Buckinghamshire & Milton Keynes Fire Authority

MEETING	Overview and Audit Committee
DATE OF MEETING	27 July 2016
OFFICER	David Sutherland, Director of Finance & Assets
LEAD MEMBER	Councillor Andy Dransfield
SUBJECT OF THE REPORT	**Treasury Management Performance 2015/16 - Quarter 4**
EXECUTIVE SUMMARY	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. The accrued interest earned for the year of 2015/16 is £173k, which is £73k higher than the budget for the year and £36k higher than the total interest earned in the previous year.
ACTION	Information.
RECOMMENDATIONS	That the Treasury Management Performance 2015/16 – Quarter 4 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. The risk of counterparty failure is monitored on the directorate level risk register within Finance and Assets. 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://bucksfire.gov.uk/files/4314/5527/8969/OA250913.compressed.pdf
APPENDICES	Appendix A – Treasury Management Performance 2015/16 – Quarter 4
TIME REQUIRED	5 minutes.
REPORT ORIGINATOR AND CONTACT	Linda Blunt lblunt@bucksfire.gov.uk 01296 744404

Appendix A – Treasury Management Performance 2015/16 – 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 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 that 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 March 2016 is detailed below:

Counterparty	**Amount (£000)**
Lloyds Bank plc	5,000
Santander	3,000
Nationwide Building Society	2,000
Leeds Building Society	5,000
Standard Chartered Bank	1,000
Royal Bank Of Scotland	3,000
Lloyds Bank plc (current accounts)	117
Ignis Sterling MMF*	2,250
Total	**21,367**

*MMF denotes a Money Market Fund

No counterparty limits were breached during Quarter 4.

The above investments include an amount of £2,250k 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 4 Capita made several changes 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:

Country	**Counterparty**	**Maximum Duration as at 31/12/2015**	**Maximum Duration as at 31/03/2016**
UK	Bank of Scotland	Red - 6 mths	Green - 100 days
UK	Barclays Bank plc	Red - 6 mths	Green - 100 days
UK	Goldman Sachs International	Red - 6 mths	Green - 100 days
UK	HSBC Bank plc	Orange - 12 mths	Red - 6 mths
UK	Lloyds Banking Group	Red - 6 mths	Green - 100 days
UK	Standard Chartered Bank	Red - 6 mths	No colour - 0 mths
UK	Sumitomo Mitsui Banking Corporation Europe Ltd	Red - 6 mths	Green - 100 days

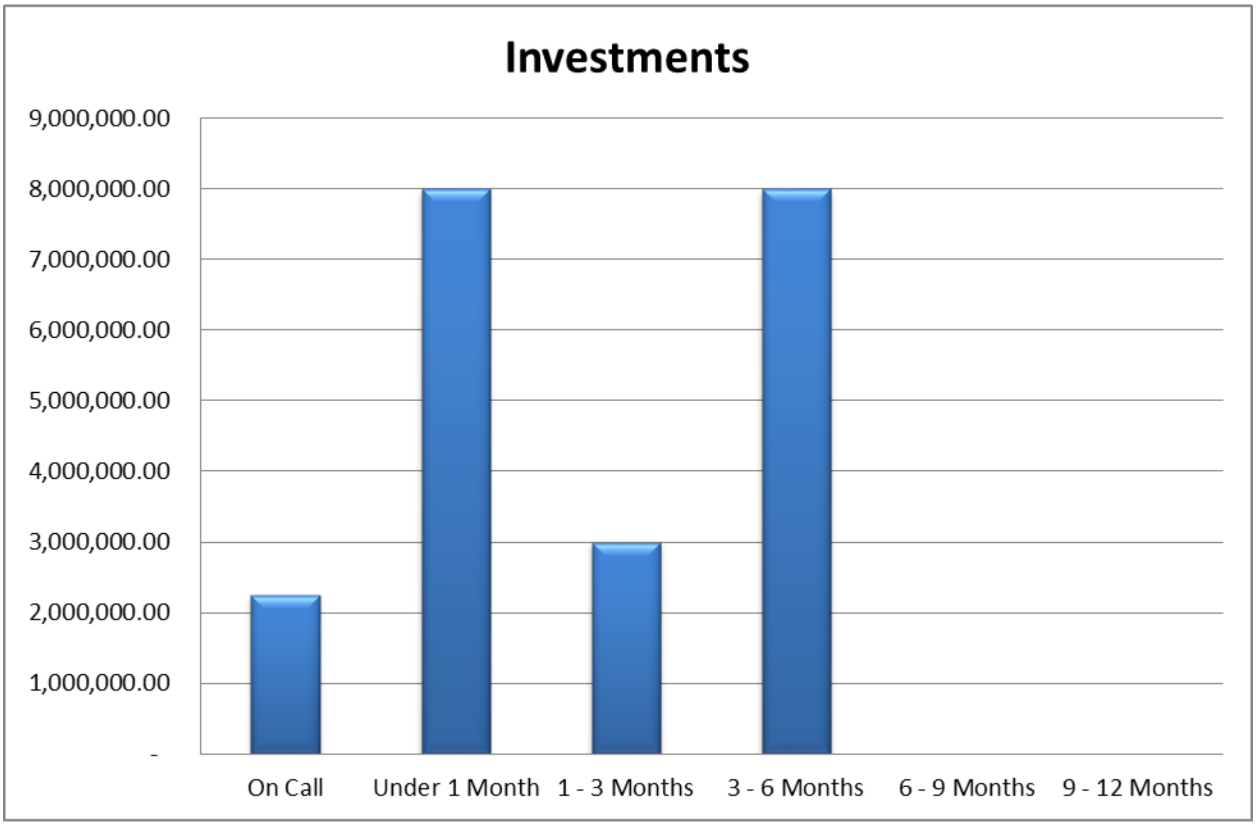
Key:

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 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:

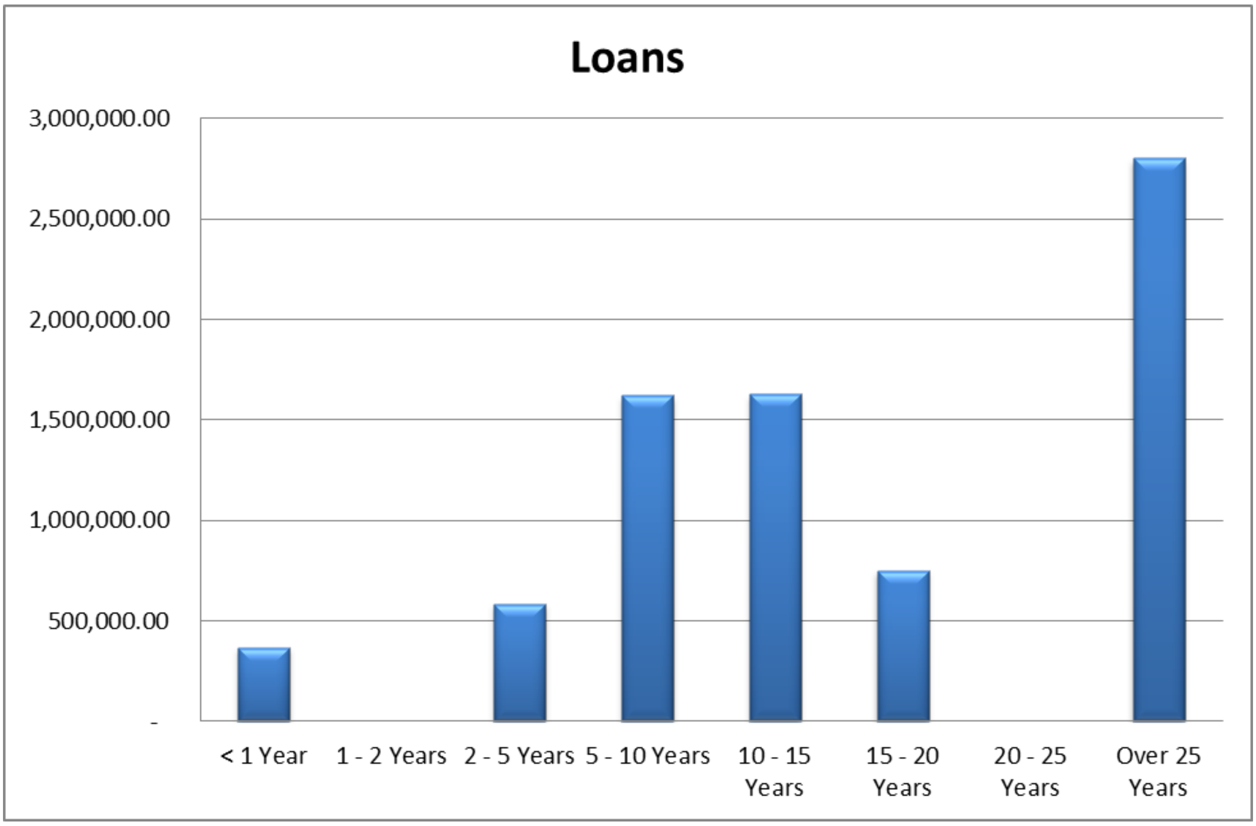


By reviewing the Balance Sheet position, level of reserves and cash requirements, the Authority determined that it was able to re-invest £5m for one year (which matures on 4 April 2016, at which point it will be reinvested for a further year). In order to cover expenditure such as salaries, pensions, 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 £8m consist of three investments; £5m to Lloyds Bank, £2m to Leeds Building Society and £1m to Santander. The Lloyds Bank deposit was originally made for twelve months and the other two were both made 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 £3m is spread over three counterparties and they were originally made for a period of 3, 4 and 5 months respectively. The investments in the 3-6 month period totalling £8m consists of investments to six counterparties that were originally invested over six and twelve month periods, upon reinvestment they will also be spread over varied lending periods 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.

