MOPAC | MAYOR OF LONDON

OFFICE FOR POLICING AND CRIME

REQUEST FOR DMPC DECISION – DMPCD 2016 47

Title: Treasury Management Strategy 2016-17

Executive Summary:

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

The external debt and treasury management limits and indicators in Appendix 1E are consistent with the MOPAC medium term financial strategy and 2016-17 budget. There is no planned new borrowing in this strategy for 2016/17 or 2017/18. If required cashflow financing via the GIS is planned for the third year until expected receipts are received.

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

Recommendation:

The DMPC is asked to approve the 2016-17 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

Date 17/03/2016

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

Decision required – supporting report

1. Introduction and background

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

1.2. The Strategy Statement 2016/17 defines the policies and objectives of MOPAC's treasury management activities and roles and responsibilities. There is a requirement within the CIPFA Code to seek approval of the Mayor's Office for Policing and Crime for the Treasury Management Strategy Statement. In accordance with the scheme of delegation and consent it is the responsibility of the Deputy Mayor to approve the policy and strategy each year which are set out at Appendix 1. This provides an opportunity to review the current arrangements, and MOPAC's risk appetite.

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

1.4. In June 2013 MOPAC signed up to the GLA operated Treasury Management shared service as part of the wider GLA shared service agenda. This proposed 2016/17 TMSS includes that all MOPAC investments are made through the GLA Group Investment Syndicate (GIS).

2. Issues for consideration

<u>Strategy Issues</u>

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

<u>Borrowing</u>

2.2 There is no proposed change to the approach for borrowing. MOPAC has reserves which are used to finance the capital programme reducing the need to borrow externally. In the current climate it continues to makes little sense (both financially and in terms of risk exposure) to hold both high levels of cash and debt.

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

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

Investment

2.5 The primary objectives for MOPAC are the security of capital and maintenance of liquidity, with the return on investments being a tertiary consideration.

2.6 DMPC is asked to approve the treasury indicator that states that MOPAC will not invest any principal sums for greater than 1 year.

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

2.8 Based on current balances MOPAC's proportion of the GIS is circa 9%, (although this will change with the changes in MOPAC and other GIS members balances).

2.9 There are 2 proposed changes to the previous TM Strategy both designed to reduce risk

- Counterparty diversification is one means of reducing investment risk and for 2016-17, it is therefore proposed to improve counterparty diversification by adding Residential Mortgage Backed Securities (RMBS) to the list of Non-Specified Investment Instruments. The Director of Police Resources and Performance will obtain the consent of the Deputy Mayor for Policing and Crime before authorising any investment in this asset class. Further background information is provided at Appendix 1E, Section 3.2 v.

- It is also proposed to extend the portfolio credit factor approach adopted for corporate bonds to rated financial institutions. Testing by Capita Asset Services and the GLA Group Treasury team has established that moving away from the existing Capita credit worthiness policy will not materially alter the risk profile of the portfolio, other than by providing opportunities to reduce it through further diversification. It is intended, however, to retain the Capita credit worthiness policy Credit Default Swaps overlay, applying it to all institutions for which data is available.

  The new approach will permit slightly more investment flexibility in terms of counterparties, although will result in a lower risk portfolio by imposing an overall portfolio credit risk limit monitored at a much more granular level. Further background information is provided at Appendix 1E, Section 3.2 iii

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 will enable investment to be focussed on the relatively stronger counterparties.

2.12 The current cashflow forecasts of MOPAC show 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 level of returns MOPAC currently generates is consistent with the other GLA/Functional Bodies using the GIS for all their investments, i.e. 0.63%

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

Prudential Indicators

2.16 Appendix 1E sets out range of prudential indicators and Treasury Management limits.

Capital Expenditure

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Total Capital Expenditure	264.90	357.40	326.80
Financed by:			
Capital receipts	223.80	313.80	79.90
Capital grants	41.10	43.60	27.80
Capital reserves			
Revenue*	0.00	0.00	89.00
Net financing need for the year	0.00	0.00	130.10

*2018/19 £89m sourced from savings resulting from business cases

2.17 Taking account of the planned capital expenditure and funding, and the minimum revenue provision provides the calculation of the Capital Financing Requirement (CFR) – a measure of the underlying need to borrow.

Capital Financing Requirement (CFR)

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Total CFR*	614.51	587.95	693.00
Movement in CFR	-27.63	-26.56	105.05
Movement in CFR represented by			
Net financing need for the year (see Capital Expenditure table)	0.00	0.00	130.10
Less Capital receipts to repay borrowing	0.00	0.00	0.00
Less MRP/VRP** and other financing movements	27.63	26.56	25.05
Movement in CFR	-27.63	-26.56	105.05

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

2.18 The Operational Boundary – the limit beyond which external debt is not normally expected to exceed is set out below.

