

Financial Performance to July 2010, including the Annual Treasury Report 2009/10

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) Approve budget allocation into new directorates for budget control purposes;
- b) Note the position of the revenue budget;
- c) Approve virements to the revenue budget where requested;
- d) Note the position on the capital programme, and approve a supplementary vote of £15,000 for appliance replacement, and other variations;
- e) Note performance against prudential indicators for 2009/10;
- f) Note performance against prudential indicators to date in 2010/11, approving any proposed amendments;
- g) Note the annual review of treasury activities for 2009/10;
- h) Note performance in Treasury Management to date in 2010/11; and
- i) 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

At its meeting in February 2010, the Fire Authority approved a revenue budget of £21.618m for 2010/11, and this was allocated to the five directorates within the service:

**Executive
Service Delivery
Human Resources and Development
Strategy and Performance
Resources**

Following a reorganisation of the Service, budgets are now allocated to the following directorates:

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

Details are shown at the appendix to the report.

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 2010/11, and the position after the first four months of the year can now be reported.

	(Over) / Under spend £'000
Executive and Resources	
Pay & Prices – a saving has been identified here following less than anticipated spending on pay and price increases during 2009/10	100
Corporate Performance and Operations	
Consultation – as consultations are now being done in house, there will be ongoing savings in this budget	10

	(Over) / Under spend £'000
Insurances – successful negotiations on our insurance premiums have resulted in a saving of £100,000, and a rebate of £22,000 has also been achieved through a good claims history	122
Control – additional costs for control operators have led to an overspend	(11)
Operations – a virement has been requested for essential network maintenance – it is proposed that insurance savings will be used to meet this cost	(19)
Communications – a further £8,000 is required for the decommissioning of hill top sites	(8)
Service Delivery	
District: Group Manager vacancy	11
Retained Duty System: Retaining Fee savings	34
Turnouts	37
Attendances	6
Retained Pension costs	(20)
Retained Development Teams: Retained Support Officer vacancy	7
Retained Development Officer vacancies	34
Prevention: Dual Area Manager costs	(9)
Savings following Inspecting Officer post conversion	17
Youth Officer vacancy	7
Inspections – Watch Manager vacancy	16
Vacancy Management Efficiency	(150)
Total	184

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

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.

There have been overspends on two schemes within the programme:-

Building Improvements – a final invoice on the station improvement at Craven Arms has resulted in an overspend of £8,000. This would be found from underspends on other schemes.

Decommissioning of Hill Top sites – a contribution from revenue was used to fund this scheme, and a cost of £30,000 was estimated. The actual cost was £37,900, and a further revenue contribution will be made to cover the resulting overspend.

2010/11 Appliance Replacement – due to an increase in steel prices, the value of this scheme has increased by £15,000 to £200,000. The resulting increase in debt charges of £4,000 will be taken from the Prices contingency.

6 2009/10 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 2009/10 are, therefore, set out below.

a) Capital Expenditure

The actual capital expenditure for 2009/10 was £853,000.

	2008/09 Actual £000	2009/10 Budget £000	2009/10 Actual £000
Payments	1,421	2,260	853
Funding			
To be funded from			
- Borrowing	1,087	835	41
- Grant	8	602	602
- Fund	159	823	210
- Leasing (financing)	167		

b) Ratio of Financing Costs to Net Revenue Stream

The actual ratio of financing costs to net revenue stream was 3.43%.

	2008/09 Actual £000	2009/10 Budget £000	2009/10 Actual £000
	1.45%	2.96%	3.43%

This was higher than anticipated due to poor investment returns.

The impact of the capital investment decisions in the present capital programme were estimated at 206 pence, before taking into account the notional proportion of general grant said to support capital investment.

c) Capital Financing Requirement

The actual capital financing requirement as at 31 March 2010 was £5.997m.

	2009/10 Budget £000	2009/10 Actual £000
	6,627	5,997

The capital financing requirement is well within the predicted level as a result of slippage of schemes into 2010/11, as previously reported.

d) Net Borrowing

Net borrowing at 31 March 2010 was £1.060m, i.e. well within the guideline. Gross borrowing, i.e. before investments and cash, was £5.810m however this was offset by short-term lending of £4.750m.

e) Actual External Debt

Actual external debt at 31 March 2010 was £5.810m plus other long-term liabilities at 31 March 2010 of £76k (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 £5.997m.

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 2010, all funds were invested at fixed rates.

7 2010/11 Prudential Indicators

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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 (£7.205m)**

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.

The Boundary has been reviewed following closure of the Statement of Accounts, and has been amended to £6.710.

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 (£7.165m)**

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, outstanding investments of £7.310m exceed the Fire Authority's borrowing of £5.810m.

8 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 July of £5.03m; the actual balance was £7.3m. Monitoring carried out during the first four months of the year has identified the following variances:

- Top Up Grant of £2.3m has been received from Communities and Local Government.
- A pension transfer of £85,000 has been received.
- A VAT receipt of £200,000, expected for the first quarter of 2010/11, has not yet been received.

