MOPAC | MAYOR OF LONDON OFFICE FOR POLICING AND CRIME

METROPOLITAN POLICE

MPS-MOPAC JOINT AUDIT PANEL
5 July 2021

Treasury Management Strategy

Report by: The MOPAC Chief Finance Officer and Director of Corporate Services

Report Summary

Overall Summary of the Purpose of the Report
This report sets out the MOPAC Treasury Management (TM) 2021/22 strategy.

Key Considerations for the Panel
To note the 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 2021/22 treasury management strategy

1. Supporting Information

1.1. This paper provides a update on the Treasury Management function following previous annual updates.

2021/22 strategy

1.2. The 2021/22 Treasury Management Strategy was approved in March 2021. MOPAC maintains a low risk appetite approach to its treasury strategy - operating on the principles of security, liquidity and yield in that order.

1.3. There were two issues of note in respect of investments:

- The proposed changes to the investment strategy include increasing the maximum exposure limit for senior Residential Mortgage Backed Securities (RMBS) from 20% to 35%, and including a 10% maximum exposure limit to longer dated strategic investments managed by authorised and regulated firms and held within a GLA partnership structure

- MOPAC will continue to invest its surplus 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.

Borrowing

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

1.5. MOPAC keeps the need to access long term external borrowing under regular review.

1.6. The proposed strategy includes that if necessary MOPAC borrow temporarily to cover any expected shortfall. This reduces the risks of holding excess balances and the cost of carry. As investment returns are low it is proposed to continue this approach.

Oversight

1.7. The MOPAC Chief Finance Officer will receive regular reporting from the GLA/LTL on risks, performance, progress and strategic financing advice. Treasury Management advice will be provided by Link Asset Services.

1.8. Further detail can be found in the Treasury Management Strategy 2021/22 decision on the MOPAC website.

2. Equality and Diversity Impact

There are no equality and diversity implications directly arising from this report.

3. Financial Implications

The direct cost of the GLA shared service function to MOPAC is estimated to be £207k in 2021/22. This is met from within the existing MOPAC budget.

4. Legal Implications

There are no direct legal implications arising from the 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: MOPAC Treasury Management Strategy 2021/22

Treasury Management Strategy Statement 2021/22

Introduction/Background

1) The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of the MOPAC Group for the year 2021/22.

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

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Code) and associated Guidance Notes;

- The CIPFA Prudential Code and associated Guidance Notes;

- The Local Government Act 2003;

- The Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Government Investments; and

- The MHCLG Capital Finance Guidance on Minimum Revenue Provision (MRP).

3) The TM Code defines treasury management activities as:

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

4) This TMSS therefore takes into account the impact of the MOPAC Group's Revenue Budget, Capital Spending Plan 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 2A);

- Minimum Revenue Provision (MRP) Policy Statement (Appendix 2B);
- Prudential Code Indicators and Treasury Management Limits (Appendix 2C);
- Counterparties and Approved Investments (Appendix 2D); and
- Treasury Management Practices: Main Principles (Appendix 2E)

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

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

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

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

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

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

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

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

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

iii. The Deputy Mayor for Policing and Crime holds responsibility for the implementation and regular monitoring of the MOPAC Group's treasury management policies and practices and delegates responsibility for the execution and administration of treasury management decisions to the MOPAC Group Chief Finance Officer (CFO). The MOPAC Group CFO will act in accordance with the organisation's policy statement and TMPs and, if this officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

iv. The MOPAC Group has delegated to the MOPAC Group Audit Panel the responsibility for ensuring effective scrutiny of the treasury management strategy and policies.

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

vi. Should the MOPAC Group CFO wish to depart in any material respect from the main principles of the TM Code, the reason should be disclosed, in advance, in a report to the Deputy Mayor for Policing and Crime.

9) The MOPAC Group CFO is required to report an annual Treasury Management Strategy to the Deputy Mayor for Policing and Crime for approval. As part of a GLA group shared service, the MOPAC Group CFO has delegated the MOPAC Group's day to day treasury management to the GLA. The GLA is therefore responsible for maintaining the MOPAC Group's Treasury Management Practices (TMPs) and implementing and monitoring the strategy.

Economic Background

10) The coronavirus outbreak caused huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.

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

12) The UK has experienced long running uncertainty around whether or not a Brexit deal would be made by 31.12.20, but the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy.

13) On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

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

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

14) This outlook has the following treasury management implications:

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21.Following the reduction of the PWLB margin, there is now value in longer-term borrowing from the PWLB for the purpose of certainty, where that is desirable.

