



LONDON FIRE BRIGADE

Report title

Treasury Management Mid-Year Report 2021/22

Report to

**Corporate Services Directorate Board
Audit Committee
Commissioner's Board
London Fire Commissioner**

Date

8 November 2021
2 December 2021
14 December 2021

Report by

Assistant Director, Finance

Report classification

For information

Synopsis of report:

The report sets out the treasury activity for the first six months of the 2021/22 financial year.

Report number – LFC-0637

For Publication

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE DECISION-MAKER

Executive Summary

This report is submitted in accordance with the London Fire Commissioner's (LFC) Financial Regulation 20(a) which requires that the Director of Corporate Services will act in accordance with the LFC's Policy Statement on Treasury Management Activities and Treasury Management Practices and the Chartered Institute of Public Finance and Accountancy's (CIPFA) "Standard of Professional Practice on Treasury Management". This includes submitting a mid-year monitoring report on the activities of the LFC's treasury management operation to the Commissioner's Board.

Treasury activity has seen the LFC's investments as part of the Group Investment Strategy (GIS) outperform the investment benchmark by 19 basis points (i.e. 0.19%) over the six-month period ending 30 September 2021. Invested balances at 30 September 2021 were £100.23m.

The LFC's loan borrowing level has reduced by £3m, from £55.73m at 31 March 2021 to £52.73m at 30 September 2021, 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 2021/22 (TMSS) approved by the LFC.

The LFC Treasury Management Mid-Year Report for 2021-22 is provided at Appendix 1 and is prepared by the Greater London Authority (GLA) Group Treasury.

The LFC Treasury Management Mid-Year Report for 2021-22:

- 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.

Recommendation

That the Commissioner's Board notes the Treasury Management Mid-Year Report to 30 September 2021 against the TMSS.

Introduction and Background

1. The LFC is required to have regard to the requirements of the 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, 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 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 2021/22

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 2021/22.
5. The report includes a review of investment performance for 2021/22 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 TM Code and approved in the TMSS.
6. The report shows that the balance of investments held in the GIS as at 30 September 2021 was £100.23m. The LFC has as part of the GIS outperformed the investment benchmark by 19 basis points (0.19%) during the six months ending the 30 September 2021. It has achieved a cumulative

weighted average yield of 0.39% on daily balances against a cumulative weighted average 3-month London Inter Bank Bid Rate (LIBID) of 0.20%.

7. During the first six months of the year £3m PWLB loans have matured and been repaid reducing the balance of total LFC external borrowing from £57.73m as at 1 April 2021 to £52.73m as at 30 September 2021. There is no new long-term borrowing undertaken during the six months and no new borrowing is expected in the current year. The budget 2021/22 included the funding of the capital programme with the application of significant capital receipts, primarily from the disposal of site at Albert Embankment. The capital receipt expected from 8 Albert Embankment has been delayed as a result of the unsuccessful planning appeal. And this will impact on the timing and value of the capital receipt.
8. All 2021/22 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.

Procurement and Sustainability

11. There are no direct procurement and sustainable implications arising from this report.

Strategic Drivers

12. Transformation Plan Strategic Pillar.

Workforce Impact

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

Finance comments

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

Legal comments

15. 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 way the holder of that office is to exercise his or her functions.
16. 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.

17. Regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) requires that the Commissioner, in carrying out its functions under Chapter 1 of Part 1 of Local Government Act 2003, shall have regard to the code of practice contained in the document entitled "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" published by CIPFA, as amended or reissued from time to time.
18. The Commissioner'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".
19. The Commissioner'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."
20. This report constitutes the 'mid year-review' as required by para 8ii of the TMSS.

