

**TONBRIDGE & MALLING BOROUGH COUNCIL**  
**FINANCE and PROPERTY ADVISORY BOARD**

**26 May 2010**

**Report of the Director of Finance**

**Part 1- Public**

**Matters for Recommendation to Cabinet - Non-Key Decision**

**1 TREASURY MANAGEMENT UPDATE**

**This report provides an overview of treasury management activities undertaken during the financial year to-date in the context of the national economy and invites Members to recommend endorsement of the action taken to Cabinet.**

**1.1 Introduction**

- 1.1.1 CIPFA issued the revised Code of Practice for Treasury Management in November 2009, following consultation with Local Authorities during the summer. The revised Code was adopted by the Council on 18 February 2010 and suggests that Members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report, therefore, ensures this Council is embracing Best Practice in accordance with CIPFA's revised Code of Practice.
- 1.1.2 As part of the adoption process I committed to reviewing and re-issuing our Treasury Management Practices (TMPs). I am pleased to advise Members the review will be completed shortly and that the new TMPs will be subject to scrutiny by the Audit Committee on 21 June 2010.
- 1.1.3 Members should be aware that Sector has offered a compliance audit service to their public sector clients at a cost of £2,500. Whilst I believe that our adoption of the revised Code of Practice and updated TMPs has addressed the compliance issues fully, I am conscious that confirmation of our doing so via an independent party may add a comfort factor that might be welcomed. Accordingly I would welcome learning of Members views on this matter.
- 1.1.4 Members might like to know that the Treasury Management Outturn Report for 2009/10 is to be considered by Cabinet on 16 June. Should any questions arise when the report is published, please contact my Exchequer Services Manager John Pickup on extension 6112 in the first instance.

## 1.2 Economic Background

### 1.2.1 The first four months of 2010 saw:

- The first official estimate of UK GDP for 2010 indicating the economy had managed to avoid a 'double-dip' recession and expand at 0.2% during the first quarter;
- Retail sales proving to be volatile after being hit by bad weather and the VAT increase in January and fell by 2.3% in April;
- The recovery continue to fail to create new jobs, despite which unemployment is expected to hold at 8% when the April figures are announced before starting to decline;
- Pay growth remaining weak;
- The UK's trade position begin to improve, helped by the weak pound;
- House prices edging upwards, perhaps more because of a shortage of supply rather than a general increase in prices. A view which seems to be borne out by the continued low volume of mortgage approvals;
- The former Chancellor revise downwards his forecast for public sector borrowing in the Budget;
- The Monetary Policy Committee pause QE and keep official interest rates on hold at 0.5% in May; and
- The CPI and RPI inflation indices reach 3.4% and 4.4% respectively.

1.2.2 The Monetary Policy Committee (MPC) response to all of the above signals was to vote to keep official interest rates on hold at 0.5% in May and to continue to pause its programme of quantitative easing (QE).

## 1.3 Interest Rate Forecast

1.3.1 The Council's Treasury Advisor, Sector, provides the following forecast:

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank rate	0.50%	0.50%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.25%	3.75%	4.25%	4.50%
5yr PWLB rate	3.10%	3.15%	3.20%	3.40%	3.65%	4.00%	4.30%	4.50%	4.65%	4.75%	4.80%	4.85%
10yr PWLB rate	4.35%	4.45%	4.50%	4.60%	4.70%	4.75%	4.90%	4.95%	5.10%	5.10%	5.15%	5.15%
25yr PWLB rate	4.75%	4.80%	4.85%	4.90%	5.00%	5.05%	5.10%	5.20%	5.30%	5.35%	5.35%	5.35%
50yr PWLB rate	4.75%	4.80%	4.85%	4.90%	5.05%	5.10%	5.15%	5.15%	5.30%	5.30%	5.30%	5.30%

1.3.2 The forecast is based upon the following assumptions:

- Moderate economic recovery and MPC inflation forecast being below target in two years' time;
- The first Bank Rate increase coming in 2011; and reaching 4.5% by March 2013;

- Long term PWLB rates are expected to steadily increase to reach 5.30% by early 2013 due to huge gilt issuance, reversal of QE and investor concerns over inflation;
- The balance of risks is weighted to the downside; and
- There is still some risk of a “double dip” recession.

