

WEST YORKSHIRE FIRE AND RESCUE AUTHORITY	AUDIT COMMITTEE	13 JUNE 2008	ITEM No
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REPORT OF: CHIEF FINANCE OFFICER

PURPOSE OF REPORT: TO REPORT ON THE FINANCIAL OUTFURN FOR 2007/2008, TO PRESENT THE FORMAL STATEMENT OF ACCOUNTS FOR 2007/08, TO PRESENT THE ANNUAL REPORT FOR TREASURY MANAGEMENT FOR 2007/08 AND TO REPORT ON THE LEVEL OF MEMBERS' ALLOWANCES IN 2007/08

RECOMMENDATIONS:

It is recommended:-

- i) that the Revenue Outturn for 2007/2008 is noted;
- ii) that the Statement of Accounts for 2007/2008 be approved.
- iii) that the Treasury Management Report for 2007/2008 is noted; and
- iv) that the report on Members' Allowances for 2007/2008 is noted.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT DETAILS

EXEMPTION CATEGORY:

CONTACT OFFICER: G. Maren
Chief Finance Officer – 01274 655711
A. Wood
Finance Manager – 01274 655759

BACKGROUND PAPERS OPEN TO INSPECTION:

INTRODUCTION

The purpose of this report is to present a comprehensive review of the financial activity of the Authority for the financial year 2007/2008. The report is in five sections:

Section 1 – Revenue Expenditure

This section compares the actual expenditure for the year with the revenue budget and enables the Authority to measure financial performance. The report is in a similar format to the revenue monitoring reports presented to each meeting of the Finance and Best Value Committee and is in effect the last monitoring report of the year.

Section 2 - Capital Expenditure Outturn

This section reports on actual capital expenditure for the year, compares this performance with the approved Capital Plan, and describes the more significant variations.

Section 3 - Statement of Accounts

This section presents the Authority's formal Statement of Accounts for 2007/2008, including the Annual Governance Statement

Section 4 - Treasury Management Report

This section describes the treasury management activity of the Authority for the year. This identifies the borrowing and cash flow requirements, sets out the arrangements made and compares this with the Authority's Treasury Management strategy.

Section 5 – Members' Allowances Outturn

Finally, and for the purposes of convenience, the report includes details of the sums paid to individual members in respect of their various allowances. This is a statutory requirement under Regulation 26A of the Local Authorities (Member Allowances) Regulations 1991, as amended.

SECTION 1 - REVENUE EXPENDITURE

1. REVENUE EXPENDITURE OUTTURN

- 1.1. During the course of the financial year reports have been presented to each meeting the Finance and Best Value Committee monitoring expenditure against the approved revenue budget. The overall net expenditure of £84.854m represents an underspending of £1.4m (1.5%) against the approved budget.
- 1.2 An analysis of the revenue outturn shows that there have been significant underspending on employees coupled with a surplus on income generation which have been offset by overspendings on supplies and services and transport headings. A summary of the outturn is attached to this report.
- 1.3 Explanations of the major variations have been provided throughout the year and detailed below are brief explanations of the major areas of variation.

1.3.1 Uniformed staffing

The total underspending on uniformed staffing is £0.315m. This is a result of retirements exceeding those anticipated when the revenue budget was prepared.

1.3.2 Firefighters pensions

Actual expenditure on firefighter pensions totalled £1.113m which is an underspending of £0.546m against the approved budget. The principal reason for this is the fact that there was only one ill health retirement during the whole financial year. In addition it was identified during the year that transfer values of £50k paid to government last year were in fact due to the Authority and have now been reclaimed.

1.3.3 Transport costs

Increasing cost of fuel coupled with an overspending on public transport costs and car allowance has resulted in an overspending of £159k on transport costs.

1.3.4 Supplies and Services

The largest overspending is in the area of supplies and services which is showing an overspending of £274k. This has been caused by a number of factors:-

In the area of communications and information technology there has been on overspending of £76k on mobile telephone charges and a further £82k on the operation and maintenance of the network.

