

TREASURY MANAGEMENT – QUARTER 3 SUMMARY FINANCIAL REPORT 2013/14

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WHY HAS THIS REPORT COME TO THE EXECUTIVE?

To inform Executive of the Treasury Management activity to 31 December 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 31 December 2013 and provides an estimate of expected investment income to the year end.

2. TREASURY MANAGEMENT INCOME & EXPENDITURE BUDGET

- 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 (currently estimated at £3m penalty plus the £5m loan) would be prohibitive. This is however, continually reviewed with our Treasury Consultants, Capita Asset Services.
 - 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 low level of 2012/13 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).

3. EXPENDITURE & INVESTMENT INCOME TO DATE & FORECAST YEAR END POSITION

- 3.1 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	137,213	250,562	387,775	0

- 3.2 Actual interest earned at 31 December 2013 was £185,211 (as shown in Table 2: £113,891 received to date + £71,320 outstanding guaranteed interest) against an annual budget of £202,822, which would result in a maximum deficit of £17,611 in the unexpected event of no further investment returns being achieved.
- 3.3 The full year forecast for investment interest at 31 December 2013 is £208,747, resulting in a possible income of £5,925 in excess of the budget as shown in table 2 below. This forecast includes the interest earned from the large upfront payment from one of our debtors. 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 for January –March 2014 will impact on the interest received in that period.

Table 2 – Investment Interest Income

Investment Interest 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	113,891	71,320	23,536	208,747	5,925

- 3.4 The Treasury Management Strategy 2013/14 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 year as a result of the Funding for Lending Scheme. Although the Council previously achieved a reasonable return on our investments in 2012/13 of £61k in excess of budget, the probability of achieving the same in 2013/14 is low with a total £6k forecast in excess of budget as detailed in the table above.
- 3.5 The Treasury Management Strategy 2014/15 is currently being reviewed by Executive for recommendation to Council to give us more flexibility when placing investments to allow us to take advantage of marginally better rates with the part nationalised banks. However, it should be noted that rates achieved on our investments remain low and are dropping further. For instance the rate of 1.05% which we achieved for a one-year investment in May last year has dropped to 0.95% for the same investment this year, so although we are able to place more funds with these banks it is unlikely that we will be able to achieve the same investment returns. In monetary terms this would equate to a reduction in interest earned of approximately £7.5k.

- 3.6 Until 2013, the economic recovery in the UK from 2008 had been the worst and the slowest recovery in recent history. However in 2013 growth has surpassed all previous expectations, with the result that the Bank of England has upgraded growth forecasts in its last two quarterly inflation reports to 2.8% for 2014 (up from 1.7%).
- 3.7 However there is a major downside risk for our economy, as in the UK we are currently very dependent on consumer spending and recovery in the housing market. This is unlikely to extend much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation so disposable income is being eroded.
- 3.8 We continue to forecast anticipated future investment returns and speaking with our Treasury Advisors, Capita Asset Services to consider alternative options in an attempt to maximise investment returns given the current expected 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). This authority has achieved interest returns that average 0.44% during 2013/14, and in response to this, and the expected continuation of poor returns the 2014/15 budget includes an interest receivable income target that is reduced by £50k on the level of 2013/14 budget.
- 3.9 Attached at Appendix A shows the Councils investments as held at 31 December 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: EIA was conducted as part of the budget setting process.
- 5.4 Policy Framework: The Council's financial policies and procedures form an integral part of the Council's corporate policy framework.

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 31 December 2013

APPENDIX A

TEMPORARY INVESTMENTS AT 31/12/13

	<u>AMOUNT</u>	<u>PERIOD OF LOAN</u>	<u>VALUE DATE</u>	<u>MATURITY DATE</u>	<u>RATE</u>	<u>BASE RATE</u>
RBS MMF	3,566,000	CALL			0.33%	
IGNIS MMF	4,950,000	CALL			0.39%	
RBS	7,450,000	90 DAY NOTICE	13/11/2013	10/02/2014	0.80%	
INSIGHT MMF	1,950,000	CALL			0.34%	
LLOYDS DEPOSIT	7,450,000	364 DAYS	21/05/2013	20/05/2014	1.05%	
FEDERATED INVESTORS MMF	4,950,000	CALL			0.36%	
TOTAL	<u>30,316,000</u>				0.64%	0.50%

SUMMARY

	<u>BALANCE</u>	<u>LIMIT</u>	<u>AVAILABLE</u>
DMADF	0	Unlimited	Unlimited
BANK OF SCOTLAND/LLOYDS	7,450,000	10,000,000 *	2,550,000
RBS MMF	3,566,000	5,000,000	1,434,000
RBS	7,450,000	10,000,000 *	2,550,000
IGNIS MMF	4,950,000	5,000,000	50,000
INSIGHT MMF	1,950,000	5,000,000	3,050,000
BLACKROCK MMF	0	5,000,000	5,000,000
FEDERATED INVESTORS MMF	4,950,000	5,000,000	50,000
LGIM	0	5,000,000	5,000,000
	<u>30,316,000</u>	<u>50,000,000</u>	<u>14,634,000</u>

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