

APPENDIX C

PRUDENTIAL INDICATORS FOR NORTH WALES FIRE AUTHORITY

1. The actual capital expenditure that was incurred in 2003-2004 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

2003/04	2004/05	2005/06	2006/07	2007/08
£'000	£'000	£'000	£'000	£'000
Actual	Outturn	Estimate	Estimate	Estimate
958	3,432	2,483	2,537	2,934

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2003-2004 are:

2003/04	2004/05	2005/06	2006/07	2007/08
Actual	Outturn	Estimate	Estimate	Estimate
1.88%	1.23%	2.67%	3.50%	4.37%

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 2004 are:

31/03/04	31/03/05	31/03/06	31/03/07	31/03/08
£'000	£'000	£'000	£'000	£'000
Actual	Outturn	Estimate	Estimate	Estimate
3,995	7,232	9,335	11,316	13,475

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. The Authority has adopted the Code of Practice for Treasury Management in the Public Services, thus ensuring that the authority has an integrated treasury management strategy. 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 2003-2004, 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				
	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Borrowing	11,635	13,790	15,271	17,430

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				
	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Borrowing	10,689	11,790	13,271	15,430

9. The Fire Authority's actual external debt at 31 March 2004 was £3,963,428. 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 2005-2006 (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

2005/06	2006/07	2007/08
£60,843	£481,513	£856,370

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.

North Wales Fire Authority's Treasury Management Strategy and Annual Plan for 2005-2006**1. Introduction**

North Wales Fire Authority adopted the CIPFA Code of Practice on Treasury Management (the code) on 15 December 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 2005-2006. 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 amount 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) Current position
- (ii) Borrowing limits in 2005-2006
- (iii) Interest rates in 2005-2006
- (iv) Borrowing Strategy
- (v) Investment strategy/counterparties

(I) Current Position – 30 November 2004

Fixed Rate Borrowing	PWLB	£4,499,428
Variable Rate Borrowing	PWLB	£964,000
Cash/Investments		£3,400,000

PWLB – Public Works Loan Board, now part of the UK Debt Management Office, which provides the bulk of local authority capital funding.

Cash/Investments – Surplus cash is invested by Conwy on the money market for less than one year.

(ii) Borrowing Limits 2005-2006

In accordance with section 3(1) of the Local Government Act 2003 and the Prudential Code it is a requirement that the authority approve and publish three limits to the various types of borrowing that it undertakes. The first limit is the Capital Financing Requirement, this 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. The Authorised Limit is an estimate of the maximum amount the authority could borrow based on an assessment of operational requirements and external risks. The limits for 2005-2006 are as follows:

Capital Financing Requirement	£9,335,000
Operational Boundary	£11,790,000
Authorised Borrowing Limit	£13,790,000

The introduction of the Prudential Code sees the replacement of the s45 limits imposed by the Local Government and Housing Act 1989, with three new prudential indicators relating to interest rate exposure. It is recommended that the Authority approve the following limits:

	% Borrowing
Fixed Interest Rate	55 - 90
Variable Interest Rate	10 - 45

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	90%	20%

(iii) **Interest Rates 2005-2006**

The interest rate outlook for 2005-2006 is produced by the Authority's treasury management consultants (Butlers) and is reproduced below:

Year	End of Period	Base Rate	12 Month Libor	10yr Gilt
2005	March	4.75	5.00	5.30
	June	4.75	4.80	5.20
	September	4.75	4.50	4.90
	December	4.50	4.30	4.70
2006	March	4.50	4.30	4.70

Butlers outlook on the economy and their prediction for interest rates is as follows.

The housing market has finally begun to slow and predictions are that rather than slowing to zero prices could move into modestly-negative territory. The Bank of England suggests that the close relationship between house price inflation and spending growth has weakened. Consequently, falling house prices may not be accompanied by a sharp decline in consumers' expenditure. The continued buoyancy of the labour market may have something to do with this. The central prediction from Butlers is for a slow down in the growth of GDP which may lead to a slight decrease in interest rates.

(iv) **Borrowing Strategy**

The scenario indicated above leads through to the following borrowing strategy:

- borrow fixed rate funds as late as possible in the year to take advantage of the predicted fall in interest rates
- consider short term variable rate loans if it is necessary to borrow early in the year as it is likely that these rates will remain comparatively low.

(v) **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. All investments will be no longer than 364 days and will be made according to the latest market forecasts.

The Fire Authority approved a list of counterparties on 19 July 2004. The Treasury Management staff monitor the credit ratings of the approved counterparties. A counterparty is removed from the list if there is a decline in their credit rating. Since the last report it has been necessary to remove one counterparty from the list. Below is the amended list of counterparties, all the counterparties on the list have previously been approved by the Fire Authority.

Banks £5m limit

Barclays, HSBC, Lloyds TSB, Cheltenham & Gloucester, National Westminster, Royal Bank of Scotland, Abbey, Halifax and the Bank of Scotland, Alliance & Leicester, Bank of Ireland, Allied Irish Bank, Northern Rock, Bradford & Bingley, Anglo Irish Bank, Woolwich, Hbos, Bank of Butterfield, Close Brothers, Co-operative Bank, Credit Suisse, First Boston International, Merrill Lynch International Bank, Standard Life, Bank of New York Europe, Citibank, HFC Bank, Clydesdale, Standard Chartered, N M Rothschild, Schroeders, Singer & Friedlander, Morgan Grenfell, Bristol & West, First Active, Irish Permanent, Depfa Bank, IIB Bank and Ulster Bank.

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, Nationwide, Norwich and Peterborough, Portman, Skipton, Principality, Coventry and Yorkshire.