1.3.5 Income

Throughout the year we have been reporting the level of government grants and the revenue outturn has been in line with the forecast with additional income of £0.2m. However the biggest area of variation is in the area of other income where there has been a significant increase. Once again an increase in special service charges including lift rescues and flooding has generated income of £390k. In addition

income from secondment of officers to both Fire Service College and the Government Office has resulted in additional income of £200k.

1.2 ADJUSTMENT TO CAPITAL FINANCING CHARGES

At the April meeting of the Fire Authority a change to the method of calculating the amount that should be set aside to repay debt (minimum revenue provision) was approved for implementation as part of the 2007/2008 accounts. As part of the preparation for the implementation of this change Kirklees Council who deal with treasury management and capital financing on behalf of the Fire Authority have reviewed their calculation of the Minimum Revenue Provision. This has identified that the Authority has over provided for the repayment of debt by a total of £0.5m over the last 2 years. This has been revised as part of the closure of the 2007/2008 accounts resulting in an increase in revenue balances of £0.5m.

1.3 REVENUE BALANCES

Any variations between actual expenditure and the approved revenue budget will have an impact on the revenue balances of the Authority. When the revenue budget was prepared it was on the basis that £0.8m of the general balance would be required to support the revenue budget.

The impact of the actual revenue outturn coupled with the adjustment to capital financing charges is that the Authority's revenue balance will stand at £6.3m at 1 April 2008 of which £1.6m is required as the minimum revenue balance and a further £2.5m is committed as part of the current three year revenue budget strategy. Movement in the revenue balances can be seen in the statement on page 14 of the statement of accounts.

SECTION 2 - CAPITAL EXPENDITURE OUTTURN

2.1 Revised Capital Programme 2007/2008

In February 2007 the Authority approved a three year capital plan totalling £32.8m with expenditure of £9.528m programmed for 2007/2008. The nature of major capital schemes is that expenditure often slips between financial years and as a consequence the capital programme is revised throughout the financial year. The revised plan for the 2007/2008 financial year approved at the Finance and Resources Committee in March 2008 is £12.912m

2.2 Capital Outturn 2007/2008

The actual capital outturn for 2007/2008 was £6.823m equating to just over 53% of the approved capital plan. Whilst this level of delivery is disappointing in comparison of the overall plan it is in large a result of problems encountered by the Authority in acquiring land to enable it to progress with the fire cover review in North Wakefield. Details of the major variations from the plan along with details of the major areas of expenditure are detailed below. A summary of the outturn is attached to this report

2.2.1 Information Technology

There was total expenditure on IT schemes of £0.654m representing 59% of the revised capital plan. The majority of the underspending relates to schemes for the purchase of information systems. The majority of the expenditure incurred was on the purchase and upgrade of computer equipment along with the purchase of software licences.

2.2.2 Operations Equipment

There was total expenditure on operations schemes of £0.450m representing 80% of the revised capital plan. The majority of the expenditure has been on a number of small schemes with a value below £50,000. The exception to this being expenditure of £0.259m on the replacement and refurbishment of fire hydrants.

2.2.3 Property

This is by far the largest section of the capital plan accounting for over 60% of total capital expenditure. Expenditure on property schemes totalled £2.67m representing 38% of the revised capital plan. Included within the plan were three major schemes Fire Place Development, IRMP land purchase and FSHQ additional site entrance which together totalled £2.6m. Owing to delays caused by land purchase and planning processes only £0.2m has been spent against these schemes, it is however anticipated that there will be significant progress on all three schemes in 2008/2009.

2.2.4 Human Resources

There was total expenditure on Human Resources schemes of £0.220m representing 30% of the revised capital plan.

2.2.5 Fire Safety

There was total expenditure on Fire Safety and Community Relations schemes of £1.141m representing 79% of the revised capital plan. The major item of expenditure is the cost of purchasing and installing smoke alarms at a cost of £0.964m. The other significant scheme was the investment of over £68k on equipment and adaptations for the young firefighters scheme.

