GREATER**LONDON**AUTHORITY

REQUEST FOR MAYORAL DECISION MD2792

Title: Treasury Management Strategy Statement 2021-22

Executive Summary:

This decision sets out the GLA's Treasury Management Strategy Statement (TMSS) for 2021-22, providing an overview and control framework for the borrowing and investment activities of the GLA, including shared service delivery and collaborative working, progress of which within the GLA Group and with London boroughs is noted. The revised investment strategy includes a proposal to combine the GLA Group Investment Syndicate (GIS) and London Strategic Reserve (LSR) into a single fund. This will involve the transfer of the GIS assets into the existing LSR partnership, established pursuant to MD2616.

The decision has been prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and relevant legislation.

Decision:

That the Mayor approves the:

1. Treasury Management Strategy Statement for 2021-22 (Appendix 1);
2. Treasury Management Policy Statement (Appendix 2);
3. Minimum Revenue Provision Policy Statement (Appendix 3);
4. Prudential Code Indicators and Treasury Management Limits for 2021-22, noting the 2020-21 midyear and 2019-20 outturn positions (Appendix 4);
5. existing Group Investment Syndicate (GIS) and London Strategic Reserve (LSR) being combined to operate under a revised, combined Investment Strategy (Appendix 5) and authorises the Executive Director of Resources and the directors of London Treasury Limited and LSR GP Limited to do all such things (including procurement of relevant professional services and the finalisation, approval and execution of any documents and agreements) that they may consider necessary or desirable to give effect to the combination and subsequent establishment of the single fund, as outlined in Appendix 6; and
6. Treasury Management Practices: Main Principles (Appendix 7).

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: 15/3/21

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

Decision required – supporting report

1 Introduction and background

1.1 The Resources directorate's Group Treasury unit is responsible for providing strategic advice on and subsequently managing the GLA's borrowings, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks and the paramount objective of preserving capital.

1.2 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.

1.3 Effective treasury management is central to the GLA's financial standing, given the multi-billion pound scale of operational cash flows, assets and liabilities. The ongoing delivery of finance for major capital projects such as Crossrail, the Northern Line Extension (NLE) and 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.

1.4 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); and
- Old Oak and Park Royal Development Corporation (OPDC).

1.5 The on-boarding process for a London borough into the shared service is on-going and other boroughs are in similar discussions. The conclusion of such agreements is delegated to the Executive Director of Resources and Chief of Staff under MD2095.

1.6 Investment of short-term funds is managed collectively 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.

1.7 Pursuant to MD2445 and MD2616, the GLA has also established a longer-term collective investment arrangement, the London Strategic Reserve (LSR), recently structured into a Scottish private fund limited partnership (GLA Strategic Reserve LP), with the GLA as a limited partner and a subsidiary of LTL (LSR GP Limited) as the general partner (GP). Following intragroup discussions and discussions with potential new participants, it is now proposed that investments under LSR and the GIS be combined under one fund, to make best use of the collective liquidity position and maximise the group-wide impact of the additional returns available from the LSR investments at a time of budgetary pressure.

1.8 The GLA has also allocated £250m of its working capital to the Mayor's Land Fund, to be invested in a commercial manner, alongside £486m of non-recoverable grant from MHCLG, which can be invested with less stringent risk and return parameters, in pursuit of affordable housing impact.

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; and
- 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;
- cash is available when required for essential expenditure; and
- 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.

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; and
- 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 In November 2020, HM Treasury removed the 1% increase applied in October 2019 to the cost of borrowing from the Public Works Loan Board (PWLB). This returns the PWLB standard rate to gilts plus 100 basis points and the certainty rate to gilts plus 80 basis points. HM Treasury also published revised lending terms for PWLB loans – the Executive Director of Resources will have to 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 This change restores the PWLB into being an attractive source of finance, however, market conditions may from time to time make other sources 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 The GLA's position as the principal recipient of business rates, grants and precepts means it has the strongest credit metrics in the group. Also, the bond market is familiar with the GLA. This means it would be difficult for the functional bodies, other than TfL, to be able to achieve equally favourable pricing as the GLA would obtain from investors.

2.6 In the case of LFC and MOPAC, and where there will be no net impact on group 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 make a capital grant to the functional body and top-slice the functional body's share of business rates or other GLA-controlled funding to repay the debt over time.

