

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD3231

Title: Treasury Management Strategy Statement, GLA investment matters and additional financial support for Transport for London for 2024-25

Executive summary:

This decision sets out the GLA's Treasury Management Strategy Statement (TMSS) for 2024-25, providing an overview and control framework for the treasury management activities of the GLA together with the GLA Integrated Investment Strategy (IIS), which expands the GLA investment strategy in scope to also cover financial investments other than those directly linked to treasury management.

The TMSS has been substantively refreshed to reflect developments in best practice and developments within the GLA Group, including progress with the Mayor's Green Finance Fund (GFF) and the London Treasury Liquidity Fund (LTLF) and the reorganisation of the GLA subsidiaries primarily concerned with investment management: London Treasury Limited (LTL) and SME Wholesale Finance (London) Limited (trading as "Funding London").

Operational budgets for the LTL and Funding London groups are also set out, being matters reserved for Mayoral approval under the respective articles of association (and related approvals) for those companies.

Reflecting ongoing financial risks facing Transport for London (TfL) and the continuing comparative strength of the GLA's treasury position, the decision also sets out an extension of the call-off grant facility set out in MD3041, at a reduced level of £350m for 2024-25, but subject to otherwise identical arrangements.

Decision:

That the Mayor approves the:

- i. Treasury Management Strategy Statement for 2024-25 (Appendix 1)
- ii. GLA Integrated Investment Strategy (Appendix 2) and delegates authority to the Chief Finance Officer to approve any amendments to it as may be required from time to time to reflect developments in relevant work streams, save for the schedules or sections specifically reserved for Mayoral approval
- iii. budgets for London Treasury Limited (LTL), LTLF GP Limited and SME Wholesale Finance (London) Limited (trading as "Funding London") (Appendix 3) and delegates authority to the Chief Finance Officer to authorise transfers between the budgets in the LTL and Funding London groups further to any recommendation of the LTL's Chief Finance Officer and/or Managing Director to do so
- iv. advance of up to £350m of additional funding to Transport for London (TfL), flexibly over 2024-25, subject to the agreement with TfL's Chief Finance Officer of a recovery period at the time of each advance, and the same delegations, authorisations and terms set out in detail within MD3041.

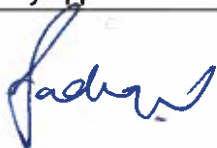
That the Mayor approves that all existing delegations of authority and/or approvals granted to the Executive Director of Resources in relation to financial management or governance, including in respect of treasury management and investment subsidiaries including but not limited to London Treasury Limited, shall be conferred upon the GLA officer with responsibility at the relevant time for the proper management of the GLA's financial affairs under section 127 of the Greater London Authority Act 1999 (currently the Chief Finance Officer).

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:

6/2/24

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

Decision required – supporting report

1 Introduction and background

General treasury management context

- 1.1 Under the Local Government Act 2003, subsequent regulations and statutory guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC) and the Chartered Institute of Public Finance and Accountancy (CIPFA), the GLA must create and adopt an annual Treasury Management Strategy Statement (TMSS) and an annual investment strategy.
- 1.2 The proposed TMSS for 2024-25 is attached at Appendix 1.
- 1.3 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.
- 1.4 The management of the outstanding £5.3bn of external borrowing related to the construction of the Elizabeth Line and Northern Line Extension (NLE), ongoing housing and regeneration investment programmes and the [Green Finance Fund](#) (GFF) 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.
- 1.5 The GLA's strong cash and liquidity position provides opportunities for maximising value for the taxpayer, delivering additional impact to capital spending and service-based investment programmes and supporting the activities of the functional bodies. Examples include:
 - Initial finance for the GFF – where finance is available to the functional bodies (and other public sector bodies meeting essential credit criteria) for capital expenditure to help 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
 - The Mayor's Land Fund – where GLA and GLA subsidiaries' working capital is allocated to be invested on a commercial basis, alongside £486m of non-recoverable grant from DLUHC which can be invested with less stringent risk and return parameters, in pursuit of affordable housing impact
 - Additional financial support for Transport for London (TfL) – enabling TfL to set balanced budgets under the government funding settlement in place for TfL from August 2022 to March 2024 (see MD3041) and proposed for extension through this decision.
- 1.6 The GLA's position as the principal group recipient of business rates, grants and precepts and its record for prudent financial management means it has the strongest credit metrics in the GLA Group and hence the highest credit rating (affirmed on 29 September 2023 by S&P Global Ratings at AA/A-1+, stable outlook). Credit rating agencies consolidate GLA Group borrowings as implicit obligations of the GLA, therefore the GLA has a direct interest in groupwide borrowing risk, which is taken into account in advice given to the Mayor when setting affordable borrowing limits.
- 1.7 The GLA's Group Treasury function 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.
- 1.8 Local government financial practice distinguishes between revenue expenditure (current expenditure such as staff salaries or energy bills) and capital expenditure (normally items of lasting value such as infrastructure, land or fixtures and fittings); moreover, the related rules ringfence certain resources

(income or reserves) for capital purposes. While the GLA is free to fund capital expenditure with revenue resources, the converse is not permitted.

