

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD3128

Title: Treasury Management Strategy Statement and GLA investment subsidiary matters for 2023-24

Executive summary:

This decision sets out the GLA's Treasury Management Strategy Statement (TMSS) for 2023-24, providing an overview and control framework for the borrowing and investment activities of the GLA. This is presented on an exceptions basis to policies and practices in the 2022-23 TMSS approved through MD2975 (and which continue to apply), setting out new developments in particular the treasury management implications of the GLA Green Finance Fund.

Initial proposals for the reorganisation of the GLA's subsidiary organisations concerned with investment management (London Treasury and Funding London) are set out, seeking to improve operational resilience, achieve consistent investment oversight and increase opportunity for working with third party investors. The decision also proposes interim budgets for both organisations and the authorisation of reinvesting proceeds from the successful London Co-Investment Fund (LCIF).

Decision:

That the Mayor approves the:

- i. Treasury Management Strategy Statement for 2023-24 (Appendix 1)
- ii. Prudential and Treasury Management Indicators for 2023-24 including Group Borrowing Limits, noting the 2021-22 outturn and 2022-23 mid-year positions (Appendix 2)
- iii. Investment Strategy (Appendix 3) and Group Responsible Investment Strategy (Appendix 4)
- iv. the budgets for the London Treasury and Funding London groups (Appendix 6).

That the Mayor notes the Draft London Green Financing Framework (Appendix 5) and approves the establishment of a Credit Committee for the Green Finance Fund (as outlined in Appendix 5), to which authority is delegated to approve financing and subsidy for green projects, in accordance with the proposed Terms of Reference for such committee, approval of the final form of such Terms of Reference (and any changes to it as may be required from time to time) which is delegated to the Executive Director of Resources in consultation with the Chief of Staff.

That the Mayor approves that the Executive Director of Resources is delegated authority to:

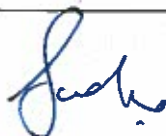
- i. approve changes to the articles of association (i) London Treasury Limited and LTLF GP Limited to remove a maximum number of directors; and (ii) SME Wholesale Finance (London) Limited) to bring its articles of association in line with other GLA -managed companies, as detailed within this decision, acting with regard to appropriate legal advice
- ii. authorise transfers between the budgets approved above
- iii. authorise Funding London to reinvest realised proceeds of the London Co-Investment Fund in London SMEs, subject to the advice from the Chief Investment Officer on the continuing suitability of the investment strategy.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

25/4/23

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

Decision required – supporting report

1 Introduction and background

- 1.1 Effective treasury management is central to the GLA's financial standing, given the multi-billion pound scale of its operational cash flows, assets and liabilities. The management of the outstanding £5.3bn of external borrowing related to construction of the Elizabeth Line and Northern Line Extension (NLE) and ongoing housing and regeneration investment programmes means that the cost of debt service is the GLA's largest single item of revenue expenditure and its greatest source of financial risk, alongside business rates volatility.
- 1.2 The GLA's position as the principal recipient of business rates, grants and precepts means it has the strongest credit metrics in the GLA Group and hence the highest credit rating (affirmed on 31 March 2023 by S&P Global Ratings at AA/A-1+, negative outlook). This means the GLA is likely to obtain lower costs of borrowing from investors, compared to other entities within the group. Rating agencies view the debt of the GLA's functional bodies as an implicit obligation of the GLA, therefore the GLA has a direct interest in groupwide borrowing risk. This is taken into account in advice given to the Mayor in setting group affordable borrowing limits under the Local Government Act 2003 (LGA2003). Proposed limits for 2023-24 are set out in Appendix 2.
- 1.3 The GLA's strong cash and liquidity position provides opportunities for maximising value for the taxpayer and delivering additional impact to capital spending and service-based investment programmes. Examples include:
 - The Mayor's Land Fund (see MD2207), where £250m of GLA and subsidiary working capital is allocated to be invested on a commercial basis, alongside £486m of non-recoverable grant from the Department for Levelling Up, Housing and Communities (formerly the Ministry for Housing, Communities and Local Government), which can be invested with less stringent risk and return parameters, in pursuit of affordable housing impact.
 - Initial finance for the GLA Green Finance Fund (announced in the Mayor's Budget for 2022-23), where finance is available to functional bodies (and other public sector bodies meeting essential credit criteria) for capital expenditure to achieve Net Zero 2030 goals or other significant environmental impact (e.g. air quality improvement), giving the GLA flexibility to wait for desirable market conditions for longer-term refinancing through a green bond (issued by a third party special purpose vehicle), or other suitable borrowing means.
 - Additional financial support for Transport for London (TfL), enabling it to set balanced budgets under the government funding settlement in place for TfL from August 2022 to March 2024 (see MD3041).
- 1.4 The Group Treasury unit within the Resources directorate is responsible for providing strategic advice on and subsequently managing the GLA's borrowings, investments and cash flows, including 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 and the paramount objective of preserving capital.
- 1.5 Investment management is delivered through London Treasury Limited (LTL), the GLA's investment management subsidiary, authorised and regulated by the Financial Conduct Authority (FCA). LTL is led by the Chief Investment Officer and staffed by Group Treasury secondees and directly-hired specialists.
- 1.6 The GLA, through shared services arrangements, undertakes treasury management functions for:
 - the London Fire Commissioner (LFC)

