



## **AGENDA ITEM: 11**

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

**19<sup>th</sup> June 2006**

#### **TREASURY MANAGEMENT**

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

#### **Purpose of Report**

1. To advise Members of the Authority's Treasury Management activities for 2005-2006 and to seek approval of the actual 2005-2006 Prudential Indicators.

#### **Introduction**

2. The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2005/06. The report also covers the actual Prudential Indicators for 2005/06 in accordance with the requirements of the Prudential Code.

#### **Summary of the Strategy agreed for 2005-2006**

3. The Authority's Treasury consultants, Butlers, predicted that the financial year 2005-2006 would see a slow down in the growth of GDP with a possible fall in interest rates. The strategy based on this prediction was to borrow late in the year to take advantage of lower rates and to consider variable rate loans if there is a need to borrow early in the year. Surplus funds should be invested according to the latest market forecasts.



## Economic Background for 2005-2006

- As predicted Interest rates fell during the year with the base rate falling by a 1/4% from 4.75% to 4.50%. Longer term fixed interest rates fluctuated more, rising and falling in response to notable shifts in market expectations. The Authority took advantage of the fluctuation in interest rates and was able to secure long term funding at comparatively low rates.

## Treasury Management Activity 2005-2006

### 5. Borrowing

The Public Works Loan Board provides all capital borrowing for the Authority. The amount borrowed in 2005-2006 was £1,400,000, which was in accordance with the Borrowing Limit calculated for the Authority. The borrowing position at 31 March 2006 compared with the previous year was:

	31 March 2006		31 March 2005	
	Principal	Average Rate %	Principal	Average Rate %
Fixed Interest Rate Debt	8,513,428	4.647	6,149,428	4.744
Variable interest Rate Debt	0	0	964,000	4.956
Total Debt	8,513,428	4.647	7,113,428	4.850



## **Treasury Management Activity 2005-2006** *(continued)*

### **6. Investments**

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 and Rescue Authority. The average balance of investments for the year was £4,000,000. The balance of investments on 31 March 2006 was £4,690,000 compared to £4,770,000 on 31 March 2005.

The budget for investment income for 2005-2006 was £120,000; the actual investment income achieved was £223,005. The reason for the substantial increase in expected income is due to a prudent investment strategy, higher interest rates than the previous year and some forward dealing.

### **Prudential Indicators and Compliance Issues**

- 7.** 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 overleaf:



## Prudential Indicators and Compliance Issues *(continued)*

	<b>31 March 2006 Actual £'000</b>	<b>31 March 2006 Original Indicator £'000</b>
Borrowing position	8,513	9,335
Capital Financing Requirement	7,694	9,335

The Capital Financing Requirement (CFR) shows the Authority's underlying need to borrow for a capital purpose, and this is a gauge for the Authority'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 2005-2006 plus the expected changes to the CFR over 2006-2007 and 2007-2008. The table above highlights that the Authority's net borrowing position has exceeded the CFR for 2005-2006 due to expenditure on the Capital Programme being less than budgeted. The position will be corrected in 2006-2007 as additional borrowing will be required to finance the Capital Programme.



## Prudential Indicators and Compliance Issues *(continued)*

	<b>2005/06</b> <b>£'000</b>
Original Indicator - Authorised Limit	13,790
Original Indicator - Operational Boundary	11,790
Maximum borrowing position during the year	8,513
Minimum borrowing position during the year	7,113

The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table demonstrates that during 2005-2006 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

### **Regulatory Framework, Risk and Performance**

8. 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;



## **Regulatory Framework, Risk and Performance** *(continued)*

- 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 2005/06);
- 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.

## **9. Recommendations**

It is recommended that Members:

- i. Approve the actual 2005/2006 Prudential Indicators;
- ii. Note the report on the Treasury Management activities for 2005-2006



**APPENDIX A**

		<b>2005/06 Actual</b>	<b>2005/06 Original Indicator</b>
1	Capital Expenditure	1,149,738	2,483,410
2	Capital Financing Requirement	7,693,962	9,335,000
3	Borrowing	8,513,428	9,335,000
4	Investments	4,690,000	4,770,000
5	Authorised Limit	8,513,428	13,790,000
6	Operational Boundary	8,513,428	11,790,000
7	Ratio of Financing Costs to Net Revenue Stream	2.61%	2.67%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	28,169	60,843
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	6%	0% - 30%
	12 months to 2 years	12%	0% - 30%
	2 years to 5 years	19%	0% - 50%
	5 years to 10 years	12%	0% - 75%
	10 years and above	51%	20% - 90%