- 1.9 UK local authorities must set a balanced revenue budget on an annual basis (i.e. spending on revenue items must be matched to revenue income or use of revenue accounting reserves); capital expenditure need not be fully funded (in accounting terms) in the year it occurs, but rather the cost (in accounting terms) can be spread over a period commensurate with the benefit the expenditure delivers.
- 1.10 Any amounts not funded in-year feed into the relevant authority's capital financing requirement (CFR) which is then reduced over time by annual funding from the revenue account, and potentially also by 'applying' capital resources in future years. Authorities must maintain a policy for calculating a prudent minimum for those annual revenue contributions, referred to annually as the minimum revenue provision (MRP). Anticipating forthcoming changes to regulation and guidance, the GLA's MRP policy has been revised and is now included within the TMSS.
- 1.11 The consequence of any decision to incur unfunded capital expenditure is debt, since the expenditure in question must ultimately be paid for in cash. Debt can take the form of credit arrangements such as finance leases, or borrowing. The GLA has no significant credit arrangements, but c.£5bn of borrowing.
- 1.12 Borrowing can take two forms:
 - External borrowing – money (principal) received from another party which must be paid back, and meanwhile attracts interest.
 - Internal borrowing – use of cash balances arising from reserves and the timing differences between income and expenditure unrelated to the unfunded item. This cash must however be replaced with external borrowing when reserves are needed or timing differences reverse, and meanwhile incurs an opportunity cost from lost investment income.
- 1.13 Treasury management is therefore intrinsically connected with both revenue and capital spending plans and managing the distinction between planned income and expenditure in the accounting sense, and real movements in cash, which can be widely misaligned. For both revenue and capital expenditure, the treasury function must ensure that cash is available to make payments as they fall due, and in the case of unfunded capital expenditure, must ensure decision makers are apprised of the budgetary consequences of any ensuing MRP and arrange borrowing to meet overall cash flow needs.
- 1.14 The treasury function is further concerned with supporting the Mayor and Chief Finance Officer (CFO) in meeting their respective statutory obligations for financial prudence, in particular the sustainability of debt. Although temporary exceptions may be unavoidable or even justified, there is no prudent reason for external borrowing to permanently exceed the CFR. Conversely, due to the uncertainty of interest rates, it is prudent to avoid the risks of having to borrow at unknown cost. To this end, the Chief Investment Officer (CIO) and their team seek to ensure that the maturity profile of debt is broadly matched to the downward trajectory of the CFR under the effect of MRP and any planned application of other resources.
- 1.15 This task is significantly more complicated for the GLA than many other local authorities due to unique statutory and operational circumstances, which require ringfencing of income streams, borrowing or both. This means that the GLA operates a multi-pool approach to debt management, with the CFR decomposed and matched by dedicated loans under the following themes:
 - The Elizabeth Line – the GLA's programme of unfunded capital grants to TfL for the Elizabeth Line forms the majority of the GLA CFR, financed by borrowing programmed to mature in line with expected income from the Crossrail Business Rate Supplement (BRS) and the Mayoral Community Infrastructure Levy (MCIL), both of which are hypothecated (respectively under

statute and contract with the Department for Transport) until this debt is extinguished.

