

Financial Performance to September 2024, including Annual Treasury Review 2023/24 and Mid-Year Treasury Review 2024/25

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 annual review of treasury activities for 2023/24;
- d) note performance against prudential indicators to date in 2024/25, and
- e) Note the mid-year review of treasury activities for 2024/25.

3 Background

This report presents a review of financial performance to date for 2024/25 and covers the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2023/24 is also included in the report

4 Revenue Budget

Monitoring has continued on the revenue budgets for 2024/25, and a summary of the total position is shown below.

Directorate	Original Budget £'000	Reforecast Budget Qtr1 £'000	Spend £'000	Committed £'000	Balance £'000	Spent %	Variances Qtr2 £'000	Reforecast Budget Qtr2 £'000
Executive & Resources								
Pay	1,676	1,920	846		1,074	44%	36	1,956
Other	3,110	3,110	1,924	181	1,005	68%	57	3,167
	4,786	5,030	2,770	181	2,079	59%	93	5,123
Service Delivery								
Pay	17,599	17,584	8,691	-	8,893	49%	-352	17,232
Other	328	328	228	19	81	75%	-	328
	17,927	17,912	8,919	19	8,974	50%	-352	17,560
Corporate Governance								
Pay	2,300	2,216	1,068	0	1,148	48%	35	2,251
Other	2,429	2,429	1,785	53	591	76%	-	2,429
	4,729	4,645	2,583	53	1,739	53%	35	4,680
Contribution to Reserves Pay and Prices	261	1,016	-	-	1,016	0%	224	1,240
Contingency	910	910	-	-	910	0%	-	910
Capital Income	1,771 -1,206	871 -1,206	117 -1,201	- -	754 -5	13% 100%	- -	871 -1,206
Total	29,178	29,178	13,458	253	15,467	47%	0	29,178

Variances in anticipated spend are shown in the table below.

Service Area	Variance	-Over/ Under £'000
Executive and Resources	Executive expenses Training and legal expenses relating to staff investigations	-21
	Executive support Additional costs for executive officer support to Sept 2025	-36
	Facilities Furniture costs relating to refurbishment at Telford, not included within capital scheme	-36
Corporate Governance	Transformation & Collaboration pay Additional staff to support HMICFRS inspection	-35
Service Delivery	On call pay Savings in pay budgets will be used to fund new retaining fee contract bandings, which are due in Jan 25. Savings released for 3 quarters to Dec 24	400
	Overtime Spend in this area will exceed budget by £78,000 by the end of December, however spend has reduced by 40% in the year to date, compared to 2023/24. This is due to training courses being carried out whilst attendees are on shift.	-78
	Holiday pay on overtime Additional payments made as a result of new legislation, to be built into the budget in future years	-26
	Group Support Teams pay Costs of two additional officers covering long term sickness	-30
	Training Pay Officer vacancies due to secondment cover in Transformation & Collaboration and Executive Officer Support	86
	Total	224
	It is proposed that variances are transferred to/from reserves as follows:	
	Training Reserve	86
	STP Staff Reserve	174
	Major Projects Reserve	-36
	Total	224

Virements that have been approved using powers delegated to the Chief Fire Officer, Treasurer and Head of Finance are shown in the table below

Virement approved	Reserve	£'000
Entry fee and expenses for national BA competition	Training	2
CFRMIS Gazetteer updates and developments	ICT	9
Total		11

The position of the Authority's reserves, including previously approved transfers and the virements above, is shown in the following table.

Reserve	£'000
General	577
Pensions and Other Staff Issues	2,059
Extreme Incidents	219
Major Projects	8,939
ICT	529
Income Volatility	687
Service Transformation Programme Staff	816
Service Delivery	9
Training	190
Operational Equipment	266
Buildings Maintenance	450
Usable Capital Receipts	58
Total	14,799

5 Annual Treasury Review 2023/24

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 2023/24.

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 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 2024.

Current Portfolio

The Fire Authority’s treasury position at 31 March 2024 is set out below with the previous year in brackets.

