

Buckinghamshire & Milton Keynes Fire Authority



MEETING	Overview and Audit Committee
DATE OF MEETING	14 November 2018
OFFICER	Mark Hemming, Director of Finance & Assets
LEAD MEMBER	Councillor David Watson
SUBJECT OF THE REPORT	Treasury Management Performance 2018/19 - Quarter 2
EXECUTIVE SUMMARY	<p>This report is being presented to provide the treasury investment position as at the end of the first quarter. It is best practice to review on a regular basis how Treasury Management activity is performing.</p> <p>The accrued interest earned for the first half of 2018/19 is £111k, which is £36k higher than the budget for the period.</p>
ACTION	Noting.
RECOMMENDATIONS	That the Treasury Management Performance 2018/19 – Quarter 2 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 2018/19 relating to interest earned on balances invested is £150k. 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/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 2018/19 – Quarter 2
TIME REQUIRED	5 minutes
REPORT ORIGINATOR AND CONTACT	Linda Blunt lblunt@bucksfire.gov.uk 01296 744404

Appendix A – Treasury Management Performance 2018/19 – 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 2018/19.

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. 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 June 2018 is detailed below:

Counterparty	Amount (£000)
Warrington Borough Council	2,000
Bournemouth Borough Council	2,000
Newcastle Building Society	2,000
Nottingham Building Society	2,000
UBS Ltd	2,500
Goldman Sachs International	2,000
Lloyds Bank PLC	2,000
Principality Building Society	2,000
West Bromwich Building Society	2,000
Leeds Building Society	1,000
Lloyds Bank plc (current accounts)	958
Payden & Rygel USBD	1,004
Royal London Asset Management USDBF	1,006
Ignis Sterling MMF*	200
CCLA MMF	501
Total	23,169

*MMF denotes a Money Market Fund

No counterparty limits were breached during Quarter 1.

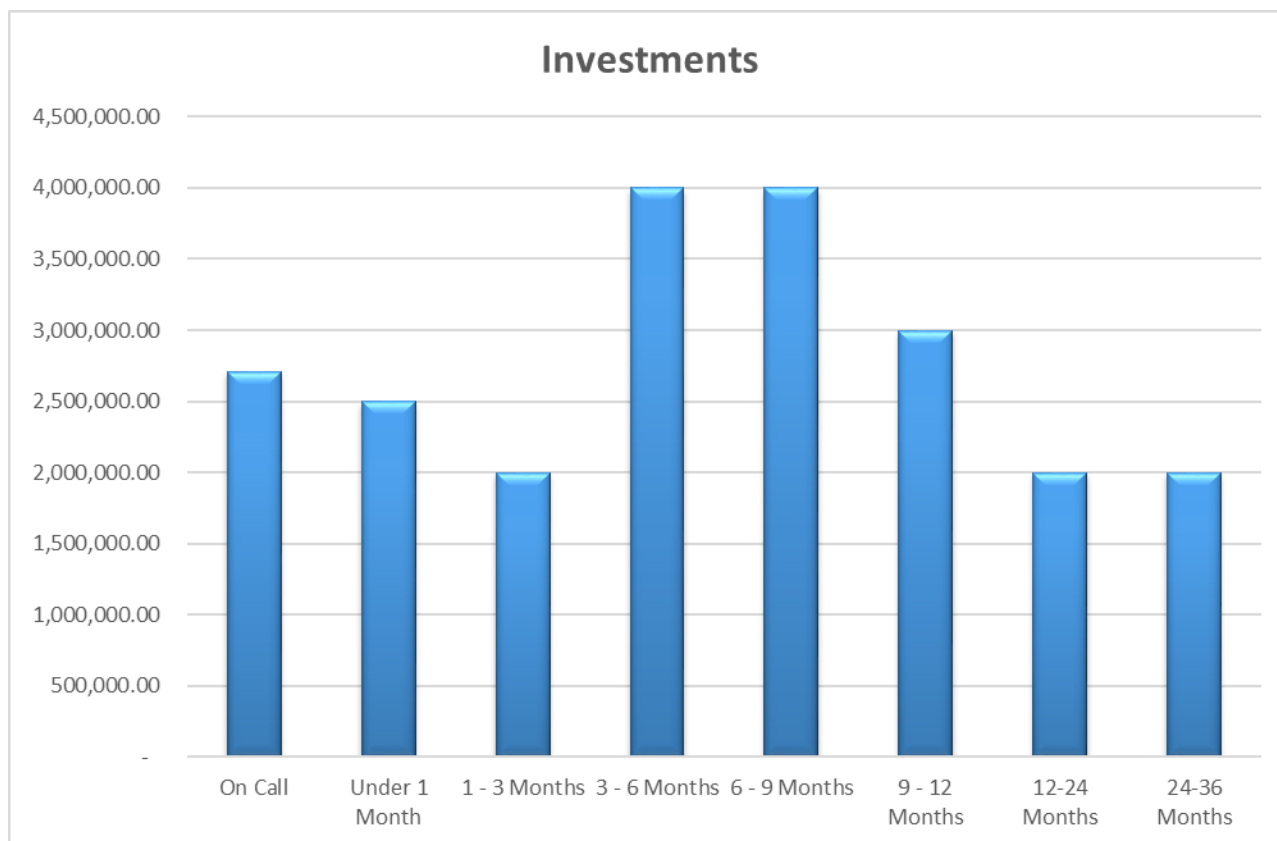
The above investments include an amount of £2,010m invested in two Ultra Short Dated Bond Funds (USDBF). These were previously known as Enhanced Money Market Funds. An USDBF is a collective investment vehicle which, like a MMF employs credit analysts who first assess who is a suitable counterparty and 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 2 Link made no relevant 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:



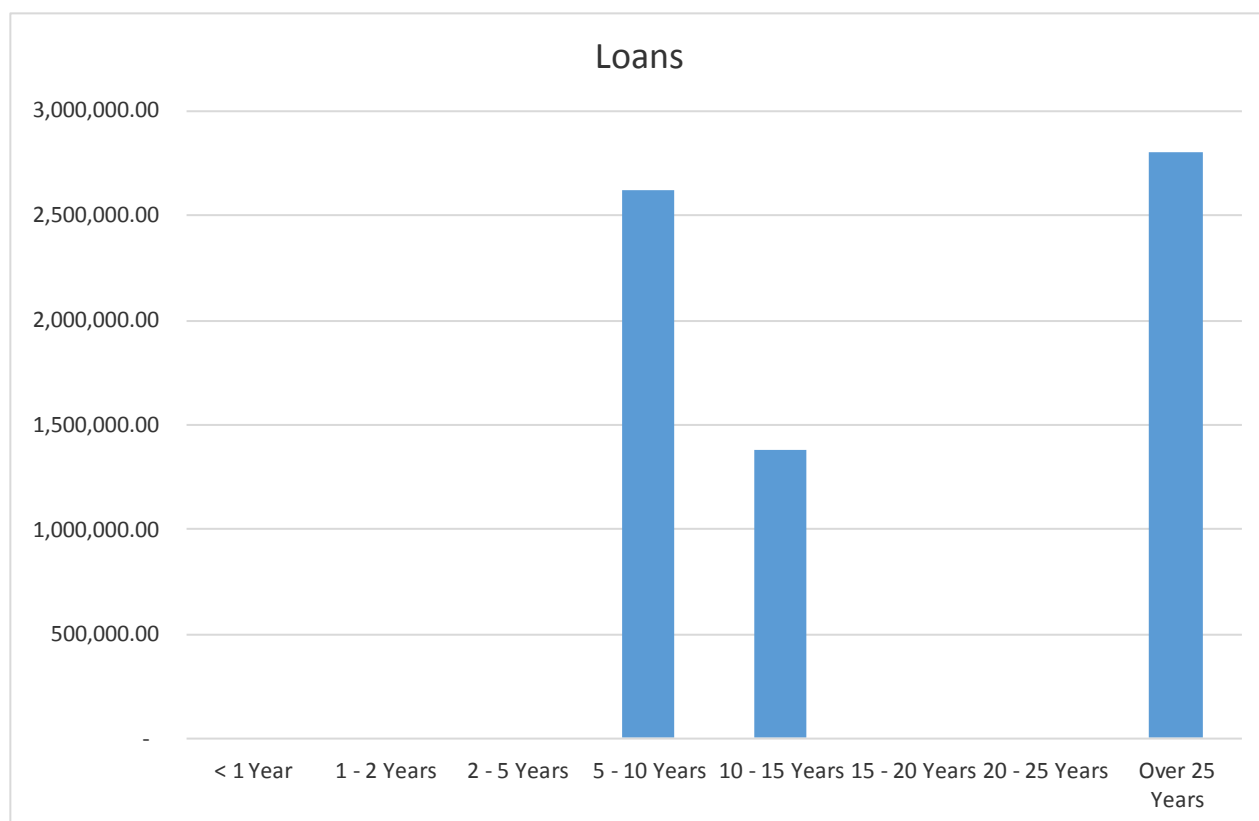
In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which we have made provisions within the Statement of Accounts, a greater proportion of the balances are invested as short fixed-term deposits. Any unforeseen circumstances and potential major incidents 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).

