

MOPACMAYOR OF LONDON
OFFICE FOR POLICING AND CRIME

MPS-MOPAC JOINT AUDIT PANEL

4 July 2022

Treasury Management Strategy 2022/23

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

Report Summary

Overall Summary of the Purpose of the Report

This report sets the Treasury Management strategy for 2022/23

Key Considerations for the Panel

The Treasury Management Strategy summaries how MOPAC will manage its borrowings and investments over the short and medium term.

The GLA will continue to implement the MOPAC Treasury Management strategy via the Treasury Management Shared Service arrangement. To cover the key issues that you would want to bring to the attention of the Panel.

Interdependencies/Cross Cutting Issues

None

Recommendations

The Audit Panel is recommended to:

- a. Note the Treasury Management Strategy for 2022/23

1. Supporting Information

1.1. The 2022/23 Treasury Management Strategy was approved in March 2022 and defines the policies and objectives of MOPAC's treasury management activities and roles and responsibilities. MOPAC maintains a low risk appetite approach to its treasury strategy - operating on the principles of security, liquidity and yield in that order.

1.2. As part of the wider GLA shared service agenda the GLA Group Treasury services continue to provide the day to day management and delivery of the MOPAC treasury management function.

Borrowing.

1.3. 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 continue to be kept under review.

1.4. The approved 2022/23 capital programme funding includes provision for new borrowing of £247m. MOPAC has reserves which are used to help finance the capital programme reducing the need to borrow externally. Borrowing will only be undertaken where necessary and subject to the profile of capital spend, capital receipts and other funding streams.

1.5. 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.

Investment

1.6. The primary objective for MOPAC is the security of capital, followed by maintenance of liquidity, with the return on investments being a tertiary consideration.

1.7. The proposal is to continue to invest MOPAC funds fully within the GLA GIS and its new structure as an Alternative Investment Fund (AIF) once operational. This is providing security and liquidity whilst consistently generating returns in excess of the composite benchmark.

Oversight

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

1.9. Further detail can be found in the Treasury Management Strategy 2022/23 decision on the MOPAC website.

2. Equality and Diversity Impact

- 2.1. MOPAC is required to comply with the public sector equality duty set out in section 149(1) of the Equality Act 2010. This requires MOPAC to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations by reference to people with protected characteristics. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 2.2. There are no equality or diversity implications arising from this report

3. Financial Implications

- 3.1. The cost of borrowing for 2022/23 is currently estimated to be £30.8m for interest payable, and there is budget of £70.6m for minimum revenue provision. Budgets for this income and expenditure are included in the MOPAC/MPS budget for 2022/23.
- 3.2. The cost of the shared service arrangement with the GLA will be met from within existing resources.

4. Legal Implications

- 4.1. Under Section 1 of the Local Government Act 2003, MOPAC as a 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. 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

Annabel Cowell Deputy Chief Finance Officer and Head of Financial Management MOPAC, Lisa Kitto Interim Chief Finance Officer and Director of Corporate Services

7. Appendices and Background Papers

Appendix 1 – MOPAC Treasury Management Strategy 2022/23

Appendix One

Treasury Management Strategy Statement 2022/23

Introduction/Background

1) The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of the MOPAC Group for the year 2022/23.

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 Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Local Government Investments; and
- The DLUHC 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 A);
 - Minimum Revenue Provision (MRP) Policy Statement (Appendix B);
 - Prudential Code Indicators and Treasury Management Limits (Appendix C);
 - Counterparties and Approved Investments (Appendix D); and
 - Treasury Management Practices: Main Principles (Appendix E)
- 5) In covering the above areas, as per its Treasury Management Policy Statement (Appendix A), 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 E (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) Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.
- 11) After the Bank became the first major western central bank to put interest rates up, it quickly followed it up by another 0.25% rise to 0.50% on 4th February 2022, in the second of what is very likely to be a series of increases during 2022. Forecast now expects the Monetary Policy Committee to deliver more increases to get the bank rate to 1.25% in November 2022.
- 12) The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide. However, forecasting remains challenging with the following significant risks at play:
 - Mutations of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns;
 - Labour and supply shortages prove more enduring and disruptive and depress economic activity;

- The Monetary Policy Committee acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate;
- The Monetary Policy Committee tightens monetary policy too late to ward off building inflationary pressures;
- The Government acts too quickly to cut expenditure to balance the national budget;
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues;
- Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast;
- Major stock markets e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy;
- Geopolitical risks, most immediately in Ukraine, where the conflict has caused great uncertainty and increased volatility in markets, which is expected to be ongoing as governments and other organisations continues to react to the fast-changing situation. Further geopolitical risks stem from Iran, North Korea, Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows and add to inflation pressures.

