WARWICK DISTRICT COUNCIL	Finance & Audit Scrutiny Committee - 19th June 2012	Agenda Item No. 5

Title	**Treasury Management Activity Report for the period 1st January 2012 to 31st March 2012.**
For further information about this report please contact	Roger Wyton, Principal Accountant 01926 456801 roger.wyton@warwickdc.gov.uk Karen Allison, Assistant Accountant 01926 456334 Karen.allison@warwickdc.gov.uk
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	n/a
Background Papers	Treasury Management File L2/9 Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No – not relevant

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	31/05/2012	Andy Jones
Head of Service	31/05/2012	Andy Jones
CMT	N/A	
Section 151 Officer	31/05/2012	Mike Snow
Monitoring Officer	N/A	
Finance	30/5/2012	Roger Wyton
Portfolio Holder(s)	N/A	
Consultation & Community Engagement		
None		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

1.1 This report details the Council's Treasury Management performance for the period 1st January 2012 to 31st March 2012.

2. RECOMMENDATIONS

2.1 That Finance and Audit Scrutiny Committee notes the contents of this report.

3. REASONS FOR THE RECOMMENDATION

3.1 The Council's 2011/12 Treasury Management Strategy and Treasury Management Practices (TMP's) require the performance of the Treasury Management Function to be reported to Members on a quarterly basis.

3.2 This report informs Members of past performance, hence Members are just asked to note the information contained within it.

4. POLICY FRAMEWORK

4.1 Treasury Management will support the Council in achieving its aims as set out in "Fit for the Future".

5. BUDGETARY FRAMEWORK

5.1 Treasury Management has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income and minimise borrowing interest payable whilst ensuring the security of the capital. The Council is reliant upon interest received to help fund the services it provides. The actual investment interest earned in 2011/12 compared with the original and revised budgets is shown in the table below:

	2011/12 Actual £	**Revised 2011/12 Budget (Jan 12) £**	**Original 2011/12 Budget (Jan 11) £**
Gross Investment Interest	556,247	518,385	462,484
Less HRA allocation	180,091	162,691	146,300
Net interest to General Fund	**376,156**	**355,694**	**316,184**

5.2 The increased investment interest credit to the General Fund over the original of approximately £60,000 can be accounted for as an additional £74,000 (net of the increased credit to the HRA) arising from increased balances offset by a £14,000 reduction as a result of slightly decreased investment rates.

6. ALTERNATIVE OPTION CONSIDERED

6.1 None.

7. ECONOMIC BACKGROUND

7.1 A detailed commentary by our Treasury Consultants, Sector, of the economic background surrounding this quarter appears as Appendix A.

8. INTEREST RATE ENVIRONMENT

8.1. The major influence on the Council's investments is the Bank Rate. The Bank Rate remained at 0.5% for the whole of the quarter ending 31st March 2012. The Council's Treasury Management Advisors, Sector, provided the following forecast for future Bank Rates:

<u>Sector's Bank Rate Forecasts:</u>

Qtr ending	Now (May 12)	Jun 2012	Sep 2012	Dec 2012	Mar 2013	Jun 2013	Sep 2013	Dec 2013	Mar 2014	Jun 2014	Sep 2014	Dec 2014
Current Forecast, as at May 2012:												
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%
Forecast, as at January 2011, (when Original Budgets were set):												
Bank Rate	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%	3.25%	3.25%	3.25%

In the UK, the bias of economic data suggested that the country would avoid falling back into recession. However, that proved not to be the case and the UK entered a technical recession after quarter 1 (March) 2012.The outlook in the near term does not look favourable. In its latest Inflation report, the Bank of England revised down its growth forecasts for 2012 and 2013 and also indicated that inflation would not come down as quickly as previously thought.

Going forward, the international backdrop is not favourable either, particularly the recent developments in the Eurozone. Given the above, Sector has revised its interest rate forecasts which are based around an expectation that we are not heading into a disorderly break-up of the Eurozone, but rather a managed , albeit painful, resolution of the current crisis. Within this scenario, growth within the Eurozone will be depressed for the next couple of years and this would also lower UK growth as the EU is our biggest export market. Sector now expect bank rate to rise from 0.50% to 0.75% in quarter 1 of 2014 rather than quarter 3 of 2013.

The forecast as at January 2011 is shown for comparison purposes as this forecast was used in calculating the original budgets.

8.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. The Annual Investment Strategy 2011/12 was approved by Council on 9th March 2011. This approved the current lending criteria which reflect the level of risk appetite of the Council. However, the Council continues to review its Standard Lending List as a result of frequent changes to Banking Institutions credit ratings, to ensure that it does not lend to those institutions identified as being at risk either from the residual impact of the past crisis in the banking sector or the potential issues arising from the current Eurozone debt crisis. A copy of the current lending list is shown as Appendix B.

