

Financial Performance to July 2009, including the Annual Treasury Report 2008/09

Report of the Chief Fire Officer

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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
- e) Note the annual review of treasury activities for 2008/09
- f) Note performance in Treasury Management to date in 2009/10, and
- g) Note the information provided on balance sheet items

3 Background

This report comprises a review of financial performance to date for 2009/10, 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 2009, the Fire Authority approved a revenue budget of £20.846m for 2009/10, and this was allocated to the five directorates within the service:

Executive
 Service Delivery
 Human Resources and Development
 Strategy and Performance
 Resources

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 & 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 2009/10, and the position after the first four months of the year can now be reported.

	(Over) / Under spend £'000
<i>Executive</i>	
Interest on Investments – due to the current economic climate, investment income is considerably less than originally anticipated.	(120)
Leasing – reclassification of current operating leases has resulted in a saving of £70,000, which will also reduce future budgets	70
Recruitment – costs resulting from recent executive recruitment will be funded from reserves	(12)
Professional Subscriptions – Anticipated contributions to the Centre of Excellence will not be made	25

	(Over) / Under spend £'000
Revenue Contribution to Capital – a capital scheme to purchase a boat-towing vehicle requires additional funds from revenue	(15)
Service Delivery	
Operations – salary savings have been identified due to a vacant support officer post	13
	30
District – Retained Duty System - variances have been identified in the following budgets:	28
	10
	(10)
Retaining Fee	
Turnouts	
Additional Hours	
Retained Pension contributions	
Some of these savings have accrued due to lower than anticipated establishment; in addition, budgeted levels of incidents are currently being reviewed.	20
District – watches - Funds were brought forward from 2008/09 to aid recruitment during 2009/10; this has not yet been spent, however recruitment is likely to take place during the second half of the year.	24
Prevention - Further salary savings have been identified in the Prevention pay budgets, due to a number of vacant posts. Recruitment into these posts is currently being undertaken.	(8)
Computer Maintenance – expenditure on CFS systems has exceeded budgeted levels, and this will be addressed during the budget setting process for future years.	58
Income – an LPSA payment has been received from Borough of Telford & Wrekin, following achievement of targets, and it is proposed that this is added to the Capital Fund - Headquarters	(14)
Strategy & Performance	
Management of Risk – an additional officer has been in post in the Geographical Intelligence Unit, resulting in an overspend to date.	

Pay & Prices – following confirmation of the firefighters' pay award, ongoing savings can be reported in the pay contingency	200
Total	299

It is proposed that variances will be transferred to individual contingencies, or into specific reserves where mentioned above. The current position on directorate spending is shown at Appendix 1.

Vacancy Management

A total of £150,000 has been taken out of the budget over the last two years, which reflects the savings that can be made from vacant posts throughout the year. The table below shows how the total has been allocated to business areas, and how much has been identified to date. These savings do not form part of the variances above as the budget has already been reduced by the total amount.

	Identified to date £'000	Target savings £'000
Executive	6	6
Service Delivery	40	122
Strategy & Performance	8	8
Human Resources & Development	4	10
Resources	4	4
Total	62	150

5 Capital Programme

Appendix 2 to the report provides an overview of the capital schemes currently in progress, and the expenditure on each scheme to the end of July.

Progress on each of the schemes has been reported in the previous report, which also includes a recommendation to change a number of schemes within the capital programme. There will be no effect on the revenue budget as a result of these changes; there are no revenue consequences arising from the Wellington scheme, and the BA replacement scheme is not scheduled to commence until 2010/11.

6 Reserves and Provisions

The Fire Authority's position on reserves and provisions is as follows:

	£'000
<p>General Reserve</p> <p>A risk assessment of the pressures likely to face the Fire Authority has been undertaken, and the current balance of the General Reserve represents these identified risks, in proportion to the probability of their occurrence. This reserve will be funded by budgeted contributions plus net revenue savings as appropriate. A proportion of the Reserve which relates to the Retained Firefighters & Part Time Workers Regulations tribunal has been transferred to the Pensions and Other Staff Issues Reserve.</p>	510
	£'000
<p>Efficiency Reserve</p> <p>This reserve was set up specifically to invest in efficiencies; a proportion of this reserve has been used in 2008/09 to begin consultancy work on the project to refurbish the headquarters, workshop and fire station at Shrewsbury.</p>	60
<p>Retained Firefighters Service Review Reserve</p> <p>The timing of expenditure on the Retained Implementation Plan was reviewed in 2006/07, and funds available at the end of 2006/07 were transferred to this reserve. Half of the reserve was released in 2008/09, with the remainder being released in 2009/10.</p>	99
<p>Pensions and Other Staff Issues Reserve (previously the Pensions Liabilities Reserve)</p> <p>Set up as a result of the introduction of the new firefighters pension scheme on 1st April 2006, the original reserve was required to pay for unexpected sickness retirements and other payments, which remain the responsibility of the Fire Authority's revenue account. In 2008/09, this reserve has been expanded to cover other staff matters. The proportion of the General Reserve set aside for the Retained Firefighters & Part Time Regulations tribunal has now been transferred to this reserve.</p>	761
<p>Equipment Replacement Provision</p> <p>This provision is designed to smooth expenditure on operational equipment currently charged to the revenue account. A detailed equipment replacement programme will establish contributions into the provision, and will eventually lead to successful replacement planning in the medium term.</p>	71

	£'000
<p>Extreme Weather Reserve Costs for incidents attended by retained firefighters have now been budgeted for at average levels in the revenue account; this reserve will cover the costs of increased activity incurred as a result of adverse weather conditions.</p>	295
<p>Capital Reserve – Capital Projects (previously the Capital Reserve) A capital reserve was established using remaining unspent balances from the revenue account in 2005/06. This reserve will be used to fund small capital projects, reducing the need to borrow, and a contribution will be made to the reserve from the revenue account in lieu of capital financing costs.</p>	404
<p>Capital Reserve – Headquarters (previously the Capital Reserve) For ease of reporting, the element of the Capital Reserve which is to part fund the Authority's new headquarters project has now been separated from the other capital projects element.</p>	1,065
<p>General Fund Unspent balances on the revenue account are held in the Fire Authority's General Fund balance at the end of the year. The balance is made up as follows:</p> <ul style="list-style-type: none"> • expenditure that has slipped from 2008/09 into 2009/10, 341 • funds for schemes already approved by the Fire Authority, commencing in 2009/10 302 • funds for schemes to be forwarded for approval to the Fire Authority in October, 53 • the remaining balance which will be transferred to the Capital Reserve – Headquarters. <u>432</u> <p style="text-align: right;">1,128</p>	1,128

7 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 (£9,627,000)**

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.

The Limit currently stands at £5.117m, ie well within the indicator. No temporary borrowing has been necessary.

- **Operational Boundary for Borrowing (£6,529,000)**

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 Boundary is well within the set indicator; the Fire Authority has yet to borrow £200,000 of its requirement for 2008/09, as well as the requirement for 2009/10.

- **Capital Financing Requirement (£6,627,000)**

This is the amount required by the Authority to fund its capital investment, and the actual balance for the year will increase as schemes are completed.

As the Authority still has a number of schemes to pay for within its capital programme, the Capital Financing Requirement, at £5,117m, is well within its indicator.

- **Net Borrowing**

Currently, outstanding borrowing of £5.810m exceeds the Fire Authority's investments of £5.150m.

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 £5.15m. Monitoring carried out during the first four months of the year has identified the following variances:

- Grants totalling £775k were received which had not been anticipated in original projections
- The Fire Authority has received £328k more income than anticipated
- Payments for employees and other costs have exceeded projection by £824k
- A VAT reimbursement of £165k was not received until August.

Debtors

In terms of amounts owed to the Authority, a balance of only £3,300 remains outstanding; this includes a problematic account of £1,400 which is being pursued through Legal Services at Telford & Wrekin.

9 Annual Treasury Review 2008/09

Compliance with the Treasury Policy Statement

This review is presented in accordance with the Fire Authority's Treasury Policy Statement, which complies with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities.

This Fire Authority adopted the 2001 Revised Code of Practice on Treasury Management on 6 February 2002 and fully complies with its requirements, of which the primary ones are:

- Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Fire Authority treasury management activities;
- Creation and maintenance of Treasury Management Practices, which set out the manner, in which the Fire Authority will seek to achieve those policies and objectives;

- Receipt by the Fire Authority of an annual strategy report for the year ahead and an annual review report of the previous year; and
- Delegation of responsibilities by the Fire Authority for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

This is the annual review report for 2008/09.