2.3 Capital Financing

Of the total capital spend of £6.82m a total of £5.689m was funded by borrowing of which £4.2m was supported borrowing. The remainder was funded £0.556m through capital grants and £0.576 capital receipts.

SECTION 3 – STATEMENT OF ACCOUNTS

- 3.1 The formal Statement of Accounts for 2007/08 is attached at Appendix 3.
- 3.2 The preparation, format and approval procedures for the Statement of Accounts have been carried out in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom, (the Code of Practice) published by Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts for 2007/08 require member approval before the end of June 2007.
- 3.3 Over the last few years, the Statement of Recommended Practice (SORP) has been changing local authority accounting to align it more closely with private sector accounting practice. The major changes being the introduction of depreciation in 1994/95 and the change in pension accounting introduced in 2003/2004.
- 3.4 The SORP for 2007/08 introduces a number of technical changes principally in the presentation of the balance sheet. A brief explanation of the key financial statements are provided below.

3.5 The Income and Expenditure Account reports (page 20)

This reports the Authority's net cost of providing its services for the year and demonstrates how that cost has been financed from government grants and income from local taxpayers. This is prepared in line with UK GAAP (Generally Accepted Accounting Principles) which means that it must show the full pension liability including the value of future benefits which total £50m. As a consequence this shows a deficit of £49m

3.6 The Statement of Movement on the General Fund Balance (pages 21-22)

This Statement then adjusts the surplus/deficit on the Income and Expenditure Account to bring expenditure in line with statutory provisions required when raising Council Tax. The primary adjustments are:

- Adjustment of the pension costs to show the amounts payable in the year, rather than as future benefits are earned.
- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed (depreciation).

The net balance on the statement shows a closing revenue balance of £6.3m

3.7 Consolidated Balance Sheet (page 24)

This Statement shows the financial position of the Authority at 31 March 2008 and summarises its assets, liabilities and fund balances at that date. The Authority's net worth is a negative position due to the way the Authority has to account for its pension liabilities. However, statutory arrangements for funding pensions' deficits mean that the Authority's financial position remains healthy:

- the deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

- finance is only required to be raised to cover Fire-fighters' pensions when the pensions are actually paid.

3.8 Cash Flow Statement (pages 25-26)

This Statement summarises all the inflows and outflows of cash arising from the transactions with employees and outside bodies.

SECTION 4 – TREASURY MANAGEMENT REPORT 2007/2008

4.1 Background

The Authority has adopted the CIPFA Code of Practice on Treasury Management and operates its treasury management activities in compliance with this Code and various statutory requirements. These require that the prime objective of the activity is the effective management of risk, and that its borrowing is undertaken on a prudent, affordable and sustainable basis.

Financial Procedure Rules require that the Authority receives an annual report on treasury management activities for the previous financial year. The report reviews borrowing and investment performance, prudential indicators, and risk and compliance issues. In reviewing 2007/08, reference will be made to the treasury management strategy and investment reports that were approved by the Authority on 16 February 2007.

4.2 Borrowing *Strategy*

The Authority's strategy for 2007/08 was formed against a background of a tightening of monetary policy following buoyant economic activity in 2006/07. There were fears that the Bank of England would maintain a cautious policy approach to interest rates in 2007/08 because of continued risks of a revival in inflation pressures. Maintaining higher interest rates would be expected to lead to a deceleration in economic activity and a reduction in inflationary pressure. It was hoped that success in this approach would leave scope for modest reductions in short term rates and eventually longer term rates as well. Our treasury management advisors suggested that short term rates would average around 5.25% and longer term rates might provide opportunities to borrow at 4.5% or less.

