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 AUGUST 2018

Report of the Treasurer to the Fire Authority

Date: 19 October 2018

Purpose of Report:

To inform Members of performance for the three-month period to 31 August 2018 relating to the prudential indicators for capital accounting and treasury management.

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1. BACKGROUND

1.1 The Local Government Act 2003 sets 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 2011.

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 2018/19 at its meeting on 16 February 2018.

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 cannot easily be measured until the final year end expenditure position for both capital and revenue is determined. These will be included in the 2018/19 Treasury Management Annual Report for 2018/19 to Fire Authority in September 2019. These indicators are:

- Ratio of financing costs to net revenue stream 2018/19 (affordability);
- Incremental impact of capital investment decisions on Council Tax 2018/19 (affordability);
- Total capital expenditure 2018/19;
- Capital Financing Requirement as at 31 March 2019.

2.2 In terms of borrowing, the indicator "Gross borrowing and the capital financing requirement (CFR)" (a prudence indicator) requires that gross external borrowing does not, except in the short term, exceed the CFR. The CFR at 1 April 2018 was £26.278m and was estimated to be £27.306m by the year end.

2.3 The Authority set an operational boundary for 2018/19 of £29.723m and an authorised limit of £32.695m. 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.

2.4 During April £3m temporary borrowing was taken out for cashflow purposes. The need for temporary borrowing has occurred due to the Authority's maintaining a position of under-borrowing to fund the capital programme in line with the Treasury Management Strategy. The loan was repaid in July when the Authority received the firefighters' pension grant. In May, a further £1m long term borrowing was taken out from the PWLB to take advantage of a dip in interest rates. As a consequence, total borrowing at the end of August was £24.238m. This is well within the operational boundary of £29.723m.

2.5 The graph given as Appendix A illustrates the levels of borrowing up to the end of August 2018.

TREASURY MANAGEMENT INDICATORS

2.6 An interest earnings budget of £66k was set for 2018/19, as at 31 August 2018 £26k has been received. Within the benchmarking group supported by Link Asset Services there are 7 councils and NFRS within the group, as at the end of March 2018, NFRS Weighted Average Rate of Return (WARoR) is 0.70% the average of the group is 0.64%.

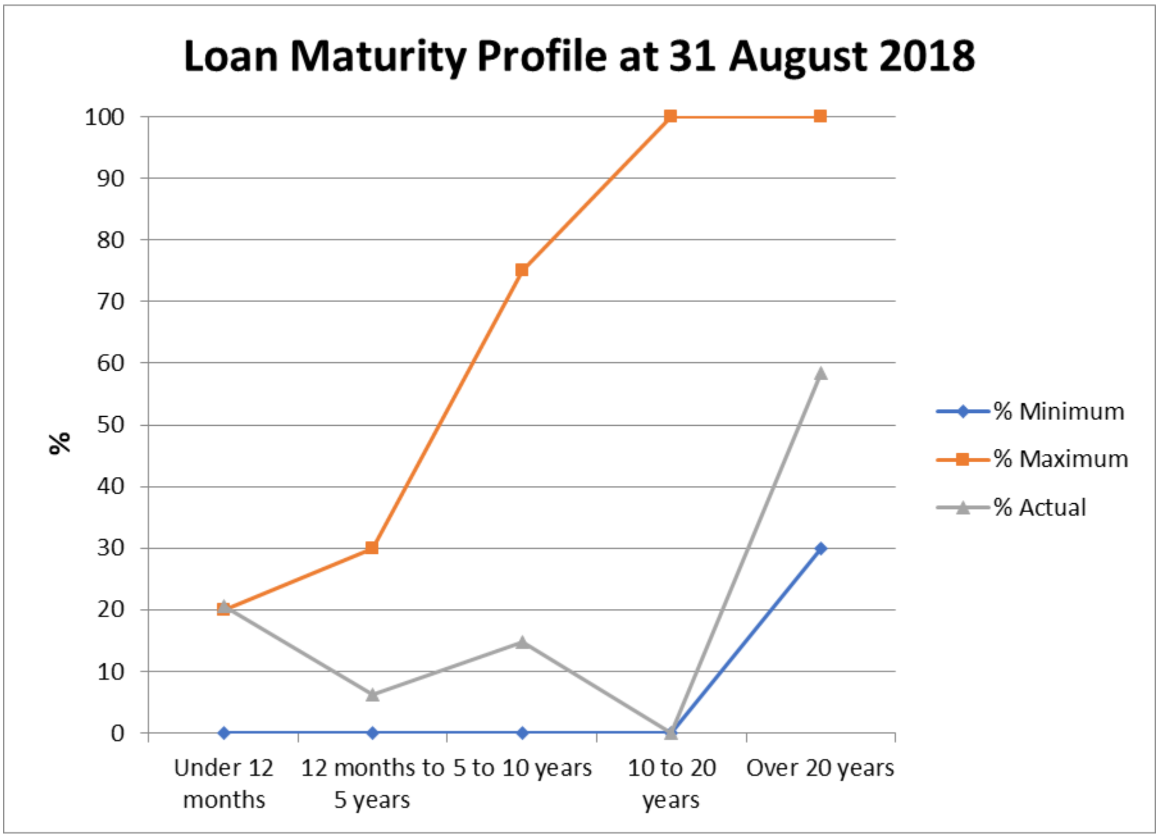
2.7 The treasury management target relating to interest rate exposure is that fixed interest rate exposures should be between 0% and 100% of total lending and that variable interest rate exposures should be between 0% and 30%. During the period up to 31 August 2018, 100% of borrowing was at fixed interest rates.

