

**POLICY & RESOURCES CABINET BOARD**

**26<sup>th</sup> NOVEMBER 2008**

**DIRECTORATE OF FINANCE & CORPORATE SERVICES**

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

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**Part 1 - Doc. Code: PRB-261108-REP-FS-HJ**

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**PART 1**  
**SECTION A – MATTERS 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:**

<b>Effective Date</b>	<b>Bank Rate</b>
5 <sup>th</sup> July 2007	5.75%
6 <sup>th</sup> December 2007	5.50%
7 <sup>th</sup> February 2008	5.25%
10 <sup>th</sup> April 2008	5.00%
8 <sup>th</sup> October 2008	4.50%
6 <sup>th</sup> November 2008 to date	3.00%

The Bank of England reduced the base rate to 3% in November 2008 and further reductions are expected during the next few months.

**3.2 Public Works Loans Board**

Examples of Public Works Loan Board new loan fixed interest rates effective on 18<sup>th</sup> November 2008:

	<b>Maturity</b>	
	<b>Current 18<sup>th</sup> Nov 2008</b>	<b>Previous 3<sup>rd</sup> Oct 2008</b>
	<b>%</b>	<b>%</b>
5 to 5.5 years	3.70	4.33
10 to 10.5 years	4.48	4.61
15 to 15.5 years	4.80	4.73
20 to 20.5 years	4.90	4.71
25 to 25.5 years	4.85	4.63
35 to 35.5 years	4.71	4.57
49.5 to 50 years	4.57	4.50

**4. Treasury Management Investments - Iceland**

Members will be aware of the difficulties affecting global banking markets and in particular the situation relating to Icelandic Banks and their UK subsidiaries which were placed into receivership on 8<sup>th</sup> October 2008.

The authority had a total of £20m invested with 4 of the affected Banks as follows:

<i><b>Icelandic Banks</b></i>	
Glitnir hf	£2m
Landsbanki Islands hf	£6m
<i><b>UK Banks</b></i>	
Heritable Bank	£9m
Kaupthing, Singer and Freidlander	<u>£3m</u>
	<u>£20m</u>

The Local Government Association are co-ordinating Local Authority work for the recovery of monies from the banks and their administrators/receivers. A number of meetings have been held with the administrators of the UK Banks in London and the Icelandic Banks “Resolution Committees”. The Council has lodged creditor claims for £20m plus interest. Announcements are expected in late November/December on the settlement/recovery arrangements.

Bevan Brittan and the Icelandic Law firm Logas have been commissioned to provide legal support to Local Authorities. Member Authorities are being requested to share costs on the basis of the sums they stand to recover. It is too early to estimate the contribution required and further information will be provided to Members at future meetings.

A further verbal update will be given to Members at the meeting as there are LGA meetings due to be held over the next few days.

## **5. Treasury Management Practices – TMP1 Risk Management**

TMP1.5 Credit and Counterparties Policies, details the credit criteria to be adopted when placing investments. Currently, short term investments (up to 364 days) of up to £10m are permitted with any Fitch F1 credit rated institution.

Following the events in the Icelandic banking sector, and to protect future investments, officers acted to revise the policy restricting all short term investments to 3 months and the maximum investment being reduced to £5m with F1+ rated institutions only, whilst a review of the existing policy was undertaken.

### ***Revised Treasury Management Policy***

This review has now been completed and details of the duration, lending counterparty list, ratings and maximum investment limits with these counterparties is below.

- Investments of 364 days are allowed only with UK F1+ institutions. Investments with non UK F1+ and F1 rated institutions are to be limited to 3 months.
- The overall counterparty limit of 20% of the total investment portfolio at the time of investment remains.
- The maximum amount invested with each counterparty will remain at £10m, however during the current financial climate we will operate within lower limits for foreign banks with F1+ rating of £5m and F1 banks/building societies at £3m.

