



# Buckinghamshire & Milton Keynes Fire Authority

<b>MEETING</b>	Overview and Audit Committee
<b>DATE OF MEETING</b>	17 March 2021
<b>OFFICER</b>	Mark Hemming, Director of Finance & Assets
<b>LEAD MEMBER</b>	Councillor David Hopkins
<b>SUBJECT OF THE REPORT</b>	<b>Treasury Management Performance 2020/21 – Quarter 3</b>
<b>EXECUTIVE SUMMARY</b>	<p>This report is being presented to provide the treasury investment position as at the end of 2020/21. It is best practice to review on a regular basis how Treasury Management activity is performing.</p> <p>The accrued interest earned up to 31 December 2020/21 is £94k, which is £18.5k lower than the budget for the period.</p>
<b>ACTION</b>	Noting.
<b>RECOMMENDATIONS</b>	That the Treasury Management Performance 2020/21 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 2020/21 relating to interest earned on balances invested is £150k. 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 (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="https://bucksfire.gov.uk/documents/2020/03/130219_fire_authority_agenda.pdf/">https://bucksfire.gov.uk/documents/2020/03/130219_fire_authority_agenda.pdf/</a>
<b>APPENDICES</b>	Appendix A – Treasury Management Performance 2020/21 – Quarter 3
<b>TIME REQUIRED</b>	5 minutes
<b>REPORT ORIGINATOR AND CONTACT</b>	Marcus Hussey <a href="mailto:mhussey@bucksfire.gov.uk">mhussey@bucksfire.gov.uk</a> (01296) 744680

## Appendix A – Treasury Management Performance 2020/21 – 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. Since the treasury management function has been managed in-house, the Authority has achieved investment returns of £1.156m between 2013/14 and 2019/20. This is in comparison to the returns of £0.550m the Authority would have earned through BCC and the SLA for the same period.

This report highlights the performance to date of the in-house treasury management function for 2020/21 quarter 3.

### 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 31 December 2020 is detailed below:

<b>Counterparty</b>	<b>Amount (£000)</b>
Close Brothers	5,000
Lloyds Bank	3,500
Newcastle Building Society	2,000
Santander	2,000
Nottingham Building Society	1,000
CCLA Money Market Fund	251
Aberdeen Money Market Fund	151
Lloyds Bank (Current Accounts)	1,855
<b>Total</b>	<b>15,757</b>

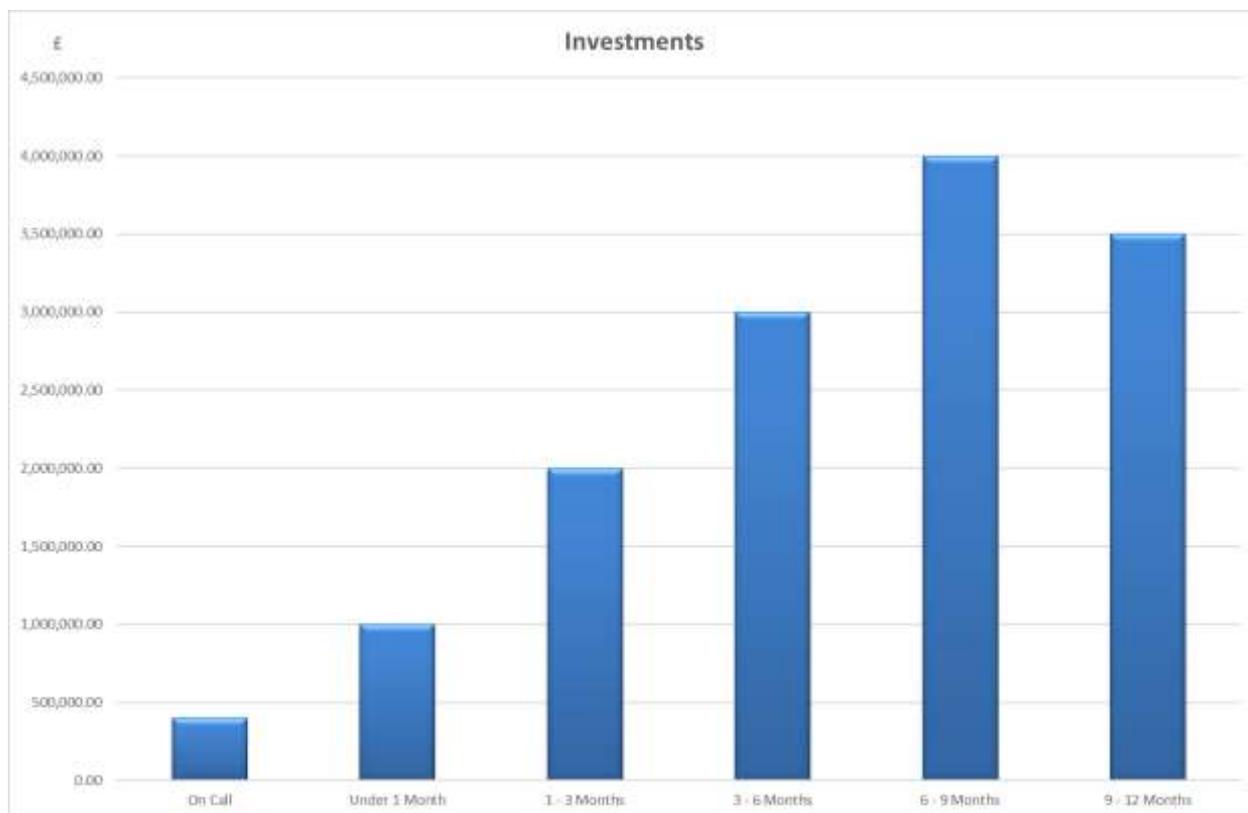
During this period, no counterparty limits were breached.

