POLICY & RESOURCES CABINET BOARD

23rd SEPTEMBER 2010

FINANCE & CORPORATE SERVICES

REPORT OF THE HEAD OF FINANCIAL SERVICES – H. JENKINS

INDEX OF REPORT ITEMS

PART 1 - Doc.Code: PRB-230910-REP-FS-HJ

ITEM 1

TREASURY MANAGEMENT OUTTURN REPORT 2009/10

1. Introduction and Background

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 was adopted by this Council on 2nd March 2010 and this Council fully complies with its requirements.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a midyear review report (as a minimum) and an annual review report of the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Policy & Resources Scrutiny Committee and Audit Committee.

Treasury management in this context is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2009/10

2. This Annual Treasury Report Covers

- the Council's treasury position as at 31st March 2010
- performance measurement
- the strategy for 2009/10
- the economy and interest rates in 2009/10
- borrowing rates in 2009/10
- the borrowing outturn for 2009/10
- debt rescheduling
- compliance with treasury limits and Prudential Indicators
- investment rates in 2009/10
- investment outturn for 2009/10
- Icelandic bank investments
- Transfer of Council Housing Stock

3. Treasury Position as at 31st March 2010

The Council's debt and investment position at the beginning and the end of the year was as follows:

	31/3/10 Principal £m	Rate/ Return %	31/3/09 Principal £m	Rate/ Return %
Fixed Rate Funding:				
- PWLB	146.5	5.55	155.8	5.50
- Market	62.5	3.93	62.5	3.93
Variable Rate Funding:				
- PWLB	-	-	-	-
- Market	-	-	-	-
Total Debt	**209.0**	**5.06**	**218.3**	**5.08**
Investments:				
- In-house	81.6	1.56	93.2	4.43
- With Managers	-	-	-	-
Total Investments	**81.6**	**1.56**	**93.2**	**4.43**

N.B.

PWLB = Public Works Loans Board which is a body the Government has established to lend money to Local Government.

Market LOBO's = Lender Option Borrower Option – this is borrowing from the market when the lender has offered a long term loan but with options to continue or foreclose on the loan at various specific intervals.

4. Performance Measurement

One of the key changes in the revision of the Code in 1996 was the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide *(as incorporated in the table in section 3).*

5. The Strategy for 2009/10

The strategy for 2009/10 was approved by Policy & Resources Cabinet Board on the 3rd March 2009 and Council on the 4th March 2009.

Interest Rate Forecasts

The Council's Treasury Advisors forecast for new borrowing and investment rates were:

a) The 50 year PWLB rate was forecast to be around 3.90-3.95% for most of 2009/10 and then to rise gradually.

b) The 25 year PWLB rate was forecast to be between 4.0% and 4.10% during 2009/10 and then to rise gradually.

c) The 10 year PWLB rate was expected to drop to 3.20% in Q3 of 2009 and then start to rise in Q1 of 2010.

d) The 5 year PWLB rate was expected to drop to 2.30% in Q3 of 2009 and then start to rise in Q2 of 2010.

The bank rate was expected to drop to 0.50% in March 2009 and then remain at that rate during the whole of 2009/10.

New Borrowing Forecast

The forecast indicated a range of potential borrowing options for 2009/10 with variable rate borrowing expected to be cheaper than long term borrowing. This would potentially allow the Council to spread the debt maturity profile from longer dated debt to shorter dated debt (under 10 years). This borrowing, if undertaken, would be done later in the financial year as rates were expected to be slightly lower at that time.

The main sensitivities of the forecast were:

a) If it became clear that a sharp rise in long and short term rates was likely then fixed rate funding would be considered before any increases took effect.
b) If it became clear that a sharp fall in long and short term rates was likely then long term borrowing would be postponed and potential rescheduling from fixed rate funding into short term funding would be considered.

Investments

After considering the potential economic outlook for 2009/10 it was decided to initially restrict the maximum period of any new investments to 3 months rising to an overall maximum of 1 year at a later date during 2009/10. This meant that the Council would avoid locking into longer term deals whilst investment rates were at historically low levels.

For balances generated through normal cashflow the strategy looked to utilise the business reserve (call accounts) and short dated deposits.

External v Internal Borrowing

Due to the abnormally low bank rate the Council decided to avoid any new external borrowing during 2009/10 and to utilise surplus or maturing funds instead to finance the borrowing requirement for the capital programme and to replace any debt maturing. This strategy had a number of benefits:

a) As long term borrowing rates were expected to be higher than rates on investments savings would be made on debt financing budgets.
b) Running down investment balances reduced the Councils exposure to counterparty and interest rate risk within the investment portfolio.
c) The Council would be less reliant on the money markets, banks and investment institutions during a challenging period.

Debt Rescheduling

The strategy did allow for the use of investment balances to repay debt prematurely providing it was economically worthwhile and it enhanced the maturity profile of the debt portfolio.

6. The Economy and Interest Rates in 2009/10

2008 was a momentous year when one financial institution after another in America either collapsed or was taken over in the wake of the credit crunch, culminating in the catastrophic failure of Lehman's Brothers in September 2008 which then triggered in October the collapse of the Icelandic banks and the near collapse of three major UK banks. These three banks then needed another round of major Government support in January 2009. This prolonged financial shock to the core of the world's financial systems caused a worldwide recession to gather in pace and intensity during 2009/10 which dragged the UK economy down into its deepest and longest recession for many years.

