LONDON FIRE BRIGADE

Decision title

Treasury Management Mid-year Report

Recommendation by	Decision Number
Assistant Director, Finance	LFC-0268-D

Protective marking: **NOT PROTECTIVELY MARKED**
Publication status: Published in full

Summary

Report LFC-0268 is submitted in accordance with Financial Regulation 22 which requires that the statutory finance officer (Director of Corporate Services) submit a mid-year monitoring report on the activities of the London Fire Commissioner's (LFC) treasury management operation to the Commissioner's Board.

Treasury activity has seen the LFC's investments outperform its investment benchmark by 43% (28 basis points) over the six-month period ending 30 September 2019. Invested balances at 30 September 2019 were £167.87m. The LFC's loan borrowing level has reduced by £4m, from £68.73, at 31 March 2018 to £64.73m at 30 September 2019, as Public Works Loan Board (PWLB) debt has matured in year to date, with no new borrowing taken in year to date. All treasury management activity has been within the boundaries and levels set in the Treasury Management Strategy Statement (TMSS) adopted by the LFC on 27 March 2019 (LFC-0135-D).

The LFC Treasury Management Mid-Year Report for 2019/20 is provided at Appendix 1 and is prepared by the Greater London Authority (GLA) Group Treasury. The LFC Treasury Management Mid-Year Report for 2019/20:

- Provides a summary and analysis of the performance on treasury management activities, in relation to LFC; and
- Outlines the economic background against which treasury management activities were undertaken during the year, prepared by the LFC's treasury advisers Link Asset Services.

Decision

That the London Fire Commissioner notes the Treasury Management Mid-year Report to 30 September 2019 against the TMSS 2019/20.

Andy Roe
London Fire Commissioner

Date 26th FEB 2020

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LONDON FIRE BRIGADE

Report title

Treasury Management Mid - Year Report 2019/20

Report to	Date
Corporate Services DB Commissioner's Board	12 November 2019 20 November 2019

Report by	Report number
Assistant Director Finance	LFC-0268

Protective marking: **NOT PROTECTIVELY MARKED**
Publication status: Published in full

Summary

This report is submitted in accordance with Financial Regulation 22 which requires that the statutory finance officer (Director of Corporate Services) submit a mid-year monitoring report on the activities of the London Fire Commissioner's (LFC) treasury management operation to the Commissioner's Board.

Treasury activity has seen the LFC's investments outperform its investment benchmark by 43% (28 basis points) over the six-month period ending 30 September 2019. Invested balances at 30 September 2019 were £167.87m.

The LFC's loan borrowing level has reduced by £4m, from £68.73m at 31 March 2018 to £64.73m at 30 September 2019, as Public Works Loan Board (PWLB) debt has matured in year to date, with no new borrowing taken in year to date. All treasury management activity has been within the boundaries and levels set in the Treasury Management Strategy Statement (TMSS) approved by the LFC on 27 March 2019 (LFC-0135-D).

The LFC Treasury Management Mid-Year Report for 2019-20 is provided at Appendix 1, and is prepared by GLA Group Treasury.

The LFC Treasury Management Mid-Year Report for 2019-20:

- Provides a summary and analysis of the performance on treasury management activities, in relation to LFC;

- Outlines the economic background against which treasury management activities were undertaken during the year, prepared by the LFC's treasury advisers Link Asset Services.

Recommended decision
That the London Fire Commissioner notes the Treasury Management Mid Year Report to 30 September 2019 against the TMSS 2019/20.

Background
1. The LFC is required to meet the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management (TM Code). This requires the LFC to have appropriate treasury management arrangements in place to manage its borrowing and cash balances, and deliver best practice. These arrangements are approved annually in the TMSS.

2. The responsibility for the execution and administration of treasury management decisions is delegated to the Director of Corporate Services and the Assistant Director - Finance, under Financial Regulation 20 and LFC-0026, who will act in accordance within the LFC's Policy Statement on Treasury Management Activities, approved as part of the TMSS.