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 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:

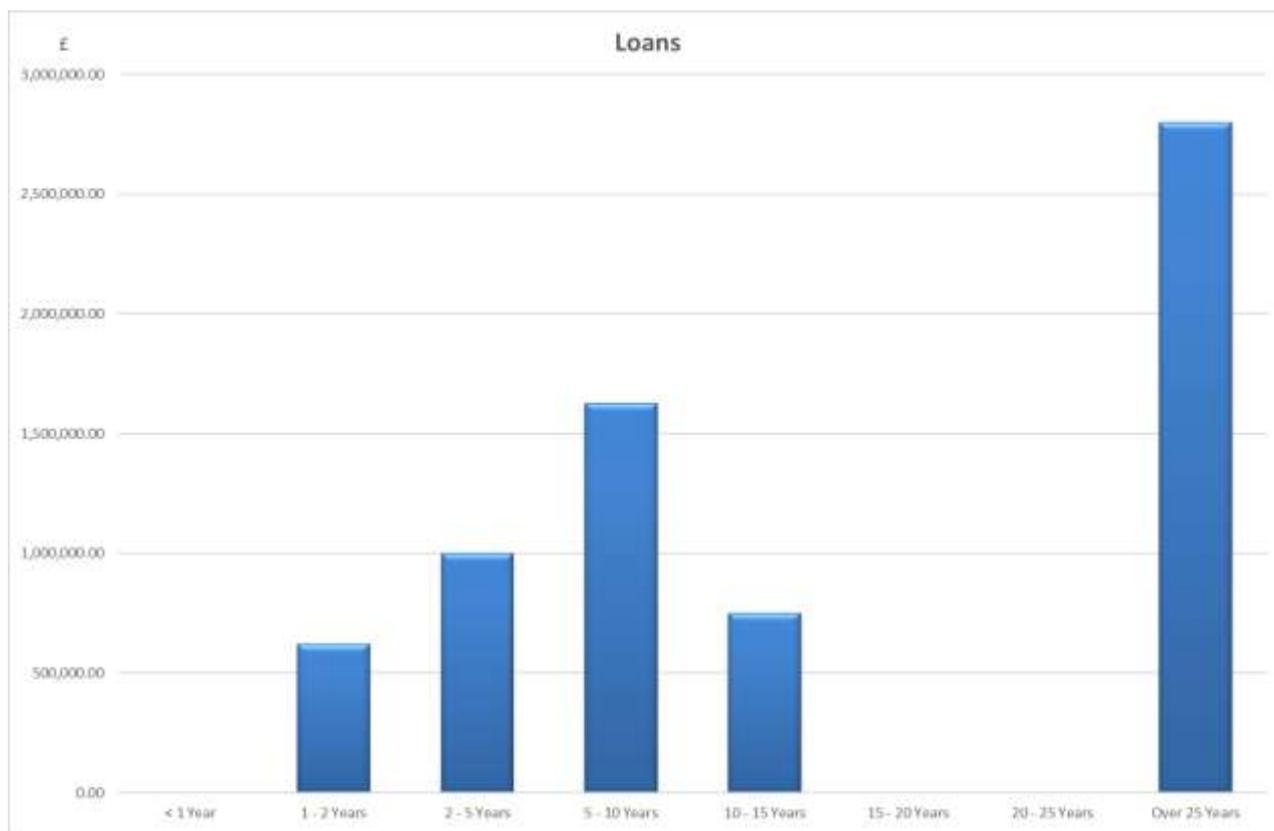


In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which the Authority have made provisions within the Statement of Accounts, the balances are invested as short fixed-term deposits.

There are five investments currently falling in the 1-3 and 3-6 month periods. These mature one each month for the next five 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 December 2020 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. At the Fire Authority meeting in February 2020, the Authority approved an increase in the Authorised Limit by £2m with immediate effect in-case short-term borrowing is required to effectively manage cashflow. This additional borrowing headroom was not utilised, primarily due to the receipt of £2m from South Central Ambulance Service for their contribution towards the Blue Light Hub.

