Buckinghamshire & Milton Keynes Fire Authority

MEETING	Overview and Audit Committee
DATE OF MEETING	15 November 2017
OFFICER	David Sutherland, Director of Finance and Assets
LEAD MEMBER	Councillor David Watson
SUBJECT OF THE REPORT	**Treasury Management Performance 2017/18 - Quarter 2**
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 from April to September 2017/18 is £77k, which is 27k higher than budgeted.
ACTION	Noting.
RECOMMENDATIONS	That the Treasury Management Performance 2017/18 – Quarter 2 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 2017/18 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 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 http://bucksfire.gov.uk/files/6915/0816/2881/ITEM_8_Treasury_Management_Strategy_2017-18_Final.pdf Treasury Management Practices http://bucksfire.gov.uk/files/4314/5527/8969/OA250913.compressed.pdf
APPENDICES	Appendix A – Treasury Management Performance 2017/18 – Quarter 2
TIME REQUIRED	5 minutes.
REPORT ORIGINATOR AND CONTACT	Asif Hussain ahussain@bucksfire.gov.uk 01296 744421

Appendix A – Treasury Management Performance 2017/18 – Quarter 2

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 fourth year 2017/18.

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 30 September 2017 is detailed below:

Counterparty	**Amount (£000)**
Lloyds Bank plc	5,000
Santander	2,500
Leeds Building Society	1,000
Skipton Building Society	1,000
Royal Bank Of Scotland	4,004
Goldman Sachs International	5,000
Sumitomo Mitsui	1,000
Warrington Borough Council	2,000
Bournemouth Borough Council	2,000
Lloyds Bank plc (current accounts)	1,250
Ignis Sterling MMF*	305
CCLA MMF	21
Total	**25,080**

*MMF denotes a Money Market Fund

No counterparty limits were breached during Quarter 2.

The above investments include an amount of £326k 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.

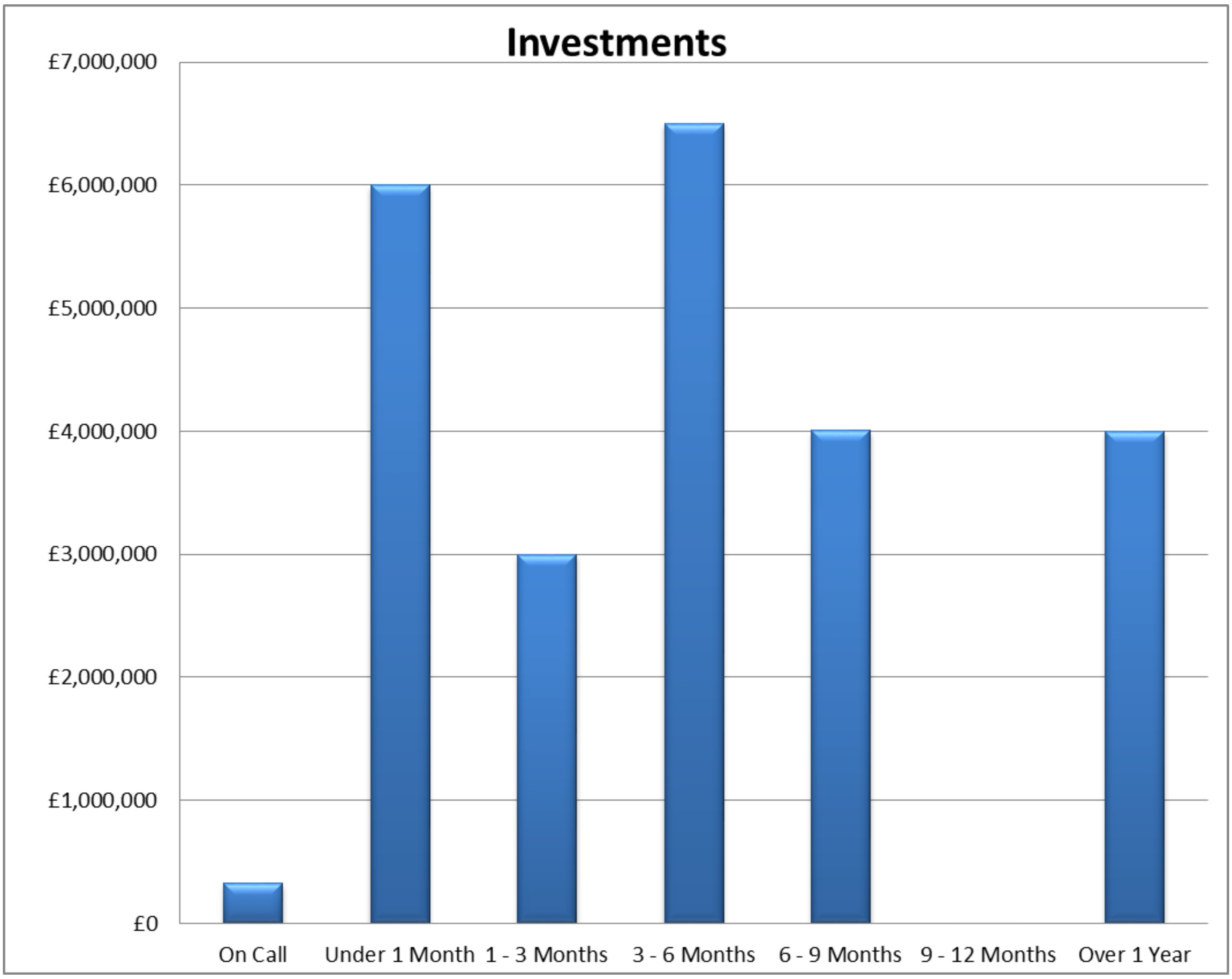
In its AIS the Authority also resolved that all credit ratings will be monitored weekly, by means of the Capita creditworthiness service. During Quarter 2 Capita made one change to the counterparty listing. Therefore in line with the AIS, the Authority's lending list has been updated to reflect these changes as detailed in the table below:

Country	**Counterparty**	**Maximum Duration as at 30/06/2017**	**Maximum Duration as at 30/09/2017**
UK	UBS Ltd *	Red - 6 mths	Orange - 12 mths

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:



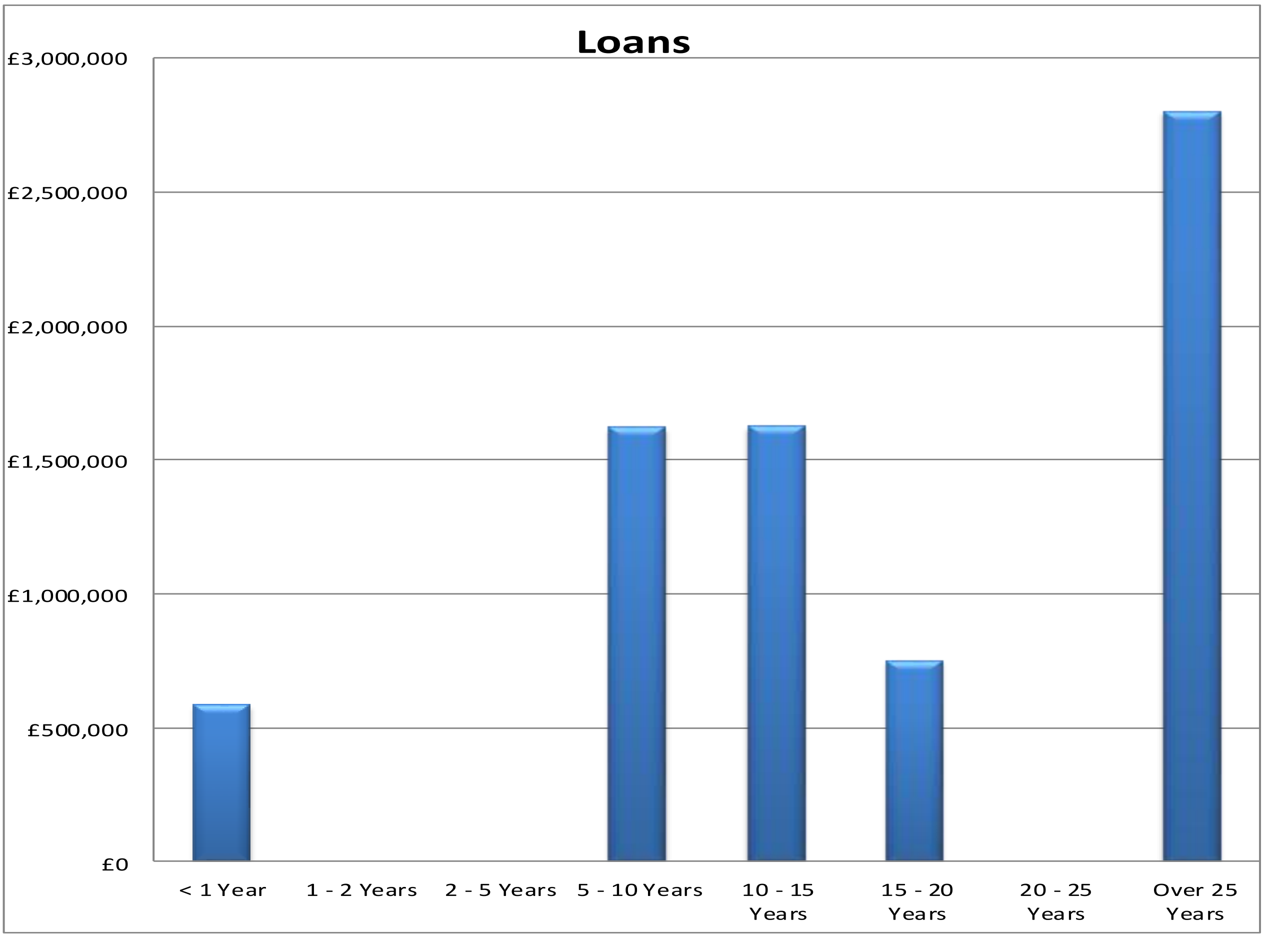
By reviewing the balance sheet position, level of reserves and cash requirements, the Authority determined that it was able to re-invest £5m for six months (which matures on 4 October 2017, at which point it will be reinvested). In order to cover expenditure such as salaries, pensions, creditor payments, 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 majority of our investment duration to date has been under 6 months. This is largely due to the impact of the rating agencies changing their methodologies which has resulted in a number of banks given a red credit rating. The red credit rating means that we can only deposit funds for up to 6 months. The Authority has recently placed two longer term investments of £2m each with other local authorities. The investment durations are for 3 and 2 years with a return of 0.90% and 0.72% respectively. However, the number of authorities seeking investment in this way is small and opportunities to invest in this way are limited.

Balances on call include the investments in the 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 30 September 2017 is £7.382m. 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 2