- the Mayor's Office for Policing and Crime (MOPAC)
 - the London Legacy Development Corporation (LLDC)
 - the London Pensions Fund Authority (LPFA)
 - Old Oak and Park Royal Development Corporation (OPDC).
- 1.7 The conclusion of further treasury shared service agreements with local authorities within London remains an ambition for the GLA and is delegated to the Executive Director of Resources and Chief of Staff under MD2095.
- 1.8 Investment of short-term funds has been managed collectively to date through the Group Investment Syndicate (GIS), an arrangement which has proved extremely successful for delivering greater liquidity and performance than would have been achievable by the participating organisations acting individually.
- 1.9 Pursuant to MD2792, the GLA has restructured the GIS as an alternative investment fund (AIF) in pursuit of greater assurance (reflecting an increasingly sophisticated investment strategy and portfolio of investments) and greater flexibility to admit potential new participants, such as London boroughs, thereby achieving further economies of scale and sharing of good practice.
- 1.10 The AIF, a Scottish limited partnership, is registered as the London Treasury Liquidity Fund LP (LTLF) and as of 31 March 2023 holds all the former GIS assets. The GLA is the sole limited partner, with its partnership interest (represented by redeemable loan notes (c.98 per cent) and a small core commitment (c.2 per cent)) now being the only GLA assets subject to the GIS agreement. Existing participants in the GIS, together with TfL, will be admitted as limited partners in their own right on or before 30 April 2023, at which point the GIS contract will be terminated.

2 Objectives and expected outcomes

Treasury Management Strategy Statement (TMSS) and Prudential and Treasury Management Indicators

- 2.1 These documents provide a strategic framework to achieve the following prudent objectives:

Borrowing:

- proposed levels of borrowing are sustainable and affordable
- the expected costs are well-matched to the relevant revenue streams to maximise budgetary certainty
- financing is readily available when required for major capital expenditure
- the most economical sources of borrowing for a given situation are identified and made use of GLA Group-wide

Investments:

- public funds are not lost or placed in jeopardy (security)
- cash is available when required for essential expenditure (liquidity)
- returns are maximised, so far as the above constraints allow, to offset the impact of inflation on the spending power of public funds held by the GLA and others investing alongside the GLA (yield)

Effective balance sheet management:

- a sustainable and prudent balance is struck between the use of cash balances in lieu of external borrowing and any potential risks of refinancing
 - opportunities for intragroup borrowing/investment transactions are identified in order to reduce risks and/or costs.
- 2.2 The Mayor sets the borrowing limits for all members of the GLA Group, on the advice of the respective statutory chief finance officers, at levels agreed to be prudent and affordable.
- 2.3 The Public Works Loan Board (PWLB) remains an important source of long-term finance for the GLA. The Executive Director of Resources must confirm that there is no intention to incur capital expenditure acquiring investment assets primarily for yield at any point in the next three years in order to ensure ongoing access to PWLB finance.
- 2.4 Market conditions may from time to time make other sources of borrowing preferable. Given the considerable expense and complexity that surround alternative borrowing frameworks, such as the GLA and TfL's existing capital markets programmes, the GLA may borrow on behalf of a functional body where it is likely that a net saving may arise without prejudice to the GLA's credit rating.
- 2.5 Where there will be no net impact on group external borrowing levels, the Mayor authorises the Executive Director of Resources to agree such arrangements with the statutory chief finance officers of those authorities. The GLA would borrow, use the proceeds to either make a loan (or equivalent arrangement) to the relevant functional body or alternatively make a capital grant under section 120 of the Greater London Authority Act 1999 (as amended) to the functional body and top-slice the functional body's share of business rates or other GLA-controlled funding to repay the monies over time.
- 2.6 Through this decision, the Mayor sets the overall level of permitted external borrowing for the GLA Group (i.e. borrowing from sources outside the group, such as the PWLB), subject to rigorous assessment of affordability and having consulted the Assembly through the process of setting the Mayor's Budget for 2023-24. This total is allocated between each functional body per Appendix 2. Authority to substitute any planned external borrowing by any functional body with grants or loans from the GLA, and accordingly increase the GLA's external borrowing limit by the amounts so substituted, is delegated to the Executive Director of Resources who would agree the level and terms of any such grants or loans with the statutory chief finance officer of the functional body in question, provided that the overall level of external borrowing set out in Appendix 2 is not exceeded. The Chief Investment Officer and Executive Director of Resources will consult the Chief of Staff prior to executing any transaction of this type.
- 2.7 This mechanism will also apply to any use of the Green Finance Fund by the functional bodies, allowing the GLA to aggregate capital expenditure related to positive environmental impact and refinance in due course, ideally through a green bond, a draft framework for which is attached at Appendix 5.

Minimum Revenue Provision ("MRP") Policy

- 2.8 Where capital expenditure is due to be funded by future revenues, this provides a means to match those costs to the period over which the relevant benefits are enjoyed in a way that is equitable to taxpayers, e.g. avoiding the risk of taxpayers in a particular period disproportionately bearing the cost of benefits enjoyed previously or subsequently.
- 2.9 From a cash flow perspective, the MRP policy also ensures that a prudent amount of cash is available for the repayment of borrowings.
- 2.10 The existing MRP Policy is set out in MD2795 and continues to apply.

Treasury Management Policy and Treasury Management Practices

- 2.11 MD2795 sets out the Treasury Management Policy and Treasury Management Practices for the high-level objectives for the control and performance management of the function, in the form prescribed by statutory guidance. These continue to apply.

Investment Strategy

- 2.12 Treasury management investment objectives and risk appetite remain as set out in MD2795; Appendix 3 sets out the investment strategy applying to LTLF, the GLA's principal home for treasury investments. Following a strategic asset allocation review in October 2022, this has been updated with additional granularity for the longer-term strategic investments constituting up to 10 per cent of the average portfolio balance. Appendix 1 details arrangements for any treasury investment outside LTLF.
- 2.13 MD3103 sets out the anticipated balance of the Interest Smoothing Reserve, which is expected to build up over the 2023-26 budgetary period to absorb potential investment losses (including temporary revaluations) in 95 per cent of scenarios, protecting the GLA from the risk of having to call on general reserves to balance annual budgets. Furthermore, should the GLA's investment balances decrease unexpectedly resulting in reduced income but lower absolute values at risk, appropriate amounts from the reserve can be released to offset income shortfalls.

Green Finance Fund

- 2.14 The Mayor's GLA Group Budget for 2022-23 announced the allocation of £90m revenue funding to support green finance along with an intention to aggregate borrowing required for capital expenditure on green projects as described in para 1.3. Since then, the GLA and LTL have established green finance teams and developed the framework set out at Appendix 5. The framework seeks to meet the GLA's environmental policy objectives and priorities, incorporating market standards for eligibility for green finance (green bonds being one example).
- 2.15 If, given appropriate market conditions, the GLA elects to raise finance through a green bond, it will do so through a special purpose vehicle, as with its other bond issues, accompanied by a framework based on Appendix 5, incorporating any comments from a second party opinion provider, in line with current market practice. This process would be covered by the borrowing delegations to the Executive Director of Resources and the Chief Investment Officer set out in Appendix 1.
- 2.16 The Credit Committee proposed in Appendix 5, constituted with a majority of senior GLA decision makers, supported by two external members to provide independent challenge and specialist expertise, will evaluate projects put forward (either through the annual GLA Group budget setting process or ad-hoc through the green finance stakeholder engagement team), decide whether these meet the criteria for support and if so, decide on appropriate allocation of revenue resources. The committee's draft terms of reference are also set out in Appendix 5, with final approval (and such periodic amendment as may from time to time be required) proposed to be delegated to the Executive Director of Resources in consultation with the Chief of Staff.

