LFC-23-028

LONDON FIRE BRIGADE

Treasury Management Strategy Statement 2023/24

Report to:	Date:
Investment & Finance Board	23 February 2023
Commissioner's Board	08 March 2023
Fire and Resilience Board	28 March 2023
London Fire Commissioner	

Report by:
Adrian Bloomfield, Assistant Director of Finance

Report classification:
For Decision

For publication

I agree the recommended decision below.

Andy Roe
London Fire Commissioner

Date This decision was remotely signed on 07 April 2023

PART ONE

Non-confidential facts and advice to the decision-maker

Executive Summary

Under Authority Financial Regulations, the Director of Corporate Services, being the statutory finance officer for the London Fire Commissioner (LFC), is required to report to the LFC on the Treasury Management Strategy Statement and Annual Investment Strategy it is proposed to adopt in the coming financial year. It is presented to the Commissioner's Board for review and to the LFC for approval.

In addition, the LFC is required by statutory regulation to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities, when carrying out its duties under Part 1 of the Local Government Act 2003. The Prudential Code requires the LFC to approve a range of specific Treasury Management indicators. The LFC meets the first prudential indicator in respect of treasury management by having adopted CIPFA's Treasury Management in the Public Services Code of Practice (The TM Code). The additional indicators are shown in the recommendations below.

The TM Code emphasises that responsibility for risk management and control lies within the LFC and cannot be delegated to any outside organisation. It also highlights that those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

The proposed Annual Investment Strategy continues to take a risk averse approach to investment which gives priority to the security of funds over the rate of return. The TM Code advises that Authorities should have regard to all ratings issued by the three main rating agencies considered alongside market and media information, and it is proposed that the LFC continues to use the current creditworthiness service from Link Asset Services based on credit ratings from all three agencies. These ratings are based on past performance, but by using a scoring system incorporating credit default swap rates provides a forward-looking market view. Officers will, as before, monitor market and media intelligence to further inform their assessment of investment counterparties.

The last quarter of 2022-23 will see the completion of the transition of the Group Investment Syndicate (GIS) assets from the GLA into London Treasury Liquidity Fund LP (LTLF) Limited Partnership (LP), (formerly known as GLA Strategic Reserve LP). The GLA is currently the sole investor in LTLF, with the GIS participants owning a pro-rata share of the GLA's existing partnership interest through the GIS. The intention is for the current GIS contractual arrangement to cease on 31 March 2023, with each GIS participant, including LFC, joining LTLF as a limited partner and replacing its GIS interest with an equivalent interest directly in LTLF.

The underlying investments and the investment strategy remain unchanged by the transition to LTLF. The participants' key governance rights, such as changing the investment strategy, are maintained in the constitution of LTLF through the Limited Partners' Advisory Committee (LPAC), to the extent possible in order to also preserve limited partners' limited liability. The new fund structure, an Alternative Investment Fund (AIF), will simplify accounting for the participants and provide additional regulated oversight and assurance via an independent Alternative Investment Fund Manager (AIFM) and depositary. The establishment of LTLF will facilitate the participation of bodies outside the GLA family, growing the fund and passing resulting economies of scale back to its participants.

Guidance issued by the Secretary of State under section 21 (1A) of the Local Government Act 2003 requires the LFC to approve the proposed Minimum Revenue Provision Policy Statement for 2023/24 in advance of the year. The report also details the plans to borrow to fund the Capital Strategy.

Recommended Decisions

For the Commissioner's Board

1. That the Commissioner's Board agree that the LFC be recommended to approve the contents of the Treasury Management Strategy Statement.

That the London Fire Commissioner

2. That the LFC approves the Treasury Management Strategy Statement for 2023/24, including the:

a. Treasury Management Policy Statement (Appendix 1)
b. Minimum Revenue Provision Policy Statement (Appendix 2)
c. Prudential Code Indicators and Treasury Management Limits (Appendix 3)
d. The Investment Strategy (Appendix 4)
e. Treasury Management Practices: Main Principles (Appendix 5)

3. That the LFC notes the change in the GLA Group investment arrangements and the move to the London Treasury Liquidity Fund.

4. That the LFC delegates authority to the Director of Corporate Services to effect transition of the Group Investment Syndicate (GIS) assets from the GLA into London Treasury Liquidity Fund LP (LTLF) (formerly known as GLA Strategic Reserve LP) and take all related activities and actions, including signing of contractual or other documentation, to effect that transition.

5. That the LFC notes planned new borrowing to support the capital programme.

1. Introduction and background

1.1 The Treasury Management Strategy Statement (TMSS) sets out the Treasury Management activities of the LFC for the year 2023/24.

1.2 This TMSS has been prepared in accordance with the following legislation and guidance:

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (The TM Code) and associated Guidance Notes
- The CIPFA Prudential Code for Capital Finance in Local Authorities and associated Guidance Notes
- The Local Government Act 2003
- The Ministry of Housing, Communities & Local Government (MHCLG) Guidance on Local Government Investments
- The MHCLG Guidance on Minimum Revenue Provision (MRP)

1.3 The TM Code defines treasury management activities as:

"The management of the local authority's borrowing, investments and cash flows, 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."

