

## **Financial Performance to September 2021, including Annual Treasury Review 2020/21 and Mid-Year Treasury Review 2021/22**

### **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 activity on capital schemes;
- d) Note the update on corporate risk;
- e) Note the annual review of treasury activities for 2020/21;
- f) Note performance against prudential indicators to date in 2021/22; and
- g) Note the mid-year review of treasury activities for 2021/22.

### **3 Background**

This report comprises a review of financial performance to date for 2021/22, and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2020/21 is also included in the report.

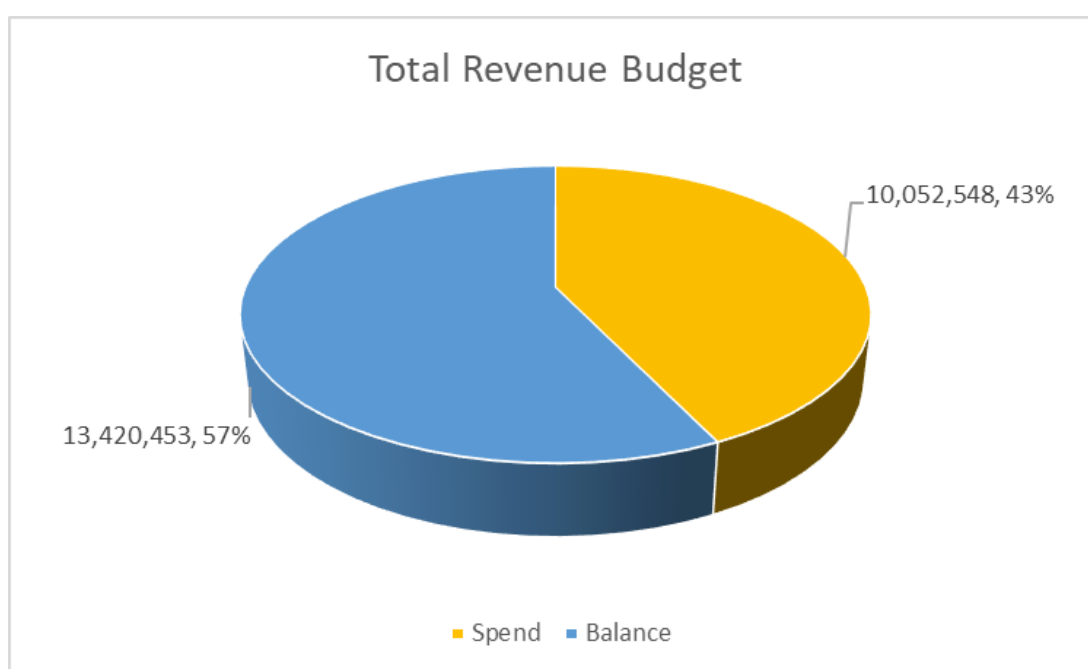
## 4 Revenue Budget

The Fire Authority approved a total 2021/22 revenue budget of £23.473m in February 2021, 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 monthly basis.

Monitoring has begun on the revenue budgets for 2021/22, and a summary of the total position is shown below.

