WYFRA	FINANCE AND RESOURCES COMMITTEE	30 NOVEMBER 2012	ITEM NO 5

REPORT OF: CHIEF FINANCE OFFICER

PURPOSE OF REPORT: TO PRESENT A QUARTERLY OVERVIEW OF THE FINANCIAL POSITION OF THE AUTHORITY.

RECOMMENDATIONS:

(A) THAT MEMBERS NOTE THE CONTENT OF THE REPORT

(B) APPROVE THE REVISED REVENUE BUDGET

(C) APPROVE THE REVISED CAPITAL PLAN

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT DETAILS

EXEMPTION CATEGORY: NONE

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BACKGROUND PAPERS OPEN TO INSPECTION:

SUMMARY

The purpose of this report is to present an overview of the financial performance of the authority of the third quarter of the current financial year. The report is split into four sections dealing with revenue expenditure, capital expenditure, treasury management and debtors and creditors.

SECTION 1 REVENUE EXPENDITURE MONITORING

1. INTRODUCTION

Expenditure is monitored throughout the year against the approved revenue budget with reports being considered by each meeting of the Management Board and each meeting of the Finance and Resources Committee. The purpose of the report is to monitor progress against the approved revenue budget; provide an early forecast outturn for the financial year; provide an explanation of any major variations, and to show the impact of any variations on the revenue balances of the Authority.

This is the third report of the financial year and is based on expenditure for the first eight months of the year. Forecasts are based on previous year's expenditure patterns; as the year progresses changes to the forecast will emerge.

2. REVENUE BUDGET REVISION

When the revenue budget is approved an amount is included in contingencies for pay and price increases. During the course of the financial year the budget is revised to take account of allocations from this fund.

Fire-fighters pay award

The fire-fighters have been awarded a 1% pay increase with effect from 1 June 2012 an amount of £450,000 has been allocated from the contingency fund.

3. EXPENDITURE MONITORING

Members will be aware that this year represents the second year of the spending review with the Authority suffering a significant loss in revenue support grant and is anticipating further significant reductions in the next two years. The main strategy for delivering the required savings is the control of salaries expenditure through non recruitment and the control of overtime which is reflected in the early expenditure forecast.

The latest forecast indicates there will be an overall under spending of £1.47m in the current financial year. An analysis of the forecast spend is shown in appendix 1 with an explanation of the major variations provided below.

	FORECAST £000	**APPROVED BUDGET £000**	**VARIANCE £000**
Wholetime firefighters	56,259	57,379	-£1,120
Retained fire fighters	1,815	2,073	-£258
Support staff	10,150	9,693	+£457
Transport costs	2,214	2,364	-£150
Capital financing	7,081	7,207	-£126

3.1 Wholetime Fire fighters -£1.12m

There has been an increase in the projected under-spending as a result of two factors. Firstly the Authority has lost an additional 12 fire-fighters above the normal retirement profile. This will deliver ongoing revenue savings of £0.6m which will be incorporated in the medium term financial plan. Secondly expenditure on overtime remains significantly below the budget provision. Whilst a proportion of this may be used as long term savings it will be necessary to retain a significant proportion as the Authority continues to make changes to service delivery including the increasing use of resilience pumps.

3.2 Retained Fire fighters -£258,000

We are currently forecasting a significant under spending on retained pay which is a result of lower than budgeted activity in the first part of the year. As the majority of the expenditure is activity driven it is likely that this forecast will change as the year progresses.

3.3 Support staff +£457,000

As previously reported to the committee this overspending is the cost of early retirement and voluntary severance of staff as part of the fundamental review which was implemented in October. These costs are offset by the part year salary savings in the current financial year. Once fully implemented the fundamental review will deliver ongoing revenue savings of £2.5m which form part of the savings included in the medium term financial plan.

3.4 Transport Costs -£150,000

This is a combination of under spending on Vehicle leasing costs, spare parts and public transport.

3.5 Capital Financing Charges -£126,000

The report on the ‘ Treasury Management 6 Monthly Review’ which is also on the agenda explains that a combination of low interest rates, the impact of the pension grant and lower than anticipated capital payments in the early part of the financial year will result in savings in interest costs of £126,000 in the current financial year.