Against this background, the approved strategy was to take a pragmatic approach to how capital expenditure might be financed. The Chief Finance Officer, under delegated powers, would take the most appropriate form of borrowing depending on the prevailing interest rates at the time. If rates performed as forecast then new borrowing would be kept to shorter periods at variable rates. However, if opportunities arose to obtain long-term loans at levels below 4.5% then these would be considered. This could include borrowing in advance of need.

In addition, the Chief Finance Officer would also look for opportunities to restructure the Authority's debt portfolio either to make savings, enhance the maturity profile and/or the balance of volatility.

4.3 Performance

The short-term interest rate predictions proved somewhat optimistic. Base Rate averaged 5.56% for the year, opening at 5.25%, rising 0.25% in both May and July and then falling back to 5.25% by the end of the year. This reflected increasing fears over inflation earlier in the year and possible recession later in the year. In addition, the 'credit crunch' caused nervousness amongst investors leading to liquidity problems in the market. This caused short term money market interest rates to rise to levels well above the Base Rate.

Longer term rates rose to around 5% earlier in the year but as fears of recession both at home and abroad have increased, rates have fallen steadily and have provided some good borrowing opportunities at rates below 4.5%. The table below summarises interest rate movements:

Table 1. Interest Rate Movements 2007/08

		Base Rate	PWLB (Maturity loans)		
			5-yr	25-30yr	45-50yr
2007	April	5.25	5.40	4.65	4.45
	July	5.50	5.85	5.10	4.80
	October	5.75	5.15	4.80	4.70
	January	5.50	4.58	4.45	4.42
2008	April	5.25	4.14	4.55	4.43

Because of the relative attractiveness of long-term rates, the Authority took £7.5 million of new long-term loans during the year in order to finance the capital programme and replace short-term borrowing:

Table 2. New Long Term Loans 2007/08

Date	Amount £000s	Interest Rate	Type	Period (years)
03/07/07	1,000	4.85%	Maturity	40.5
02/08/07	1,500	4.55%	Maturity	50.0
23/08/07	500	4.45%	Maturity	46.0
23/08/07	500	4.45%	Maturity	47.0
23/11/07	500	4.50%	Maturity	45.0
23/11/07	500	4.50%	Maturity	49.5
10/01/08	1,000	4.42%	Maturity	38.5
10/01/08	1,000	4.42%	Maturity	43.5
08/02/08	250	4.31%	Maturity	3.0
08/02/08	250	4.33%	Maturity	3.5
07/03/08	500	4.30%	Maturity	5.0

The risk of interest rate volatility was mitigated by spreading the taking of new loans throughout the year. The average rate of interest on new loans taken from the PWLB – 4.50% - was less than the average rates offered by the PWLB for the year – 4.60% (45 – 50 years) to 4.74% (25-30 years).

The Authority has one LOBO, £2 million taken out in 2006/07 which accounts for 5.3% of total long-term debt as at 31 March 2008. It is a requirement of the Authority's Treasury Management Strategy that LOBOs should not exceed 10% of long-term debt because of the uncertainty attached to these loans

The Authority also took advantage of an opportunity to restructure its loan portfolio, replacing 5 existing loans totalling £2.46m million with longer term loans at lower rates. Total savings are dependent on future interest rate movements but could total £123k over the next 26 years.

Long-term loans at the year end, including those with less than one year to mature, totalled £37.8 million, of which £35.8 million were with the PWLB (fixed rate of interest) and £2 million were with Dexia Credit Local (LOBO). Long-term interest payments totalled £1.584 million. The average interest rate on long term borrowing in 2007-08 is calculated to be 4.70%, compared with 4.98% in 2006-07. The maturity profile (Appendix 1) is such that no more than 6% of fixed rate debt (with the exception of 2011/12 when the initial fixed period of the LOBO expires) is due to be repaid in any one year. This is good practice as it reduces the Authority's exposure to a substantial borrowing requirement in future years when interest rates might be at a relatively high level.

