

Financial Performance to August 2008

Report of the Treasurer

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1 Purpose of Report

This report provides information on the financial performance of the service to date, and seeks approval for action, where necessary.

2 Recommendations

The Committee is asked to:

- 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; and
- e) Note the information provided on balance sheet items

3 Background

This is the second review of financial performance to date for 2008/09, and encompasses the monitoring of revenue budgets and capital schemes, the review of prudential indicators, and the monitoring of other balances held within the Authority's accounts.

4 Revenue Budget

Exceptional variances in the revenue budget to the end of May are detailed in the table below. Members are asked to approve the transfer of these variances to contingencies.

	(Over) / Underspend £'000
Executive	-
Service Delivery	
District – savings on watches to the end of the year, over and above those required to meet the vacancies management target (see later).	22
A sum of £180,000 was brought forward from 2007/08 to cover recruitment issues anticipated in 2009. It is predicted that additional recruits and transferees will cost £107,000 this year, leaving a surplus. It is proposed that around half of the total savings on watches is carried forward for use in 2009/10.	73
Retained Duty System - further savings have been identified within retained budgets, and will contribute in future years to proposed retained development.	
Drills	30
Turnouts	30
Human Resources and Development	
Equality & Diversity – the E&D Assistant post has been filled, however savings accrued up to the date of appointment	8
Strategy and Performance	
Regional Management Board – net income for 2007/08 was more than originally anticipated	10
Resources	
Inflation Contingency – This is closely monitored and despite large increases in some prices (e.g. diesel and utilities) it is anticipated that inflationary pressures can be contained, by using underspends in budgeted pay awards	-
Total	173

It is proposed that variances will be transferred to individual contingencies, with the exception of retained duty savings, which will be diverted to Community Fire Safety.

Vacancies Management

A total of £100,000 was taken out of the budget for 2008/09 and future years, which reflected the savings that could be made from vacant posts throughout the year. The table below shows how the total has been allocated to business areas, and how much has been identified to date. These savings do not form part of the variances above as the budget has already been reduced by the total amount.

	Identified to date £'000	Target savings £'000
Executive	0	4
Service Delivery	81	81
Strategy & Performance	5	5
Human Resources & Development	7	7
Resources	2	3
Total	95	100

5 Capital Programme

Monitoring of the capital schemes approved by the Fire Authority is ongoing.

A number of schemes brought forward from 2007/08 and prior years have been completed, with others yet to start. In addition, the building improvements scheme within the 2008/09 programme is fully spent.

A report detailing progress and expenditure of the capital programme will be presented to the Committee later on this agenda.

6 Reserves and Provisions

Balances held on reserves and provisions currently held are as follows:

- **General Reserve (£988,000)**
Represents financial risks that are faced by the Authority, based on a probability of occurrence. No demands have been identified to date, however the estimated costs associated with the Retained Firefighters Part Time Working Directive outcome are included within the reserve.
- **Efficiency Reserve (£109,000)**
To be used on initiatives with a one off cost that will result in efficiencies. Cost of property advisor is currently committed from this reserve.

- Retained Reserve (£99,000)**
Investment in the retained reserve has been slipped from this year to 2008/09 – this reserve will smooth out fluctuations in precept.

A balance of £98,000 has been transferred to the revenue budget, to fund this year's growth in the retained duty system.
- Pension Liabilities Reserve (£461,000)**
This reserve provides for the possibility of exceptional numbers of retirements.
- Equipment Replacement Provision (£92,000)**
Operational equipment programmes are funded via this provision, with an annual contribution to replace expenditure – this should relieve pressure on the revenue budget
- Extreme Weather Reserve (£295,000)**
This reserve will cover excess levels of retained activity due to extreme weather.
- Capital Reserve (£1,237,000)**
This reserve allows for the funding of small capital schemes, avoiding long term borrowing. Payments from the reserve are replaced with annual contributions. Actual spending will be linked to the delivery of the capital programme. This reserve will be maximised through the transfer of underspends on the revenue budget during the year.

A balance of £157,000 has been transferred to the revenue budget in July – this is to fund one off growth items in the 2008/09 budget and should have remained in the General Fund at the end of the year. In addition, a budgeted contribution of £231,000 has been made to the Capital Reserve.
- General Fund (£0)**
A balance of £569,000 has been added to the 2008/09 budget for use this year, and the remaining £49,000 has been transferred to the Capital Reserve, following approval by the Fire Authority.

7 Prudential Indicators

In line with the Chartered Institute for Public Finance and Accountancy (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 Fire Authority has established that it will receive quarterly monitoring reports during the year, of which this is the first for 2008/09.

