Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	5 February 2014
OFFICER	David Skinner, Director of Finance and Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	**Treasury Management Performance 2013/14 – Quarter 3**
EXECUTIVE SUMMARY	This report is being presented as Members resolved at the meeting of Buckinghamshire and Milton Keynes Fire Authority on 13 February 2013 that a quarterly Treasury Management report would be submitted to the Executive Committee and it is best practice to review on a regular basis how Treasury Management activity is performing. The accrued interest earned for the first nine months of the year is £90k, which is £37.5k higher than the budget for the same period and £40k higher than the interest that would have been earned under the previous Service Level Agreement (SLA).
ACTION	Information.
RECOMMENDATIONS	That the Treasury Management Performance 2013/14 – Quarter 3 report be noted.
RISK MANAGEMENT	Making investments in the Authority's own name means that the Authority bears the risk of any counterparty failure. This risk is managed in accordance with the strategy and with advice from external treasury management advisors. The Director of Finance and Assets, will act in accordance with the Authority's policy statement; treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management There are no direct staffing implications.
FINANCIAL IMPLICATIONS	The budget for 2013/14 relating to interest earned on balances invested is £70k. Performance against the budget is included within Appendix A.

LEGAL IMPLICATIONS	The Authority is required by section 15(1) of the Local Government Act 2003 to have regard to the Department for Communities and Local Government Guidance on Local Government Investments; and by regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146]to have regard to any prevailing CIPFA Treasury Management Code of Practice.
HEALTH AND SAFETY	No direct impact.
EQUALITY AND DIVERSITY	No direct impact.
USE OF RESOURCES	See Financial Implications.
PROVENANCE SECTION & BACKGROUND PAPERS	Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy http://www.bucksfire.gov.uk/NR/rdonlyres/99BE21DF-99EB-42E2-A9C7-8846A6E3F112/0/BMKFA13022013.pdf (Pages 31 – 42) Treasury Management Practices http://www.bucksfire.gov.uk/NR/rdonlyres/FDA454EA-1735-4569-BE96-C1E3D0079A75/0/ITEM6TreasuryManagementPracticesandASep13andAnnexA.pdf
APPENDICES	Appendix A – Treasury Management Performance 2013/14 – Quarter 3.
TIME REQUIRED	5 minutes.
REPORT ORIGINATOR AND CONTACT	Mark Hemming mhemming@bucksfire.gov.uk 01296 744687

Appendix A – Treasury Management Performance 2013/14 – Quarter 3

Background

Up until 31 March 2013, the Authority's cash balances were managed by Buckinghamshire County Council (BCC) under a Service Level Agreement (SLA). For 2013/14 onwards, the Authority is now investing in its own name. This report highlights the performance of the in-house treasury management function for the first three quarters of 2013/14.

Security of Investments

The primary investment priority as set out in the Treasury Management Policy Statement is the security of capital. The Authority applies the creditworthiness service provided by Capita (formerly known as Sector). This determines whether or not a counterparty is suitable to invest with and if so, the maximum duration an investment could be placed with them. In the Annual Investment Strategy, the Authority also resolved that the balances invested with any single counterparty at any point in time would be 30% of the total investment portfolio to a maximum of £5m. The amount invested with each counterparty on the approved lending list as at 31 December 2013 is detailed below:

Counterparty	**Amount (£000)**
Barclays Bank plc	5,000
Lloyds TSB Bank plc	5,000
National Westminster Bank plc	3,663
Public Sector Deposit Fund (CCLA) – MMF*	3,075
Total	**16,738**

