LONDON FIRE BRIGADE

Report title

Treasury Management Strategy 2021/22 and Future Years

Report to	Date
Commissioner's Board London Fire Commissioner	24 March 2021

Report by	Report number
Assistant Director, Finance	LFC-0506

Protective marking: **NOT PROTECTIVELY MARKED**
Publication status: Published in full
If redacting, give reason:

I agree the recommended decision below.

Andy Roe
London Fire Commissioner

Date This decison was remotely signed on 29 March 2021

Executive Summary
Under Authority Financial Regulations, the Director of Corporate Services, being the statutory finance officer for the London Fire Commissioner (LFC), is required to report to the LFC on the Treasury Management Strategy Statement and Annual Investment Strategy it is proposed to adopt in the coming financial year.

In addition, the LFC is required by statutory regulation to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities, when carrying out its duties under Part 1 of the Local Government Act 2003. The Prudential Code requires the LFC to approve a range of specific Treasury Management indicators.

The TM Code emphasises that responsibility for risk management and control lies within the LFC and cannot be delegated to any outside organisation. It also highlights that those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

The proposed Annual Investment Strategy continues to take a risk averse approach to investment which gives priority to the security of funds over the rate of return. The TM Code advises that Authorities should have regard to all ratings issued by the three main rating agencies considered alongside market and media information, and it is proposed that the LFC continues to use the current creditworthiness service from Link Asset Services based on credit ratings from all three agencies.

The LFC's Investment Strategy authorises the participation in the GLA Group Investment Strategy (GIS). The proposals in this report align the investment strategies of LFC and the other member bodies of the GIS in a common approach to treasury management, so far as is possible within individual requirements. This maximises the efficiency available through the Treasury Management shared service with the GLA.

Guidance issued by the Secretary of State under section 21 (1A) of the Local Government Act 2003 requires the LFC to approve the proposed Minimum Revenue Provision Policy Statement for 2021/22 in advance of the year.

The report also details the plans to borrow to fund the Capital Strategy, including taking short-term borrowing in early 2021/22 to fund the cashflow requirements of the capital programme for the period before realising expected capital receipts.

Recommended decisions

For the London Fire Commissioner

That the London Fire Commissioner agrees that:

1. the Commissioner's Board agree that the LFC be recommended to approve the contents of the Treasury Management Strategy Statement.

2. the LFC approve the Treasury Management Strategy Statement for 2021/22, including the

    a. Treasury Management Policy Statement (Appendix 1),

    b. Minimum Revenue Provision Policy Statement (Appendix 2),

    c. Prudential Code Indicators and Treasury Management Limits (Appendix 3),

    d. Group Investment Syndicate (GIS) Investment Strategy (Appendix 4)

    e. Treasury Management Practices: Main Principles (Appendix 5)

Introduction and Background

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

2. This TMSS has been prepared in accordance with the following legislation and guidance:

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

3. The TM Code defines treasury management activities as:

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

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

    - Economic Background

- Prospects for Interest Rates
- Forecast Treasury Management Position
- Borrowing Strategy
- Policy on Borrowing in Advance of Need
- Debt Rescheduling
- Investment Strategy
- Use of External Service Providers
- Treasury Training
- Treasury Management Policy Statement (Appendix 1)
- Minimum Revenue Provision (MRP) Policy Statement (Appendix 2)
- Prudential Code Indicators and Treasury Management Limits (Appendix 3)
- Group Investment Syndicate (GIS) Investment Strategy (Appendix 4)
- Treasury Management Practices: Main Principles (Appendix 5)

5. In covering the above areas, as per its Treasury Management Policy Statement (Appendix 1), the LFC 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 LFC and cannot be delegated to any outside organisation.

6. The Treasury Management risks the LFC 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)
   - Legal and regulatory and fraud risk (non-compliance with statutory and regulatory requirements, risk of fraud)

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

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

   i. The LFC will create and maintain as the basis for effective treasury management:

      - 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 way the LFC 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 circumstances of the LFC. Such amendments do not result in the LFC materially deviating from the Code's key principles.

   ii. The LFC 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 LFC delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Commissioner's Board, and for the execution and administration of treasury management decisions to the Director of Corporate Services, who will act in accordance with the organisation's policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

iv. The LFC nominates the Commissioner's Board to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. All reports will be scrutinised by the Commissioner's Board prior to submission to the LFC.