9 INVESTMENT PERFORMANCE

Money Market Investments

9.1. During 2011/12, the in house function has invested both cash flow driven and core cash funds in fixed term deposits in the Money Markets. The table below illustrates the performance of the in house function during this quarter for each category normally invested in:

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) performance
Up to 7 days			
April to June 2011	No investments made in this quarter.		
July to Sept 2011	No investments made in this quarter		
April to Sept 2011	No investments made in half year		
Oct to Dec 2011	No investments made in this quarter		
Jan to Mar 2012	No investments made in this quarter		
Year to Date	No investments made in year		
Over 7 days & Up to 3 Months			
April to June 2011	0.93%	0.61%	+0.32%
Value of Interest earned – Q1	£4,564	£3,017	+£1,547
July to Sept 2011	0.91%	0.70%	+0.21%
Value of Interest earned – Q2	£13,171	£10,067	+£3,104
April to Sept 2011	0.91%	0.67%	+0.24%
Value of Interest earned – half year	£17,735	£13,085	+£4,650
Oct to Dec 2011	0.97%	0.81%	+0.16%
Value of Interest earned – Q3	£36,772	£30,590	+£6,182
April to December	0.95%	0.76%	+0.19%
Value of Interest earned – three quarter year	£54,507	£43,674	+£10,833
Jan to Mar 2012	1.05%	0.84%	+0.21%
Value of interest earned – Q4	£36,739	£29,483	+£7,256
Rate for Year	0.99%	0.79%	+0.20%
Value of Interest earned in Year	£91,246	£73,157	+£18,089
Over 3 Months & Up to 6 Months			
April to June 2011	No investments made in this quarter.		
July to Sept 2011	No investments made in this quarter		
April to Sept 2011	No investments made in half year		
Oct to Dec 2011	1.26%	1.10%	+0.16%
Value of Interest earned – Q3	£6,283	£5,462	+£821
Jan to Mar 2012	No investments made in this quarter		
Rate for Year	1.26%	1.10%	+0.16%
Value of Interest earned in Year	£6,283	£5,462	+£821

Period	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) performance
Over 6 Months to 364 days			
April to June 2011	1.71%	1.46%	+0.25%
Value of Interest earned – Q1	£68,255	£58,212	+£10,043
July to Sept 2011	1.14%	1.33%	-0.19%
Value of Interest earned – Q2	£20,997	£24,330	-£3,333
April to Sept 2011	1.53%	1.42%	+0.11%
Value of Interest earned – half year	£89,252	£82,542	+£6,710
Oct to Dec 2011	1.80%	1.48%	+0.32%
Value of Interest earned – Q3	£17,951	£14,804	+£3,147
April to December	1.57%	1.43%	+0.14%
Value of Interest earned – three quarter year	£107,203	£97,346	+£9,857
Jan to Mar 2012	1.80%	1.57%	+0.23%
Value of interest earned – Q4	£17,951	£15,630	+£2,321
Rate for Year	1.60%	1.45%	+0.15%
Value of Interest earned in Year	£125,154	£112,976	+£12,178
365 days and over			
April to June 2011	1.85%	1.52%	+0.33%
Value of Interest earned – Q1	£92,825	£76,324	+£16,501
July to Sept 2011	2.01%	1.50%	+0.51%
Value of Interest earned – Q2	£80,500	£62,536	+£17,964
April to Sept 2011	1.92%	1.54%	+0.38%
Value of Interest earned – half year	£173,325	£138,860	+£34,465
Oct to Dec 2011	No investments made in this quarter		
Jan to Mar 2012	No investments made in this quarter		
Rate for Year	1.92%	1.54%	+0.38%
Value of Interest earned in Year	£173,325	£138,860	+£34,465

9.2 Members will recall that they requested the Treasury function to investigate a more challenging alternative to the LIBID benchmarks shown above and as per the previous quarter ,it is felt appropriate to add a margin of 0.0625% to the benchmark as some recognition of the need to provide a more competitive benchmark therefore all the LIBID rates in the table above and referred to below include this margin of 0.0625%.

9.3. During January to March, the Council's cash flow investments began to unwind themselves as cash outflows (Precepts, NNDR payments to DCLG etc.)

exceeded the inflows and any cash flow investments during the quarter were made into the Money Market Funds. However, various core investments matured within the quarter and all but one were re-invested for three months on the advice of Sector who felt, and still do feel, that due to the ongoing problems in the Eurozone it is wise to limit investments to a maximum duration of three months until the situation resolves itself. In total, these investments produced an average return of 1.05% compared to the LIBID benchmark of 0.84% which is an amalgam of the 1 and 3 month LIBID rates. This out performance of 0.21% was achieved using a mix of building societies and banks such as Barclays and Santander. All the investments were for around three months in each case and when compared to the three month rate alone of 0.94% the out performance is 0.11%.

9.4 An investment with Clydesdale Bank was made for 364 days. This produced a return of 1.80% which when compared with the 364 day average LIBID rate of 1.76% shows an outperformance of 0.04%.

9.5 Given that the current Bank Rate is only 0.50% the level of outperformance achieved in this quarter continues to be satisfactory and it can be seen that adding 0.0625% to the benchmark does in fact make a more challenging target with our returns only just outperforming the enhanced benchmark.

