LFB

LONDON FIRE BRIGADE

LFC–24-028

Treasury Management Strategy Statement 2024/25

Report to:	**Date:**
Investment & Finance Board	28 February 2024
Commissioner's Board	07 March 2024
Fire and Resilience Board	2 April 2024
Audit Committee	13 May 2024

Report by:
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Report classification:
For Decision

For publication

I agree the recommended decision below.

Andy Roe

London Fire Commissioner

Date This decision was remotely signed on 28 March 2024

PART ONE

Non-confidential facts and advice to the decision-maker

Executive Summary

This report sets out the proposed Treasury Management Strategy Statement and borrowing requirements for 2024/25 and supporting documents.

Under Authority Financial Regulations, the Director for 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. It is presented to the Commissioner's Board for review and to the LFC for approval.

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 LFC meets the first prudential indicator in respect of treasury management by having adopted CIPFA's Treasury Management in the Public Services Code of Practice (The TM Code). The additional indicators are shown in the recommendations below.

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. These ratings are based on past performance, but by using a scoring system incorporating credit default swap rates provides a forward-looking market view. Officers will, as before, monitor market and media intelligence to further inform their assessment of investment counterparties.

As planned and advised in last year's Treasury Management Strategy Statement, at the end of June 2023, the restructure of the GLA Group Investment Syndicate (GIS) into London Treasury Liquidity Fund (LTLF) was completed. The GIS contractual arrangement was terminated and each GIS participant, including LFC, joined LTLF as a limited partner, replacing its GIS interest with an equivalent interest directly in LTLF. Further detail can be found in section 6 of this report.

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 2023/24 in advance of the year. The report also details the plans to borrow to fund the Capital Strategy.

Recommended Decisions

That the London Fire Commissioner

1. That the LFC approves the Treasury Management Strategy Statement for 2024/25, 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. The Investment Strategy (Appendix 4)
e. Treasury Management Practices: Main Principles (Appendix 5)

1. Introduction and background

1.1 The Treasury Management Strategy Statement (TMSS) sets out the risk framework under which the organisation's treasury management function will operate. By detailing the investment and debt instruments to be used during the year the Strategy details the risk appetite of the Authority and how those risks will be managed.

1.2 The Treasury Management Strategy Statement is linked to the Capital Strategy, in that both documents detail the risks that the organisation face, but critically the Treasury Management Strategy Statement is focussed on the risks associated with the management of the organisation's cash flow and debt, whereas the Capital Strategy looks at capital investment and expenditure decisions.

Treasury Management Strategy for 2024/25

1.3 The suggested strategy for 2024/25 is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the LFC's treasury advisor, Link Asset Services.

The strategy covers:

Section 1: Introduction and background
Section 2: Economic background
Section 3: Forecast treasury management position
Section 4: Borrowing Strategy
Section 5: Investment Strategy
Section 6: Transition to the London Treasury Liquidity Fund Limited Partnership
Section 7: Investment Strategy
Section 8: Use of external treasury management advisor
Section 9: Treasury Training
Section 10: Finance comments
Section 11: Legal comments
Section 12: Sustainability implications
Section 13: Equality implications

Appendix 1: Treasury Management Policy Statement
Appendix 2: Minimum Revenue Provision Policy Statement
Appendix 3: Prudential Code Indicators and Treasury Management Limits
Appendix 4: The Investment Strategy
Appendix 5: Treasury Management Practices: Main Principles

1.4 Treasury management is defined by CIPFA as:

> 'The management of the organisation'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.'

Statutory and other requirements

Statutory requirements

1.5 The Local Government Act 2003 (the Act) and supporting regulations require the LFC to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the organisation's capital investment plans are affordable, prudent and sustainable.

1.6 The Act therefore requires the LFC to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (included in appendix 4 of this report); the Strategy sets out the organisation's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.7 In 2017 the Ministry of Housing Communities and Local Government (MHCLG) further updated government guidance on local government investments. CIPFA responded to these revisions by issuing an updated Code of Practice on Treasury Management and the Prudential Code in 2021.

CIPFA requirements

1.8 The CIPFA Code of Practice on Treasury Management has been adopted by the organisation. This strategy has been prepared in accordance with the revised December 2021 Code.

1.9 The LFC's adherence to the Prudential Code is monitored through the series of Prudential Indicators defined by CIPFA. Adherence to the CIPFA Prudential Code is a factor which informs the organisation's investment policy. The legal status of the Treasury Management Code is derived in England and Wales from regulations issued under the Local Government Act 2003. This includes statutory guidance on Local Government investments issued under section 15(1) (a) of the Act.

Prudential and Treasury Indicators for 2024/25 to 2026/27

1.10 It is a statutory duty under Section 3 of the Act and supporting regulations that the organisation determines and keeps under review how much it can afford to borrow. This amount is termed the 'Affordable Borrowing Limit'. In England this Authorised Limit represents the legislative limit specified in the Act and is one of the key Prudential Indicators identified by the CIPFA Code.

1.11 The organisation must have regard to the Prudential Code when setting the Authorised Limit which requires it to ensure that total capital investment remains within sustainable limits.

1.12 Whilst termed an Affordable Borrowing Limit, the capital plans incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Authorised Limit is to be set on a rolling basis for the forthcoming financial year and two successive financial years.

1.13 Treasury limits and Prudential Indicators recommended by the Code and used by the LFC are noted in Appendix 3 of this report.

1.14 It should be noted that the Prudential and Treasury Indicators in this report may be subject to change dependent on decisions taken on the Capital and Revenue budgets which are reported elsewhere on this agenda.

Risk Management

1.15 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.

1.16 The key treasury management risks the LFC is exposed to are: credit and counterparty risk (security of investments), liquidity risk, interest and market risk, legal and regulatory and fraud risk. These risks are discussed further in Appendix 5 (Treasury Management Practices).

The Treasury Management Code and Governance Arrangements

1.17 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 for Corporate Services, who will act in accordance with the 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 for 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.

Environmental Impact Assessment

1.18 Treasury Management activity underpins the organisation's finances, and therefore supports projects and initiatives which seek to achieve the organisation's zero carbon target.

Future Borrowing Requirement

1.19 The proposed Capital Budget contains significant capital investment across the organisation, including investment towards being carbon net zero by 2030. The scale of the investment will mean that the LFC will need to undertake external borrowing in the future and will not be able on to rely on internal borrowing alone. Where possible, internal borrowing will remain the first option due to the interest savings generated.

