

**TREASURY MANAGEMENT – BUDGET MONITORING REPORT
QUARTER 1 to 30th JUNE 2011)**

EXECUTIVE MEMBER: Councillor Gillian Troughton
LEAD OFFICER: Joanne Wagstaffe, Corporate Director for Resources
and Transformation
REPORT AUTHOR: Leanne Barwise, Senior Accountancy Officer

WHY HAS THIS REPORT COME TO THE EXECUTIVE?

To inform Executive of the budget position for the Treasury Management Investment Interest 2011/12 at 30th June 2011 and a forecast outturn position of the estimated investment interest at year end.

RECOMMENDATION:
Executive are asked to:

1. Note the contents of this 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 provides the monitoring position at the end of the first quarter of 2011/12 and provides an estimate of expected investment income to the year end.

2. INVESTMENT INCOME TO DATE & FORECAST YEAR END POSITION

- 2.1 Members will recall that the revenue budget was set on 22nd February 2011. It was reported at this time that the Council had suffered significantly with regard to the investment interest earned in 2010/11 from the reduction in interest rates due to low bank base rates. The budget was prepared assuming that this position would not change in the foreseeable future however, as expected in previous years, there was still a possibility that interest rates would rise from the current level. With this expectation, the budget for Treasury Management interest was set at £252,822. 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 The forecast for investment interest at Quarter 1 is £241,380, resulting in an adverse variance (budget deficit) of £11,442 . This is shown in Table 1 below.

Table 1

Budget	Received to Date	Forecast to 31/03/12	Total Forecast	Variance
£	£	£	£	£
252,822	151,553	89,827	241,380	(11,442)

- 2.3 There has been no rise in the market interest rates during this first quarter. Due to the very poor short term interest rates being offered by the principal institutions, actual interest earned in quarter 1 was £151,553. Of this, £22,292 was actual interest received and £129,261 was confirmed interest on current investments that were still to be repaid to the Council.
- 2.4 Sector, the Council's Treasury Management advisors, has provided an up-to-date forecast for interest rates going forward over the next 12-18 months. Their forecast is that interest rates will not increase from the current low levels until the 2012/13 financial year and therefore current market conditions are expected to remain unchanged for the duration of the 2011/12 financial year. This forecast is contrary to the information prevailing at the time the budget was set, when interests were forecast to rise during 2011/12. Therefore expected yields from investments will be lower than forecasted in the budget and this position is reflected in this forecast. However, opportunities are being investigated with our Treasury advisers to increases yields within acceptable risk parameters.
- 2.5 The forecast for periods 4-12 (shown in Table 1 above as the forecast to 31/03/2012) is £89,827, this is a prudent estimate given the future expected market conditions as outlined in point 2.4 above.

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

- 3.1 Investment income will continue to be monitored and reported to Members as part of the Revenue Budget Monitoring process, and explicitly in this report, on a quarterly basis.

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

- 4.1 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.
- 4.2 The Treasury Management function will continue to be monitored and reported quarterly to Members. The budget monitoring process continues to be refined to provide Members and officers with up-to-date financial information needed to make key decisions on resource allocations during the year to feed into the Council's budget process.
- 4.3 To assist with this process, the Council's approved budget will not be changed on an ongoing basis during the year, which has been the case in past years. Instead as the year passes by, key changes will be identified through the budget monitoring process and incorporated into a revised budget position, which will be presented to Members towards the end of 2011.
- 4.4 The budget monitoring process is fully integrated into the planning process to ensure that Council objectives and priorities as outlined in the corporate Plan are fully resourced.

5. STATUTORY OFFICER COMMENTS

- 5.1 The Monitoring Officer's comments are: No comments
- 5.2 The Section 151 Officer's comments are:
No further comments.
- 5.3 EIA Comments
EIA completed as part of the budget setting process
- 5.4 Other consultee comments, if any:

List of Appendices

None

List of Background Documents:

Sector Revised Interest Rate Forecast 20th July 2011