



Buckinghamshire & Milton Keynes Fire Authority

MEETING	Overview and Audit Committee
DATE OF MEETING	7 March 2018
OFFICER	David Sutherland, Director of Finance & Assets
LEAD MEMBER	Councillor David Watson
SUBJECT OF THE REPORT	Treasury Management Performance 2017/18-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 from April to December 2017/18 is £126k, which is 51k higher than budgeted for the first three quarters of the year.</p>
ACTION	Noting.
RECOMMENDATIONS	That the Treasury Management Performance 2017/18 – 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>The risk of counterparty failure is monitored on the directorate level risk register within Finance and Assets.</p> <p>There are no direct staffing implications.</p>
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/OA2509_13.compressed.pdf
APPENDICES	Appendix A –Treasury Management Performance Q3
TIME REQUIRED	5 minutes
REPORT ORIGINATOR AND CONTACT	Linda Blunt lblunt@bucksfire.gov.uk 01296 744404

Appendix A – Treasury Management Performance 2017/18 – 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 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 Link (previously known as 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 31st December 2017 is detailed below:

Counterparty	Amount (£000)
Santander	2,500
Coventry Building Society	1,000
Skipton Building Society	2,000
Royal Bank Of Scotland	4,004
Goldman Sachs International	5,000
UBS AG	2,500
Warrington Borough Council	2,000
Bournemouth Borough Council	2,000
Lloyds Bank plc (current accounts)	80
Ignis Sterling MMF*	350
CCLA MMF*	102
Payden & Rygel Sterling Reserve**	1,001
Federated Sterling**	1,001
Royal London Sterling Extra**	1,001
Total	24,538

*MMF denotes a Money Market Fund

** These are Ultra Short Dated Bond Funds (Previously known as Enhanced Money Market Funds)

No counterparty limits were breached during Quarter 3.

The above investments include an amount of £3,003m invested in three Ultra Short Dated Bond Funds (USDBF). These were previously known as Enhanced Money Market Funds. An USDBF is a collective investment vehicle which, like 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.

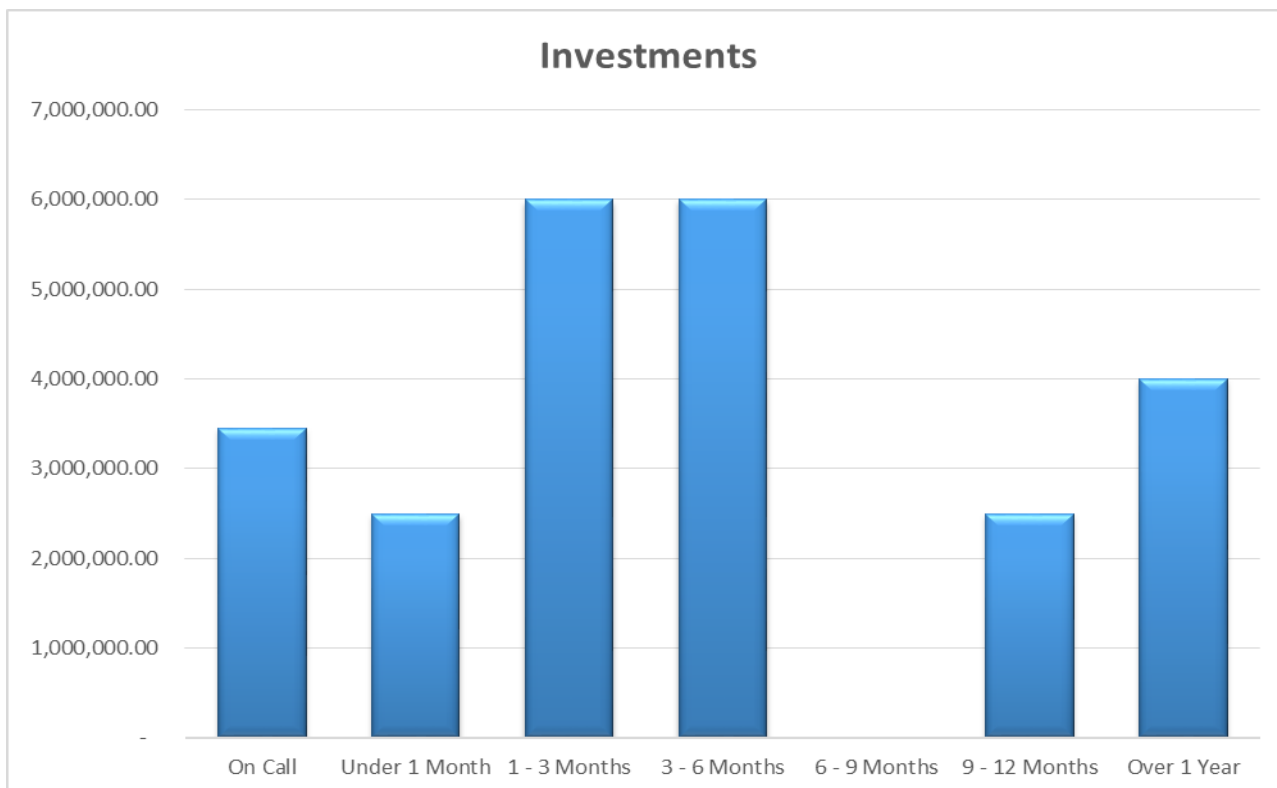
In its AIS the Authority also resolved that all credit ratings will be monitored weekly, by means of the Link creditworthiness service. During Quarter 3 Link made two changes to the counterparty listing. Therefore in line with the AIS, the Authority's lending list has been updated to reflect these changes as detailed in the table below:

<u>Country</u>	<u>Counterparty</u>	<u>Maximum Duration as at 30/09/2017</u>	<u>Maximum Duration as at 31/12/2017</u>
UK	Bank of Scotland	Red - 6 mths	Orange - 12 mths
UK	Lloyds Banking Group	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 invest £3m in three USDB Funds. 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).

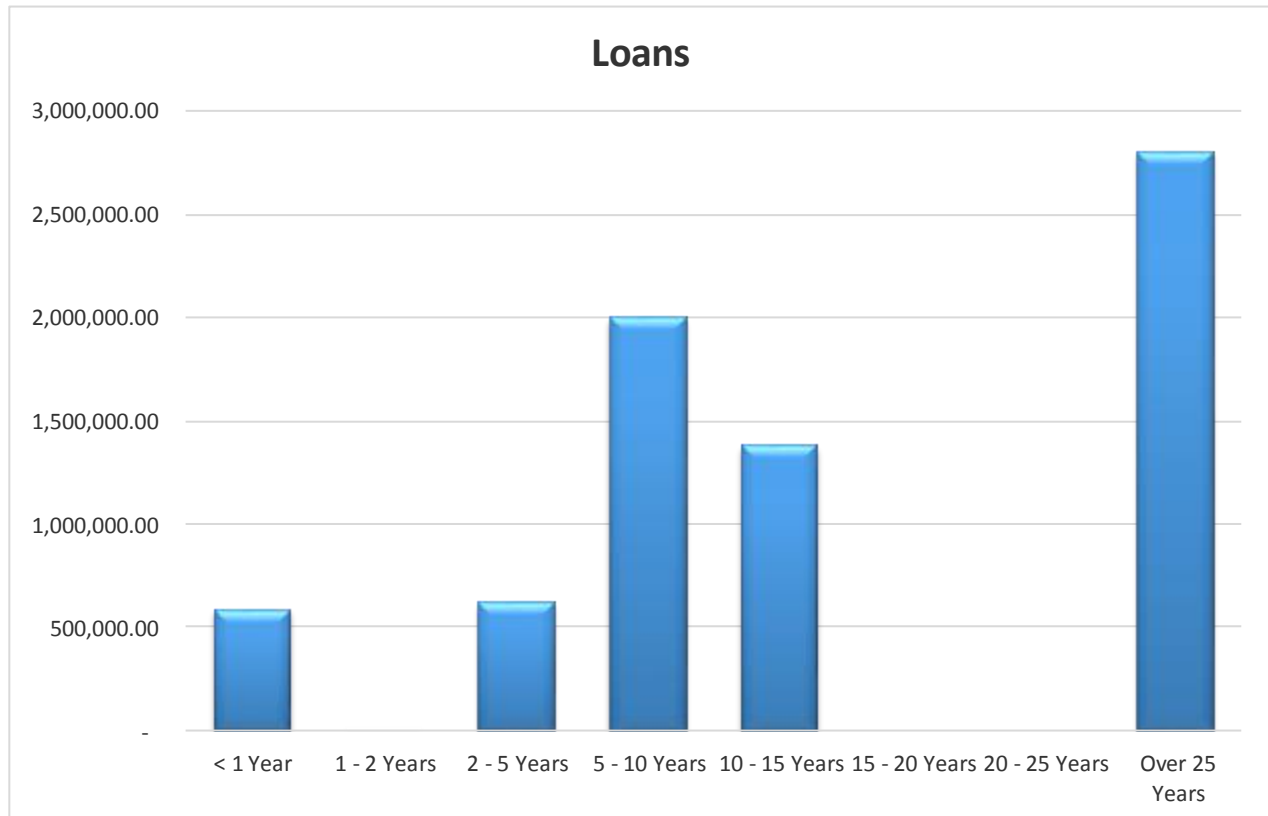
The majority of our investment duration to date has been under 6 months. This is largely due to the impact of the rating agencies changing their methodologies which has resulted in a number of banks given a red credit rating. The red credit rating means that we can only deposit funds for up to 6 months. In October, the Authority 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.