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 Commissioner's Board for scrutiny and then submitted to the LFC for approval.

vi. Should the Director of Corporate Services 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 LFC.

Economic Background (Provided by Link Asset Services)

9. The coronavirus outbreak caused huge economic damage to the United Kingdom (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 16 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.

10. 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.

11. The UK has experienced long running uncertainty around whether or not a Brexit deal would be made by 31 December 2020, but the final agreement on 24 December 2020, followed by ratification by Parliament and all 27 European Union (EU) countries in the following week, has eliminated a significant downside risk for the UK economy.

12. On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for Public Works Loans Board (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 (1.0%)
    - PWLB Certainty Rate is gilt plus 80 basis points (0.8%)

13. 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-19 crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to six years were negative during most of the first half of 2020/21. 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 (Provided by Link Asset Services)

14. The effective management of risk around borrowing and investments and cashflow management decisions also includes understanding interest rate movements.

15. The LFC has appointed Link Asset Services as its treasury advisor and part of its services is to assist the LFC formulate a view on interest rates. Table 1 below gives Links central view. The PWLB rates shown are net of the 0.2% 'certainty rate' discount.

Table 1 - Link Asset Services forecasted PWLB interest rates.

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 Monetary Policy Committee (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 LFC'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.

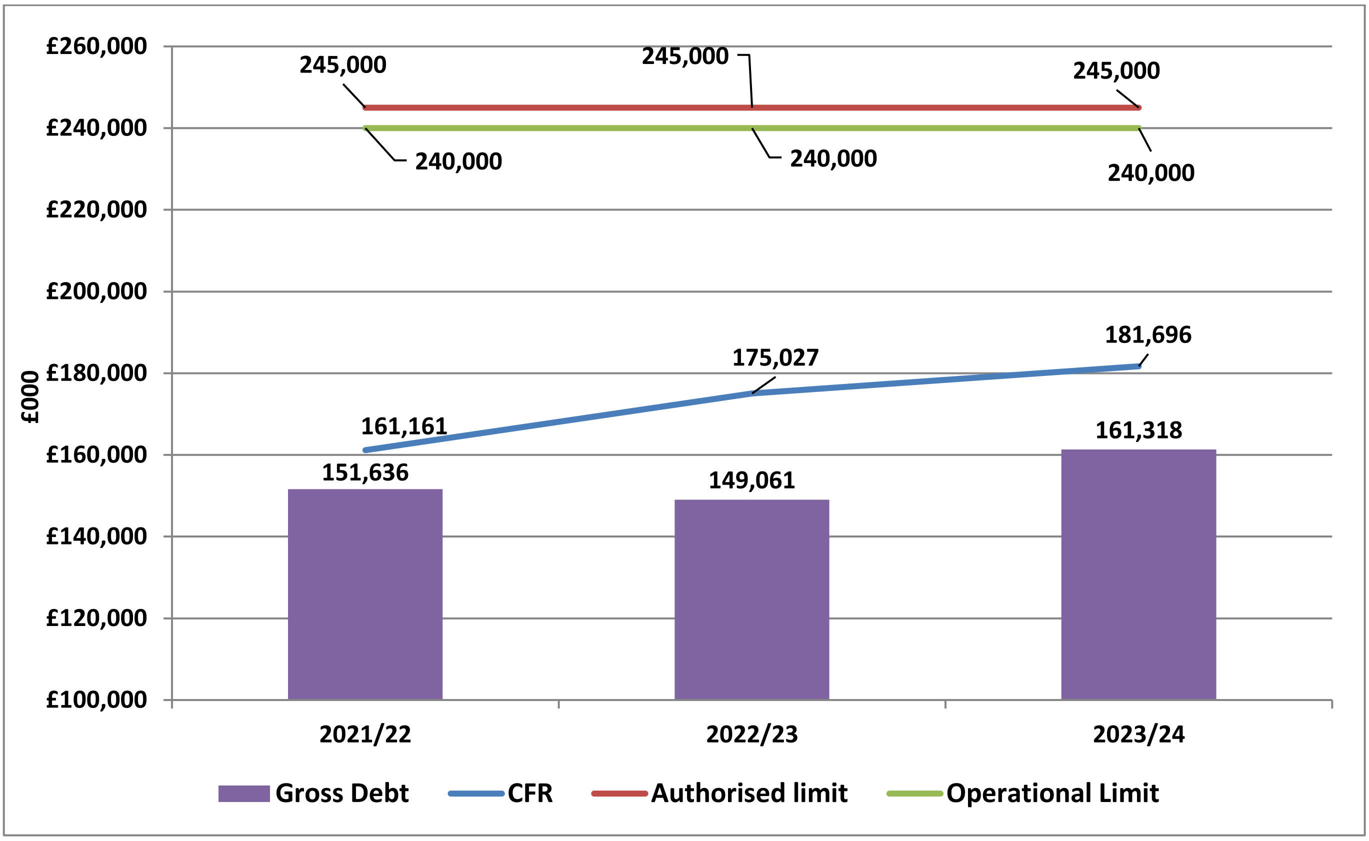
Table 2 – Forecast Treasury Position

Forecast Treasury Position	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
External Borrowing			
Long Term Borrowing	88.93	87.73	101.43
Temporary Borrowing	0.00	0.00	0.00
Total External Borrowing at 31 March (A)	88.93	87.73	101.43
Other Long Term Liabilities			
PFI Liability	44.29	42.91	41.47
Finance Lease Liability	18.43	18.43	18.43
Total Other Long Term Liabilities at 31 March (B)	62.71	61.34	59.89
Total Gross Debt (A+B)	151.64	149.06	161.32
Capital Financing Requirement	163.87	179.18	187.41
Less Other Long Term Liabilities at 31 March	62.71	61.34	59.89
Underlying Capital Borrowing Requirement (C)	101.16	117.85	127.51
Under/(Over) Borrowing (C-A)	12.24	30.12	26.09
Investments at 31 March (D)	132.48	67.19	55.22
Net Borrowing (A-D)	-43.56	20.53	46.21