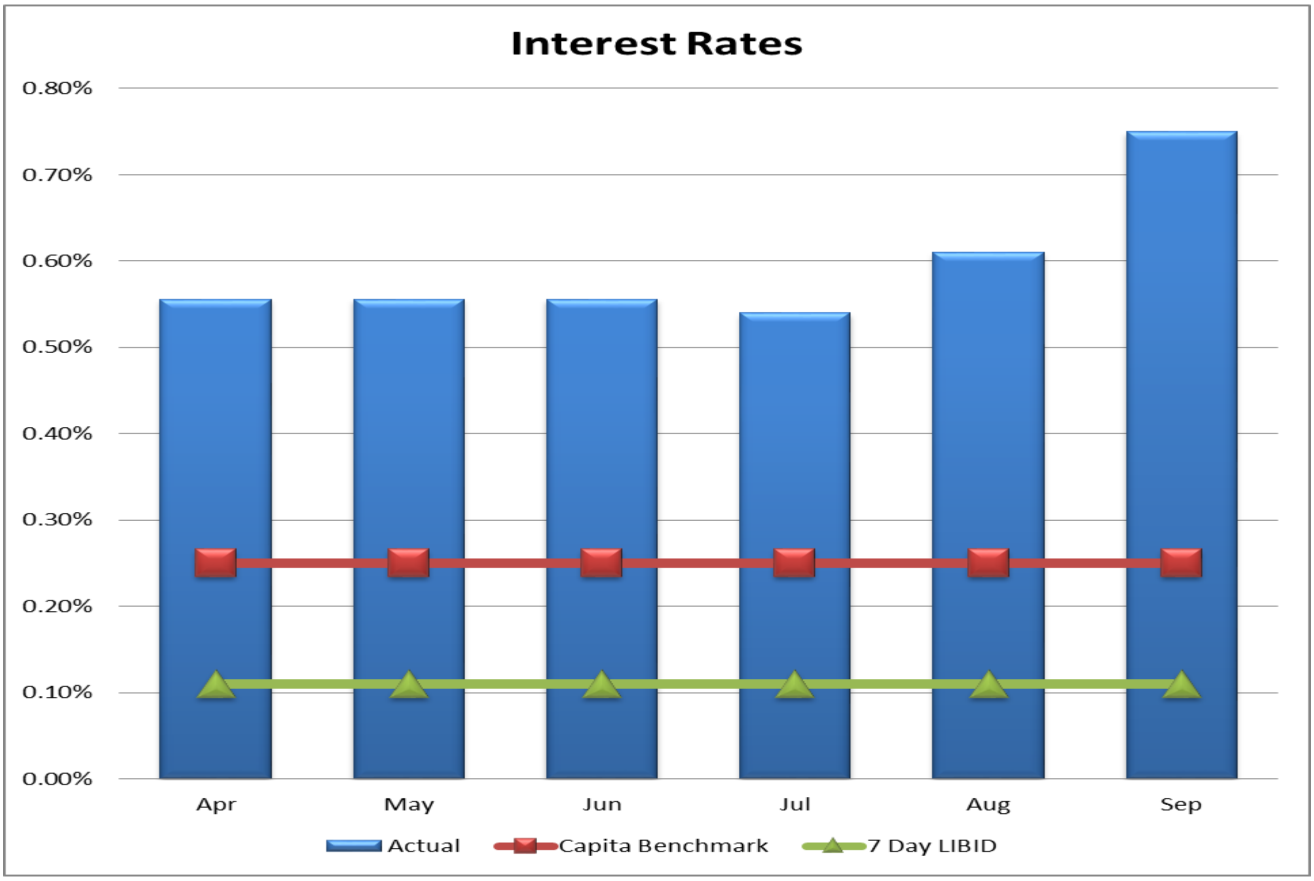
The budget for future years was reviewed as part of the Medium Term Financial Plan process and the income target for 2017/18 is £100k. This was increased in 2015/16 to £100k from £70k in 2014/15. This increase was due to the continuing over-achievement against the previous year's budget.

The accrued interest earned as at 30 September 2017 is £77k against the planned budget of £50k for the first half of the financial year, which is an over achievement of £27k. It should be noted that £18k of this is due to the interest achieved from making an advance payment in respect of the Employers contribution to the LGPS of £1.3m, achieving £36k interest per year for the next 3 years.

Performance Against the Benchmark – Quarter 2

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 2017/18 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 for the two quarters, however not as significantly as in previous years. The lower return being achieved by the Authority's investments is due to two factors;

1. The expected impact of the cut in interest rates by the Bank of England, as reported in 2016/17, and
2. The impact of the change in methodologies by the rating agencies causing Capita in turn to restrict the banks named on the Authority's lending list to a suggested 6 months duration for deposits. The reduction in duration has led to the Authority achieving a reduced rate of return on investments.