

## **Financial Performance to December 2011, including the Mid-Year Treasury Review 2011/12**

### **Report of the Treasurer**

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007, or Joanne Coadey, Principal Accountant, 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 position on the capital programme;
- d) Note performance against prudential indicators to date in 2011/12; and
- e) Note the mid-year review of treasury activities for 2011/12.

### **3 Background**

This report comprises a review of financial performance to date for 2011/12, and encompasses the monitoring of revenue budgets and capital schemes, and the review of treasury management activities, including prudential indicators.

## 4 Revenue Budget

Monitoring has continued on the revenue budgets and capital programme for 2011/12, and the position to December can now be reported.

	<b>(Over) / Under spend £'000</b>
<p><b>Executive and Resources</b></p> <p><b>Finance:</b> Saving on Audit Commission fees due to reduced monthly fee</p> <p><b>Technical Services:</b> Additional costs on furniture purchase due to Headquarters move</p> <p><b>Fleet Management:</b> Additional hire costs have arisen while permanent vehicle contracts are finalised.</p>	<p>10</p> <p>(25)</p> <p>(40)</p>
<p><b>Human Resources and Development</b></p> <p><b>HR and Equality:</b> Savings have been identified on medical reports and reasonable adjustments</p>	<p>10</p>
<p><b>Service Delivery</b></p> <p><b>Retained Duty System:</b> Retaining fee, turnouts and drills Retained National Insurance Retained pension costs</p> <p><b>Prevention:</b> Savings on Vulnerable Persons Advocacy</p>	<p>14</p> <p>20</p> <p>(20)</p> <p>40</p>
<p><b>Total</b></p>	<p><b>9</b></p>

## 5 Capital Programme

An activity report on the capital programme features elsewhere on the agenda. The programme contains a scheme for the replacement of station end equipment for the SEED command and control system. Under section 4.2 of the Scheme of Delegation to Officers, a virement was approved under urgency procedures for the purchase of this equipment, due to its business critical nature.

## 6 2011/12 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 December is shown below.

<b>Prudential Indicator</b>	<b>Budget 2011/12 £'000</b>	<b>Actual 2011/12 £'000</b>
Capital Financing Requirement (CFR)	8,256	8,125
Operational boundary for external debt	8,256	8,125
Authorised limit for external debt	11,256	11,125

There are currently no indications that the prudential indicators will be exceeded or amended.

## 7 Mid-Year Treasury Review 2011/12

### 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, which requires a mid-year review report of the current year.

This is the mid-year review report for 2011/12.

### Current Portfolio

The Fire Authority's treasury position at 30 September 2011 is set out below with the position as at 31 March 2011 in brackets.

	Balance at 30 Sept 2011 £000	Interest Rate <sup>1</sup> 30 Sept 2011 %
a) <b>Outstanding debt for capital purposes</b>		
Fixed Rate	5,810 (5,810)	4.49 (4.49)
b) <b>Investments</b>		
SC Treasury Team	7,460 (6,715)	0.45 (0.54)

**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 during the first half of the year was to use cash balances to finance new capital expenditure, so as to run down cash balances and minimise counterparty risk incurred on investments. This also maximised savings in debt charges, as investment rates were much lower than most new borrowing rates.

As a result of this approach, no new borrowing has been entered into during the first half of 2011/12, 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.

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

Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.2% in the first quarter of 2011/12, providing a knock-on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future. Inflation remains stubbornly high, although the expectation of future falls, the external nature of the price increases (energy, oil, food etc.), and the negative impact a rate rise would have on the UK economy is likely to stop the Monetary Policy Committee from raising the Bank Rate for some considerable time to come.

### **Bank Rate**

Independent advisors believe that the Bank Rate will remain at its current low level of 0.5% before rising to 0.75% in September 2013.

This means investment returns will continue to be at historically low levels during this period. The Bank Rate is then expected to gradually increase to reach 1.25% by 31 March 2014 and 2.50% by 31 March 2015.

### **Long-term Interest Rates**

Long-term Public Works Loan Board (PWLB) rates are expected to increase steadily over time to reach 5.30% by March 2015.

### **Investment Rates in the First Half of 2011/12**

The 7 day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.45% for the first half of 2011/12. The actual investment return was 0.39%.

### **Investments**

Funds invested at the end of December are shown below:

Debt Management Office	£2.64m
Salford City Council	£2.0m
Birmingham City Council	£1.83m
<b>Total</b>	<b>£6.47m</b>

## **8 Financial Implications**

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

## **9 Legal Comment**

There are no direct legal implications arising from this report.

## **10 Equality Impact Assessment**

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

## **11 Appendices**

There are no appendices attached to this report.

## **12 Background Papers**

There are no background papers associated with this report.