Sustainability implications

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

Equalities impact

22. The London Fire Commissioner and the Greater London Authority are required to have due regard to the Public Sector Equality Duty (s149 of the Equality Act 2010) when taking decisions. This in broad terms involves understanding the potential impact of policy and decisions on those with protected characteristics taking this into account and then evidencing how decisions were reached.
23. It is important to note that consideration of the Public Sector Equality Duty is not a one-off task. The duty must be fulfilled before taking a decision, at the time of taking a decision, and after the decision has been taken.
24. The protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership (but only in respect of the requirements to have due regard to the need to eliminate discrimination), race (ethnic or national origins, colour or nationality), religion or belief (including lack of belief), sex, and sexual orientation.
25. The Public Sector Equality Duty requires decision-takers in the exercise of all their functions, to have due regard to the need to:
 - a. eliminate discrimination, harassment and victimisation and other prohibited conduct.
 - b. advance equality of opportunity between people who share a relevant protected characteristic and persons who do not share it.

- c. foster good relations between people who share a relevant protected characteristic and persons who do not share it.
26. Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- a. remove or minimise disadvantages suffered by persons who share a relevant protected characteristic where those disadvantages are connected to that characteristic;
 - b. take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
 - c. encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
27. The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include steps to take account of disabled persons' disabilities.
28. Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- a. tackle prejudice, and
 - b. promote understanding.
29. This report relates to treasury management performance and is therefore not considered to have any equalities impact.

List of Appendices

Appendix	Title	Protective Marking
1.	LFC Treasury Management Mid-Year Report 2021/22	N/A

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

Princess Christian-Iwuagwu has drafted this report and confirms the following:

Assistant Director/Head of Service

Princess Christian-Iwuagwu has reviewed the documentation and is satisfied for it to be referred to Board for consideration.

Advice

Legal team has commented on this proposal;

Thomas Davies, Legal Advisor, on behalf of General Counsel (Head of Law and Monitoring Officer)

Princess Christian-Iwuagwu, Financial Advisor, on behalf of the Chief Finance Officer

GREATER LONDON AUTHORITY

GROUP TREASURY

LFC Treasury Management Mid-Year Report for 2021-22

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 19 basis points over the six-month period ending 30 September 2021. Invested balances at 30 September 2021 were £100.23m.

The LFC's external borrowing has been reduced from £55.73m at 31 March 2021 to £52.73m at 30 September 2021.

All Treasury activity has been within the boundaries and levels set by the LFC and set out in the 2021/22 Treasury Management Strategy.

Recommendation:

That the following is noted:

- The 2021/22 Treasury mid-year performance against the 2021/22 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 2021 to 30 September 2021 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 30 September 2021 with the 2021/22 full year budget and a revised 2021/22 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 GLA has delegated GIS investment decisions to London Treasury Limited (LTL) a wholly GLA owned entity which is Financial Conduct Authority ('FCA') authorised and regulated. In practice, the GLA's Chief Investment Officer (CIO) will still be the individual approving the current discretions, in his capacity as LTL's Managing Director.
- 4 The 2021/22 GIS Investment Strategy was approved by the LFC on 29 March 2021.

Compliance with the 2021/22 Treasury Management Strategy Statement

- 5 The Director of Finance and Contractual Services confirms that, throughout the period, all treasury activities have been conducted within the parameters of the 2021/22 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

- 6 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it has left Bank Rate unchanged at subsequent meetings.
- 7 Repeated assurances by the Bank of England, and by other major world central banks, that inflation would spike up after COVID restrictions were abolished, but would only be transitory, allayed investor fears until August / September when high inflation was again seen as a growing danger and both central banks in the US and UK gave indications that monetary policy tightening was on the horizon
- 8 Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, with the high level of uncertainty prevailing on several different fronts it is likely that forecasts will continue to be subject to revision.

9 The LFC Group's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View		29.9.21								
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

10 As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

11 The balance of risks to forecasts is on the upside for medium to long term PWLB rates, however, there is likely to be continued volatility and unpredictability in respect of gilt yields, and hence PWLB rates as central banks navigate the tightening of monetary policies in the midst of the recovery from the pandemic.

12 The LFC is eligible to borrow at certainty rate from the PWLB but will investigate and consider alternatives to PWLB for future borrowing to ensure the most economical funding is obtained.

