



AGENDA ITEM: 7

NORTH WALES FIRE AND RESCUE AUTHORITY

18 June 2012

TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2011-2012

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 2011-2012. The report also covers the actual Prudential Indicators for 2011-2012 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. Due to the elections the Audit Committee has yet to be appointed so this report has come direct to the Fire Authority as it needs to be approved before the 30 June 2012.
- 3 In accordance with the Code it is a requirement that Members who have been appointed to the Audit committee have a scrutiny role for all treasury management reports and in order for them to fulfil this function they should receive training. A training session for new Members will be arranged as soon as membership of the committee is known.

TREASURY MANAGEMENT ACTIVITY 2011-2012

Summary of the Strategy Agreed for 2011-2012

- 4 The Authority's Treasury consultants, Sector, predicted that the financial year 2011-2012 would see the base rate rise from 0.5% to 1% with the base rate increasing to 3.25% by December 2013. As a consequence, the strategy was to take the most appropriate form of borrowing depending on the prevailing interest rates and consider the opportunities available for debt restructuring. It was recommended to take advantage of the cheaper short term debt by switching from longer term fixed rates. A cautious approach should be taken to the investment of surplus funds and the longest investment should not exceed three months. Finally, all of the information available on counterparties should be analysed before the investment is made.

Economic Background for 2011-2012

- 5 The economic forecast for 2011-12 predicted the base rate rising slightly to 1% and a fall in the PWLB short term borrowing rate. The predictions for the year proved incorrect and the base rate remained at 0.5%. 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 borrowed short term with a mixture of fixed and variable rates, as advised by Sector the treasury management consultants appointed by Conwy County Borough Council. The Authority also 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

- 6 Loans are taken out to finance the Fire and Rescue Authority's capital programme. New loans of £1.33m were taken out in 2011-2012 to fund the Capital Programme. However, the Authority borrowed below its Capital Financing Requirement (CFR) for 2011-2012 by £1.6m. In the year £2.5m worth of fixed interest PWLB loans matured which were replaced with similar loans but for longer periods. The Authority continued to use temporary borrowing from other Local Authorities as a means of financing the capital programme and on average had £7m worth of loans throughout the year. The interest rates on temporary borrowing varied between 0.3% and 0.7% with these rates being substantially lower than the rates offered by the PWLB.

Investments

- 7 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.
- 8 All surplus monies were invested on the market by Conwy County Borough Council on behalf of the Fire and Rescue Authority. The average balance of investments for the year was £2,000,000 and the balance of investments on 31 March 2012 was £2,240,000 compared to £3,350,000 on 31 March 2011. The average rate achieved on investments was 0.75% and the money was mostly held within an instant access call account so the Authority's liquidity position was maintained.
- 9 The balance of the money available for investment has decreased due to the Authority being under borrowed for the year, with some of the surplus funds that would have been invested used to underpin the Authority's borrowing position. The budget for investment interest, £50,000, was set when the base rate was 0.5% and predicted to rise to 1%; the actual interest achieved was £26,880.

PRUDENTIAL INDICATORS

- 10 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:

	2012 Actual £'000	2012 Original Indicator £'000
Borrowing position	20,724	26,590
Capital Financing Requirement	22,326	26,590

- 11 The Capital Financing Requirement (CFR) shows the Authority's underlying need to borrow for a capital purpose which 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 2011-2012 plus the expected changes to the CFR over 2012-2013 and 2013-2014. The table above highlights that the Authority's net borrowing position was below the CFR for 2011-2012 by £1.6m.
- 12 The Authorised Limit is the "Affordable Borrowing Limit" required by S3, Local Government Act 2003. The table below demonstrates that during 2011-2012 the Authority has maintained its gross borrowing within its Authorised Limit.
- 13 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.

	2011/12 £'000
Original Indicator - Authorised Limit	28,590
Original Indicator – Operational Boundary	26,590
Maximum borrowing position during the year	20,891
Minimum borrowing position during the year	19,391

REGULATORY FRAMEWORK, RISK AND PERFORMANCE

14 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 2011-2012);
- 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.

- 15 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

- 16 Members are recommended to approve the actual 2011-2012 Prudential Indicators.

APPENDIX A

		2011/12 Actual	2011/12 Original Indicator
1	Capital Expenditure	4,490,682	9,507,000
2	Capital Financing Requirement	22,325,641	26,590,000
3	Borrowing	20,724,428	26,590,000
4	Investments	2,240,000	3,000,000
5	Authorised Limit	20,891,000	28,590,000
6	Operational Boundary	20,724,428	26,590,000
7	Ratio of Financing Costs to Net Revenue Stream	6.74%	7.61%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	89,813	143,000
9	Fixed Interest rate loans as a % of Total Borrowing	73.36%	55% - 100%
10	Variable rate loans as a % of Total Borrowing	26.64%	0% - 45%
11	Maturity Structure of Fixed Rate Borrowing		
	Under 12 months	53.18%	0% - 55%
	12 months to 2 years	14.48%	0% - 50%
	2 years to 5 years	9.65%	0% - 50%
	5 years to 10 years	12.06%	0% - 75%
	10 years and above	10.63%	0% - 100%