Appendix 1 – Treasury Management Performance 2021/22

Background

Up until 31 March 2013, the Authority's cash balances were managed by Buckinghamshire Council (BC) under a Service Level Agreement (SLA). From 2013/14 the Authority began investing in its own name. Since the treasury management function has been managed in-house, the Authority has achieved investment returns of £1.311m between 2013/14 and 2021/22. This is in comparison to the returns of £0.534m the Authority would have earned through BC and the SLA for the same period.

This report highlights the performance to date of the in-house treasury management function for as at the end of financial year 2021/22.

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). During 2021/22 Link made no relevant changes to the counterparty listing. The amount invested with each counterparty on the approved lending list as at 31 March 2022 is detailed below:

Counterparty	Credit Ratings						Amount (£000)
	Fitch		Moody's		S&P		
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	
Close Brothers Group Plc	A	F2	Aa	P-1	-	-	4,000
Leeds BS	A	F1	A	P-2	-	-	2,000
Newcastle BS	-	-	-	-	-	-	1,000
Goldman Sachs International	A	F1	A	P-1	A	A-1	1,000
Principality BS	BBB	F2	Baa	P-2	-	-	1,000
Lloyds Bank plc	A	F1	A	P-1	A	A-1	1,000
Santander UK plc	A	F1	A	P-1	A	A-2	1,000
CCLA MMF	-	-	-	-	AAA	A-1	2,003
Aberdeen MMF	AAA	F1	Aaa	P-1	AAA	A-1	1,002
Lloyds Bank plc (CA)	A	F1	A	P-1	A	A-1	2,599
Total							**16,604**

BS = Building Society, MMF = Money Market Fund, CA = Current Account. Rating as at 15 May 2022.

During this period, no counterparty limits were breached.

Credit Rating

Link monitor and supply the Authority a weekly credit rating list for all counterparties listed in the Treasury Strategy 2021/22. In addition to this Link will also supply the Authority with any changes to the counterparties credit ratings. The credit ratings are not set by Link, these are obtained through rating agencies (Fitch, Moody's and Standard & Poor's (S&P)). The Authority will not place sole reliance on the credit ratings supplied by Link. The Authority will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

There are some counterparties that are not rated by the rating agencies. These are mainly Building Societies. The Authority will review the counterparties market data, market information (asset portfolio) before committing to an investment deal with the counterparty.

Below are the rating definitions for each rating agency:

Fitch:

Short Term	Long Term	Rating Definition
F1	AAA, AA, A	Highest Credit Quality
F2	A, BBB	Good Credit Quality
F3	BBB	Fair Credit Quality
B	BB, B	Speculative Credit Quality
C	CCC, CC, C	High Default Risk
RD	RD	Restricted Default
D	D	Default

Moody's:

Short Term	Long Term	Rating Definition
P-1	Aaa, Aa, A	Superior ability to repay debt obligation
P-2	A, Baa	Strong ability to repay debt obligation
P-3	Baa	Acceptable ability to repay debt obligation
NP	Ba, B, Caa, Ca, C	do not fall within any prime rating

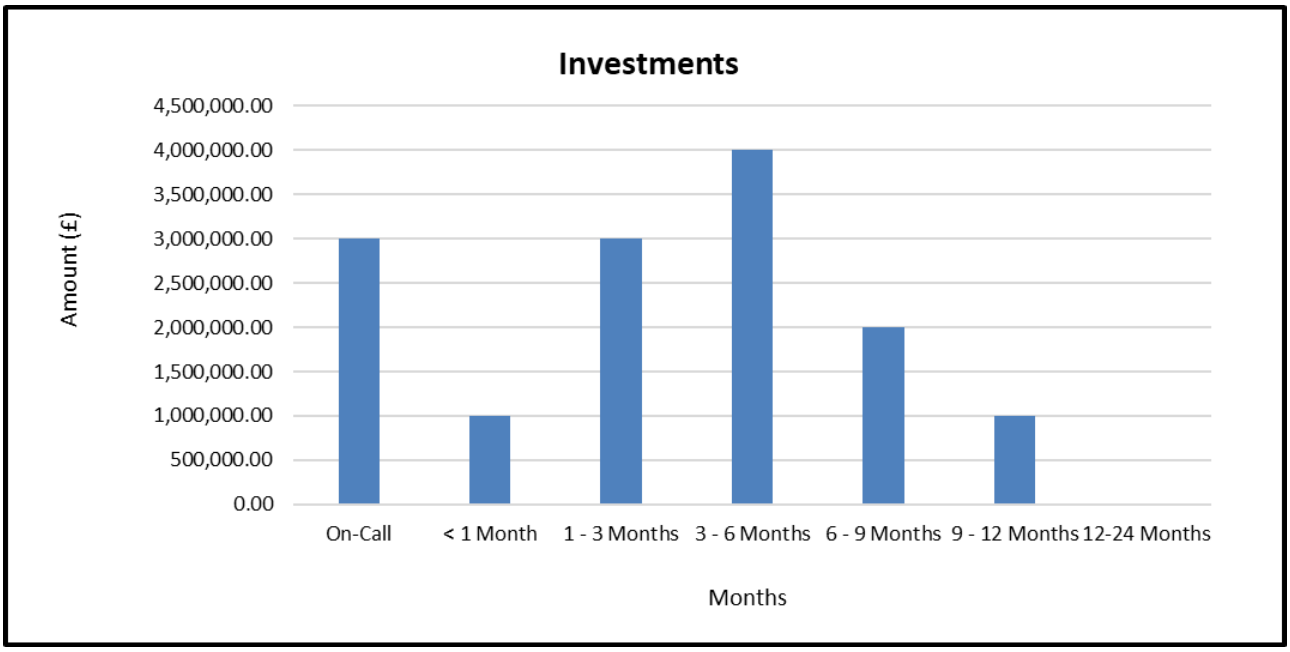
Standard & Poor's:

Short Term	Long Term	Rating Definition
A1	AAA, AA, A	Extremely Strong
A2	A, BBB	Satisfactory
A3	BBB	Adequate
B	BB, B	Vulnerable and has significant speculative characteristics.
C	CCC, CC, C	Vulnerable to non-payment
D	RD	Restricted Default
D	D	Default

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:

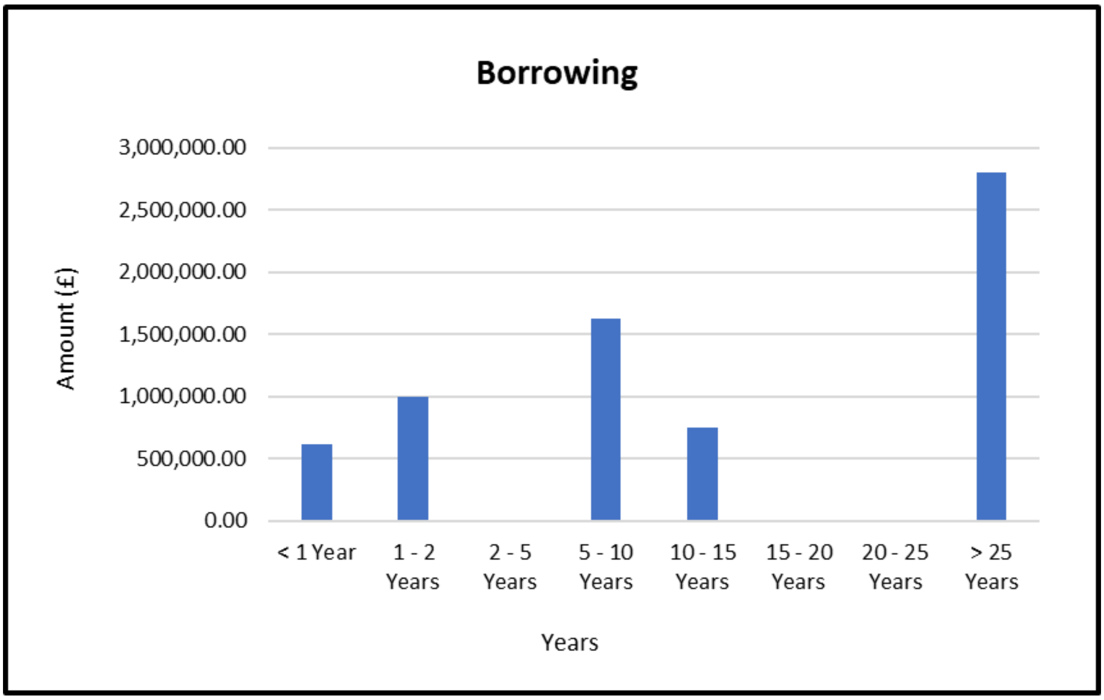


In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which the Authority have made provisions within the Statement of Accounts, the balances are invested as short fixed-term deposits.