20. Within the set of prudential indicators there are several key indicators to ensure that the LFC operates its activities within well-defined limits. One of these is that the LFC needs to ensure that its gross borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current year and the next two financial years. This key prudential indicator is referred to as 'gross debt and the capital financing requirement'. It allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes, except to cover short term cash flows. In making this comparison between gross debt and the CFR, CIPFA guidance provides that, if in any of these years, there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with the gross external debt.

21. The following graph shows projections of the CFR and borrowing, together with Authorised and Operational Boundary Limits.

Graph 1 CFR and Borrowing Projections



22. The Director of Corporate Services reports that the LFC complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans and the proposals in the LFC's budget report on the same agenda

Leases – Changes to Accounting

23. The LFC, as part of the local government sector, will be required to adopt a new international financial reporting standard (IFRS) for leasing from 1 April 2022. IFRS 16 Leases will require local authorities that are lessees to recognise most leases on the balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). As part of ensuring compliance with IFRS 16, the operational and authorised borrowing limits will be reviewed and increased as necessary from the levels shown in the above tables. Updated borrowing limits will be approved separately, once a detailed data gathering exercise has been completed and the impact of IFRS 16 compliance quantified, during the 2021/22 financial year.

Borrowing Strategy

Delegation/Authorisation

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

25. On the basis of the above, the Director of Corporate Services is:

- authorised to approve borrowing by the LFC, for the purposes of financing capital expenditure and subject to the necessary statutory provisions, provided that the Authorised Limit, determined by the Mayor for the LFC, is not exceeded.
- authorised to borrow temporarily within the Authorised Limit, where this represents prudent management of the LFC's affairs.
- 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 LFC 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. The Commissioner's Board should be informed within agreed reporting intervals of any temporary borrowing.

26. All borrowing decisions are reported to the Commissioner's Board at the first opportunity within the Treasury Management cycle.

Borrowing and Risk

27. It is proposed that the LFC's approach to Treasury Management continues to be risk adverse; borrowings will be taken on fixed rates from the Public Works Loan Board (PWLB) or from other approved sources of financing, and following advice GLA Group Treasury. Variable rate long term borrowing may only be undertaken where there are proportionate, dedicated income streams which would vary in accordance to any proposed variable rate instruments.

28. Officers will also consider the use of Finance Leases where it is demonstrated to be advantageous to the LFC to use such arrangements, for planned acquisition of non-fixed plant, equipment and/or machinery.

