

MOPACMAYOR OF LONDON
OFFICE FOR POLICING AND CRIME**METROPOLITAN
POLICE****TOTAL POLICING**

AUDIT PANEL

Friday, 22 September 2017

Treasury Management Strategy

Report by: Siobhan Peters, MOPAC Chief Finance Officer

Report Summary

Overall Summary of the Purpose of the Report

This reports sets out the MOPAC Treasury Management (TM) 2017/18 strategy, the performance of TM in 2016/17 and the arrangements in place to manage the operations.

Key Considerations for the Panel

To note the performance, strategy and operational arrangements for the management of treasury functions.

Interdependencies/Cross Cutting Issues

Risk register, governance, financial oversight.

Recommendations

The Audit Panel is recommended to:

- a. Note the performance and arrangements in place for the management of Treasury Management

1. Supporting Information

- 1.1. MOPAC has developed its Treasury Management strategy and the arrangements for the delivery of the function over the last few years and in a collaborative arrangement with the GLA. MOPAC is now in a place whereby its investment strategy is consistent with the GLA and other functional bodies who are part of the Group Investment Syndicate (GIS). This provides greater opportunities to place higher pooled balances with counter parties offering better returns, and for longer periods, and increased risk mitigation. Based on current balances MOPAC constitute c24% of the GIS balance. A recent development to further increase the capacity and resilience of the GIS is the inclusion of the London Borough of Haringey's treasury management function.
- 1.2. MOPAC has not borrowed in recent years using capital grants and receipts to fund its capital investment programme. The level of borrowing has therefore reduced as repayments have fallen due. The current level of borrowing is £160m.
- 1.3. Using a shared service arrangement provided by the GLA for the delivery of the service has helped to reduce costs and increase resilience.
- 1.4. MOPAC operates its TM functions within the framework of the CIPFA Code of Practice for Treasury Management which requires an annual adoption of a strategy and regular reporting on performance. In accordance with the MOPAC Scheme of Delegation and Consent it is the responsibility of the Deputy Mayor to approve the policy and strategy each year, and to receive regular reporting. This also provides the opportunity to review the current arrangements, and MOPAC's risk appetite. The oversight of the day to day arrangements rests with the MOPAC Chief Finance Officer.

Treasury Management Strategy 2017/18

- 1.5. All MOPAC investments are made in line with the Group Investment Strategy (GIS). This provides a model for the investment of surplus funds in line with the CIPFA Code of Practice which states that investment priorities are security first, liquidity second and then return (SLY).
- 1.6. The key elements of the investment strategy are that there is a low appetite for risk and
 - Placement of funds is diversified across a number of highly credit-worthy institutions - Capita provide the credit worthiness methodology
 - The weighted average maturity (WAM) i.e. the average length of deposits with counter parties is 91 days
- 1.7. The GLA has created a GIS2 for funds which are known to be held for a longer period, and has a WAM of 3 years. MOPAC does not participate in GIS2.

- 1.8. Under the CIPFA Code of Practice a series of prudential indicators are used to ensure that capital expenditure plans are affordable, borrowing and other long term liabilities are within prudent and sustainable levels and that TM decisions are taken in accordance with good professional practice. Limits are set for example for:
- external debt, with a lower operational boundary set as a warning signal.
 - the capital financing requirement (CFR) is calculated to indicate the underlying need to borrow. MOPAC has used 'internal' borrowing (use of our cash balances) to avoid the need to borrow externally and avoid incurring borrowing costs.
 - Financing costs as a percentage of net revenue stream
 - Limits on fixed v variable borrowing, and
 - Profile for the maturity of loans
- 1.9. The strategy assumes no additional borrowing in 2017/18 with the planned capital expenditure being funded by a combination of capital grants and capital receipts.

Treasury Management Performance 2016/17

- 1.10. As a result of the investment strategy in 2016/17 MOPAC generated income of £1.8m at a weighted average yield of 0.53%, which is 0.26% above the benchmark yield of 0.27% - the weighted average 3 month LIBID (London Interbank Bid Rate)
- 1.11. MOPAC has not made any new borrowing arrangements in the last 5 years as a result of the decision to finance capital investment from capital grants and capital receipts. As a result the level of borrowing has reduced from £304m at 31 March 2012 to £160m at 31 March 2017. Regular reviews of the borrowing arrangements are undertaken to ensure that value for money is achieved. Currently MOPAC is borrowing at a weighted average rate of 4.14%.
- 1.12. The detail of the MOPAC Treasury Management Strategy 2017/18 is set out in Appendix 1. The outturn reporting for 2016/17 is set out in Appendix 2.

Management Arrangements

- 1.13. The GLA Group Treasury services provide the day to day management and delivery of the MOPAC treasury management function, as well as strategic TM advice. The GLA are supported in this by jointly appointed external independent TM advisers, Capita.
- 1.14. The GLA provide 6 monthly and full year detailed performance reporting. Weekly reports are provided to MOPAC (see Appendix 3 for example) setting out the performance to date and providing assurance that all the activities are in line with the TM strategy.

- 1.15. There are quarterly meetings of the GIS Directors to formally review performance and ensure that the strategy remains fit for purpose.

2. Equality and Diversity Impact

There are no equality or diversity issues associated with this paper.

3. Financial Implications

- 3.1. The cost of the GLA shared service function is £57k p.a. This is met from within the existing MOPAC budget.
- 3.2. The income generated from returns in 2016/17 was £1.8m which is used to offset the costs of policing. The cost of borrowing in 2016/17 was £6.8m, which was within the existing MPS budget.

4. Legal Implications

There are no legal implications arising from this report.

5. Risk Implications

- 5.1. The investment strategy is set to reflect the low risk appetite of MOPAC, and in line with the principles of the CIPFA Code of Practice. Borrowing is currently all fixed rate and with the Public Works Loans Board (PWLB) in order to provide certainty of exposure.
- 5.2. Whilst every effort is made to minimise the likelihood of an incident the failure of for example a counter party would generate risks to the sum deposited and reputational risk for MOPAC.

6. Contact Details

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7. Appendices and Background Papers

Appendix 1 – Treasury Management Strategy 2017/18

Appendix 2 – Treasury Management Outturn 2016/17

Appendix 3 – Example Treasury Management Weekly report (Restricted)

REQUEST FOR DMPC DECISION – PCD 179

Title: Treasury Management Strategy 2017-18 and Mid-Year Report 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 1 are consistent with the MOPAC medium term financial strategy and 2017-18 budget. There is no planned new borrowing in this strategy for 2017/18.

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

In respect of 2016-17 to 30 September 2016 interest income for the first half year was £0.6m, and is ahead of expected half year budget of £0.4m. Debt management costs for the period are £11m, and are forecast to be below the budget of £22m at year end.

All investment and borrowing activity during 1 April 2016 and to 30 September 2016 was undertaken within the guidelines and objectives set out in the relevant policy and investment and borrowing strategies, except where previously reported.

Recommendations:

That the DMPC

1. approve the 2017-18 Treasury Management Strategy Statement and supporting detail as set out in Appendix 1
2. notes the activity and performance on the Treasury Management function during 2016/17

Deputy Mayor for Policing and Crime

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

The above request has my approval.

Signature

Sophie Linden

Date

30/3/17

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 2017/18 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 2017/18 TMSS includes that all MOPAC investments are made through the GLA Group Investment Syndicate (GIS).
- 1.5. Under the Treasury Management Strategy 2016-17 approved in March 2016 [DMPCD 2016 47] mid-year performance should be reported to DMPC. This paper fulfils this requirement.

2. Issues for consideration

Strategy Issues

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

Borrowing

- 2.2 There is no proposed change to the approach for borrowing for 2017/18. MOPAC has reserves which are used to help finance the capital programme reducing the need to borrow externally. In the current climate it continues to make 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 outside of externally managed funds or the pooled GIS funds MOPAC will not invest any principal sums for greater than 1 year.
- 2.7 The proposal is to continue to invest MOPAC funds fully within the GLA GIS. This is providing security whilst generating returns in excess of the 3 month London Interbank Bid Rate (LIBID) benchmark.
- 2.8 Based on current balances MOPAC's proportion of the GIS is circa 20%, (although this will change with the changes in MOPAC and other GIS members balances).
- 2.9 The GIS investment strategy has two updates since 2016/17 – allowing a wider range of permissible maturities for collateral accepted by the GLA when undertaking repurchase agreements, and a responsible investment statement in respect of climate change – see Appendix 1E

Benefits to MOPAC

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

Prudential Indicators and Treasury Management Limits

- 2.15 Appendix 1C sets out the proposed 2017/18 range of prudential indicators and Treasury Management limits.

Management Arrangements

- 2.16 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.

- 2.17 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.
- 2.18 GLA Group Treasury will liaise with MPS for the management of cash flow.
- 2.19 2016-17 Performance to 30 September 2016 – see Appendix 2

The average rate of return on investments was 0.61% compared with the LIBID 3 month benchmark of 0.34%, generating income of £0.6m. The annual budget for interest receivable is £0.8m. There has been no new long term borrowing in the first six months of 2016-17, and due to loan repayments the total borrowing has reduced from £160m to £150m – a reduction of £10m. Borrowing costs for the first 6 months was £11m, and are forecast to be £20m against a budget of £22m.

All transactions undertaken during the year met the criteria for lending to institutions and activity has been within the Prudential Code indicators set out in the TM Strategy 2016-17, except where previously reported.

3. Financial Comments

- 3.1. The cost of borrowing for 2017/18 is currently estimated to be £20m for interest payable, £1.3m interest receivable and £22.7m for minimum revenue provision. Budgets for this income and expenditure are included in the MOPAC/MPS budget for 2017/18.

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

Appendix 1 Treasury Management Strategy 2017/18
Appendix 2 Mid-Year Reporting 2016/17

Public access to information

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

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

Part 1 Deferral:

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

If yes, for what reason:

Until what date:

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

Is there a **Part 2** form – NO

ORIGINATING OFFICER DECLARATION:

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

OFFICER APPROVAL**Chief Executive Officer**

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

Signature Rebecca Lawrence

Date 30/3/17

Treasury Management Strategy Statement 2017-18

Introduction/Background

- 1) The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of MOPAC (the Authority) for the year 2017/18.
- 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 1A)

- Minimum Revenue Provision (MRP) Policy Statement (Appendix 1B)
 - Prudential Code Indicators and Treasury Management Limits (Appendix 1C)
 - Group Investment Syndicate (GIS) Investment Strategy (Appendix 1D)
 - GLA Group Responsible Investment Statement (Appendix 1E)
 - Treasury Management Practices: Main Principles (Appendix 1F)
- 5) In covering the above areas, as per its Treasury Management Policy Statement (Appendix 1A), 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 1F (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.

