

REQUEST FOR DMPC DECISION – PCD 552

Title: Capital Strategy 2018/19-2037/38 and Treasury Management Strategy 2019/20

Executive Summary:

The Capital Strategy sets out the capital investments MOPAC anticipates making for the long term, whilst the Treasury Management strategy summaries that planned capital spending and sets out how MOPAC will manage its borrowings and investments over the short and medium term.

The GLA will continue to implement the MOPAC Treasury Management strategy via the Treasury Management Shared Service arrangement. The GLA Group Investment Syndicate (GIS) is used to manage all MOPAC investments, to generate financial and risk reduction benefits. The current MOPAC Treasury Management Strategy makes use of both the GLA Group Investment Syndicate for investment purposes and has the capacity if required to make investments in its own name. This is designed to spread counter party risk.

The external debt and treasury management limits and indicators in Appendix 1 are consistent with the MOPAC medium term financial strategy and 2019-20 budget.

Recommendation:

That the DMPC approve the

1. 2018/19-2037/38 Capital Strategy, and
2. 2019-20 Treasury Management Strategy Statement and supporting detail as set out in Appendix 1.

Deputy Mayor for Policing and Crime

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

The above request has my approval.

Signature

Spur Lunde

Date

25/03/19

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

Decision required – supporting report

1. Introduction and background

- 1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) requires the production and publication of a Capital Strategy. In addition, CIPFA's Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require that MOPAC adopts a Treasury Management Strategy Statement (TMSS), Treasury Management Policy Statement and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government's (CLG) Investment Guidance.
- 1.2. The Capital Strategy is a new requirement for 2019/20. Its purpose is to drive the Mayor's capital investment ambition, whilst ensuring the sustainable, long term delivery of services.
- 1.3. The Treasury Management Strategy Statement 2019/20 defines the policies and objectives of MOPAC's treasury management activities and roles and responsibilities. In accordance with the scheme of delegation and consent it is the responsibility of the Deputy Mayor to approve the policy and strategy each year which are set out at Appendix 1. This provides an opportunity to review the current arrangements, and MOPAC's risk appetite.
- 1.4. The GLA Group Treasury services provide the day to day management and delivery of the MOPAC treasury management function.
- 1.5. In June 2013 MOPAC signed up to the GLA operated Treasury Management shared service as part of the wider GLA shared service agenda. This proposed 2019/20 TMSS includes that all MOPAC investments are made through the GLA Group Investment Syndicate (GIS).

2. Issues for consideration

Capital Strategy 2018/19-2037/38

- 2.1. This sets out the MOPAC Capital Programme 2018/19-2022/23 on an annual basis, and the anticipated capital expenditure for the following 15 years in five year 'tranches'. The expected funding streams to finance the capital expenditure is also set out, and the consequent funding gap which is assumed to be financed by borrowing.
- 2.2. For MOPAC the benefits of producing a Capital Strategy are the transparent alignment of scarce capital resources to priorities, and ensuring a sustainable, long term delivery of services which gives due regard to risk and reward.

TM Strategy Issues

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

Borrowing

- 2.4. The approved 2019/20 capital programme funding includes provision for new borrowing of £264.2m. MOPAC has reserves which are used to help finance the capital programme reducing the need to borrow externally. Borrowing will only be undertaken where necessary and subject to the profile of capital spend, capital receipts and other funding streams.
- 2.5. MOPAC currently maintains an under-borrowed position, such that the capital financing requirement has not been fully funded with loan debt but by using the cash supporting MOPAC's reserves,

balances and cashflow. The delivery of the future capital programme, budgeted revenue savings, use of reserves and the phasing of new asset disposals will impact the cashflow, and will continue to be kept under review.

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

Investment

- 2.7. The primary objective for MOPAC is the security of capital, followed by maintenance of liquidity, with the return on investments being a tertiary consideration.
- 2.8. DMPC is asked to approve the treasury indicator that outside of externally managed funds or the pooled GIS funds MOPAC will not invest any principal sums for greater than 1 year.
- 2.9. The proposal is to continue to invest MOPAC funds fully within the GLA GIS. This is providing security whilst generating returns in excess of the 3 month London Interbank Bid Rate (LIBID) benchmark.
- 2.10. Based on current balances MOPAC's proportion of the GIS is circa 9.9%, (although this will change with the changes in MOPAC and other GIS members balances).

Benefits to MOPAC

- 2.11. The benefits to MOPAC of remaining within the GIS arise from access to a broader range of instruments and greater stability of pooled cashflows. This enables potentially longer deposit periods and higher returns without materially affecting risk. Placing all MOPAC funds within the GIS enables investment to be focussed on the relatively stronger counterparties.
- 2.12. Historic MOPAC cashflow indicate expected fluctuating cash balances over the next couple of years. Using the GIS, as it operates a more dynamic approach to setting counterparty limits, diversifies credit risk on a continuous basis at all levels of total investment cash, based on a percentage of the total forecast cash.
- 2.13. MOPAC officers will continue to work closely with GLA colleagues and the Treasury Management advisers to review and improve the strategy where possible, and to ensure that the MOPAC investment priorities of security first, liquidity second and then return continue to be achieved.
- 2.14. The overachievement of the benchmark for returns MOPAC currently generates is consistent with the other GLA/Functional Bodies using the GIS for all their investments.
- 2.15. All MOPAC investments are carried out in line with the MOPAC Treasury Management Strategy.

Prudential Indicators and Treasury Management Limits

- 2.16. Appendix 1C sets out the proposed 2019/20 range of prudential indicators and Treasury Management limits.

Management Arrangements

- 2.17. The day-to-day management of the treasury function will continue to be undertaken by the GLA Chief Investment Officer and team. It will be the responsibility of the GLA Assistant Director – Group Finance to ensure that the function is adequately resourced and controlled.
- 2.18. The MOPAC Chief Finance Officer will receive regular reporting from the GLA Chief Investment Officer on risks, performance, progress and strategic financing advice. Treasury Management advice will be provided by Link Asset Services.
- 2.19. GLA Group Treasury will liaise with MOPAC/MPS for the management of cash flow

3. Financial Comments

- 3.1. The cost of borrowing for 2019/20 is currently estimated to be £25.9m for interest payable, and there is budget of £32.9m for minimum revenue provision. Budgets for this income and expenditure are included in the MOPAC/MPS budget for 2019/20.

4. Legal Comments

- 4.1. Under Section 1 of the Local Government Act 2003, MOPAC as local authority defined under s23 of that Act, may borrow money for any purpose relevant to its functions under any enactment, or for the purpose of the prudent management of its financial affairs.
- 4.2. The Mayor is required under s3 of the Local Government Act 2003 to determine how much money the GLA and each functional body (which includes MOPAC) can afford to borrow. In complying with this duty, Regulation 2 of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 requires the Mayor to have regard to the Prudential Code for Capital Finance in Local Authorities when determining how much MOPAC can afford.
- 4.3. MOPAC's scheme of delegation provides that the Chief Finance Officer, as the s127 officer, is responsible for the proper administration of the MOPAC's financial affairs.
- 4.4. An investment strategy statement must be completed as part of risk management and good governance. The report is submitted in compliance with TMSS and DCLG requirements in this regard

5. GDPR and Data Privacy

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

6. Equality Comments

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

7. Background/supporting papers

- 7.1. Appendix 1 Capital Strategy 2018/19-2037/38
- 7.2. Appendix 2 Treasury Management Strategy 2019/20

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOIA) and will be made available on the MOPAC website following approval.

If immediate publication risks compromising the implementation of the decision it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary.

Part 1 Deferral:

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

If yes, for what reason:

Until what date:

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

Is there a **Part 2** form – NO

ORIGINATING OFFICER DECLARATION

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

OFFICER APPROVAL**Chief Executive Officer**

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Deputy Mayor for Policing and Crime.

Signature



Date

22 / 03 / 19



MAYOR OF LONDON

OFFICE FOR POLICING AND CRIME

CAPITAL STRATEGY

2018-19 to 2037-38

1. Introduction, Overview and Intention

- 1.1 CIPFA's Prudential Code includes the requirement for all members of the GLA Group to produce a Capital Strategy for 2019-20. The intention of the GLA Group's Capital Strategy is to drive the Mayor's capital investment ambition, whilst ensuring the sustainable, long term delivery of services.
- 1.2 This strategy has been prepared in accordance with guidance issued by the GLA: *Mayor's Budget Guidance 2019-20*. A draft Capital Strategy was submitted as part of the 2019/20 budget cycle and set out the framework for aspects of the MOPAC's capital and investment expenditure including approach, influences, policies, risks and appraisal methodology. This is the final Capital Strategy for 2019/20.
- 1.3 It contains details on the MPS' proposed capital expenditure by main investment area, namely:
- Property Services: encompassing estates transformation and business as usual work which is informed by the schedule of forward works.
 - Digital Policing: investing in core IT infrastructure and replacement.
 - Fleet Services: maintaining an MPS fleet of c5,000 vehicles.
 - National Counter Terrorism Policing HQ (NCTPHQ): investments in maintaining core CT capability.
 - One Met Model (OMM) / Transformation: the MPS change portfolio, as detailed below.

