



Report to	Audit Committee
Report no	AC/2017/07/08
Date	10 July 2017
Lead Officer	Ken Finch - Treasurer
Contact Officer	Sandra Forrest
Subject	Treasury Management Activity and Actual Prudential Indicators for 2016-2017

PURPOSE OF REPORT

- 1 The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2016-2017. The report also covers the actual Prudential Indicators for 2016-2017 in accordance with the requirements of the Prudential Code.

EXECUTIVE SUMMARY

- 2 The Authority's treasury management activities are regulated by a variety of professional codes, statutes and guidance. It is a requirement that a report is presented to Members at the end of the financial year detailing the activity for the year and comparing the indicators set at the start of the year against the actual indicators. The report informs Members of activity with regards borrowings and investments and comments on the economic background for the year.

RECOMMENDATION

- 3 Members are asked to recommend that the Fire and Rescue Authority approves the actual 2016-2017 Prudential Indicators.

BACKGROUND

- 4 The Audit Committee has been tasked with ensuring effective scrutiny of the treasury management strategy and policies and based on its findings make recommendations to the Fire and Rescue Authority.

INFORMATION

TREASURY MANAGEMENT ACTIVITY 2016-2017

Summary of the Strategy Agreed for 2016-2017

- 5 The Authority's Treasury consultants, Arlingclose, predicted that the financial year 2016-2017 would see PWLB rates rise in the longer term and the base rate to increase to 1% by 2017. The recommendation was to delay borrowing activity as long as possible and use reserves and balances to temporarily fund new loan debt. However, if there is a need to borrow any new debt should be for longer than 5 years due to the current maturity profile of the debt portfolio and the need to mitigate the risk of possible interest rate changes. A cautious approach should be taken to the investment of surplus funds with cash deposits in banks or building societies being utilised for cashflow purposes and other vehicles being utilised for any longer-term investments.

Economic Background for 2016-2017

- 6 The economic forecast for 2016-17 predicted the base rate increasing to 1% and the PWLB longer term rates to rise. The predictions for the year proved incorrect for the base rate and for PWLB rates as rates remained at the same level and during the year there was speculation that the base rate could fall below 0.25%. Concerns over the banking sector were still prevalent and for local authorities' investment strategies the main priority was to ensure the security of funds. The Authority took a cautious approach on investments and only invested short term in British Banking Institutions and Building Societies on the counterparty list, with the majority of surplus funds invested in call accounts with Barclays and the Bank of Scotland.

Borrowing Activity

- 7 Loans are taken out to finance the Fire and Rescue Authority's capital programme. One PWLB loan for £1.5m was taken out to replace a maturing loan but overall as EIP loans have matured they have not been replaced leaving the position on PWLB loans £2m lower than the previous year.
- 8 The Authority took advantage of the low interest rates and increased its' short term borrowing position over the year to £14m with all loans being borrowed from other Local Authorities. The increase in the short term borrowing position was discussed with the Audit Committee and it was agreed given the current climate it was a low risk strategy and would save on capital financing costs. The interest rates on temporary borrowing varied between 0.28% and 0.45% with these rates being substantially lower than the rates offered by the PWLB.

- 9 The outstanding loan debt as at 31 March 2017 was £31.6m which includes the £14m temporary borrowing. The Authority borrowed below its' Capital Financing Requirement (CFR) for 2016-2017 by £2m. The actual interest payable was £510,392 compared to the budget of £702,000.

Investments

- 10 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.
- 11 All surplus monies were invested on the market by Conwy County Borough Council on behalf of the Fire and Rescue Authority. The core balance of investments for the year was around £500,000 and the balance of investments on 31 March 2016 was £375,000 compared to £480,000 on 31 March 2016. The average rate achieved on investments was 0.20% and the money was mostly held within instant access call accounts so the Authority's liquidity position was maintained.
- 12 The balance of money available for investment has decreased significantly as surplus funds have been used to finance the capital programme in the short term. The budget for investment interest was £10,000 and the actual interest achieved was £5,960.

PRUDENTIAL INDICATORS

- 13 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:

	2017 Actual	2017 Original Indicator
	£'000	£'000
Borrowing position	31,599	33,573
Capital Financing Requirement	33,662	35,577

- 14 The Capital Financing Requirement (CFR) shows the Authority's underlying need to borrow for a capital purpose, and this is a gauge for the Authority'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 2016-2017 plus the expected changes to the CFR over 2017-2018 and 2018-2019. The table above highlights that the Authority's net borrowing position was below the CFR for 2016-2017 by £2m.
- 15 The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2016-2017 the Authority has maintained its gross borrowing within its Authorised Limit.
- 16 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.

	2016/17 £'000
Original Indicator - Authorised Limit	37,577
Original Indicator - Operational Boundary	35,577
Maximum borrowing position during the year	31,599
Minimum borrowing position during the year	29,425

REGULATORY FRAMEWORK, RISK AND PERFORMANCE

- 17 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 2016-2017);
 - 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.

18 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.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRAs long-term well-being objectives. Ensures that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. Ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually for capital financing in line with the Treasury report.
Legal	The regulatory framework is set out in paragraph 13.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Investment of surplus funds – there is a risk that the financial institution in which the service's funds are invested could fail with a loss of part of the principal invested. However, one of the purposes of the report is to mitigate this risk.

APPENDIX A

		2016/17 Actual	2016/17 Original Indicator
1	Capital Expenditure	£2,942,380	£4,014,000
2	Capital Financing Requirement	£33,661,942	£35,577,000
3	Borrowing	£31,598,556	£33,573,000
4	Investments	£375,000	£1,500,000
5	Authorised Limit	£31,598,556	£37,577,000
6	Operational Boundary	£31,598,556	£35,577,000
7	Ratio of Financing Costs to Net Revenue Stream	9.61%	10.63%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	£14,000	£50,000
9	Fixed Interest rate loans as a % of Total Borrowing	100%	55% - 100%
10	Variable rate loans as a % of Total Borrowing	0%	0% - 35%
11	Maturity Structure of Fixed Rate Borrowing		
	Under 12 months	47.31%	0% - 55%
	12 months to 2 years	0%	0% - 45%
	2 years to 5 years	11.17%	0% - 45%
	5 years to 10 years	31.66%	0% - 75%
	10 years and above	9.85%	0% - 100%