LONDON FIRE BRIGADE

Decision title

Treasury Management Mid-year Report

Recommendation by	Decision Number
Assistant Director, Finance	LFC-0092-D

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

Summary

LFC-0092 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 19% (12 basis points) over the six-month period ending 30 September 2018. Invested balances at 30 September 2018 were £116.47m. The LFC's loan borrowing level has reduced by £1m, from £72.73m at 31 March 2018 to £71.73m at 30 September 2018, 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 adopted by the LFC on 1 April 2018 (LFC-0004-D).

The LFC Treasury Management Mid-Year Report for 2018-19 is provided at Appendix 1 and is prepared by the Greater London Authority (GLA) Group Treasury. The LFC Treasury Management Mid-Year Report for 2018-19:

- 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

The London Fire Commissioner notes the Treasury Management Mid-year Report to 30 September 2018 against the Treasury Management Strategy Statement 2018/19.

Dany Cotton QFSM
London Fire Commissioner

Date 12-12-18

Access to Information – Contact Officer	
Name	Steven Adams
Telephone	020 8555 1200
Email	governance@london-fire.gov.uk

LONDON FIRE BRIGADE

Report title

Treasury Management Mid - Year Report 2018/19

Report to	Date
Corporate Services Directorate Board Commissioner's Board	27 November 2018 5 December 2018
Report by	**Report number**
Assistant Director – Finance	LFC 0092

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 19% (12 basis points) over the six-month period ending 30 September 2018. Invested balances at 30 September 2018 were £116.47m.

The LFC's loan borrowing level has reduced by £1m, from £72.73m at 31 March 2018 to £71.73m at 30 September 2018, 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 adopted by the LFC on 1 April 2018 (LFC-0004-D).

The LFC Treasury Management Mid-Year Report for 2018-19 is provided at Appendix 1, and is prepared by GLA Group Treasury.

The LFC Treasury Management Mid-Year Report for 2018-19:

- 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 London Fire Commissioner notes the Treasury Management Mid Year Report to 30 September 2018 against the TMSS 2018/19.

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 Treasury Management Strategy Statement (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 2018/19

4. The CIPFA TM Code recommends that members 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 2018/19.

5. The report includes a review of investment performance for 2018/19 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 2018 was £116.47m. The LFC has outperformed its investment benchmark by 12 basis points (19%) during the six months ending the 30 September 2018. It has achieved a cumulative weighted average yield of 0.77% on daily balances against a cumulative weighted average 3-month LIBID (London Inter Bank Bid Rate) of 0.65%. The is high at the mid-year point due to receipt of pensions funding from the Home Office as a lump sum, and the balance of investments is forecast to be at £45.00m at year end.

7. During the year a £1m PWLB loan has been repaid reducing the balance of total LFC external borrowing from £72.73m as at 1 April 2018 to £71.73m as at 30 September 2018, with a

current annualised interest rate of 4.69% (4.66% 2017/18). The balance on external borrowing is expected to be at £66.73m at year end, with the maturing of a further £5m loan.

8. All 2018/19 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.

Treasury Management Training

11. The TM Code states that those charged with governance for treasury management (in this case the London Fire Commissioner) have a personal responsibility for treasury matters. Training material has been developed and provided by the GLA Group Treasury and the LFC's advisors Link Asset Services to ensure that these responsibilities can be met.

Finance comments

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

Workforce comments

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

General Counsel comments

14. 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.

15. 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.

16. 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".

17. 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." .

18. This report fulfils the requirements set out above.

Sustainability Implications

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

Equalities Implications

20. 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.

21. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, 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).

22. There are no specific equalities implications arising from this report.

GREATER LONDON LFC
GROUP TREASURY

LFC Treasury Management Mid-Year Report for 2018-19

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% (12 basis points) over the six-month period ending 30 September 2018. Invested balances at 30 September 2018 were £116.47m.

The LFC's loan debt has been reduced from £72.73m at 31 March 2018 to £71.73m at 30 September 2018.

All Treasury activity has been within the boundaries and levels set by the LFC and set out in the 2018/19 Treasury Management Strategy.

Recommendation:

That the following is noted:

- The 2018/19 Treasury mid-year performance against the 2018/19 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 2018 to 30 September 2018 and highlights relevant issues currently under consideration by officers. It provides a comparison of the closing investment and debt positions as at 30 September 2018 with the 2018/19 full year budget and a revised 2018/19 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 LFC to maximise liquidity and investment return.