1.3.3 There is considerable uncertainty in all forecasts due to the difficulties of forecasting the timing and amounts of QE reversal, the fiscal effect of a general election, speed of recovery of banks profitability and balance sheet position, changes in the consumer saving ratio and the rebalancing of the UK economy in terms of export and import.

## 1.4 Treasury Management Strategy Statement

1.4.1 The Treasury Management Strategy Statement (TMSS) for 2010/11 was approved by Council on 18 February 2010. The Council’s Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council’s investment priorities as follows:

- Security of Capital
- Liquidity

1.4.2 The Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and to only invest with highly credit rated financial institutions, using Sector’s suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector.

1.4.3 A full list of investments held as at 7 May 2010, a copy of the most recent counterparty lists and the Sector monthly report on internally managed investments, are shown in **[Annexes 1 to 3]** of this report.

1.4.4 As illustrated in the economic background section above, investment rates available in the market are at an historical low point. The average level of cash flow funds available for investment purposes in April 2010 was £7.0m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The authority holds £21.5m of core cash balances for investment purposes, of which £16.5m is managed by our external fund manager. These funds are for the most part available to invest for more than one year, albeit that around £3m will need to be recalled during 2010/11 to fund the capital programme.

Performance for the month of April together with current balance and interest earned is set out in the table below:	Funds invested at 30 Apr 10 £m	Average maturity years	Gross return %	7 Day Libid Benchmark %	Interest earned £
<b>In-house cash flow – excl of Landsbanki</b>	8.24	0.01	0.74	0.48	4,250
<b>In-house core funds</b>	5.00	1.14	6.65	0.48	27,350
<b>Externally managed core funds</b>	16.58	0.73	0.77	0.48	10,550
<b>Total</b>	29.82	0.60	1.80	0.48	42,150

1.4.5 As illustrated, the authority outperformed the benchmark by 132 basis points (bp).

1.4.6 One of the key contributions to the 132bp level of out-performance came from the two internally managed core investments with Barclays and Nationwide. Attention is drawn to the fact that the time to maturity exceeds the 6 month duration rating suggested by Sector and, therefore, applicable in respect of new investments undertaken in accordance with the Treasury Management Strategy for 2010/11.

1.4.7 The Treasury management team continue to monitor these investments closely and consider that the implicit support of HMG for those counterparties provides sufficient comfort to not call for premature repayment.

## 1.5 Borrowing

1.5.1 It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits” by way of the Prudential Indicators (affordability limits) set out in the approved TMSS. In this regard it is confirmed that no borrowing was undertaken in April 2010.

## 1.6 Legal Implications

1.6.1 The contract with Landsbanki remains in default and action is now being taken by Bevan and Brittan, our legal advisors, to confirm local authority depositors’ status as **priority creditors**. It is expected local authorities’ cases will be referred to

court shortly. A number of authorities have been selected by the Winding Up Boards as “Test Cases” in order to allow the full range of issues to be argued before the Icelandic courts. The subsequent judgements will not be automatically binding on other cases. Therefore, to ensure the earliest possible resolution of matters for all authorities, the winding up boards have been invited to refer all authorities’ claims to the court now.

- 1.6.2 As the court processes in Iceland are likely to take around 12 months, it is not expected that any part of the defaulted investment will be repaid during this financial year.

## **1.7 Financial and Value for Money Considerations**

- 1.7.1 Despite the outperformance against the benchmark returns for the month of April fall short of the budgeted investment return of £50,100 by just under £8,000. Members should be aware that a shortfall at this level is likely to persist if, as is now expected, interest rates remain abnormally low for the remainder of the financial year and Barclays exercise their option to seek to repay their high coupon loan in July.
- 1.7.2 A variation to the budget for investment income is, therefore, likely and this will be brought forward to Members for consideration at the revised estimate stage.
- 1.7.3 Budget provision of £2,500 will need to be made if it is decided to proceed with the Sector compliance audit of the treasury management function.

