and will maintain the weighted average maturity of the short term portfolio arising from investing GIS balances, so that the weighted average maturity does not exceed 3 months. The majority of investments will therefore be specified investments rather than non-specified investments.

3.2 Performance benchmarks may be set from time to time by unanimous agreement of the Syndics.

3.3 The Investment Manager may delegate the management of a portion, not exceeding the forecast minimum GIS balance for the next 12 months, of the GIS to external fund managers if this is deemed prudent. As a result of very large scale pooling, such managers may be able to engage in trading which is impractical for the GLA. Therefore, a slightly broader range of instruments are available to those managers. However, any delegation would be within the agreed investment strategy and would give a fund manager no greater discretion than the GLA treasury team presently have.

3.4 As well as seeking high liquidity, the Investment Manager will seek high security, adopting the prudent investment policy recommended in the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments (revised 2010). This states that Security should come before Liquidity and Liquidity before Yield (SLY).

3.5 To identify investment options with relatively high security and liquidity, the GIS Investment Strategy adopts the concept of Specified and Non Specified Investments, as defined in the DCLG Guidance on Local Government Investments (revised 2010).

3.6 Specified Investments

3.6.1 An investment is a specified investment if all of the following apply:

i. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;

ii. The investment is not a long-term investment (i.e. due or required to be repaid within 12 months);

iii. The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146 as amended) (i.e. the investment is not loan capital or share capital in a body corporate)

iv. The investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:

- The United Kingdom Government
- A local authority in England or Wales (as defined in section 23 of the 2003 Local Government Act) or a similar body in Scotland or Northern Ireland
- A parish council or community
- High credit quality is defined as a minimum credit rating as outlined in the table 'Criteria for Specified Investments' provided below

3.7 Non Specified Investments

3.7.1 Non-Specified Investments are defined as those not meeting the definition of Specified Investments.

3.8 Criteria for Specified Investments[1]

Specified Investments				
Investment	**Minimum Credit Criteria (Expressed as Capita's durational band or raw ratings)**	**Managed: Internally (I) or Externally (E)**	**Maximum percentage of total investment**	**Maximum Duration (months)**
Debt Management Agency Deposit Facility (DMADF)	--	I	100%	6
Term Deposit – UK public body (e.g. Local, Police or Fire Authority)	Eligible for PWLB or National Loans Fund finance	I/E	100%	12
Term Deposits, Call Accounts and Certificates of Deposit – Rated Bank or Building Society	Green; domicile long term sovereign rating equivalent to Fitch AA or better	I/E	100%	12
Term Deposits, Call Accounts and Certificates of Deposit – Financial Institution in significant part owned by UK Government	Blue	I/E	100%	12
Term deposits, Call Accounts and Certificates of Deposit– Institutions not meeting general criteria but instruments explicitly guaranteed by sovereign national Government rated AA or above (Fitch long term)	None	I/E	100%	12
UK Government Gilts held to maturity	--	I/E	100%	12
UK Treasury Bills held to maturity	--	I/E	100%	12
Bonds issued by multilateral development banks (e.g. The European Investment Bank) held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	100%	12
Corporate bonds explicitly guaranteed by UK Government held to maturity	Rating equivalent to UK Government	I/E	100%	12
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -				
Government Liquidity Funds	Fitch AAAmmf; or S&P AAAm; or Moody's Aaa.	I/E	100%	12
Money Market Funds	Fitch AAAmmf; or S&P AAAm; or Moody's Aaa.	I/E	100%	12

