Buckinghamshire & Milton Keynes Fire Authority

MEETING	Overview and Audit Committee
DATE OF MEETING	8 March 2017
OFFICER	David Sutherland, Director of Finance and Assets
LEAD MEMBER	Councillor Peter McDonald
SUBJECT OF THE REPORT	**Treasury Management Performance 2016/17 - Quarter 3**
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 first three quarters of 2016/17 is £130k, which is £55k higher than the budget for the period.
ACTION	Information.
RECOMMENDATIONS	That the Treasury Management Performance 2016/17 – Quarter 3 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 2016/17 relating to interest earned on balances invested is £100k. 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/1614/4827/6491/ITEM_8_Treasury_Management_Strategy_2016-17_FINAL.pdf • Treasury Management Practices http://bucksfire.gov.uk/files/4314/5527/8969/OA250913.compressed.pdf
APPENDICES	Appendix A – Treasury Management Performance 2016/17 – Quarter 3
TIME REQUIRED	5 minutes.
REPORT ORIGINATOR AND CONTACT	Linda Blunt lblunt@bucksfire.gov.uk (01296) 744404

Appendix A – Treasury Management Performance 2016/17 – 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 2016/17.

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. 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 31 December 2016 is detailed below:

Counterparty	**Amount (£000)**
Lloyds Bank plc	5,000
Santander	3,000
Nationwide Building Society	3,000
Leeds Building Society	3,500
Barclays Bank	3,000
Sumitomo Mitsui Banking Corporation	4,000
Skipton Building Society	1,000
Lloyds Bank plc (current accounts)	1,612
Ignis Sterling MMF*	250
CCLA MMF*	500
Total	**24,862**

*MMF denotes a Money Market Fund

Although no counterparty limits were exceeded in terms of amount invested during the period, an administrative error meant that a deposit of £1m was placed with Skipton Building Society for 180 days, rather than the guideline 100 days in the current AIS. This arose when two investments of differing durations were placed at the same time and the wrong counterparty was selected for the longer duration investment.

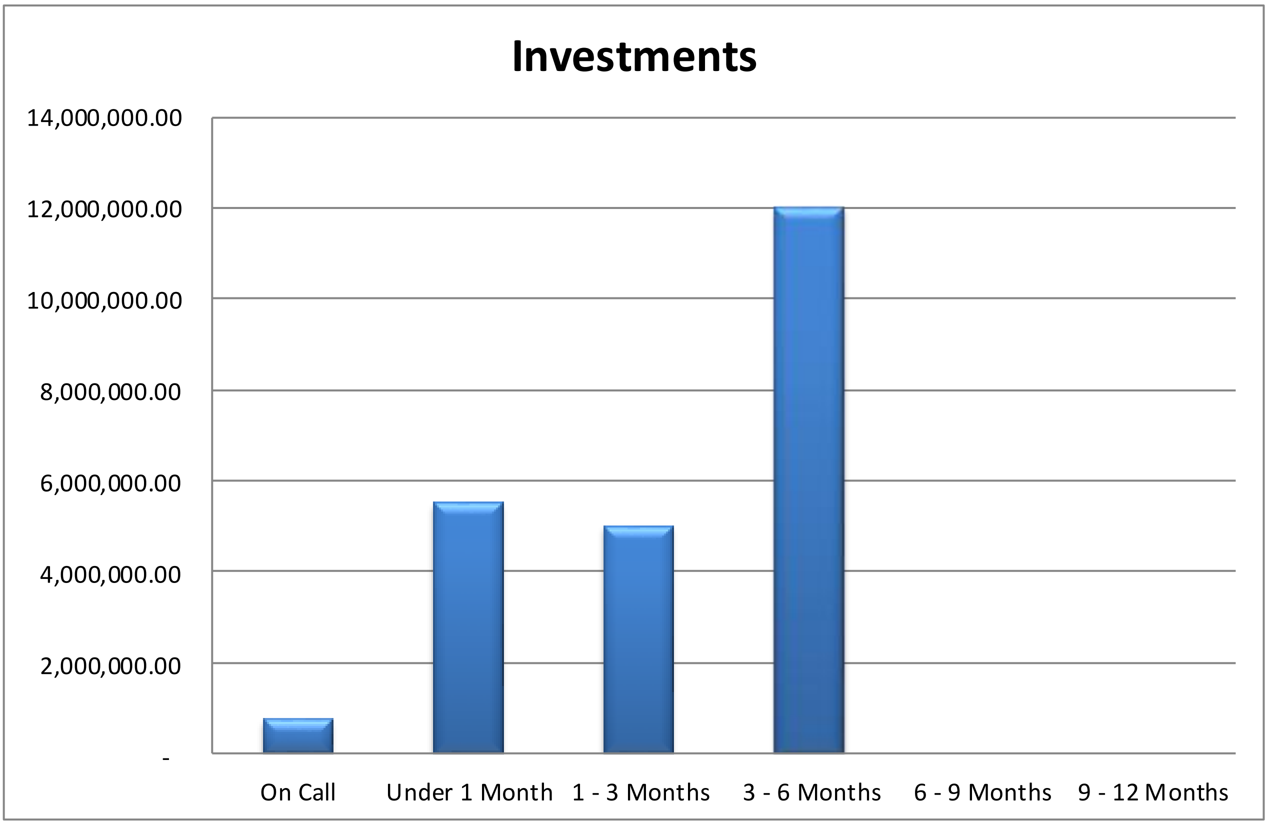
Following discovery of the error the process for determining and authorising investments has been updated to minimise the risk of the error reoccurring. The investment with Skipton is scheduled to mature in May 2017 and at the point this report is presented to Members, there will be less than a 100 days to maturity.