Prospects for Interest Rates

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

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

Link Group Interest Rate View	8.2.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

16) As the interest forecast table for PWLB certainty rates above shows, there is expected to be a small gradual upward movement in PWLB rates over the next two years.

17) From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

18) Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Forecast Treasury Management Position

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

Forecast Treasury Position as at 31 March	2019-20 Actual £m	2020-21 Forecast Outturn £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2023-24 Estimate £m
External Borrowing						
Long term borrowing	302.95	518.55	761.15	988.75	1,203.85	1,341.85
Short term borrowing	0.00	0.00	0.00	0.00	0.00	0.00
Total External Borrowing at 31 March (A)	302.95	518.55	761.15	988.75	1,203.85	1,341.85
Other Long-Term Liabilities						
PFI Liability	66.21	60.43	54.10	48.18	43.61	36.18
Finance Lease Liability	7.11	6.85	6.57	6.26	6.07	6.04
Total Other Long-Term Liabilities at 31 March (B)	73.32	67.28	60.67	54.44	49.69	42.22
Total Gross Debt (A+B)	376.27	585.83	821.82	1,043.19	1,253.54	1,384.07
Capital Financing Requirement	834.27	1,015.06	1,195.86	1,358.96	1,464.06	1,491.76
Less Other Long-Term Liabilities	73.32	67.28	60.67	54.44	49.69	42.22
Underlying Capital Borrowing Requirement (C)	760.95	947.78	1,135.19	1,304.52	1,414.37	1,449.54
Under/(Over) Borrowing (C-A)	458.00	429.23	374.04	315.77	210.52	107.69
Investments at 31 March (D)	28.39	223.07	137.86	108.63	191.78	271.51
Net Borrowing (A-D)	274.56	295.48	623.29	880.12	1,012.07	1,070.34

Borrowing Strategy

Delegation/Authorisation

20) The arrangements for borrowing, including the selection and the type and structure of debt instruments, are delegated to the MOPAC Group CFO, provided no decision contravenes the limits set out in the prevailing TMSS.

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

- authorised to approve borrowing by the MOPAC Group, for the purposes of financing capital expenditure;
- authorised to make use of cash balances to fund internal borrowing when it is considered advantageous;

- authorised to borrow temporarily within the Authorised Limit, where this represents prudent management of the MOPAC Group's affairs. As an example, where a cash flow requirement is short-lived, the opportunity cost of withdrawing or otherwise liquidating investments may exceed that of temporary borrowing. In such circumstances, borrowing may be the prudent action.

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

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

Internal Borrowing Approach

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

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

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

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

- Agreements with central government specifying particular levels of borrowing; and

- Investment rates are expected to remain below borrowing rates over the next 12 months.

Policy on Borrowing in Advance of Need

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

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

- 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;

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;

- consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships; and

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

26) 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 2021/22 will also be weighed against the potential for incurring additional long-term costs by having to enter into new external borrowing in later years, when long-term rates are expected to be higher.

Debt Rescheduling

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

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

Investment Strategy

29) The MOPAC Group maintains a low risk appetite consistent with good stewardship of public funds. The MOPAC Group's investment priorities will be security first, portfolio liquidity second and then yield (return). The MOPAC Group will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and within the Group's risk appetite. Investments are managed in such a way as to make realised losses at the portfolio level extremely unlikely, while capturing the optimum return within these constraints.

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

Core Funds and Expected Investment Balances as at 31 March	2020-21 Forecast Outturn £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Fund Balances/Reserves	472.30	331.90	244.40	222.30	199.20
Provisions	30.00	30.00	30.00	30.00	30.00
Total Core Funds	502.30	361.90	274.40	252.30	229.20
Working Capital Surplus	150.00	150.00	150.00	150.00	150.00
Internal borrowing	429.23	374.04	315.77	210.52	107.69
Expected Investments	223.07	137.86	108.63	191.78	271.51

31) The MOPAC Group's short-term cash balances are invested through the GLA Group Investment Syndicate (GIS), managed by the GLA's investment subsidiary, London Treasury Limited, which is authorised and regulated by the Financial Conduct Authority. The draft pooled investment strategy for this arrangement is included within Appendix 1D but is subject to the agreement of all participating authorities; the MOPAC Group CFO is authorised, having taken proper advice from Link or other suitably qualified advisor, to agree amendments to this, provided that the underlying exposures of any amended strategy do not breach the limits set out in Appendix 1D.