1.20 The overall strategy is therefore for the organisation to continue to use reserves and provisions to maximise internal borrowing whilst seeking to rebalance the portfolio with more medium-term debt when there is a need to externally borrow. This must be done with a strong focus on achieving value for money on interest costs and balancing the risks to the overall debt portfolio over the long term.

1.21 The overall forecast is for long-term borrowing to increase in future years from historically low levels (using previous large capital receipts/reserves). In terms of the LFC's borrowing strategy there are three options:

i. Internal borrowing
ii. Short to medium term borrowing
iii. Long term borrowing

1.22 The Treasury Management team will continue to monitor and manage the risk of each of the above borrowing options. At such time the LFC will need to borrow, the debt market will be actively monitored and the borrowing strategy which delivers the optimum value for money will be chosen. The short-term advantage of internal and short-term borrowing will be weighed against the potential cost if long term borrowing is delayed.

1.23 The LFC will not borrow in advance of need. Any decision to borrow in advance in support of strategic and service delivery objectives will be in the context of achieving the best overall value for money, for example to minimise the risk of borrowing costs increasing in the future and that the LFC can ensure the security of such funds. In determining whether borrowing is undertaken in advance of need the LFC will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt profile which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created and implications for future and budget have been considered;
- 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;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- consider the impact of borrowing in advance temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

1.24 The forecast treasury management position in section 3 of this report shows the potential long-term borrowing requirements over the next three years.

2. Economic Background (Provided by Link Asset Services)

2.1 The Link Group has been appointed as treasury advisors to the GLA and the treasury management shared service participants. The information and commentary provided in this section are from Link.

2.2 Link provided the following forecasts on 8th January 2024. Link expect the Monetary Policy Committee (MPC) to keep Bank Rate at 5.25% until the second half of 2024. Inflation pressures are expected to ease which may allow for potential reductions. However, the outlook is far from certain. The table below provides forecasts for Bank Rate, average earnings and Public Works Loan Board (PWLB) certainty rates (gilt yields plus 80 basis points bps).

Link Group Interest Rate View 08.01.24	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Source: Link

2.3 Link have stated that due to the number of variables, caution must be exercised in respect of all interest rate forecasts. It is election year for the UK and USA. The MPC will have to consider economic data releases, central government fiscal policies and international factors such as US and European policy developments, support packages to aid China's faltering economy, along with ongoing conflicts in Ukraine and the Middle East.

3. Forecast Treasury Management Position

3.1 The LFC's forward treasury portfolio position is summarised in the table below:

Current Treasury Position	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
	£m	£m	£m	£m
External Borrowing				
Long Term Borrowing: PWLB	46.73	67.09	77.90	69.01
Long Term Borrowing: GFF		5.40	5.40	0.23
Temporary Borrowing: Market Loans				
Total External Borrowing (A)	**46.73**	**72.49**	**83.30**	**69.24**
Other Long Term Liabilities				
PFI Liability	39.91	38.33	36.74	35.15
Finance Lease liability				
Total Other Long Term Liabilities(B)	**39.91**	**38.33**	**36.74**	**35.15**
Total Gross Debt (A+B)	**86.64**	**110.82**	**120.04**	**104.39**
Capital Financing Requirement	144.06	159.83	179.00	195.29
Less Other Long Term Liabilities	39.91	38.33	36.74	35.15
Underlying Capital Borrowing Requi	**104.15**	**121.50**	**142.26**	**160.14**
Under/(Over) Borrowing (C-A)	**57.43**	**49.01**	**58.96**	**90.90**
Investments (D)	51.37	33.29	7.14	-24.80
Total Net Borrowing (A-D)	**-4.65**	**39.20**	**76.16**	**94.04**

3.2 The table above shows external borrowing from the Public Works Loan Board (PWLB) and the Green Finance Fund (GFF).

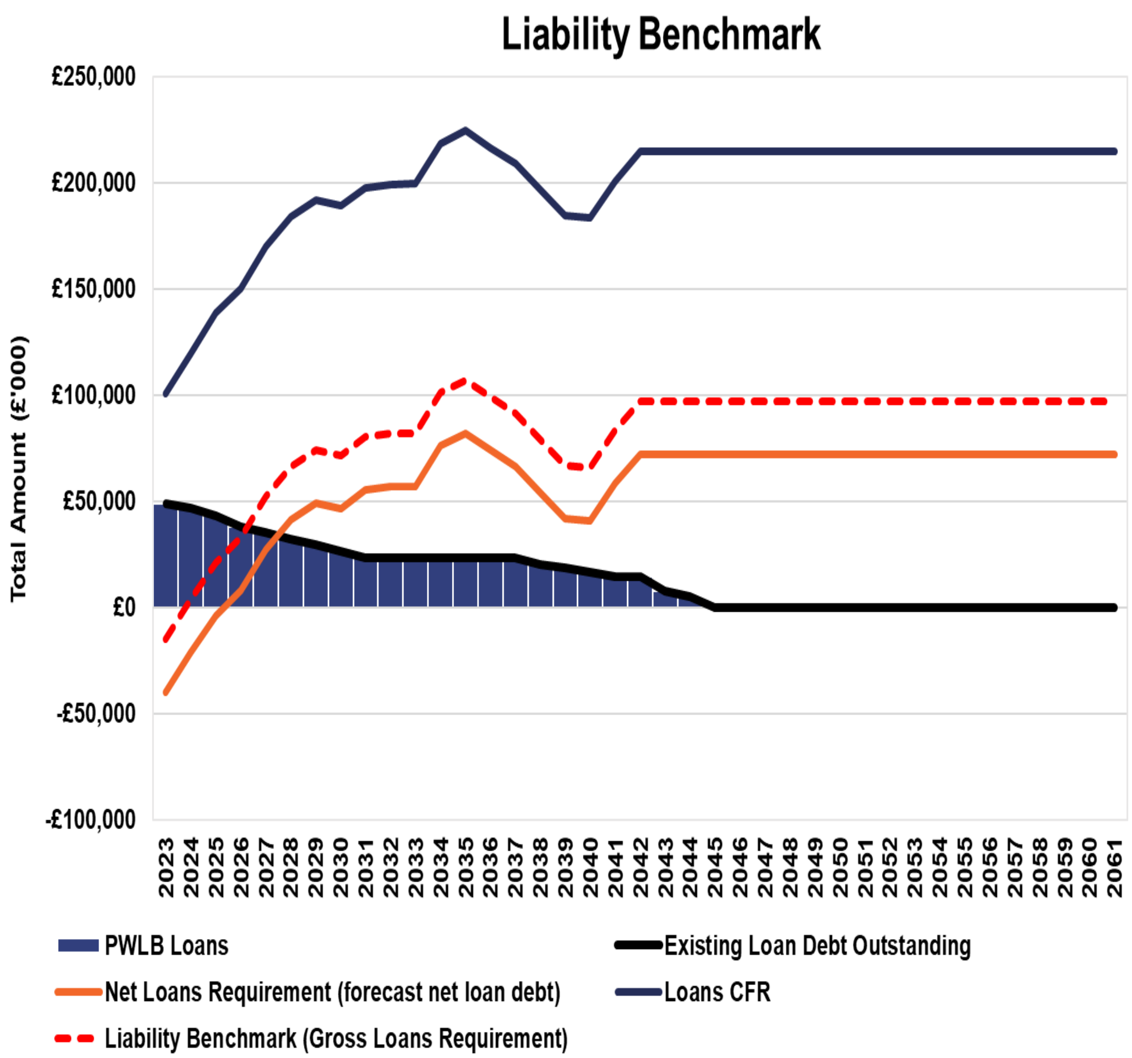
3.3 The £500 million Green Finance Fund launched in June 2023 to provide low cost debt financing to the GLA Group, local authorities and other public bodies, on flexible terms, to help accelerate the delivery of low carbon infrastructure.

