Buckinghamshire & Milton Keynes Fire Authority

MEETING	Executive Committee
DATE OF MEETING	16 September 2015
OFFICER	David Sutherland, Acting Director of Finance & Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	**Treasury Management Performance 2015/16 - 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 2015/16 is £38k, which is £13k higher than the budget for the quarter.
ACTION	Information.
RECOMMENDATIONS	That the Treasury Management Performance 2015/16 – 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 2015/16 relating to interest earned on balances invested is £100k (increased from £70k in 2014/15). 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
CONSISTENCY WITH THE PRINCIPLES OF COLLABORATION	No direct impact.
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://bucksfire.gov.uk/files/2514/2719/3915/Treasury_Management_Strategy_2015-16.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 2015/16 – Quarter 1
TIME REQUIRED	5 minutes.
REPORT ORIGINATOR AND CONTACT	Linda Blunt lblunt@bucksfire.gov.uk (01296) 744404

Appendix A – Treasury Management Performance 2015/16 – 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 its third year 2015/16.

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 2015 is detailed below:

Counterparty	**Amount (£000)**
Lloyds Bank plc	5,000
Santander	5,000
Nationwide Building Society	5,000
Barclays Bank	3,000
Coventry Building Society	1,000
Yorkshire Building Society	1,000
Lloyds Bank plc (current accounts)	473
Ignis Sterling MMF*	1,000
Total	**21,473**

*MMF denotes a Money Market Fund

No counterparty limits were breached during Quarter 1.

The above investments include an amount of £1m 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, Clydesdale Bank, with whom the Authority had no funds deposited.

Also in Quarter 1, Capita upgraded four counterparties, these being Leeds Building Society, Citibank International, Goldman Sachs International and Morgan Stanley & Co International plc. 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 31/03/2015**	**Maximum Duration as at 30/06/2015**
UK	Citibank International PLC	Green - 100 days	Red - 6 mths
UK	Clydesdale Bank	Green - 100 days	No Colour
UK	Goldman Sachs International	Green - 100 days	Red - 6 mths
UK	Morgan Stanley & Co International plc	Green - 100 days	Red - 6 mths
UK	Leeds Building Society	Green - 100 days	Red - 6 mths

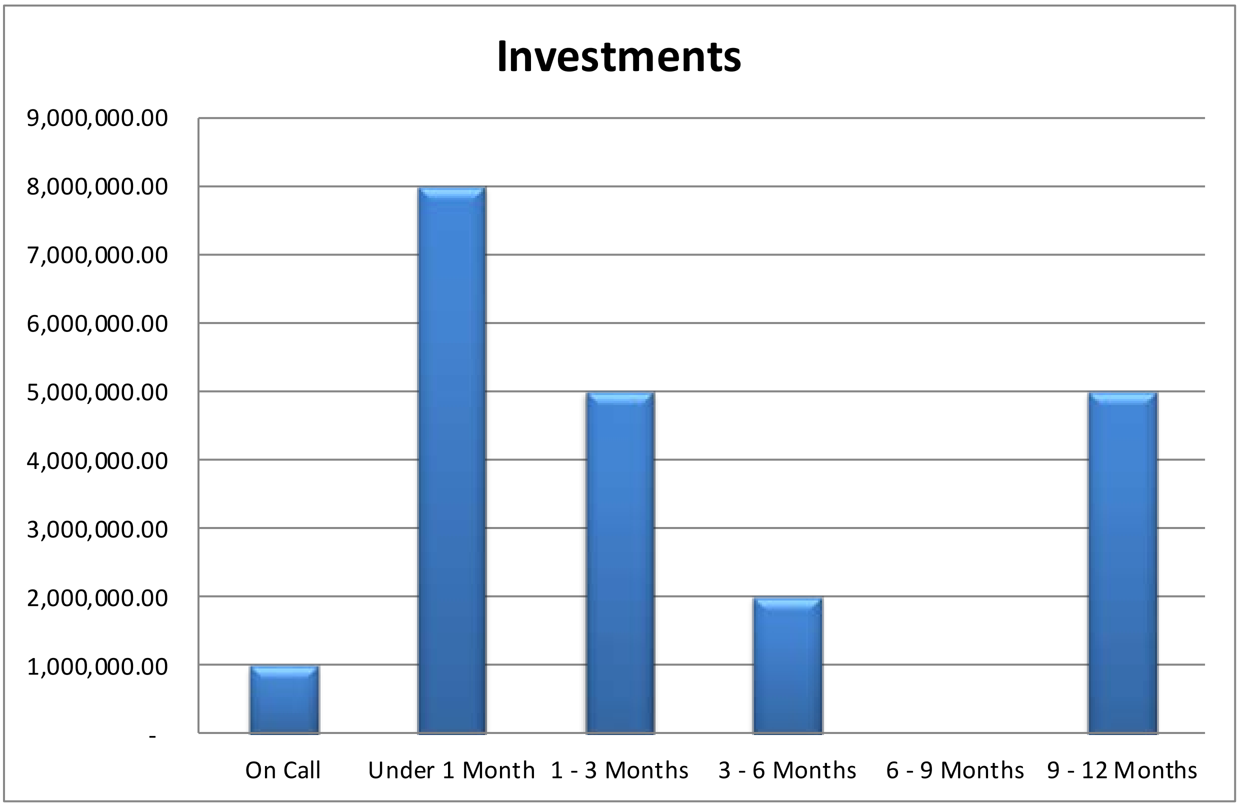
Key:

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

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:



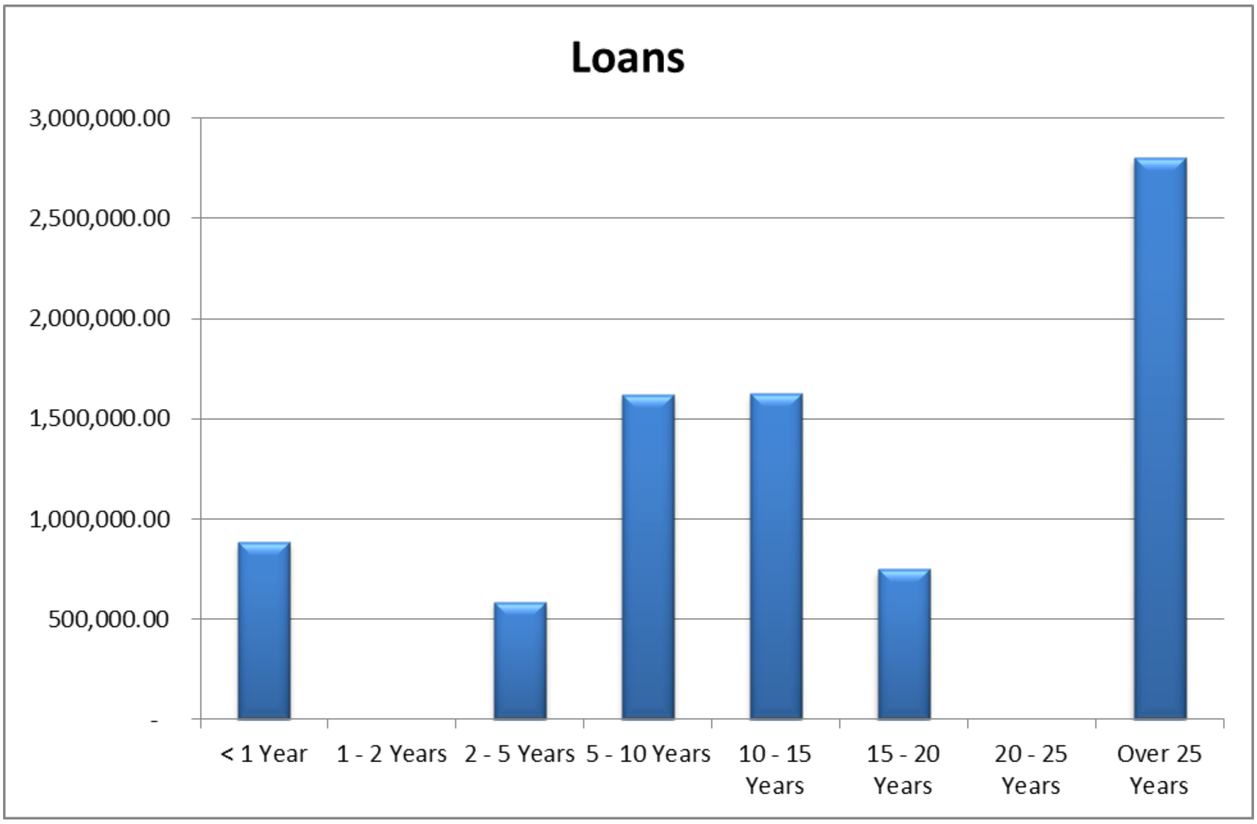
By reviewing the Balance Sheet position, level of reserves and cash requirements, the Authority determined that it was able to re-invest £5m for one year (which matures on 4 April 2016). In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which we 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 two investments, one of £5m to Santander and the other of £3m to Nationwide, which were both originally made for 6 months. The investment of £5m that is 3-6 months in duration was originally made for six months. These all mature in July 2015 when they will be reinvested for a further 3-9 months in order to maintain liquidity.