## **1.8 Risk Assessment**

- 1.8.1 The application of best practice, in the form of regular reporting and scrutiny of treasury management activities, as identified by the CIPFA Code is considered to be the most effective way of mitigating the risks associated with treasury management.
- 1.8.2 In respect of the Landsbanki investment participation in the joint action co-ordinated by the Local Government Association is still thought to offer the greatest chance of recovering the defaulted loan and associated interest.
- 1.8.3 At this time the added risk associated with continuing to hold the in-house core investments with Barclays and Nationwide beyond the duration rating suggested by Sector is not thought to outweigh the loss of income that would result from seeking early repayment.

## **1.9 Recommendations**

1.9.1 Members are **RECOMMENDED** to:

- 1) Endorse the action taken by officers in respect of recent treasury management activities; and to
- 2) **RECOMMEND** that Cabinet do likewise.

Background papers:

contact: John Pickup

Correspondence/email with the Local Government Association  
Reporting template provided by Sector Treasury Services.

Sharon Shelton  
Director of Finance

**Annex 2**  
**Scrutiny of Treasury Management Activities**

Investment Summary as at 07 May 2010											
Counterparty	Investment from	Maturity Date	Investment at coupon value £	Coupon Rate of return	% of total investments	Instrument type	Management type	Core/ Cash flow	Externally managed	Internally managed	Cash flow
Alliance & Leicester	07/05/2010	10/05/2010	2,000,000	0.800%		Call	<b>Internally Managed</b>	Cash		2,000,000	2,000,000
<b>Alliance &amp; Leicester Total</b>			<b>2,000,000</b>		6.02%						
Bank of Scotland	07/05/2010	10/05/2010	2,000,000	0.800%		Call	<b>Internally Managed</b>	Cash		2,000,000	2,000,000
<b>Bank of Scotland</b>			<b>2,000,000</b>		6.02%						
Barclays Bank	10/09/2009	10/09/2010	2,000,000	0.720%		CDs	Externally Managed	Core	2,000,000		
Barclays Bank calls 19/7/10 & 17/1/11	17/07/2008	16/07/2011	2,500,000	7.050%		Fixed deposit	<b>Internally Managed</b>	Core		2,500,000	
<b>Barclays Bank Total</b>			<b>4,500,000</b>		13.55%						
BNP Paribas	05/05/2010	05/08/2010	1,700,000	0.530%		CDs	Externally Managed	Core	1,700,000		
<b>BNP Paribas</b>			<b>1,700,000</b>		5.12%						
Blackrock	07/05/2010	10/05/2010	2,133,000			Call - MM	<b>Internally Managed</b>	Cash		2,133,000	2,133,000
<b>Blackrock Total</b>			<b>2,133,000</b>		6.42%						
European Investment Bank	16/02/2009	06/08/2010	700,000	0.430%		Euro Bond	Externally Managed	Core	700,000		
<b>European Investment Bank</b>			<b>700,000</b>		2.11%						
Insight	07/05/2010	10/05/2010	2,500,000	0.490%		Call - MM	<b>Internally Managed</b>	Cash		2,500,000	2,500,000
<b>Insight</b>			<b>2,500,000</b>		7.53%						
Landsbanki Islands	30/07/2008	In default	1,000,000	5.860%		Fixed deposit	<b>Internally Managed</b>	Cash		1,000,000	1,000,000
<b>Landsbanki Islands Total</b>			<b>1,000,000</b>		3.01%						
National Westminster Bank CIBA	07/05/2010	10/05/2010	2,018,000	0.800%		Call	<b>Internally Managed</b>	Cash		2,018,000	2,018,000
<b>National Westminster Bank CIBA</b>			<b>2,018,000</b>		6.08%						
Nationwide BS	30/03/2010	30/12/2010	1,500,000	1.030%		CDs	Externally Managed	Core	1,500,000		
Nationwide BS	28/05/2008	27/05/2011	2,500,000	6.250%		Fixed deposit	<b>Internally Managed</b>	Core		2,500,000	
<b>Nationwide BS Total</b>			<b>4,000,000</b>		12.05%						
National Australian Bank	08/04/2010	08/07/2010	400,000	0.570%		CDs	Externally Managed	Core	400,000		
<b>National Australian Bank Total</b>			<b>400,000</b>		1.20%						
Rabobank	05/05/2010	05/05/2011	1,600,000	1.340%		CDs	Externally Managed	Core	1,600,000		
<b>Rabobank Total</b>			<b>1,600,000</b>		4.82%						
UK Treasury	23/02/2010	17/05/2010	6,100,000	0.470%		Treasury Bond	Externally Managed	Core	6,100,000		
UK Treasury	19/04/2010	10/07/2010	1,000,000	0.480%		Treasury Bond	Externally Managed	Core	1,000,000		
UK Treasury	30/03/2010	27/09/2010	1,500,000	0.480%		Treasury Bond	Externally Managed	Core	1,500,000		
<b>UK Treasury</b>			<b>8,600,000</b>		25.90%						
Investec/Citibank uninvested balance			50,396	0.250%		F Mgr cash bal	Externally Managed	Core	50,396		
<b>Investec/Citibank uninvested balance</b>			<b>50,396</b>		0.15%						
<b>Total invested</b>			<b>33,201,396</b>		<b>100.00%</b>				<b>16,550,396</b>	<b>16,651,000</b>	<b>11,651,000</b>
<b>Number of investments</b>	<b>18</b>	<b>Average investment value</b>	<b>1,845,000</b>								
<b>Number of counter parties</b>	<b>14</b>	<b>Average investment value per counter party</b>	<b>2,372,000</b>								

