NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

PRUDENTIAL CODE MONITORING REPORT TO 28 FEBRUARY 2011

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 1 April 2011

Purpose of Report:

To inform Members of performance up to 28 February 2011 relating to the prudential indicators for capital accounting and treasury management.

To explain the implications of a breach in one of the prudential indicators, and to recommend that no corrective action be taken in the immediate future to remedy the position.

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1. BACKGROUND

1.1 The Local Government Act 2003 set out a framework for the financing of capital investments in local authorities. The principles underpinning this framework offer more freedom in the way that capital expenditure is financed such that local authorities may choose the level of capital expenditure (and thus financing) which best suits their needs and investment priorities.

1.2 In order to assist authorities in determining the most appropriate levels of spending and indebtedness, the Chartered Institute of Public Finance and Accountancy (CIPFA) has developed a “Prudential Code” which requires a number of limits and indicators to be set each year.

1.3 The Fire Authority approved these “prudential limits” for 2010/11 at its meeting on 19 February 2010.

1.4 The Prudential Code requires that local authorities report performance against prudential targets to Members.

2. REPORT

2.1 In terms of borrowing, the Authority set an operational boundary for 2010/11 of £32.746m and an authorised limit of £36.021m. Although these limits are year end targets, the Authority is required to demonstrate that it has not exceeded them at any time during the financial year. During the period 1 April 2010 to 28 February 2011 the indebtedness of the Authority, calculated at the start of each month, did not exceed £26.792m, including any requirements for temporary overdrafts thus keeping within these limits.

The graph given as Appendix B illustrates the levels of borrowing during the period up to the end of February 2011.

2.2 A graph of cumulative interest received is shown on Appendix C. An interest earnings target of £50,000 was set for 2010/11. As at 28 February 2011, £43k had been received, although interest earned to this date was £64k (some of this amount due will be received when the investments mature). The target for the year will, therefore, be exceeded, although the reason for this is that there has been more surplus cash to invest in the year – interest rates remain at a low level. The prudential targets relating to interest rate exposure are that fixed interest rate exposures should be between 0% and 100% of total lending and that variable interest rate exposures should be between 0% and 30%. During the period up to 28 February 2011, 100% of lending was at fixed interest rates.

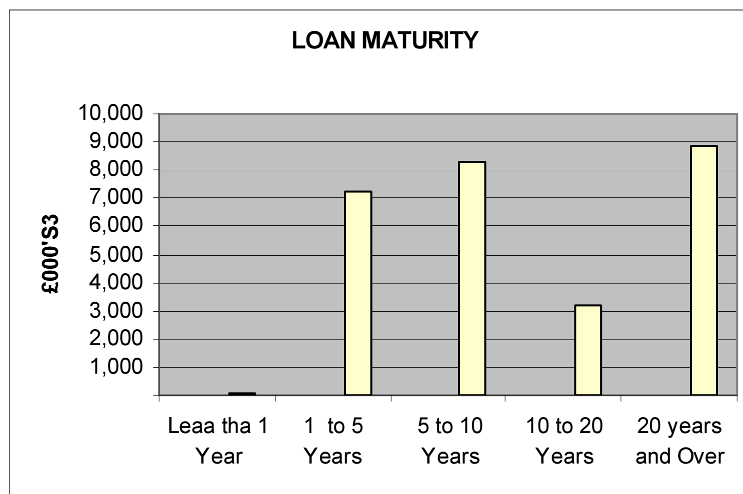
2.3 The prudential target in respect of cash management is that the Authority’s bank overdraft should not exceed £500,000. During the three month period up to 28 February 2011 the account has not been overdrawn. A graph of

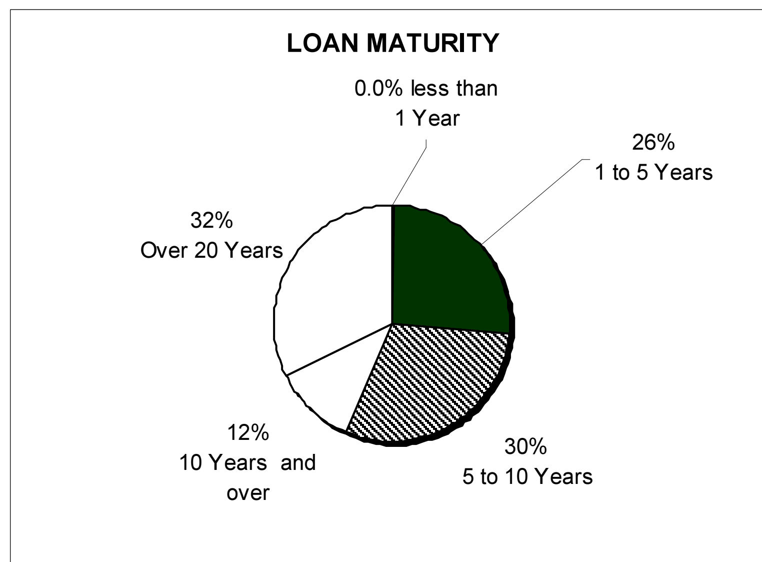
cash balances for the three months up to 28 February 2011 is shown on Appendix A.

2.4 Prudential targets relating to loan maturity are shown below:

Loan Maturity		
	Upper Limit	***Lower Limit***
Under 12 months	20%	0%
12 months to 5 years	30%	0%
5 years to 10 years	75%	0%
10 years to 20 years	100%	20%
Over 20 years	100%	20%

Actual performance against these targets in the period to 28 February 2011 is shown in the following graphs.





The lower limit for loans maturing in 10 to 20 years is 20% and this indicator has been breached, with only 12% of debt maturing in this period. It was envisaged that a further loan would be taken in the 2010/11 financial year to

fund the capital programme, and this would have been for a duration falling into the 10 to 20 year band, however it is now likely that a revenue contribution will be used to finance capital as agreed in the 2011/12 budget. This means that the lower limit will continue to be breached until such time as a further loan will be taken. It is proposed that corrective action should not be taken to resolve the breach, unless such action fits in with other aspects of the Treasury Management Strategy. However, this should not be seen as a situation which exposes the Authority to too high a risk – the purpose of the indicator is to ensure that not all debt is due to mature in the very short term, which would expose the Authority to the risk of interest rate increases in the near future. The proportion of debt due to mature in over 20 years is currently 32%, which is well above the 20% minimum limit and the total amount due to mature in the two bands together – ie: over 10 years, is 44%.

2.5 The upper limit for sums invested for longer than 364 days is £2m. During the period to 28 February 2011, no sums were invested for longer than 364 days.

3. FINANCIAL IMPLICATIONS

The financial implications are set out in full within this report. Performance during the period is within the prudential limits, except for the breach of the loan maturity lower limit for 10 to 20 years referred to in Paragraph 2.4.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources and learning and development implications arising directly from this report.

5. EQUALITY IMPACT ASSESSMENT

There are no equality implications arising directly from this report.

6. CRIME AND DISORDER IMPLICATIONS

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

7. LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

8. RISK MANAGEMENT IMPLICATIONS

8.1 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.

8.2 The risks associated with the prudential limit breach outlined in Paragraph 2.4 are not considered to be significant.

9. RECOMMENDATIONS

9.1 That Members consider the prudential limit breach outlined in Paragraph 2.4 and approve the proposal to take no corrective action in respect of this issue alone.

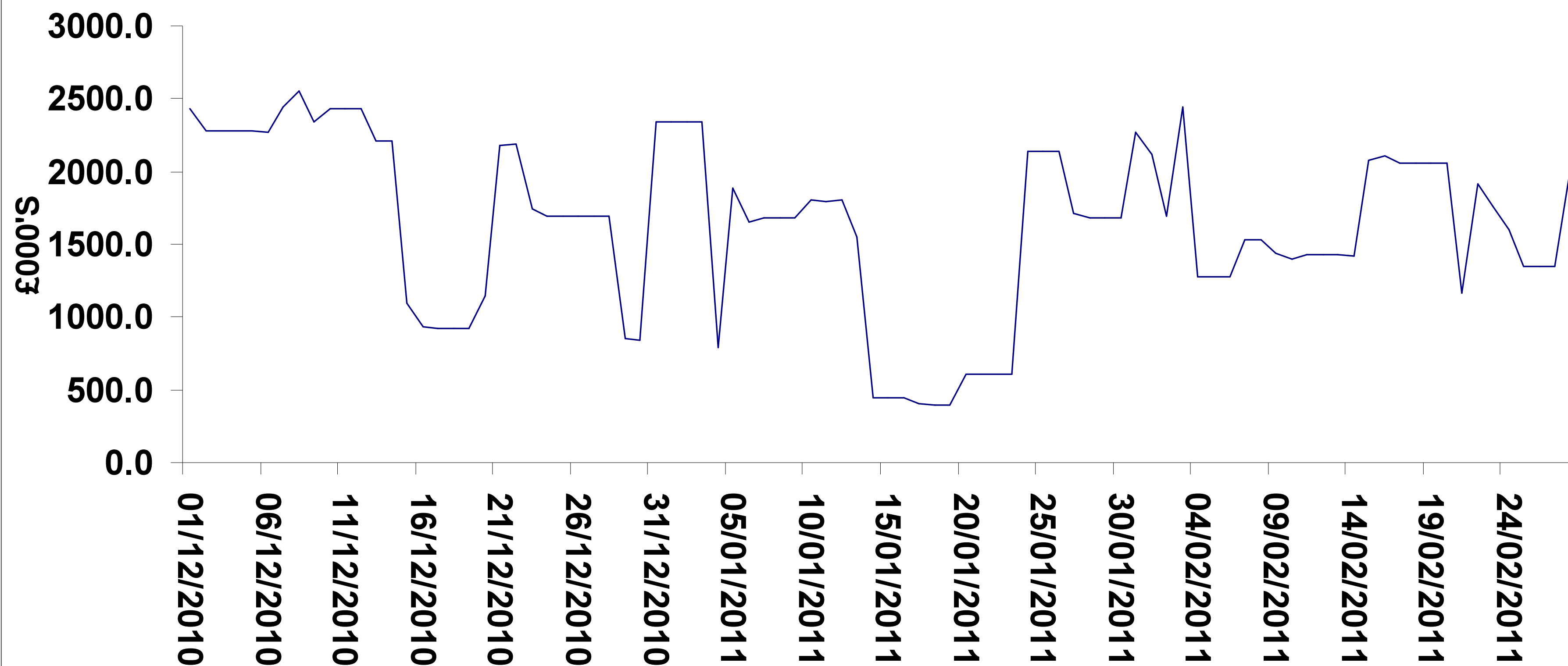
9.2 That Members note the contents of this report.

