



## **AGENDA ITEM: 10**

### **NORTH WALES FIRE AND RESCUE AUTHORITY**

**19 October 2009**

#### **TREASURY MANAGEMENT & PRUDENTIAL INDICATORS**

**Report by Ken Finch, Treasurer**

##### **Purpose of Report**

- 1 A requirement of the CIPFA Prudential Code for Capital Finance is that Prudential Indicators are monitored on a regular basis and any significant changes approved by the Fire Authority. Similarly, under the CIPFA Code of Practice on Treasury Management any changes in long term borrowing and changes to the Authority's counterparties need to be reported to the Fire Authority.

##### **Introduction**

- 2 The Prudential Indicators and the Treasury Management Strategy for 2009-2010 were approved by the Fire Authority in March 2009. Since their approval the Prudential Indicators (PI's) estimated for 2009-2010 onwards have changed. Also there has been a new Public Works Loan Board (PWLB) loan and some changes to the list of counterparties.

##### **Prudential Indicators 2009-2010**

- 3 The PI's for 2009-2010 have changed due to slippage in the capital programme for 2008-2009.
- 4 The Capital Financing Requirement is a measure of the long term debt needed to support the Authority's capital programme; the Operational Boundary is a measure of the possible maximum external debt allowing for peaks and troughs in cashflows; and the Authorised Limit is an estimate of the maximum amount the Authority could borrow based on an assessment of operational

requirements and external risks, these three key indicators have all changed for 2009-2010.

- 5 Capital expenditure has increased over the original estimate due to schemes that were not fully completed in 2008-2009 rolling over to 2009-2010. Appendix A lists the indicators reported in March and the revised indicators.

### **New Loans**

- 6 A new PWLB loan was taken out to fund capital expenditure, the loan details are provided below.

Principal £	Rate %	Date of Loan	Period	Lender
1,000,000	0.84	05/05/2009	1 year	PWLB

### **Counterparties and Investments**

- 7 The investment strategy for 2009/10 approved by Members in March included approval of the following criteria for counterparties and in line with Welsh Assembly Guidance on Credit and Counterparty Risk Management (Appendix B) set the limit for Non-Specified investments at £2m which was specifically for investments over 364 days.

- (1) Debt Management Office of the Treasury – limit £5m
- (2) Local Authorities (except rate-capped) – limit £2m
- (3) All UK and Irish banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as:

Short term	F1
Long term	A
Individual/financial Strength	B
Support	3

Limit - £5m

Banks whose ratings fall below those in the table above will be used if wholesale deposits are covered by a government

guarantee, and the deposits fall within the terms of the guarantee.

- (4) Building Societies with a rating (as for the banking sector) all have a lending limit of £2m.
- 8 Since Members approved the Investment Strategy the surplus cash available for investment has increased from under £1m to between £4m and £5.5m due to the receipt of the Pensions Top Up Grant. Current investments are held mainly with UK banks but due to the abnormal market conditions the interest rate for these investments is low and the majority of the larger institutions are only interested in a £5m minimum investment. Given these conditions it has become more difficult to place funds and receive a reasonable interest rate.
- 9 The primary principle governing the Authority's investment criteria is the security of its investments. However, to overcome the current difficulties it is recommended that the investment criteria be expanded to cover building societies without a rating but with assets of £1billion or more to be included as Non-Specified investments and to increase the limit on Non-Specified investments from £2m to £4m. The expanded criteria is in line with the strategy followed by Conwy and will not increase the Authority's risk given the current market conditions. The extended counterparty list is included in Appendix C.

## **Recommendations**

- 10 It is recommended that:
- (i) the amended Prudential Indicators set out in Appendix A be approved;
  - (ii) Members approve the extended criteria for investments and note the counterparties listed in Appendix C;
  - (iii) Members note the new PWLB loan.

**APPENDIX A****PRUDENTIAL INDICATORS**

		<b>2009/10</b> <b>£</b>	<b>2010/11</b> <b>£</b>	<b>2011/12</b> <b>£</b>
1	Capital Expenditure			
	Original Indicator	5,606,000	4,000,000	4,000,000
	New Indicator	6,435,268	6,210,000	4,000,000
2	Capital Financing Requirement			
	Original Indicator	20,522,000	22,829,000	24,934,000
	New indicator	19,921,183	24,537,391	26,648,934
3	Authorised Limit			
	Original Indicator	22,522,000	24,829,000	26,934,000
	New indicator	21,921,000	26,537,000	28,649,000
4	Operational Boundary			
	Original indicator	20,522,000	22,829,000	24,934,000
	New indicator	19,922,000	24,538,000	26,649,000
5	Ratio of Financing Costs to Net Revenue Stream			
	Original Indicator	6.18%	7.73%	8.41%
	New Indicator	5.67%	6.90%	8.05%
6	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities			
	Original Indicator	123,325	691,207	1,202,274
	New Indicator	141,576	826,862	1,477,158

## **APPENDIX B**

### CREDIT AND COUNTERPARTY RISK MANAGEMENT

The National Assembly for Wales issued Investment Guidance in March 2004, and this forms the structure of the Authority's policy below.

The key intention of the Guidance is to maintain the current requirement for Authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Authority to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes". This Council adopted the Code on 15 December 2003 and will apply its principles to all investment activity. In accordance with the Code, the Head of financial Services has produced its treasury management practices. TMP 1(5), covering investment counterparty policy requires approval each year.

#### **1. Annual Investment Strategy - Approved Instruments**

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- (i) The strategy guidelines for decision making on investments, particularly non-specified investments.
- (ii) The principles to be used to determine the maximum periods for which funds can be committed.
- (iii) Specified investments the Authority will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- (iv) Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

- (i) **Strategy Guidelines** – The main strategy guidelines are contained in the body of the treasury strategy statement.
- (ii) **Investment Periods** – The Authority's policy is to lend funds for a maximum of 364 days.
- (iv) **Specified Investments** – These investments are sterling investments of not more than one-year maturity. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with the:

The Treasury Debt Management Office  
Other Local Authorities (except rate capped)  
All UK and Irish Banks and Building Societies with a high credit rating

- (v) **Non-Specified Investments** – Non-specified investments are any other type of investment (i.e. not defined as Specified above). This includes Building Societies with no rating and lending for more than 364 days. The limit for "non-specified" investments had been set at £2m and only includes lending for more than 364 days.

## **Appendix C**

### **INVESTMENT COUNTERPARTIES**

#### **Banks – £5m Limit**

Barclays, HSBC, Lloyds TSB, Royal Bank of Scotland, Abbey, Bank of Scotland, Alliance & Leicester, Bank of Ireland, Allied Irish Bank, Clydesdale, Ulster Bank and Citibank.

#### **Central Government – £5m Limit**

Debt management Office

#### **Local Authorities -£2m Limit**

All except those subject to limitation of council tax and precepts under Part 1 of the Local Government Finance Act 1992 i.e. 'Capped' in the current financial year.

#### **Building Societies (rated )£2m Limit**

Coventry and Nationwide

#### **New**

#### **Building Societies (Assets £1bn) -£2m /9 mths Limit**

Chelsea, Cumberland, Kent Reliance, Leeds, National Counties, Newcastle, Norwich and Peterborough, Nottingham, Principality, Progressive, Skipton, Stroud and Swindon, West Bromwich and Yorkshire.