

SECTOR

Sevenoaks District Council

Investment Analysis Review

June 2010



Sevenoaks District Council

Monthly Economic Summary

General Economy

The Chancellor of Exchequer delivered his first Budget, setting out the government's five-year plan to reduce the Budget deficit, rebalance the British economy, and design a new model for economic growth. The coalition Government believes the bulk of debt reduction must come from lower spending, rather than higher taxes, approximately 77% through spending cuts and 23% through higher taxes. Minutes from the MPC meeting earlier this month show that Andrew Sentance voted to increase the base rate by 0.25%, the first time a rate rise has been suggested since August 2008. The remaining members voted to keep rates on hold. Interest rates have now been at the record low of 0.5% since March 2009. The minutes also show that one unnamed MPC member thought now was the right time to begin to withdraw from the Bank's £200bn quantitative easing programme, given the continued above target rate of inflation. CPI inflation fell to 3.4% in May from 3.7% in April, while inflation as measured by the retail prices index rose by 5.1% in May from 5.4% in April. The number of unemployed people was 2.47m over the quarter, an increase of 23,000, which was lower than analysts had expected. The figures for people claiming jobseekers' allowance were also better than expected, falling by 30,900 in May to just under 1.5 million, the fourth consecutive monthly decline. The volume of sales on the high street fell again in June, compared with a year ago, according to the latest CBI Distributive Trades Survey. The resulting balance of -5 is better than had been predicted (-15), and an improvement on May's unexpectedly weak balance of -18. The Office for National Statistics has announced the final estimate of the UK's first quarter GDP figures will be delayed, due to a "potential error".

Housing Market

Prices fell for the second month in a row during May as the property market continued to show signs of slowing down. Halifax said the average cost of a UK home dropped by 0.4% during the month to £167,570, following a 0.1% dip in April. Halifax's report of a drop in prices in May is in contrast to the findings of Nationwide, which said that average house prices rose 0.1% in May following gains of 0.5% and 1.1% in May and April respectively.

Currency

The cable started the month at \$1.465, but after dipping to \$1.437 and after initially muted reaction towards the release of UK budget statement the Pound rocketed, ending June at 1.496. Euro had a poor month losing ground against the Pound ending the month at €1.223 having started the month at €1.198. After a fairly strong start at \$1.219 the euro fell against the dollar as June ended, settling at \$1.223.

Forecast

Sector have chosen not to revise their forecast and 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, eventually reaching 3.75% by March 2013. UBS have revised their forecast for Bank Rate by pushing back the start of increases from Q4 2010 to Q1 2011 and pushing back all subsequent increases by one quarter. Capital Economics believe that rates will be held at 0.5% for up to five years.

Bank Rate	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Sector	0.50%	0.50%	0.75%	1.00%	1.50%
UBS	0.50%	0.50%	0.75%	1.00%	1.50%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

