Summer 2010

"Happiness is not a destination in which you arrive, it is your journey there."

Anonymous

INSIDE: EMERGENCY BUDGET REPORT

Lowes runner up in best IFA awards

BRITAIN'S FINANCE JOURNALISTS HAVE GIVEN LOWES the accolade of runner up in the best IFA Firm category in the 2010 Media IFA of the Year Awards.

The award organiser is unbiased.co.uk, the specialist information service set up by the financial services industry to help the public identify sources of professional financial advice and to promote the independent financial advice brand through the media. All journalists involved in writing about finance across all print and broadcast media in the UK are invited to cast their votes. Managing Director, Ian Lowes, said: "We're delighted to have done so well in these. We're always happy to assist journalists where we can and it's great to note that they appreciate it."

Best IFA firm 2010 Runner-up
unbiased.co.uk's Media IFA of the Year awards

Neil wins exam distinction

NEIL MCLACHLAN, Lowes' Compliance Director, has recently received a distinction in his Society of Trust and Estate Practitioners (STEP) Exam.

Commenting on Neil's achievement, Managing Director Ian Lowes said: "We are proud of Neil's achievement and, once again, this shows the commitment to professional qualifications shown by Lowes' staff and the level of expertise on offer when dealing with tax and estate planning matters."

The STEP Certificate for Financial Services (Trusts and Estate Planning) is aimed in particular at investment advisers, financial planners and those working in the banking sector dealing with trusts and estates.

Lowes was one of the first advisers in the country to achieve the accreditation Chartered Financial Planners, which was as a direct result of the company's commitment to professional development. Key staff and policy makers at Lowes are not only Chartered Financial Planners, but also Fellows of The Personal Finance Society.

Clean technology investment increasing

GLOBAL INVESTMENT IN CLEAN TECHNOLOGY BY VENTURE CAPITAL funds, primarily renewable energy technologies, rose by 43 per cent to $2.04 billion in the second quarter of 2010 compared to the same period in 2009, according to the Cleantech Group and Deloitte.

The leading sector in the quarter by amount invested was solar ($811 million), followed by biofuels ($302 million) and smart grid ($256 million). Energy efficiency was the most popular sector measured by number of deals, with $147 million invested. By region, North America accounted for 72 per cent of the total, Europe and Israel 24 per cent, India 3 per cent and China 2 per cent.

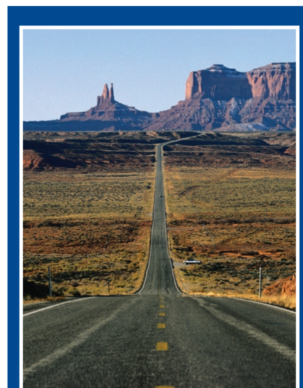
A notable investment was in BrightSource Energy, where a large part of the $150 million raised came from new investors Alstom, the French engineering company, and the California teachers' pension fund, CalSTRS. BrightSource is a leader in the development of large-scale solar thermal power plants, which use mirrors to concentrate the sun, boil water and raise steam to drive electricity turbines.

Credit card interest faces limit

THE NEW COALITION GOVERNMENT SAYS IT IS TO CURB EXCESSIVE interest rates on credit cards.

The announcement follows the failure earlier this year of an attempt by the Office of Fair Trading to curb what it regarded as unfair charges and other fees. Instead, the Supreme Court ruled in favour of the banks.

Although the Bank of England has reduced interest rates to a historic low of 0.5 per cent, it says that the average credit card rate has increased from 15.26 per cent to 16.53 per cent over the last two years.



Our cover shot: View down Highway 163 towards Monument Valley.

