



# Buckinghamshire & Milton Keynes Fire Authority

<b>MEETING</b>	Overview and Audit Committee
<b>DATE OF MEETING</b>	18 July 2018
<b>OFFICER</b>	David Sutherland, Director of Finance & Assets
<b>LEAD MEMBER</b>	Councillor David Watson
<b>SUBJECT OF THE REPORT</b>	<b>Treasury Management Performance 2017/18 - Quarter 4</b>
<b>EXECUTIVE SUMMARY</b>	<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 for 2017/18 is £164k, which is £64k higher than budgeted for the year.</p>
<b>ACTION</b>	Information.
<b>RECOMMENDATIONS</b>	That the Treasury Management Performance 2017/18 – Quarter 4 report be noted.
<b>RISK MANAGEMENT</b>	<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>
<b>FINANCIAL IMPLICATIONS</b>	The budget for 2017/18 relating to interest earned on balances invested is £100k. Performance against the budget is included within Appendix A.
<b>LEGAL IMPLICATIONS</b>	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
<b>CONSISTENCY WITH THE PRINCIPLES OF THE DUTY TO COLLABORATE</b>	No direct impact.
<b>HEALTH AND SAFETY</b>	No direct impact.
<b>EQUALITY AND DIVERSITY</b>	No direct impact.
<b>USE OF RESOURCES</b>	See Financial Implications.
<b>PROVENANCE SECTION &amp; BACKGROUND PAPERS</b>	Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy <a href="http://bucksfire.gov.uk/files/6915/0816/2881/ITEM_8_Treasury_Management_Strategy_2017-18_Final.pdf">http://bucksfire.gov.uk/files/6915/0816/2881/ITEM_8_Treasury_Management_Strategy_2017-18_Final.pdf</a> Treasury Management Practices <a href="http://bucksfire.gov.uk/files/4314/5527/8969/OA2509_13.compressed.pdf">http://bucksfire.gov.uk/files/4314/5527/8969/OA2509_13.compressed.pdf</a>
<b>APPENDICES</b>	Appendix A – Treasury Management Performance 2017/18 – Quarter 4
<b>TIME REQUIRED</b>	5 minutes
<b>REPORT ORIGINATOR AND CONTACT</b>	Linda Blunt <a href="mailto:lblunt@bucksfire.gov.uk">lblunt@bucksfire.gov.uk</a> 01296 744404

## Appendix A – Treasury Management Performance 2017/18 – 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 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 31 March 2018 is detailed below:

<b>Counterparty</b>	<b>Amount (£000)</b>
Coventry Building Society	1,000
Skipton Building Society	2,000
Royal Bank Of Scotland	4,004
Goldman Sachs International	5,000
UBS Ltd	2,500
Warrington Borough Council	2,000
Bournemouth Borough Council	2,000
Lloyds Bank plc (current accounts)	891
Ignis Sterling MMF*	50
CCLA MMF*	102
Payden & Rygel Sterling Reserve**	1,001
Federated Sterling**	1,002
Royal London Sterling Extra**	1,003
<b>Total</b>	<b>22,553</b>

\*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 4.

The above investments include an amount of £3,005m 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.

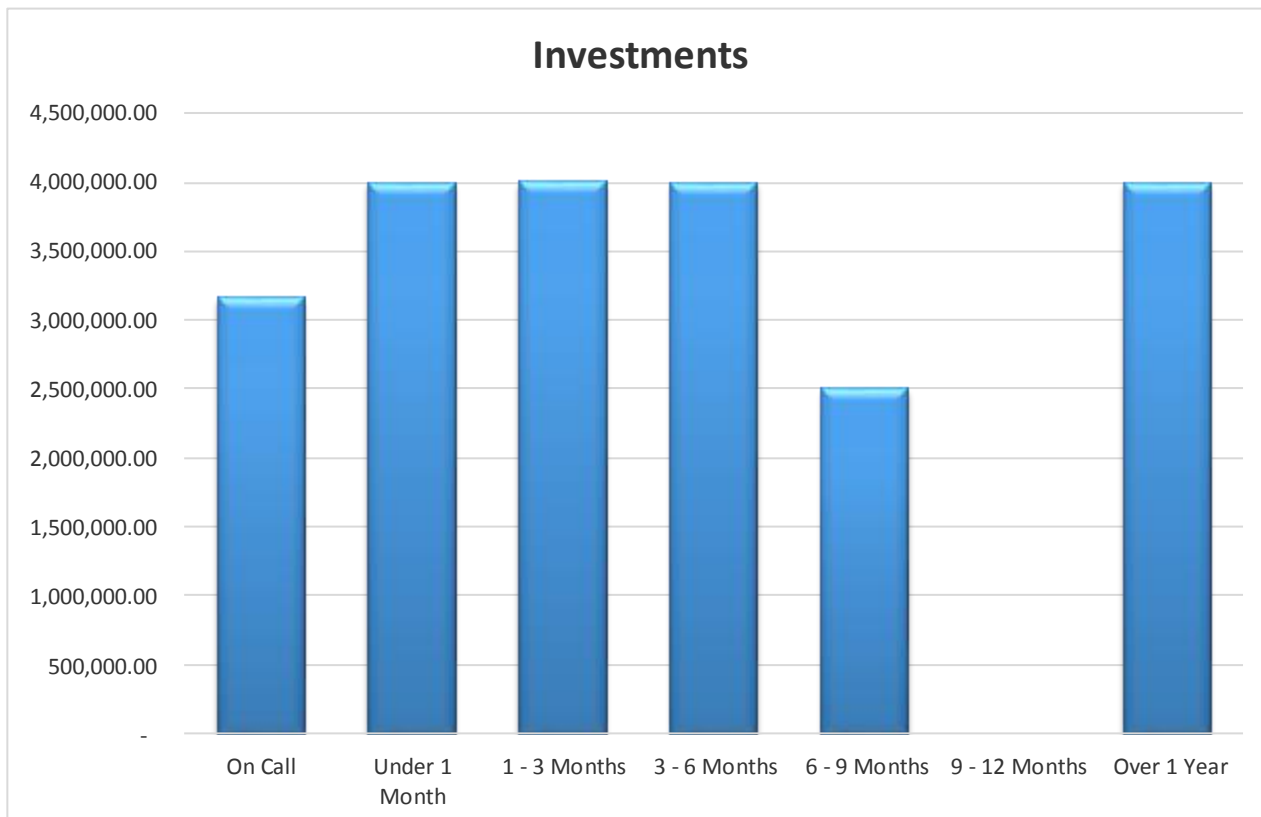
In its AIS the Authority also resolved that all credit ratings will be monitored weekly, by means of the Link creditworthiness service. During Quarter 4 Link made one changes to the counterparty listing. Therefore in line with the AIS, the Authority’s lending list has been updated to reflect these changes as detailed in the table below:

<u>Country</u>	<u>Counterparty</u>	<u>Maximum Duration</u> <u>31/12/2017</u>	<u>Maximum Duration</u> <u>31/03/2018</u>
UK	Abbey National Treasury Services	Orange - 12 mths	Red - 6 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:



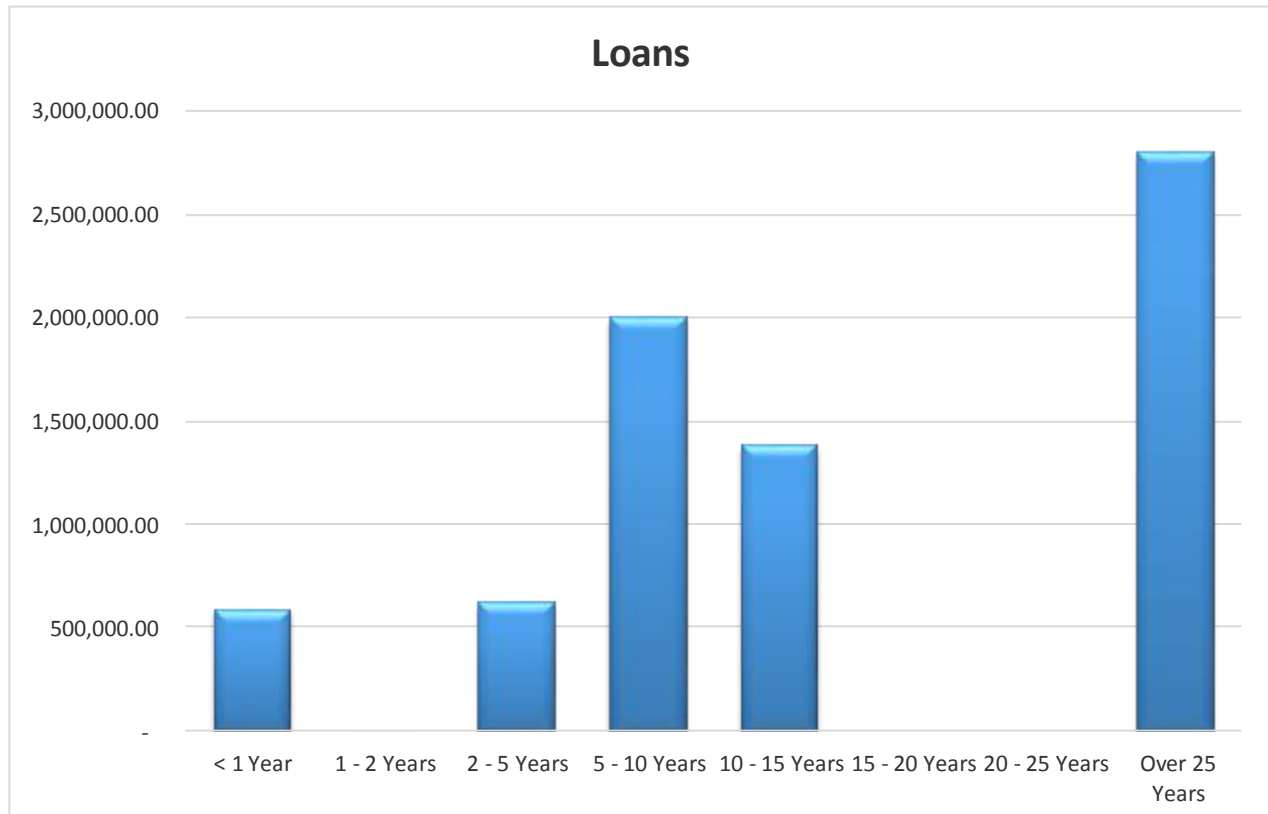
By reviewing the balance sheet position, level of reserves and cash requirements, the Authority determined that it was able to invest £3m in three USDB Funds. In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which we have made provisions within 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. An updated strategy was approved in February 2018 which will allow the Authority to invest for longer durations and have a larger selection of counterparties to choose from. A summary of all the key changes have been highlighted on page 8 of this report.

