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Shropshire and Wrekin Fire and Rescue Authority
26 September 2011

Financial Performance to August 2011, including the Annual Treasury Report 2010/11

Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007, 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 position on the capital programme,
d) Note performance against prudential indicators for 2010/11;
e) Note performance against prudential indicators to date in 2011/12, approving any proposed amendments;
f) Note the annual review of treasury activities for 2010/11; and
g) Note performance in Treasury Management to date in 2011/12.

3 Background

This report comprises a review of financial performance to date for 2011/12, and encompasses the monitoring of revenue budgets and capital schemes, the review of treasury management activities, including prudential indicators.

4 Revenue Budget

At its meeting in February 2011, the Fire Authority approved a revenue budget of £20.316m for 2011/12, and this was allocated to the four directorates within the service:

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

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 2011/12, and the position after the first five months of the year can now be reported.

	(Over) / Under spend £'000
Executive and Resources	
Finance:	
As borrowing on the St Michaels Street project has been delayed, savings have been identified in debt charges	30
Technical Services:	
Further expenditure is required to complete data migration and rollout of the Service's Asset Management System	(15)
Service Delivery	
Area Command:	
Increased spend on watches prior to Public Value establishment changes from 1 July 2011	(33)
Retained Duty System:	
Retaining Fee savings	25
Turnouts	30
Retained Pension costs	(20)
Retained Development Teams:	
Saving resulting from conversion of Retained Support Officers to Watch Manager	17
Retained Development Officer vacancy	9
Saving in retained development administration	18

	(Over) / Under spend £'000
Prevention:	
Savings following Inspecting Officer post conversion	17
Youth Officer vacancy	12
Inspecting Officer vacancy	10
Technical Officer vacancy	10
Administration post vacancy	6
Total	**116**

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

Reserves and Balances – following approval to transfer General Fund balances at the end of 2010/11; this is the position on the Authority's reserves and balances:

	£'000
General Reserve	539
Efficiency Reserve	60
Pensions and Other Staff Issues Reserve	1,356
Extreme Weather Reserve	312
Earmarked Capital Reserve	977
Unearmarked Capital Reserve	1,778
Equipment Replacement Provision	64
Information and Communications Technology (ICT) Reserve	500

Due to the considerable developments within ICT currently, the movements within the ICT Reserve during the first few months of the year will be reviewed, finalised and reported to members at Strategy and Resources Committee in November 2011.

5 Capital Programme

There has been little spend on the Authority's capital schemes being undertaken in 11/12, with the exception of the major project at St Michael's Street. Costs on the current phase of this project are being finalised by officers and will be reported in full to members.

There are no exceptional items to report to the Authority, and an activity report on each outstanding scheme will be brought to Strategy and Resources Committee in November 2011.

6 2010/11 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 2010/11 are, therefore, set out below.

a) Capital Expenditure

The actual capital expenditure for 2010/11 was £2,806,000.

		2009/10 Actual £000	2010/11 Budget £000	2010/11 Actual (inc slippage) £000
Payments		853	845	2,806
Funding	To be funded from - Borrowing	41	250	740
	- Grant	602	45	691
	- Fund	210	550	1,375
	- Leasing (financing)	0	0	0

b) Ratio of Financing Costs to Net Revenue Stream

The actual ratio of financing costs to net revenue stream was 3.70%.

	2009/10 Actual £000	2010/11 Budget £000	2010/11 Actual £000
	3.43%	3.58%	3.70%

c) Capital Financing Requirement

The actual capital financing requirement as at 31 March 2011 was £6.403m.

	2010/11 Budget £000	2010/11 Actual £000
	6,710	6,403

The capital financing requirement is well within the predicted level as a result of slippage of schemes into 2011/12.

d) Net Investment

Net investment at 31 March 2011 was £0.905m; investments held totalling £6.715m, were offset by gross borrowing outstanding of £5.810m.

e) Actual External Debt

Actual external debt at 31 March 2011 remained at £5.810m plus other long-term liabilities at 31 March 2010 of £36k (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 £6.403m.

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 2011, all funds were invested at fixed rates.

7 2011/12 Prudential Indicators

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The Fire Authority has established that it will receive regular monitoring reports during the year; the position to the end of August 2011 is shown below.

Prudential Indicator	Budget 2011/12 £'000	Actual 2011/12 £'000
Capital Financing Requirement (CFR)	8,256	8,125
Operational boundary for external debt	8,256	8,125
Authorised limit for external debt	11,256	11,125

There are currently no indications that the prudential indicators will be exceeded or amended.

8 Annual Treasury Review 2010/11

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 2010/11.

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 2011 is set out below with the previous year in brackets.

		Balance at 31 March 2011 £000	Interest Rate [1] 2010/11 %
a)	**Outstanding debt for capital purposes** Fixed Rate	**5,810 (5,810)**	**4.49 (4.49)**
b)	**Investments** SC Treasury Team	**6,715 (4,750)**	**0.54 (0.44)**

Note[1]: The interest rates shown represent:

a) the average cost of the debt portfolio, including the borrowing for 2010/11; and
b) the average return on cash investments during the year.

Borrowing

The Fire Authority's continued 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 2010/11, 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

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being fairly downbeat over the short to medium term, while global crises dampened international economic growth prospects.

The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of benefit in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of a UK rate rise move back, and this has resulted in a continued widening of views on the timing of future rate increases.

Long-term Interest Rates

The Public Works Loan Board (PWLB) 50 year rate started the year at 4.7% and ended at 5.25%. Variations in PWLB rates have been distorted by the October 2010 decision by PWLB to raise its borrowing rates by 0.75 – 0.85%.

Investment Rates in 2010/11

The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates improving.

Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Continued concerns within the European banking industry have highlighted the ongoing need for caution in treasury management activity.

The overnight rate varied little during the year, within a range of 0.41-0.44%.

The 3 month rate has moved between 0.52% and 0.69%, its highest point being in March 2011.

The 7 day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.36% for 2009/10.

9 Treasury Management Review 2011/12

The Authority will be provided with a regular update on the current position of its investments and any strategy updates which have occurred.

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

Funds currently invested are shown below:

Birmingham City Council	£2.00m
Wakefield MBC	£2.41m
Blaenau Gwent	£1.63m
Debt Management Office	£1.83m
Total	£7.87m

At present there is no reason to amend current policies of delaying borrowing and thereby minimising cash available for investment. Also, in light of the current financial uncertainty, the Authority's policy has continued to be to lend to the Debt Management Office and other Local Authorities only.

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 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

There are no appendices attached to this report.

14 Background Papers

There are no background papers associated with this report.