29. Against the background and the risks within economic forecast, caution will be adopted with the 2021/22 treasury operations. The Director of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Internal Borrowing

30. When using cash balances to fund internal borrowing, the LFC 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 LFC must maintain enough 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 levels of borrowing

31. The LFC is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt, as cash supporting the LFC's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns remain low and counterparty risk is limited.

Short Term Borrowing

32. The LFC may borrow temporarily (i.e. for less than 12 months) to cover cash flow needs. Total borrowings will not exceed the authorised limit except possibly by an amount equal to any sum due to but not yet received by the LFC, as permitted by s5 of the Local Government Act 2003.

33. It proposed that the LFC will borrow on a short-term basis to fund Capital Expenditure at 2020/21 outturn. The Capital Expenditure had been anticipated to be funded from the capital receipts from the sale of the sites at 8 Albert Embankment and Clerkenwell, however the conclusion of these has been delayed into 2021/22. Planning approval was granted for the sale and redevelopment of 8 Albert Embankment by the London Borough of Lambeth in December 2019, however the scheme has now been called in by the Secretary of State at the Ministry of Housing, Communities and Local Government (MHCLG) who now becomes the Planning Authority for the application. The planning inquiry has now finished, and the final decision is awaited. The capital receipt now forecast for late 2021/22. A pre-planning application for the former fire station site at Clerkenwell has now been submitted to the local planning authority, with the expectation that the disposal can take place later this year. The position on both these sites will continue to be monitored during 2021/22.

34. The uncertainty with the capital receipts is further impacted by the Covid-19 pandemic, and the uncertainty this has caused in the London property market and property valuations. There is therefore a risk that the anticipated capital receipts may be less than currently budgeted, and as a result will lead to an increased long-term borrowing requirement.

35. The short-term borrowing although relating to capital expenditure in 2020/21 will be taken early in 2021/22 once the outturn position is known, and will maintain a sustainable cash flow position until the capital receipts are realised.

Long Term Borrowing

36. The LFC has been able to fund the capital programme through the use of capital receipts for the last few financial years. As this funding source becomes exhausted the LFC will have to return to taking long term borrowing to fund the capital programme.

37. The LFC's budget report 2021/22, also on today's agenda, includes expected borrowing to fund the capital programme of £7.8m in 2021/22, £25.1m in 2022/23 and £20.6m in 2023/24. There is a risk that this level of borrowing could increase if the capital receipts expected in 2021/22 are not realised, or if any receipt achieved at a value below the currently expected level.

38. The position on the capital programme, and the level of borrowing necessary to support this, will be reviewed during the financial year and a further update provided in the mid-year Treasury Management report. The position will also be reviewed as part of the regular financial position reports. Approval for future borrowing is expected to be addressed as part of the Treasury Management reporting, with formal approval sought at the appropriate time.

Policy on Borrowing in Advance of Need

39. The LFC will not borrow more than or in advance of need purely to profit from the investment of the surplus borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the LFC can ensure the security of such funds. A key factor in borrowing early may be the prospect of increasing interest rates, and given these are forecast in the market update provided above by Link Asset Services this will be considered, in discussion with GLA Group Treasury.

40. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Investment Strategy

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

42. The LFC will, as part of the GIS, continually develop its investment risk methodologies with advice from external advisors, relevant developments in the market and academia, benchmarking techniques and approaches employed by the Credit Ratings Agencies.

43. The application of resources (capital receipts, reserves etc.) to finance capital expenditure 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.

Table 3 Core Funds and Expected Investment Balances

Core Funds and Expected Investment Balances	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Fund balances/reserves	68.92	61.31	56.31
Provisions	5.00	5.00	5.00
Other	50.80	11.00	0.00
Total Core Funds	124.72	77.31	61.31
Working Capital Surplus*	20.00	20.00	20.00
Under/(over) borrowing	12.24	30.12	26.09
Expected Investments	132.48	67.19	55.22

44. The LFC 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 4 but is subject to the agreement of all participating authorities; the Director of Corporate Services 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 4.

45. The changes to the 2021/22 GIS Investment Strategy since the previous iteration are:

- An increased maximum exposure limit for senior Residential Mortgage Backed Securities (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

46. The changes to the GIS Investment Strategy have been developed by GLA Group Treasury, with support and advice from external advisers as necessary. The changes to the Strategy are then presented to the GIS Syndics for review and approval, with support from the Link Asset Services as required.

