Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item No 12**

Report to	**North Wales Fire and Rescue Authority**
Date	**17 September 2018**
Lead Officer	**Ken Finch - Treasurer**
Contact Officer	**Ken Finch (01745 535286)**
Subject	**Treasury Management and Prudential Indicators**

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.

EXECUTIVE SUMMARY

2 The Prudential Indicators and the Treasury Management Strategy for 2018-2019 were approved by the Fire and Rescue Authority on 19 March 2018. Since their approval the Prudential Indicators (PIs) estimated for 2018-2019 onwards have changed.

RECOMMENDATION

3 That Members approve the amended Prudential Indicators set out in Appendix A.

OBSERVATIONS FROM THE AUDIT COMMITTEE

4 This report was presented to the Audit Committee on 10 September 2018 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.

INFORMATION

Prudential Indicators 2018-2019

5 The PIs for 2018-2019 have changed due to the actual expenditure on the capital programme for 2017-2018 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.

6 These three key indicators have all changed for 2018-2019. Capital expenditure has increased over the original estimate due to schemes that were not fully completed in 2017-2018 rolling over to 2018-2019.

7 The change to the Minimum Revenue Provision policy has also impacted on the indicators. Specifically, the 'ratio of financing costs to the net revenue stream' has reduced as the charge to revenue for capital expenditure on land and buildings was changed from repaying 4% of the outstanding balance every year to repaying over the life of the asset.

8 Appendix A lists the indicators reported in March and the revised indicators.

New Loans

9 No Public Works Loan Board (PWLB) loans have been taken out this year and where loans are maturing, these have been replaced with short term borrowing. The Authority now has £18,000,000 in short term loans taken out with other Local Authorities. It has been necessary to increase the amount of short term borrowing for cash flow purposes. However, going forward, this will decrease as the Pensions Top Up Grant will be received on 16 August 2018, so any maturing loans will not be replaced until the surplus funds have been utilised. The Authority has approved an upper limit of 55% of the loan portfolio for the total amount of loans maturing within 12 months. The current position is that 54% of loans will mature within 12 months. Short term loans are currently renewed on maturity with other Local Authorities depending on the interest rates available at that time. Currently there is sufficient liquidity in the market to renew or replace maturing loans as Local Authorities look outside the banking sector to place surplus funds short term.

Counterparties and Investments

10 The investment strategy for 2017/18 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.

11 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. However, any surplus cash is used to replace loans that would have been required to fund the capital programme, so any investments held are for cash flow purposes.

12 The surplus cash for investments held by the Authority on 13 August 2018 is lower than that usually held by the Authority as the Annual Pensions Top up Grant from the Welsh Government was received on 16 August 2018. The surplus cash is invested in two call accounts, Barclays and the Bank of Scotland, which allow instant access to funds. The investments held as at 13 August are detailed below.

Principal £	Rate %	Date of Loan	Period	Lender
10,000	0.40	N/A	Call	Bank of Scotland
40,000	0.30	N/A	Call	Barclays

Interest Rate Rises

13 Members may be aware that the Bank of England Base Rate was increased from 0.5% to 0.75% on the 2 August 2018. Treasury Management advisors, Arlingclose, are predicting further interest rate rises in December 2018 and June 2019 where it is predicted that the base rate will level off at 1.25%. As the Authority has a number of short term loans it is expected that rates will rise slightly in line with the increased base rate. However, when the budget was set for interest payments a rise in the base rate was factored in to the estimates to ensure there was sufficient budget to cover the additional costs.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objectives. Ensures that the purchase of assets to support front line service delivery is prudent, affordable and sustainable. Ensures there is sufficient investment in infrastructure to enable the service to provide emergency responses and prevention work well in to the future.
Budget	Budget is set annually for capital financing in line with the Treasury report.
Legal	The regulatory framework is set out in paragraph 1.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	Investment of surplus funds – there is a risk that the financial institution in which the service's funds are invested could fail with a loss of part of the principal invested. However, one of the purposes of the report is to mitigate this risk.

Appendix A

PRUDENTIAL INDICATORS

		2018/19 £	2019/20 £	2020/21 £
1	Capital Expenditure Original Indicator New Indicator	 4,949,000 5,889,652	 4,890,000 4,890,000	 3,959,000 3,959,000
2	Capital Financing Requirement Original Indicator New indicator	 37,988,000 37,666,346	 40,011,000 39,800,000	 40,938,000 40,839,000
3	Authorised Limit Original Indicator New indicator	 39,988,000 39,666,000	 42,011,000 41,800,000	 42,938,000 42,839,000
4	Operational Boundary Original indicator New indicator	 37,988,000 37,666,346	 40,011,000 39,800,000	 40,938,000 40,839,000
5	Ratio of Financing Costs to Net Revenue Stream Original Indicator New Indicator	 10.15% 8.03%	 10.94% 9.54%	 11.40% 9.98%
6	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities Original Indicator New Indicator	 29,000 44,000	 634,000 951,000	 1,116,000 1,390,000