2.7 At the point of binding agreement, the recipient functional body's authorised limit will be deemed to be reduced by the amount paid over by the GLA, while the GLA's authorised limit will be increased by the same amount. A separate MD will record the revised limits at the earliest opportunity, though it is recognised this may be retrospective in order to preserve market agility. The Chief Investment Officer and Executive Director of Resources will consult the Chief of Staff prior to executing any transaction.

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.

Treasury Management Policy and Treasury Management Practices

2.10 Appendix 2 and Appendix 7 set out the high-level objectives for the control and performance management of the function in the form prescribed by statutory guidance.

Shared services and collaborative working

2.11 Additional shared service partners 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.

2.12 Business adjustments due to Covid-19 impact have interrupted some discussions, however the GLA continues to discuss providing shared services to other public bodies in London, either in a full-service context or as investors in the proposed combined fund. The GLA and LTL have also progressed feasibility work into a number of potential London-related co-investments with the Local Pensions Partnership and the London CIV linked to green recovery.

2.13 A London borough has approved its TMSS facilitating it joining the shared service and proposed collective investment arrangements in 2021/22. Another London borough is also expected to join the combined fund as an investor, and the GLA is in discussions with TfL in relation to pooling part of its cash balance alongside the rest of the GLA Group, together with other collaborative working opportunities on transactional services, accounting and systems.

Investment Strategy

2.14 The GIS is Group Treasury's liquidity solution for the GLA and others within the shared service. It is managed by LTL in a similar fashion to a commercial money market fund. Participants can deposit and withdraw funds daily, which restricts investments to highly secure, short-dated instruments with low price volatility. Accordingly, returns are low in absolute terms. Nevertheless, the GIS has significantly outperformed average market deposit rates, money market funds and bond funds of similar durations.

2.15 Through the effects of pooling, the GIS has provided Group Treasury with both greater and more stable minimum balances than would generally have been the case for individual participants. This has provided increased opportunity for longer term investments providing greater yields without significantly greater risk. The overall increase in balances has provided greater bargaining power in respect of instant access and notice accounts with banks, allowing the GIS to maintain yields for the shortest dated investments. By investing in a mix of overnight and longer-dated products, the GIS has maintained a weighted average maturity (WAM) below three months, while maintaining excellent overnight liquidity.

2.16 The participants have been able to maintain or reduce individual expenditure on treasury management while funding a function able to operate a more sophisticated strategy than would be feasible individually.

2.17 The GIS continues to outperform its benchmark of 3-Month LIBID, i.e. the rate at which banks and other large organisations typically lent to each other for three months. As at 10 February 2021, the GIS has outperformed by 0.33% on an annualised basis since inception. This is a relative outperformance of 77%. However, current economic conditions make it very likely that these levels of return cannot be sustained without adjustments to investment strategy.

2.18 The net cash flow managed by LTL continues to be dominated by the GLA. The introduction of a range of new organisations with different cash flow profiles has had a positive impact on relevant stability of balances, which together with scale advantages has been positive for the risk and return outcomes for all concerned.

2.19 The GIS remains one of the largest short-term lenders to other UK local authorities. Demand for local to local lending has diminished in the wake of the central government decision to reduce the cost of local government borrowing from the PWLB and the availability of various government Covid-19 relief grants to local authorities.

2.20 The GLA and London boroughs collectively have very stable cash balances, even if these are volatile on an individual level. LSR was created to pool some of these core balances in order to take advantage of a longer investment time horizon, in order to deliver returns that offset the impact of inflation on the cash in question.

2.21 The GLA has to date deployed £39.1m of its own monies into LSR and has achieved a net return of £2.4m, equating to c.7.7% per annum against a target of CPI+2% (c.3.0%). The outperformance against benchmark is due to the initial LSR investments being in the least liquid, hence highest yielding categories of the LSR investment strategy.

2.22 As discussions with interested London boroughs have evolved, it has become apparent there is more interest in a blended approach capturing the liquidity benefits of the GIS alongside the additional returns of LSR.

2.23 Combining the funds will enable participants to benefit from the collective stability of the pooled balances and achieve some exposure to the LSR assets with greater liquidity as an individual partner. Combining the GIS and LSR will also allow existing participants such as MOPAC and LFC to enjoy these benefits and therefore provides an opportunity to maximise interest receivable across the GLA Group without additional group-level risk. We expect the London borough joining the shared service and one other (joining as investor only) to enter the combined fund from 1 April 2021.

2.24 A revised Investment Strategy for the combined fund is set out at a high level in Appendix 5 subject to agreement by all participants.

