meeting	**NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY**	
	FINANCE & RESOURCES COMMITTEE	
date	**13 JULY 2007**	agenda item number

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE TREASURER

TREASURY MANAGEMENT ANNUAL REPORT 2006/07

1. PURPOSE OF REPORT

To give Members a comprehensive picture of all Treasury Management policies, plans, activities and results for the financial year 2006/07.

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:

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

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

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

2.2.4. 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:

2.3.1. "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 2007		31 March 2006	
	Principal £m	**Average rate %**	**Principal £m**	**Average rate %**
Fixed rate borrowing: PWLB				
Maturing:				
Within 5 years	0.260		0.881	
5 to 10 years	0.339		0.822	
10 – 15 years	0.356		0.861	
Over 15 years	4.906		1.403	
Total Debt	5.861	4.345%	3.967	4.622%
Investments (short term)	1.685	4.922%	3.700	4.530%

4. OVERVIEW OF CAPITAL TRANSACTIONS

4.1. A report on proposed capital expenditure and capital financing plans was submitted to the Authority on 24 February 2006. Members approved this report and the plans set out within it.

4.2. Planned (plus slippage from 2005/06 and approved variations in the year) and actual capital expenditure for 2006/07 was as follows:

Capital Expenditure 2006/07	**Planned £000's**	**Actual £000's**
Transport	2,531	1,200
Property	3,205	1,734
Information Technology & Communications	1,713	529
Specialist Operational Equipment	600	614
Total	8,049	4,077

4.3. Two major projects in the capital programme slipped significantly and the slippage is carried forward to future years. Thee two projects were the building of the new fire station at Hassocks Lane and the major alterations to Service Headquarters. The procurement of fire appliances and other vehicles was delayed pending the results of the Best Value Review into Road Traffic Collisions and the slippage is carried forward to 2007/08. An extensive range of projects was included in the Information Technology capital programme and it was recognised during the year that a number of projects would have to be deferred so that resources could be focused on delivering the IT modernisation programme. The slippage is carried forward to 2007/08.

4.4. 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 2006	6,837
Capital Financing Requirement at 31 March 2007	10,324

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

	£000's
Borrowing from Public Works Loan Board	2,972
Capital receipts	19
Operating Leases (to be leased)	389
Government Grants	373
Revenue Financing	324
Total Financing of Capital Expenditure	4,077

4.6. Actual borrowing from the Public Works Loan Board (PWLB) in 2006/07 was £2.0m. The prudential code allows for planned borrowing to finance capital expenditure within a three year Medium Term Financial Strategy and borrowing in 2005/06, which had not been applied to capital financing as at 31 March 2006 has been used to finance 2006/07 capital expenditure.

5. BORROWING OUTTURN FOR 2006/07

5.1. The PWLB 45-50 year rate started the year at 4.20% (25-30 year at 4.30%) and fell to a low of 4.05% several times in late September to early November (25-30 year low was 4.20% in September and November). The high point for 45-50 year was 4.50% in late March 2007 (25-30 year had several highs of 4.65% in January to March 2007) before finishing the year at 4.45% (25-30 year 4.65%).

5.2. The Authority borrowed £2m from the PWLB on 27 November 2006 at a fixed interest rate of 4.1% over a period of 45.5 years.

5.3. In addition, the Authority's debt portfolio was restructured in February, following discussions with Sector, our Treasury Management advisers, about the PWLB favourable interest rate profile. One new loan of £1.9m was taken with a rate of 4.35% and used to repay five existing loans with a total outstanding principal of £1.905m. The maturity profile has altered as a consequence, with a higher proportion of debt now maturing in more than ten years time. The proportion (89.2%) is still within the prudential indicator limit of 90%. The benefit of the restructuring is ongoing savings in interest payments of £3k per annum. In addition the Authority received a discount of £65k, which will be credited to the revenue account over the term of the new loan (46.5 years), generating savings of almost £1.5k per annum.

5.4. As comparative performance indicators, average PWLB maturity loan interest rates for 2006/07 were:

Term of Loan	Average Rate
1 year loans	5.13%
9 to 10 year loans	4.83%
25 to 30 year loans	4.44%
45 to 50 year loans	4.27%

This demonstrates that the first loan was at a rate below the average rate for the year. Although the second loan was above the average rate, it still represented good value when compared to the interest rates of the loans it replaced.

5.5. Our performance against the prudential code indicators for the year was as follows:

Loan maturity profile

Term of Loan	**Upper Limit**	**Lower Limit**	**Actual Performance**
Under 12 months	20%	0%	0.6%
12 months to 5 years	20%	0%	4.5%
5 years to 10 years	75%	0%	5.7%
Over 10 years	90%	25%	89.2%

5.6. The Authority set prudential limits for 2006/07 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.

5.7. The Operational Boundary for 2006/07 was £13.743m and the Authorised Limit for 2006/07 was £15.117m. The actual maximum amount of indebtedness during the year was £5.888m, which was well within both limits.

6. INVESTMENT OUTTURN FOR 2006/07

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. The official bank rate was 4.5% at the start of the financial year and increased three times in the year, ending at 5.25%. This has resulted in higher amounts of interest earned on short term lending than was predicted when the interest received budget was set. An interest earned target of £150,000 was set for 2006/07. The actual amount of interest earned was £190,000.

6.3. 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 £383,000.

6.4. 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 £200,000 to £5.2m and periods of investment ranging from overnight to 92 days.

6.5. 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 2006/07, 100% of investments were made at fixed rates of interest.

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. EQUALITY IMPACT ASSESSMENT

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 FOR INSPECTION

Prudential Code for Capital Accounting: report to Combined Fire and Rescue Authority 24 February 2006.

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