Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	17 September 2014
OFFICER	David Skinner, Director of Finance and Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	**Treasury Management Performance 2014/15 – Quarter 1**
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 quarter of 2014/15 is £29k, which is £11.5k higher than the budget for the quarter.
ACTION	Information.
RECOMMENDATIONS	That the Treasury Management Performance 2014/15 – Quarter 1 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 2014/15 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/89EFC4A0-9874-42ED-BF89-92D56BAC0CC9/0/ITEM7aTREASURYMANAGEMENT.pdf Treasury Management Practices http://www.bucksfire.gov.uk/NR/rdonlyres/FDA454EA-1735-4569-BE96-C1E3D0079A75/0/ITEM6TreasuryManagementPracticesandASep13andAnnexA.pdf
APPENDICES	Appendix A – Treasury Management Performance 2014/15 – Quarter 1
TIME REQUIRED	5 minutes.
REPORT ORIGINATOR AND CONTACT	Mark Hemming mhemming@bucksfire.gov.uk (01296) 744687

Appendix A – Treasury Management Performance 2014/15 – Quarter 1

Background

Up until 31 March 2013, the Authority's cash balances were managed by Buckinghamshire County Council (BCC) under a Service Level Agreement (SLA). From 2013/14 the Authority began investing in its own name. This report highlights the performance of the in-house treasury management function for the first quarter of 2014/15.

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 (AIS), the Authority 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 (with the exception of Lloyds Bank, who as our banking provider have a limit of £7.5m, of which at least £2.5m must be instant access). The amount invested with each counterparty on the approved lending list as at 30 June 2014 is detailed below:

Counterparty	**Amount (£000)**
Lloyds Bank plc	5,000
National Westminster Bank plc	3,000
Nationwide Building Society	5,000
Skipton Building Society	1,000
Leeds Building Society	1,000
Coventry Building Society	1,000
Lloyds Bank Current Accounts	576
Public Sector Deposit Fund (CCLA) – MMF*	1,573
Total	**18,149**

*MMF denotes a Money Market Fund

No counterparty limits were breached during Quarter 1.

The above investments include an amount of £1.573m 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.

In its AIS the Authority also resolved that all credit ratings will be monitored weekly, by means of the Capita creditworthiness service. During Quarter 1 Capita downgraded one counterparty on the list, which was MBNA Europe Bank, with whom the Authority had no funds deposited. Also in Quarter 1 Capita upgraded some counterparties. Therefore in line with the AIS, the Authority's lending list has been updated to reflect these changes as detailed in the table below:

UK Based Counterparties			
Country	**Counterparty**	**Maximum Duration**	**30.06.14 Amendment**
UK	Barclays Bank plc	No colour - 0 mths	Red - 6 mths
UK	MBNA Europe Bank	Red - 6 mths	Green - 100 days
UK	Santander UK PLC	Green - 100 days	Red - 6 mths
UK	Sumitomo Mitsui Banking Corporation Europe Ltd	Green - 100 days	Red - 6 mths
UK	Nationwide BS	Green - 100 days	Red - 6 mths
UK	Abbey National Treasury Services	-	Red - 6 mths
UK	Cater Allen	-	Red - 6 mths
UK	Citibank International PLC	-	Red - 6 mths
UK	Close Brothers	-	Green - 100 days
UK	Goldman Sachs International	-	Green - 100 days
UK	Merrill Lynch International	-	Red - 6 mths
UK	Morgan Stanley & Co International plc	-	Green - 100 days
UK	Coventry Building Society	No colour - 0 mths	Green - 100 days