47. review and development of the GIS Investment Strategy seeks to ensure diversity to help maintain security and liquidity in the investment portfolio, but also to support delivery of an adequate return on the cash balances held in the GIS. The increase in the exposure to RMBS continues the development in this investment, which was initially used to invest GLA balances and then extended to the main GIS, and with the exposure now increased. The move into longer dated strategic investments results from the ongoing review of the investment market by GLA Group Treasury. It has been noted that the longer duration of these investment products does expose the GIS to risk of volatility in the investment during its lifetime. This is due to the requirement to assess the value of the investment at the end of each year with any gains or losses to be accounted for as part of the financial position for that year. The risk therefore results from this annual accounting treatment rather than the risk of a loss at maturity. This risk was stress tested as part of the GIS consideration of this investment product, and this concluded that it would take an economic shock of significantly greater scale than the 2008/09 Financial Crisis to reduce expected returns to zero, let alone create permanent loss of capital.

48. The 2021/22 GIS Investment Strategy, including creditworthiness policy and permitted instruments, as agreed between the Syndics, (The Director of Corporate Services is the Syndic for LFC) is attached at Appendix 4.

49. This Strategy effectively constitutes the LFC's Annual Investment Strategy, which is prepared and approved before the start of each financial year. This GIS Investment Strategy is currently in the process of being approved by all the current participants of the GIS and the Board is presented with the latest version.

2021/22 GIS Investment Strategy

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

51. Where funds are placed in pooled vehicles such as Money Market Funds (MMFs), each fund is an approved counterparty. Variation between a MMF's list of approved counterparties and the approved counterparties of the LFC is permissible, at the discretion of the Director of Corporate Services, providing the MMF's own rating meets the criteria of Appendix 4.

52. Additionally, the Director of Corporate Services may from time to time instruct the GLA Treasury team to invest sums independently of the GIS, for instance, if the LFC 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 LFC adopt an identical set of parameters for such investments as those detailed in Appendix 4, except that there shall be no requirement to maintain a weighted average maturity of no greater than 91 days. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Longer than 365 Days' (Appendix 3 section 6.2).

53. There are currently no plans to invest for periods longer than one year in the LFC's own name, because the LFC does not expect to have core cash balances which permit such investment durations. The Treasury Management Limit 'Limits for Principal Sums Invested for Periods Longer than 365 Days' is therefore set at zero. However, considering potential capital receipts this position will be kept under review and any move to invest funds long-term will be put to the Board for consideration. (This limit does not apply to externally managed funds or to pooled monies within the Group Investment

Syndicate, providing the weighted average maturity of investments does not exceed 91 days): See Appendix 3 Section 6.2.

54. Whilst the LFC sets its Annual Investment Strategy at the start of each financial year, this need not be a once-a-year event, and the 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 LFC.

Treasury Management Budget

55. The table below provides a breakdown of the treasury management budget

Table 4 Treasury Management Budget

Treasury Management Budget	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Interest Payable	2.7	2.7	3.0
Interest Receivable	-0.8	-0.6	-0.6
Minimum Revenue Provision	5.8	9.8	12.4
Total	7.71	11.86	14.79

56. Assumptions behind the 2021/22 Budget are:

- Average rates achievable on investments will be 0.75%
- Average rates payable on new fixed term borrowing will be 2.50%
- Borrowing is required from 2021/22 to fund the future Capital Programme.
- The Minimum Revenue Provision (MRP) charge is in line with the LFC's MRP Policy

Use of External Service Providers

57. The LFC uses Link Asset Services, as its external treasury management advisor under a joint arrangement with the GLA. Whilst recognising the specialist skills and resources such advisors can provide, the responsibility for treasury management decisions remains wholly with the LFC, and so undue reliance should not be placed upon external service providers. The LFC, together with GLA Group Treasury and members of the GIS, monitors and maintains the quality of this service by regular review and assessment.