Responsible investment

- 2.17 LTLF seeks to invest responsibly across the entire portfolio and further, achieve positive social, environmental and local economic impact with its strategic investments.
- 2.18 Appendix 4 proposes an updated Group Responsible Investment Policy agreed with the functional bodies and LTLF partners. This remains an active area of development for the year ahead.

Shared services and collaborative working

- 2.19 Additional shared service participants provide further resources to increase service resilience and dilute fixed costs while allowing the GLA to share a centre of excellence to the collective benefit of Greater London. Treasury management links are also additive to strategic investment relationships with London boroughs in respect of infrastructure, regeneration, decarbonisation and green recovery.
- 2.20 The GLA continues to discuss providing shared services to other public bodies in London, either in a full-service context or simply as investors in LTLF. The GLA and LTL continue to seek London-related co-investments with the Local Pensions Partnership and the London CIV.
- 2.21 The GLA, LTL and TfL are working together on an extensive collaboration project to identify and implement:
- a 'best of both' investment systems approach, ahead of TfL's anticipated transfer of additional cash balances to LTLF in the second half of 2023-24
 - shared 'back-office' functions with TfL hosting payments and settlement for GLA treasury and LTLF cash transactions.

LTL and Funding London

- 2.22 Funding London (the trading name of SME Wholesale Finance (London) Limited) is another arms-length wholly owned subsidiary of the GLA which manages SME investments (debt and equity).
- 2.23 MD2976 (see supporting papers) sets out the background to Funding London and the funds it manages. In particular, Funding London directly manages the London Co-investment Fund (LCIF), a Limited Liability Partnership (LLP) holding some £48m of assets, representing £25m of initial investment by way of grant funding. The Mayor approved (under cover of MD2976) Funding London's continued reinvestment of LCIF returns to which the GLA would otherwise be entitled (in existing portfolio companies as 'follow-on' funding) until 30 June 2023, with a cumulative value not exceeding £10m. Officers were of the opinion that value could be preserved and enhanced by allowing LCIF to reinvest proceeds on a similar basis to its original portfolio, and the GLA undertook to work with relevant teams to investigate supporting this and working collaboratively.
- 2.24 LTL's work has concluded that LCIF's operating model has been effective financially and in terms of generating local growth, particularly supporting under-represented founders, at low comparative cost, and the positive net returns should be replicable, subject always to general market conditions. Recommendations are:
- the LCIF investment team could be increased by a further post to provide more resilience and capacity for increased frequency of portfolio monitoring and valuation
 - the LCIF investment strategy should be refreshed to be clearer about exit policies and the feedback loop with the GLA better documented to ensure the GLA's return and liquidity objectives are met
 - formalising an investment committee for future investments.
- 2.25 Since the GLA's strong liquidity position means that the expected proceeds are not required for cash flow purposes, reinvestment of LCIF proceeds is supported, subject to:
- implementing the recommendations in 2.24 above
 - periodic review of the GLA's cash position by the Executive Director of Resources and Chief Investment Officer to confirm the prudence of reinvestment versus beginning to receive repayments

- periodic review of the investment strategy and performance by the Executive Directors of Resources and Good Growth and the Chief Investment Officer in consultation with the Chief of Staff to ensure ongoing alignment with Mayoral policy and objectives.

- 2.26 Reinvestment would provide an opportunity to further support London's early-stage SMEs and would likely be in the GLA's overall financial interest. For the avoidance of doubt, the GLA would retain the right to suspend reinvestment, should its financial position change.
- 2.27 In considering the above, it was noted that there may be scope to attract other impact-focussed investors to LCIF alongside the GLA. LCIF and Funding London are not regulated so can only manage investments of the GLA and its subsidiary companies. Consideration was given to an integration with LTL (which is authorised to manage others' assets), concurrently with the business support review considering wider issues of GLA interaction with SMEs and the work of the GLA's Financial Risk Oversight Board reviewing GLA investment structures generally.
- 2.28 Given the GLA's ultimate beneficial ownership of the significant assets managed by Funding London and the structural complexity that has accrued over time, reflecting historical ownership and involvement of other stakeholders, consideration was also given to rationalising the Funding London group structure. GLA officers have concluded the legal costs would likely to be prohibitive, however, a good solution would be to consider a transfer of the Funding London executive team to LTL and change Funding London from arms-length to GLA-managed status (described below).
- 2.29 Integrating the Funding London and LTL teams is expected to provide synergies and additional resilience, in particular both teams have similar specialist requirements for partnership and fund accounting but have key person risk in finance, which could be mitigated by combination. Combination would also allow the creation of a rotation scheme for the analysts and apprentices within the LCIF, LTLF and Impact Investment teams to increase resilience, career development opportunities and succession planning.
- 2.30 The integrated LTL team would then provide the executive resource to the Funding London group structure, managing LCIF and Funding London's other two fund interests, the MMC London Fund and Greater London Investment Fund (GLIF), under the oversight of a reconstituted board.
- 2.31 Although LTL is an arms-length body for governance purposes, it is intrinsically linked with the Group Treasury unit and the day-to-day work of the GLA. The proposed operating model brings the Funding London team closer to the GLA, the GLA closer to its assets and will facilitate consistency and efficiency in financial oversight and reporting.
- 2.32 Moving Funding London to GLA managed status would ultimately simplify decision making, given the significant number of reserved matters, in particular investment authority. This structure is analogous to the arrangements for GLA Land and Property Limited (GLAP):