13) This outlook has the following treasury management implications:

- Investment returns have started improving in the second half of 21/22 and are expected to improve further during 22/23 as the MPC progressively increases Bank Rate.
- 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 and although rates have begun to recover, still remain at historically low levels.

Prospects for Interest Rates

14) 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. Link provided the following forecasts on 7th February 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 7.2.22														
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40	
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	

15) Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

Forecast Treasury Management Position

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

Forecast Treasury Position as at 31 March £m	2020-21 Actual	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
External Borrowing					
Long term borrowing	289.4	408.3	653.7	829.3	985.3
Short term borrowing	0.0	0.0	0.0	0.0	0.0
Total External Borrowing at 31 March	289.4	408.3	653.7	829.3	985.3
Other Long-Term Liabilities					
PFI Liability	60.4	54.1	48.2	43.6	36.2
Finance Lease Liability	6.9	6.6	6.3	6.1	6.0
Total Other Long-Term Liabilities at 31 March	67.3	60.7	54.4	49.7	42.2
Total Gross Debt	356.6	468.9	708.1	878.9	1,027.5
Capital Financing Requirement	993.5	1,056.4	1,232.8	1,333.7	1,402.6
Less Other Long-Term Liabilities	67.3	60.7	54.4	49.7	42.2
Underlying Capital Borrowing Requirement	926.2	995.7	1,178.4	1,284.0	1,360.4
Under/(Over) Borrowing	636.9	587.5	524.7	454.8	375.1
Investments at 31 March	49.6	117.1	55.9	6.4	4.7
Net Borrowing	239.8	291.1	597.8	822.8	980.6

Borrowing Strategy

Delegation/Authorisation

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

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

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

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

Internal Borrowing Approach

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

- The MOPAC Group must maintain sufficient liquidity to be certain of meeting existing borrowing and other obligations;
- The measures set out in the investment strategy below substantially control credit risk;
- The materiality of such risks should be considered in the light of the long-term financial consequences of sub-optimal borrowing decisions;
- Agreements with central government specifying particular levels of borrowing; and
- Investment rates are expected to remain below borrowing rates over the next 12 months.

Policy on Borrowing in Advance of Need

21) 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.

22) 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.

Debt Rescheduling

23) 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.

24) 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

25) 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.

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 as at 31 March £m	2020-21 Actual	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Fund Balances/Reserves	563.2	469.6	345.6	226.2	144.8
Provisions	40.7	35.0	35.0	35.0	35.0
Total Core Funds	603.9	504.6	380.6	261.2	179.8
Working Capital Surplus	82.5	200.0	200.0	200.0	200.0
Internal borrowing	636.9	587.5	524.7	454.8	375.1

Expected Investments	49.6	117.1	55.9	6.4	4.7
-----------------------------	-------------	--------------	-------------	------------	------------

- 27) The MOPAC Group's investments are managed according to the principles of Appendix D currently via the GLA's Group Investment Syndicate (GIS), managed by the GLA's investment subsidiary, London Treasury Limited, which is authorised and regulated by the Financial Conduct Authority.
- 28) GIS participants have agreed to create a new fund structure, an Alternative Investment Fund (AIF), providing additional regulated oversight and assurance and replace the GIS interests with equivalent interest in the new fund.
- 29) The intention is to repurpose GLA Strategic Reserve LP, a Scottish Limited Partnership set up by the GLA as the fund, with the partnership being renamed and GIS participants becoming limited partners (LPs). Provided there is no substantive change to underlying investment risk or liquidity experienced by the MOPAC Group as a result, the MOPAC Group CFO is authorised, with regard to appropriate professional advice, to do anything they consider necessary or desirable to give effect to this transition.
- 30) 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.
- 31) There are no proposed changes to the 2022/23 GIS investment strategy since the previous iteration.
- 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 D. 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 D.
- 33) 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 D. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Greater than 365 Days' (Appendix C 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 MOPAC Group aims to have a daily net zero balance across the suite of RBS accounts it operates.
- 35) 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

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

Treasury Management Budget £m	2020-21 Actual	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Interest payable	22.7	16.5	30.8	36.9	44.1
Interest Receivable	-1.3	-1.1	-2.0	-2.0	-2.0
Minimum Revenue Provision for debt repayment	48.6	57.6	70.6	81.3	93.7
Total	70.0	73.0	99.4	116.2	135.8

37) Assumptions behind the 2022/23 Budget are:

- Average rates achievable on investments will be 1.12%
- Average rates payable on new borrowing will be 3.00%
- The MRP charge is in line with the MOPAC Group's MRP Policy

Use of External Service Providers

38) 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.