3. The day to day management of the treasury management function is delivered by GLA Group Treasury under a shared service arrangement with the GLA, that has been in place since 1 April 2012. GLA Group Treasury also manages the Group Investment Strategy (GIS), of which the Director of Corporate Services is a member. By being part of the GIS the LFC's cash balances are pooled with other funds which allows greater investment options, to improve diversification, liquidity and returns.

Treasury Management 2019/20
4. The CIPFA TM Code recommends that those charged with governance be updated on treasury management activities regularly (at least a Strategy, and Mid-year and Annual performance reports). This report therefore meets these requirements with regard to a Mid Year report, and ensures the LFC is implementing best practice in accordance with the TM Code. The annual report at Appendix 1 has been prepared by GLA Group Treasury, with economic background provided by the treasury management advisers, and provides details of performance against the TMSS 2019/20.

5. The report includes a review of investment performance for 2019/20 to date, together with a summary of long-term borrowing and leasing arrangements, set in the context of the general economic conditions prevailing during the year. It also reviews specific Treasury Management prudential indicators defined by the Code and approved in the TMSS.

6. The report shows that the balance of investments held in the GIS as at 30 September 2019 was £167.87m. The LFC has outperformed its investment benchmark by 28 basis points (43%) during the six months ending the 30 September 2019. It has achieved a cumulative weighted average yield of 0.94% on daily balances against a cumulative weighted average 3-month LIBID (London Inter Bank Bid Rate) of 0.658%. This is high at the mid-year point, as expected, due to receipt of pensions funding from the Home Office as a lump sum, and the balance of investments is forecast to be at £100.00m at year end.

7. During the year £4m PWLB loans have been repaid reducing the balance of total LFC external borrowing from £68.73m as at 1 April 2019 to £64.73m as at 30 September 2019, with a current annualised interest rate of 4.71% (4.69% 2018/19). The balance on external borrowing is expected to be at £60.73m at year end, with the maturing of a further three loans totalling £4m.

8. All 2019/20 treasury activity has been within the boundaries and levels set by the LFC in its TMSS.

Economic Update and Interest Rates Forecasts

9. An update on the economic position and interest rates forecasts, prepared by Link Asset Services, is included in Appendix 1.

Development of the GLA Group Treasury service

10. As noted above, the shared service with the GLA on treasury management, delivered by the GLA Group Treasury, has been in place since 2012/13. Since its introduction the service provided has been developed to broaden the GIS. The reports provided by the GLA Group Treasury to support reporting to LFC have also been developed and all GIS members use a standard report template. As the reports to LFC rely on expertise and experience provided under the shared service, reports are provided by GLA Group Treasury with input from LFC officers.

Finance comments

11. This report is prepared by the Assistant Director - Finance and as such Finance comments have been incorporated into the report.

Workforce comments

12. No workforce implications have been identified therefore no formal consultation has been undertaken.

Legal comments

13. Under section 9 of the Policing and Crime Act 2017, the London Fire Commissioner (the "Commissioner") is established as a corporation sole with the Mayor appointing the occupant of that office. Under section 327D of the GLA Act 1999, as amended by the Policing and Crime Act 2017, the Mayor may issue to the Commissioner specific or general directions as to the manner in which the holder of that office is to exercise his or her functions.

14. Section 1 of the Fire and Rescue Services Act 2004 states that the Commissioner is the fire and rescue authority for Greater London. The Commissioner is also a 'best value' authority under the Local Government Act 1999 and must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

15. The LFC's Scheme of Governance delegates responsibility for the execution and administration of Treasury Management decisions to the Director of Corporate Services who will act in accordance with the Commissioner's Policy Statement on Treasury Management Activities and Treasury Management Practices and CIPFA's "Standard of Professional Practice on Treasury Management".

16. The LFC's TMSS formally adopts The TM Code and states at paragraph 8ii that, "The [LFC] will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs." .

