Appendix 1 – Treasury Management Performance 2022/23

Background

Up until 31 March 2013, the Authority's cash balances were managed by Buckinghamshire Council 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 £1.639m between 2013/14 and 2022/23.

This report highlights the performance to date of the in-house treasury management function for as at the end of financial year 2022/23.

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 Treasury Services Limited (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 2022/23, Link made no relevant changes to the counterparty listing. The amount invested with each counterparty on the approved lending list as at 31 March 2023 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	Aaa	P-1	-	-	3,000
Goldman Sachs International	A	F1	A	P-1	A	A-1	2,000
Standard Chartered Bank (SD)	A	F1	A	P-1	A	A-1	2,000
West Brom BS	-	-	Ba	NP	-	-	2,000
Leeds BS	A	F1	A	P-2	-	-	1,000
Newcastle BS	-	-	-	-	-	-	1,000
Principality BS	BBB	F2	Baa	P-2	-	-	1,000
CCLA Fund Managers Ltd (MMF)	-	-	-	-	AAA	A-1	1,540
Aberdeen Asset Management PLC (MMF)	AAA	F1	Aaa	P-1	AAA	A-1	1,024
Lloyds Bank plc (CA)	A	F1	A	P-1	A	A-1	750
Total							**15,314**

BS = Building Society, MMF = Money Market Fund, CA = Current Account, SD Sustainable Deposit. Rating as at 31 March 2023.

During this period, no counterparty limits were breached.

Credit Rating

Link monitor and supply the Authority with a weekly credit rating list for all counterparties listed in the Treasury Strategy 2022/23. In addition to this Link will also supply the Authority with any changes to the counterparties credit ratings as and when they occur. 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

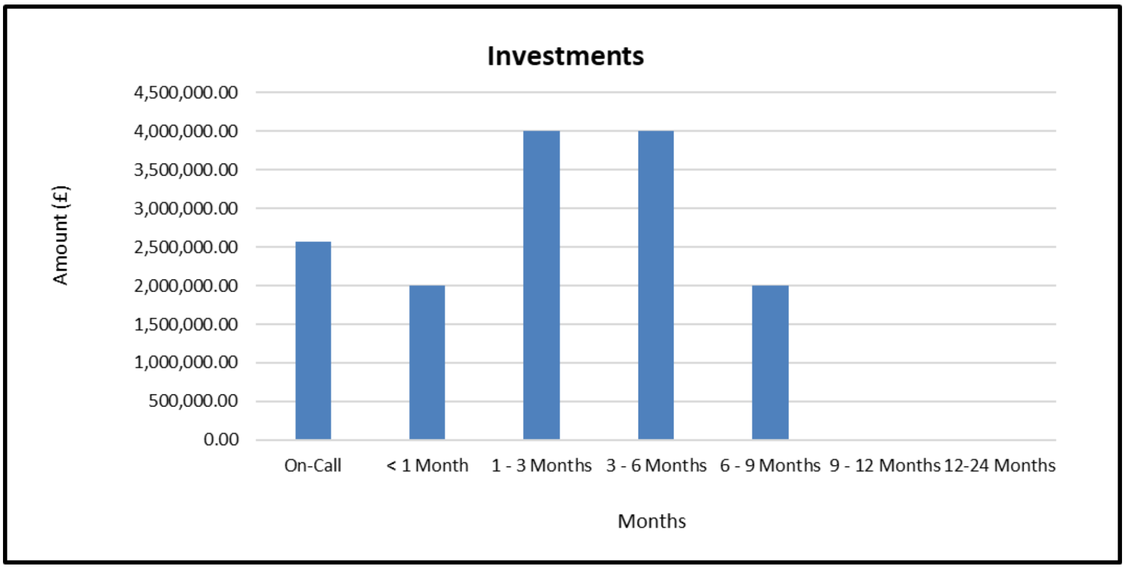
Standard & Poor's:

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:

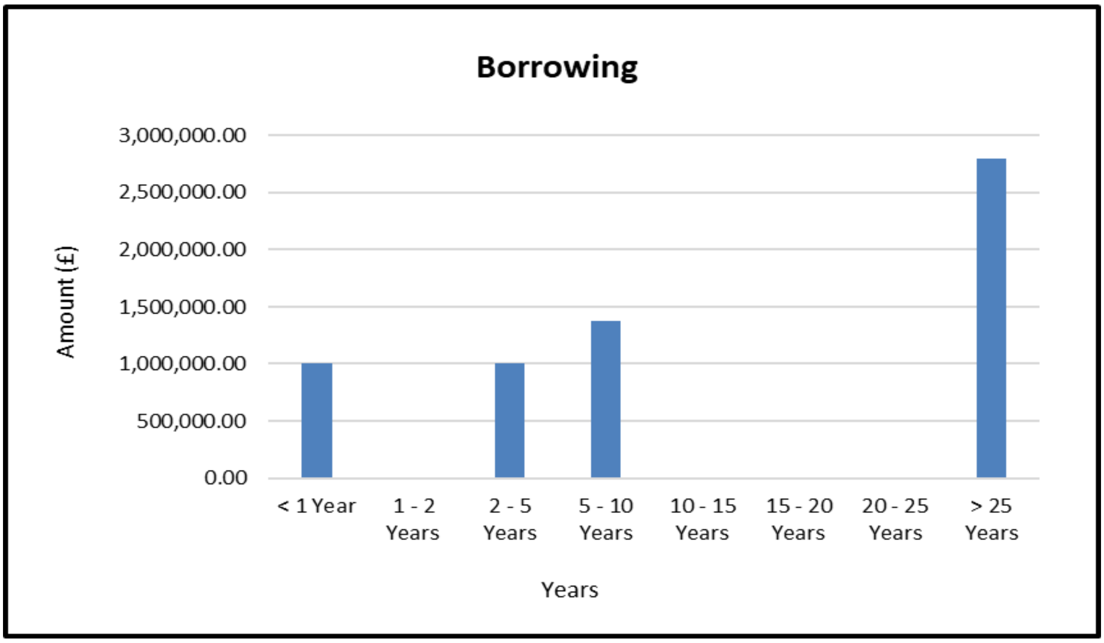


In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which the Authority have made provisions within the Statement of Accounts, the balances are invested as short fixed-term deposits.