		Balance at 31 March 2024 £000	Interest Rate ¹ 23/24 %
a)	Outstanding debt for capital purposes Fixed Rate	5,255 (5,255)	4.27 (4.27)
b)	Investments SC Treasury Team	7,000 (10,800)	4.72 (1.91)

Note¹

The interest rates shown represent:

- The average cost of the debt portfolio; and
- 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 2023/24.

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

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	4%
12 months to 2 years	0%	4%
2 years to 5 years	0%	7%
5 years to 10 years	0%	40%
10 years to 20 years	0%	14%
20 years to 30 years	0%	27%
30 years to 40 years	0%	4%
40 years to 50 years	0%	0%

Investment Rates in 2023/24

The average 3 month SONIA (Sterling Overnight Index Average) rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 4.70% for 2023/24.

2023/24 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 2023/24 are, therefore, set out below.

	2022/23 schemes Actual £000	2023/24 schemes Budget £000	2023/24 schemes Actual £000
Capital Expenditure			
Payments	5,540	2,124	6,509
Funding:			
Borrowing	2,723	640	5,295
Grant	0	0	0
Fund	0	0	0
Revenue	2,635	1,484	1,085
Cap Receipt	88	0	129

	2022/23 schemes Actual £000	2023/24 schemes Budget £000	2023/24 schemes Actual £000
Ratio of Financing Costs to Net Revenue Stream	2.17%	2.77%	3.06%
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.	7,606	12,219	12,641
Net Investment Net investment at 31 March 2024 was £1.745m. Short-term investments of £7.000m were offset by gross borrowing of £5.255m.			

Actual External Debt

Actual external debt at 31 March 2024 was £5.255m.

The Authority operated within its Operational Boundary (set at £9.790m) and Authorised Limit (£12.790m).

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 2024, all funds were invested at fixed rates.

6 Mid-Year Treasury Review 2024/25

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 2024/25.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2024 is set out below, with the position as at 31 March 2024 in brackets.

	Balance at 30 Sept 2024 £000	Interest Rate ¹ 30 Sept 2024 %
a) Outstanding debt for capital purposes Fixed Rate	5,045 (5,255)	4.37 (4.27)
b) Investments SC Treasury Team	10,050 (10,800)	4.94 (1.91)

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 2024/25. The average borrowing rate for the total portfolio is 4.37%.

The Economy and Interest Rates

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Qtr2 figures ;

- A further easing in wage growth as the headline rate fell from 4.6% in June to 4% in July;
- CPI inflation hitting its target in June before edging above it to 2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5% in August and holding them steady in its September meeting

Looking ahead, CPI inflation is likely to rise in the coming months before falling back to its target of 2% in mid 2025.

Interest Rate Forecasts

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

The latest forecast on 28 May sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of sticking inflation and a continuing tight labour market.

Investment Rates in the First Half of 2024/25

The 3 month SONIA rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 5.12% for the first half of 2024/25. The actual investment return was 4.94%.

7 2024/25 Prudential Indicators

In line with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance, the Treasurer is required to establish procedures to monitor performance against all forward looking prudential indicators and 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 2024 is shown below.

Indicator	Set 2024/25 £'000	Actual 2024/25 £'000
<p>Capital Financing Requirement This is the amount required by the Authority to fund its capital investment and has increased due to the anticipated borrowing for Telford and other capital schemes. This includes all capital investment expected to be made this year, less any contributions from revenue or grant.</p>	19,742	14,635
<p>Operational Boundary 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.</p>	19,742	5,045
<p>Authorised Limit for External Debt 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, well within the indicator. No temporary borrowing has been necessary.</p>	22,742	14,635

Current Investments

Funds currently invested are shown below:

Counterparty	£m
Lloyds Bank	2.00
Santander	2.00
Handelsbanken	1.65
Debt Management Office	4.40
Total	10.05

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.

The interest on investments earned to the end of September is £471,128 – an average rate of return of 4.94%.

8 Financial Implications

The financial implications are as set out in the main body of the report.

9 Legal Comment

There are no direct legal implications arising from this report.

10 Initial Impact Assessment

An Initial Impact Assessment has been completed.

11 Appendices

There are no appendices attached to this report.

12 Background Papers

There are no background papers associated with this report.