Jeremy Woodhouse/Photodisc Collection/Getty Images

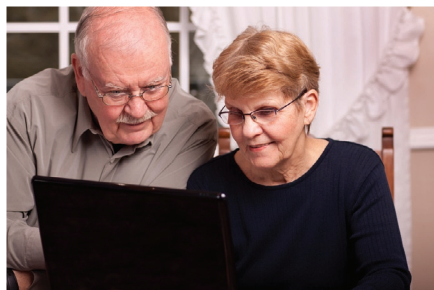
Make your money work

Best bank and building society unrestricted instant access/no notice accounts

Amount	Provider	Account	Gross Rate	Contact
Branch Based				
£1+	Northern Rock	Branch Saver	1.9%	Branch
Postal or Telephone				
£1+	National Savings & Investments	Direct Saver	1.75%	0845 971 5401
£1,000+	Stroud & Swindon Building Society	Postal Account	2.25%	www.stroudandswindon.co.uk[1]
Internet				
£1+	Barnsley Building Society	Online Saver	2.5%	www.barnsley-bs.co.uk[2]

Note 1: Rate is expected to fall to 2% in September. Minimum deposit/withdrawal £100. Withdrawals by cheque only.
Note 2: Yorkshire Building Society is the underlying deposit xtaker for this account.
Sources: Providers' websites, www.thisismoney.co.uk, www.moneyextra.com, www.moneysupermarket.com, www.moneyfacts.co.uk 19/07/2010. All accounts subject to terms and conditions.

Pensions link to earnings to be restored



THE LINK THAT INCREASES THE BASIC State Pension in line with rises in average earnings is to be reinstated in April 2011 and will be part of a 'triple lock guarantee' that pensions will be increased by the higher of earnings, prices or 2.5 per cent.

State pensions were last linked to earnings from 1974 to 1980 but, for the last 30 years, have been increased in line with prices as measured by the Retail Prices Index (RPI).

However, the measure of inflation to be used in this new 'triple lock guarantee' will be the Consumer Prices Index or CPI rather than the RPI. Historically, the CPI has been lower than the RPI because it excludes housing costs.

Rises linked to prices protect pensioners from the impact of inflation but, as wages tend to outstrip prices each year, the Basic State Pension has fallen behind average earnings since the link to pay rises was cut. In 1980 the basic state pension was £27.15 a week. Currently, it is £97.65. Pensions expert, Dr Ros Altmann, says if it had risen in line with earnings instead of prices it would now be "above £140 a week".

The coalition government has also announced that it is to switch the index linking of private sector final salary pension schemes to the CPI in a move that will, conversely, hit pensioners. Experts have reportedly estimated this change could reduce private sector pension incomes by up to 10 to 25 per cent in retirement.

Major companies face climate of risk

EUROPE'S 300 LARGEST COMPANIES are exposed to significant climate change risks, according to the Ethical Investment Research Service (EIRIS), the London-based investment adviser to pension funds.

EIRIS says that climate change has the potential to seriously impact shareholder value and could affect businesses across every sector of the economy, especially in the medium to long-term. However, it also notes that climate change offers companies significant opportunities.

EIRIS notes that 62 per cent of very high and high climate change impact companies are already linking performance-based remuneration with emissions reduction initiatives. In addition, it has identified a number of improvements in the strategies that companies have put in place with regard to their climate change impact and notes that regulation and the increasing engagement of investors is encouraging companies to focus more on the potential opportunities.

For example, British Airways and the US bioenergy company Solena are to establish Europe's first green jet fuel plant in the East End of London, which by 2014 will turn 500,000 tonnes of landfill waste – including household and industrial rubbish – into 16 million gallons of carbon-neutral aviation fuel every year.

Elsewhere, the German utility RWE, which owns the UK power generator Npower, has joined with Daimler AG to set up the world's largest joint project for environmentally friendly electric cars.

COMMENT

Regulatory Evolution?

SOME SAY WE ARE HERE TO HAVE AN experience and learn from our mistakes. In essence this is true as far as each generation is concerned. As long as the lessons of the past are communicated effectively we should evolve.

This should be true for all civilisations and their markets and economies.

In terms of the evolution of UK financial services regulation, the coalition government is going to dismantle the Financial Services Authority (FSA) and scatter its responsibilities among several new city regulators.

Unfortunately, we have been here before. Some 25 years ago, to accompany 'Big Bang' and the deregulation of UK financial services, we had the Securities and Investments Board and a plethora of self-regulatory organisations such as FIMBRA. After a series of problems in the 1990s, culminating in the collapse of Barings Bank, self-regulation was terminated and replaced by the Personal Investment Authority (PIA).