3.4 The Capital Financing Requirement of the LFC as at 31 March 2024 is forecast to be £144.06m reflecting the assumption for 10% budget overprogramming adjustment based on historic underspending.

3.5 The Capital Financing Requirement measures the organisation's underlying need to borrow or finance by other long-term liabilities for a capital purpose. It represents the amount of capital expenditure that has not yet been resourced absolutely, whether at the point of spend (by capital receipts, capital grants/contributions or from revenue income), or over the longer term by prudent Minimum Revenue Provision (MRP) or voluntary application of capital receipts for debt repayment etc. Alternatively, it provides a figure for the capital expenditure incurred by the LFC but not yet provided for.

Within the set of prudential indicators there are a number of key indicators which 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.

3.6 The following graph shows projections of the CFR and borrowing together with authorised limits and operational boundaries.



3.7 This shows that the authorised borrowing limit for the LFC is a maximum of £245 million (subject to exceptional circumstances) and the operational limit is £240 million, slightly lower to allow for borrowing headroom. The CFR is higher than gross debt for two reasons. Firstly, the CFR includes not only borrowing "proper", but the impact of PFI – Private Finance Initiative, which are treated as if they were capital projects to be financed. Secondly, as referred to elsewhere, LFC is currently "under-borrowed" and supports an element of its capital financing through the use of internal borrowing.

4. Borrowing Strategy

Delegation/Authorisation

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

4.2 On the basis of the above, the Director for 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.

4.3 All borrowing decisions should be reported to the Commissioner's Board at the first opportunity within the Treasury Management cycle.

4.4 Any borrowing will also be subject to further governance requirements where the interest costs for the borrowing exceed £150k.

Borrowing and Risk

4.5 It is proposed that the LFC's approach to Treasury Management continues to be risk averse; borrowings will be taken on fixed rates from the Public Works Loan Board (PWLB) or from other approved sources of financing and following advice from 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.

4.6 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.

4.7 Against the background and the risks within economic forecast, caution will be adopted with the 2024/25 treasury operations. The Director for Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Internal Borrowing

4.8 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

4.9 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 internal borrowing – the use of the LFC's existing resources (reserves, balances and cash flow) that have not yet been called upon, has been used as a temporary measure.

Short Term Borrowing

4.10 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.

4.11 The LFC currently has no short-term borrowing.

Policy on Borrowing in Advance of Need

4.12 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.

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

4.14 The LFC has not currently taken out any borrowing in advance of need.

Debt Rescheduling

4.15 All rescheduling decisions will be reported to the Commissioner's Board at the first opportunity within the treasury management reporting cycle.

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

4.17 There are currently no plans to reschedule existing LFC debt.

5. Investment Strategy

5.1 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.

5.2 The LFC will continue to develop its investment risk methodologies, as part of the GLA Group arrangements, with regard to advice from external advisors, relevant developments in the market and academia, benchmarking techniques and approaches employed by the Credit Ratings Agencies. These agencies are currently Fitch, Moody's, and Standard and Poor's and their credit ratings will be monitored on a daily basis, by GLA Group Treasury, with appropriate action taken when these ratings change.

5.3 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: Core Funds and Expected Investment Balances

	2023-24 Estimate £m	*2024-25 Estimate £m*	2025-26 Estimate £m	2026-27 Estimate £m
Fund balances/reserves	74.80	52.30	39.50	39.50
Provisions	9.00	5.00	1.60	1.60
Other	0.00	0.00	0.00	0.00
Total Core Funds	83.80	57.30	41.10	41.10
Working Capital Surplus	25.00	25.00	25.00	25.00
Under/(over) borrowing	57.43	49.01	58.96	90.90
Investments	51.37	33.29	7.14	-24.80

5.4 The LFC short-term cash balances are managed by the GLA's subsidiary, London Treasury Limited (LTL) and third-party asset managers appointed from time to time, through the London Treasury Liquidity Fund Limited Partnership (LTLF). LTL is authorised and regulated by the

Financial Conduct Authority. The Investment Strategy for this arrangement is included within Appendix 4 but is subject to the agreement of all participating authorities; the LFC Director for Corporate Services is authorised, having taken proper advice from Link or other suitably qualified advisors, to agree amendments to this, provided that the underlying exposures of any amended strategy do not breach the limits set out in Appendix 4.

5.5 There are no proposed changes to the 2024/25 Investment Strategy since the previous iteration. However, Section 5 has been added to provide more detail surrounding the Investment Strategy for strategic investments.

5.6 The 2024/25 Investment Strategy, including creditworthiness policy and permitted instruments, as agreed between the Partners, (The Director for Corporate Services is the Partner for LFC) is attached at Appendix 4. This effectively constitutes the LFC's Annual Investment Strategy, which is prepared and approved before the start of each financial year.