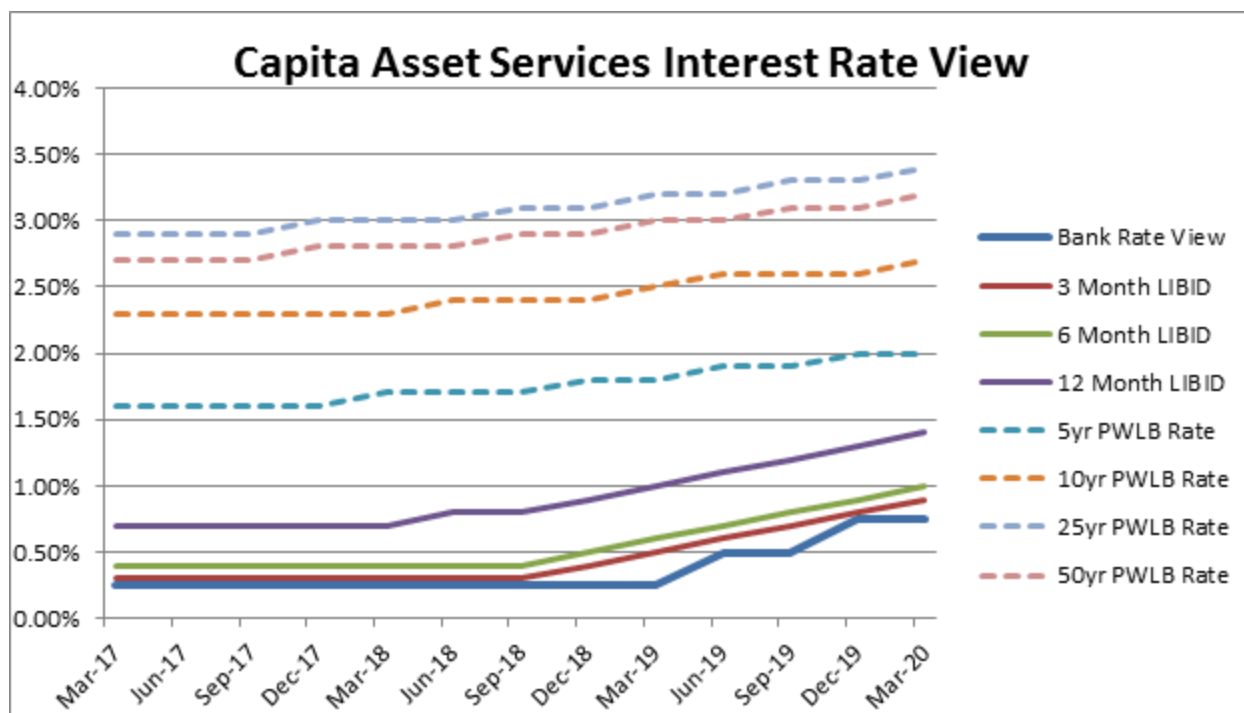
- iv. The Authority has delegated to the MOPAC/MPS Audit Panel the responsibility for ensuring effective scrutiny of the treasury management strategy and policies.
 - v. Should there be a need to revise the Treasury Management Strategy; the Treasury Management Policy Statement; the Minimum Revenue Provision 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 for maintaining the Treasury Management Practices (TMPs) and monitoring and managing the strategy, with day to day management of this function delegated to his/her staff.

Economic Background

- 10) Market volatility and widespread uncertainty around growth, inflation and interest rate forecasts are dominant factors in the outlook relevant to treasury management.
- 11) This outlook has several treasury management implications:
- a. Investment returns are likely to remain low for shorter term investments.
 - b. 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

- 12) The effective management of risk around borrowing and investments and cash flow management decisions includes understanding interest rate and inflation rate movements.
- 13) The Authority has appointed Capita Asset Services – Treasury Solutions, as its treasury advisor and part of its service is to assist the Authority to formulate a view on interest rates. Below is a central view for short term interest rates (Bank Rate) and longer term fixed interest rates, as provided by Capita Asset Services, Treasury Solutions, as at February 2017. The PWLB Rates shown are net of the 0.2% 'certainty rate' discount.



Borrowing Strategy

Delegation/Authorisation

- 14) 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.
- 15) 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.
- 16) All borrowing decisions should be reported to the MOPAC/MPS Audit Panel at the first opportunity within the treasury management cycle.

Internal Borrowing Approach

17) 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

Policy on Borrowing in Advance of Need

18) 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.

19) 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.

20) 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 2017/18 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.

i. Debt Rescheduling/Debt Management

21) PWLB pricing policies currently impose a considerable spread between the rate of new loans and the rate used to calculate premiums or discounts on early redemption. This means that there are far fewer opportunities for restructuring than was historically the case, due to prohibitively expensive premia in relation to achievable interest savings. This emphasises the importance of attempting to optimise maturity profiles at the point of entering into borrowings.

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

Investment Strategy

23) 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. 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.

- 24) 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.
- 25) 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.
- 26) 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

	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Fund balances/reserves	110.60	88.90	63.60
Provisions	62.29	62.29	62.29
Other	167.29	4.50	4.50
Total Core Funds	340.18	155.69	130.39
Working Capital Surplus/(Deficit)	44.31	44.31	44.31
Internal borrowing	154.87	159.32	160.46
Expected Investments	229.62	40.68	14.24

27)

- 28) The Authority's short-term cash balances are invested through the GLA Group Investment Syndicate. 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 1D. This Strategy effectively constitutes the Authority's Annual Investment Strategy, which is prepared and approved before the start of each financial year, with approval by the Authority.
- 29) The investment strategy has been updated since the previous iteration in two main respects
 - a. A wider range of permissible maturities for collateral accepted by the GLA when undertaking repurchase agreements is adopted. This is in response to market conditions: the previous limits restricted maturity to less than 5 years, however competition for such assets means this needs to be reconsidered.
 - b. A responsible investment statement in respect of climate change is included. This is being adopted across the GLA group in line with the Mayor's commitment to Fossil Fuel divestment.
- 30) The GLA intends to offer a second GIS (GIS 2) for strategic reserves, in order to extend to others the

benefits it has experienced with its own longer term balances invested in Residential Mortgage Backed Securities and other longer dated assets. This will operate under identical investment guidelines, except that the WAM limit will be extended to 3 years. MOPAC will continue to place surplus funds within with existing GIS, as the Authority does not foresee a significant long-term reserves balance.

- 31) The changes incorporated into the GIS Investment Strategy, to further strengthen the GIS Investment Strategy's aim of achieving a good return within the constraints of security first and liquidity second, are set out in Appendix 1D. Minimisation of risk is further achieved through the maintenance of a list of highly creditworthy and diversified counterparties. These changes will come into force once all participants have had their 2017/18 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 2017/18 GIS Investment Strategy.
- 32) Where funds are placed in pooled vehicles such as Money Market Funds (MMFs), each MMF is only an approved counterparty while the underlying investments are instruments of the kinds listed in Appendix 1D. Variation between a MMF's list of approved counterparties and the approved counterparties of the MOPAC is permissible, at the discretion of the Director of Police Resources and Performance, providing the MMF's own rating meets the criteria of Appendix 1D.
- 33) 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 1D, except that there shall be no requirement to maintain a weighted average maturity of no greater than three months. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Longer than 364 Days' (Appendix 1C section 6.3).
- 34) 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.
- 35) 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

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

Treasury Management Budget

	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Interest payable	20.22	20.40	23.39
Interest Receivable	-1.30	-1.30	-1.30
Minimum Revenue Provision (excluding PFI*)	22.68	22.23	25.53
Other	0.00	0.00	0.00
Total	41.60	41.33	47.62

*The PFI charge element is met from capital receipts

37) Assumptions behind the 2017/18 Budget are:

- Average rates achievable on investments will be 0.35%
- No new borrowing to fund the capital programme will be required in 2017/18
- The MRP charge is in line with the Authority's MRP Policy

Use of External Service Providers

- 38) 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.
- 39) 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.
- 40) RBS Plc are MOPAC's bankers and continue to provide a competitive service under an annual rolling contract.
- 41) 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 investment in securities as part of GIS2.

Treasury Training

- 42) 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.
- 43) A Member/Senior officer training handout and Powerpoint presentation developed by GLA Treasury as a 'framework', which was tailored to the individual needs of members/senior officers, was delivered in sessions during the 2016/17 financial year.
- 44) Capita Asset Services run training events regularly which are attended by Treasury officers. In addition, Treasury officers attend national forums and practitioner user groups.
- 45) Notwithstanding the above, the training needs of Treasury officers and committee members are periodically reviewed.

Appendix 1A: Treasury Management Policy Statement

1. Policy Statement

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

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

1. Policy Statement

- 1.1 MRP is the amount out of revenue funding set aside each year as a provision for debt i.e. the provision in respect of capital expenditure financed by borrowing or credit arrangements.
- 1.2 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) provides that for the financial year 2007/08 and subsequent financial years, the detailed MRP calculation is to be replaced with the requirement that:
- 1.3 'A Local Authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'
- 1.4 The guidance also recommends that the annual MRP Policy is presented to the 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 For 2017/18 the MOPAC will make a minimum revenue provision (MRP) in accordance with:-

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

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

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

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

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

1.0 Background

- 1.1 The Prudential Code has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Prudential Code has a central role in capital finance decisions, including borrowing for capital investment. Its key objectives are to provide a framework for local authority capital finance that will ensure for individual local authorities that capital expenditure plans are affordable; all external borrowing and other long-term liabilities are within prudent and sustainable levels and that treasury management decisions are taken in accordance with good professional practice.
- 1.2 The Prudential Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.
- 1.3 Any such framework for the internal control and self-management of capital finance must therefore deal with all three of the following elements:
 - Capital expenditure plans
 - External debt
 - Treasury Management
- 1.4 To ensure compliance with the Prudential Code in relation to the above elements, the 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 Capital Expenditure

- 2.1.1 Capital expenditure results from the approved capital spending plan and proposed borrowing limits. It is the key driver of Treasury Management activity.
- 2.1.2 All capital expenditure is stated, not just that covered by borrowing.