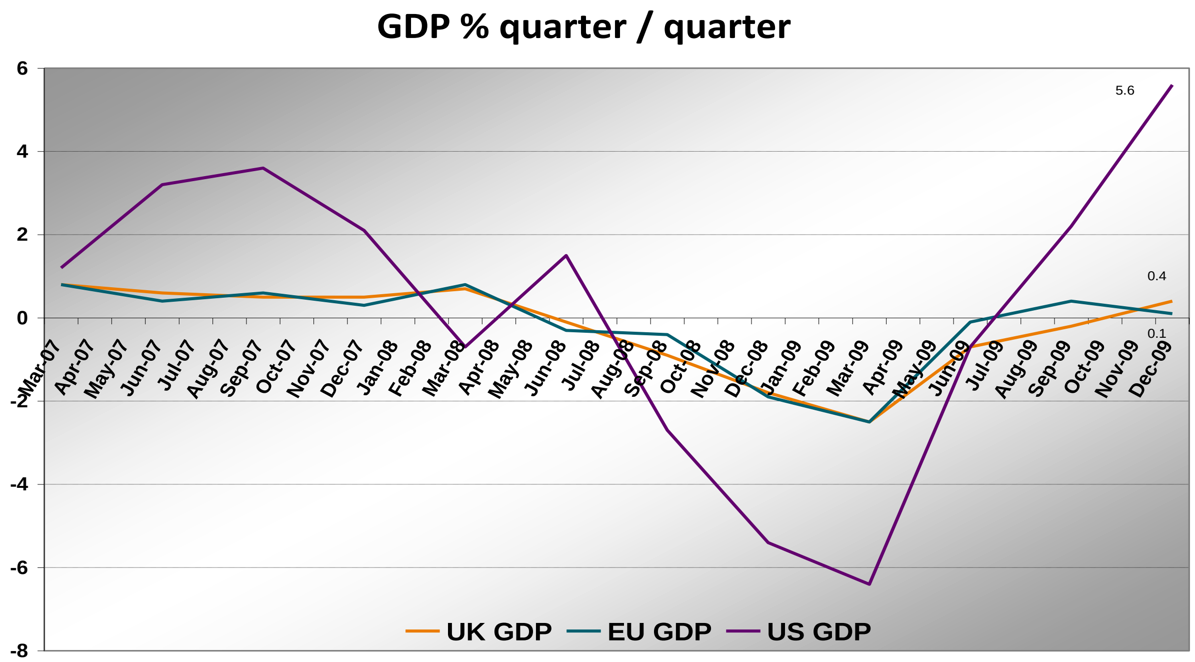
During the Autumn of 2008, the Monetary Policy Committee (MPC) had been preoccupied with the alarming escalation of the rate of inflation propelled by earlier increases in the price of oil, commodities and energy. Inflation peaked in September 2008 on CPI at 5.2%, way over the target rate of 2%. However, the MPC soon had to radically change course as it became ever clearer that inflation would rapidly decline as the credit crunch would plunge world economies into a major recession. An unprecedented cut of 1.5% in Bank Rate in November 2008 was followed by a 1% cut in December 2008 to 2.0% and then further cuts of 0.5% each month until 0.5% was reached in March 2009.

The 2009/10 financial year started with markets still badly disrupted, the real economy suffering from a lack of credit, short to medium term interest rates at record lows and a great deal of anxiety as to how or when recovery would take place.

However, even the slashing of Bank Rate before the beginning of the year was unable to make much impact on the rate at which the economy was falling headlong into recession. Consequently, in March 2009 the MPC resorted to starting a programme of quantitative easing to pump liquidity into the economy in order to stimulate growth, by purchasing gilts and corporate bonds; this had the effect of boosting their prices and therefore reducing yields, so also lowering borrowing costs for both the corporate and public sectors. This programme of quantitative easing was progressively expanded during 2009 until it reached a total of £200bn of purchases in November. For the rest of the financial year, the MPC adopted a cautious approach of leaving further quantitative easing on hold in case growth in the economy needed further support. It was notable that the increase in money supply in the economy generated by this programme brought the credit crunch induced spread between Bank Rate and 3 month LIBID (investment rate that depositors could earn) down from 0.95% at the beginning of the financial year to zero during August 2009. Bank Rate itself remained unchanged at 0.5% all year

The dominant focus in 2009/10 was on quarterly GDP growth figures. As can be seen from the graph below, the recession in the UK bottomed out in quarter 1 of 2009. There was major disappointment that the end of the recession failed to materialise in Q3 2009 and the first figure issued for Q4 2009 was a further huge disappointment at only +0.1%. However, subsequent revisions saw that revised upwards to first +0.3% and then +0.4%.

The movement in GDP figures (economic growth) for the United Kingdom, Europe and the United States is illustrated in the graph below.