There are currently 18 investments with 14 different counterparties detailed in the Security of Investments table. These were all originally invested for different terms and will be used to cover monthly expenditure such as salaries and capital expenditure relating to the Blue Light Hub build. Any surplus funds will be re-invested for varying terms upon maturity in order to maintain liquidity and meet future commitments. Balances on call include the investments in the Money Market Funds and the Ultra Short Dated Bond Funds. 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 30 September 2018 is £6.797m. No further debt repayment is due until May 2020. 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

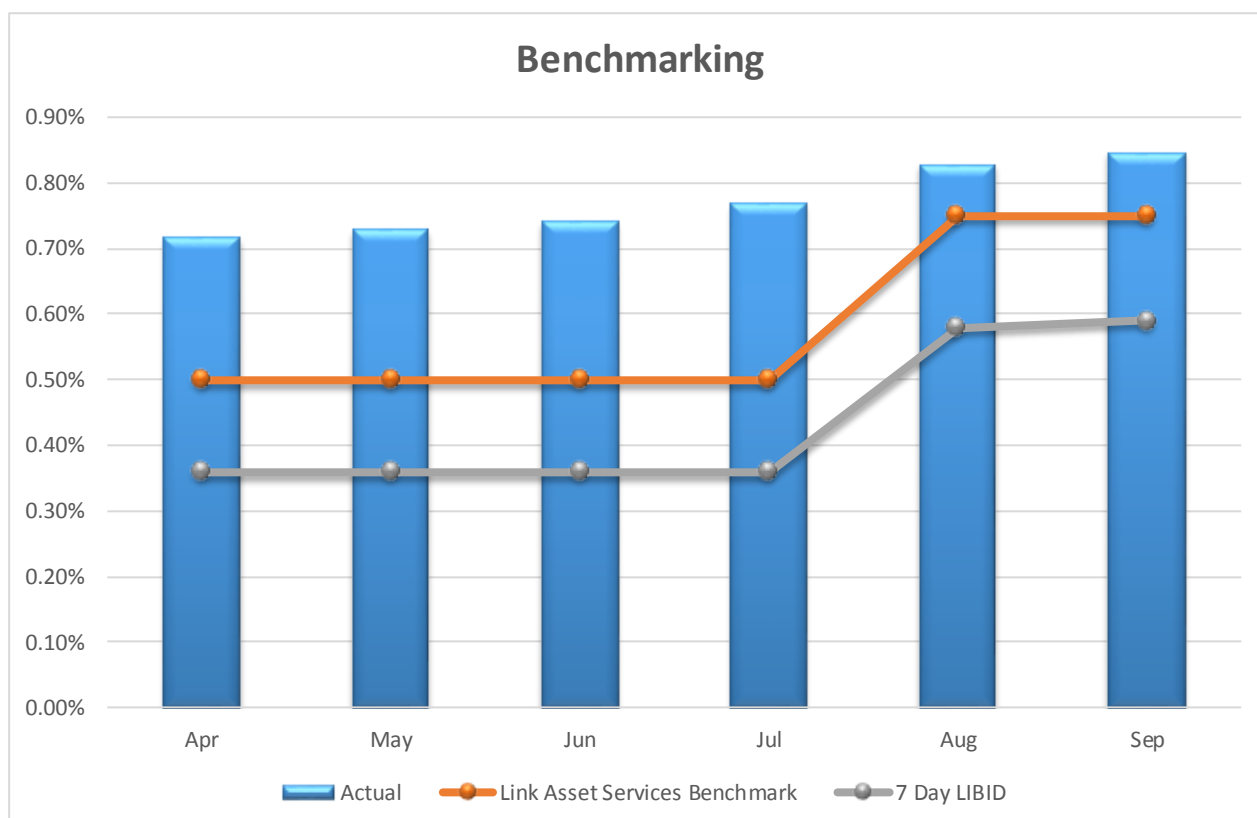
The budget for future years was reviewed as part of the Medium Term Financial Plan process and the income target for 2018/19 is £150k. This has increased by £50k for 2018/19 due to the continuing over-achievement against the previous year’s budget.

The accrued interest earned as at 30 September 2018 is £111k against the planned budget of £75k for the first quarter, which is an over achievement of £36k. 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, achieving £36k interest per year.

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
- Link benchmark – this is the indicative rate that Link advised we should be looking to achieve for 2018/19 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 second quarter. This is predominantly due to the Authority investing in longer durations with Local Authorities and other counterparties and benefitting from higher returns which has resulted in the Authority outperforming against the budget set.

In the second quarter, the Bank of England base rate increased by 0.25% and is currently set at 0.75%. As a result of this increase, the market is expected to follow suit and the level of returns the Authority receive should improve in the coming months. However the level of funds available for investment will reduce in the near future as they are being used to fund the build of the Blue Light Hub in West Ashlands, Milton Keynes. The Authority will continue to re-invest any surplus funds with varying maturity dates to ensure we make a return and have sufficient liquidity to cover the day to day expenditure.