Operational Boundary for External Debt

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Borrowing	376.08	359.62	473.26
Other long term liabilities	83.31	79.25	76.21
Total	459.39	438.86	549.47

2.19 The Authorised Limit – the limit beyond which external debt is prohibited is

Authorised Limit for External Debt

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Borrowing	501.08	484.62	598.26
Other long term liabilities	83.31	79.25	76.21
Total	584.39	563.86	674.47

2.20 The authorised limit and operational boundary for external debt will be approved by the Mayor of London as required under statute.

2.21 Interest rate exposure

Upper limit on interest rate exposure on net debt

	2016-17	2017-18	2018-19
	%	%	%
Fixed rate	150.00	150.00	150.00
Variable rate	50.00	50.00	50.00

2.22 Maturity Structure of fixed interest rate borrowing

Limits for Maturity Structure of Borrowing for 2016-17

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

2.23 Affordability indicators of the ratio of financing costs to net revenue stream and the incremental impact of capital investment decisions on council tax are set out at Appendix 1D paragraph 4

Financing Costs to Net Revenue Stream

	2016-17 Estimate %	2017-18 Estimate %	2018-19 Estimate %
Total	1.82	1.82	1.82

Incremental Impact on Council Tax

	2016-17 Estimate £	2017-18 Estimate £	2018-19 Estimate £
Council Tax Band D	-0.50	-3.41	4.32

Management Arrangements

2.24 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.

2.25 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 Capita, Asset Services.

2.26 GLA Group Treasury will liaise with MPS for the management of cash flow.

3. Financial Comments

3.1. The cost of borrowing for 2016/17 is currently estimated to be £22m for interest payable, £0.8m interest receivable and £24.20m for minimum revenue provision. Budgets for this income and expenditure are included in the MOPAC/MPS budget for 2016/17.

4. Legal Comments

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

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

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

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

5. Equality Comments

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

6. Background/supporting papers

6.1. Appendix 1

Public access to information Information in this form is subject to the Freedom of Information Act 2000 (FOIA) and other legislation. Part 1 of this form will be made available on the MOPAC website within 1 working day of approval. Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would compromise the implementation of the decision being approved.
Is the publication of **this** form to be deferred? NO If yes, for what reason: Until what date (if known):
Is there a **part 2** form – No If yes, for what reason:

ORIGINATING OFFICER DECLARATION:

	Tick to confirm statement (✓)
Head of Unit: Rebecca Lawrence has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓
Legal Advice: The MPS legal team has been consulted on the proposal.	✓
Financial Advice: The Head of Strategic Finance and Resource Management has been consulted on this proposal.	✓
Equalities Advice: Equality and diversity issues are covered in the body of the report.	✓

OFFICER APPROVAL

Chief Operating 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** 18/03/16

Appendix 1A: Treasury Management Strategy Statement 2016-17

Introduction/Background

1. The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of MOPAC (the Authority) for the year 2016/17.

2. This TMSS has been prepared with regard to the following legislation and guidance:

   - The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (The Code) and associated Guidance Notes
   - The CIPFA Prudential Code for Capital Finance in Local Authorities and associated Guidance Notes
   - The Local Government Act 2003
   - The Department for Communities and Local Government (DCLG) Guidance on Local Government Investments
   - The DCLG Capital Finance Guidance on Minimum Revenue Provision

3. The Code defines treasury management activities as:

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

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

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

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

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

6. The Treasury Management risks the Authority is exposed to are:

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

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

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

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

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

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

   ii. The 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 Authority's treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the Director of Police Resources and Performance. The Director of Police Resources and Performance 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 Authority has delegated to the MOPAC/MPS 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 Authority will be fully consulted where there is any change to borrowing limits.

vi. Should the Director of Police Resources and Performance 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 Director of Police Resources and Performance is required to report an annual Treasury Management Strategy to the Deputy Mayor for Policing and Crime for approval. The Director of Police Resources and Performance is responsible fro maintaining the Treasury Management Practices (TMPs) and monitoring and managing the strategy, with day to day management of this function delegated to his/her staff.

10. The main changes in the TMSS 2016/17 as compared to the TMSS 2015/16 are:

- Updated Economic Background (at paragraph 10 below)
- Updated interest rate forecasts (at paragraph 17 below)
- Revised Prudential Indicators and Treasury Management Limits (Appendix 3)
- Changes to the GIS Investment Strategy (Appendix 4, Section 3)

Economic Background provided by GLA Treasury Group

11. Market volatility and widespread uncertainty around growth, inflation and interest rate forecasts are dominant factors in the outlook relevant to treasury management.