6. Transition to London Treasury Liquidity Fund Limited Partnership

6.1 As planned and advised in last year's Treasury Management Strategy Statement, at the end of June 2023, the restructure of the GLA Group Investment Syndicate (GIS) into London Treasury Liquidity Fund (LTLF) was completed. The GIS contractual arrangement was terminated and each GIS participant, including LFC, joined LTLF as a limited partner, replacing its GIS interest with an equivalent interest directly in LTLF.

6.2 The underlying investments and the investment strategy remain unchanged by the transition to LTLF. The participants' key governance rights, such as changing the investment strategy, are maintained in the constitution of LTLF through the Limited Partners' Advisory Committee (LPAC), to the extent possible in order to also preserve limited partners' limited liability. The new fund structure, an Alternative Investment Fund (AIF), will simplify accounting for the participants and provide additional regulated oversight and assurance via an independent Alternative Investment Fund Manager (AIFM) and depositary. The establishment of LTLF will facilitate the participation of bodies outside the GLA family, growing the fund and passing resulting economies of scale back to its participants.

7. Investment Strategy

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

7.2 Variation between a Money Market Fund (MMF)'s list of approved counterparties and the approved counterparties of the LFC is permissible, at the discretion of the Director for Corporate Services, providing the MMF's own rating meets the criteria of Appendix 4.

7.3 Additionally, the Director for Corporate Services may from time to time instruct the London Treasury Limited to invest sums independently of the Fund, 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 relevant limits for principal sums invested for periods longer than 365 days, as set out in Appendix 3 section 7 and in Appendix 4.

7.4 At the time of writing, there are 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.

7.5 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 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 LFC.

Treasury Management Budget

7.6 The table below provides a breakdown of the treasury management budget:

Treasury Management Budget	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m	2026-27 Estimate £m
Interest payable	2.29	2.18	3.35	5.03
Interest Receivable	-4.76	-1.57	-0.95	-0.95
Minimum Revenue Provision	7.89	12.22	14.88	16.59
Total	5.42	12.83	17.28	20.67

7.7 Assumptions behind the 2024/25 Budget are:

- Average rates achievable on investments will be 4.72%
- Average rates payable on new borrowing will be 3.32%.
- The MRP charge is in line with the LFC's MRP Policy.

8. Use of External Treasury Management Advisor

8.1 The LFC uses Link Group, 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 GLA Group arrangement 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 LFC monitors and maintains the quality of this service by regular review and assessment as part of the GLA Group Treasury arrangements.

8.2 Link Group currently provide advice to the LFC as part of the GLA Group arrangements as follows;

- consultancy services to support treasury operations

- attend two strategy meetings per annum to review the financial position having regard to its objectives, strategy, current financial circumstances, assets and liabilities
- interest rate forecast and advice 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

8.3 The NatWest bank plc is the LFC's banker and continues to provide a competitive service under an annual rolling contract.

8.4 The LFC does not directly 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.

8.5 Service providers appointed by the LTLF will be procured in line with GLA group principles and any specifications set out in the LFC or other Partners' respective TMSS.

8.6 In addition to the GLA's wholly owned investment management subsidiary, London Treasury Limited (LTL), the LTLF uses two external fund managers, TwentyFour Asset Management and Prytania Asset Management, for the Fund's Residential Mortgage-Backed Securities (RMBS) investments. These and any future appointed managers must be authorised and regulated by the Financial Conduct Authority.

8.7 The LTLF uses State Street Bank and Trust as custodians of the any tradeable instruments (such as Treasury Bills). The investment policy is that any custodian (or sub-custodian, as may be the case) shall meet the credit criteria for 12 month investments as set out in the Investment Strategy (prior to Credit Default Swaps Market or other temporary adjustments). This restriction will apply to any custodian (or sub-custodian) appointed directly by the LFC.

9. Treasury Training

9.1 The TM Code requires that Officers 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.

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

9.3 LTL 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.

9.4 LTL officers also routinely attend national forums and practitioner groups, such as the CIPFA Treasury Management Network.

9.5 LTL officers, supported by Link Group, maintain a regular training programme available to all participating in the shared service and is arranged as required.

9.6 Notwithstanding the above, the training needs of Treasury officers and those charged with decision-making are periodically reviewed.

10. Finance Comments

10.1 This report is prepared by the Assistant Director Finance-Transformation and as such Finance comments have been incorporated into the report. However, for clarity:

Financial Consequences – Revenue

10.2 The capital financing budget forms a key part of the organisation's revenue budget. The activity forecast in this report is affordable within the existing and future capital financing budget, including use of the capital financing reserve.

Financial Consequences – Capital

10.3 None – the organisation's treasury management activity is not capital expenditure.

11. Legal Comments

11.1 Under section 9 of the Policing and Crime Act 2017, the London Fire Commissioner (the "LFC") is established as a corporation sole with the Mayor appointing the occupant of that office. Under section 327D of the GLA Act 1999, as amended by the Policing and Crime Act 2017, the Mayor may issue to the LFC specific or general directions as to the way the holder of that office is to exercise his or her functions.

11.2 Section 1 of the Fire and Rescue Services Act 2004 states that the LFC is the fire and rescue authority for Greater London. The LFC 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.

11.3 The LFC must follow the requirements of Part 1 of the Local Government Act 2003 (2003 Act) which makes provision for, amongst other matters, capital finance and accounts. Section 15 of the 2003 Act also requires the LFC to have regard to guidance issued by the Secretary of State or guidance the Secretary of State may by regulations specify.

11.4 Section 2 of the 2003 Act states that the LFC may not borrow money if doing so would result in a breach of the limit for the time being determined for it by the Mayor of London under section 3 of the 2003 Act.

11.5 Regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations2003 (2003 Regulations) requires that the LFC, in carrying out its functions under Part 1 of the 2003 Act, shall have regard to the code of practice contained in the document entitled "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" published by CIPFA, as amended or reissued from time to time.

11.6 Regulation 2 of the 2003 Regulations requires the Mayor of London to have regard to the "Prudential Code for the Capital Finance in Local Authorities" when determining how much money the LFC can afford to borrow.

11.7 Under section 15 of the 2003 Act, the LFC is also required to have regard to the Ministry of Housing, Communities & Local Government's Guidance in Local Government Investments and Minimum Revenue Provision.