There were no short-term loans outstanding at the year-end, but there had been an average balance during the year of £1.9 million. Total interest payments were £0.107 million. The Authority's temporary borrowing performance was monitored and measured throughout the year against a 7 day LIBOR (London Interbank Offered Rate). The weighted average LIBOR rate for 2007/08 was 5.70% compared to an average borrowing rate for the Authority of 5.67%.

4.4 Investments *Strategy*

The Authority's investment strategy gave priority to security and liquidity. It was agreed that, in the interests of safeguarding the Authority's position on future expenditure, revenue balances of a permanent nature be invested. These balances were considered to be around £5 million.

4.5 *Performance*

Short-term investments at the end of the year totalled £1.6 million all of which was held in bank deposit accounts, with an average balance during the year of £5.4 million. Total interest received was £0.315 million. The Authority's investment performance was monitored and measured throughout the year against the 7 day LIBID rate. The weighted average LIBID rate for 2007/08 was 5.65% compared to an average investment rate of 5.76% for the Authority.

4.6 Prudential Indicators

The Authority is required by the Prudential Code to report to members the "actual" prudential indicators for the year. Appendix 2 provides a schedule of all the mandatory indicators.

4.7 Risk and Compliance Issues

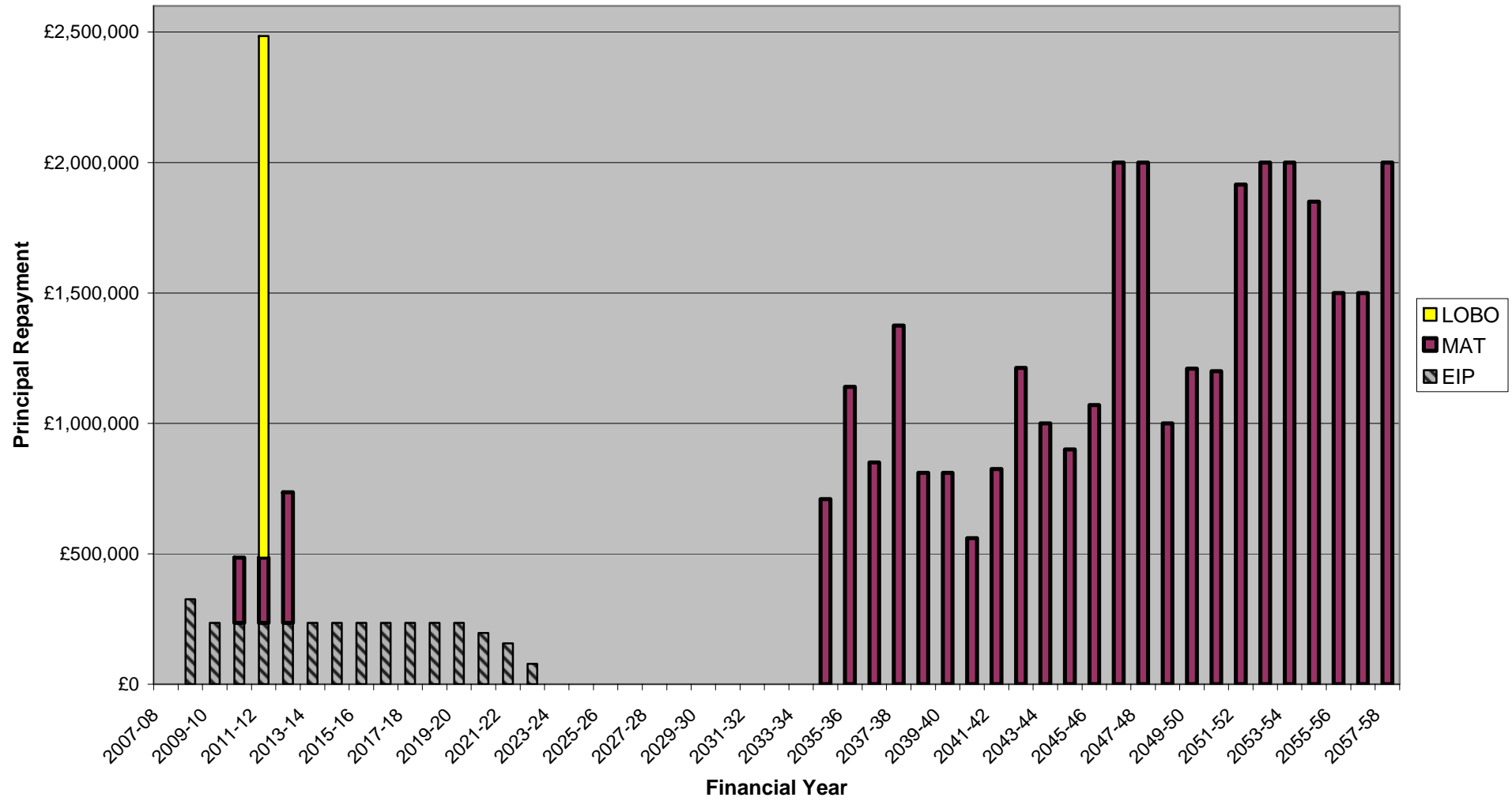
The Authority has complied with all of the relevant statutory, regulatory and internal requirements which limit the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the CIPFA Code of Practice on Treasury Management means that both its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