There are eight investments currently falling in the <1 Month, 1-3 Months and 3-6 Months 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 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.

<u>Borrowing</u>

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 2023 is £6.177m. A repayment for a maturing loan was completed in May 2022, the value of this loan was £0.620m. The next maturing loan is March 2024. 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.

Historically with low levels of interest rates, the level of penalties on the early repayment of borrowing has made it difficult to restructure debt effectively. However, with the significant rise in interest rates over the last 12 months, this makes it more viable to look at restructuring debt. As part of the 2023/24 Treasury Strategy, Officers will review the opportunity to restructure debt with our treasury advisors.

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.

<u>Performance Against Budget</u>

The interest receivables budget was reviewed as part of the Medium-Term Financial Plan (MTFP) 2022/23 process with the outcome for the budget to remain at £30k. This was approved by at the Fire Authority in February 2022. The reason for the same level of investment income is due to the volatility of the market and taking a prudent approach not to increase the investment budget at the time, with any additional investment income above the set budget being greatly received. The interest base rate in February 2022 when the budget was set was 0.50%.

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 Monetary Policy Committee (MPC) has voted to increase the interest base rate at each of the last nine (MPC) meetings (December 2021

(0.25%), February 2022 (0.50%), March 2022 (0.75%), May 2022 (1.00%), June 2022 (1.25%), August 2022 (1.75%), September (2.25%), November 2022 (3.00%), December 2022 (3.50%), February 2023 (4.00%) and March 2023 (4.25%)). The Authority has seen the benefits in the interest base rate increase both in short term investment deals and Money Market Funds interest.

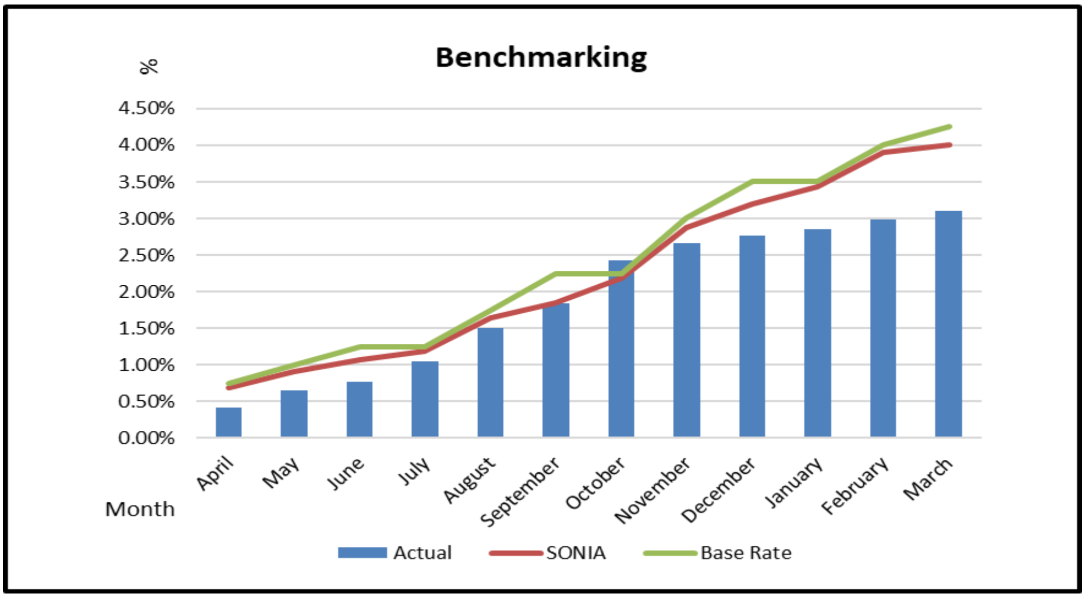
The accrued interest earned for financial year 2022/23 is £328k, against the planned budget of £30k for the same period. This is an over achievement of £298k and the Authority managed to achieve the budgeted target for financial year 2022/23 of £30k within the first six months of the financial year.

Link are forecasting for the current interest base rate of 4.25% (as 23 March 2023) to potentially increase to 4.5% in the next twelve months before gradually reducing in the following twelve months. With this projection in mind, as part of the MTFP 2023/24 process, the investment income budget will significantly increase to reflect the rise in interest rates. This will consider the funds available to invest and ensuring the Authority is able to maintain sufficient liquidity to cover the day-to-day expenditure.

Performance Against the Benchmark

The relative performance of the investments is measured against two benchmark figures:

- SONIA (Sterling Overnight Index Averages) – SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
- Base Rate – This is the interest base rate set by the Bank of England's MPC.
- The weighted average rate (%) (Actual) is compared to the two benchmark figures in the following chart for each month.



The Authority for April to March 2023 underperformed against the interest base rate and SONIA rates except for October 2022. This was due to several investment deals being placed prior to the MPC increasing the interest base rate in the last eleven consecutive MPC meetings. With those investment deals maturing, the Authority has been able to re-invest these funds achieving a higher interest rate return.

It must also be noted that the level of funds available for investment have reduced because of the reduction in reserves in the last five years. 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.