



AGENDA ITEM: 8

NORTH WALES FIRE AND RESCUE AUTHORITY

20 June 2011

TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2010-2011

Report by Ken Finch, Treasurer

Purpose of Report

- 1 The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2010-2011. The report also covers the actual Prudential Indicators for 2010-2011 in accordance with the requirements of the Prudential Code.

TREASURY MANAGEMENT ACTIVITY 2010-2011

Summary of the Strategy Agreed for 2010-2011

- 2 The Authority's Treasury consultants, Sector, predicted that the financial year 2010-2011 would see the base rate rise from 0.5% to 1% with short term rates remaining low for the next couple of years. The recommendation was to take advantage of the cheaper short term debt by switching from longer term fixed rates. The strategy was to take the most appropriate form of borrowing depending on the prevailing interest rates and consider the opportunities available for debt restructuring. A cautious approach should be taken to the investment of surplus funds, the longest investment should not exceed three months and all the information available on counterparties should be analysed before the investment is made.

Economic Background for 2010-2011

- 3 The economic forecast for 2010-11 predicted the base rate rising slightly to 1% and a fall in the PWLB short term borrowing rate. The predictions for the year proved incorrect and the base rate remained at 0.5% and the new Government added a 1% premium to all new PWLB loans. The premium on PWLB loans have made them less competitive and it was possible to find cheaper sources for borrowing than the Bank of England. Concerns over the Banking sector were still prevalent and for Local Authorities investment strategies the main priority was to ensure the security of funds. A large number of Local Authorities continued to invest surplus funds in the Bank of England and other Local Authorities rather than the Banks and Building Societies, sacrificing return for security. The Authority took a cautious approach on investments and only invested short term in British Banking Institutions and Building Societies on the counterparty list. On the borrowing side the Authority took advantage of the low interest rates and borrowed short term with a mixture of fixed and variable rates, as advised by Sector. The Authority also borrowed from other Local Authorities, taking advantage of the low interest rates available. There were no opportunities for re-scheduling during the year.

Borrowing Activity

- 4 Loans are taken out to finance the Fire and Rescue Authority's capital programme. New loans of £3.2m were taken out in 2010-2011 to fund the Capital Programme. However, the Authority borrowed below its' Capital Financing Requirement (CFR) for 2010-2011 by £765,000. In the year £6,914,000 worth of fixed interest PWLB loans matured, these were replaced with some PWLB variable rate loans and some fixed interest rate loans from other Local Authorities so as to take advantage of the low interest rates available.

Investments

- 5 The Authority's investment policy is governed by National Assembly for Wales Guidance, which is implemented in the Treasury Management Strategy approved by the Authority on 15 December 2003. The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.
- 6 All surplus monies were invested on the market by Conwy County Borough Council on behalf of the Fire and Rescue Authority. The average balance of investments for the year was £3,000,000 and the balance of investments on 31 March 2011 was £3,350,000 compared to £4,020,000 on 31 March 2010.
- 7 The balance of the money available for investment has decreased slightly due to the Authority being under borrowed for the year with some of the surplus funds that would have been invested used to under pin the Authority's borrowing position. The budget for investment interest, £50,000, was set when the base rate was 0.5% and predicted to rise to 1%, the actual interest achieved was £34,581.

PRUDENTIAL INDICATORS

- 8 The Authority is required by the Prudential Code to report the actual prudential indicators after the year end. Appendix A provides a schedule of all the mandatory prudential indicators. Certain of these indicators provide either an overview or a limit on treasury activity, and these are shown below:

	2011 Actual	2011 Original Indicator
	£'000	£'000
Borrowing position	19,391	23,252
Capital Financing Requirement	20,156	23,252

- 9 The Capital Financing Requirement (CFR) shows the Authority's underlying need to borrow for a capital purpose, and this is a gauge for the Council's debt position shown above. In order to ensure that over the medium term borrowing net of investments will only be for a capital purpose, borrowing should not, except in the short term, exceed the CFR for 2010-2011 plus the expected changes to the CFR over 2011-2012 and 2012-2013. The table above highlights that the Authority's net borrowing position was below the CFR for 2010-2011 by £765,000.
- 10 The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2010-2011 the Authority has maintained its gross borrowing within its Authorised Limit.
- 11 The Operational Boundary is the expected borrowing position of the Authority during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

	2010/11 £'000
Original Indicator - Authorised Limit	25,252
Original Indicator - Operational Boundary	23,252
Maximum borrowing position during the year	19,391
Minimum borrowing position during the year	15,972

REGULATORY FRAMEWORK, RISK AND PERFORMANCE

- 12 The Authority's treasury management activities are regulated by a variety of professional codes and statutes and guidance:
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the National Assembly for Wales to set limits either on the Authority or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2008-2009);
- Statutory Instrument (SI) 3239 (W319) 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Authority to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the National Assembly for Wales has issued Investment Guidance to structure and regulate the Authority's investment activities.

13 The Authority has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

14 This report was presented to the Audit Committee on 6 June 2011 in order for the contents to be reviewed before submission to the Fire and Rescue Authority. The Audit Committee had no major observations nor could it find any major risks in the report and would recommend it be approved by the Authority.

RECOMMENDATION

15 Members are recommended to approve the actual 2010-2011 Prudential Indicators.

APPENDIX A

		2010/11 Actual	2010/11 Original Indicator
1	Capital Expenditure	6,725,086	7,621,000
2	Capital Financing Requirement	20,156,418	23,252,000
3	Borrowing	19,391,095	23,252,000
4	Investments	3,350,000	2,500,000
5	Authorised Limit	19,391,095	25,252,000
6	Operational Boundary	19,391,095	23,252,000
7	Ratio of Financing Costs to Net Revenue Stream	5.61%	6.48%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	134,502	72,000
9	Fixed Interest rate loans as a % of Total Borrowing	70.67%	55% - 100%
10	Variable rate loans as a % of Total Borrowing	29.33%	0% - 45%
11	Maturity Structure of Fixed Rate Borrowing		
	Under 12 months	46.41%	0% - 50%
	12 months to 2 years	21.59%	0% - 50%
	2 years to 5 years	20.62%	0% - 50%
	5 years to 10 years	0%	0% - 75%
	10 years and above	11.36%	0% - 100%