Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
12 November 2020

Financial Performance to September 2020, including Annual Treasury Review 2019/20 and Mid-Year Treasury Review 2020/21

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 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) Note the update on capital activities and approve the adjusted total of the scheme for emergency response vehicles;
d) Note the update on corporate risk;
e) Note the annual review of treasury activities for 2019/20;
f) Note performance against prudential indicators to date in 2020/21; and
g) Note the mid-year review of treasury activities for 2020/21.

3 Background

This report comprises a review of financial performance to date for 2020/21 and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2019/20 is also included in the report.

4 Revenue Budget

Monitoring has continued on the revenue budgets for 2020/21, and a summary of the budget by individual service areas is attached as an appendix. The position to September can now be reported as follows.

	(Over) / Under spend £'000	% of total budget
Service Delivery		
On Call Training Courses	70	34%
Lone working / Community Fire Safety	40	36%
Due to the global pandemic, there have been less opportunities for safe and well visits and training. This has led to underspends in the budget areas above. It is proposed that these funds are added to reserves to be utilised at a later date.		
Executive and Resources		
Leasing – the Service's leases have now fully expired, therefore no budget is required now and in future years	16	100%
Debt charges – charges were added to the current year, anticipating additional borrowing. This will not take place during 2020/21	96	13%
Officers Mileage – reduced spending due to limited travel during pandemic	20	45%
Pay and Prices – pay award was budgeted at 3% for all staff, lower pay awards across staff have resulted in a saving	75	22%
Corporate Governance		
ICT – ICT and Communications expenditure has been reviewed and profiled; the current budget is insufficient to cover all contracts and ICT costs, and will require an uplift for the current year, as well as an adjustment for inflation. The corrected budget will be reflected in the revenue budget from 2021/22.	(120)	(10%)
Total	**197**	

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

Covid-19 – Grant and Expenditure

The Fire Authority received a total of £446,000 in grant and has been reporting expenditure to the Home Office via National Fire Chief Council (NFCC) returns. A total of £229,000 has been spent to the end of September.

Staffing costs	£71,000
PPE	£68,000
Cleaning and decontamination supplies	£44,000
Other expenditure – equipment, covid safe adjustments	£46,000
Total	**£229,000**

In addition, some savings have been identified due to the minimal movement and interrupted training of staff during the first 6 months of the year; this has been shown in both monitoring reports for 2020/21.

5 Capital Programme 2020/21

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 areas of activity in the last two months have been the purchase of the new ICT infrastructure technology that was outlined at the last meeting, and continuation of building improvements at Ellesmere, Whitchurch and Market Drayton. Elsewhere two Stores Vans have been purchased and a number of fire stations have been provided with fitness equipment.

Emergency Response Vehicles – this scheme was introduced in 2018/19 to replace the existing provision of leased cars for officers, with a fleet of vehicles which would be owned and maintained by the Service. A total of £650,000 was approved as the total value of the scheme over three years, however this represented the contribution from the Earmarked Capital Reserve only, and did not reflect the contributions to be made from the resale of the vehicles and the leased car revenue budget. The total value of purchases is £784,000.

The Committee is asked to recommend that the Fire Authority increase the approved schemes by £135,000, to accurately reflect the purchases being made.

6 Corporate Risk

There are currently 13 risks on the corporate risk register which are being actively tracked and managed. The register is monitored by the Standards, Audit and Performance Committee (SAP) quarterly and twice a year by the Fire Authority.

In addition, the register is a standing agenda item at Service Management Team (SMT) monthly meeting, as well as being reviewed in detail at Risk Management Group which was held in October.

The status of risks on the register remains unchanged, with the exception of the risk relating to data management which has been reduced.

The risk relating to uncertainly surrounding a no deal Brexit has been re-opened and added to the corporate risk register

A separate risk register relating to the effects of Covid-19 on the Service has also been created and is being monitored by officers.

7 Annual Treasury Review 2019/20

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 2019/20.

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 2020.