Balances on call include the investments in the Money Market Funds and Ultra Short Dated Bond Funds (USDBF). Both of these help 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 2017 is £7.382m. £585k of this is due for repayment in 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

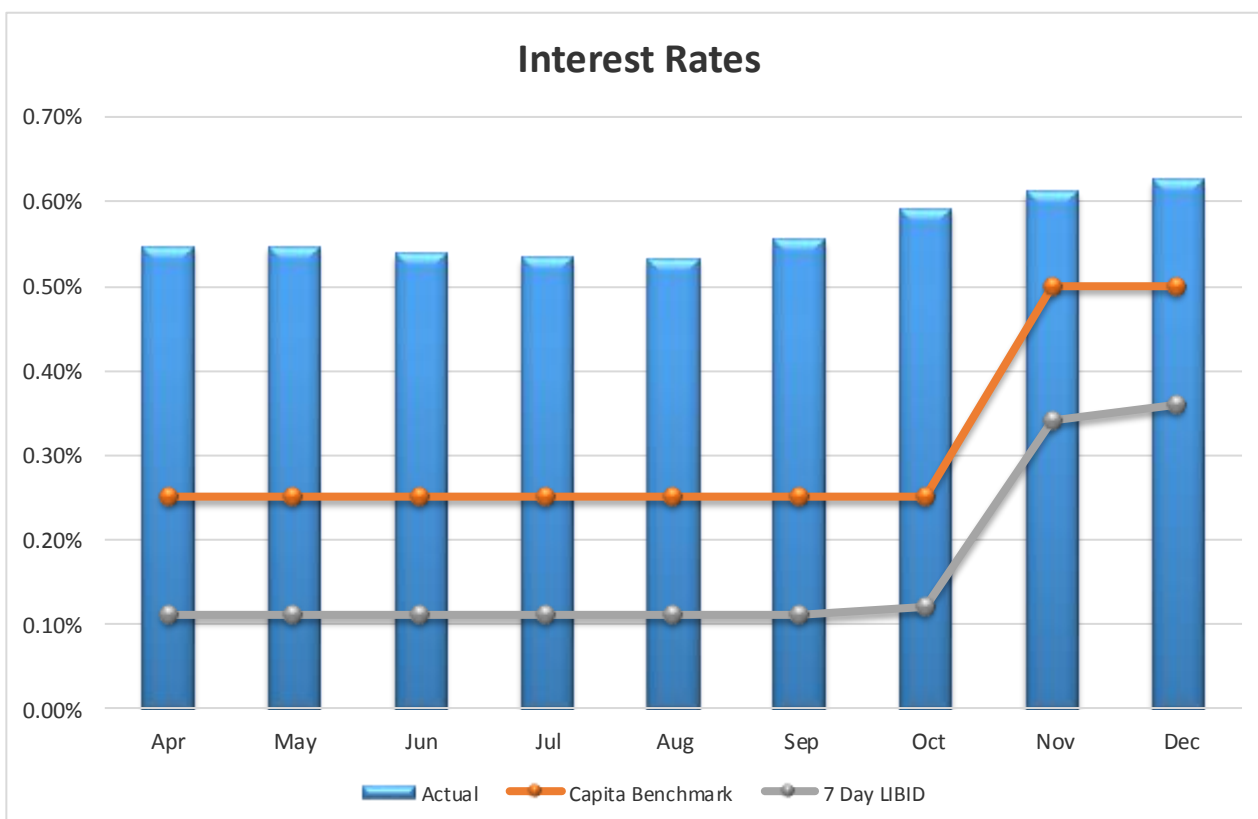
The budget for future years was reviewed as part of the Medium Term Financial Plan (MTFP) process and the income target for 2017/18 is £100k. This was increased in 2015/16 to £100k from £70k in 2014/15. This increase was due to the continuing over-achievement against the previous year’s budget. This figure is currently under review as part of the MTFP process and could potentially increase to £150k if the recommendations in the 2018/19 strategy are approved.

The accrued interest earned as at 31 December 2017 is £126k against the planned budget of £75k for the first 3 quarters of the financial year, which is an over achievement of £51k. It should be noted that £26k 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 annum for the next 3 years.

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
- Link benchmark – this is the indicative rate that Link 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 three 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 Link 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.

An updated Treasury Strategy will be presented to the Fire Authority for approval in February. The updated strategy will look to further diversify our investment portfolio as well as allowing us to invest for longer durations which could result in the Authority achieving better returns. If the recommendations in the strategy are approved then the income target will increase to £150k for 2018/19.