Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
22 November 2023

Financial Performance to September 2023, including Annual Treasury Review 2022/23 and Mid-Year Treasury Review 2023/24

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915 or Joanne Coadey, Head of Finance, on 01743 260215.

1 Executive Summary

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) Note activity on capital schemes;
d) Note the annual review of treasury activities for 2022/23;
e) Note performance against prudential indicators to date in 2023/24; and
f) Note the mid-year review of treasury activities for 2023/24.

3 Background

This report comprises a review of financial performance to date for 2023/24 and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2022/23 is also included in the report.

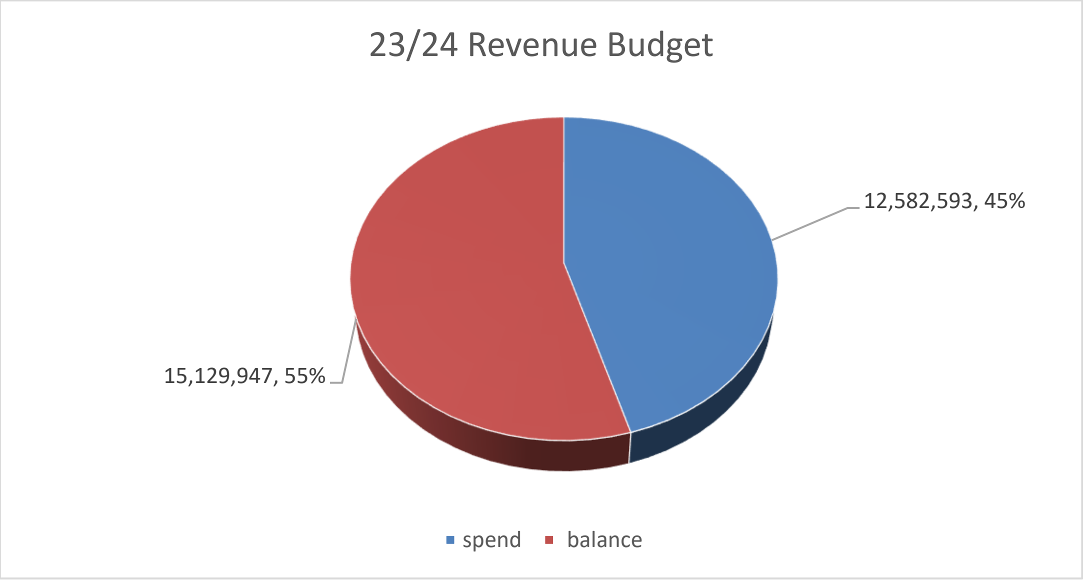
4 Revenue Budget

The Fire Authority approved a 2023/24 revenue budget of £26.562m in February 2023, split into three service areas:

- Executive and Resources
- Service Delivery
- Corporate Governance.

Each of these areas has a pay budget and a non-pay budget, and these are monitored with budget holders on a regular basis.

Monitoring has begun on the revenue budgets for 2023/24, and a summary of the total position is shown below.

