

POLICY & RESOURCES CABINET BOARD

8th OCTOBER 2009

DIRECTORATE OF FINANCE & CORPORATE SERVICES

**REPORT OF THE HEAD OF FINANCIAL SERVICES
– HYWEL JENKINS**

INDEX OF REPORT ITEMS

PART 1 - Doc.Code: PRB-081009-REP-FS-HJ

SECTION A– MATTER FOR DECISION		
Report Item	Page Nos	Wards Affected
1. Treasury Management	2-7	All
SECTION B – MATTER FOR INFORMATION		
2. Insurance Renewals 2009/10	8-11	All

PART 1
SECTION A – MATTER FOR DECISION

ITEM 1

TREASURY MANAGEMENT

1. Purpose of Report

This report sets out treasury management action and information since the previous report.

2. Long Term Borrowing

There has been no long term borrowing since the previous report.

3. Rates of Interest

3.1. The Bank Rate:

Effective Date	Bank Rate
10 April 2008	5.00%
08 October 2008	4.50%
06 November 2008	3.50%
04 December 2008	2.00%
08 January 2009	1.50%
05 February 2009	1.00%
05 March 2009 to date	0.50%

3.2 Public Works Loans Board

Examples of Public Works Loan Board new loan fixed interest rates effective on 23rd September 2009:

	Equal Instalments of Principal		Annuity		Maturity	
	Current 23Sep09	Previous 11Aug09	Current 23Sep09	Previous 1Aug09	Current 23Sep09	Previous 11Aug09
	%	%	%	%	%	%
5 to 5.5 years	2.03	2.31	2.06	2.34	3.06	3.24
10 to 10.5 years	3.06	3.24	3.14	3.31	3.99	4.01
15 to 15.5 years	3.66	3.72	3.78	3.82	4.22	4.29
20 to 20.5 years	3.99	4.01	4.09	4.11	4.27	4.39
25 to 25.5 years	4.15	4.18	4.21	4.28	4.32	4.42
35 to 35.5 years	4.25	4.36	4.29	4.41	4.42	4.46
49.5 to 50 years	4.32	4.42	4.39	4.44	4.39	4.40

4. TREASURY MANAGEMENT STRATEGY

4.1 The Council's Treasury Management Strategy, as approved by Members on the 4th March 2009, sets out the Treasury Management limits, borrowing requirement, the borrowing and investment strategies for 2009/10.

Paragraph 3.8.1 of the original report states that the Council will have regard to the Assembly guidance on local government investments and CIPFA's Treasury Management in Public Services Code of Practice proposals in setting its investment strategy. Council approved that the priorities are

- (a) security of capital and
- (b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

4.2 A review has been carried out in conjunction with the Authority's Treasury Management advisors which indicate that our current investment limits especially the £10m maximum with any F1+ approved counterparty is proving extremely difficult in the current market place. As at the 28th September, the Council had £88m placed with twelve counterparties in line with the approved policy. However, it is becoming extremely difficult to place money on the market and obtain reasonable investment returns as many counterparties with a Fitch short-term rating F1+ do not always require local authority funds at the time or for the period that we wish to invest. A risk assessment has been undertaken in relation to the various opportunities in making investment decisions compared to our priorities as mentioned above in paragraph 4.1 i.e. security of capital and investment returns. It is therefore proposed that the Council approves an increase in the counterparty limits as set out below:-

Term deposits UK Banks – increase the maximum limit from £10m to £15m for the clearing banks and/or those Banks and Building Societies that are receiving direct government/Bank of England support. These include the following Banks (the list is not exhaustive):-

Bank/Building Society	Clearing Bank	Bank of England Support
HSBC Limited	Yes	No
Barclays Bank	Yes	No
Lloyds TSB	Yes	Yes
Bank of Scotland (HBOS)	Yes	Yes
Royal Bank of Scotland	Yes	Yes
Northern Rock	No	Yes
Nationwide BS	Yes	Yes

All of the above counterparties are rated F1+.

- 4.3 In addition the Council operates call accounts with its Banker – Alliance and Leicester and also the Clydesdale Bank (F1+) with a maximum investment of £10m each. Members should be aware that Alliance and Leicester (F1+) and Abbey (F1+) are part of the Santander Group with a maximum investment of £10m each. The Council at present obtains an investment return of 0.8% (compared to Bank Base Rate of 0.5%) on its Alliance and Leicester Call Account and would therefore benefit from increasing the limit on all of the call accounts to £15m.
- 4.4 In line with the policy, the Council has now been able to open the Debt Management Agency Deposit Facility Account and has placed some monies recently within this account. However, as mentioned in previous meetings, the actual return currently offered by the Agency is very low at 0.25% for overnight and up to 6 months. Therefore, whilst placing monies within this account is extremely safe, the investment returns are extremely poor. To ensure a reasonable investment return is obtained at reasonable risk levels it is recommended that the above mentioned changes to the investment strategy be approved.
- 4.5 The revised arrangements are shown in Appendix 1.