Kirklees Council manages the treasury management function on behalf of the Authority. Their officers are fully aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants, have proactively managed the debt and investments over the year. The Authority has continued to utilise low borrowing costs and there is little risk of volatility of cost as interest rates of debt in the portfolio are predominantly fixed.

SECTION 5 – MEMBERS' ALLOWANCES OUTTURN

- 5.1 Under Regulation 26A of the Local Authorities (Member Allowances) Regulations 1991, as amended, the Authority is required to publish details of all sums paid within the year under the scheme to each individual member in respect of Basic allowance, Special Responsibility allowance. This information is provided in Appendix 6 to this report.

Appendix 1 - WYFRA Long-Term Debt Maturity Structure



PRUDENTIAL INDICATORS ACTUALS 2007/08

Capital Expenditure, Capital Financing Requirement and External Debt

The table below draws together the main strategy elements of the capital plans, highlighting the supported and unsupported elements of the capital programme, and the financing arrangements for this capital expenditure. The table also shows the Capital Financing Requirement (CFR), which is the Authority's underlying external indebtedness for a capital purpose, compared to the expected borrowing position.

	2006/07	2007/08	
	Actual £000s	Estimate £000s	Actual £000s
Capital Expenditure	9,588	9,528	6,823
Less estimated over-programming		28	
		9,500	
Financed by -			
Supported Borrowing	4,166	4,166	4,166
Unsupported Borrowing	4,331	4,834	1,524
Capital Receipts	813	500	565
Capital Grants	278	0	568
CFR as at 31 March	37,032	43,216	41,358
External debt as at 31 March			
Borrowing	32,637	42,684	37,784
Other LT Liabilities	617	532	528
Total Debt	33,254	43,216	38,312

The difference between the CFR and external borrowing reflects the amount of internal balances that are being "borrowed" to finance capital indebtedness. A higher CFR reflects higher capital expenditure than expected after allowing for over-programming.

Limits to Borrowing Activity

The first key control over the Authority's borrowing activity is a Prudential Indicator to ensure that over the medium term, net borrowing will only be for a capital purpose. Net external borrowing should not, except in the short-term, exceed the total CFR for 2007/08 plus the expected changes to the CFR over the next two financial years. This allows some flexibility for limited early borrowing for future years. As can be seen from the table above, the Authority comfortably complied with this requirement in 2007/08.

A further two Prudential Indicators control overall levels of borrowing. These are the Authorised Limit and the Operational Boundary. The Authorised Limit represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary above this boundary for short times during this year.