Subsequently, the PIA gave way to the Financial Services Authority which, it was claimed, would end financial scandals once and for all. But following its failure to police the banks and mortgage lenders, it's cheerio to them too.

The answer, it seems, is to return to where we started. A number of possible locations have been identified to tackle the FSA's responsibilities - the Bank of England, and two newcomers, the Prudential Regulatory Authority and the Consumer Protection Market Authority.

What does it all mean for you, you may ask? The point is that someone has to pay for all of this regulatory musical chairs and that someone is more often than not the consumer of financial advice and products.

The one constant of the past changes is that they have increased the cost of providing unbiased independent advice, which in turn has reduced its availability. In contrast, regulation has favoured larger players such as the banks on the principle that, because they are fewer in number, their activities can more easily be policed. How wrong was that?

Whilst I would in no way challenge the need for good, strong consumer protection, what I do question is the sort of change that bears all the hallmarks of the past without taking into account any of its lessons.

Hopefully we are witnessing the evolution of regulation rather than a repeat of the mistakes of old, but only time will tell.

Ian H Lowes,
Managing Director

If you would like to receive further information on any of the subjects featured in this issue of **LOWES** please call: **0191 281 8811**, fax: **0191 281 8365**, e-mail: **client@lowes.co.uk**, or write to us at: **Lowes Group PLC**, FREEPOST NT197, Holmwood House, Clayton Road, Newcastle upon Tyne NE2 1BR. Lowes® Financial Management Limited. Registered in England No: 1115681. Authorised and Regulated by the Financial Services Authority.

Not so harsh as pundits predicted

The most significant changes for investors in the new coalition government's Budget affect the Capital Gains Tax regime…

IN THE WEEKS LEADING UP TO THE EMERGENCY BUDGET we were warned to expect harsh measures and a period of austerity as the newly elected coalition government was to start tackling the country's £156 billion of public debt, writes Ian Lowes.

This had the potential to be a very painful Budget and there is no doubt that it has hit the pockets of everybody – notably through the increase of VAT from 17.5 to 20 per cent as from the 4 January 2011.

Many of us who save and invest will have started to review our finances long before the Chancellor's pronouncements. However, for investors and buy-to-let owners, the rise in Capital Gains Tax (CGT) had been the greatest worry. All signs pointed to the Chancellor increasing the CGT rate to reflect the level of Income Tax, i.e. 40 - 50 per cent for higher and super rate payers – as was hinted at in pre-Budget comments – with the possibility of the re-introduction of taper relief and all the bureaucracy that goes with it.

I am pleased to see that the Chancellor has decided to implement a simpler system, keeping the rate at 18 per cent for low to middle income earners and increasing it to only 28 per cent for higher rate taxpayers.

This is expected to bring in additional revenues for the Treasury through increased CGT and Income Tax payments, but it will hit middle England investors far less than was hinted at. You can speculate whether this was an old political ploy!

I was most happy to see that not only was the annual CGT allowance retained at £10,100, but it will rise in line with inflation in future years, meaning most investors will still be able to avoid paying CGT. The Lib Dems had proposed slashing it to £1,000, which would have had a serious impact on ordinary people who have saved prudently or who have been investing to finance their retirement.

Higher rate tax payers will now have to pay the 28 per cent but, with the CGT allowance intact, this is still below the Income Tax rate and is significantly better than the 40 - 50 per cent hinted at pre-Budget. This Budget will bring CGT in line with other countries, but provide an incentive for the UK to keep on saving for its future. Likewise, the extension of the 10 per cent CGT rate for entrepreneurs from the first £2 million of qualifying gains to £5 million will be welcomed by businesses holding assets with latent capital gains.

We all knew CGT would be hiked and the question was by how much? Now that we know the details, with appropriate financial advice and good tax planning, investors should still be able to maximise returns from investments and minimise their tax liabilities.