17. This report fulfils the requirements set out above.

Sustainability implications

18. There are no direct sustainability implications arising from this report.

Equalities implications

19. The Public Sector Equality Duty applies to the London Fire Brigade when it makes decisions. The duty requires us to have regard to the need to:

    a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful.

    b) Advance equality of opportunity between people who share a protected characteristic and those who do not.

    c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

20. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, sex, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

21. An Equality Impact Assessment has not been conducted because the Treasury Management activity does not have any impact on people.

List of Appendices

Appendix	Title	Protective Marking
1.	LFC Treasury Management Mid-Year Report 2019-20	Not Protectively Marked

LONDON FIRE BRIGADE

APPENDIX 1

GREATER LONDON AUTHORITY

GROUP TREASURY

LFC Treasury Management Mid-Year Report for 2019-20

Executive Summary:

This report is submitted in accordance with a requirement under the Treasury Management in the Public Services Code of Practice, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which requires the submission of a mid-year report on the activities of the LFC's treasury management operation.

Treasury activity has seen the LFC's investments outperform its investment benchmark by 43% (28 basis points) over the six-month period ending 30 September 2019. Invested balances at 30 September 2019 were £167.87m.

The LFC's loan debt has been reduced from £68.73m at 31 March 2019 to £64.73m at 30 September 2019.

All Treasury activity has been within the boundaries and levels set by the LFC and set out in the 2019/20 Treasury Management Strategy.

Recommendation:

That the following is noted:

- The 2019/20 Treasury mid-year performance against the 2019/20 Treasury Management Strategy Statement and forecasts.

Introduction/Background

1 This report provides details of all investment and borrowing activities for the period from 1 April 2019 to 30 September 2019 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 30 September 2019 with the 19/20 full year budget and a revised 19/20 full year forecast, where relevant.

2 Under the treasury management shared service arrangement with the GLA, GLA group treasury officers carry out the LFC's day to day treasury management function, managing the LFC's investment and borrowing activities. LFC officers provide the GLA with details of the LFC's daily cash flow requirements and monies are only transferred between the Authorities as and when required to match LFC need. This way, surplus funds over and above daily need are continuously held with the Group Investment Syndicate (GIS), the GLA managed vehicle used by the Authority to maximise liquidity and investment return.

3 The 2019/20 GIS Investment Strategy was approved by the LFC on 27 March 2019.

Compliance with the 2019/20 Treasury Management Strategy Statement

4 The Director of Corporate Services confirms that, throughout the period, all treasury activities have been conducted within the parameters of the 2019/20 Treasury Management Strategy Statement (TMSS), alongside best practice suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Central Government.

Economic Update and Interest Rates

5 The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

6 As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the

current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

7 With regard to the labour market, despite the contraction in quarterly GDP growth of -0.2% q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

8 In the political arena, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

9 The LFC's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

10 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

The balance of risks to the UK

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

Current Treasury Management Position

11 The table below shows the current Treasury management position.

Current Treasury Position	TMSS Forecast to 31 March 2020		Actual as at 30 September 2019		Revised Forecast to 31 March 2020	
	£m	Rate %*	£m	Rate %*	£m	Rate %*
External Borrowing						
Long Term Borrowing: PWLB	60.73	4.71	64.73	4.68	60.73	4.71
Total External Borrowing (A)	60.73		64.73		60.73	
Other Long Term Liabilities						
PFI Liability	46.89		46.26		45.62	
Finance Lease Liability	18.43		18.43		18.43	
Total Other Long Term Liabilities (B)	65.32		64.68		64.05	
Total Gross Debt (A+B)	126.05		129.41		124.78	
Capital Financing Requirement	150.49		153.61		150.03	
Less Other Long Term Liabilities	65.32		64.68		64.05	
Underlying Capital Borrowing Requirement (C)	85.17		88.93		85.98	
Under/(Over) Borrowing (C-A)	24.45		24.21		25.26	
Investments (D)	47.46		167.87	0.94	100.00	
Total Net Borrowing (A-D)	13.27		-103.14		-39.28	