Current Treasury Management Position

13 The table below shows the current Treasury management position.

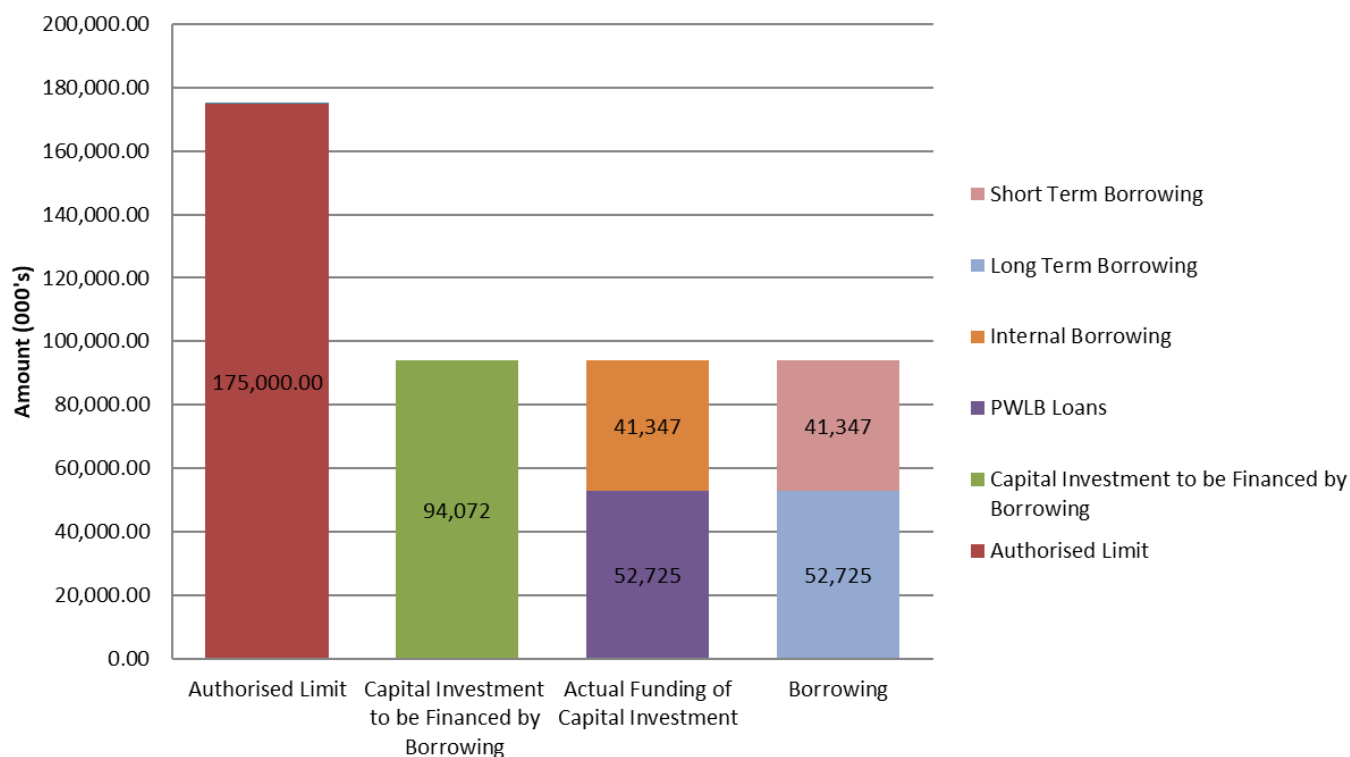
Current Treasury Position	TMSS Forecast to 31 March 2022		Actual as at 30 September 2021		Revised Forecast to 31 March 2022	
	£m	Rate %*	£m	Rate %*	£m	Rate %*
External Borrowing						
Long Term Borrowing: PWLB	88.93	4.73	52.73	4.73	52.73	4.73
Total External Borrowing (A)	88.93		52.73		52.73	
Other Long Term Liabilities						
PFI Liability	44.29		45.62		44.29	
Finance Lease Liability	18.43		18.43		18.43	
Total Other Long Term Liabilities (B)	62.72		64.05		62.71	
Total Gross Debt (A+B)	151.65		116.77		115.44	
Capital Financing Requirement	167.98		158.12		174.79	
Less Other Long Term Liabilities	62.71		64.05		62.71	
Underlying Capital Borrowing Requirement (C)	105.27		94.07		112.08	
Under/(Over) Borrowing (C-A)	16.34		41.35		59.36	
Investments (D)	128.37		100.23	0.41	115.82	
Total Net Borrowing (A-D)	-39.44		-47.50		-63.10	