Photo by Andrew Parsons

Lowes' tax cards updated

Lowes' tax cards have been adjusted to reflect the changes announced in the Coalition Emergency Budget of 22 June. To request a copy, please contact us on: **0191 281 8811** or email: **client@lowes.co.uk**

Capital Gains Tax

The Capital Gains Tax (CGT) rate has been increased to 28 per cent for higher rate taxpayers and trustees, but has remained unchanged for basic rate taxpayers at 18 per cent, while the annual exemption remains untouched at £10,100.

For individuals

The new CGT rate will apply to higher rate taxpayers with capital gains in excess of their annual exemption which, when added to their income, exceed the Income Tax higher rate threshold (£37,400 in the current tax year plus an individual's personal allowance). Where the income plus capital gains do not exceed this threshold, the existing rate of 18 per cent will continue to apply. Any gains straddling the threshold will pay 18 per cent on the gain below the threshold and 28 per cent on the part above it.

Where an individual has made capital gains in the current tax year – but before 23 June 2010 – these gains will continue to be taxed at the flat rate of 18 per cent. These gains are not added to income to determine the rate payable on any further gains made during the tax year. The new rates will also apply to deferred capital gains. For example, where Enterprise Investment Scheme (EIS) deferral relief, or CGT holdover relief, applies and a disposal takes place after 23 June 2010.

For Trustees & Personal Representatives

Capital gains arising for trustees or the legal personal representatives of a deceased's estate will be taxable at a flat rate of 28 per cent on the gain above the annual exempt amount. Gains arising on 'bare trusts' are not taxable upon the trustees but, instead, are taxed upon the beneficiary and the new rules for individuals will apply.

For entrepreneurs

To assist small business, the coalition has extended the lifetime limit on CGT entrepreneurs' relief from £2 million to £5 million. This relief is available on the disposals of entrepreneurial businesses, subject to certain conditions, providing an effective rate of CGT of 10 per cent on disposals within a lifetime limit. Gains which exceed the lifetime limit will be taxed at either 18 or 28 per cent.

■ ***Comment: While this change could have a significant impact on higher rate taxpayers, the increase in CGT is lower than had been anticipated and rates are still lower than Income Tax. The change will have no effect on basic rate tax payers, unless gains fall into the higher rate. The improved relief for entrepreneurs is most welcome.***

Personal taxation

The personal allowance for under 65s is to be increased by £1,000 to £7,475 from April 2011. However, there is to be a £2,500 cut in the basic rate Income Tax band, currently £37,400, which will produce an offsetting rise in tax for high earners and cancel out any potential gain.

The 50 per cent additional rate of Income Tax for those earning above £150,000 stays in place.

■ ***Comment: This has been specifically designed to assist the lower paid. However, the overall tax benefit will be reduced when the VAT increase and other cuts are taken into account.***

ISA limits to be increased by RPI

From 6 April 2011 the annual ISA subscription limit (currently £10,200 – up to half of which can be invested in a Cash ISA) will be increased annually in line with the Retail Price Index (RPI). This will be rounded to a multiple of £120 to allow an easily divisible figure for monthly savers. The ISA limits for cash and stocks and shares will remain unchanged should the RPI be negative.

■ ***Comment: A predictable rise in the annual ISA limit is to be welcomed as tax breaks are likely to become increasingly valuable to private savers and investors.***

Pensions

Compulsory Annuity Age

The coalition government agreement had earlier announced plans to abolish the requirement to purchase an annuity at age 75 with funds built up in a personal pension or an employer's money purchase pension scheme. This is expected to come into force in 2011/12 and, in the meantime, the age at which an annuity must be purchased has been increased with immediate effect to age 77. This effectively moves the maximum 'drawdown' age to 77 as an alternative to annuity purchase. However, tax free cash must still be taken by age 75.

Other changes are also being proposed to income drawdown and alternative secured pension rules.

■ ***Comment: These changes alone will only have a limited impact, but it is a positive step towards greater freedom for people in retirement.***

Basic State Pension

Aside from confirmation of the decision to re-link the Basic State Pension to earnings (see page 3 of this issue) the Government plans to accelerate the rise in the State Pension age to 66 and said a review will be launched shortly. Work and Pensions Secretary, Iain Duncan Smith, says the increase to age 66 for men could come as early as 2016 and may be raised further, perhaps to 70 and beyond, in the following decades. Consultation is also promised on the removal of the statutory retirement age of 65.