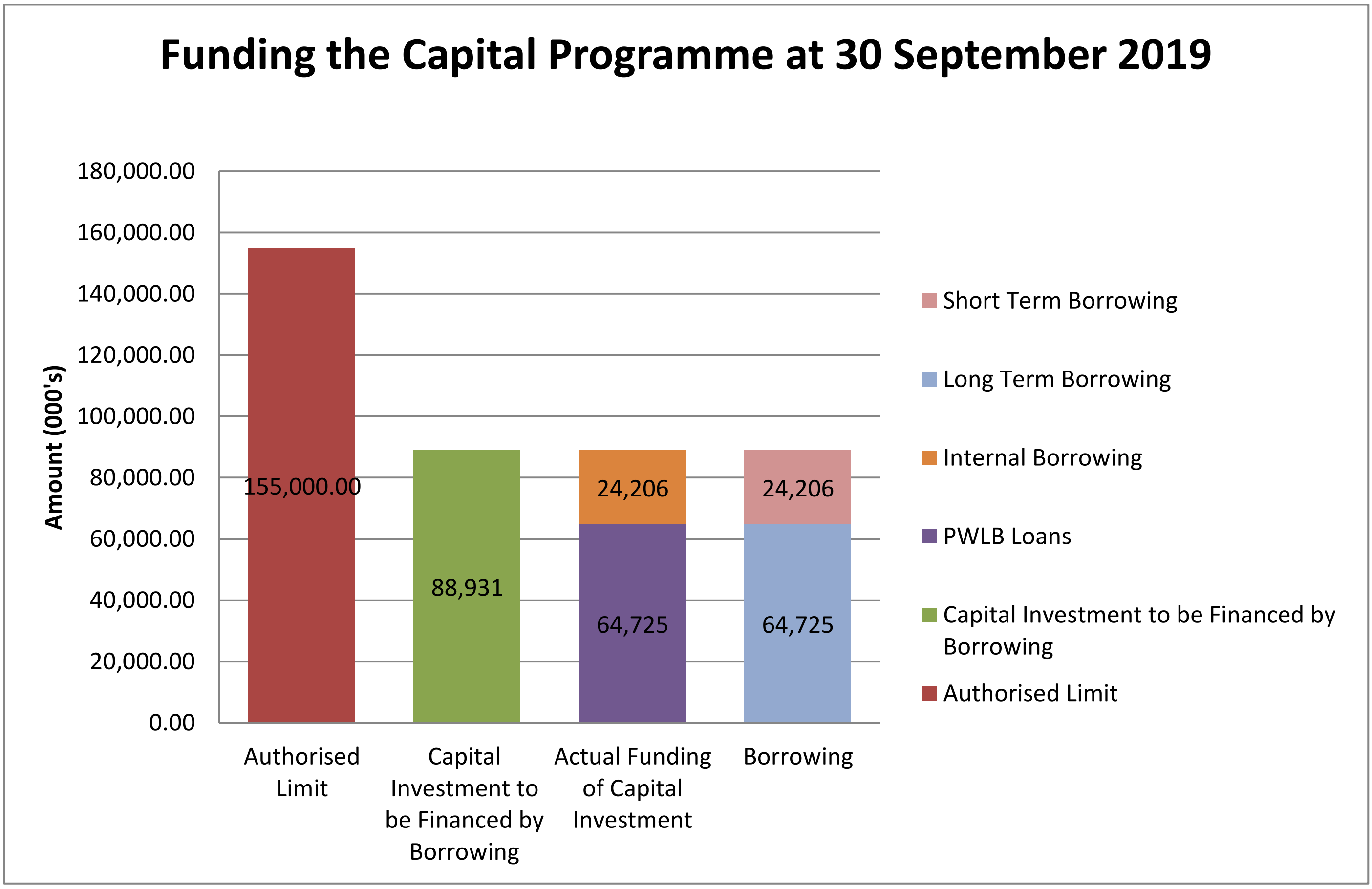
*Rate is the annualised yield as at the reporting date.