1.4 This TMSS therefore considers the impact of the LFC's Revenue Budget, Medium Term Capital Programme and the Balance Sheet position and covers the following areas:

- Economic Background
- Prospects for Interest Rates
- Forecast Treasury Management Position
- Borrowing Strategy
- Policy on Borrowing in Advance of Need
- Debt Rescheduling
- Investment Strategy
- Use of External Service Providers
- Treasury Training
- Treasury Management Policy Statement (Appendix 1)
- Minimum Revenue Provision (MRP) Policy Statement (Appendix 2)
- Prudential Code Indicators and Treasury Management Limits (Appendix 3)
- The Investment Strategy (Appendix 4)
- Treasury Management Practices: Main Principles (Appendix 5)

1.5. In covering the above areas, as per its Treasury Management Policy Statement (Appendix 1), the LFC regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Responsibility for risk management and control lies within the LFC and cannot be delegated to any outside organisation

1.6. The Treasury Management risks the LFC is exposed to are:

- Credit and counterparty risk (security of investments)
- Liquidity risk (inadequate cash resources)
- Interest and market risk (fluctuations in interest rate levels and thereby in the value of investments)
- Refinancing risks (impact of debt maturing in future years)
- Legal and regulatory and fraud risk (non-compliance with statutory and regulatory requirements, risk of fraud)

1.7. These risks are further discussed in Appendix 5 (Treasury Management Practices: Main Principles).

1.8. The move of the GLA Group investments to the new LTLF also presents a risk as a new arrangement. The move to LTLF has been considered at the GLA Group Investment Syndicate, of which the Director for Corporate Services is a member, and will continue to be reviewed and monitored as part of the governance for the LTLF

1.9. The LFC formally adopts The TM Code through the following provisions

i. The LFC will create and maintain as the basis for effective treasury management:

- Treasury Management Policy Statement stating the policies, objectives and approach to risk management of its treasury management activities and
- suitable Treasury Management Practices (TMPs), setting out the way the LFC will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- The content of the proposed policy statement and TMPs follow the recommendations contained in Sections 6 and 7 of the TM Code, subject only to amendment where necessary to reflect the circumstances of the LFC. Such amendments do not result in the LFC materially deviating from the Code's key principles.

ii. 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.

iii. The LFC delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Commissioner's Board, and for the execution and administration of treasury management decisions to the Director for Corporate Services, who will act in accordance with the policy statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

iv. The LFC nominates the Commissioner's Board to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. All reports will be scrutinised by the Commissioner's Board prior to submission to the LFC.

v. Should there be a need to revise the Treasury Management Strategy; the Treasury Management Policy Statement; the Minimum Revenue Provision Policy Statement; the Prudential Code Indicators and Treasury Management Limits; the GIS Investment Strategy and the Treasury Management Practices at times other than those stated above, then these updates will be submitted to the Commissioner's Board for scrutiny and then submitted to the LFC for approval.

vi. Should the Should the Director for Corporate Services wish to depart in any material respect from the main principles of the TM Code, the reason should be disclosed, in advance, in a report to the LFC.

2 Economic Background (Provided by Link Asset Services)

2.1. Provided below is an update on the economic background provided by the treasury advisers, Link Asset Services.

- Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, interest rates have been volatile across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

- Q2 of 2022 saw UK GDP revised upwards to +0.2%q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

- Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and a further 0.50% rate hike on the 2nd February with the market forecasting Bank Rate to peak at 4.25-4.50% with then the prospect of them starting to reduce by the end of the year.

Prospects for Interest Rates

- The effective management of risk around borrowing and investments and cashflow management decisions also includes understanding interest rate movements.

- The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 7th February 2023. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

- It is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us, but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

- The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

- In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also by the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider negative economic impact.).