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

11.9 The Director of Corporate Services must in accordance with part 6, paragraph 20 of the LFC's Scheme of Governance 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. This report fulfils the above statutory and LFC Scheme of Governance requirements.

11.10 The subject of this report is considered to be novel, contentious or repercussive in nature as it sets out the Treasury Management Strategy Statement and Annual Investment Strategy for the LFC, therefore consultation with the Deputy Mayor is required.

12. Sustainability Implications

12.1 The Treasury Management Strategy Statement, Treasury Management Policy, Performance Indicators and Minimum Revenue Provision Statement help ensure robust financial management which, in turn, allows the projects and services the organisation funds and invests in to be delivered. This would therefore underpin what is delivered through the organisation's sustainability plan, which includes both capital and revenue investment.

13. Equality Implications

13.1 The London Fire Commissioner and the Greater London Authority are required to have due regard to the Public Sector Equality Duty (s149 of the Equality Act 2010) when taking decisions. This in broad terms involves understanding the potential impact of policy and decisions on those with protected characteristics taking this into account and then evidencing how decisions were reached.

13.2 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.

13.3 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.

13.4 The Public Sector Equality Duty requires decision-takers in the exercise of all their functions, 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.

13.5 Having due regard to the need to advance equality of opportunity 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.

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

13.7 Having due regard to the need to foster good relations 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.

13.8 This report relates to treasury management performance and is therefore not considered to have any equalities impact.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents: 1. Local Government Act 2003 2. CIPFA Code of Practice on Treasury Management (2021) 3. CIPFA Treasury Management Guidance Notes 2021 4. CIPFA Prudential Code for Capital Finance (2021) 5. CIPFA The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2021) 6. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 7. LFC Financial Regulations 8. CIPFA Treasury Management in the Public Services: Cross Sectoral Guidance Notes for Local Authorities including Police and Fire Authorities (2021) 9. The Department of Levelling Up, Housing and Communities (DLUHC) – Capital Finance: Guidance on Local Government Investments (Third Edition, 2018)	
10. Proper officer	Director for Corporate Services
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List of Appendices

Appendix	Title	Protective Marking
1.	Treasury Management Policy Statement	N/A
2.	Minimum Revenue Provision (MRP) Policy Statement	N/A
3	CIPFA Prudential Code Indicators and Treasury Management Limits	N/A
4	The Investment Strategy 2024/25	N/A
5	Treasury Management Practices: Main Principles	N/A

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

Is there a part 2 form – NO

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 2024/25 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 31 March 2024 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 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.

	TMSS Forecast to 31st March 2024	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
	£m	£m	£m	£m
Total Capital Expenditure	29.86	32.52	50.08	37.49
Financed by:				
Capital receipts	0.33	0.00	11.30	0.00
Capital Grants	1.43	0.00	0.00	0.00
Reserve	0.25	0.47	0.00	0.00
Net financing need for the year	27.85	32.05	38.78	37.49

*The capital programme for future years and use of capital receipts is addressed in 2024/25 Budget Report.

2.2. Capital Financing Requirement (CFR)

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

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

	TMSS Forecast to 31st March 2024	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
	£m	£m	£m	£m
Total CFR	160.07	177.59	198.87	216.99
Movement in CFR	17.88	17.53	21.29	18.11
Movement in CFR represented by				
Net financing need for the year (see Capital Expenditure table)	27.85	32.05	38.78	37.49
Less Capital receipts to repay borro	0.33	0.00	11.30	0.00
Less MRP/VRP* and other financing	9.98	14.52	17.49	19.38
Movement in CFR	17.87	17.53	21.29	18.11

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

3. Liability Benchmark

3.1.1 The organisation is required to estimate and measure the forthcoming financial year and the following two financial years, as a minimum using the Liability Benchmark model.

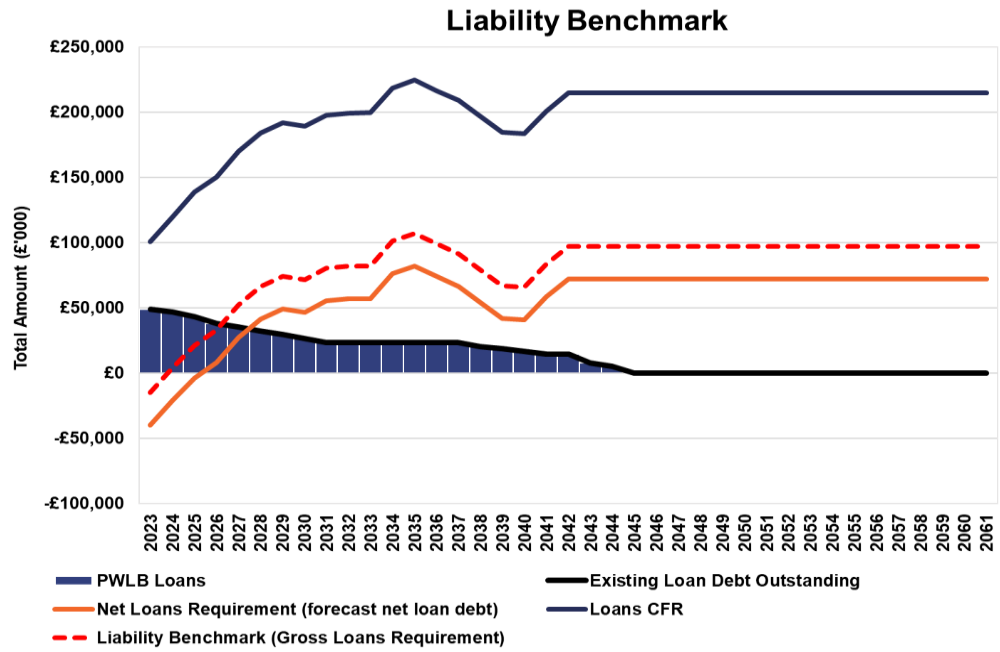
3.1.2 There are four components to the LB: -

a) **Existing loan debt outstanding**: the organisation's existing loans that are still outstanding in future years.

b) **Loans CFR**: this is calculated in accordance with the loans capital financing requirement (CFR) definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned minimum revenue provision (MRP).

c) **Net loans requirement**: this shows the organisation's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

d) **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



3.1.3 The liability benchmark graph shows a forecast of the external borrowing required to meet current approved prudential borrowing, when the organisation adopts a net book approach to treasury management. This involves netting down borrowing and investments while maintaining an appropriate level of treasury investments for liquidity purposes in order to reduce the treasury risks from running debt and investment portfolios at the same time.