<u>Borrowing</u>

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 2016 is £7.750m. During March 2016, one Loan for £0.515m was 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 4

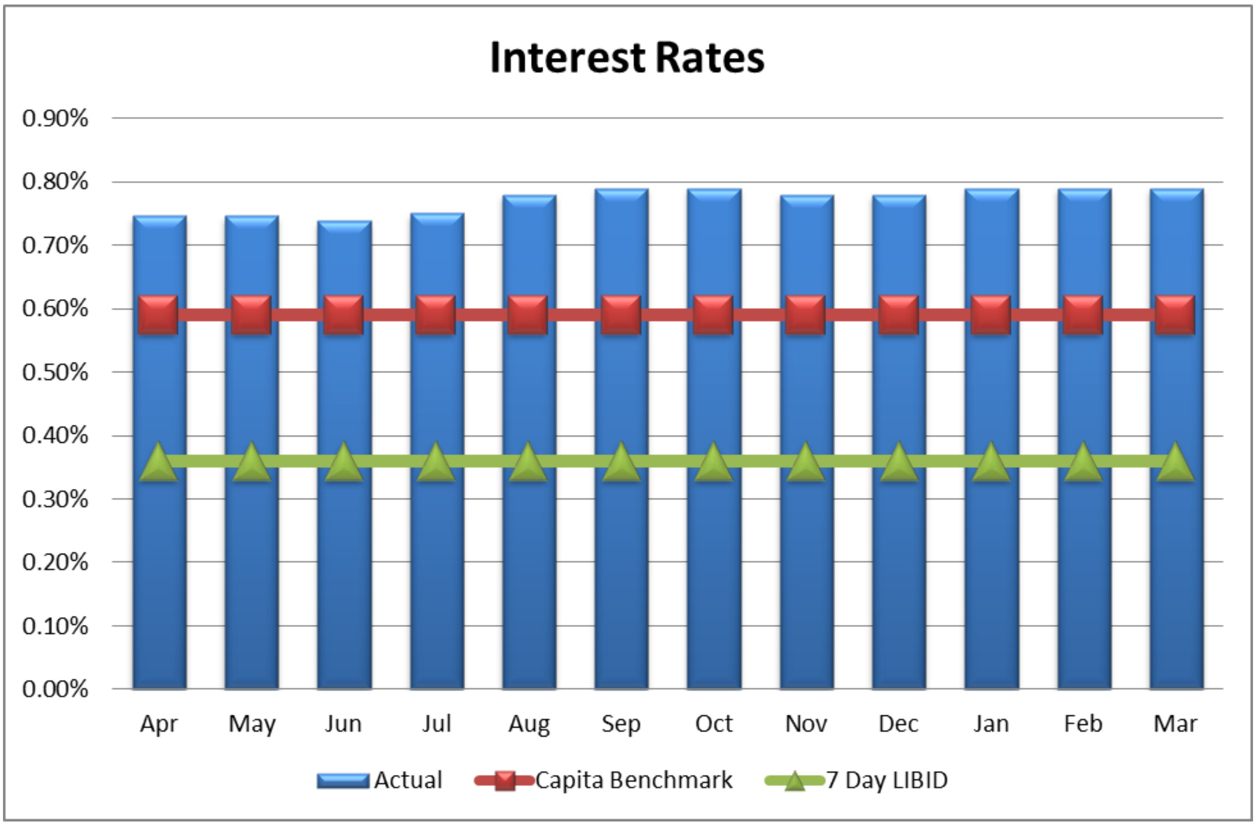
The budget for future years was reviewed as part of the Medium Term Financial Plan process and the income target was increased to £100k. This increase is due to the continuing over-achievement against the previous year's budget.

The accrued interest earned as at 31st March 2016 is £173k, which is an over achievement of £73k against the 2015-16 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 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:



The Authority has out-performed both benchmark figures throughout the year. This is due to attaining slightly better interest rates than the previous year and continued effective Treasury Management processes.

Furthermore the use of certificates of deposit agreed in the 2015/16 strategy has provided increased liquidity as well as access to preferable rates not previously available to the Authority. This has proved especially beneficial in December 2015, as the Authority was able to take an early maturity date on a certificate of deposit in order to promptly settle outstanding liabilities in relation to the GAD vs. Milne pension case. The date for this payment was unknown and instead of having to hold money at a lower interest rate we were able to invest in a certificate of deposit, securing a higher interest rate, and redeem that CD when it was needed without losing any benefit on the interest rate.