Money Market Funds

9.6 The in house function continues to utilise the Money Market Funds to assist in managing its short term liquidity needs. Their performance in this period together with a summary of the performance for the full year is shown in the following table:

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Standard Life to 31st May 2011 (Deutsche from 1st June 2011)			
April to June 2011	0.61%	0.46%	+0.15%
Value of Interest earned – Q1	£4,454	£3,382	+£1,072
July to Sept 2011	N/A	N/A	N/A
April to Sept 2011	0.61%	0.46%	+0.15%
Value of Interest earned – half year	£4,454	£3,382	+£1,072
Oct to Dec 2011	N/A	N/A	N/A
Value of Interest earned – Q3	N/A	N/A	N/A
Rate for Year	0.61%	0.46%	+0.15%
Value of Interest earned in year	£4,454	£3,382	+£1,072

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Deutsche from 1st June 2011			
April to June 2011	0.66%	0.46%	+0.20%
Value of Interest earned – Q1	£2,954	£2,071	+£883
July to Sept 2011	0.66%	0.48%	+0.18%
Value of Interest earned – Q2	£6,637	£4,814	+£1,823
April to Sept 2011	0.66%	0.47%	+0.19%
Value of Interest earned – half year	£9,591	£6,885	+£2,706
Oct to Dec 2011	0.69%	0.56%	+0.13%
Value of Interest earned – Q3	£5,923	£4,784	+£1,139
April to December	0.67%	0.50%	+0.17%
Value of Interest earned – three quarter year	£15,514	£11,669	+£3,845
Jan to Mar 2012	0.70%	0.55%	+0.15%
Value of interest earned – Q4	£1,100	£856	+£244
Rate for Year	0.69%	0.51%	+0.18%
Value of Interest earned in Year	£16,614	£12,525	+£4,089
Invesco Aim			
April to June 2011	0.57%	0.46%	+0.11%
Value of Interest earned - Q1	£939	£767	+£172
July to Sept 2011	0.57%	0.48%	+0.09%
Value of Interest earned – Q2	£794	£668	+£126
April to Sept 2011	0.57%	0.47%	+0.10%
Value of Interest earned – half year	£1,733	£1,435	+£298
Oct to Dec 2011	0.63%	0.56%	+0.07%
Value of Interest earned – Q3	£298	£264	+£34
April to December	0.59%	0.50%	+0.09%
Value of Interest earned - three quarter year	£2,031	£1,699	+£332
Jan to Mar 2012	0.59%	0.55%	+0.04%
Value of interest earned – Q4	£4	£4	£0
Rate for Year	0.62%	0.51%	+0.11%
Value of Interest earned in Year	£2,035	£1,703	+£332

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Prime Rate			
April to June 2011	0.83%	0.46%	+0.37%
Value of Interest earned – Q1	£12,239	£6,820	+£5,419
July to Sept 2011	0.86%	0.48%	+0.38%
Value of Interest earned – Q2	£12,620	£7,070	+£5,550
April to Sept 2011	0.85%	0.47%	+0.38%
Value of Interest earned – half year	£24,859	£13,890	+£10,969
Oct to Dec 2011	0.94%	0.56%	+0.38%
Value of Interest earned – Q3	£10,672	£6,391	+£4,281
April to December	0.88%	0.50%	+0.38%
Value of Interest earned – three quarter year	+£35,531	+£20,281	+£15,250
Jan to Mar 2012	0.93%	0.55%	+0.38%
Value of interest earned – Q4	£12,400	£7,260	+£5,140
Rate for Year	0.90%	0.51%	+0.39%
Value of Interest earned in Year	£47,931	£27,541	+£20,390
Ignis			
April to June 2011	N/A	N/A	N/A
July to Sept 2011	N/A	N/A	N/A
Oct to Dec 2011	0.87%	0.56%	+0.31%
Value of Interest earned – Q3	£6,513	£4,188	+£2,325
April to December	0.87%	0.56%	+0.31%
Value of Interest earned – three quarter year	£6,513	£4,188	+£2,325
Jan to Mar 2012	0.88%	0.55%	+0.33%
Value of interest earned – Q4	£6,120	£3,795	+£2,325
Rate since inception	0.88%	0.55%	+0.33%
Value of Interest earned in Year	£12,633	£7,983	+£4,650

Fund	Investment Return (Annualised)	LIBID Benchmark (Annualised)	Out/(Under) Performance
Goldman Sachs			
April to June 2011	N/A	N/A	N/A
July to Sept 2011	N/A	N/A	N/A
Oct to Dec 2011	0.61%	0.56%	+0.05%
Value of Interest earned – Q3	£564	£515	+£49
April to December	0.61%	0.56%	+0.05%
Value of Interest earned – three quarter year	£564	£515	+£49
Jan to Mar 2012	0.61%	0.55%	+0.06%
Value of interest earned – Q4	£61	£55	+£6
Rate since inception	0.61%	0.55%	+0.06%
Value of Interest earned in Year	£625	£570	+£55

9.7 As referred to in paragraph 9.3 above, during the quarter ending March 2012 the majority of the Council's cash flow investments were into the Money Market Funds and the policy of using these funds in preference to the Business Reserve Accounts for liquidity balances was continued as the Money Market Funds were paying rates equal to or above the current Bank Rate. The comparable rates being offered by the Business Reserve Accounts were lower than the Money Market Fund rates because for the levels of investments being held in the accounts we would not earn the top level, equivalent to Bank Rate or slightly higher.

