Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
9 November 2017

Financial Performance to September 2017, including Annual Treasury Review 2016/17 and Mid-Year Treasury Review 2017/18

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, and approve changes to the appliance schemes detailed in paragraph 5;
d) Note the update on corporate risk;
e) Note the annual review of treasury activities for 2016/17;
f) Note performance against prudential indicators to date in 2017/18; and
g) Note the mid-year review of treasury activities for 2017/18.

3 Background

This report comprises a review of financial performance to date for 2017/18, and encompasses the monitoring of revenue budgets, changes to capital schemes and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2016/17 is also included in the report.

4 Revenue Budget

Monitoring has continued on the revenue budgets for 2017/18, and the position to September can now be reported as follows.

	(Over) / Under spend £'000	% of total budget
Executive and Resources		
Procurement Support These duties are carried out using seconded specialist staff from Telford & Wrekin, but the post is currently vacant.	25	8%
Service Delivery		
RDS Sick Pay With sickness/modified duties at lower levels than previous years, an underspend for the year is predicted	40	44%
RDS National Insurance Spending here is highly variable but continued expenditure at current levels will result in an underspend	40	31%
RDS Pension Continued spend at current levels will result in an overspend on retained pension contributions	(40)	13%
Corporate Governance		
Service Intelligence Manager Post This post is currently vacant and so an underspend in this area can be reported.	25	10%
Total	**90**	

It is proposed that, unless specified, variances will be transferred to individual contingencies, where they will be managed with future variances.

A number of virements have been approved under delegated powers; £4,000 was agreed for user support for SharePoint, £3,000 for systems user training, and £3,500 for a compliance audit in Workshops.

5 Capital Programme 2017/18

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 IT infrastructure, which has seen expenditure of £125,000. This has been used to enhance resilience of the network and improve disaster recovery and business continuity with the introduction of a new enterprise solution. An equipment refresh has also been achieved. A total of £25,000 has also been spent on the schemes to refurbish retained stations.

Capital Schemes for Fire Appliances

The 2017/18 capital programme includes £500,000 for the replacement of 2 appliances, with a further 3 planned for 2018/19 at £750,000. Tenders have been obtained for these appliances for award as two lots, however the earliest appliances will not be due for delivery until late summer 2018 and it is suggested that a single award be made for all five appliances. This will minimise the impact of managing the appliance build, but does require the Authority's formal approval of the 2018/19 capital scheme to enable the funding to be committed.

Four of the appliances being replaced are currently at wholetime stations and will be passed on to retained stations. As part of this move it is proposed that they be refurbished and converted to 9-seat capacity, at a cost of approximately £10,000 per appliance. In addition, it will now be necessary to inflate the schemes to allow for increased prices.

The changes in the two schemes can be summarised as follows:

Current schemes	
2017/18	£500,000
2018/19	£750,000
Proposed New schemes	
2017/18	£512,500
2018/19 (approved 2017/18)	£768,750
2018/19 appliance refurbishments	£40,000

6 Corporate Risk

At its meeting in March 2016, the Committee agreed that any corporate risk issues would be considered within pertinent reports, rather than in the presentation of a separate report.

Shropshire Council - Provision of Human Resources, Payroll and Finance Services from April 2018

Shropshire Council have informed the Authority of their intention to introduce an Enterprise Resource System (ERP), which would see complete integration of all of its key systems. The Authority has been given the opportunity to migrate to the ERP from its current systems, ResourceLink and Samis, which are also hosted by the Council.

The Authority has benefited greatly from the investment that has been made in developing ResourceLink, as it forms the basis of the performance management tools that are now used throughout the Service. Therefore this change of provider presents a risk to the Authority which has been captured on the Corporate Risk Register.

Officers are actively reviewing the options available to the Authority for provision of its Finance, HR and Payroll systems from April 2018. These options include working with the Borough of Telford & Wrekin, Cambridgeshire Fire and Rescue Service, Stoke on Trent City Council, and contracting directly with Northgate, the ResourceLink provider.

7 Annual Treasury Review 2016/17

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 2016/17.

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.

Current Portfolio

The Fire Authority's treasury position at 31 March 2017 is set out below with the previous year in brackets.

		Balance at 31 March 2017 £000	Interest Rate [1] 2016/17 %
a)	**Outstanding debt for capital purposes** Fixed Rate	**5,698 (5,698)**	**4.49 (4.49)**
b)	**Investments** SC Treasury Team	**18,840 (18,640)**	**0.42 (0.46)**

Note[1]
The interest rates shown represent:
a) The average cost of the debt portfolio, including the borrowing for 2016/17; 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 2016/17, 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 2016/17

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.20% for 2016/17.