Capital Expenditure

	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Total Capital Expenditure	366.30	370.90	297.40
Financed by:			
Capital receipts	274.00	196.50	145.80
Capital grants	92.30	80.40	32.70
Borrowing	0.00	94.00	118.90
Net financing need for the year	0.00	0.00	0.00

2.2. Capital Financing Requirement (CFR)

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

	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Total CFR*	593.74	662.60	750.96
Movement in CFR	-26.56	68.86	88.36
Movement in CFR represented by			
Net financing need for the year (see Capital Expenditure table)	0.00	93.92	118.90
Less Capital receipts to repay borrowing	0.00	0.00	0.00
Less MRP/VRP** and other financing movements	26.56	25.06	30.54
Movement in CFR	-26.56	68.86	88.36

*The MRP/VRP will include the PFI/finance lease annual principal payments to be met from capital receipts

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

	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Borrowing	484.60	552.10	644.50
Other long term liabilities	79.30	76.20	71.00
Total	563.90	628.30	715.50

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

	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Borrowing	359.60	427.10	519.50
Other long term liabilities	79.30	76.20	71.00
Total	438.90	503.30	590.50

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

	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Gross Debt at 31 March	438.87	503.28	590.50
Capital Financing Requirement	593.74	662.60	750.96

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

	2017-18 Estimate %	2018-19 Estimate %	2019-20 Estimate %
Total	1.67	1.67	1.92

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

	2017-18 Estimate £m	2018-19 Estimate £m	2019-20 Estimate £m
Council Tax Band D	-0.02	-5.07	-2.37

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

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

	2017-18	2018-19	2019-20
	%	%	%

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 2017-18

	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 indicator 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		
	2017/18 £m	2018/19 £m	2019/20 £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 1D: Investment Strategy 2017-18 (incorporating the GIS Investment Strategy 2017-18)

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

or

Cash balances can be invested through the GLA GIS, in the name of the GIS.
- 1.4 Cash balances invested in the Authority's own name are subject to the GIS Investment Strategy, except that there is no requirement to maintain a weighted average maturity which does not exceed 3 months.
- 1.5 Cash balances invested in the name of the GIS are subject to the GIS Investment Strategy.
- 1.6 All Authority investments must therefore fully consider the GIS Investment Strategy. This Strategy is outlined below:

2. 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 On an individual basis, shorter investments can give rise to additional transaction costs and lower returns; but by pooling resources the participants can achieve economies of scale through larger individual transactions; can exploit the greater stability of pooled cash flows to obtain better returns and can achieve greater levels of diversification.
- 2.3 A risk sharing agreement ensures risk and reward relating to each investment within the jointly controlled portfolio are shared in direct proportion to each participants' investment.
- 2.4 The Investment Manager (the GLA) operates the GIS cash balances in accordance with the GIS Investment Strategy.

3. GIS Investment Strategy

GREATER LONDON AUTHORITY

GIS INVESTMENT STRATEGY 2017-18

Contents

<u>Limits and Compliance</u>	101
<u>Risk Appetite Statement</u>	102
<u>Permissible Investments</u>	103
<u>Liquidity and Maturity Limits</u>	105
<u>Counterparty Concentration Limits</u>	105
<u>Geo-political risk limits [under review]</u>	107
<u>Credit Risk Limits</u>	107
<u>Deposit Facility of Last Resort</u>	111
<u>Custody Arrangements</u>	111
<u>CIO Discretions</u>	111
<u>Explanatory Notes</u>	112

GIS Investment Strategy 2017-18

This investment strategy applies to investments pooled under GIS 1 (short term liquidity) and GIS 2 (strategic reserves)

Limits and Compliance

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

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

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

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

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

- 6.0 If an investment is made in breach of these forward-looking limits, it is an active breach of investment strategy and will be reported per 3.0. Where changes in cash flow forecasts or counterparty and/or instrument status result in forward-looking limits being exceeded by existing investment positions, the CIO will be notified, who may then modify investment tactics to reduce the likelihood of a passive exception as defined in 4.0 occurring. Such an occurrence does not constitute an exception of any kind and need not be reported further.
- 7.0 Mitigating actions for all breaches will in the first instance be taken at the discretion of the CIO (or the GLA's statutory CFO, or his deputy). Such decisions must be supported by an analysis of the costs and benefits of attempting to reduce the overexposure in question versus tolerating it. In all cases a file note of the decision will be retained and circulated to the Syndics. A majority of the Syndics may instruct alternative action.

Risk Appetite Statement

- 8.0 Capital preservation is the primary GIS objective at the portfolio level, followed by provision of liquidity to meet Participants' cash flow needs.
- 9.0 In order to deliver best value on public funds, the Participants are prepared to take some investment risk to the extent outlined below, where such risk is rewarded by yields above UK government securities held to maturity.
- 10.0 The risk of loss through default in the entire portfolio (or any subsection delegated to an external manager) should not exceed risk of loss through default equivalent to a 1 year exposure to a typical AA- rated issuer.
- 11.0 No individual instrument/investment should pose a greater risk of loss through default than a 90 day exposure to a typical BBB issuer.
- 12.0 The Participants will tolerate price volatility where there is an expectation of holding an investment to maturity; where the expectation is that sale before maturity is likely or where the investment is in a variable NAV fund, the combined risk of loss through default and crystallised falls in price should not exceed the risk tolerance specified in 10.0.
- 13.0 This strategy sets out risk controls and limits that, in the opinion of the Participants, deliver these objectives.
- 14.0 Alternative controls and limits, save for the overarching requirements of 15.0-17.0 and 21.0, may be used by external managers appointed in accordance with 18.0, if those limits are judged by the Syndics, on the advice of the CIO or other independent professional advice, to be appropriately effective.

Permissible Investments

15.0 All investments must be Sterling-denominated financial instruments

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

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

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of daily balance
Senior Unsecured Debt <ul style="list-style-type: none"> UK Gilts and T-Bills Deposits Call Accounts Notice Accounts Certificates of Deposit Loans Commercial Paper All other senior unsecured bonds 	<p>Issuer (and security where separately rated) Investment Grade (IG) defined per 0</p> <p>OR</p> <p>UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance)</p> <p>OR</p> <p>Issuer not meeting general criteria but instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per 32.0</p>	S	NS	100%
Constant Net Asset Value Money Market Funds	<p>Fitch AAA_{mmf} or above</p> <p>See 36.0 for equivalents from other agencies.</p> <p>Daily liquidity</p>	S	N/A	<p>100%</p> <p><i>Not more than 20% per fund</i></p>

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of daily balance
Other Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)	Fitch AAA _f or equivalent from other agencies per 36.0	NS	<i>Not permitted.</i>	20%
Senior UK Prime or Buy to Let Residential Mortgage Backed Securities (RMBS)	Bond rating Fitch AA+ _{sf} or above or equivalent from other agencies per 36.0	NS	NS	20%
Covered bonds	Bond rating Fitch AA+ _{sf} or equivalent from other agencies per 36.0 AND Issuer rated Fitch A- or above or equivalent from other agencies per 36.0	NS	NS	20%
Repurchase Agreements (Repo)	Counterparty meets senior unsecured criteria AND proposed collateral (Min 100%) itself meets permitted investment criteria Or Collateralisation is >102% with UK Gilts / T-Bills	S – UK gilts or T-Bills AND Counterparty meets senior unsecured criteria NS – other	<i>Not permitted.</i>	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria.

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

Liquidity and Maturity Limits

19.0 Portfolio Weighted Average Maturity (WAM) \leq 91days (GIS 1) ; \leq 3 years (GIS 2)

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

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

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

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

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

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

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

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

23.0 Forward Dealing limit: aggregate value of outstanding forward deals \leq 20% of daily balance; forward deals must not be struck with an individual counterparty if the limit forecasts defined in **Error! Reference source not found.** indicate this is likely to cause an exception. See also 42.0 for credit risk management of forward deals.

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

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

Counterparty Concentration Limits

(Apply individually and cumulatively to groups)

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

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

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

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

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

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

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

31.0 Maximum aggregate exposure including indirect or collateralised exposures:

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

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

Geo-political risk limits [under review]

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

Max. Aggregate Exposure (%)	Fitch Sovereign Rating	S&P Sovereign Rating	Moody's Sovereign Rating
25	AAA	AAA	Aaa
15	AA+	AA+	Aa1
5	AA	AA	Aa2

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

34.0 If 5y CDS spreads for the relevant country's central government bonds exceed barrier levels from time to time agreed by the Syndics on the advice of Capita or the CIO, the aggregate exposure limit will normally be reduced to that of the lower rating, or in the case of a AA sovereign, further investment will be suspended. The CIO may postpone such adjustments in consultation with the Syndics.

35.0 The Participants recognise that the approach above does not perfectly mitigate geopolitical risks, therefore the CIO is empowered to suspend investment in any particular country should concerns arise. The use of this discretion will be reported immediately to the Syndics.

8.0 Credit Risk Limits

36.0 Permitted issuer credit ratings and equivalence mappings

Senior Unsecured Bond and/or Issuer Ratings					
Long term			Short term		
Fitch	Moody's	S&P	Fitch	Moody's	S&P
AAA	Aaa	AAA			
AA+	Aa1	AA+			
AA	Aa2	AA	F1+	P-1	A-1+
AA-	Aa3	AA-			
A+	A1	A+			

A	A2	A	F1	P-1	A-1
A-	A3	A-			
BBB+	Baa1	BBB+			
BBB	Baa2	BBB	F2	P-2	A-2
Structured Finance Ratings					
Fitch		Moody's		S&P	
AAA _{sf}		Aaa (sf)		AAA (sf)	
AA _{sf}		Aa1(sf)		AA+ (sf)	
Money Market Fund Ratings					
Fitch		Moody's		S&P	
AAA _{mmf}		Aaa-mf		AAAm	
Other Permitted Fund Ratings					
Fitch		Moody's		S&P	
AAA _f		Aaa-bf		AAAf	

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

Credit Factors based on Issuer Default Rating (Fitch and Fitch Equivalents)

Use instrument rating or if not rated, rating of Issuer.

