Appendix B

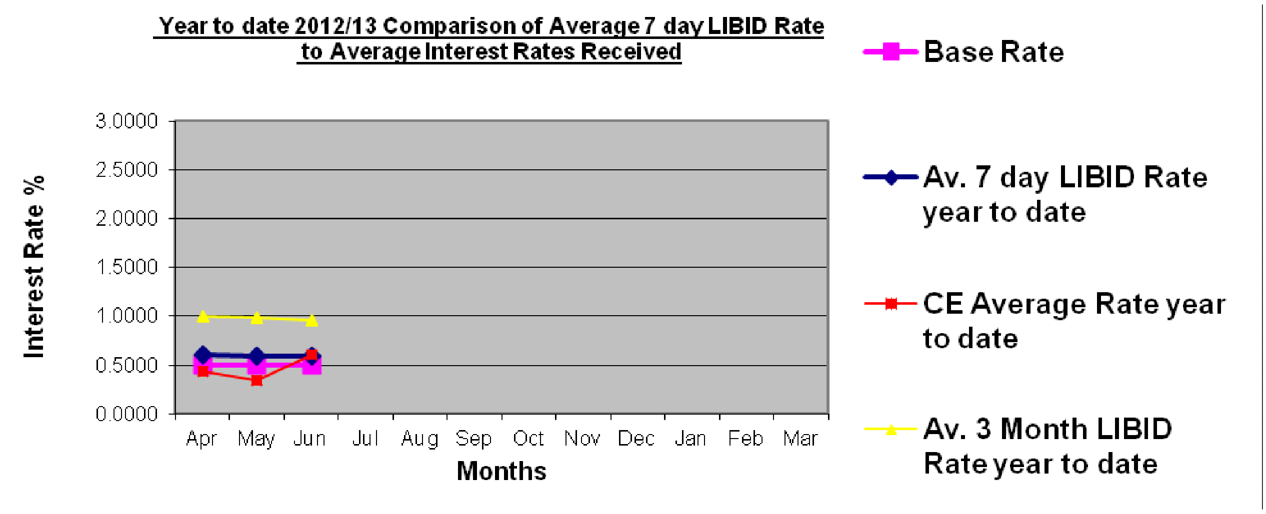
Treasury Management Update 2012-13 as at 30th June 2012

1.1 Investment income is currently £5,000 lower than budgeted caused primarily by weak performance by the managed pooled funds in the first 2 months of the year. The original budget of £0.3m is based on falling balances available for investment and interest rates remaining unchanged through 2012/13. Based upon the current economic forecasts, investment interest rates are not expected to increase and credit quality and liquidity of investments will continue to take priority over yield. Any budget shortfall on investment interest should be compensated by savings on external interest payments.

- The average lend position (the 'cash balance') including fund manager and legacy balances up to the end of the first quarter was £67.3m.
- The average annualised interest rate received on in house investments up to the end of the first quarter was 0.81%
- The average annualised interest rate received on the externally managed Investec fund up to the end of the first quarter was 0.08%.

1.2 The Council's total average interest rate up to the end of quarter 1 in 2012-13 was 0.60%. This is on a par with the London Inter-bank Bid Rate for 7 days at 0.59%. The base rate remained at 0.50% for the quarter.

Comparator	Average Rate Q1
Cheshire East	**0.60%**
LIBID 7 Day Rate	**0.59%**
LIBID 3 Month Rate	**0.96%**
Base Rate	**0.50%**



Counterparty Limits and Investment Strategy

1.3 The maximum amount that can be invested with any one organisation is set in the Treasury Management Strategy Report. For named UK banks and building societies this has been set at 15% of our total investments subject to a maximum value of £15m. These limits apply to the banking group that each bank belongs to. Limits for Money Market funds have been set at 25% of total investments subject to a maximum value of £20m. There is also a maximum that can be invested in all Money Market Funds at any one time of 50% of the value of all investments.

1.4 Our approved counterparties list also includes a number of foreign banks although, to date, none have been used. Due to the on-going problems in the Eurozone and consistent with advice from our Treasury Management advisors, direct investments in other European countries are not currently being considered. The limits applicable to foreign banks are the same as those applied to UK banks..