The above investments include an amount of £750k 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 3 Capita made no changes to the counterparty listing.

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:

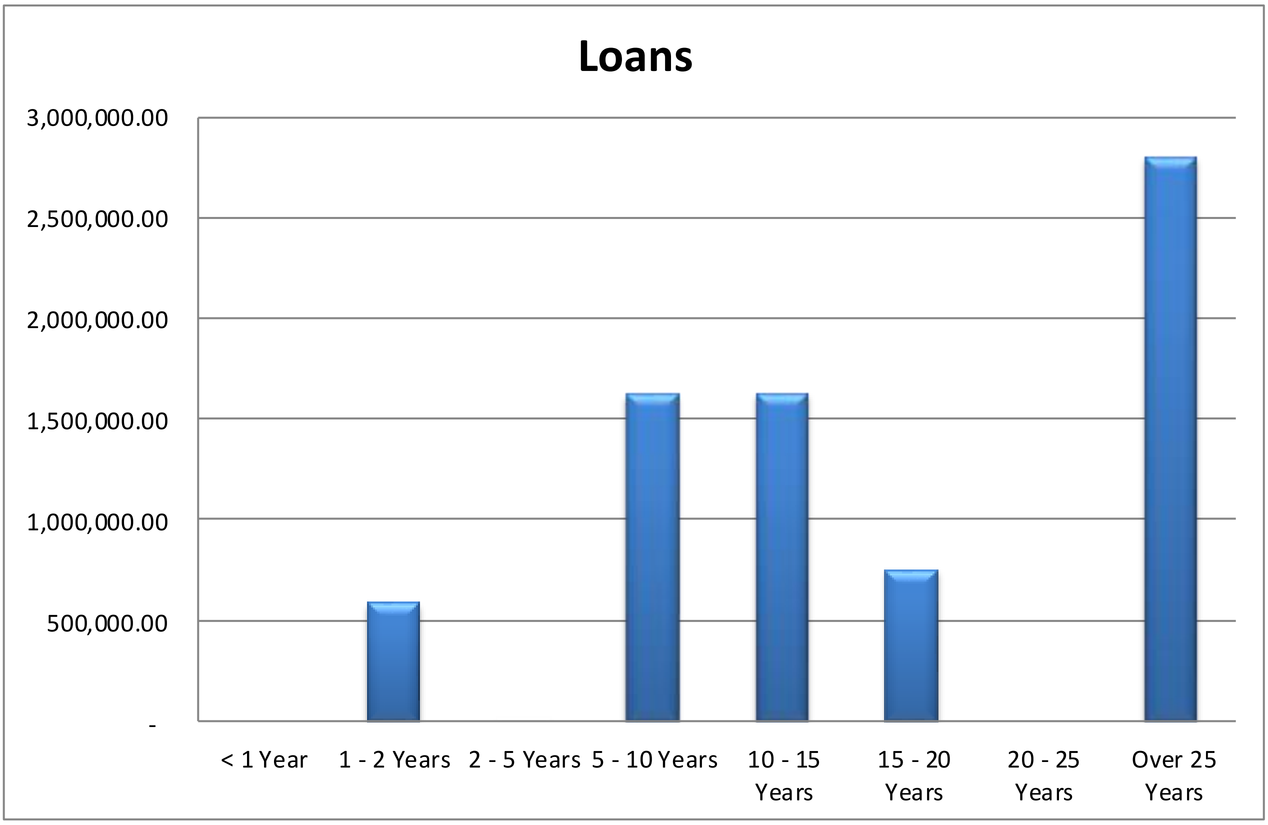


By reviewing the Balance Sheet position, level of reserves and cash requirements, the Authority determined that it was able to re-invest £5m for one year (which matures on 4 April 2017, at which point it will be reinvested for a further year). In order to cover expenditure such as salaries, pensions, 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 £5.5m consist of four investments; £3m to Santander, £1m to Nationwide Building Society, and £1.5m to Leeds Building Society. These deposits were originally made for six months. When they are reinvested they will be spread over varied lending periods in order to maintain liquidity. The investments for 1-3 months totalling £4m is spread over three counterparties and they were originally made for a periods of six months. The investments in the 3-6 month period totalling £12m consists of investments to five counterparties, four that were originally invested over a six month period, and one that was invested for a 12 month period. Upon reinvestment they will also be spread over varied lending periods to maintain liquidity. Balances on call consist of £750k investments in the two Money Market Funds. 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 2016 is £7.382m. During May 2016, one loan for £0.368m was repaid. No further debt repayment is due until May 2018. 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