9.8 As with the Money Market investments in paragraph 9.1, the LIBID benchmark which in this case is the 7 day rate has been increased by a margin of 0.0625% and it can be seen from the table above that the out performance of the benchmark continues to be satisfactory. The Council continued to concentrate its investments in the three highest performing funds Prime Rate, Ignis and Deutsche although on one occasion it was necessary to utilise the Goldman Sachs fund due to counterparty limits on the other funds being reached.

9.9 During 2011/12 the Council earned £84,292 interest on its Money Market Fund investments at an average rate of 0.80% and the average balance in the funds during the year was £10,505,000.

Business Reserve Accounts

9.10 The Council operates two Business Reserve accounts with Santander and Lloyds Banking Group. If sufficient balances are maintained these accounts offer a guaranteed rate of return equivalent to Bank Rate or slightly higher. However, because the Money Market Funds were offering rates above the Business Reserve Accounts for the levels of investments held, the Business Reserve Accounts were not used.

9.11 The following table brings together the investments made in the various investment vehicles during the year to give an overall picture of the investment return:-

Investment Vehicle	Investment Return (Annualised) £	LIBID Benchmark (Annualised) £	Out/(Under) Performance £
Money Markets	396,008	330,455	+65,553
Money Market Funds	84,292	53,704	+30,588
Total	**480,300**	**384,159**	**+96,141**

The original estimate of annual external investment interest for 2011/12 was £462,484 gross and this was revised in December to £518,385, the additional amount being partly due to increased balances available for investment resulting from slippage in the capital programmes. It should be noted that the total investment return of £480,300 shown in the table above does not correspond to the £518,385 as it is an annualised figure and will include interest relating to 2012/13 so in order to arrive at the £518,385 it is necessary to strip out the interest relating to 2011/12 from the £480,300 and add to it the interest relating to 2011/12 from 2010/11 investments maturing in 2011/12.

9.12 An analysis of the overall in house investments held by the Council at the end of March 2012 is shown below:

(The previous quarter is shown for comparison)

Type of Investment	Closing Balance Q2 As at 31st Dec 2011	Closing Balance Q3 As at 31st March 2012
	£	£
Money Markets	35,000,000	30,000,000
Money Market Funds	11,727,000	4,604,000
Business Reserve Accounts	0	0
Total	**46,727,000**	**34,604,000**

10. COUNTERPARTY CREDIT RATINGS

10.1 Except for an appendix to the Treasury Management Strategy Plan presented to the Executive in February each year, an analysis of the credit ratings enjoyed by our various counterparties with whom we have invested in recent times has never been reported regularly to Members. In these heightened times of concern over the Eurozone crisis and its potential impact on UK banks it is felt appropriate to provide such a regular update listing the investments made in the quarter and the credit ratings applicable to the counterparty at the point at which the investment was made and this is shown in the table overleaf:-

Counterparty	Investment Amount £	Credit Rating			
		Long Term	Short Term	Viability	Support
Banks					
WDC Minimum	(Fitch)	**A+**	**F1**	**BBB**	**1**
Barclays Bank	£4,000,000	A	F1	A	1
Santander	£1,000,000	A+	F1	A+	1
Clydesdale Bank	£1,000,000	A+	F1	BBB	1
Rated Building Societies					
WDC Minimum	(Fitch)	**A+**	**F1**	**N/A**	**N/A**
Nationwide	£1,000,000	A+	F1	A+	1
Unrated Building Societies					
WDC Minimum	**Must be in Top 20 ranked by Asset Value**				
Furness	£1,000,000	Ranked 16			
Manchester	£1,000,000	Ranked 15			
Newcastle	£1,000,000	Ranked 8			
West Bromwich	£1,000,000	Ranked 6			
Hinckley & Rugby	£1,000,000	Ranked 20			
Principality	£1,000,000	Ranked 7			
Progressive	£1,000,000	Ranked 10			
National Counties	£1,000,000	Ranked 12			
MoneyMarket Funds (Investment amount is average principal in fund during the quarter)					
WDC Minimum	Fitch AAA & Volatility rating VR1+ or S & P AAAm or Moodys AAA & Volatility Rating MR1+				
Deutsche	£630,683	Fund retained its rating throughout quarter			
Invesco Aim	£2,560	Fund retained its rating throughout quarter			
Prime Rate	£5,343,271	Fund retained its rating throughout quarter			
Ignis	£2,793,210	Fund retained its rating throughout quarter			
Goldman Sachs	£40,111	Fund retained its rating throughout quarter			

10.2 It can be seen that Barclays Bank's long term credit rating is now below the minimum A+. Unfortunately, a credit rating alert notifying us of this change was missed and a maturing investment was accidentally renewed. However, whilst the long term rating was below our minimum criteria, the short term, viability and support ratings were all within our limits thus providing re-assurance that it was unlikely that the investment will not be repaid at maturity. Internal arrangements have been tightened to ensure that such an eventuality is not repeated. All other investments made within the quarter were in accordance with the Council's credit rating criteria.

