



Buckinghamshire & Milton Keynes Fire Authority

MEETING	Overview and Audit Committee
DATE OF MEETING	9 March 2016
OFFICER	David Sutherland, Acting Director of Finance & Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	Treasury Management Performance 2015/16 - Quarter 3
EXECUTIVE SUMMARY	<p>This report is being presented as Members resolved at the meeting of Buckinghamshire and Milton Keynes Fire Authority on 14 October 2015 that future Treasury Management reports would be submitted to the Overview and Audit Committee. It is best practice to review on a regular basis how Treasury Management activity is performing.</p> <p>The accrued interest earned for the first three quarters of 2015/16 is £132k, which is £57k higher than the budget for the period.</p>
ACTION	Information.
RECOMMENDATIONS	That the Treasury Management Performance 2015/16 – Quarter 3 report be noted.
RISK MANAGEMENT	<p>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.</p> <p>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.</p> <p>There are no direct staffing implications.</p>
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

	<p>3146] to have regard to any prevailing CIPFA Treasury Management Code of Practice</p> <p>Section 12 of the Local Government Act 2003 the Authority has the power to invest for “any purpose relevant to its functions” and “for the purposes of the prudent management of its financial affairs”.</p> <p>However it must exercise its investment power in accordance with its fiduciary duty, analogous to that of a trustee, owed to those who contribute to the funds of the Authority.</p>
CONSISTENCY WITH THE PRINCIPLES OF COLLABORATION	<p>Informal discussions have taken place with Royal Berkshire Fire & Rescue service to share this authority’s expertise on treasury management; however, no decision has yet been made in respect of that proposition.</p>
HEALTH AND SAFETY	<p>No direct impact.</p>
EQUALITY AND DIVERSITY	<p>No direct impact.</p>
USE OF RESOURCES	<p>See Financial Implications.</p>
PROVENANCE SECTION & BACKGROUND PAPERS	<p>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</p> <p>Treasury Management Practices http://www.bucksfire.gov.uk/NR/rdonlyres/FDA454EA-1735-4569-BE96-C1E3D0079A75/0/ITEM6TreasuryManagementPractice sandASep13andAnnexA.pdf</p>
APPENDICES	<p>Appendix A – Treasury Management Performance 2015/16 – Quarter 3</p>
TIME REQUIRED	<p>5 minutes.</p>
REPORT ORIGINATOR AND CONTACT	<p>Linda Blunt lblunt@bucksfire.gov.uk (01296) 744404</p>

Appendix A – Treasury Management Performance 2015/16 – 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). 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 31st December 2015 is detailed below:

Counterparty	Amount (£000)
Lloyds Bank plc	5,000
Santander	5,000
Nationwide Building Society	2,000
Barclays Bank	5,000
Leeds Building Society	1,000
Yorkshire Building Society	1,000
Standard Chartered Bank	1,000
Royal Bank Of Scotland	3,000
Lloyds Bank plc (current accounts)	1,115
Ignis Sterling MMF*	300
Total	24,415

*MMF denotes a Money Market Fund

No counterparty limits were breached during Quarter 3.

The above investments include an amount of £300k 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 2 Capita made one relevant change to the counterparty listing. Therefore in line with the AIS, the Authority's lending list has been updated to reflect these changes as detailed in the table below:

<u>Country</u>	<u>Counterparty</u>	<u>Maximum Duration as at 30/09/2015</u>	<u>Maximum Duration as at 31/12/2015</u>
UK	Standard Chartered Bank	No colour - 0 mths	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