Current Portfolio

The Fire Authority's treasury position at 31 March 2020 is set out below with the previous year in brackets.

		Balance at 31 March 2020 £000	Interest Rate [1] 19/20 %
a)	**Outstanding debt for capital purposes** Fixed Rate	**5,698 (5,698)**	**4.49 (4.49)**
b)	**Investments** SC Treasury Team	**19,200 (17,470)**	**0.79 (0.66)**

Note[1]
The interest rates shown represent:

a) The average cost of the debt portfolio, including the borrowing for 2019/20; 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, so as to run down cash balances and minimise counterparty risk incurred on investments.

As a result, no new borrowing was entered into during 2019/20, and the average borrowing rate for the total portfolio remained at 4.49%.

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 2019/20		
	Lower	**Upper**
Under 12 months	0%	5%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	20%
10 years to 20 years	0%	50%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

Investment Rates in 2019/20

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.51% for 2019/20.

2019/20 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 2019/20 are, therefore, set out below.

	2018/19 schemes Actual £000	2019/20 schemes Budget £000	2019/20 schemes Actual £000
Capital Expenditure			
Payments (current year schemes)	1,195	2,050	269
Funding:			
Borrowing	0	500	0
Grant	802	0	0
Fund	0	0	0
Revenue	393	1,550	269
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.	2.44%	2.35%	2.47%
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.	3,358	3,134	3,100
Net Investment Net investment at 31 March 2020 was £13.502m. Short-term investments of £19.200m were offset by gross borrowing of £5.698m.			
Actual External Debt Actual external debt at 31 March 2020 was £5.698m. The Authority's gross debt, at £5.698m, was higher than its Capital Financing Requirement, set in 2019/20 at £3.134m, and confirmed at £3.100m 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 £5.698m) and Authorised Limit (£6.134m).			

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 2020, all funds were invested at fixed rates.

8 2020/21 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 prudential indicators were reviewed and revised in September following changes in levels of reserves and also in the timing of the proposed Telford project, and new indicators were approved by the Authority in October.

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 (£5.162m)

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 (£8.162m)

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

Operational Boundary (£5.698m)

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.

9 Mid-Year Treasury Review 2020/21

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 2020/21.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2020 is set out below, with the position as at 31 March 2020 in brackets.

		Balance at 30 Sept 2019 £000	Interest Rate [1] 30 Sept 2019 %
a)	**Outstanding debt for capital purposes** Fixed Rate	5,698 (5,698)	4.49 (4.49)
b)	**Investments** SC Treasury Team	21,300 (19,200)	0.48 (0.79)

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 2020/21, and the average borrowing rate for the total portfolio remains at 4.49%.

The Economy and Interest Rates

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6 August 2020 (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing (QE) is the favoured tool if further action becomes necessary. No increase in Bank Rate is expected within the forecast horizon ending on 31 March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

At its meeting in August:

- The Monetary Policy Committee (MPC) announced that the fall in GDP in the first half of 2020 had been revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.

- The peak in the **unemployment rate** was revised down from 9% in Quarter 2 to 7½% by Quarter 4 of 2020.
- It forecast that there would be excess demand in the economy by Quarter 3 of 2022 causing CPI **inflation** to rise above the 2% target in Quarter 3 of 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

In conclusion, this would indicate that the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to **downside risks,** which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are currently being dealt with by localised measures in order to try and limit the amount of economic damage caused.

In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. The Chancellor announced in late September a second six month package from 1 November 2020 of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours (this has since been made more generous). There was further help for the self-employed, freelancers and the hospitality industry. However, this is a less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid-September.

Overall, **the pace of recovery** is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

There will be some **painful longer-term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

In terms of Public Works Loan Board rates, there is likely to be little upward movement over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

Investment Rates in the First Half of 2020/21

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.06% for the first half of 2020/21. The actual investment return was 0.48%.

