

**TREASURY MANAGEMENT – BUDGET MONITORING REPORT
(as at 31st January 2013)**

EXECUTIVE MEMBER: Councillor Gillian Troughton
LEAD OFFICER: Darienne Law, Head of Corporate Resources
REPORT AUTHOR: Leanne Barwise, Senior Accounting Officer

WHY HAS THIS REPORT COME TO THE EXECUTIVE?

To inform Executive of the Treasury Management Investment Interest received to 31st January 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 31st January 2013 and provides an estimate of expected investment income to the year end.

2. INVESTMENT INCOME TO DATE & FORECAST YEAR END POSITION

2.1 The Treasury Management budget was set by Council alongside other revenue budgets on 23rd February 2012. The budget was prepared assuming that interest rates would remain at the current low level for the foreseeable future however, as expected in previous years, there was still a possibility that interest rates could rise. With this expectation, the budget for Treasury Management interest was set at £227,822. This was based on the Councils anticipated potential to generate income from possible future investments, given the market conditions and forecasts at the time.

2.2 Actual interest earned at 31st January 2013 was £273,429 (as shown in Table 1 in 2.3 overleaf: £125,015 received to date + £148,414 outstanding guaranteed interest) against an annual budget of £227,822, resulting in guaranteed additional investment income of £45,607 above the budgeted figure for 2012/13.

2.3 The full year forecast for investment interest at 31st January 2013 is £290,840, resulting in a possible favourable variance of £63,018. £45,606 of this interest is already guaranteed as stated in 2.2 above with the remaining £17,412 forecast investment interest should current market conditions prevail. This is shown in Table 1 overleaf.

Table 1

Budget	Received to Date	Interest on current outstanding investments	Forecast of expected investments to 31/03/13	Total Forecast position as at 31/03/13	Variance as at 31/03/13
£	£				£
227,822	125,015	148,414	17,412	290,840	63,018

- 2.4 The Treasury Management Strategy revision in October 2011 upped the limit of investments affording the Council the opportunity to make a reasonable return in light of the continuing low interest rates by enabling the placement of investments at rates higher than can be earned in the money market. Opportunities continue to be investigated with our Treasury Advisers to increase yields within acceptable risk parameters.
- 2.5 The above approach is thought to be the most accurate way of calculating the estimated interest for the remainder of the financial year, however Members should note that the financial markets remain very uncertain and the anticipated forecast outcome cannot be guaranteed. Any fluctuation in the estimated interest rate will impact on the interest receivable.
- 2.6 Interest rates available in the market have continued at historically low levels and although the Council expect to achieve a reasonable return on our investments in 2012/13, the probability of achieving the same in 2013/14 is slim. Interest rates have fallen further during this third quarter partially due to the introduction of the UK Funding for Lending scheme where the Bank of England currently offers commercial banks the ability to borrow at a rate of only 0.25%. In turn, these banks no longer have a cash requirement as before and so current interest rates offered for investment remain low. This may have a negative impact on our expected investment return for 2013/14. For example, the current best interest rate we would be able to secure when placing £4m for 12 months with a part nationalised bank when this report is written, would be 1.10% (equivalent to interest of £43,879). This compares to 3.10% (or interest of £123,660 – 43% of our total forecast investment interest expected 2012/13) which we secured this time last year. In monetary terms, this would equate to a reduction in our potential investment income for 2013/14 of £79,781 on a like for like basis.
- 2.7 In light of the potential reduction in our investment returns for 2013/14 we are currently preparing a forecast of anticipated investment returns in the future 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 2013/14 will be incorporated in the budget setting process and Members will be kept updated as necessary.

2.8 Attached at Appendix A shows the Council's investments as held at 31st January 2013 detailing each counterparty, principal invested, period of investment, maturity date and yield.

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

3.1 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.

4. STATUTORY OFFICER COMMENTS

4.1 The Monitoring Officer's comments are:

4.2 The Section 151 Officer's comments are: Contained within the report.

4.3 EIA Comments:

4.4 Policy Framework:

4.5 Other consultee comments, if any:

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

5.1 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.

5.2 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 31st January 2013

APPENDIX A

TEMPORARY INVESTMENTS AS AT 31st JANUARY 2013

	AMOUNT	PERIOD OF LOAN	VALUE DATE	MATURITY DATE	RATE	BASE RATE
BANK OF SCOTLAND	3,500,000	CALL			0.75%	
RBS CALL	2,400,000	CALL			0.80%	
RBS MMF	990,000	CALL			0.34%	
IGNIS MMF	4,900,000	CALL			0.46%	
INSIGHT MMF	4,500,000	CALL			0.41%	
LLOYDS DEPOSIT	4,000,000	364 DAYS	15/02/2012	13/02/2013	3.10%	
RBS 95 DAY NOTICE	5,000,000	95 DAYS	11/01/2013	18/04/2013	1.25%	
TOTAL	<u>25,290,000</u>				1.02%	0.50%

SUMMARY

	BALANCE	LIMIT	AVAILABLE
BANK OF SCOTLAND/LLOYDS	7,500,000	10,000,000 *	2,500,000
RBS MMF	990,000	5,000,000	4,010,000
RBS	7,400,000	10,000,000 *	2,600,000
IGNIS MMF	4,900,000	5,000,000	100,000
INSIGHT MMF	4,500,000	5,000,000	500,000
BLACKROCK MMF	0	5,000,000	5,000,000
	<u>25,290,000</u>	<u>40,000,000</u>	<u>14,710,000</u>

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