Capital Programme 2018-19 to 2022-23

- 1.4 The MPS' own Capital Programme (excluding Counter Terrorism) is £1.4bn between 2018-19 and 2022-23. Some of this expenditure will be funded through a contribution from capital receipts generated by the estates transformation programme, and capital grant from Government which is projected to be only £60m based on current funding levels of £12m per year. This represents only a tiny proportion of the MPS' capital expenditure - for example 4.8% of forecast spend in 2018-19. This means that as the opportunity for generating estates capital receipts decreases, increasing reliance will be placed on external borrowing to finance the balance. This will increase the cost of capital financing which is funded from the revenue budget, which will create pressures on already stretched resources.
- 1.5 The MPS hosts the National Counter Terrorism Policing Headquarters, which has a capital programme of £135m between 2018-19 and 2022-23. This is funded through a ringfenced CT grant, which matches the expenditure over the period.
- 1.6 In total, over the five year period it is estimated that in current prices, the MPS will invest: £677m on transforming and consolidating the estate; £91m on property forward works; £129m on fleet; £162m on the core costs of IT equipment including for frontline officers, and £367m on transformation including major programmes that replace outdated IT infrastructure for core policing systems and will change how the MPS operates, establishing new ways of engaging with communities and moving services online.
- 1.7 At the same time, the MPS is building its capability to exploit data and become more intelligence-led. The MPS is the UK's largest police service, employing more than 40,000 people

and accounting for a quarter of the national policing budget. The transformation is a huge undertaking.

Current Prices	2018/19 Forecast	2019/20 Plan	2020/21 Plan	2021/22 Plan	2022/23 Plan	TOTAL
	£m	£m	£m	£m	£m	
Property Forward Works	12.2	15.0	24.9	13.5	25.0	90.6
IT core infrastructure & Replacement	38.3	43.8	28.3	28.3	23.0	161.7
Fleet	28.0	38.2	22.2	20.9	20.0	129.3
NCTPHQ	37.0	31.7	21.2	20.4	24.4	134.7
Improving Public Access and first contact	2.1	3.9	2.1	7.0	5.5	20.6
Optimising Response	6.7	15.4	34.3	38.8	47.7	142.9
Strengthening Local Policing	2.3	0.0	0.0	0.0	0.0	2.3
Transforming Investigation and Prosecution	29.1	60.9	36.3	13.9	12.6	152.8
Strengthening Armed Policing	0.0	0.0	0.0	0.0	0.0	0.0
Smarter Working	2.4	5.5	0.4	0.0	0.0	8.3
Workforce Futures	0.0	1.0	1.0	1.0	0.0	3.0
Information Futures	0.1	9.6	8.0	9.2	11.4	38.3
Transforming the MPS Estate	84.7	250.5	205.7	115.3	20.6	676.8
Total Programme Cost	242.9	475.4	384.2	268.3	190.1	1,560.9
Over-programming	-10.0	-87.4	-83.2	71.6	65.4	-43.6
Total Programme Cost	232.9	388.0	301.0	340.0	255.5	1,517.4
Funding						
Capital Receipts	6.0	69.4	172.0	86.9	46.2	380.5
Capital grants & other contributions	61.6	54.4	44.3	49.3	54.1	263.7
External Borrowing	110.2	264.3	84.7	203.8	155.2	818.2
Revenue Contributions	55.0	0.0	0.0	0.0	0.0	55.0
Total funding	232.9	388.0	301.0	340.0	255.5	1,517.4

Capital Forecast 2023-24 to 2037-38

1.8 This Capital Strategy also presents a capital forecast over the 20-year period to 2037-38, estimating further expenditure beyond the five-year programme of £1.7bn. There are many uncertainties over this longer time horizon on both the funding and expenditure side. Therefore, it is assumed that the Capital forecast will largely be that which is necessary to maintain and replace existing assets. When considering future innovation and transformation funding, there will be a need for MOPAC to find a balance between national and local funding. This is not foreseeable at this stage. An indicative expenditure figure of £5m per year has therefore been included from year six onwards against the IT core infrastructure and replacement programme. This is allocated towards funding future innovation and increasing the functionality and capability of existing systems. This recognises that it is likely new transformation and investment will be needed, driven by technological advances and future drives for efficiency.

1.9 The full 20-year view is shown in the table below.

Current Prices	2018/19 Forecast	2019/20 Plan	2020/21 Plan	2021/22 Plan	2022/23 Plan	2023/24 - 2027/28 Plan	2028/29 - 2032/33 Plan	2033/34 - 2037/38 Plan	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	
Property Forward Works	12.2	15.0	24.9	13.5	25.0	125.0	125.0	125.0	465.6
IT core infrastructure & Replacement	38.3	43.8	28.3	28.3	23.0	125.0	100.0	100.0	486.7
Fleet	28.0	38.2	22.2	20.9	20.0	120.7	122.7	86.0	458.7
NCTPHQ	37.0	31.7	21.2	20.4	24.4	130.0	135.0	137.0	536.7
Improving Public Access and first contact	2.1	3.9	2.1	7.0	5.5	3.3	0.0	0.0	23.9
Optimising Response	6.7	15.4	34.3	38.8	47.7	14.0	0.0	0.0	156.9
Strengthening Local Policing	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Transforming Investigation and Prosecution	29.1	60.9	36.3	13.9	12.6	0.0	0.0	0.0	152.8
Strengthening Armed Policing	0.0	0.0	0.0	0.0	0.0	3.0	3.0	3.0	9.0
Smarter Working	2.4	5.5	0.4	0.0	0.0	0.0	0.0	0.0	8.3
Workforce Futures	0.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	3.0
Information Futures	0.1	9.6	8.0	9.2	11.4	0.0	0.0	0.0	38.3
Transforming the MPS Estate	84.7	250.5	205.7	115.3	20.6	74.6	70.0	70.0	891.4
Over-Programming	-10.0	-87.4	-83.2	71.6	65.4	44.1	0.0	0.0	0.5
Total Programme Cost	232.9	388.0	301.0	340.0	255.5	639.7	555.7	521.0	3,233.8
<i>Funding</i>									
Capital Receipts	6.0	69.4	172.0	86.9	46.2	73.5	4.0	2.0	459.9
Capital grants & other contributions *	61.6	54.4	44.3	49.3	54.1	227.4	235.2	228.5	954.9
Borrowing	110.2	264.3	84.7	203.8	155.2	338.8	316.5	290.5	1,764.0
Revenue Contributions	55.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	55.0
Total funding	232.9	388.0	301.0	340.0	255.5	639.7	555.7	521.0	3,233.8

2. Benefits

2.1 The new requirement to prepare a Capital Strategy is an important development and will support the way the Mayor makes investment decisions, and the governance and scrutiny which surrounds this. This new process will bring additional rigour to capital decision making.

2.2 For MOPAC the benefits of producing a Capital Strategy are the transparent alignment of scarce capital resources to priorities, and ensuring a sustainable, long term delivery of services which gives due regard to risk and reward. Improved asset management is also expected to be a benefit.

2.3 The CIPFA Prudential Code includes the following as benefits of the capital strategy
“...demonstrate that the authority takes capital expenditure and investment decisions in line

with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.”

2.4 Taking a long-term view in a Capital Strategy helps the MPS to:

- Make long terms plans for investment in core capabilities and infrastructure;
- Make strategic borrowing decisions alongside the GLA to support optimal treasury management;
- Anticipate the revenue costs of borrowing and plan accordingly.

3. Approach

3.1 In preparing the five-year Capital programme, the MPS has undertaken a rigorous, prioritisation process in the identification of planned capital expenditure, reviewed anticipated capital receipts and has considered the revenue implications of this.

3.2 Since June 2018, for the five-year period of the Capital Programme the MPS has reviewed and challenged both the quantum of proposed capital investment for each area of spend, the prioritisation of the proposals to ensure these are consistent with the Police and Crime Plan, and the phasing of the proposed spend to ensure that the organisation has the capacity and capabilities to deliver. In looking ahead to the following 15 years the MPS has identified the estimated cost maintaining its asset base, and clearly these will need regular annual review as part of the budget process.

3.3 A review of the anticipated capital receipts, both in terms of the expected values and timing, has been undertaken, and receipts are consistent with the planned programme of works. The current level of central Government capital grant has been assumed to continue at £12m per annum.

3.4 Following this update of the five year Capital Programme, the financing implications of the additional borrowing have been identified and included in the revenue budget. This is explored in Section 9, which also notes the implications beyond the five years.

4. Influences

4.1 Internal

- *The organisation’s operational requirements*
The Capital Programme is submitted from the MPS to MOPAC, outlining the Commissioner’s recommendations on the requirements of the MPS to invest in the capabilities it needs for operational policing.
- *IT legacy*
The Mayor inherited outdated IT systems and platforms on the point of obsolescence. The MPS has had to invest to maintain services and renew IT systems for

ongoing use, as well as a prerequisite before being in a position to make the best use of the potential offered by digital policing. For example, the MPS has begun the replacement of seven core policing systems with Connect, bringing it into line with the approach and capabilities of other forces. In the next three years the MPS must make similar progress in replacing its command and control system, embedding smarter working, and tackling the complex issues of legacy data, to enable its transition to become a data-driven organisation.

- *Consolidating the estate*
The MPS Capital Programme includes delivering a smaller and more efficient retained estate. Targeted investment is being made into enhancing the efficiency of the buildings to be retained and improving the quality of the working environment, which will increase productivity of both officers and staff. This will also release and maximise the capital tied up in surplus buildings and reduce the running costs of the estate, which will generate future revenue savings.