4. IMPACT ON REVENUE BALANCES

Description	General Reserve
Balance at 1 April 2012	£8.414 m
Impact of forecast	+£1.470m
Forecast balance at 31/3/2013	£9.884m

SECTION 2 CAPITAL EXPENDITURE MONITORING

INTRODUCTION

At its meeting on 16 February 2012, the Authority approved a three year capital programme of £28.46m which included schemes to the value of £11.586m for the current financial year.

1 SCHEMES SLIPPED BETWEEN FINANCIAL YEARS AND CAPITAL VIREMENT

The nature of major capital schemes means that expenditure often straddles a number of financial years, particularly the case in major building schemes and the development of major information systems. As part of the expenditure monitoring process, schemes totalling £1.93m which were not completed in 2011/2012, have been added to the 2012/2013 capital plan increasing it to £13.495m. This plan has now been further revised to take account of schemes that will not now be completed in year reducing the total cost of the capital plan to £12.399m.

At the Authority AGM in 2010 the Management Board was given delegated power to approve individual virement between capital schemes of up to £100,000. Details of any approvals will be reported to committee throughout the year as part of this report.

In addition to the original approved capital plan the Authority has received a capital grant of £3.6m for the joint procurement of a replacement control system with South Yorkshire FRA. The Executive Committee has given approval for inclusion of this scheme within the financial plan and reports on progress will be included within this report at all future meetings.

2 CAPITAL PAYMENTS 2012/2013

The actual capital payments to date total £3.553m with details of expenditure on individual schemes provided in Appendix 3. There is a separate paper on this agenda dealing with the progress on the purchase of the sites for the construction of the new fire stations approved in December 2011.

3 APPROVALS UNDER FINANCIAL PROCEDURE 3.11

Under financial procedures 3.11 the Management Board can approve expenditure on schemes in the approved capital plan up to an amount of £100,000. This approval is subject to approvals being reported to the Finance and Resources Committee. There have been no approvals since the last meeting.

SECTION 3 TREASURY MANAGEMENT

TREASURY MANAGEMENT

This is the subject of a separate report also on this agenda.

SECTION 4 JOINT CONTROL PROJECT.

The Authority has received a grant of £3.6m to fund the procurement of a replacement control centre for South and West Yorkshire Fire Authorities. Whilst separate governance arrangements for the joint control of the project have been agreed, it is appropriate to report on progress to each meeting of the Finance and Resources Committee. Future reports will provide details of progress on the scheme along with detailed monitoring of capital expenditure. The Authority's Executive Committee provided scheme approval on 30 May 2012, however as there has not yet been any expenditure incurred

To date approval has been given by the project board for expenditure totalling £1.016m although to date only £1,031 has been spent. The table below summarises approvals, commitments and expenditure.

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	Approvals				
TYPE OF EXPENDITURE	**West Yorkshire**	**South Yorkshire**	**Total**	**Commitments**	**Payments**
San H radio	£156,139	£156,139	£312,278	£312,278	
Uninterupted power supply		£80,000	£80,000		
IT PSN compliance		£14,000	£14,000		
IT PSN compliance	£29,899		£29,899		
Server room	£312,000		£312,000		
Mobile data terminals		£148,500	£148,500	£148,500	
Ground based network	£66,072	£53,403	£119,475		
Legal fees					£1,031
	£564,110	**£452,042**	**£1,016,152**	**£460,778**	**£1,031**

SECTION 5 DEBTORS AND CREDITORS

The final section of the report deals with the payment of creditors and collection of income from debtors.

1. Payment of Invoices

The prompt payment of invoices is set down in Best Value legislation and as such the Authority is measured on the payment of invoices by a performance indicator. The Authority is required to pay all undisputed invoices within 30 days of receipt, if not suppliers are within their rights to charge the Authority interest on outstanding bills.

The target for the prompt payment of invoices set by central government for 2012/13 is 100%. In the last month 98.4% were paid within 30 days with a total 97.73% of invoices have been paid within 30 days this year to date.

2. Outstanding Debt

The Authority receives income for services provided, these include special services, training courses, fire safety certificates, licences for telecom masts on premises. In most cases because of the type of service provided it is not possible to raise a charge in advance of the service and as a consequence debtor accounts are raised.

