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 29 FEBRUARY 2012

Report of the Treasurer to the Fire Authority

Agenda Item No:

Date: 30 March 2012

Purpose of Report:

To inform Members of performance up to 29 February 2012 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 which came into operation from April 2004. Alongside this, the Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice to support local authorities' decision making in the areas of capital investment and financing. Authorities are required by regulation to have regard to the Prudential Code, which CIPFA updated in 2009.

1.2 The objectives of the Prudential Code are to ensure that the capital investment plans of authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. The Prudential Code sets out a number of indicators which authorities must use to support decision making. These are not designed to be comparative performance indicators.

1.3 The Fire Authority approved these prudential indicators for 2011/12 at its meeting on 25 February 2011.

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

2. REPORT

PRUDENTIAL INDICATORS

2.1 Some of the prudential indicators set cannot easily be measured during the year and will be reported on in the Treasury Management Annual Report for 2011/12 after the end of the financial year. These indicators are:

- Ratio of financing costs to net revenue stream 2011/12 (affordability).
- Incremental impact of capital investment decisions on Council Tax 2011/12 (affordability).
- Total capital expenditure 2011/12.
- Capital Financing Requirement as at 31 March 2012.

2.2 In terms of borrowing, the indicator "net borrowing and the capital financing requirement (CFR)" (a prudence indicator) requires that net external borrowing does not, except in the short term, exceed the CFR. The CFR at 1 April 2011 was £28.953m and was estimated to be £28.078m by the year end. During the period 1 April 2011 to 29 February 2012 the indebtedness of the Authority, calculated at the start of each month, did not exceed £26.980m, including any requirements for temporary overdrafts, thereby keeping within the limit set.

2.3 The Authority set an operational boundary for 2011/12 of £30.762m and an authorised limit of £33.839m. 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. Again, the maximum indebtedness of the Authority during the period, as shown in the paragraph above, is within the limits set.

The graph given as Appendix B illustrates the levels of borrowing during the period up to the end of February 2012.

TREASURY MANAGEMENT INDICATORS

2.4 A graph of cumulative interest received is shown on Appendix C. An interest earnings budget of £50k was set for 2011/12. As at 29 February 2012 £95k had been received. The budget for the year has been exceeded because there has been more surplus cash to invest in the year i.e. £7.8m received from the Department for Communities and Local Government for the estimated deficit on the firefighters' pension funds received in advance. Interest rates remain at a low level.

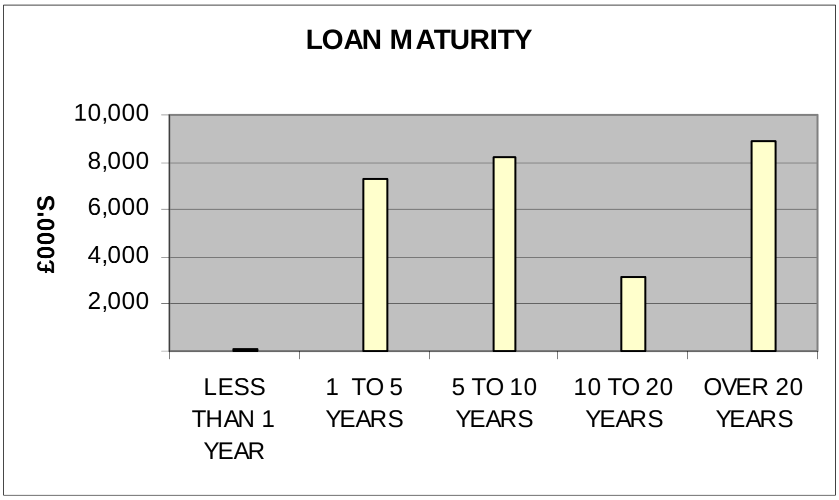
2.5 The treasury management target relating to interest rate exposure is that fixed interest rate exposures should be between 0% and 100% of total lending and that variable interest rate exposures should be between 0% and 30%. During the period up to 29 February 2012, 100% of lending was at fixed interest rates.

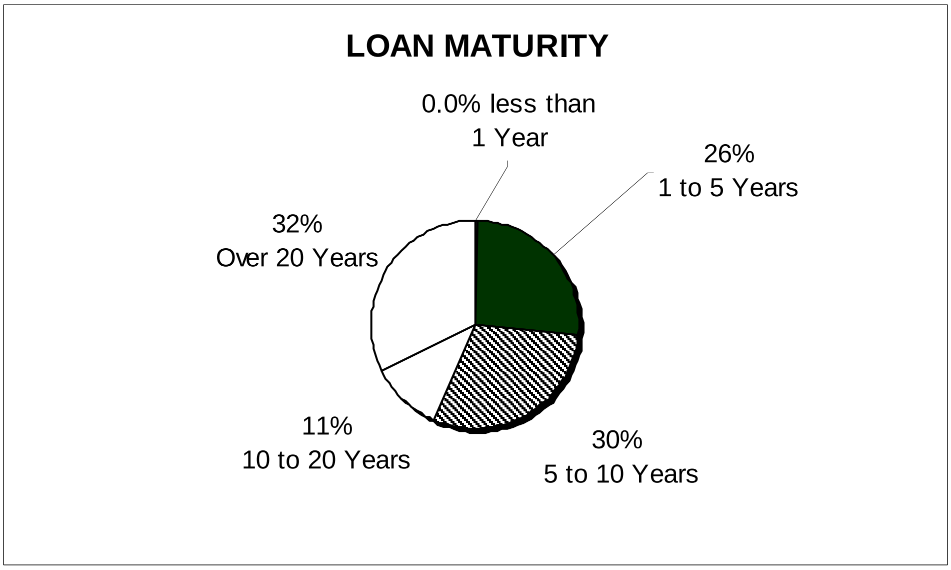
2.6 The treasury management target in respect of cash management is that the Authority's bank overdraft should not exceed £500,000. During the three month period up to 29 February 2012 the account has not been overdrawn. A graph of cash balances for the period up to 29 February 2012 is shown on Appendix A.

Treasury management limits 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 29 February 2012 is shown in the following graphs.





2.7 The lower limit for loans maturing in 10 to 20 years is 20% and this indicator has been breached, with only 11% of debt maturing in this period. This was reported to Members of the Finance and Resources Committee at the meeting on 28 February 2011. The reason for the breach is that 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 a revenue contribution of £2.608m was used to finance capital expenditure for 2010/11. The Prudential Code report was presented to the Fire Authority on 24 February 2012 to explain this situation and recommend the lower limit in the 10 to 20 year band be reduced to 0% in 2012/13. This will eliminate this breach.

2.8 The upper limit for sums invested for longer than 364 days is £2m. During the period to 29 February 2012, 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 2.7.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

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

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report gives detail of performance against the approved Treasury Management Strategy and Prudential Code. These are financial policies and do not directly impact on employees or members of the public.

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 2.7 are not considered to be significant.