12. This outlook has several treasury management implications:

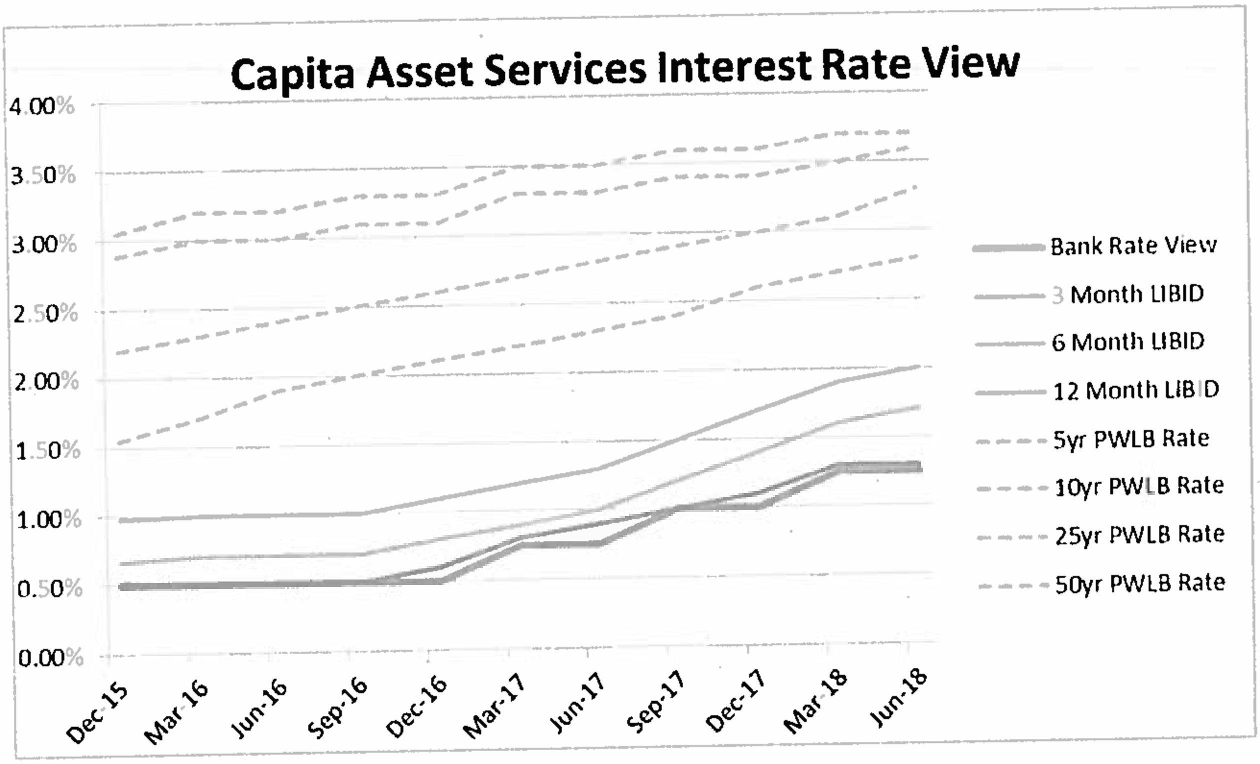
- Higher quality counterparties for shorter time periods remain attractive.
- Investment returns are likely to remain relatively low during 2016/17.The Group Treasury team has not recommended increases in budgetary assumptions for interest receivable..

- Borrowing interest rates have and continue to be volatile, and whilst low by historical standards are expected to continue to exceed short term cash returns. The policy of avoiding new borrowing by utilising cash balances has served well over the last few years. However, this needs to remain under careful review to avoid incurring higher borrowing costs in later times, when the organisation may not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt.