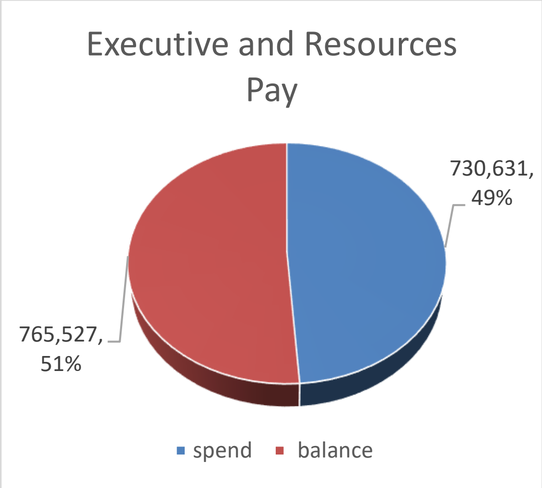


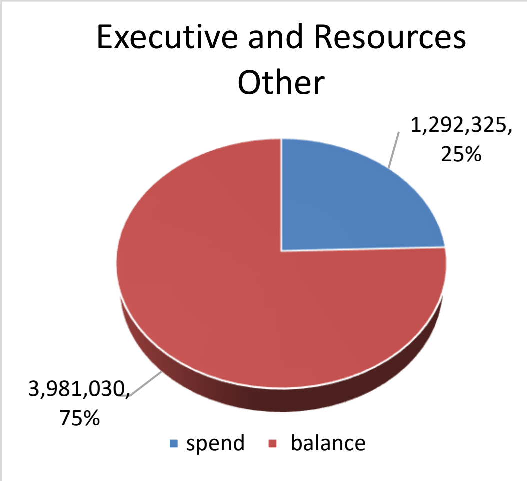
Expenditure on pay budgets is 48% on average; this is in line with estimated spend at this point in the year. Areas such as On Call firefighters and overtime payments would be a month behind as these activities are paid for in the following month; some variances have also been identified and these are reported later in the report.

In terms of non-pay budgets, average spend across all budgets is 29%. The pay and price contingency is held within the Finance budget until allocated across for pay areas and other inflationary pressures. Some areas may not have incurred high levels of spend to date (corporate finance budgets, training, legal), where others may have already paid annual maintenance or support contracts (subscriptions, ICT contracts, equipment maintenance). It is unlikely that debt charges will be spent during the year, this will be reported to the Committee as part of the budget monitoring process.

The following graphs illustrate spend to date across each of the service areas.

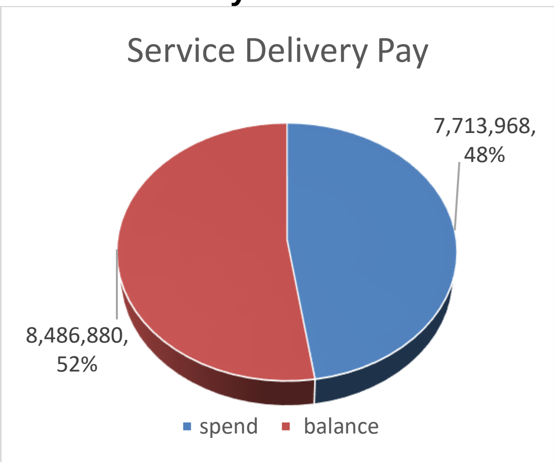
Executive and Resources

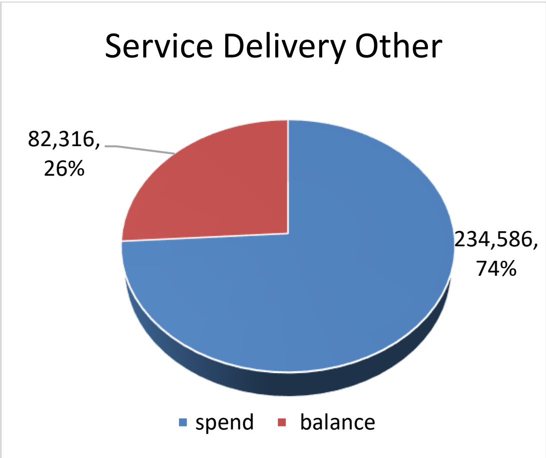




Other - A number of subscriptions have been fully paid, rates bills across all sites have not yet been paid. This area also includes the contingency for pay awards and inflation, some of which have not yet been negotiated or allocated. Some corporate finance costs will have no spend until later in the year, and as reported above, additional debt charges will not be spent during the year.