SPECIFIED INVESTMENTS (Investments up to 1 year):

All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

As a result of the turmoil in global financial banking, and to limit the counterparty risk exposure, the Council has adopted more stringent credit criteria, introduced maximum periods and amounts for certain categories of counterparty.

This revised criteria and limits are reflected below:

Maturities up to a maximum of 1 year

	Minimum 'High' Credit Criteria	Max Amount 4/03/09	Max Duration	New Max Amount
Fixed term deposits with fixed rate and fixed maturity				
Debt Management Agency Deposit Facility	N/A	Unlimited	1 year	Unlimited
Term deposits – local authorities	N/A	£10m	1 year	£10m
Term deposits – UK banks	Fitch short-term rating F1+	£10m	1 year	£15m
Term deposits – non UK banks	Fitch short-term rating F1+	£5m	6 months	£5m
Term deposits – banks	Fitch short-term rating F1	£3m	6 months	£3m
Term deposits - Building Societies	Fitch short-term rating F1	£3m	6 months	£3m
Fixed term deposits with variable rate and variable maturities				
Callable deposits	Fitch short-term rating F1 or F1+	Criteria as above		

Note 1 The above shaded entry refers to the changes to the maximum amount invested per counterparty from that approved by Council in March 2009.

Note 2 If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate

Note 3 All investments are managed in house by finance staff, with treasury advice provided by Sector.

NON-SPECIFIED INVESTMENTS (Investments up to 5 years)

A maximum of £25m will be held in aggregate in non specified investments. The maximum individual limit for each counterparty is £10m for periods up to 5 years. All non-specified investments will be sterling denominated.

Maturities in excess of 1 year

	Minimum Credit Criteria	Max. Investment	Max. Maturity Period
Fixed term deposits with fixed rate and fixed maturity			
Debt Management Agency Deposit Facility	N/A	Unlimited	5 years
Term deposits – local authorities	N/A	£10m	5 years
Term deposits – UK banks	Fitch long-term rating A	£10m	5 years
Term deposits – Non UK banks	Fitch long-term rating A	£3m	5 years
Term deposits – building societies	Fitch long-term rating A	£3m	5 years
Fixed term deposits with variable rate and variable maturities			
Callable deposits	Fitch long-term rating A	Criteria as above	

The Council uses Fitch ratings to derive its counterparty criteria. All credit ratings will be monitored. The Council is alerted to changes in Fitch ratings through its use of its adviser’s creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council’s minimum criteria, its further use as a new investment will be withdrawn immediately.

List of Background Papers

PWLB notice 2009/09

Wards Affected

All

Officer Contact

For further information on this report item, please contact:

Mr. Hywel Jenkins - Head of Financial Services

Tel. No. 01639 763646

E-mail: h.jenkins@npt.gov.uk

Mr. Mark Davies - Chief Accountant (Corporate, Capital & Risk Management)

Tel. No. 01639 763602

E-mail: m.davies4@npt.gov.uk

PART 1
SECTION B – MATTERS FOR INFORMATION

ITEM 2

INSURANCE RENEWALS 2009/10

1. Purpose of Report

The purpose of the report is to inform Members of the Urgency Action taken by the Director of Finance & Corporate Services in relation to the 2009/10 insurance renewal arrangements.

2. Background

- 2.1 It was verbally reported to the Policy & Resources Cabinet Board of the 27th August 2009 that as a result of the Authority's insurers for the material damage insurance package wanting to substantially increase the insurance terms and premiums above the long term agreement conditions, the Director of Finance & Corporate Services had authorised the Council's insurance brokers, Marsh, to carry out an EU compliant procurement exercise for a 5 year insurance package for material damage cover.

3. Premiums 2009/10

- 3.1 Following negotiations with the Authority's existing insurers (except for Royal Sun Alliance in relation to the material damage insurance package), it is pleasing to report that the current insurers are prepared to retain the existing insurance rate premiums as set out in the long term agreement for year 5. Both parties had the option to review the agreement but as a result of the negotiations, our insurance advisors are able to recommend the extension of the contract into year 5.
- 3.2 As a result of carrying out this procurement exercise for material damage cover, the Council has been able to obtain premium quotations from 4 companies with the lowest being AIG UK Ltd at £386,729.22 plus tax. This has been accepted and shows an increase in premium compared to 2008 of 1.4% despite an increase in insurable values of approximately 10%. The tender from our previous insurer was £511,262. In addition, the Council has been able to retain the aggregate stop loss cover at £1m and a deductible per claim of £250,000 for Education and £100,000 for all other properties.