Treasury Management

Treasury Management in this context is defined as “The management of the local authority’s 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 SC.

Current Portfolio

The Fire Authority’s treasury position at 31 March 2009 is set out below with the previous year in brackets.

	Balance at 31 March 2009 £000	Interest Rate ¹ 2008/09 %
a) Outstanding debt for capital purposes		
Fixed Rate	5,810 (5,610)	4.49 (4.50)
b) Investments		
SCC Treasury Team	4,805 (5,350)	3.99 (5.80)

Note¹: The interest rates shown represent:

- the average cost of the debt portfolio, including the borrowing for 2008/09; and
- the average return on cash investments during the year.

Borrowing

The borrowing strategy for the year continued to be funding the Authority's long-term borrowing requirement at advantageous rates. During 2008/09, long-term loans were secured from the Public Works Loan Board (PWLB) in accordance with this strategy.

The funds were drawn down as follows:

Date	Lender	Amount £'000	Period Years	Rate %
9 October 2008	PWLB	200	49.5	4.36

This loan was secured at an advantageous point during the year. Short-term money market borrowing was not used during the year.

The actual weighted average rate for the year for borrowing is 4.49%. The average borrowing rate for the total portfolio has reduced from 4.50% to 4.49% in 2008/09, due to borrowing at a less than average borrowing rate during the year.

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.

Long-term Interest Rates

The PWLB 45-50 year rate started the year at 4.43%, and stayed within a band of 4.3 – 4.6% until mid October. Following an increase to 4.84%, the rate plunged to 3.86% in early December. Further increases took place in January and February, before the rate ended the financial year at 4.58%.

Investment Outturn – Short Term Interest Rates

Bank Rate started 2008/09 at 5.25%, and throughout the summer the Bank of England maintained the belief that inflation was the main concern of the monetary authorities.

In September, US investment bank Lehman Brothers was allowed to file for bankruptcy; this sent shockwaves through the world financial markets, and led to an increase in investment rates, as the markets considered the implications.

On 7th October the Icelandic government took control of their banks and this was followed a few days later by the UK government pumping a massive £37bn into three UK clearing banks, as liquidity in the markets dried up. In addition, the Monetary Policy Committee lowered interest rates by 0.5%.

Market focus now shifted from inflation concerns to concerns about recession, depression and deflation. The MPC cut interest rates again in November, by an unprecedented 1.5%, and by a further 1% in December.

During January and February 2009, further cuts in interest rates led to an end of year rate of 0.5%. Quantitative easing also took place, which focused on buying £75bn of gilts and £10bn of corporate bonds. This led to a substantial rally in the gilts market and PWLB rates fell accordingly.

The financial year ended with markets still badly disrupted, the real economy suffering from a lack of credit, short to medium term interest rates at record lows and a great deal of uncertainty as to how or when recovery would take place. Investment income returns have been badly hit but lower borrowing rates in short to medium periods will have allowed some indebted local authorities to benefit.

The 7 day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 3.68% for 2008/09.

10 Treasury Management Review 2009/10

At its meeting in May 2009, the Committee noted an update of the Fire Authority's current investment strategy by the Treasurer. 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 first of those reviews for 2009/10.

At the end of August 2009, the Fire Authority had invested funds totalling £7.28m. This was higher than usual due to the receipt of pension top up grant and capital grant, which totalled £2.2m.

The funds were invested as follows:

Debt Management Office	£3.68m
Abbey	£2.00m
Lloyds	£1.60m

On 27 August 2009, Shropshire Council updated the Fire Authority's list of authorised borrowers, which confirms:

- the institutions with which we can deposit funds,
- the values that may be placed with each institution, and
- the associated time limits for those investments.

The Authority can lend up to £2m to an individual counterparty at any time, with the exception of the Debt Management Office, where investments are unlimited.

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

Appendix 1 Revenue Account Summary
Appendix 2 Capital Monitoring Schedule

14 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.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	*
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings	*	Retained	*
Environmental		Risk and Insurance	
Financial	*	Staff	
Fire Control/Fire Link		Strategic Planning	*
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*