9. RECOMMENDATIONS

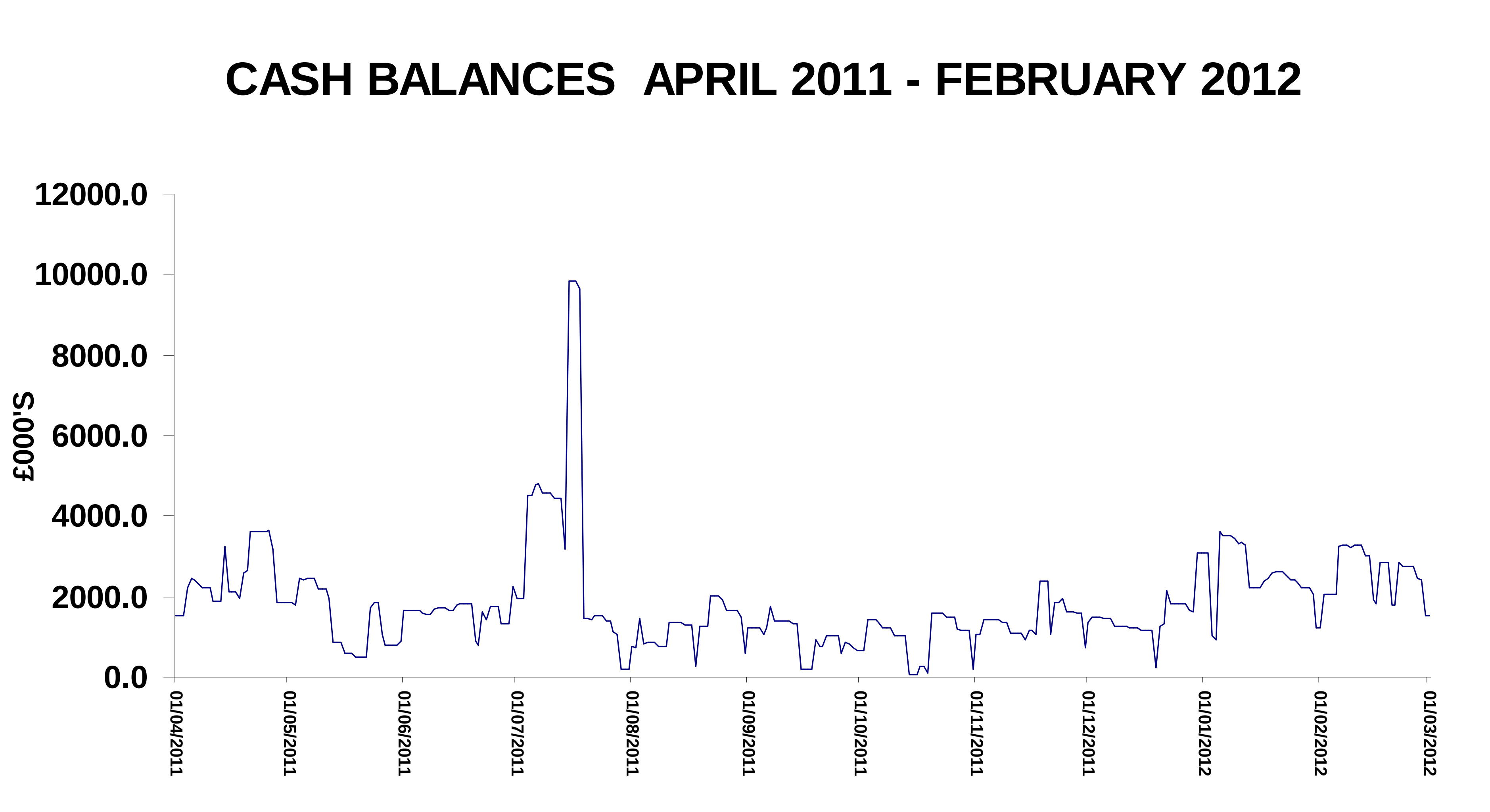
That Members note the contents of this report.

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

None.