The level of outstanding debt owed to the Authority to the 31 October 2012 is £220,102 this can be profiled as follows:

Less than 60 days -	£ 199,621
Greater than 60 days -	£ 20,481

The procedure for issuing accounts and debt collection is provided by Kirklees Council under a Service Level Agreement. A summary of the procedure for collecting outstanding debt is detailed below:

21 days	first reminder letter
28 days	second reminder letter
35 days	instigation of debt recovery system

As detailed above, there is currently £20.481 of debt which is at the recovery stage.

APPENDIX 1

2012/2013 REVENUE EXPENDITURE MONITORING
NOVEMBER 2012

EXPENDITURE	PAYMENTS TO DATE £000	EXPEND FORECAST £000	APPROVED BUDGET £000	VIREMENT	REVISED BUDGET £000	FORECAST VARIANCE £000
Wholtime firefighters	£35,958	£56,259	£56,957	£422	£57,379	-£1,120
Retained firefighters	£1,060	£1,815	£2,058	£15	£2,073	-£258
Firefighters pensions	£665	£1,482	£1,482		£1,482	£0
Brigade control	£1,167	£1,814	£1,821	£13	£1,834	-£20
Support staff	£5,630	£10,150	£9,693		£9,693	£457
Other employee expenses	£236	£581	£667		£667	-£86
Premises expenses	£1,921	£2,931	£2,920		£2,920	£11
Transport costs	£1,385	£2,214	£2,364		£2,364	-£150
Supplies and services	£3,003	£4,218	£4,326		£4,326	-£108
Insurance	£743	£743	£743		£743	£0
Lead authority charges		£288	£288		£288	£0
Capital financing charges		£7,081	£7,207		£7,207	-£126
Provision for pay & prices		£996	£1,446	-£450	£996	£0
Total Expenditure		£90,572	£91,972	£0	£91,972	-£1,400
Grants	£869	£1,404	£1,343	£0	£1,343	£61
Other Income	£990	£1,322	£1,313	£0	£1,313	£9
Total Income		£2,726	£2,656	£0	£2,656	£70
Net expenditure		£87,846	£89,316	£0	£89,316	-£1,470

APPENDIX 2

Management Board Approvals under financial procedures 3.11

Description	Amount

APPENDIX 3

CAPITAL BUDGET MONITORING 2012/13 SUMMARY					
Directorate	**Original Capital Plan**	**Virement/ Slippage**	**Revised Capital Plan**	**Expenditure 2012/13**	**Balance Uncommitted**
Property services	£685,000	£133,000	£818,000	£291,221	£526,779
IRMP	£5,175,000	£527,700	£5,702,700	£940,488	£4,762,212
Information technology	£725,000	£0	£725,000	£203,839	£521,161
Transport	£958,000	-£17,700	£940,300	£795,798	£144,502
Operations	£3,433,000	£80,200	£3,513,200	£1,030,501	£2,482,699
Fire Safety & Community Relations	£700,000	£0	£700,000	£290,784	£409,216
	£11,676,000	£723,200	£12,399,200	£3,552,631	£8,846,569