39) 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.

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

41) 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 GLA and its investment team have all been seconded from the existing GLA Group Treasury team.

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

43) 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

- 44) 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.
- 45) 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.
- 46) GLA Group Treasury officers also routinely attend national forums and practitioner groups, such as the CIPFA Treasury Management Network.
- 47) 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.
- 48) Notwithstanding the above, the training needs of Treasury officers and committee members are periodically reviewed.

Appendix A: 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 B: 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 2022/23 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, 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 C: 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 CIPFA has conducted a review of the Treasury Management Code of Practice and the Prudential Code and has published the 2021 edition. The Prudential code review particularly focuses on non-treasury investments and especially on the acquisitions of commercial property (debt for yield) while the Treasury Management Code review expands on the Training and Qualification for members and staff (knowledge and skills policy development). The 2021 codes apply with immediate effect, except that authorities may defer introducing the revised reporting requirements until 2023/24 financial year.
- 1.3 The Prudential Code also has the objective of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal.
- 1.4 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
- 1.5 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.
- 1.6 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.
- 1.7 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 £m	2020-21 Actual	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Total Capital Expenditure	328.2	271.8	450.4	303.9	305.6
Financed by:					
Capital Grants & Third-Party Contributions	31.9	55.8	77.6	63.8	61.6
Revenue Contributions	11.3	9.8	52.2	38.3	20.3
Capital Receipts	77.6	85.7	73.6	19.6	61.1
Net financing need for the year	207.4	120.5	247.0	182.2	162.6

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)	2020-21 Actual	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Total CFR*	993.5	1,056.4	1,232.8	1,333.7	1,402.6
Movement in CFR	158.9	62.9	176.4	100.9	68.9
Movement in CFR represented by					
Net financing need for the year (see Capital Expenditure table)	207.4	120.5	247.0	182.2	162.6
Less MRP/VRP** and other financing movements	48.6	57.6	70.6	81.3	93.7
Movement in CFR	158.8	62.9	176.4	100.9	68.9

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 £m	2021-22 Revised	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Borrowing	574.0	873.0	1,092.0	1,248.0
Other long-term liabilities	60.7	54.4	49.7	39.9
Total	634.7	927.4	1,141.7	1,287.9

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	2021-22 Revised	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Borrowing	449.0	748.0	967.0	1,123.0
Other long-term liabilities	60.7	54.4	49.7	39.9
Total	509.7	802.4	1,016.7	1,162.9

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	2020-21 Actual	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Gross Debt at 31 March	356.6	356.6	468.9	708.1	878.9
Capital Financing Requirement	993.5	1,056.4	1,232.8	1,333.7	1,402.6

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 Actual	2021-22 Estimate	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate
Total	2.4%	2.4%	3.2%	3.6%	4.1%

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

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 standalone basis.

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

Appendix D: Investment Strategy 2022-23 (Incorporating the GIS Investment Strategy 2022-23)

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

Background

This appendix sets out a high-level framework for the investments within the GIS. This is subject to collective agreement by the GIS participants, currently the GLA, the London Fire Commissioner (LFC), the Mayor's Office for Policing and Crime (MOPAC), the London Legacy Development Corporation (LLDC), the London Pensions Fund Authority (LPFA) and the London Borough of Harrow.

Agreeing a strategy with the other participants is delegated to the MOPAC Group CFO, provided the limits in this appendix are not exceeded. On transition of the GIS to the Alternative Investment Fund (AIF) structure as referred to in the body of this Treasury Management Strategy Statement, authority is delegated to the MOPAC Group CFO to represent the MOPAC Group at the Limited Partner Advisory Committee and agree any strategy for the AIF, likewise provided that the limits in this appendix are not exceeded.