3.1.4 Current projections show a borrowing need relative to the benchmark from 2025/26. Until this point investment balances would be expected to be in excess of the £25m liquidity allowance. It shows that the organisation is potentially under-borrowed from 2024 to 2030 and any future borrowing or refinancing of debt should be kept below the Liability Benchmark marker.

4. External Debt Prudential Indicators

4.1 Authorised Limit for External Debt

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

4.1.2 For the purposes of the Prudential Code, borrowing is distinguished from other long-term liabilities.

4.1.3 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	2023-24 Authorised Limit £m	Estimate 2024-25 £m	Estimate 2025-26 £m	Estimate 2026-27 £m
Borrowing	175.00	175.00	175.00	175.00
Other long term liabilities	70.00	70.00	70.00	70.00
Total	245.00	245.00	245.00	245.00

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

4.2 Operational Boundary for External Debt

4.2.1 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.

4.2.2 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.

Authorised Limit for Operational Boundary	2023-24 Operational Boundary £m	Estimate 2024-25 £m	Estimate 2025-26 £m	Estimate 2026-27 £m
Borrowing	170.00	170.00	170.00	170.00
Other long term liabilities	70.00	70.00	70.00	70.00
Total	240.00	240.00	240.00	240.00

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

4.3 Gross Debt and the Capital Financing Requirement

4.3.1 This is a key indicator of prudence seeking to identify whether or not an organisation's financial strategy is prudent and sustainable by measuring the extent to which an organisation 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.

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

Gross Debt and Capital Financing Requirement	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate	2026-27 Estimate
	£m	£m	£m	£m
Gross Debt at 31 March 2024	86.64	110.82	120.04	104.39
Capital Financing Requirement	144.06	159.83	178.98	195.29

5. **Affordability Prudential Indicators**

5.1 Ratio of Financing Costs to Net Revenue Stream

5.1.1 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	**2024-25 Estimate**	**2025-26 Estimate**	**2026-27 Estimate**
Total	3%	3%	4%

6. **Treasury Management Prudential Indicator**

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

7. **Treasury Management Limits on Activity**

7.1 Limits for Maturity Structure of Borrowing

7.1.1 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.

7.1.2 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.

7.1.3 The maturity structure of borrowing should not deviate from the liability benchmark by more than 25% in any one financial year.

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

- adversely impact on the organisation'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.

7.1.5 Under this indictor the 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		
2024-25 £m	**2025-26 £m**	**2026-27 £m**
0	0	0

7.1.6 This limit does not apply to externally managed funds or to pooled monies within London Treasury Liquidity Fund (LTLF).

Appendix 4: The Investment Strategy 2024/25

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 Partnership (LTLF), in the LFC's own name. This normally arises where the LFC identifies balances which are available for longer term investments.

1.4 Cash balances invested in the LFC's own name are subject to the Investment Strategy, except that there is no requirement to maintain a weighted average maturity which does not exceed 60 days.

1.5 All LFC investments must therefore fully consider the LTLF Investment Strategy as outlined below:

2. **London Treasury Liquidity Fund Limited Partnership (LTLF)**

2.1 LTLF is a vehicle for investing pooled short-term cash balances belonging to 'Partners', currently the Greater London Authority (GLA), the London Fire Commissioner (LFC), the London Legacy Development Corporation (LLDC), the London Pensions Fund Authority (LPFA) and the Mayor's Office for Policing and Crime (MOPAC).

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 participant's investment.

2.4 This appendix sets out a high-level framework for investments. This is subject to the collective agreement of the Partners.

2.5 Agreeing a strategy with the other Partners is delegated to the Commercial & Finance Director, provided the limits in this appendix are not exceeded.

2.6 The main changes in the Investment Strategy are summarised below:

1. A new Strategic Lending allocation of 5% of the fund is to be created by taking 5% from Core Liquidity (now 50% rather than 55%). Liquidity has been maintained by reducing the maximum Weighted Average Life (WAL) of Core Liquidity from 90 days to 60 days.

2. Strategic Lending (a new 5% allocation) and Strategic Investments (the existing 10% allocation) have performance benchmarks of SONIA + 200bps and + 300bps respectively, giving LTLF the flexibility to take advantage of a wider range of investment opportunities. Previously, Strategic Investments had a benchmark return of SONIA + 400bps, set in a very different interest rate environment and which ruled out a number of investments that could usefully contribute to achieving the targeted return while remaining within acceptable risk parameters.

3. In section 3, Counterparty and Investment Limits, investments are categorised as Specified (S) or Non-Specified (NS) in accordance with the statutory guidance. Previously there was a NS* category where the investments concerned had to be managed by an FCA regulated manager. Since all investments have to be managed by FCA regulated managers under the current fund structure, this category is redundant and has been replaced by NS.

4. Section 3.3 has been redrafted to clarify how the exposure limits are calculated, in particular, how forecast average balances are used for measuring limits for longer-term investments. This highlights how important it is that the Partners work in partnership to create accurate forecast cash-flow information, which then enables LTL to meet the Partners' liquidity requirements in the most efficient manner possible.

5. In Table 5, the cash exposure limits have been reduced to individual counterparties. These reduced limits promote a diversification of counterparties and better reflects how the portfolio is run in practice.

6. A new limit of 10% of the portfolio to any organisation/Local Authority counterparty (previously not limited) has been introduced. This reflects the fact that while Local Authorities are considered to carry UK Sovereign risk by Link Asset Services, there is nevertheless the possibility of stressed organisation/Local Authority cash-flows in the short term.

7. To bring consistency, a maximum limit on any new investment has been proposed across both Strategic Lending and Strategic Investments of 3% of assets under management at the point of commitment.

8. With Strategic Investments, while seen as longer-term investments, the intention is to have regular liquidity. This will come from a diversified portfolio of closed investments returning capital each year plus investments that offer redemption options within 12 months. An initial limit of at least 33% of the portfolio being liquid within one year was included in the 2023-24 investment strategy. Reviewing the investment opportunities available, to avoid overly restricting opportunities, it is proposed to set the percentage at 25% rather than 33%.