CAPITAL BUDGET MONITORING 2012/13
CORPORATE RESOURCES
PROPERTY

Details of Scheme	Original Capital Plan	Virement/ Slippage	Revised Capital Plan	TOTAL EXPT	Balance Uncommitted
Oakroyd Hall					
Phased major refurbishment - conference room	£50,000	-£50,000	£0	£0	£0
Training Centre					
Asbestos removal and major environmental improvements	£50,000	-£35,000	£15,000	£670	£14,330
MPTC - replacement of electrical and emergency back up safety systems and fabric repairs	£80,000		£80,000	£4,452	£75,548
Replacement of roof to old gym building	£60,000		£60,000	£0	£60,000
Training Centre and main block - external refurbsihment	£0	£27,000	£27,000	£3,878	£23,122
Fire Stations					
Moortown - installation of a diesel tank drainage interceptor and refuelling pad	£30,000		£30,000	£8,300	£21,700
Slaithwaite - replacement roof & internal refurbishment	£25,000		£25,000	£0	£25,000
Fairweather Green - replacement of heating system & internal fabric upgrade	£85,000		£85,000	£5,133	£79,868
General Strategic Refurbishments					
Phased strategic refurbishment of vehicle pits	£15,000		£15,000	£6,900	£8,100
Health & Safety improvemments	£40,000		£40,000	£10,333	£29,667
Electrical, heating and other services equipement replacement	£50,000		£50,000	£18,492	£31,508
Lightening and power surge protection	£30,000		£30,000	£0	£30,000
Asbestos management & removal	£20,000		£20,000	£21,320	-£1,320
DDA access improvements	£10,000		£10,000	£0	£10,000
Internal fabric refurbishment	£30,000		£30,000	£13,937	£16,063
Upgrading of appliance bay doors	£10,000		£10,000	£0	£10,000
External fabric refurbishments	£20,000		£20,000	£5,363	£14,637
Tarmac and surface to drill ground replacement	£30,000		£30,000	£22,651	£7,349
Kitchen refurbishments	£10,000		£10,000	£0	£10,000
Access control & security improvements	£40,000		£40,000	£10,589	£29,411
TOTAL CAPITAL PLAN 2012/13	£685,000	-£58,000	£627,000	£132,017	£494,983
Refurbishment Programme					
FSHQ Whitehall Road Access		£4,000	£4,000	£2,510	£1,490
Breathing Apparatus building extension for kit storage, change & shower facilities		£41,000	£41,000	£39,920	£1,080
Strategic Corporate development		£9,000	£9,000	£9,000	£0
Strategic Major Refurb Rothwell & Brighouse Fire Stations		£8,000	£8,000	£8,000	£0
Phased programme Ablution Refurb inc FWG		£4,000	£4,000	£2,880	£1,120
Hunslet Refurbishment		£16,000	£16,000	£11,996	£4,004
Oakroyd Hall Major refurbishment		£12,000	£12,000	£0	£12,000
Emergency electrical back up power supply systems		£14,000	£14,000	£9,844	£4,156
Illingworth Environmental improvement & DDA		£2,000	£2,000	£1,000	£1,000
Phased programme of washing & welfare refurbishments - Odsal & Cleckheaton		£9,000	£9,000	£6,054	£2,946
Upgrading of defective heating systems - Moortown, FWG, Bingley & Odsal		£5,000	£5,000	£5,000	£0
Replacement of tarmac & surfaces		£2,000	£2,000	£2,000	£0
Health & Safety Improvements		£14,000	£14,000	£14,000	£0
Improvements to electrical, heating, legionella prevention, appliance bay battery chargers		£23,000	£23,000	£23,000	£0
Training facility & training tower refurbishments		£14,000	£14,000	£14,000	£0
DDA access improvements (lift retention)		£4,000	£4,000	£0	£4,000
Security System Installations		£10,000	£10,000	£10,000	£0
TOTAL SLIPPAGE		£187,000	£187,000	£159,204	£30,306
TOTAL CAPITAL INCLUDING SLIPPED SCHEMES	**£685,000**	**£133,000**	**£818,000**	**£291,221**	**£525,289**

CAPITAL BUDGET MONITORING 2012/13

IRMP

Details of Scheme	Original Capital Plan	Virement/ Slippage	Revised Capital Plan	TOTAL EXPT	Budget Remaining
LAND PURCHASE					
South Kirkby	£200,000		£200,000	£18,884	£181,116
Rastrick	£500,000		£500,000	£28,289	£471,711
Menston	£600,000		£600,000	£0	£600,000
Killingbeck	£800,000		£800,000	£0	£800,000
Batley Carr	£800,000		£800,000	£0	£800,000
CLOSE CALL					
Rothwell close call land	£80,000		£80,000	£1,340	£78,660
Rothwell close call block	£350,000		£350,000	£0	£350,000
Castleford Refurbishment	£600,000		£600,000	£34,954	£565,046
Castleford close call	£350,000		£350,000	£286,150	£63,850
VEHICLES					
Fire Response Unit	£0	£54,200	£54,200	£41,157	£13,043
Small Van Replacement	£55,000		£55,000	£32,374	£22,626
Bradford CARP	£0	£274,500	£274,500	£151,945	£122,555
Huddersfield CARP	£640,000	-£100,000	£540,000	£115,023	£424,977
SLIPPED SCHEMES					
Pontefract Firestation New Build		£260,000	£260,000	£129,902	£130,098
Normanton Fire Station New Build	£200,000	£29,000	£229,000	£92,397	£136,603
Normanton close call house	£0	£10,000	£10,000	£8,073	£1,927
TOTAL CAPITAL PLAN 2011/12	£5,175,000	£527,700	£5,702,700	£940,488	£4,762,212