- On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

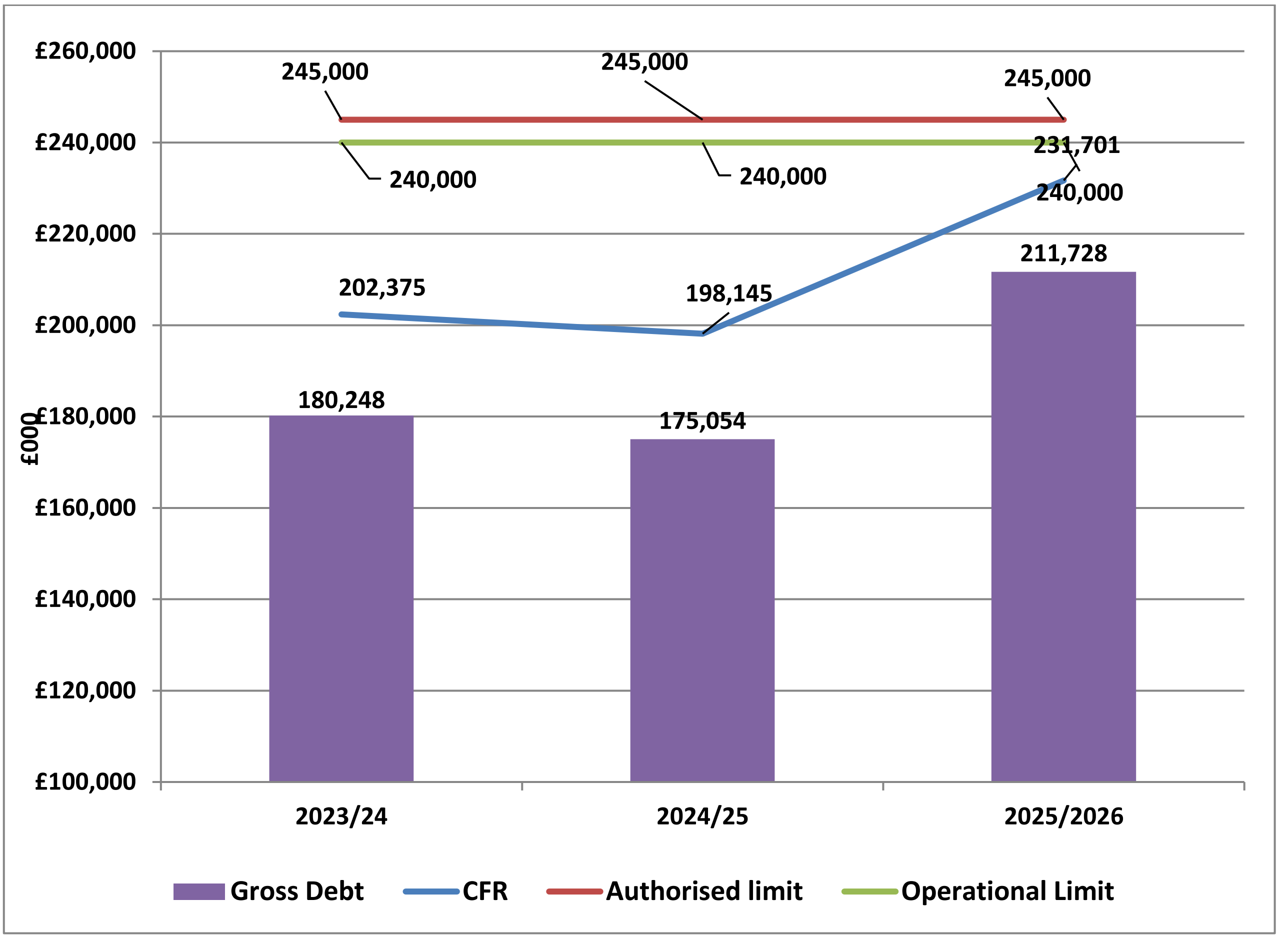
3 Forecast Treasury Management Position

The LFC's forward treasury portfolio position is summarised below. The table shows the actual external borrowing (the treasury management operations) against the underlying capital borrowing requirement (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Forecast Treasury Position	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
External Borrowing				
Long Term Borrowing	48.73	116.35	109.52	154.98
Temporary Borrowing	0.00	0.00	0.00	0.00
Total External Borrowing at 31 March (A)	48.73	116.35	109.52	154.98
Other Long Term Liabilities				
PFI Liability	42.91	41.47	39.11	38.33
Finance Lease Liability	18.43	18.43	18.43	18.43
Total Other Long Term Liabilities at 31 March (B)	61.34	59.89	57.54	56.75
Total Gross Debt (A+B)	110.06	176.24	167.05	211.73
Capital Financing Requirement	153.06	202.38	198.14	231.70
Less Other Long Term Liabilities at 31 March	61.34	59.89	57.54	56.75
Underlying Capital Borrowing Requirement (C)	91.72	142.48	140.61	174.95
Under/(Over) Borrowing (C-A)	43.00	26.13	31.09	19.97
Investments at 31 March (D)	105.20	68.87	59.61	74.73
Net Borrowing (A-D)	-56.48	47.48	49.91	80.25

3.1. Within the set of prudential indicators there are a number of key indicators which ensure that the LFC operates its activities within well-defined limits. One of these is that the LFC needs to ensure that its gross borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current year and the next two financial years. This key prudential indicator is referred to as 'gross debt and the capital financing requirement'. It allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes, except to cover short term cash flows. In making this comparison between gross debt and the CFR, CIPFA guidance provides that, if in any of these years, there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with the gross external debt.

3.2. The following graph shows projections of the CFR and borrowing, together with Authorised and Operational Limits.



3.3. The Director for Corporate Services reports that the LFC complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in the LFC's budget report on the same agenda.