■ ***Comment: The increase in State Pension means the majority of pensioners will see their income in retirement increase. However, this will not substitute the need for adequate personal pension saving. Regardless of when you can draw the State Pension, it will only meet a fraction of most peoples' pre-retirement living costs.***

Restriction of pension contributions and tax relief

To address the imbalance where most tax relief goes to a minority of pension savers, the Chancellor said that the government will work with the pensions industry to consider alternatives to the restriction on pensions contributions and tax relief. Potentially, subject to consultation, this could include a lower annual allowance of between £30,000 - £45,000 for all pension savers, regardless of earnings.

■ ***Comment: Simplification of pension tax relief should be welcomed, as the current system is too complicated to attract significantly more pension savers and favours those wealthy individuals who are able to make significant contributions.***

VAT rise well signposted

With effect from 4 January 2011 the standard rate of Value Added Tax (VAT) will increase to 20 per cent. The reduced rate, which applies to some goods and services, including items such as domestic heating fuel and children's car seats, will remain at 5 per cent.

■ ***Comment: Delaying the increase to 4 January 2011 means that Christmas and New Year sales will be protected to some extent.***

The rise and rise of a global index

Doug Millward, Lowes' Investment Analyst, investigates how the benefits of globalisation are filtering through to the FTSE 100 Index…

INVESTMENT INDICES HIGHLIGHT HOW WELL A stockmarket – or parts of it – perform over time. they are used by fund managers and private investors to 'benchmark' their investments.

In the UK, the most widely quoted index is the FTSE 100, which represents the 100 largest companies listed on the London Stock Exchange by value or 'capitalisation' (that is their share prices multiplied by the number of shares they have issued). The FTSE 100 represents approximately 85 per cent of the of the entire UK stockmarket by value and its constituents are reviewed quarterly.

The benefits of the FTSE 100

Commonly described as the index of Britain's top 100 companies – an impression reinforced by the business media which cites its fluctuations as a barometer for the UK's economic fortunes – many investors probably assume that money invested in the FTSE 100 goes into elite UK companies supporting the UK economy.

In reality though, the FTSE 100 has a more worldly identity. More accurately, it is an index of global giants, many of which play a key role in the unfolding story of the world economy. Indeed, 83 per cent of the profits of FTSE 100 companies are now generated outside the UK.

While British-oriented businesses such as Tesco and Marks & Spencer are FTSE 100 companies, many constituents regarded as British are no longer entirely 'British' in the sense that they operate on the world stage, not just the local one. For example, Cadbury, now owned by the US company Kraft, sells the bulk of its chocolates overseas and is increasingly manufacturing them there too. Some other FTSE 100 companies which are true global operators include the international bank Standard Chartered and the South African brewer SAB Miller (which sells the popular Peroni, Miller, Grolsch and Castle brands in the UK). Even such large companies as HSBC, which has a strong UK presence, are major international players.

The FTSE 100 also includes a number of oil and mining giants, including Rio Tinto, BHP Billiton, Xstrata, Vedanta and Kazakhmys (a mining company from Kazakhstan). The Oil & Gas and the Basic Materials sectors – which account for a third of the FTSE 100 by value – cover the production of basic commodities and raw materials which are heavily in demand by the major emerging economies of China, India and Brazil. In the reshuffle of the FTSE 100 which took place in mid-June, two 'British' companies – Thomas Cook (whose German majority shareholder filed for bankruptcy last year) and the London Stock Exchange (owned largely by Middle Eastern investors) – lost their places to two increasingly important players in the oil and mining sectors – the Indian energy group, Essar Energy, and the African miner, Barrick Gold.

Oil and mining are costly activities

Photo by BP

Pros and cons of global coverage

Billions of bounds of pension savings are invested in FTSE 100 companies and, given that the UK population is ageing, the make up of companies in the Index is likely to become increasingly important.