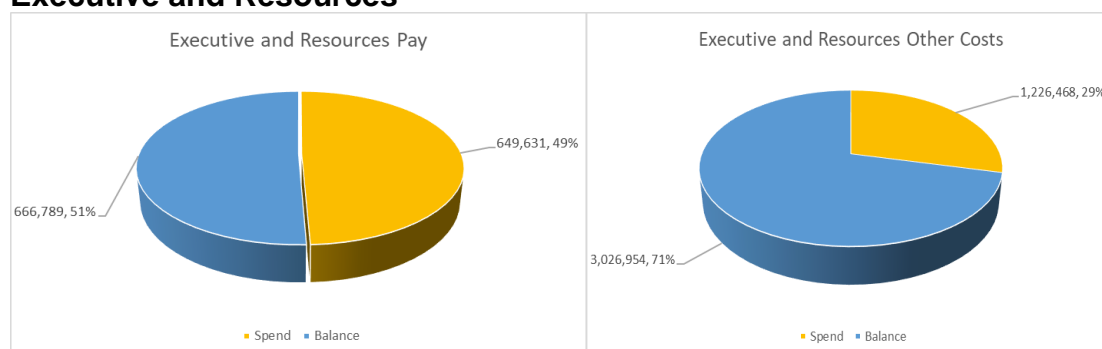


Expenditure on pay budgets is 51% on average; this is in line with estimated spend at this point in the year. Areas such as on call firefighters and overtime payments would be a month behind as these activities are paid for in the following month; however, there are also a number of officers who have been seconded to complete projects in other organisations, and these costs will be recharged.

In terms of non pay budgets, average spend across all budgets (removing grant income) is 21%. 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).

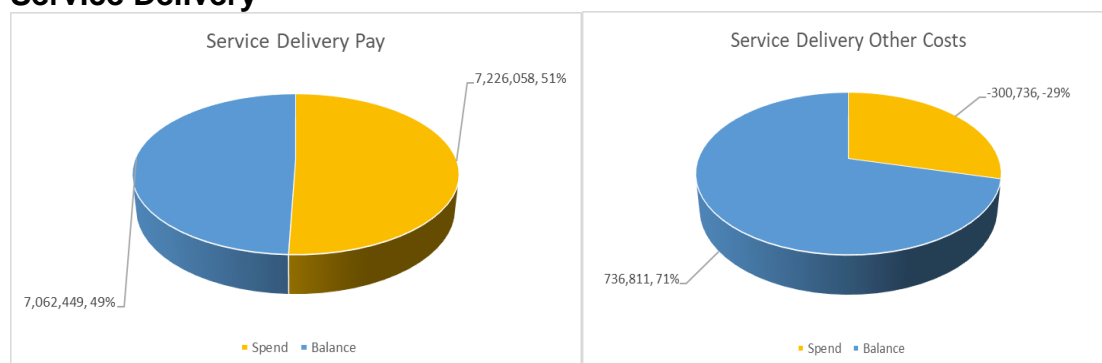
The graphs below illustrate spend to date across each of the service areas.

## Executive and Resources



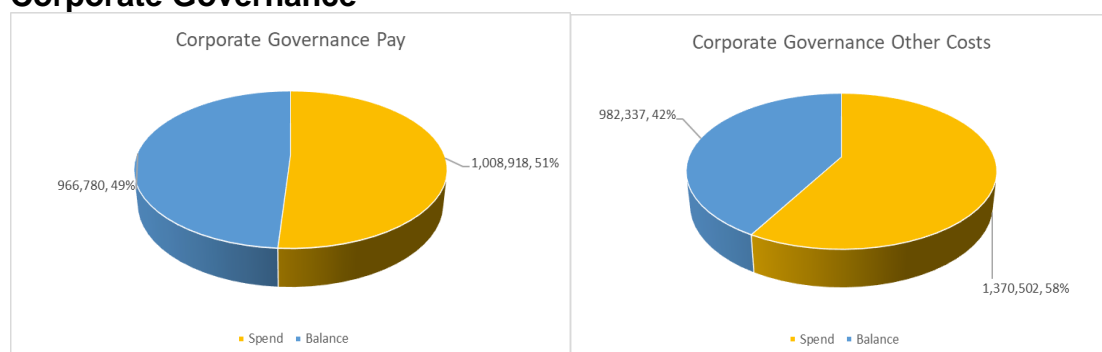
Other Costs - A number of subscriptions have been fully paid, and rates bills across all sites are also paid. Maintenance work has been carried out at Tweeddale. Some corporate Finance costs will have no spend until later in the year.

## Service Delivery



Other Costs – costs in this service area are steady; costs have been incurred in Training, for recruitment, fire investigation and road traffic collision instructor courses.

## Corporate Governance



Other Costs – Annual ICT costs such as the wide area network, are fully paid, and all insurance premiums have also been paid for 2021/22.