Treasury Management Report – Lending Lists

Internal Lending List of Tonbridge and Malling Borough Council

Checked against Sector Duration Matrix dated 07/05/10

Counterparty	Government Direct Guarantee or investment in bank	Sovereign Rating Must not be less than AA	Country	L/Term	S/Term	Individual	Support	Obligor limit subject to specific approval by DoF/CA for amounts of over £2m	Duration limit subject to approval by 2 of DOF, CA and CE and Sector duration limit if > overnight.	Sector Duration
Alliance & Leicester - wholly owned sub of Santander - Group limit £5m	Implicit guarantee by HMG plus expected support from parent.	AAA	GBR	AA-	F1+	B	1	£2m	Overnight unless approved as above then max 6 months	R
Bank of Scotland Plc - Group limit with HBOS and Lloyds TSBC of £5m	Now part of Lloyds and covered by the implicit guarantee from HMG	AAA	GBR	AA-	F1+	C	1	£2m	Overnight unless approved as above then max 12 months	B
Barclays Bank plc	Implicit guarantee by HMG	AAA	GBR	AA-	F1+	B	1	£2m	Overnight unless approved as above then max 6 months	R
DMADF - a/c	HMG	HM Govt owned	GBR	Government owned				£10m	Overnight unless approved as above then max 3 months	
HSBC Bank plc	Implicit guarantee by HMG	AAA	GBR	AA	F1+	B	1	£2m	Overnight unless approved as above then max 12 months	O
Lloyds TSB Bank - Group limit with HBOS and BOS of £5m	Implicit guarantee by HMG	AAA	GBR	AA-	F1+	C	1	£2m	Overnight unless approved as above then max 12 months	B
National Westminster Bank (RBS) - Group limit with RBS and Ulster Bank of £10m	Implicit guarantee by HMG	AAA	GBR	AA-	F1+		1	£2m	Overnight unless approved as above then max 12 months	B
Nationwide Building Society	Implicit guarantee by HMG	AAA	GBR	AA-	F1+	B	1	£2m	Overnight unless approved as above then max 6 months	R
The Royal Bank of Scotland plc - Group limit with Nat West and Ulster Bank of £10m	Implicit guarantee by HMG	AAA	GBR	AA-	F1+	D/E	1	£2m	Overnight unless approved as above then max 12 months	B
Santander - Formerly Abbey plc - wholly owned sub of Santander - Group limit with A&L of £5m	Implicit guarantee by HMG plus expected support from parent.	AAA	GBR	AA-	F1+	B	1	£2m	Overnight unless approved as above then max 6 months	R
Svenska Handelsbanken		AAA	SWE	AA-	F1+	B	1	£2m	Overnight unless approved as above then max 12 months	O
UK Government Gilts	HMG	AAA	GBR	Guaranteed by HMG				£2m	1 year	
UK Local Authorities	HMG		GBR	Secured on revenues of authority				£2m	1 year	

