Shropshire and Wrekin Fire and Rescue Authority

Strategy and Resources Committee

20 November 2014

**Financial Performance to September 2014, including Annual Treasury Review 2013/14 and Mid-Year Treasury Review 2014/15**

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.

|  |  |
| --- | --- |
|  | Recommendations  The Committee is asked to recommend that the Fire Authority:   1. Note the position of the revenue budget; 2. Approve virements to the revenue budget, where requested; 3. Note the annual review of treasury activities for 2013/14; 4. Note performance against prudential indicators to date in 2014/15; and 5. Note the mid-year review of treasury activities for 2014/15. |

1. Background

This report comprises a review of financial performance to date for 2014/15, and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2013/14 is also included in the report.

1. Revenue Budget

Monitoring has continued on the revenue budgets for 2014/15, and the position to September can now be reported as follows.

|  | **(Over) /**  **Under**  **spend**  **£’000** |
| --- | --- |
| **Executive and Resources**  **Uniforms** – Spend in this area includes £113,000 on helmets and additional uniforms. It is proposed that this is transferred from the Operational Equipment Reserve.  **Rates** – The Service has submitted appeals against the rateable values of many of its buildings, where considered to be excessive. A number of successful appeals have resulted in refunds for the past 4 years, with further savings over the next 3 years.  **Revenue Contribution to Capital** – Capital schemes for light pumping unit and retained station building works have been rescheduled to 2014/15, following Authority approval. It is proposed that these schemes are funded from revenue balances.  **Furniture** – Reorganisation of office accommodation in Headquarters has resulted in additional expenditure in this area.  **Pay and Price Contingency** – This is the balance of contingency, following allocation of firefighter pay awards and inflation. This balance is reduced in future budgets. | (113)  167  (1,020)  (20)  900 |
| **Area Command**  **Watches** – Four firefighter vacancies, plus reduced salary spend following industrial action deductions, have resulted in a predicted underspend at the end of the year.  **Overtime** – There is reduced spend in this area due to industrial action working practices.  **Retained Duty System**:  Underspends are anticipated in the following areas:  Retaining fee  Turnouts  Drills  Attendances  **Sickness and Modified Duties / Holiday Pay** – There are additional costs here due to the change in terms and conditions for retained firefighters.  **Additional Hours** – Additional costs have been incurred on training, payments for standby at wholetime stations, and station maintenance.  **Pension Contributions** – A permanent increase is to be made to this budget to cover increasing pension contributions. | 125  48  30  50  37  30  (115)  (90)  (50) |
| **Prevention**  **Business and Community Fire Safety Advocates** – Continued spend at current levels will result in an underspend.  **Inspecting Officers** – Two officer vacancies will result in an underspend of £40,000 by the end of the year. | 40  40 |
| **Human Resources and Development**  **Medical Reports –** Continued spend at current levels will result in an underspend.  **Training** – It is unlikely that the budget for recruit training will be spent during this year. | 14  25 |
| **Operations**  **Retained Control** – There will be an unspent balance in this area, however further recruitment is expected during the second half of the year. | 28 |
| **Total** | **126** |

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 £108,000 for the first six months of the year. These costs include Human Resources and Information and Communications Technology (ICT) support, and also costs associated with the implementation of SharePoint.

**Memorandum of Understanding – Control Room Project**

Costs of staff seconded to the Memorandum of Understanding programme of projects total £88,000 for the first six months of the year. These costs include the Project Manager and ICT and Communications support.

Funds are available for these staff costs, within the Service Transformation Programme Staff Reserve and the ICT Reserve (Control grant) respectively. Members are requested to approve the transfer of funds from reserves into the revenue budget.

1. Annual Treasury Review 2013/14

**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 2013/14.

**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 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 the Council.

**Current Portfolio**

The Fire Authority’s treasury position at 31 March 2014 is set out below with the previous year 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 | **12,648 (10,600)** | **0.32 (0.28)** |

**Note1**

The interest rates shown represent:

1. The average cost of the debt portfolio, including the borrowing for 2013/14; and
2. 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 2013/14, 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 2013/14**

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.29% for 2013/14.

**2013/14 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 2013/14 are, therefore, set out below.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2012/13**  **Actual**  **£000** | **2013/14**  **Budget**  **£000** | **2013/14**  **Actual**  **£000** |
| **Capital Expenditure**  **Payments**  **Funding:**  Borrowing  Grant  Fund  Revenue | 1,373  0  952  364  57 | 805  0  0  0  805 | 1,180  0  605  0  575 |
| **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. | 2.7% | 4.9% | 2.8% |
| **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. | 4,997 | 4,998 | 4,741 |
| **Net Investment**  Net investment at 31 March 2014 was £6.838m. Short-term investments of £12.648m were offset by gross borrowing of £5.810m. | | | |
| **Actual External Debt**  Actual external debt at 31 March 2014 was £5.810m, plus other long-term liabilities at 31 March 2013 of £28k (finance leases).  The Authority’s gross debt, at £5.810m, was higher than its Capital Financing Requirement, set in 2013/14 at £4.998m, and confirmed at £4.741m 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 (£7.699m). | | | |
| **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 2014, all funds were invested at fixed rates. | | | |

1. 2014/15 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 (£4.407m)**

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 (£7.407m)**

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 £5.810m, 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.

1. Mid-Year 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 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 2014/15.

**Current Portfolio**

The Fire Authority’s treasury position as at 30 September 2014 is set out below, with the position as at 31 March 2014 in brackets.

|  |  |  |
| --- | --- | --- |
|  | **Balance at**  **30 Sept 2014**  **£000** | **Interest Rate 1**  **30 Sept 2014**  **%** |
| **a)** **Outstanding debt for capital purposes**  Fixed Rate | 5,810 (5,810) | 4.49 (4.49) |
| **b)** **Investments**  SC Treasury Team | 18,070 (12,640) | 0.36 (0.32) |

**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**

After strong UK Gross Domestic Product quarterly growth through 2013, strong growth is likely to continue through 2014 and into 2015. The service and construction sectors look encouraging, and business investment is also recovering strongly.

However for the recovery to become more balanced and sustainable in the long term, the recovery needs to move away from dependence on consumer spending and the housing market to exporting, particularly manufactured goods.

The Monetary Policy Committee (MPC) had stated that increases in Bank Rate would be considered, once a fall in unemployment of 7% had been reached. Overall strong growth has meant that unemployment has fallen much quicker than expected, so the MPC is now reviewing a range of indicators in order to form a view about how much slack there is in the economy. The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable.

There has also been an encouraging fall in inflation (Consumer Price Index), reaching 1.2% and likely to fall further.

**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 4.6%.

**Investment Rates in the First Half of 2014/15**

The 7-day rate, with which to compare the investment return achieved for the

Fire Authority by Treasury Services, was 0.30% for the first half of 2014/15. The actual investment return was 0.36%.

**Current Investments**

Funds currently invested are shown below:

|  |  |
| --- | --- |
| Debt Management Office | £8.02m |
| Handelsbanken | £2.00m |
| Barclays | £2.00m |
| Lloyds | £2.00m |
| Nationwide | £2.00m |
| Salford City Council | £1.15m |
| NatWest | £0.90m |
| **Total** | **£18.07m** |

1. Financial Implications

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

1. Legal Comment

There are no direct legal implications arising from this report.

1. Initial Impact Assessment

An Initial Impact Assessment has been completed.

1. Appendices

There are no appendices attached to this report.

1. Background Papers

There are no background papers associated with this report.