Borrowing Activity

12 No new long-term borrowing was undertaken during the six months ending 30 September 2019. PWLB loans of £4.00m were repaid, reducing total borrowing to £64.73m at 30 September 2019.

13 No rescheduling of debt was undertaken during the six months ending 30 September 2019.

14 The chart below compares the maximum the LFC could borrow in 2019/20 with the 'capital investment to be financed by borrowing' at 31 March 2019 and the actual position of how this is being financed as at 30 September 2019.



15 The chart shows that the LFC's capital investment to be financed by borrowing was £90.22m as at 30 September 2019. It also shows that the LFC was using £24.21 of internal borrowing to finance capital investment.

Investment Activity

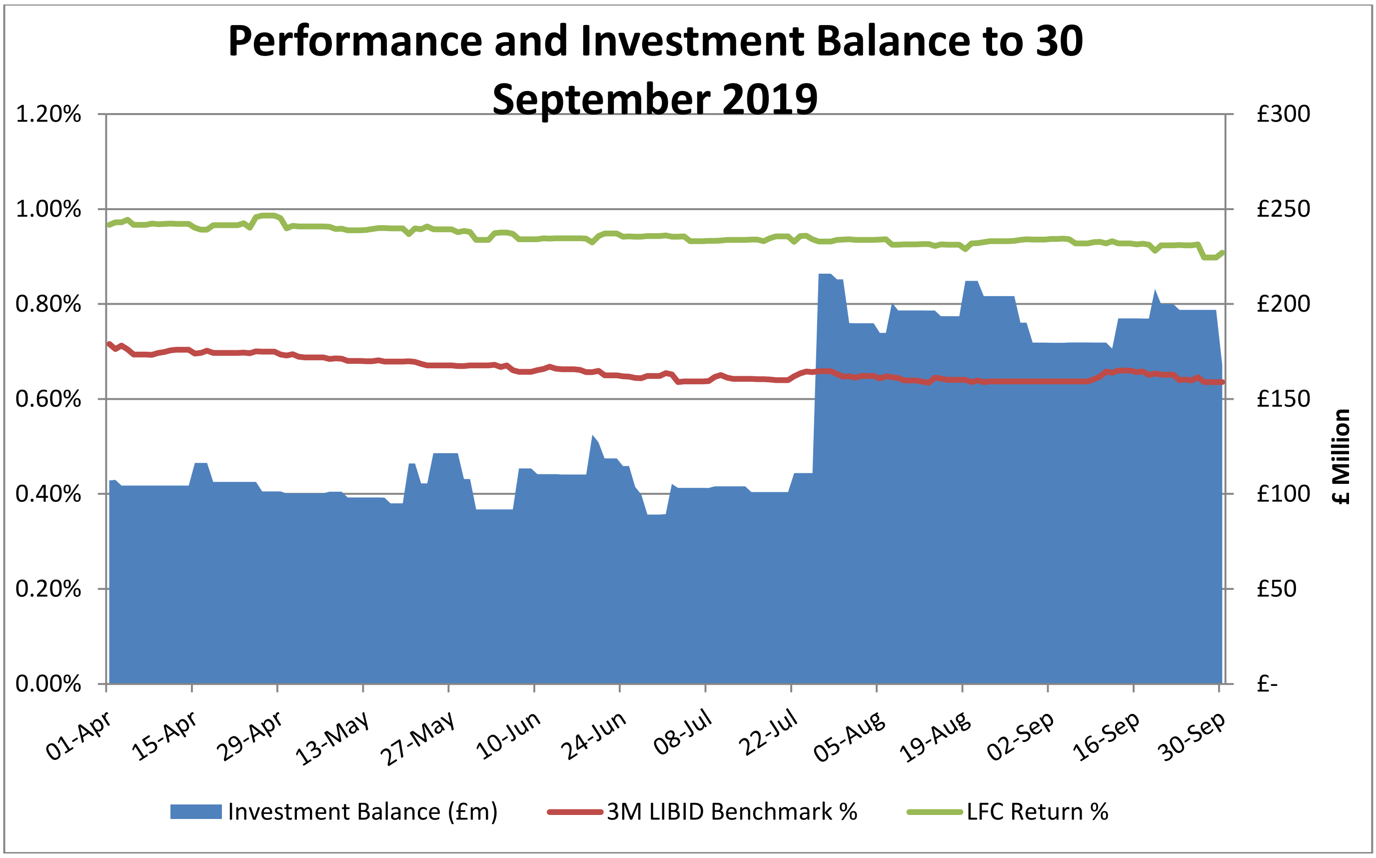
16 Investment balances as at 30 September 2019 were £167.87m, this being an increase of £58.76m over the £109.11 opening balance on the 1 April 2019.