Prospects for Interest Rates

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

14. Below is a central view for short term interest rates (Bank Rate) and longer term fixed interest rates, as provided by Capita Asset Services, as at February 2016. The PWLB Rates shown are net of the 0.20% 'certainty rate' discount



Forecast Treasury Management Position

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

Forecast Treasury Position

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
External Borrowing			
Long term borrowing	376.08	359.62	473.26
Short term borrowing	0.00	0.00	0.00
Total External Borrowing at 31 March (A)	376.08	359.62	473.26
Other Long Term Liabilities			
PFI Liability	77.95	74.06	71.23
Finance Lease Liability	5.36	5.18	4.99
Total Other Long Term Liabilities at 31 March (B)	83.31	79.25	76.21
Total Gross Debt (A+B)	459.39	438.86	549.47
Capital Financing Requirement	614.51	587.95	693.00
Less Other Long Term Liabilities at 31 March	83.31	79.25	76.21
Underlying Capital Borrowing Requirement (C)	531.20	508.70	616.79
Under/(Over) Borrowing (C-A)	155.13	149.08	143.53
Investments at 31 March (D)	345.35	77.19	60.85
Net Borrowing (A-D)	30.73	282.43	412.41

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

17. The Director of Police Resources and Performance reports that the Authority's forecasts for the gross debt and capital financing requirement prudential indicator are within CIPFA's recommended limits.

Borrowing Strategy

Delegation/Authorisation

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

19. On the basis of the above, the Director of Police Resources and Performance is

- authorised to approve borrowing by the Authority, for the purposes of financing capital expenditure and subject to the necessary statutory provisions, provided that the Authorised Limit, determined by Mayor on the recommendation the Deputy Mayor for Policing and Crime for MOPAC, 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 Authority's affairs. As an example, where a cash flow requirement is short-lived, the opportunity cost of withdrawing or otherwise liquidating investments may exceed that of temporary borrowing. In such circumstances, borrowing may be the prudent action.

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

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

Internal Borrowing Approach

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

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

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

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

- Agreements with central government specifying particular levels of borrowing

Future of the Public Works Loans Board (PWLB)

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

Policy on Borrowing in Advance of Need

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

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

    i. Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets are considered to be affordable and are within the forward approved Capital financing requirement estimate

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

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

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

25. Over the next 12 months the economic consensus is that investment rates are expected to remain significantly below borrowing rates. However, short-term avoidance of costs by postponing borrowing in 2016/17 will also be weighed against the potential for incurring additional long-term costs by having to enter into new external borrowing in later years, when long-term rates are expected to be higher.

Debt Rescheduling/Debt Management

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

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

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

29. Officers, following an examination of the cash and borrowing balances of the functional bodies within the GLA Family, will consider the use of intergroup transactions, to offer significant savings on borrowing and/or risk management opportunities. Such an examination will be carried out in accordance with liability benchmarking techniques, as recommended by the CIPFA Treasury Risk Management Toolkit for Local Authorities. It should be noted that members of the GLA Family comprise the London Fire and Emergency Planning Authority (LFEPA), the Greater London

Authority (GLA), the London Legacy and Development Corporation (LLDC), the London Pension Fund Authority (LPFA), the Mayor's Office for Policing and Crime (MOPAC) and Transport for London (TfL).

Investment Strategy

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

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

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

33. 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

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Fund balances/reserves	108.40	82.30	81.80
Provisions	229.50	229.50	229.50
Capital Receipts Reserve	269.50	21.40	0.00
Capital Grants Unapplied	3.02	3.02	3.02
Total Core Funds	610.42	336.22	314.32
Working Capital Surplus/(Deficit)*	-109.95	-109.95	-109.95
Under/(over) borrowing	155.13	149.08	143.53
Expected Investments	345.35	77.19	60.85

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

34. The Authority's short-term cash balances are invested through the GLA Group Investment Syndicate (GIS). The Authority is a participant of the GIS and the nature of the GIS and the GIS Investment Strategy, including creditworthiness policy and permitted instruments, as agreed between the Syndics, (The Director of Police Resources and Performance is the Syndic for MOPAC) is attached at Appendix 1E. This Strategy effectively constitutes the Authority's Annual Investment Strategy, which should be prepared and approved before the start of each financial

year, with approval by the Authority. This GIS Investment Strategy is currently under review by all the current participants of the GIS and the Board is presented with the latest version.

35. The changes intended to be incorporated into the GIS Investment Strategy, to further strengthen the GIS Investment Strategy's aim of achieving a good return within the constraints of security first and liquidity second, are set out in Appendix 1E. Minimisation of risk is further achieved through the maintenance of a list of highly creditworthy and diversified counterparties. These changes will not come into force until all participants have had their 2016/17 TMSS's approved and the Chief Finance Officer (Director of Police Resources and Performance for MOPAC) of each participant has signed a copy of the 2016/17 GIS Investment Strategy.

36. Where funds are placed in pooled vehicles such as Money Market Funds (MMFs), each MMF is only an approved counterparty while the underlying investments are instruments of the kinds listed in Appendix 1E. Variation between a MMF's list of approved counterparties and the approved counterparties of the MOPAC is permissible, at the discretion of the Director of Police Resources and Performance, providing the MMF's own rating meets the criteria of Appendix 4.