Inflation has not been a major concern of the MPC during the year as it fell back below the 2% target level from June to November. However, it did spike upwards to reach 3.5% on the back of the unwinding of the temporary cut in VAT from 15% back up to 17.5% on 1st January 2010. This was not seen as a cause for alarm as this spike would fall out of the inflation index after one year and inflation was forecast by the Bank of England to fall back below target by the end of 2010 and to stay below 2% during 2011 and 2012 due to the large amount of surplus capacity in the economy which would keep wage inflation well damped down.

The financial year ended with markets gradually gaining in confidence and optimism that the economy was indeed on the path to recovery, although it appeared to be fragile, and with some residual risk that there could still be a double-dip recession. This optimism was further enhanced by a return to strong economic growth in the US towards the end of 2009. The year also saw a major resurgence in share prices in the US, UK and Europe from a very depressed level in March 2009 on the back of this rise in optimism.

There were concerns in the US and UK that consumers would be reluctant to spend as they would be focusing on reducing their levels of debt and would struggle to pay mortgages when they end their short term discounted rates at a time when switching mortgages to cheaper rates is still not a readily available option. Consumers were also mindful of the increases in taxation coming up and the threat to jobs from impending public sector reductions in expenditure. The UK needs to see strong growth in the EU, its major trading partner, in order for the UK economy to rebalance its economy towards export led growth. However, the continuing reluctance of EU consumers to spend leaves an uncomfortable question mark in this area.

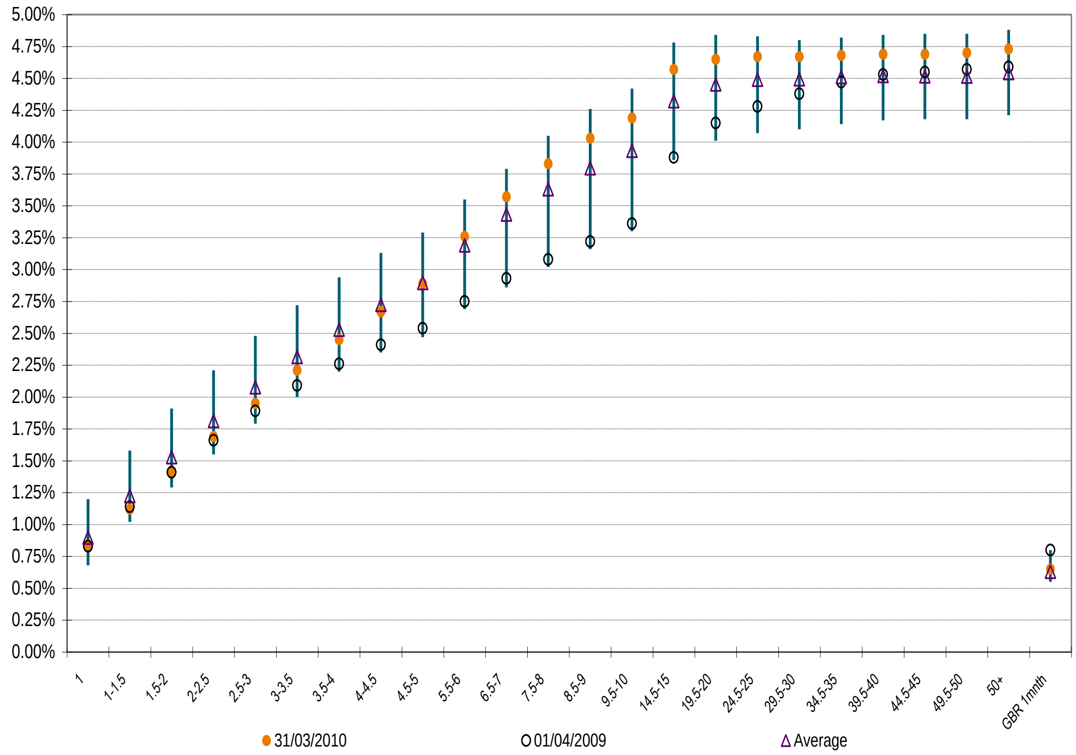
On the positive side, the supply of credit had improved considerably during the year and the credit crunch induced spread between Bank Rate and 3 month LIBID had evaporated. The equity market ended in buoyant mode with shares being at their highest level for nearly two years. The reverse side of this coin though was that gilt prices had fallen and long term yields (and so PWLB long term borrowing rates) were getting near to their peak for the year. The bond markets ended the year with chronic fears about a possible Greek government debt default and commentators were remarking that both Greece and the UK were running similar size annual deficits as a percentage of GDP (expected to be over 12%). However, the UK was in a much stronger position than Greece e.g. due to its much lower level of total debt. However, there were frequent comments from credit rating agencies around a possible threat that the UK government could lose its AAA credit rating if after the general election there was not a credible plan for how the promised reductions in the annual budget deficit would actually be achieved.

7. Borrowing Rates in 2009/10

PWLB borrowing rates: the graph and table below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.

Variations in most PWLB rates this year have been within a fairly limited band compared to previous years with the largest spread being 1.12% in the 10 year in the table below.

PWLB rates 2009/10



5 Year PWLB Rate

This started the year at 2.54% and then fell to a low for the year of 2.47% on the following day before then rising sharply to hit a peak of 3.29% in July. From there it fell till until reaching 2.54% in October and then rose back up to a peak of 3.13% in January. It finished the year at 2.89%.