	2006/07 Actual (max) £m	2007/08	
		Estimate £m	Actual (max) £m
<u>Authorised limit for external debt</u>			
Borrowing	35.3	45.4	36.8
Other Long Term Liabilities	0.6	0.6	0.6
Total	35.9	46.0	37.4
<u>Operational boundary for external debt</u>			
Borrowing	35.3	39.4	36.8
Other Long Term Liabilities	0.6	0.6	0.6
Total	35.9	40.0	37.4

The Authority was well within its Authorised Limit and operated below the Operational Boundary during the year

Affordability Prudential Indicators

Ratio of financing costs to net revenue stream and impact of capital investment decisions on the Precept

These indicators identify the cost of capital (borrowing costs net of investment income) against the net revenue stream, and the impact of the capital programme compared to the Authority's original budget commitments. The net revenue stream is defined as the amount to be met from government grants, local taxpayers and balances.

	2006/07 Actual	2007/08	
		Estimate	Actual
<u>Ratio of financing costs to net revenue stream</u>	5.16%	4.84%	4.66%
<u>Incremental impact of capital investment decisions</u>	£0.18	£0.12	£0.07

The impact of the capital investment is net of government support for borrowing.

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2006-09	Actual 2007-08
Interest at fixed rates as a percentage of net interest payments	60% - 100%	97%
Interest at variable rates as a percentage of net interest payments	0% - 40%	3%

The estimated interest payments were within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2007-08	Actual Levels 2006-07
Under 12 months	0% -20%	1%
12 months to 2 years	0% -20%	1%
2 years to 5 years	0% - 50%	7%-10%
5 years to 10 years	0% - 80%	3%-4%
More than 10 years	20% - 100%	85%-88%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

This indicator was set at zero as there was no intention to hold investments for treasury management purposes with maturity dates in excess of a year. There was no change to this position.

West Yorkshire Fire and rescue Authority
Members Allowances Outturn 2007/2008

		Basic Allowance	Special Responsibility Allowance	Travel and Subsistence	Total
S	Armitage	£3,320.04		£113.82	£3,433.86
D	Atkinson	£3,320.04	£1,156.70	£366.00	£4,842.74
G	Beever	£3,320.04	£11,421.85	£1,661.65	£16,403.54
V	Binney	£2,739.99	£2,747.25	£172.96	£5,660.20
P	Booth	£3,320.04	£16,051.20	£1,602.44	£20,973.68
T	Brice	£553.34		£22.32	£575.66
J	Cole	£3,320.04	£692.05		£4,012.09
M	Coulson	£3,320.04	£2,806.83	£711.76	£6,838.63
R	Finnigan	£553.34			£553.34
E	Firth	£1,021.59		£17.86	£1,039.45
J	Godward	£3,320.04		£95.38	£3,415.42
S	Hanson	£830.01	£228.99	£22.32	£1,081.32
T	Hardwick	£2,855.95		£31.82	£2,887.77
M	Harkin	£1,789.13			£1,789.13
PM	Harrand	£3,320.04		£282.00	£3,602.04
A	McKenna	£3,320.04		£129.47	£3,449.51
D	Hollingsworth	£3,320.04		£383.70	£3,703.74
N	Ikram	£2,847.02		£30.13	£2,877.15
M	Jamil	£3,320.04	£226.45	£102.65	£3,649.14
L	Joyce	£330.22		£16.74	£346.96
M	Khan	£3,270.04	£3,445.17	£512.68	£7,227.89
G	Kirkland	£3,320.04	£3,663.02	£213.87	£7,196.93
RC	Light	£3,320.04	£1,388.04	£93.46	£4,801.54
A	Ogilvie	£2,545.36			£2,545.36
B	Smith	£3,320.04		£200.60	£3,520.64
R	Taylor	£3,320.04	£689.51	£89.28	£4,098.83
AR	Wallis	£553.34			£553.34
G	Wilkinson	£3,320.04		£555.79	£3,875.83
		£73,009.97	£44,517.06	£7,428.70	£124,955.73