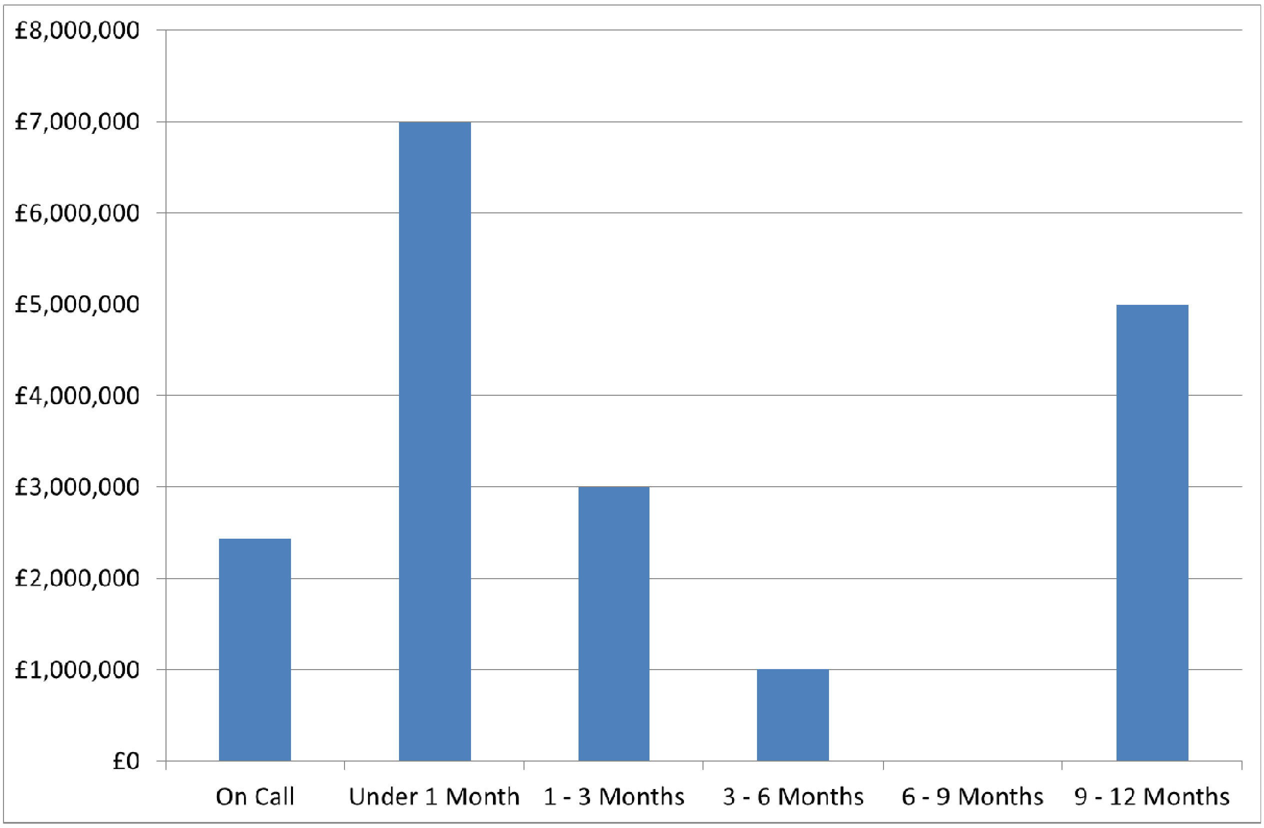
Key:

Red - 6 mths	Approved for investments up to 6 months in duration
Green - 100 days	Approved for investments up to 100 days in duration
No colour - 0 mths	Counterparty not approved for investments of any duration

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:



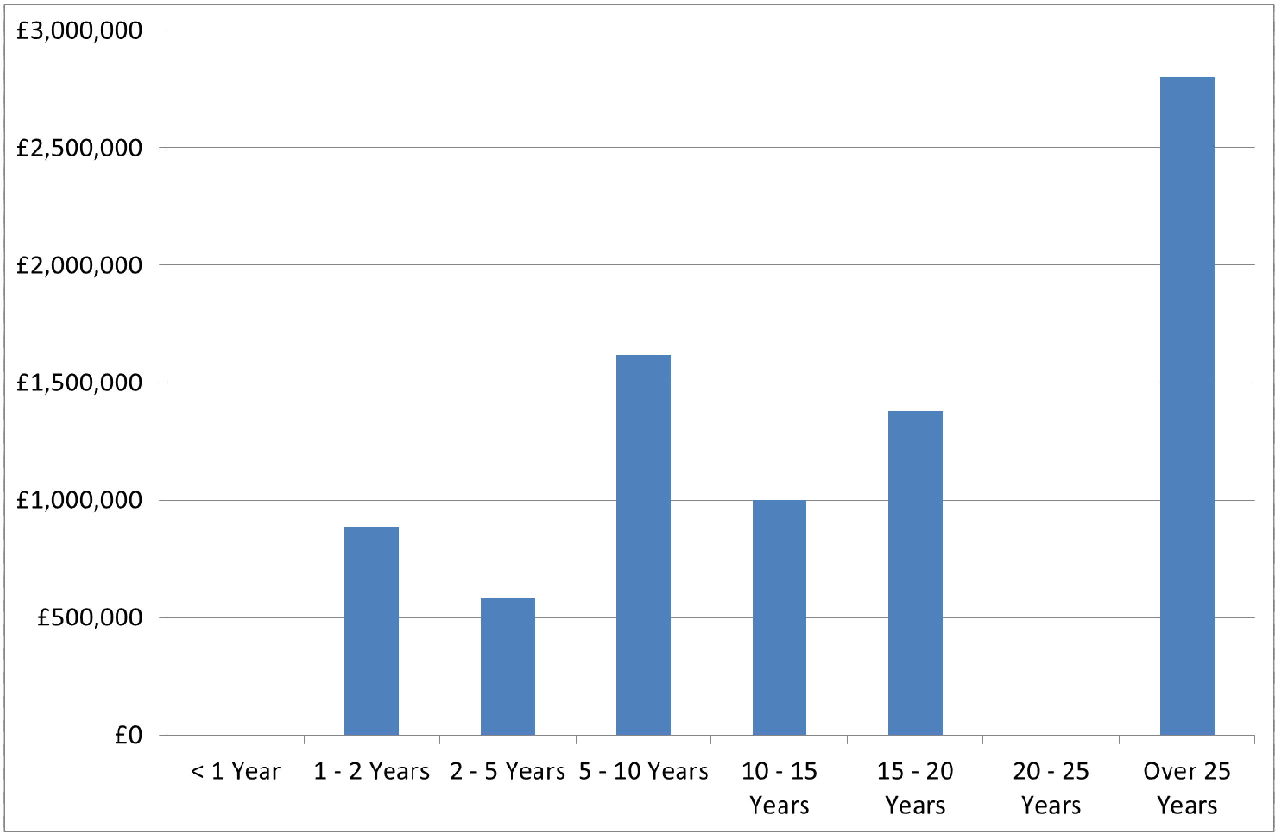
By reviewing the Balance Sheet position, level of reserves and cash requirements, the Authority determined that it was able to re-invest £5m for one year (which matures on 2 April 2015). In order to cover known expenditure such as salaries, pension and creditor payments, a greater proportion of the balances are invested as fixed-term deposits to specified dates. Any unforeseen circumstances and potential major incidents that could occur are covered by holding a smaller proportion of the investment balances are on call (i.e. it is available for use on the day it is required).

The investments under one month in duration consist of three investments, two of £3m each and one of £1m that were originally made for three months. One £3m investment will mature in the middle of July and the other at the end of July. The £1m investment matured on 1 July and has been reinvested for a further three months.

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.

<u>Performance Against Budget – Quarter 1</u>

The budget for interest on investment balances for 2014/15 is £70k. This therefore means that the budget for the first quarter is £17.5k. Although the budget was consistently over-achieved in 2013/14, it was left unchanged for 2014/15 due to the downside risk to interest rates present at the time.