Money Market Funds

- Global Treasury Funds	Implicit support of HMG via RBS	AAA	GBR	AAA/MR1+	AAA			£2.5m	Overnight only	
- Insight	Implicit support of HMG via RBS	AAA	GBR	AAA/MR1+	AAA			£2.5m	Overnight only	
- Goldman Sachs	Implicit support of HMG via RBS	AAA	GBR	AAA/MR1+	AAA			£2.5m	Overnight only	
- Blackrock	Implicit support of HMG via RBS	AAA	GBR	AAA/MR1+	AAA			£2.5m	Overnight only	

Approved by Director of Finance -

on 10 May 2010

Sector rating & duration limit	N/C	G	R	O	B	P	
	0 days	3 month	6 months	1 year	1 year	2 years	TMBC

The Sector duration colours have been faithfully represented above. However, the duration adopted by TMBC and recorded in the duration limit column may in some cases be less than that suggested by Sector. The duration of any investment must at no time exceed the Sector duration limit.



## Annex 2

### Scrutiny of Treasury Management Activities

Investec Lending List as at 31 March 2010 updated by IMBC as of 22 April 2010

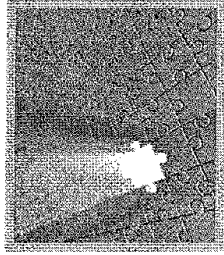
	S&P				Fitch						Credit default swaps					Subjective overlay 1 strong yes, 5 strong no					Fund Range						
	S/T	Watch	L/T	Watch	S/T	Watch	L/T	Watch	Individual	Support	Level	1-week change	1-month change	1-year change	Change YTD	Buy's own paper back	Rare Issuer	Trades well in secondary market	Total	Maturity limit	Dublin Liquidity/ Cash Plus	Regent Strategy	CSF	O/E/C/S	Local Authorities		
<b>Deposits and Certificates of Deposit</b>																											
Abbey National PLC	A-1+		AA		F-1+		AA-		B	1	107.15	1.78	-8.75	-46.46	25.44	5	2	2	9	12m	Y	Y	Y	Y	Y	Y	Y
Banco Santander SA	A-1+		AA		F-1+		AA-		B	1	203.60	-13.35	-40.17	-366.16	-70.18	5	2	2	9	12m	Y	Y	Y	Y	Y	Y	Y
Allied Irish Banks PLC	A-2		A-	-ve	F-1		A-		D/E	1	76.54	-3.34	-15.24	-81.13	2.16	1	5	5	11	O/N	N	N	N	N	N	N	N
ANZ Banking Group Ltd	A-1+		AA		F-1+		AA-		B	1	109.25	0.97	-8.74	-46.68	25.43	5	2	3	10	6m	Y	Y	Y	Y	Y	Y	Y
Banco Bilbao Vizcaya Argentaria SA	A-1+		AA	-ve	F-1+		AA-	+ve	A/B	1	117.41	3.41	-24.26	-278.42	15.82	3	2	4	9	6m	Y	Y	Y	Y	Y	Y	N
Bank of America NT&SA	A-1		A+	-ve	F-1		A-		C/D	1	188.01	-17.35	-42.20	-395.62	-56.80	3	5	5	13	O/N	N	N	N	N	N	N	N
Bank of Ireland	A-2		A-		F-1		A-		C/D	1						5	1	2	8	6m	Y	Y	Y	Y	Y	Y	Y
Bank of Montreal	A-1		A+		F-1+		AA-		B	1						5	1	1	7	12m	Y	Y	Y	Y	Y	Y	N
Bank of New York	A-1+		AA-		F-1+		AA-		A/B	2						5	1	1	7	12m	Y	Y	Y	Y	Y	Y	N
Bank of Nova Scotia	A-1+		AA-		F-1+		AA-		B	1						5	1	1	7	12m	Y	Y	Y	Y	Y	Y	Y
Barclays Bank PLC	A-1+		AA-	-ve	F-1+		AA-		B	1	87.16	-0.45	-14.81	-131.17	1.61	3	3	3	9	12m	Y	Y	Y	Y	Y	Y	Y
