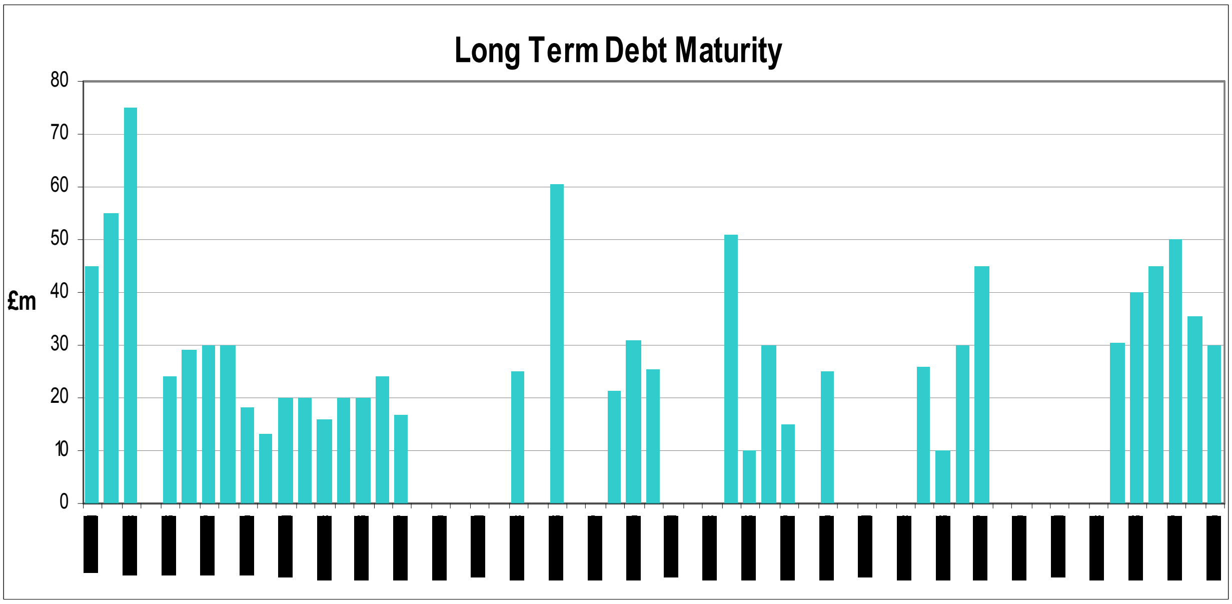
Treasury Management Report for the month of June 2010

1. Long Term Borrowing

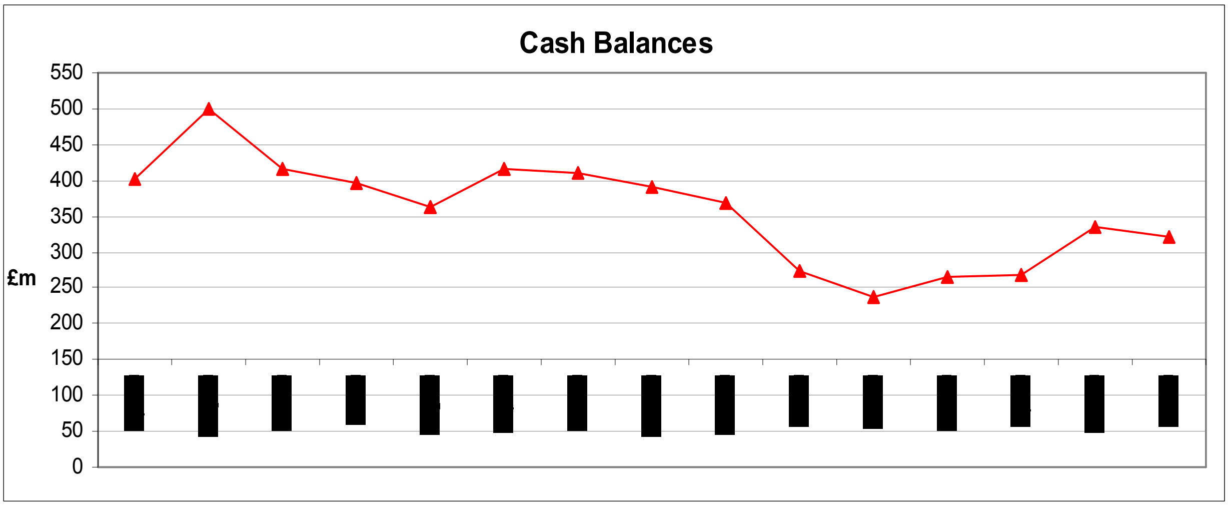
The council's strategy continues to be to fund its capital expenditure from internal resources as well as consider borrowing at advantageous points in interest rate cycles.
During June no new borrowing was arranged so the total amount of debt outstanding at the end of the month is unchanged from May at £1,092.4m with the maturity profile being as follows.



Total external debt managed by KCC includes £48.623m pre-LGR debt managed by KCC on behalf of Medway Council, pre-1990 debt managed on behalf of Further Education Funding Council (£2.6m), Magistrates Courts (£1.4m) and the Probation Service (£0.24m). These bodies make regular payments of principal and interest to KCC to service this debt. Total debt principal to be repaid in 2010-11 is £45.031m, £45m PWLB maturity loan and £0.031m relating to small annuity and equal instalment of principal loans.

2. Investments

During June the total value of cash under management fell to £320m. Significant cash outflows included the investment of £15.6m of Pension fund cash in 2 pooled property funds. The following graph shows the movement in cash balances over the period April 2009 – June 2010.



Total cash balances under internal management by KCC as at 30 June 2010 included principal amounts currently at risk in Icelandic bank deposits (£43.931m), Pensions Fund cash (£23.8m), balances of schools in the corporate scheme (£72.m), other reserves and funds held in trust. The remaining deposit balance represented KCC working capital created by differences in income and expenditure profiles.

2.1 Counterparty List

On 14 June Cabinet approved the recommendation of the Treasury Advisory Group that the maximum duration of deposits be extended from 6 to 12 months. Officers with advice from Arlingclose are presently reviewing opportunities for longer term deposits.

At the end of June, the value of deposits placed with RBS, Barclays and HBOS was £120m of which £105m was in call accounts. Deposits with the DMO totalled £136m at the month end.

2.2 Average return and comparison

The average return on new deposits in June was 0.4753% vs. 7 day LIBID 0.4262%

3. Interest on Cash Balances / Debt Charges for 2010-11

A saving of £1.016m is forecast relating to the write down in 2010-11 of the £4.024m discount saving on the debt restructuring undertaken at the end of 2008-09. (£2.362m was written down in 2008-09 and 2009-10, therefore leaving a further £0.646m to be written down over the period 2011-12 to 2012-13). As planned, this saving will be transferred to the Economic Downturn Reserve.

4 Risk management

Credit Score matrix. The following table compares the credit rating of the current deposits portfolio with that at the end of June 2009 excluding the Icelandic deposits. The credit risk of the June 2010 portfolio is very similar to that for June 2009 reflecting the significant proportion of funds being invested as short fixed term deposits with the DMO, rated AAA.

	June 2009		**June 2010**	
	Credit Rating	**Credit Risk Score**	**Credit Rating**	**Credit Risk Score**
Value Weighted Average	**AA+**	**1.9**	**AA**	**2.8**
Time Weighted Average	**AA-**	**4.2**	**AA-**	**4.4**

Credit risk scored 1 – 10; 1 = strongest rating lowest risk, i.e. AAA, through to 15 = lowest credit rating, highest risk, i.e. D

Operational Controls - no failures

Alison Mings
16 July 2010