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Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
8 November 2018

Financial Performance to September 2018, including Annual Treasury Review 2017/18 and Mid-Year Treasury Review 2018/19

Report of the Treasurer
For further information about this report please contact James Walton, Treasurer, on 01743 258915 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 update on capital activities;
d) Note the update on corporate risk;
e) Note the annual review of treasury activities for 2017/18;
f) Note performance against prudential indicators to date in 2018/19; and
g) Note the mid-year review of treasury activities for 2018/19.

3 Background

This report comprises a review of financial performance to date for 2018/19, and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2017/18 is also included in the report.

4 Revenue Budget

Monitoring has continued on the revenue budgets for 2018/19, and the position to September can now be reported as follows.

	(Over) / Under spend £'000	% of total budget
Service Delivery		
Area Command **Wholetime Fire Fighters (Watches)** A further underspend can be reported projected to the end of the year, due to watch headcount of 127 against a budget establishment of 136.	300	6%
Retained Duty System – Additional Hours This area of the budget is showing an overspend currently, due to additional work carried out during the hot summer months.	(40)	10%
RDS Sick Pay With sickness/modified duties at lower levels than previous years, an underspend for the year is predicted	40	31%
Executive and Resources **Uniforms** – additional undress uniform has been purchased following recent recruitment	(15)	14%
Pay and Prices Pay award for operational staff and Control staff is still in negotiation, therefore no balance on the contingency can be reported.	-	-
Total	**285**	

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

5 Capital Programme 2018/19

It was agreed at the November 2016 meeting of the Committee that a detailed activity report on the capital programme would be brought to the Committee every six months, when project managers will be available to provide more information on specific schemes. In between these activity reports, updates by exception will be included within the Financial Performance reports.

The main area of activity in the last quarter has been completion of major improvements at Clun fire station, which has seen further expenditure of £178,000. A total of £153,000 has also been spent on Volvos as part of the scheme to replace the current fleet of emergency response vehicles, which are leased by the Authority.

The capital programme includes a scheme to replace mobile data terminals (MDTs). A collaborative approach with Hereford & Worcester Fire has been taken to procure the MDTs, and the chosen replacement includes additional items that will offer further benefits and assist with implementation. Officers requested a virement of £36,000 under authority delegated to the Chair and the Vice Chair to widen the scope of the project.

6 Corporate Risk

There are currently 13 risks on the corporate risk register which are being actively tracked and managed. The register is monitored by the Audit and Performance Management Committee (APMC) quarterly and twice a year by the Fire Authority. In addition the register is a standing agenda item at the Service Management Team (SMT) monthly meeting.

The main areas of risk which were summarised at the latest APMC meeting in September are as follows:

An update from the Workforce Advisor at the Local Government Association (LGA) has indicated that work concerning the European working time directive legislation is progressing and further information will be sent to all Fire Authorities in due course.

The Finance system cut over has now taken place, however the Business Continuity Support Group will continue to oversee the implementation projects for Payroll, Human Resources and Training systems.

The impact of the changeover of systems upon the provision of information for management decision making is unclear at this stage and will continue to be monitored.

The Home Secretary’s decision to transfer governance to the Police and Crime Commissioner is still on hold following the Fire Authority’s decision to pursue a judicial review. Officers are however actively engaged with the Office of the Police and Crime Commissioner in preparing for the potential change, and a strategic alliance plan has been developed and consulted upon and is being presented to the Fire and Rescue Authorities for adoption.

The risk raised as a result of notice given by Motorola to withdraw further maintenance of the Integrated Communications Control System (ICCS) remains high, however an Official Journal of the European Union (OJEU) tender has been published and an award of contract has been made.

7 Annual Treasury Review 2017/18

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’s (CIPFA) Code of Practice on Treasury Management in Local Authorities. The Code requires an annual review report of the previous year.

This is the annual review report for 2017/18.

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 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.

Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

A report setting out the Capital Strategy will be taken to the Authority before 31st March 2019.

Current Portfolio

The Fire Authority's treasury position at 31 March 2018 is set out below with the previous year in brackets.

		Balance at 31 March 2018 £000	Interest Rate [1] 2017/18 %
a)	**Outstanding debt for capital purposes** Fixed Rate	**5,698 (5,698)**	**4.49 (4.49)**
b)	**Investments**		
	SC Treasury Team	**19,300 (18,840)**	**0.36 (0.42)**

Note[1]
The interest rates shown represent:

a) The average cost of the debt portfolio, including the borrowing for 2017/18; and

b) The average return on cash investments during the year.

Borrowing

The Fire Authority's approach to borrowing has 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.

As a result, no new borrowing was entered into during 2017/18, 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.

Investment Rates in 2017/18

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.22% for 2017/18.

2017/18 Actual Prudential Indicators

In line with the 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 2017/18 are, therefore, set out below.