17 The LFC has outperformed its investment benchmark by 28 basis points (43%) during the six months ending the 30 September 2019. It has achieved a cumulative

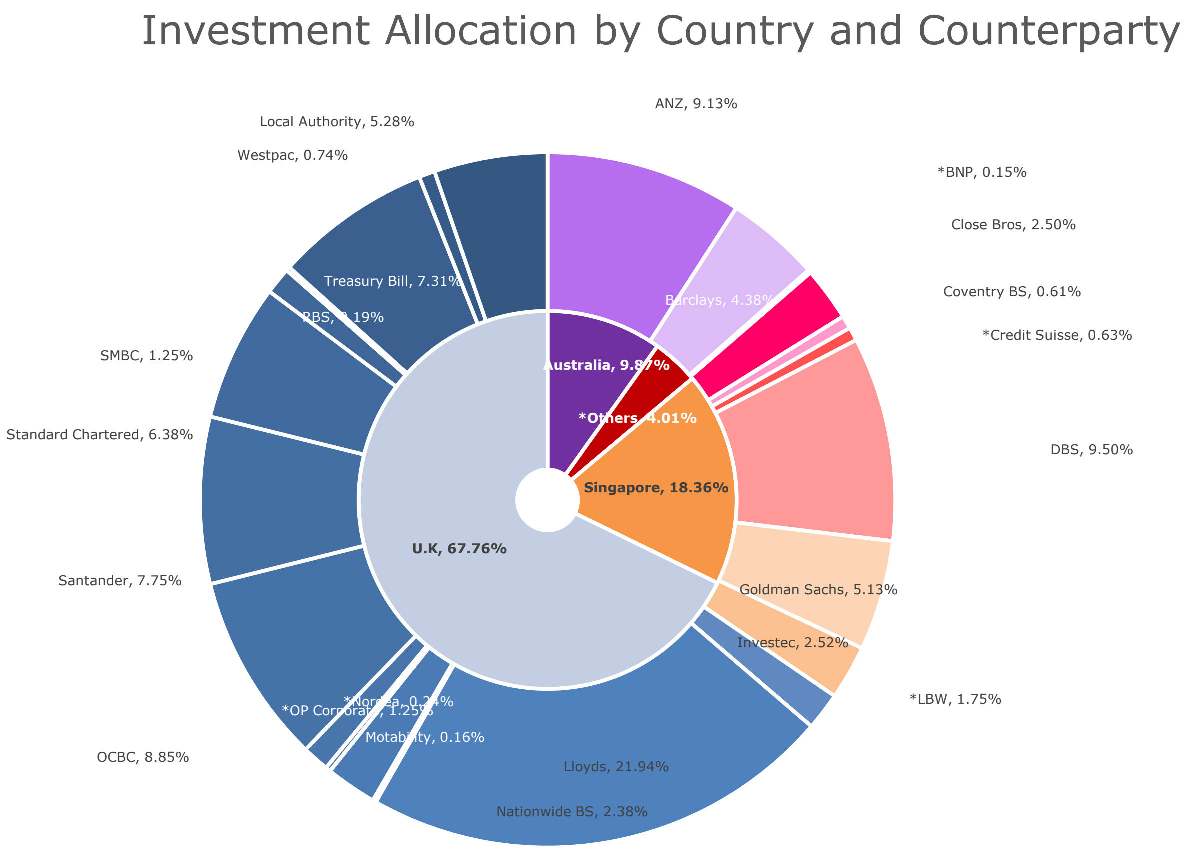
weighted average yield of 0.94% on daily balances against a cumulative weighted average 3-month LIBID of 0.658%.