4. Borrowing Strategy

Delegation/Authorisation

4.1. The arrangements for borrowing, including the selection and the type and structure of debt instruments, are delegated to the Director of Corporate Services, provided no decision contravenes the limits set out in the prevailing TMSS.

4.2. On the basis of the above, the Director for Corporate Services is:

- authorised to approve borrowing by the LFC, for the purposes of financing capital expenditure and subject to the necessary statutory provisions, provided that the Authorised Limit, determined by the Mayor for the LFC, is not exceeded.
- authorised to borrow temporarily within the Authorised Limit, where this represents prudent management of the LFC's affairs.

- authorised to borrow temporarily above the Authorised Limit where, and only where, the amount of the increased limit represents the amount of any delayed payment which is due to the LFC and has not been received on the due date, and such delay has not already been provided for in the Authorised Limit, under the provisions of Section 5 of the Local Government Act 2003. The Commissioner's Board should be informed within agreed reporting intervals of any temporary borrowing.

4.3. All borrowing decisions should be reported to the Commissioner's Board at the first opportunity within the Treasury Management cycle.

4.4. Any borrowing will also be subject to further governance requirements where the interest costs for the borrowing exceed £150k

Borrowing and Risk

4.5. It is proposed that the LFC's approach to Treasury Management continues to be risk adverse; borrowings will be taken on fixed rates from the Public Works Loan Board (PWLB) or from other approved sources of financing and following advice GLA Group Treasury. Variable rate long term borrowing may only be undertaken where there are proportionate, dedicated income streams which would vary in accordance to any proposed variable rate instruments.

4.6. Officers will also consider the use of Finance Leases where it is demonstrated to be advantageous to the LFC to use such arrangements, for planned acquisition of non-fixed plant, equipment and/or machinery.

4.7. Against the background and the risks within economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director for Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

Internal Borrowing

4.8. When using cash balances to fund internal borrowing, the LFC acknowledges that this may reduce credit risk and short-term net financing costs. However, any decision to undertake internal borrowing will be tempered by the following considerations:

- The LFC must maintain enough liquidity to be certain of meeting existing borrowing and other obligations
- The measures set out in the investment strategy below substantially control credit risk
- The materiality of such risks should be considered in the light of the long-term financial consequences of sub-optimal borrowing decisions
- Agreements with central government specifying levels of borrowing

4.9. The LFC is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt, as cash supporting the LFC's reserves, balances and cash flow has been used as a temporary measure.

Short Term Borrowing

4.10. The LFC may borrow temporarily (i.e. for less than 12 months) to cover cash flow needs. Total borrowings will not exceed the authorised limit except possibly by an amount equal to any sum due to but not yet received by the LFC, as permitted by s5 of the Local Government Act 2003.

4.11. The LFC currently has no short-term borrowing.

Policy on Borrowing in Advance of Need

4.12. The LFC will not borrow more than or in advance of need purely to profit from the investment of the surplus borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the LFC can ensure the security of such funds

4.13. Risks associated with any borrowing in advance of need will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

4.14. The LFC has not currently taken out any borrowing in advance of need.

Debt Rescheduling

4.15. All rescheduling decisions will be reported to the Commissioner's Board at the first opportunity within the treasury management reporting cycle.

4.16. PWLB pricing policies currently impose a considerable spread between the rate of new loans and the rate used to calculate premiums or discounts on early redemption. This means that there are far fewer opportunities for restructuring than was historically the case, due to prohibitively expensive premia in relation to achievable interest savings. This emphasises the importance of attempting to optimise maturity profiles at the point of entering into borrowings.

4.17. There are currently no plans to reschedule LFC debt

5. Investment Strategy

5.1. The LFC maintains a low-risk appetite consistent with good stewardship of public funds. At the forefront of its thinking is the principle of Security before Liquidity and Liquidity before Yield. Cash flow forecasts and prevailing market conditions determine the maximum possible prudent maturities for investments and credit considerations are used to select counterparties with whom to transact. Investments are managed in such a way as to make losses at the portfolio level extremely unlikely, while capturing the optimum return within these constraints.

5.2 The LFC will continue to develop its investment risk methodologies, as part of the GLA Group arrangements, with regard to advice from external advisors, relevant developments in the market and academia, benchmarking techniques and approaches employed by the Credit Ratings Agencies. These agencies are currently Fitch, Moody's, and Standard and Poor's and their credit ratings will be monitored on a daily basis, by GLA Group Treasury, with appropriate action taken when these ratings change.

5.3 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end investment balances.

