



## **AGENDA ITEM: 6**

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

**14 September 2015**

#### **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. 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.

#### **Introduction**

- 2 The Prudential Indicators and the Treasury Management Strategy for 2015-2016 were approved by the Fire Authority on 16 March 2015. Since their approval the Prudential Indicators (PI's) estimated for 2015-2016 onwards have changed. Also, there have been new loans and changes to the list of counterparties.

#### **Prudential Indicators 2015-2016**

- 3 The PIs for 2015-2016 have changed due to the actual expenditure on the capital programme for 2014-2015 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.

4 These three key indicators have all changed for 2015-2016. Capital expenditure has increased over the original estimate due to schemes that were not fully completed in 2014-2015 rolling over to 2015-2016. Appendix A lists the indicators reported in March and the revised indicators.

## New Loans

5 Three new PWLB loans have been taken out so far this year to replace a loan that has matured and to support the capital programme. The Authority has £8,000,000 in short term loans taken out with other Local Authorities due to the interest rates being lower than that offered by the PWLB. £7,000,000 of these loans are currently renewed on maturity with other Local Authorities depending on the interest rates available at that time. A short term loan was taken out in July to assist with cash flow but when it matures in September it will not be replaced. The details of the loans are as follows:-

Principal £	Rate %	Date of Loan	Period	Lender
1,000,000	1.97	05/05/2015	8 ½ Years	PWLB
1,000,000	1.91	29/05/2015	7 ½ Years	PWLB
1,000,000	1.97	30/06/2015	6 ½ Years	PWLB
2,000,000	0.28	13/05/2015	5 Months	Gwent Police & Crime Commissioner
2,000,000	0.42	28/05/2015	5 Months	Calderdale Metropolitan Council
1,000,000	0.50	29/05/2015	6 Months	Derbyshire County Council Superannuation Fund
2,000,000	0.50	29/05/2015	6 Months	Derbyshire County Council Superannuation Fund

## Counterparties and Investments

6 The investment strategy for 2015-16 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.
- 7 A list of the current counterparties is included at Appendix B and there have been some changes to the list since the last report to Members.
- 8 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; this has increased from the previous advice that the maximum should only be for 3 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. As pension payments are made throughout the year the level of surplus cash will decrease. The investments held as at 21 August are detailed below.

Principal £	Rate %	Date of Loan	Period	Lender
3,080,000	0.45	N/A	Call	Barclays
900,000	0.40	N/A	Call	Bank of Scotland

## Recommendations

- 9 Members to recommend to the Fire and Rescue Authority that the:
- (i) amended Prudential Indicators set out in Appendix A be approved;
  - (ii) counterparties listed in Appendix B be noted;
  - (iii) new loans be noted.

## Appendix A

### PRUDENTIAL INDICATORS

		<b>2015/16</b> <b>£</b>	<b>2016/17</b> <b>£</b>	<b>2017/18</b> <b>£</b>
1	Capital Expenditure			
	Original Indicator	10,802,630	5,268,000	2,515,000
	New Indicator	12,183,962	5,268,000	2,515,000
2	Capital Financing Requirement			
	Original Indicator	37,656,038	39,425,456	38,868,389
	New indicator	37,271,769	39,023,991	38,452,303
3	Authorised Limit			
	Original Indicator	39,656,038	41,425,456	40,868,389
	New indicator	39,271,769	41,023,991	40,452,303
4	Operational Boundary			
	Original indicator	37,656,038	39,425,456	38,868,389
	New indicator	37,271,769	39,023,991	38,452,303
5	Ratio of Financing Costs to Net Revenue Stream			
	Original Indicator	9.76%	10.98%	11.21%
	New Indicator	9.37%	12.51%	12.94%
6	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities			
	Original Indicator	135,000	1,038,000	1,654,000
	New Indicator	171,000	1,132,000	1,293,000

## **Appendix B**

### **INVESTMENT COUNTERPARTIES**

#### **Banks – £5m Limit**

Barclays, HSBC, Lloyds, Santander UK and the Bank of Scotland.

#### **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**

Nationwide

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

Cambridge, Coventry, Cumberland, Leeds, National Counties, Nottingham, Progressive, Saffron and Yorkshire.