Buckinghamshire & Milton Keynes Fire Authority

Meeting and date: Overview and Audit Committee, 8 November 2023

Report title: Treasury Management Performance 2023/24 - April to September 2023

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 2023/24 – April to September 2023 report be noted.

Executive summary:

This report is being presented to provide the treasury investment position as at April to September 2023. It is best practice to review on a regular basis how Treasury Management activity is performing. The accrued interest earned for 2023/24 - April to September 2023 is £0.414m, which is £0.239m higher than the budget (£0.175m) for the same period.

Financial implications:

The budget for 2023/24 relating to interest earned on balances invested is £0.350m. 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/2022/06/treasury-management-strategy.pdf/

Appendix	Title	Protective Marking
1	Treasury Management Performance 2023/24 – April to September 2023	

Appendix 1 – Treasury Management Performance 2023/24 – April to September 2023

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 period April to September 2023, financial year 2023/24.

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 April to September 2023, Link made no relevant changes to the counterparty listing. The amount invested with each counterparty on the approved lending list as at 30 September 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	3,000
Lloyds Bank Corporate Markets Plc	A	F1	A	P-1	A	A-1	3,000
Standard Chartered Bank (SD)	A	F1	A	P-1	A	A-1	3,000
West Brom BS	-	-	Ba	NP	-	-	2,000
Leeds BS	A	F1	A	P-2	-	-	1,000
Newcastle BS	-	-	-	-	-	-	1,000
CCLA Fund Managers Ltd (MMF)	-	-	-	-	AAA	A-1	2,595
Aberdeen Asset Management PLC (MMF)	AAA	F1	Aaa	P-1	AAA	A-1	2,022
Lloyds Bank plc (CA)	A	F1	A	P-1	A	A-1	469
Total							**21,086**

BS = Building Society, MMF = Money Market Fund, CA = Current Account, SD Sustainable Deposit. Rating as at 30 September 2023.

During this period, no counterparty limits were breached.

Credit Rating

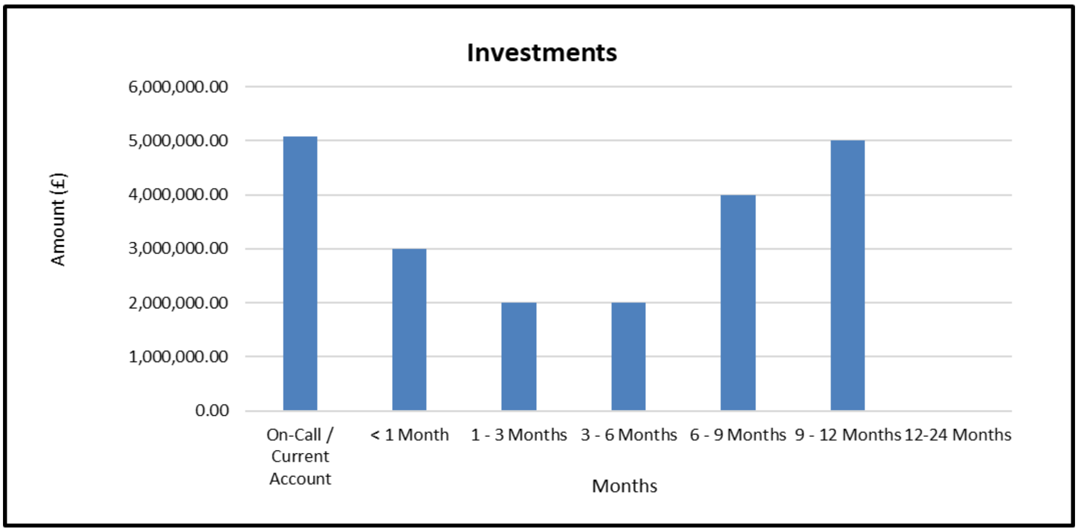
Link monitor and supply the Authority with a weekly credit rating list for all counterparties listed in the Treasury Strategy 2023/24. In addition to this Link will also supply the Authority with any changes to the counterparties credit ratings as and when they occur. The credit ratings are not set by 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. The credit rating definitions for each rating agency can be found in the Treasury Strategy 2023/24.

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:

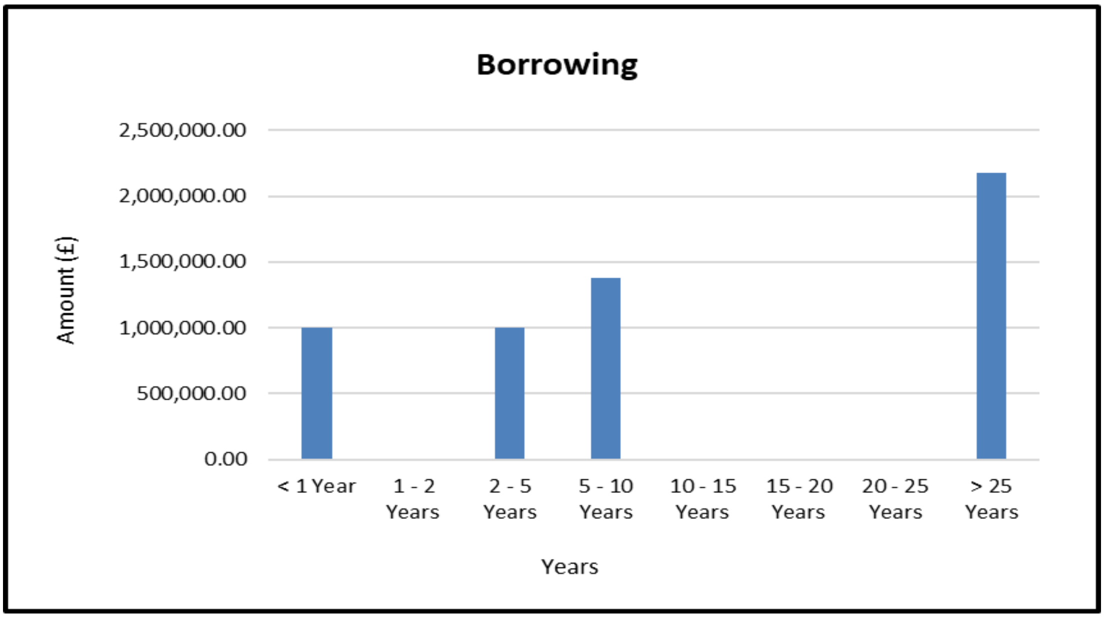


In order to cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which the Authority have made provisions within the Statement of Accounts, the balances are invested as short fixed-term deposits.

There are seven 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 three 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. This balance is larger than normal due to the sale of an asset. 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 2023 is £5.550m. During May 2023, officers took the decision to make an early repayment of a loan for £0.627m that was due to be repaid in 2056. This was at a discount of £0.045m. The next loan matures in March 2024 for £1.000m and funds have been set aside to repay this. 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.

Performance Against Budget

The interest receivables budget was reviewed as part of the Medium-Term Financial Plan (MTFP) 2023/24 process, the outcome was to increase the budget to £0.350m. This was approved by at the Fire Authority in February 2023. The reason for increasing the level of investment income is due to the continuous increase to the Bank of England interest base rate. The budget increase was still set on a prudent approach, with any additional investment income above the set budget being greatly received. The interest base rate in February 2023 when the budget was set was 4.00%.

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 14 out of the last 15 MPC meetings, with no increase at the most recent meeting in September. The interest base rate currently stands at 5.25%. The Authority has seen the benefits in the interest base rate increase both in short term investment deals and Money Market Funds interest.

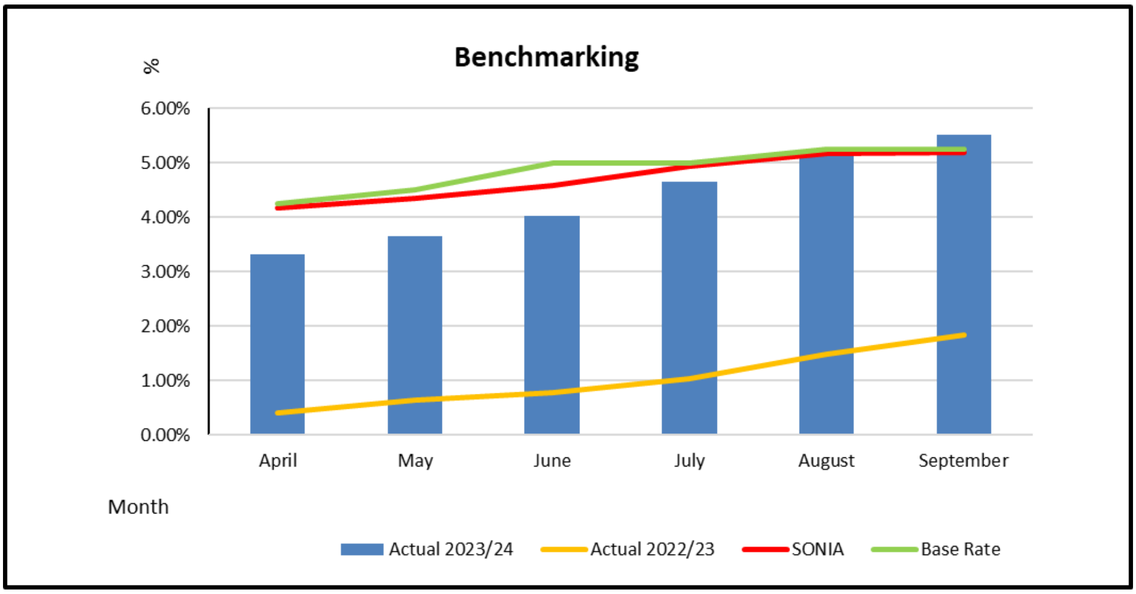
The accrued interest earned for period April to September in financial year 2023/24 is £0.414m, against the planned budget of £0.175m for the same period. This is an over achievement of £0.239m. By taking the confirmed investment deals as at 30 September 2023 and no future investments for the remainder of the financial year, the Authority will achieve £0.765m in interest for 2023/24. This is an overachievement against the budgeted target for financial year 2023/24 of £0.415m. This projection does not include any income generated from MMF accounts for October 2023 to March 2024.

Link are forecasting for the current interest base rate of 5.25% (as 03 August 2023) to potentially increase to 5.5% in the next six months before gradually reducing in the following twelve months. With this projection in mind, as part of the MTFP 2024/25 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 between April and August 2023 underperformed against the interest base rate and SONIA rates, however with no move in the interest base rate for September, the Authority for the first time has achieved average interest above the interest base rate. 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. As you can also see from the chart, the Authority has been able to achieve a higher average rate of interest compared to the same period in 2022/23.

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.