NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

TREASURY MANAGEMENT ANNUAL REPORT 2009/10

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 17 September 2010

Purpose of Report:

To give Members a comprehensive picture of all treasury management policies, plans, activities and results for the financial year 2009/10.

CONTACT OFFICER

Name : Neil Timms
Head of Finance and Resources

Tel : 0115 967 0880

Email : neil.timms@notts-fire.gov.uk

Media Enquiries Contact : Elisabeth Reeson
(0115) 967 5889 elisabeth.reeson@notts-fire.gov.uk

1. BACKGROUND

1.1 The Authority has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and fully complies with its requirements. The primary requirements of the Code are the:

Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities

Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.

Receipt by the Authority of an annual strategy report for the year ahead, a mid year review and an annual review report of the previous year.

Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

1.2 Treasury management in this context is defined as:

"The management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.3 The Authority is required under the code to provide an annual report looking back at the previous financial year on its treasury management activities. This report covers the 2009/10 financial year.

2. REPORT

TREASURY POSITION

2.1 The Authority's debt and investment position at the beginning and the end of the year was as follows:

	31 March 2010		31 March 2009	
	Principal £m	**Weighted Average rate %**	**Principal £m**	**Weighted Average rate %**
Fixed rate borrowing: PWLB				
Maturing:				
Within 5 years	7.305		5.289	
5 to 10 years	6.896		2.376	
10 – 15 years	1.612		0.199	
Over 15 years	4.900		4.900	
Total PWLB Debt	20.713	3.97%	12.764	4.02%
Fixed rate borrowing:				
Dexia Bank (maturing over 15 years)	4.000	4.13%	4.000	4.13%
Nottinghamshire County Council (less than 1 year)	0		1.500	1.25%
Investments (short term)	5.400	0.356%	2.656	3.46%

OVERVIEW OF CAPITAL TRANSACTIONS

2.2 A report on proposed capital expenditure and capital financing plans was submitted to the Authority on 20th February 2009. Members approved this report and the plans set out within it.

Planned (plus slippage from 2008/09 and approved variations in the year) and actual capital expenditure for 2009/10 were as follows:

Capital Expenditure 2009/10	**Planned £000's**	**Actual £000's**
Transport Programme	2,936	2,964
Property Programme	3,705	2,359
Equipment Programme	30	169
ICT Programme	1,011	539
Total	7,682	6,031

2.3 The underspend on the Property capital programme was mainly due to the major refurbishment at Tuxford Fire Station and Carlton Fire Station slipping forward into 2010/11(total amount not spent £1,659k). The Equipment programme overspent in the year due to the replacement of gym equipment across the fire stations, funded from an earmarked reserve totalling £169k. The ICT programme underspend of £472k was due to key projects being progressed in the year but not completed. This budget therefore will slip into 2010/11.

2.4 The Authority's capital financing requirement is the sum of money, to be obtained from external sources, to fund capital expenditure. It excludes revenue funding used to finance capital and it also excludes capital receipts used to finance capital. The Authority's capital financing requirement at the beginning and the end of the year was as follows:

	£000's
Capital Financing Requirement at 31 March 2009	24,170
Capital Financing Requirement at 31 March 2010	28,056

During the year, the following sources of funding were used to finance capital expenditure:

	£000's
Revenue Contributions	335
New borrowing	4,948
Capital Receipts	10
Government Grants	738
Total Financing of Capital Expenditure	6,031

THE ECONOMY

2.5 The financial year started with markets still badly disrupted following on from 2008/09, with great anxiety existing as to how soon a recovery would take place. The bank rate of 0.5% remained throughout the year but further help was still required for the economy. This led to the Monetary Policy Committee injecting money into the economy through quantitative easing in November 2009.

2.6 The recession is believed to have bottomed out in quarter 1 of 2009 but the growth in the final part of the year was a major disappointment with only a 0.4% increase in GDP (Gross Domestic Product). Nevertheless there was more confidence and optimism about the economy even though this does appear to be fragile at the end of the year. This optimism was enhanced with strong economic growth seen in the US during the end of 2009.

2.7 The main impact of this on the Authority is that a low level of return was being received on investments throughout the year although the Authority benefited to some extent from the lower rates on borrowing. These effects can be seen in the section on Treasury Position.