Balances on call include the investments 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 total borrowing outstanding as at 30 June 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 1

The budget for future years was reviewed as part of the Medium Term Financial Plan process and the income target was increased to £100k. This increase is due to the continuing over-achievement against the previous year's budget.

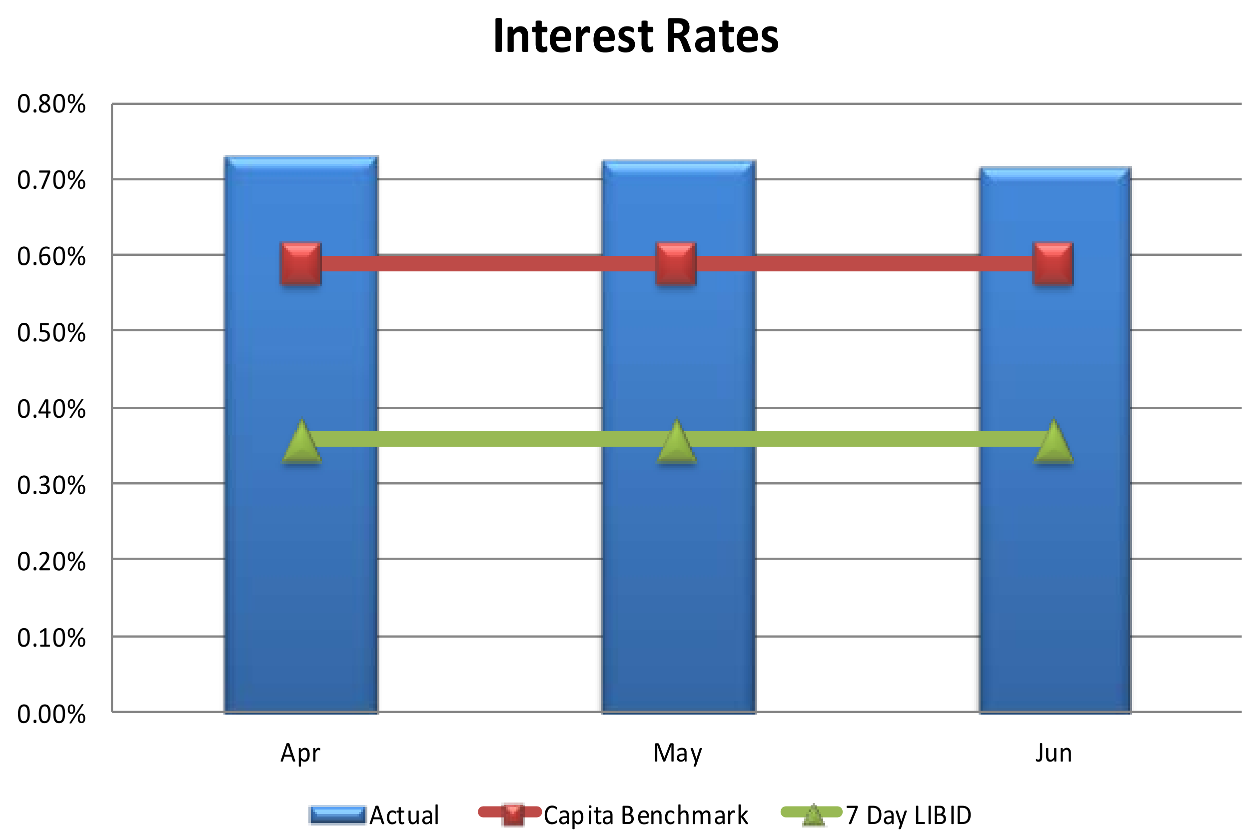
The accrued interest earned as at 30 June 2015 is £38k, which is an over achievement of £13k for the first quarter. .

Performance Against the Benchmark – Quarter 1

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 future years
- Capita benchmark – this is the indicative rate that Capita advised we should be looking to achieve for 2015/16 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 use of certificates of deposit agreed in the 2015/16 strategy has provided access to preferable rates not previously available to the Authority. Rates are also starting to gradually rise by a few basis points as the market starts to price in a base rate rise.