Table 3 Core Funds and Expected Investment Balances

Core Funds and Expected Investment Balances	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Fund balances/reserves	90.20	70.00	65.70	69.70
Provisions	27.00	5.00	5.00	5.00
Other	11.00	0.00	0.00	0.00
Total Core Funds	128.20	75.00	70.70	74.70
Working Capital Surplus*	20.00	20.00	20.00	20.00
Under/(over) borrowing	43.00	26.13	31.09	19.97
Expected Investments	105.20	68.87	59.61	74.73

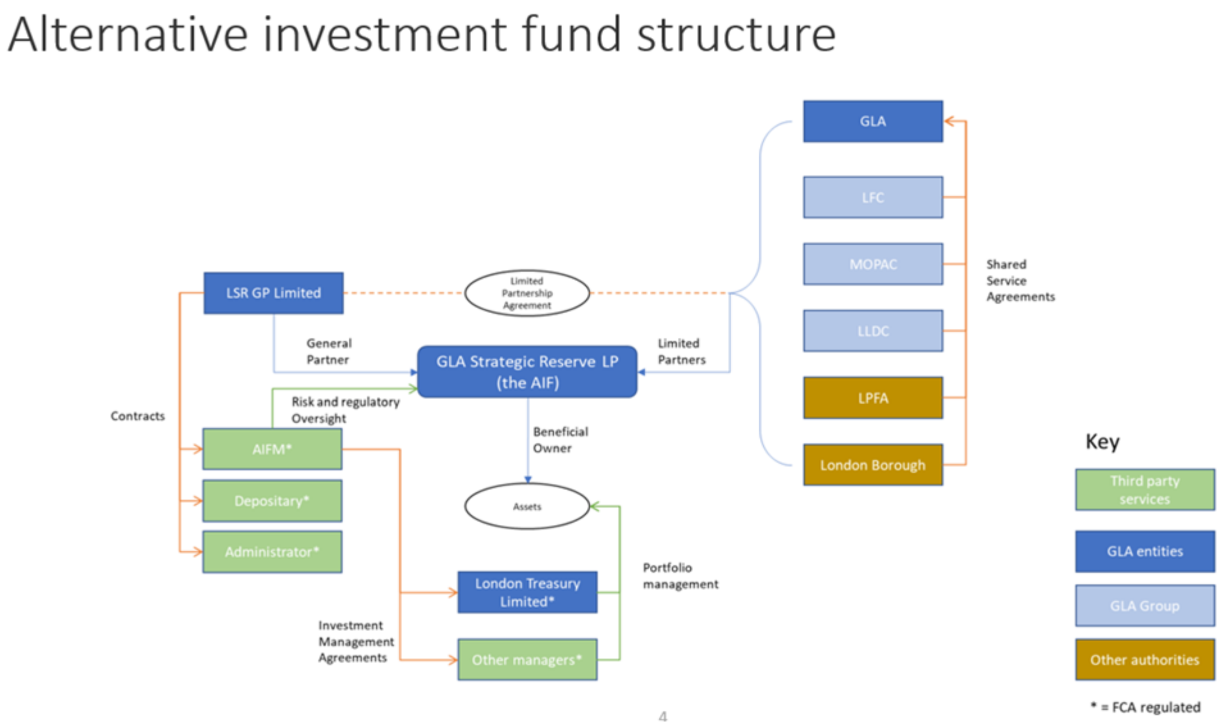
5.4. The LFC short-term cash balances are managed by the GLA's subsidiary, London Treasury Limited (LTL) and third-party asset managers appointed from time to time, through the London Treasury Liquidity Fund Limited Partnership (LTLF). LTL is authorised and regulated by the Financial Conduct Authority. The investment strategy for this arrangement is included within Appendix4 but is subject to the agreement of all participating authorities; the LFC Director for Corporate Services is authorised, having taken proper advice from Link or other suitably qualified advisors, to agree amendments to this, provided that the underlying exposures of any amended strategy do not breach the limits set out in Appendix 4.

5.5. There are no proposed changes to the 2023/24 Investment strategy since the previous iteration. However, Section 5 has been added to provide more detail surrounding the investment strategy for strategic investments.

5.6. The 2023/24 Investment Strategy, including creditworthiness policy and permitted instruments, as agreed between the Partners, (The Director for Corporate Services is the Partner for LFC) is attached at Appendix 4. This effectively constitutes the LFC's Annual Investment Strategy, which is prepared and approved before the start of each financial year.

6. Transition to GLA Liquidity Fund

6.1 As set out above the GLA Group investment arrangements and moving to a new arrangement as the London Treasury Liquidity Fund Limited Partnership. Further information on the transition is set out below.



6.2 On 1st of April 2023, the GLA Group will complete the transition of the Group Investment Syndicate (GIS) assets from the GLA into London Treasury Liquidity Fund LP (LTLF) (formerly known as GLA Strategic Reserve LP). The GLA is currently the sole investor in LTLF, with the GIS participants owning a pro-rata share of the GLA's existing partnership interest through the GIS. The current GIS contractual arrangement to cease on 31 March 2023, with each GIS participant joining LTLF as a limited partner and replacing its GIS interest with an equivalent interest directly in LTLF.