	GLAP	Funding London (proposed)
Board	Senior officers from Housing and Land, Resources, and the Mayor's Office	Senior officers from Good Growth, Resources/LTL and the Mayor's Office
Executive capacity	Housing and Land, Resources	LTL
External input	Land Fund Investment Committee	GLIF Board LCIF investment committee (tbc)

- 2.33 Following the launch of LTLF as a fully-fledged alternative investment fund and growth of LTL's activities to include supporting the GLA in carbon budgeting and green finance, it is desirable for LTL and LTLF GP Limited to have more than two non-executive directors to include a broader mix of skills and share the increased non-executive workload. In line with other subsidiary companies in the GLA Group, it is proposed to make a simple amendment to the articles of those companies to remove the current restriction to have at most three directors, by providing that the number of directors shall not be subject to any maximum number.
- 2.34 Under the proposed restructure, there could be opportunities for the experienced non-executive directors of Funding London on LTL's board or the newly constituted investment committee for LCIF recommended in 2.24.
- 2.35 There are no changes proposed to the governance of GLIF, which has an independent board including some members who are also directors of Funding London.
- 2.36 The potential downsides to the proposals include the potential for additional operational risk within LTL, although this is limited by the fact that until LCIF is modified to admit third party investors (which would be subject to a further Mayoral Decision), there are unlikely to be any regulatory implications. Nevertheless, LTL's business programme is full, including collaboration and systems work, the iterative process of adapting policies and procedures in the first full year of operating an AIF as opposed to the GIS, supporting the GLA Group's green finance priorities and undertaking recruitment for a number of key roles. It is critical that these activities (in particular, regulated fund management) are not disrupted, so the LTL board has commissioned a thorough review and documentation of the implications and proposed mitigations to support its decisions through this process.
- 2.37 In light of the above, interim budgets for LTL and Funding London are proposed at Appendix 6, with authority delegated to the Executive Director of Resources to approve transfers between the two, pending the creation of a comprehensive revised budget and business plan for all the relevant entities in 2023-24.
- 2.38 The implementation of these proposals will require the amendment of Funding London's articles of association to align them as appropriate with the GLAP GLA-managed model. This decision delegates approval for this reserved matter, as well as the amendments in relation to LTL and LTLF GP Limited articles of association in respect of removing a maximum number of directorships to the Executive Director of Resources, acting with appropriate legal advice.

3 Equality comments

- 3.1 Under section 149 of the Equality Act 2010, as a public authority, the Mayor of London must have 'due regard' of the need to eliminate unlawful discrimination, harassment and victimisation as well as to advance equality of opportunity and foster good relations between people who have a protected characteristic and those who do not.
- 3.2 An LCIF portfolio analysis in late 2019 (when the fund concluded making investments in new companies) identified that 22 per cent of LCIF-backed companies were founded by females; and 20 per cent of founders were from a Black, Asian or Minority Ethnic background. Whilst these figures are unrepresentative of London's population they are, however, above wider comparative data. The UK government's Longitudinal Small Business Survey showed that in 2020, 16 per cent of UK's SMEs were women-led businesses (15 per cent in 2019); and 16 per cent of London's SMEs were led by someone from a Black, Asian or Minority Ethnic background (15 per cent in 2019). Funding London recognises the importance of furthering the inclusivity agenda. It agrees that the fund and its partners should continue to demonstrate improving levels of engagement with founders who are women; Black, Asian and Minority Ethnic; or disabled, by working with organisations that specifically

engage with disadvantaged groups.