3 The 18/19 GIS Investment Strategy was approved by the LFC on 29 March 2018.

Compliance with the 2018/19 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 2018/19 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 (Provided by Link Asset Services)

5 UK. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

6 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

7 As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3-month average regular pay, excluding bonuses) and to a one-month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given 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. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

8 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, 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.

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

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

10 The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Current Treasury Management Position

11 The table below shows the current Treasury management position.

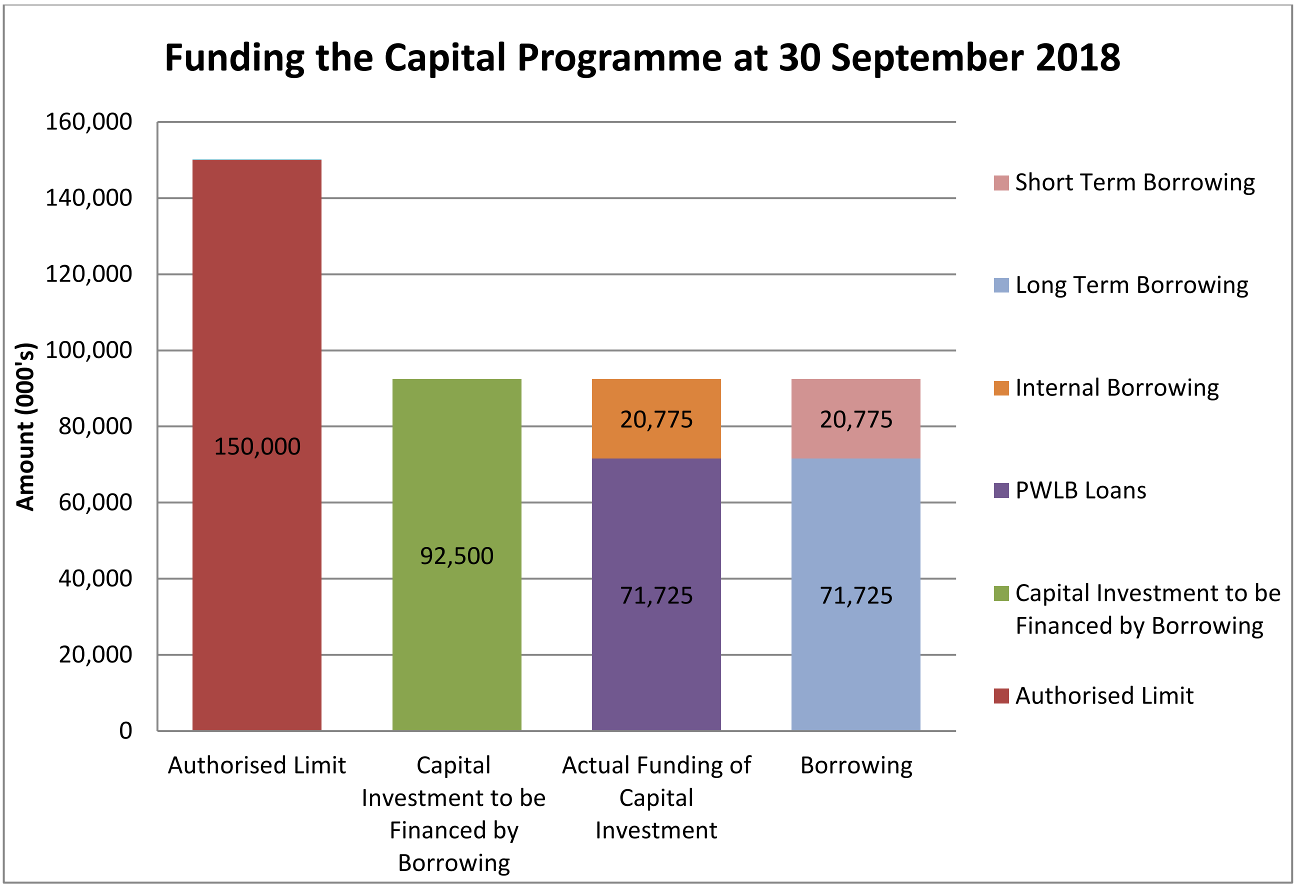
Current Treasury Position	TMSS Forecast to 31 March 2019		Actual as at 30 September 2018		Revised Forecast to 31 March 2019	
	£m	Rate %*	£m	Rate %*	£m	Rate %*
External Borrowing						
Long Term Borrowing: PWLB	66.73	4.69	71.73	4.70	66.73	4.69
Total External Borrowing (A)	66.73		71.73		66.73	
Other Long-Term Liabilities						
PFI Liability	46.90		47.50		46.90	
Finance Lease Liability	18.40		18.40		18.40	
Total Other Long-Term Liabilities (B)	65.30		65.90		65.30	
Total Gross Debt (A+B)	132.03		137.63		132.03	
Capital Financing Requirement	158.40		164.40		158.60	
Less Other Long-Term Liabilities	65.30		65.90		65.30	
Underlying Capital Borrowing Requirement (C)	93.10		98.50		93.30	
Under/(Over) Borrowing (C-A)	26.37		26.78		26.57	
Investments (D)	55.50		116.47	0.86	45.00	
Total Net Borrowing (A-D)	11.23		-44.74		21.73	
*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 2018. PWLB loans of £1.00m were repaid, reducing total borrowing to £71.73m at 30 September 2018.