2016/17 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 2016/17 are, therefore, set out below.

	2015/16 schemes Actual £000	2016/17 schemes Budget £000	2016/17 schemes Actual £000
Capital Expenditure			
Payments (current year schemes)	90	3,665	295
Funding:			
Borrowing	0	0	0
Grant	35	0	35
Fund	0	0	0
Revenue	55	3,665	295
Ratio of Financing Costs to Net Revenue Stream: This reduction is due to the ceasing of contributions to the Earmarked Capital Reserve, following capital expenditure from the reserve. The impact of the capital investment decisions in the present capital programme were nil, due to the sources of finance identified for use.	2.53%	3.20%	2.49%

	2015/16 schemes Actual £000	2016/17 schemes Budget £000	2016/17 schemes Actual £000
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.	4,166	3,888	3,888
Net Investment Net investment at 31 March 2017 was £13.142m. Short-term investments of £18.840m were offset by gross borrowing of £5.698m.			

Actual External Debt

Actual external debt at 31 March 2017 was £5.698m.

The Authority's gross debt, at £5.698m, was higher than its Capital Financing Requirement, set in 2016/17 at £3.888m, 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 (£6.888m).

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 2017, all funds were invested at fixed rates.

8 2017/18 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 regular monitoring reports during the year; the position to the end of September is shown below.

Capital Financing Requirement (£3.617m)

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 (£6.617m)

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 (following the repayment of one of the Authority's loans in September), 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 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 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 2017/18.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2017 is set out below, with the position as at 31 March 2017 in brackets.

		Balance at 30 Sept 2017 £000	Interest Rate [1] 30 Sept 2017 %
a)	**Outstanding debt for capital purposes** Fixed Rate	5,698 (5,698)	4.49 (4.49)
b)	**Investments** SC Treasury Team	20,060 (18,840)	0.34 (0.42)

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 2017/18, 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

After strong performance in 2016, growth in the UK economy in 2017 has been disappointingly weak; the slowest since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, which has increased the cost of imports.

The Monetary Policy Committee (MPC) are now warning aggressively that the Bank Rate will need to rise – due to increased inflation, unemployment at its lowest level since 1975, and weak improvements in productivity. It now looks very likely that the MPC will increase Bank Rate in November, or, if not, in February 2018. It is not yet known if this will be a one off increase or the start of a slow but regular increase in Bank Rate.

While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

Interest Rate Forecasts

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

The Bank Rate is expected to rise in the next few months, although it is not clear at this stage if it will be a one off increase or a start of a gradual increase. Public Works Loan Board long term rates are likely to hold until March 2018, when both long and short term rates will begin to rise very gradually over the next two years.

Investment Rates in the First Half of 2017/18

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.11% for the first half of 2017/18. The actual investment return was 0.34%.

Current Investments

Funds currently invested are shown below:

Handelsbanken	£1.56m
Barclays	£2.00m
Lloyds	£2.00m
London Borough of Hounslow	£1.50m
Santander	£2.00m
Nationwide Building Society	£2.00m
Coventry Building Society	£1.00m
Surrey County Council	£1.50m
Thurrock Council	£1.50m
Highland Council	£1.00m
Nottingham City Council	£2.00m
Mid Suffolk District Council	£2.00m
Total	**£20.06m**

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.

The target rate of return on investments made at the Council is slightly higher than the similar target set for the Fire Authority. This is because the Council invests with a number of institutions that are not included in the Authority's confirmed lending list, which is aligned to each body's strategy. In addition, the Council would lend for longer periods than the Authority, although it is now allowing lending for up to six months.

The actual rate of return on investments achieved by the Fire Authority is 0.34% which is slightly below the rate of 0.44% achieved by the Council. The main reasons for this difference are due to the following:

- The Council has £20 million invested with HSBC earning a rate of 0.55%. The Fire Authority currently does not have any investments with HSBC. The product used by the Council is not available to the Fire Authority due to the rate achieved being based on a £20 million investment. HSBC generally do not accept investments below £10 million.

- The Council has £10 million invested with Goldman Sachs International Bank for a period of 6 months, earning a rate of 0.65%. The Fire Authority could set this facility up if required subject to the completion of the necessary paperwork.

- The Council has £30 million invested for 6 months with Lloyds, whereas the Fire Authority only has £2m invested for 6 months with Lloyds. The rate achieved on the Lloyds deals by both Council and the Fire Authority is 0.55%. If the Fire Authority increased their investment limit with Lloyds it would allow them to achieve a higher rate of return.

- The Council has £17 million invested for a period of 12 months earning an average rate of 0.53%. The Fire Authority currently only invests for a maximum period of 6 months, which could be extended to a period of 12 months should the Fire Authority wish to do so.

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.