



## **AGENDA ITEM: 6**

### **NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE**

**3 June 2013**

#### **TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2012-2013**

**Report by Ken Finch, Treasurer**

##### **Purpose of Report**

- 1 The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2012-2013. The report also covers the actual Prudential Indicators for 2012-2013 in accordance with the requirements of the Prudential Code.

##### **Scrutiny Role**

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

#### **TREASURY MANAGEMENT ACTIVITY 2012-2013**

##### **Summary of the Strategy Agreed for 2012-2013**

- 3 The Authority's Treasury consultants, Sector, predicted that the financial year 2012-2013 would see the base rate remain at 0.5% with any increases coming in 2013-14. The recommendation was to delay borrowing activity involving fixed rates of interest and if cash is required then variable rate PWLB and temporary borrowing should be undertaken where possible. A cautious approach should be taken to the investment of surplus funds, the longest investment should not exceed three months and all the information available on counterparties should be analysed before the investment is made.

## **Economic Background for 2012-2013**

- 4 The economic forecast for 2012-13 predicted the base rate remaining the same at 0.5% and the PWLB short term borrowing rate expecting to rise. The predictions for the year proved correct for the base rate and incorrect for PWLB rates as these remained fairly static with only a movement of a few basis points up and down during the year. Concerns over the Banking sector were still prevalent and for Local Authorities investment strategies the main priority was to ensure the security of funds. A large number of Local Authorities continued to invest surplus funds in the Bank of England and other Local Authorities rather than the Banks and Building Societies, sacrificing return for security. The Authority took a cautious approach on investments and only invested short term in British Banking Institutions and Building Societies on the counterparty list. On the borrowing side the Authority took advantage of the low interest rates and borrowed short term fixed rate, as advised by Sector the treasury management consultants appointed by Conwy County Borough Council, except for one loan. A loan of £1.025m was taken out specifically to finance the purchase of Headquarters and the loan period and repayment schedule matches the capital financing budgeted for the purchase. The Authority also borrowed from other Local Authorities, taking advantage of the low interest rates available. There were no opportunities for re-scheduling during the year.

### **Borrowing Activity**

- 5 Loans are taken out to finance the Fire and Rescue Authority's capital programme. New loans of £2.5m were taken out in 2012-2013 to fund the Capital Programme. However, the Authority borrowed slightly above its Capital Financing Requirement (CFR) for 2012-2013 by £0.102m. In the year £4m worth of fixed interest PWLB loans matured, these were replaced with similar loans but for slightly longer periods so as to 'smooth' the maturity profile of the loans portfolio. The Authority continued to use temporary borrowing from other Local Authorities as a means of financing the capital programme and on average had £7m worth of loans throughout the year. The interest rates on temporary borrowing varied between 0.3% and 0.4% with these rates being substantially lower than the rates offered by the PWLB.

## 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.
- 7 All surplus monies were invested on the market by Conwy County Borough Council on behalf of the Fire and Rescue Authority. The core balance of investments for the year was £2,000,000 and the balance of investments on 31 March 2013 was £2,210,000 compared to £2,240,000 on 31 March 2012. The average rate achieved on investments was 0.75% and the money was mostly held within an instant access call account so the Authority's liquidity position was maintained.
- 8 The balance of money available for investment has remained static at around £2m. The budget for investment interest was £25,000 and the actual interest achieved was £24,024.

## PRUDENTIAL INDICATORS

- 9 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:

	<b>2013 Actual £'000</b>	<b>2013 Original Indicator £'000</b>
Borrowing position	23,071	25,168
Capital Financing Requirement	22,969	25,168

- 10 The Capital Financing Requirement (CFR) shows the Authority's underlying need to borrow for a capital purpose, and this is a gauge for the Authority'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 2012-2013 plus the expected changes to the CFR over 2013-2014 and 2014-2015. The table above highlights that the Authority's net borrowing position was slightly above the CFR for 2012-2013 by £0.102m.
- 11 The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2012-2013 the Authority has maintained its gross borrowing within its Authorised Limit.
- 12 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.

	<b>2012/13 £'000</b>
Original Indicator - Authorised Limit	27,168
Original Indicator - Operational Boundary	25,168
Maximum borrowing position during the year	23,071
Minimum borrowing position during the year	20,724

## **REGULATORY FRAMEWORK, RISK AND PERFORMANCE**

- 13 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 2012-2013);
- 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.

14 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.

## **RECOMMENDATION**

15 Members recommend to the Fire and Rescue Authority the approval of the actual 2012-2013 Prudential Indicators.

APPENDIX A

		<b>2012/13 Actual</b>	<b>2012/13 Original Indicator</b>
1	Capital Expenditure	2,865,493	3,980,250
2	Capital Financing Requirement	22,969,333	25,168,000
3	Borrowing	23,071,170	25,168,000
4	Investments	2,210,000	2,000,000
5	Authorised Limit	23,071,170	27,168,000
6	Operational Boundary	23,071,170	26,590,000
7	Ratio of Financing Costs to Net Revenue Stream	7.44%	8.58%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	25,646	60,000
9	Fixed Interest rate loans as a % of Total Borrowing	93.5%	55% - 100%
10	Variable rate loans as a % of Total Borrowing	6.5%	0% - 45%
11	Maturity Structure of Fixed Rate Borrowing		
	Under 12 months	43.34%	0% - 55%
	12 months to 2 years	21.68%	0% - 50%
	2 years to 5 years	11.23%	0% - 50%
	5 years to 10 years	9.75%	0% - 75%
	10 years and above	14.00%	0% - 100%