



AGENDA ITEM: 15

NORTH WALES FIRE AND RESCUE AUTHORITY

18th June 2007

TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2006-2007

**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 2006-2007. The report also covers the actual Prudential Indicators for 2006-2007 in accordance with the requirements of the Prudential Code.

TREASURY MANAGEMENT ACTIVITY 2006-2007

Summary of the Strategy Agreed for 2006-2007

- 2.** The Authority's Treasury consultants, Butlers, predicted that the financial year 2006-2007 would see an increase in interest rates towards the latter end of the year. The strategy based on this prediction was to borrow early in the year to take advantage of lower rates. Surplus funds should be invested according to the latest market forecasts.



Economic Background for 2006-2007

- 3.** As predicted interest rates rose during the year with the base rate rising from 4.5% to 5.25%. Longer term interest rates fluctuated more due to the uncertainty in the market but with an upward trend. The Authority took advantage of the fluctuation in interest rates and rescheduled part of the loans portfolio.

Borrowing Activity

- 4.** Loans are taken out to finance the Fire and Rescue Authority's capital programme. No new loans were taken out in 2006-2007 as advance borrowing had been undertaken in 2005-2006 which was sufficient to cover the borrowing requirement for 2006-2007.

Rescheduling

- 5** During the year loans totalling £4.8m were rescheduled, the interest rates on the redeemed loans were between 4.6% and 4.9%. New loans totalling £4.8m were taken out for between 45 and 46 years at 4.25%. The annual savings in interest payments to the Authority is £15k.

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.



Investments *(continued)*

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 £4,000,000. The balance of investments on 31 March 2007 was £2,510,000 compared to £4,690,000 on 31 March 2006.

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. Fortunately the repayment was made towards the latter end of the year and with the increase in the Bank of England base rate the actual interest achieved was £212k against a budget of £180k.

Prudential Indicators

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 below:

	31 March 2007 Actual £'000	31 March 2007 Original Indicator £'000
Borrowing position	8,513	14,190
Capital Financing Requirement	8,740	11,475



Prudential Indicators *(continued)*

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 2006-2007 plus the expected changes to the CFR over 2007-2008 and 2008-2009. The table above highlights that the Authority's net borrowing position has not exceeded the CFR for 2006-2007 due to no new borrowing taking place in the year.

The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2006-2007 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.

	2006/07 £'000
Original Indicator - Authorised Limit	16,190
Original Indicator - Operational Boundary	14,190
Maximum borrowing position during the year	8,513
Minimum borrowing position during the year	8,513



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;

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 2006-2007);

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.



Regulatory Framework, Risk and Performance *(continued)*

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

- 9.** It is recommended that Members:
 - 9.1** Approve the actual 2006-2007 Prudential Indicators.
 - 9.2** Note the report on the Treasury Management activities for 2006-2007.

K W FINCH
Treasurer



APPENDIX A

		2006/07 Actual	2006/07 Original Indicator
1	Capital Expenditure	1,785,838	2,780,000
2	Capital Financing Requirement	8,739,757	11,475,000
3	Borrowing	8,513,428	11,475,000
4	Investments	2,510,000	4,690,000
5	Authorised Limit	8,513,428	16,190,000
6	Operational Boundary	8,513,428	14,190,000
7	Ratio of Financing Costs to Net Revenue Stream	3.07%	3.48%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	43,753	62,550
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	4.8%	0% - 50%
	5 years to 10 years	5.9%	0% - 75%
	10 years and above	89.3%	20% - 90%

