APPENDIX C

PRUDENTIAL INDICATORS FOR NORTH WALES FIRE AUTHORITY

1. The actual capital expenditure that was incurred in 2005-2006 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

2005/06 £'000 Actual	2006/07 £'000 Outturn	2007/08 £'000 Estimate	2008/09 £'000 Estimate	2009/10 £'000 Estimate
1,150	4,184	5,500	4,000	4,000

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2005-2006 are:

2005/06 Actual	2006/07 Outturn	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
2.61%	3.5%	4.76%	6.19%	7.28%

The estimates of financing costs include current commitments and the proposals in this budget report.

3. Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2006 are:

31/03/06 £'000 Actual	31/03/07 £'000 Outturn	31/03/08 £'000 Estimate	31/03/09 £'000 Estimate	31/03/10 £'000 Estimate
7,694	11,278	15,951	18,785	21,323

4. The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, North Wales Fire Authority does not associate borrowing with particular items or types of expenditure. North Wales Fire Authority has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

5. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years."

The Treasurer reports that the authority had no difficulty meeting this requirement in 2005-2006, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

6. In respect of its external debt, it is recommended that the Fire Authority approves the following authorised limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. These limits separately identify borrowing from other long term liabilities such as finance leases. The Fire Authority is asked to approve these limits and to delegate authority to the Treasurer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Fire Authority at its next meeting following the change.

	Authorised Limit for External Debt			
	2006/07	**2007/08**	**2008/09**	**2009/10**
	£'000	**£'000**	**£'000**	**£'000**
Borrowing	16,190	19,950	22,785	25,323

7. The Treasurer reports that these authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Treasurer confirms that they are based on the estimate of most likely, prudent but not worse case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates

of the capital financing requirement and estimates of cashflow requirements for all purposes.

8. The Fire Authority is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Treasurer's estimate of the most likely, prudent but not worse case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Treasurer. Within the operational boundary, figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Fire Authority at its next meeting following the change.

Operational Boundary for External Debt

	2006/07	**2007/08**	**2008/09**	**2009/10**
	£'000	**£'000**	**£'000**	**£'000**
Borrowing	11,278	17,951	18,785	21,323

9. The Fire Authority's actual external debt at 31 March 2006 was £8,513,428. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the external debt reflects the position at one point in time.

10. In taking its decision on this budget report, the Fire Authority is asked to note that the authorised limit determined for 2007-2008 (see paragraph 6 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

11. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Fire Authority are:

The net increase in the contribution from the Constituent Authorities

2007/08	**2008/09**	**2009/10**
£73,207	£611,200	£1,019,071

12. In considering its programme for capital investment, the Fire Authority is required within the Prudential Code to have regard to:

- affordability, e.g. implications for the contributions from the Constituent Authorities
- prudence and sustainability, e.g. implications for external borrowing
- value for money, e.g. option appraisal
- stewardship of assets, e.g. asset management planning
- service objectives, e.g. strategic planning for the authority
- practicality, e.g. achievability of the forward plan.

13. A key measure of affordability is the incremental impact on the contribution from the Constituent Authorities, and the Fire Authority could consider different options for its capital investment programme in relation to their differential impact on the contributions.

APPENDIX D

North Wales Fire Authority's Treasury Management Strategy and Annual Plan for 2007-2008

1. Introduction

The treasury management service is an important part of the overall financial management of the Authority's affairs. The prudential indicators in Appendix C consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Authority meets balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this strategy which require approval.

North Wales Fire Authority adopted the CIPFA Code of Practice on Treasury Management on 15 December 2003. This is a requirement of the Prudential Code, which has been introduced as part of the Local Government Act 2003. The code provides an overall framework for members and officers to reduce the risks associated with the treasury function. The code requires that a report on the strategy to be followed in the forthcoming year be presented to the Fire Authority. The strategy as set out below complies with the code and is submitted as required.

