



AGENDA ITEM: 8

NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE

26 September 2011

TREASURY MANAGEMENT & 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 and Rescue 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 and Rescue Authority.

Introduction

- 2 The Prudential Indicators and the Treasury Management Strategy for 2011-2012 were approved by the Fire and Rescue Authority in March 2011. Since their approval the Prudential Indicators (PI's) estimated for 2011-2012 onwards have changed. Also there has been new loans and changes to the list of counterparties.

Prudential Indicators 2011-2012

- 3 The PI's for 2011-2012 have changed due to the actual expenditure on the capital programme for 2010-2011 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 2011-2012.
- 5 Capital expenditure has increased over the original estimate due to schemes that were not fully completed in 2010-2011 rolling over to 2011-2012.
- 6 Appendix A lists the indicators reported in March and the revised indicators.

New Loans

- 7 A new loan for £1m was taken out to replace a maturing PWLB loan with an interest rate of 4.51%. Additional loans have been taken out with other Local Authorities due to the interest rates being lower than that offered by the PWLB. All loans have been taken out to replace maturing loans or to support the Capital programme. The details of the loans are as follows:-

| Principal £ | Rate % | Date of Loan | Period | Lender |
|----------------|-----------|--------------|--------------|--------------------------------|
| 1,000,000 | 2.08 | 10/08/2011 | 3 1/2 years | PWLB |
| 2,000,000 | 0.75 | 05/07/2011 | 3 1/2 months | Cambridge City Council |
| 2,000,000 | 0.55 | 15/06/2011 | 4 months | Hyndburn Council |
| 1,500,000 | 0.60 | 25/08/2011 | 5 Months | London Borough of Ealing |
| | | | | |

Counterparties and Investments

- 8 The investment strategy for 2011/12 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

- 9 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.
- 10 A list of the current counterparties is included at Appendix B and there have been no changes to the list since the last report to Members.
- 11 The primary principle governing the Authority's investment criteria is the security of its investments. Uncertainty over counterparty creditworthiness has led to our treasury advisors recommending that the time limit for investments should be a maximum of 3 months. The surplus cash for investment has decreased as the strategy now being followed is to use cash to support borrowing needs rather than investing it on the market.

A list of the investments held as at 12 September is detailed below.

| Principal £ | Rate % | Date of Loan | Period | Lender |
|----------------|-----------|--------------|--------|------------------------|
| 10,000 | 0.75 | N/A | Call | Bank of Scotland |
| 1,000,000 | 0.93 | 15/06/11 | 3 mths | Newcastle Building Soc |
| 1,000,000 | 0.95 | 14/07/11 | 4 mths | West Bromwich BS |

Recommendations

- 12 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 loans.

APPENDIX A**PRUDENTIAL INDICATORS**

| | | 2011/12 £ | 2012/13 £ | 2013/14 £ |
|---|---|----------------------------|----------------------------|----------------------------|
| 1 | Capital Expenditure Original Indicator New Indicator | 9,507,000 8,640,000 | 5,118,000 5,118,000 | 6,356,000 6,356,000 |
| 2 | Capital Financing Requirement Original Indicator New indicator | 26,590,000 26,591,000 | 28,549,000 28,504,000 | 32,586,000 32,494,000 |
| 3 | Authorised Limit Original Indicator New indicator | 28,590,000 28,591,000 | 30,549,000 30,504,000 | 34,586,000 34,494,000 |
| 4 | Operational Boundary Original indicator New indicator | 26,590,000 26,591,000 | 28,549,000 28,504,000 | 32,586,000 32,494,000 |
| 5 | Ratio of Financing Costs to Net Revenue Stream Original Indicator New Indicator | 7.61% 6.85% | 9.50% 8.22% | 10.78% 9.90% |
| 6 | Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities Original Indicator New Indicator | 143,000 126,600 | 936,000 890,000 | 1,411,000 1,200,000 |

Appendix B

INVESTMENT COUNTERPARTIES

Banks – £5m Limit

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

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