Appendix A – Treasury Management Performance 2014/15 – Quarter 4

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 its second year 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 31 March 2015 is detailed below:

Counterparty	**Amount (£000)**
Lloyds Bank plc	5,000
Santander	5,000
Nationwide Building Society	4,000
Skipton Building Society	1,000
Barclays Bank	3,000
Leeds Building Society	1,000
Lloyds Bank plc (current accounts)	27
Ignis Sterling MMF	1,000
Public Sector Deposit Fund (CCLA) – MMF*	179
Total	**20,206**

*MMF denotes a Money Market Fund

No counterparty limits were breached during Quarter 4.

The above investments include an amount of £1.179m invested in two money market funds (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 4 Capita downgraded one counterparty, Citibank International plc, with whom the Authority had no funds deposited.

Also in Quarter 4, Capita upgraded four counterparties, these being Coventry Building Society, Close Brothers, Standard Chartered Bank and Sumitomo Mitsui Banking Corporation Europe Ltd (the last one had been downgraded last quarter). Capita also added Clydesdale Bank and Yorkshire Bank to its rating list. Therefore in line with the AIS, the Authority's lending list has been updated to reflect these changes as detailed in the table below:

Country	**Counterparty**	**Maximum Duration as at 31/12/2014**	**Maximum Duration as at 31/03/2015**
UK	Citibank International PLC	Red - 6 mths	Green - 100 days
UK	Close Brothers	Green - 100 days	Red - 6 mths
UK	Clydesdale Bank		Green - 100 days
UK	Standard Chartered Bank	Red - 6 mths	Orange - 12 mths
UK	Sumitomo Mitsui Banking Corporation Europe Ltd	Green - 100 days	Red - 6 mths
UK	Coventry Building Society	Green - 100 days	Red - 6 mths
UK	Yorkshire Building Society	BMKFA duration 100 days	Green - 100 days

Key:

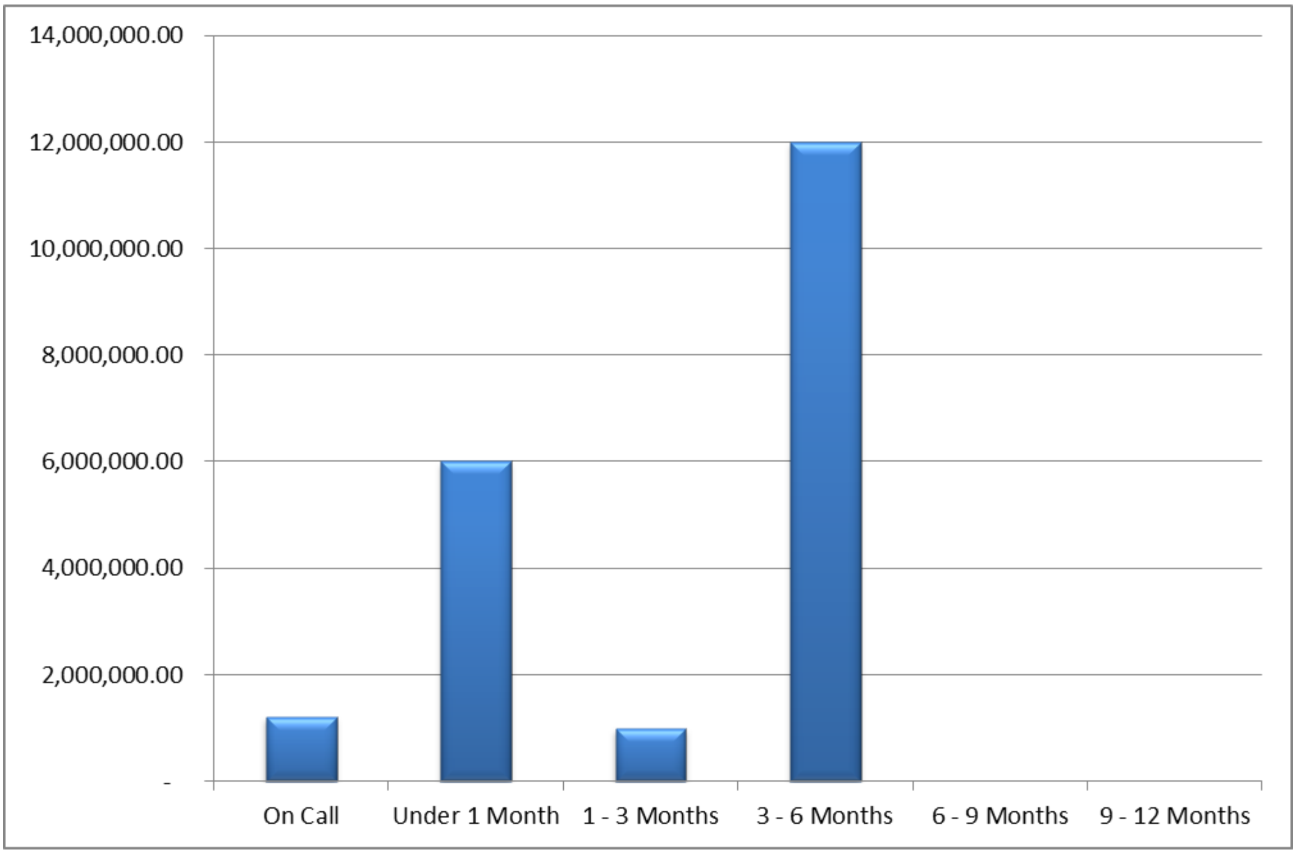
Orange - 12 mths	Approved for investments up to 12 months in duration
Red - 6 mths	Approved for investments up to 6 months in duration
Green - 100 days	Approved for investments up to 100 days in duration
No Colour	Counterparty no approved for investments of any duration

