

REPORT TO: THE MORAY COUNCIL ON 9 SEPTEMBER 2009

SUBJECT: CALCULATION OF INTEREST FOR COMMON GOOD FUNDS

BY: CHIEF FINANCIAL OFFICER

1. REASON FOR REPORT

- 1.1 To ask the Committee to consider a revised method for the calculation of interest paid to Common Good by the Council's Loans Fund.
- 1.2 This report is submitted to Committee in terms of the Council's Administrative Scheme dealing with Management and Investment of funds including Common Good and Trust Funds.

2. RECOMMENDATION

It is recommended that the Committee:

- 2.1 (i) **approve one of the options noted in paragraph 3.6.1 which detail alternatives for investing Common Good Balance for a fixed period within the Council's Loans Fund. The rates applied will be those advised by the Council's Treasury Advisers on the day of this decision.**
- (ii) **if Committee agrees to invest the Common Good balances for a fixed period then suspend standing orders to allow the revision of disposable income for 2009/10.**
- (iii) **agree to issue a revised schedule to all members showing disposable income for 2009/10 and commitments to date for each fund.**

3. BACKGROUND

- 3.1 A report was submitted to the Policy and Resources Committee on 2 June 2009. This showed a marked reduction in disposable income for Common Good Funds for 2009/10 due to the impact of lower interest rates.

- 3.2 A further report was submitted to Policy and Resources Committee on 25 August 2009 asking Members to consider investing Common Good Funds for a fixed period of two years and thereby assuring a slightly better rate of interest for the Common Good Funds.
- 3.3 At that meeting the Committee requested a report to the next Full Council detailing the effect of investing 50% of Common Good Balances fixed for 5 years and 50% of balances fixed for 2 years.
- 3.4 On the day of preparing this report , the interest rates were as follows and the figures below have been calculated accordingly.

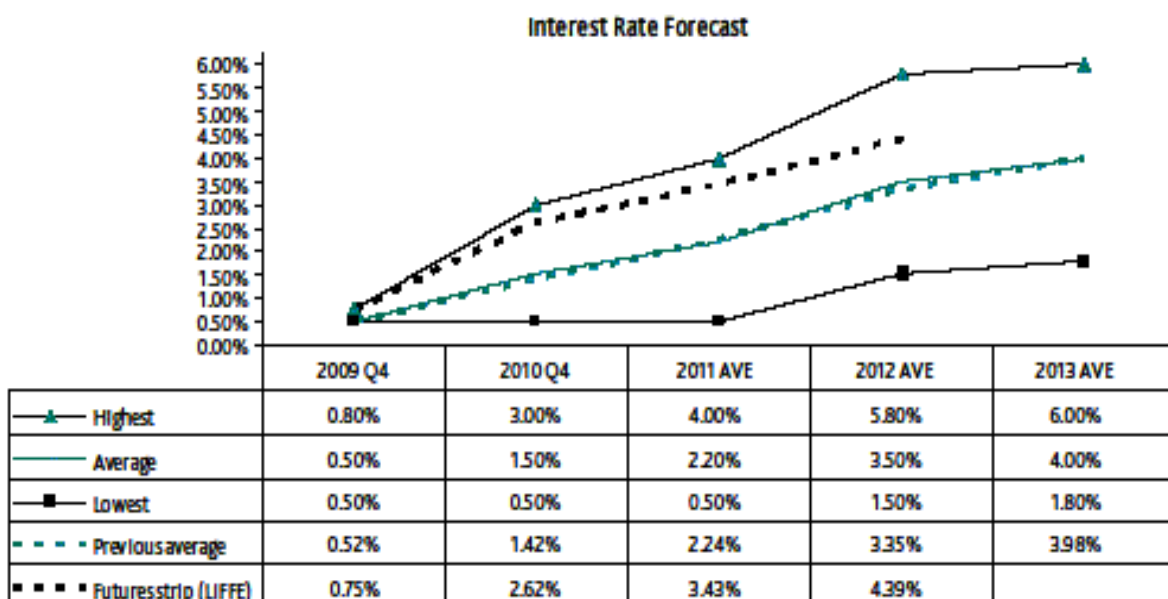
Fixed Period	Interest Rates
1 year	1.00%
2 years	1.93%
3 years	2.60%
4 years	3.05%
5 years	3.32%

- 3.5 Although the link between investment rate of return and the Bank Base rate is weaker than it has been in the past, the Bank Base Rate can be used to forecast a general trend. As can be seen from the table below there is a wide range of forecast between different financial economists

Bank Rate Forecasts

HM Treasury Survey of Independent Surveys (August 09):

Source: HM Treasury and LIFFE: Forecasts are from samples of both City and non-City forecasters (Cambridge Econometrics, Liverpool University, etc). HM Treasury updates its forecasts for the nearest two years each month. Forecasts for the furthest three years are updated on a quarterly basis. LIFFE Short Sterling futures are correct as at publication date.



3.6 The **APPENDIX** shows the effect of each of the 3 options for 2009/10 and a full year effect, assuming the same balances.

3.6.1 **Option 1** Retain existing policy which links the interest rate to the LIBID, currently estimated to be 0.75%

Option 2 Fix the total free balance of the fund for two year which would earn funds an interest rate of 1.93% at the time of writing this report.

Option 3 Fix 50% of the free balance of the fund for two years and the remaining 50% balance for five years which would earn the fund an interest rate of 1.93% on 50% and 3.32 % on the remaining 50%

3.7 The risk for the Common Good Funds is that interest rates for short term investments increase above the two year or five year fixed rate during the time funds are fixed for investment.

4. **SUMMARY OF IMPLICATIONS**

(a) Single Outcome Agreement and Service Improvement Plan

None.

(b) Policy and Legal

The Council's adoption of the policy of retaining one third of disposable income in each financial year will protect the capital for each of the Common Good Funds and ensure their sustainability in the future.

Adopting the policy of applying a fixed rate of interest to the capital element of funds will ensure the funds achieve a market rate of return but still remain within the Council's Loans Fund.

(c) Resources (Financial, Risks, Staffing and Property)

The financial implications are contained in the body of the report and is detailed in the **APPENDIX**.

(d) Consultations

None.

5. CONCLUSION

- 5.1 The estimated disposable income for each option available for disbursement for 2009/10 and the full year effect, for each Common Good Fund is shown in APPENDIX to this report.**

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Background Papers:

Ref: MW/LJC/663446/663393