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

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

3.9 Criteria for Non-Specified Investments

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

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

Investment	Minimum Credit Criteria (Expressed as Capita's durational band or raw ratings)	Use: Internal (I) or Externally (E) managed	Maximum percentage of total investments	Maximum Duration (months)
Term Deposits, Call Accounts and Certificates of Deposit – institutions eligible for specified investments	Defined as per specified investments	I/E	50%	24
Term Deposits, Call Accounts and Certificates of Deposit – unrated institutions covered by explicit and unconditional parental guarantee from institution meeting criteria as above.	For parental guarantor: Green; domicile long term sovereign rating, equivalent to Fitch AA or better.	I/E	50%	24
UK Government Gilts held to maturity	--	I/E	50%	240
UK Government Gilts held for trading	**--**	**E**	**50%**	**600**
UK Treasury Bills held for trading	**--**	**E**	**50%**	**12**
Corporate bonds explicitly guaranteed by UK Government held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	50%	240
Corporate bonds explicitly guaranteed by UK Government held for trading	**Long term AAA (Fitch or S&P) or Aaa (Moodys)**	**E**	**50%**	**300**
Bonds issued by multilateral development banks held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	10%	120
Bonds issued by multilateral development banks held for trading	**Long term AAA (Fitch or S&P) or Aaa (Moodys)**	**E**	**10%**	**300**
Floating Rate Notes (multi lateral development banks issuances only)	Long term AAA (Fitch or S&P) or Aaa (Moodys)	I/E	10%	120
Corporate Bonds or commercial paper held to maturity	Fitch credit Factor <10.0	I/E	20%	24

3.10 Creditworthiness Policy: Rated Financial Institutions (Type A counterparties)

3.10.1 The Investment Manager shall, at a minimum, implement the sophisticated creditworthiness methodology developed and maintained by Capita Asset Services, Treasury Solutions. The methodology uses an average of the ranked ratings from all three of the Ratings Agencies to arrive at a score which places the institution into the following suggested maximum durational bands for investment:

Yellow	5 years
Purple	2 years
Orange	1 year
Red	6 months
Green	100 days
No Colour	not to be used

An exception is made for those banks with significant share capital in UK public ownership.

Blue 1 year (This blue banding applies only to nationalised or semi-nationalised UK Banks. There is no pre-determined level of holding which will result automatically in a loss of this banding: A change in this banding will be triggered instead by Government 'intention'. For example: A Government holding of 15% with a stated intention not to sell any more shares could result in the banding remaining blue, whilst a Government holding of 20% with a stated intention to sell the remaining holding within 6 months could result in the banding being removed and the semi-nationalised UK Bank falling to its stand-alone rating.)

3.10.2 Following this initial classification, the score (hence, potentially, the band) is adjusted downwards to account for negative rating watches or outlooks (i.e. indications by the Agencies that a downgrade is being considered). Scores are further adjusted downwards if Credit Default Swap (CDS) spreads exceed certain barrier levels. UK banks in the Blue band are excepted from these further steps due to the security offered by their nationalised or semi-nationalised status.

3.10.3 In addition to organisations placed in the Blue band under Capita Asset Services, Treasury Solution's methodology, the Investment Manager may, in exceptional circumstances, include organisations that fall short of ratings criteria, but are backed by an explicit and credible sovereign guarantee.

3.10.4 It is possible that in 2015-16, counterparties will fall into a lower durational banding and even become 'no colour' as a result of Rating Agency action, such as removing implied sovereign support. However, this scenario is by no means certain. It is possible that Rating Agencies may decide to alleviate any negative impact on ratings by incorporating other factors, for example Additional Loss Absorbing Capital (ALAC), such as equity bonds, in their methodologies for rating financial institutions. Capita Asset Services, Treasury Solutions have stress tested their methodology against potential worse case scenarios associated with the removal of implied levels of support and have concluded that a practical, workable counterparty list with security as the primary driving factor would still be available. With so much uncertainty, no change is therefore currently proposed to the GIS Investment Strategy as a result of possible future Rating Agency action, but, as always, the situation will continue to be closely monitored.

3.10.5 In response to the financial crisis of 2008, the financial regulatory framework will be tightened further in 2015, by such European Directives as the Bank Recovery and Resolution Directive (January 2015) and the recast Deposit Guarantee Scheme Directive (3 July 2015). These are part of a package of measures to impose more stringent capital, leverage and liquidity requirements on financial institutions, to try and ensure financial institutions can withstand financial shocks in the future and that a depositor 'bail-in' culture is fostered rather than a sovereign national government 'bail out' culture. As these measures actually strengthen counterparty quality, again there is no proposal to change the current GIS Investment Strategy: Under the auspices of Security, Liquidity and Yield (SLY), the Investment Manager will continue to use high quality counterparties, be mindful of Participant's cash flow requirements and continue to seek diversification amongst the GIS investments.