32) The proposed changes to the 2021/22 GIS investment strategy since the previous iteration are:

- An increased maximum exposure limit for senior RMBS to 35% (from 20%);

- The inclusion of a 10% maximum exposure limit to longer dated strategic investments managed by authorised and regulated firms and held within a GLA partnership structure.

33) The GIS Investment Strategy is considered and agreed by all participants before the start of each financial year. A common approach permits maximum efficiency of the shared group service.

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

35) Additionally, the MOPAC Group CFO may from time to time instruct the GLA Treasury team to invest sums independently of the GIS, for instance, if the MOPAC Group identifies balances which are available for longer term investment, after proper consideration of expected future cash flows, as at the time of investment. It is proposed that the MOPAC Group adopt an identical set of parameters for such investments as those detailed in Appendix 1D. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Greater than 365 Days' (Appendix 1C section 6.3).

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

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

Treasury Management Budget

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

Treasury Management Budget	2020-21 Forecast Outturn £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Interest payable	25.8	32.1	36.9	39.7	43.7
Interest Receivable	-1.3	-0.3	-0.3	-0.3	-0.3
Minimum Revenue Provision for debt repayment	48.6	63.4	79.2	103.5	116.9
Total	73.1	95.3	115.9	143.0	160.4

39) Assumptions behind the 2021/22 Budget are:

- Average rates achievable on investments will be 0.10%
- Average rates payable on new borrowing will be 2.50%
- The MRP charge is in line with the MOPAC Group's MRP Policy

Use of External Service Providers

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

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

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

43) The GLA, as Investment Manager of the GIS, entered into an investment management agreement with London Treasury Limited (LTL) so that GLA Group Treasury can delegate its treasury investment activities to an entity which is authorised and regulated by the Financial Conduct Authority (FCA). This is with the intention to provide enhanced regulatory and risk management practices. LTL is a wholly owned subsidiary of the Greater London Authority and its investment team have all been seconded from the existing GLA Investment Manager team.

44) The GLA currently uses two external fund managers within the GIS, TwentyFour Asset Management and Prytania, for the GLA's long term Residential Mortgage Backed Securities (RMBS) investments. Any external fund manager used to support the GIS/LSR investments will be properly appointed.

45) The GLA, as Investment Manager under the GIS Investment Strategy, uses State Street Bank and Trust as the custodian of the MOPAC Group's tradeable instruments (such as

Treasury Bills). The GLA's current policy is that any custodian (or, instead, sub-custodian) shall meet the GLA's credit criteria for 12-month investments (prior to Credit Default Swaps Market or other temporary adjustments).

Treasury Training

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

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

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

49) GLA Group Treasury, supported by Link Asset Services, maintain a regular training programme available to all participating in the shared service and is arranged as required.

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

Appendix 2A: Treasury Management Policy Statement

1. Policy Statement

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

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

Appendix 2B: Minimum Revenue Provision (MRP) Policy Statement

1. Policy Statement

1.1 MRP is the amount out of revenue funding set aside each year as a provision for debt i.e. the provision in respect of capital expenditure financed by borrowing or credit arrangements.

1.2 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) provides that for the financial year 2007/08 and subsequent financial years, the detailed MRP calculation is to be replaced with the requirement that:

1.3 'A Local Authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'

1.4 The guidance also recommends that the annual MRP Policy is presented to the MOPAC Group for approval before the start of the financial year to which it relates. Any in-year changes must also be submitted to the MOPAC Group for approval.

1.5 For 2021/22 the MOPAC Group will make a minimum revenue provision (MRP) in accordance with: -

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

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

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

Appendix 2C: CIPFA Prudential Code Indicators and Treasury Management Limits

1.0 Background

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

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

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

- Capital expenditure plans
- External debt
- Treasury Management

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

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

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

2.0 Capital Expenditure

2.1 Capital Expenditure

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

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

Capital Expenditure	2020-21 Forecast Outturn £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Total Capital Expenditure	333.9	385.2	340.3	304.3	239.4
Financed by:					
Capital Grants and Receipts	70.0	88.0	48.2	47.4	67.7
CTPHQ and Fleet Funded	34.7	53.0	49.8	48.3	27.1
Net financing need for the year	229.2	244.2	242.3	208.6	144.6

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

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

2.2.2 It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been charged to the revenue account, will increase the CFR. The annual MRP acts to spread the revenue impact of this over the aggregate useful life of the assets in question.

