Mae'r ddogfen hon ar gael yn Gymraeg

Report to	**Audit Committee**
Report no	**AC/2017/09/08**
Date	**11 September 2017**
Lead Officer	**Ken Finch - Treasurer**
Contact Officer	**Sandra Forrest**
Subject	**Treasury Management and Prudential Indicators**

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. 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 Members.

EXECUTIVE SUMMARY

2 The Prudential Indicators and the Treasury Management Strategy for 2017-2018 were approved by the Fire Authority on 20 March 2017. Since their approval the Prudential Indicators (PI's) estimated for 2017-2018 onwards have changed.

RECOMMENDATION

3 That Members approve the amended Prudential Indicators set out in Appendix A.

BACKGROUND

4 The Audit Committee has been tasked with ensuring effective scrutiny of the treasury management strategy and policies and based on its findings make recommendations to the Fire and Rescue Authority.

INFORMATION

Prudential Indicators 2017-2018

5 The PIs for 2017-2018 have changed due to the actual expenditure on the capital programme for 2016-2017 being less than the estimated outturn. An explanation of what each PI represents is detailed below:

- Capital Financing Requirement is a measure of the long term debt needed to support the Authority's capital programme;

- Operational Boundary is a measure of the possible maximum external debt allowing for peaks and troughs in cashflows;
- Authorised Limit is an estimate of the maximum amount the Authority could borrow based on an assessment of operational requirements and external risks.

6 These three key indicators have all changed for 2017-2018. Capital expenditure has increased over the original estimate due to schemes that were not fully completed in 2016-2017 rolling over to 2017-2018. Appendix A lists the indicators reported in March and the revised indicators.

New Loans

7 No PWLB loans have been taken out this year and where EIP and Annuity loans are maturing these have been replaced with short term borrowing. The Authority now has £19,000,000 in short term loans taken out with other Local Authorities. It has been necessary to increase the amount of short term borrowing for cash flow purposes. However, going forward this will decrease as the Pensions Top Up Grant has now been received so any maturing loans will not be replaced until the surplus funds have been utilised. The Authority has approved an upper limit of 55% of the loan portfolio for the amount of loans maturing within 12 months. The current position is that 53.8% of loans will mature within 12 months. Short term loans are currently renewed on maturity with other Local Authorities depending on the interest rates available at that time. At this time there is sufficient liquidity in the market to renew or replace maturing loans as Local Authorities look outside the banking sector to place surplus funds short term.

Counterparties and Investments

8 The investment strategy for 2017/18 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
Viability Rating	bbb

Limit - £5m

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.

(4) Building Societies with a rating (as for the banking sector) all have a lending limit of £2m.
(5) 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 The primary principle governing the Authority's investment criteria is the security of its investments. The uncertainty over counterparty creditworthiness has lessened and our treasury advisors are now recommending that the time limit for investments should be a maximum of 6 months. The surplus cash for investment is currently higher than that usually held by the Authority as the Annual Pensions Top up Grant from the Welsh Government has just been received. The surplus cash is invested in two call accounts, Barclays and the Bank of Scotland, which allow instant access to funds. In the short term some of the surplus cash will be used to support the capital programme so when loans mature they will not be replaced immediately. The investments held as at 29 August are detailed below.

Principal £	Rate %	Date of Loan	Period	Lender
5,000,000	0.15	N/A	Call	Bank of Scotland
760,000	0.05	N/A	Call	Barclays

Treasury Management and MiFID II

10 The way that local authorities can access financial services will change in January 2018 as a result of the second Markets in Financial Instruments Directive. For Local Authorities to have access to financial markets they will need to hold £10m in investments in order to be classified as a 'professional' client. If they are not granted 'professional' status they will be unable to deal through the brokerage firms they currently use as they will be classed as 'retail'. None of the main broker and adviser firms are currently authorised to serve retail clients including Arlingclose our treasury advisors.

11 Members of the Audit Committee will be updated at the meeting with regards the latest position.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objectives. Ensures that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. Ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually for capital financing in line with the Treasury report.
Legal	The regulatory framework is set out in paragraph 13.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Investment of surplus funds – there is a risk that the financial institution in which the service's funds are invested could fail with a loss of part of the principal invested. However, one of the purposes of the report is to mitigate this risk.

Appendix A

PRUDENTIAL INDICATORS

		2017/18 £	2018/19 £	2019/20 £
1	Capital Expenditure Original Indicator New Indicator	 2,285,000 5,467,436	 6,075,000 6,075,000	 3,015,000 3,015,000
2	Capital Financing Requirement Original Indicator New indicator	 35,649,000 36,132,417	 38,910,000 39,266,618	 38,726,000 38,954,902
3	Authorised Limit Original Indicator New indicator	 37,649,000 38,132,417	 40,910,000 41,266,618	 40,726,000 40,954,902
4	Operational Boundary Original indicator New indicator	 35,649,000 36,132,417	 38,910,000 39,266,618	 38,726,000 38,954,902
5	Ratio of Financing Costs to Net Revenue Stream Original Indicator New Indicator	 10.23% 9.25%	 10.20% 10.21%	 11.33% 11.32%
6	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities Original Indicator New Indicator	 29,000 68,000	 634,000 716,000	 1,116,000 1,198,000