10.3 Also attached for the Committee's information as Appendix B is the Council's current Counterparty lending list. It will be seen that for the reason outlined above Barclays Bank is not on the list and nor is Santander UK. In Santander UK's case, the bank has been removed from our list not because its credit ratings have moved below our minimum criteria but rather, its Credit Default Swap price has moved out of range requiring the bank to be suspended from our list until its comes back within range again. Santander UK's CDS price moved out of range after the deposit outlined in the table above was made and the Council currently has, at the date of this meeting, £2m with Santander which matures in August. However, there is no concern as to whether or not the £2m will be repaid as a) the Bank's credit ratings are still above our minimum b) Santander UK is ring fenced from its parent in Spain so should the parent get into difficulty it can't withdraw funds from its UK subsidiary and c) Santander UK is a major player in the UK banking system and its support rating of 1 indicates that there is a high probability that it would be supported by the UK government should it require such support.

11. BENCHMARKING

11.1 With regard to the Sector Treasury Management Benchmarking Club, the Council is part of a local group comprising both District and County Councils and analysis of the results for the March quarter show that the Councils weighted average rate of return on its investments made in quarter at 1.38% was slightly below Sector's model portfolio rate of return based on the risk in our portfolio which was 1.55% and considerably above the group's rate of return which was 0.93%. Further analysis indicates that the groups relatively low rate of return was in part due to continuing significant amounts of investments, particularly by the County Councils, being placed with the Governments overnight and short term Debt Management Office (DMO) facility (in one instance 100% of a County Council's investments were with the DMO) which offers high security but at the expense of significantly lower interest rates than could be obtained from investing in Money Market Funds thus depressing the groups weighted average rate of return although District Council's within the group do seem to be making more use of Money Market Funds. Money Market Funds are themselves of equal security being AAA rated and were widely used by this Council during the March quarter thus contributing to the out performance.

11.2 A further contributing factor to the outperformance seems to be the fact that other members of the club are investing a significant element of their portfolio's in short duration assets of less than 1 month. Whilst this undoubtedly reduces the risk that a counterparty may default during the duration of an investment it does lessen the ability to maximise investment returns whilst still adequately protecting the security of the investment. Sector's current advice is to invest for up to three months which still limits the risk of default whilst providing a reasonable rate of return which is the approach that the Treasury team took during the March quarter and are continuing to take.

12. BORROWING

12.1 On the 28th March, the Council took out long term loans from the Public Works Loans Board amounting to £136.57m in order to pay the amount due to DCLG in respect of the Housing Self Financing Settlement. These loans were taken on a maturity basis and the profile was agreed with Sector, our Treasury Consultants. To enable the maximum new build provision within the Self Financing Business Plan requirements the loans are for periods of between 41 and 50 years and the annual interest bill is £4.766m at an average rate of 3.5%.

12.2 During the quarter it was not necessary to undertake any Money Market borrowing to fund cashflow deficits, with any deficits being managed within the Council's £100,000 overdraft facility with HSBC. The interest rate on this facility is 2% above Bank Rate and is charged on the cleared balance at the end of each day when that balance is in debit i.e. overdrawn. In the March

2012 quarter no overdraft interest was paid. Overdraft interest is normally offset by the interest earned at 1% below Bank Rate on the days when the end of day balance was in credit; however, with Bank Rate at 0.50% this is not applicable.

13 PRUDENTIAL INDICATORS

13.1 The 2011/12 Treasury Management Strategy included a number of Prudential Indicators within which the Council must operate. The two major ones are the Authorised Limit and Operational Boundary for borrowing purposes. Both were increased in the February budget report to allow for the self financing borrowing in 12.1 above and it is confirmed that during the quarter neither indicator has been exceeded.

14. FREQUENCY OF REPORTING

14.1 At its last meeting, the Committee decided that it would receive half yearly monitoring reports with effect from 2012/13 so this report will be the last quarterly one as it is produced under the 2011/12 Treasury Management Strategy which requires quarterly reporting.

APPENDIX A

1. SECTOR COMMENTARY ON THE CURRENT ECONOMIC BACKGROUND.

1.1 The pick-up in the business surveys at the start of the year suggest that the economy managed to avoid relapsing into a technical recession in the first quarter of the year (after output contracted by 0.3% in Q4). The weighted output balance of the CIPS/Markit surveys rose to a level consistent with a quarterly expansion of approximately 0.5%. The CIPS surveys, which exclude the retail sector and high street spending, which were also strong at the start of the year.