3.10.6 However, it is expected that as financial institutions have to meet more stringent Leverage, Net Stable and Liquidity Coverage ratios in 2015, their appetite for very short dated maturities is likely to be severely reduced in 2015. This could have a significant adverse effect on returns under the GIS Investment Strategy, simply because its sole aim is to invest short term cash balances. There will therefore be a need to continue to monitor cash balances closely, including seeking to identify core cash balances which can be invested as participants' 'own name' investments for longer terms, subject to compliance with the investment principles of SLY.

3.10.7 The participants consider the UK government as a zero-risk counterparty for practical treasury management purposes, since the participants' individual viability, in common with all UK public bodies, depends on the ability of central government to meet its obligations. So long as the Royal Bank of Scotland (RBS) and Lloyds have significant share capital in public ownership, this viewpoint is extended to RBS and Lloyds. Since the 2014-15 GIS Investment Strategy was written, the Government's intentions regarding its shareholdings in RBS and Lloyds have become clearer.

- With regard to RBS, it is the opinion of the participants that the Government is unlikely to seek to significantly reduce its investment in RBS over the next 12 months. The Government currently has a 80%+ stake in RBS.

- With regard to Lloyds, significant Government divestment in Lloyds is, however, very likely. The Chancellor in December 2014 announced it was the Government's intention to resume the sell-off of its 24.9% stake in Lloyds Banking Group over the next six months. It is not expected that there will be a full sell off. Current thinking is that the Government will seek to reduce its stake in Lloyds to 20% in the run up to the May 2015 general election. On this basis, participants will therefore continue their approach of keeping Lloyds' investment duration short. This should make it possible for the GIS to minimise any counterparty risk by being able to keep its Lloyds' investments within any durational band changes, as the Government's stake in Lloyds reduces.

- It should be noted that the above opinions may be subject to change after the forthcoming May 2015 election, particularly if there is a change of government.

3.11 Credit Worthiness Policy: Corporate Bonds and non-financial institutions (Type B counterparties)

3.11.1 Following regulatory change to the status of corporate bonds held by local authorities (previously such purchases constituted statutory capital expenditure) opportunity exists for exposure to corporate borrowers other than financial institutions. In the Participants' view the overall use of corporate bonds will not increase the overall risk taken by the GIS. The use of corporate bonds increases the potential for diversification, liquidity and yield although there is additional risk arising from potentially less complete ratings information for certain bonds (for which reason these institutions do not appear in the ratings service from Capita Asset Services,Treasury Solutions). For this reason the overall exposure to instruments of this type is set at 20% (excluding guaranteed or Multi-lateral Development Bank (MLDB) issues). Exposure to counterparties not covered by the Capita Asset Services, Treasury Solutions methodology shall be governed as follows:

- Maximum exposure to single Type B (e.g. National Grid) counterparty (or group): 5%

- It is the rating of the bond that will be used in the credit factor assessment of the corporate bond investment decision, not the rating of the issuer of the corporate bond.

- Specifically, for all corporate bonds, excluding guaranteed or MLDB issues and including securities issued by Type A counterparties, but carrying a lower rating than the issuer's individual rating, the following apply:

  Maximum duration: 730 days (24 months)
  Maximum credit factor of any single security: 10.00
  Maximum portfolio credit factor (PCF)[2]: 5

[2] Average for all corporate bonds held, weighted by nominal value

Credit Factors are defined with reference to the approach suggested by Fitch for rated MMFs:

Credit Risk Factors by Security, Rating and Maturity

Days	‘AAA’	‘AA+’	‘AA/F1+’	‘AA-‘	‘A+’	‘A/F1’	‘A-‘	‘BBB+’	‘BBB’/’F2 ’
Overnight	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

Where no Fitch ratings exist, the following mapping will be used:

Long term			Short term		
Fitch	Moodys	S&P	Fitch	Moodys	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

3.11.2 Furthermore, securities issued by “blue” counterparties will be treated as ‘rating equivalent to UK government’ if, and only if, the Investment Manager and Capita Asset Services, Treasury Solutions believe the counterparty will remain in the Blue category until the instrument matures. All Local Authority bonds will be treated as ‘rating equivalent to UK Government’.