Days	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB
O/N	0.01	0.01	0.01	0.01	0.02	0.03	0.04	0.07	0.10
2-7	0.02	0.04	0.06	0.10	0.15	0.20	0.30	0.50	0.80
8-30	0.10	0.15	0.25	0.40	0.60	0.75	1.30	2.10	3.50
31-60	0.20	0.30	0.50	0.80	1.20	1.50	2.60	4.20	7.00

61-90	0.25	0.50	0.75	1.25	1.50	2.50	5.00	7.50	10.00
91-120	0.35	0.65	1.00	1.50	2.30	3.30	6.60	10.00	13.50
121-150	0.40	0.80	1.25	2.10	2.90	4.20	8.30	12.50	16.50
151-180	0.50	1.00	1.50	2.50	3.50	5.00	10.00	15.00	20.00
181-210	0.60	1.20	1.75	3.00	4.00	5.80	11.70	17.50	23.50
211-240	0.70	1.30	2.00	3.30	4.70	6.60	13.30	20.00	27.00
241-270	0.75	1.50	2.25	3.75	5.25	7.50	15.00	22.50	30.00
271-300	0.80	1.70	2.50	4.20	5.80	8.30	16.70	25.00	33.50
301-330	0.90	1.85	2.75	4.60	6.50	9.20	18.50	27.50	37.00
331-397	1.00	2.00	3.00	5.00	7.00	10.00	20.00	30.00	40.00
398-730	2.70	5.30	8.00	13.00	19.00	27.00	43.00	69.00	106.00

Other treatments

UK Government (including the Debt Management Account Deposit Facility, Local Authorities and bodies eligible for PWLB finance)

Treat as AAA above

Except:

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

Instruments explicitly guaranteed by IG entity or sovereign national government meeting acceptable sovereign ratings per 32.0

Use Credit Factors appropriate to guarantor strictly for the period of the guarantee, reverting to rating of issuer thereafter

Repo

Use Credit Factors appropriate to repo counterparty, not collateral;

Unrated or sub-BBB counterparty with >102% Gilt/T-bill collateralisation – treat as BBB

Approved fund, e.g. AAA _{mmf}	Use Credit Factor of 1.5
Covered Bonds or RMBS	Use Credit Factor of 5

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

40.0 The following limits apply at all times:

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

41.0 The PCF will be calculated and recorded daily.

42.0 The total contractual exposure of any transaction with counterparty, i.e. in the case of a forward deal, the forward period PLUS the eventual length of the deal should be considered at the time of the transaction and compared to table 38.0 – the Credit Factor for the total exposure period at the counterparty's credit rating at the time of the deal must not exceed 10.

9.0 Deposit Facility of Last Resort

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

10.0 Custody Arrangements

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

11.0 CIO Discretions

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

12.0 Responsible Investment

- 50.0 All investments will comply with the GLA Group Responsible Investment Statement on climate change, as attached.

13.0 Explanatory Notes

Background to the GIS Investment Strategy

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

Reporting thresholds – see paragraph 4 in the GIS Strategy.

- ii. Reporting thresholds are capped at £25m and £50m, these limits are conservative based on the expected scale of the GIS – based on the GIS composition as at 30 June the absolute exposure reporting thresholds for each participant would be:

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

Investment types see paragraph 17 in the GIS Strategy.

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

Specified Investments

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

Non Specified Investments

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

New instruments introduced since previous strategy

- iv. Reflecting increased market risk and difficulties in diversifying, this strategy introduces the new and highly secure option of UK Residential Mortgage Backed Securities, which provides a genuine diversification away from institutional credit risk and additional options for secured lending, enabling limits to be increased with existing counterparties in exchange for security of some sort of asset in the event of the borrower becoming insolvent.
- v. RMBS
- Since the approval of the GIS Participants' Treasury Strategies, which all set out the rationale for senior UK Prime and Buy to Let RMBS, the GLA has appointed two managers to manage £100m each of GLA core cash in this asset class.
- Almost half of the investments were made prior to the market turbulence following the EU referendum, enabling the GLA to reduce its exposure to banks; additionally, this action has provided an excellent market test of extreme conditions for the asset class. Unlike a number of banks and the UK itself, the ratings of UK RMBS were untouched by the negative market perception of the UK's actions and liquidity in the asset class was no worse than any other within the current investment strategy. Yield remains higher than other available options.
- 15 UK Banks and Building Societies have over £100bn of AAA-rated RMBS outstanding, via bankruptcy-remote issuing companies, which ensures full credit de-linkage

- This report therefore recommends inclusion of UK RMBS in the GIS subject to the limits proposed and the overall GIS WAM limit, in order to reduce risk and improve returns. The 20% limit reflects the fact that the GIS currently has a 91 day WAM limit and most of these instruments will have a WAM > 1 year.
- Only senior RMBS are permitted at this stage, i.e. the GIS has first priority over the cash flows from the underlying pools of thousands of diversified UK residential prime or buy-to-let mortgages. These to date have always been AAA rated at inception with some isolated cases of downgrades to AA+ due to lower ratings of associated counterparties within the RMBS structure such as the bank servicing the mortgages, rather than the underlying mortgages, reflecting the increased risk of possible payment disruption should the servicing bank fail (though no increased risk of non-payment). The strategy does not exclude these downgraded senior notes as the risk of loss is still very low but it should be noted that changes to RMBS structures since 2008 make this circumstance very unlikely in future.
- The cash flows from RMBS are generated by both interest and principal repayments of the mortgages in the relevant pool. In particular, when homeowners refinance (or move house) the pool experiences principal inflows, which are then passed through to the RMBS bondholders (which the most senior tranches, proposed here, receive before all others). Refinancing typically occurs much earlier than the final date of the mortgage, therefore it is not proposed to limit the legal maturity of RMBS, as these are set with reference to the longest dated mortgage in the pool and do not reflect the expected maturity date. In addition, RMBS deals are structured with financial penalties for the issuer beyond the expected maturity date, to ensure that deals mature as expected.
- The strong cash flow characteristics of senior RMBS mean that principal is repaid incrementally, therefore a proposed WAM limit of 3 years per security for the whole RMBS portfolio is proposed alongside a 5 year expected final maturity limit per security.

vi. Covered Bonds

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

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

vii. Repurchase Agreements "Repos"

- Repos are a form of secured lending whereby rather than lend directly to a counterparty, the GIS would buy from them a security e.g. a bond and agree to sell it back at an agreed (higher) price at a future date. The profit on this transaction replaces interest in a normal lending agreement but there is the additional feature that if the borrower becomes insolvent, the GIS may keep the security, which is referred to as collateral.
- For this reason, only securities that meet GIS criteria may be accepted as collateral, however the duration limits of 21.0 and 20.0 do not apply since the expectation is that the collateral will be disposed of at the first opportunity and over-collateralisation provides mitigation for any price movement.
- Furthermore, if such a default occurred, the GIS may need to sell the collateral for cash flow reasons so there may be some price risk between the default and the sale. Therefore, minimum levels of collateral, expressed as a percentage of the market value of collateral relative to the purchase price, are proposed.
- The strategy permits very limited repo exposure (2.5% and 10% in aggregate) to counterparties not meeting unsecured investment criteria. In this case, minimum collateral is set at 102% (in line with minimum standards for repo use by AAA rated money market funds) and the provision is designed to enable transactions with pension funds engaged in liability hedging activities, to mutual advantage.
- There are a number of ways to implement a repo. This is delegated to officers and their advisors or external managers, however per 46.0, legal title to the collateral must be unequivocally obtained and safe custody arrangements be in place.
- Repos will provide a further tool for balancing GIS risk and return: the risk is very much lower than unsecured lending to banks and others, although not as low as T-bills, however repo returns are slightly higher than T-Bills and there is more flexibility with maturity dates.

Weighted Average Maturity see paragraph 20 in the GIS Strategy.

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

Credit Default Swaps (CDS) see paragraph 28 in the GIS Strategy.

- i. Credit Default Swaps (CDS) are effectively insurance contracts against a given counterparty defaulting; their price (typically expressed as an additional interest cost or 'spread' in basis points – i.e. 100ths of one percent). Higher prices may therefore reflect greater market perception of risk, although other supply and demand factors can distort this, including the activity of speculators. For this reason, the CIO has discretion to propose postponements to the impact of CDS data on limits.
- ii. Although the GIS typically participates in short term investments, it refers to 5 year CDS prices as this market has higher volumes of trading and therefore more accurately reflects market sentiment.
- iii. The GIS's advisor and data provider, Capita, proposes barrier levels dependent on market conditions as indicated by one of the main CDS indices, ITRAXX 5 year senior financials.
- iv. When the ITRAXX is below 100 basis points, a counterparty's limit band will be adjusted down one notch if their CDS price is between 100 and 150 or to 'no colour' if above 150
- v. When the ITRAXX is above 100, a counterparty's limit band will be adjusted down one notch if their CDS price between 1 and 50 basis points above the ITRAXX or to 'no colour' if more than 50 basis points above.

Book value weighted average see paragraph 38 in the GIS Strategy.

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

CIO discretions see paragraph 49 in the GIS Strategy.

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

14.0 Approved by Signatories:

MARTIN CLARKE

Syndic, GLA

Date:

SUE BUDDEN

Syndic, LFEPA

Date:

GERRY MURPHY

Syndic, LLDC

Date:

ALEX ANDERSON

Syndic, MOPAC

Date:

TRICIA CLARK

Syndic, LPFA

Date:

Appendix 1E: GLA Group Responsible Investment Statement

GLA GROUP

1.0 Responsible Investment Statement – CLIMATE CHANGE

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

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

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

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

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

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

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

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

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

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

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

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

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

"ignoring the impact and risks associated with fossil fuels" – means continuing or developing new business

activities contributing to climate change through fossil fuel emissions or environmental damage resulting from relevant fuel extraction without regard to development of new and sustainable alternatives or other transition planning towards a lower environmental impact;

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

1.1 Examples of Application:

Making a loan to a fossil fuel company in order fund expansion of conventional extraction activities would meet the definition of investment for these purposes; making a loan to a fossil fuel company to develop an alternative technology would not.