- The Northern Line Extension (NLE) – under an innovative collaborative financing model, the GLA agreed to act as recipient for related public sector revenues (developer contributions and retained business rates from the Nine Elms enterprise zone) from the London boroughs of Lambeth and Wandsworth and use the (more stable) pooled revenue stream to fund greater initial debt finance than if the GLA and the two boroughs had borrowed individually and pooled the proceeds. The revenues are ringfenced by contract with the boroughs and a guarantee agreement between the GLA and HM Treasury (HMT) necessitates the dedication of specific loan proceeds to the NLE project account. As with the Elizabeth Line, the GLA's CFR in relation to the NLE arises from cumulative unfunded capital grants to TfL, net of any project account surpluses applied.
- The GFF – this obliges the GLA to link loans or bonds issued under the GFF's Green Financing Framework to specific investments in order to match the use of proceeds to evidence of positive environmental impact. The GFF operates as a project account within the GLA, matching capital investments made to framework-compliant borrowings and tracking the associated income and expenditure. Funding the revenue consequences of related subsidy decisions and gains or losses arising from mismatches in borrowing and investment interest rates or maturity profiles is managed with the Climate Emergency Funding Reserve.
- DLUHC Financial Transactions – the London Housing Bank and Housing Zones programmes involve the GLA acting as an agent for DLUHC, making capital loans to housing providers financed with a broadly back-to-back facility from DLUHC. The GLA's obligations to DLUHC are linked to the performance of the relevant investments and it would therefore be inappropriate to pool these arrangements with other borrowing.
- Core CFR – predominantly related to the historical transfer of London Development Agency (LDA) assets and liabilities to the GLA, specifically the unfunded elements of the acquisition of the Olympic Park; this also includes the impact of unfunded capital loans to the London Legacy Development Corporation (LLDC) and unfunded expenditure in relation to the Royal Docks.

1.16 Cross-subsidy between these pools is inappropriate. This, together with the very long-term nature of the largest pool (the Elizabeth Line) compared to any prudent horizon for reserve forecasts and the potentially catastrophic budgetary consequences of having to refinance this scale of debt at an unaffordable level, is the reason the GLA simultaneously has comparatively large borrowing and cash balances. The TMSS contains a detailed analysis of the CFR.

GLA investments

- 1.17 In line with developing best practice, the scope of the annual investment strategy document has been expanded to cover financial investments beyond those held for treasury management purposes. The proposed GLA Integrated Investment Strategy (IIS) is attached at Appendix 2.
- 1.18 Financial investments for the purposes of this decision are financial instruments with value to the GLA, whether held directly or through GLA subsidiaries, other than instruments related to ordinary operational activity, e.g. invoices due for services provided by the GLA. Physical assets such as land and property are also out of scope for the IIS at this time. The IIS therefore covers loans made by the GLA and/or its subsidiaries, investment in securities such as shares and bonds, economic rights arising from participation in partnerships and recoverable grants other than those made under the affordable housing programme.
- 1.19 Under CIPFA's Prudential and Treasury Management Codes, local authority investments fall into three categories, of which the first two below are relevant to the GLA:
- Service investments – typically long-term deployment of capital primarily to achieve direct or

ancillary policy impact, for instance regeneration, housing or environmental goals. These may or may not be made on a commercial basis, depending on the source of funds, the need for subsidy to address market failure and/or subsidy control considerations. The Mayor of London's Energy Efficiency Fund (MEEF), Land Fund loans and the Greater London Investment Fund (GLIF) are examples of GLA service investments.

- Treasury investments – these are investments made from the GLA's cash balances, which arise from reserves, provisions, working capital (amounts owed by the GLA, less amounts owed to it) and timing differences between income or borrowings and eventual expenditure. The purpose of these investments is to protect public spending power, balancing the need to avoid losses from investment defaults against the need to achieve returns to offset the impact of inflation, while ensuring liquidity is available when needed. Providing these objectives of security, liquidity and yield can be met, treasury investments may also support service or policy objectives, so there is some overlap between treasury and service investment activity.
- Commercial investments – investments, typically financed through borrowing, made primarily to achieve yield. These are discouraged by statutory guidance and may attract punitive measures or interventions from central government. The GLA has no investments in this category. Many service investments and all treasury investments are made on sound commercial terms, but they are not held for the primary purpose of generating yield.

1.20 A key consideration is whether investments constitute capital expenditure under the regulations pursuant to the Local Government Act 2003. This matters for two reasons: firstly, where an investment does constitute capital expenditure, the principal sums returned from the investment must be treated as capital receipts, and therefore can only be used for capital spending in future; secondly, unless funded by the application of capital or revenue resources in the year it occurs, capital expenditure will give rise to MRP in future years, which may be of detriment to the GLA's revenue budget.