2.8 The treasury management target in respect of cash management is that the Authority's bank overdraft should not exceed £200,000. During the three months of up to 31 August 2018 the account was not overdrawn. A graph of cash balances for the three months up to 31 August 2018 is shown in Appendix B.

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%	0%
Over 20 years	100%	30%

Actual performance against these targets at 31 August 2018 is shown in the following graph and demonstrates that none of the maturity bands have been breached.



2.9 The upper limit for sums invested for longer than 364 days is £2m. During the part of the 2018/19 financial year up to 31 August 2018, no sums were invested for a fixed term of longer than 364 days. This excludes amounts invested in call accounts with notice periods of less than 364 days, and on which notice can be given immediately if required.

UK SOVEREIGN RATING

2.10 Following on from the report to Members of this Committee in January, it is confirmed that the sovereign rating of the UK remains at AA (Fitch rating) which means that investments in UK institutions are within the current Treasury Management Strategy's parameters. On 25 September, Moody's downgraded the UK Sovereign rating from Aa2 to Aa1, which brings it in line with that of Fitch and S&P (also AA).

2.11 The Authority's policy around Sovereign Ratings has been reviewed as part of the Treasury Management Strategy at Fire Authority on 16 February 2018. Should the UK be downgraded to AA- status, the Authority's strategy will be to continue with existing banking arrangements and to retain current investments with UK institutions.

3. FINANCIAL IMPLICATIONS

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

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 from this report.

8. 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.

9. COLLABRATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

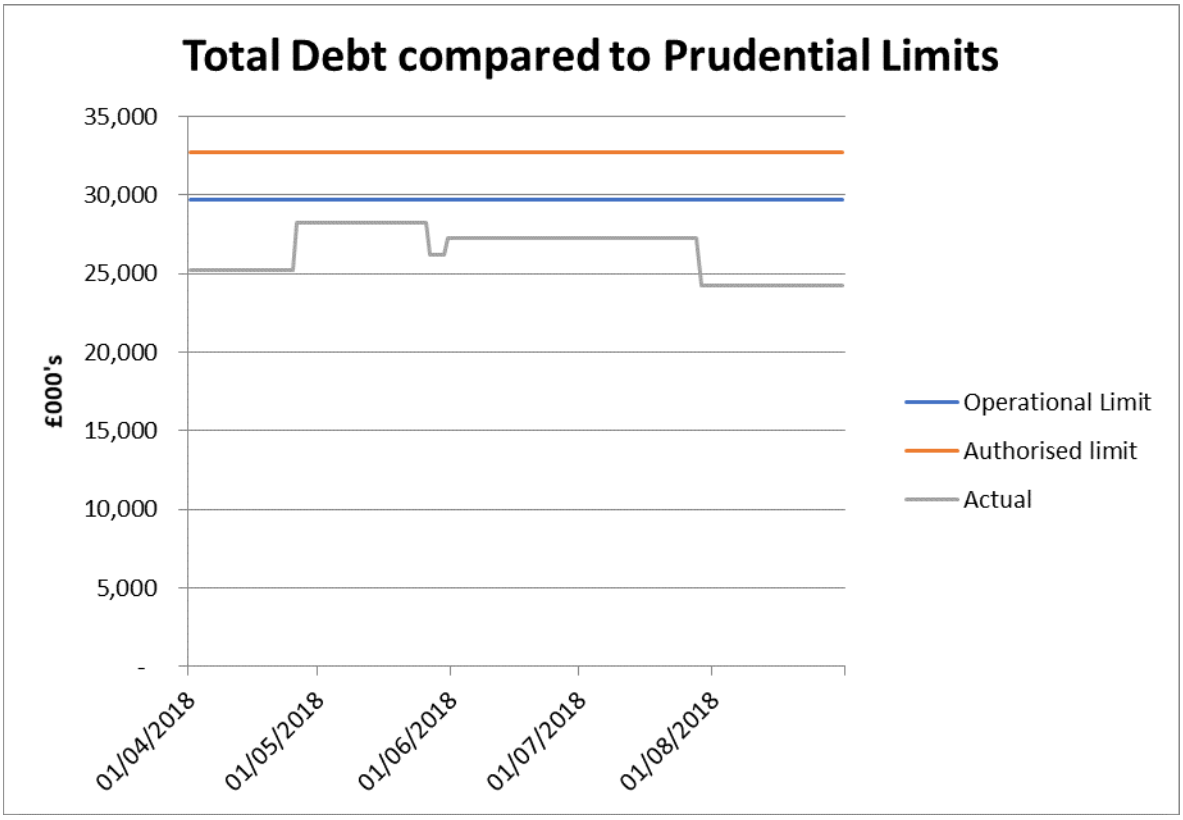
That Members note the contents of this report.

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

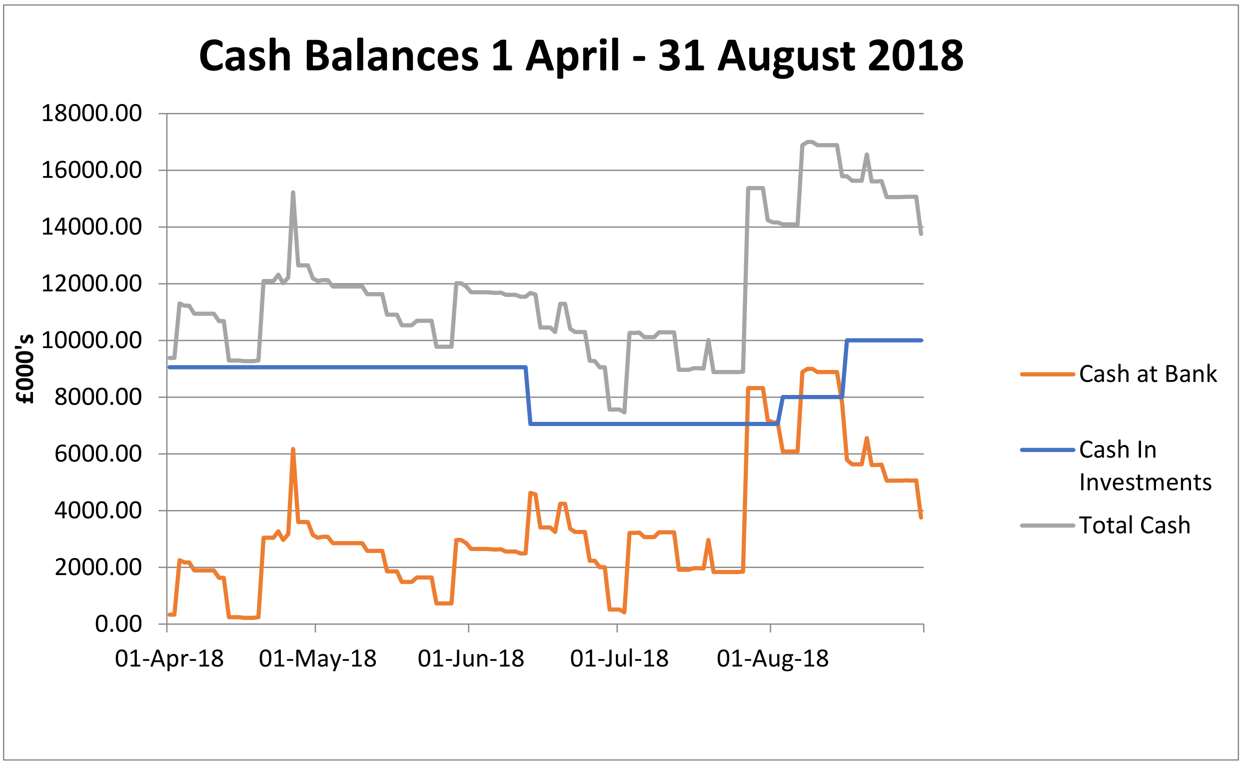
None.

Charlotte Radford
TREASURER TO THE FIRE AUTHORITY

APPENDIX A


Total Debt compared to Prudential Limits
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
£000's
01/04/2018
01/05/2018
01/06/2018
01/07/2018
01/08/2018
Operational Limit
Authorised limit
Actual

APPENDIX B


Cash Balances 1 April - 31 August 2018
£000's
18000.00
16000.00
14000.00
12000.00
10000.00
8000.00
6000.00
4000.00
2000.00
0.00
01-Apr-18
01-May-18
01-Jun-18
01-Jul-18
01-Aug-18
Cash at Bank
Cash In Investments
Total Cash