Purchasing a fossil fuel company bond, from another bond holder would not meet the definition as it does not lead to ownership or engagement, nor provide new financial assistance to the company. Participating in the purchase of newly issued long term bonds may or may not classify as investment depending on the proposed use of proceeds.

Commercial Paper or other debt instruments with less than a year to maturity would not constitute investment in this context as there is no associated ownership or engagement, nor do the longer term risks associated with exposure to unsustainable industries (which this strategy seeks to mitigate) apply over the life of such instruments.

Directly purchasing equity in a fossil fuel company would constitute an active investment.

Buying units in an exchange-traded tracker fund, where the index is known to contain fossil fuel companies may or may not constitute an active investment. It would be active if the intent was for the allocation to be a permanent part of the investment portfolio *and* the composition of the index was weighted more than 10% towards fossil fuel companies; it would not if the purchase was made to maintain broad market exposure, for instance during a transition between active portfolios. In any circumstance, the Authority seeks to influence the composition of the market (reflected in passive investments) through its own active decisions and those of likeminded partners.

Circumstances involving conglomerates with a mixture of subsidiaries, some of which may meet the fossil fuels company definition (whereas others may, for example, be focused on renewable energy), would be considered on a case-by-case basis, with investment being possible if the overall corporate strategy appears to be environmentally sustainable and offset the financial risks this statement seeks to mitigate.

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.

GREATER LONDON AUTHORITY

GROUP TREASURY

Treasury Management Mid-Year Report for 2016-17 - MOPAC

Executive Summary:

This report is submitted in accordance with a requirement under the Treasury Management in the Public Services Code of Practice (The Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the submission of a mid-year report on the activities of MOPAC's treasury management operation.

Treasury activity has seen MOPAC's investments outperform its investment benchmark by 0.27% over the six month period ending 30 September 2016. Mid-year 2016 invested balances are £186.18m.

MOPAC's loan borrowing levels have reduced from £175.92m at 31 March 2016 to £166.69m at 30 September 2016.

All 2016/17 Treasury activity has been within the boundaries and levels set by MOPAC, in its Treasury Management Strategy Statement, DMPCD 2016-17, on 17th March 2016, except where previously reported.

Recommendation:

That the following is noted:

- The 2016/17 Treasury mid-year results against the 2016/17 Treasury Management Strategy Statement, DMPCD 2016 47, dated 17 March 2016.

1.0 Current Treasury Management Position

Current Treasury Position	Actual as at 31 March 2016		TMSS Forecast to March 2017		Actual as at 30 September 2016		Revised Forecast to March 2017	
	£m	Rate %*	£m	Rate %*	£m	Rate %*	£m	Rate %*
External Borrowing								
Long Term Borrowing: PWLB	159.46	4.14	359.62	4.33	150.24	4.23	359.62	4.33
Short Term Borrowing: PWLB	16.46	2.45	16.46	2.45	16.46	2.45	16.46	2.45
Temporary Borrowing:	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total External Borrowing (A)	175.92	3.98	376.08	4.14	166.69	4.05	376.08	4.14
Other Long Term Liabilities								
PFI Liability	82.25		77.95		77.95		77.95	
Finance Lease Liability	5.53		5.36		5.43		5.36	
Total Other Long Term Liabilities (B)	87.78		83.31		83.38		83.31	0.00
Total Gross Debt (A+B)	263.70		459.39		250.07		459.39	
Capital Financing Requirement	647.93		614.51		620.30		620.30	
Less Other Long Term Liabilities	87.78		83.31		83.38		83.31	
Underlying Capital Borrowing Requirement (C)	560.15		531.20		536.92		536.99	
Under/(Over) Borrowing (C-A)	384.23		155.12		370.23		160.91	
Investments (D)	36.89	0.63	345.35	0.61	186.18	0.61	345.35	0.42
Total Net Borrowing (A-D)	139.03		30.73		-19.49		30.73	
*Rate for borrowing is annualised yield; Rate for investments is cumulative average weighted yield								

2.0 Treasury Management Budget

Treasury Management Budget	2016-17 Original Estimate £m	2016-17 Actual As At 30.09.16 £m	2016-17 Revised Estimate £m	2016-17 Variance between Original Estimate and Revised Estimate £m
Interest payable : PWLB and Market Loans	8.42	3.47	6.82	1.60
Interest payable : Other Long Term Liabilities	13.58	7.46	12.74	0.84
Interest Receivable	-0.80	-0.63	-1.55	0.75

Total	21.20	10.30	18.01	3.19
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CIPFA Prudential Code Indicators and Treasury Management Limits

3.0 Capital Expenditure

Capital Expenditure	2016-17 Original Estimate £m	2016-17 Actual As At 30.09.16 £m	2016-17 Revised Estimate £m	2016-17 Variance between Original Estimate and Revised Estimate £m
Total Capital Expenditure	264.90	82.60	264.90	0.00

4.0 Capital Financing Requirement

Capital Financing Requirement (CFR)	2016-17 Original Estimate £m	2016-17 Actual As At 30.09.16 £m	2016-17 Revised Estimate £m	2016-17 Variance between Original Estimate and Revised Estimate £m
Total CFR	614.51	620.30	620.30	-5.79

External Debt Prudential Indicators

Authorised Limit for External Debt	2016-17 Original Authorised Limit £m	2016-17 Actual External Debt As At 30.09.16 £m	Headroom £m	2016-17 Revised Authorised Limit £m
Borrowing	501.08	166.69	334.39	501.08
Other long term liabilities	83.31	83.38	-0.07	83.31
Total	584.39	250.07	334.32	584.39

5.0 Operational Boundary for External Debt

Operational Boundary for External Debt	2016-17 Original Operational Boundary £m	2016-17 Actual External Debt As At 30.09.16 £m	Headroom £m	2016-17 Revised Operational Boundary £m
Borrowing	376.08	166.69	209.39	376.08
Other long term liabilities	83.31	83.38	-0.07	83.31
Total	459.39	250.07	209.32	459.39

6.0 Gross Debt and the Capital Financing Requirement

2016-17 Actual Gross Debt As At 30.09.16 £m	Preceding Year CFR £m	2016-17 Estimated Additional CFR £m	2017-18 Estimated Additional CFR £m	2018-19 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
250.07	647.93	0.00	0.00	105.05	752.98	502.91

Treasury Management Limits on Activity

7.0 Fixed and Variable Rate Interest Rates Exposure

Upper Limit on Interest rate exposure on net debt	2016-17 Original Upper Limit	As at 30.09.16
	%	%
Fixed rate	100.00	-770.97
Variable rate	75.00	870.97

8.0 Limits for Maturity Structure of Borrowing

Limits for Maturity Structure of Borrowing for 2016-17	Original Upper Limit	Original Lower Limit	As at 30.09.16
	%	%	%
Under 12 months	20.00	0.00	9.87
12 months and within 24 months	20.00	0.00	15.87
24 months and within 5 years	50.00	0.00	21.13
5 years and within 10 years	75.00	0.00	13.20
10 years and above	90.00	25.00	39.93

9.0 Limits for Principal Sums Invested for Periods Longer than 364 days

MOPAC has set an upper limit of £0.00, although this limit does not apply to externally managed funds or to pooled monies within the GIS. However, whilst the pooled portfolio may contain instruments maturing in more than 364 days, the weighted average maturity is restricted to 91 days, adding to the reduction of the risk this indicator is seeking to address.

- There were no GIS investments maturing beyond one year from the reporting date of 30 September 2016.

REQUEST FOR DMPC DECISION – PCD 245**Title: Treasury Management 2016-17 Outturn Report****Executive Summary:**

DMPC is asked to note the performance of the Treasury Management function in 2016-17. In 2016-17 investment income was £1.8m at an average rate of return of 0.53%, 0.26% above the benchmark. Debt interest expenditure was below budget at £6.8m. Total external borrowing reduced from £176m to £159.5m by 31 March 2017. The weighted average borrowing rate of all long term loans (weighted by size of loan and the rate of interest paid) at 31 March 2017 was 4.14%.

All investment and borrowing activity during 2016-17 was undertaken within the guidelines and objectives set out in the relevant policy and investment and borrowing strategies, except for a breach in relation to counterparty concentration limits for Lloyds Bank at the start of the year and previously reported.

Recommendation:

The DMPC is asked to note the 2016/17 treasury management outturn results.

Deputy Mayor for Policing and Crime

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

The above request has my approval.

Signature

Sophie Linden

Date

1/8/17

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

Decision required – supporting report

1. Introduction and background

- 1.1. The CIPFA TM Code recommends that organisations be updated on treasury management activities regularly (at least a Strategy, Mid-year and Annual performance reports). This report therefore meets these requirements with regard to an annual report, and ensures MOPAC is implementing best practice in accordance with the TM Code.
- 1.2. The day to day management of the treasury management function is delivered by the GLA Group Treasury team under a shared service arrangement with the GLA. GLA Group Treasury also manages the Group Investment Strategy (GIS), of which the MOPAC Chief Finance Officer is a syndicate director. By being part of the GIS MOPAC's cash balances are pooled with other funds which allows greater investment options, improves diversification, liquidity and returns.
- 1.3. The annual report at Appendix 1 has been prepared by GLA Group Treasury, and provides details of performance against the TMSS 2016/17, approved by MOPAC on 17 March 2016 (DMPCD 2016 47), and as amended by DMPCD 2016 58. The report provides a review of investment performance for 2016/17, and reviews specific Treasury Management prudential indicators defined by the Code and approved by the MOPAC in the TMSS.

2. Issues for consideration

Investment

- 2.1. The average return on investment was 0.53%. This compares favourably with the London Interbank BID (LIBID) 3 month rate benchmark of 0.27%. This resulted in income of £1.8m.

Debt Management

- 2.2. As planned no new borrowing took place in 2016/17, and as scheduled, borrowing reduced by £16.4m from £175.9m at the start of the year to £159.5m at 31 March 2017.
- 2.3. The cost of borrowing was £6.8m. The weighted average cost of borrowing of all long term loans as at 31 March 2017 was 4.14% (3.98% as at 31 March 2016).