- 3.3 There are no other direct public sector equality duty implications arising directly from this report.

4 Other considerations

Key risks and issues

- 4.1 The primary objective of the TMSS is to create a framework for the management of risks associated with borrowing, investment and cash flow management; the discussion of financial risk is therefore integrated throughout the document.

Links to Mayoral strategies and priorities

- 4.2 Secure funding and liquidity are essential to every aspect of delivering Mayoral strategies and priorities.
- 4.3 Collaborative working and shared services as a route to shared best practice, efficiency and service resilience is a core Mayoral objective.
- 4.4 The Mayor's Land Fund links directly to the Mayor's Housing Strategy which sets out a policy rationale for the GLA to take a more interventionist approach in London's land market; with the aim of ensuring more homes are built, increasing the proportion of affordable homes, accelerating the speed of building and capturing value uplift for the public benefit.
- 4.5 Extending LCIF will enable the GLA to support further SMEs as part of the recovery foundation goal, *supporting businesses, jobs and growth*.

Consultations and impact assessments

- 4.6 The Assembly has been consulted in respect of GLA Group borrowing limits through the Mayor's Budget for 2023-24.
- 4.7 The Assembly's GLA Oversight Committee was consulted in respect of London boroughs joining the treasury management shared service on 3 September 2019.
- 4.8 Any staff affected by the proposals in relation to Funding London will be consulted in line with relevant employment legislation and each entity's relevant policies and procedures.
- 4.9 There is no data protection impact.

Declarations of interest

- 4.10 The Chief Investment Officer is also a director of LTL, which delivers most investment aspects of this decision under an investment management agreement with the GLA, and of LTL's subsidiary, LTLF GP Limited, which has a control over LTLF. This is mitigated by LTL's not for profit nature and the high level of transparency and control by the GLA of LTL, together with the extensive matters reserved to the Mayor and/or the GLA by the articles of association of LTL and LTLF GP Limited.
- 4.11 The Assistant Director for Economic Development and Programmes is a non-executive director on the Funding London board. However, this officer has not been involved in the drafting or clearance of this decision.

5 Financial comments

- 5.1 The Treasury Management Strategy Statement, Investment Strategy and Group Responsible Investment Strategy are key control documents which set out the parameters within which the treasury function may operate. Their approval here is intended to provide a reasonable safeguard to the substantial public assets under management. No direct financial implications arise from their approval, but they represent an integral part of the organisation's control environment.
- 5.2 Prudential and Treasury Management Indicators are the measures by which performance of the treasury function may be assessed. Publication here demonstrates that defined parameters are being successfully observed, thereby providing evidence of safeguarding mentioned above.
- 5.3 Setting budgets for both entities is good practice, mirroring the discipline observed across the rest of the GLA Group. This will again provide a measure by which the entities may measure their performance against operational cost base expectations. Any variation in spend exceeding these budgeted sums will have an impact either on the fees paid by partners (including the GLA) or the returns delivered. Hence there is an indirect financial impact to the GLA as a partner should the cost base be exceeded. Financial monitoring in both organisations will ensure that any impact is managed and minimised.
- 5.4 Approval of clear delegations to the Executive Director of Resources is in line with Mayoral Decision Making requirements and provides operational flexibility to pursue the business described in the entities involved. The delegations in this decision are specific, reinforcing the safeguarding of the financial assets of the organisation.