Investment risks

2.25 Capital preservation remains the central objective of the investment strategy, however the GLA and other participants recognise that some risk must be taken in order to secure the return necessary to preserve public spending power and support service delivery. Accordingly, the GLA acknowledges that:

- temporary movements in the accounting value of investments can be tolerated provided there is no likelihood of being forced to sell when values fall and that the scale of potential unrealised losses is proportionate to the capacity of the GLA and other participants to absorb such losses through temporary movements in reserves; and
- within a properly diversified portfolio, individual investments may incur losses, however these should be more than offset by the returns from other components of the portfolio.

2.26 The fundamental changes to note are:

- an increased maximum exposure limit for senior residential mortgage backed securities (RMBS) to 35% (from 20%); and
- the inclusion of a 10% maximum exposure limit to longer-dated strategic investments (including the current LSR assets) managed by authorised and regulated firms and held within GLA Strategic Reserve LP.

2.27 An overall value at risk (95% VaR) limit of 2% is introduced to capture the risks associated with investments subject to market price variations. This means that fluctuations in prices, which may need to be recognised in the GLA's accounts as an unrealised loss, should not exceed 2% in 95% or 1:20 of modelled scenarios. On the basis of forecast cash balances, this is a level that is proportionate to the capacity of the GLA and other participants to absorb through reserves on a temporary basis.

2.28 The revised allocation including the 10% allocation to strategic investments is based on analysis of security and liquidity:

- In addition to meeting the 2% VaR limit, under a comprehensive range of stress tests, there should be no expected level of capital loss at a portfolio level, provided investments can be held to maturity.
- Forecast balances and nine years of GIS liquidity data were analysed to provide assurance that there is no foreseeable risk of being a forced seller of the RMBS or strategic investments. In the event that liquidity assumptions change, RMBS reinvestment can be paused and exposure will reduce rapidly due to the natural amortisation of these assets. At only 10% of the collective balance, it is highly unlikely that the strategic investments would ever need to be sold before maturity, but of that 10%, two-thirds are expected to have contractual liquidity, should an early exit be required.

2.29 At the request of the GLA and other GIS participants, LTL commissioned an independent appraisal of the investment risks in the proposed strategy. The report of the investment consultant, Redington, is attached at Part 2 to this decision.

2.30 The assessment suggested that on prudent assumptions, the portfolio would have a 95% VaR of 1.8% and should return 0.6% above regular cash returns, net of fees. This represents c.£24m p.a. of additional value to the GIS participants. Interest receivable budgets have, however, been set prudently for 2021/22, with the intention to build up a volatility reserve in the coming 2-3 years to smooth the impact of accounting movements and interest rate fluctuations.

2.31 Key conclusions from the independent expert's report include:

- Philosophically, we think that the portfolio construction approach proposed is robust – emphasising a range of strategies which earn their returns primarily through contractual cash flows and income streams.

- Using this analysis, we are able to show that it would take an economic shock of significantly greater scale than the 2008/09 "Great Financial Crisis" to reduce expected returns to zero, let alone create permanent loss of capital.
- This is particularly true of the high quality (AAA) asset backed security portfolios, which are very loss remote and as a result experience only muted volatility even in extremely stressed markets. This was seen in March 2020 when they drew down only very modestly and took no more than 6-8 weeks to recover.
- Based on our modelling and our experience we would anticipate the Strategic Reserve to take no more than 24 months to recover unrealised mark-to-market losses; in 2020 this would have been even shorter, of the order of 8 months.

Mechanics of combining the GIS and LSR

2.32 The GLA is currently the sole investor in LSR, recently re-established as a Scottish private fund limited partnership (GLA Strategic Reserve LP). As a pragmatic first step to bring the benefits of LSR to existing GIS members, subject to participants' agreement, the GLA will transfer the beneficial interest arising from its stake as a limited partner in GLA Strategic Reserve LP into the current GIS contractual arrangement on 1 April 2021 at the audited net asset value as at 31 March 2021.

2.33 Subject to participants' agreement, the GIS agreement will be amended to better reflect the new mix of assets; in particular, to reflect the fact that the strategic investments will generally only have quarterly valuations, GIS overall gains and losses will be computed quarterly and apportioned pro-rata to participants' average balance of deposits less withdrawals over the period in question.

2.34 This approach is consistent with a partnership which, although intended to be a daily liquidity tool, is also intended to be a long-term solution for participants, being the main home for their cash and therefore creating a very stable long-term aggregate balance. Quarterly apportionment on this basis mitigates the risk of individual participants gaining or losing due to the interaction of their deposits and withdrawals with very short-term movements in asset values.

