

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2975

Title: Treasury Management Strategy Statement 2022-23

Executive summary:

This decision sets out the GLA's Treasury Management Strategy Statement (TMSS) for 2022-23, providing an overview and control framework for the borrowing and investment activities of the GLA, including shared service delivery and collaborative working.

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:

- i. Treasury Management Strategy Statement for 2022-23 (Appendix 1)
- ii. Treasury Management Policy Statement (Appendix 2)
- iii. Minimum Revenue Provision Policy Statement (Appendix 3)
- iv. Prudential and Treasury Management Indicators for 2022-23 including Group Borrowing Limits, noting the 2020-21 outturn and 2021-22 mid-year positions (Appendix 4)
- v. Investment Strategy (Appendix 5)
- vi. Treasury Management Practices: Main Principles (Appendix 6).

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

- i. 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, provided that the overall level of external borrowing set out in Appendix 4 is not exceeded
- ii. agree the level and terms of any such grants or loans with the statutory chief finance officer of the functional body in question.

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:

31/3/22

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, 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.
- 1.2 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 (recently completed) 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)
 - 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 associated 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 MD2792, the GLA is currently restructuring the GIS as an alternative investment fund (AIF) in pursuit of greater assurance (reflecting an increasingly sophisticated investment strategy and portfolio of investments) and greater flexibility to admit new participants, such as London boroughs, thereby achieving further economies of scale and sharing of good practice.
- 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 the Department for Levelling Up, Housing and Communities (formerly the Ministry for Housing, Communities and Local Government), which can be invested with less stringent risk and return parameters, in pursuit of affordable housing impact.

2 Objectives and expected outcomes

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

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

Borrowing:

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

Investments:

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

Effective balance sheet management:

- a sustainable and prudent balance is struck between the use of cash balances in lieu of external borrowing and any potential risks of refinancing
- opportunities for intragroup borrowing/investment transactions are identified in order to reduce risks and/or costs.

- 2.2 The Mayor sets the borrowing limits for all members of the GLA Group, on the advice of the respective statutory chief finance officers, at levels agreed to be prudent and affordable.
- 2.3 The Public Works Loan Board (PWLB) remains an important source of long-term finance for the GLA. The Executive Director of Resources must confirm that there is no intention to incur capital expenditure acquiring investment assets primarily for yield at any point in the next three years in order to ensure ongoing access to PWLB finance.
- 2.4 Market conditions may from time to time make other sources of borrowing preferable. Given the considerable expense and complexity that surround alternative borrowing frameworks, such as the GLA and TfL's existing capital markets programmes, the GLA may borrow on behalf of a functional body where it is likely that a net saving may arise without prejudice to the GLA's credit rating.
- 2.5 The GLA's position as the principal recipient of business rates, grants and precepts means it has the strongest credit metrics in the group and hence the best credit rating (affirmed in March 2022 by S&P Global Ratings at AA/A-1+, negative outlook). This means the GLA is likely to obtain lower costs of borrowing from investors, compared to other entities within the group.
- 2.6 Where there will be no net impact on group external borrowing levels, the Mayor authorises the Executive Director of Resources to agree such arrangements with the statutory chief finance officers of those authorities. The GLA would borrow, use the proceeds to either make a loan (or equivalent arrangement) to the relevant functional body or alternatively make a capital grant under section 120 of the Greater London Authority Act 1999 (as amended) to the functional body and top-slice the functional body's share of business rates or other GLA-controlled funding to repay the monies over time.
- 2.7 Through this decision, the Mayor sets the overall level of permitted external borrowing for the GLA Group (i.e. borrowing from sources outside the group, such as the PWLB), subject to rigorous assessment of affordability and having consulted the Assembly through the Mayor's Budget for

2022-25. This total is allocated between each functional body per Appendix 4. Authority to substitute any planned external borrowing by any functional body with grants or loans from the GLA, and accordingly increase the GLA's external borrowing limit by the amounts so substituted, is delegated to the Executive Director of Resources who would agree the level and terms of any such grants or loans with the statutory chief finance officer of the functional body in question, provided that the overall level of external borrowing set out in Appendix 4 is not exceeded. The Chief Investment Officer and Executive Director of Resources will consult the Chief of Staff prior to executing any transaction of this type.