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

3.12 <u>Construction of Approved Lending Lists for Rated Organisations (Type A Counterparties)</u>

3.12.1 The process by which the Investment Manager will construct the Approved Lending List of rated organisations will consist of:

- taking the range of organisations placed by Capita Asset Services, Treasury Solutions in the Green band and above, prior to outlook and CDS adjustments;
- excluding those domiciled in foreign countries with a Fitch long-term sovereign rating below AA (or equivalent from another agency); and
- including organisations backed by an explicit and credible sovereign guarantee.

3.12.2 The Approved Lending List will be monitored on a daily basis by the Investment Manager and maintained in a manner consistent with the Group Treasury Management Practices (TMPs).

3.13 Construction of Approved Lending Lists for Un-Rated Organisations (Type C Counterparties)

3.13.1 The Investment Manager may add organisations without credit ratings to the Approved Lending List in the following circumstances only:

- The organisation has an explicit, financially credible guarantee from a foreign sovereign state of at least Fitch AA (or equivalent) rating:
  - Treated in the Purple (AAA) or Orange (AA and AA+) band, subject to the duration of deals not exceeding the term of the guarantee;
- The organisation is explicitly guaranteed by a parent company meeting Approved List criteria:
  - Treated in the same band as its parent, subject to the duration of deals not exceeding the term of the guarantee; and
- The organisation is a UK Public Body meeting criteria for loans from the PWLB or National Loans Fund (e.g. Local Authorities, Police and Fire Authorities):
  - Treated as UK government securities. (This is on the basis that participants would not generally take an alternative view on the credit quality of another Public Body to that taken by HM Treasury acting through the PWLB. However, officers may ask of such bodies' statutory chief finance officers whether their borrowing falls within their affordable limit as defined by the Local Government Act 2003 and may restrict investments with individual counterparties where there may be a risk that any delay in repayment could disadvantage the participants' operations)

3.14 Construction of the Operational Lending List of Approved Counterparties (Type A and Type C counterparties)

3.14.1 The Approved Lending List shall form the basis of the Operational Lending List used by the Investment Manager when making investments.

3.14.2 The process by which the Investment Manager will construct the Operational Lending List of rated organisations will consist of:

- taking the range of organisations placed by Capita Asset Services, Treasury Solutions in the Green band and above, after outlook and CDS adjustments;
- excluding those domiciled in foreign countries with a Fitch long-term sovereign rating below AA (or equivalent from another agency); and
- including organisations backed by an explicit and credible sovereign guarantee.

3.14.3 The Operational Lending List will consist of, as a minimum, those counterparties which appear on the Approved Lending List and in which there is a current investment.

3.14.4 It may also include those counterparties on the Approved Lending List which are currently operationally feasible, but in which there is currently no investment e.g. where the counterparty is currently looking for funding in the market, but not offering a sufficient yield to attract an investment. Counterparties currently not looking for funding in the market should normally not be included in the Operational Lending List.

3.14.5 At no time will the Operational Lending List include counterparties that are not already on the Approved Lending List.

3.14.6 For the further control of risk, the Operational Lending List may be subject to temporary restrictions to higher levels of credit worthiness or suspension of countries or individual counterparties on the basis of professional external advice or the due diligence of the Investment Manager.

3.14.7 The Operational Lending List will be monitored and maintained in exactly the same way as the Approved Lending List.

3.15 Counterparty Limits for Short Term Balances

3.15.1 The durational band after adjustment for outlook and CDS data, where available, determines the limits on acceptable exposure in terms of both total invested and duration as follows:

Limits for Short Term Balances

		Cash exposure limits			
Band	Max. Tenor	Overnight	> 1 day	> 3 months	> 6 months
Yellow	5 years	100%	30%	15%	5%
Purple	2 years	100%	20%	10%	5%
Blue	1 year	100%	50%	50%	25%
Orange	1 year	50%	15%	10%	5%
Red	6 months	25%	10%	5%	n/a
Green	3 months	10%	5%	n/a	n/a
UK Sovereign	5 years	100%	No more than 50% >12months		
		Percentages applied to daily balance	Percentages are applied to forecast average balance over the term of the proposed investment as at the date of investment and are cumulative		

3.15.2 The limits above are overlaid with the following considerations:

- Companies within the same group shall be subject to group limits, defined as the limits applying to the highest rated member of the group; and

- When placing new investments, other than overnight, exposure to organisations domiciled in any one state, excepting the United Kingdom, exposure relative to the forecast average balance shall not exceed 25% for AAA rated states, 15% for AA+ rated states or 5% for AA rated states.