There are six investments currently falling in the 1-3 and 3-6 month periods. At least one deal matures each month for the next seven months and were all originally invested for different terms and will be re-invested for varying terms upon maturity in order to maintain liquidity and meet future commitments. The Authority continues to hold Money Market Funds to 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 2022 is £6.797m. No further debt repayment is due until May 2022. 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

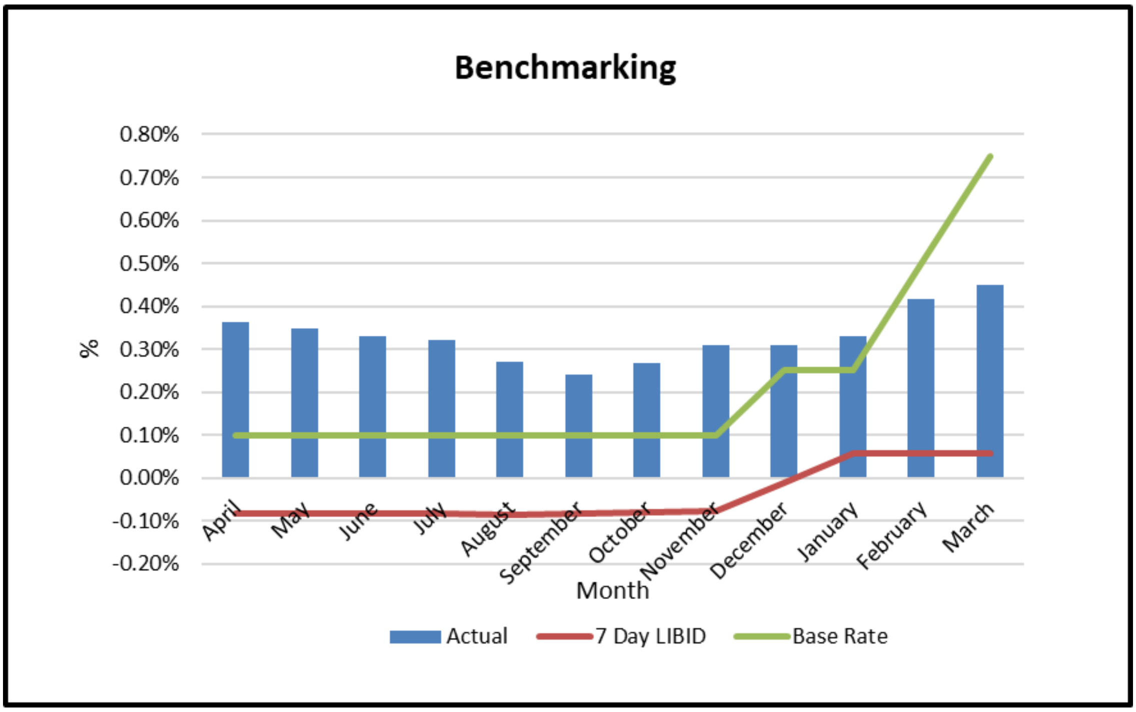
The Interest receivables budget was reviewed as part of the Medium-Term Financial Plan 2021/22 process and the budget was set at £30k. This is a reduction of £120k from 2020/21. The reason for the reduction is due to the coronavirus pandemic and the significant impact this has had on the global economic landscape and the world economy in general. Since the Bank of England's two unprecedented emergency interest rate cuts in March 2020 to a base rate record low of 0.10. The interest base rate has gradually increased with Monetary Policy Committee (MPC) voting for increases in December 2021 (0.25%), February 2022 (0.50%), March 2022 (0.75%) and May 2022 (1.00%). The Authority has now started to see some benefits in the interest base rate increase both in short term investment deals and Money Market Funds interest.

The accrued interest earned for financial year 2021/22 is £42k, against the planned budget of £30k for the same period. This is an over achievement of £12k and has resulted in the Authority being able to hit the budget target for financial year 2021/22.

Performance Against the Benchmark

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 the Authority should be looking to achieve for 2021/22 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 up to January 2022 outperformed both benchmark figures. However, during February 2022, the base rate was raised by MPC for the second time in the same financial year. This resulted in the Authority not achieving this benchmark for February and March 2022. The Authority has invested into some short-term deals which has provided the Authority with interest returns above the current 1% interest base rate. However, the Authority still has several investment deals made prior to the base rate increases, therefore it will take the Authority a number of months before seeing the full financial benefit of the base rate increase. The Authority is still outperforming the LIBID benchmark.

It must also be noted that the level of funds available for investment have reduced as a result of the reduction in reserves. The Authority will continue to re-invest any surplus funds with varying maturity dates to ensure the Authority makes a return on investments and has sufficient liquidity to cover the day-to-day expenditure.