



AGENDA ITEM: 6

NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE

23 September 2013

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 2013-2014 were approved by the Fire Authority in March 2013. Since their approval the Prudential Indicators (PI's) estimated for 2013-2014 onwards have changed. Also there have been new loans and changes to the list of counterparties.

Prudential Indicators 2013-2014

- 3 The PIs for 2013-2014 have changed due to the actual expenditure on the capital programme for 2012-2013 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 2013-2014.
- 5 Capital expenditure has increased over the original estimate due to schemes that were not fully completed in 2012-2013 rolling over to 2013-2014. Appendix A lists the indicators reported in March and the revised indicators.

New Loans

- 6 No new PWLB loans have yet been taken out to support the capital programme this year. The Authority has £7m in short term loans taken out with other Local Authorities due to the interest rates being lower than that offered by the PWLB. These loans are currently renewed on maturity with other Local Authorities depending on the interest rates available at that time. All loans have been taken out to replace maturing loans. The details of the loans are as follows:-

Principal £	Rate %	Date of Loan	Period	Lender
2,000,000	0.34	13/05/2013	6 Months	Derbyshire County Council Superannuation Fund
1,000,000	0.34	31/05/2013	6 Months	Derbyshire County Council Superannuation Fund
2,000,000	0.38	31/05/2013	6 Months	Leicester City Council
2,000,000	0.35	01/07/2013	6 Months	Derbyshire County Council Superannuation Fund

Counterparties and Investments

7 The investment strategy for 2013-2014 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

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. 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 is currently higher than that usually held by the Authority as the annual pensions Top Up Grant from Welsh Government has just been received. The majority of the surplus cash is currently held in a call account with Barclays as the rate offered is higher than what could be achieved on the market and allows instant access to funds. As pension payments are made throughout the year the level of surplus cash will decrease and, as expenditure on the capital programme is incurred, this will also decrease the level of surplus cash as the strategy now being followed is to use cash to support borrowing needs rather than investing it on the market. The investments held as at 9 September are detailed below.

Principal £	Rate %	Date of Loan	Period	Lender
4,620,000	0.55	N/A	Call	Barclays
50,000	0.40	N/A	Call	Bank of Scotland

Recommendations

- 10 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

		2013/14 £	2014/15 £	2015/16 £
1	Capital Expenditure			
	Original Indicator	7,616,000	6,105,850	3,045,000
	New Indicator	10,332,222	6,105,850	3,045,000
2	Capital Financing Requirement			
	Original Indicator	30,099,000	32,562,000	32,684,000
	New indicator	31,249,881	33,653,910	33,717,365
3	Authorised Limit			
	Original Indicator	32,099,000	34,562,000	34,684,000
	New Indicator	33,249,881	35,653,910	35,717,365
4	Operational Boundary			
	Original Indicator	30,099,000	32,562,000	32,684,000
	New indicator	31,249,881	33,653,910	33,717,365
5	Ratio of Financing Costs to Net Revenue Stream			
	Original Indicator	8.73%	10.27%	11.18%
	New Indicator	7.87%	10.58%	11.60%
6	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities			
	Original Indicator	114,000	880,000	1,484,000
	New Indicator	155,000	847,000	1,223,000

Appendix B

INVESTMENT COUNTERPARTIES

Banks – £5m Limit

Barclays, HSBC, Lloyds TSB 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

Coventry and Nationwide

Building Societies (Assets £1bn) - £2m/9months Limit

Cumberland, Leeds, National Counties, Nottingham, Progressive and Yorkshire.