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

Borrowing Activity

- 14 No new long-term borrowing was undertaken during the six months ending 30 September 2021. PWLB loans of £3.00m were repaid, reducing total borrowing to £52.73m at 30 September 2021.
- 15 In the six months to 30 September 2021, four temporary loans totalling £17.00m were taken to support cash flow in June 2021 at an average rate of 0.10%. These loans are due to be repaid in June 2022.
- 16 No rescheduling of debt was undertaken during the six months ending 30 September 2021.
- 17 The chart below compares the maximum the LFC could borrow in 2021/22 with the 'capital investment to be financed by borrowing' at 31 March 2021 and the actual position of how this is being financed as at 30 September 2021.

Funding the Capital Programme at 30 September 2021

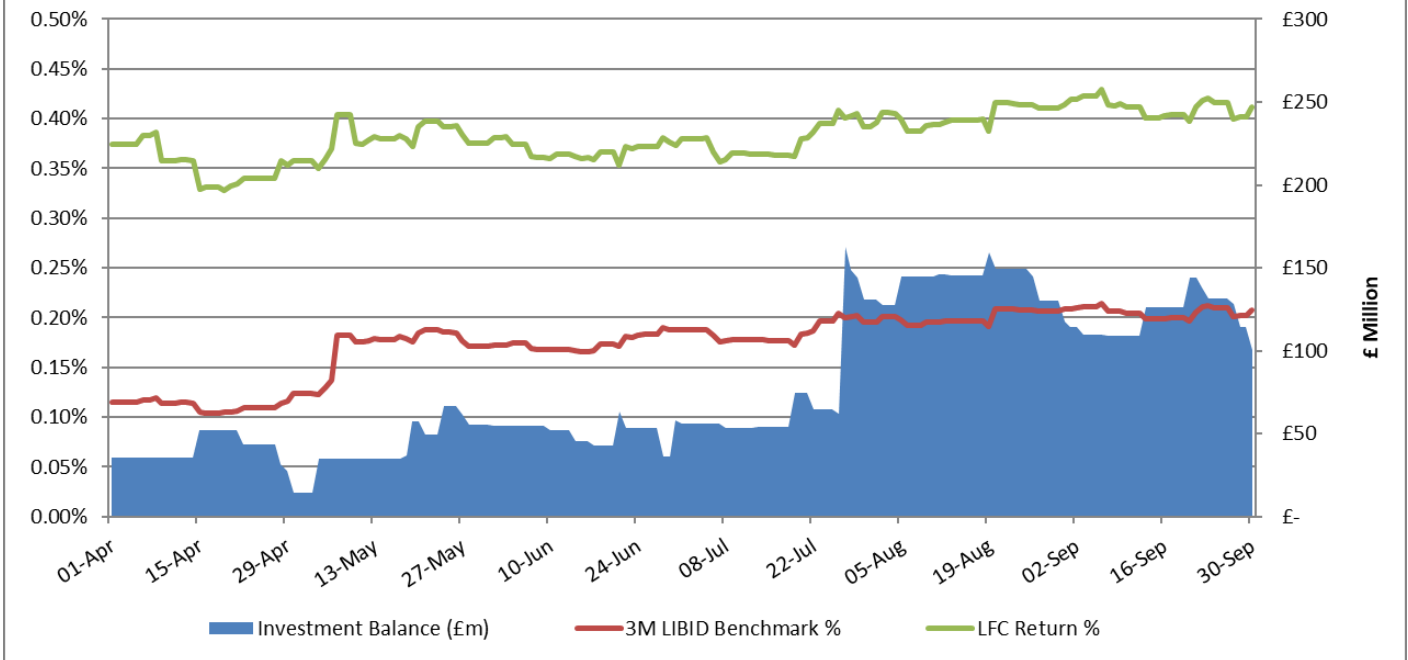