1.21 GLA service investments fall under the following principal themes:

- Housing and Land – loans and recoverable grants to developers and housing providers and investments in third-party funds and joint ventures connected with the delivery of the Mayor's housing strategy. Investments which involve the development, management or exploitation of land on commercial terms, albeit with a primary objective of enabling housing delivery, are normally made through the GLA's commercial subsidiary GLA Land and Property Limited (GLAP). Housing and Land investments are largely funded and are generally managed in-house by the Investment team within the Housing and Land Directorate, supported by the CIO and London Treasury Limited (LTL) as required.
- Regeneration – capital loans and recoverable capital grants managed by the Good Growth directorate's Regeneration team, generally funded by the Growing Places Fund.
- Green Finance – including the London Energy Efficiency Fund (LEEF) legacy portfolio, MEEF, the GFF and the expected investment in the London Edge Fund. There is a mixture of funded and unfunded capital investments, with some potential overlap with treasury investments. LEEF and GFF assets are managed by LTL, whereas MEEF is externally managed.
- Funding London – investments into small to medium enterprises (SMEs), focussed on promoting economic growth in London through SME Wholesale Finance (London) Limited (trading as "Funding London"). There are currently three funds within the Funding London structure: the London Co-Investment Fund (LCIF), managed by LTL staff, the MMC London Fund, managed externally and overseen by the Funding London board supported by LTL and the Greater London Investment Fund (GLIF), overseen by an independent board supported by LTL.

1.22 Treasury investments are predominantly managed collectively through London Treasury Liquidity

Fund LP (LTLF), an Alternative Investment Fund (AIF) established as a Scottish Limited Partnership (see MD2792). The limited partners are currently the GLA, the London Pensions Fund Authority (LPFA) and the GLA's functional bodies, other than the Old Oak and Park Royal Development Corporation (OPDC) who are in the process of admission at the time of writing. LTL is the Principal Portfolio Manager of LTLF assisted by specialist external managers for certain types of asset.

- 1.23 LTLF and its predecessor, the GLA Group Investment Syndicate (GIS), have proven extremely successful for delivering greater liquidity and performance than would have been achievable by the participating organisations acting individually. The principal sources of value from the arrangement are:
- Investment duration – the pooled balance of LTLF is generally less volatile than participants' individual balances, due to each participant's pattern of deposits and withdrawals being different, therefore to some extent cancelling each other out. This means there is a stable core balance that can be prudently invested for longer periods than might be prudent for participants investing individually. Since, on average, longer investment periods and/or lower liquidity are compensated by higher returns, the GLA's collective investment arrangements have been able to deliver improved yield for participants over time.
 - Diversification – many investment opportunities have a minimum size, either explicitly (e.g. a wholesale bank with a minimum deposit requirement) or in practical terms (e.g. due diligence and manager selection costs for a complex investment are the same in absolute terms whether the sum invested is £1m or £100m, so the relative impact may be acceptable in the latter case, but prohibitive in the former). Therefore, LTLF has a far wider range of investment opportunities than most participants could access individually. This serves both to reduce risk and improve returns, especially through the inclusion of more complex assets such as Residential Mortgage-Backed Securities (RMBS).
 - Economies of scale and resilience – direct and indirect transaction costs are saved through collective investment (e.g. in an arrangement of six participants, achieving a given level of diversification requires six times fewer transactions, eliminating both cost and risk) and human, information and system resources can be shared, reducing like for like costs and dependence on key individuals.
- 1.24 In the context of the advantages of pooling set out above, while the TMSS provides flexibility for GLA treasury investments to be made outside of LTLF, this would only occur to achieve a service objective alongside the principal treasury objectives of security, liquidity and yield.
- Delivery model and collaborative working
- 1.25 Overall responsibility for treasury management sits with the CFO. The CIO is appointed to lead the provision of a Group Treasury function together with wider investment and related services. The CIO is also the Managing Director of LTL, the GLA's wholly-owned arm's length investment management subsidiary, authorised and regulated by the Financial Conduct Authority (FCA).
- 1.26 LTL's primary purposes are to manage the average £3-4bn of assets in LTLF and support the CFO and CIO in delivering their respective responsibilities, with the additional assurance of FCA supervision and the capacity to undertake regulated activity for the GLA and its partners. Therefore, on a day-to-day basis, aside from circumstances where there are regulatory obligations or customer duties to others, the LTL team works as a co-located, integrated part of the GLA's finance function. The independent board of LTL brings extensive experience of the financial services sector and assists in the management of any conflicts of interest.
- 1.27 LTL has evolved significantly since its acquisition by the GLA in 2018 and subsequent authorisation by the FCA, reflecting increased regulatory requirements, the growing sophistication of LTLF, the requirement to establish a green finance team and the merger of its executive team with that of Funding London to create a single centre of specialism, as set out in MD3128.