- 2.8 Similar mechanisms will be used to distribute the proceeds of the GLA's planned green bond, mentioned in the GLA budget for 2022-25, however, the details of that allocation will be covered in a later decision, which may include revisions of borrowing limits.

Minimum Revenue Provision ("MRP") Policy

- 2.9 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.
- 2.10 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

- 2.11 Appendix 2 and Appendix 6 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

- 2.12 Additional shared service participants provide further resources to increase service resilience and dilute fixed costs while allowing the GLA to share a centre of excellence to the collective benefit of Greater London. Treasury management links are also additive to strategic investment relationships with London boroughs in respect of infrastructure, regeneration, decarbonisation and green recovery.
- 2.13 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 AIF. The GLA and LTL continue to seek London-related co-investments with the Local Pensions Partnership and the London CIV.
- 2.14 The London borough intending to join the shared service and proposed collective investment arrangements in 2021-22 has deferred entry until the launch of the AIF, however progress has been made on the surrounding agreements and administration. The GLA is also in discussions with TfL in relation to pooling its cash balances alongside the rest of the GLA Group via the GIS/AIF, possible arrangements for the GLA to support TfL's liquidity and other collaborative working opportunities related to treasury management.

Investment Strategy

- 2.15 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, enhanced by about 10% of the portfolio being invested in longer term, strategic investments. 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.
- 2.16 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 significantly outperformed money market funds and short dated bond funds, while maintaining excellent overnight liquidity.

- 2.17 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.
- 2.18 The GIS continues to outperform its benchmark (previously 3-Month London Interbank Bid Rate (LIBID) and now a composite reflecting the inclusion of new assets and the abolition of LIBID). As at 28 February 2022, the GIS had outperformed its benchmark by 0.32%¹ on an annualised basis since inception. This is a relative outperformance of 44%.
- 2.19 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 the stability of balances, which together with scale advantages has been positive for the risk and return outcomes for all concerned.
- 2.20 The GIS Investment Strategy is set out at a high level in Appendix 5, subject to agreement by all participants. It is expected that the strategy will carry over identically to the AIF.

Investment risks

- 2.21 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
 - 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.
- 2.22 An overall value at risk (95% VaR) limit of 2% applies to manage 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.
- 2.23 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 portfolio's Residential Mortgage Backed Securities (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

¹ Excluding the non-contractual elements of the strategic investments

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.

Responsible investment

- 2.24 The strategic element of the investment portfolio has continued to deliver above target financial returns while being deployed with positive impact across social infrastructure, sustainable agriculture, renewable energy and UK SME lending.
- 2.25 LTL, its advisors and GLA officers from the Group Treasury and Environment teams continue to develop an updated strategy linked to green finance and green recovery workstreams and capturing a range of indicators relating to relevant factors including climate and ecological impact, working practices, governance and human rights. This will be presented in a subsequent decision prior to the intended restructure of the GIS, with intention to apply the strategy to the AIF.
- 2.26 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.
- 2.27 In light of the abhorrent recent developments in Ukraine, LTL will not enter into investments with organisations with substantial ultimate beneficial ownership in the Russian Federation.
- 2.28 LTL has incorporated responsible investing training into its staff development programme to support the delivery of this goal.

The Mayor's Land Fund

- 2.29 The Mayor's Land Fund was established by MD2207. 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.
- 2.30 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 2022-23.
- 2.31 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.
- 2.32 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.
- 2.33 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.

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.

