



AGENDA ITEM: 9

NORTH WALES FIRE AND RESCUE AUTHORITY

15 June 2009

TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2008-2009

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 2008-2009. The report also covers the actual Prudential Indicators for 2008-2009 in accordance with the requirements of the Prudential Code.

TREASURY MANAGEMENT ACTIVITY 2008-2009

Summary of the Strategy Agreed for 2008-2009

- 2 The Authority's Treasury consultants, Butlers, predicted that the financial year 2008-2009 would see a growing uncertainty over future interest rates and as such the Authority took a cautious approach to its treasury strategy. The strategy was to take the most appropriate form of borrowing depending on the prevailing interest rates and consider the opportunities available for debt restructuring. Surplus funds should be invested according to the latest market forecasts.

Economic Background for 2008-2009

- 3 The large fall in interest rates was not forecast; the base rate started off the year at 5.25% and ended the year on 0.5%. PWLB short term borrowing fell from 4.56% to 0.83%. The concerns over the

Banking sector and the failure of a number of Banking Institutions made it difficult for Local Authorities investment strategies as the main priority was to ensure the security of funds. A large number of Local Authorities took a cautious approach and switched their investments from the Banks and Building Societies to the Bank of England sacrificing return for security. The Authority was not particularly 'caught' by the failure of banking institutions but took a cautious approach on investments and only invested short term in high rated British Banking Institutions. On the borrowing side the Authority took advantage of the fall in interest rates and borrowed when the rates were comparatively low and took the opportunities available for re-scheduling.

Borrowing Activity

- 4 Loans are taken out to finance the Fire and Rescue Authority's capital programme. New loans of £3.5m were taken out in 2008-2009 to fund the Capital Programme. However, £297,000 of the new borrowing is considered advance borrowing to finance capital spend in 2009-2010.

Re-scheduling

- 5 During the year loans totalling £7.9m were rescheduled, the interest rates on the redeemed loans were between 3.85% and 5%. The new replacement loans of £7.9m were taken out at interest rates of between 0.92% and 1.24%. A discount of £191,000 was received and the annual savings in interest payments to the Authority is £238,000.

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 Authority. The average balance of investments for the year was £1,500,000 and the balance of investments on 31 March 2009 was £1,650,000 compared to £3,070,000 on 31 March 2008.
- 8 The reduction in the Provisions held by the Authority and the change to the funding of the Firefighters' Pension Scheme has meant that there are less funds available for investment and, together with the impact of the fall in interest rates, the interest achieved from investments was £107,000 against a budget of £200,000.

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:

	2009 Actual £'000	2009 Original Indicator £'000
Borrowing position	15,013	18,084
Capital Financing Requirement	14,716	18,084

- 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 Council'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 2008-2009 plus the expected changes to the CFR over 2009-2010 and 2010-2011. The table above highlights that the Authority's net borrowing position has exceeded the CFR for 2008-

2009 by £297,000, this additional borrowing is advance borrowing for 2009-2010.

- 11 The Authorised Limit is the “Affordable Borrowing Limit” required by s3 of the Local Government Act 2003. The table below demonstrates that during 2008-2009 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.

	2008/09 £'000
Original Indicator - Authorised Limit	21,084
Original Indicator - Operational Boundary	18,084
Maximum borrowing position during the year	15,013
Minimum borrowing position during the year	11,654

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 2008-2009);

- 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.

RECOMMENDATIONS

- 15 It is recommended that Members:
- (i) approve the actual 2008-2009 Prudential Indicators; and
 - (ii) note the report on the Treasury Management activities for 2008-2009.

APPENDIX A

		2008/09 Actual	2008/09 Original Indicator
1	Capital Expenditure	5,651,189	6,314,000
2	Capital Financing Requirement	14,715,586	18,084,000
3	Borrowing	15,013,428	18,084,000
4	Investments	1,650,000	2,800,000
5	Authorised Limit	15,013,428	21,084,000
6	Operational Boundary	15,013,428	18,084,000
7	Ratio of Financing Costs to Net Revenue Stream	4.67%	5.77%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	113,023	143,378
9	Fixed Interest rate loans as a % of Total Borrowing	100%	55% - 100%
10	Variable rate loans as a % of Total Borrowing	0%	0% - 45%
11	Maturity Structure of Fixed Rate Borrowing		
	Under 12 months	29.28%	0% - 40%
	12 months to 2 years	39.39%	0% - 40%
	2 years to 5 years	16.65%	0% - 50%
	5 years to 10 years	0%	0% - 75%
	10 years and above	14.68%	0% - 100%