37. Additionally, the Director of Police Resources and Performance may from time to time instruct the GLA Treasury team to invest sums independently of the GIS, for instance, if the Authority identifies balances which are available for longer term investment, after proper consideration of expected future cash flows, as at the time of investment. It is proposed that the Authority adopt an identical set of parameters for such investments as those detailed in Appendix 1E, except that there shall be no requirement to maintain a weighted average maturity of no greater than three months. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Longer than 364 Days' (Appendix 1D section 6.3).

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

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

Treasury Management Budget

40. The Table below provides a breakdown of the treasury management budget

Treasury Management Budget

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Interest payable	22.00	22.00	22.00
Interest Receivable	-0.80	-0.80	-0.80
Minimum Revenue Provision	24.20	24.20	24.20
Other	0.00	0.00	0.00
Total	45.40	45.40	45.40

41. Assumptions behind the 2016/17 Budget are:

- Average rates achievable on investments will be 0.6%
- New borrowing to fund the capital programme will be financed by long term borrowing at a rate of 3.1%
- Replacement borrowing will be taken out at the long term borrowing rate of 3.1%
- The MRP charge is in line with the Authority's MRP Policy

Use of External Service Providers

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

43. The Authority 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.

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

45. The GLA, as Investment Manager under the GIS Investment Strategy, uses King and Shaxson Limited as a custodian of the Authority's tradeable instruments (such as Treasury Bills) with HSBC as the sub-custodian. The GLA's current policy is that any custodian (or, instead, sub-custodian) shall meet the GLA's credit criteria for 12 month investments (prior to Credit Default Swaps Market or other temporary adjustments). The GLA Investment Manager shall also use a properly appointed custodian to support any RMBS investments.

Treasury Training

46. 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.

47. A member/senior officer training handout and Powerpoint presentation has been developed by GLA Treasury as a 'framework', which can then be tailored to the individual needs of members/senior officers, as required. It is anticipated that the first training sessions using this framework will be delivered after the May 2016 Mayoral and Assembly elections.

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

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

Appendix 1B: 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. MOPAC defines its treasury management activities as:

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

2. MOPAC 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, and any financial instruments entered into to manage those risks.

3. 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.

Appendix 1C: 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 DCLG Capital Finance: Guidance on MRP, February 2012, also recommends that the annual MRP Policy is presented to the Authority for approval before the start of the financial year to which it relates. Any in-year changes must also be submitted to the Authority for approval.

1.5 The recommended statement for MOPAC is set out below:

1. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP Policy will be:

   - Based on CFR – MRP will be based on the CFR (Option 2)

   This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

2. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will

   - Depreciation method – MRP will follow standard depreciation accounting procedures (Option 4)

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

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

1.0 Background

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

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

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

- Capital expenditure plans
- External debt
- Treasury Management

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

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

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

2.0 Capital Expenditure

2.1 <u>Capital Expenditure</u>

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

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

Capital Expenditure

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Total Capital Expenditure	264.90	357.40	326.80
Financed by:			
Capital receipts	223.80	313.80	79.90
Capital grants	41.10	43.60	27.80
Capital reserves			
Revenue*	0.00	0.00	89.00
Net financing need for the year	0.00	0.00	130.10

*2018/19 £89m sourced from savings resulting from business cases

2.2. Capital Financing Requirement (CFR)

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

2.2.2 Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

2.2.4 The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility and so the Authority is not required to separately borrow for these schemes.

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

Capital Financing Requirement (CFR)

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Total CFR*	614.51	587.95	693.00
Movement in CFR	-27.63	-26.56	105.05
Movement in CFR represented by			
Net financing need for the year (see Capital Expenditure table)	0.00	0.00	130.10
Less Capital receipts to repay borrowing	0.00	0.00	0.00
Less MRP/VRP** and other financing movements	27.63	26.56	25.05
Movement in CFR	-27.63	-26.56	105.05

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

3.0 External Debt Prudential Indicators

3.1 Authorised Limit for External Debt

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

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

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

Authorised Limit for External Debt

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Borrowing	501.08	484.62	598.26
Other long term liabilities	83.31	79.25	76.21
Total	584.39	563.86	674.47

3.2 Operational Boundary for External Debt

3.2.1 The operational boundary is based on the same estimates as the authorised limit. However, it reflects an estimate of the most likely prudent but not worst case scenario. It equates to the maximum level of external debt under the capital spending plans approved by the Mayor and excludes the headroom included within the authorised limit.

3.2.2 The Operational Boundary is set as a warning signal that external debt has reached a level nearing the Authorised limit and must be monitored carefully. It is probably not significant if the Operational Boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would be significant, requiring further investigation and action as appropriate.

