Mae'r ddogfen hon ar gael yn Gymraeg **Agenda Item 6**

Report to	**Audit Committee**
Date	**16 September 2019**
Lead Officer	**Ken Finch – Treasurer**
Contact Officer	**Ken Finch**
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 Capital and Treasury Management Strategies for 2019/20 were approved by the Authority on 18 March 2019. Since their approval the Prudential Indicators estimated for 2019/20 onwards have been updated to reflect the final outturn position for 2018/19.

RECOMMENDATION

3 That the Audit Committee recommends to the Fire and Rescue Authority the approval of the amended Prudential Indicators set out in Appendix A.

BACKGROUND

4 The Audit Committee has been tasked with ensuring effective scrutiny of the treasury management strategy and policies and, based on its findings, make recommendations to the Fire and Rescue Authority.

INFORMATION

Prudential Indicators 2019/20

5 The Prudential Indicators (PIs) for 2019/20 have changed due to the actual expenditure on the capital programme for 2018/19 being less than the estimated outturn with some schemes being carried forward to 2019/20. The schemes approved for 2019/20 have been subject to a review based on an assessment of service priorities. This has resulted in

some schemes being re-profiled and other schemes being removed from the programme.

6 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.

7 These three key indicators have all changed for 2019/20 due to the revisions to the Capital Programme for 2018/19 and 2019/20.

8 The reduction in the Minimum Revenue Provision (MRP) has also impacted on the indicators. Specifically the 'ratio of financing costs to the net revenue stream' has reduced the charge to revenue for capital expenditure due to the reduction of schemes in the capital programme.

9 Appendix A lists the indicators reported in March 2019 and the revised indicators.

Loans

10 One PWLB loan has been taken out this year to replace maturing loans. The loan was for £2.5m for 3.5 years at an interest rate of 1.6% with a commencement date of 16 April 2019.

11 The Authority has £17m in short term loans taken out with other Local Authorities. This is the level that has been approved by the Audit Committee.

12 The Authority has approved an upper limit of 55% of the loan portfolio for the amount of loans maturing within 12 months. The current position is that 51% of non-PWLB 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. At this time 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. Current interest rates on short term borrowing is between 0.75% and 0.9%.

Counterparties and Investments

13 The investment strategy for 2019/20 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.

14 The primary principle governing the Authority's investment criteria is the security of its investments. Currently any investments held are for cash flow purposes and any surplus cash is used to replace short term loans that would have been required to fund the capital programme.

15 The surplus cash for investments held by the Authority on 28 August 2019 is higher than that usually held by the Authority as the Annual Pensions Top up Grant from the Welsh Government has been received. 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 28 August are detailed below.

Principal £	Rate %	Date of Loan	Period	Lender
3,880,000	0.65	N/A	Call	Bank of Scotland
1,040,000	0.50	N/A	Call	Barclays

Interest Rates

16 The Authority's treasury management advisors, Arlingclose, are predicting that the base rate will remain at 0.75% for the foreseeable future. As the Authority has a number of short term loans it is expected that loans will be available at the current rates for which the budget provision is sufficient.

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

		2019/20 £	2020/21 £	2021/22 £
1	Capital Expenditure			
	Original Indicator	3,119,000	3,664,000	1,989,000
	New Indicator	2,052,649	3,664,000	1,989,000
2	Capital Financing Requirement			
	Original Indicator	35,206,000	36,221,000	35,360,000
	New indicator	33,198,808	34,518,435	33,962,007
3	Authorised Limit			
	Original Indicator	37,206,000	38,221,000	37,360,000
	New indicator	35,198,808	36,518,435	35,962,007
4	Operational Boundary			
	Original indicator	35,206,000	36,221,000	35,360,000
	New indicator	33,198,808	34,518,435	33,962,007
5	Ratio of Financing Costs to Net Revenue Stream			
	Original Indicator	8.97%	9.13%	9.68%
	New Indicator	7.83%	8.13%	8.56%