

## **Financial Performance to September 2012, including the Mid-Year Treasury Review 2012/13**

### **Report of the Treasurer**

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007, 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 decision of the Pension Panel on 6 August relating to early release of pension benefits;
- d) Approve the use of Government grant for Control Room services;
- e) Note performance against prudential indicators to date in 2012/13; and
- f) Note the mid-year review of treasury activities for 2012/13.

### **3 Background**

This report comprises a review of financial performance to date for 2012/13, and encompasses the monitoring of revenue budgets and capital schemes, the review of treasury management activities, including prudential indicators.

## 4 Revenue Budget

Monitoring has continued on the revenue budgets and capital programme for 2012/13, and the position to September can now be reported as follows.

|  | <b>(Over) /<br/>Under<br/>spend<br/>£'000</b> |
|--|---|
| <b>Executive and Resources</b><br><br><b>Finance:</b><br><br><b>Debt charges</b> – savings following decision to fund capital schemes from balances  | 150   |
| <b>Technical Services:</b><br><br><b>Rates</b> – additional expenditure due to the increased rateable value of the Shrewsbury site   | (31)  |
| <b>Fleet Management:</b><br><br><b>Diesel</b> – continued spending at current levels will result in an underspend  | 20  |
| <b>Service Delivery</b><br><br><b>Area Command:</b><br><br><b>Overtime</b> – increased spending pressures due to firefighters on modified duties and maternity leave will result in an overspend                 | (120)   |
| <b>Retained Duty System:</b><br><br><b>Sickness and modified duties</b> – changes to terms and conditions for retained firefighters, who are sick or on modified duties, has increased expenditure in this area. | (130)   |
| Further variances identified as a result of activity levels:<br><b>Turnouts</b>  | 50  |
| <b>Additional hours</b>  | (40)  |
| <b>Attendance</b>  | 30  |
| <b>Training (Loss of Earnings)</b>   | 17  |
| <b>Pensions</b> – budget is insufficient to meet present membership  | (50)  |
| <b>Prevention</b><br><br>Vulnerable Persons Advocates – very low levels of expenditure will result in an underspend in this area   | 35  |
| <b>Total</b>   | <b>(69)</b>                                   |

It is proposed that variances will be transferred to individual contingencies, where they will be managed with future variances.

### Early Release of Pension Benefits – Decision

At its meeting on 6 August, the Pension Panel approved the early release of pension benefits on compassionate grounds, for an employee in the Local Government Pension Scheme. The Fire Authority will pay a lump sum into the scheme for additional pension costs to 31 December 2012. The estimated cost is between £1,600 and £2,000 and will be paid from existing budgets.

## 5 Grant for Future of Control Room Services

In March 2012, the Fire Authority was awarded a grant by the Department of Communities and Local Government, to secure the future of its control room services. A joint bid was submitted by the Fire Authority and Hereford and Worcester Fire and Rescue Authority, which demonstrated how the two services proposed to extend existing areas of collaboration to create a shared resilient control centre infrastructure, with common operating, technological and procedural practices from two remote locations.

The Fire Authority received £1.8m in grant funding, £1.0m of which was for capital projects. The schemes outlined by officers to secure the grant are shown in the table below.

The revenue element of the grant (£0.8m) will be allocated to running costs and staff support for the programme, and will be released into revenue budgets as required.

| Scheme                                | Capital Grant allocated<br>£'000 | Revenue Grant allocated<br>£'000 |
|---------------------------------------|----------------------------------|----------------------------------|
| Core mobilising system                | 157                              | 64                               |
| Station end equipment                 | 276                              | 18                               |
| Wide area network                     | 120                              | 212                              |
| SWFA / HWFA command and control links | 130                              | 110                              |
| Fallback links – Cleveland            | 28                               | 16                               |
| Mobile data terminal software         | 51                               |                                  |
| Resource management system            | 40                               |                                  |
| Regional OpenSource                   | 20                               | 10                               |
| Relocation of Airwave CCI ports       | 27                               |                                  |
| Control Room building fabrication     | 151                              |                                  |
| Airwave costs                         |                                  | 68                               |
| Project support                       |                                  | 302                              |
| <b>Total</b>                          | <b>1,000</b>                     | <b>800</b>                       |

The proportion of grant allocated to each project within the programme has been adjusted following receipt of the grant, to reflect work actually completed or proposed in each area.

As each project is initiated and developed by officers dedicated to the programme, further adjustments can be expected, and the allocations to each project will change. Where necessary, these changes will be made in consultation with the Chair and the Vice Chair of the Fire Authority. Progress on each scheme, and any requests for additional funding beyond the grant received, will be brought to the Authority.

## **6 Capital Programme**

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

## **7 2012/13 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 (£8.124m)**

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 (£11.124m)**

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 (£8.124m)**

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. The indicators are currently being reviewed following the decision to fund capital schemes from balances; revised indicators will be brought to Members for approval.

## **8 Mid-Year Treasury Review 2012/13**

### **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 2012/13.

## Current Portfolio

The Fire Authority's treasury position at 30 September 2012 is set out below with the position as at 31 March 2012 in brackets.

|   | Balance at<br>30 Sept 2012<br>£000 | Interest Rate<br><sup>1</sup> 30 Sept 2012<br>% |
|---|------------------------------------|---|
| a) <b>Outstanding debt for capital purposes</b> |                                    |   |
| Fixed Rate                                      | 5,810 (5,810)                      | 4.49 (4.49)                                     |
| b) <b>Investments</b>                           |                                    |   |
| Shropshire Council Treasury Team                | 10,420 (8,230)                     | 0.27 (0.37)                                     |

**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 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. At its meeting in April, 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 is unlikely, and lower levels of cash will be available for investment.

As a result of this approach, no new borrowing has been entered into during the first half of 2012/13, 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

Prospects for a swift recovery for the UK economy were dealt a major blow in August when the Bank of England substantially lowered its expectations for recovery and growth over the coming months, and amended forecasts for 2012 and 2013. The UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and ongoing negative sentiment in that area would impact on the UK's economic performance.

In the UK, consumer performance remains depressed with concerns over unemployment, indebtedness, high inflation and low pay increases. Social security payments remain high, tax receipts are depressed, Bank Rate has been held at 0.5% and further quantitative easing was introduced in July.

Indications for the next six months are that Eurozone growth will remain weak, and low growth is expected to continue in the UK, with Bank Rate unlikely to rise in the next 24 months, and a possibility of further quantitative easing. An interest rate increase in the long term is based on an assumption that growth starts to recover in the next three years. However, if the Eurozone debt crisis worsens, or low growth in the UK continues longer, then Bank Rate may remain depressed for even longer.

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

Long term Public Works Loan Board rates are expected to increase steadily over time to reach 4.50% by March 2015.

### **Investment Rates in the First Half of 2012/13**

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.29% for the first half of 2011/12. The actual investment return was 0.27%.

### **Current Investments**

Funds currently invested are shown below:

|                                       |                |
|---------------------------------------|----------------|
| Debt Management Office                | £7.72m         |
| Merthyr Tydfil County Borough Council | £1.00m         |
| Glasgow City Council                  | £1.70m         |
| <b>Total</b>                          | <b>£10.42m</b> |

## **9 Financial Implications**

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

## **10 Legal Comment**

There are no direct legal implications arising from this report.

## **11 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.

## **12 Appendices**

There are no appendices attached to this report.

## **13 Background Papers**

There are no background papers associated with this report.