Critics argue that exposure to oil and mining could have an adverse impact on pensions. For example, the recent suspension by BP of its dividend following the Deep Sea

Today the FTSE 100 is about the global economy

The FTSE 100 – A barometer of global growth

Perhaps the most important factor for investors is that the FTSE 100 is now a barometer of the global economy.

While over the last year the British economy has barely got out of first gear, the FTSE 100 has performed relatively well – thanks largely to the presence of large international companies. As such, the FTSE 100 can overcome the problems associated with sluggish growth at home by tapping into the economic recovery being led by the US and the major emerging economies.

However, for investors seeking to narrow their exposure to UK enterprises, the answer may lie in the FTSE 250.

The FTSE 250

This index represents the 101st to 350th largest UK compani
However, while this is more representative of 'British busine
including such firms as Babcock International, Booker, Chlorid
Group, Easyjet, GKN and Logica, it accounts for only 12 per cent of total UK stockmarket capitalisation.

The companies that grow large enough will move into the FTS
100 and benefit from the rise in their share prices resulting fro
increased demand for their shares – notably from the pension funds. As such, for many fund managers, FTSE 250 companies offer better growth prospects than FTSE 100 ones. Equally however, most companies that fall out of the FTSE 100, by definition, fall into the FTSE 250.

The FT All-Share Index (FTAS)

The FTAS is an aggregate of the FTSE 100, FTSE 250 and FTSE Small Cap indices. It currently features 628 companies, with a combined value of about £1.7 trillion – of which the oil and mining sectors account for a third – and it represents 98 per cent of the UK's market capitalisation.

Horizon disaster reduces a much needed source of income for UK pensioners. According to the coalition government business secretary, Vince Cable: "It isn't just a spillage with a localised environmental impact which is massive in the United States, but it is having major indirect effects on the UK economy because it is manipulating the FTSE and affecting people's pension funds."

However, on a more positive note, investments in such companies at a time when the demand for oil and minerals is consistently increasing provides investors with significant opportunities.

A more general issue is that overseas companies see the UK – which until recently has had lighter regulation than many other countries – as a 'flag of convenience'. However, during April, fears that the FTSE 100's prestige could be undermined led the Financial Services Authority to tighten up the regulations. Quoted in The Observer newspaper on 6 June, Karina Litvack, the head of governance and sustainable investment at the fund manager, F&C, said: "It is absolutely important that the FTSE 100 is held to certain standards. It is still a 'widows and orphans' instrument – the people who invest are not all sophisticated. The dividing line is not about nationality, but about substance."

However, a much more important attraction of the UK markets to global companies is the relative ease of raising capital for their activities – which in the case of the oil and mining companies are costly exercises invariably requiring enormous up front investment.

5 YEARS AGO

How did it perform?

– The Barclays Global Distribution Bond

IN OUR ONGOING SERIES EXAMINING progress of investments we featured in Lowes Magazine five years ago, we report on the Barclays Global Distribution Bond from the Summer 2005 issue.

BARCLAYS
Searching for income?
Current income rate of 7% per annum or the Bank of England rate plus 2.5% whichever is higher.
- Actual income yield at 30 June 2005 of 7.25% p.a.*
- Income paid quarterly
- Reinvestment option available
- Tax efficient when invested through an ISA†
- Invest with just £2,000

This fund aimed to provide a reasonably stable income, at that time estimated to be around 7 per cent, with the potential for some capital growth.

So, how has it performed to date?

Whilst starting well, the performance of this fund suffered badly during the financial turmoil of 2008 and, as a result, this is the first investment featured in this section of the Lowes magazine that has resulted in a loss over five years. Whilst the loss is only 3.6 per cent, it is no less disappointing.

Source: Lipper. Performance figures are net of all charges and assume that all dividends were reinvested at their payment date.

Has the pessimism been overdone?

A weaker Euro could increase company profits, says Melvyn Bell, Lowes' Investment Manager…

OVER THE YEARS FINANCIAL MARKETS HAVE INVENTED many acronyms and the most recent is PIIGS – the term for Portugal, Italy, Ireland, Greece and Spain which denotes the perceived risk of these countries defaulting on their national debt.