OPERATIONS

Details of Scheme	Original Capital Plan	Virement/ Slippage	Revised Capital Plan	TOTAL EXPT	Balance Uncommitted
High pressure air mats	£70,000		£70,000	£71,610	-£1,610
BA Equipment	£940,000		£940,000	£0	£940,000
Lay flat hose	£100,000	-£20,000	£80,000	£0	£80,000
PPV fans	£26,000		£26,000	£0	£26,000
Line rescue equipment	£25,000		£25,000	£10,319	£14,681
Ultra lightweight portable pumps	£12,000		£12,000	-£1,521	£13,521
Water rescue equipment	£15,000	£8,700	£23,700	£11,134	£12,566
PPE	£900,000		£900,000	£774,522	£125,478
Hydrants	£450,000		£450,000	£80,501	£369,499
Ladder replacements	£45,000		£45,000	£51,069	-£6,069
Command Units ICT Provision and Upgrade	£0	£91,500	£91,500	£15,200	£76,300
Replacement control project - Premises	£550,000		£550,000	£16,637	£533,363
Replacement control project - Contingency	£300,000		£300,000	£1,031	£298,970
REVISED CAPITAL PLAN 2012/2013	£3,433,000	£80,200	£3,513,200	£1,030,501	£2,482,699

FIRE SAFETY

Details of Scheme	Original Capital Plan	Virement/ Slippage	Revised Capital Plan	TOTAL EXPT	Balance Uncommitted
Home Fire Safety Checks	£700,000	£0	£700,000	£290,784	£409,216
REVISED CAPITAL PLAN 2012/2013	**£700,000**	**£0**	**£700,000**	**£290,784**	**£409,216**

CAPITAL BUDGET MONITORING 2012/13
CORPORATE RESOURCES
IT

Details of Scheme	Original Capital Plan	Virement/ Slippage	Revised Capital Plan	TOTAL EXPT	Balance Uncommitted
Computer hardware	£80,000		£80,000	£4,477	£75,523
Human resources data base upgrade	£50,000		£50,000	£12,866	£37,134
Software licences	£250,000		£250,000	£131,978	£118,022
Wireless networks	£20,000		£20,000	£0	£20,000
Replacement servers	£90,000		£90,000	£8,282	£81,718
Networking hardware	£50,000		£50,000	£36,875	£13,125
Business continuity	£50,000		£50,000	£0	£50,000
Mobile computing	£40,000		£40,000	£9,361	£30,639
Technicians tools	£15,000		£15,000	£0	£15,000
Computer hardware - secure internet	£80,000		£80,000	£0	£80,000
REVISED CAPITAL PLAN 2012/2013	£725,000	£0	£725,000	£203,839	£521,161

CORPORATE RESOURCES
TRANSPORT

Details of Scheme	Original Capital Plan	Virement/ Slippage	Revised Capital Plan	TOTAL EXPT	Balance Uncommitted
Vehicle replacement (Appliances * 5)	£938,000	-£30,000	£908,000	£776,381	£131,619
Traffic management system	£20,000	£12,300	£32,300	£19,417	£12,883
TOTAL CAPITAL PLAN 2012/2013	£958,000	-£17,700	£940,300	£795,798	£144,502

WYFRA	FINANCE & RESOURCES COMMITTEE	30 NOVEMBER 2012	ITEM NO 6

REPORT OF: CHIEF FINANCE OFFICER

PURPOSE OF REPORT: TO HIGHLIGHT THE KEY ISSUES THAT WILL IMPACT UPON THE REVENUE BUDGET AND MEDIUM TERM FINANCIAL PLAN

RECOMMENDATION: THAT MEMBERS ARE ASKED TO NOTE THE CONTENTS OF THIS REPORT

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT DETAILS

EXEMPTION CATEGORY:

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BACKGROUND PAPERS OPEN TO INSPECTION:

SUMMARY

This report sets out the issues effecting the medium term financial plan including the prospect for government funding for the financial years 2013/2014 and 2014/2015

1 Introduction

1.1 This meeting of the Finance and Resources Committee would normally receive a report of the finance settlement for the next two financial years 2013/2014 and 2014/2015. However, the Chancellor of the Exchequer will not make his autumn statement until 5 December which means that the settlement is unlikely to be announced until late December 2012. There is no doubt that the impact of the settlement will be significant both in terms of grant loss and fundamental changes to its funding streams. It is still unclear whether the Authority will receive a single year settlement for 2013/2014 or details of grant levels for the remaining two years of the spending review period.