- 1.28 Following a planned retirement in April 2024, all GLA treasury operations will be delivered by LTL staff, with a flexible secondment arrangement in place to cover circumstances where they need to act as GLA officers. This reflects progress with LTL's recruitment strategy and increased capacity following the transfer of staff from Funding London as described in MD3128. Further information on the role of LTL is set out in the TMSS.
- 1.29 To maximise the public benefit from its extensive investment in treasury capability, in addition to the pooled investment arrangement of LTLF, the GLA delivers wider treasury management functions through shared services arrangements 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)
 - the Old Oak and Park Royal Development Corporation (OPDC).
- 1.30 The conclusion of further treasury shared service arrangements with local authorities is delegated to the CFO and Chief of Staff under MD2095.
- 1.31 The GLA also works closely with TfL's treasury function and a comprehensive collaboration programme is underway, involving proposed sharing of investment personnel and systems (front office), certain aspects of risk assessment (middle office) and creating a shared function for transaction settlement and payments (back office) to improve segregation of duties.
- 1.32 The budgets proposed in Appendix 3 will allow the GLA's financial investment subsidiaries to deliver their commitments and represent a new baseline for the operating arrangements. LTL's budgeted cost to the GLA is £1.68m for 2024-25, against £1.45m in 2023-24, growth of £231k attributable to inflation (staff and external services) and the impact of changes to apportionment models. However, given the change set out in paragraph 1.28, a corresponding saving of £230k will arise with the GLA Group Treasury unit, with the net result of little change.

Extension of the call-off grant facility for TfL

- 1.33 In September 2022, the Mayor authorised under MD3041 the provision of a call-off grant facility of up to £500m of temporary additional funding which was confirmed to TfL as being subject to recovery by reducing TfL's future share of business rates. This facility covered the period to 31 March 2024, aligned to the period covered by TfL's funding agreement with the Department for Transport (DfT). This helped support TfL to meet its statutory requirement to maintain a balanced budget during 2022-23 and 2023-24.
- 1.34 Since then, TfL has made significant progress towards operating financial sustainability and is on track to deliver its first operating surplus in 2023-24. This has been achieved by supporting the recovery of passenger demand, growing revenue and careful cost control. On 18 December 2023, TfL also agreed a capital funding settlement with the DfT to provide DfT support of £250m for 2024-25.
- 1.35 Although TfL has an agreed capital settlement for 2024-25 and its financial position has improved since 2022, significant financial risks remain. The revenue top-up mechanism with DfT, which provided TfL certainty on passenger income, expires on 31 March 2024; this means that TfL will be exposed to passenger demand risk for the first time since May 2020. TfL continues to have a stretching target on operating efficiencies; higher levels of inflation meant TfL increased its target for recurring operating cost savings by 2025-26 to £650m in the 2024 TfL Business Plan from the £600m originally targeted. TfL's ability to manage this risk position is reduced, particularly in 2024-25, including as the mitigations to the shortfall in government funding have increased TfL's assumed

levels of borrowing.

- 1.36 The reduced quantum of the facility (£350m) covers a range of outcomes around TfL's central risk expectation, reflecting the improvement in TfL's financial position since September 2022; it can prudently be financed by the GLA's cash balances and borrowing capacity, with revenue implications that are proportionate to the GLA's available reserves. The proposed extension of the facility will therefore provide TfL with sufficient comfort that it will be able to set a balanced budget for 2024-25.
- 1.37 As set out in MD3041, any drawdown against the facility would amount to an accelerated profile of business rates funding, not an absolute increase.

2 Objectives and expected outcomes

Treasury Management Strategy Statement (TMSS) including the Minimum Revenue Provision (MRP) Policy and Treasury Management Practices (TMPs)

- 2.1 These documents provide a strategic framework to achieve the prudent objectives set out in the policy statement in Appendix 1. Impact, i.e. the delivery of positive environmental, social or economic outcomes to the benefit of Londoners has been added to the treasury investment objectives of security, liquidity and yield.
- 2.2 The Public Works Loan Board (PWLb) remains an important source of long-term finance for the GLA. The CFO 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.
- 2.3 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.
- 2.4 Where there will be no net impact on group external borrowing levels, the Mayor authorises the CFO 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.
- 2.5 Following the conclusion of the 2024-25 group budget process in due course, the Mayor will set 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 London Assembly. The TMSS provides 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, to the CFO 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 by the Mayor is not exceeded. The CIO and CFO will consult the Chief of Staff prior to executing any transaction of this type.
- 2.6 This mechanism will also apply to any use of the GFF by the functional bodies, allowing the GLA to aggregate capital expenditure related to positive environmental impact and refinance in due course, benefiting from preferential rates from investors focussed on those outcomes.
- 2.7 Where capital expenditure is due to be funded by future revenues, the MRP policy within the TMSS provides a means to match those costs to the period over which the relevant benefits apply, reducing the risk of taxpayers in a particular period disproportionately bearing the cost of benefits enjoyed previously or subsequently.