2. Overview

The strategy details the likely activities of the Treasury Management staff in 2007-2008. Conwy County Borough Council undertakes the treasury function on behalf of the North Wales Fire Authority as part of the service level agreement. Due to the relatively small amounts of surplus cash held by the Fire Authority some investments are invested under the name of Conwy County Borough Council for simplicity and detailed records of the investments are maintained by the Treasury Management staff. Conwy has appointed Butlers as treasury advisors and the strategy is based on their market forecasts as outlined in their various publications.

The strategy report will cover several areas as follows:

(i) The Authority's debt and investment projections;
(ii) The expected movement in interest rates;
(iii) The Authority's borrowing strategy;
(iv) The Authority's investment strategy;

(v) Treasury performance indicators;

(I) **Debt and Investment Projections 2007/08 – 2009/10**

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances.

£m	2006/07 Revised	2007/08 Estimated	2008/09 Estimated	2009/10 Estimated
External Debt				
Debt at 1 April	8.513	11.278	17.951	18.785
Movement in CFR	3.584	4.673	2.834	2.538
Maturing Debt Replacement	0.500	0	0	0
Adjustment for prior years/advance borrowing	-1.319	2.000	-2.000	0
Debt at 31 March	11.278	17.951	18.785	21.323
Annual change in debt	2.765	6.673	0.834	2.538
Investments				
Total Investments at 31 March	4.69	3.69	5.69	3.69
Investment change	-1.0	2.00	-2.00	0

(ii) **Expected Movement in Interest Rates**

Averages %	Base Rate	5-year Gilt	20-yr Gilt	50-yr Gilt
2006/07	4.8	4.9	4.4	4.0
2007/08	5.1	4.9	4.6	4.0
2008/09	4.8	4.5	4.3	3.9
2009/10	4.5	4.5	4.3	3.9

The interest rate outlook for 2006-2007 onwards has been produced by the Authority's treasury management consultants (Butlers). Buoyant economic activity in 2006 and the strength of external cost pressures has led the Monetary Policy Committee to increase interest rates to contain a rise in inflation. Due to the continued risks of a revival in inflation pressures the Bank of England will maintain a cautious policy approach to rates through much of 2007.

(iii) Borrowing Strategy

The growing uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Authority will take a cautious approach to its treasury strategy.

Long-term fixed interest rates are expected to rise modestly and base rates are expected to peak at 5 1/4%. The Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that longer term fixed rates will be considered if borrowing levels remain relatively low. This may include borrowing in advance of future years requirements.

With the likelihood of increasing interest rates debt restructuring is likely to take place later in the financial year or in future years, although the Treasurer will monitor prevailing rates for any opportunities during the year.

(iv) Investment Strategy/Counterparties

All investments will be made as cash deposits to banks, building societies and local authorities. Some loans will be made through one of several broking firms who are used by Conwy and others will be direct with the institution. The majority of investments will be no longer than 364 days and will be made according to the latest market forecasts. However, long term rates present an opportunity to the Authority for good value and security of return it is therefore recommended that the investment term is extended from a maximum of 364 days to 2 years. Under the National Assembly Guidance for Investments any investment that is longer than one-year maturity is a non-specified investment and as such the Authority must set a limit on the amount to be invested. Due to the small amount of investments held by the Authority the limit for non-specified investments is set at £2 million.

As previously approved by the Fire Authority the Authority will lend to the following counterparties:-

Banks £5m limit
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

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.

Building Societies £2m limit
Britannia, Chelsea, Cheshire, Derbyshire, Dunfermline, Leeds and Holbeck, Leek United, Nationwide, Norwich and Peterborough, Portman, Skipton, The Principality, Coventry and Yorkshire.

(v) **Treasury Performance Indicators**

There are three further treasury prudential indicators the purpose of which is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

It is recommended that the Authority sets upper and lower limits for the maturity structure of its fixed rate borrowings as follows:

	Upper Limit	**Lower Limit**
Under 12 Months	30%	0%
12 Months and within 24 Months	30%	0%
24 Months and within 5yrs	50%	0%
5 yrs and within 10 yrs	75%	0%
10 yrs and above	100%	20%

It is recommended that the Authority approve the following limits on Fixed and Variable interest rates.

	% Borrowing
Fixed Interest Rate	55 – 100
Variable Interest Rate	0 – 45