The proposed asset allocation for the collective investment strategy is as follows:

		Allocation	Expected Return
Core liquidity: Managed with a weighted average life of 90 days	Overnight liquidity	10%	0.50%
	Local Authority <12mths	15%	0.60%
	Banks <12mths	30%	0.75%
Medium term: Weighted average life < 3years	Senior RMBS	35%	1.00%
Long term core balance	Other Strategic Investments	10%	4.00%
		100%	1.12%

The portfolio 95% VaR (value at risk) limit should not exceed 2%. VaR calculations and their underlying assumptions should be assessed at least semi-annually with regard to appropriate professional advice.

Counterparty and Investment Limits

Table 1 sets out the range of specified and non-specified investments permitted by the MOPAC Group. The following key applies:

S = Specified (These are sterling investments with high credit quality and 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.)

NS = Non-Specified (Non-specified investments are any other type of investment. They normally offer the prospect of higher returns but carry a higher risk.)

NS* = Non-Specified, only used under delegation to a professional manager properly authorised under the Financial Services and Markets Act 2000.

For the avoidance of doubt, the MOPAC Group permits the GIS to hold investments directly or through the GLA Strategic Reserve Limited Partnership, reflecting the planned transition, provided that the aggregate direct and partnership's holdings do not breach the limits set out in this appendix.

The Chief Investment Officer of the GLA and/or the General Partner of the GLA Strategic Reserve Limited Partnership will make best efforts to maintain at least 50% of all investments (or underlying investments) in the form of Specified Investments.

Table 1

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. <ul style="list-style-type: none"> • Deposits • Call Accounts • Notice Accounts • Certificates of Deposit • Loans • Commercial Paper • UK Gilts and T-Bills • All other senior unsecured bonds 	<p>Issuer (and security where separately rated) Investment Grade (IG) defined per Table 3</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 Table 2</p>	S	NS	Aggregate 100%, individual limits determined by tables
Money Market Funds	<p>Fitch AAA_{mmf} or above</p> <p>See Table 3 for equivalents from other agencies</p> <p>Daily liquidity</p>	S	N/A	100%
Other Collective Investment Schemes e.g. Enhanced Cash	Fitch AAA _r 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
Funds				
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	<i>Not permitted</i>	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria
Other strategic investments	Any sterling-denominated investment with risk and return characteristics appropriate to the collective investment arrangement and mutually agreed by all participants	NS*	NS*	10%

The GLA will forecast average daily balances for the year ahead and translate the above percentage limits into cash limits to be supplied to London Treasury Limited (LTL) and any external managers. The GLA will provide such limits on a quarterly basis at minimum, providing revised limits if the forecast average balance changes by more than 20%.

Credit Ratings and Country Limits

Maximum direct 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 Chief Investment Officer or delegated manager.

Table 3 sets out the range of investment grade ratings used by the GLA 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 by 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.

Appendix E: 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 General statement

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

2.2 Credit and counterparty risk management

- 2.2.1 The MOPAC Group CFO regards a key objective of the MOPAC Group's treasury management activities to be the security of the principal sums it invests. Accordingly, he/she will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit investment activities to the instruments, methods and techniques referred to in the TMP4 Approved instruments, methods and techniques and listed in the 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.

- 2.2.2 The MOPAC Group's credit and counterparty policies set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and the MOPAC Group's ESG policy does not currently include ESG scoring or other real-time ESG criteria at individual investment level.
- 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 or to ensure an adequate level of short-term investments to provide liquidity for the organisation.
- 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 Inflation risk management
- 2.6.1 The MOPAC Group CFO will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.
- 2.7 Refinancing risk management
- 2.7.1 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.
- 2.7.2 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.

2.8 Legal and regulatory risk management

- 2.8.1 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.
- 2.8.2 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.

2.9 Operational risk, including fraud, error and corruption

- 2.9.1 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 inadequate or failed internal processes, people and systems or from external events. Accordingly, he/she will employ suitable systems and procedures and will maintain effective contingency management arrangements, to these ends.

2.10 Price risk management

- 2.10.1 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. The performance of the treasury management function will be measured using the criteria set out in the TMPs Schedules. The criteria will include measures of effective treasury risk management and not only measures of financial performance (income or savings).

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 accountability, e.g. 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', and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate).

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, including the specification of the expertise, knowledge and skills required by each role or member of staff.
- 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 arrangement 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.