Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
10 November 2016

Financial Performance to September 2016, including Annual Treasury Review 2015/16 and Mid-Year Treasury Review 2016/17

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.

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 change in frequency of capital activity reports to the Committee and note the update on capital schemes;
d) Note the annual review of treasury activities for 2015/16;
e) Note performance against prudential indicators to date in 2016/17; and
f) Note the mid-year review of treasury activities for 2016/17.

3 Background

This report comprises a review of financial performance to date for 2016/17, 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 2015/16 is also included in the report.

4 Revenue Budget

Monitoring has continued on the revenue budgets for 2016/17, and the position to September can now be reported as follows.

	(Over) / Under spend £'000
Executive and Resources	
Legal Fees – Costs arising from a Crown Court fire safety prosecution case are unbudgeted	(15)
Debt charges – Loan interest and asset replacement costs have been determined, and an under spend can be reported.	20
Professional Subscriptions – Memberships this year have totalled £28,000 against a budget of £14,000	(14)
Pensions Administration – Current budget is insufficient to cover costs of administering the fire pension schemes and software packages recharged by Shropshire Council	(20)
Service Delivery	
Area Command – Whole time Watches – Establishment has been below budget levels for first half of financial year	60
Area Command – Overtime – Predicted out turn falls below budget	30
Prevention – Consultancy – The procurement of expert advice from fire engineering specialists has been necessary for assistance with a specific retail development	(6)
Retained Control – Current staffing levels in this area will mean that the budget is underspent at the end of the year.	28
Training – Underspend of £20,000 on Fire Service College Courses and £9,000 on Driver Training	29
Corporate Services	
Human Resources – Staff Advertising – Whole time and CFO Recruitment campaigns have resulted in additional expenditure	(10)
ICT – Wide Area Network – When the WAN was replaced in December 2014, the opportunity was taken to enhance resilience and performance. Secondary lines and a direct link to Worcester were installed, which increased resilience for Fire Control and its collaboration with Hereford & Worcester. Capacity was also increased and existing 10mb links were updated to 100mb links to all stations.	(130)

	(Over) / Under spend £'000
The 100mb capacity has already begun to be used by a large number of stations, and this will continue with the introduction of more IT systems and mobile devices. Video conferencing will also be available at stations in the coming months, which will also require more data usage. As a result of these improvements the quarterly charge for the WAN has been higher than that paid to the previous provider. These higher costs have become triggered earlier than expected due to early adoption of the new ways of working and primarily involve use of increased bandwidth. As a result, an overspend of £130,000 is reported for this financial year, and this increase has been factored into future budgets. **Emergency Services Mobile Communications Programme – shared resource –** an additional officer to support this project is being funded across the region. The Authority's contribution is £11,000 to date	 (11)
Total	**(39)**

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

5 Capital Programme 2016/17

It is proposed that a detailed activity report on the capital programme is brought to the Committee every six months, when project managers will be available to provide more information on specific schemes. In between these activity reports, updates by exception will be included within the Financial Performance reports.

There has been very little spend on the schemes within the programme during the period to September, however an order has been placed and funds committed for building works at Clun.

6 Annual 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 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 2015/16.

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 (SC) carries out treasury management on behalf of the Fire Authority. This entails 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 the Council.

Current Portfolio

The Fire Authority’s treasury position at 31 March 2016 is set out below with the previous year in brackets.

		Balance at 31 March 2016 £000	Interest Rate [1] 2015/16 %
a)	**Outstanding debt for capital purposes** Fixed Rate	**5,698 (5,810)**	**4.49 (4.49)**
b)	**Investments** SC Treasury Team	**18,640 (16,210)**	**0.46 (0.37)**

Note[1]
The interest rates shown represent:
a) The average cost of the debt portfolio, including the borrowing for 2015/16; 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 2015/16, and although a small loan was repaid during the year, 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 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 2015/16.

2015/16 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 2015/16 are, therefore, set out below.

	2014/15 Actual £000	2015/16 Budget £000	2015/16 Actual £000
Capital Expenditure			
Payments	650	1,050	90
Schemes moved during 2015/16		-280	
Funding:			
Borrowing	0	0	0
Grant	123	0	35
Fund	0	0	0
Revenue	527	770	55
Ratio of Financing Costs to Net Revenue Stream: This reduction is due to the ceasing of contributions to the Earmarked Capital Reserve, following capital expenditure from the reserve. The impact of the capital investment decisions in the present capital programme were nil, due to the sources of finance identified for use.	2.42%	3.21%	2.53%
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.	4,450	4,166	4,166
Net Investment Net investment at 31 March 2016 was £12.942m. Short-term investments of £18.640m were offset by gross borrowing of £5.698m.			

Actual External Debt Actual external debt at 31 March 2016 was £5.698m, following a loan maturity during the year of £112,000. The Authority's gross debt, at £5.698m, was higher than its Capital Financing Requirement, set in 2015/16 at £4.166m, and confirmed at this level 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 (£7.166m).
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. All of this debt is also 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 2016, all funds were invested at fixed rates.

7 2016/17 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 (£3.888m)

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

Authorised Limit for External Debt (£6.888m)

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 2016/17

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 2016/17.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2016 is set out below, with the position as at 31 March 2016 in brackets.

		Balance at 30 Sept 2016 £000	Interest Rate [1] 30 Sept 2016 %
a)	**Outstanding debt for capital purposes** Fixed Rate	5,698 (5,698)	4.49 (4.49)
b)	**Investments** SC Treasury Team	20,500 (18,640)	0.49 (0.46)

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. However, major improvements at Telford may require new borrowing over the next few years, and officers will continue to monitor the most opportune time to borrow.

No new borrowing has been entered into during the first half of 2016/17, 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 until 2015 when it fell from 2.9% to 1.8%, although this was still one of the strongest among the G7 countries. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and although the economy will avoid flat lining, growth will be weak through the second half of 2016 and into 2017. The Bank of England addressed this expected slowdown in August by introducing a package of measures including a cut in Bank Rate from 0.5% to 0.25%, and the growth forecast for 2017 was cut from 2.3% to just 0.8%.

The Governor of the Bank of England Mark Carney warned of a slowing of growth following the Brexit vote and advised that this would need to be addressed by both the banks and the Government. The new Chancellor Philip Hammond MP announced after the referendum result that a target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on 23 November 2016.

Interest Rate Forecasts

The Authority's treasury advisor, Capita Asset Services, has provided interest rate forecasts. Following the cut in Bank Rate in August from 0.5% to 0.25%, and the projection that it may cut to near zero by the end of the year, the rate is expected to rise again towards the middle of 2017, raising to 0.5% a year later. This rise will be slow and gradual.

Long term Public Works Loan Board rates are expected to be unchanged at the end of 2016/17, but rising gradually into the following year.

Investment Rates in the First Half of 2016/17

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.28% for the first half of 2016/17. The actual investment return was 0.49%.

Current Investments

Funds currently invested are shown below:

Handelsbanken	£2.00m
Barclays	£2.00m
Lloyds	£2.00m
Leeds City Council	£2.00m
Santander	£2.00m
Nationwide Building Society	£2.00m
Coventry Building Society	£2.00m
Rugby Borough Council	£1.60m
Bournemouth Borough Council	£1.50m
Glasgow City Council	£1.40m
Telford and Wrekin Council	£2.00m
Mid Suffolk District Council	£1.00m
Total	**£20.50m**

The Authority's Treasury advisors view other local authorities as safe counterparties as they are unlikely to go bust.

Handelsbanken is a Swedish bank which remains on the Authority's current acceptable counterparties list for investment.

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.