

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION MD2458

Title: Treasury Management Strategy Statement 2019-20

Executive Summary:

This report sets out the GLA's Treasury Management Strategy (TMSS) for 2019-20 (including the Treasury Management Policy; Minimum Revenue Provision Policy; Investment Strategy; prudential indicators and Treasury Management Practices: Main Principles). It 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

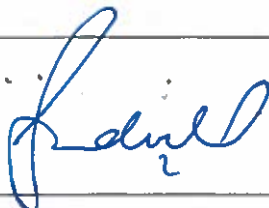
1. Treasury Management Strategy Statement for 2019-20 (Appendix 1)
2. Treasury Management Policy Statement (Appendix 2)
3. Minimum Revenue Provision Policy Statement (Appendix 3)
4. Prudential Code Indicators and Treasury Management Limits including Group Borrowing Limits (Appendix 4)
5. Group Investment Syndicate (GIS) Investment Strategy (Appendix 5)
6. Treasury Management Practices: Main Principles (Appendix 6)

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:

27/3/19

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

Decision required – supporting report

1 Introduction and background

- 1.1 The Group Treasury Management function is responsible for the management of 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; the pursuit of optimum performance consistent with those risks and the paramount issue of preserving capital.
- 1.2 Effective treasury management is central to the GLA's financial standing, given the £multi-billion scale of operational cash flows, assets and liabilities.
- 1.3 The ongoing delivery of finance for major capital projects such as Crossrail, the Northern Line Extension (NLE), the East Bank and the Housing lending programmes means that the cost of debt service is the GLA's largest single revenue expenditure and its greatest source of financial risk, alongside business rates volatility.
- 1.4 The GLA, through shared services arrangements for professional, technical and administrative activities, undertakes the treasury management functions of the London Fire Commission (LFC), London Legacy Development Corporation (LLDC), London Pensions Fund Authority (LPFA), Old Oak and Park Royal Development Corporation (OPDC) and the Mayor's Office for Policing and Crime (MOPAC) (i.e. all of the GLA Group, excluding TfL). Investments are largely 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.
- 1.5 The GLA has also recently established a longer-term collective investment arrangement, the London Strategic Reserve (LSR).

2 Objectives and expected outcomes

TMSS, GIS /LSR Investment Strategy and Prudential 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.

Investments:

- Public funds are not lost;
- 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.

Minimum Revenue Provision ("MRP") Policy

- 2.2 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.
- 2.3 From a cash flow perspective, the MRP policy also ensures that a prudent amount of cash is available for the repayment of borrowings.

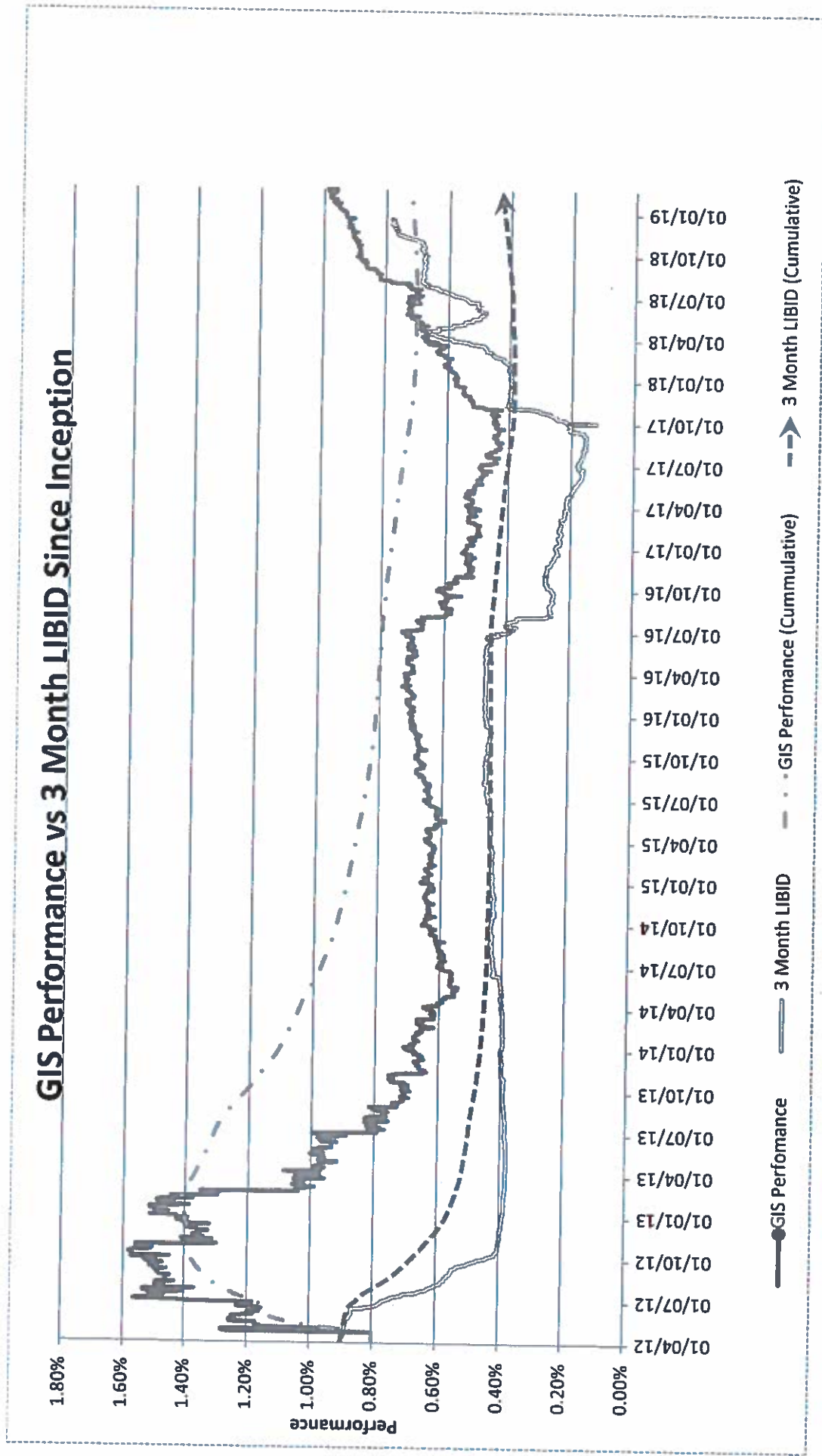
Treasury Management Practices and Treasury Management Policy