- 2.8 From a cash flow perspective, the MRP policy also ensures that a prudent amount of cash is available for the repayment of borrowings.
- 2.9 Both the relevant regulations and statutory guidance for MRP are expected to change in 2024-25 as one of several measures introduced by DLUHC, HMT and CIPFA to discourage or prohibit commercial investments (in the sense described in paragraph 1.19) following controversies around the scale of commercial investment by some local authorities, financed by very high levels of borrowing. The MRP policy has been updated pre-emptively to accommodate potential changes and minimise detriment to the GLA.

Integrated Investment Strategy

- 2.10 The IIS seeks to improve transparency and better inform internal and external stakeholders about the nature and extent of the GLA's financial investments while introducing a more consistent framework across the programmes set out in paragraph 1.21, adopting the recommendations for investment management practices for service investments set out in CIPFA's latest guidance on the Treasury Management Code.
- 2.11 The governance, funding and reporting arrangements for each programme are presented as consistently as possible, including authorities and responsibilities for amending relevant parameters, strategies and terms of reference.
- 2.12 The assurance role of the Financial Risk Oversight Board (FROB), chaired by the CFO, is set out in the IIS in light of the above.
- 2.13 Due to active programmes of work in many of the programmes within scope, the IIS is expected to be a living document in order to maintain its usefulness to stakeholders, in particular potential co-investment partners. The Mayor is requested to delegate authority to the CFO to revise the document to reflect any changes arising in-year, including the impact of any relevant Mayoral Decisions, variations arising from the exercise of delegated authority, personnel changes or updated financial information. The investment strategy for treasury investments specifically, which represents the most significant source of investment risk and return, may only be revised with Mayoral approval and must be confirmed annually. Therefore the IIS will be presented at least annually to the Mayor for review as part of the annual treasury strategy setting process.
- 2.14 The IIS clarifies the applicability of the GLA Group Responsible Investment Policy to all GLA investment programmes. The policy sets out the practices and approaches to investing responsibly, as well as the principles that guide them.
- 2.15 Over the years, the European Programmes Management Unit (EPMU), which has been subsumed within the Economic Development and Programmes Unit (EDP), has developed several investment funds (using funding from the European Regional Development Fund (ERDF) Programme it managed) to support various Mayoral objectives. These funds, which fall within the scope of the IIS, included the London Green Fund, MEEF and GLIF.
- 2.16 While GLA's role in managing the ERDF Programme is coming to an end, these investment funds will continue to operate for many more years. Given LTL's experience and expertise in fund management, it is proposed that the GLA's residual responsibility for the effective management of these investment funds be transferred to LTL. These responsibilities include acting on the GLA's behalf regarding its role as limited partner in these funds, monitoring investment returns and paying any outstanding finance commitment to the funds.
- 2.17 LTL staff already carry out these responsibilities for some of the funds established by EPMU and agreement is now being sought for the others to be managed by LTL. The EDP team will retain some of the responsibilities that involve ongoing engagement with DLUHC, the managing authority for the ERDF programmes. The CIO and the Assistant Director for EDP will agree the final split of responsibilities.

3 Equality comments

- 3.1 Under section 149 of the Equality Act 2010, the Mayor of London, as a public authority, must have 'due regard' of the need to eliminate unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advance equality of opportunity between people who have a protected characteristic and those who do not; and foster good relations between people who have a protected characteristic and those who do not. Relevant protected characteristics under section 149 of the Equality Act 2010 are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.
- 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, very significantly above wider comparative data. The UK government's Longitudinal Small Business Survey showed that in 2020, 16 per cent of UK 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 and the fund and its partners will continue to seek to improve levels of engagement with founders who are women; from a Black, Asian or minority ethnic background; or disabled, by working with organisations that specifically engage with disadvantaged groups.
- 3.3 GLIF was launched with a firm target to invest at least 20 per cent of the fund (£20m) in businesses founded or led by underrepresented entrepreneurs. As at 30 September 2023, funds invested in underrepresented entrepreneurs totalled £36.9m, equivalent to 46.7 per cent of funds deployed to that date. Seventy-nine SMEs founded or led by underrepresented entrepreneurs have received funds; of which 55 businesses are led by women, 40 by entrepreneurs from a Black, Asian or minority ethnic background and three by disabled entrepreneurs.
- 3.4 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 objectives of the TMSS and IIS are 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 those documents.
- 4.2 In respect of the extension of the support facility for TfL, any use of the facility from the GLA to TfL will reduce the GLA's financial flexibility, with groupwide implications. This is mitigated by the intention to recover sums advanced under the facility, however circumstances delaying such recovery may lead to delays in delivery of other projects.