6 Legal comments

- 6.1 Part 1 of the Local Government Act 2003 (Act) introduced a new statutory regime to regulate the borrowing and capital expenditure of local authorities. Section 23(1)(d) and (e) provides that the GLA and the functional bodies are local authorities for this purpose.
- 6.2 Section 3(1) of the Act provides that all local authorities are to determine and keep under review how much money they can borrow. Section 3(2) of the Act is more specific in relation to the Mayor and functional bodies by providing that the determination is to be made by the Mayor following consultation with the Assembly, in the case of the GLA, or the relevant functional body. As a result, borrowing limits could be changed in-year, as well as at the start of financial years. Under section 1 of the Act, the GLA and the functional bodies may borrow money for any purpose relevant to their functions under any enactment or for the purposes of the prudent management of their financial affairs.
- 6.3 Under section 12 of the Act, the GLA, functional bodies and London boroughs as local authorities may invest for any purpose relevant to their functions under any enactment or for the purposes of the prudent management of their financial affairs.
- 6.4 Under section 127 of the Greater London Authority Act 1999 (GLA Act), the Authority has a duty to make arrangements for the proper administration of its financial affairs. Responsibility for the administration of those affairs lies with the Executive Director of Resources as the statutory chief finance officer of the Authority under section 127(2)(b) of the GLA Act. The management of the Authority's treasury function and the development and monitoring of the treasury strategy fall within the responsibility of the chief finance officer.
- 6.5 Section 401A(2) of the GLA Act, as amended, permits a shared service arrangement, by providing that any 'relevant London authority' (as defined in the GLA Act) may enter into arrangements for the provision of administrative, professional or technical services by any one or more of them to any one or more of them, whether for consideration or otherwise. This enables the GLA, the functional bodies and the LPFA to delegate the professional, technical and administrative functions involved in treasury

management to the GLA and for them all to jointly participate in LTLF under their common powers to borrow and invest for the prudent management of their financial affairs.

- 6.6 Although London boroughs are not covered by section 401A, they and the GLA are local authorities for the purposes of the Local Authorities (Goods and Services) Act 1970. As a result, the GLA may provide the same professional, technical and administrative functions involved in treasury management to boroughs, who also share the same investment and borrowing powers.
- 6.7 However, the Local Authorities (Contracting Out of Investment Functions) Order 1996 requires that local authorities may only contract with a Financial Services and Markets Act 2000 authorised firm in respect of certain investment functions. The GLA's authorised and regulated subsidiary, LTL, may provide those functions that the GLA itself may not. LTL will therefore manage investments into the LTLF, including on behalf of the GLA and LTLF's other limited partners.
- 6.8 Under section 120 of the GLA Act, the GLA may pay (capital) grants towards meeting capital expenditure incurred or to be incurred by a functional body for the purposes of, or in connection with, the discharge of the functions of that body. A capital grant under section 120 must not be made subject to any limitation in respect of the capital expenditure which it may be applied towards meeting and must be applied by the recipient body solely towards meeting capital expenditure incurred or to be incurred by that body for the purposes of, or in connection with, the discharge of its functions.
- 6.9 Under section 34(1) of the GLA Act, the GLA may do anything it considers will facilitate or is conducive or incidental to the exercise of the section 30 principal purposes, subject to relevant legislation that applies to borrowing and lending money. Sections 30 and 34 provided the legal powers for the GLA to have established a Scottish general partner and for LTL to have become the sole company member of the general partner on incorporation, and thereby for the general partner to become an indirect wholly-owned subsidiary of the GLA. LTLF GP Limited (formerly known as LSR GP Limited) was incorporated in Scotland in November 2020. London Treasury Liquidity Fund LP (formerly known as GLA Strategic Reserve LP) was subsequently established in January 2021, with LTLF GP Limited as the general partner and the GLA as the initial limited partner.
- 6.10 As wholly-owned subsidiaries, Funding London, LTL and LSR GP Limited are regulated companies under the Local Authorities (Companies) Order 1995 (as amended) which imposes duties on the companies including as regards the identification of them as GLA subsidiaries on their company documentation, the access of the GLA auditors to their accounts and also the right for GLA elected members to inspect their meeting agendas and minutes. They are also subject to legislative requirements applicable to other members of the GLA Group including the Freedom of Information Act 2000.
- 6.11 The Mayor can authorise a GLA director under section 38 of the GLA Act to exercise the GLA's rights as a company member at company general and board meetings in order to acquire sole ownership and then exercise control of the company going forward.
- 6.12 In addition, local authority subsidiary companies cannot do things outside the powers of the authority that owns it.
- 6.13 The GLA became a limited partner in a Scottish limited partnership established in order to restructure the GIS as an AIF. The GLA has the power to do this pursuant to section 12 of the Local Government Act 2003 which states that the GLA has the authority to invest for any purpose relevant to its functions and for the purposes of the prudent management of its financial affairs, and section 30 of the GLA Act which permits the GLA to do 'anything' that it considers will further any of its principal purposes in subsection (2) (as summarised in paragraph 6.9 above).
- 6.14 In taking the decisions requested, the Mayor must have due regard to the Public Sector Equality Duty – namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity and foster good

relations between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion) and persons who do not share it (section 149 of the Equality Act 2010). To this end, the Mayor should have particular regard to section 3 (above) of this report.

