



AGENDA ITEM: 10

NORTH WALES FIRE AND RESCUE AUTHORITY

21 June 2010

TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS FOR 2009-2010

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 2009-2010. The report also covers the actual Prudential Indicators for 2009-2010 in accordance with the requirements of the Prudential Code.

TREASURY MANAGEMENT ACTIVITY 2009-2010

Summary of the Strategy Agreed for 2009-2010

- 2 The Authority's Treasury consultants, Butlers, predicted that the financial year 2009-2010 would see the base rate fall from 1% to 0.5% with short term rates remaining low for the next couple of years. The recommendation was to take advantage of the cheaper short term debt by switching from longer term fixed rates. 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. A cautious approach should be taken to the investment of surplus funds, the longest investment should not exceed three months and all the information available on counterparties should be analysed before the investment is made.

Economic Background for 2009-2010

- 3 The economic forecast for 2009-10 predicted the base rate falling to 0.5% and a fall in the PWLB short term borrowing rate. The predictions for the year were correct and rates have remained at a constant low throughout the year with small fluctuations in the short term PWLB rate in reaction to changes in the market. Concerns over the Banking sector were still prevalent and the failure of a number of Banking Institutions in the previous year 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 still continued to invest surplus funds in the Bank of England rather than the Banks and Building Societies, sacrificing return for security. The Authority took a cautious approach on investments and only invested short term in British Banking Institutions and Building Societies on the counterparty list. On the borrowing side the Authority took advantage of the low interest rates and borrowed short term with a mixture of fixed and variable rates, as advised by Butlers. There were no opportunities for re-scheduling during the year.

Borrowing Activity

- 4 Loans are taken out to finance the Fire and Rescue Authority's capital programme. New loans of just under £1m were taken out in 2009-2010 to fund the Capital Programme. However, £850,000 of the new borrowing is considered advance borrowing to finance capital spend in 2010-2011. In 2009-10 £4,395,000 worth of fixed interest loans matured, these were replaced with variable rate loans to take advantage of the low interest rates.

Investments

- 5 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.
- 6 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 £3,500,000 and the balance of investments on 31 March 2010 was £4,020,000 compared to £1,650,000 on 31 March 2009.

- 7 The balance of the money available for investment has increased due to the advanced PWLB borrowing and the surplus grant funds held in the pension account. The budget for investment interest was set when the base rate was 5% since then the base rate fell to 0.5% and continued at this level throughout 2009-10. With the very low interest rates the interest achieved from investments was £27,000 against a budget of £200,000.

PRUDENTIAL INDICATORS

- 8 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:

	2010 Actual	2010 Original Indicator
	£'000	£'000
Borrowing position	15,972	20,522
Capital Financing Requirement	15,122	20,522

- 9 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 2009-2010 plus the expected changes to the CFR over 2010-2011 and 2011-2012. The table above highlights that the Authority's net borrowing position has exceeded the CFR for 2009-2010 by £850,000, this additional borrowing is advance borrowing for 2010-2011.

- 10 The Authorised Limit is the “Affordable Borrowing Limit” required by s3 of the Local Government Act 2003. The table below demonstrates that during 2009-2010 the Authority has maintained its gross borrowing within its Authorised Limit.
- 11 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.

	2009/10 £'000
Original Indicator - Authorised Limit	22,522
Original Indicator - Operational Boundary	20,522
Maximum borrowing position during the year	15,972
Minimum borrowing position during the year	15,013

REGULATORY FRAMEWORK, RISK AND PERFORMANCE

- 12 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.

13 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

- 14 It is recommended that Members:
- (i) approve the actual 2009-2010 Prudential Indicators; and
 - (ii) note the report on the Treasury Management activities for 2009-2010.

APPENDIX A

		2009/10 Actual	2009/10 Original Indicator
1	Capital Expenditure	2,573,924	5,606,000
2	Capital Financing Requirement	15,122,165	20,522,000
3	Borrowing	15,971,761	20,522,000
4	Investments	4,020,000	1,800,000
5	Authorised Limit	15,971,761	22,522,000
6	Operational Boundary	15,971,761	20,522,000
7	Ratio of Financing Costs to Net Revenue Stream	5.34%	6.18%
8	Incremental Impact of Capital Investment Decisions on the Contributions from the Constituent Authorities	30,244	123,325
9	Fixed Interest rate loans as a % of Total Borrowing	69.61%	55% - 100%
10	Variable rate loans as a % of Total Borrowing	30.39%	0% - 45%
11	Maturity Structure of Fixed Rate Borrowing		
	Under 12 months	37.03%	0% - 40%
	12 months to 2 years	16.65%	0% - 40%
	2 years to 5 years	33.52%	0% - 50%
	5 years to 10 years	0%	0% - 75%
	10 years and above	13.80%	0% - 100%