Operational Boundary for External Debt

	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Borrowing	376.08	359.62	473.26
Other long term liabilities	83.31	79.25	76.21
Total	459.39	438.86	549.47

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

	2015-16 Projected £m	2016-17 Estimate £m	2017-18 Estimate £m	2018-19 Estimate £m
Gross Debt at 31 March	270.13	459.39	438.86	549.47
Capital Financing Requirement	642.14	614.51	587.95	693.00

4.0 Affordability Prudential Indicators

4.1 Ratio of Financing Costs to Net Revenue Stream

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

Financing Costs to Net Revenue Stream

	2016-17 Estimate %	2017-18 Estimate %	2018-19 Estimate %
Total	1.82	1.82	1.82

4.2 Incremental impact of capital investment decisions on the council tax

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

Incremental Impact on Council Tax

	2016-17 Estimate £	2017-18 Estimate £	2018-19 Estimate £
Council Tax Band D	-0.50	-3.41	4.32

5.0 Treasury Management Prudential Indicator

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

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

6.0 Treasury Management Limits on Activity

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

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

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

Divided by

Total Borrowing less Total Investments

Fixed rate calculation:

(Fixed rate borrowing* less Fixed rate investments*)

Divided by

Total Borrowing less Total Investments

*Defined as greater than 1 year to run to maturity

Appendix 1

Variable rate calculation:

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

Divided by

Total Borrowing less Total Investments

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

Upper limit on interest rate exposure on net debt

	2016-17	2017-18	2018-19
	%	%	%
Fixed rate	150	150	150
Variable rate	50	50	50

6.2 Limits for Maturity Structure of Borrowing

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

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

Limits for Maturity Structure of Borrowing for 2016-17

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

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

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

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

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

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

Limits for Principal Sums Invested for Periods Longer than 364 days

	Maximum principal sums invested >364 days		
	2016/17 £m	2017/18 £m	2018/19 £m
Principal sums invested >364 days	0	0	0

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

Appendix 1E: Investment Strategy 2016-17
(incorporating the GIS Investment Strategy 2016-17)

1. Introduction

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

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

1.2.2 Cash balances can be invested in the Authority's own name. This normally arises where the Authority identifies balances which are available for longer term investments

or

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

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

2.0 GIS Investment Strategy Introduction

2.1 The GIS is a vehicle for investing pooled short term cash balances belonging to 'participants', currently the Greater London Authority (GLA), the London Fire and Emergency Planning Authority (LFEPA), the London Legacy Development Corporation (LLDC), the London Pensions Fund Authority (LPFA) and the Mayor's Office for Policing and Crime (MOPAC). The GLA acts as the Investment Manager under the supervision of the Syndics (the participants' respective chief financial officers).

2.2 By pooling resources, the participants can achieve economies of scale through larger individual transactions; can exploit the greater stability of pooled cash flows to obtain better returns and can achieve greater levels of diversification.

2.3 A risk sharing agreement ensures risk and reward relating to each investment within the jointly controlled portfolio are shared in direct proportion to each participants' investment.

2.4 The Investment Manager (the GLA) operates the GIS cash balances in accordance with the GIS Investment Strategy.

3.0 2016-17 GIS Investment Strategy Changes.

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

3.2 This shared strategy is subject to on-going development and review, with the result that the following changes and additions have been incorporated into the 2016-17 strategy.

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

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

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

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

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

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

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

iv. Clarification and consistency of counterparty categorisation

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

v. Addition of Residential Mortgage Backed Securities

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

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

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

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

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

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

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

Other strengths of RMBS are:

- Fully immunised from bail-in risk (the risk that depositors will be called upon to support the institution they have lent money to in the event of that institution defaulting). RMBS are secured on legally segregated mortgage assets and so are fully bankruptcy-remote from the issuing institution (originator).

- High liquidity, as the market for buying and selling them is large, with strong demand and well established.

- Good performance, as historically RMBS have outperformed competitor investment products such as covered bonds and senior unsecured certificates of deposit.

- Minimal interest rate exposures, since the returns on RMBS are floating rates.

- Increased diversification and reduced exposure to bank risk within the investment portfolio.

- High visibility and transparency, from the ability to carry out a full and rigorous assessment of individual mortgages and to stress test projected cash flows, both prior to their launch and on an on-going basis. Regular, detailed, reporting on underlying asset performance is also available on a monthly basis.

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

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

The Syndics are evaluating the potential investment mandate and the Director of Police Resources and Performance will obtain the consent of the Deputy Mayor for Policing and Crime before authorising any investment in this asset class.