18 The chart shows that the LFC's capital investment to be financed by borrowing was £94.07m as at 30 September 2021. It also shows that the LFC was using £41.35m of internal borrowing to finance capital investment.

Investment Activity

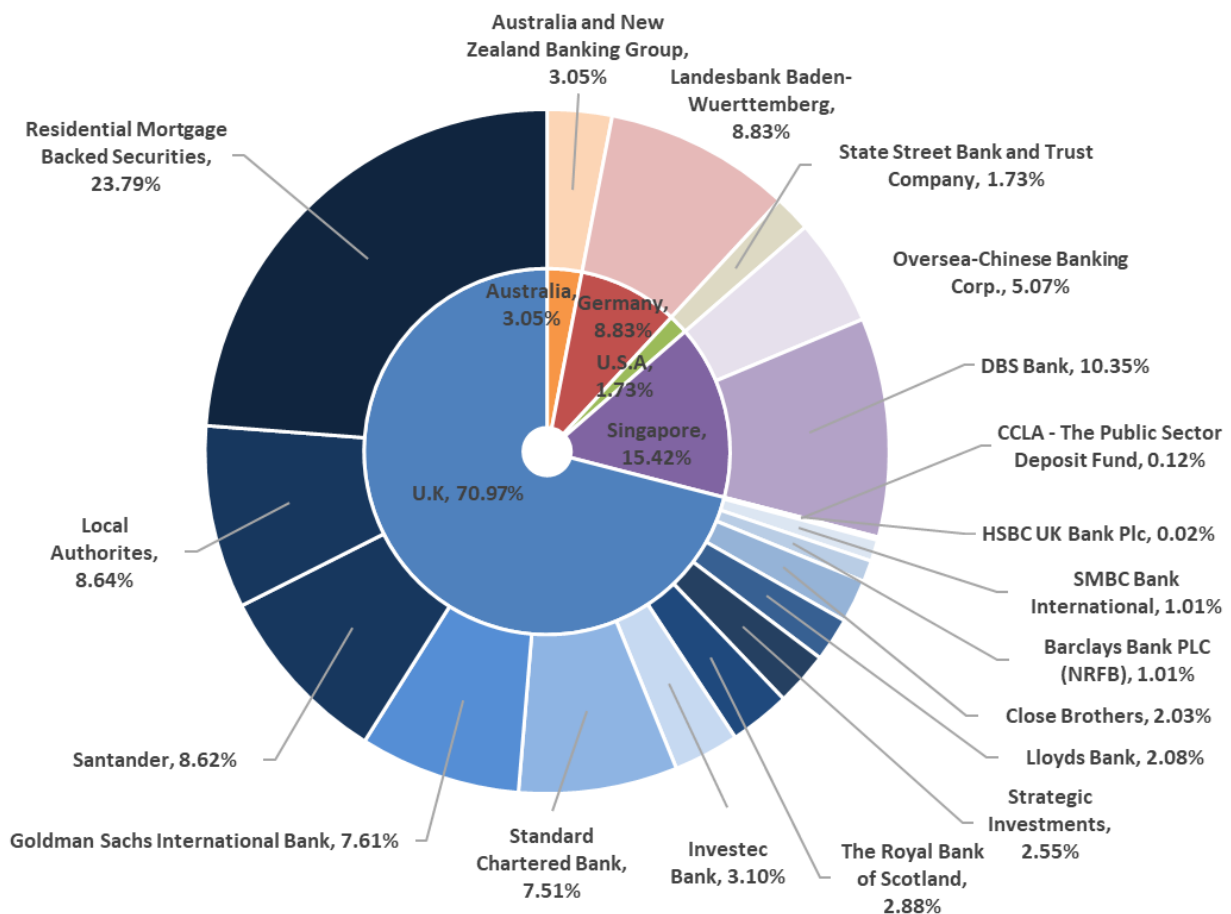
- 19 Investment balances as at 30 September 2021 were £100.23m, this being an increase of £64.88m over the £35.34m opening balance on the 1 April 2021.
- 20 The LFC has outperformed its investment benchmark by 19 basis points during the six months ending the 30 September 2021. It has achieved a cumulative weighted average yield of 0.39% on daily balances against a cumulative weighted average 3-month comparable benchmark of 0.20%.
- 21 Throughout the period, the LFC maintained its liquidity target of a weighted average maturity (WAL) of not more than 90 days for core liquidity investments.
- 22 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.