Capital Financing Requirement (CFR)	2019-20 Actual £m	2020-21 Forecast Outturn £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Total CFR*	834.46	1,015.06	1,195.86	1,358.96	1,464.06	1,491.76
Movement in CFR	141.26	180.60	180.80	163.10	105.10	27.70
Movement in CFR represented by						
Net financing need for the year (see Capital Expenditure table)	174.50	229.20	244.20	242.30	208.60	144.60
Less MRP/VRP** and other financing movements	33.25	48.60	63.40	79.20	103.50	116.90
Movement in CFR	141.26	180.60	180.80	163.10	105.10	27.70

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	2020-21 Revised £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Borrowing	1,108.3	1,352.5	1,594.8	1,803.4	1,948.0
Other long-term liabilities	64.9	58.4	52.2	47.4	39.9
Total	1,173.1	1,410.8	1,646.9	1,850.8	1,987.9

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	2020-21 Revised £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Borrowing	983.3	1,227.5	1,469.8	1,678.4	1,823.0
Other long-term liabilities	64.9	58.4	52.2	47.4	39.9
Total	1,048.2	1,285.9	1,522.0	1,725.8	1,862.9

3.3 Gross Debt and the Capital Financing Requirement

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

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

Gross Debt and the Capital Financing Requirement	2019-20 Actual £m	2020-21 Forecast Outturn £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
Gross Debt at 31 March	376.27	585.83	821.82	1,043.19	1,253.54	1,384.07
Capital Financing Requirement	834.59	1,015.06	1,195.86	1,358.96	1,464.06	1,491.76

4.0 Affordability Prudential Indicators

4.1 Ratio of Financing Costs to Net Revenue Stream

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

Financing Costs to Net Revenue Stream	2020-21 Forecast Outturn %	2021-22 Estimate %	2022-23 Estimate %	2023-24 Estimate %	2024-25 Estimate %
Total	2.49	3.18	3.83	4.59	5.10

5.0 Treasury Management Prudential Indicator

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

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

6.0 Treasury Management Limits on Activity

6.2 Limits for Maturity Structure of Borrowing

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

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

Limits for Maturity Structure of Borrowing for 2021-22	Upper Limit	Lower Limit
	%	%
Under 12 months	50.00	0.00
12 months to 2 years	20.00	0.00
2 years to 5 years	20.00	0.00
5 years to 10 years	30.00	0.00
10 years and above	100.00	40.00

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

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

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

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

Upper limit for principal sums invested for longer than 365 days	Maximum principal sums invested >365 days			
	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Principal sums invested for longer than 365 days	0.00	0.00	0.00	0.00

6.3.3 This limit does not apply to externally managed funds or to pooled monies within the Group Investment Syndicate, where fund level liquidity mitigates the risks described above. This is one of the key benefits of the pooled arrangement, allowing MOPAC to obtain diversification and returns that would not be possible on a stand alone basis.

Appendix 2D: Investment Strategy 2021-22
(incorporating the GIS Investment Strategy 2021-22)

1. Introduction

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

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

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

or

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

1.4 Cash balances invested in the MOPAC Group's own name are subject to the GIS Investment Strategy, except that there is no requirement to maintain a weighted average maturity which does not exceed 90 days.

1.5 Cash balances invested for the GIS are subject to the GIS Investment Strategy.

1.6 All of the MOPAC Group investments must therefore fully consider the GIS Investment Strategy. This Strategy is outlined below:

2. GIS Investment Strategy Introduction

2.1 The GIS is a vehicle for investing pooled short term cash balances belonging to 'participants', currently the Greater London Authority (GLA), the London Commissioner (LFC), the London Legacy Development Corporation (LLDC), the London Pensions Fund Authority (LPFA) and the Mayor's Office for Policing and Crime (the MOPAC Group). It is a jointly controlled operation of jointly controlled assets. The participants exercise control through a committee of their nominated representatives (the Syndics) who set this strategy and exercise certain decisions set out herein.

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 GLA has appointed its wholly owned regulated investment manager, London Treasury Limited (LTL), to operate the GIS cash balances in accordance with the GIS Investment Strategy.

3. GIS Investment Strategy

Counterparties and approved investments

Specified Investments

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

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as Specified above). They normally offer the prospect of higher returns but carry a higher risk.

The MOPAC Group CFO will make best efforts to maintain at least 50% of all investments in the form of Specified Investments.