Note on Ethical Investments

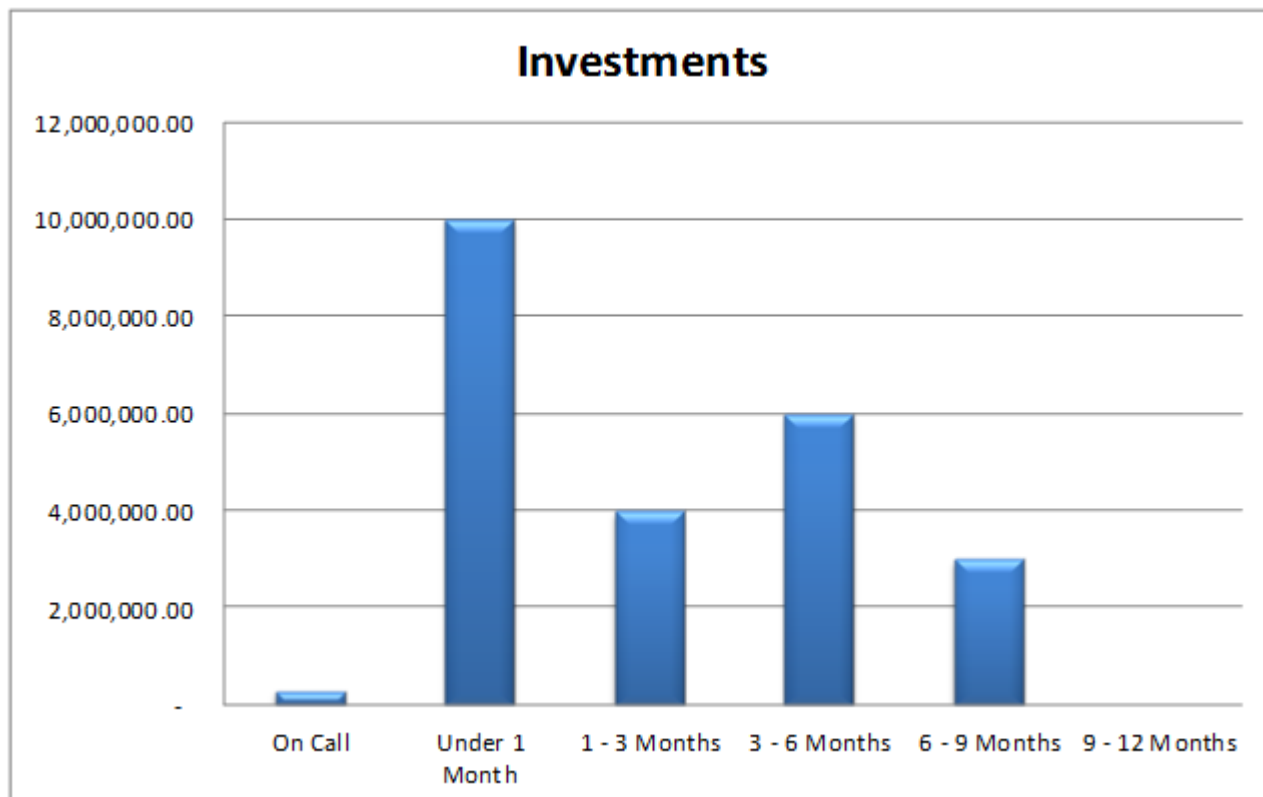
The advice from the Authority's current treasury management advisers is that they are "not aware of any public sector bodies which actually make ethical investments. This is down to the two factors referred to, i.e. security, in that an organisation may be ethical but may not have the required credit ratings and guarantees in place to secure your investment and secondly yield, where returns are well below other secure investments available in the market place. To go down this route may therefore compromise security and yield."

"Ethical investments" currently available do not provide the necessary security and yield.

