

Report to	Audit Committee
Date	29/07/2019
Lead Officer	Ken Finch - Treasurer
Contact Officer	Ken Finch
Subject	Treasury Management Activity and Actual Prudential Indicators for 2018/19



PURPOSE OF REPORT

- 1 The annual treasury report is a requirement of the Fire and Rescue Authority's reporting procedures and covers the treasury activity for 2018/19. The report also covers the actual Prudential Indicators for 2018/19 in accordance with the requirements of the Prudential Code.

EXECUTIVE SUMMARY

- 2 The Fire and Rescue Authority's treasury management activities are regulated by a variety of professional codes, statutes and guidance. It is a requirement that a report is presented to Members at the end of the financial year detailing the activity for the year and comparing the indicators set at the start of the year against the actual indicators. The report informs Members of activity in relation to borrowings and investments, and comments on the economic background for the year.

RECOMMENDATION

- 3 That the Audit Committee makes a recommendation to the Fire and Rescue Authority to approve the actual 2018/19 Prudential Indicators.

BACKGROUND

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

INFORMATION

TREASURY MANAGEMENT ACTIVITY 2018/19

Summary of the Strategy Agreed for 2018/19

- 5 The Authority's Treasury consultants, Arlingclose, predicted that the financial year 2018-2019 would see Public Works Loan Board (PWLb) rates rise in the shorter term, and the base rate to remain at 0.50%. The

recommendation was to delay borrowing activity as long as possible and to use reserves and balances to fund, on a temporary basis, new loan debt. However, if there is a need to borrow, any new debt should be for longer than 5 years due to the current maturity profile of the debt portfolio and the need to mitigate the risk of possible interest rate changes. A cautious approach should be taken to the investment of surplus funds, with cash deposits in banks or building societies being utilised for cash flow purposes and other vehicles being utilised for any longer term investments such as those with other Local Authorities.

- 6 The prediction for changes to the interest rate was revised mid-year following the economic uncertainty due in part to the Brexit negotiations. The interest rate rose to 0.75% in August 2018 and the prediction at the time was that it would remain at this level for the foreseeable future. However, the estimate has now been revised and the prediction is that there may be a further rise towards the end of 2019.

Borrowing Activity

- 7 Loans are taken out to finance the Fire and Rescue Authority's capital programme. No new PWLB loans were taken out to replace maturing Equal Instalments of Principal (EIP) loans. The total of PWLB loans held by the Authority at 31 March 2019 was £15.5m.
- 8 The Authority has £17m in short term loans taken out with other Local Authorities. The Authority has approved an upper limit of 55% of the loan portfolio for the amount of loans maturing within 12 months. The position at 31 March 2019 was that 52% of loans will mature within 12 months, which does not include EIP and Annuity PWLB loans. Short term loans are currently renewed on maturity with other Local Authorities depending on the interest rates available at that time. There is currently 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.
- 9 The outstanding loan debt as at 31 March 2018 was £32.5m which included the £17m temporary borrowing. The Authority borrowed £907k less than its Capital Financing Requirement (CFR) for 2018/19, mainly due to the Authority holding reserves. The actual interest payable was £508,918 compared to the budget of £600,000.

Counterparties and Investments

10 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.

11 The investment strategy for 2018/19 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.

12 All surplus monies were invested on the market by Conwy County Borough Council on behalf of the Fire and Rescue Authority. The core balance of investments for the year was around £500,000 and the balance of investments on 31 March 2019 was £550,000 compared to £1,425,000 on 31 March 2018. The average rate achieved on investments was 0.46% and the money was mostly held within instant access call accounts so the Authority's liquidity position was maintained.

13 The balance of money available for investment has decreased significantly as surplus funds have been used to finance the capital programme in the short term. The budget for investment interest was £7,000 and the actual interest achieved was £11,841.

Prudential Indicators

- 14 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:

	2019 Actual £'000	2019 Revised Indicator £'000
Borrowing position	32,475	37,666
Capital Financing Requirement	33,382	37,666

- 15 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 2018/19 plus the expected changes to the CFR over 2019/20 and 2020/21. The table above shows the gross borrowing position was lower than the CFR for 2018/19 by £907k.
- 16 The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2018/19 the Authority has maintained its gross borrowing within its Authorised Limit.
- 17 The Operational Boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either under or over the Boundary are acceptable subject to the Authorised Limit not being breached.

	2018/19 £'000
Revised Indicator - Authorised Limit	39,666
Revised Indicator - Operational Boundary	37,666
Maximum borrowing position during the year	35,117
Minimum borrowing position during the year	32,475

REGULATORY FRAMEWORK, RISK AND PERFORMANCE

- 18 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 2018-2019);
 - 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;
 - Investment Guidance issued under the Act by the National Assembly for Wales to structure and regulate the Authority's investment activities.
- 19 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 that its treasury practices demonstrate a low risk approach.

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 18.
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.

PRUDENTIAL INDICATORS

		2018/19 Actual £	2018/19 Revised Indicator £
1	Capital Expenditure	1,856,096	5,889,652
2	Capital Financing Requirement	33,381,935	37,666,346
3	Borrowing	32,475,106	37,666,346
4	Authorised Limit	35,445,048	39,666,000
5	Operational Boundary	35,445,048	37,666,346
6	Ratio of Financing Costs to Net	7.91%	8.03%
7	Investments	550,000	1,000,000
8	Fixed Interest rate loans as a % of Total Borrowing	100%	55% - 100%
9	Variable rate loans as a % of Total Borrowing	0%	0% - 35%
10	Maturity Structure of Fixed Rate Borrowing		
	under 12 months	52%	0% - 55%
	12 months to 2 years	18%	0% - 45%
	2 years to 5 years	19%	0% - 45%
	5 years to 10 years	3%	0% - 75%
	10 years and over	8%	0% - 100%