10 Year PWLB Rate

This started the year at 3.36% and then fell to a low for the year of 3.30% on the following day before then rising sharply and rose to hit a peak of 4.15% in July. From there it fell until reaching 3.55% in October and then rose back up to a peak of 4.42% in February. It finished the year at 4.19%.

25 Year PWLB Rate

This started the year at 4.28% and then peaked in the 4.70s during June – August before falling back to a bottom of 4.07% in October. From there it rose again towards the end of the year to return to the 4.70s and peaked at 4.83% in February. It finished the year at 4.67%.

50 Year PWLB Rate

This started the year at 4.57% and then peaked at 4.85% in June before falling back to a bottom of 4.18% in October. From there it rose again towards the end of the year and peaked at 4.79% in March. It finished the year at 4.70%.

	PWLB BORROWING RATES 2009/10 for 1 to 50 years								
	1	2	3	4	5	10	25	50	1 month variable
1. 4.2009	0.83%	1.41%	1.89%	2.26%	2.54%	3.36%	4.28%	4.57%	0.80%
31.3.2010	0.83%	1.41%	1.95%	2.45%	2.89%	4.19%	4.67%	4.70%	0.65%
HIGH	1.20%	1.91%	2.48%	2.94%	3.29%	4.42%	4.83%	4.85%	0.80%
LOW	0.68%	1.29%	1.79%	2.20%	2.47%	3.30%	4.07%	4.18%	0.55%
spread	0.52%	0.62%	0.69%	0.74%	0.82%	1.12%	0.76%	0.67%	0.25%
average	0.90%	1.53%	2.08%	2.53%	2.90%	3.93%	4.49%	4.51%	0.63%
high date	09/06/2009	12/06/2009	12/06/2009	24/07/2009	28/07/2009	22/02/2010	22/02/2010	02/06/2009	01/04/2009
low date	16/09/2009	09/10/2009	09/10/2009	02/04/2009	02/04/2009	02/04/2009	09/10/2009	09/10/2009	17/07/2009

8. Borrowing Outturn for 2009/10

Treasury Borrowing

No new external borrowing was undertaken during the year. In January 2010, a 2 year fixed loan of £8m matured and a further £1.3m principal was repaid off the Annuity/EIP Loans as they fell due in years. Internal monies was used to fund this repayment.

Debt Performance - As highlighted in Section 3, the average debt portfolio interest rate has moved over the course of the year from 5.08% in 2008/09 to 5.06% in 2009/10**.**

The approach during the year was:

1. To use cash balances to finance new capital expenditure or maturing debt so as to run down cash balances and minimise counterparty risk incurred on investments. This also maximised treasury management budget savings as investments rates were much lower than most new borrowing rates.

2. To borrow at short term variable rates, as they were generally lower than longer term rates and were not expected to rise significantly within the next year or so.

3. Fund borrowing from surplus cash.

9. Debt Rescheduling

Our treasury management advisors, Sector, started 2009-10 with the expectation that longer-term PWLB rates would be on a rising trend during the year and that shorter term rates would be considerably cheaper. However, moving from long term to short term debt would mean taking on a greater risk exposure to having to reborrow longer term in later years at considerably higher rates than most of the long term debt currently in the debt portfolio. Short term savings could be achieved by internally financing new capital expenditure and replacing maturing debt by running down existing cash balances which were only earning minimal rates of interest due to the fact that Bank Rate was kept at 0.5% all year. Running down cash balances also meant reduced counterparty risk on the investment portfolio.

On 1st November 2007 the PWLB imposed two rates for each period, one for new borrowing and a new, significantly lower rate for early repayment of debt. The differential between the two rates ranged from 26bp (basis points) in the shorter dated maturities to over 40bp in the longer ones. They also introduced daily movements of 1bp instead of 5 bps and rates in half year periods throughout the maturity range (previously had been mainly in 5 year bands). These changes effectively restricted the Council from restructuring the portfolio into new PWLB borrowing.

Consequently, no debt rescheduling was undertaken during 2009/10.

10. Compliance With Treasury Limits and Prudential Indicators

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the annual Treasury Strategy Statement. The 2009/10 outturn for the Prudential Indicators is shown in Appendix 1.

As a result of preparing the actual indicators for 2009/10, the opportunity has been taken to update the figures for 2010/11 to 2012/13 including the transfer of the housing stock to NPT Homes.