- **Authorised Limit for External Debt (£9,217,000)**

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.

The Limit currently stands at £5.347m, i.e. well within the indicator. No temporary borrowing has been necessary.

- **Operational Boundary for Borrowing (£6,356,000)**

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 trigger an investigation.

At £5.610m, the Boundary is well within the set indicator, as the Fire Authority has not yet borrowed any funds for its 2008/09 capital programme.

- **Capital Financing Requirement (£6,217,000)**

This is the amount required by the Authority to fund its capital investment, and the actual balance for the year will increase as funds are borrowed for the 2008/09 capital programme.

The Capital Financing Requirement is £5.347m. This is well within the limit as capital payments are largely forecast to occur later in the year.

- **Net Borrowing**

Currently, investments of £5.6m are equal to the Fire Authority's outstanding borrowing (£5.6m).

The Authority is also required to report its actual prudential indicators for 2007/08 which are set out below:-

a) Capital Expenditure

The actual capital expenditure for 2007/08 is £1,198,000.

	2006/07 Actual £000	2007/08 Budget £000	2007/08 Actual £000
Payments	1,340	1,050	1,198
Funding - Borrowing	1,094	730	846
- Grant	32	-	57
- Fund	16	320	250
- Revenue			45
- Leasing (financing)	76	-	48

Finance leasing totalling £48,000 has been included in assets, following a reclassification of operating leases.

b) Ratio of Financing Costs to Net Revenue Stream

The actual ratio of financing costs to net revenue stream is 0.5%.

	2006/07 Actual £000	2007/08 Budget £000	2007/08 Actual £000
	0.4	2.5	0.5

The outturn is lower than the estimate, because of the continued higher level of interest earned on revenue balances invested, which are netted off the financing costs, i.e. revenue provision for debt repayment plus interest charges. The actual ratio of gross financing costs to net revenue stream was 2.4%.

The impact of the capital investment decisions in the present capital programme were estimated at 0.5 pence, before taking into account the notional proportion of general grant said to support capital investment.

c) Capital Financing Requirement

The actual capital financing requirement as at 31 March 2008 is £5,155,000.

	2007/08 Budget £000	2007/08 Actual £000
	5,474	5,155

The capital financing requirement is well within the predicted level as a result of slippage of schemes into 2008/09, as previously reported.

d) Net Borrowing

Net borrowing at 31 March 2008 was £320,000, i.e. well within the guideline. Gross borrowing, i.e. before investments and cash, was £5,670,000; however this was offset by short-term lending of £5,350,000.

e) Actual External Debt

Actual external debt at 31 March 2008 was £5,610,000 plus other long-term liabilities at 31 March 2008 of £60,000 (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 £5,610,000 and the Authorised Limit of £5,155,000.

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.
- A limit of £1,000,000 was placed on borrowing for more than 364 days. During 2007/08, £1,000,000 was invested for a period over 364 days.
- At 31 March 2008, £3,510,000 was invested at fixed rates and £1,840,000 was invested at variable rates.

8 Balance Sheet Items

Cash and Investments

Cash flows into and out of the Authority's bank accounts are recorded by Finance officers, and are monitored by Finance, and by Treasury Services to assist the investments process.

Cash flow monitoring carried out in May projected a balance available for investment of £5.3m; the actual balance was £5.6m. This difference was due to the receipt of firefighter pension top up grant, and also payment of commutation to retiring firefighters.

Debtors

In terms of amounts owed to the Authority, a balance of around £52,000 remains outstanding, and only £4,500 of this remains unpaid after 90 days.

Each amount owed is actively chased, and balances that have become problematic are reviewed by the Treasurer and the Principal Accountant, to determine the most reasonable course of action, and referred to Legal Services at Telford & Wrekin Council, where this is appropriate.

9 Financial Implications

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

10 Legal Comment

There are no direct legal implications arising from this report.

11 Equality Impact Assessment

This report is purely an update on budget spend to date and so the recommendations within the report have no impact on people. Therefore an Initial Equality Impact Assessment has not been completed for this report.

12 Appendices

There are no appendices attached to this report.

13 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk), the implications are detailed within the report itself.

Balanced Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	*
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Efficiency Savings		Retained	
Environmental		Risk and Insurance	
Financial		Staff	
Fire Control/Fire Link		Strategic Planning	
Information Communications and Technology		West Midlands Regional Management Board	
Freedom of Information / Data Protection / Environmental Information		Equality Impact Assessment	*