

Financial Performance to September 2019, including Annual Treasury Review 2018/19 and Mid-Year Treasury Review 2019/20

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 2018/19 and approve the revised indicator for 2019/20;
- f) Note performance against prudential indicators to date in 2019/20; and
- g) Note the mid-year review of treasury activities for 2019/20.

3 Background

This report comprises a review of financial performance to date for 2019/20 and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. An annual review of treasury activities for 2018/19 is also included in the report.

4 Revenue Budget

Monitoring has continued on the revenue budgets for 2019/20, and a summary of the budget by individual service areas is attached as an appendix. 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) Underspend of £150,000 on wholetime watches were reported to the Committee in September. This is due to the changes in shift patterns and reflects watch headcount of 128 against a budget of 136. These savings will be reflected in the revenue budget from 2020/21. A further underspend can now be reported; however, a proportion of this saving has been allocated to Protection, to fund additional officers, an Inspecting Officer, and an officer to review fire safety arrangements in high rise premises.	210	4%
Emergency Services Mobile Comms Project (ESMCP) – this is the cost of additional work carried out by seconded staff on Command and Control project work.	(12)	-
Training – an additional Watch Manager has been required in Training to maintain capacity, this has been offset with savings as staff are rotated to accommodate this change.	(15)	-
Executive and Resources		
Pensions Administration – increases in the pensions contract, as well as ad hoc requests from the administration provider, are not currently contained within the revenue budget, requiring an increase in the budget.	(20)	(83%)
Pensions Consultancy – there have been additional consultancy costs on the year end audit for 2018/19 due to the McCloud / Sargeant court case outcomes.	(10)	(180%)
Vehicle Parts – an increase in this budget is required to cover costs of maintaining the Service's fleet this year; this budget is being rescope for 2020/21 to reflect the current cost of maintaining the Service's fleet.	(40)	(54%)

	(Over) / Under spend £'000	% of total budget
Corporate Governance		
Corporate Communications – there will be a part year saving on salaries in this area due to the posts being vacant until September	30	24%
Total	143	

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 include; additional funding for the provision of “Packexe” product on Frontline appliances to improve the safety of glass cutting at incidents (£5k), £6k for the purchase of ballistics PPE, £8k for the provision of a Brigade Chaplain, and £83k to fund additional officers in Protection, as detailed above.

5 Capital Programme 2019/20

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 activity in the last two months have been the purchase of the Command & Control vehicle, which is being done in collaboration with Hereford & Worcester Fire and Rescue Service, and the replacement of the Workshops van. Some preliminary work has also been carried out at Stafford Park in readiness for refurbishment of the Telford site.

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 Standards, Audit and Performance Committee (SAP) quarterly and twice a year by the Fire Authority. In addition, the register is a standing agenda item at Service Management Team (SMT) monthly meeting, as well as being reviewed in detail at Risk Management Group (RMG) which was held in October.

The main discussions around risk which were summarised at the latest SAP meeting in September are as follows:

Following the successful runs using Fire Service Rota (FSR), all the major activities to mitigate against the potential loss of functionality for the replacement Finance, HR and Payroll systems have been implemented. A recommendation to remove this risk from the corporate risk register was agreed by Risk Management Group (RMG) in October.

The risks relating to the Command and Control System and the ICT infrastructure have been downgraded following a reduction in the number of reported faults over the last 12 months.

The RMG also agreed to remove the risk relating to Emergency Service Mobile Communications Project (ESMCP), due to the extension of the current Airwave contract. This risk will now sit on the ICT departmental risk register.

A new risk relating to no deal Brexit planning was also added to the corporate risk register and reported to the RMG.

7 Annual 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 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 2018/19.

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

The Capital Strategy was approved by the Fire Authority at its meeting in February 2019.

Current Portfolio

The Fire Authority's treasury position at 31 March 2019 is set out below with the previous year in brackets.

	Balance at 31 March 2019 £000	Interest Rate ¹ 2018/19 %
a) Outstanding debt for capital purposes		
Fixed Rate	5,698 (5,698)	4.49 (4.49)
b) Investments		
SC Treasury Team	17,470 (19,300)	0.66 (0.36)

Note¹

The interest rates shown represent:

- The average cost of the debt portfolio, including the borrowing for 2018/19; 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, so as to run down cash balances and minimise counterparty risk incurred on investments.

As a result, no new borrowing was entered into during 2018/19, and the average borrowing rate for the total portfolio remained at 4.49%.

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

Period	Amount of debt maturing
Under 12 months	0%
12 months to 2 years	5%
2 years to 5 years	7%
5 years to 10 years	10%
10 years to 20 years	49%
20 years to 30 years	0%
30 years to 40 years	29%
40 years to 50 years	0%

Officers have reviewed the current indicator for debt maturity and propose the following revised indicator, which is consistent with the Council's approach:

Maturity structure of fixed interest rate borrowing 2019/20		
	Lower	Upper
Under 12 months	0%	5%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	20%
10 years to 20 years	0%	50%
20 years to 30 years	0%	50%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

Investment Rates in 2018/19

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.51% for 2018/19.

2018/19 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 2018/19 are, therefore, set out below.