Links to Mayoral strategies and priorities

- 4.3 Secure funding and liquidity are essential to every aspect of delivering Mayoral strategies and priorities.
- 4.4 Collaborative working and shared services as a route to shared best practice, efficiency and service resilience is a core Mayoral objective.
- 4.5 The proposed support facility for TfL is consistent with the Mayor's Transport Strategy.

Consultations and impact assessments

- 4.6 The Assembly's GLA Oversight Committee was consulted in respect of London boroughs joining the treasury management shared service on 3 September 2019.
- 4.7 There is no data protection impact.

Declarations of interest

- 4.8 The CIO is also a director of LTL, which delivers most investment aspects of this decision under investment management agreements with the GLA and LTLF, 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 matters reserved to the Mayor and/or the GLA by the articles of association of LTL and LTLF GP Limited and related decisions.
- 4.9 There are no known conflicts of interest for those involved in the drafting or clearance of this decision.

5 Financial comments

TMSS, IIS and budgets for the LTL and Funding London groups

- 5.1 The TMSS and IIS are key control documents which set out key 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 Setting budgets for LTL and Funding London 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 subsidiary groups will ensure that any impact is managed and minimised.
- 5.3 Approval of clear delegations to officers 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.

Extension of the call-off grant facility for TfL

- 5.4 The GLA's substantial cash balances and capacity to refinance internal borrowing would enable the GLA to make available a facility of this scale providing the sums can be recovered as envisaged.
- 5.5 Nevertheless, the potential for rising interest rates would increase the cost of providing such finance (in the case of allocating existing group cash, through foregone interest receivable and in the case of borrowing, through interest payable). This could be in the region of £19m per annum if the facility is used in full.
- 5.6 Local government finance legislation stipulates that revenue resources can be used to fund capital spending, but capital resources cannot fund revenue spending. Capital grants can either be funded at the outset (from capital or revenue income or reserves) or financed, pending later funding. The amount that can be made available for capital purposes in addition to existing budgets is therefore constrained by the GLA's level of cash (and/or borrowing capacity) together with the need for a high level of certainty that the amount can be repaid from revenue over a period commensurate with

the benefits arising from the capital expenditure.

- 5.7 In addition to the constraint of cash being available, revenue grants must also be matched to an income source or release from a revenue reserve in-year. Groupwide, income sources are already fully allocated so flexibility to provide revenue support to TfL beyond planned amounts is limited to reprofiling or substituting capital resources for retained business rates revenue that is currently planned to fund capital grants.

6 Legal comments

TMSS, IIS and budgets for the LTL and Funding London groups

- 6.1 Part 1 of the Local Government Act 2003 (the 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 (the 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 CFO 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 CFO.
- 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 continue to manage investments into 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. LTLF (formerly known as GLA Strategic Reserve LP) was subsequently established in January 2021, with LTLF GP Limited as its general partner and the GLA as its initial limited partner.
- 6.10 As wholly-owned subsidiaries, Funding London, LTL and LTLF 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 the 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 Act 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 CFO as proposed in this decision.
- 6.16 SME Wholesale Finance (London) Limited (trading as "Funding London") is a private company limited by guarantee, of which the GLA is the sole company member. The Mayor appoints the board of Funding London and Funding London's decision-making currently then operates largely independently of that of the GLA and according to its own articles and scheme of delegation. Funding London's articles are in the process of being revised in liaison with the Legal team to implement the change from arm's length company to GLA managed company approved by MD3128.
- 6.17 Officers must ensure that they continue to manage the GLA's relationship with Funding London

(and its subsidiaries) in accordance with the agreements (as varied) in place between them.