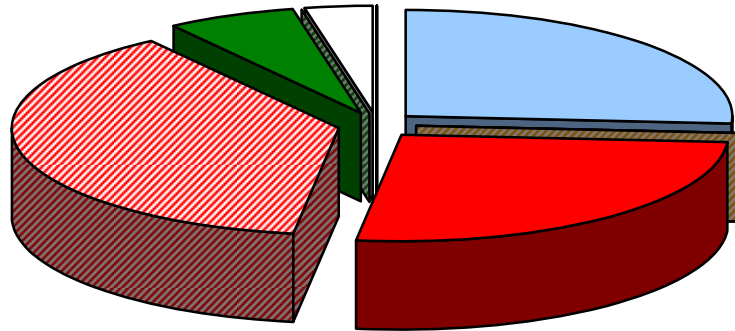
Sevenoaks District Council

Current Investment List

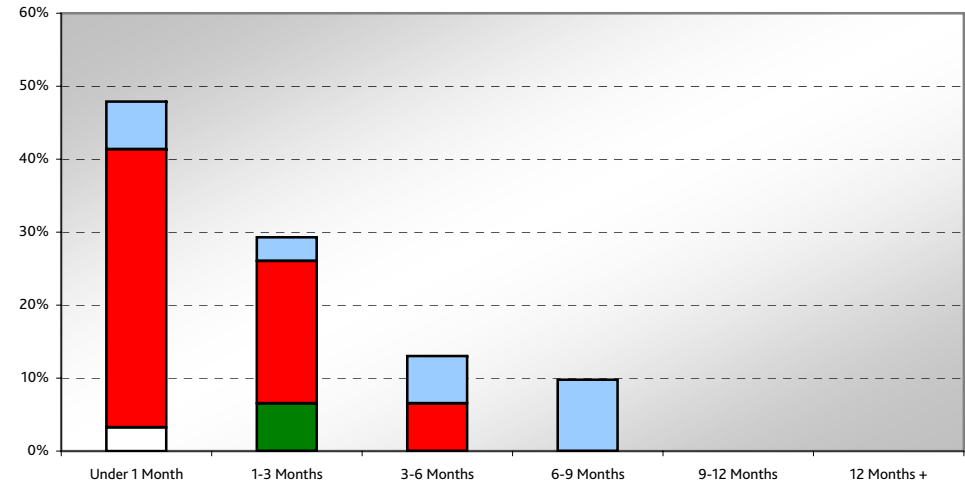
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Santander UK plc	11,700,000	0.80%		call
Skipton Building Society	1,000,000	6.97%	21/07/2008	21/07/2010
Lloyds TSB Bank plc	1,000,000	1.26%	22/01/2010	22/07/2010
Ulster Bank Ltd	1,000,000	0.95%	25/01/2010	26/07/2010
Lloyds TSB Bank plc	1,000,000	1.35%	03/02/2010	03/08/2010
Barclays Bank plc	1,000,000	1.00%	05/01/2010	05/08/2010
Cater Allen Private Bank	2,000,000	0.80%	05/02/2010	05/08/2010
Santander UK plc	1,000,000	1.02%	16/04/2010	16/08/2010
Clydesdale Bank plc	1,000,000	0.60%	26/05/2010	26/08/2010
Cheshire B.S. (Nationwide B.S. from 15/12/08)	1,000,000	6.95%	02/09/2008	02/09/2010
Clydesdale Bank plc	1,000,000	0.60%	15/06/2010	15/09/2010
Barclays Bank plc	1,000,000	1.18%	23/12/2009	23/09/2010
Santander UK plc	1,000,000	1.25%	17/05/2010	17/11/2010
Bank of Scotland plc	1,000,000	1.30%	26/05/2010	26/11/2010
Ulster Bank Ltd	1,000,000	1.07%	03/06/2010	03/12/2010
Nationwide Building Society	1,000,000	0.94%	25/06/2010	29/12/2010
Bank of Scotland plc	1,000,000	1.50%	04/05/2010	04/02/2011
National Westminster Bank plc	2,000,000	2.00%	02/03/2010	21/03/2011
Borrower - Icelandic Exposure	Principal (£)	Interest Rate	Start Date	Maturity Date
Landsbanki Islands hf	1,000,000	6.32%	25/06/2007	25/06/2009
Total Investments	£31,700,000	1.55%		
Total Investments - excluding Icelandic exposure	£30,700,000	1.40%		
Total Investments - Icelandic Exposure Only	£1,000,000	6.32%		

Sevenoaks District Council

Portfolio Decomposition by Sector's Suggested Lending Criteria



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



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

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs	
									WAM	WAM at Execution
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	26.06%	£8,000,000	0.00%	£0	0.00%	1.43%	142	244	142	244
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	64.17%	£19,700,000	59.39%	£11,700,000	38.11%	1.18%	32	105	78	259
Green	6.51%	£2,000,000	0.00%	£0	0.00%	0.60%	67	92	67	92
No Colour	3.26%	£1,000,000	0.00%	£0	0.00%	6.97%	21	730	21	730
Total	100.00%	£30,700,000	38.11%	£11,700,000	38.11%	1.40%	62	161	101	260