58. Link Asset Services currently provide;

- consultancy services to support the LFC's treasury operation
- attend two strategy meetings per annum to review the LFC's financial position having regard to its objectives, strategy, current financial circumstances, assets and liabilities.
- interest rate forecast and advise on the formulation of suitable borrowing and investment strategies
- forecasts of movements in PWLB rates which affect the timing of funding with fixed rate debt, conversion of variable rate debt to fixed and the conversion of fixed rate debt to variable

- regular updates on economic and political changes which may impact on and require modification to borrowing and investment strategies
- advice on debt rescheduling, funding policy, volatility and maturity profile analysis
- advice and weekly reports on counterparty creditworthiness, including provision of prudent parameters established in the light of information from the UK's leading credit rating agencies, the credit default swaps market and various other analyst and associations
- reporting templates

59. The LFC 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. In addition, before any appointment is made, a fully costed appraisal would be performed and approval from the LFC obtained.

60. The Royal Bank of Scotland (RBS) is the LFC's bankers.

61. The GLA Investment Manager 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 Investment Manager of the Greater London Authority and its investment team have all been seconded from the existing GLA Investment Management team.

62. The GLA Investment Manager already has experience of using external fund managers, as the GLA Investment Manager uses two external fund managers, TwentyFour Asset Management and Prytania Asset Management, 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.

63. The GLA Investment Manager, under the GIS Investment Strategy, uses State Street Bank and Trust as the custodian for tradeable instruments (such as Treasury Bills). The GLA's policy is that any custodian shall meet the GLA's credit criteria for 12 month investments (prior to Credit Default Swaps Market or other temporary adjustments).

Treasury Training

64. 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

65. Senior officer training is available from the LFC's external treasury advisors (Link Asset Services) and will be arranged as required.

66. 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.

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

68. 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.

Finance comments

69. This report is prepared by the Assistant Director - Finance and as such Finance comments have been incorporated into the report.

Workforce comments

70. No Workforce implications have been identified therefore no formal consultation has been undertaken.

Legal comments

71. Section 1 of the Fire and Rescue Services Act 2004 states that the Commissioner is the fire and rescue authority for Greater London. The Commissioner is also a 'best value' authority under the Local Government Act 1999 and must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

72. The Commissioner's Scheme of Governance delegates responsibility for the execution and administration of Treasury Management decisions to the Director of Corporate Services who will act in accordance with the Commissioner's Policy Statement on Treasury Management Activities and Treasury Management Practices and CIPFA's "Standard of Professional Practice on Treasury Management".

73. The Director of Corporate Services must in accordance with paragraph 20 pf Part 6 produce annually a Treasury Management Strategy setting out the requirements for the forthcoming year and the proposals to meet them, for approval by the Commissioner.

74. This report fulfils the requirements set out above.

Sustainability Implications

75. There are no direct sustainability implications arising from this report.

Equalities Implications

76. The London Fire Commissioner and decision takers are required to have due regard to the Public Sector Equality Duty (s149 of the Equality Act 2010) when exercising our functions and taking decisions.

77. It is important to note that consideration of the Public Sector Equality Duty is not a one-off task. The duty must be fulfilled before taking a decision, at the time of taking a decision, and after the decision has been taken.

78. The protected characteristics are: Age, Disability, Gender reassignment, Pregnancy and maternity, Marriage and civil partnership (but only in respect of the requirements to have due regard to the need to eliminate discrimination), Race (ethnic or national origins, colour or nationality), Religion or belief (including lack of belief), Sex, and Sexual orientation.

79. The Public Sector Equality Duty requires us, in the exercise of all our functions (i.e. everything we do), to have due regard to the need to:
    (a) Eliminate discrimination, harassment and victimisation and other prohibited conduct.

    (b) Advance equality of opportunity between people who share a relevant protected characteristic and persons who do not share it.

    (c) Foster good relations between people who share a relevant protected characteristic and persons who do not share it.

80. Having due regard to the need to <u>advance equality of opportunity</u> between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

    (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic where those disadvantages are connected to that characteristic;

    (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;

    (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

81. The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

82. Having due regard to the need to <u>foster good relations</u> between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to—

    (a) tackle prejudice, and

    (b) promote understanding.

83. There are no significant equality implications anticipated to arise directly from this report, however an Equality Impact Assessment is planned to be undertaken to ensure the accuracy of this prediction.

List of Appendices to this report:

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

Appendix 1: 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.

i. The LFC defines its treasury management activities as:

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

ii. The LFC 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 LFC, and any financial instruments entered into to manage those risks.

iii. The LFC 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 2: 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 LFC for approval before the start of the financial year to which it relates. Any in-year changes must also be submitted to the LFC for approval.