11. Investment Rates in 2009/10

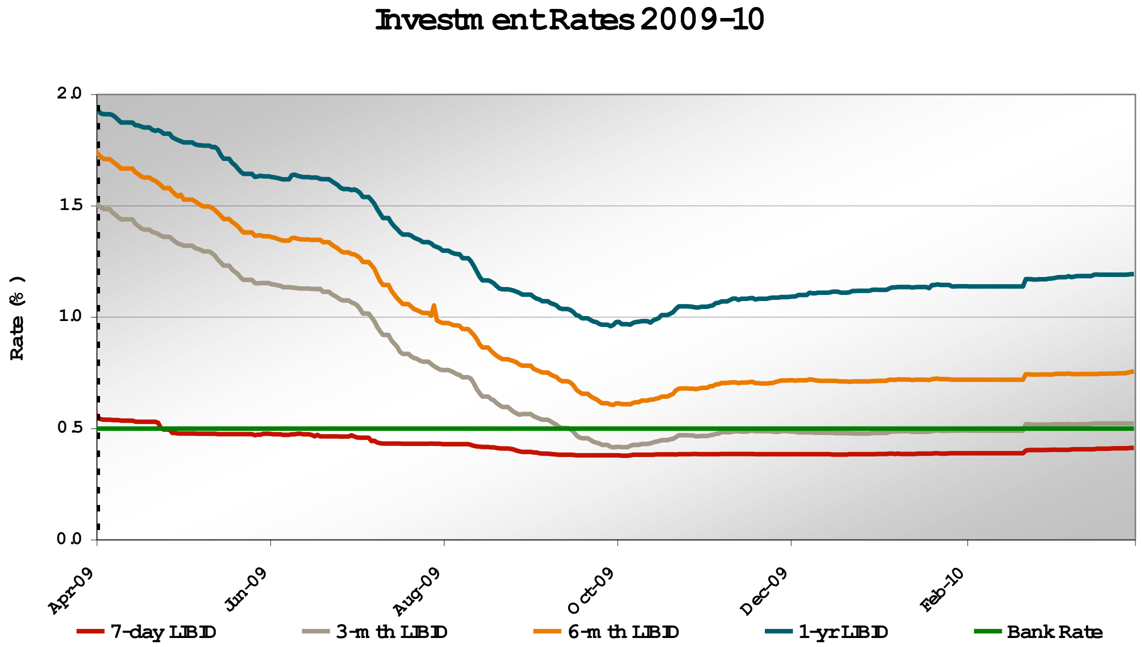
At the start of 2009-10, investment rates were enhanced by a substantial credit crunch induced margin. However, the Bank of England's quantitative easing operations had the desired effect of improving the supply of credit in the economy and so these margins were eliminated by half way through the year. Consequently, investment rates fell markedly during the first half of the year,

Overnight rate: this varied little during the year within a range of 0.38 – 0.49%.

3 month rate: from a high point for the year of 1.50% on 1.4.09, the rate fell gradually to reach a low of 0.42% in September before finishing the year at 0.52%,

12-month rate: this started the year at a credit crunch enhanced rate of 1.85% and fell steadily until reaching 0.85% in September. Since then it has risen to finish the year at 1.15% as the market looked ahead to when the MPC would have to start raising Bank Rate from its then current rate of 0.50%.

	INVESTMENT RATES 2009-10					
	Overnight	7 Day LIBID	1 Month	3 Month	6 Month	1 Year
01-Apr-09	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
31-Mar-10	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
High	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
Low	0.38%	0.38%	0.38%	0.42%	0.61%	0.96%
Average	0.40%	0.42%	0.47%	0.73%	0.94%	1.29%
Spread	0.12%	0.17%	0.51%	1.09%	1.13%	0.97%
high date	01/04/2009	01/04/2009	01/04/2009	01/04/2009	01/04/2009	01/04/2009
low date	09/09/2009	02/10/2009	18/09/2009	29/09/2009	29/09/2009	28/09/2009



12. Investment Outturn for 2009/10

Internally Managed Funds

The Council managed all its investments during 2009/10 in-house with those institutions on the approved lending list. The Councils' investment strategy allowed funds to be invested for a range of periods from overnight to up to 5 years which depended upon the cash flow position, the view taken on interest rates, the interest rates on offer and the durational limits permitted. However, as mentioned in Section 5, no investments in excess of one year were permitted during 2009/10.

During the year all investments were made in full compliance with the Councils treasury management policies and practices.

Investment Strategy

The investment priorities of the Council were:

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

Having achieved the above it was then possible to seek to optimise the return on the investments made whilst at the same time minimising counterparty risk.

The Council did not engage in the borrowing of monies to invest or on-lend as this activity is not permissible.

The investment strategy was based on the belief that the bank rate for 2009/10 would be at an abnormally low rate for the year. Consequently, a key part of the strategy was to utilise surplus or maturing internal funds to finance the Council's capital borrowing requirement in place of new borrowing or to replace any debt maturing during the year which further reduced exposure to counterparty risk and provided savings to debt management budgets as the interest lost on the investments was significantly outweighed by the interest saved on any potential new borrowing.

The investments made in 2009/10 were made over a range of periods from overnight to 365 days.

Investment Performance for 2009/10

The Council achieved the following return on its investments:

Average Investment £'000	**External Interest Earned £'000**	**Rate of Return %**	**Benchmark Return %**
100,384	1,568	1.56	0.725

The Investment returns excluding Icelandic related bank investments would be 1.9%. The benchmark for funds managed in-house is the 3 month LIBID compounded quarterly. This rate reflects a more realistic neutral position for core investments with a medium term horizon and a rate which is more stable with fewer fluctuations cased by market liquidity.