Consequently, the existence of the Euro – until recently regarded as a safe haven currency – is in doubt. This recalls the situation last autumn when the Pound was on the rack and pundits predicted Sterling parity with the Euro. This prompted me to note in the autumn Lowes Magazine: "Has the pessimism been overdone and where to from here? Given the extent of the decline over the last two years, it is conceivable that, just as the equity markets had priced in all the bad news in March, the currency markets have done the same and the Pound may well be near the bottom of a new, but lower trading range."

The Euro may now be in a similar position but, while the jury is out on whether Greece or any other PIIGS countries will leave the Euro, things may not be clear cut. For instance, as I write this column, one Euro is worth $1.23. It had hit a low of about $1.19 at the end of May after exceeding $1.51 in December 2009. However, it is worth remembering that when the Euro was launched in January 1999 its value was $1.17 which, coincidentally, is near its $1.18 weekly average since launch. In short, the Euro has reverted to mean from what many considered to be an inflated level.

This weakening of the Euro may prove to be beneficial. While the PIIGS economies are set for a long period of structural underperformance, the impact on Northern European economies like Germany, France and Norway may be more positive than recent market movements imply. Most major companies in these economies generate their growth outside of Europe and, while their profitability has been constrained for some years by an overvalued currency, a weaker Euro is now enhancing foreign earnings and reducing production costs. Consequently, the weaker Euro and recovery in the US and emerging markets should significantly increase profits for European exporters selling in dollars, even if sales are unchanged.

This is probably why Barry Norris, manager of the S&P and OBSR A-rated Ignis Argonaut European Alpha Fund, said recently: "The equity-risk premium has not been this high since the mid-1970s. This is bullish for stocks, particularly when asset allocations to European equities are at record lows. Equity-risk premium is evaluated at a time when the European Central Bank has implicitly moved from an anti-inflationary bias to a pro-growth bias."

The impact of inflation

RISING INFLATION IS ERODING THE REAL VALUE OF deposits for millions of savers. In May, the consumer price index was 3.4 per cent, while the broader based Retail Price Index (RPI) was 5.1 per cent, down from 5.3 per cent in April – the highest level it had reached since July 1991. Prior to May's small decline, inflation had been on the increase for eight consecutive months.

According to the Financial Times, none of the 250 or so currently available easy access savings accounts for balances of £1,000 pays enough interest to offset the effects of inflation and tax. The FT says the same applies to the cash ISA market, where two of the top offerings have recently had their rates cut – Barclays has withdrawn the bonus on its Golden ISA, while Nationwide has cut the rate on its Champion ISA from 2.8 to 2.6 per cent.

To counter inflation as measured by CPI, basic rate taxpayers will now need their funds on deposit to be in an account paying at least 4.25 per cent to gain any benefit in real terms from their savings, increasing to 5.7 per cent for higher rate taxpayers. Taxpayers in the new 50 per cent band would need an account paying at least 6.8 per cent. If you want to beat RPI, then a basic rate taxpayer needs interest of at least 6.4 per cent, while higher rate taxpayers must earn 8.5 per cent.

While everyone needs to keep a reasonable sum on instant access deposit, for longer term money, alternative investment may be necessary to combat the effects of inflation, unless you can afford the erosion in real terms.

To give you an indication of how inflation has attacked the buying power of money, Table 1 shows the changes in some key prices over the past 10 years.

Table 1: How prices have changed over 10 years

Item	Price in 1999	Price in 2009	% change
Milk	34p	54p	32.3
White loaf	51p	£1.26	147
Sugar	61p	88p	44.2
Bottle of wine	£3.55	£4.18	18
Unleaded petrol	63.6p	90.4p	60
Ford Focus	£15,500	£16,095	4
House prices	£73,302	£163,969	123
Average salary	£17,702	£26,472	13.6
Weekly State Pension	£66.75	£95.25	42.7

Source: www.thisismoney.co.uk (Daily Mail)

■ ***To help you identify the most suitable home for your investment capital, please contact your usual Lowes' Consultant on 0191 281 8811, or email: enquiry@Lowes.co.uk.***