1.5 The recommended statement for LFC is set out below:

i. The major proportion of the MRP for 2021/22 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. Certain expenditure reflected within the debt liability as at 31st March 2021 will under delegated powers be subject to MRP under option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment of a building, will be related to the estimated life of that building.

ii. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the LFC. However, the LFC reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

iii. As some types of capital expenditure incurred by the LFC are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Appendix 3: CIPFA Prudential Code Indicators and Treasury Management Limits

1. **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 LFC 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 LFC'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 LFC and any subsequent changes to these Indicators and Limits must also be approved by the LFC.

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

2. **Capital Expenditure**

2.1 <u>Capital Expenditure</u>

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

2.1.2 All The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total Capital Expenditure	58.60	36.08	20.58
Financed by:			
Capital receipts	50.80	11.00	0.00
Capital Grants	0.00	0.00	0.00
Net financing need for the year	7.80	25.08	20.58

*The capital programme for future years and use of capital receipts is addressed in the budget report on the same agenda.

2.2. Capital Financing Requirement

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

Capital Financing Requirement (CFR)	2020-21 Estimate £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total CFR	161.84	163.87	179.18	187.41
Movement in CFR	11.81	2.03	15.31	8.23
Movement in CFR represented by				
Net financing need for the year (see Capital Expenditure table)	17.63	7.80	25.08	20.60
Less Capital receipts to repay borrowing	0.00	0.00	0.00	0.00
Less MRP/VRP* and other financing movements	5.82	5.77	9.77	12.37
Movement in CFR	11.81	2.03	15.31	8.23

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

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	**2020-21 Estimate £m**	**2021-22 Estimate £m**	**2022-23 Estimate £m**
External Borrowing	155.00	175.00	175.00
Other long-term liabilities	70.00	70.00	70.00
Total	225.00	245.00	245.00

3.1.4 This limit is consistent with the LFC's view on current and future affordability, as advised to the Mayor in the course of consultation.

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	**2021-22 Estimate £m**	**2022-23 Estimate £m**	**2023-24 Estimate £m**
External Borrowing	170.00	170.00	170.00
Other long-term liabilities	70.00	70.00	70.00
Total	240.00	240.00	240.00

3.2.3 This limit is consistent with the LFC's view on current and future affordability, as advised to the Mayor in the course of consultation.

3.3 From 2021-22, the LFC, as part of the local government sector, will be required to adopt a new international financial reporting standard (IFRS 16) for leasing. The assets and liabilities of all significant leases of over 12 months will be recognised on the balance sheet. To ensure compliance with IFRS 16, the operational and authorised borrowing limits have increased to the levels shown in the above tables. Updated borrowing limits will be published separately, once a detailed data gathering exercise has been completed, during the 2021-22 financial year.

3.4 Gross Debt and the Capital Financing Requirement

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

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

Gross Debt and the Capital Financing Requirement	2020-21 Forecasted £m	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Gross Debt at 31 March	126.05	151.64	149.06	161.32
Capital Financing Requirement	160.50	161.16	175.03	181.70

4. Affordability Prudential Indicators

4.1 Ratio of Financing Costs to Net Revenue Stream

4.1.1 This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

Financing Costs to Net Revenue Stream	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m
Total	2.61	2.92	2.86

5. 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 LFC has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

6. Treasury Management Limits on Activity

6.1 Limits for Maturity Structure of Borrowing

6.1.1 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.

Limits for Maturity Structure of Borrowing for 2021-22	**Upper Limit**	**Lower Limit**
	%	**%**
Under 12 months	20.00	0.00
12 months and within 24 months	20.00	0.00
24 months and within 5 years	50.00	0.00
5 years and within 10 years	75.00	0.00
10 years and above	90.00	25.00

6.1.2 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.

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

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

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

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

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

	Maximum principal sums invested >364 days		
Limits for Principal Sums Invested for Periods Longer than 365 days	**2019-20 £m**	**2020-21 £m**	**2021-2022 £m**
Principal sums invested >365 days	0.00	0.00	0.00

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

Appendix 4: Investment Strategy 2021/22

(incorporating the GIS Investment Strategy 2021/22 –Appendix 4 part 2)

1. Introduction

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

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

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

or

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

1.4 Cash balances invested in the LFC's own name are subject to the GIS Investment Strategy, except that there is no requirement to maintain a weighted average maturity which does not exceed 91 days.