13. Icelandic Bank Investments

During 2009/10, the Council received £4.12m from its investments in Heritable and Kaupthing Singer & Friedlander Banks. Therefore, as at 31st March 2010, this Authority had the following investment(s) frozen in Icelandic banks or their UK subsidiaries:

Bank	**Amount £m**
Glitnir Bank	2.0
Heritable Bank	5.8
Kaupthing Singer & Friedlander	2.1
Landsbanki Islands HF	6.0
TOTAL	**15.9**

All remaining monies within these institutions are currently subject to the respective administrative and receivership processes. The amounts and timing of further repayments to depositers such as the Authority will be determined by the administrators/receivers, and in the cases of Glitnir and Landsbanki, the Icelandic Court System.

The Courts have to decide whether a Local Authority is a preferential creditor or not, and if yes, it is anticipated that nearly all the monies with these two banks will eventually be recoverable.

The Welsh Assembly Government have issued amended regulations to allow Authorities another year (now 2011/12) before charging any estimated impairment losses to its estimates and accounts, by which time it is hoped that the position for each of the banks will have been resolved.

14. Transfer of Council Housing Stock

The Authority received a ‘yes’ vote from its Council Housing tenants in March 2009 regarding the transfer of its housing stock to NPT Homes. The transfer is due to take place sometime in February 2011 and will have an impact on the Authority’s treasury function.

15. Recommendation

It is recommended that Members note the 2009/10 treasury management function performance as set out in this report and approve the updated Performance Indicators for 2010/11 onwards as set out in Appendix 1.

Reason for Proposed Decision
To comply with Treasury Management Code of Practice.

Appendices
Appendix 1- Prudential Indicators
Appendix 2- Central Bank Rate Movements

List of Background Papers
Treasury Management Closing Files 2009/10
Sector Treasury Management Templates

Wards Affected
All

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COMPLIANCE STATEMENT

TREASURY MANAGEMENT OUTTURN REPORT 2009/10

Implementation of Decision

The decision is proposed for implementation after the three day call in period.

Sustainability Appraisal

Community Plan Impacts		
Economic Prosperity	-	No impact
Education & Lifelong Learning	-	No impact
Better Health & Well Being	-	No impact
Environment & Transport	-	No impact
Crime & Disorder	-	No impact
Other Impacts		
Welsh Language	-	No impact
Sustainable Development	-	Positive
Equalities	-	No impact
Social Inclusion	-	No impact

Consultation

There has been no requirement under the Constitution for external consultation on this item.

Appendix 1

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS	2008/09 Actual	2009/10 Revised	2009/10 Actual	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure						
Non - HRA	46,361	33,880	33,983	28,868	32,170	18,776
HRA	7,947	8,634	8,161	8,000	6,200	6,200
TOTAL	**54,308**	**42,514**	**42,144**	**36,868**	**38,370**	**24,976**
Ratio of financing costs to net revenue stream	**%**	**%**	**%**	**%**	**%**	**%**
Non - HRA	6.76	6.62	6.70	6.36	6.83	7.13
HRA	10.47	9.27	9.89	8.44	N/A *	N/A *
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Net borrowing requirement	6,422	3,379	3,567	5,259	10,605	6,472
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirement as at 31st March						
Non – HRA	179,252	183,834	184,849	191,397	201,885	208,087
HRA	36,506	34,876	34,843	33,021	N/A *	N/A *
TOTAL	**215,758**	**218,710**	**219,692**	**224,418**	**201,885**	**208,087**
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**	**£ p**
Increase in council tax (Band D) per annum	24.53	1.43	5.84	-0.39	28.60	19.43
Increase in average housing rent per week (All of the capital expenditure is funded by Grant)	-	-	-	-	-	-

*The Landlord Stock Voluntary Transfer has been taken into account in these figures.

Appendix 1

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS	2008/09 Actual	2009/10 Revised	2009/10 Actual	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Authorised Limit for External Debt:						
Borrowing	262,445	287,401	276,658	293,856	305,632	313,095
Other Long Term Liabilities	-	-	-	-	-	-
TOTAL	**262,445**	**287,401**	**276,658**	**293,856**	**305,632**	**313,095**
Operational Boundary for External Debt:						
Borrowing	242,445	267,401	256,658	273,856	285,632	293,095
Other Long Term Liabilities	-	-	-	-	-	-
TOTAL	**242,445**	**267,401**	**256,658**	**273,856**	**285,632**	**293,095**
Actual External Debt (Gross)	**218,300**	**208,954**	**208,954**	174,131	184,804	191,852
Less Cash Balances	93,200	80,000	81,606	80,000	80,000	80,000
Net Debt	**125,100**	**128,954**	**127,348**	**94,131**	**104,804**	**111,852**
Upper Limit for Fixed Interest Rate Exposure:				**2010/11- 2012/13**		
Net Principal re Fixed Rate Borrowing/Investments	**145,489**	**187,401**	**175,052**	**213,095**		
Upper Limit for Variable Rate Exposure:						
Net Principal re Variable Rate Borrowing/Investments	**72,745**	**93,701**	**87,526**	**106,548**		
Upper Limit for Total Principal Sums Invested for Over 364 Days (per maturity date)	**£25m**	**£25m**	**N/A**	**£25m**	**£25m**	**£25m**