Extension of the call-off grant facility for TfL

Mayor's general transport duty

- 6.18 Section 141(1) of the GLA Act sets out the Mayor's "general transport duty", which is a duty to develop and implement policies for the promotion and encouragement of safe, integrated, efficient and economic transport facilities and services to, from and within Greater London. Under subsection (2) the Mayor must exercise the powers of the GLA concerning transport under Part IV of the GLA Act for the purpose of securing the provision of the transport facilities and services mentioned in subsection (1). The general transport duty is reflected in the Mayor's Transport Strategy (MTS). Under section 142 the MTS must contain the Mayor's policies under section 141(1), and proposals for discharging the duty under section 141(2) above.
- 6.19 The financial comfort and support to be provided to TfL by the advance of up to £350m of additional funding as described in this form is a key measure in securing the overall implementation of the MTS for the delivery of transport services and the improvement of London's transport network, together with the associated investment it brings to London's economy.

GLA borrowing powers

- 6.20 Section 1 of the Act gives local authorities (including the GLA) the power to "borrow money –
- for any purpose relevant to its functions under any enactment; or
 - for the purposes of the prudent management of its financial affairs."
- 6.21 In discharging its functions under Part 1 of the Act the Mayor must have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (as re-issued from time to time).
- 6.22 In addition, section 34(1) of the GLA Act gives the Mayor the power to do anything which is calculated to facilitate, or is conducive or incidental to, the exercise of the Mayor's other functions.
- 6.23 To the extent that the support provided to TfL by the GLA, as described in this form, entails borrowing by the GLA, it is authorised under both parts of section 1 of the Act, being relevant to the Mayor's general transport duty and for the purposes of the prudential management of the GLA financial affairs. The Mayor also has the function under sections 120 and 121 of the GLA Act of making capital and revenue grants to functional bodies (see below).

Affordable borrowing limit

- 6.24 Under section 3 of the Act, the Mayor, after consultation with the Assembly, determines how much money the GLA and TfL can afford to borrow (affordable borrowing limit) and is under a duty to keep it under review. The London Assembly must be consulted before any new affordable borrowing limit is determined by the Mayor. The proposals for financial comfort and support to be provided to TfL in relation to the advance of up to £350m of additional funding, as described in this form, do not involve any increase in the affordable borrowing limit determined for the GLA for 2023-2024.

Use of retained business rates

- 6.25 The GLA's primary source of government support apart from the Home Office police grant is through the business rates retention system introduced in 2013-14. Retained business rates replace funding previously provided for the GLA via its general grant and through revenue support grant to support fire services and policing in London as well as the former TfL capital investment grant and residual operating grant. Sums in respect of retained business rates received by the GLA can be applied for any lawful purpose by the Mayor and are not subject to any ringfencing.

Capital grants from Mayor to TfL: section 120 of the GLA Act

- 6.26 Funding derived from the sources identified in this form in relation to the advance of up to £350m of additional funding including, without limitation, borrowing and retained business rates, may be transferred to TfL by way of a combination of capital grant and revenue grant. Sections 120 and 121 of the GLA Act (as amended) give the Mayor power to pay grants towards meeting capital and non-capital (revenue) expenditure respectively, 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 grant under section 120 or 121 must not be made subject to any limitation in respect of the expenditure which it may be applied towards meeting. However, a capital grant must be applied by the recipient body solely towards meeting capital expenditure by the recipient body, and a revenue grant may only be applied by it towards meeting its non-capital expenditure, as the case may be, incurred or to be incurred by that body for the purposes of, or in connection with, the discharge of its functions.
- 6.27 All funding from the GLA to TfL under the approval given in this form in relation to the advance of up to £350m of additional funding will be made by means of grant under section 120 or 121, irrespective of the GLA's own source of that funding e.g. from GLA borrowing or from retained business rates.

7 Planned delivery approach and next steps

- 7.1 The IIS will apply with immediate effect.
- 7.2 The TMSS will be implemented with effect from 1 April 2024.
- 7.3 Following conclusion of the consolidated budget process, borrowing limits and prudential and treasury management indicators will be set through a subsequent Mayoral decision in March 2024.

Appendices and supporting papers:

Appendices

- Appendix 1 – Treasury Management Strategy Statement for 2024-25
- Appendix 2 – GLA Integrated Investment Strategy
- Appendix 3 – LTL and Funding London Groups Budgets

Supporting papers

- The Mayor's Draft Consolidated Budget 2024-25
- MD3128 Treasury Management Strategy Statement and GLA investment subsidiary matters for 2023-24
- MD3041 Additional financial support for Transport for London
- MD2792 Treasury Management Strategy Statement 2021-22
- 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:

Enver Enver 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 5 February 2024

✓

INTERIM CHIEF FINANCE OFFICER:

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

Signature:



Date:

05/02/2024

CHIEF OF STAFF:

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

Signature:



Date:

05/02/2024