*MMF denotes a Money Market Fund

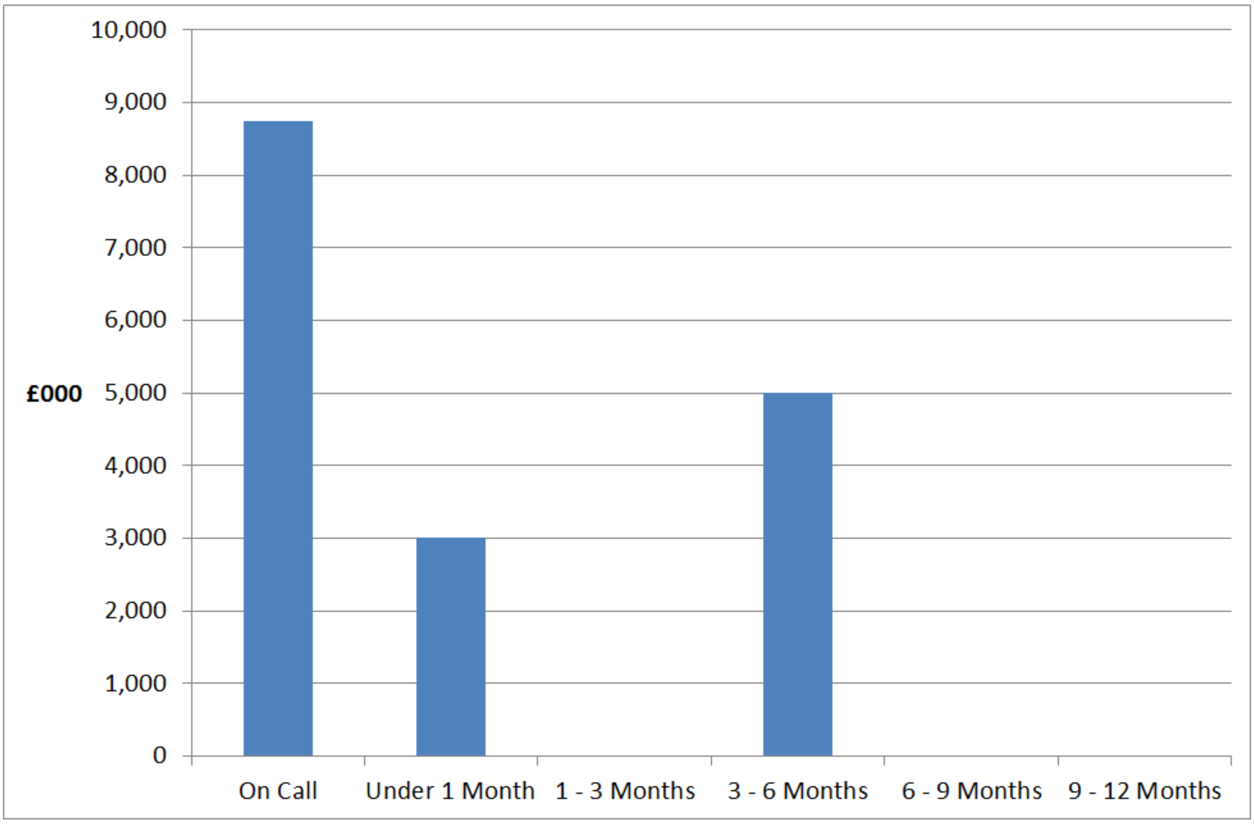
No counterparty limits were breached during the first nine months of 2013/14. No counterparties on the list were downgraded by Capita during the three quarters.

The above investments include an amount of £3.075m invested in a money market fund (MMF). A MMF employs credit analysts who first assess who is a suitable counterparty and then continue to monitor those counterparties over time. By investing with a range of counterparties risk is able to be diversified to a greater extent than investing directly in single counterparties.

Liquidity

Investments

The second objective set out within the Treasury Management Policy Statement is the liquidity of investments (i.e. keeping the money readily available for expenditure when needed). Investments have been placed at a range of maturities, including having money on-call in order to maintain adequate liquidity. The current investment allocation by remaining duration can be seen on the chart below:



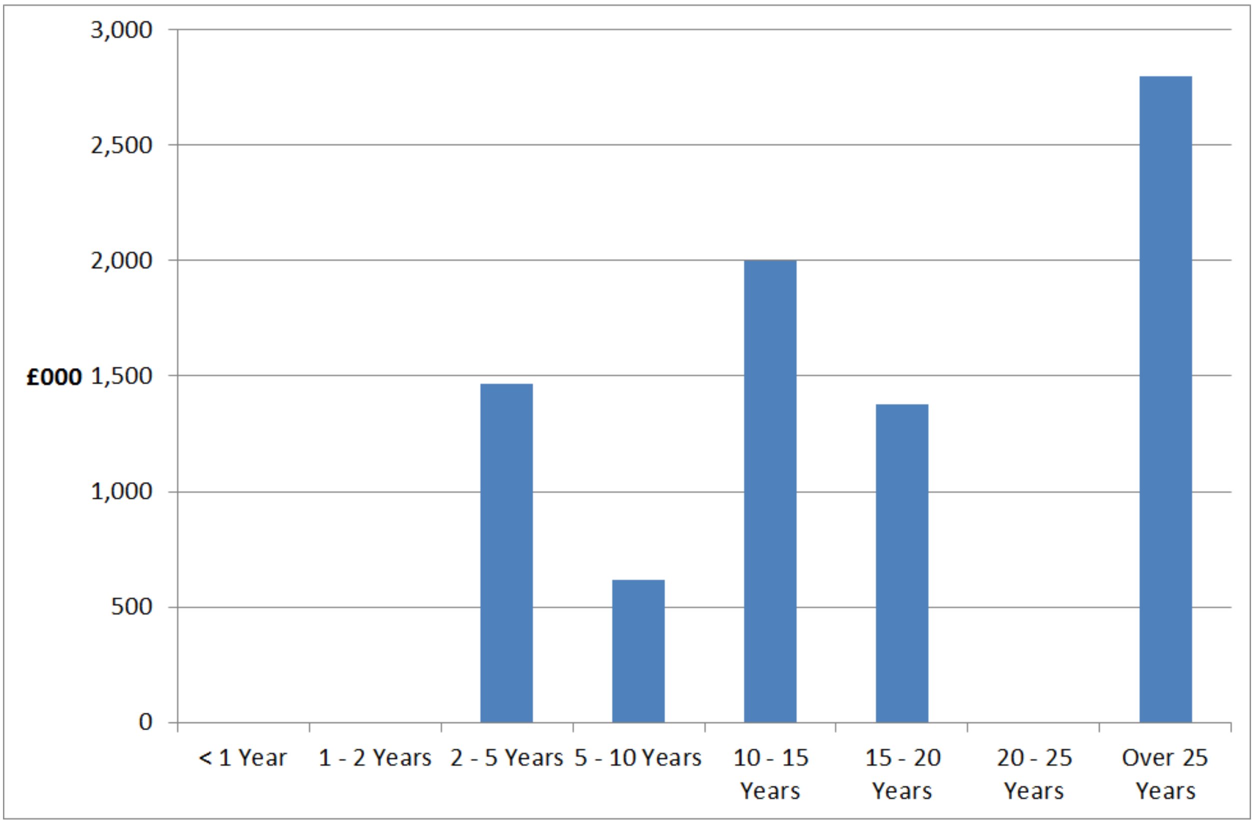
By reviewing the Balance Sheet position, level of reserves and cash requirements, the Authority determined that it was able to invest £5m for one year (which now has a remaining duration of three months). In order to cover unforeseen circumstances and potential major incidents that could occur, a large proportion of the investment balances are held on call (i.e. it is available for use on the day it is required).

The investments under one month in duration consists of a single investment of £3m that was originally made for three months. This will mature in early January and will be reinvested for a further three months. It is anticipated that the £5m originally invested for one year, will be reinvested for a further year when it matures at the beginning of April, although this will depend on rates available at the time and will be kept under review as part of the overall strategy.

Balances on call include the investment in the MMF. A MMF helps improve the liquidity of the Authority's balances. By investing collectively, the Authority benefits from liquidity contributed by others and from the knowledge they are all unlikely to need to call on that money at the same time.

Borrowing

As part of managing the liquidity of investments, it is important to have regard to the maturity structure of outstanding borrowing. This can be seen in the following chart:



The earliest date for repayment of borrowing is March 2016, when £0.515m is due to be repaid. A further £0.368m is also due to be repaid in May 2016. These repayments do not directly affect the revenue budget, as they simply reflect the use of cash (accumulated by setting aside the appropriate minimum revenue provision (MRP) year on year) to settle the outstanding liability.

The MRP does have a direct impact on the revenue account and therefore the General Fund. If the Authority repays borrowing and does not take out additional borrowing, the annual MRP charge will gradually reduce over time.

Investment Yield

Having determined proper levels of security and liquidity, it is reasonable to consider the level of yield that could be obtained that is consistent with those priorities.

Performance Against Budget – Quarters 1 – 3

The budget for interest on investment balances for 2013/14 is £70k. This therefore means that the budget for the first three quarters is £52.5k.