1.2 The purpose of this report is to set out some of these issues and show the impact they will have on the Authority's medium term financial plan.

2 Fire Service Funding

2.1 Cuts in Funding

The Chancellor announced a 25% cut in fire service spending over the current spending review period with the cuts being back loaded to the final two years. In total this equated to a cut in the National Fire Control Total of £207m from £1057m in 2010/2011 to £850m by 2014/2015. In the first two years the control total has reduced by £68m (6.5%) with a further £139m (14.6%) to be cut in the final two years. The analysis published in the consultation on the Redistribution of Business Rates shows these reductions falling as 9.1% in 2013/2014 and a further 5.5% in 2014/2015.

If we apply these cuts to the Authority's grant allocation in 2012/2013 this would result in a further loss in grant of £4.7m in 2013/2014 and £2.6m in 2014/2015. Clearly this level of grant loss assumes that the cuts are shared evenly across all authorities, which was not the case in the first 2 years when this Authority lost 10.4% of its government funding against the national average of 6.5%.

2.2 Changes to the Baseline

The next financial year 2013/2014 will see the introduction of the scheme for Business Rate Retention and consequently the 2013/2014 grant levels will be used as the baseline expenditure. The government indicated it did not intend to make fundamental changes to the Revenue Support Grant formula but did indicate that there would be some small changes along with updating some of the data. In relation to the fire formula there are 3 potential changes:-

- Introduction of a new sparsity top slice
- Review of the relative needs element
- Updating population figures to take account of the most up to date population figures.

Each of these changes would have an impact on this Authority's grant levels and the potential impact is shown in the table below.

Formula change	Best case	Worst Case
	£m	£m
Sparsity top slice	-£0.1m	-£0.4m
Review of needs element	+£1.6m	+£1.2m
Update population figures	-£1.1m	-£1.1m
TOTAL	**+£0.4m**	**-£0.3m**

It can be seen that these changes could have a significant impact on the amount of grant received by the Authority dependent upon which, if any, of the changes are introduced, although as always these changes will be moderated by the floor damping mechanism.

2.3 Forecast Grant Levels

Taking account of the distribution of the cuts in grant in the first two years and the fact that the previous Fire Minister has rejected the calls for a flat rate cut it is prudent to assume that the grant cuts for this Authority will probably be somewhere above the national average, although it is anticipated that the range of grant cuts may be narrower.

It is therefore likely that the loss of grant in the final two years of the spending review will be between £7.3m and £10m (14.6% and 20%) for this Authority.

3 Localisation of Council Tax Benefit

As previously reported, because this Authority raises a precept through the council tax its income will be affected by the scheme for localisation of Council Tax Benefit.

3.1 Precept Income

In 2011/2012 the Authority received total income from the precept of £35.9m based on a precept of £52.41 at band d. The localisation of benefit will mean that the precept income will be reduced to £30.2m with a government grant of £5.7m making up the difference. This will reduce the proceeds from each 1% precept increase from £359,000 to £302,000. In addition it is unlikely this will be compensated for by an increase in grant as in a period when the Government is offering precept freeze grant it is likely that the benefit grant will also be frozen on the assumption that Authorities are taking advantage of the precept freeze grant.

3.2 Scheme Changes

There is likely to be some other long term impact from this change in the form of increase in deficits on the collection fund, these will have to be incorporated within the Medium Term Financial Plan. As an example in 2012/2013 the Authority had to fund a deficit on the collection fund of £0.217m. The authority will have to provide for similar levels of deficit in future years.

Whilst it was originally reported that the Authority stood to lose up to £0.7m in precept income as a result of the introduction of these schemes, the five districts are confident they will be able to recover the 10% loss in grant.

4 Precept Increases and Grant fall out

4.1 <u>Precept Freeze Grant</u>

The Authority has frozen its precept for the last two financial years in exchange for a precept freeze grant from central government, however, these grants are not built in to the authorities base funding. Details of these and the year they expire is shown in the table below

Financial Year	Amount	% age	Fall Out year
2011/2012	£894,000	2.5%	2015/2016
2012/2013	£1,078,000	3.0%	2013/2014

As shown in the table in 2013/2014 the Authority will lose £1.078m of precept freeze grant which will have to be replaced by additional savings.

