



## **AGENDA ITEM: 11**

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

**16 June 2014**

#### **TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2013-2014**

**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 2013-2014. The report also covers the actual Prudential Indicators for 2013-2014 in accordance with the requirements of the Prudential Code.

##### **Scrutiny Role**

- 2 This report was presented to the Audit Committee on the 2 June 2014 so that it could review the contents before submission to the Fire Authority. The Audit Committee had no major observations or could find any major risks in the report and would recommend it be approved by the Authority.

#### **TREASURY MANAGEMENT ACTIVITY 2013-2014**

##### **Summary of the Strategy Agreed for 2013-2014**

- 3 The Authority's Treasury consultants, Arlingclose, predicted that the financial year 2013-2014 would see PWLB rates rise in the longer term and the bank rate to remain at the current level until 2017. 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 2013-2014**

- 4 The economic forecast for 2013-14 predicted the base rate remaining the same at 0.5% and the PWLB longer term rates to rise. The predictions for the year proved correct 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. 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 maintained its' short term borrowing position over the year at £7m. A new PWLB loan, £3m, was taken out to replace maturing loans and as advised by the Treasury Consultants the loan period was for 5 1/2 years so as to fit in with the maturity profile of the portfolio. Overall the level of PWLB loans decreased during the year as Annuity loans matured they were not replaced and reserves and balances were used to temporary fund new and maturing debt. The Authority maintained a portfolio of short term borrowing, £7m, with all loans being 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**

- 5 Loans are taken out to finance the Fire and Rescue Authority's capital programme. A new PWLB loan of £3m was taken out in 2013-2014 to replace maturing loans. No additional borrowing was made to fund the capital programme as this was funded on a temporary basis from reserves and balances. The Authority borrowed below its' Capital Financing Requirement (CFR) for 2013-2014 by £2.039m. The Authority continued to use temporary borrowing from other Local Authorities as a means of financing the capital programme and had £7m worth of loans throughout the year. The interest rates on temporary borrowing varied between 0.45% and 0.55% with these rates being substantially lower than the rates offered by the PWLB.

## **Investments**

- 6 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.
- 7 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 £2,000,000 and the balance of investments on 31 March 2014 was £1,510,000 compared to £2,210,000 on 31 March 2013. The average rate achieved on investments was 0.55% and the money was mostly held within an instant access call account so the Authority's liquidity position was maintained.
- 8 The balance of money available for investment has reduced slightly as some of the surplus money is being used to finance the capital programme in the short term. The budget for investment interest was £25,000 and the actual interest achieved was £21,165. The reduction in interest was mainly due to the interest rate on the call accounts dropping from 0.75% to 0.55%.

## PRUDENTIAL INDICATORS

- 9 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:

	<b>2014 Actual</b>	<b>2014 Original Indicator</b>
	<b>£'000</b>	<b>£'000</b>
Borrowing position	21,290	30,099
Capital Financing Requirement	23,329	30,099

- 10 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 2013-2014 plus the expected changes to the CFR over 2014-2015 and 2015-2016. The table above highlights that the Authority's net borrowing position was below the CFR for 2013-2014 by £2.039m.
- 11 The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2013-2014 the Authority has maintained its gross borrowing within its Authorised Limit.
- 12 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.

	<b>2013/14 £'000</b>
Original Indicator - Authorised Limit	32,099
Original Indicator - Operational Boundary	30,099
Maximum borrowing position during the year	22,946
Minimum borrowing position during the year	21,289

## **REGULATORY FRAMEWORK, RISK AND PERFORMANCE**

13 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 2013-2014);
- 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.
- 14 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**

- 15 Members are asked to approve the actual 2013-2014 Prudential Indicators.

## APPENDIX A

		<b>2013/14 Actual</b>	<b>2013/14 Original Indicator</b>
1	Capital Expenditure	2,961,545	7,616,000
2	Capital Financing Requirement	23,329,204	30,099,000
3	Borrowing	21,289,934	30,099,000
4	Investments	1,510,000	2,000,000
5	Authorised Limit	22,946,000	32,099,000
6	Operational Boundary	21,289,934	30,099,000
7	Ratio of Financing Costs to Net Revenue Stream	7.69%	8.73%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	44,423	114,000
9	Fixed Interest rate loans as a % of Total Borrowing	100%	55% - 100%
10	Variable rate loans as a % of Total Borrowing	0%	0% - 45%
11	Maturity Structure of Fixed Rate Borrowing		
	Under 12 months	32.88%	0% - 55%
	12 months to 2 years	18.84%	0% - 50%
	2 years to 5 years	9.76%	0% - 50%
	5 years to 10 years	23.49%	0% - 75%
	10 years and above	15.03%	0% - 100%