4.2 External

- *The level of capital grant received.*
The central Government capital grant, excluding CT, is £12m per year. This represents only a tiny proportion of the MPS' expenditure- for example 5.2% of forecast capital spend in 2018-19. In the run up to the 2019 Spending review MOPAC and MPS will continue to have conversations with the Government about the need for a capital grant which more accurately reflects the investment needs of an organisation of the scale and complexity of the MPS. But in the absence of an increase in central Government funding, the balance of funding in future years is expected to be accounted for by borrowing. By 2022-23 it is expected that borrowing will account for 61% of capital funding.
- *Government Spending Review and potential review of the police Funding Formula.*
This shift to borrowing to finance capital investment has implications for the revenue budget. The cost of borrowing consists of two components: interest payments and Minimum Revenue Provision (MRP) payments. MRP is a provision made to pay down the principal on a loan when it reaches maturity. Together these costs are expected to rise from £57m in 2019-20 to £100m in 2022-23, in current prices. This will need to be provided from the revenue budget, so as this cost increases it puts further pressure on revenue funding available to pay for front line policing.
- *Government and/or Mayoral priorities*
Any changes in Government priorities, legislation and Mayoral priorities will influence the MPS' Capital Strategy and investment decisions. For example, requirements to comply with national and local air quality standards and initiatives have resulted in the MPS reviewing fleet requirements and exploring the emerging ultra-low emission vehicle market. The Mayor supports some flexibility and recognises – unlike fleets in many other sectors – it is not always possible to predict when particular emergency vehicles will be required to enter the Ultra-Low Emission Zone. The Mayor has therefore allowed the MPS a longer period to reach compliance with his Ultra-Low Emission Zone implementation, via a sunset clause.

- *Pace of technological change*
Advances in technology are also changing public expectations of service and accessibility. The MPS keep abreast of these, in order to serve the public effectively. Furthermore, the fast-evolving and increasing usage of technology in criminality also has an impact in relation to required changes in workforce capabilities as well as infrastructure.
- *Uncertainty relating to external market conditions*
The four-year plan contains some uncertainty. For example, estimates of estates receipts are dependent on property market conditions and interest payments are determined by interest rates. Day to day financial risk management is carried out under a shared service arrangement by the GLA Group Treasury Team, under the policy approved by the MOPAC Group and set out in the annual MOPAC Treasury Management Strategy. MOPAC receives advice from the GLA Group Treasury Team on the availability of borrowing to support capital financing.

5. Policies

5.1 The Capital Strategy was developed in alignment with the priorities in the Mayor's Police and Crime Plan, which are;

- A better Police Service for London
- A better Criminal Justice Service for London
- Keeping Children and Young People Safe
- Tackling Violence against Women and Girls
- Standing together against extremism, hatred and intolerance

5.2 MOPAC complies with the CIPFA Code of Practice for Treasury Management in Public Services. All decisions by MOPAC about capital financing were taken in the context of the CIPFA Prudential Framework. The Framework provides authorities with borrowing flexibility, provided controls on affordability, sustainability and prudence are met. Net borrowing over the medium term will only be for a capital purpose. Borrowing will be contained within the borrowing limits agreed by the Mayor of London for MOPAC, as indicated in the Treasury Management Strategy, which is available in the decisions page of the MOPAC website at <https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC>

5.3 The Local Government Act 2003 requires MOPAC to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision, issued in 2012. The broad aim of the guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

5.4 The MOPAC Group will make a minimum revenue provision in accordance with:

- The capital financing requirement method for any borrowing undertaken prior to 2008/09, and for all borrowing undertaken since that date supported through the revenue grant settlement
- For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational.

5.5 The GLA, through shared services arrangements for professional technical and administrative activities, undertakes the treasury management functions of MOPAC. Investments are largely managed collectively through GIS. The MOPAC 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.

5.6 Based on the statutory responsibilities and local arrangements within which MOPAC operates in conjunction with International Accounting Standards Board guidance, all the assets, liabilities and reserves are recognised on the MOPAC Balance Sheet. This reflects the fact that MOPAC retains control over all assets including those which are held, which are disposed and who has access to use the assets and therefore controls the long-term risk and rewards of ownership.

5.7 Under MOPAC/CPM financial regulations, the acquisition, disposal and maintenance of long-term assets are the responsibility of the Deputy Mayor for Policing and Crime through the MOPAC Capital Programme.

5.8 Both the MPS CFO (via the CPM Statement of Accounts) and the MOPAC CFO (via the MOPAC and MOPAC Group Accounts) are required to sign and confirm that in preparing the Statement of Accounts, they have:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the UK 2017-18.

6. 20 Year Capital Ambition

6.1 The Mayor's vision is for London to be the safest global city, by boosting police presence in neighbourhoods, tackle violence in all its forms, renew focus on safeguarding vulnerable people and improving Londoners' confidence in the service provided. Achieving these goals involves transforming how the MPS operates at every level and operating at a lower more efficient establishment, at the same time as meeting the rising volume and complexity of crime.

6.2 There are three main areas of spend within the Capital Programme: Estates, IT and Fleet Services. This is further broken down into 'running the business' which are the levels of investment required to maintain the basic continuation of existing MPS services (current estimates of the ongoing cost of 'running the business' from year six onwards are c£109m p.a.

in current prices) and the Transformation ‘One Met Model’ programme supporting much-needed investment to replace outdated technology, improve the effectiveness of officers, increase productivity and drive future efficiencies, thus enabling the delivery of a more effective and efficient MPS.

7. 20-Year Capital Investment Plan

7.1 This section sets out:

- In tables 1a), planned expenditure for the five years 2018-19 to 2022-23 at both current and outturn prices.
- In tables 1b), expenditure for the subsequent 15 years grouped into five-year ‘buckets’ at both current and outturn prices.

7.2 All figures are presented as ‘Current Price’ and ‘Outturn Price’. The outturn price presentation includes assumptions to recognise future price inflation, at 2% per year.

7.3 Since publication of the MPS Capital Programme as part of the Mayor’s Capital Spending Plan for 2018-19 no schemes or programmes have been added or removed. Where spend has been re-profiled between years, explanations are provided in published MOPAC Quarterly Performance Reports.

Table 1a) Capital investment in Years 1-5

Capital Investment Plan – Years 1 – 5 Current Prices	2017-18 Outturn	2018/19 Revised Budget	2018/19 Forecast	2019/20 Plan	2020/21 Plan	2021/22 Plan	2022/23 Plan
Expenditure item	£m	£m	£m	£m	£m	£m	£m
Property Forward Works	14.1	12.2	12.2	15.0	24.9	13.5	25.0
IT core infrastructure & Replacement	28.7	38.3	38.3	43.8	28.3	28.3	23.0
Fleet	17.8	28.0	28.0	38.2	22.2	20.9	20.0
NCTPHQ	13.1	37.0	37.0	31.7	21.2	20.4	24.4
Improving Public Access and first contact	2.5	2.1	2.1	3.9	2.1	7.0	5.5
Optimising Response	11.7	6.7	6.7	15.4	34.3	38.8	47.7
Strengthening Local Policing	1.7	2.3	2.3	0.0	0.0	0.0	0.0
Transforming Investigation and Prosecution	17.7	29.1	29.1	60.9	36.3	13.9	12.6
Strengthening Armed Policing	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Smarter Working	43.1	2.4	2.4	5.5	0.4	0.0	0.0
Workforce Futures	0.0	0.0	0.0	1.0	1.0	1.0	0.0
Information Futures	0.3	0.1	0.1	9.6	8.0	9.2	11.4
Transforming the MPS Estate	280.2	84.7	84.7	250.5	205.7	115.3	20.6
Over-Programming	0.0	-10.0	-10.0	-87.4	-83.2	71.6	65.4
Total Programme Cost	431.5	232.9	232.9	388.0	301.0	340.0	255.5

Capital Investment Plan – Years 1 – 5 Outturn Prices (Inflation assumed at 2% p.a.)	2017-18 Outturn	2018/19 Revised Budget	2018/19 Forecast	2019/20 Plan	2020/21 Plan	2021/22 Plan	2022/23 Plan
Expenditure item	£m	£m	£m	£m	£m	£m	£m
Property Forward Works	14.1	12.2	12.2	15.0	25.4	14.0	26.5
IT core infrastructure & Replacement	28.7	38.3	38.3	43.8	28.9	29.4	24.4
Fleet	17.8	28.0	28.0	38.2	22.6	21.7	21.2
NCTPHQ	13.1	37.0	37.0	31.7	21.6	21.2	25.9
Improving Public Access and first contact	2.5	2.1	2.1	3.9	2.1	7.3	5.8
Optimising Response	11.7	6.7	6.7	15.4	35.0	40.4	50.6
Strengthening Local Policing	1.7	2.3	2.3	0.0	0.0	0.0	0.0
Transforming Investigation and Prosecution	17.7	29.1	29.1	60.9	37.0	14.5	13.4
Strengthening Armed Policing	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Smarter Working	43.1	2.4	2.4	5.5	0.4	0.0	0.0
Workforce Futures	0.0	0.0	0.0	1.0	1.0	1.0	0.0
Information Futures	0.3	0.1	0.1	9.6	8.2	9.6	12.1
Transforming the MPS Estate	280.2	84.7	84.7	250.5	209.8	120.0	21.9
Over-Programming	0.0	-10.0	-10.0	-87.5	-85.1	74.6	69.3
Total Programme Cost	431.5	232.9	232.9	388.0	307.0	353.7	271.1