3.3 The total cost of insurance premiums, fees etc for renewal from 1st October 2009 is £980,678 (inclusive of 5% insurance premium tax). Table 1 below summaries the total renewal cost by class of business and includes the 2008/09 figures for comparison:

Table 1

Class of Business	2008/09	2009/10
	£	£
Combined Liabilities	216,450	220,570
Material Damage (Buildings)	351,480	386,729
Engineering/Computer/Hired in Plant	43,938	44,030
Personal Accident/Travel	40,860	43,772
Fidelity Guarantee	26,377	27,775
School Journey	14,179	14,179
Marine	2,077	2,077
Contractors All Risk	21,517	21,517
Uninsured Loss Recovery	2,720	2,856
Professional Indemnity	30,875	33,962
Motor Policy Minimum Deposit	48,280	48,280
Sub Total	798,753	845,747
Insurance Premium Tax (5%)	38,635	40,965
Total Premium (including Tax)	837,388	886,712
Insurance Consultants Fees	19,400	19,982
Claims Handling	70,690	73,984
TOTAL	927,478	980,678

Note 1 As a result of increased property valuations during 2008/09, the comparable premium for the material damage buildings cover would be £381,000 rather than the £351,480 paid last year.

Note 2 The insurance period runs from 1st October to 30th September each year.

3.4 In addition, the Authority also has insurance policies in relation to Leasehold Flats which were renewed in April 2009 and these premiums are recovered from tenants. These premiums are next due for renewal in April 2010.

3.5 A claims handling deposit premium of £73,984 is payable to Gallagher Bassett International for handling liability claims on behalf of the Authority and our liability insurers. The actual claim handling cost is subject to variation based on the actual number of claims received per policy area.

The policy renewal conditions are subject to the following terms with any changes highlighted in bold:

- For employers and public liability insurance, each and every claim is subject to a £100,000 deductible (excess). The Aggregate Stop has remained at £3.1m.
- For Material Damage i.e. building insurance, the self insurance elements amount to £100,000 other than for schools which amounts to £250,000. The Aggregate Stop remains at £1m. **However, this policy is now subject into a new long term agreement for 5 years from October 2009.**
- A terrorism exclusion applies.
- For the Motor Fleet Policy, each and every claim is subject to a £100,000 deductible with an aggregate stop of £300,000.

The Authority will maintain reasonable internal budgets to fund these self insured excesses.

3.6 The net comparable increase in insurance premiums and related costs is 2.4% (after property valuation increases or 5.7% before such increases). A review has been carried out of the overall insurance budget which incorporates premium costs, administration costs, risk management, together with the cost of claims, and as a result it is proposed that the current recharge costs for 2010/11 to services be reduced by £300,000 to £3.9m. This budget reduction is being proposed due to the continuing successes being achieved in reducing costs of claims.

4. Summary

Members should note that under delegated powers the Director of Finance & Corporate Services has approved the renewal of the annual insurance arrangements from 1st October 2009 as detailed below:

- Accept the renewal premium for the combined liability insurance from AIG UK Ltd in the sum of £220,570 before 5% IPT.

- Accept the renewal premium for Engineering/Computer, Personal Accident, Contractor All Risks and Marine from Royal & Sun Alliance in the sum of £111,396 before 5% IPT.
- Accept the new long term (5 year) agreement with AIG UK Ltd for the Material Damage package cover at £386,729.
- Accept the Motor Policy premium for a minimum deposit of £48,280.
- Accept the renewal premiums for miscellaneous insurance cover in the sum of £78,772 before 5% IPT.
- Accept the claims handling quotation of £73,984 and insurance broker's fee in the sum of £19,982.

5. Insurance Arrangements October 2010

Members should note that as the long term agreement for all the policies, other than Material Damage, will end in September 2010, the Council will undertake a further procurement exercise for the remaining policies for operation with effect from 1st October 2010.

List of Background Papers

Insurance Renewal Report 2009/10 by Marsh Insurance Consultants

Wards Affected

All

Officer Contact

For further information on this report item, please contact:

Mr Hywel Jenkins – Head of Financial Services

Tel. No.: 01639 763646

E-mail: h.jenkins@npt.gov.uk

Mr Mark Davies – Chief Accountant (Corporate, Capital & Risk Management)

Tel. No.: 01639 763602

E-mail: m.davies4@npt.gov.uk