5

Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
16 November 2022

Financial Performance to September 2022, including Annual Treasury Review 2021/22 and Mid-Year Treasury Review 2022/23

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 Executive Summary

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 pay awards and inflation;
d) Note activity on capital schemes;
e) Approve virements to capital schemes where requested;
f) Note the annual review of treasury activities for 2021/22;
g) Note performance against prudential indicators to date in 2022/23; and
h) Note the mid-year review of treasury activities for 2022/23.

3 Background

This report comprises a review of financial performance to date for 2022/23 and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2021/22 is also included in the report.

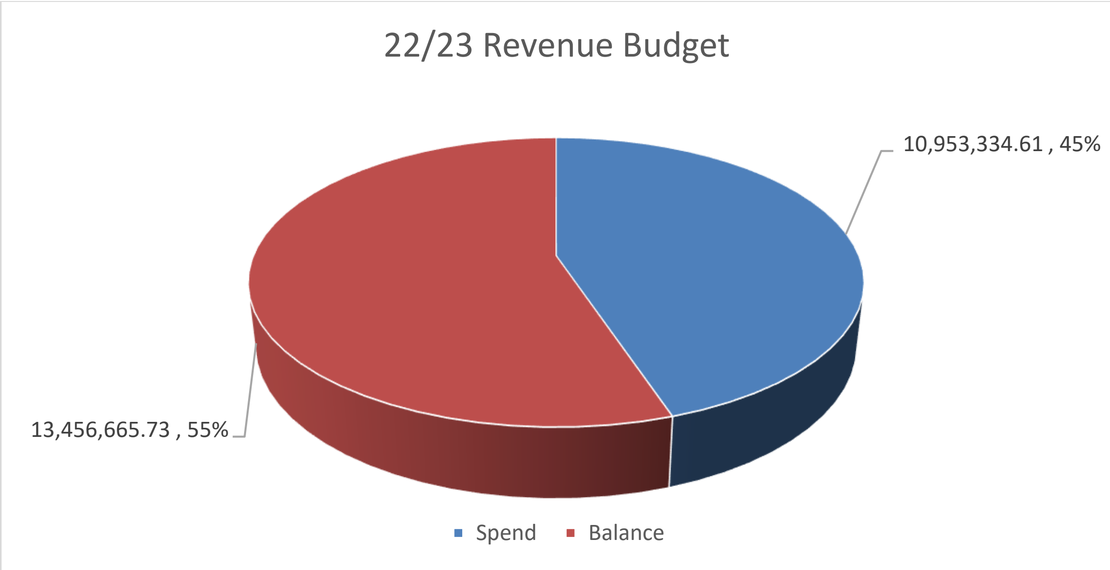
4 Revenue Budget

The Fire Authority approved a 2022/23 revenue budget of £24.410m in February 2022, split into three service areas:

- Executive and Resources
- Service Delivery
- Corporate Governance.

Each of these areas has a pay budget and a non pay budget, and these are monitored with budget holders on a monthly basis.

Monitoring has begun on the revenue budgets for 2022/23, and a summary of the total position is shown below.

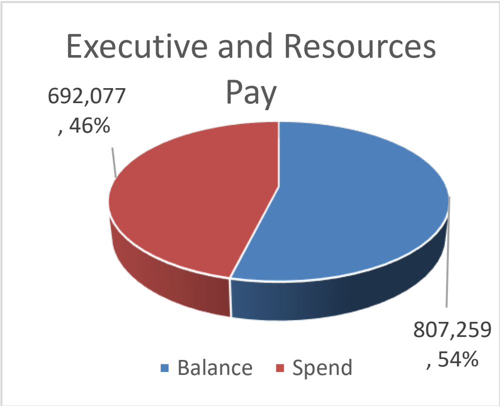


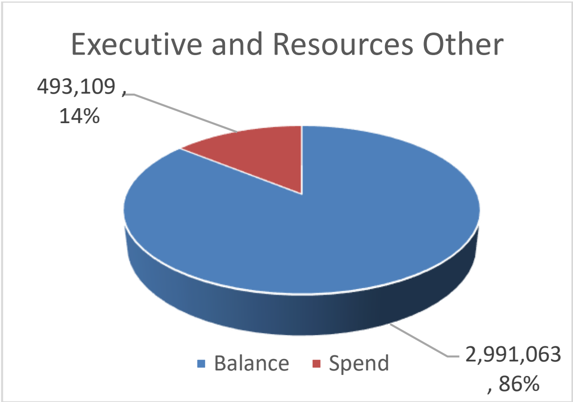
Expenditure on pay budgets is 49% on average; this is in line with estimated spend at this point in the year. Areas such as On Call firefighters and overtime payments would be a month behind as these activities are paid for in the following month; some variances have also been identified and these are reported later in the report.