13 No rescheduling of debt was undertaken during the six months ending 30 September 2018.

14 The chart below compares the maximum the LFC could borrow in 2018/19 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 2018.



15 The chart shows that the LFC's capital investment to be financed by borrowing was £92.50m as at 30 September 2018. It also shows that the LFC was using £20.78m of internal borrowing to finance capital investment.

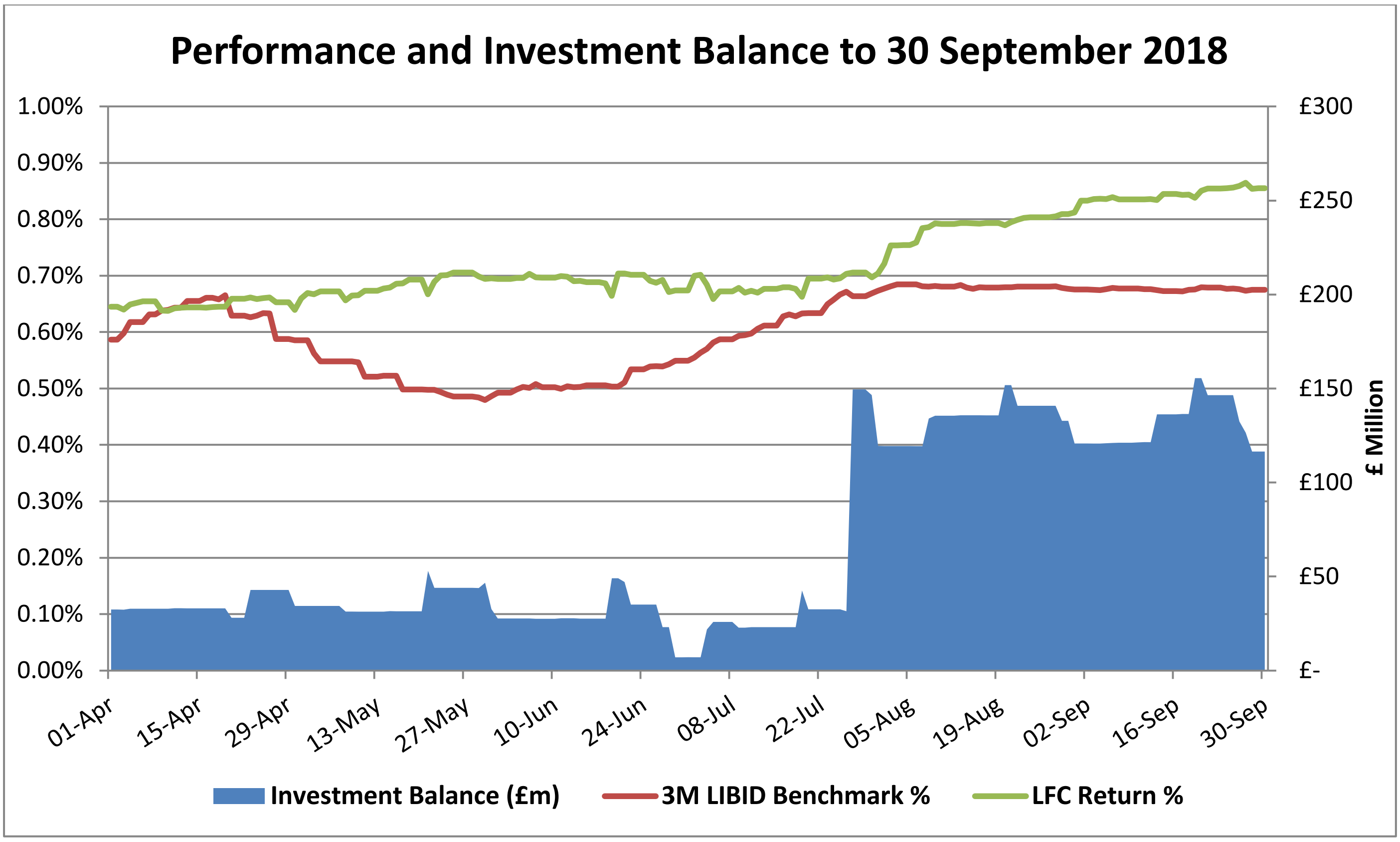