Maturity Structure of Fixed Rate Borrowing During 2009/10	Upper Limit	Lower Limit	2009/10 Actual	2010/11 to 2012/13 Upper Limit	2010/11 to 2012/13 Lower Limit
	%	%	%	%	%
Under 12 months	15	0	1	15	0
12 months to 2 years	15	0	1	25	0
2 to 5 years	40	0	2	40	0
5 to 10 years	60	0	10	60	0
10 years and above	100	15	86	100	15

Appendix 2

CENTRAL BANK RATE MOVEMENTS

	UK	UK	UK	US	EU	UK	US	ECB
	MPC	MPC Minutes	Inflation Report	FOMC	ECB	Bank Rate	Fed. Rate	Refi Rate
2008								
Jan	-	-		22		5.50%	3.50%	4.00%
Jan	9-10	23		29-30	10	5.50%	3.00%	4.00%
Feb	6-7	20	13	21 (mins)	7	5.25%	3.00%	4.00%
Mar	5-6	19		18	6	5.25%	2.25%	4.00%
Apr	9-10	23		29-30	10	5.00%	2.00%	4.00%
May	7-8	21	14		8	5.00%	2.00%	4.00%
Jun	4-5	18		24-25	5	5.00%	2.00%	4.00%
Jul	9-10	23			3	5.00%	2.00%	4.25%
Aug	6-7	20	13	5	7	5.00%	2.00%	4.25%
Sep	3-4	17		16	4	5.00%	2.00%	4.25%
Oct	8-9	22		28-29	2	4.50%	1.50%	3.75%
Nov	5-6	19	12		6	3.00%	1.00%	3.25%
Dec	3-4	17		16	4	2.00%	0-0.25%	2.50%
2009								
Jan	7-8	21		27-28 (7 mins)	15	1.50%	0-0.25%	2.00%
Feb	4-5	18	11		5	1.00%	0-0.25%	2.00%
Mar	4-5	18		17	5	0.50%	0-0.25%	1.50%
Apr	8-9	22		28-29	2	0.50%	0-0.25%	1.25%
May	6-7	20	13		7	0.50%	0-0.25%	1.00%
Jun	3-4	17		23-24	4	0.50%	0-0.25%	1.00%
Jul	8-9	22			2	0.50%	0-0.25%	1.00%
Aug	5-6	19	12	11	6	0.50%	0-0.25%	1.00%
Sep	9-10	23		22	3	0.50%	0-0.25%	1.00%
Oct	7-8	21			8	0.50%	0-0.25%	1.00%
Nov	4-5	18	11	3-4	5	0.50%	0-0.25%	1.00%
Dec	9-10	23		15	3	0.50%	0-0.25%	1.00%
2010								
Jan	6-7	20		27	14	0.50%	0-0.25%	1.00%
Feb	3-4	17	10		4	0.50%	0-0.25%	1.00%
Mar	3-4	17		16	4	0.50%	0-0.25%	1.00%

SECTION B – MATTERS FOR INFORMATION

ITEM 2

INSURANCE ARRANGEMENTS 2010

1. Purpose of Report

The purpose of the report is to advise Members of an urgency action taken to accept the new tender for a long term insurance agreement commencing from 1st October 2010.

2. Background

2.1 The existing long term agreement for insurance expires on 30th September 2010. The Council's insurance brokers, Marsh Limited, have conducted an EU compliant procurement exercise to obtain a new long term agreement for five years from 1st October 2010. This exercise covered the Council's main insurance policies other than material damage (buildings) which was re-tendered onto a long term agreement from October 2009.

3. Premiums 2010/11

3.1 It is pleasing to report that following the tender exercise insurers have submitted tender prices for a five year agreement which is lower than the existing rate premiums. In relation to the property insurance, i.e. material damage policy, our current insurers have retained their premiums at the same rate as 2009 and in line with the long term agreement for that policy. There is a slight increase in the premium payable due to the value of the insurable property.

3.2 The total cost of Insurance premiums, fees etc for renewal from 1st October 2010 is £961,732 (inclusive of 5% insurance premium tax). Table 1 summaries the total renewal cost by class of business and includes the 2009/10 figures for comparison:

Table 1

Class of Business	**2009/10** **£**	**2010/11** **£**
Combined Liabilities	220,570	217,784
Material Damage (Buildings)	386,729	420,697
Engineering/Computer	38,475	37,294
Personal Accident/Travel	43,772	18,215
Fidelity Guarantee	27,775	12,000
School Journey	14,179	14,179
Marine	2,077	3,483
Contractors All Risk/Hired in Plant	27,072	21,317
Uninsured Loss Recovery	2,856	4,172
Professional Indemnity	33,962	37,358
Motor Policy Minimum Deposit	48,280	47,556
Sub Total	845,747	834,055
Insurance Premium Tax	40,965	40,248
Total Premium (including Tax)	886,712	874,303
Insurance Consultants Fees	19,982	20,381
Claims Handling	73,984	67,048
TOTAL	**£980,678**	**£961,732**

N.B.
The insurance period runs from 1st October to 30th September each year.

3.2 In addition, the Authority also has insurance policies in relation to Leasehold Flats which were renewed in April 2010 and these premiums are recovered from tenants. These premiums are next due for renewal in April 2011. However these insurance arrangements will become the responsibility of NPT Homes.