BNP Paribas	A-1+		AA	-ve	F-1+		AA	-ve	B	1	70.19	0.16	-9.48	-42.36	9.97	5	1	1	7	12m	Y	Y	Y	Y	Y	Y	Y
JPM Chase Manhattan Bank	A-1		A+	-ve	F-1+		AA-		B	1	59.27	-3.56	-15.80	-140.44	8.95	5	1	1	7	12m	Y	Y	Y	Y	Y	Y	N
Citibank International PLC	A-1		A+	-ve	F-1+		A+		C/D	1	155.58	4.05	-49.51	-498.22	-16.99	3	1	4	8	3m	Y	Y	Y	Y	Y	Y	N
Commonwealth Bank of Australia	A-1+		AA		F-1+		AA		A/B	1	72.31	-6.80	-19.37	-83.38	-0.72	4	1	1	6	12m	Y	Y	Y	Y	Y	Y	Y
Calyon	A-1+		AA-	-ve	F-1+		AA-		C	1	85.21	-1.69	-15.70	-37.40	7.15	5	3	3	11	6m	Y	Y	Y	Y	Y	Y	N
Credit Suisse First Boston	A-1		A+		F-1+		AA-	-ve	B/C	1	74.21	0.98	-6.01	-115.23	12.85	5	1	2	8	6m	Y	Y	Y	Y	Y	Y	N
Danske Bank A/S	A-1		A	-ve	F-1		A+		B/C	1	75.02	-1.12	-5.22	-138.45	0.27	5	1	4	10	3m	Y	Y	Y	Y	Y	Y	N
Den Norske Bank	A-1		A+		F-1		A+		B	1						5	2	3	10	6m	Y	Y	Y	Y	Y	Y	N
Deutsche Bank AG	A-1		A+		F-1+		AA-	-ve	B/C	1	85.89	0.62	-8.67	-46.79	9.76	5	2	2	9	12m	Y	Y	Y	Y	Y	Y	N
Dexia Bank	A-1		A		F-1+		A+		C/D	1						3	5	4	12	3m	Y	Y	Y	Y	Y	Y	N
HSBC Bank plc	A-1+		AA	-ve	F-1+		AA		B	1	66.54	-0.19	-14.84	-90.31	8.58	5	1	1	7	12m	Y	Y	Y	Y	Y	Y	Y
ING Bank NV	A-1		A+		F-1+		A+		C	1	118.64	1.01	-3.05	-222.23	17.38	1	3	3	7	6m	Y	Y	Y	Y	Y	Y	N
KBC Bank NV	A-1		A		F-1		A		D	1	106.98	-4.03	-1.97	-203.02	-28.30	5	3	4	12	O/N	Y	Y	Y	Y	Y	Y	N
Lloyds TSB Bank PLC	A-1		A+		F-1+		AA-		C	1	136.77	-2.15	-16.56	-69.06	9.42	5	4	3	12	6m	Y	Y	Y	Y	Y	Y	Y
National Australia Bank Ltd	A-1+		AA		F-1+		AA		B	1	75.88	-4.13	-16.11	-81.95	1.51	2	2	2	6	12m	Y	Y	Y	Y	Y	Y	Y
Nationwide Building Society	A-1		A+	-ve	F-1+		AA-	-ve	B	1	116.41	1.18	-10.80	-95.49	11.87	3	4	3	10	9m	Y	Y	Y	Y	Y	Y	Y
Nordea Bk Finland	A-1+		AA-		F-1+		AA-		B	1						5	3	3	11	9m	Y	Y	Y	Y	Y	Y	Y
Rabobank Nederland NV	A-1+		AAA	-ve	F-1+		AA+		A	1	69.19	0.21	-12.95	-122.17	-2.86	5	1	1	7	12m	Y	Y	Y	Y	Y	Y	Y
Royal Bank of Canada	A-1+		AA-		F-1+		AA		A/B	1						5	1	1	7	12m	Y	Y	Y	Y	Y	Y	Y
Royal Bank of Scotland PLC	A-1		A+		F-1+		AA-		D/E	1						3	5	5	13	9m	Y	Y	Y	Y	Y	Y	Y
Societe Generale	A-1		A+		F-1+		A+		B/C	1	84.20	-0.07	-14.53	-39.02	7.14	5	2	2	9	6m	Y	Y	Y	Y	Y	Y	N
State Street Bank and Trust Co	A-1		A+	-ve	F-1+		A+		B/C	1						5	1	3	9	3m	Y	Y	Y	Y	Y	Y	N
Svenska Handelsbanken	A-1+		AA-		F-1+		AA-		B	1	62.41	-0.19	-6.60	-80.63	4.94	5	2	2	9	9m	Y	Y	Y	Y	Y	Y	Y
Toronto-Dominion Bank	A-1+		AA-		F-1+		AA-		B	1						5	1	1	7	12m	Y	Y	Y	Y	Y	Y	Y
UBS AG	A-1		A+		F-1+		A+		D	1	86.16	0.75	-16.03	-146.34	4.67	2	5	3	10	9m	Y	Y	Y	Y	Y	Y	N
Westpac Banking Corp	A-1+		AA		F-1+		AA-		B	1	75.63	-3.89	-16.45	-80.07	1.92	5	1	1	7	12m	Y	Y	Y	Y	Y	Y	Y

