

SUBJECT:	Investment Performance Quarter Ending 30th September 2012
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 30th September 2012.

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 2012/13 details the following sources for generating investment income for the year:

- (i) Set an estimated return on investment income for the year of £0.8 million.
- (ii) Set the sources for generating income for the year as follows:

	£'000
Fixed & Callable Deposits	657
Short Term Cash Flow and Other Investments	77
Stoke Poges Memorial Gardens Fund	66
Total	800

- 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 second of these reports for 2012/13 and incorporates the mid-year review.

4. Investment Performance - Quarter to 30 September 2012.

- 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. Members approved a new matrix for in house 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 30th September 2012 is shown below:

UK Institutions	August Credit Rating	Maximum Amount £7 Million Principal £	Interest Rate	Invested	Matures	Notes
Royal Bank of Scotland	A					
Fixed Deposit		5,000,000	4.25%	08/02/12	08/02/17	(1)
Fixed Deposit		2,000,000	3 Month Libor	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	A					
Fixed Deposit		1,000,000	2.10%	04/10/11	04/10/12	
Total Lloyds Group		3,000,000				
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				
Total Deposits		18,000,000				

- (1) RBS have the option to switch to 3 month LIBOR¹ in years 3, 4 & 5.
- (2) RBS have exercised their option to switch to 3 month LIBOR in year 2.

4.2 In addition the Council held the following investments of short term cash with duration of under one year at the end of the quarter:

	Fitch	Amount £	Interest Rate	Period
Nat West Bank	A	1,348,000	Base + 28 Basis Points	Instant Access
Nat West Bank	A	1,500,000	Base + 47 Basis Points	30 Day Notice Account
Bank of Scotland	A	1,000,000	3.00%	23/04/12 to 11/04/13
Bank of Scotland	A	1,000,000	2.00%	15/05/12 to 15/02/13
Bank of Scotland	A	3,000,000	3.00%	16/07/12 to 04/07/13
Bank of Scotland	A	1,000,000	1.75%	27/09/12 to 14/02/13
Clydesdale Bank	A	1,000,000	2.05%	15/05/12 to 15/11/12
Co-op Bank	BBB+	1,000,000	1.8125%	16/05/12 to 16/11/12
Close Brothers	A	1,000,000	2.10%	22/05/12 to 22/02/13
Total		11,848,000		

Since 30th September 2012 the following investment action has taken place:

The following maturities have taken place

	Amount £	Matured	Interest Rate
Cater Allen	1,000,000	03/10/12	2.50%
Cater Allen	1,000,000	02/11/12	2.50%
Cater Allen	2,000,000	16/11/12	2.50%
Bank of Scotland	1,000,000	04/10/12	2.10%
Clydesdale Bank	1,000,000	15/11/12	2.05%
Co-op Bank	1,000,000	16/11/12	1.8125%

The following new investments have been made

Long Term (in excess of one year)

	Fitch	Amount £	Interest Rate	Period
Close Brothers	A	1,000,000	2.80%	4/10/12 to 4/10/13

Short Term (less than one year)

	Fitch	Amount £	Interest Rate	Period
Nat West 95 Day Notice Account	A	1,000,000	1.20%	02/11/12 to 11/02/13
Nat West 95 Day Notice Account	A	1,000,000	1.20%	20/11/12 to 25/02/13
Nat West 30 Day Notice Account	A	2,000,000	0.97%	Rolling 30 day notice from 20/11/12
Bank of Scotland 3 Month Fixed	A	1,000,000	1.15%	20/11/12 to 20/02/13

These short term investments have been made on the basis of the best possible rates available and both to meet cash flow requirements towards the end of the financial year and to have available cash for long term investments once Members have decided on what investment instruments and duration should be included in the Treasury Management Strategy 2013/14.

¹ LIBOR - London Inter Bank Offered Rate

- 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 investments. The value of the fund at 30th September was £1,367,968.58.

5. Treasury Management Strategy Update

- 5.1 The Treasury Management Strategy (TMSS) was approved by the Council on 21st February 2012. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as
- Security of capital
 - Liquidity
- 5.2 The Council also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered prudent to keep anything maturing short term for up to twelve months in order to take advantage of increases in interest rates during the second half of 2012/13 and to maintain a prudent minimum liquid reserve to maintain cash flow matters. This is reflected in the break down of the Council's investment portfolio detailed in 4.4 above.
- 5.3 Investments made during the first six months of the year have been in line with the TMSS and there have been no deviations from the strategy however since the adoption of the counterparty matrix there has been a general downgrading of credit ratings by the ratings agencies including Fitch which the Council use. This has resulted in some of the Council's current investment portfolio no longer meeting the counterparty matrix which at the end of the September quarter was as follows:
- (1) Cater Allen's (Santander UK) rating has now fallen from A+ to A which means the maximum amount invested long term (in excess of one year) with them should be £2 million rather than the £7 million invested at 30th September. This situation has been partly rectified by £4 million that matured during October and November which has been reinvested elsewhere as detailed in 4.2 above. The £2 million limit will be met when a further £1 million investment with them matures on 21st July 2013.
 - (2) In short term investments at the end of September there was £1 million invested with the Co-op on 16th May 2012. Since that time their credit rating has fallen from A- to BBB+ which is not included on the Council's counterparty list. This situation was corrected when the investment matured on 16th November 2012.
- 5.4 The issue of revising the counterparty matrix will be considered by Members as part of the Treasury Management Strategy 2013/14 together with the alternatives to investing in cash. As a lead into the formation of the TMSS 2013/14 Sector will be attending this Pag to make a presentation and answer Members questions on the alternatives to investing in cash, credit ratings and the prospects for investments in the future. Currently maturing investments are being reinvested very short term until the issue of the criteria for the placement of future investments has been agreed in the TMSS 2013/14.

6. Economic Background

6.1 The second calendar quarter of the year saw:

- Indicators suggested that economic growth returned after three quarters of recession;
- Retail sales held up well and spending off the high street strengthened;
- Employment continued to rise at a strong pace;
- Inflation failed to make further progress;
- The Monetary Policy Committee (MPC) announced more assets purchases;
- UK equity and government bond prices rose;
- The US economy continued to recover, but at a disappointingly slow pace.

A more detailed Economic Background is shown at appendix A.

7 Interest Rate Forecasts

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

	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%	0.50%	0.50%	0.75%	1.00%

Sector undertook a review of its interest rate forecasts following the issue of the Bank of England Inflation Report for August 2012. Consequently, it pushed back the first rise in Bank Rate from Q1 2014 to Q4 2014, as well as lowering the pace of rises in gilt yields.

The Bank of England forecasts of the speed and strength of recovery and rate of reduction of CPI inflation over the last four years has been attracting increasing criticism for being consistently over optimistic. In this latest Inflation Report, the Bank changed its position significantly in as much as it markedly downgraded its forecasts for the strength and speed of recovery in GDP growth. Whereas previously it had consistently been forecasting a strong recovery to over 3% p.a., it was now only forecasting growth to recover to around 2% during the period from early 2013 to the end of 2015.

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

8. Resources, Risk & Other Implications

8.1 The investment budget set for the year is £800,000. Current estimated returns show that there is likely to be a shortfall of £15,000 for the year which has been reflected in budget monitoring reports.

9. Summary

9.1 The PAG is requested to:

1. Note the investment performance for the quarter to 30th September 2012.

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Background Papers:	None