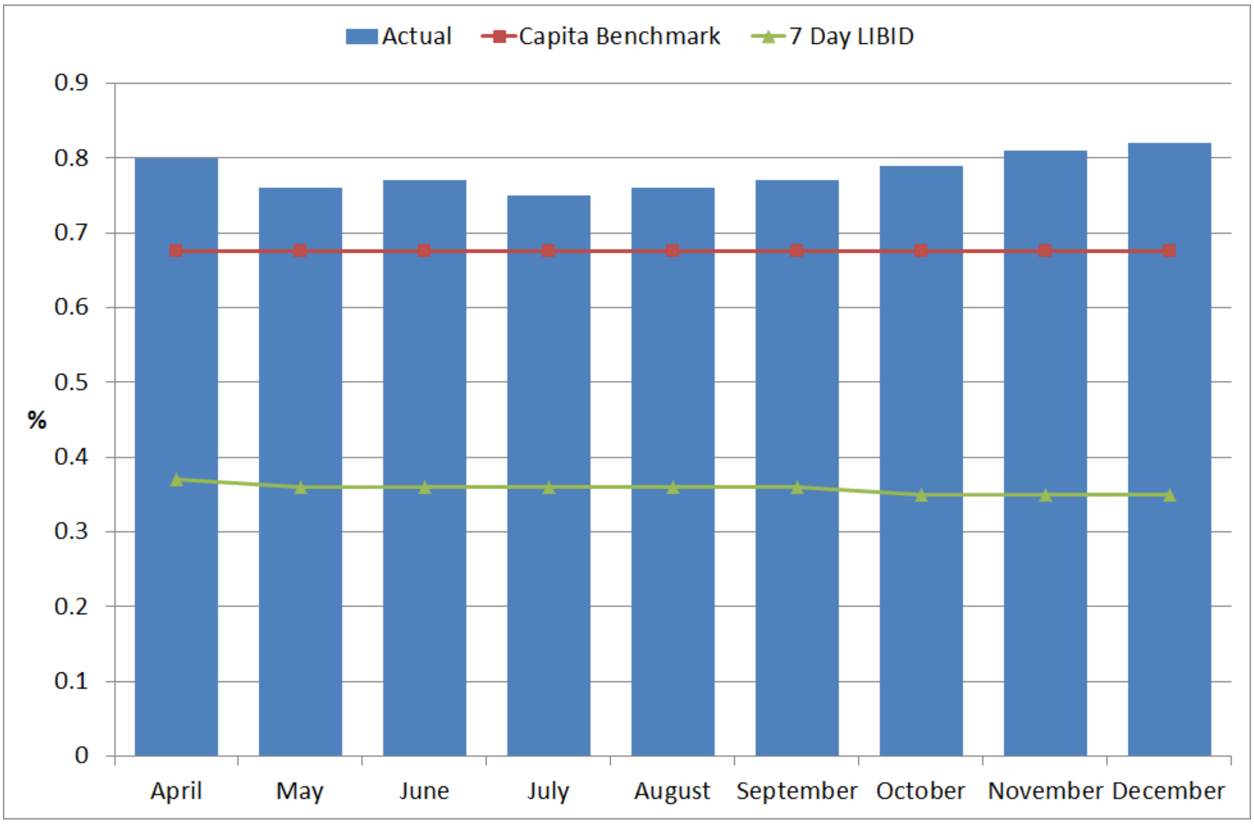
The accrued interest earned as at 31 December 2013 was £90k, which is an over achievement of £37.5k for the first three quarters of the year.

<u>Performance Against the Benchmark – Quarters 1 – 3</u>

The relative performance of the investments is measured against two benchmark figures:

- 7 day LIBID – this is the rate the Authority would have earned on all balances had the SLA with BCC continued into 2013/14
- Capita benchmark – this is the indicative rate that Capita advised we should be looking to achieve for 2013/14 at the start of the year

The weighted average rate (%) is compared to the two benchmark figures in the following table for each month:



The Authority has out-performed both benchmark figures in each and every month. The main reason for the over performance was that the determined liquidity structure allowed the Authority to commit a significant proportion of the portfolio for a duration of one year at a favourable rate.

The average rate of return has increased slightly during the third quarter. This is due to the overall cash balances reducing during the quarter (mainly due to the irregular scheduled payments of the Revenue Support Grant). Although higher cash balances provide greater total returns, the percentage return will decrease as cash balances increase (and vice-versa). This is because in order to diversify the investment portfolio and remain within approved counterparty limits, investments will need to be made with counterparties offering a lower rate of return than could have been achieved with counterparties where the approved limit had been already been reached.