

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2445

Title: Treasury Management update and amendment to Treasury Management Strategy Statement for 2018/19

Executive Summary:

The GLA's current Treasury Management Strategy Statement for 2018/19, MD2274 ("the TMSS"), sets out the intention to create a new pooled investment arrangement for longer term balances, with the intention of enabling London Boroughs and other relevant Local Authorities to invest alongside the GLA either as part of a wider treasury shared service or purely as an investment relationship. This will be referred to as the London Strategic Reserve (LSR).

As set out in MD2303, the GLA has established a subsidiary, London Treasury Limited (LTL), which is authorised and regulated by the Financial Conduct Authority to manage investments and provide investment advice to such Authorities.

This decision will amend the investment strategy sections of the TMSS to enable the GLA and LTL to create a seed portfolio for the LSR.

In line with the requirements of the TMSS, the previous year's outturn and the 2018/19 mid-year position are also reported (the full year forecast for 2018/19 is included in the Mayor's Budget for 2019/20).

Decision:

The Mayor:

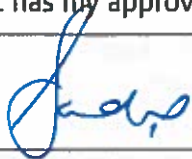
1. Approves amendment to the Treasury Management Strategy Statement for 2018/19 defining the investment strategy for the arrangement for long term balances enabling London Boroughs and other relevant Local Authorities to invest alongside the GLA, to be known as the London Strategic Reserve ("LSR");
2. Approves the proposed structure and processes of the LSR as set out in the supporting report to this decision; and
3. Notes the GLA Treasury Management 2017/18 Outturn Report and the 2018/19 Mid-Year Report (**Appendix 1**).

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:

26/2/19

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

Decision required – supporting report

1. Introduction and background

- 1.1. The GLA's Treasury Management Strategy Statement (TMSS) 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.
- 1.2. The Code and best practice require that the TMSS should be updated regularly and prior performance reported at suitable opportunities.
- 1.3. The GLA has advanced its plans to widen its collaborative working with London Boroughs in respect of treasury management by creating a subsidiary, London Treasury Limited (LTL), which is authorised and regulated by the Financial Conduct Authority (FCA). This allows the GLA to share the resources of its established and successful Group Treasury function more widely.
- 1.4. The investment strategy proposed below and the concept of a pooled investment arrangement for longer term balances, to be known as the London Strategic Reserve (LSR) follows discussions with individual Boroughs and representatives of the Society of London Treasurers (SLT). Subject to this decision, participation in the LSR will be formally offered to London Boroughs through SLT in April.

2. Proposed LSR Investment Strategy and Governance Process

- 2.1. The GLA will allocate £300m of its own core balances to create the LSR. The initial investments will be the GLA's existing £230m portfolio of AAA residential mortgage backed securities (RMBS) and subject to approval of the proposed LSR, an allocation of £20m to a private debt fund, predominantly lending to London SMEs. The remaining £50m will be allocated according to the strategy below.
- 2.2. The GLA views this £300m allocation as prudent following a detailed review of reserves and expected working capital. The RMBS portfolio matures at c.25% per annum so there is flexibility to rapidly reduce exposure by suspending reinvestment. In extremis, the RMBS could also be sold before maturity with very little risk of loss.
- 2.3. These proposals will allow the GLA to begin creating an appropriate portfolio of assets for the LSR, however both the strategy and structure of the LSR will evolve as discussions with participating or prospective Boroughs progress. The GLA's TMSS for 2019/20 will include further developments.
- 2.4. The objectives of the LSR will be to:
 - Preserve capital by ensuring that overall expected returns more than offset any reasonably foreseeable crystallised loss arising from individual investments elements of the portfolio over a rolling 5-year period;
 - Achieve returns between 1-2% in excess of inflation (CPI) on a rolling 5-year basis in order to preserve spending power of long-term reserves;
 - Harness the benefits of pooling to create less volatile cash balances, in turn allowing superior returns to be achieved through making less liquid investments;
 - Use the specialist resources of LTL together with the GLA's panel of investment advisors to access investments requiring more complex consideration and due diligence than currently undertaken in order to access new opportunities and superior risk adjusted returns; and
 - Engage in collaborative lending within London to reduce net financing costs across the capital.

2.5. The following strategic asset allocation is proposed:

Liquidity	Volatility	Asset Class	Expected Yield	Target Allocation	Range
High	Low	Senior RMBS	1.50%	60.0%	50-100%
Medium	Low	Alternative investment funds with contractual liquidity	6.00%	10.0%	10-20%
N/a	Medium	Alternative investments e.g. Private Debt; Bank Capital Release; Infrastructure No contractual liquidity.	9.00%	20.0%	10-30%
N/a	High	Local Authority long term loans	2.00%	10.0%	0-20%
High	Low	Cash	0.8%	0%	0-35%
		Expected Portfolio Average	3.50%	100.0%	

