

POLICY & RESOURCES CABINET BOARD

13TH FEBRUARY 2014

FINANCE & CORPORATE SERVICES

REPORT OF THE HEAD OF FINANCIAL SERVICES – DAVID REES

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MATTERS FOR INFORMATION

ITEM 1

TREASURY MANAGEMENT MONITORING 2013/14

1. Purpose of Report

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

2. Rates of Interest

Bank base rates continue to be at an all time low of 0.5% (since 5th March 2009) and detailed below are the changes in the bank base rate since April 2008.

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%

The following table provides examples of external borrowing costs as provided by the Public Works Loans Board as at 30th January 2014.

	Equal Instalments of Principal		Annuity		Maturity	
	Previous 18 Dec 13	Current 30 Jan 14	Previous 18 Dec 13	Current 30 Jan 14	Previous 18 Dec 13	Current 30 Jan 14
	%	%	%	%	%	%
5-5.5 years	1.78	1.87	1.79	1.88	2.67	2.70
10-10.5 years	2.67	2.70	2.72	2.75	3.77	3.64
20-20.5 years	3.77	3.64	3.89	3.75	4.29	4.22
35-35.5 years	4.24	4.15	4.31	4.24	4.34	4.29
49.5-50 years	4.34	4.29	4.35	4.30	4.30	4.25

3. General Fund Treasury Management Budget

The following table sets out the treasury management budget for 2013/14 and consists of a gross budget for debt charges i.e. repayment of debt principal and interest, and interest returns on investment income.

The rate of return on investments has reduced considerably in 13/14 due to schemes introduced by Central Government (Funding for Lending, Help to Buy); therefore we have had to reduce our income target for investments by £350k. There is no overall change to the debt charges budget as expenditure has reduced in line with income.

	2013/14 Original Budget £'000	2013/14 Revised Budget £'000
Debt Charges	17,466	17,166
Investment Income		
- Total	(1,250)	(900)
- less allocated to other funds	210	160
- General Fund (net)	(1,040)	(740)
Net General Fund	16,426	16,426

NB: Other funds include Trust Funds, Social Services Funds, Schools Reserves, Bonds etc.

4. Borrowing

Temporary short-term borrowing has been carried out since the last report (see table below). This was entered into due to short-term cash flow requirements. The cost of short term borrowing was less than the loss of interest on investments.

Counterparty	Start Date	Maturity Date	Rate %	Value £'000
London Borough of Ealing	20/12/13	02/01/14	0.52	6,500
Rhondda Cynon Taff CBC	23/01/14	05/02/14	0.30	3,740
London Borough of Hackney	28/01/14	05/02/14	0.45	2,000
Tendring Borough Council	28/01/14	28/02/14	0.34	2,000

5. Investment Income

In line with the Council's Investment Strategy, the 2013/14 Revised Budget for investment income is £900k; treasury management investment income to the end of January totals £711k.

Members should note that the majority of investments are classified as 'specified' i.e. up to 12 months and are currently with the major banks including Barclays, Lloyds Group, Bank Santander, Clydesdale, and RBS. The Council policy will allow investments up to a maximum of £25m for periods of more than 1 year and up to 5 years, and this will be considered when decisions on investing surplus funds are made.

No additional long term investments have been carried out since the last report. The Council currently has £10m invested for periods in excess of 12 months:

Counterparty	Value £'000	Period	Maturity	Rate %
Eastbourne Borough Council	4,000	4.5 Years	June 18	2.2
Peterborough City Council	6,000	5 Years	Dec 18	2.1

Icelandic Bank Update

Members should note the following position in relation to the recovery of monies from investments in Icelandic related banks.

Since the last report to Members, a final settlement has been received from Landsbanki on 3rd February. The total amount received was £2.436m; this amount is reflected in the tables below.

Table 1 – Original Investments

Bank	Original Investment	Amount of Principal Repaid	Current Outstanding Investment
	£'000	£'000	£'000
Glitnir	2,000	2,000	0
Heritable	9,000	8,597	403
KSF	3,000	2,516	484
Landsbanki Islands HF	6,000	5,742	258
	20,000	18,855	1,145

As members are aware some of the proceeds were received in different currencies i.e. Dollars, Euros, Sterling and Icelandic Kroner. As a result of this there has been exchange rate variations, following the Icelandic Court decision, which will impact on the actual cash proceeds physically received.

In addition to the amounts listed above, an additional £50k was received in relation to the Glitnir Bank settlement. This £50k was in respect of interest due on the original investment.

Table 2 – Investments Held in Escrow Accounts – Icelandic Kroner

Bank	Investment (Sterling Equivalent) £'000	Amount Repaid £'000	Outstanding Investment £'000
New Glitnir	387	0	387

Some of the investments matured by the old Glitnir have resulted in cash being held in the form of Icelandic Kroner. In line with Icelandic law, the Kroner is not tradable and can only be spent within Iceland. The Local Government Association is pursuing ways of transferring these investments to realise repayments into Sterling. These new investments with the new bank are held in an Escrow Account in the name of the local authority and generating interest in excess of 4%.

List of Background Papers

Treasury Management Files
PWLB Notice Number 041/14

Appendix

None

Wards Affected

All

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ITEM 2

Municipal Mutual Insurance Limited (MMI)

1. Purpose of the report

This report outlines the recent demand for funds repayable in relation to Municipal Mutual Insurance (MMI).

2. Background

Municipal Mutual Insurance is an insurance company limited by guarantee and not having a share capital, which was established by a group of local authorities and incorporated under the Companies Acts 1862 to 1900 on 13 March 1903.

The Company suffered substantial losses between 1990 and 1992. These losses reduced MMI's net assets to a level below the minimum regulatory solvency requirement. In September 1992, MMI ceased to write new, or to renew, general insurance business.

Neath Port Talbot's predecessor authorities, Neath Borough Council and Port Talbot Borough Council, held insurance through MMI at some time in the past.

Since going into run-off in September 1992 numerous business and corporate disposals have taken place including the right to seek renewal of the larger part of MMI's direct personal and commercial lines insurance business to Zurich Insurance Company along with a number of MMI's assets and many members of its staff

An arrangement was put in place in 1994 to ensure an orderly run off of their liabilities. This included the proviso that a Scheme of Arrangement be set out following the legal procedures include in the Companies Act 1985.

The Scheme of Arrangement ties in all of MMI scheme creditors who have a liability of more than £50,000 which includes 739 organisations. Where an organisation has merged or reorganised, the new organisation retains the responsibility as scheme creditor. Until the Scheme was triggered all claims relating to the old insurance policies were being handled by MMI/Zurich.

3. Scheme of Arrangement Trigger

On 13th November 2012, the directors of the Company triggered the Scheme of Arrangement and the Council was notified in October 2013 that it would be expected to meet an estimated levy cost of £90,983.

The Council's Statement of Accounts 2012/13 identified that a short term provision had been included in the Council's accounts to fund the cost when it fell due. It also identified that a further contingent liability of an estimated £516,000 may fall due if there are further levies made against the scheme creditors. At this stage, there have not been any further levies identified.

The levy payment of £90,983 fell due in January and the short term provision already identified in the Council's balance sheet has been utilised to meet this cost.

Background Papers

MMI Scheme of Arrangement papers

Wards Affected

All

Officer Contact

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