# Buckinghamshire & Milton Keynes Fire Authority

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| **MEETING** | Overview and Audit Committee |
| **DATE OF MEETING** | 26 July 2017 |
| **OFFICER** | David Sutherland, Director of Finance & Assets |
| **LEAD MEMBER** | Councillor David Watson |
| **SUBJECT OF THE REPORT** | **Treasury Management Performance 2016/17 - 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.<br>The accrued interest earned for the year 2016/17 is £155k, which is £55k higher than the budget for the period. |
| **ACTION** | Information. |
| **RECOMMENDATIONS** | That the Treasury Management Performance 2016/17 – 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.<br>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.<br>The risk of counterparty failure is monitored on the directorate level risk register within Finance and Assets.<br>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 |

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| | 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 THE DUTY TO COLLABORATE** | 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<br>http://bucksfire.gov.uk/files/1614/4827/6491/ITEM_8_Treasury_Management_Strategy_2016-17_FINAL.pdf<br>Treasury Management Practices<br>http://bucksfire.gov.uk/files/4314/5527/8969/OA250913.compressed.pdf |
| **APPENDICES** | Appendix A – Treasury Management Performance 2016/17 – Quarter 4 |
| **TIME REQUIRED** | 5 minutes. |
| **REPORT ORIGINATOR AND CONTACT** | Linda Blunt<br>lblunt@bucksfire.gov.uk<br>01296 744404 |

## Appendix A – Treasury Management Performance 2016/17 – 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 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 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 2017 is detailed below:

| **Counterparty** | **Amount (£000)** |
|---|---:|
| Lloyds Bank plc | 5,000 |
| Santander | 2,500 |
| Nationwide Building Society | 1,000 |
| Leeds Building Society | 2,500 |
| Goldman Sachs International | 4,000 |
| Barclays | 1,000 |
| Skipton Building Society | 1,000 |
| Sumitomo Mitsui Banking Corporation | 4,000 |
| Lloyds Bank plc (current accounts) | 36 |
| Ignis Sterling MMF* | 1500 |
| CCLA MMF* | 501 |
| **Total** | **23,037** |

*MMF denotes a Money Market Fund

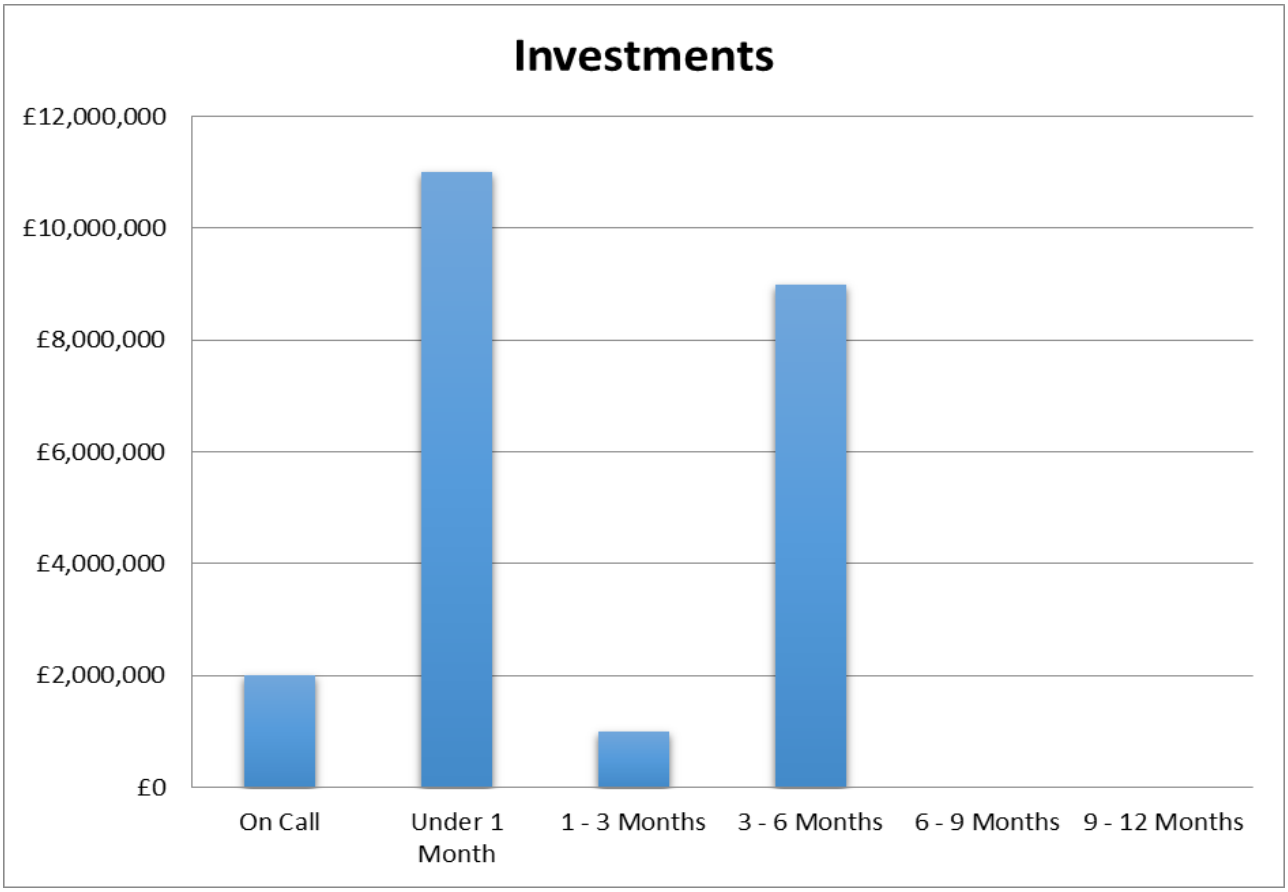
The above investments include an amount of £2m invested in two money market funds (MMF). A MMF employs credit analysts who first assess who is a suitable counterparty and then continue to monitor those counterparties over time.