Investment Strategy 2024-25

1. Background

1.1. This document sets out the investment strategy for the London Treasury Liquidity Fund (LTLF) for the financial year 2024-25.

2. Strategic Asset Allocation

2.1. The proposed strategic asset allocation for the investment strategy is as follows:

Asset type		**Allocation**	**Gross expected return**
Core liquidity WAL ≤ 60 days	Overnight liquidity	10%	SONIA
	Short-term deposits or investment grade debt	40%	SONIA
Medium-term	Senior RMBS Expected WAL ≤ 3.5 years	35%	SONIA + 30bps
	Strategic lending Expected WAL ≤ 5 years	5%	SONIA + 200bps
Long-term core balance	Other strategic investments	10%	SONIA + 300bps
Total		**100%**	**SONIA + 50bps**

Glossary

RMBS:	Residential Mortgage-Backed Securities
SONIA:	Sterling Overnight Index Average rate
WAL:	Weighted Average Life
Gross expected return:	Expected gross return before fees and expenses incurred directly by LTLF

2.2. LTLF has the following objectives and risk profile:

Security of Capital

The portfolio 95% VaR (value at risk) should not exceed 2%.

The VaR will be assessed at least semi-annually using appropriate professional advice.

Liquidity

LTLF aims to meet all properly constituted withdrawal requests from its Limited Partners.

Yield

LTLF targets a net return of at least SONIA + 40 bps over a rolling three-year period.

3. Counterparty and Investment Limits

3.1. Table 1 sets out the range of specified and non-specified investments permitted by LTLF. Specified and non-specified investments are as defined in the Statutory Guidance on Local Government Investments issued by the Department for Levelling Up, Housing and Communities (DLUHC) under the Local Government Act 2003.

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.)

3.2. LTLF 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 (see 3.3)
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 **Table 5**
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

Investment type	Eligibility criteria	≤ 1 year to maturity at time of investment	> 1 year to maturity at time of investment	Maximum total exposure (see 3.3)
Other Collective Investment Schemes e.g., Enhanced Cash Funds	Fitch AAA_f or equivalent from other agencies per **Table 3**	NS	*N/A*	20%
Covered Bonds	Bond rating Fitch $AA+_{sf}$ or equivalent from other agencies per **Table 3** AND Issuer rated Fitch A- or above or equivalent from other agencies per **Table 3**	NS	NS	20%
Repurchase Agreements (Repo)	Counterparty meets senior unsecured criteria AND proposed collateral (Min 100%) itself meets permitted investment criteria OR Collateralisation is >102% with UK Gilts / T-Bills	S – UK gilts or T-Bills AND counterparty meets senior unsecured criteria NS – other	*Not permitted*	S – 100% NS – 20%, and not more than 10% with counterparties not meeting senior unsecured criteria
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%
Medium-Term Strategic Lending	See **Section 5**	NS	NS	5%
Other Strategic Investments	See **Section 6**	NS	NS	10%

3.3. LTLF's assets under management ("AUM") can vary in the short-term as its Limited Partners deposit and withdraw their treasury funds in the normal course of business.

- For short-term core liquidity assets, exposure is measured against LTLF's AUM on the day.

- For medium and long-term assets, LTLF measures exposure against the forecast average daily AUM for the year ahead ("Forecast AUM") based on forecast cash-flows provided by its Limited Partners. The Forecast AUM is used to fix cash limits for the quarter ahead with such limits being recalculated at least quarterly. If revised forecast cash-flows are received during a quarter that adjust the Forecast AUM by more than 20%, then new cash limits will be set during that quarter.

4. Credit Ratings and Country Limits

4.1. 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 relevant portfolio manager.

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

Table 3 – Permitted Credit Ratings and Equivalence Mappings and 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	

4.3. For core liquidity investments, lower ratings are balanced by higher ones in order to maintain a credit risk on rated instruments that is no greater than a 12-month deposit with an 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

4.4. 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 the long-term UK Sovereign rating, reflecting the UK's highly centralised and interdependent public finance regime.

4.5. Exposure limits to individual counterparties are determined by the colour bands assigned under the Colour Banding Methodology supplied by Link Asset Services.

Table 5 – Concentration Limits

Cash Exposure Limits – applied to individual counterparties		
Band	Overnight	> 1 day
UK Sovereign (see 4.7)	100%	100%
UK Local Authorities (see 4.7)	10%	10%
Yellow	20%	20%
Purple	20%	15%
Orange	15%	15%
Red	15%	10%
Green	10%	5%
No Colour	5%	5%

4.6. The bands above are calculated based on a range of credit ratings data, including published rating watches and outlooks.

4.7. Exposure to an individual counterparty in the UK Sovereign band has been set at 100% to cater for a severe market disruption scenario when all funds might be best placed with a UK Government institution. Notwithstanding their UK Sovereign status, Local Authorities' cash-flows may be temporarily stressed. Following the principles of good portfolio management and diversification, cash exposure to an individual organisation/Local Authority is limited to 10% of LTLF's AUM.

5. Medium-Term Strategic Lending

5.1. Medium-term strategic lending is a portfolio of individual lending or financing transactions seeking to earn higher returns than the core liquidity or RMBS assets but with a low risk of capital impairment.

5.2. Such opportunities may involve situations where market capacity may be limited or restricted despite ample security being available or where flexibility is sought by the borrower e.g. around early repayment without penalty. An example transaction would be the provision of secured loan finance to an investment fund.

Gross expected return	SONIA + 200bps
Concentration risk	No individual medium-term strategic lending investment to exceed 3% of LTLF's Forecast AUM at the point of commitment

5.3. The expected WAL of medium-term strategic lending will not exceed 5 years.

5.4. Medium-term strategic lending will be secured on assets or cash-flows except where the borrower is (or is guaranteed by) an investment-grade counterparty (Fitch BBB or better, see Table 3) or a public body with credible sovereign support.

6. Long-Term Core Balance – Other Strategic Investments

6.1. In general terms, the other strategic investments allocation is seeking returns similar to those expected of a well-funded institutional pension fund.

Gross expected return	SONIA + 300bps

6.2. The other strategic investments allocation will be deployed on a best ideas basis across a range of asset classes, seeking investments anticipated to achieve the expected return and demonstrate a level of volatility that will keep the overall expected VaR within the limit set in Section 2.2 above.