Table 1 sets out the range of specified and non-specified investments permitted by the MOPAC Group. Investment parameters are consistent with those set out in the draft 2021/22 GIS Strategy, ensuring eligibility for the continued use of the GLA's collective investment arrangement for MOPAC's investment balances. The table uses the following key:

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

The draft GLA collective investment strategy is as follows:

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

This is subject to collective agreement by the participating authorities, currently the Greater London Authority (GLA), the London Fire Commissioner (LFC), the Mayor's Office for Policing and Crime (MOPAC), the London Legacy Development Corporation (LLDC) and the London Pensions Fund Authority (LPFA). Agreeing the strategy with the other participants is delegated to the MOPAC Group CFO, provided the limits in Table 1 are not exceeded.

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

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure as a proportion of forecast daily balance
Senior UK Prime or Buy to Let Residential Mortgage Backed Securities (RMBS)	Bond rating Fitch AA+$_{sf}$ or above or equivalent from other agencies per **Table 3**.	NS*	NS*	35%
Covered bonds	Bond rating Fitch AA+$_{sf}$ or equivalent from other agencies per **Table 3** AND Issuer rated Fitch A- or above or equivalent from other agencies per **Table 3**	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	*Not permitted.*	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria.
Other strategic investments (only to be held within authorised and regulated funds)	Any sterling-denominated investment with risk and return characteristics appropriate to the collective investment arrangement and mutually agreed by all participants.	NS*	NS*	10%

Credit Ratings and Country Limits

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

Table 2 – Country Limits

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

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

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

Table 3 - Permitted credit ratings and equivalence mappings:

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

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

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

Table 4 – Credit Factors

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

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

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

Table 5 – Concentration Limits

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

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

The Council's own bank has an emergency overnight limit of 100%, to allow for unexpected payment events.

Appendix 2E: Treasury Management Practices: Main Principles

1.0 INTRODUCTION

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

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

1.3 Approval and monitoring of TMPs is a matter for local decision. As such the TMPs: Principles will be approved by the MOPAC Group and monitored by the MOPAC Group CFO and annually reviewed by the MOPAC Group before the start of the year.

1.4 As part of GLA Group shared services, the MOPAC Group has made a functional delegation, in respect of Treasury Management, to the GLA. The MOPAC Group therefore adopts the GLA's Group Treasury Management Practices (TMPs: Schedules). The GLA's Group Treasury Management Practices (TMPs: Schedules) will be approved, monitored and annually reviewed by the GLA 's Executive Director of Resources.

1.5 Scrutiny of the approval and monitoring of TMPs will be performed by the MOPAC Group Audit Panel following recommendations by the MOPAC Group CFO.

2.0 TMP1 RISK MANAGEMENT

2.1 <u>General statement</u>

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

2.1.2 In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the GLA's Group Treasury Management Practices (TMPs: Schedules).

2.2 <u>Credit and counterparty risk management</u>

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

2.3 Liquidity risk management

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

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

2.4 Interest rate risk management

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

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

2.5 Exchange rate risk management

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

2.6 Refinancing risk management

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

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

2.7 Legal and regulatory risk management

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

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

2.8 <u>Fraud, error and corruption, and contingency management</u>

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

2.9 <u>Market risk management</u>

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

3.0 TMP2 PERFORMANCE MEASUREMENT

3.1 The MOPAC Group CFO is committed to the pursuit of value for money in the MOPAC Group's treasury management activities, and to the use of performance methodology in support of that aim, according to methodology determined from time to time by the MOPAC Group's CFO.

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

4.0 TMP3 DECISION-MAKING AND ANALYSIS

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

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

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

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

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

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

6.5 The MOPAC Group CFO will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

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

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

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

7.2 As a minimum:

The MOPAC Group will receive

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

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

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

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

7.6 The present arrangements and the form of these reports are detailed in the GLA's Group Treasury Management Practices (TMPs: Schedules).

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

8.2 The MOPAC Group CFO will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 'Reporting requirements and management information arrangements'.

8.3 The MOPAC Group CFO will account for the MOPAC Group's treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory requirements in force for the time being.

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

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

10.0 TMP9 MONEY LAUNDERING

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

11.0 TMP10 TRAINING AND QUALIFICATIONS

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

11.2 The MOPAC Group CFO will ensure that the MOPAC Group's members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

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

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

13.0 TMP12 CORPORATE GOVERNANCE

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

13.2 The MOPAC Group has adopted and implemented the key principles of the TM Code. This, together with the other arrangements detailed in the GLA's Group Treasury Management Practices (TMPs: Schedules), are considered vital to the achievement of proper corporate governance in treasury management, and the MOPAC Group CFO will monitor and, if and when necessary, report upon the effectiveness of these arrangements.