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:



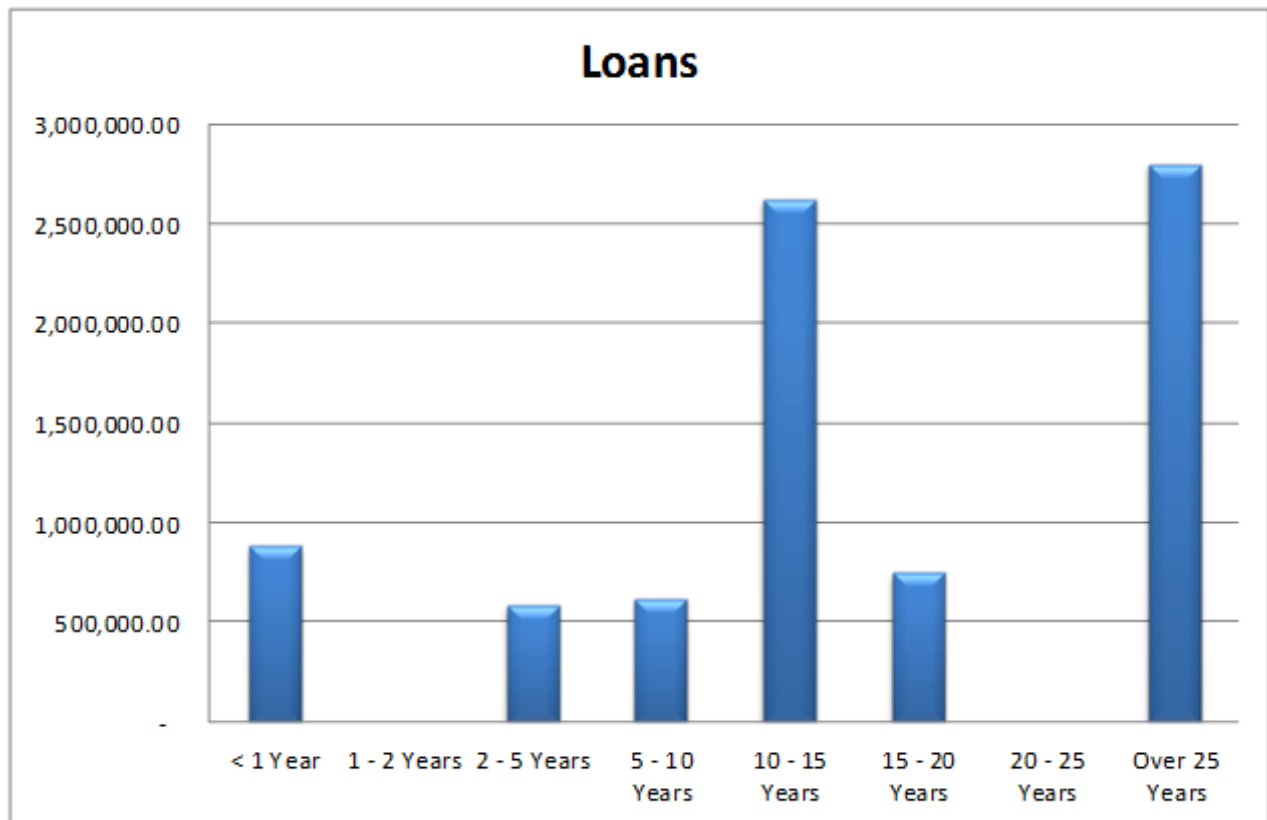
By reviewing the Balance Sheet position, level of reserves and cash requirements, the Authority determined that it was able to re-invest £5m for one year (which matures on 4 April 2016). In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which we 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, totalling £10m consist of four investments; one of £5m to Santander, one of £3m to Barclays Bank and two £1m investments to Yorkshire and Nationwide Building Societies. Three of these were originally made for six months and the fourth for three months. When they are reinvested they will again be spread over varied lending periods in order to maintain liquidity. The investments for 1-3 months totalling £4m is spread over four counterparties and they were originally made for a period of 6 months. The investments in the 3-6 month period totalling £6m include the £5m investment to Lloyds that was originally made for a one year period in order to secure the best interest rate.

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 31 December 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)) to settle the outstanding liability.

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 3

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 31st December 2015 is £132k, which is an over achievement of £57k for the first three quarters of the year.

Performance Against the Benchmark – Quarter 3

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 chart for each month:

