Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
12 November 2015

Financial Performance to September 2015, including Annual Treasury Review 2014/15 and Mid-Year Treasury Review 2015/16

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 255011 or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report provides information on the financial performance of the Service, and seeks approval for action, where necessary. The report also presents the annual treasury review 2014/15 and the mid-year treasury review 2015/16.

2 Recommendations

The Committee is asked to recommend that the Fire Authority:

a) Note the position of the revenue budget;
b) Approve virements to the revenue budget, where requested;
c) Approve the rescheduling of capital schemes;
d) Note the annual review of treasury activities for 2014/15;
e) Note performance against prudential indicators to date in 2015/16; and
f) Note the mid-year review of treasury activities for 2015/16.

3 Background

This report comprises a review of financial performance to date for 2015/16, and encompasses the monitoring of revenue budgets, changes to capital schemes and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2014/15 is also included in the report.

4 Revenue Budget

Monitoring has continued on the revenue budgets for 2015/16, and the position to September can now be reported as follows.

	(Over) / Under spend £'000
Executive and Resources	
Rates – The Service submitted a successful appeal against the rateable value of the Headquarters site, and has received a refund of rates dating back to 2011. Future budgets will also be adjusted.	154
Debt Charges – Costs associated with loan interest and asset replacement have been determined, and an underspend can be reported. Future budgets will also be adjusted.	50
Pensions – A retrospective injury award is to be paid from the revenue account.	(162)
Area Command	
Prevention – Fire Safety Advocates – Continued spend at current levels will result in an underspend.	17
Operations	
Retained Control – current staffing levels in this area will mean that the budget is underspent at the end of the year.	29
Total	**88**

It is proposed that, unless specified, variances will be transferred to individual contingencies, where they will be managed with future variances.

Service Transformation Programme

Costs of staff seconded to projects within the Service Transformation Programme total £137,000 for the first six months of the year. These costs include Human Resources and ICT support, and also support for implementation of the Integrated Risk Management Plan (IRMP) projects. Costs for the implementation of Sharepoint are also included.

Funds are available for these staff costs, within the Service Transformation Programme Staff Reserve, and a contribution from the reserve of £110,000 has already been made following the last report. Members are requested to approve the transfer of the balance of funds (£27,000) from reserves into the revenue budget.

5 Capital Programme 2015/16

A report detailing the activity and spend on the capital programme for 2015/16 was presented to the Committee in September. A review has since taken place of the current schemes within the programme, and Members are asked to consider the following amendments:

Command & Control Pods and Vehicle (£150,000)	These schemes are scheduled for completion in 2015/16. However, work is unlikely to begin until the following year, and Members are asked to formally reschedule the schemes into 2016/17.
Fit out Major Incident Room (£30,000)	
IT Infrastructure (£100,000)	

6 Annual Treasury Review 2014/15

Compliance with the Treasury Policy Statement

This review is presented in accordance with the Fire Authority's Treasury Policy Statement, which complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management in Local Authorities. The Code requires an annual review report of the previous year.

This is the annual review report for 2014/15.

Treasury Management

Treasury Management in this context is defined as "The management of the local authority's, investments, 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."

Shropshire Council carries out treasury management on behalf of the Fire Authority. This entails their monitoring bank balances, investing surplus cash in the short term and arranging and advising on borrowing, both long-term and short-term. In practice, investment and borrowing for the Fire Authority is carried out alongside, and in the same manner as, that for Shropshire Council.

Current Portfolio

The Fire Authority's treasury position at 31 March 2015 is set out below with the previous year shown in brackets.

		Balance at 31 March 2014 £000	Interest Rate [1] 2013/14 %
a)	**Outstanding debt for capital purposes** Fixed Rate	**5,810 (5,810)**	**4.49 (4.49)**
b)	**Investments** SC Treasury Team	**16,210 (12,648)**	**0.37 (0.32)**

Note[1]
The interest rates shown represent:

a) The average cost of the debt portfolio, including the borrowing for 2014/15; and
b) The average return on cash investments during the year.

Borrowing

The Fire Authority's approach to borrowing had continued to be the use of cash balances to finance new capital expenditure, so as to run down cash balances and minimise counterparty risk incurred on investments.

As a result, no new borrowing was entered into during 2014/15, and the average borrowing rate for the total portfolio remained at 4.49%.

The Authority's Treasury Strategy allows up to 30% of the total outstanding debt to mature in periods up to 10 years. It is prudent to have the Authority's debt maturing over many years so as to minimise the risk of having to re-finance, when interest rates may be high. Current debt maturity levels are within this guideline.

Investment Rates in 2014/15

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.32% for 2014/15.

2014/15 Actual Prudential Indicators

In line with the CIPFA Prudential Code for Capital Finance, the Treasurer is required to establish procedures to monitor performance against all forward-looking prudential indicators and, in particular, that net external borrowing does not (except in the short term) exceed the requirement to borrow for capital purposes.

The legislation requires that actual indicators are produced at the year end and those for 2014/15 are, therefore, set out below.

	2013/14 Actual £000	2014/15 Budget £000	2014/15 Actual £000
Capital Expenditure **Payments** **Schemes added during 2014/15** **Funding:** Borrowing Grant Fund Revenue	 1,180 0 605 0 575	 757 1,232 0 757 0 1,232	 650 0 123 0 527
Ratio of Financing Costs to Net Revenue Stream The impact of the capital investment decisions in the present capital programme were estimated at 9 pence.	2.8%	3.39%	2.42%
Capital Financing Requirement The capital financing requirement has reduced due to the decision to fund capital schemes with reserves and balances, thereby reducing the borrowing requirement.	4,741	4,407	4,450

Net Investment
Net investment at 31 March 2015 was £10.400m. Short-term investments of £16.210m were offset by gross borrowing of £5.810m.

Actual External Debt
Actual external debt at 31 March 2015 was £5.810m, plus other long-term liabilities at 31 March 2013 of £13k (finance leases).

The Authority's gross debt, at £5.810m, was higher than its Capital Financing Requirement, set in 2014/15 at £4.407m, and confirmed at £4.450m at the end of the year.

The reason for this difference is that some schemes in the capital programme were funded by reserves and balances, therefore no funding requirement was necessary. However, as minimum revenue provision is set aside each year against past borrowing and assets, this reduced the existing borrowing requirements. This is allowable, as the Authority still operated within its Operational Boundary (set at £5.810m) and Authorised Limit (£7.407m).

Treasury Management Indicators

1. An upper limit of 100% of external debt can be borrowed at fixed interest rates. All of the Fire Authority's external debt is at fixed rates and is arranged for longer than 10 years, which is in accordance with the Prudential Indicator.
2. No money has been invested for more than 364 days.
3. At 31 March 2014, all funds were invested at fixed rates.

7 2015/16 Prudential Indicators

In line with CIPFA's Prudential Code for Capital Finance, the Treasurer is required to establish procedures to monitor performance against all forward-looking prudential indicators and, in particular, that net external borrowing does not (except in the short term) exceed the requirement to borrow for capital purposes.

The Fire Authority has established that it will receive regular monitoring reports during the year; the position to the end of September is shown below.

Capital Financing Requirement (£4.166m)

This is the amount required by the Authority to fund its capital investment. It includes all capital investment expected to be made this year, less any contributions from revenue or grant.

Authorised Limit for External Debt (£7.166m)

The Authorised Limit represents the amount required to fund the Authority's capital financing, plus a provision for temporary borrowing, should the receipt of revenue money be delayed, although this should happen very rarely. Borrowing currently stands at £5.698m (following the repayment of one of the Authority's loans in September), i.e. well within the indicator. No temporary borrowing has been necessary.

Operational Boundary (£5.810m)

The Boundary represents the capital investment entered into by the Authority, including any loans to be taken during the year. Unlike the Authorised Limit, this may be exceeded, although this would require some investigation.

8 Mid-Year Treasury Review 2015/16

Compliance with the Treasury Policy Statement

This review is presented in accordance with the Fire Authority's Treasury Policy Statement, which complies with the CIPFA Code of Practice on Treasury Management in Local Authorities. The Code requires a mid-year review report of the current year.

This is the mid-year review report for 2015/16.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2015 is set out on the following page, with the position as at 31 March 2015 in brackets.

		Balance at 30 Sept 2014 £000	Interest Rate [1] 30 Sept 2014 %
a)	**Outstanding debt for capital purposes** Fixed Rate	5,698 (5,810)	4.49 (4.49)
b)	**Investments** Shropshire Council Treasury Team	18,850 (18,070)	0.40 (0.36)

Note 1

The interest rates shown represent:

a) The average cost of the debt portfolio; and
b) The average return on cash investments during the year.

Borrowing

The Fire Authority's approach to borrowing continues to be the use of cash balances to finance new capital expenditure, so as to run down cash balances and minimise counterparty risk incurred on investments. The Fire Authority agreed to use surplus revenue balances to fund capital schemes, in order to maximise revenue savings in debt charges. Therefore, any new borrowing over the next few years continues to be unlikely, and lower levels of cash will be available for investment.

No new borrowing has been entered into during the first half of 2014/15, and the average borrowing rate for the total portfolio remains at 4.49%. The Authority's Treasury Strategy allows up to 30% of the total outstanding debt to mature in periods up to 10 years. It is prudent to have the Authority's debt maturing over many years, so as to minimise the risk of having to refinance when interest rates may be high. Current debt maturity levels are within this guideline.

The Economy and Interest Rates

UK Gross Domestic Product growth rates were strong at around 2.9% during 2014, and the strongest UK rate since 2006. However quarters one (0.4%) and two (0.7%) of 2015 were weak, and growth in quarter three is likely to weaken to about 0.5%. This is due to pressure for exporters from the appreciation of Sterling against the Euro, weak growth in the EU, China and emerging markets, and the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget.

The Bank of England August Inflation Report forecast growth to around 2.4 to 2.8% over the next three years, however following a weak growth prediction for quarter four, it is likely that this will be revised in the November report. Inflation is also forecast to barely get back to the target of 2% within 2 to 3 years. Changes in the oil markets may lead to several more months of low inflation.

Interest Rate Forecasts

The Authority's treasury advisor, Capita Asset Services, has provided interest rate forecasts. Bank rate is forecast to increase slowly by the end of the financial year.

Long term Public Works Loan Board rates are expected to increase steadily between now and March 2016, ending 2015/16 at around 4.0%.

Investment Rates in the First Half of 2015/16

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.36% for the first half of 2015/16. The actual investment return was 0.40%.

Current Investments

Funds currently invested are shown below:

Debt Management Office	£1.88m
Handelsbanken	£2.00m
Barclays	£2.00m
Lloyds	£2.00m
Nationwide	£2.00m
Salford City Council	£2.00m
NatWest	£2.00m
Royal Bank of Scotland	£1.50m
Dumfries and Galloway Council	£1.34m
Central Bedfordshire Council	£2.00m
Total	**£18.72m**

9 Financial Implications

The financial implications are as set out in the main body of the report.

10 Legal Comment

There are no direct legal implications arising from this report.

11 Initial Impact Assessment

An Initial Impact Assessment has been completed.

12 Appendices

There are no appendices attached to this report.

13 Background Papers

There are no background papers associated with this report.