- 6.15 Under section 38(1) and (2) of the GLA Act, the Mayor has the power to delegate authority to the Executive Director of Resources as proposed in this decision.
- 6.16 If the Mayor (and Executive Director of Resources acting under delegated authority) makes the decision in respect of the continued reinvestment of LCIF proceeds (including GLA Returns) officers must ensure that:
- (a) that GLA's LCIF agreements with Funding London and the LCIF LLP are varied to reflect the GLA's decision on reinvestment of GLA LCIF returns, and notification to Funding London of the same, before any commitment is made to this by the GLA
 - (b) as per paragraph 2.22 above, that such variation and notification make provision for a GLA right to require Funding London to suspend such reinvestment if the GLA's financial position should change
 - (c) they continue to manage the GLA's relationship with Funding London (and the LCIF LLP) in accordance with the agreements (as varied) in place between them
 - (d) the decisions do not have the effect of fettering the discretion of any successor administration, considering in particular the London elections taking place in May 2024 and accordingly the GLA must retain the right to revisit Funding London's right to reinvest in the future.
- 6.17 SME Wholesale Finance (London) Limited (trading as Funding London) is a private company limited by guarantee, of which the GLA is and will remain the sole company member. The Mayor appoints the board of SMEWFL and SMEWFL's decision-making currently then operates largely independently of that of the GLA and according to its own articles and scheme of delegation. The proposed change from arms-length company to GLA managed company means that SME Wholesale Finance (London) Limited will become a 'GLA- Managed Company' for the purposes of the Mayoral Decision-Making in the Greater London Authority document and the list of GLA-Managed Companies within that document will need to be updated in due course.
- 6.18 In respect of certain areas, SMEWFL is required to seek the prior consent of the Mayor, including any change to its articles and/or memorandum of association as a 'Type 1' matter reserved to the Mayor under MD2146. Therefore the consent of the Mayor is required in relation to the proposed amendment of SMEWFL's articles and/or memorandum to align them as appropriate with the articles and/or memoranda of other GLA-Managed Companies within the GLA group.
- 6.19 In respect of both of LTL and LTLF GP Limited, their respective articles of association require Mayoral consent (again as a Type 1 matter) to any changes to their memorandum and/or articles of association.
- 6.20 It is proposed that authority to approve the appropriate changes to the articles and/or memorandum of association of these companies (to effect the proposals above) in due course, is delegated to the Executive Director of Resources. The required amendments to the memorandum and/or articles of association of these companies should be implemented further to advice from and in liaison with Legal

7 Planned delivery approach and next steps

- 7.1 The TMSS will be implemented with immediate effect.
- 7.2 The GLA/LTL/TfL collaboration projects are expected to conclude before 31 December 2023, with agreed implementation steps reported to the GLA Group Collaboration Board by 30 September 2023.
- 7.3 Following this decision, a consultation process with affected staff will be launched (if appropriate) and the LTL and Funding London teams will prepare a revised business plan and budget by 30

September 2023.

Appendices and supporting papers:

Appendices

- Treasury Management Strategy Statement for 2023-24 (Appendix 1)
- Prudential and Treasury Management Indicators for 2023-24 including Group Borrowing Limits, noting the 2021-22 outturn and 2022-23 mid-year positions (Appendix 2)
- Investment Strategy (Appendix 3)
- Group Responsible Investment Policy (Appendix 4)
- Draft Green Bond Framework (Appendix 5)
- LTL and Funding London Interim Budgets (Appendix 6)

Supporting papers

- MD3103 GLA: Mayor Budget for 2023-24
- MD2975 Treasury Management Strategy Statement 2022-23
- MD2976 London Co-investment Fund Business Plan 2022-23 and Use of Proceeds
- MD2792 Treasury Management Strategy Statement 2021-22
- MD2207 Homes for Londoners Land Fund
- Mayor's Budget for 2022-23
- MD2095 Treasury Management Strategy Statement 2017-18.

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

Part 1 - Deferral

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

Part 2 – Sensitive information

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

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Luke Webster has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision:

✓

Sponsoring Director:

David Gallie has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

David Bellamy has been consulted about the proposal and agrees to the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 24 April 2023

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature:

Date:

D. Gane

24/04/2023

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor.

Signature:

Date:

D. Bellamy

24/04/2023