1.2 However, there were tentative signs later in the quarter that the recovery might have started to lose momentum. The business surveys fell in February, as did the official measure of consumer spending. The Bank of England's agents' scores were also painting a less upbeat picture of activity than the CIPS/Markit surveys.

1.3 Employment continued to increase. The Labour Force Survey measure of employment rose by 9,000 in the three months to January. The quarterly Workforce Jobs measure of employment rose by some 123,000 in Q4, helping to narrow the gap that had previously opened up with the LFS measure. Some of the more forward-looking employment surveys also improved.

1.4 However, employment failed to rise fast enough to keep pace with the growth of those losing their jobs. Accordingly, unemployment rose further. Admittedly, the rises in the claimant count measure of unemployment were modest – about 7,000 in both January and February.

1.5 Pay growth remained very weak. Lower bonuses pulled annual growth of overall average earnings down to 1.2% in January. Excluding bonuses, growth was 1.7%. Given the high rates of inflation, real pay continued to fall sharply.

1.6 House prices remained volatile. The Halifax measure rose and the Nationwide measure fell in January – and vice versa in February. Mortgage approvals fell in February, even though the approaching end of the stamp duty holiday for first-time buyers should have boosted demand.

1.7 Banks' funding costs eased a little at the start of the quarter although they remained elevated. Banks have begun to pass these costs onto borrowers by raising their borrowing rates on certain types of mortgages.

1.8 Meanwhile, the trade data continued to hold up surprisingly well given the crisis in the UK's main export market, the Eurozone. In January, the trade deficit shrank to its lowest level since 2003. Exports to peripheral Eurozone countries continued to fall, but held up to the bigger Eurozone economies.

1.9 Survey measures of export orders painted a mixed picture; the CBI measure picked up sharply in the quarter, whilst the BCC and the CIPS/Markit measures weakened.

1.10 The latest public finance figures suggested that, contrary to previous indications, public sector borrowing in 2011/12 was unlikely to undershoot the forecasts made by the Office for Budget Responsibility (OBR) in November. Indeed, in its new forecasts published alongside the Budget on 21st March, the OBR nudged down its borrowing forecast by just £1bn to £126bn.

1.11 Borrowing was lowered by a cumulative £11bn over the total forecast period. However, the Chancellor was still only expected to meet his fiscal mandate (to balance the cyclically-adjusted current budget) with little headroom.

1.12 The Chancellor delivered a broadly fiscally-neutral Budget. An extra 1% cut in corporation tax and a rise in the personal tax allowance was paid for by a freeze in tax allowances for the elderly, extra taxes on the very rich (other than a cut in the 50p tax rate to 45p) and lower spending on Afghanistan.

1.13 Elsewhere, inflation fell further in the first quarter. CPI inflation fell from 4.2% in December to 3.4% in February. Core inflation fell as January 2011's rise in the rate of VAT fell out of the annual comparison.

1.14 At 3.4% CPI remains above the 2% inflation target. The 2.5% rise in petrol prices suggests that inflation may hold steady or even rise in March.

1.15 Oil prices stabilised during the quarter at about $125 per barrel. Medium-term indicators of inflation suggested that underlying price pressures are still weak. Admittedly, inflation expectations nudged up during the quarter. However, this was probably a temporary response to the rise in oil prices.

1.16 Sentiment towards the Eurozone improved following the ECB's second Long-Term Refinancing Operation in February and the conclusion of a second bailout package for Greece in the second half of the quarter. This followed an agreement by the Greek Government to another major austerity package and agreement by private holders of Greek debt to a substantial haircut in the value of their holdings. This bailout dissipated fears of an imminent Lehman's type meltdown in financial markets. However, the economic news suggested that the Eurozone economy was still heading towards recession and major concerns continued that this 'resolution' has done little more than to buy some time.

1.17 In the UK the MPC announced another £50bn of quantitative easing (QE) in February, having completed the previous £75bn of purchases. But the consensus view was that the MPC is unlikely to undertake further purchases once the current ones are finished in May. February's Bank of England Inflation Report suggested that the inflation target would be met on the current policy stance.

1.18 Markets also brought forward their timing of the first interest rate rise, as a result of the improved economic news, subsiding concerns of the EU debt crisis, and a consequent partial reversal of safe haven flows into non-EU government bonds. Gilt yields rose during the quarter, with ten year yields reaching around 2.4%, before falling back at the end of the quarter to 2.2%.

1.19 The US economy strengthened outperforming most economies. Although all the evidence suggested that annualised GDP growth in the first quarter did not match the 3% of the fourth quarter of 2011, growth of between 1.5% and 2.0% seemed plausible. What's more, it won't be long before the increases in non-farm payroll employment by more than 200,000 in each of the three months to February translate into faster income and consumption growth.