18 Throughout the period, the LFC maintained its liquidity target of a weighted average maturity (WAM) of not more than 91 days.

19 The following chart shows the outperformance described above, alongside the LFC's total investment balances for the period. Fluctuations in balances reflect changes in cash flow requirements during the period, alongside grant receipts. The investment balance increased significantly in July due to the receipt of the annual pensions top-up grant.



20 The investment portfolio was well diversified at 30 September 2019 as demonstrated below.



Treasury Management Budget

Treasury Management Budget	2019-20 Original Estimate £m	2019-20 Actual as at 30.09.19 £m	2019-20 Revised Estimate £m	2019-20 Variance between Original Estimate and Revised Estimate £m
Interest Payable: PWLB and Market Loans	3.05	1.55	3.05	0.00
Interest Payable: Other Long-Term Liabilities	6.04	3.02	6.04	0.00
Interest Receivable	-0.30	-0.65	-1.00	0.70
Total	8.79	3.92	8.79	0.70

CIPFA Prudential Code Indicators and Treasury Management Limits

21 The tables below show the LFC's treasury position as at 30 September 2019, relative to the prudential indicator limits set in the 2019/20 Treasury Management Strategy.

22 All treasury activity for the period has been conducted within the limits set.

Capital Expenditure

Capital Expenditure	2019-20 Original Estimate £m	2019-20 Actual as at 30.09.19 £m	2019-20 Revised Estimate £m	2019-20 Variance between Original Estimate and Revised Estimate £m
Total Capital Expenditure	40.00	10.35	33.23	6.77

Capital Financing Requirement

Capital Financing Requirement (CFR)	2019-20 Original Estimate £m	2019-20 Actual as at 30.09.19 £m	2019-20 Revised Estimate £m	2019-20 Variance between Original Estimate and Revised Estimate £m
Total CFR	150.49	153.61	150.03	0.46

Authorised Limit for External Debt

Authorised Limit for External Debt	2019-20 Original Authorised Limit £m	2019-20 Actual External Debt as at 30.09.19 £m	Headroom £m
Borrowing	155.00	64.73	78.27
Other long-term liabilities	70.00	64.68	5.32
Total	225.00	129.41	83.59

Operational Boundary for External Debt

Operational Boundary for External Debt	2019-20 Original Operational Boundary £m	2019-20 Actual External Debt as at 30.09.19 £m	Headroom £m
Borrowing	150.00	64.73	85.28
Other long-term liabilities	70.00	64.68	5.32
Total	220.00	129.41	90.59

Gross Debt and the Capital Financing Requirement

2019-20 Actual Gross Debt as at 30.09.19 £m	Preceding Year CFR £m	2019-20 Estimated Additional CFR £m	2020-21 Estimated Additional CFR £m	2021-22 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
129.41	157.24	0.00	-5.27	0.37	152.34	22.93

Limits for Maturity Structure of Borrowing

Limits for Maturity Structure of Borrowing for 2019-20	Upper Limit	Lower Limit	As at 30.09.19
	%	%	%
Under 12 months	20.00	0.00	10.81%
12 months and within 24 months	20.00	0.00	7.72%
24 months and within 5 years	50.00	0.00	13.90%
5 years and within 10 years	75.00	0.00	26.61%
10 years and above	90.00	25.00	40.94%

Principal sums Invested for Periods Greater than 365 Days

23 No new investment maturing after 365 days was undertaken between 1 April 2019 and the 30 September 2019.

New Long-Term Borrowing

24 No new long-term borrowing was undertaken between 1 April 2019 and the 30 September 2019.