Compliance

- 2.4. All treasury activities met the Treasury indicators set in the TMSS, and borrowing was within the borrowing limits set by the Mayor for MOPAC. MOPAC CFO confirms that, based on reporting and assurances from the GLA shared service function, throughout the period all treasury activities have been conducted within the parameters of the TMSS 2016/17, alongside best practice suggested by the CIPFA TM Code and Central Government, except in respect of the period 1 April 2016 to 12 April 2016.
- 2.5. As previously reported the GIS counterparty concentration limits for Lloyds Bank were exceeded over the period 1 April 2016 to 12 April 2016. No losses arose from this breach of the TMSS. Details of the sums involved, reasons for the breach and amendments to the 2016/17 TMSS were previously reported in DMPCD 2016 58.

Prudential Indicators

- 2.6. Appendix 1 includes the maturity profile for the borrowing portfolio, and performance against the Prudential Indicators set as part of the 2016-17 TM Strategy. All indicators were met.

3. Financial Comments

- 3.1. The cost of borrowing and the minimum revenue provision for 2016/17 were £6.8m and £23.3m respectively and within the 2016/17 budget. Interest received in 2016/17 was £1.8m and above the budget.

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.

5. Equality Comments

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

6. Background/supporting papers

Appendix 1

Public access to information

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

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

Part 1 Deferral:

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

If yes, for what reason:

Until what date:

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

Is there a **Part 2** form – NO

ORIGINATING OFFICER DECLARATION:

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

OFFICER APPROVAL**Chief Executive Officer**

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

Signature Rebecca Lawrence

Date 26/7/17

GREATER LONDON AUTHORITY

GROUP TREASURY

Treasury Management Outturn for 2016-17 - MOPAC

Executive Summary:

This report is submitted in accordance with a requirement under the Treasury Management in the Public Services Code of Practice (The Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the submission of an outturn report on the activities of the Authority's treasury management operation.

Treasury activity has seen the Authority's investments outperform its investment benchmark by 0.26% during 2016-17. Total invested balances have increased from £29.78m at the 31 March 2016 to £287.59m at 31 March 2017.

The Authority's outstanding borrowing has reduced from £175.92m at the 31 March 2016 to £159.46m at 31 March 2017.

All 2016/17 Treasury activity has been within the boundaries and levels set by the Authority in its Treasury Management Strategy Statement on 17 March 2016, DMPCD 201 47, except during the period 01 April 2016 to 12 April 2016. For this period the GIS counterparty concentration limits for Lloyds Bank were exceeded. No losses arose from this exception of the TMSS. This exception was fully reported in the 2015/16 Treasury Outturn Report, DMPC Decision 58, dated 3 October 2016.

Recommendation:

That the following is noted:

1. The 2016/17 Treasury outturn results against the 2016/17 Treasury Management Strategy Statement, as approved on the 17 March 2016, DMPCD 2016 47.

Introduction/Background

- 1 This report provides details of all investment and borrowing activities for the period from 1 April 2016 to 31 March 2017 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 31 March 2017 with the opening position as at 1 April 2016.
- 2 Under the treasury management shared service arrangement with the GLA, GLA treasury officers carry out the Authority's day to day treasury management function, managing the Authority's investments and borrowing activities. Authority officers provide the GLA with details of the Authority's daily cash flow requirements and monies are only transferred between the Authorities as and when required to match Authority need. This way, surplus funds over and above daily need are continuously held with the Group Investment Syndicate (GIS), the GLA managed vehicle used by the Authority to maximise liquidity and investment return.

Compliance with the 2016/17 Treasury Management Strategy Statement

- 3 The GLA's Chief Investment Officer confirms that, throughout the period, all treasury activities have been conducted within the parameters of the 2016/17 Treasury Management Strategy Statement (TMSS), alongside best practice suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Central Government, except in respect of the period 1 April 2016 to 12 April 2016.
- 4 For the period 28 March 2016 to 12 April 2016, the GIS counterparty concentration limits for Lloyds Bank were exceeded. No losses arose from this exception of the TMSS.
- 5 This exception was fully reported in the 2015/16 Treasury Outturn Report, DMPC Decision 58, dated 3 October 2016.
- 6 Following consideration of the exception, key strategy improvements were implemented within a revised GIS Investment Strategy as set out at paragraphs 10 to 12.

The Economic Background

- 7 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.
- 8 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the

three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

- 9 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

2016/17 GIS Investment Strategy

- 10 The TMSS sets out an Annual Investment Strategy; however, in line with best practice set out by DCLG and CIPFA, the TMSS is a 'living document' subject to continual review and revision.
- 11 The GIS Investment Strategy adopted in the original TMSS for 2016/17 was subject to revision during the year in order to improve fitness for purpose under challenging market condition, such as those witnessed following the EU referendum. The revised GIS strategy was implemented on 3 October 2016.
- 12 The key improvements that were encompassed are summarised below:
 - Reporting ambiguities relating to breaches are eliminated and the levels of discretion for both breach resolution, suspension of counterparties and use of Credit Default Swap ("CDS") data are now set out clearly.
 - Provisions relating to the duties and discretions of external managers are made clear.
 - The risk appetite implied by the previous strategy is stated explicitly.
 - Practical arrangements for the exercise of the Chief Investment Officer's discretions are set out explicitly along with the arrangements for exercise of discretion in that officer's absence.

Current Treasury Management Position

- 13 The table below shows the current Treasury management position.

Current Treasury Position	Actual as at 31 March 2016		Actual as at 31 March 2017	
	£m	Rate %	£m	Rate %
External Borrowing				
Long Term Borrowing: PWLB	175.92	3.98	159.46	4.14
Long Term Borrowing: Market Loans	0		0	
Total External Borrowing (A)	175.92	3.98	159.46	4.14
Other Long Term Liabilities				
PFI Liability	82.25		77.95	
Finance Lease liability	5.53		5.36	
Total Other Long Term Liabilities(B)	87.78		83.31	
Total Gross Debt (A+B)	263.7		242.77	
Capital Financing Requirement	647.93		611.93	
Less Other Long Term Liabilities	87.78		83.31	
Underlying Capital Borrowing Requirement (C)	560.15		528.62	
Under/(Over) Borrowing (C-A)	384.23		369.16	
Investments (D)	29.78	0.63	287.59	0.49
Total Net Borrowing (A-D)	146.14		-128.13	

14 A further analysis of borrowing and investments is covered in the following two sections.

Borrowing Outturn

15 The Authority is permitted to borrow in order to fund spending for its Capital Programme. The amount of new borrowing needed each year is determined by new capital schemes approved and included in the Capital Programme.

16 During 2016/17, Private Financing Initiative (PFI) liabilities were reduced by £4.64m from £86.89 as at the 31 March 2016 to £82.25m as at the 31 March 2017. Finance lease liabilities were also reduced from £5.68m as at the 31 March 2016 to £5.53m as at the 31 March 2017.

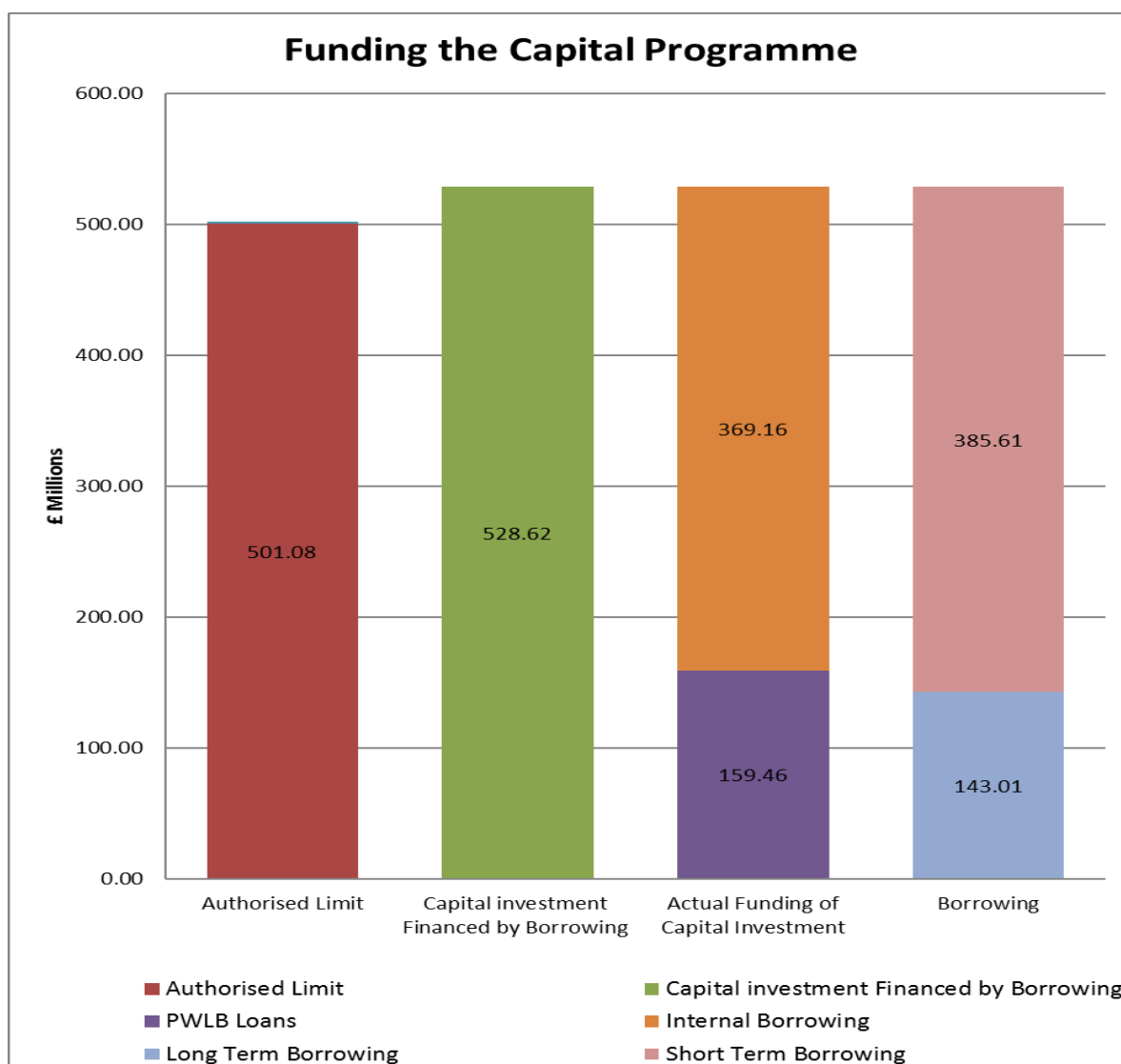
17 No new external loan borrowing was taken out during 2016/17. Instead £14.46m of external loan borrowing was repaid, reducing the total borrowing to £159.46m.