BORROWING OUTTURN FOR 2009/10

2.8 The Authority, advised by Sector, made a decision to borrow from the PWLB to finance the capital programme during December and March. To balance the loan maturity of the total debt portfolio and in line with the Treasury Management Strategy, five loans were taken with relatively short maturity dates. The details are shown in the table below:

Term of Loan (years)	Amount	Maturity date	Interest rate
11	£1.5m	14/06/2020	3.97%
9	£1.5m	14/12/2018	3.76%
7	£2m	25/09/2016	3.41%
8	£2m	25/09/2017	3.69%
9	£1m	25/06/2018	3.91%

As a comparative performance indicator, the average PWLB maturity loan interest rate for 9.5 to 10 year loans during 2009/10 was 3.93%.

2.9 The Authority's performance against the prudential code indicators for the year was as follows:

Prudential Indicator 1: that the level of borrowing does not exceed the Authorised Limit.

- As at the 31st March 2010, the level of borrowing was £24.713m, which is within the limit of £28.041m.

Prudential Indicator 2: that the Authority's bank balance is maintained within the approved overdraft limit of £500k.

- Throughout the year 2009/10 the bank balance remained positive.

Prudential Indicator 3: that the upper limits for interest rate exposure are not breached – fixed rate exposure upper limit is 100%, variable rate exposure limit is 30%

- During the year all lending was at fixed interest rates.

Prudential Indicator 4: that the limits relating to the maturity structure of borrowings are not breached

Loan maturity profile

Term of Loan	**Upper Limit**	**Lower Limit**	**Actual Performance**
Under 12 months	20%	0%	0%
12 months to 5 years	30%	0%	29%
5 years to 10 years	75%	0%	28%
10 years to 20 years	100%	20%	7%
Over 20 years	100%	20%	36%

The table above shows that loans maturing in the 12 months to 5 years period are close to the limit and that loans maturing in the 10 to 20 years period are below the lower limit. This position will be redressed during 2010/11 when further borrowing is taken.

INVESTMENT OUTTURN FOR 2009/10

2.10 The Authority manages its investments in-house, and invests with the institutions listed on its approved lending list. The Authority invests for a range of periods from overnight to up to one year, dependent on cash flows, its interest rate view and the interest rates on offer. Overnight investments and / or investments with a value of less than £1,000,000 can be difficult to place with institutions on the approved lending list or may attract relatively low rates of interest. In these situations surplus cash may be deposited in the investment account with our bankers, Barclays Bank PLC. Consequently, surplus cash which has not been placed with other lending list institutions has only been invested with Barclays Bank.

2.11 The official bank rate was 0.5% at the start of the financial year and has remained at this level. With the low bank rate and limited number of counterparties available on the approved lending list there was relatively low income received from investments. The income received was increased by the new borrowings taken out in the year to replace reserves used during 2008/09 to finance the capital programme.

2.12 Cashflow forecasts are prepared covering a period of 3 years and are checked and maintained on a daily basis. The aim is to ensure that there are sufficient funds in the Authority's bank account to pay all creditors as they fall due, whilst keeping the bank account balance to a minimum level and investing any surplus cash. As forecasts can sometimes be incorrect, for example if income receipts are unexpectedly delayed, the Authority has an approved overdraft limit of £200,000 and a prudential limit of £500,000 for the maximum overdraft. During 2009/10, the overdraft was not utilised at any point.

2.13 During the year the Authority maintained the policy of lending only to institutions on the approved lending list, this was reviewed during the year to take into account changes in institutions' credit ratings.

2.14 In the last annual report the Authority had a £2m investment with the Bank of Ireland. This investment was placed when the Bank of Ireland's credit rating met the credit rating criteria but this rating subsequently fell to the extent that the bank was removed from the Authority's lending list. The investment was repaid at the end of its term during the financial year 2009/10.

2.15 In the financial year 2009/10 the Authority earned interest from investments of £63k against a budgeted interest of £220k. The deficit on investment income is due to the significant drop in interest rates within the current economic climate as set out above.

3. FINANCIAL IMPLICATIONS

The financial implications of this report are set out in full within the body of the report.

4. PERSONNEL IMPLICATIONS

There are no personnel implications arising directly from this report.

5. EQUALITY IMPACT ASSESSMENT

There are no equalities issues arising directly from this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising directly from this report.

7. RISK MANAGEMENT IMPLICATIONS

The Prudential Code is a framework which sets out to quantify and minimise financial risk arising from the financing of capital, the investment of surplus funds and the maintenance of operating cash balances for the Authority. The favourable performance against the prudential targets demonstrates that these areas of operation are being managed effectively.

8. RECOMMENDATIONS

That Members note the contents of this report

9. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None

PETER HURFORD
TREASURER TO THE FIRE AUTHORITY