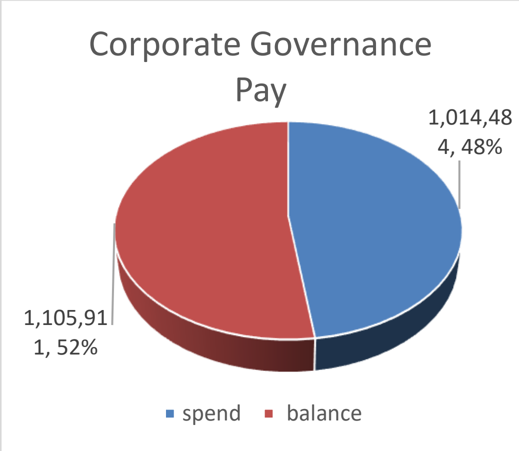
Service Delivery

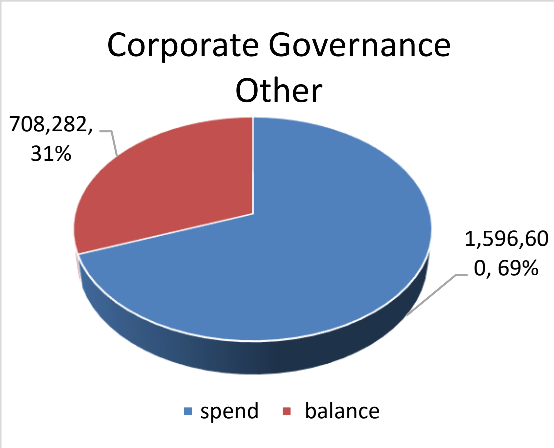




Other – costs in this service area are high. Budget areas such as Training are being profiled by officers and variances will be reported to the Committee where required.

Corporate Governance





Other – Annual ICT costs such as the wide area network, are fully paid, and all insurance premiums have also been paid for 2023/24.

The following table details several variances where budgetary adjustments are required. Once approved, these will be reflected in the budgets shown on the directorate summary and this will ensure that realistic budgeting can take place for the remainder of the year.

	(Over) / Under spend £'000
Service Delivery	
Overtime - expenditure in this area continues to run at levels higher than budget. Secondments into other areas of the Service, long term sickness and modified duties, and course attendances are all contributory factors.	(80)
To mitigate this position, an external transferee process will commence in January, as will a new training delivery model, which will reduce the amount of overtime required while training is being delivered.	
On call duty system Further underspends can be reported in a number of budgets within the On Call system. Reduced numbers are resulting in less costs per activity, and the budgets will be rescoped as part of the budget setting process.	
Retaining fee	30
Drills	20
Turnouts	30
Cleaning and administration	(40)
Sick pay	30
Training	20

	(Over) / Under spend £'000
Executive and Resources	
Pay – Resources – A procurement post shared with Telford & Wrekin Council is currently unfilled	15
Debt charges – savings in this area due to no borrowing requirement in 2023/24	200
Investment income – expected income continues to be higher than anticipated, due to improving rates of return on current investments	150
Pensions – an unbudgeted inflationary increase is required on ill health and injury payments payable from the revenue account.	(70)
Mileage – an efficiency can be reported here due to reduced travel, with more meetings and conferences attended virtually	30
Vehicle parts – the move from 12 year to 15-year useful lives on appliances has put pressure on vehicle parts as more expensive technological repairs are necessary	(30)
Total	**305**

It is proposed that, unless specified, variances will be transferred to individual contingencies.

Virements that have been approved using powers delegated to the Chief Fire Officer, Treasurer and Head of Finance:

- Read / Write Software – reasonable adjustment (£4,500)
- Secondment to Operations – National Operational Guidance (£74,000)
- Extension of HR Manager post (£6,000)
- Extension of Crew Manager post in Development (£24,000)
- Increase due to new Occupational Health contract (£15,000)
- Assistant Chief Fire Officer recruitment process (£14,000)

5 Capital Programme 2023/24

It was agreed at the November 2016 meeting of the Committee that a detailed activity report on the capital programme would be 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.

The main area of expenditure in the last two months has been the ongoing works at Telford.

6 Annual Treasury Review 2022/23

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 2022/23.

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.

Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The Capital Strategy was reviewed and approved by the Fire Authority at its meeting in February 2023.

Current Portfolio

The Fire Authority's treasury position at 31 March 2023 is set out below with the previous year in brackets.

		Balance at 31 March 2023 £000	Interest Rate [1] 22/23 %
a)	**Outstanding debt for capital purposes** Fixed Rate	**5,255 (5,418)**	**4.27 (4.42)**
b)	**Investments** SC Treasury Team	**10,800 (16,300)**	**1.91 (0.17)**

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 has continued to be the use of cash balances to finance new capital expenditure, to run down cash balances and minimise counterparty risk incurred on investments.