2.35 Although it has proven a very cost effective solution, the GIS contractual arrangement has some significant drawbacks, principally that it is outside the scope of the Financial Services and Markets Act 2000 (FSMA) and therefore that its operation does not have the added assurance of FCA regulation.

2.36 Other limitations of the GIS are that, as it is not an entity, the participants must account for a pro rata share of every instrument within the pool, something that will become more burdensome as the range of assets grows and increase audit costs for each participant. Furthermore, all significant decisions must be taken collectively with no means of breaking deadlock, something that has not been an issue when all participants were subject to varying degrees of Mayoral control, but which may not be optimal governance as the range of participants expands.

2.37 Over the first half of 2021/22, the GLA and LTL will proceed to register GLA Strategic Reserve LP as an alternative investment fund (AIF), admit the GIS participants as limited partners and then transfer all the GIS assets into the AIF.

2.38 A limited partners' advisory committee (LPAC) will be created to preserve the key governance rights of the participants, e.g. determining the investment strategy. The terms of reference of the LPAC will be agreed between the Chief Investment Officer, acting as a director of LSR GP Limited in the capacity of general partner, and the participants, including the Executive Director of Resources on behalf of the GLA.

2.39 Relevant regulation distinguishes between various aspects of managing the AIF itself and managing the assets; following detailed consideration it is proposed that the general partner follows common practice and appoints a specialist AIF manager (AIFM) to 'host' the fund, taking responsibility for meeting all aspects of fund compliance, reporting to the FCA and oversight of any appointed asset managers. The general partner will also appoint:

- a depositary, who is responsible for the custody of the fund's assets and oversight of cash flows and bank accounts;
- an administrator, responsible for fund accounting and a variety of regulatory tasks such as document verification and know your client (KYC) checks; and
- an auditor for the fund.

2.40 LTL will then be appointed by the AIFM to manage the assets and advise on the appointment of any other specialist third-party managers.

2.41 The arrangement proposed will create a very high level of separation of duties and independent oversight of the AIF, allowing the small LTL team to focus on making investments in adherence with the investment strategy, providing advice and investment process compliance alongside their wider Group Treasury roles. A summary structure is set out in Appendix 6.

2.42 Subject to ongoing collaboration work, establishment of a shared treasury payments and accounting function with TfL may provide opportunity to insource aspects of the administrator's work.

2.43 Meanwhile, the costs of the external service providers above will be recovered directly from partnership returns and will not constitute new GLA spending. As a wholly owned local authority company LSR GP Limited is bound by public procurement rules and will seek best value accordingly.

2.44 For individual participants, accounting burdens will be considerably reduced as they will be able to rely on the fund's audited accounts, accounting for their limited partner's interest only, rather than each underlying investment.

Responsible investment

2.45 The restructured portfolio provides much greater scope for direct impact and engagement with counterparties. The existing LSR assets have demonstrated impressive returns while being deployed with positive impact across social infrastructure, sustainable agriculture, renewable energy and UK SME lending.

2.46 Increased awareness and prioritisation of responsible investing within investment institutions have driven progress in the data market, making it considerably easier to undertake due diligence on the environmental, social and governance factors associated with investment counterparties.

2.47 LTL, its advisors and GLA officers from the Group Treasury and Environment teams are working to develop a leading strategy linked to green finance and green recovery workstreams and capturing a range of indicators relating to factors including climate and ecological impact, working practices, governance and human rights. This will be presented in a subsequent decision.

2.48 Meanwhile the existing responsible investment policy, focussing on exclusion of fossil fuel company investments, will remain in force as set out in MD2615, and where possible without detriment to diversification or risk adjusted returns, LTL will continue to deploy strategic investment toward opportunities with positive economic, social and environmental benefits.

2.49 LTL has incorporated responsible investing training into its staff development programme to support the delivery of this goal.

The Mayor's Land Fund

2.50 The Mayor's Land Fund was established by MD2207. Like LSR, it is an initiative to use the GLA's substantial working capital to achieve better outcomes, in this instance an impact on housing delivery that would be additive to budgeted spending. Despite the specific housing policy intent, it was agreed that the fund should be operated on a commercial basis, to protect future budgets from losses and achieve appropriate returns on the GLA's treasury management balances.

2.51 The Land Fund investments are made through GLA Land and Property Limited (GLAP). The Mayor's Land Fund investments are to be financed by GLAP's current and forecast cash receipts. The fund is envisaged to revolve until the underlying cash is required. This decision confirms the cash allocation to the Mayor's Land Fund at £250m for 2021/22.