**SECTOR**

**Tonbridge & Malling Borough Council**

Investment Analysis Review

April 2010



**Tonbridge & Malling Borough Council**

**Monthly Economic Summary**

**General Economy**

As the country sets up to go to the polls on May 6th, the Labour, Conservative and the Liberal Democrat parties, are scrambling to persuade voters that they are committed to curtailing the budget deficit, while securing the economic recovery. The UK is in an uncomfortable fiscal position as it faces a budget deficit of over 12% of its GDP. In April, the Bank of England left the bank rate at the record low of 0.5% and explained it would keep its asset buying programme unchanged at £200 billion, as expected by the market. UK inflation data surprised to the upside in March. The Consumer Prices index accelerated to 3.4% y/y from 3.0% and the Retail Prices index rose to 4.4% y/y from 3.7%. The Gross Domestic Product for the first quarter of 2010 came in below forecast at 0.2%/q, compared with an increase of 0.4% in the previous quarter. The decrease in the growth rate was due to weaker growth in services. Whilst the March claimant count rate fell to 4.8% from 4.9%, the fourth decline in the last five months. The broader ILO measure for February increased to it highest since September 1996. March retail sales rose a smaller than forecast 0.4% m/m and 2.2%/y. Public finances figures showed a smaller than expected rise in FY 2009/10 public borrowing of £152.8bn, £13.2bn below the Treasury forecast. The manufacturing PMI rose to 57.3 last month, from 56.5 in February, and was ahead of analysts' forecasts. It was the best monthly growth figure since October 1994, as the Services' PMI also showed robust growth with a 50+ reading of 58.0 in March. The GfK consumer confidence index fell by 1 point to -16, suggesting that confidence in the recovery is beginning to stall.

**Housing Market**

According to the Nationwide, property values grew by 1%/m in April and 10.5%/y, to an average of £167,802, reaching within 10% of their peak in October 2007. The Halifax house price index rose by 1.1%/m and 5.2%/y in March, resulting in the average price at £168,521.

**Currency**

The Euro endured a tormented trading month, due to the fears of the Greek debt problems. Sterling started the month at \$1.529 and reached a low of \$1.516 before ending the month at \$1.527. Sterling against the Euro ended at €1.156 having started at €1.126. The Euro started the month at \$1.350 against the dollar, before ending the month at \$1.329.