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 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:

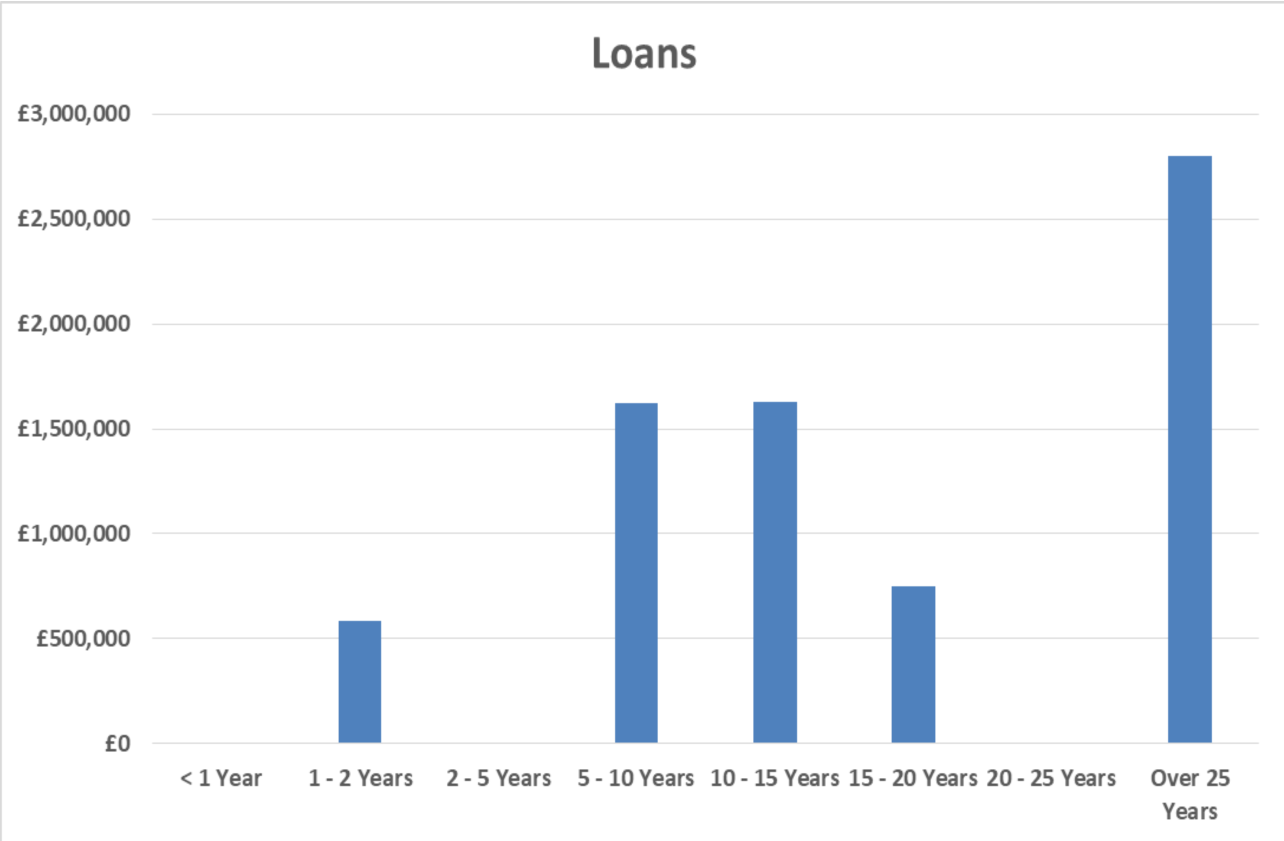



By reviewing the Balance Sheet position, level of reserves and cash requirements, the Authority determined that it was able to re-invest £5m for one year (which matures on 4 April 2017, at which point it will be reinvested for a further 6 months in line with current counterparty limits). In order to 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 £11m consist of the £5m investment to Lloyds bank previously mentioned and four investments; £4m in two investments to Sumitomo Mitsui Banking Corporation, £1m to Barclays Bank , and £1m 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 investment for 1-3 months totalling £1m to Skipton Building Society and the investments in the 3-6 month period totalling £9m consists of investments to six counterparties, four that were originally invested over a six month period. Upon reinvestment they will also be spread over varied lending periods to maintain liquidity. Balances on call consist of £2m 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.