4.0 GIS Investment Strategy 2016-17 Detail

4.1 The Investment Manager (the GLA) will generally use call accounts and short-dated or highly liquid money market instruments in order to maintain liquidity and will maintain the weighted average maturity of the short term portfolio arising from investing GIS balances, so that the weighted average maturity does not exceed 3 months. The majority of investments will, therefore, be 'Specified' investments rather than 'Non-Specified' investments. For example, RMBS is a 'Non-Specified' investment and given RMBS investment durations are typically greater than 3 months, it is unlikely that GIS balances will be used for RMBS investments.

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

4.3 The Investment Manager may delegate the management of a portion, not exceeding the forecast minimum GIS balance for the next 12 months, of the GIS to external fund managers if this is deemed prudent. As a result of very large scale pooling, such managers may be able to engage in trading[1] which is impractical for the GLA. Therefore, a slightly broader range of instruments are available to those managers. However, any delegation would be within the agreed investment strategy and would give a fund manager no greater discretion than the GLA treasury team presently have.

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

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

Specified Investments

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

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

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

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

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

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

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

Non Specified Investments

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

4.8 Criteria for Specified Investments[2]

Specified Investments				
Investment	**Minimum Credit Criteria** **(Expressed as Capita's colour band, Fitch PCF or raw ratings)**	**Managed:** **Internally (I) or Externally (E)**	**Maximum percentage of total investment**	**Maximum Duration (months)**
Debt Management Agency Deposit Facility (DMADF)	--	I	100%	6
Term Deposit – UK public body (e.g. Local, Police or Fire Authority)	Eligible for PWLB or National Loans Fund finance	I/E	100%	12

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

Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – Rated Bank or Building Society	Fitch credit Factor ≤10.0; domicile long term sovereign rating equivalent to Fitch AA or better	I/E	100%	12
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – Financial Institution in significant part owned by UK Government	Blue	I/E	100%	12
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – Institutions not meeting general criteria but instruments explicitly guaranteed by sovereign national Government rated AA or above (Fitch long term)	None	I/E	100%	12 or matching relevant guarantee, if shorter
UK Government Gilts held to maturity	--	I/E	100%	12
UK Treasury Bills held to maturity	--	I/E	100%	12
Bonds issued by multilateral development banks (e.g. The European Investment Bank) held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moody's)	I/E	100%	12
Corporate bonds explicitly guaranteed by UK Government held to maturity	Rating equivalent to UK Government	I/E	100%	12 or matching relevant guarantee, if shorter
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -				
Government Liquidity Funds	Fitch AAAmmf; or S&P AAAm; or Moody's Aaa.	I/E	100%	n/a [not a fixed term investment]
Money Market Funds	Fitch AAAmmf; or S&P AAAm; or Moody's Aaa.	I/E	100%	n/a [as above]

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

4.10 Criteria for Non-Specified Investments

Non-Specified Investments

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

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

Investment	**Minimum Credit Criteria** **(Expressed as Capita's colour band, Fitch PCF or raw ratings)**	**Use:** **Internal (I) or Externally (E) managed**	**Maximum percentage of total investments**	**Maximum Duration (months)**
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – institutions eligible for Specified investments	Defined as per specified investments	I/E	50%	24
Term Deposits, Call Accounts, Certificates of Deposit or other Senior Unsecured Debt – unrated institutions covered by explicit and unconditional parental guarantee from institution meeting criteria as above.	For parental guarantor: Fitch credit Factor ≤10.0; domicile long term sovereign rating, equivalent to Fitch AA or better.	I/E	50%	24 [or extent of guarantee if this is lower]
UK Government Gilts held to maturity	--	I/E	50%	240
UK Government Gilts held for trading	--	**E**	**50%**	**600**
UK Treasury Bills held for trading	--	**E**	**50%**	**12**

Corporate bonds explicitly guaranteed by UK Government held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moody's)	I/E	50%	240 [or extent of guarantee if this is lower]
Corporate bonds explicitly guaranteed by UK Government held for trading	**Long term AAA (Fitch or S&P) or Aaa (Moody's)**	**E**	**50%**	**300 [or extent of guarantee if this is lower]**
Bonds issued by multilateral development banks held to maturity	Long term AAA (Fitch or S&P) or Aaa (Moody's)	I/E	10%	120
Bonds issued by multilateral development banks held for trading	**Long term AAA (Fitch or S&P) or Aaa (Moody's)**	**E**	**10%**	**300**
Floating Rate Notes (multilateral development banks issuances only)	Long term AAA (Fitch or S&P) or Aaa (Moody's)	I/E	10%	120
Corporate Bonds or commercial paper held to maturity	Fitch credit Factor ≤10.0	I/E	20%	24
Residential Mortgage Backed Securities (RMBS) **[note: full approval pending]**	**Fitch Structured Finance AA+ or above**	**E**	**20%**	**Target weighted average life < 3 years**

