



AGENDA ITEM: 13

NORTH WALES FIRE AND RESCUE AUTHORITY

18 October 2010

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS

Report by Ken Finch, Treasurer

Purpose of Report

1. A requirement of the CIPFA Prudential Code for Capital Finance is that Prudential Indicators are monitored on a regular basis and any significant changes approved by the Fire Authority. Similarly, under the CIPFA Code of Practice on Treasury Management any changes in long term borrowing and changes to the Authority's counterparties need to be reported to the Fire Authority.

Introduction

2. The Prudential Indicators and the Treasury Management Strategy for 2010-2011 were approved by the Fire Authority in March 2010. Since their approval the Prudential Indicators (PI's) estimated for 2010-2011 onwards have changed. Also there has been a new loan and changes to the list of counterparties.

Prudential Indicators 2010-2011

3. The PI's for 2010-2011 have changed due to the actual expenditure on the capital programme for 2009-2010 being less than the estimated outturn. An explanation of what each PI represents is detailed below.
4. The Capital Financing Requirement 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; and the Authorised Limit is an estimate of the maximum amount the Authority could borrow based on an assessment of operational requirements and external risks. These three key indicators have all changed for 2010-2011.

- 5 Capital expenditure has increased over the original estimate due to schemes that were not fully completed in 2009-2010 rolling over to 2010-2011.
- 6 Appendix A lists the indicators reported in March and the revised indicators.

New Loans

- 7 A new loan for £4.5m was taken out to replace a maturing PWLB loan of £4m and fund capital expenditure. The loan is with the London Borough of Ealing and the interest rate attained was lower than the PWLB rates for a similar loan. The details of the loan is as follows:-

Principal £	Rate %	Date of Loan	Period	Lender
4,500,000	0.70	28/07/2010	1 year	Ealing

Counterparties and Investments

- 8 The investment strategy for 2010/11 approved by Members in March included approval of the following criteria for counterparties
 - (1) Debt Management Office of the Treasury – limit £5m
 - (2) Local Authorities (except rate-capped) – limit £2m
 - (3) All UK and Irish banks and their subsidiaries that have good ratings (Fitch or equivalent). This is currently defined as:

Short term	F1
Long term	A
Individual/financial Strength	B
Support	3

Limit - £5m

- (4) Banks whose ratings fall below those in the table above will be used if wholesale deposits are covered by a government guarantee, and the deposits fall within the terms of the guarantee.
- (5) Building Societies with a rating (as for the banking sector) all have a lending limit of £2m.

Building societies without a rating but with assets of £1 billion or more have a limit of £2m with a maximum time limit of 9 months.

- 9** A list of the current counterparties is included at Appendix B and any changes to the list since the last report to Members have been highlighted.
- 10** The primary principle governing the Authority’s investment criteria is the security of its investments. Uncertainty over counterparty creditworthiness suggests that shorter dated investments would provide better security and as such this is the strategy that is being followed. A list of the investments held as at 30 September is detailed below.

Principal £	Rate %	Date of Loan	Period	Lender
2,430,000	0.75	N/A	Call	Bank of Scotland
1,000,000	0.90	15/07/10	4 mths	Norwich & Peterborough
1,000,000	0.90	15/09/10	3 mths	Norwich & Peterborough
1,000,000	1.03	24/09/10	3 mths	Santander UK

Recommendations

- 11** It is recommended that:
 - (i) the amended Prudential Indicators set out in Appendix A be approved;
 - (ii) Members note the Counterparties listed in Appendix B;
 - (iii) Members note the new loan.

APPENDIX A**PRUDENTIAL INDICATORS**

		2010/11 £	2011/12 £	2012/13 £
1	Capital Expenditure Original Indicator New Indicator	7,621,000 9,281,022	5,193,000 7,155,000	4,000,000 4,000,000
2	Capital Financing Requirement Original Indicator New indicator	23,252,000 23,001,917	26,544,000 28,154,051	28,416,000 29,794,465
3	Authorised Limit Original Indicator New indicator	25,252,000 25,001,917	28,544,000 30,154,051	30,416,000 31,794,465
4	Operational Boundary Original indicator New indicator	23,252,000 23,001,917	26,544,000 28,154,051	28,416,000 29,794,465
5	Ratio of Financing Costs to Net Revenue Stream Original Indicator New Indicator	6.48% 4.37%	7.91% 6.43%	8.97% 7.81%
6	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities Original Indicator New Indicator	72,000 185,620	314,000 1,233,071	723,000 1,915,572

Appendix B

INVESTMENT COUNTERPARTIES

Banks – £5m Limit

Barclays, HSBC, Lloyds TSB, Royal Bank of Scotland, Santander, Bank of Scotland, Clydesdale, Ulster Bank and Citibank.

Deleted – Alliance & Leicester (merged with Santander), Bank of Ireland, Allied Irish 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 i.e. 'Capped' in the current financial year.

Building Societies (rated)£2m Limit

Coventry and Nationwide

Building Societies (Assets £1bn) -£2m /9mths Limit

Cumberland, Kent Reliance, Leeds, National Counties, Newcastle, Norwich and Peterborough, Nottingham, Principality, Progressive, Skipton, West Bromwich and Yorkshire.

Deleted – Chelsea (merged with Yorkshire), Stroud & Swindon (merged with Coventry)