

Financial Performance to August 2012, including the Annual Treasury Report 2011/12

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 position on the capital programme, including developments at Wellington fire station;
- d) Note performance against prudential indicators for 2011/12;
- e) Note performance against prudential indicators to date in 2012/13;
- f) Note the annual review of treasury activities for 2011/12; and
- g) Note performance in Treasury Management to date in 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

At its meeting in February 2012, the Fire Authority approved a revenue budget of £21.412m for 2012/13, and this was allocated to the four directorates within the service:

Executive and Resources
Service Delivery
Human Resources and Development
Corporate Performance and Operations

Budgets for each directorate are made up of pay and non pay items, and monitoring reports for each element are provided to officers. Exceptional variances within each area of the budget will be forwarded to Strategy and Resources Committee, where any movements between budgets will be recommended to the Fire Authority for approval.

Monitoring has begun on the revenue budgets and capital programme for 2012/13, and the position after the first five months of the year can now be reported.

	(Over) / Under spend £'000
Executive and Resources Finance: Savings have been identified in Finance and Executive salaries	23
Service Delivery Area Command: Spend to date on firefighter overtime is higher than budgeted levels for this point in the year Retained Duty System: Retaining Fee costs higher than profiled budget level Turnouts Additional hours Retained training costs	(11) (15) 12 (18) 18

	(Over) / Under spend £'000
Training and Development Savings in management and junior officer training identified	15
Corporate Performance and Operations	
Performance Information: Changes in mapping services provider have resulted in savings	13
Total	37

It is proposed that variances will be transferred to individual contingencies.

Reserves and Balances – following approval to transfer General Fund balances at the end of 2011/12; this is the position on the Authority's reserves and balances:

	£'000
General Reserve	552
Efficiency Reserve	14
Pensions and Other Staff Issues Reserve	1,389
Extreme Weather Reserve	320
Earmarked Capital Reserve	587
Unearmarked Capital Reserve	2,185
Equipment Replacement Provision	35
ICT Reserve	966
Service Transformation Programme Staff Reserve	300
Income Volatility Reserve	963
Capital Grants Unapplied Reserve	817

5 Capital Programme

A number of schemes in the Authority's capital programme have incurred expenditure to date;

- Schemes for replacement appliances and the installation of Wi-Fi at retained stations have been completed
- Work is continuing on the schemes for the replacement of fireground radios and firekit
- The scheme to replace workshops vehicles is also progressing, and some operational vehicles have been fitted with fire fogging units

Wellington Fire Station Improvements

This scheme is currently in progress and completion is planned for December 2012. The scheme is likely to cost around £148,000, with some IT development costs. The cost of the total scheme will be taken from the Earmarked Capital Reserve.

An activity report on each outstanding scheme will be brought to Strategy and Resources Committee in November.

6 2011/12 Actual Prudential Indicators

In line with the Chartered Institute of Public Finance and Accountancy's (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 2011/12 are, therefore, set out below.

a) Capital Expenditure

The actual capital expenditure for 2011/12 was £2,678,000.

		2010/11 Actual £000	2011/12 Budget £000	2010/11 Actual (inc slippage) £000
Payments		2,806	1,075	2,678
Funding	To be funded from - Borrowing	740	530	885
	- Grant	691	400	1,099
	- Fund	1,375	145	694
	- Leasing (financing)	0	0	0

b) Ratio of Financing Costs to Net Revenue Stream

The actual ratio of financing costs to net revenue stream was 3.29%.

	2010/11 Actual £000	2011/12 Budget £000	2011/12 Actual £000
	3.70%	4.84%	3.29%

c) Capital Financing Requirement

The actual capital financing requirement as at 31 March 2012 was £6.534m.

	2011/12 Budget £000	2011/12 Actual £000
	8,124	6,534

The capital financing requirement is well within the predicted level as the receipt of grant and changes to the way in which schemes are funded have reduced the Authority's need to borrow.

d) Net Investment

Net investment at 31 March 2012 was £2.420m; investments held totalling £8.230m, were offset by gross borrowing outstanding of £5.810m.

e) Actual External Debt

Actual external debt at 31 March 2012 remained at £5.810m plus other long-term liabilities at 31 March 2012 of £16k (finance leases). Although a prudential indicator, this represents the actual position on a single day, and, therefore, cannot be compared directly with the authorised limit or operational boundary. The level of external borrowing was, however, within both the Operational Boundary of £5.810m and the Authorised Limit of £6.534m.

f) Treasury Management Indicators

- 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 again in accordance with the Prudential Indicator.
- No money has been invested for more than 364 days.
- At the 31 March 2012, all funds were invested at fixed rates.

7 2012/13 Prudential Indicators

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The Fire Authority has established that it will receive regular monitoring reports during the year; the position to the end of August is shown below.

Prudential Indicator	Budget 2012/13 £'000	Actual 2012/13 £'000
Capital Financing Requirement (CFR)	8,124	8,124
Operational boundary for external debt	8,084	8,084
Authorised limit for external debt	11,124	11,124

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

8 Annual 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 an annual review report of the previous year.

This is the annual review report for 2011/12.

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 2012 is set out below with the previous year in brackets.

	Balance at 31 March 2012 £000	Interest Rate ¹ 2011/12 %
a) Outstanding debt for capital purposes		
Fixed Rate	5,810 (5,810)	4.49 (4.49)
b) Investments		
SC Treasury Team	8,230 (6,715)	0.37 (0.54)

Note¹: The interest rates shown represent:

- a) the average cost of the debt portfolio, including the borrowing for 2011/12; and
- b) the average return on cash investments during the year.

Borrowing

The Fire Authority's continued approach to borrowing during 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. The Fire Authority also received capital grant which was used to fund two schemes, including the Headquarters scheme at St Michaels Street, therefore reducing the need to borrow.

As a result of this approach, no new borrowing was entered into during 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.

In order to ensure compliance with the Prudential Code, options appraisals were completed for all schemes within the Fire Authority's capital programme. These appraisals determined the most beneficial way in which to finance each capital scheme, thereby securing best value for the Fire Authority.

The Economy and Interest Rates

The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011/12 was that the Bank Rate would begin to rise from last part of the previous year; however GDP growth was disappointing during the year, due to the austerity programme, a lack of rebalancing the UK economy, and weak growth in the European Union, our biggest export market.

The EU sovereign debt crisis grew during the year until February, when a second bailout package was eventually agreed for Greece. Weak UK growth resulted in further quantitative easing in October and February.

The Bank Rate ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

Long-term Interest Rates

The Public Works Loan Board 50 year rate started the year at 5.25% and fell to historically low levels during the year.

Investment Rates in 2011/12

The 7 day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.35% for 2011/12.

9 Treasury Management Review 2012/13

The Authority will be provided with a regular update on the current position of its investments and any strategy updates which have occurred.

Investments will continue to be made within the restricted creditworthiness criteria adopted.

Funds currently invested are shown below:

Debt Management Office	£10.0m
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At its meeting in April 2012, the Fire Authority agreed to use surplus revenue balances to fund capital schemes, therefore any borrowing over the next few years is unlikely, and we may see lower levels of cash available for investment.

In light of the current financial uncertainty, the Authority's policy has continued to be to lend to the Debt Management Office and other Local Authorities only.

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 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.

13 Appendices

There are no appendices attached to this report.

14 Background Papers

There are no background papers associated with this report.