6.3 The GLA is restructuring the GIS from its current contractual form to a more conventional fund structure. Repurposing GLA Strategic Reserve LP as the fund, with the partnership renamed London Treasury Liquidity Fund LP (LTLF) while stablishing the partnership as an alternative investment fund (AIF) with the Financial Conduct Authority (FCA). Management decisions for the fund will be carried out by a general partner (GP), LSR GP Limited, a wholly owned subsidiary of London Treasury Limited (LTL). The investment strategy and assets are expected to remain largely unchanged. The new fund structure will create a high level of separation of duties and independent oversight of the AIF, reduce individual participants' accounting burdens and be more scalable.

6.4 The fund will be governed by a limited partnership agreement (LPA), with the GIS participants, the Director for Corporate Services for the LFC, becoming limited partners (LPs) alongside the GLA.

LPs will invest in the fund via a core commitment (between 2% and 5% of LPs' investment) and loan notes (between 95% and 98% of LPs' investment), with the possibility to classify loan notes as cash equivalents. A limited partners' advisory committee (LPAC) will be created to preserve the key governance rights of the GIS participants, such as determining the investment strategy; however, in order to preserve LPs' limited liability, management decisions for the fund must be carried out by the GP, albeit operating within a framework agreed with the LPs. The fund will be run on a cost-recovery basis, as is currently the case.

6.5 The underlying investments and the investment strategy remain unchanged by the transition to LTLF. The participants' key governance rights, such as changing the investment strategy, are maintained in the constitution of LTLF through the Limited Partners' Advisory Committee (LPAC), to the extent possible in order to also preserve limited partners' limited liability. The new fund structure, an Alternative Investment Fund (AIF), will simplify accounting for the participants and provide additional regulated oversight and assurance via an independent Alternative Investment Fund Manager (AIFM) and depositary. The establishment of LTLF will facilitate the participation of bodies outside the GLA family, growing the fund and passing resulting economies of scale back to its participants.

6.6 The Syndics have approved the investment strategy for 2023-24 as appended, which will constitute LTLF's investment strategy. No material changes are being proposed in the investment strategy for 2023-24 compared with the investment strategy for 2022-23: It is proposed to maintain the core and medium-term portfolio matrix of security and liquidity as well as the split between core and medium-term portfolio and longer-term strategic investments, with the overall portfolio staying well within its permitted value at risk (VaR) limit.

6.7 Since 2020-21, the costs of delivering the treasury management shared service have been apportioned between participants via a fixed administrative fee, a variable borrowing fee and a variable investment fee. The administrative fee is set at £25,000 per participant. The borrowing and investment fees are calculated as basis point charges on the participants' average borrowing and investment balances. Post 2023/24, there will be no invoice for investment management, instead the fee is to be deducted directly on fund returns.

6.8 There has been a number of meetings with different stakeholders to discuss this transition and due diligence with GLA legislation, independent legal advice, independent advise from Link Group. And lastly, quarterly review meeting with syndics in February 2023 with Link Group and LTL where there was discussions regarding the GIS performance review, analysis of portfolio risk and return, macro-economic views and independent assessment of investment performance, investment strategy, compliance, and Independent legal review of LTLF's limited partnership agreement.

6.9 An independent legal review, for the GLA Group, was carried out by Eversheds Sutherland. It was confirmed that if the Joint Client invests in the Fund, the Joint Client's asset will be a limited partner interest in the Fund. The monies paid to subscribe for limited partner interests in the Fund will be comingled with the other assets of the Fund and used in furtherance of the investment objectives of the Fund. the Joint Client will not have any right to any particular investment or asset of the Fund; the Joint Client is merely a limited partner in the Fund. Each limited partner is required to contribute an initial Core Commitment upon its admission as a limited partner in the Fund (the "Initial Core Commitment"). Upon the limited partner's admission, each limited partner will have a core contribution account ("Core Contribution Account") and a loan account ("Loan Account"). A limited partner may make Loan Contributions to the Fund at any time in any amount as agreed by the General Partner, by issuing a notice to the General Partner, however the General Partner will not be obliged to agree to accepting such Loan Contributions. Interest applied to the Loan Account. Each limited partner's Loan Account will accrue interest at the applicable interest rate. "Interest Rate" is defined in the LPA as SONIA plus the Spread (which for the avoidance of doubt, may be negative); and "Spread" means a percentage. Each limited partner's Loan Account will accrue interest at the applicable interest rate. "Interest Rate" is defined in the LPA as SONIA plus the Spread (which for the avoidance of doubt, may be negative); and "Spread" means a percentage (which may be positive or negative).

6.10 LFC officers have also had further meetings with officers from London Treasury and separately Link Asset Services, led by the Director for Corporate Services. The LFC has also obtained independent legal advice.

6.11 The Fund will only incur borrowings to cover short-term working capital needs or to meet any obligations of the Fund, and the Fund will not incur borrowing which: will at any time, exceed 20% of the Fund's gross asset value; or is for a term of longer than six months

7 2023/24 Investment Strategy

7.1 The Investment Strategy is considered and agreed by all Partners. A common approach permits maximum efficiency of the shared group service.

7.2 Variation between a MMF's list of approved counterparties and the approved counterparties of the LFC is permissible, at the discretion of the Director for Corporate Services, providing the MMF's own rating meets the criteria of Appendix 4.

