



AGENDA ITEM: 10

NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE

6 June 2016

TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2015-2016

Report by Dawn Docx, Interim Treasurer

Purpose of Report

- 1 The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2015-2016. The report also covers the actual Prudential Indicators for 2015-2016 in accordance with the requirements of the Prudential Code.

Scrutiny Role

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

TREASURY MANAGEMENT ACTIVITY 2015-2016

Summary of the Strategy Agreed for 2015-2016

- 3 The Authority's Treasury consultants, Arlingclose, predicted that the financial year 2015-2016 would see PWLB rates rise in the longer term and the base rate to increase to 0.75% by September 2015. The recommendation was to delay borrowing activity as long as possible and use reserves and balances to temporary 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, 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 2015-2016

- 4 The economic forecast for 2015-16 predicted the base rate increasing to 0.75% and the PWLB longer term rates to rise. The predictions for the year proved incorrect for the base rate and for PWLB rates there were small increases in the longer term rates although these were smaller than was expected. 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.
- 5 On the borrowing side the Authority took advantage of the low interest rates and increased its' short term borrowing position over the year to £10m with all loans being borrowed from other Local Authorities through Conwy County Borough Council.
- 6 New PWLB loans of £6.5m were taken out to replace maturing loans and finance capital expenditure and as advised by the Treasury Consultants the loan periods were for more than 5 years so as to broaden the maturity profile of the portfolio. The additional borrowing was undertaken to fund the capital programme and reserves and balances were also used as temporary funding. There were no opportunities for re-scheduling during the year.

Borrowing Activity

- 7 Loans are taken out to finance the Fire and Rescue Authority's capital programme. New PWLB loans of £6.5m were taken out in the year to replace maturing loans and finance capital expenditure, £1.7m new borrowing and £4.8m to replace existing loans. The outstanding loan debt as at 31 March 2016 was £29.66m, this

included £10m temporary borrowing. The Authority borrowed below its' Capital Financing Requirement (CFR) for 2015-2016 by £4.2m. The Authority continued to use temporary borrowing from other Local Authorities as a means of financing the capital programme and had £10m worth of loans throughout the year. The interest rates on temporary borrowing varied between 0.49% and 0.59% with these rates being substantially lower than the rates offered by the PWLB.

Investments

- 8 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.
- 9 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 £480,000 compared to £2,880,000 on 31 March 2015. The average rate achieved on investments was 0.40% and the money was mostly held within instant access call accounts so the Authority's liquidity position was maintained.
- 10 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 £25,000 and the actual interest achieved was £7,554. The reduction in interest was due to the decrease in the level of investments held.

PRUDENTIAL INDICATORS

- 11 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:

	2016 Actual £'000	2016 Original Indicator £'000
Borrowing position	29,657	37,656
Capital Financing Requirement	33,879	37,656

- 12 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 2015-2016 plus the expected changes to the CFR over 2016-2017 and 2017-2018. The table above highlights that the Authority's net borrowing position was below the CFR for 2015-2016 by £4.2m.
- 13 The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2015-2016 the Authority has maintained its gross borrowing within its Authorised Limit.
- 14 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.

	2015/16 £'000
Original Indicator - Authorised Limit	39,656
Original Indicator - Operational Boundary	37,656
Maximum borrowing position during the year	29,657
Minimum borrowing position during the year	24,707

REGULATORY FRAMEWORK, RISK AND PERFORMANCE

- 15 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 2015-2016);
 - 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.
- 16 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.

RECOMMENDATION

- 17 Members recommend to the Fire and Rescue Authority the approval of the actual 2015-2016 Prudential Indicators.

APPENDIX A

		2015/16 Actual	2015/16 Original Indicator
1	Capital Expenditure	9,967,691	10,438,000
2	Capital Financing Requirement	33,878,555	34,871,000
3	Borrowing	29,657,476	34,871,000
4	Investments	480,000	2,000,000
5	Authorised Limit	29,657,476	39,656,000
6	Operational Boundary	29,657,476	37,656,000
7	Ratio of Financing Costs to Net Revenue Stream	8.85%	8.50%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	124,596	135,000
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	33.72%	0% - 55%
	12 months to 2 years	7.85%	0% - 45%
	2 years to 5 years	9.54%	0% - 45%
	5 years to 10 years	38.98%	0% - 75%
	10 years and above	9.91%	0% - 100%