The table below 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	% of total budget
<b>Service Delivery</b>		
Pay - Training – an instructor post is currently vacant	30	4%
Pay – Watches – there is an overspend in this area due to covering for long term sickness absence	(25)	0.6%
Pay - Overtime – additional shifts have been required, from general sickness, and also due to changes in the Public Health England guidelines on self-isolation following close contact.	(77)	46%
On call – a residual balance of estimated on call compensation claims has been released following the closure of 2020/21 accounts.	47	-
<b>Executive and Resources</b>		
Pay - Resources - A procurement post shared with Telford & Wrekin Council is currently unfilled – this post may be explored with the Fire Alliance	35	6%
Pay - Technical Services – A on call rota to support operational crews has been established, this will be incorporated into budget going forward	(23)	3%
Debt charges – no borrowing will be required during this financial year, resulting in underspends	200	17%
Investment income – expected income will be lower than anticipated, due to extremely low rates of return on current investments	(70)	70%
<b>Corporate Governance</b>		
Pay - ICT – a technician vacancy has resulted in an underspend in this area	15	4%
Pay - Planning & Performance – an analyst post is vacant	15	5%
Development – additional funds were requested for the staff survey; this work was completed in 2020/21	14	7%

	(Over) / Under spend £'000	% of total budget
ICT – savings following renegotiation of the wide area network contract	63	5%
<b>Total</b>	<b>224</b>	

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:

- Subscription to incident de brief system (£18,000)
- Operational equipment – fog spikes (£7,000)
- Software for Incident Command Unit (£3,895)
- Additional operational equipment costs incurred at incident in Ketley (£18,000)
- Staff secondments – National Operational Guidance project (£138,000)
- Road and Water Safety post (£8,000)
- Staff secondment to Development (£51,000)

### **Covid 19 – Grant and Expenditure**

A balance of £36,000 of the original Covid 19 grants remained at the end of March 2021; a further £248,000 has been received during 2021/22.

Staff have continued to provide logistical support to the remaining vaccination centres, and a balance of £108,000 remained at the end of September 2021.

## **5 Capital Programme 2021/22**

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 continuation of building improvements at Ellesmere, Whitchurch and Market Drayton, as well as the refurbishment of Telford.

## **6 Corporate Risk**

There are currently 14 risks on the corporate risk register which are being actively tracked and managed. The register is monitored by the Standards, Audit and Performance (SAP) Committee quarterly and twice a year by the Fire Authority. In addition, the register is a standing agenda item at the Service Management Team (SMT) monthly meeting, as well as being reviewed in detail at Risk Management Group which was held in October.

The corporate risk - Failure of Primary Contractor or Failure of Supply Chain for Critical Goods now incorporates Supply Chain Disruption. In addition to local arrangements National Fire Chiefs Council (NFCC) national support is being provided for some products (e.g. smoke detectors).

The status of risks on the register remains unchanged, except for the risk relating to service disruption due to Covid which has been reduced.

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 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 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 2020/21.

### **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 2021.

### **Current Portfolio**

The Fire Authority's treasury position at 31 March 2021 is set out below with the previous year in brackets.

	Balance at 31 March 2021 £000	Interest Rate <sup>1</sup> 20/21 %
a) <b>Outstanding debt for capital purposes</b>		
Fixed Rate	5,578 (5,698)	4.50 (4.49)
b) <b>Investments</b>		
SC Treasury Team	19,500 (19,200)	0.35 (0.79)

#### Note<sup>1</sup>

The interest rates shown represent:

- The average cost of the debt portfolio, including the borrowing for 2020/21; and
- 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 2020/21. One loan was repaid in 2020/21, and the average borrowing rate for the total portfolio was 4.50%.

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

<b>Maturity structure of fixed interest rate borrowing 2020/21</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	3%
12 months to 2 years	0%	3%
2 years to 5 years	0%	7%
5 years to 10 years	0%	17%
10 years to 20 years	0%	40%
20 years to 30 years	0%	8%
30 years to 40 years	0%	22%
40 years to 50 years	0%	0%

#### Investment Rates in 2020/21

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.07% for 2020/21.