7.3 Additionally, the Director for Corporate Services may from time to time instruct the London Treasury Limited to invest sums independently of the Fund, for instance, if the LFC identifies balances which are available for longer term investment, after proper consideration of expected future cash flows, as at the time of investment. It is proposed that the LFC adopt an identical set of parameters for such investments as those detailed in Appendix 4, except that there shall be no requirement to maintain a weighted average maturity of no greater than 91 days. However, regard must always be given to the Treasury Managements Limit 'Limits for Principal Sums Invested for Periods Longer than 365 Days' (Appendix 3 section 6.2).

7.4 At the time of writing, there are no plans to invest for periods longer than one year in the LFC's own name, because the LFC does not expect to have core cash balances which permit such investment durations. The Treasury Management Limit 'Limits for Principal Sums Invested for Periods Longer than 365 Days' is therefore set at zero.

7.5 Whilst the LFC sets its Annual Investment Strategy at the start of each financial year, this need not be a once-a-year event, and the initial investment strategy may be replaced by a revised Strategy, at any time during the year, on one or more occasions, subject to the approval of the LFC.

Treasury Management Budget

7.6 The table below provides a breakdown of the treasury management budget

Table 4 Treasury Management Budget

Treasury Management Budget	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m	2025-26 Estimate £m
Interest payable	2.4	2.3	2.2	2.0
Interest Receivable	-3.0	-4.5	-3.0	-2.5
Minimum Revenue Provision	8.7	8.8	8.9	8.9
Total	8.1	6.6	8.1	8.4

7.7 Assumptions behind the 2023/24 Budget are:

- Average rates achievable on investments will be 4.25%
- Average rates payable on new borrowing will be 4.50%.
- The MRP charge is in line with the LFC's MRP Policy

8 Use of External Service Providers

8.1 The LFC uses Link Group, as its external treasury management advisor under a joint arrangement with the Greater London Authority. Whilst recognising the specialist skills and resources such advisors can provide, the GLA Group arrangement recognises that responsibility for treasury management decisions remains wholly with the organisation and will ensure that undue reliance is not placed upon external service providers. The LFC monitors and maintains the quality of this service by regular review and assessment as part of the GLA Group Treasury arrangements.

8.2. Link Group currently provide advice to the LFC as part of the GLA Group arrangements as follows;

- consultancy services to support treasury operations.
- attend two strategy meetings per annum to review the financial position having regard to its objectives, strategy, current financial circumstances, assets and liabilities.
- interest rate forecast and advise on the formulation of suitable borrowing and investment strategies
- forecasts of movements in PWLB rates which affect the timing of funding with fixed rate debt, conversion of variable rate debt to fixed and the conversion of fixed rate debt to variable
- regular updates on economic and political changes which may impact on and require modification to borrowing and investment strategies
- advice on debt rescheduling, funding policy, volatility and maturity profile analysis
- advice and weekly reports on counterparty creditworthiness, including provision of prudent parameters established in the light of information from the UK's leading credit rating agencies, the credit default swaps market and various other analyst and associations
- reporting templates

8.3. The NatWest bank plc is the LFC's bankers and continue to provide a competitive service under an annual rolling contract.

8.4. The LFC does not directly employ any external fund managers, however in the event of such an appointment, appointees will comply with this and subsequent Treasury Strategies. In addition, before any appointment is made, a fully costed appraisal would be performed and approval from the LFC obtained.

8.5. Service providers appointed by the LTLF will be procured in line with GLA group principles and any specifications set out in the LFC or other Partners' respective TMSS.

8.6. In addition to the GLA's wholly owned investment management subsidiary, LTL, the LTLF uses two external fund managers, TwentyFour Asset Management and Prytania Asset Management, for the Fund's Residential Mortgage-Backed Securities (RMBS) investments. These and any future appointed managers must be authorised and regulated by the Financial Conduct Authority.

8.7. The LTLF uses State Street Bank and Trust as custodians of the any tradeable instruments (such as Treasury Bills). The investment policy is that any custodian (or sub-custodian, as may be the case) shall meet the credit criteria for 12 month investments as set out in the Investment Strategy (prior to Credit Default Swaps Market or other temporary adjustments). This restriction will apply to any custodian (or sub-custodian) appointed directly by the LFC.

9 Treasury Training

- The TM Code requires that Officers with responsibility for treasury management receive adequate training in treasury management. Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

- Senior officer training is available from the LFC's external treasury advisors (Link Asset Services) and will be arranged as required.

- LTL officers performing regulated roles while seconded to LTL are obliged to undertake regulatory and technical training as required from time to time by LTL's Board.

- LTL officers also routinely attend national forums and practitioner groups, such as the CIPFA Treasury Management Network.

- LTL officers, supported by Link Group, maintain a regular training programme available to all participating in the shared service and is arranged as required.