3.3 A claims handling deposit premium of £67,048 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 Combined Liability i.e. Employers and Public Liability insurance, each and every claim is subject to a £100,000 deductible (excess). **The Aggregate Stop has reduced from £3.1m to £2.5m.**

- 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. There is no change to the renewal terms but a provision has been made for additions and deletions of properties and alterations to some property values.**

- A terrorism exclusion applies.

- For the Motor Fleet Policy, each and every claim is subject to a £100,000 deductible**. The Aggregate Stop has increased from £300,000 to £350,000.**

- Following the transfer of assets and staff to NPT Homes, the Council will be seeking a rebate in the premiums paid from the insurers.

- **There are significant financial savings obtained in the Fidelity Guarantee, Personal Accident/Travel and Computer policy premiums without changing the policy conditions.**

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

3.4 The net comparable reduction in insurance premiums and related costs amounts to £18,946 or 1.9%.

Summary of Insurance Renewal Arrangements

Members are asked to note the annual insurance arrangements from 1st October 2010 as detailed below:

- Premium for Liability and Motor Insurance from Chartis Insurance UK Ltd in the sum of £217,784 and £47,556 respectively.

- The renewal premium for Material Damage (Buildings) with Chartis Insurance (UK) Ltd is in the sum of £420,697.

- Premium for Engineering and Marine Insurance from Royal & Sun Alliance in the sum of £35,973.

- Premium for Contractors All Risks/Hired Plant and Computers in the sum of £26,120 from HSB Engineering Insurance Ltd.

- Premiums for Miscellaneous Insurance cover in the sum of £85,925.

- Claims handling quotation of £67,048 and insurance broker's fee in the sum of £20,381.

- The above premiums are before IPT of £40,248.

List of Background Papers
Insurance Renewal Report 2010/11 by Marsh Insurance Consultants.

Wards Affected
All

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ITEM 3

TENDER FOR THE SUPPLY OF CORPORATE, CATERING AND HOSPITALITY CLOTHING

1. Purpose of Report

To inform Members of the award of a framework for the Supply of Corporate, Catering and Hospitality Clothing.

2. Background

The aim of the tender exercise was to create a framework agreement which consists of the following lots:

Lot 1 – Corporate Clothing
Lot 2 – Catering and Hospitality Clothing

The Council sought to appoint one supplier per lot, with the successful supplier(s) supplying a comprehensive range of products within the scope of the lots.

3. Tendering Exercise

An advert inviting expressions of interest was placed on the national procurement website (www.sell2wales.co.uk)

33 expressions of interest were received and upon receipt of this expression interest, a tender document was distributed for completion by the 7th June 2010.

As a consequence, ten submissions were received and these submissions were evaluated using a price and quality scoring matrix. For this process, the Price / Quality ratio was set at 60/40.

4. Successful Tender

The following two tenderers scored the highest in the respective lots in the above assessment and have been appointed to the framework in line with the delegated authority as provided by the Director of Financial and Corporate Services.

Lot 1 – Corporate Clothing
The supply of corporate clothing has been awarded to PK Safety.

Lot 2 – Catering and Hospitality Clothing
The supply of catering and hospitality clothing has been awarded to Nalestar Ltd.

As a result of this tender exercise it is estimated that there will be cashable savings of approximately £7,500 per annum, which is 28% of the authority's annual spend on corporate, catering and hospitality clothing.

5. Recommendation

It is recommended that Members note the Authority have awarded the above framework, commencement date 1st September 2010.

Reasons for Decision
To ensure the Authority complies with the Council's Contract Procedure Rules.

List of Background Papers
Appendix 1 – NPT Tender Reference 926 – Tender Document
Appendix 2 – NPT Tender Reference 926 – Evaluation Scores

Wards Affected
All

Officer Contact

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ITEM 4

TENDER FOR THE SUPPLY OF OFFICE FURNITURE

1. Purpose of Report

To inform Members of the award of a framework for the Supply of Office Furniture.

2. Background

The aim of the tender exercise was to create a framework agreement which consists of the following lots:

Lot 1 – Chairs
Lot 2 – Desking

The Desking lot comprises of the following furniture: Desks, Pedestals, Bookcase, Screens, Filing Cabinets, Cupboards and Tambour Units.

3. Tendering Exercise

Caerphilly CBC undertook the tendering exercise on behalf of the Welsh Purchasing Consortium (WPC).

Eighteen tender submissions were received and evaluated using the e-TenderWales BravoSolution portal. For this process, the Price / Quality ratio was set at 60/40.

4. Successful Tender

Bridgend Office Furniture Ltd scored the highest in both lot one and lot two and have been appointed to the framework in line with the delegated authority as provided by the WPC Officer's Panel.

As a result of this tender exercise it is estimated that there will be cashable savings of approximately £24,000 per annum, which is 14% of the authority's annual spend on office furniture.

5. Recommendation

It is recommended that Members note the Authority have awarded the above framework, commencement date 1st October 2010.

Reasons for Decision
To ensure the Authority complies with the Council's Contract Procedure Rules.

List of Background Papers
Appendix 1 – WPC Tender Reference CCBC/PS225/09/DH – Evaluation Scores

Wards Affected
All

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