It should be noted that although Yorkshire Building Society was previously not rated, it was already included on the lending list as a UK building society with group assets of at least £10billion (as per the AIS). Of the four UK building societies that were not rated at the start of the year but included on the lending list, three of these (Coventry, Leeds and Yorkshire) are now rated 'Green' by Capita.

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:



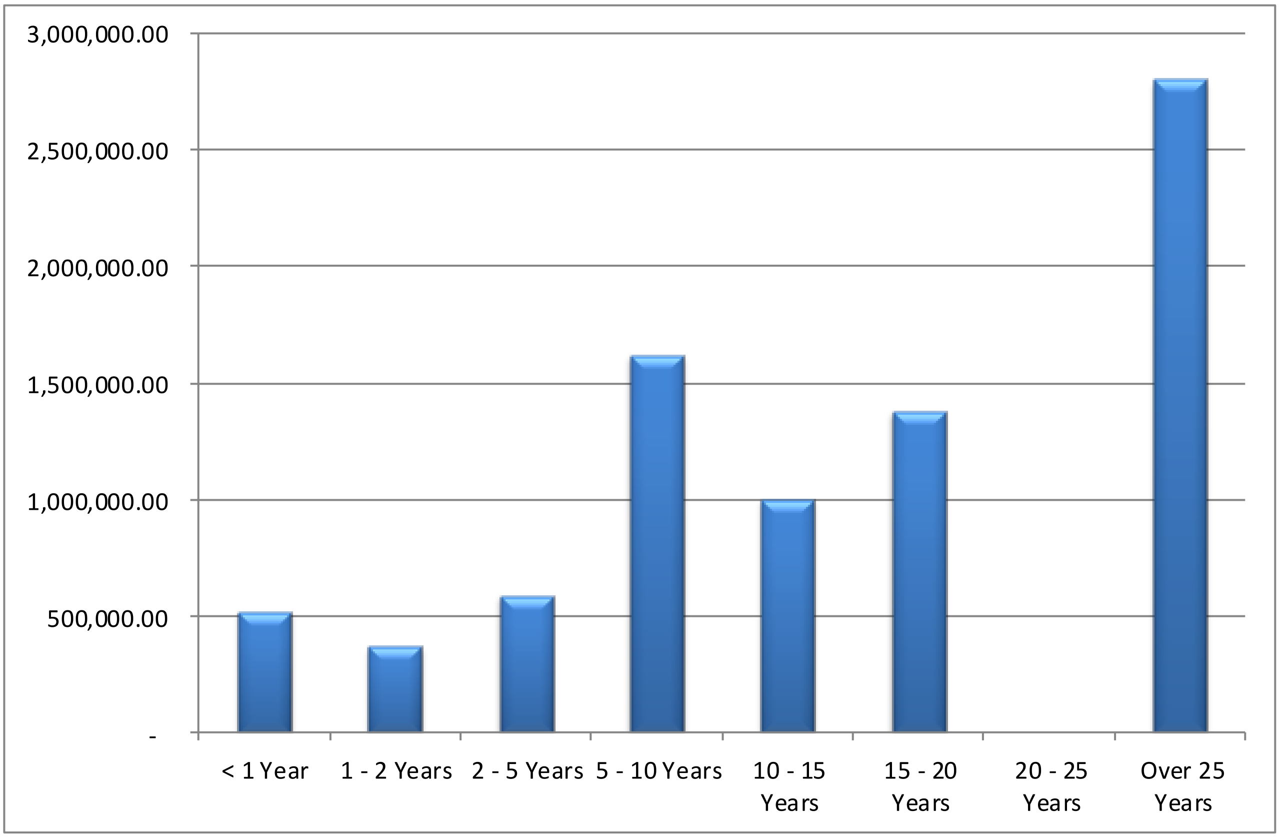
By reviewing the Balance Sheet position, level of reserves and cash requirements, the Authority determined that it was able to re-invest £5m for one year (which matures on 2 April 2015). In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which we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