WARWICK DISTRICT COUNCIL STANDARD LENDING LIST AS AT MAY 2012

BANKS

INVESTMENTS UP TO 364 DAYS (3 MONTHS FOR EXPLICITLY GUARANTEED SUBSIDIARIES)

MAXIMUM INVESTMENT LIMIT WITH ANY ONE PART OR FULLY NATIONALISED BANK = £6M
MAXIMUM INVESTMENT LIMIT WITH ANY ONE PRIVATE SECTOR BANK = £5M

GROUP LIMIT = £5M (£6M UK GOVT PART OWNED BANKS) (GROUP = OTHER BANKS ON WDC LIST AS IDENTIFIED BELOW INCLUDING EXPLICITLY GUARANTEED SUBSIDIARIES)
MINIMUM FITCH RATINGS CREDIT RATING = LONG TERM A+ (UK GOVT PART OWNED A), SHORT TERM F1, VIABILITY RATING OF BBB AND SUPPORT RATING OF 1.
SOVEREIGN COUNTRY RATING – AT LEAST EQUAL TO THAT OF THE UK (CURRENTLY AAA).

INVESTMENTS OVER 364 DAYS

AS ABOVE BUT MAXIMUM OVERALL INVESTMENT PER COUNTERPARTY AND/OR GROUP IS £5M FOR A MAXIMUM OF TWO YEARS, SUBJECT TO AN OVERALL LIMIT OF £9M (INCLUDING CATEGORY A BUILDING SOCIETIES) SEEK ADVICE FROM SECTOR BEFORE PLACING DEALS IN THIS CATEGORY TO ENSURE THAT THE INTEREST RATE OFFERED IS APPROPRIATE.

BANK NAME	OTHER BANKS IN GROUP (*= Not on list but included for information re potential problems etc)	GROUP LIMIT APPLIES
AUSTRALIA (AAA)		
Austraila & New Zealand Banking Group Ltd.		
Commonwealth Bank of Australia		
National Australia Bank Ltd	Bank of New Zealand* Yorkshire Bank *(Trading name of Clydesdale Clydesdale Bank	Yes
Westpac Banking Corporation		
CANADA (AAA)		
Bank of Montreal	Bank of Montreal Ireland plc*	
Bank of Nova Scotia	Scotia Bank* Scotia Bank (Ireland) Ltd* Scotia Bank Capital Trust (United States)* Scotia Bank Europe plc*	
Canadian Imperial Bank of Commerce	Canadian Imperial Holdings Inc New York* CIBC World Markets Holdings	

	Inc*	
National Bank of Canada	National Bank of Canada New York Branch*	
Royal Bank of Canada	Royal Trust Company* Royal Bank of Canada Europe* Royal Bank of Canada Suisse* RBC Centura Banks Inc*	
Toronto Dominion Bank	TD Banknorth Inc*	
FRANCE (AAA)		
BNP Paribas	BNP Paribas Finance* BancWest Corporation (California)* Banca Nazionale Del Lavoro SpA* First Hawaiian Bank* United Overseas Bank*	
Societe Generale **DO NOT USE AS CDS OUT OF RANGE**	Societe Generale Asset Management* Credit Du Nord* Sogecap/Sogessur*	
GERMANY (AAA)		
Deutsche Bank AG	Bankers Trust International plc* Deutsche Asset Management* Deutsche Bank Americas Finance LLC* Deutsche Bank Securities * Deutsche Bank Trust Company Americas* Deutsche Trust Corporation New York*	
LUXEMBOURG (AAA)		
Clearstream Banking		
NETHERLANDS (AAA)		
ING Bank NV	ING Belgium*	
NORWAY (AAA)		
DnB NOR Bank	DnB NOR Group* Sparebankkredit* Union Bank of Norway*	
SINGAPORE (AAA)		
DBS Bank Ltd	DBS Bank (Hong Kong)*	
Oversea Chinese banking Corporation Ltd		

United Overseas Bank Ltd		
SWEDEN (AAA)		
Nordea Bank AB	Nordea Bank Denmark* Nordea Bank Finland Nordea Bank Norge* Nordea Bank North America*	Yes
Skandinaviska Enskilde Banken AB	SEB Bolan*	
Svenska Handelsbanken AB	Stadtshypotek* Svenska Handelsbanken Inc USA*	
UNITED KINGDOM (AAA)		
Santander UK plc **DO NOT USE AS CDS OUT OF RANGE**	Cater Allen (explicitly guaranteed subsidiary)	Yes
Cater Allen (3 months only) **DO NOT USE AS CDS OUT OF RANGE**	Santander UK plc	Yes
HSBC Bank plc	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC USA Hang Seng Bank*	Yes
Standard Chartered Bank		
Lloyds Banking Group Including :- Lloyds TSB Bank of Scotland	Halifax plc* Bank of Western Australia Ltd*. Cheltenham & Gloucester* Scottish Widows Investment Partnership* Scottish Widows plc*	Yes
Royal Bank of Scotland Group Including :- Royal Bank of Scotland	Citizens Financial Group Inc* First Active plc (Ireland)* National Westminster Bank* Ulster Bank*	Yes
UNITED STATES OF AMERICA (AAA)		