- 2.6. Other than senior RMBS, these asset classes are new additions and are illiquid in nature, therefore most suitable for long term reserves. The strategy balances these illiquid positions, which come with some risk, with a large allocation to the highly liquid and exceptionally secure RMBS portfolio. The approach provides some flexibility should an individual participating authority's situation change, leading to a requirement for that participant to withdraw funds. Additionally, the proposed allocation seeks to minimise exposure to notional gains and losses from market movements by avoiding assets with high price volatility.
- 2.7. The inclusion of alternative investments is to enable higher returns to be achieved without taking excessive risk. These propositions will typically take much more detailed consideration than the investments the GLA makes on a day to day basis, and therefore the proposed allocation will be built up gradually, with regard to specialist advice where appropriate. It is not expected that initial investments will include housing or property given the GLA's existing exposure to the risks of those markets, however this will be kept under constant review. Officers will seek to identify potential synergies between the LSR and the commercial element of the GLA Land Fund where appropriate.
- 2.8. Longer term loans to local authorities are included as a potential means to ensure the cost and benefit associated with such borrowing remain within London. Absent an arrangement such as the LSR, interest payable will be transferred either to central government or private lenders. The GLA views such loans as providing extremely low risk at a better return than government bonds, however the allocation is limited to reflect the fact that at present absolute rates are too low to match the inflation beating objective and because despite the very low risk of default, the valuation of these loans changes significantly in response to interest rates, potentially giving rise to large albeit temporary and unrealised losses. Loans will be made on commercial principles but where situations of equal commercial merit arise, priority will be given to borrowing supporting projects with cross-Borough benefits.
- 2.9. Any investment structure is permitted within the LSR provided it is denominated in Sterling and does not constitute capital expenditure under relevant regulations.
- 2.10. Unallocated cash within LSR will be managed according to the prevailing GLA TMSS. There is no strategic allocation to cash, however up to 35% of the portfolio value would could be in cash at any time, pending investment.
- 2.11. Investments will be considered by the LTL investment committee (IC) currently comprised of:
- **Luke Webster (LTL Director)**
 - GLA Chief Investment Officer and MD of LTL. Former Statutory Chief Financial Officer of the London Pensions Fund Authority. Advisory Board member of the Public Sector Deposit Fund and member of the Bank of England's Money Markets

Committee. Chief Executive of the Pension SuperFund and Partner of a regulated private equity firm. Chartered Public Finance Accountant. FCA approved person.

- **Ian Williams (LTL Director)**

- Corporate Director of Finance and Resources and Statutory Chief Financial Officer at the London Borough of Hackney; SLT lead on pensions and investment and a board member of the London CIV (a collective investment vehicle for Borough pension funds); Chartered Public Finance Accountant. FCA approved person.

- **David Gallie (GLA co-optee)**

- GLA Assistant Director of Group Finance. Over 35 years senior finance experience including senior oversight of treasury and pension fund investments. Deputy Statutory Chief Financial Officer of the GLA. Chartered Public Finance Accountant.

- 2.12. The IC will always include the LTL board and at least one GLA co-optee. Additional Borough representatives or independent members may be co-opted at the discretion of the LTL board.
- 2.13. The IC will then recommend investments to the Executive Director of Resources for approval prior to the commitment of GLA funds into the LSR. Investment of funds by London Boroughs and any other Local Authority into the LSR will be subject to the internal approval processes of such bodies and/or processes under the wider shared services arrangements in place with them as appropriate.

3. Objectives and expected outcomes

- 3.1. Establishment of the LSR will enable further collaborative working with other Local Authorities in London, enabling the GLA to share its significant specialist treasury management resources to the wider benefit of London's financial position.
- 3.2. The proposed amendment to the TMSS will also enable the GLA to obtain improved returns on core cash balances. The strategy proposed should deliver returns modestly in excess of inflation, allowing the GLA to preserve and increase the spending power of these balances.

4. Equality comments

- 4.1. 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.
- 4.2. There are no direct public sector equality duty implications arising from this Decision.

5. Financial comments

- 5.1. Interest on balances in 2017/18 and the first half of 2018/19 exceeded benchmarks and made a positive contribution to the GLA's financial position.
- 5.2. Successful establishment of the LSR will provide further opportunity for the GLA to share the costs of its Treasury function while offering improved investment outcomes for participating Boroughs.

6. Legal comments

- 6.1. Part 1 of the Local Government Act 2003 introduced a new statutory regime to regulate borrowing, investments and capital expenditure of local authorities. Sections 23(1)(d), (e) and (f) provide that the Greater London Authority (GLA), functional bodies and London Boroughs are local authorities for this purpose.
- 6.2. Under section 12 of that Act the GLA, functional bodies and London Boroughs as local authorities may invest for the purposes of the prudent management of their financial affairs.
- 6.3. Under section 127 of the Greater London Authority Act 1999 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 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.
- 6.4. Section 401A(2) of the Greater London Authority Act 1999, as amended, permits a shared service arrangement, by providing that any 'relevant London authority' (as defined in the GLA Act 1999) 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 London Pensions Fund Authority to delegate the professional technical and administrative functions involved in treasury management to the GLA and for them all to jointly participate in the LSR under their common powers to invest for the prudential management of their financial affairs.
- 6.5. 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.
- 6.6. 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 LSR, including on behalf of the GLA and London Boroughs.

Appendices and supporting papers:

Appendix 1 – Mid Year and Outturn Reports

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

If YES, for what reason:

Until what date: (a date is required if deferring)

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

Is there a part 2 form – No

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:

✓

Sponsoring Director:

Martin Clarke 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 26 February 2019.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Belle

Date 26.2.19

CHIEF OF STAFF:

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

Signature

D. Bellamy

Date 26/2/2019.