



AGENDA ITEM: 12

NORTH WALES FIRE AND RESCUE AUTHORITY

16th June 2008

TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2007-2008

**Report by Ken Finch,
Treasurer to the Authority**

Purpose of Report

- 1.** The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2007-2008. The report also covers the actual Prudential Indicators for 2007-2008 in accordance with the requirements of the Prudential Code.

TREASURY MANAGEMENT ACTIVITY 2007-2008

Summary of the Strategy Agreed for 2007-2008

- 2.** The Authority's Treasury consultants, Butlers, predicted that the financial year 2007-2008 would see a modest increase in interest rates over the year and in the longer term there would be growing uncertainty over interest rates. The strategy based on this prediction was to borrow longer term if rates remained low and may include borrowing in advance of future years requirements. Surplus funds should be invested according to the latest market forecasts.



Economic Background for 2007-2008

- 3.** As predicted interest rates rose during the year with the base rate rising from 5.25% to 5.75% and then falling back to 5.25% in March. Longer term interest rates fluctuated more due to the uncertainty in the market. The Authority took advantage of the fluctuation in interest rates and borrowed when the rates were comparatively low.

Borrowing Activity

- 4.** Loans are taken out to finance the Fire and Rescue Authority's capital programme. New loans of £3m were taken out in 2007-2008 to fund the Capital Programme. However, due to slippage in the programme for 2007-2008 £700k of the new borrowing is considered advance borrowing to finance capital spend in 2008-2009.

Investments

- 5.** 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.

All surplus monies were invested on the market by Conwy County Borough Council on behalf of the Fire Authority. The average balance of investments for the year was £3,000,000. The balance of investments on 31 March 2008 was £3,070,000 compared to £2,510,000 on 31 March 2007.



Investments *(continued)*

In January 2007 £1m was repaid to the Constituent Authorities from the Pension Provision as detailed in a report to the Fire Authority on 18 December 2006. As a consequence of the repayment the level of funds held by the Fire Authority for investment has decreased. The decrease in funds available for investment and the change in interest rates has meant that the interest achieved from investments was £187k against a budget of £215k.

PRUDENTIAL INDICATORS

6. 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:

	31 March 2008 Actual £'000	31 March 2008 Original Indicator £'000
Borrowing position	11,513	17,951
Capital Financing Requirement	10,813	15,951

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 2007-2008 plus the expected changes to the CFR over 2008-2009 and 2009-2010. The table above highlights that the Authority's net borrowing position has exceeded the CFR for 2007-2008 by £700k, this additional borrowing is advance borrowing for 2008-2009.

The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2007-2008 the Authority has maintained its gross borrowing within its Authorised Limit.

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.

	2007/08 £'000
Original Indicator - Authorised Limit	19,950
Original Indicator - Operational Boundary	17,951
Maximum borrowing position during the year	11,513
Minimum borrowing position during the year	8,513



REGULATORY FRAMEWORK, RISK AND PERFORMANCE

- 7.** 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 2007-2008);

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.

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.



RECOMMENDATIONS

- 8.** It is recommended that Members:
- Approve the actual 2007-2008 Prudential Indicators.
 - Note the report on the Treasury Management activities for 2007-2008.



APPENDIX A

		2007/08 Actual	2007/08 Original Indicator
1	Capital Expenditure	3,905,723	5,500,000
2	Capital Financing Requirement	10,813,064	15,951,000
3	Borrowing	11,513,428	17,951,000
4	Investments	3,070,000	3,690,000
5	Authorised Limit	11,513,428	19,950,000
6	Operational Boundary	11,513,428	17,951,000
7	Ratio of Financing Costs to Net Revenue Stream	3.93%	4.76%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	47,686	73,207
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	0%	0% - 30%
	12 months to 2 years	0%	0% - 30%
	2 years to 5 years	12.28%	0% - 50%
	5 years to 10 years	4.34%	0% - 75%
	10 years and above	83.38%	20% - 100%

