

Report to	Audit Committee
Date	4 June 2018
Lead Officer	Ken Finch, Treasurer
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Subject	Treasury Management Activity and Actual Prudential Indicators for 2017-2018



PURPOSE OF REPORT

- 1 The annual treasury report is a requirement of the Authority's reporting procedures and covers the treasury activity for 2017-2018. The report also covers the actual Prudential Indicators for 2017-2018 in accordance with the requirements of the Prudential Code.

EXECUTIVE SUMMARY

- 2 The 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 with regards borrowings and investments and comments on the economic background for the year.

RECOMMENDATION

- 3 That Members recommend the Fire Authority approve the actual 2017-2018 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 make recommendations to the Fire and Rescue Authority.

INFORMATION

TREASURY MANAGEMENT ACTIVITY 2017-2018

Summary of The Strategy Agreed for 2017-2018

- 5 The Authority's Treasury consultants, Arlingclose, predicted that the financial year 2017-2018 would see PWLB rates rise in the longer term and the base rate to remain at 0.25%. The recommendation was to

delay borrowing activity as long as possible and use reserves and balances to temporary fund 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 cashflow purposes and other vehicles being utilised for any longer term investments such as investments with other local authorities.

- 6 The prediction for changes to the interest rate were revised mid-year following the economic uncertainty due in part to the Brexit negotiations. The interest rate rose to 0.5% in November 2017 and the prediction at the time was that they could rise further. However, these estimates have now been revised and the prediction is that it will remain at 0.5% for the foreseeable future.

Borrowing Activity

- 7 Loans are taken out to finance the Fire and Rescue Authority's capital programme. One PWLB loan for £2m was taken out to replace maturing EIP loans and two loans for £1m were taken out to reduce the level of short term borrowing. The total of PWLB loans held by the Authority at 31 March 2018 was £18.4m.
- 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 2018 was that 55% of loans will mature within 12 months which 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. 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.
- 9 The outstanding loan debt as at 31 March 2018 was £35.4m which includes the £17m temporary borrowing. The Authority borrowed slightly above its' Capital Financing Requirement (CFR) for 2017-2018 by £1.4m this was due mainly to cashflow requirements at year end. The actual interest payable was £454,878 compared to the budget of £570,000.

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 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.
- 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 2018 was £1,425,000 compared to £375,000 on 31 March 2017. The average rate achieved on investments was 0.30% 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 £3,120.

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:

	2018 Actual £'000	2018 Revised Indicator £'000
Borrowing position	35,445	36,132
Capital Financing Requirement	33,949	36,132

- 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 2017-2018 plus the expected changes to the CFR over 2018-2019 and 2019-2020. The table above shows the gross borrowing position was slightly higher than the CFR for 2017-2018 by £1.5m. However, if investments and the expected changes to the CFR for 2018-2019 and 2019-2020 are taken in to account the limit has not been exceeded.
- 16 The Authorised Limit is the "Affordable Borrowing Limit" required by s3 of the Local Government Act 2003. The table below demonstrates that during 2017-2018 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, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

	2017/18 £'000
Revised Indicator - Authorised Limit	38,132
Revised Indicator - Operational Boundary	36,132
Maximum borrowing position during the year	35,445
Minimum borrowing position during the year	31,599

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 2017-2018);
 - 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.
- 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 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

		2017/18 Actual £	2017/18 Revised Indicator £
1	Capital Expenditure	3,729,310	5,467,436
2	Capital Financing Requirement	33,949,137	36,132,417
3	Borrowing	35,445,048	36,132,417
4	Authorised Limit	35,445,048	38,132,417
5	Operational Boundary	35,445,048	36,132,417
6	Ratio of Financing Costs to Net	7.95%	9.25%
7	Investments	1,425,000	1,500,000
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	55%	0% - 55%
	12 months to 2 years	8.38%	0% - 45%
	2 years to 5 years	21.58%	0% - 45%
	5 years to 10 years	6.36%	0% - 75%
	10 years and above	8.53%	0% - 100%