**Forecast**

Sector believes that the Bank rate will remain at 0.5% for the rest of the year and expects the next upward move to be Q1 2011 and eventually reaching 4.50% in Q1 2013. UBS believe that the bank rate will start to increase in Q4 of 2010, reaching 2.25% by the end of 2011. Capital Economics have not changed their forecast and believe that rates will be held at 0.5% for up to five years, if things do not improve.

Bank Rate	May-10	Jun-10	Sep-10	Dec-10	Mar-11
Sector	0.50%	0.50%	0.50%	0.50%	1.00%
UBS	0.50%	0.50%	0.50%	0.75%	1.00%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

## Treasury Management Update – Sector Report for April 2010

## Tonbridge &amp; Malling Borough Council

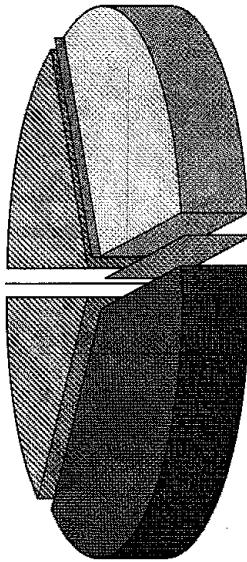
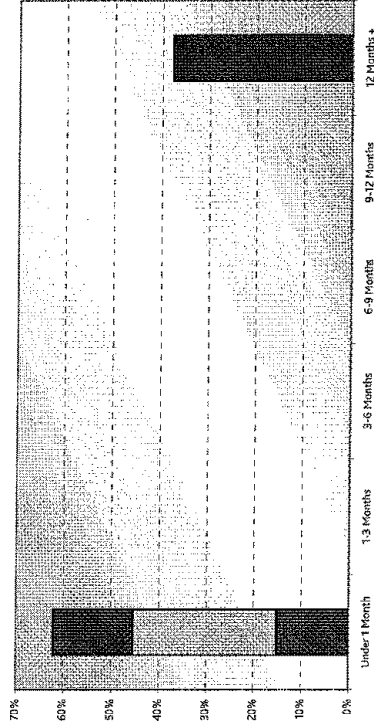
## Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Alliance & Leicester	2,000,000	0.80%		Call
Bank Of Scotland	2,000,000	0.80%		Call
Natwest	2,000,000	0.80%		Call
insight	2,235,000	0.49%		MMF
Nationwide	2,500,000	6.25%	28/05/2008	27/05/2011
Barclays	2,500,000	7.05%	17/07/2008	16/07/2011
Borrower - Icelandic Exposure	Principal (£)	Interest Rate	Start Date	Maturity Date
Landsbanki	1,000,000	5.86%		
Total Investments	£14,235,000	3.16%		
Total Investments - excluding Icelandic exposure	£13,235,000	2.96%		
Total Investments - Icelandic Exposure Only	£1,000,000	5.86%		

April 2010

Tonbridge & Malling Borough Council

Portfolio Decomposition by Sector's Suggested Lending Criteria



- Purple
- Red
- Purple Calls
- Red Calls
- Blue
- Green
- Blue Calls
- Green Calls
- Orange
- No Colour
- Orange Calls
- NC Calls



	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WARat Execution	WAMat Execution	WARoR Excluding Calls/MMFs	WAM Excluding Calls/MMFs
Purple	16.89%	£2,235,000	100.00%	£2,235,000	16.89%	0.49%	0	0	0	0	0
Blue	30.22%	£4,000,000	100.00%	£4,000,000	30.22%	0.80%	0	0	0	0	0
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0	0
Red	52.89%	£7,000,000	28.57%	£2,000,000	15.11%	4.98%	298	781	417	1094	1094
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0	0
<b>100.00%</b>		<b>£13,235,000</b>	<b>62.22%</b>	<b>£8,235,000</b>	<b>62.22%</b>	<b>2.96%</b>	<b>158</b>	<b>413</b>	<b>417</b>	<b>1094</b>	<b>1094</b>

WARoR = Weighted Average Rate of Return  
 WAM = Weighted Average Time to Maturity





