

SUBJECT:	Investment Performance Quarter Ending 31st December 2011
REPORT OF:	Officer Management Team - Director of Resources Prepared by - Principal Accountant

1. Purpose of Report

- 1.1 To inform Members of the investment returns for the quarter ending 31st December 2011.

2. Links to Council Policies & Plans

- 2.1 The Council's Treasury Management function is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

- 3.1 The Council's Treasury Management Strategy 2011/12 details the following sources for generating investment income for the year:

- (i) Set an estimated return on investment income for the year of £0.9 million.
- (ii) Set the sources for generating income for the year as follows:

	£'000
Fixed & Callable Deposits	646
Short Term Cash Flow and Other Investments	179
Stoke Poges Memorial Gardens Fund	75
Total	900

- 3.2 In addition Sector Treasury Services Ltd is engaged by the Council as its Treasury Management consultants providing advice on investment, performance and regulations where necessary.
- 3.3 The Council has adopted the CIPFA code of practice on Treasury Management, which includes the creation of a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.
- 3.4 The code recommends that reports on investment performance are made on a quarterly basis including a Mid-year Review Report. This report represents the third of these reports for 2011/12.

4. Investment Performance - Quarter to 31 December 2011.

- 4.1 **In House Investments** - Officers invest cash flow surpluses with approved counter parties. Decisions on investing in callable and fixed deposits are taken by Officers in the light of advice from the Council's treasury consultants and brokers acting in the local

authority money market, combined with general intelligence available from money market briefings made available to the authority. At the last meeting of this PAG Members approved a new matrix for investments as part of the Treasury Management Strategy 2012/13 as follows.

	Fitch Credit Rating	Maximum Amount	Comment
UK Institutions	AAA	£10 million	The durations of the investment would be informed by the detailed credit rating information
	A+ or better	£7 million	
	A or better Banks with high UK Gov Support	£7 million	
	A or A-	£2 million	
Non UK Institutions	AA or better	£2 million	As above but also sovereignty rating must be AAA
Corporate Bonds	AA- or better	£2 million	Investment decision will be based on balancing yield against duration

4.2 A summary of the Council's holdings of fixed deposits at 31st December 2011 is shown below.

UK Institutions	Fitch Credit Rating	Maximum Amount £7 Million* Principal £	Interest Rate	Invested	Matures	Notes
Royal Bank of Scotland	A					
Fixed Deposit		5,000,000	4.25%	08/02/11	08/02/16	(1)
Fixed Deposit		2,000,000	2.50%	02/06/11	02/06/14	(2)
Total RBS		7,000,000				
Cater Allen	A+					
Fixed Deposit		1,000,000	2.50%	03/10/11	03/10/12	
Fixed Deposit		1,000,000	3.50%	21/07/10	21/07/13	
Fixed Deposit		2,000,000	3.20%	30/09/10	30/09/13	
Fixed Deposit		1,000,000	2.50%	02/11/11	02/11/12	
Fixed Deposit		2,000,000	2.50%	16/11/11	16/11/12	
Total CA		7,000,000				
Lloyds Bank	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 2.85%, Cap 5.85%	11/05/10	11/05/15	
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.07%, Cap 5.00%	19/05/10	19/05/15	
Bank of Scotland						
Fixed Deposit		3,000,000	2.10%	15/07/11	16/07/12	
Fixed Deposit		1,000,000	2.10%	04/10/11	04/10/12	
Fixed Deposit		1,000,000	2.05%	14/02/11	14/02/12	
Total Lloyds Group		7,000,000				
Barclays	A					
Fixed Deposit		1,000,000	3 Month Libor, Floor 3.05%, Cap 5.00%	24/05/10	26/05/15	
Total Barclays		1,000,000				
Co-operative Bank	A-					

UK Institutions	Fitch Credit Rating	Maximum Amount £7 Million* Principal £	Interest Rate	Invested	Matures	Notes
Fixed Deposit		1,000,000	2.50%	14/02/11	14/02/12	
Total Co-op Bank		1,000,000				
Total Deposits		23,000,000				

(1) RBS have the option to switch to 3 month LIBOR¹ plus 30 basis points in years 3,4 & 5.

(2) RBS have the option to switch to 3 month LIBOR 2 & 3.

4.2 In addition the Council held the following investments of short term (less than 1 year) cash at the end of the quarter:

Counterparty	Fitch Credit Rating	Amount £	Interest Rate	Invested	Matures	Notes
Barclays Bank	A	1,000,000	1.415%	15/04/11	15/02/12	
Clydesdale	A-	1,000,000	1.25%	15/04/11	19/01/12	
Bank of Scotland	A	500,000	1.35%	22/09/11	03/01/12	95 Day Notice
Nat West Bank	A	2,655,000	Base + 34 Basis Points			Instant Access
Nat West Bank	A	4,000,000	Base + 60 Basis Points			30 Day Notice Account
Total		9,155,000				

4.3 **Stoke Poges Memorial Gardens Fund:** The interest return from the fund is no longer credited directly to the Stoke Poges Memorial Gardens cost centre but has been incorporated with all of the Council's other investment returns.

4.4 The fund is managed on a passive basis by King & Shaxson .Due to the current cost of buying a new bond it is the current policy to reinvest any maturities within the Councils cash investment. There are no maturities from the Stoke Poges Memorial Gardens Fund due in 2011/12. The value of the fund at 31st December was £1,550,174.63

5. Economic Background

5.1 Economic background

- Indicators suggest that the economy is at a higher risk of recession.
- Weak demand on the high street has forced retailers to offer generous discounts
- The labour market deteriorated, but at a slower pace than in previous months.
- Public borrowing has fallen in line with the fiscal plans, but forecasts for future deficits have been revised up.
- Inflation is beginning to fall

¹ LIBOR - London Inter Bank Offered Rate

- The Monetary Policy Committee (MPC) re start quantitative easing (QE) and indicate its intention to sanction more.
- Gilt yields reach new lows, in spite of a recovery in equity prices and growing fiscal fears.
- Euro-zone policymakers fail to make progress towards a solution to the regions debt crisis.

A more detailed economic assessment at December 2011 is shown at appendix A

6. Interest Rate Forecasts

6.1 The latest forecast for interest rates provided by Sector is shown below:

	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%

The Sector central forecast is for the first increase in bank rate to be in September 2013 previous forecasts had shown a prediction of the first increase to be in June 2012. Sector have made comment of just how unpredictable PWLB rates and bond yields are as we are experiencing exceptional levels of volatility which are highly correlated to political developments (or lack of them) in the sovereign debt crisis.

A more detailed summary outlook on the prospects for interest rates is shown at appendix B

7. Resources, Risk & Other Implications

7.1 The budget for investment interest for 2011/12 was set as £900,000. Current estimated returns show that there is likely to be a shortfall of £17,000 for the year.

8.1 The PAG is requested to:

1. Note the investment performance for the quarter to 31st December 2011.

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Background Papers:	None