As a result, no new borrowing was entered into during 2022/23. One loan was repaid in 2022/23, and the average borrowing rate for the total portfolio was 4.27%.

Maturity structure of borrowing – the level of debt maturing over the next 50 years is summarised in the table below:

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	0%
12 months to 2 years	0%	4%
2 years to 5 years	0%	11%
5 years to 10 years	0%	28%
10 years to 20 years	0%	25%
20 years to 30 years	0%	22%
30 years to 40 years	0%	10%
40 years to 50 years	0%	0%

Investment Rates in 2022/23

The average 3-month SONIA (Sterling Overnight Index Average) rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 1.87% for 2022/23.

2022/23 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 2022/23 are, therefore, set out below.

	2021/22 schemes Actual £000	2022/23 schemes Budget £000	2022/23 schemes Actual £000
Capital Expenditure Payments	6,149	7,346	5,540
Funding:			
Borrowing	2,383	1,246	2,723
Grant	0	0	0
Fund	0	0	0
Revenue	3,766	6,100	2,635
Cap Receipt	0	0	88
Ratio of Financing Costs to Net Revenue Stream: The impact of the capital investment decisions in the present capital programme were nil, due to the sources of finance identified for use.	2.16%	3.09%	2.17%
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.	5,094	10,508	7,606
Net Investment Net investment at 31 March 2023 was £5.545m. Short-term investments of £10.800m were offset by gross borrowing of £5.255m.			

Actual External Debt
Actual external debt at 31 March 2023 was £5.255m.

The Authority operated within its Operational Boundary (set at £10.508m) and Authorised Limit (£13.508m).

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 365 days.
3. At 31 March 2023, all funds were invested at fixed rates.

7 2023/24 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 (£8.445m)

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 (£11.445m)

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 £5.255m, i.e. well within the indicator. No temporary borrowing has been necessary.

Operational Boundary (£8.445m)

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 2023/24

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 2023/24.

Current Portfolio

The Fire Authority’s treasury position as at 30 September 2023 is set out below, with the position as at 31 March 2023 in brackets.

		Balance at 30 Sept 2023 £000	Interest Rate [1] 30 Sept 2023 %
a)	**Outstanding debt for capital purposes** Fixed Rate	5,255 (5,255)	4.27 (4.27)
b)	**Investments** SC Treasury Team	12,100 (10,800)	4.48 (1.91)

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 and other capital schemes will 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 2023/24. The average borrowing rate for the total portfolio is 4.27%.

The Economy and Interest Rates

The first half of 2023/24 saw interest rates increase from 4.25% to 5.25%, and CPI decline from 8.7% to 6.7%.

As the growing drag from higher interest rates intensifies over the next six months, the economy may continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession.

The phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. It is expected that the Bank of England will keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

In its monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough.

Interest Rate Forecasts

Link Group are appointed by Shropshire Council's Treasury Services to formulate a view on future interest rates.

The latest forecast on 25th September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

PWLB rate is expected to fall steadily over the next two years.

Investment Rates in the First Half of 2023/24

The 3-month SONIA rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 4.21% for the first half of 2023/24. The actual investment return was 4.48%.

Current Investments

Funds currently invested are shown below:

Handelsbanken	£2.00m
Barclays	£2.00m
Lloyds Bank	£1.00m
Nationwide	£2.00m
Santander	£2.00m
Nat West	£1.00m
Debt Management Office	£2.10m
Total	**£12.10m**

The Authority's Treasury advisors view other local authorities as safe counterparties as they are unlikely to go bust, however Treasury staff monitor any issues very closely.

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 outlined in the report.

10 Legal Comment

There are no direct legal implications arising from this report.

11 Equality Impact Assessment

There are no equality or diversity implications arising from this report.
An e-EQIA is not, therefore, required.

12 Appendix

There are no appendices to this report.

13 Background Papers

There are no background papers associated with this report.