Table 1b) Capital investment in Years 6-20

Years	6-10	11-15	16-20
Capital Investment Plan – Years 6 to 20: Current Prices	2023/24 - 2027/28 Plan	2028/29 - 2032/33 Plan	2033/34 - 2037/38 Plan
Expenditure item	£m	£m	£m
Property Forward Works	125.0	125.0	125.0
IT core infrastructure & Replacement	125.0	100.0	100.0
Fleet	120.7	122.7	86.0
NCTPHQ	130.0	135.0	137.0
Improving Public Access and first contact	3.3	0.0	0.0
Optimising Response	14.0	0.0	0.0
Strengthening Armed Policing	3.0	3.0	3.0
Transforming the MPS Estate	74.6	70.0	70.0
Over-Programming	44.1	0.0	0.0
Total Programme Cost	639.7	555.7	521.0

Years	6-10	11-15	16-20
Capital Investment Plan – Years 6 to 20: Outturn Prices (inflation assumed at 2% p.a.)	2023/24 - 2027/28 Plan	2028/29 - 2032/33 Plan	2033/34 - 2037/38 Plan
Expenditure item	£m	£m	£m
Property Forward Works	140.8	155.4	171.6
IT core infrastructure & Replacement	140.8	124.3	137.3
Fleet	135.9	152.6	118.1
NCTPHQ	146.4	167.9	188.1
Improving Public Access and first contact	3.7	0.0	0.0
Optimising Response	15.8	0.0	0.0
Strengthening Armed Policing	3.4	3.7	4.1
Transforming the MPS Estate	84.0	87.0	96.1
Over-Programming	49.7	0.0	0.0
Total Programme Cost	720.4	690.9	715.2

8. 20 Year Capital Funding

8.1 This section sets out:

- In tables 2a), planned funding streams for the five years 2018-19 to 2022-23 at both current and outturn values .
- In tables 2b), funding streams for the subsequent 15 years grouped into five-year 'buckets' at both current and outturn values

Table 2a) Funding plan in years 1 to 5

Years Capital Funding Plan – Years 1 to 5: Current Prices		2017-18 Outturn	2018/19 Revised Budget	2018/19 Forecast	2019/20 Plan	2020/21 Plan	2021/22 Plan	2022/23 Plan
<i>Funding</i>								
Capital Receipts	Mostly property receipts and a small amount from fleet	374.8	6.0	6.0	69.3	172.0	86.9	46.2
Capital grants & other contributions	Approx 50% is CT grants, £12m p.a. capital grant, some contributions for funded fleet	40.0	61.6	61.6	54.4	44.3	49.3	54.1
Borrowing	Assumed external borrowing	16.7	110.2	110.2	264.3	84.7	203.8	155.2
Revenue Contributions	£55m in 18/19 as capital contribution from the Mayor	0.0	55.0	55.0	0.0	0.0	0.0	0.0
Total funding		431.5	232.9	232.9	388.0	301.0	340.0	255.5

Years Capital Funding Plan – Years 1 to 5: Outturn Prices (inflation assumed at 2% p.a.)		2017-18 Outturn	¹ 2018/19 Revised Budget	1 2018/19 Forecast	2 2019/20 Plan	3 2020/21 Plan	4 2021/22 Plan	5 2022/23 Plan
<i>Funding</i>								
Capital Receipts	Mostly property receipts and a small amount from fleet	374.8	6.0	6.0	69.3	172.0	86.9	46.2
Capital grants & other contributions *	Approx 50% is CT grants, £12m p.a. capital grant, some contributions for funded fleet	40.0	61.6	61.6	54.4	44.3	49.3	54.1
Borrowing	Assumed external borrowing	16.7	110.2	110.2	264.3	90.7	217.5	170.8
Revenue Contributions	£55m in 18/19 as capital contribution from the Mayor	0.0	55.0	55.0	0.0	0.0	0.0	0.0
Total funding		431.5	232.9	232.9	388.0	307.0	353.7	271.1

8.2 The main sources of capital funding are described below;

- Capital Receipts: for example, the disposal of MPS properties. The estimates above are a central estimate and subject to uncertainty. Receipts from disposals are subject change due to fluctuations in prices and the timing of disposals.
- Capital Grants and other Contributions; including the £12m p.a. Capital Grant from central Government.
- Borrowing: the amount needed to borrow externally, usually via the Public Works Loan Board.
- Revenue Contributions: Funding from revenue expenditure, the most significant of which is a one-off contribution of £55m allocated by the Mayor to support capital investment in 2018-19.

Table 2b) Funding plan in years 6 to 20

Years		6 to 10	11 to 15	16 to 20
Capital Funding Plan - Years 6 to 20:		2023-24 to	2028-29	2033-34
Current Prices		2027-28	to 2032-	to 2037-
Funding Type	Funding Item	Plan	33	38
			Plan	Plan
<i>Funding</i>				
Capital Receipts	Mostly property receipts and a small amount from fleet	73.5	4.0	2.0
Capital grants & other contributions *	Approx 50% is CT grants, £12m approx. p.a. capital grant, some contributions for funded fleet	227.4	235.2	228.5
Borrowing	Assumed external borrowing	338.8	316.5	290.5
Total funding		639.7	555.7	521.0

Years		6 to 10	11 to 15	16 to 20
Capital Funding Plan - Years 6 to 20:		2023-24 to	2028-29	2033-34
Current Prices		2027-28	to 2032-	to 2037-
Funding Type	Funding Item	Plan	33	38
			Plan	Plan
<i>Funding</i>				
Capital Receipts	Mostly property receipts and a small amount from fleet	82.8	5.0	2.7
Capital grants & other contributions *	Approx 50% is CT grants, £12m approx. p.a. capital grant, some contributions for funded fleet	256.1	292.4	313.7
Borrowing	Assumed external borrowing	381.5	393.5	398.8
Total funding		720.4	690.9	715.2

9. Ambition Gap

9.1 In years 6-20 the capital programme reflects the minimum capital expenditure that will be required. This is primarily based on investing only in basic fleet requirements, estates maintenance and basic technology requirements.

9.2 As the opportunity to generate capital receipts is expected to reduce over the medium term, there are only three options to fund the capital programme. These are:

- Revenue Contributions: funding the programme via revenue contributions is not affordable as it will divert a significant amount of budget from frontline policing.
- Grant funding: based on current levels of funding, the central Government capital grant is £12m per annum, which is inadequate to fund even the basic 'running the business' requirements.
- Borrowing: in the absence of any further funding sources, borrowing is assumed to provide the balancing item to meet the funding gap. Any borrowing undertaken has knock-on implications on the revenue budget. This is presented as the ambition gap.

9.3 As three quarters of the MPS budget is allocated towards police officer and staff pay, staffing and front-line policing is likely to be impacted if the revenue budget is forecast to be allocated towards increasing capital financing costs. Expressed in this way, capital costs could currently be described as equivalent to 748 officers. At its peak, in years 2023-24 to 2027-28, the cost of borrowing will be equivalent to approximately 1,814 police officers.

9.4 As part of the preparation for the Government's Spending Review, MOPAC and the MPS will continue to highlight this position to Government and the need to recognise the essential capital requirements of operational policing.

10. Risk

10.1 The approach to risk management for the capital programme is in line with the wider MPS corporate approach, with risks managed at three levels (portfolio, programme and corporate). The Portfolio Risk function is audited on a yearly basis by the Directorate of Audit, Risk and Assurance. Portfolio risks are managed according to four major themes: complexity of delivery, commercial dependency, business change, and finance and resources.

11. Appraisal

11.1 All MPS capital investment follows a clearly defined governance process with review and approval by the MPS Performance and Investment Board (PIB) and MOPAC Investment Advisory Meetings (IAM).

11.2 Internal governance adopts HMT Green Book and Better Business Cases guidance including the Five Business Case model through Strategic Outline Case (SOC), Outline Business Case (OBC) and Full Business Case (FBC) stages. As per Green Book guidance, an adjustment for optimism bias is included in the development of business cases. Where the planned investment meets the thresholds in the MOPAC Scheme of Consent and Delegation, or is of a novel or contentious nature, the proposals are subject to MOPAC scrutiny via Investment Advisory Meetings and formal DMPC decision.

12. Chief Finance Officer sign off

12.1 The MOPAC Chief Finance Officer has provided assurance as to the robustness of the capital estimates

Treasury Management Strategy Statement 2019/20

Introduction/Background

1) The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of the MOPAC Group for the year 2019/20.

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 TM 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 Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments
- The MHCLG Guidance on Minimum Revenue Provision (MRP)

3) The TM Code defines treasury management activities as:

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

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

- Economic Background
- Prospects for Interest Rates
- Forecast Treasury Management Position
- Borrowing Strategy
- Policy on Borrowing in Advance of Need
- Debt Rescheduling
- Investment Strategy
- Use of External Service Providers
- Treasury Training
- Treasury Management Policy Statement (Appendix 1A)

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

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

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

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

7) These risks are further discussed in Appendix 1E (Treasury Management Practices: Main Principles)

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

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

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

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

- iii. The Deputy Mayor for Policing and Crime holds responsibility for the implementation and regular monitoring of the MOPAC Group's treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the MOPAC Group Chief Finance Officer (CFO). The MOPAC Group CFO will act in accordance with the organisation's policy statement and TMPs and, if this officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
 - iv. The MOPAC Group has delegated to the MOPAC Group Audit Panel the responsibility for ensuring effective scrutiny of the treasury management strategy and policies.
 - v. Should there be a need to revise the Treasury Management Strategy; the Treasury Management Policy Statement; the Minimum Revenue Provision Policy Statement; the Prudential Code Indicators and Treasury Management Limits; the GIS Investment Strategy and the Treasury Management Practices at times other than those stated above, then these updates will be submitted to the Deputy Mayor for Policing and Crime for approval. The MOPAC Group will be fully consulted where there is any change to borrowing limits.
 - vi. Should the MOPAC Group CFO wish to depart in any material respect from the main principles of the TM Code, the reason should be disclosed, in advance, in a report to the Deputy Mayor for Policing and Crime.
- 9) The MOPAC Group CFO is required to report an annual Treasury Management Strategy to the Deputy Mayor for Policing and Crime for approval. The MOPAC Group CFO is responsible for maintaining the Treasury Management Practices (TMPs) and monitoring and managing the strategy, with day to day management of this function delegated to his/her staff.