18 When market conditions are favourable long term loans can be restructured to:

- generate cash savings
- reduce the average interest rate
- to enhance the balance of the portfolio by amending the maturity profile and/or the level of volatility. (Volatility is determined by the fixed/variable interest rate mix.)

19 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

20 The graph below compares the maximum the Authority could borrow in 2016-17 with the 'Capital Investment to be financed by borrowing' at 31 March 2017 and the actual position of how this is being financed at 31 March 2017. The final column shows the split between short (internal and external borrowing with duration of less than one year) and long term borrowing.



21 The graph shows that the Authority's current capital investment that is being funded via external borrowing, as at the 31 March 2017, is £159.46m, which is £341.62m below the Authorised Borrowing Limit set for the Authority at the start of the year.

- 22 In addition, the graph shows how the Authority is currently funding its borrowing requirement. As at 31 March 2017, the Authority was using £369.16m of internal borrowing to finance capital investment. Internal borrowing is the use of the Authority's surplus cash to finance the borrowing liability instead of borrowing externally.

Investment Governance

- 23 The Authority's short term cash balances are invested through the GLA Group Investment Syndicate (GIS). Current GIS participants are 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), with the respective Chief Financial Officers of each GIS participant jointly controlling the GIS.
- 24 Pooling resources allows the Group Treasury team to make larger individual transactions and exploit the greater stability of pooled cash flows to obtain better returns. A risk sharing agreement ensures risk and reward relating to each instrument within the jointly controlled portfolio are shared in direct proportion to each participant's investment.
- 25 Investments are made in line with a common GIS Investment Strategy, which includes a requirement to maintain a weighted average maturity (WAM), which does not exceed 91 days, and for each participant to specify a portion of their investment to remain immediately accessible.
- 26 Additionally, the Authority may invest sums independently of the GIS, for instance if the Authority identifies balances which are available for longer term investment. Such investments must remain within the parameters of the GIS Investment Strategy, except that there shall be no requirement to maintain a weighted average maturity which does not exceed three months. However, each participant can place a limit on the duration of these longer term investments. For 2016/17, the Authority opted not to enter into any investments longer than 364 days in its own name, wishing to limit counterparty risk and liquidity risk.
- 27 At no time does the GIS Investment Strategy conflict with the Authority's TMSS.
- 28 The Authority's TMSS adheres to the CIPFA Prudential Code investment principle of placing security above liquidity and investment yield and then placing liquidity above investment yield. As such, the Authority maintains a low risk appetite consistent with good stewardship of public funds.

Investment Outturn

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

Core Funds and Expected Investment Balances

	Actual as at the 31 March 2016 £m	TMSS Forecast to March 2017 £m	Actual as at the 31 March 2017 £m	2016-17 Variance between Forecast and Year End Actual £m
Fund balances/reserves	297.92	108.40	240.24	131.84
Provisions	62.83	229.50	57.48	-172.02
Other/Capital Reserve	4.50	272.52	349.78	77.26
Total Core Funds	365.25	610.42	647.50	37.08
Working Capital Surplus	48.75	-109.95	9.25	119.20
Under/(over) borrowing	384.22	155.13	369.16	214.03
Investments	29.78	345.35	287.59	-57.76

30 Investment balances as at 31 March 2017 were £287.59m, this being an increase of £257.81m over year-end balances as at 31 March 2016. The increase in investment balances is a result of significant capital receipt during the year.

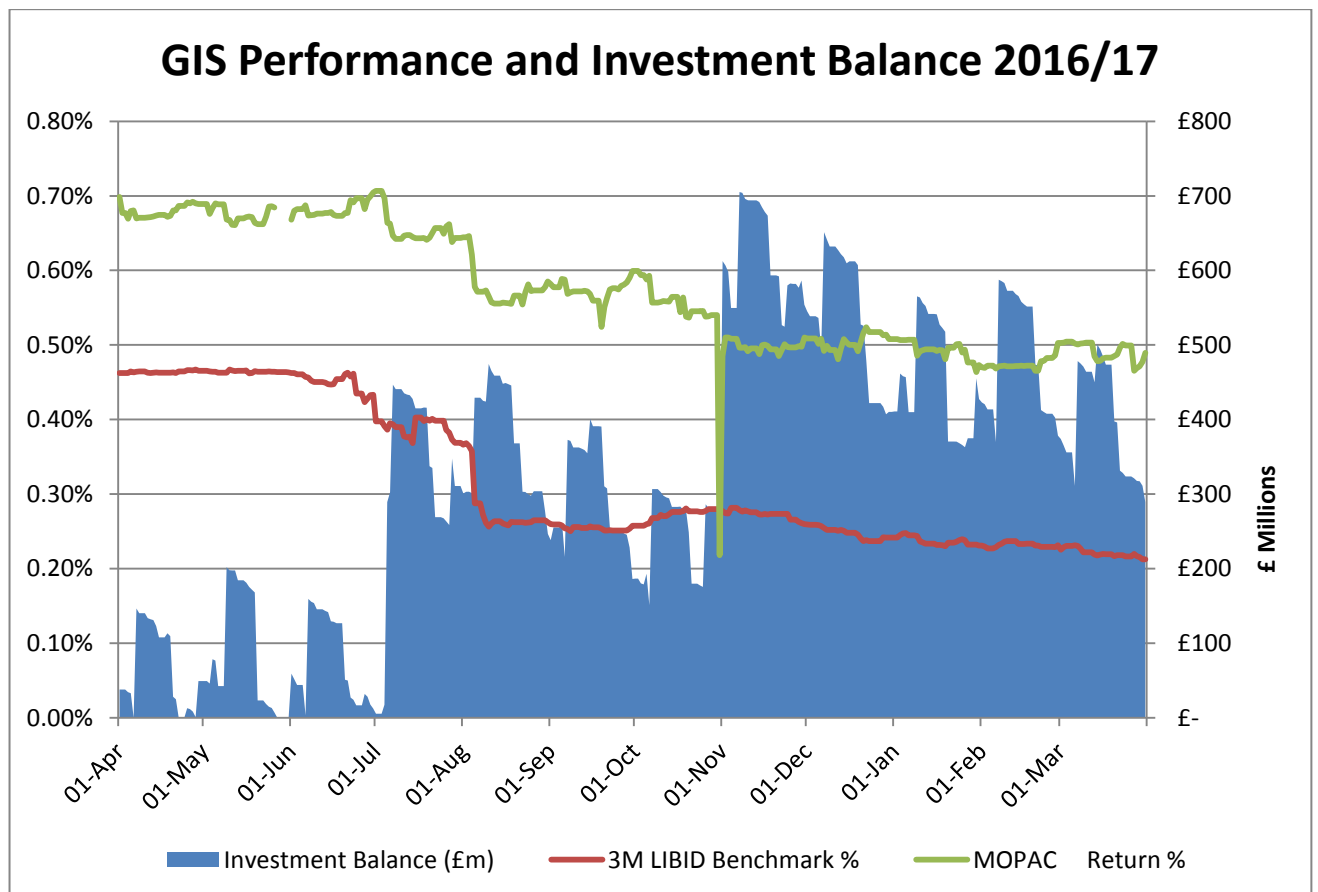
31 The Authority has outperformed its investment benchmark by 0.26% during 2016/17. It achieved a cumulative weighted average yield of 0.53% on daily balances against a cumulative weighted average 3 month LIBID of 0.27%. Throughout the period, the Authority maintained its liquidity target of a weighted average maturity (WAM) of not more than 3 months.

32 Investment performance therefore reflects the success of the decision to place investments in-house through the GLA GIS.

33 Methods used by the Group Treasury team during the year to manage performance have included:

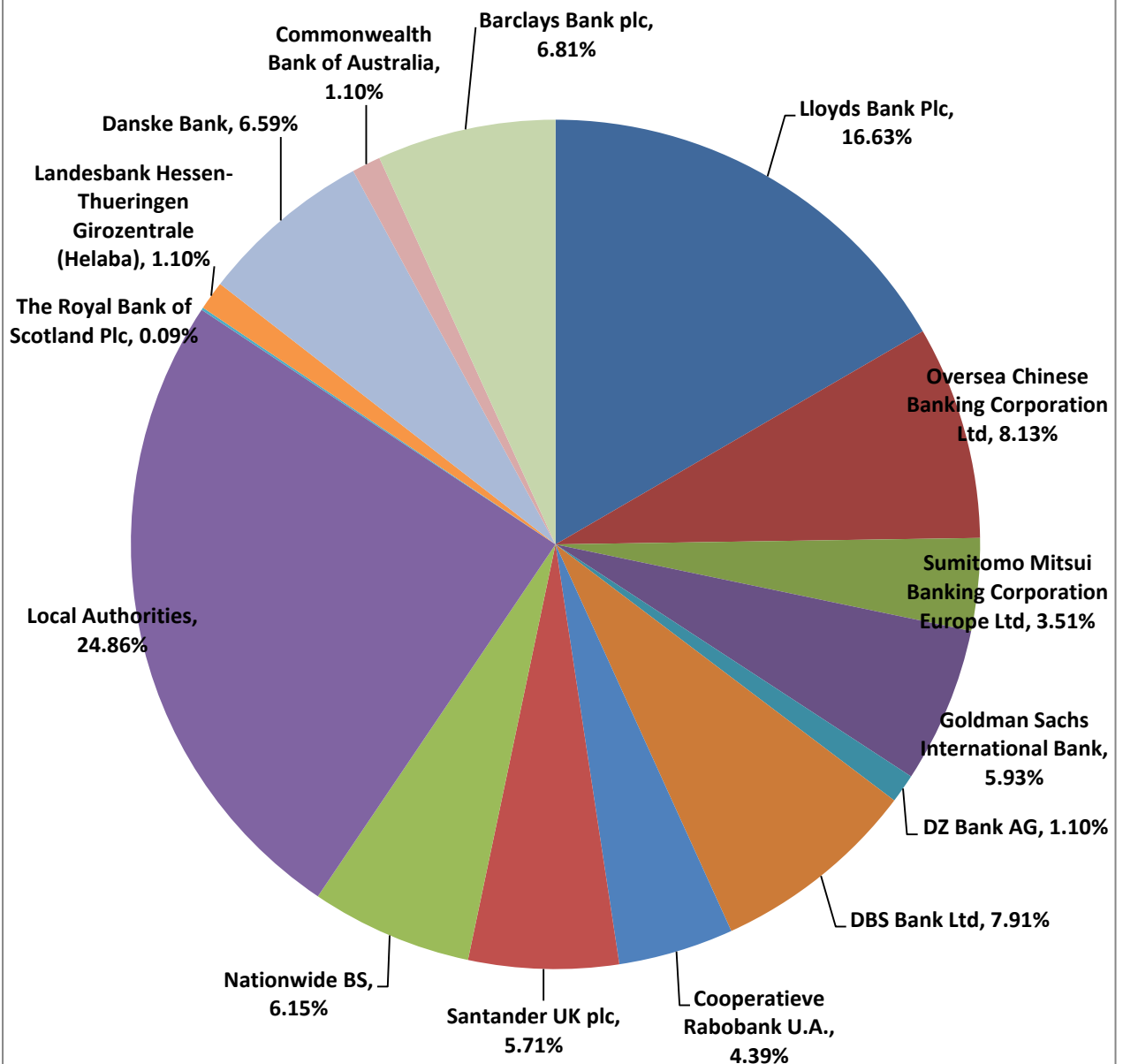
- Using the strength of the GIS's £2.2bn investment balances to obtain higher than average rates without increasing risk
- Creating a well-diversified portfolio by country, by counterparty and by credit rating.
- Seeking to invest in higher yielding longer dated instruments, while keeping the WAM within the 16/17 GIS Investment Strategy requirement that the WAM should not exceed 91 Days.
- Monitoring market activity and proactively seizing investment opportunities

