

TREASURY MANAGEMENT – QUARTER 3 SUMMARY FINANCIAL REPORT 2014/15

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LEAD OFFICER: Angela George, Interim Finance Manager (S151 officer)
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WHY HAS THIS REPORT COME TO THE EXECUTIVE?

To inform Executive of the Treasury Management activity to 31 December 2014 and provide a forecast estimated investment interest to year end. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members are updated on treasury management activities regularly. This report therefore ensures this Council is implementing best practice in accordance with the Code.

RECOMMENDATIONS:-

- I. Executive are asked to note the contents of this detailed Treasury Management Quarter 3 report.

1. INTRODUCTION

- 1.1 The Treasury Management budget is subject to a detailed monthly review and forms part of the Revenue Budget Monitoring report presented to Executive on a quarterly basis. This report further details the monitoring position at 31 December 2014 and provides an estimate of expected investment income to the year end.

2. BRIEF ECONOMIC OUTLOOK FROM OUR TREASURY ADVISORS, CAPITA

- 2.1 Strong UK growth so far this year, 0.7% in Q1, 0.9% in Q2 and a third estimate of 0.7% in Q3 (annual rate 2.6% in Q3). Although strong growth by UK standards, this is not as strong as previously forecast. Indications are that growth will continue through 2014 & 2015. However, for the recovery to become more balanced and sustainable, it needs to move away from dependence on consumer expenditure and the housing market to manufacturing and exports.

Consumer Price Inflation (CPI) reached 0.5% in December; the lowest 12 month rate on record. This has fallen mainly due to low fuel costs, falling food prices and December 2013 gas and electric price increases falling out of the calculation.

The Bank rate remains at the historically low level of 0.50%. The Monetary Policy Committee (MPC) minutes showed a distinct move towards caution in raising rates too soon in order to protect UK growth. Financial markets have reacted to this by shifting their first increase in rates back to Q4 2015.

Geopolitical concerns, over amongst other things, global growth, Ukraine, the Middle East and the Eurozone, have seen Gilt prices fall and along with it PWLB rates. However, long term expectations are for a rise in rates.

3. TREASURY MANAGEMENT EXPENDITURE BUDGET & FORECAST 2014/15

- 3.1 The treasury management budget was set by Council alongside other revenue budgets on 27th February 2014.
- 3.2 The treasury management expenditure budget of £392k (excluding SLA's) mainly consists of non-controllable costs. £379k of this relates to the annual interest repayments on the Authorities only remaining £5m loan. These repayments of interest are made bi-annually in August and February each year. At the current time, the advice is to leave this loan in its present form as the penalty for repaying early (currently estimated at £3m penalty plus the £5m loan) would be prohibitive. This is however, continually reviewed with our Treasury Consultants, Capita Asset Services.
- 3.3 The expenditure budget of £392k against an income budget of £202k results in a net budget for the treasury management function of £190k.
- 3.4 The expenditure budget forecast is detailed in the following table:

Table 1 – Expenditure Budget (excluding SLA's)

Budget	Spent to Date	Forecast of expected payments to 31/03/15	Total Forecast position as at 31/03/15	Variance as at 31/03/15
£	£			£
391,991	140,546	248,810	389,356	(2,635)

4. TREASURY MANAGEMENT INCOME BUDGET & FORECAST 2014/15

- 4.1 The treasury management income budget for anticipated investment returns on our cash held deposits has been revised up to a level of £202k for 2014/15. The budget was originally set at £50k lower (£152k) on the assumption that interest rates could potentially fall further than they were in 2013/14. But we were able to restate the £50k in 2014/15 through revisions to the Treasury Management Strategy Statement to fully utilise the retention of the monies received from a major ratepayer. This has resulted in increased balances and better returns for this financial year. In light of these improved returns, the 2015/16 budget has been increased by an additional £30k to £231,822.
- 4.2 The income budget forecast is detailed in the following table:

Table 2 – Investment Interest Income

Investment Interest Budget revised at Quarter 1 £	Interest received to Date £	Interest on current outstanding investments	Forecast of expected investments to 31/03/15	Total Forecast position as at 31/03/15	Variance as at 31/03/15 £
201,822	119,572	108,638	22,554	250,764	48,942

4.3 As shown in the above table, a full year forecast for investment interest at 31 December 2014 is £250,764, resulting in a forecast possible income of £49k in excess of the budget at the year end. Members should note that the financial markets remain very uncertain and the anticipated receipt is the forecast outcome and is not guaranteed. Any fluctuation in the estimated interest rate or balances for January–March 2015 will impact on the interest received in that period.

4.4 Attached at Appendix A shows the Councils investments as held at 31 December 2014 detailing each counterparty, principal invested, period of investment, maturity date and yield.

5. WHAT ARE THE LEGAL, FINANCIAL AND HUMAN RESOURCES IMPLICATIONS?

5.1 Investment income will continue to be monitored and reported to Members on a quarterly basis in the Revenue monitoring report, and explicitly in this report, also on a quarterly basis. The next report due to Executive will detail the Outturn position of the Treasury Management function.

6. STATUTORY OFFICER COMMENTS

6.1 The Monitoring Officer’s comments are:

6.2 The Section 151 Officer’s comments are: Included within this report

6.3 EIA Comments:

6.4 Policy Framework: Within the Treasury Management Strategy 2014/15 approved by Council in February 2014.

7. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

7.1 It is imperative that all budgets are monitored monthly with exceptions reported through Corporate Leadership Team and Executive so that management action can be taken to ensure the effective use of resources as planned by the Council.

- 7.2 The Treasury Management function will continue to be monitored and reported to Members. The budget monitoring process continues to be refined to provide members and officers with the up-to-date financial information needed to make key decisions on resource allocations during the year to feed into the Council's budget process.

List of Appendices:

Appendix A – List of Investments as at 31 December 2014

APPENDIX A

TEMPORARY INVESTMENTS as at 31 December 2014

COUNTERPARTY NAME	AMOUNT £	PERIOD OF LOAN	VALUE DATE	MATURITY DATE	RATE	VARIABLE/ FIXED	BASE RATE
BARCLAYS	4,990,000	INSTANT CALL			0.50%	VAR	**
IGNIS MMF	3,924,000	INSTANT MMF			0.42%	VAR	
LGIM MMF	4,990,000	INSTANT MMF			0.46%	VAR	
GOLDMAN SACHS MMF	1,119,000	INSTANT MMF			0.45%	VAR	
LLOYDS GROUP	7,450,000	364 DAYS FIXED	21/05/2014	20/05/2015	0.95%	FIX	
LLOYDS GROUP	2,540,000	364 DAYS FIXED	01/04/2014	31/03/2015	0.95%	FIX	
RBS	7,440,000	95 DAYS NOTICE	18/09/2014	06/01/2015	0.40%	VAR	
SANTANDER	5,000,000	90 DAYS FIXED	23/10/2014	21/01/2015	0.54%	FIX	
TOTAL INVESTMENTS	37,453,000				0.48%		0.50%

SUMMARY	BALANCE £	MAXIMUM LIMIT £	AVAILABLE £
BARCLAYS	4,990,000	5,000,000	10,000
BLACKROCK MMF	0	5,000,000	5,000,000
FEDERATED INVESTORS MMF	0	5,000,000	5,000,000
IGNIS MMF	3,924,000	5,000,000	1,076,000
INSIGHT MMF	0	5,000,000	5,000,000
LGIM	4,990,000	5,000,000	10,000
RBS MMF	1,119,000	5,000,000	3,881,000
DMADF	0	Unlimited	Unlimited
LLOYDS GROUP	9,990,000	10,000,000	10,000
RBS	7,440,000	10,000,000	2,560,000
SANTANDER	5,000,000	5,000,000	0
TOTAL INVESTMENTS	37,453,000	60,000,000	22,547,000