Economic Background provided by Link Asset Services

- 10) 2018 was a year which started with weak growth of only 0.1% in quarter 1. However, quarter 2 rebounded to 0.4% in quarter 2 followed by quarter 3 being exceptionally strong at +0.6%. Quarter 4 though, was depressed by the cumulative weight of Brexit uncertainty and came in at only +0.2%, (1,.3% y/y). Growth is likely to continue being weak until the Brexit fog clears.
- 11) The MPC has stated that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they have given a figure for this of around 2.5% in ten years' time but have declined to give a medium term forecast. However, with so much uncertainty around Brexit, the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, the MPC could also raise Bank Rate in the same scenario if there was a boost to inflation from increases in import prices, devaluation of sterling, and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could provide fiscal stimulus to boost growth. At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.
- 12) The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 1.8% in January 2019. In the February Bank of England quarterly Inflation

Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead given a scenario of minimal increases in Bank Rate.

Prospects for Interest Rates

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

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

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.70%	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.80%	0.90%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.00%	1.10%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
25yr PWLB Rate	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%

The above forecasts are based on a major assumption that Parliament and the EU agree an orderly Brexit, either by 29 March or soon after.

- 14) From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
- 15) Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Forecast Treasury Management Position

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

Forecast Treasury Position as at 31 March

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
External Borrowing			
Long term borrowing	567.25	638.35	840.55
Short term borrowing	0.00	0.00	0.00

Total External Borrowing at 31 March (A)	567.25	638.35	840.55
Other Long Term Liabilities			
PFI Liability	66.21	60.43	54.10
Finance Lease Liability	4.77	4.53	4.26
Total Other Long Term Liabilities at 31 March (B)	70.98	64.96	58.36
Total Gross Debt (A+B)	638.23	703.31	898.91
Capital Financing Requirement	917.58	954.38	1,106.58
Less Other Long Term Liabilities	70.98	64.96	58.36
Underlying Capital Borrowing Requirement (C)	846.60	889.42	1,048.22
Under/(Over) Borrowing (C-A)	279.35	251.07	207.67
Investments at 31 March (D)	202.75	132.03	52.63
Net Borrowing (A-D)	364.50	506.32	787.92

Borrowing Strategy

Delegation/Authorisation

17) The arrangements for borrowing, including the selection and the type and structure of debt instruments, are delegated to the MOPAC Group CFO, provided no decision contravenes the limits set out in the prevailing TMSS. In 2019 MOPAC accessed £200m of long term borrowing from the Public Works Loan Board (PWLB) at historically low borrowing rates in order to finance the major programme of long term investment detailed in MOPAC's capital spending plan.

18) On the basis of the above, the MOPAC Group CFO is:

- authorised to approve borrowing by the MOPAC Group, for the purposes of financing capital expenditure and subject to the necessary statutory provisions, provided that the Authorised Limit, determined by the Mayor on the recommendation the Deputy Mayor for Policing and Crime for the MOPAC Group, is not exceeded.
- authorised to make use of cash balances to fund internal borrowing when it is considered advantageous.
- authorised to borrow temporarily within the Authorised Limit, where this represents prudent management of the MOPAC Group's affairs. As an example, where a cash flow requirement is short-lived, the opportunity cost of withdrawing or otherwise liquidating investments may exceed that of temporary borrowing. In such circumstances, borrowing may be the prudent action.
- authorised to borrow temporarily above the Authorised Limit where, and only where the amount of the increased limit represents the amount of any delayed payment which is due to the MOPAC Group and has not been received on the due date, and such delay has not already been provided for in the Authorised Limit, under the provisions of Section 5 of the Local Government Act 2003.

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

Internal Borrowing Approach

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

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

Policy on Borrowing in Advance of Need

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

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

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

23) 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 2019/20 will also be weighed against the potential for incurring additional long-term costs by having to enter into new external borrowing in later years, when long-term rates are expected to be higher.

Debt Rescheduling/Debt Management

24) PWLB pricing policies currently impose a considerable spread between the rate of new loans and the rate used to calculate premiums or discounts on early redemption. This means that there are far fewer opportunities for restructuring than was historically the case, due to prohibitively

expensive premia in relation to achievable savings. This emphasises the importance of attempting to optimise maturity profiles at the point of entering into borrowings.

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

Investment Strategy

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

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

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

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

Core Funds and Expected Investment Balances as at 31 March

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Fund balances/reserves	330.10	231.10	108.30
Provisions	30.00	30.00	30.00
Total Core Funds	360.10	261.10	138.30
Working Capital Surplus/(Deficit)	122.00	122.00	122.00
Internal borrowing	279.35	251.07	207.67
Expected Investments	202.75	132.03	52.63

30) MOPAC will receive £118m of the additional growth in business rates for 2019-20 to fund the £59.3 million due to be paid to MOPAC from this source in both 2020-21 and 2021-22. This is being provided in advance in order to safeguard the £59.3 million of funding the Mayor is providing to fund 1,000 extra police officers in both 2020-21 and 2021-22. This change does not alter the total sum MOPAC will receive over the next three years merely its phasing.

31) The MOPAC Group's short-term cash balances are invested through the GLA Group Investment Syndicate. The MOPAC Group is a participant of the GIS and the nature of the GIS and the GIS Investment Strategy, including creditworthiness policy and permitted instruments, as agreed

between the Syndics, (The MOPAC Group CFO is the Syndic for the MOPAC Group) is attached at Appendix 1D. This Strategy effectively constitutes the MOPAC Group's Annual Investment Strategy, which is prepared and approved before the start of each financial year, with approval by the MOPAC Group.

- 32) No material changes have been made to the GIS investment strategy since the previous iteration. The 2019/20 GIS strategy is set out in Appendix 1D.
- 33) The GLA intends to offer a second collective investment option, the London Strategic Reserve (LSR) for strategic reserves, in order to extend to others the benefits it has experienced with its own longer term balances invested in Residential Mortgage Backed Securities and other longer dated assets. The MOPAC Group will continue to place surplus funds within the GIS, however upon the identification of any core reserves balance, the LSR could be utilised to enable longer term investment.
- 34) The GIS Investment Strategy is considered and agreed by all participants. A common approach permits maximum efficiency of the shared group service.
- 35) Where funds are placed in pooled vehicles such as Money Market Funds (MMFs), each MMF is only an approved counterparty while the underlying investments are instruments of the kinds listed in Appendix 1D. Variation between a MMF's list of approved counterparties and the approved counterparties of the MOPAC Group is permissible, at the discretion of the MOPAC Group CFO, providing the MMF's own rating meets the criteria of Appendix 1D.
- 36) Additionally, the MOPAC Group CFO may from time to time instruct the GLA Treasury team to invest sums independently of the GIS, for instance, if the MOPAC Group identifies balances which are available for longer term investment, after proper consideration of expected future cash flows, as at the time of investment. It is proposed that the MOPAC Group adopt an identical set of parameters for such investments as those detailed in Appendix 1D, except that there shall be no requirement to maintain a weighted average maturity of no greater than 91 days. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Longer than 365 Days' (Appendix 1C section 6.3).
- 37) Following the transfer of funds to the GLA for investment through either the shared service arrangement and/or the GIS, the MOPAC Group aims to have a daily net zero balance across the suite of RBS accounts it operates.
- 38) Whilst the MOPAC Group sets its Annual Investment Strategy at the start of each financial year, this need not be a once-a-year event, and the initial investment strategy may be replaced by a revised Strategy, at any time during the year, on one or more occasions, subject to the approval of the MOPAC Group. All Investment Strategies approved by the MOPAC Group will be made available to the public free of charge, on print or online.

Treasury Management Budget

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

Treasury Management Budget

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Interest payable	25.90	29.70	33.70

Minimum Revenue Provision for debt repayment	32.90	47.90	51.60
Total	58.80	77.60	85.30

40) Assumptions behind the 2019/20 Budget are:

- Average rates achievable on investments will be 0.75%
- Average rates payable on new borrowing will be 2.80%
- The MRP charge is in line with the MOPAC Group's MRP Policy

Use of External Service Providers

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

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

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

44) The GLA, as Investment Manager under the GIS Investment Strategy, uses both King and Shaxson Limited and State Street Bank and Trust as a custodians of the MOPAC Group's tradeable instruments (such as Treasury Bills). King and Shaxson use HSBC as the sub-custodian. The GLA's current policy is that any custodian (or, instead, sub-custodian) shall meet the GLA's credit criteria for 12 month investments (prior to Credit Default Swaps Market or other temporary adjustments).

Treasury Training

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

46) Member/Senior officer training is available from Link Asset Services and is arranged as required.

