



Buckinghamshire & Milton Keynes Fire Authority

Meeting and date: Overview and Audit Committee, 20 July 2022

Report title: Treasury Management Performance 2021/22

Lead Member: Councillor Matthew Walsh

Report sponsor: Mark Hemming, Director of Finance & Assets

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Action: Noting.

Recommendations: That the Treasury Management Performance 2021/22 report be noted.

Executive summary:

This report is being presented to provide the treasury investment position as at the end of 2021/22. It is best practice to review on a regular basis how Treasury Management activity is performing.

The accrued interest earned for 2021/22 is £42k, which is £12k higher than the budget for 2021/22.

Financial implications:

The budget for 2021/22 relating to interest earned on balances invested is £30k. Performance against the budget is included within Appendix A.

Risk management:

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.

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.

The risk of counterparty failure is monitored on the directorate level risk register within Finance and Assets.

There are no direct staffing implications.

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 (Finance and Accounting) (England) Regulations 2003 [SI 3146] to have regard to any prevailing CIPFA Treasury Management Code of Practice.

Privacy and security implications:

No direct impact.

Duty to collaborate:

No direct impact.

Health and safety implications:

No direct impact.

Environmental implications:

No direct impact.

Equality, diversity, and inclusion implications:

No direct impact.

Consultation and communication:

No direct impact.

Background papers:

Treasury Management Policy Statement, Treasury Management Strategy Statement and the Annual Investment Strategy

<https://bucksfire.gov.uk/documents/2021/02/item-8-treasury-management.pdf/>

| Appendix | Title | Protective Marking |
|----------|---|--------------------|
| 1 | Treasury Management Performance 2021/22 | |

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.

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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 |

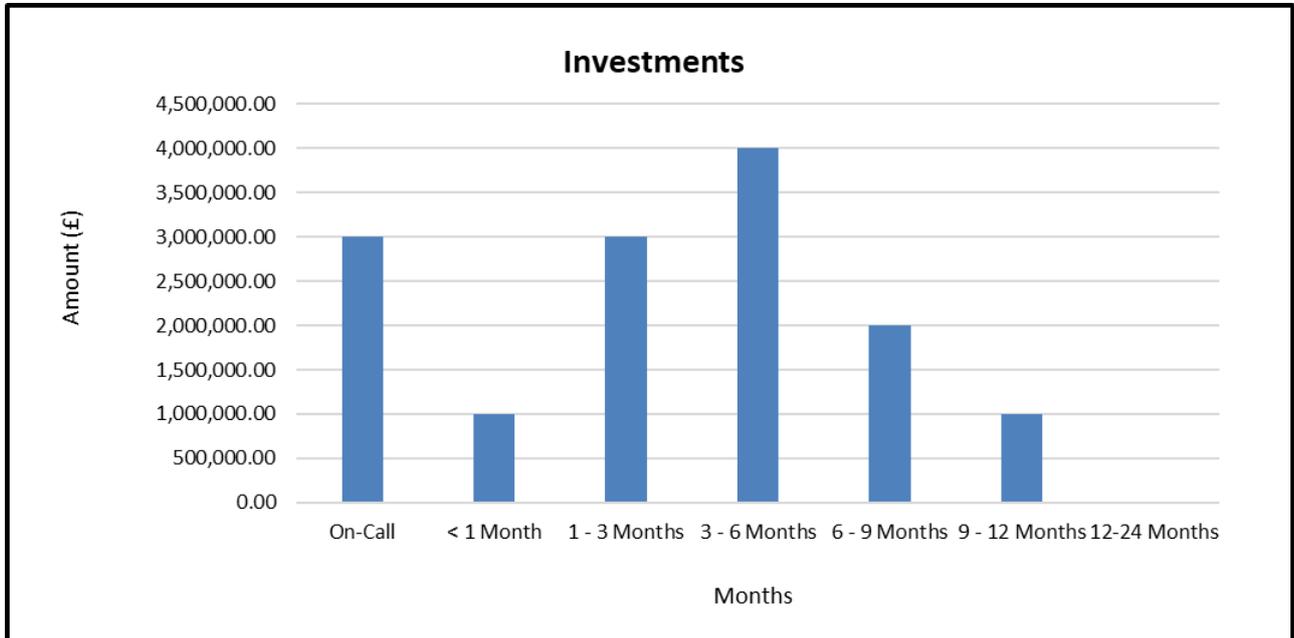
Standard & Poor's:

| 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:

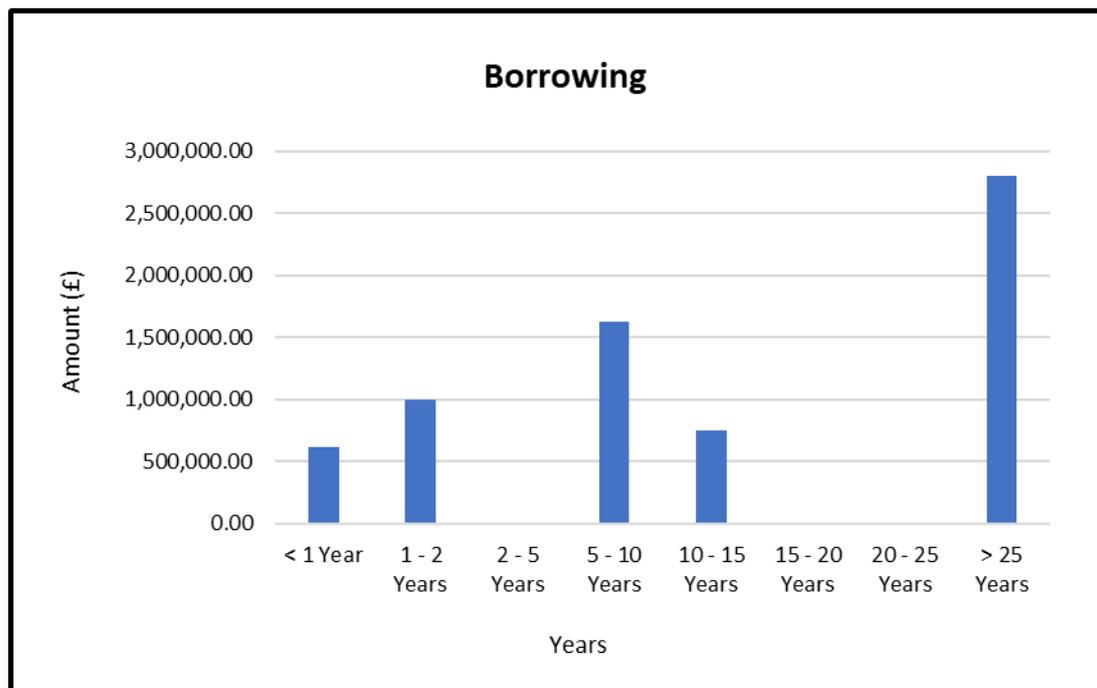


In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which the Authority have made provisions within the Statement of Accounts, the balances are invested as short fixed-term deposits.

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

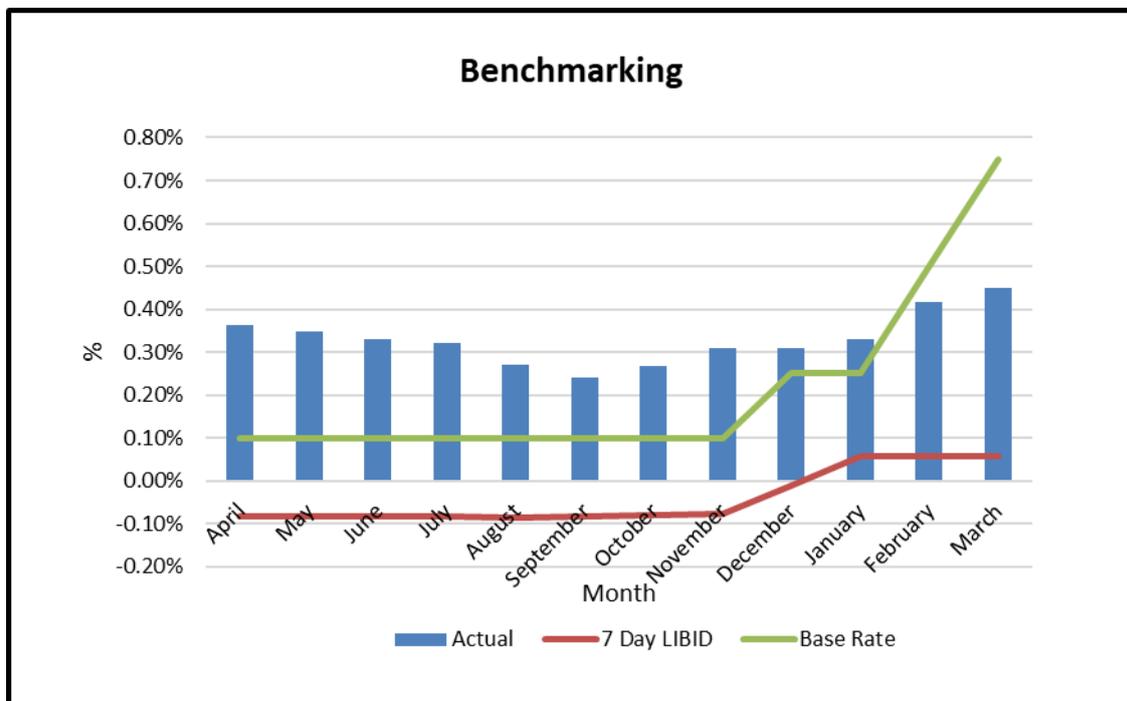
The Interest receivables budget was reviewed as part of the Medium-Term Financial Plan 2021/22 process and the budget was set at £30k. This is a reduction of £120k from 2020/21. The reason for the reduction is due to the coronavirus pandemic and the significant impact this has had on the global economic 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.