#### 2020/21 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 2020/21 are, therefore, set out below.

	<b>2019/20 schemes Actual £000</b>	<b>2020/21 schemes Budget £000</b>	<b>2020/21 schemes Actual £000</b>
<b>Capital Expenditure</b>			
<b>Payments (current year schemes)</b>	269	7,080	281
<b>Funding:</b>			
Borrowing	0	2,330	0
Grant	0	0	0
Fund	0	0	0
Revenue	269	4,750	281
<b>Ratio of Financing Costs to Net Revenue Stream:</b>	2.47%	2.66%	2.16%
The impact of the capital investment decisions in the present capital programme were nil, due to the sources of finance identified for use.			
<b>Capital Financing Requirement</b>			
The capital financing requirement has reduced due to the decision to fund capital schemes with reserves and balances, thereby reducing the borrowing requirement.	3,100	5,162	2,858
<b>Net Investment</b> Net investment at 31 March 2021 was £13.622m. Short-term investments of £19.200m were offset by gross borrowing of £5.578m.			
<b>Actual External Debt</b> Actual external debt at 31 March 2021 was £5.578m. The Authority's gross debt, at £5.578m, was higher than its Capital Financing Requirement, set in 2020/21 at £5.162m, and confirmed at £2.858m 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 £5.578m) and Authorised Limit (£8.162m).			



### **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 2021, all funds were invested at fixed rates.

## **8 2021/22 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 (£9.235m)**

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 (£12.236m)**

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 £5.418m, i.e. well within the indicator. No temporary borrowing has been necessary.

### **Operational Boundary (£9.235m)**

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 2021/22**

### **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 2021/22.

### **Current Portfolio**

The Fire Authority's treasury position as at 30 September 2021 is set out below, with the position as at 31 March 2021 in brackets.

	Balance at 30 Sept 2021 £000	Interest Rate <sup>1</sup> 30 Sept 2021 %
a) <b>Outstanding debt for capital purposes</b>		
Fixed Rate	5,418 (5,578)	4.42 (4.50)
b) <b>Investments</b>		
SC Treasury Team	21,340 (19,500)	0.17 (0.35)

#### **Note <sup>1</sup>**

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 2021/22. One loan has been repaid and the average borrowing rate for the total portfolio is 4.42%.

#### **The Economy and Interest Rates**

At its meeting in September, the Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10%, and no changes were made to its programme of quantitative easing. There had been a marked concern that recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, would lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. There is also a concern that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly over the MPC's 2% target for longer.

Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, however the MPC wants to see what happens to the economy, particularly in employment in the months after furlough ends.

Covid 19: the vaccination rollout has enormously boosted confidence that life in the UK could largely return to normal. With the household saving rate having been exceptionally high, there is expected to be built up demand and purchasing power for services in hard hit sectors such as restaurants, travel and hotels.

Issues such as supply shortages and difficulties in filling job vacancies are contributing to a spike upwards in inflation and shortage of materials and goods on shelves; it is expected that these issues will be gradually sorted out.

### **Interest Rate Forecasts**

In terms of Bank Rate, the pandemic has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, subsequent meetings left Bank Rate unchanged.

One increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 2023/24 and a third one to 0.75% in quarter 4 of 2023/24.

Public Works Loan Board are anticipated to rise steadily through 2022/23 and 2023/24, in line with Bank Rate.

### **Investment Rates in the First Half of 2021/22**

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.08% for the first half of 2021/22. The actual investment return was 0.17%.

### **Current Investments**

Funds currently invested are shown below:

Handelsbanken	£1.30m
Barclays	£2.00m
Lloyds	£1.94m
Blackpool Borough Council	£2.00m
Santander	£2.00m
Broxtowe Borough Council	£2.00m
Cheltenham Borough Council	£2.00m
Nat West	£1.10m
Slough Borough Council	£2.00m
Debt Management Office	£2.00m
Coventry Building Society	£1.00m
Telford & Wrekin Council	£2.00m
<b>Total</b>	<b>£21.34m</b>

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 Appendices**

There are no appendices attached to this report.

## **14 Background Papers**

There are no background papers associated with this report.