	2017/18 schemes Actual £000	2018/19 schemes Budget £000	2018/19 schemes Actual £000
Capital Expenditure			
Payments (current year schemes)	136	1,900	1,195
Funding:			
Borrowing	0	0	0
Grant	104	0	802
Fund	0	0	0
Revenue	32	3,762	393
Ratio of Financing Costs to Net Revenue Stream:	2.47%	2.46%	2.44%
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.	3,617	3,353	3,358
Net Investment			
Net investment at 31 March 2018 was £11.772m. Short-term investments of £17.470m 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 2018/19 at £3.353m, and confirmed at £3.358m 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 (£6.353m).

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 2019, all funds were invested at fixed rates.

8 2019/20 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 (£3.595m)

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 (£6.595m)

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 2019/20

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 2019/20.

Current Portfolio

The Fire Authority's treasury position as at 30 September 2019 is set out below, with the position as at 31 March 2019 in brackets.

	Balance at 30 Sept 2019 £000	Interest Rate ¹ 30 Sept 2019 %
a) Outstanding debt for capital purposes	5,698 (5,698)	4.49 (4.49)
Fixed Rate		
b) Investments	20,200 (17,470)	0.82 (0.66)
SC Treasury Team		

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 2019/20, and the average borrowing rate for the total portfolio remains at 4.49%.

The Economy and Interest Rates

Due to the current circumstances around Brexit and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves.

If the UK has achieved a deal on Brexit agreed with the EU, then it is possible that growth could recover relatively quickly. The Monetary Policy Committee (MPC) would then need to address the issue of whether to raise Bank Rate at some point in the coming year; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, a fiscal boost such as tax cuts or increases in government budgets may be required to boost the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. With this continued uncertainty and a concern about a downturn in world growth, the MPC left Bank Rate unchanged at 0.75% in August. It is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.

The Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019 but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there is a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

Investment Rates in the First Half of 2019/20

The 7-day rate, with which to compare the investment return achieved for the Fire Authority by Treasury Services, was 0.57% for the first half of 2019/20. The actual investment return was 0.82%.

Current Investments

Funds currently invested are shown below:

Handelsbanken	£2.0m
Barclays	£2.0m
Lloyds	£2.0m
London Borough of Hounslow	£2.0m
Santander	£2.0m
Nationwide Building Society	£2.0m
Coventry Building Society	£3.0m
Cornwall Council	£2.0m
Thurrock Council	£1.6m
Debt Management Office	£1.6m
Total	£20.2m

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 Appendix

Revenue Budget Directorate Summary

14 Background Papers

There are no background papers associated with this report.

Directorate Summary

Directorate	Budget	Spend	Committed	Balance	% Spent
Executive & Resources					
Pay					
Executive & Finance	804,472	387,397		417,074	48%
Resources	490,130	251,402		238,728	51%
Other					
Equipment & Uniforms	416,565	185,750		230,815	45%
Executive	140,986	98,666		42,320	70%
Facilities	1,098,868	639,921	6,000	452,947	59%
Finance	328,503	1,008,287		1,336,790	-307%
Fleet	291,324	154,512		136,812	53%
Hydrants	117,738	34,392		152,130	-29%
Workshops	164,213	110,824		53,388	67%
Total Executive	3,852,798	785,793	6,000	3,061,005	21%
Service Delivery					
Pay					
Area Command	10,806,349	4,919,706		5,886,643	46%
Control	695,236	328,623		366,613	47%
ESMCP	-	22,839	-	22,839	
Operations	514,826	271,736		243,090	53%
Prevention	940,477	475,838		464,639	51%
Training & Development	1,077,021	522,851		554,171	49%
Other					
Area Command	5,000	611		4,389	12%
Animal Rescue	8,000	2,164		10,164	-27%
Business Fire Safety	1,000	2,171	-	1,171	217%
Community Fire Safety	50,084	11,219	10,900	27,965	44%
Health & Safety	4,200	2,988	165	1,047	75%
ESMCP	-	76,788		76,788	
Operations	26,000	9,504		16,496	37%
Prevention	11,475	304		11,171	3%
Arson/Risk Reduction	500	540	-	40	108%
Training	179,561	34,589	31,200	113,772	37%
Total Service Delivery	14,319,729	6,524,565	42,265	7,752,899	46%
Corporate Governance					
Pay					
Planning & Performance	345,498	161,009		184,489	47%
Corporate Services	309,514	151,408		158,107	49%
Human Resources	348,417	168,438		179,980	48%
ICT	390,715	144,417		246,298	37%
Other					
Corporate Communications	10,000	1,037		8,963	10%
Corporate Services	37,460	1,345		36,115	4%
Development	194,445	88,120		106,325	45%
Equality & Diversity	20,900	5,525		15,375	26%
HR and Occ Health	197,263	83,069		114,194	42%
ICT	1,035,351	937,559	44,147	53,645	95%
Insurance	329,832	329,794	-	39	100%
Members	86,136	33,982		52,154	39%
Pensions	304,120	151,954		152,166	50%
Strategic Alliance	-	1,750	-	1,750	
Service Transformation	10,500	-		10,500	0%
Total Corporate Governance	3,620,152	2,259,406	44,147	1,316,598	64%
Pay & Prices Contingency	495,401	-	-	495,401	0%
Non Pay Budgets	5,070,024	1,840,891	92,412	3,136,721	38%
Pay Budgets	16,722,655	7,782,823	-	8,939,832	47%
Total	22,288,080	9,623,713	92,412	12,571,955	44%