



## **AGENDA ITEM: 12**

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

**21 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.
- 2 This report was presented to the Audit Committee on the 14 September 2015 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.

#### **Introduction**

- 3 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**

- 4 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.

5 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

6 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

7 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.
- 8 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.
- 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; 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**

10 That Members:

- (i) approve the amended Prudential Indicators set out in Appendix A;
- (ii) note the counterparties listed in Appendix B;
- (iii) note the new loans.

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