



Report to	Fire and Rescue Authority
Report no	FRA/2017/09/09
Date	18 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.

OBSERVATIONS FROM THE AUDIT COMMITTEE

- 4 This report was presented to the Audit Committee on 11 September 2017 in order for its members to review the contents before submission to the Fire and Rescue Authority. The Audit Committee had no major observations nor could find any major risks in the report and would recommend it be approved by the 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 It was agreed at the Audit Committee meeting that a letter be sent to the relevant authorities expressing concern about the proposed status of 'retail' that would be given to North Wales Fire and Rescue Authority.

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