<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 2017 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 4

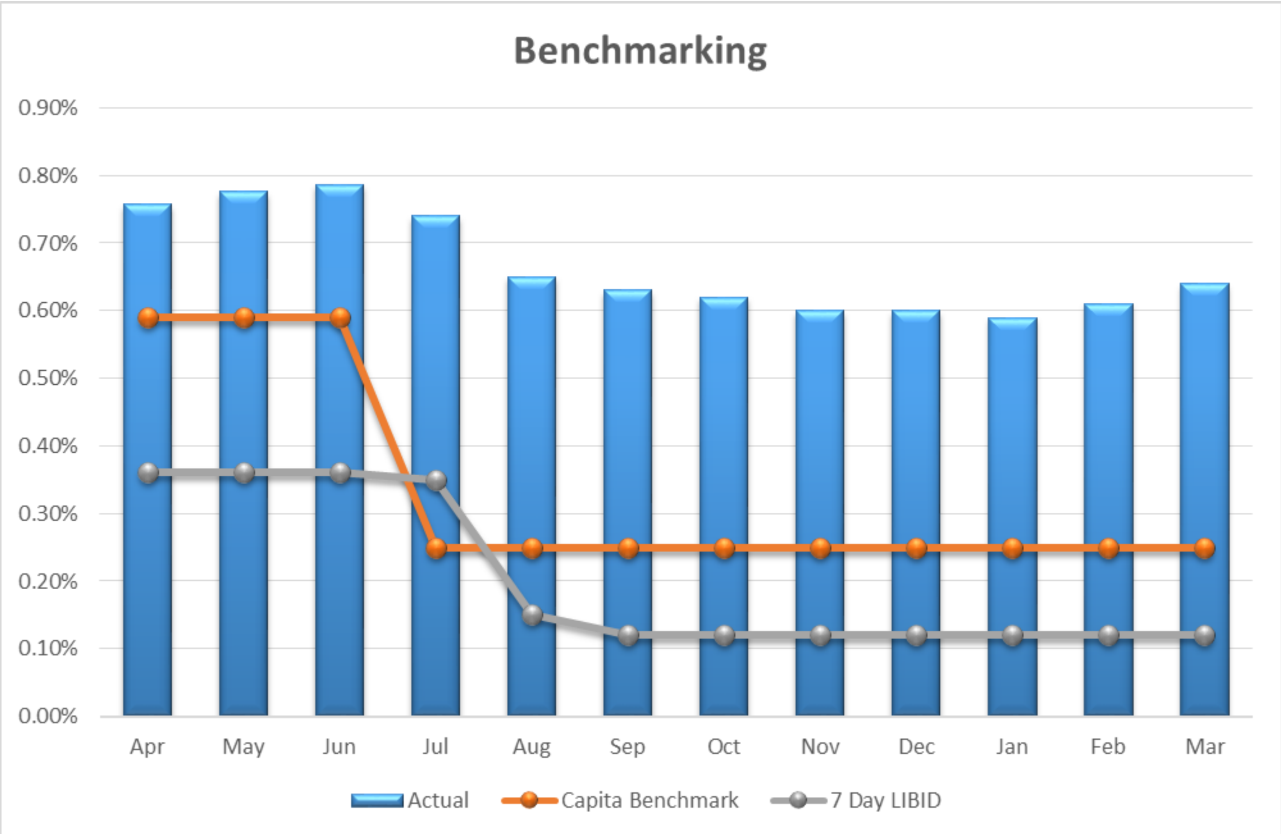
The budget for future years was reviewed as part of the Medium Term Financial Plan process and the income target for 2016/17 is £100k. This was increased in 2015/16 to £100k from £70k in 2014/15. This increase was due to the continuing over-achievement against the previous year's budget.

The accrued interest earned as at 31 March 2017 is £155k against the planned budget of £100k for the year, which is an over achievement of £55k.

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, 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:



2016-17 has been an interesting year in terms of treasury management. Firstly the referendum took place on 23 June 2016 whereby the UK decided to leave the EU, and this brought a lot of volatility in the market. This then led to the Bank of England reducing the base rate in August 2016 from 0.50% to 0.25% which again impacted the level of interest we received from investments. However even with the uncertainty, the Authority out-performed both benchmark figures for the 2016/17. This was mainly due to the Authority actively seeking the best rates available in the market in line with our Treasury Management Strategy and as a result of investments made earlier in the year at a higher rate of return.