Debtors

In terms of amounts owed to the Authority, a balance of £58,000 remained outstanding at the end of July, however £44,000 has been received in August.

A total of £6,800 has been outstanding for more than 90 days:

- Two debtors have confirmed that payment is currently being arranged on invoices totalling £5,000.
- Two invoices totalling £500 have been referred to Legal Services, and one debt of £250 will be written off as the debtor has been declared insolvent.

9 Annual Treasury Review 2009/10

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 2009/10.

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 2010 is set out below with the previous year in brackets.

	Balance at 31 March 2010 £000	Interest Rate ¹ 2008/09 %
a) Outstanding debt for capital purposes		
Fixed Rate	5,810 (5,810)	4.49 (4.49)
b) Investments		
SC Treasury Team	4,750 (4,805)	0.44 (3.99)

Note¹: The interest rates shown represent:

- the average cost of the debt portfolio, including the borrowing for 2009/10; and
- the average return on cash investments during the year.

Borrowing

The Fire Authority's 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.

As a result of this approach, no new borrowing was entered into during 2009/10, 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

During 2009/10, the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession the UK economy had experienced for many years.

Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year, the MPC also had to resort to extreme measures in terms of pumping liquidity into the economy through quantitative easing by purchasing £200bn gilts and corporate bonds. This had the effect of boosting prices for gilts and corporate bonds and therefore bringing down yields, so also reducing borrowing costs for both corporate and public sector.

Long-term Interest Rates

The Public Works Loan Board 50 year rate started the year at 4.57% and then peaked at 4.85% in June, before falling back to a low of 4.18% in October. From there it rose again towards the end of the year and peaked at 4.79% in March. It finished the year at 4.70%.

Investment Rates in 2009/10

At the start of 2009/10, investment rates were enhanced by a substantial credit crunch induced margin. However, the Bank of England's quantitative easing operations had the desired effect of improving the supply of credit in the economy and so these margins were eliminated by halfway through the year. Consequently, investment rates fell during the first half of the year.

The overnight rate varied little during the year, within a range of 0.38-0.49%.

The 3 month rate had reached a high point of 1.50% at the beginning of April 2009, and then fell gradually to reach a low of 0.42% in September, before finishing the year at 0.52%.

The 7 day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.34% for 2009/10.

10 Treasury Management Review 2010/11

The Committee will be provided with a quarterly update on the current position of the Authority's investments and any strategy updates which have occurred; this is the second of those reviews for 2009/10.

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

Funds currently invested are shown below:

Nationwide	£2.0m
Lloyds	£2.0m
Nat West	£1.3m
Barclays	£1.0m
Clydesdale	£1.0m
Total	£7.3m

At present there is no reason to amend current policies of delaying borrowing and thereby minimising cash available for investment.

11 Financial Implications

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

12 Legal Comment

There are no direct legal implications arising from this report.

13 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.

14 Appendix

Budget shown by Directorate

15 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	*		

**Shropshire and Wrekin Fire Authority
 Budget Analysis 2010/11**

Directorate	Budget
Executive and Resources	£
Pay	
Executive	653,500
Resources	461,529
Other	
Executive	71,055
Income	-113,825
Financial Services and Leasing	1,221,357
Pay and Prices Contingency	822,066
Pensions	429,120
Facilities	937,802
Equipment and Uniform	392,255
Hydrants	154,260
Fleet Management	547,402
Workshops	-141,454
Total Budget	<u>5,435,067</u>
Service Delivery	
Pay	
District Performance	9,801,228
Prevention	1,115,747
Other	
Community Fire Safety	110,281
Retained Recruitment	5,000
Contingency	
Total Budget	<u>11,032,256</u>
Human Resources and Development	
Pay	
Training and Development and HR	1,176,998
Other	
Occ Health and Human Resources	156,970
Training and Development	482,994
Health & Safety	12,900
Equality and Diversity	27,650

**Shropshire and Wrekin Fire Authority
Budget Analysis 2010/11**

Directorate	Budget
Contingency	
Total Budget	<u>1,857,512</u>
Corporate Performance and Operations	
Pay	
Corporate Performance	450,146
Operations	601,705
Control	655,515
Control Convergence	78,261
Other	
Communications	316,147
Information Management	168,870
Radio	263,460
Planning and Programmes	34,805
Performance Information	69,553
Fire Control Convergence	0
Members	82,695
Insurance and Legal	407,441
Regional Management Board	7,932
Exchange Programme	0
Temporary Working Arrangements	156,674
Contingency	
Total Budget	<u>3,293,204</u>
Non Pay Budgets	6,623,410
Pay Budgets	14,994,629
Total	<u>21,618,039</u>

For the purposes of Financial Standing Orders, revenue votes are described in **bold print** and underlined