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

<u>Creditworthiness Policy:</u>

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

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

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

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

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

Credit Risk Factors by Security, Rating and Maturity

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

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

Maximum duration: 730 days (24 months)

Maximum credit factor of any single security: 10.00

Maximum portfolio credit factor (PCF): 5.00

Therefore:

- instruments with green-shaded scores are always consistent with the risk limits for the portfolio;

- instruments with an amber-shaded score could be used, but would need to be balanced by the use of lower scoring investments; whereas

- instruments with red-shaded scores may not be used at all, as they lie outside the participants' risk appetite.

4.17 *The table expresses relative risk based on expectations of defaults. This is a helpful tool for articulating the GIS risk appetite.*

4.18 *The overall limit of 5.00 corresponds to the overall risk to capital not exceeding that of a 1 year deposit with a AA- rated bank, e.g. HSBC.*

4.19 *The individual limit of 10.00 implies the riskiest permitted assets would be no worse than, say, a 4 month deposit Skipton Building Society or Clydesdale Bank, or else a 3 month bond issued by a major corporate such as Carlsberg Breweries, Renault, or Deutsche Telecom.*

4.20 Additionally, the following restrictions or exceptional treatments shall apply for individual categories of counterparty.

<u>Rated Financial Institutions (Type A counterparties)</u>

4.21 The Investment Manager has regard to the sophisticated creditworthiness methodology developed and maintained by Capita Asset Services. The methodology uses an average of the ratings from all three of the Ratings Agencies to arrive at a score which places the institution into the bands for investment.

4.22 Following this initial classification, the score (hence, potentially, the band) is adjusted downwards to account for negative rating watches or outlooks (i.e. indications by the Agencies that a downgrade is being considered). Scores are further adjusted downwards if Credit Default Swap (CDS) spreads exceed certain barrier levels. For the purposes of the PCF calculation, the counterparty shall also be downgraded one notch in credit quality. UK banks in the Blue band are excepted from these further steps due to the security offered by their nationalised or semi-nationalised status.

4.23 The adjusted band is used to determine the following concentration limits:

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

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

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

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

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

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

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

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

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

Un-Rated Organisations (Type C Counterparties)

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

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

4.30 All limits above are overlaid with the following considerations:

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

Deposit Facility of Last Resort

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

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

Appendix 1F: Treasury Management Practices: Main Principles

1.0 INTRODUCTION

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

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

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

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

1.5 Scrutiny of the approval and monitoring of TMPs will be performed by the MOPAC/MPS Audit Panel following recommendations by the Director of Police Resources and Performance.

2.0 TMP1 RISK MANAGEMENT

2.1 General statement

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

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

2.2 Credit and counterparty risk management

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

2.3 Liquidity risk management

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

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

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

2.5 Exchange rate risk management

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

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

2.7 Legal and regulatory risk management

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

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

2.8 Fraud, error and corruption, and contingency management

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

2.9 Market risk management

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

3.0 TMP2 PERFORMANCE MEASUREMENT

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

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

4.0 TMP3 DECISION-MAKING AND ANALYSIS

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

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

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

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

6.3 If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director of Police Resources and Performance 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 Director of Police Resources and Performance 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 Director of Police Resources and Performance 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 Director of Police Resources and Performance 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 Director of Police Resources and Performance in respect of treasury management are set out in the TMPs: Schedules. The Director of Police Resources and Performance will fulfil all such responsibilities in accordance with the Authority's policy statement and TMPs and if a CIPFA member, the 'Standard of Professional Practice on Treasury Management'.

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

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

7.2 As a minimum:

The Authority will receive

- an annual report on the proposed strategy and plan to be pursued in the coming year

- a mid-year review

- an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

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

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

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

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

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

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

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

9.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this Authority will be under the control of the Director of Police Resources and Performance, 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 Director of Police Resources and Performance 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 Director of Police Resources and Performance is alert to the possibility that the Authority may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the TMPs: Schedules.

11.0 TMP10 TRAINING AND QUALIFICATIONS

11.1 The Director of Police Resources and Performance 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 Director of Police Resources and Performance will recommend and implement the necessary arrangements.

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

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

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

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

13.0 TMP12 CORPORATE GOVERNANCE

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

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

Appendix 1