- Notwithstanding the above, the training needs of Treasury officers and those charged with decision making are periodically reviewed.

10 Finance Comments

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

11 Legal Comments

11.1 Under section 9 of the Policing and Crime Act 2017, the London Fire Commissioner (the "LFC") 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 LFC specific or general directions as to the way the holder of that office is to exercise his or her functions.

11.2 Section 1 of the Fire and Rescue Services Act 2004 states that the LFC is the fire and rescue authority for Greater London. The LFC 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.

Treasury Management Strategy

11.3 The LFC must follow the requirements of Part 1 of the Local Government Act 2003 (2003 Act) which make provision for, amongst other matters, capital finance and accounts. Section 15 of the 2003 Act also requires the LFC to have regard to guidance issued By the Secretary of State or guidance the Secretary of State may by regulations specify.

11.4 Section 2 of the 2003 Act states that the LFC may not borrow money if doing so would result in a breach of the limit for the time being determined for it by the Mayor of London under section 3 of the 2003 Act.

11.5 Regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (2003 Regulations) requires that the LFC, in carrying out its functions under Part 1 of the 2003 Act, 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.

11.6 Regulation 2 of the 2003 Regulations requires the Mayor of London to have regard to the "Prudential Code for Capital Finance in Local Authorities" when determining how much money the LFC can afford to borrow and to consult the LFC in respect of how much money the LFC can afford to borrow.

11.7 Under section 15 of the 2003 Act the LFC is also required to have regard to the Ministry of Housing, Communities & Local Government's Guidance on Local Government Investments and Minimum Revenue Provision.

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

11.9 The Director of Corporate Services must in accordance with part 6, paragraph 20 of the LFC's Scheme of Governance produce annually a Treasury Management Strategy setting out the requirements for the forthcoming year and the proposals to meet them, for approval by the Commissioner. This report fulfils the above statutory and LFC Scheme of Governance requirements.

The transition to the Greater London Authority's Liquidity Fund ("the GLA Fund").

11.10. The LFC currently operates a joint treasury management arrangement with the Greater London Authority ("the GLA") and other bodies, known as the Group Investment Syndicate ("the GIS"). The GIS is governed by the Group Investment Syndicate Agreement ("the GIS Agreement"). The GIS Agreement was made under section 401A(2) of the Greater London Authority Act 1999, which enabled the functional bodies (including the LFC's statutory predecessor) and the London Pensions Funds Authority to delegate the professional, technical and administrative functions involved in treasury management to the GLA. The bodies involved have then all agreed to jointly participate in the GIS under their common powers to borrow and invest for the prudent management of their financial affairs. The Mayor of London ("the Mayor") has decided that the existing GIS and London Strategic Reserve ("LSR") will be combined into a single fund though the Mayor has not directed the LFC to become a limited partner, therefore any such decision to do so rests with the LFC or his delegee to determine.

11.11. Whether the advantages of joining the limited partnership outweigh the disadvantages. This is ultimately a matter for the LFC after receiving policy advice. However, I note that the positive policy rationale has been summarised in the Mayoral Decisions referred to above. These include (a) the positive effects of pooling funds so as to achieve greater and more stable minimum balances than individual bodies could achieve alone; (b) sharing the cost of treasury management, which operates a more sophisticated strategy than would be feasible individually; (c) bringing the funds within the scope of FCA regulation; (d) advantages of Scottish LP being able to hold the funds as a legal entity, with partners accounting for funds directly; (e) moving away from collective decision making with no means of breaking deadlock. The disadvantages may be the loss of the veto over the investment strategy. The LFC or his delegee may also consider the terms of the proposed arrangements in detail.

11.12. The subject of this report is considered to be novel, contentious or repercussive in nature as it sets out the Treasury Management Strategy Statement and Annual Investment Strategy for the LFC, therefore consultation with the Deputy Mayor is required.

12. Sustainability Implications

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

13. Sustainability Implications

13.1 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.

13.2. 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.

13.3. 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.

13.4 .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.

13.5. 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.

13.6. 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.

13.7. 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.

13.8. This report relates to treasury management performance and is therefore not considered to have any equalities impact.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents 1. Local Government Act 2003 2. CIPFA Code of Practice on Treasury Management (2021) 3. CIPFA Treasury Management Guidance Notes 2021 4. CIPFA The Prudential Code (2021) 5. CIPFA The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2021) 6. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 7. Financial Regulations 8. CIPFA Treasury Management in the Public Services: Cross Sectoral Guidance Notes for Local Authorities including Police and Fire Authorities (2021) 9. The Department of Levelling Up, Housing and Communities (DLUHC) - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) Guidance on Local Government Investment	
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List of Appendices

Appendix	Title	Protective Marking
1.	Treasury Management Policy Statement	N/A
2.	Minimum Revenue Provision (MRP) Policy Statement	N/A
3	Prudential Code Indicators and Treasury Management Limits	N/A
4	The Investment Strategy	N/A
5.	Treasury Management Practices: Main Principles	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