The investments under one month duration consist of the £5m investment mentioned above and £1m originally invested for 3 months. The £5m will be reinvested for a further year and the £1m will be reinvested for 6 months. The investments of £12m that are 3-6 months in duration were originally made for three to six months. These all mature in July 2015 when they will be reinvested for a further 3-6 months in order to maintain liquidity.

Balances on call includes the investments in the MMF's. 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 total borrowing outstanding as at 31 March 2015 is £8.265m. 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 – Quarter 4

The budget for interest on investment balances for 2014/15 is £70k. 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.

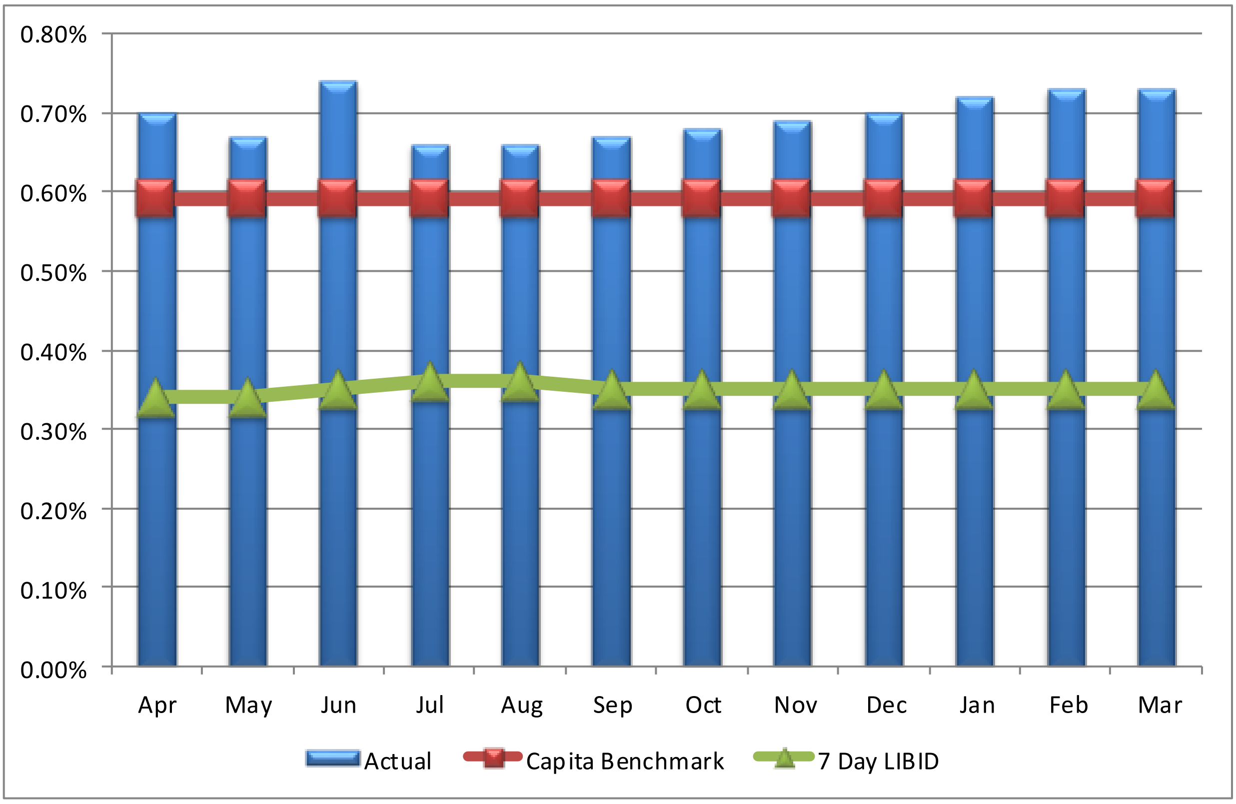
The accrued interest earned as at 31 March 2015 is £137k, which is an over achievement of £67k for the year. The budget for future years has being reviewed as part of the Medium Term Financial Planning process and the income target will be increased to £100k in light of continuing over-achievement against the current budget.

Performance Against the Benchmark – Quarter 4

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 year. 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.