34 The following graph shows the outperformance described above, alongside investment balances during period. Fluctuations in balances reflect changes in cash flow needs over the year. The significant cash increases in July and October represent the annual pension top-up grant and the capital receipt from New Scotland Yard respectively.



35 In addition, that the investment portfolio is well diversified is demonstrated in the piechart below

Counterparty Diversification at 31 March 2017



Treasury Management Budget

Treasury Management Budget	Actual as at the 31st March 2016 £m	TMMS Forecast to March 2017 £m	Actual as at the 31st March 2017 £m	2016-17 Variance between Forecast and Year End Actual £m
Interest payable (excl. PFI & Finance Lease interest)	7.22	6.84	6.84	0
Interest Receivable	-1.89	-0.80	-1.76	-0.96
Minimum Revenue Provision	28.47	24.2	23.33	-0.87
Total	33.80	30.24	28.41	-1.83

36 The small decrease in interest payable between years reflects the repayment of PWLB loans. Interest receivable held up well in a low interest rate environment, largely due to high investment balances throughout the year.

CIPFA Prudential Code Indicators and Treasury Management Limits

Background

37 The Prudential Code has been developed by CIPFA. The 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.

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

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

- a. Capital expenditure plans
- b. External debt
- c. Treasury Management

40 To ensure compliance with the 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 forecast 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.

41 These Prudential Indicators are set out below and reviewed by officers for compliance.

Capital Expenditure

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

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

Capital Expenditure

	Actual 2015/16 £m	TMSS Forecast to 31st March 2017 £m	Actual 2016/17 £m	2016-17 Variance between Forecast and Actual £m
Total Capital Expenditure	237.59	264.9	177.05	-87.85

44 The capital expenditure for 2016/17, at £177.05m, was £87.85m less than that expected at the start of the year.

Capital Financing Requirement

45 The capital financing requirement is an indicator 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.

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

47 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.

48 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.

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

Capital Financing Requirement (CFR)

	Actual 2015/16 £m	TMSS Forecast to 31st March 2017 £m	Actual 2016/17 £m	2016-17 Variance between Forecast and Actual £m
Total CFR	647.93	614.51	611.93	-2.58

50 The capital financing requirement is in line with expectations.

External Debt Prudential Indicators

Authorised Limit for External Debt

51 The authorised limit is the expected maximum borrowing needed with some headroom for unexpected developments such as unusual cash movements

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

53 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 Authorised Limit £m	Actual External Debt as at 31 March 2017 £m	Headroom £m
Borrowing	501.08	159.46	341.62
Other long term liabilities	83.31	83.31	0
Total	584.39	156.03	428.36

54 Actual external debt is not directly comparable to the authorised limit, since the actual external debt reflects the position at one point in time, whereas the authorised limit is set as a ceiling for the whole year. Notwithstanding this, there is substantial borrowing headroom.

Operational Boundary for External Debt

55 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.

56 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.

Authorised Limit for Operational Boundary	2016-17 Operational Boundary £m	Actual External Debt as at 31 March 2017 £m	Headroom £m
Borrowing	376.08	159.46	216.62
Other long term liabilities	83.31	83.31	0
Total	459.39	156.03	303.36

57 Actual external debt is not directly comparable to the operational boundary, since the actual external debt reflects the position at one point in time, whereas the operational boundary is set as a ceiling for the whole year. Notwithstanding this, there is substantial borrowing headroom.

Gross Debt and the Capital Financing Requirement

58 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR.

59 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 (CFR)

Actual External Debt as at 31 March 2017 £m	Preceding Year CFR £m	2016-17 Actual Additional CFR £m	2017-18 Estimated Additional CFR £m	2018-19 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
242.77	647.93	0.00	0.00	68.86	716.79	474.02

60 Gross debt, as at 31 March 2017, is £474.02m less than the estimated total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This indicates that the Authority's current financial strategy is prudent and sustainable, in that borrowing is only used to fund capital expenditure in the medium term.

Affordability Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream

- 61 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.
- 62 The aim of using net revenue stream is to identify the amounts to be met from government grants and taxpayers and hence excludes capital grants, contributions and donated assets. It is also net of contributions from (or to) reserves and balances.

Financing Costs to Net Revenue Stream

	Actual as at the 31 March 2016 %	TMSS Forecast to March 2017 %	Actual as at the 31 March 2017 %	2016-17 Variance between Forecast and Year End Actual %
Total	1.91	1.82	1.65	-0.17

- 63 Financing costs to net revenue stream are in line with expectations.

Incremental Impact of Capital Investment Decisions on the Council Tax

- 64 This indicator measures the changes in the council tax as a result of incremental changes in capital investment decisions.
- 65 It allows the effect of the totality of the Authority's plans to be considered at budget setting time and the achievement of these plans to be assessed at year end.

Incremental Impact on Council Tax

	Actual as at the 31 March 2016 £	Actual as at the 31 March 2017 £
Council Tax Band D	1.51	1.30

- 66 The Authority's capital investment decisions in 2016/17 have had an incremental decrease on Council Tax compared to 2015/16.

Treasury Management Prudential Indicator

- 67 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.
- 68 The Authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

Treasury Management Limits on Activity

Fixed and Variable Rate Interest Rates Exposure

69 The following technical prudential indicators reflect the Authority's exposure to changing interest rates.

Fixed rate ratio:

$$\frac{(\text{Fixed rate borrowing}^* \text{ less Fixed rate investments}^*)}{\text{Total Borrowing less Total Investments}}$$

Variable rate ratio:

$$\frac{(\text{Variable rate borrowing}^{**} \text{ less Variable rate investments}^{**})}{\text{Total Borrowing less Total Investments}}$$

*Defined as greater than 1 year to run to maturity

**Defined as less than 1 year to run to maturity

In consequence of the formulae above, the sum of the two indicators must be 100%

70 To achieve certainty over its borrowing costs in support of prudent long term planning, the Authority has only ever entered into fixed rate loans; however, concerns over liquidity and credit risk mean that in practice all the Authority's investments mature within one year so are categorised as variable rate. The fixed rate ratio as at 31 March 2017 is -112% and the variable rate ratio is therefore 212%. The positive variable rate ratio indicates that fluctuating rates could increase borrowing costs without being matched by increased investment income.

Limits for Maturity Structure of Borrowing

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

Limits for Maturity Structure of Borrowing

	TMSS Forecast to March 2017		Actual as at the 31st March 2016	Actual as at the 31st March 2017
	Upper Limit	Lower Limit		
	%	%	%	%
Under 12 months	100	0	9.4	10.3
12 months and within 24 months	100	0	9.4	16.6
24 months and within 5 years	100	0	30.5	18.1
5 years and within 10 years	100	0	12.5	16.3
10 years and above	100	0	38.3	38.7

72 The above table shows that the Authority has a risk appropriate dispersion of debt over the years.

Limits for Principal Sums Invested for Periods Longer than 364 days

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

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

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

75 The Authority has set an upper limit of £0.00, although this limit does not apply to externally managed funds or to pooled monies within the GIS. However, whilst the pooled portfolio may contain instruments maturing in more than 364 days, the average maturity is restricted to 91 days, adding to the reduction of the risk this indicator is seeking to address.

76 Finally, to further protect the liquidity and principal sums of a Local Authority, two additional constraints are placed on Local Authorities

- i. The Local Government Act 2003, section 15(1) requires an Authority to have regard to the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments 2010, which requires firstly the achievement of security (protecting the capital sum from loss), then liquidity (keeping the money readily available for expenditure when needed), and then lastly investment yield. This investment strategy is endorsed by the Prudential Code. The Authority complies with this Guidance by adopting a low risk appetite in its TMSS.
- ii. The Prudential Code states that Authorities must not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. The Authority does not borrow more than or in advance of its need purely to profit from the investment of extra sums borrowed.

New Investments Maturing after 364 days taken between 01/04/16 and 31/03/17

77 No new investment maturing after 364 days was taken during 2016/17.

New Long Term Borrowing taken between 01/04/16 and 31/03/17

78 The Code requires that all long term borrowing is taken out with due consideration to affordability, prudence and sustainability. This is incorporated in the TMSS.

79 No new long term borrowing was taken during 2016/17.