1.5 Cash balances invested in the name of the GIS are subject to the GIS Investment strategy.

1.6 All LFC investments must therefore fully consider the GIS Investment Strategy. The GIS 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 (MOPAC). The GLA acts as the Investment Manager under the supervision of the Syndics (the participants' respective chief financial officers).

2.2 On an individual basis, shorter investments can give rise to additional transaction costs and lower returns; but by pooling resources the participants can achieve economies of scale through larger individual transactions; can exploit the greater stability of pooled cash flows to obtain better returns and can achieve greater levels of diversification.

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

2.4 The Investment Manager (the GLA) 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

GIS Investment Strategy

Background

This appendix sets out a high-level framework for the investments within a merged GIS and LSR. 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) and the London Pensions Fund Authority (LPFA) and the London Borough of Harrow as an expected new joiner.

Agreeing a strategy with the other participants is delegated to the Director of Corporate Services, provided 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%	0.00%
	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%

The portfolio 95% VaR Limit should not exceed 2%. Assumptions for VaR calculations should be assessed 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 LFC. The following key applies:

S = Specified (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)

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.

The Director of Corporate Services will make best efforts to maintain at least 50% of all 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. • **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%
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%

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
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%

The GLA will forecast average daily GIS balances for the year ahead and translate the above percentage limits into cash limits to be supplied to 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 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 Corporate Services or delegated manager.

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

Appendix 5: Treasury Management Practices: Main Principles

1.0 INTRODUCTION

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

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

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

1.4 TMPs: Schedules will be approved, monitored and annually reviewed by the Director of Corporate Services.

1.5 Scrutiny of the approval and monitoring of TMPs will be performed by Commissioner's Board following recommendations by the Director of Corporate Services.

2.0 TMP1 RISK MANAGEMENT

2.1 General statement

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

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

2.2 Credit and counterparty risk management

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

2.3 Liquidity risk management

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

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

2.4 Interest rate risk management

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

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

2.5 Exchange rate risk management

2.5.1 The Director of Corporate Services will manage its exposure to fluctuations in exchange rates, to minimise any detrimental impact on its budgeted income/expenditure levels.

2.6 Refinancing risk management

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

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

2.7 Legal and regulatory risk management

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

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

2.8 Fraud, error and corruption, and contingency management

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

2.9 Market risk management

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

3.0 TMP2 PERFORMANCE MEASUREMENT

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

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

4.0 TMP3 DECISION-MAKING AND ANALYSIS

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

5.0 TMP4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

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

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

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

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

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

6.4 The Director of Corporate Services will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Director of Corporate Services will also ensure that at all times those engaged in treasury management will follow the policies and procedures. The present arrangements are detailed in the TMPs: Schedules.

6.5 The Director of Corporate Services will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the TMPs: Schedules

6.6 The delegations to the Director of Corporate Services in respect of treasury management are set out in the TMPs: Schedules. The Director of Corporate Services will fulfil all such responsibilities in accordance with the Authority's policy statement and TMPs and if a CIPFA member, the 'Standard of Professional Practice on Treasury Management'.

7.0 TMP6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS.

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

7.2 As a minimum:

The Authority will receive

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

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

7.3 The Commissioners Board, 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 Commissioners Board responsible for scrutiny, such as an audit or scrutiny committee, will have responsibility for the scrutiny of treasury management policies and practices.

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

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

8.0 TMP7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

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

8.2 The Director of Corporate Services will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 'Reporting requirements and management information arrangements'.

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

9.0 TMP8 CASH AND CASH FLOW MANAGEMENT

9.1 Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this Authority will be under the control of the Director of Corporate Services and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Director of Corporate Services will ensure that these are adequate for the purposes of monitoring compliance with TMP1 (2.3) 'Liquidity risk management'. The present arrangements for preparing cash flow projections, and their form are set out in the TMPs: Schedules.

10.0 TMP9 MONEY LAUNDERING

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

11.0 TMP10 TRAINING AND QUALIFICATIONS

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

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

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

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

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

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

13.0 TMP12 CORPORATE GOVERNANCE

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

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