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

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

Appendix 1A: Treasury Management Policy Statement

1. Policy Statement

- 1.1 This policy statement is in the form recommended by the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes, Section 6.
 1. The MOPAC Group defines its treasury management activities as:
 2. 'The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
 3. The MOPAC Group regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the MOPAC Group, and any financial instruments entered into to manage those risks.
 4. The MOPAC Group acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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

1. Policy Statement

- 1.1 MRP is the amount out of revenue funding set aside each year as a provision for debt i.e. the provision in respect of capital expenditure financed by borrowing or credit arrangements.
- 1.2 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) provides that for the financial year 2007/08 and subsequent financial years, the detailed MRP calculation is to be replaced with the requirement that:
- 1.3 'A Local Authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'
- 1.4 The guidance also recommends that the annual MRP Policy is presented to the MOPAC Group for approval before the start of the financial year to which it relates. Any in-year changes must also be submitted to the MOPAC Group for approval.
- 1.5 For 2019/20 the MOPAC Group will make a minimum revenue provision (MRP) in accordance with: -
 - (a) the capital financing requirement method for any borrowing undertaken prior to 2008/09, and for all borrowing undertaken since that date supported through the revenue grant settlement, and
 - (b) the asset life method for unsupported borrowing undertaken in 2008/09 and subsequent years as permitted by the flexibilities provided under the Prudential Code.

In accordance with The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2016/17, MRP in respect of (a) Private Finance Initiative schemes; and (b) assets subject to finance leases, both of which are now recorded as long term liabilities, is made by recognition of an element of the annual unitary charge as repayment of principal.

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

1.0 Background

- 1.1 The Prudential Code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Prudential Code has a central role in capital finance decisions, including borrowing for capital investment. Its key objectives are to provide a framework for local authority capital finance that will ensure for individual local authorities that capital expenditure plans are affordable; all external borrowing and other long-term liabilities are within prudent and sustainable levels and that treasury management decisions are taken in accordance with good professional practice.
- 1.2 The Prudential Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.
- 1.3 Any such framework for the internal control and self-management of capital finance must therefore deal with all three of the following elements:
- Capital expenditure plans
 - External debt
 - Treasury Management
- 1.4 To ensure compliance with the Prudential Code in relation to the above elements, the MOPAC Group is required to set and monitor a number of Prudential Indicators. The setting of these Prudential Indicators is a circular rather than a linear process. For example, the level of external debt will follow on from the MOPAC Group's capital plans, revenue forecasts and treasury management strategy. However, if initial estimates would result in outcomes that would not be affordable or prudent, then plans for capital and/or revenue are reconsidered.
- 1.5 Prudential Indicators and Treasury Management Limits must be approved by the MOPAC Group and any subsequent changes to these Indicators and Limits must also be approved by the MOPAC Group.
- 1.6 These Prudential Indicators are set out below and reviewed for compliance.

2.0 Capital Expenditure

2.1 Capital Expenditure

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

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

Capital Expenditure

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Total Capital Expenditure	388.00	301.00	340.00
Financed by:			
Capital receipts	69.40	172.00	86.90

Capital grants and other contributions	54.40	44.30	49.30
Revenue Contributions	0.00	0.00	0.00
Net financing need for the year	264.20	84.70	203.80

2.2. Capital Financing Requirement (CFR)

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

Capital Financing Requirement (CFR)

	2018-19 Estimate £m	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Total CFR*	686.28	917.58	954.38	1,106.58
Movement in CFR	84.48	231.30	36.80	152.20
Movement in CFR represented by				
Net financing need for the year (see Capital Expenditure table)	110.20	264.20	84.70	203.80
Less Capital receipts to repay borrowing	0.00	0.00	0.00	0.00
Less MRP/VRP** and other financing movements	25.72	32.90	47.90	51.60
Movement in CFR	84.48	231.30	36.80	152.20

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

3.0 External Debt Prudential Indicators

3.1 Authorised Limit for External Debt

- 3.1.1 The Authorised limit is the expected maximum borrowing needed with some headroom for unexpected developments such as unusual cash movements.
- 3.1.2 For the purposes of the Prudential Code borrowing is distinguished from other long term liabilities.

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

Authorised Limit for External Debt

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Borrowing	945.20	1,029.80	1,233.70
Other long term liabilities	71.00	64.90	58.50
Total	1,016.20	1,094.70	1,292.20

3.2 Operational Boundary for External Debt

- 3.2.1 The operational boundary is based on the same estimates as the authorised limit. However, it reflects an estimate of the most likely prudent but not worst case scenario. It equates to the maximum level of external debt under the capital spending plans approved by the Mayor and excludes the headroom included within the authorised limit.
- 3.2.2 The Operational Boundary is set as a warning signal that external debt has reached a level nearing the Authorised limit and must be monitored carefully. It is probably not significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant, requiring further investigation and action as appropriate.

Operational Boundary for External Debt

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Borrowing	820.20	904.80	1,108.70
Other long term liabilities	71.00	64.90	58.50
Total	891.20	969.70	1,167.20

3.2.3 Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence seeking to identify whether or not a Local Authority's financial strategy is prudent and sustainable by measuring the extent to which a Local Authority is using borrowing to fund revenue expenditure in the short and medium term. Since financing costs have to be repaid from revenue, borrowing to fund revenue expenditure may be affordable in the short term, but not in the medium term. It therefore follows that in the medium term borrowing should only be funding capital expenditure and this indicator seeks to check that this is so, by identifying that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. In making this comparison between gross debt and the CFR, CIPFA guidance provides that, if in any of these years, there is a reduction in the CFR, this reduction is

ignored in estimating the cumulative increase in the CFR which is used for comparison with the gross external debt.

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

Gross Debt and the Capital Financing Requirement

	2019-20 Estimate £m	2020-21 Estimate £m	2021-22 Estimate £m
Gross Debt at 31 March	638.23	703.31	898.91
Capital Financing Requirement	917.58	954.38	1,106.58

4.0 Affordability Prudential Indicators

4.1 Ratio of Financing Costs to Net Revenue Stream

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

Financing Costs to Net Revenue Stream

	2019-20 Estimate %	2020-21 Estimate %	2021-22 Estimate %
Total	2.05	2.86	3.11

5.0 Treasury Management Prudential Indicator

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

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

6.0 Treasury Management Limits on Activity

6.2 Limits for Maturity Structure of Borrowing

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

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

Limits for Maturity Structure of Borrowing for 2019-20

	Upper Limit	Lower Limit
	%	%
Under 12 months	40.00	0.00
12 months and within 24 months	20.00	0.00
24 months and within 5 years	25.00	0.00
5 years and within 10 years	35.00	0.00
10 years and above	100.00	40.00

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

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

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

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

	Maximum principal sums invested >365 days		
	2019-20 £m	2020-21 £m	2021-22 £m
Principal sums invested for longer than 365 days	0.00	0.00	0.00

6.3.3 This limit does not apply to externally managed funds or to pooled monies within the Group Investment Syndicate, providing the weighted average maturity of investments does not exceed 91 days.

Appendix 1D: Investment Strategy 2019-20 (incorporating the GIS Investment Strategy 2019-20)

1. Introduction

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

or

Cash balances can be invested through the GLA GIS, in the name of the GIS.
- 1.4 Cash balances invested in the MOPAC Group's own name are subject to the GIS Investment Strategy, except that there is no requirement to maintain a weighted average maturity which does not exceed 91 days.
- 1.5 Cash balances invested in the name of the GIS are subject to the GIS Investment Strategy.
- 1.6 All the MOPAC Group investments must therefore fully consider the GIS Investment Strategy. This Strategy is outlined below:

2. GIS Investment Strategy Introduction

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

3. GIS Investment Strategy

GREATER **LONDON** AUTHORITY

Dated: 1st April 2019

GREATER LONDON AUTHORITY

and

LONDON FIRE COMMISSIONER

and

LONDON LEGACY DEVELOPMENT CORPORATION

and

MAYOR'S OFFICE FOR POLICING AND CRIME

and

LONDON PENSIONS FUND AUTHORITY

GIS INVESTMENT STRATEGY 2019-20

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GIS Investment Strategy 2019-20

Limits and Compliance

- 1.0 **All limits, unless explicitly stated otherwise, refer to the composition of the daily balance of the GIS;** for compliance purposes, all limits will be assessed daily.
- 2.0 The making of any investment which causes a breach of limits is not permitted and constitutes an **active exception**.
- 3.0 **Active exceptions of any size will be reported immediately** upon identification to the CIO, Syndics and their nominated substitutes. Relevant committees or boards will be notified as specified in each Participant's TMSS.
- 4.0 Additionally, breaches of daily limits may occur due to changes in the GIS balance or the credit assessment of existing investments, including the credit status of the country of domicile. Such an occurrence constitutes a **passive exception**. Passive exceptions will be reported immediately to the CIO, the GLA's statutory CFO and his deputy. Subsequent reporting will be threshold based as follows:

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

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

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

O/N	2-7	8-30	31-60	61-90	91-120	12-150	151-180	181-210	211-240	241-270	271-300	301-330	331-397	398-730
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- 6.0 If an investment is made in breach of these forward-looking limits, it is an active breach of investment strategy and will be reported per 3.0. Where changes in cash flow forecasts or counterparty and/or instrument status result in forward-looking limits being exceeded by existing investment positions, the CIO will be notified, who may then modify investment tactics to reduce the likelihood of a passive exception as defined in 4.0 occurring. Such an occurrence does not constitute an exception of any kind and need not be reported further.
- 7.0 Mitigating actions for all breaches will in the first instance be taken at the discretion of the CIO (or the GLA's statutory CFO, or his deputy). Such decisions must be supported by an analysis of the costs and benefits of attempting to reduce the overexposure in question versus tolerating it. In all cases a file note of the decision will be retained and circulated to the Syndics. A majority of the Syndics may instruct alternative action.