Investment Activity

16 Investment balances as at 30 September 2018 were £116.47m, this being an increase of £84.03m over the £32.44m opening balance on the 1 April 2018.

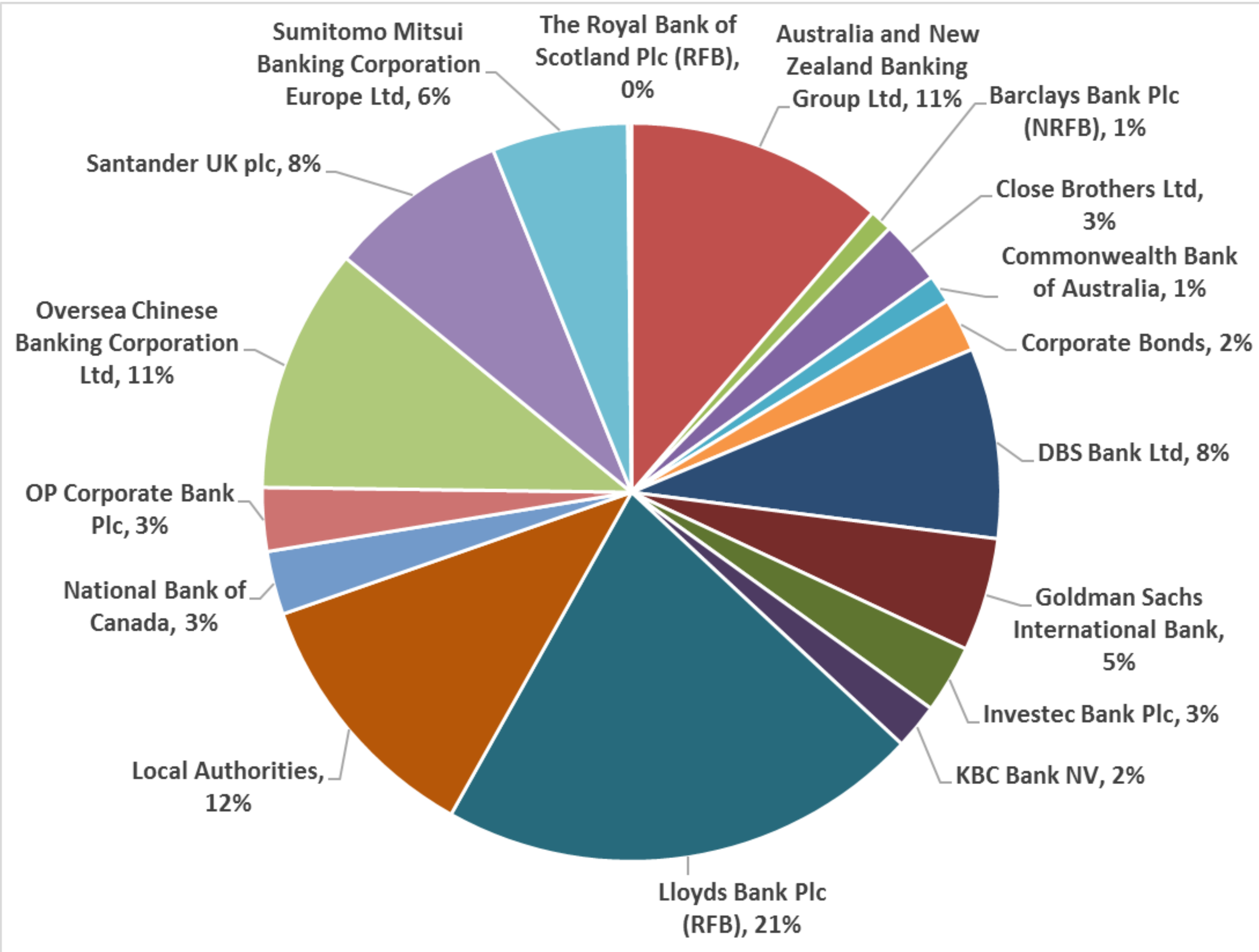
17 The LFC has outperformed its investment benchmark by 12 basis points (19%) during the six months ending the 30 September 2018. It has achieved a cumulative weighted average yield of 0.77% on daily balances against a cumulative weighted average 3-month LIBID of 0.65%.

