

Financial Performance to September 2010, including Mid Year Treasury Report

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202, 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 2010/11,
- e) Note the mid year review of treasury activities for 2010/11;
- f) Note the information provided on balance sheet items

3 Background

This report comprises a review of financial performance to date for 2010/11, and encompasses the monitoring of revenue budgets and capital schemes, the review of treasury management activities, including prudential indicators, and the monitoring of other balances held within the Authority's accounts.

4 Revenue Budget

Monitoring has continued on the revenue budgets and capital programme for 2010/11, and the position after the first half of the year can now be reported.

	(Over) / Under spend £'000
Executive and Resources	
Debt Charges – due to slippage on some elements of the capital programme, some savings have been identified on the 10/11 budget	145
Corporate Performance and Operations	
Pay – communications staff vacancies have resulted in an underspend	11
Service Delivery	
District: Projected savings on watches to the end of the year	29
Retained Duty System: Retaining Fee savings	40
Turnouts	50
Retained Pension costs	(10)
Prevention: Community Fire Safety advocates – to be restructured	24
Road Safety officer – vacancy to the end of the year	17
Inspecting Officer vacancy	19
Inspections – Watch Manager vacancy	16
Total	341

It is proposed that variances will be transferred to individual contingencies. There will be underspends in pay contingencies if the pay awards are confirmed as zero, and these will be reported when the situation is resolved.

Contingencies – following approval by the Fire Authority earlier this month, reported variances have been transferred to the individual contingencies within each directorate. Virements have also been approved under powers delegated to the Chief Fire Officer and the Treasurer:

	£'000
The provision of scientific advice on hazardous materials at incidents	3
Writing of additional reports to aid Human Resources and Sickness Absence management	5
Additional software licences to enable future report writing	2
Management training	9
Quality audit	2
Fire Safety systems review	7
Total	28

The balance on each contingency is as follows:

	£'000
Executive and Resources	105
Corporate Performance and Operations	112
Human Resources and Development	-12
Service Delivery	-13

This is the position after vacancy savings of £150,000 had been achieved.

Reserves and Provisions – the position reported in the Statement of Accounts at 31 March 2010 is unchanged. There has been no development in the Tribunal regarding retained firefighters and part-time regulations.

5 Capital Programme

Progress on each of the schemes has been reported elsewhere on the agenda. Following the Fire Authority's approval of some additions to schemes earlier this month, there are currently no variances to report to the committee.

6 2010/11 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 quarterly monitoring reports during the year; the position to the end of July is shown below.

- **Authorised Limit for External Debt (£10.165m)**

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, i.e. well within the indicator. No temporary borrowing has been necessary.

- **Operational Boundary for Borrowing (£6.710m)**

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 trigger an investigation.

At £5.810m, the borrowing is well within the set indicator; the Fire Authority has yet to borrow £200,000 of its requirement.

- **Capital Financing Requirement (£6.710m)**

This is the amount required by the Authority to fund its capital investment.

The Capital Financing Requirement has been reviewed following closedown of the accounts, and has been updated to £6.710m. This includes all capital investment expected to be made this year, less any contributions such as capital grant or revenue.

The Authority is currently operating within the requirement.

- **Net Borrowing**

Currently, the Fire Authority's borrowing of £5.810m exceeds outstanding investments of £5.660m.

7 Balance Sheet Items

Cash and Investments

Cash flows into and out of the Authority's bank accounts are recorded by Finance officers, and are monitored by Finance, and by Treasury Services to assist the investments process.

Cash flow projections established at the start of the year estimated a cash balance available for investment at the end of September of £5.5m; the actual balance was £7.6m. As well as top up grant of £2.3m for the Pensions Account being received in July, purchases and payments made by the Authority have been lower than anticipated at the beginning of the year, and

excess cash will also be available due to the pay freeze currently imposed by Government.

Debtors

In terms of amounts owed to the Authority, there are no issues to be brought to the attention of the Committee at this time.

8 Mid Year Treasury Review 2010/11

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 2010/11.

Current Portfolio

The Fire Authority's treasury position at 30 September 2010 is set out below with the position as at 31 March 2010 in brackets.

	Balance at 30 Sept 2010 £000	Interest Rate ¹ 30 Sept 2010 %
a) Outstanding debt for capital purposes Fixed Rate	5,810 (5,810)	4.49 (4.49)
b) Investments SC Treasury Team	5,660 (4,750)	0.52 (0.44)

Note¹: 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 2010/11, 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 the general election in May 2010, the coalition government has put into place an austerity plan to carry out correction of the public sector deficit over the next five years. The inevitable result of fiscal contraction will be major job losses during this period, in particular in public sector services. This will have a knock on effect on consumer and business confidence.

Inflation and Bank Rate – The Consumer Price Index has remained high so far during 2010, settling at 3.1% in August. The Retail Price Index remains high at 4.7% in August. No increase to the Bank Rate (currently 0.5%) is envisaged until mid 2011.

AAA Rating – due to Sterling's strengthened position against the US dollar, it is envisaged that the UK will retain its AAA rating.

Long-term Interest Rates

The Public Works Loan Board (PWLB) 50 year rate started the year at 4.7% and is predicted to fall to 4.3% by the end of March 2011.

Following the Chancellor's announcement on the Spending Review on 20th October 2010, HM Treasury has instructed PWLB to increase the average interest rate on all new loans to an average of 1% above the Government's cost of borrowing which will take effect immediately. This means that all of the Fire Authority's future PWLB borrowing will be increased by up to 1%, confirming the current policy of using cash balances rather than borrowing.

Investment Rates in the first half of 2010/11

The 7 day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.35% for the first half of 2010/11. The actual investment return was 0.52%.

Current Investments

Funds currently invested are shown below:

Nationwide	£2.0m
Lloyds	£2.0m
Nat West	£1.0m
Barclays	£2.0m
Clydesdale	£1.0m
Total	£8.0m

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 Appendix

There are no appendices with this report

13 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Business Continuity Planning		Member Involvement	
Capacity		National Framework	
Civil Contingencies Act		Operational Assurance	
Efficiency Savings	*	Public Value	
Environmental		Retained	*
Financial	*	Risk and Insurance	
Fire Control/Fire Link		Staff	
Information Communications and Technology		Strategic Planning	*
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*
Legal	*		