Performance and Investment Balance to 30 September 2021



23 From the beginning of 2021/22, the GIS portfolio has included long term strategic investments. This was agreed with the functional bodies in an attempt to capitalise on a higher return with longer dated investments. Currently the strategic investments only make up 2.55% of the whole portfolio.

24 The investment portfolio was well diversified at 30 September 2021 as demonstrated below.



Treasury Management Budget

Treasury Management Budget	2021-22 Original Estimate £m	2021-22 Actual as at 30.09.21 £m	2021-22 Revised Estimate £m	2021-22 Variance between Original Estimate and Revised Estimate £m
Interest payable	2.70	1.28	2.53	0.17
Investment Income	-0.80	-0.16	-0.45	-0.35
Minimum Revenue Provision	5.80	7.25	7.25	-1.45
Total	7.70	8.38	9.34	-1.64

CIPFA Prudential Code Indicators and Treasury Management Limits

25 The tables below show the LFC's treasury position as at 30 September 2021, relative to the prudential indicator limits set in the 2021/22 Treasury Management Strategy.

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

Capital Expenditure

Capital Expenditure	2021-22 Original Estimate £m	2021-22 Actual as at 30.09.21 £m	2021-22 Revised Estimate £m	2021-22 Variance between Original Estimate and Revised Estimate £m
Total Capital Expenditure	57.60	8.64	35.76	21.84

Capital Financing Requirement

Capital Financing Requirement (CFR)	2021-22 Original Estimate £m	2021-22 Actual as at 30.09.21 £m	2021-22 Revised Estimate £m	2021-22 Variance between Original Estimate and Revised Estimate £m
Total CFR	173.66	158.12	174.79	-1.13

Authorised Limit for External Debt

Authorised Limit for External Debt	2021-22 Original Authorised Limit £m	2021-22 Actual External Debt as at 30.09.21 £m	Headroom £m
Borrowing	175.00	52.73	122.28
Other long-term liabilities	70.00	64.05	5.95
Total	245.00	116.77	128.23

Operational Boundary for External Debt

Operational Boundary for External Debt	2021-22 Original Operational Boundary £m	2021-22 Actual External Debt as at 30.09.21 £m	Headroom £m
Borrowing	170.00	52.73	117.28
Other long-term liabilities	70.00	64.05	5.95
Total	240.00	116.77	123.23

Limits for Maturity Structure of Borrowing

Limits for Maturity Structure of Borrowing for 2021-22	Upper Limit	Lower Limit	As at 30.09.21
	%	%	%
Under 12 months	50.00	0.00	3.79
12 months and within 24 months	20.00	0.00	3.79
24 months and within 5 years	40.00	0.00	25.08
5 years and within 10 years	50.00	0.00	22.76
10 years and above	100.00	25.00	44.57

Principal sums Invested for Periods Greater than 365 Days

27 No new investment maturing after 365 days was undertaken between 1 April 2021 and the 30 September 2022. This excludes GIS investments.

New Long-Term Borrowing

28 No new long-term borrowing was undertaken between 1 April 2021 and the 30 September 2021.