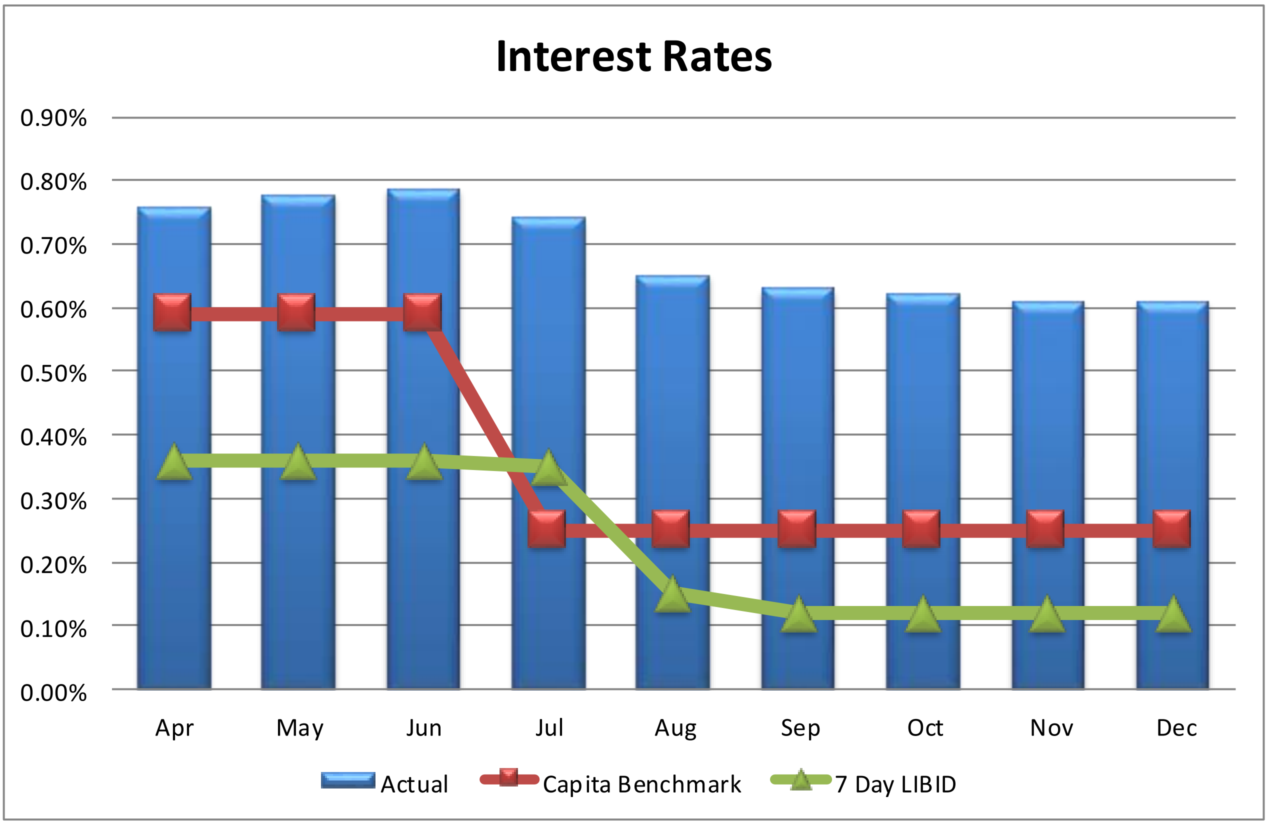
The budget for future years was reviewed as part of the Medium Term Financial Plan process and the income target for 2016/17 is £100k. This was increased in 2015/16 to £100k from £70k in 2014/15. This increase was due to the continuing over-achievement against the previous year's budget.

The accrued interest earned as at 31 December 2016 is £130k against the planned budget of £75k for three quarters of the year, which is an over achievement of £55k.

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, this has fallen from 0.36% to 0.12% since the EU Referendum.
- Capita benchmark – this is the indicative rate that Capita advised we should be looking to achieve for 2016/17 at the start of the year which this was later revised down from 0.59% to 0.25% in July 2016.
- The weighted average rate (%) is compared to the two benchmark figures in the following chart for each month:



The Authority continues to out-perform both benchmark figures for the first three quarters of the year and has already achieved more interest than it had budgeted in accrued interest for the year. This is mainly due to attaining slightly better interest rates than the previous year and as a result of investments made earlier in the year at a higher rate of return. However it must be noted that there has been some volatility in interest rates after the EU referendum took place on Thursday 23 June 2016 whereby the UK decided to leave the EU.

As reported in quarter 2, the Bank of England reduced the base rate in August 2016 from 0.50% to 0.25%. Furthermore there is more uncertainty around what impact triggering Article 50 will have on the economy. If the interest rates were to drop again, this will reduce the level of interest we receive from investments and the impact of this will be shown in future Treasury Management Reports.