In terms of non pay budgets, average spend across all budgets is 34%. Some areas may not have incurred high levels of spend to date (corporate finance budgets, training, legal), where others may have already paid annual maintenance or support contracts (subscriptions, ICT contracts, equipment maintenance).

The graphs below illustrate spend to date across each of the service areas.

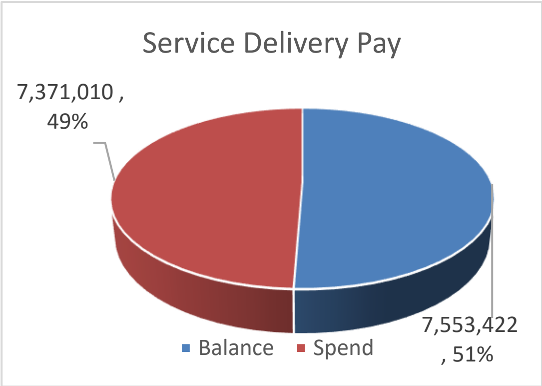
Executive and Resources

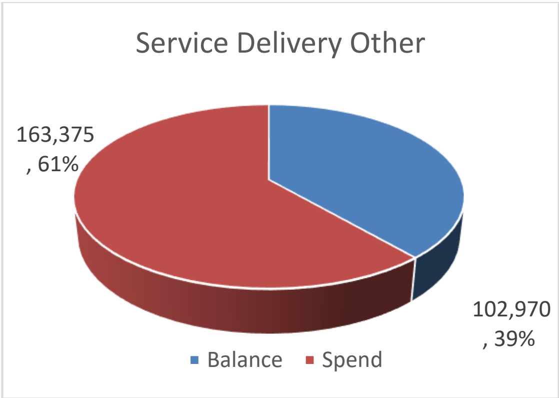




Other - A number of subscriptions have been fully paid, and rates bills across all sites are also paid. This area also includes the contingency for pay awards and inflation which have not yet been negotiated or allocated. Some corporate Finance costs will have no spend until later in the year.

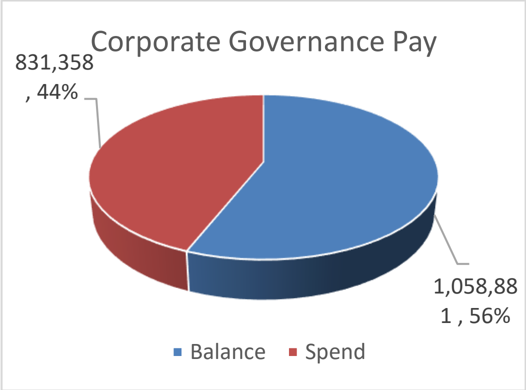
Service Delivery

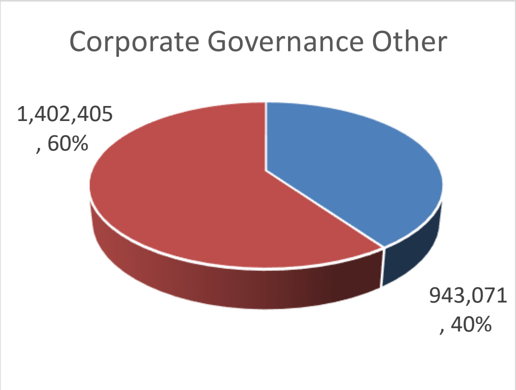




Other – costs in this service area are steady; costs have been incurred in Training, for firefighter development and compartmental fire behaviour training instructor course.

Corporate Governance





Other – Annual ICT costs such as the wide area network, are fully paid, and all insurance premiums have also been paid for 2022/23.

The table below details several variances where budgetary adjustments are required. Once approved, these will be reflected in the budgets shown on the directorate summary and this will ensure that realistic budgeting can take place for the remainder of the year.