6.3. The following limits will apply to the other strategic investments allocation:

Criteria	**Limit**
Overall expected portfolio volatility	95% VaR ≤ 2%
Concentration risk	No individual other strategic investment to exceed 3% of LTLF's Forecast AUM at the point of commitment
Sector diversification	
Infrastructure (debt and equity)	< 50% of other strategic investments allocation
Real estate (debt and equity)	< 50% of other strategic investments allocation
SME (debt and equity)	< 50% of other strategic investments allocation
Other debt and equity (public and private)	< 50% of other strategic investments allocation

6.4. LTLF will not directly hold land or property.

6.5. While the other strategic investments allocation is made up of medium to longer term investments, liquidity remains important. Investments will be managed to ensure a regular flow of capital distributions, and where funds lack contractual redemption windows or other clear options to exit, the expected final maturity dates will be appropriately diversified.

Investments capable of redemption or sale on a recognised market within 12 months plus expected capital distributions from other strategic investments within 12 months	> 25% of other strategic investments allocation

6.6. LTL may seek the approval of the Alternative Investment Fund Manager (AIFM) and the Limited Partners' Advisory Committee (LPAC) of LTLF in relation to new investment opportunities under the other strategic investments allocation, where such new investment opportunities are in a new fund or in a new product (the Reserved Investment Decisions).

7. Hedging

7.1. Investments denominated in foreign currency may be made under the medium-term strategic lending and other strategic investments allocations, provided that any currency risk is captured in the regular VaR analysis of LTLF and where necessary or desirable, such investments are hedged into sterling within the investment itself or with an overlay, with the related terms and level of hedging to be determined by LTLF after consultation with the LPAC.

7.2. Any portfolio managers undertaking hedging will be required to maintain appropriate policies on the use of hedging instruments, which must provide that any credit or liquidity risk arising from such instruments is limited to counterparties that meet the criteria of LTLF's core liquidity allocation.

7.3. The denomination of Limited Partners' investment in LTLF will always be sterling.

8. Investment Limit Exceptions

8.1. Any active exception (i.e., an exception due to an action by a portfolio manager) to the investment limits set out in the investment strategy requires the prior approval of the AIFM and the LPAC.

8.2. Where passive exceptions (i.e., exceptions due to changes in the value of the portfolio) to the investment limits set out in the investment strategy occur, they will be reported to the Investment Committee of LTL and to the AIFM. Any rebalancing of the portfolio in the event of passive exceptions will be at the discretion of the Chief Investment Officer of LTL (or such officer's designated deputy, in cases of absence).

9. Environmental Social and Governance (ESG) Considerations

9.1. LTLF's investment portfolio will be managed in accordance with the GLA Group Responsible Investment Policy.

Appendix 5: Treasury Management Practices: Main Principles

1 INTRODUCTION

1.1 The Treasury Management Practices (TMPs): Main Principles below set out the manner in which the organisation 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 organisation'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 organisation and monitored by the Director for Corporate Services and annually reviewed by the organisation before the start of the year.

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

1.5 Scrutiny of the approval and monitoring of TMPs will be performed by the Budget and Performance Committee following recommendations by the Director for Corporate Services.

2 TMP1 RISK MANAGEMENT

2.1 <u>General statement</u>

2.1.1 The Director for 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 organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 'Reporting requirements and management information arrangements'. In addition, any relevant Environmental, Social and Governance (ESG) factors influencing the organisation's Investment Strategy will also be considered.

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

2.2.1 The Director for Corporate Services regards a key objective of the organisation's treasury management activities to be the security of the principal sums it invests. Accordingly, he 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 for Corporate Services also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which the organisation may borrow, or with whom it may enter into other financing arrangements.

2.3 Liquidity risk management

2.3.1 The Director for Corporate Services will ensure the organisation 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 for 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 for Corporate Services will manage organisation 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 for Corporate Services will achieve this by the prudent use of organisation 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 for Corporate Services will manage its exposure to fluctuations in exchange rates, so as to minimise any detrimental impact on its budgeted income/expenditure levels.

2.6 Refinancing risk management

2.6.1 The Director for Corporate Services will ensure that organisation 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 organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

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

2.7.2 The Director for 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 organisation.

2.8 Fraud, error and corruption, and contingency management

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

2.9 Market risk management

2.9.1 The Director for Corporate Services will seek to ensure that the organisation'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 organisation from the effects of such fluctuations.

3.0 TMP2 PERFORMANCE MEASUREMENT

3.1 The Director for Corporate Services is committed to the pursuit of value for money in the organisation's treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in the organisation'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 for Corporate Services will maintain full records of organisation 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 for Corporate Services will undertake organisation 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 for Corporate Services considers it essential, for the purposes of the effective control and monitoring of the organisation'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 organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the Director for 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 for 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 for 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 for 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 for Corporate Services in respect of treasury management are set out in the TMPs: Schedules. The Director for 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 for Corporate Services will ensure that regular reports are prepared and considered on the implementation of organisation 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 organisation 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.

- Quarterly reports to monitor and report performance against all forward-looking prudential indicators highlighting any significant actual, or forecast deviations from the approved indicators. The quarterly reports should be reported as part of the organisation's integrated revenue, capital and balance sheet monitoring;

7.3 The GLA 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 GLA 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 The organisation 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 for Corporate Services will prepare, and the organisation 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 for 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 for Corporate Services will account for the organisation'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 organisation will be under the control of the Director for 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 for 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 for Corporate Services is alert to the possibility that the organisation 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 for 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 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 for Corporate Services will recommend and implement the necessary arrangements.

11.2 The Director fofr Corporate Services will ensure that organisation 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 In order to accurately reflect all of the above and the technical expertise of the Treasury Management Function, a knowledge and skills register for officers and members involved in the treasury management function is held and regularly updated to record all training and relevant knowledge and skills development.

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

12.0 TMP11 USE OF EXTERNAL SERVICE PROVIDERS

12.1 The organisation recognises that responsibility for the treasury management decisions remains with the organisation 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 over-reliance 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 for Corporate Services, and details of the current arrangements are set out in the TMPs: Schedules.

13.0 TMP12 CORPORATE GOVERNANCE

13.1 The organisation 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 organisation 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 for Corporate Services will monitor and, if and when necessary, report upon the effectiveness of these arrangements.