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Shropshire and Wrekin Fire and Rescue Authority
11 December 2013

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Shropshire and Wrekin Fire and Rescue Authority
Strategy & Resources Committee
7 November 2013

Financial Performance to September 2013, including Mid-Year Treasury Review 2013/14

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.

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) Approve changes to capital schemes, where requested;
d) Note performance against prudential indicators to date in 2013/14; and
e) Note the mid-year review of treasury activities for 2013/14.

3 Background

This report comprises a review of financial performance to date for 2013/14, 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 2013/14, and the position to September can now be reported as follows.

	(Over) / Under spend £'000
Pay	
Operations	
An additional Watch Manager in post in this area has resulted in an overspend.	(20)
Prevention	
Technical Officer post vacancy	12
Risk Reduction Officer – no established budget	(10)
Vulnerable Persons Advocates savings	25
Inspecting Officer post vacancy	15
Area Command	
Watches – savings generated to the end of December, 8 firefighter vacancies (posts removed Jan 14 as part of Public Value review)	85
Retained Duty System	
Savings in activity areas:	
• Drills	14
• Turnouts	30
• Attendance	14
Pension contributions – over and above budgeted levels – budget to be reviewed as part of 14/15 base budget review	(70)
Corporate Support	
Salary savings to end of the year	20
Training and Development	
Development Manager post vacant for part of the year	12
Resources	
Supplies Officer vacancy and Fleet Manager savings	25
PPE Project Officer – unbudgeted post	(5)
Other budgets	
Uniforms and Clothing	
Savings anticipated following PPE rollout, however level of budget reductions is not sustainable. This will be addressed as part of 2014/15 base budget review.	(50)

	(Over) / Under spend £'000
Rates Increase in rates for Shrewsbury site, subject to appeal.	(40)
Audit Fees Savings realised following appointment of Grant Thornton as external auditor. This will be addressed as part of 2014/15 base budget review.	30
Debt Charges Savings on revenue consequences of capital schemes	35
Interest on Investments Returns on investments is higher than levels anticipated as budgets were set at the beginning of the year	15
Hydrant Maintenance Planned expenditure to the end of the year is likely to be higher than budgeted levels	(23)
Training No wholetime recruitment during 2013/14 will realise budget savings in this area	15
Provisions Additional expenditure during long incident at Grinshill	(5)
Information Management Upgrade for Asset Management software	(6)
Total	**118**

It is proposed that 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 £55,000 for the first six months of the year. These costs include Human Resources and ICT support, and also costs associated with the implementation of SharePoint.

Memorandum of Understanding – Control Room Project

Costs of staff seconded to the MOU programme of projects total £82,000 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.

5 Capital Programme

Activity on capital schemes to the end of September is reported elsewhere on the agenda.

Road Traffic Collision Equipment / Incident Support Units

The capital schemes detailed below were approved by the Fire Authority in February 2012, as part of the 2012/13 Capital Programme.

Road traffic collision (RTC) equipment	£100,000
Incident support units	£250,000

In July 2012, Fire Authorities were invited to submit capital bids to the Department of Communities and Local Government (DCLG). Officers submitted a bid for £350,000, made up of £100,000 RTC equipment for appliances, £50,000 for RTC equipment for support vehicles, and £200,000 for support vehicles. The bid was successful, with funds being paid by DCLG during 2013/14 and 2014/15.

At the start of 2013/14, the balances on the original bids were as follows:

RTC equipment	£65,000
Incident support units	£190,000

To allow the capital grant to be utilised in line with the successful bid, Members are asked to approve the increase of the balance of the existing schemes:

RTC equipment	£150,000
Incident support units	£200,000

Appliance Replacement

The capital programme includes a scheme for the replacement of three fire appliances. The scheme was approved at a value of £660,000; however the actual costs are likely to be around £710,000. It is proposed that the scheme is increased to account for inflationary pressure, from the Prices Contingency.

6 2013/14 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 (£4.699m)

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 (£6.110m)

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 (£7.699m)

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.

7 Mid-Year 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 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 2013/14.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2013 is set out below, with the position as at 31 March 2013 in brackets.

		Balance at 30 Sept 2013 £000	Interest Rate [1] 30 Sept 2013 %
a)	Outstanding debt for capital purposes Fixed Rate	5,810 (5,810)	4.49 (4.49)
b)	Investments	14,230	0.30 (0.27)
	Shropshire Council Treasury Team	(10,420)	

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 2013/14, 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

During 2013/14 economic indicators have suggested that the economy is recovering, with growth of 0.7% in the second quarter of 2013. There have been encouraging signs in household spending, and this economic growth is also supporting the labour market, with employment increasing and levels of unemployment falling. In addition, the Bank of England's 'Funding for Lending Scheme' and the Government's 'Help to Buy Scheme' are helping to boost demand in the housing market.

The 2013 Spending Review, covering 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor, Mark Carney's arriving. Bank Rate remained at 0.5% and quantitative easing levels were unchanged.

Predictions for the next six months are difficult with so many external influences, although the overall balance of risks to economic recovery in the UK is now positive. However, there are a number of vulnerabilities in certain areas. In the short term, there is a small risk of further quantitative easing, if there is a strong dip in growth, or expectation of an early increase in Bank Rate.

In the longer term, Public Works Loan Board (PWLB) rates may rise as a result of the high volume of gilt issuance in the UK, and bond issuance in other major western companies.

Long-term Interest Rates

Long term PWLB rates are expected to level off by the end of this year, rising steadily to 4.7% by March 2015.

Investment Rates in the First Half of 2013/14

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.26% for the first half of 2013/14. The actual investment return was 0.3%.

Current Investments

Funds currently invested are shown below:

Debt Management Office	£4.14m
Birmingham City Council	£2.00m
Glasgow City Council	£1.37m
Borough Council of Kings Lynn	£1.00m
Leeds City Council	£1.92m
NatWest	£2.00m
Salford City Council	£1.80m
Total	**£14.23m**

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 Initial Impact Assessment

An Initial Impact Assessment has been completed.

11 Appendices

There are no appendices attached to this report.

12 Background Papers

There are no background papers associated with this report.