- 2.4 These set out the high-level objectives for the control and performance management of the function.

Shared Service Expansion – London Treasury Limited

- 2.5 The GLA's experience of the existing shared service arrangements has been extremely positive.
- 2.6 Through the effects of pooling, the GIS has provided the Group Treasury Team with both greater and more stable minimum balances over 3 - 12 month periods than would generally have been the case for each organisation individually. This has provided increased opportunity for longer term investments providing greater yields without significantly greater risk.
- 2.7 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 3 months, while maintaining excellent overnight liquidity.
- 2.8 As set out in MD2445, the GLA has created a new pooled investment arrangement for longer term balances, the LSR. The intention is to extend to others, especially London Boroughs, the benefits the GLA has experienced with its own longer-term balances invested in Residential Mortgage Backed Securities and other longer dated assets. MD2445 sets out the interim investment strategy for the LSR, which is expected to evolve over 2019-20 as new participants join. In order to reduce administration costs and in keeping with the intention for LSR to be a home for longer-term, core balances, there will be a single agreed dealing day per month for deposits and withdrawals. The simplicity of this arrangement will enable the participation of additional London Boroughs in LSR without the same resource implications for the GLA of a full shared service or the daily transactions of the existing GIS.
- 2.9 The GLA has created an investment subsidiary, London Treasury Limited (LTL), which is authorised and regulated by the Financial Conduct Authority (FCA). LTL will be able to perform those functions the GLA itself could not perform and hence share widely the resources of its successfully established Group Treasury function. LTL will operate LSR on behalf of the GLA and other participants.

2.10 GIS Performance since inception is shown in the chart below:



- 2.11 In addition to the more stable balances and improved purchasing power, the pooled GIS balances have allowed larger individual deals to be struck. The benefits of this are twofold – one transaction is made rather than a series of individual ones (saving costs) and additionally greater opportunities for diversification arise, since a number of banks in particular operate minimum deal sizes, which would be inappropriate for the participating organisations individually.
- 2.12 By pooling staffing and other administrative resources, 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. A key example of this is the expansion of the strategy to cover corporate bonds, whereby Group Treasury have been able reduce credit risk by further diversification and in many cases, obtain superior yields for identical risk.
- 2.13 Because of the factors above, the GIS has significantly outperformed its benchmark of 3-month LIBID, i.e. the rate at which banks and other large organisations typically lent to each other for 3 months. As at 21 February 2019, the GIS outperformed by 0.29% on an annualised basis since inception.
- 2.14 The net cash flow managed by the Group Treasury team 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.
- 2.15 A review of the GLA's Treasury Function has been undertaken by the its Treasurer Advisor, Link, and following its recommendations, structural, process and system changes have been implemented which include a greater segregation of duties and for a separate compliance function which has no role in the management/operation of the treasury function, and an enhanced role for Internal Audit in compliance.

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

- 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 risk is therefore integrated with the document.

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 introduced a new statutory regime to regulate the borrowing and capital expenditure of local authorities. Section 23(1)(d) and (e) provides that the Greater London Authority (GLA) and the functional bodies are local authorities for this purpose.

- 6.2 Section 3(1) of the 2003 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 that 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 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.
- 6.4 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.
- 6.5 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 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 prudential 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 LSR [and GIS], including on behalf of the GLA and London Boroughs.

7 Planned delivery approach and next steps

- 7.1 The TMSS will be implemented with immediate effect from 1st April 2019.

Appendices and supporting papers:

Appendices

- Appendix 1 Treasury Management Strategy Statement for 2019-20
- Appendix 2 Treasury Management Policy Statement
- Appendix 3 Minimum Revenue Provision Policy Statement
- Appendix 4 Prudential Code Indicators and Treasury Management Limits
- Appendix 5 Group Investment Syndicate Investment Strategy
- Appendix 6 Treasury Management Practices: Main Principles

Supporting Papers

Treasury Management Strategy Statement 2019-20

Mayor's Final Draft Consolidated Budget 2019-20

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 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 have been consulted on the final decision.

✓

Assistant Director/Head of Service:

David Gallie has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

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 25 March 2019.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Bellamy

Date 25.3.19

CHIEF OF STAFF:

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

Signature

D. Bellamy

Date 25/3/2019.