Risk Appetite Statement

- 8.0 Capital preservation is the primary GIS objective at the portfolio level, followed by provision of liquidity to meet Participants' cash flow needs.
- 9.0 In order to deliver best value on public funds, the Participants are prepared to take some investment risk to the extent outlined below, where such risk is rewarded by yields above UK government securities held to maturity.
- 10.0 The risk of loss through default in the entire portfolio (or any subsection delegated to an external manager) should not exceed risk of loss through default equivalent to a 1-year exposure to a typical AA-rated issuer.
- 11.0 No individual instrument/investment should pose a greater risk of loss through default than a 90-day exposure to a typical BBB issuer.
- 12.0 The Participants will tolerate price volatility where there is an expectation of holding an investment to maturity; where the expectation is that sale before maturity is likely or where the investment is in a variable NAV fund, the combined risk of loss through default and crystallised falls in price should not exceed the risk tolerance specified in 10.0.
- 13.0 This strategy sets out risk controls and limits that, in the opinion of the Participants, deliver these objectives.

14.0 Alternative controls and limits, save for the overarching requirements of 14.0 – 16.0 and 20.0 may be used by external managers appointed in accordance with 18.0, if those limits are judged by the Syndics, on the advice of the CIO or other independent professional advice, to be appropriately effective.

Permissible Investments

15.0 All investments must be Sterling-denominated financial instruments.

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

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

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of daily balance
Senior Unsecured Debt <ul style="list-style-type: none"> • UK Gilts and T-Bills • Deposits • Call Accounts • Notice Accounts • Certificates of Deposit • Loans • Commercial Paper • All other senior unsecured bonds 	<p>Issuer (and security where separately rated) Investment Grade (IG) defined per 37.0</p> <p>OR</p> <p>UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance)</p> <p>OR</p> <p>Issuer not meeting general criteria but instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per 32.0.</p>	S	NS	100%

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

18.0 The Syndics may delegate the management of a portion, not exceeding the forecast minimum GIS balance for the next 12 months, of the GIS to external fund managers if this is deemed prudent.

Liquidity and Maturity Limits

19.0 Portfolio Weighted Average Maturity (WAM) \leq 91 days.

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

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

Individual maturity limit, internally managed instruments: \leq 2 years.

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

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

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

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

22.0 Limit for total exposure $>$ 12 months: \leq 25% of total daily balance.

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

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

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

Counterparty Concentration Limits

(Apply individually and cumulatively to groups)

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

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

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

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

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

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

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

31.0 Maximum aggregate exposure including indirect or collateralised exposures:

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

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

Geo-political risk limits

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

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

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

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

- 35.0 For non-UK, non-financial institutions, or in circumstances such as an instrument being issued through a subsidiary domiciled in one country but guaranteed or otherwise secured by a parent in another, the risks and appropriate country limit (if any, in the case of multinational corporations) in which to aggregate the exposure will be considered on a case by case basis and determined by the CIO. A written copy of the assessment of each such counterparty and/or instrument will be filed with the investment and shared with the Syndics at the next quarterly review meeting.
- 36.0 Any member of the investment team may decline to place an investment and the CIO may indefinitely suspend any counterparty or group of counterparties on the basis of geo-political risk considerations, howsoever arising. Such use of discretion will be reviewed at weekly team meetings and where restrictions are imposed or subsequently withdrawn, this will be shared with the Syndics as part of weekly reporting.

Credit Risk Limits

37.0 Permitted issuer credit ratings and equivalence mappings.

Senior Unsecured Bond and/or Issuer Ratings					
Long term			Short term		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA	F1+	P-1	A-1+
AA-	Aa3	AA-			
A+	A1	A+			
A	A2	A	F1	P-1	A-1
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB	F2	P-2	A-2
Structured Finance Ratings					
Fitch		Moody's		S&P	
AAA _{sf}		Aaa (sf)		AAA (sf)	
AA _{sf}		Aa1(sf)		AA+ (sf)	
Money Market Fund Ratings					
Fitch		Moody's		S&P	
AAA _{mmf}		Aaa-mf		AAA _m	
Other Permitted Fund Ratings					
Fitch		Moody's		S&P	
AAA _f		Aaa-bf		AAA _f	

- 38.0 Where more than one rating is available the lowest common denominator will be used, unless in the opinion of the CIO there is an overriding reason to favour or disregard one particular agency's view. The use of this discretion will be reported immediately to the Syndics.
- 39.0 For internally managed investments Credit Factors will also be calculated individually and Portfolio Credit Factor (PCF) on a book value weighted average basis with reference to the following tables:

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

Other treatments	
UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance)	Treat as AAA above Except: If, in the judgement of the Chief Investment Officer, the structure of a bond associated with a local authority is such that the credit risk is not identical to a bilateral loan with that authority, the rating of the bond itself will be used
Instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per 32.0.	Use Credit Factors appropriate to guarantor strictly for the period of the guarantee, reverting to rating of issuer thereafter
Repo	Use Credit Factors appropriate to repo counterparty, not collateral; Unrated or sub-BBB counterparty with >102% Gilt/T-bill collateralisation – treat as BBB
Approved fund, e.g. AAA_f or AAA_{mmf}	Use Credit Factor of 1.5
Covered Bonds or RMBS	Use Credit Factor of 5

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

41.0 The following limits apply at all times:

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

42.0 The PCF will be calculated and recorded daily.

43.0 The total contractual exposure of any transaction with counterparty, i.e. in the case of a forward deal, the forward period PLUS the eventual length of the deal should be considered at the time of the

transaction and compared to table 39.0 – the Credit Factor for the total exposure period at the counterparty's credit rating at the time of the deal must not exceed 10.

Deposit Facility of Last Resort

- 44.0 In the circumstance of being unable to place funds with counterparties within approved limits, the Investment Manager will attempt to place the surplus funds with the Debt Management Account Deposit Facility (DMADF). This facility may, of course, also be used in other circumstances if it offers rates above equivalent market levels, though in past experience this is unlikely.
- 45.0 In the instance of technical failures or unexpected monies being received after the cut-off time for sending payments, the GLA, as the GIS Investment Manager, will have no choice but to leave the funds with the GLA's bankers, RBS. In such circumstances, the funds will be moved to the GLA's call account at RBS.

Custody Arrangements

- 46.0 Internally or externally managed securities may be held by a Custodian; in such circumstances:
- a. The Custodian or any Sub-Custodian employed by the Custodian (whichever actually holds the GIS securities) must be Fitch A- rated or equivalent;
 - b. Any cash held by the Custodian or any Sub-Custodian pending transactions must be properly identified as an unsecured deposit and consolidated into the PCF calculation;
 - c. The Custodian or any Sub-Custodian shall not be entitled to invest such cash in any money market fund or other product without the permission of the GIS. Any such investment must meet the criteria of 17.0.
- 47.0 The above applies to any Custodian or Sub Custodian holding collateral on behalf of the GIS in respect of a Repo transaction. Note – 'Held in Custody' Repos where collateral is held at the borrower's custodian in the borrower's title are NOT permitted.

CIO Discretions

- 48.0 The CIO may restrict the use of any counterparty for any reason related to the management of risk, including reputational risk to any Participant. Such restrictions may be overturned by any majority of Syndics.
- 49.0 When postponing CDS-driven adjustments to exposure limits, the Group Treasury team will notify the Syndics of the CIO's decision immediately. Syndics will have until 12pm to register concerns otherwise the decision will be implemented for that day. Any majority of Syndics may reverse the decision subsequently.

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

Responsible Investment

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

GLA Group Responsible Investment Statement on Climate Change

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

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

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

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

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

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

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

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

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

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

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

“environmental benefits” – means reducing net carbon emissions over time;

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

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

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

Examples of application:

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

Explanatory Notes

Background to the GIS Investment Strategy

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

4.0

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

£m	25	50
GLA	21.2	42.4
LFEPA	1.4	2.8
MOPAC	0.4	0.8
LPFA	1.8	3.7
LLDC	0.2	0.3

17.0

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

Specified Investments

- ii. An investment is a Specified investment if all of the following apply:
- a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
 - b) The investment is not a long-term investment (i.e. due or required to be repaid within 12 months);
 - c) The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 3146 as amended) (i.e. the investment is not share capital in a body corporate);
 - d) The investment is made with a body or in an investment scheme of high credit quality (defined by the minimum credit ratings outlined in table 17.0) or with one of the following public-sector bodies:
 - The United Kingdom Government
 - A local authority in England or Wales (as defined in section 23 of the 2003 Local Government Act) or a similar body in Scotland or Northern Ireland
 - A parish council or community

Non-Specified Investments

- iii. Non-Specified Investments are defined as investments assessed by the GIS Participants to be appropriate and prudent, but not meeting the one or more of the Specified Investments criteria.
- iv. Reflecting increased market risk and difficulties in diversifying, this strategy includes the highly secure option of UK Residential Mortgage Backed Securities, which provides a genuine diversification away from institutional credit risk and additional options for secured lending, enabling limits to be increased with existing counterparties in exchange for security of some sort of asset in the event of the borrower becoming insolvent.
- v. RMBS