	2016/17 schemes Actual £000	**2017/18 schemes Budget £000**	**2017/18 schemes Actual £000**
Capital Expenditure			
Payments (current year schemes)	1,376	3,762	136
Funding:			
Borrowing	0	0	0
Grant	48	0	104
Fund	0	0	0
Revenue	1,328	3,762	32
Ratio of Financing Costs to Net Revenue Stream: The impact of the capital investment decisions in the present capital programme were nil, due to the sources of finance identified for use.	2.49%	2.51%	2.53%
Capital Financing Requirement The capital financing requirement has reduced due to the decision to fund capital schemes with reserves and balances, thereby reducing the borrowing requirement.	3,888	3,617	3,617

Net Investment
Net investment at 31 March 2018 was £13.602m. Short-term investments of £19.300m were offset by gross borrowing of £5.698m.

Actual External Debt
Actual external debt at 31 March 2018 was £5.698m. The Authority's gross debt, at £5.698m, was higher than its Capital Financing Requirement, set in 2017/18 at £3.617m, and confirmed at this level at the end of the year. The reason for this difference is that some schemes in the capital programme were funded by reserves and balances, therefore no funding requirement was necessary. However, as minimum revenue provision is set aside each year against past borrowing and assets, this reduced the existing borrowing requirements. This is allowable, as the Authority still operated within its Operational Boundary (set at £5.698m) and Authorised Limit (£6.617m).
Treasury Management Indicators 1. 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 in accordance with the Prudential Indicator. 2. No money has been invested for more than 364 days. 3. At 31 March 2018, all funds were invested at fixed rates.

8 2018/19 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 prudential indicators were reviewed and revised in September following changes in levels of reserves and also timing of the proposed Telford project, and new indicators were approved by the Authority in October.

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 (£3.353m)

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 (£6.353m)

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 £5.698m, i.e. well within the indicator. No temporary borrowing has been necessary.

Operational Boundary (£5.698m)

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.

9 Mid-Year Treasury Review 2018/19

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. The Code requires a mid-year review report of the current year.

This is the mid-year review report for 2018/19.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2018 is set out below, with the position as at 31 March 2018 in brackets.

		Balance at 30 Sept 2018 £000	Interest Rate [1] 30 Sept 2018 %
a)	**Outstanding debt for capital purposes** Fixed Rate	5,698 (5,698)	4.49 (4.49)
b)	**Investments** SC Treasury Team	20,100 (19,300)	0.55 (0.36)

Note 1
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 continues 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. The Fire Authority agreed to use surplus revenue balances to fund capital schemes, in order to maximise revenue savings in debt charges. However, major improvements at Telford may require new borrowing over the next few years, and officers will continue to monitor the most opportune time to borrow.

No new borrowing has been entered into during the first half of 2018/19, and the average borrowing rate for the total portfolio remains 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 refinance when interest rates may be high. Current debt maturity levels are within this guideline.

The Economy and Interest Rates

Growth in the first half of 2018/19 has been modest, but enough for the Monetary Policy Committee (MPC) to vote for an increase in Bank Rate to 0.75%. This modest growth is expected to continue into 2019, with a slight increase to 1.8%.

The Consumer Price Index measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated that Bank Rate would have to be in the region of 1.5% by March 2021 for inflation to stay on track.

Continued uncertainty around Brexit, and the possibility of a general election in the next twelve months, could result in potential loosening of monetary policy, particularly around the value of the pound and increases in inflation.

Interest Rate Forecasts

The Authority's treasury advisor, Link Asset Services, has provided interest rate forecasts.

Generally positive economic statistics after June led to the decision by the MPC to make the first increase in Bank Rate since the financial crash. However the Committee stressed that future Bank Rate increases would be gradual, and the Rate is likely only to have risen to 2.5% by 2028.

No Bank Rate increases are expected during the remainder of the financial year and it is likely that further increases will be towards August 19. The cautious pace of these limited increases is dependent on a reasonably orderly Brexit.

Investment Rates in the First Half of 2018/19

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.44% for the first half of 2018/19. The actual investment return was 0.55%.

Current Investments

Funds currently invested are shown below:

Handelsbanken	£1.16m
Barclays	£1.00m
Lloyds	£2.00m
London Borough of Hounslow	£2.00m
Santander	£2.00m
Nationwide Building Society	£2.00m
Coventry Building Society	£1.00m
Bury Council	£2.00m
Telford & Wrekin Council	£2.00m
Highland Council	£1.94m
Eastleigh Council	£2.00m
Dumfries & Galloway Council	£1.00m
Total	**£20.10m**

The Authority's Treasury advisors view other local authorities as safe counterparties as they are unlikely to go bust.

Handelsbanken is a Swedish bank which remains on the Authority's current acceptable counterparties list for investment.

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 Initial Impact Assessment

An Initial Impact Assessment has been completed.

13 Appendices

There are no appendices attached to this report.

14 Background Papers

There are no background papers associated with this report.