

TREASURY MANAGEMENT – QUARTER 1 SUMMARY FINANCIAL REPORT 2013/14

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WHY HAS THIS REPORT COME TO THE EXECUTIVE?

To inform Executive of the Treasury Management Investment Interest received to 30th June 2013 and provide a forecast estimated investment interest to year end.

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 30th June 2013 and provides an estimate of expected investment income to the year end.

2. TREASURY MANAGEMENT INCOME & EXPENDITURE

- 2.1 The treasury management budget was set by Council alongside other revenue budgets on 21st February 2013. This is made up of two elements:-
- i) The treasury Management expenditure budget of £388k (excluding SLA's) mainly consists of non-controllable costs. £378k 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 would be prohibitive.
 - ii) The treasury management income budget is approximately £206k mainly consisting of anticipated investment returns for 2013/14 (£203k) on our cash held deposits. This was set with the assumption that interest rates would remain at the current low level with a possibility that they may rise and taking into consideration the Councils anticipated potential to generate income from possible future investments subject to the market conditions and forecasts at the time.
- 2.2 The expenditure budget of £388k against an income budget of £206k results in a net budget for the treasury management function of £182k. The expenditure budget forecast is detailed overleaf:

Table 1 – Expenditure Budget (excluding SLA's)

Budget	Spent to Date	Forecast of expected payments to 31/03/14	Total Forecast position as at 31/03/14	Variance as at 31/03/14
£	£			£
387,775	0	386,450	386,450	(1,325)

3. INVESTMENT INCOME TO DATE & FORECAST YEAR END POSITION

- 3.1 Actual interest earned at 30th June 2013 was £127,808 (as shown in Table 1 in 2.3 overleaf: £35,529 received to date + £91,559 outstanding guaranteed interest) against an annual budget of £202,822, which would result in a maximum deficit of £75,734 in the unexpected event of no further investment returns being achieved.
- 3.2 The full year forecast for investment interest at 30th June 2013 is £184,993, resulting in a possible shortfall in income of £17,829 against the budget as shown in table 2 below. This forecast includes the interest expected from the large upfront payment from one of our creditors. Members should note that the financial markets remain very uncertain and the anticipated forecast outcome is not guaranteed. Any fluctuation in the estimated interest rate will impact on the interest received.

Table 2 – Investment Interest Income

Budget	Received to Date	Interest on current outstanding investments	Forecast of expected investments to 31/03/14	Total Forecast position as at 31/03/14	Variance as at 31/03/14
£	£				£
202,822	35,529	91,559	57,905	184,993	(17,829)

- 3.3 The Treasury Management Strategy remains unchanged since its approval in February 2013. This has given the Council the opportunity to make a small return given the continuing low interest rates that have fallen further during the quarter as a result of the Funding for Lending Scheme. Although the Council previously achieved a reasonable return on our investments in 2012/13, the probability of achieving the same in 2013/14 is low.
- 3.5 Whilst the economic outlook has been improving, with mortgage approvals, house price rises, employment figures and industrial and service output all showing much improved figures in the first part of this year, the economic recovery will remain fragile for some time (Source: Sector Consultancy Services).
- 3.6 In light of the potential reduction in our investment returns for 2013/14 we continue to forecast anticipated future investment returns and speaking with our Treasury Advisors, Sector to consider alternative options in an attempt to maximise investment returns

given the current conditions. The Council has a low-risk appetite and it should be noted that our main priority is the security of the principal investment ahead of yield (although the return is still a key consideration). Any negative impact anticipated on the investment returns for 2014/15 will be incorporated in the budget setting process and Members will be kept updated as necessary.

- 3.7 Attached at Appendix A shows the Council's investments as held at 30th June 2013 detailing each counterparty, principal invested, period of investment, maturity date and yield.

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

- 4.1 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.

5. STATUTORY OFFICER COMMENTS

- 5.1 The Monitoring Officer's comments are: No further comment
- 5.2 The Section 151 Officer's comments are: Included within the body of the report
- 5.3 EIA Comments: Completed as part of the budget setting process.
- 5.4 Policy Framework comments: The Treasury Management Strategy is a key component of the Council's overall policy framework and this report supports the management and delivery of the framework. The report further refers to the national and international policy framework in which the Council's Treasury Management Strategy is operating within.
- 5.5 Other consultee comments, if any:

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

- 6.1 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.
- 6.2 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 30th June 2013

APPENDIX A

TEMPORARY INVESTMENTS AT 30/06/13

	<u>AMOUNT</u>	<u>PERIOD OF LOAN</u>	<u>VALUE DATE</u>	<u>MATURITY DATE</u>	<u>RATE</u>	<u>BASE RATE</u>
RBS CALL	7,450,000	CALL			0.70%	
RBS MMF	1,008,000	CALL			0.32%	
IGNIS MMF	4,950,000	CALL			0.38%	
INSIGHT MMF	4,950,000	CALL			0.34%	
LLOYDS DEPOSIT	7,450,000	364 DAYS	21/05/2013	20/05/2014	1.05%	
DEBT MANAGEMENT OFFICE	20,000,000	FIXED	05/04/2013	04/09/2013	0.25%	
TOTAL	<u>45,808,000</u>				0.44%	0.50%

SUMMARY

	<u>BALANCE</u>	<u>LIMIT</u>	<u>AVAILABLE</u>
DMADF	20,000,000	Unlimited	
BANK OF SCOTLAND/LLOYDS	7,450,000	10,000,000 *	2,550,000
RBS	7,450,000	10,000,000 *	2,550,000
RBS MMF	1,008,000	5,000,000	3,992,000
IGNIS MMF	4,950,000	5,000,000	50,000
INSIGHT MMF	4,950,000	5,000,000	50,000
BLACKROCK MMF	0	5,000,000	5,000,000
	<u>45,808,000</u>	<u>40,000,000</u>	<u>14,192,000</u>

* Investment limit of £7.5m, however ultimate limit of upto £10m with prior approval of S151 and for short term investments only.