- The 5 year limit for "Yellow" counterparties may be reduced depending on the type of instrument and the trading status. For term deposits, the maximum tenor is 2 years.

3.16 Deposit Facility of Last Resort

3.16.1 In the circumstance of being unable to place funds with counterparties on the Operational List within approved limits, the Investment Manager will attempt to place the surplus funds with the Debt Management Agency Deposit Facility (DMADF). This facility may, of course, also be used in other circumstances if it offers rates above equivalent market levels, though in past experience this is unlikely. Where the sums to be invested were large or durations significant, officers would investigate the use of UK government securities held to maturity (or MMFs investing solely in these instruments) and within the parameters of the overall strategy adopt the financially preferable course.

3.16.2 In the instance of technical failures or unexpected monies being received after the cut-off time for sending payments, the Investment Manager will have no choice but to leave the funds with the GLA's bankers, RBS. In such circumstances, the funds will be moved to the GLA's call account at

RBS. At present, however, the quasi-governmental security of RBS arising from the high level public ownership means it ranks as a ‘blue’ counterparty and enjoys a 100% overnight limit.

Appendix 6: Treasury Management Practices: Main Principles

1. INTRODUCTION

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

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

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

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

1.5 Scrutiny of the approval and monitoring of TMPs will be performed by the Budget and Performance Committee, following recommendations by the Executive Director of Resources.

2. TMP1 RISK MANAGEMENT

2.1 <u>General statement</u>

2.1.1 The Executive Director of Resources will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the *organisations* 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 Executive Director of Resources regards a key objective of the Authority's treasury management activities to be the security of the principal sums it invests. Accordingly, he/she will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods and techniques referred to in the TMP4 Approved instruments, methods and techniques and listed in the TMPs: Schedules. The Executive Director of Resources also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which the Authority may borrow, or with whom it may enter into other financing arrangements.

2.3 <u>Liquidity risk management</u>

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

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

2.4 Interest rate risk management

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

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

2.5 Exchange rate risk management

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

2.6 Refinancing risk management

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

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

2.7 Legal and regulatory risk management

2.7.1 The Executive Director of Resources will ensure that all Authority treasury management activities comply with statutory powers and regulatory requirements. He/She will demonstrate such compliance, if required to do so, to all parties with whom the Authority deals in such activities. In framing its credit and counterparty policy under TMP[1] 'credit and counterparty risk management', he/she will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Authority, particularly with regard to duty of care and fees charged.

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

2.8 Fraud, error and corruption, and contingency management

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

2.9 <u>Market risk management</u>

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

3.0 TMP2 PERFORMANCE MEASUREMENT

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

3.2 Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the TMPs: Schedules.

4.0 TMP3 DECISION-MAKING AND ANALYSIS

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

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

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

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

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

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

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

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

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

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

7.2 As a minimum:

The Authority will receive

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

7.3 The Budget and Performance Committee, 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 Budget and Performance Committee responsible for scrutiny, will have responsibility for the scrutiny of treasury management policies and practices.

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

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

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

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

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

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

9.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this Authority will be under the control of the Executive Director of Resources, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Executive Director of Resources will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (1.3) 'liquidity risk management'. The present arrangements for preparing cash flow projections, and their form are set out in the TMPs: Schedules.

10 TMP9 MONEY LAUNDERING

10.1 The Executive Director of Resources is alert to the possibility that the Authority may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the TMPs: Schedules.

11. TMP10 TRAINING AND QUALIFICATIONS

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

11.2 The Executive Director of Resources will ensure that Authority members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

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

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

The monitoring of such arrangements rests with the Executive Director of Resources, and details of the current arrangements are set out in the TMPs: Schedules.

13.0 TMP12 CORPORATE GOVERNANCE

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

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