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

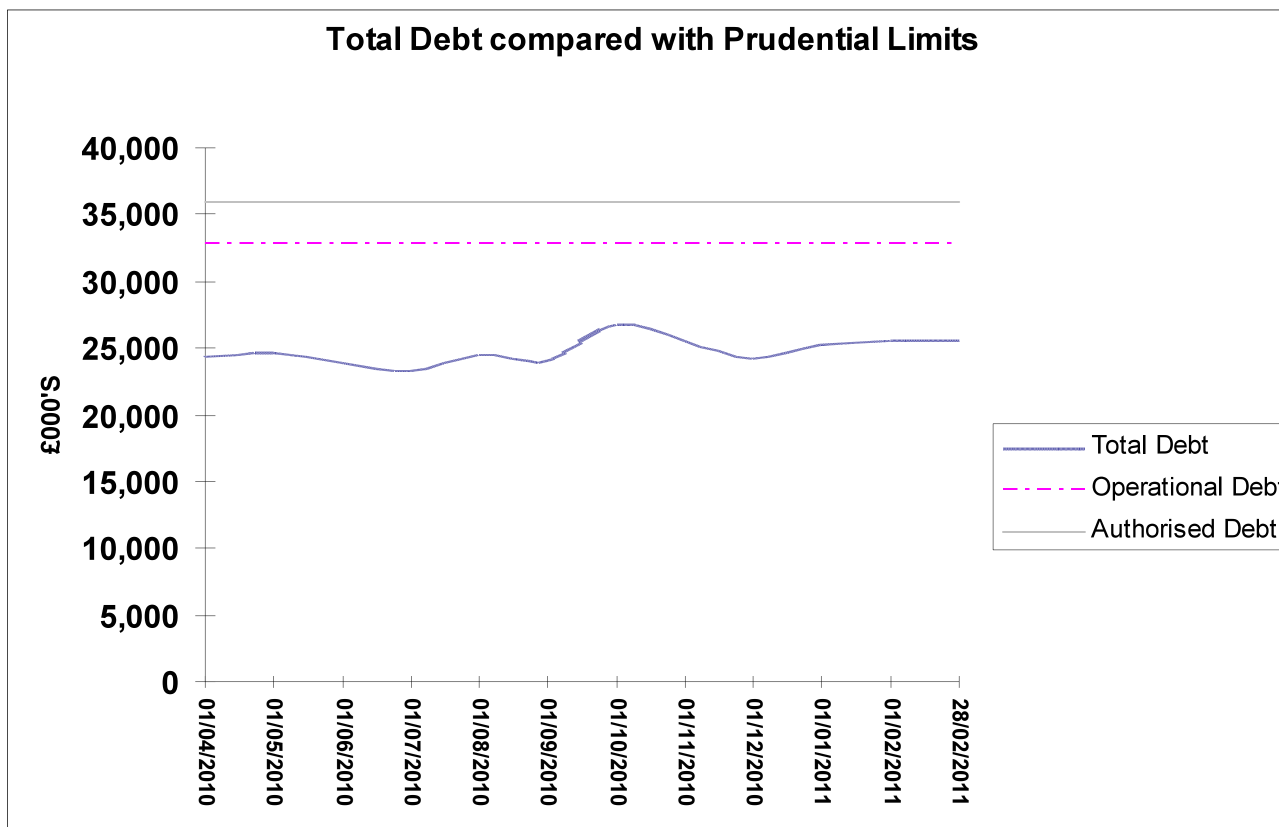
None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY

Appendix A



Appendix B



Appendix C