Meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY FINANCE AND RESOURCES COMMITTEE	
Date	**13 OCTOBER 2006**	agenda item number

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE TREASURER OF THE FIRE & RESCUE AUTHORITY

TREASURY MANAGEMENT ANNUAL REPORT 2005/06

1. PURPOSE OF REPORT

The purpose of this report is to give Members a comprehensive picture of all Treasury Management policies, plans, activities and results for the financial year 2005/06.

2. BACKGROUND

2.1. The Local Government Act 2003 requires the Authority to set out its treasury strategy for borrowing and to prepare an annual investment strategy; this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.2. 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 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.

2.3. 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.".

3. TREASURY POSITION

3.1. The Council's debt and investment position at the beginning and the end of the year was as follows:

	31 March 2006		31 March 2005	
	Principal £m	**Average rate %**	**Principal £m**	**Average rate %**
Fixed rate borrowing:				
PWLB				
Maturing:				
Within 5 years	0.881		0.467	
5 to 10 years	0.822		0.602	
10 – 15 years	.0861		0.776	
Over 15 years	1.403		0.275	
Total Debt	3.967	4.622%	2.120	5.133%
Investments (short term)	3.700	4.530%	3.200	4.820%

4. OVERVIEW OF CAPITAL TRANSACTIONS

4.1. A report on proposed capital expenditure and capital financing plans was submitted to the Authority on 25 February 2005. Members approved this report and the proposed prudential indicators set out within it.

4.2. Planned and actual capital expenditure for 2005/06 was as follows:

Capital Expenditure 2005/06	**Planned £000's**	**Actual £000's**
Transport	1,062	145
Property	1,500	1,077
Information Technology & Communications	1,118	471
Total	3,680	1,693

4.3. There were significant underspends in all areas of the capital programme. The property underspend is mainly due to delays in commencing the building of the new fire station at Harworth. The transport underspend is mainly due to delays in the specification of fire appliances pending the outcome of reviews of services within the Authority. The underspend on IT and communications is mainly due to delays on the FireLink project and the IT replacement programme.

4.4. The underspend on the capital programme has resulted in less funding being required to finance the capital expenditure which took place. The 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.

4.5 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 2005	5,647
Capital Financing Requirement at 31 March 2006	6,837

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

	£000's
Borrowing from Public Works Loan Board	1,090
Operating Leases	443
Revenue Financing	160
Total Financing of Capital Expenditure	1,693

4.7 Actual borrowing from the Public Works Loan Board (PWLB) in 2005/06 was £2.0m. The prudential code allows for planned borrowing to finance capital expenditure within a three year Medium Term Financial Strategy and the element of the loan which has not been applied to capital financing as at 31 March 2006 has been invested at a favourable rate of interest.

5. BORROWING OUTTURN FOR 2005/06

5.1. The PWLB 25-30 year rate started the year at 4.750% and fell to a low of 3.85% before rising back to a new peak of 4.25% at the end of the year. Fifty year gilts were launched by the Government in 2005 and on 7 December 2005, the PWLB introduced new PWLB borrowing maturity periods longer than 25 - 30 years and up to a maximum of 45 - 50 years. This longest band started at a rate of 4.20% (compared to 4.30% for 25 - 30 year borrowing) and the rate bottomed at 3.70% in late January before ending the year at 4.15%.

5.2. The Authority borrowed £0.5m from the PWLB on 6 September 2005 at a fixed interest rate of 4.2% over a period of 7.5 years. A second PWLB loan of £0.5m was taken on the same date at a fixed interest rate of 4.35% over a period of 26 years. A third PWLB loan of £1.0m was taken on 11 January 2006 at a fixed interest rate of 3.9% over a period of 46.5 years.

5.3. As comparative performance indicators, average PWLB maturity loan interest rates for 2005/06 were:

Term of Loan	Average Rate
1 year loans	4.43%
7 to 8 year loans	4.44%
25 to 30 year loans	4.35%
45 to 50 year loans	4.00%

This demonstrates that our second loan in the year was at a rate which equalled the average rate for the year and the first and third loans were at rates which were lower than the averages for the year.

5.4 Our performance against the prudential code indicators for the year has already been reported to Members of Finance and Resources Committee in the Prudential Code Monitoring Report to 31 March 2006, which was considered at the 15 September 2006 meeting. Our performance against the indicators which related to borrowing was within the targets, as shown in the tables below:

Term of Loan	Loan maturity profile Upper Limit	Lower Limit	Actual Performance
Under 12 months	20%	0%	0.00%
12 months to 5 years	20%	0%	14.96%
5 years to 10 years	75%	0%	35.31%
Over 10 years	90%	25%	49.73%

5.5 The Authority set prudential limits for 2005/06 relating to the amount of indebtedness which could be sustained. These limits are the Operational Boundary, which reflects the Authority's most likely total debt at any time in the year, and the Authorised Limit, which reflects the maximum total debt at any time in the year. The Authorised Limit allows headroom over the Operational Boundary to take account of the possible need to borrow short term to cover unusual cashflow movements.

5.6 The Operational Boundary for 2005/06 was ££7.983m and the Authorised Limit for 2005/06 was £8.781m. The actual maximum amount of indebtedness during the year was £4.037m, which was well within both limits.

6. INVESTMENT OUTTURN FOR 2005/06

6.1. The Authority manages its investments in-house and invests with the institutions listed on the 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 either in the investment account with our bankers, Barclays Bank PLC or in an investment account (Base Plus Account) with the Bank of Scotland.

6.2. 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. The highest level of overdraft in the year was £122,000.

6.3. During the year the Authority maintained the policy of lending only to institutions on the approved lending list. A variety of investments were made, with sums ranging from £250,000 to £4,000,000 and periods of investment ranging from overnight to 6 months.

6.4. The Authority set the following prudential limits for interest rate exposures in 2005/06:

Upper limit for variable rate interest exposures	30%
Upper limit for fixed rate interest exposures	100%

In 2005/06, 100% of investments were made at fixed rates of interest.

6.5. An interest earned target of £70,000 was set for 2005/06. The actual amount of interest earned was £158,070.

7. PERSONNEL IMPLICATIONS

There are no personnel implications which arise directly from this report.

8. FINANCIAL IMPLICATIONS

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

9. EQUAL OPPORTUNITIES IMPLICATIONS

There are no equal opportunities implications arising from this report.

10. 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.

11. RECOMMENDATIONS

That Members note the contents of this report.

12. BACKGROUND PAPERS

Prudential Code for Capital Accounting: report to Combined Fire and Rescue Authority 25 February 2005.

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