### **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

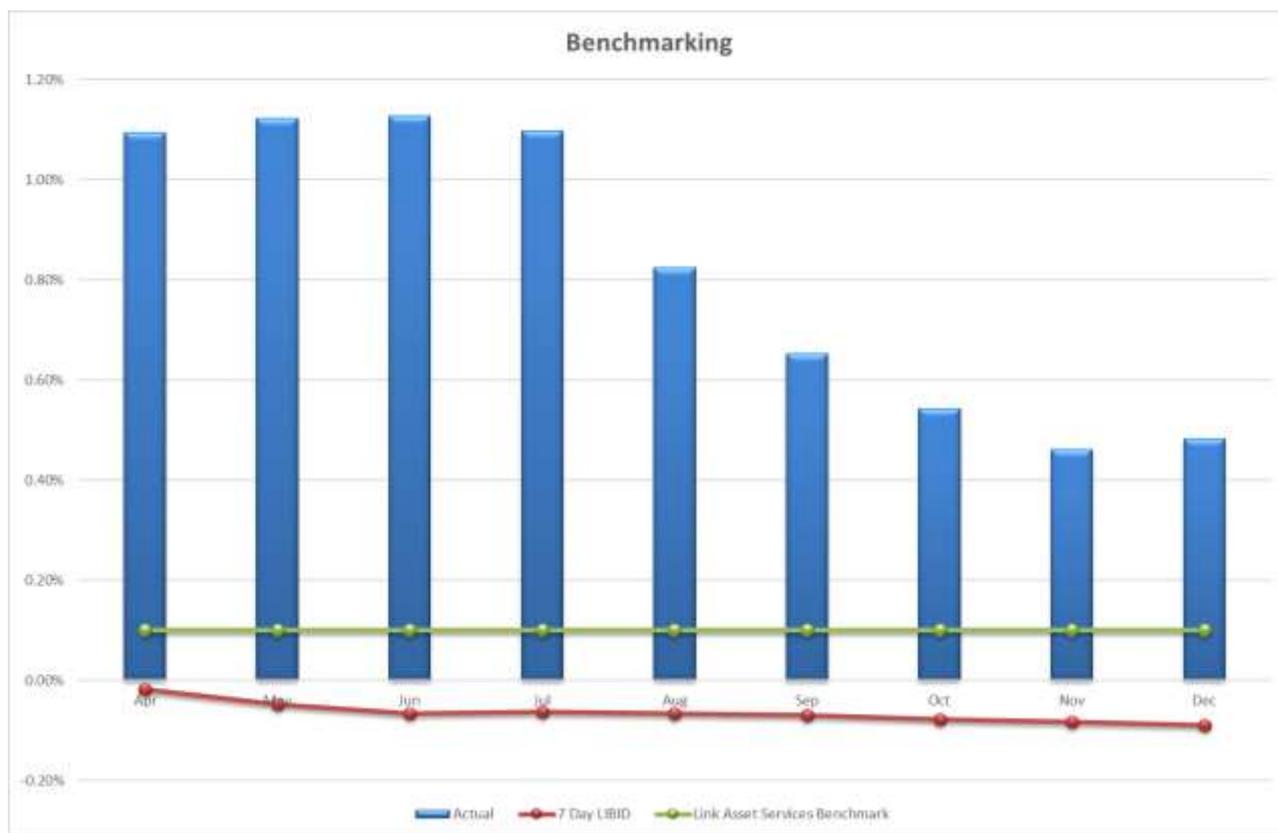
The budget for future years was reviewed as part of the Medium-Term Financial Plan process and the income target for 2020/21 is £150k. This has not increased for 2020/21 due to the continuing spend on the Blue Light Hub at West Ashlands, Milton Keynes. It is expected that there will be less funds available for investments, hence the potential to realise greater interest is diminished. The accrued interest earned as at 31 December 2020 is £94k against the planned budget of £112.5k for the three quarters of the year, this is an under achievement of £18.5k. It should be noted that

£9.75k of this is due to the interest achieved from making an advance payment in respect of the Employers contribution to the LGPS of £551k, achieving £13k interest for the current year.

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 2020/21 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 first 3 quarters of the financial year. This is predominantly due to the Authority investing for longer durations with Local Authorities and other counterparties in the previous year.

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.

The coronavirus pandemic has had a significant impact on the global economic landscape. As a result, In March 2020, the Bank of England have made 2 unprecedented emergency interest rate cuts bringing the base rate to a record low of 0.10%. The full impact of the pandemic will not be known for quite some time but is

having a major impact on the money markets and the world economy in general, which will take a considerable time to recover. The direct impact on the Authority will be interest rates on current accounts, money market funds and investments. The Authority has not met the quarterly budget target and this is a direct impact of the unprecedentedly low interest rates due to the coronavirus pandemic. This will certainly continue for the remainder of the financial year and into next financial year. Therefore, the £150k budget for 2020/21 (approved at the Fire Authority in February 2020) will not be achieved. The budget for 2021/22 has also been revised and reduced to £30k due to the low levels of returns.