Peter Hurford
TREASURER TO THE FIRE AUTHORITY

Appendix A


CASH BALANCES APRIL 2011 - FEBRUARY 2012
£000'S
12000.0
10000.0
8000.0
6000.0
4000.0
2000.0
0.0
01/04/2011
01/05/2011
01/06/2011
01/07/2011
01/08/2011
01/09/2011
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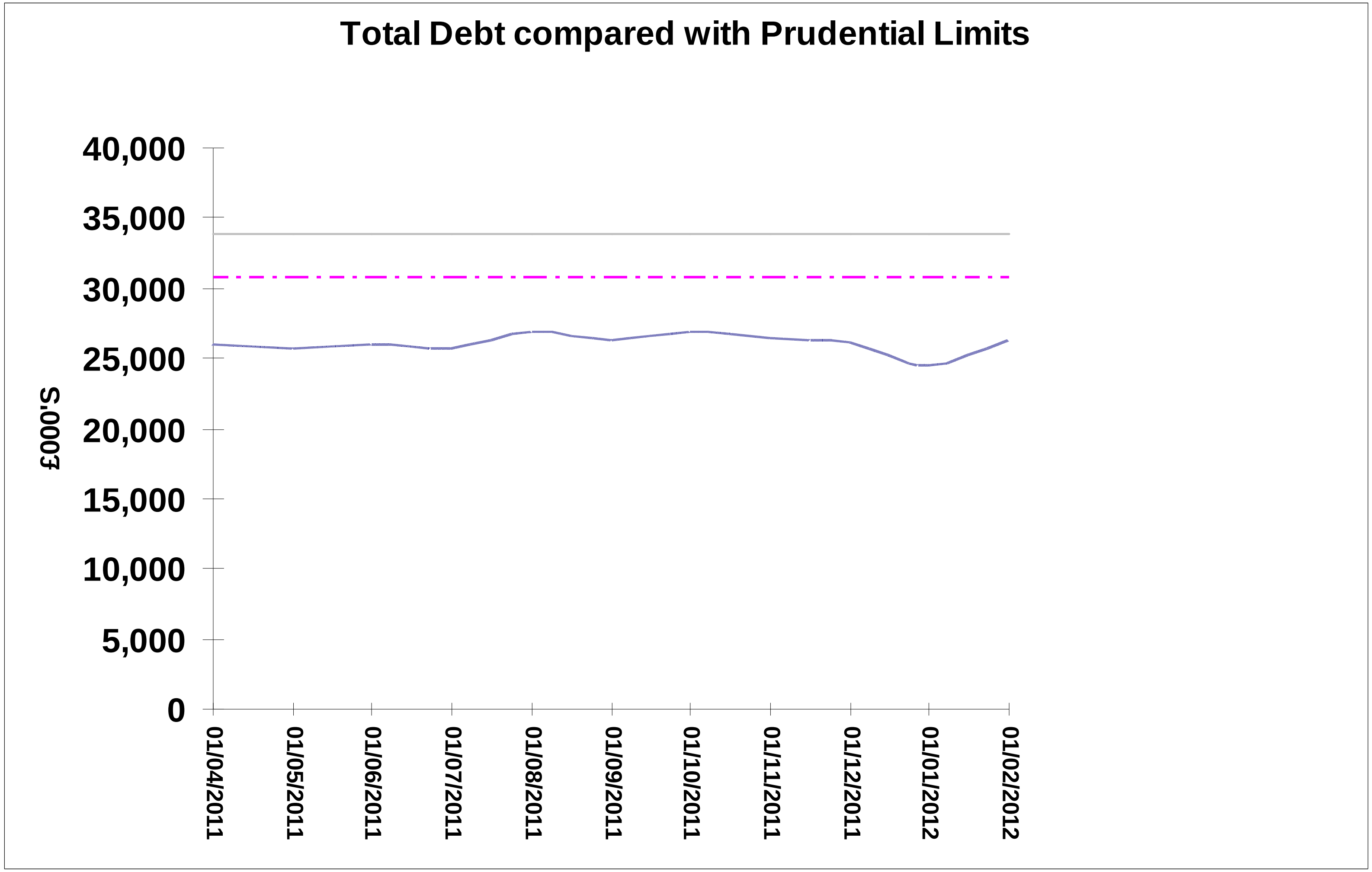
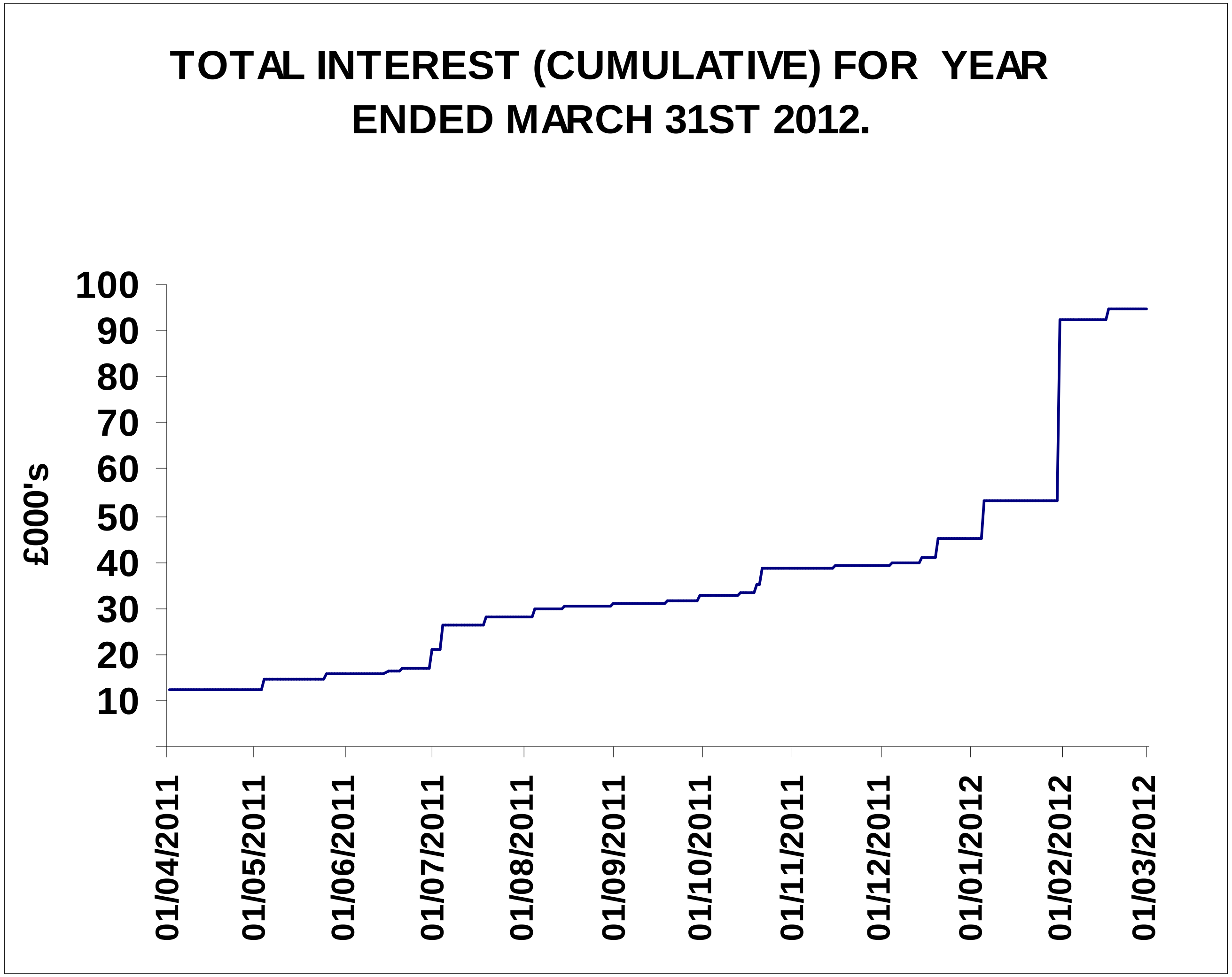
01/11/2011
01/12/2011
01/01/2012
01/02/2012
01/03/2012

Appendix B


Total Debt compared with Prudential Limits
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
£000'S
01/04/2011
01/05/2011
01/06/2011
01/07/2011
01/08/2011
01/09/2011
01/10/2011
01/11/2011
01/12/2011
01/01/2012
01/02/2012

Appendix C



TOTAL INTEREST (CUMULATIVE) FOR YEAR ENDED MARCH 31ST 2012.
£000's
100
90
80
70
60
50
40
30
20
10
01/04/2011
01/05/2011
01/06/2011
01/07/2011
01/08/2011
01/09/2011
01/10/2011
01/11/2011
01/12/2011
01/01/2012
01/02/2012
01/03/2012