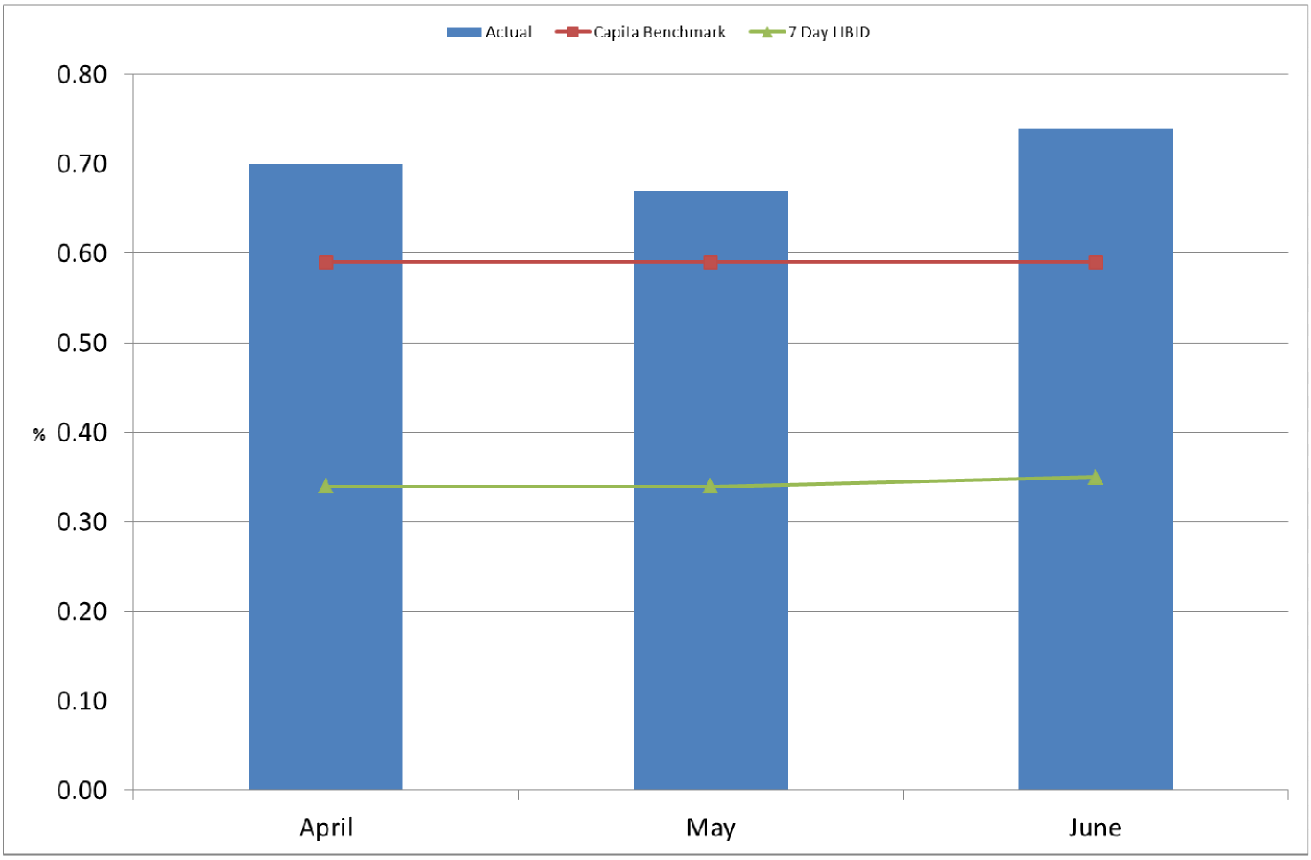
The accrued interest earned as at 30 June 2014 is £29k, which is an over achievement of £11.5k for the year to date.

<u>Performance Against the Benchmark – Quarter 1</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 2014/15
- Capita benchmark – this is the indicative rate that Capita advised we should be looking to achieve for 2014/15 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 for the first quarter. The main reason for the over performance is that the amendments to the AIS for 2014/15 allow for a greater number of counterparties. This has facilitated a more proactive approach to investments enabling the Authority to take advantage of favourable interest rates on shorter investments, whilst also diversifying risk more effectively. The determined liquidity structure has also allowed the Authority to commit a proportion of the portfolio for a duration of one year at a favourable rate.