1.5 During the last 3 months all UK banks have had their credit ratings reviewed mainly as a response to the continued debt crisis in the Eurozone. In response the Council has limited the duration of investments in most banks to overnight only; the exceptions being Barclays Bank and Nationwide Building Society to which a 100 day limit applies, and HSBC and Standard Chartered to which a 6 month limit applies. The short term ratings of Royal Bank of Scotland (RBS) have been reduced below that specified in our Treasury Management Strategy so no further investments are currently being made until either the rating is improved or the Treasury Management Strategy is reviewed. Investments with RBS at 30/06/12 were repaid on 04/07/12.

1.6 In the last quarter a new 100 day notice account has been opened with Barclays Bank in order to take advantage, where possible, of higher returns set at a margin above the 3 month LIBOR rate. Cash flow forecasts are continually monitored and where appropriate opportunities will be taken to fix investments for short periods.

1.7 The table below shows the current investments and limits with each counterparty.

Counterparties	Limits		Investments as at 30/06/12	
UK BANKS				
Barclays Bank	15%	£15m	11%	£9m
Co-operative Bank:	15%	£15m	2%	£1.7m
HSBC Bank	15%	£15m	-	-
Lloyds TSB	15%	£15m	4%	£3m
Royal Bank of Scotland	-	-	4%	£3.4m
Santander (UK) plc	15%	£15m	11%	£9m
Standard Chartered Bank	15%	£15m	-	-
BUILDING SOCIETIES				
Nationwide Building Society	15%	£15m	10%	£8m
Money Market Funds	50%		33%	
Deutsche	25%	£20m	7%	£6m
Ignis	25%	£20m	10%	£8m
Federated Prime Rate	25%	£20m	11%	£8.5m
Scottish Widows	25%	£20m	5%	£4.3m
Pooled Funds - External Fund Manager	50%		25%	£20.1m
				£81.0m

Types of Investments and Current Interest Ratios

Instant Access Accounts	**Avg rate %**	**£'000's**
Instant Access Accounts	0.76%	10,730
Money Market Funds	0.66%	26,800

Notice Accounts	**Avg rate %**	**£'000's**
Notice Accounts (up to 100 days)	1.08%	9,400

Fixed Term Deposits	**Start**	**Maturity**	**Rate %**	**£'000's**
Lloyds TSB	27/04/2012	27/07/2012	1.40	3,000
Nationwide BS	15/05/2012	15/08/2012	0.93	5,000
Nationwide BS	18/05/2012	17/08/2012	0.93	3,000
Barclays TD	07/06/2012	07/09/2012	0.93	3,000

Externally Managed Funds	**£'000's**
Pooled Investments	20,138

Maturity Profile	**£'000's**
Instant Access	37,530
Maturing < 1 month	3,400
Maturing within 1 - 6 months	20,000
Maturing within 6 – 12 months	0

Externally Managed Funds	20,138
Total	**81,068**

Performance of Fund Manager

1.8 The table below shows the performance of the funds (net of fees) since the initial investment of £20m (£10m in each model) on 27th May 2011.

	STANDARD MODEL	**DYNAMIC MODEL**
April 2012	0.00%	-0.06%
May 2012	-0.04%	-0.13%
June 2012	0.10%	0.17%
Cumulative 2012/13	0.05%	-0.01%
Value of Investment at 30/06/12	£10,096,564	£10,060,000
Fees (Total since start)	£27,706	£29,817
Average Annual Rate as at 30/06/12	0.64%	0.28%

1.9 Performance of the funds in April and May has been poor influenced primarily by the continued debt crisis in Europe, particularly with the uncertainties over the Greek economy leading to fresh elections in Greece. Fortunately, although close, the elections did not result in a rejection of the terms of the European bailout of their economy but the problems may persist and an exit from the Euro is still a real possibility.

1.10 Corporate Bonds and emerging market debt were all affected by the European debt issues but improved greatly in June once the markets settled down. Most good credit quality Government stocks continue to offer very low yields but the funds have focused on other AAA rated stocks (such as Norway and Australia) which have helped the performance of the Short dated bonds element of the funds.

1.11 Whilst the performance of the fund since we joined is not encouraging (particularly the dynamic model) these investments should be seen as a longer term investment so true performance can only be judged over a longer period of time. Regular meetings are being held with the fund managers to assess the on-going suitability of these funds.