2.52 Where there is a mismatch between the profile of investment and GLAP's cash resources, Group Treasury (via LTL) will provide GLAP with short-term deposits from the GLA. These balances would otherwise be invested in the GIS. LTL will set the rates of such deposits at the prevailing GIS average rate, reflecting the GLA's opportunity cost on a commercial basis.

2.53 MD2207 established a robust governance structure for the £250m portfolio with a Land Fund Investment Committee (LFIC) composed of the Deputy Mayor for Housing and Land, senior officers from the Housing and Land Directorate and independent members, with the Chief Investment Officer representing the GLA's corporate financial interest. The Land Fund Investment Strategy is set out within MD2615.

2.54 Work continues to position the Mayor's Land Fund to attract co-investors, while at a project level always meeting or exceeding affordable housing planning conditions. Approval to create the necessary structure is discussed in MD2616.

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 There are no 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.

4.2 The proposed restructure of the GIS and LSR into a single fund provides an opportunity for additional assurance around investment transactions, governance and compliance through the services of the AIFM.

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 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.

Consultations and impact assessments

4.6 The Assembly has been consulted in respect of group borrowing limits through the Mayor's Budget for 2021/22.

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 The elements of this MD relating to Housing and Land were drafted in consultation with relevant senior officers. The Land Fund Investment Committee was consulted.

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, LSR GP Limited, which controls GLA Strategic Reserve LP. This is mitigated by the LTL's not for profit nature and the high level of transparency and control by the GLA of LTL's remit and budget, together with the extensive matters reserved to the Mayor and/or the GLA by the articles of association of LTL and LSR GP Limited.

5 Financial comments

5.1 Financial implications are integral to the report.

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 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 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 this responsibility of the chief financial 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 the GIS and LSR 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 LSR and the GIS, including on behalf of the GLA and London boroughs.

6.8 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. Sections 30 and/or 34 provide the legal powers for the GLA to establish the Scottish general partner and for LTL to become the sole company member of the general partner on incorporation and thereby for the company to become an indirect wholly owned subsidiary of the GLA.

6.9 As wholly owned subsidiaries, LTL and LSR GP Limited are regulated companies under the Local Authorities (Companies) Order 1995 (as amended) which imposes duties on the company including as regards the identification of it as a GLA subsidiary on its company documentation, the access of the GLA auditors to its accounts and also the right for GLA elected members to inspect its meeting agendas and minutes. They will also be subject to legislative requirements applicable to other members of the GLA group including the Freedom of Information Act 2000.

6.10 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.

6.11 In addition, local authority subsidiary companies cannot do things outside the powers of the authority that owns it.

6.12 The GLA has become a limited partner in the Scottish limited partnership. 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 section 30 of the GLA Act which permits the GLA to do 'anything' that it considers will further any of its principal purposes (as summarised in paragraph 6.8 above).

6.13 Under section 38(1-2) of the GLA Act, the Mayor has the power to delegate authority to the Executive Director of Resources as proposed in this decision.

7 Planned delivery approach and next steps

7.1 The TMSS will be implemented with immediate effect from 1st April 2021.

7.2 Expanded shared service and collective investment arrangements are expected to be fully in place by 30 September 2021.

7.3 LSR GP Limited will begin the procurement of the AIFM, depositary and administrator immediately.

Appendices and supporting papers:

Appendices

- Treasury Management Strategy Statement for 2021-22 (Appendix 1)
- Treasury Management Policy Statement (Appendix 2)
- Minimum Revenue Provision Policy Statement (Appendix 3)
- Prudential Code Indicators and Treasury Management Limits including Group Borrowing Limits (Appendix 4)
- Investment Strategy (Appendix 5)
- Fund Structure (Appendix 6)
- Treasury Management Practices: Main Principles (Appendix 7)

Supporting Papers

- Mayor's Budget for 2021-22
- MD2615 Treasury Management Strategy Statement 2020-21 and Land Fund
- MD2616 Investment Structures and Subsidiaries
- MD2207 Homes for Londoners Land Fund
- MD2445 Treasury Management Update and Amendment to Treasury Management Strategy Statement for 2018-19
- 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 – YES

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 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 15 March 2021.	

EXECUTIVE DIRECTOR, RESOURCES:
I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature
D. Gene

Date
15 March 2021

CHIEF OF STAFF:
I am satisfied that this is an appropriate request to be submitted to the Mayor.

Signature
D. Bellamy

Date
15 March 2021