Current Investments

Funds currently invested are shown below:

Handelsbanken	£2.0m
Barclays	£2.0m
Lloyds	£2.0m
Blackpool Borough Council	£2.0m
Santander	£2.0m
Broxtowe Borough Council	£2.0m
Cheltenham Borough Council	£2.0m
Nat West	£1.8m
Thurrock Council	£2.0m
Debt Management Office	£2.5m
Coventry Building Society	£1.0m
Total	**£21.3m**

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.

10 Financial Implications

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

11 Legal Comment

There are no direct legal implications arising from this report.

12 Initial Impact Assessment

An Initial Impact Assessment has been completed.

13 Appendix

Revenue Budget Directorate Summary

14 Background Papers

There are no background papers associated with this report.

Directorate	Budget	Spend	Committed	Balance	% Spent
Executive & Resources					
Pay					
Executive	765,606	374,469	1,505	389,632	49%
Resources	545,415	273,290	0	272,125	50%
	1,311,021	647,759	1,505		
Other					
Business Continuity	-62,000	127,998	0	-189,998	-206%
Equipment & Uniforms	497,001	225,258	90,470	181,274	64%
Executive	118,586	74,836	0	43,750	63%
Facilities	1,052,460	652,379	87,802	312,279	70%
Finance - Corporate Budgets	1,793,519	63,831	675	1,729,013	4%
Finance - Grants	-1,149,960	-1,581,685		431,725	138%
Fleet	277,324	67,771	6,649	202,904	27%
Hydrants	117,738	7,510	2,400	107,828	8%
Workshops	224,213	148,604	6,796	68,812	69%
	2,868,881	-213,498	194,792		
	4,179,902	**434,261**	**196,297**	**3,549,344**	15%
Service Delivery					
Pay					
Area Command	10,787,178	5,097,887	0	5,689,290	47%
Control	766,355	364,959	160	401,237	48%
ESMCP	0	24,003	0	-24,003	
Operations	603,007	313,968	0	289,039	52%
Prevention	1,124,624	487,479	0	637,145	43%
Training	1,221,063	522,442	0	698,621	43%
	14,502,227	6,810,737	160		
Other					
Area Command	5,000	405	0	4,595	8%
Animal Rescue	6,000	-367	0	6,367	-6%
Community Fire Safety	50,584	12,373	540	37,671	26%
Health & Safety	4,200	2,307	0	1,893	55%
ESMCP	0	25,829	0	-25,829	
Operations	20,000	9,325	0	10,675	47%
Training	198,561	60,852	9,824	127,886	36%
	284,345	110,724	10,364		
	14,786,572	**6,921,461**	**10,524**	**7,854,588**	47%

Directorate	Budget	Spend	Committed	Balance	% Spent
Corporate Governance					
Pay					
Service Development	360,440	203,109	0	157,331	56%
Corporate Services	320,445	162,317	0	158,127	51%
HR	382,049	174,660	0	207,389	46%
IT and Comms	418,691	159,708	0	258,984	38%
Strategic Alliance	0	82,091	0	-82,091	
	1,481,626	781,885	0		
Other					
Corporate Communications	10,000	3,840	0	6,160	38%
Corporate Services	36,460	18,781	0	17,679	52%
Development	196,595	85,927	67,575	43,093	78%
Equality & Diversity	16,900	3,494	0	13,406	21%
HR and Occ Health	30,183	9,175	50	20,958	31%
IT and Comms	1,155,962	918,621	33,005	204,336	82%
Insurance	352,918	348,934	0	3,983	99%
Members	86,136	44,645	0	41,491	52%
Occupational Health and HR Contracts	209,000	83,200	335	125,465	40%
Pensions	280,120	149,184	0	130,936	53%
Strategic Alliance	0	31,031	0	-31,031	
	2,374,274	1,696,832	100,965		
	3,855,899	**2,478,717**	**100,965**	**1,276,217**	67%
	22,822,373	**9,834,439**	**307,785**	**12,680,149**	44%
Pay and Prices Contingency	398,627	0	0	398,627	0%
	398,627	0	0		
Total Budget	**23,221,000**	**9,834,439**	**307,785**	**13,078,776**	44%