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 March 2018 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.

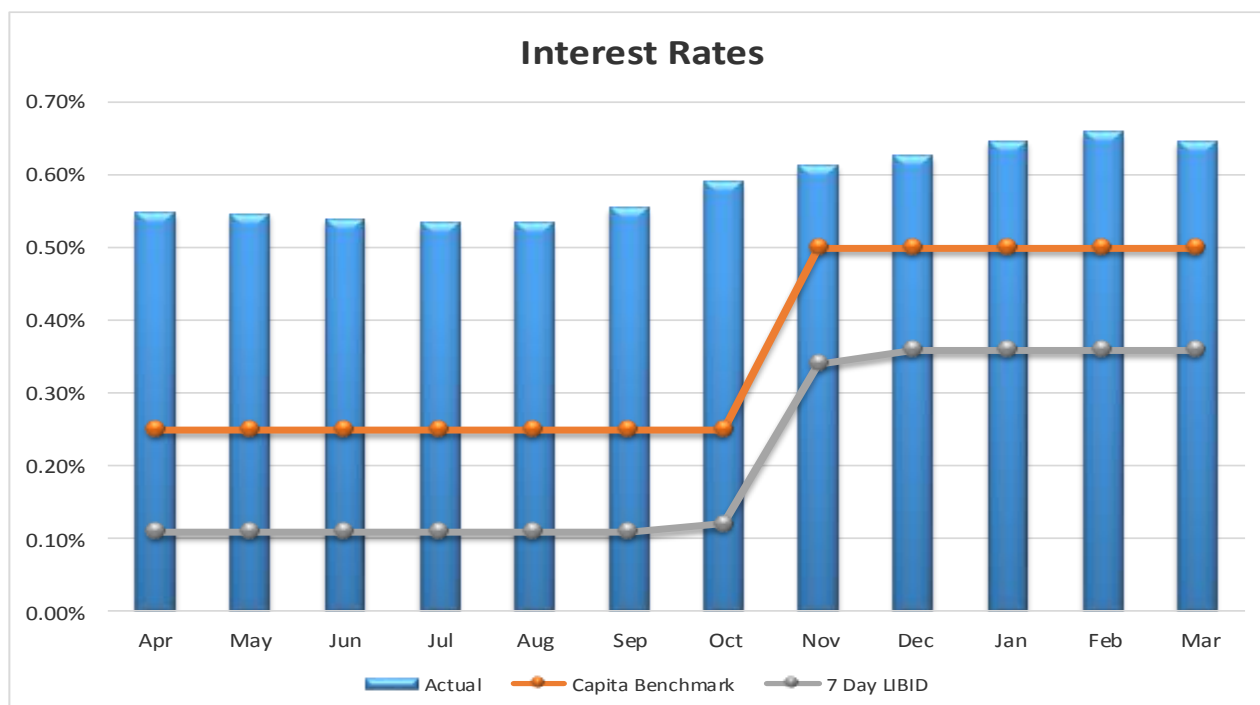
### Performance Against Budget – Quarter 4

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 will increase to £150k for 2018/19 as a result of the recommendations approved for the 2018/19 Treasury Management Strategy. The accrued interest earned as at 31 March 2018 is £164k against the planned budget of £100k for the year, which is an over achievement of £64k. It should be noted that £35k 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 £35k interest per annum for the next 3 years.

### 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
- 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 2017/18 year, 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 was presented to and approved by the Fire Authority for approval in February. The updated strategy for 2018/19 will enable the Authority 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. Further returns could be achieved should the Bank Rate rises, expected by the Authority's TM Advisers, be achieved.

The changes that have been made to the TM Strategy for 2018/19 are:

- The duration limit to be used for UK based counterparties should be the Link Asset Services suggested duration plus 6 months.
- For non UK counterparties we will remove the 100 day limit and replace with Link Asset Services suggested duration.
- Any counterparty rated 'Green' by Link should be added to the counterparty list regardless of location.
- Top 10 Building Societies (based on asset size) to be added to the counterparty list.
- A maximum of £3m invested in a Property Fund, upon further approval by the Fire Authority.