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

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

- 15 UK Banks and Building Societies have over £100bn of AAA-rated RMBS outstanding, via bankruptcy-remote issuing companies, which ensures full credit de-linkage.
- This report therefore recommends inclusion of UK RMBS in the GIS subject to the limits proposed and the overall GIS WAM limit, in order to reduce risk and improve returns. The 20% limit reflects the fact that the GIS currently has a 91-day WAM limit and most of these instruments will have a WAM > 1 year.
- Only senior RMBS are permitted at this stage, i.e. the GIS has first priority over the cash flows from the underlying pools of thousands of diversified UK residential prime or buy-to-let mortgages. These to date have always been AAA rated at inception with some isolated cases of downgrades to AA+ due to lower ratings of associated counterparties within the RMBS structure such as the bank servicing the mortgages, rather than the underlying mortgages, reflecting the increased risk of possible payment disruption should the servicing bank fail (though no increased risk of non-payment). The strategy does not exclude these downgraded senior notes as the risk of loss is still very low but it should be noted that changes to RMBS structures since 2008 make this circumstance very unlikely in future.
- The cash flows from RMBS are generated by both interest and principal repayments of the mortgages in the relevant pool. In particular, when

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

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

vi. Covered Bonds

- Covered bonds are also secured on mortgage assets, but do not depend on mortgages for the cash flows. They are more like a normal bond issued by the relevant bank or building society except that should the issuer default, the covered bond holders will have security over the banks' mortgage assets, which could be sold to another bank to meet the obligation.
- Whilst the credit risk is clearly lower than unsecured lending to the issuer, the situation is different to RMBS and when the issuer is downgraded, covered bonds are typically downgraded too. Accordingly, the strategy does not permit the use of covered bonds issued by counterparties who do not themselves meet approved investment criteria.
- Another feature of covered bonds are extension clauses, typically of 2 years. For this reason, the strategy only permits the use of counterparties of A-rating or above to allow for downgrades over the extension period, should it be invoked.
- Because they are lower risk than unsecured lending to a given counterparty, covered bond yields are generally lower. Accordingly, the main circumstance in which they would be used in the current environment is to increase

exposure to a strong and well understood counterparty already at its unsecured concentration limit.

vii. Repurchase Agreements “Repos”

- Repos are a form of secured lending whereby rather than lend directly to a counterparty, the GIS would buy from them a security e.g. a bond and agree to sell it back at an agreed (higher) price at a future date. The profit on this transaction replaces interest in a normal lending agreement but there is the additional feature that if the borrower becomes insolvent, the GIS may keep the security, which is referred to as collateral.
- For this reason, only securities that meet GIS criteria may be accepted as collateral, however the duration limits of 21.0 and 20.0 do not apply since the expectation is that the collateral will be disposed of at the first opportunity and over-collateralisation provides mitigation for any price movement.
- Furthermore, if such a default occurred, the GIS may need to sell the collateral for cash flow reasons so there may be some price risk between the default and the sale. Therefore, minimum levels of collateral, expressed as a percentage of the market value of collateral relative to the purchase price, are proposed.
- The strategy permits very limited repo exposure (2.5% and 10% in aggregate) to counterparties not meeting unsecured investment criteria. In this case, minimum collateral is set at 102% (in line with minimum standards for repo use by AAA rated money market funds) and the provision is designed to enable transactions with pension funds engaged in liability hedging activities, to mutual advantage.
- There are a number of ways to implement a repo. This is delegated to officers and their advisors or external managers, however per 47.0, legal title to the collateral must be unequivocally obtained and safe custody arrangements be in place.
- Repos will provide a further tool for balancing GIS risk and return: the risk is very much lower than unsecured lending to banks and others, although not as

low as T-bills, however repo returns are slightly higher than T-Bills and there is more flexibility with maturity dates.

20.0

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

28.0

- i. Credit Default Swaps (CDS) are effectively insurance contracts against a given counterparty defaulting; their price (typically expressed as an additional interest cost or 'spread' in basis points – i.e. 100ths of one percent). Higher prices may therefore reflect greater market perception of risk, although other supply and demand factors can distort this, including the activity of speculators. For this reason, the CIO has discretion to propose postponements to the impact of CDS data on limits.
- ii. Although the GIS typically participates in short term investments, it refers to 5-year CDS prices as this market has higher volumes of trading and therefore more accurately reflects market sentiment.
- iii. The GIS's advisor and data provider, Link Asset Services, proposes barrier levels dependent on market conditions as indicated by one of the main CDS indices, ITRAXX 5-year senior financials.
- iv. When the ITRAXX is below 100 basis points, a counterparty's limit band will be adjusted down one notch if their CDS price is between 100 and 150 or to 'no colour' if above 150.

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

39.0

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

50.0

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

Approved by Signatories:

MARTIN CLARKE
Syndic, GLA
Date:

SUE BUDDEN
Syndic, LFEPA
Date:

GERRY MURPHY
Syndic, LLDC
Date:

SIOBHAN PETERS
Syndic, MOPAC Group
Date:

ABIGAIL LEECH
Syndic, LPFA
Date:

Appendix 1E: Treasury Management Practices: Main Principles

1.0 INTRODUCTION

- 1.1 The Treasury Management Practices (TMPs): Main Principles below set out the manner in which the MOPAC Group will seek to achieve its Treasury policies and objectives. These TMPs: Main Principles follow the wording recommended by the latest edition of the CIPFA Treasury Management Code.
- 1.2 TMPs: Main Principles are supported by TMPs: Schedules, which provide specific details of the systems and routines employed and the records to be maintained to deliver the TMPs: Main Principles. These Schedules are maintained and updated as necessary, being operational procedures and forming an integral part of the MOPAC Group's treasury management manual.
- 1.3 Approval and monitoring of TMPs is a matter for local decision. As such the TMPs: Principles will be approved by the MOPAC Group and monitored by the MOPAC Group CFO and annually reviewed by the MOPAC Group before the start of the year.
- 1.4 TMPs: Schedules will be approved, monitored and annually reviewed by the MOPAC Group CFO.
- 1.5 Scrutiny of the approval and monitoring of TMPs will be performed by the MOPAC Group Audit Panel following recommendations by the MOPAC Group CFO.

2.0 TMP1 RISK MANAGEMENT

2.1 General statement

- 2.1.1 The MOPAC Group CFO will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the MOPAC Group's objectives in this respect, all in accordance with the procedures set out in TMP6 'Reporting requirements and management information arrangements'.
- 2.1.2 In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the TMPs: Schedules.

2.2 Credit and counterparty risk management

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

2.3 Liquidity risk management

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

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

2.4 Interest rate risk management

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

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

2.5 Exchange rate risk management

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

2.6 Refinancing risk management

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

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

2.7 Legal and regulatory risk management

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

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

2.8 Fraud, error and corruption, and contingency management

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

2.9 Market risk management

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

3.0 TMP2 PERFORMANCE MEASUREMENT

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

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

4.0 TMP3 DECISION-MAKING AND ANALYSIS

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

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

6.1 The MOPAC Group CFO considers it essential, for the purposes of the effective control and monitoring of the MOPAC Group's treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are

structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

- 6.2 The principal on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.
- 6.3 If and when the MOPAC Group intends, as a result of lack of resources or other circumstances, to depart from these principles, the MOPAC Group CFO will ensure that the reasons are properly reported in accordance with TMP6 'Reporting requirements and management information arrangements', and the implications properly considered and evaluated.
- 6.4 The MOPAC Group CFO will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The MOPAC Group CFO will also ensure that at all times those engaged in treasury management will follow the policies and procedures. The present arrangements are detailed in the TMPs: Schedules.
- 6.5 The MOPAC Group CFO will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the TMPs: Schedules
- 6.6 The delegations to the MOPAC Group CFO in respect of treasury management are set out in the TMPs: Schedules. The MOPAC Group CFO will fulfil all such responsibilities in accordance with the MOPAC Group's policy statement and TMPs and if a CIPFA member, the 'Standard of Professional Practice on Treasury Management'.

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

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

- 7.2 As a minimum:

The MOPAC Group will receive

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

- 7.3 The MOPAC Group Audit Panel, as the body with responsibility for the scrutiny of treasury management policies and practices, will receive regular monitoring reports on treasury management activities and risks.
- 7.4 The MOPAC Group Audit Panel responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.
- 7.5 Local authorities should report the treasury management indicators as detailed in their sector-specific guidance notes.
- 7.6 The present arrangements and the form of these reports are detailed in the TMPs: Schedules.

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

- 8.1 The MOPAC Group CFO will prepare, and the MOPAC Group will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 'Risk management', TMP2 'Performance measurement', and TMP4 'Approved instruments, methods and techniques'.
- 8.2 The MOPAC Group CFO will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 'Reporting requirements and management information arrangements'.
- 8.3 The MOPAC Group CFO will account for the MOPAC Group's treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory requirements in force for the time being.

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

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

10.0 TMP9 MONEY LAUNDERING

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

11.0 TMP10 TRAINING AND QUALIFICATIONS

- 11.1 The MOPAC Group CFO recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. He/She will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The MOPAC Group CFO will recommend and implement the necessary arrangements.
- 11.2 The MOPAC Group CFO will ensure that the MOPAC Group's members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.
- 11.3 Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.
- 11.4 The present arrangements are detailed in the TMPs: Schedules.

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

13.0 TMP12 CORPORATE GOVERNANCE

- 13.1 The MOPAC Group is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principals and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- 13.2 The MOPAC Group has adopted and implemented the key principles of the TM Code. This, together with the other arrangements detailed in the TMPs; Schedules, are considered vital to the achievement of proper corporate governance in treasury management, and the MOPAC Group CFO will monitor and, if and when necessary, report upon the effectiveness of these arrangements.