	(Over) / Under spend £’000
Service Delivery	
Pay – Watches – fixed term contracts have been in place to cover long term sickness; this provision has resulted in a further overspend in this area.	(60)
Pay – Overtime – additional shifts have been required to cover attendance at training courses, and staff on modified duties	(60)
On call duty system	
Drills – claims for regular drills have continued through the year, however the additional hours added for further drills and training remain unspent at this time.	49
Operational hours – additional spend in this area, due to the protraction of incidents during the extreme heat in the summer months.	(15)
Executive and Resources	
Pay – Resources – A procurement post shared with Telford & Wrekin Council is currently unfilled	13
Debt charges – savings in this area due to no borrowing requirement in 2022/23	250
Furniture – an overspend has occurred due to furniture purchases required at refurbished stations and headquarters	(12)
Investment income – expected income will be higher than anticipated, due to improving rates of return on current investments	40
Hydrants – increased levels of inspection by contractors will require additional funds for 2022/23; the contract will be reviewed, and provision made in budgets going forward	(25)

	(Over) / Under spend £'000
Corporate Governance Pay – Training – additional salary following transfer to lead on Resources Review – this will be taken from the STB Staff Reserve	(33)
Total	**147**

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

Virements that have been approved using powers delegated to the Chief Fire Officer, Treasurer and Head of Finance:

- Chief Fire Officer recruitment process (£18,000)
- Consultancy for job evaluation process (£12,000)
- Secondment for 12 month period to Operations team, to support National Operational Guidance and outcomes of Grenfell phase 2 report (£57,000)
- Creation of Pensions Support post from savings in pensions administration (£36,000)
- Funds for staff survey process (£15,000)
- Introduction of body worn cameras (£21,000)
- Operational and animal rescue resources (£11,000)
- Furniture following Tweedale refurbishment (£4,000)

5 Pay Awards and Inflation

Members are aware of the increasing inflationary pressures that are currently affecting the economy, both in terms of employee pay and procurement of goods and other services.

The Fire Authority agreed contingencies in 2022/23 of 3% for pay and 4.2% for prices, and actual increases are higher than these estimates.

A pay award for staff conditioned to the Green Book has now been accepted by employees and a payment of £1,925 will be paid to each member of staff (pro rata for part time staff). This equates to an average of 6% across all posts. This rate will be applied to November pay and the expenditure over and above the amount budgeted will be reported on the next Financial Performance report.

Following the rejection of a pay award of 2% for staff conditioned to the Grey Book, employees are now considering a revised pay offer of 5%.

It is unlikely that there will be any financial assistance from the Treasury for these increases. Therefore, current and future budgets will be scrutinised to factor in the consequences of such increases. The position of the base budget and assumptions for future pay and prices will be considered later in the agenda.

It should be remembered that the Service's 'basket of goods' is different to the typical purchases made generally, and the extent of inflation on Service purchases continues to be reviewed with officers, particularly regarding energy, operational equipment and maintenance, and training. The impact of these increases on current and future budgets will be reported to Members as and when they occur.

6 Capital Programme 2022/23

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 areas of expenditure in the last two months have been the ongoing works at Tweedale and investment in IT equipment, as well as further payments for work completed at Telford.

Firekit Scheme amendment

The specification and tender for this scheme are now complete and the estimated cost is £1.270m, the increase being due to inflationary increases. As the scheme was originally approved at £1.20m, members are asked to approve a virement of £70,000 to update the total amount of the scheme.

7 Annual Treasury Review 2021/22

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 2021/22.

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, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are 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

The Capital Strategy was reviewed and approved by the Fire Authority at its meeting in February 2022.

Current Portfolio

The Fire Authority's treasury position at 31 March 2022 is set out below with the previous year in brackets.

		Balance at 31 March 2022 £000	Interest Rate [1] 21/22 %
a)	**Outstanding debt for capital purposes** Fixed Rate	**5,418 (5,578)**	**4.42 (4.50)**
b)	**Investments** SC Treasury Team	**16,300 (19,500)**	**0.17 (0.35)**

Note[1]
The interest rates shown represent:
a) The average cost of the debt portfolio, including the borrowing for 2021/22; 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, to run down cash balances and minimise counterparty risk incurred on investments.

As a result, no new borrowing was entered into during 2021/22. One loan was repaid in 2021/22, and the average borrowing rate for the total portfolio was 4.42%.

Maturity structure of borrowing – the level of debt maturing over the next 50 years is summarised in the following table:

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	3%
12 months to 2 years	0%	4%
2 years to 5 years	0%	7%
5 years to 10 years	0%	20%
10 years to 20 years	0%	35%
20 years to 30 years	0%	15%
30 years to 40 years	0%	16%
40 years to 50 years	0%	0%

Investment Rates in 2021/22

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.05% for 2021/22.

2021/22 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 2021/22 are, therefore, set out below.

	2020/21 schemes Actual £000	2021/22 schemes Budget £000	2021/22 schemes Actual £000
Capital Expenditure			
Payments (current year schemes)	281	11,104	6,149
Funding:			
Borrowing	0	3,829	2,383
Grant	0	0	0
Fund	0	0	0
Revenue	281	7,100	3,766
Ratio of Financing Costs to Net Revenue Stream:	2.16%	2.82%	2.06%
The impact of the capital investment decisions in the present capital programme were nil, due to the sources of finance identified for use.			
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.	2,858	9,235	5,094

Net Investment
Net investment at 31 March 2022 was £10.882m. Short-term investments of £16.300m were offset by gross borrowing of £5.418m.

Actual External Debt
Actual external debt at 31 March 2022 was £5.418m.

The Authority's gross debt, at £5.418m, was higher than its Capital Financing Requirement, set in 2021/22 at £9.235m, and confirmed at £5.094m 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 £9.235m) and Authorised Limit (£12.235m).

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 365 days.
3. At 31 March 2022, all funds were invested at fixed rates.

8 2022/23 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 (£10.508m)

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 (£13.508m)

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 £5.255m, i.e. well within the indicator. No temporary borrowing has been necessary.

Operational Boundary (£10.508m)

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 2022/23

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 2022/23.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2022 is set out below, with the position as at 31 March 2022 in brackets.

		Balance at 30 Sept 2022 £000	Interest Rate [1] 30 Sept 2022 %
a)	**Outstanding debt for capital purposes** Fixed Rate	5,255 (5,418)	4.27 (4.42)
b)	**Investments** SC Treasury Team	15,200 (16,300)	0.91 (0.17)

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 and other capital schemes will 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 2022/23. One loan has been repaid and the average borrowing rate for the total portfolio is 4.27%.

The Economy and Interest Rates

The second quarter of 2022/23 saw production fall due to increasing energy prices, and Bank Rate rise to 2.25%, with further rises to come.

Higher energy prices are creating a more persistent downward effect in economic activity. This follows a drag on real activity from high inflation, and risks Gross Domestic Product (GDP) continuing to contract in the winter months.

The Consumer Price Index (CPI) dropped slightly in August although utility price inflation has added to the rate following Ofgem unit price cap increases. In addition, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are facing a much tighter squeeze on real incomes.

The change in Prime Minister and Chancellor during the second quarter of 2022/23 and the associated 'fiscal event' incorporating significant tax cuts, has added to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. The absence of an independent review of the event resulted in a weakening of the pound, which added further pressure to interest rates. As the pound fell to a record low, it recovered slightly with the hope that the Bank of England would increase rates at the meeting of the Monetary Policy Committee (MPC) in November.*

**A subsequent further change of Chancellor, and the resignation and selection of a new Prime Minister, has seen the majority of these proposed policies reversed in quarter three. The MPC increased Bank Rate to 3% at its meeting on 3 November 2022.*

Interest Rate Forecasts

Link Group are appointed by Shropshire Council's Treasury Services to formulate a view on future interest rates.

Since the fiscal event on 23 September 2022, it is expected that, the MPC will continue to increase Bank Rate to a peak of 5% in February 2023.

The Public Works Loan Board (PWLB) rate will be elevated for some time as the Bank of England seeks to squeeze inflation out of the economy. The increase reflects the disaffection that investors have with the position of the UK public finances after September's fiscal event.

PWLB rate is expected to fall steadily over the next two years.

Investment Rates in the First Half of 2022/23

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.91% for the first half of 2022/23. The actual investment return was 1.07%.

Current Investments

Funds currently invested are shown below:

Handelsbanken	£0.20m
Barclays	£2.00m
Coventry Building Society	£1.00m
Nationwide	£2.00m
Santander	£2.00m
Nat West	£0.80m
Debt Management Office	£7.20m
Total	**£15.20m**

The Authority's Treasury advisors view other local authorities as safe counterparties as they are unlikely to go bust, however Treasury staff monitor any issues very closely.

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 outlined in the report.

11 Legal Comment

There are no direct legal implications arising from this report.

12 Equality Impact Assessment

There are no equality or diversity implications arising from this report.
An e-EQIA is not, therefore, required.

13 Appendix

There are no appendices to this report.

14 Background Papers

There are no background papers associated with this report.