Links to Mayoral strategies and priorities

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

Consultations and impact assessments

- 4.5 The Assembly has been consulted in respect of group borrowing limits through the Mayor's Budget for 2022-25.
- 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 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 has a control over GLA Strategic Reserve LP. This is mitigated by 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 any purpose relevant to their functions under any enactment or for the purposes of the prudent management of their financial affairs.
- 6.4 Under section 127 of the Greater London Authority Act 1999 (GLA Act), the Authority has a duty to make arrangements for the proper administration of its affairs. Responsibility for the administration of those affairs lies with the Executive Director of Resources as the statutory chief finance officer of the Authority under section 127(2)(b) of the GLA Act. The management of the Authority's treasury function and the development and monitoring of the treasury strategy fall within the responsibility of the chief finance officer.
- 6.5 Section 401A(2) of the GLA Act, as amended, permits a shared service arrangement, by providing that any 'relevant London authority' (as defined in the GLA Act) may enter into arrangements for the provision of administrative, professional or technical services by any one or more of them to any one or more of them, whether for consideration or otherwise. This enables the GLA, the functional bodies and the LPFA to delegate the professional, technical and administrative functions involved in treasury management to the GLA and for them all to jointly participate in the GIS under their common powers to borrow and invest for the prudent management of their financial affairs.
- 6.6 Although London boroughs are not covered by section 401A, they and the GLA are local authorities for the purposes of the Local Authorities (Goods and Services) Act 1970. As a result, the GLA may provide the same professional, technical and administrative functions involved in treasury management to boroughs, who also share the same investment and borrowing powers.
- 6.7 However, the Local Authorities (Contracting Out of Investment Functions) Order 1996 requires that local authorities may only contract with a Financial Services and Markets Act 2000 authorised firm in respect of certain investment functions. The GLA's authorised and regulated subsidiary, LTL, may provide those functions that the GLA itself may not. LTL will therefore manage investments into the GIS, including on behalf of the GLA and London boroughs.
- 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 provide the legal powers for the GLA to establish a Scottish general partner and for LTL to 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. LSR GP Limited was incorporated in Scotland in November 2020. GLA Strategic Reserve LP was subsequently established in January 2021, with LSR GP Limited as the general partner and the GLA as the initial limited partner.

- 6.10 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 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 has become a limited partner in a Scottish limited partnership established in order to restructure the GIS as an AIF. The GLA has the power to do this pursuant to section 12 of the Local Government Act 2003 which states that the GLA has the authority to invest for any purpose relevant to its functions and for the purposes of the prudent management of its financial affairs, and section 30 of the GLA Act which permits the GLA to do 'anything' that it considers will further any of its principal purposes in subsection (2) (as summarised in paragraph 6.9 above).
- 6.14 Under section 38(1) and (2) of the GLA Act, the Mayor has the power to delegate authority to the Executive Director of Resources as proposed in this decision.

7 Planned delivery approach and next steps

- 7.1 The TMSS will be implemented with immediate effect from 1 April 2022.
- 7.2 Expanded shared service and collective investment arrangements, including establishment of the AIF, are expected to be in place by 30 September 2022.

Appendices and supporting papers:

Appendices

- Treasury Management Strategy Statement for 2022-23 (Appendix 1)
- Treasury Management Policy Statement (Appendix 2)
- Minimum Revenue Provision Policy Statement (Appendix 3)
- Prudential and Treasury Management Indicators for 2022-23 including Group Borrowing Limits, noting the 2020-21 outturn and 2021-22 mid-year positions (Appendix 4)
- Investment Strategy (Appendix 5)
- Treasury Management Practices: Main Principles (Appendix 6)

Supporting papers

- Mayor's Budget for 2022-25
- MD2792 Treasury Management Strategy Statement 2021-22
- MD2615 Treasury Management Strategy Statement 2020-21 and Land Fund
- MD2207 Homes for Londoners Land Fund

- MD2095 Treasury Management Strategy Statement 2017-18.

Public access to information

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

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

Part 1 - Deferral

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

Part 2 - Sensitive information

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

Is there a part 2 form? NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

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

✓

Sponsoring Director:

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

✓

Mayoral Adviser:

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

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 28 March 2022.

✓

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

Date

28/3/22

D. Gallie

CHIEF OF STAFF:

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

Signature

Date

28/3/22

D. Bellamy