The following lists are examples of financial institutions that the Authority will be investing with, however this list is not exhaustive and will change when credit ratings or other factors influence investment decisions:

**LIST OF F1+**

Country	BORROWER	Long Term Credit Rating	Short Term Credit Rating	Max
Australia	National Australia Bank	AA	F1+	£5m
Ireland	Allied Irish Banks plc	AA-	F1+	£5m
Ireland	Bank of Ireland	AA-	F1+	£5m
Ireland	Ulster bank Ireland Ltd	A+	F1+	£5m
Ireland	First Active plc	A+	F1+	£5m
UK	Bank of Scotland plc	AA	F1+	£10m
UK	Clydesdale Bank	AA-	F1+	£10m
UK	Alliance & Leicester plc	AA-	F1+	£10m
UK	Barclays bank plc	AA	F1+	£10m
UK	HSBC Bank plc	AA	F1+	£10m
UK	Nationwide Building Society	AA-	F1+	£10m
UK	Royal Bank of Scotland	AA-	F1+	£10m
UK	Ulster Bank Ltd	A+	F1+	£10m
UK	Lloyds TSB Bank	AA+	F1+	£10m

**LIST OF F1**

Country	BORROWER	Long Term Credit Rating	Short Term Credit Rating	Max
UK	Yorkshire Building Society	A	F1	£3m
UK	Coventry Building Society	A	F1	£3m
UK	Chelsea Building Society	A	F1	£3m
UK	Skipton Building Society	A	F1	£3m
UK	Britannia Building Society	A	F1	£3m
UK	Co-operative Bank	A	F1	£3m
UK	West Bromwich Building Society	A-	F1	£3m
UK	Principality Building Society	A-	F1	£3m
UK	Butterfield Bank (UK) Limited	A-	F1	£3m
SAUDI	Riyad Bank	A+	F1	£3m

Definitions for rating criteria:

- **Long Term Credit Rating**

**A**

High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings

- **Short Term Credit Rating**

**F1**

Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

## **6. Recommendations**

It is recommended that Members approve:

- the revised Treasury Management Policy;
- Neath Port Talbot Council will contribute towards the shared costs associated with the recovery of funds deposited in the banks referred to in paragraph 3 of this report.

### **Reason for Proposed Decision**

To comply with the Authority's Treasury Management Strategy and to provide the approval to share costs associated with the recovery of monies invested in banks affected by administration/receivership.

### **List of Background Papers**

PWLB Interest Rate Notice 232/08

TMP1.5

### **Wards Affected**

All

### **Officer Contact**

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## COMPLIANCE STATEMENT

### TREASURY MANAGEMENT

#### 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	-	See below*
Equalities	-	No impact
Social Inclusion	-	No impact

\* This will improve the risk management arrangements within the Council.

#### Consultation

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

**PART 1**  
**SECTION B – MATTERS FOR INFORMATION**

**ITEM 2**

**TENDER FOR THE RE-IMPLEMENTATION OF ORACLE VERSION R12**

**1. Purpose of Report**

- 1.1 To inform Members of the award of the contract for the reimplementation of Oracle Version R12 following Policy and Resources Cabinet Board approval of 16<sup>th</sup> October 2008 to invite tenders from six companies.

**2. Background**

- 2.1 The current version of the financial system provided by Oracle is no longer supported and is the subject of much concern to officers and the Wales Audit Office. We are now in a high risk situation with Oracle only dealing with any new data or system errors on a time and materials fee basis.
- 2.2 Progressing to an updated version of the financial system with the opportunity for further development that this introduces will increase the opportunity to improve the Council's management information.
- 2.3 Further to Policy & Resources approval on 16th October 2008, invitations to tender were extended to six companies.

**3. Outcome of Tendering Exercise**

- 3.1 Four tenders were received from the six companies invited. Tenders were evaluated using a cost and quality matrix, considerations included method of implementation, project staff, previous experience and project plan. The tenders ranked as follows:

- 1 – PDG
- 2 – Patech
- 3 – Mokum
- 4 – Atos Origin



#### **4. Financial Implications**

- 4.1 Two tenders for the external cost of reimplementation were lower than the OJEC limit of £139,000.
- 4.2 The indicative cost for internal support required to re-implement the system is £130,000. This will cover a range of costs including a new server, IT kit, overtime and backfilling posts.
- 4.3 The total estimated cost of re-implementation including a contingency sum is £275,000. A year end reserve amounting to £750,000 was established in the 2007/08 accounts. The balance of this funding will be required to support the larger scale project relating to improving the procurement processes and arrangements

#### **5. Conclusion**

- 5.1 Members should note that the contract was awarded by the Authorised Officer, Head of Financial Services - Hywel Jenkins, in accordance with the Contract Procedure Rules for the re-implementation of Oracle Version R12 to PDG.

#### **List of Background Papers**

Procurement tender 765 – Re-implementation of Oracle to Version R12

#### **Wards Affected**

All

#### **Officer Contact**

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