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 which is then used throughout the year.



20 The investment portfolio was well diversified at 30 September 2018 as demonstrated below.



Treasury Management Budget

Treasury Management Budget	2018-19 Original Estimate £m	2018-19 Actual as at 30.09.18 £m	2018-19 Revised Estimate £m	2018-19 Variance between Original Estimate and Revised Estimate £m
Interest payable: PWLB and Market Loans	3.52	1.69	3.52	0.00
Interest payable: Other Long-Term Liabilities	3.20	1.60	3.20	0.00
Interest Receivable	-0.40	-0.26	-0.70	0.30
Total	6.32	3.54	6.02	0.30

CIPFA Prudential Code Indicators and Treasury Management Limits

21 The tables below show the LFC's treasury position as at 30 September 2018, relative to the prudential indicator limits set in the 2018/19 Treasury Management Strategy.

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

<u>Capital Expenditure</u>

Capital Expenditure	2018-19 Original Estimate £m	2018-19 Actual as at 30.09.18 £m	2018-19 Revised Estimate £m	2018-19 Variance between Original Estimate and Revised Estimate £m
Total Capital Expenditure	39.00	5.40	14.40	24.60

<u>Capital Financing Requirement</u>

Capital Financing Requirement (CFR)	2018-19 Original Estimate £m	2018-19 Actual as at 30.09.18 £m	2018-19 Revised Estimate £m	2018-19 Variance between Original Estimate and Revised Estimate £m
Total CFR	158.40	164.40	158.60	-0.20

<u>Authorised Limit for External Debt</u>

Authorised Limit for External Debt	2018-19 Original Authorised Limit £m	2018-19 Actual External Debt as at 30.09.18 £m	Headroom £m
Borrowing	150.00	71.73	78.27
Other long-term liabilities	75.00	65.90	9.10
Total	225.00	137.63	87.37

Operational Boundary for External Debt

Operational Boundary for External Debt	2018-19 Original Operational Boundary £m	2018-19 Actual External Debt as at 30.09.18 £m	Headroom £m
Borrowing	145.00	71.73	73.27
Other long-term liabilities	70.00	65.90	4.10
Total	215.00	137.63	77.37

Gross Debt and the Capital Financing Requirement

2018-19 Actual Gross Debt as at 30.09.18 £m	Preceding Year CFR £m	2018-19 Estimated Additional CFR £m	2019-20 Estimated Additional CFR £m	2020-21 Estimated Additional CFR £m	Total CFR over 4 years £m	Amount Gross Debt < Total CFR over 4 years £m
137.63	164.46	0.00	10.60	14.20	189.26	51.64

Limits for Maturity Structure of Borrowing

Limits for Maturity Structure of Borrowing for 2018-19	Upper Limit	Lower Limit	As at 30.09.18
	%	%	%
Under 12 months	20.00	0.00	9.76
12 months and within 24 months	20.00	0.00	9.76
24 months and within 5 years	50.00	0.00	12.55
5 years and within 10 years	75.00	0.00	24.02
10 years and above	90.00	25.00	43.92

Principal sums Invested for Periods Greater than 364 Days

23 No new investment maturing after 364 days was undertaken between 1 April 2018 and the 30 September 2018.

New Long-Term Borrowing

24 No new long-term borrowing was undertaken between 1 April 2018 and the 30 September 2018.