Bank of New York Mellon	Bank of New York (Delaware USA)* Bank of New York (New York USA)* Bank of New York Trust Company*	
HSBC Bank USA NA	HSBC AM* HFC Bank Ltd* Hong Kong & Shanghai Banking Corporation* HSBC Finance Corp* HSBC Finance* HSBC UK Hang Seng Bank*	Yes
JP Morgan Chase Bank NA	Bank One Corp* Bank One Financial LLC* Bank One NA * First USA Inc* NDB Bank NA* Chemical Bank * Chemical Banking Corp* JP Morgan & Co Inc* Chase Bank USA* Robert Fleming Ltd*	
State Street Bank and Trust Company	State Street Banque* State Street Corporation*	
Wells Fargo Bank NA	Wachovia Bank* Wachovia Bank NA North Carolina USA*	

BUILDING SOCIETIES – CATEGORY A

INVESTMENTS UP TO 364 DAYS
MAXIMUM INVESTMENT LIMIT WITH ANY ONE BUILDING SOCIETY = £4M
MINIMUM FITCH RATINGS CREDIT RATING = AT LEAST EQUAL TO UK SOVEREIGN RATING (CURRENTLY AAA), LONG TERM A+ AND SHORT TERM F1

- Nationwide

INVESTMENTS OVER 364 DAYS
CATEGORY A BUILDING SOCIETIES UP TO £1M FOR UP TO 2YRS SUBJECT TO OVERALL £9M LIMIT (INCLUDING BANKS)

BUILDING SOCIETIES – CATEGORY B

MAXIMUM INVESTMENT LIMIT = £2M
MAXIMUM LENGTH OF INVESTMENT = 364 DAYS

MINIMUM FITCH RATINGS CREDIT RATING = AT LEAST EQUAL TO UK (CURRENTLY AAA) SOVEREIGN RATING , LONG TERM LESS THAN A+ AND SHORT TERM F1 OR ABOVE

- Coventry

BUILDING SOCIETIES – CATEGORY C

ALL OTHER BUILDING SOCIETIES IN THE TOP 20 RANKED BY ASSET VALUE (FLOOR £500M)
MAXIMUM INVESTMENT LIMIT = £1M
MAXIMUM LENGTH OF INVESTMENT = 3 MONTHS

- Yorkshire (now merged with Norwich & Peterborough)
- Leeds
- Skipton
- West Bromwich
- Principality
- Newcastle
- Nottingham
- Progressive
- Cumberland
- National Counties
- Cambridge
- Saffron
- Manchester
- Furness
- Leek United
- Monmouthshire
- Newbury
- Hinckley & Rugby

NATIONALISED INDUSTRIES AND PUBLIC CORPORATIONS

MAXIMUM INVESTMENT LIMIT = £6M
MAXIMUM LENGTH OF INVESTMENT = 364 DAYS

LOCAL AUTHORITIES INCLUDING POLICE & FIRE AUTHORITIES

MAXIMUM INVESTMENT LIMIT = £6M
MAXIMUM LENGTH OF INVESTMENT = 364 DAYS

Any local authority in Great Britain and Northern Ireland at the discretion of the Head of Finance

SUPRANATIONAL INSTITUTIONS / MULTI-LATERAL DEVELOPMENT BANKS

MINIMUM FITCH CREDIT RATING = AAA OR GOVERNMENT GUARANTEED

MAXIMUM INVESTMENT LIMIT = £5M PER COUNTERPARTY

MAXIMUM LENGTH OF INVESTMENT = NOT SPECIFIED. SEEK ADVICE FROM SECTOR BEFORE PLACING DEALS IN THIS CATEGORY TO ENSURE THAT THE INTEREST RATE OFFERED IS APPROPRIATE.

European Community
European Investment Bank
African Development Bank
Asian Development Bank
Council of Europe Development Bank
European Bank for Reconstruction & Development
Inter-American Development Bank
International Bank of Reconstruction & Development

TRIPLE A RATED MONEY MARKET FUNDS

MINIMUM CREDIT RATING – STANDARD AND POORS AAAM OR MOODYS AAA AND VOLATILITY RATING MRI + OR FITCH AAA AND VOLATILITY RATING VR1+
MAXIMUM INVESTMENT LIMIT = £6M
MAXIMUM LENGTH OF INVESTMENT = NOT DEFINED – DEPENDS ON CASH FLOW

CURRENT
Aim Global (£6m limit)
Deutsche (£6m limit)
Prime Rate (£6m limit)
Goldman Sachs (£6m limit)
Ignis (£6m limit)

Any other MMF satisfying above credit rating criteria (£6m limit)

OTHER
MAXIMUM INVESTMENT LIMIT = £6M
MAXIMUM LENGTH OF INVESTMENT = 364 DAYS

Government Debt Management Account Facility

MAXIMUM INVESTMENT LIMIT = £6M
MAXIMUM LENGTH OF INVESTMENT = NOT SPECIFIED

UK Government Gilts