4.2 <u>2013/2014 Precept</u>

In 2011/2012 the Government replaced the council tax capping regime with a system based on local referendums. Under this system the government set a council tax increase limit, which if local authorities wish to exceed they are required to hold a referendum. In the case of this Authority it would have to hold a referendum in each of the 5 districts at an estimated cost of £2.0m which is equivalent to a 7% precept increase just to fund the referendum.

The referendum limit set by the Chancellor for 2013/2014 is a 2% precept increase which would provide the Authority with additional precept income of £0.6m per annum. This figure would be in the Authorities base income and therefore be a sustainable source of income.

Once again the Chancellor is offering Authorities that freeze their council tax a grant this year equivalent to a 1% precept increase which would deliver £0.3m. Once again this grant is not built into the base and will fall out in 2015/2016 which if accepted, would increase the total loss of precept grant which will have to be replaced by additional savings to £1.2m.

Options for the budget strategy will form part of the report on the revenue budget.

5 Expenditure Pressures

5.1 At the same time as facing the cuts in grant the Authority must also take account of increasing expenditure pressures both in terms of increasing costs and capital financing charges.

5.2 The quarterly financial review, also on this agenda, identifies and underspending of £1.5m in the current financial year. The report explains that this is principally around expenditure on fire fighters salaries being made up of £0.8m overtime and £0.5m owing to the number of fire fighters leaving the Authority. Whilst the majority of these savings are sustainable and can be incorporated in the medium term financial plan, it will be necessary to retain a significant proportion of the overtime provision pending the implementation of the phase 1 IRMP interventions. It has therefore been assumed that £1.0m of these savings are sustainable and can be used to reduce future on going expenditure.

6 Next Spending Review

6.1 The current government's plans for the next spending review were based on the Office for Budget Responsibility (OBR) forecast in March 2012. Since then most leading economists (including The Bank of England and the IMF) have revised down growth forecasts for the UK over the medium term. The chancellor had originally indicated that there would be real cuts in departmental spending totals of 3.8% per year which when adjusted to take account of protection for NHS, Education and International development would require departmental cuts of 8% per annum. It is therefore reasonable to assume that cuts in fire service funding in the next spending review are likely to be similar to those in the current spending review, around 25%. For the purpose of this forecast it is assumed that they will be 8% in the first two years and 6.5% in the following two years.

6.2 Each of the major political parties have made it clear that there will be no quick fix for the economy and that the austerity measures will continue for the duration of the next spending review irrespective on the outcome of the next general election.

7 Medium Term Forecast

7.1 The table in appendix 1 provides a medium term forecast of income and expenditure for the remainder of the current spending review and the duration of the next spending review. The forecast shows the best case assuming that grant cuts are not increased and that the cuts are shared equally among all fire and rescue Authorities.

7.2 The forecast shows expenditure increasing from £91m in 2013/2014 to £99.6m in 2018/2019 whilst at the same time income reduces from £84.3m to £75.9m with the budget deficit increasing from £6.75m in 2013/2014 to £19.4m by 2018/2019.

7.3 It then identifies the further savings that will be delivered through continued non-recruitment of whole time fire fighters and the fundamental review coupled with the impact of the under spending in the current financial year.

7.4 The report shows that the Authority will need to find additional savings of £1.36m in 2013/2014 rising to £3.45m by 2014/2015.

7.5 It is important to remember that this represents the best case scenario and it is likely that the actual settlement will require additional savings to be identified.

8 Recommendation

8.1 Members are asked to note the contents of this report

MEDIUM TERM FINANCIAL FORECAST						
	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
EXPENDITURE	£m	£m	£m	£m	£m	£m
2012/2013 Standstill budget	89.212	89.212	89.212	89.212	89.212	89.212
Pay and price increases	0.700	1.600	2.900	4.200	5.300	5.300
Capital financing charges	1.100	1.900	2.700	3.500	4.300	5.100
Standstill budget	**91.012**	**92.712**	**94.812**	**96.912**	**98.812**	**99.612**
INCOME						
Revenue support grant	51.500	51.500	51.500	51.500	51.500	51.500
Less forecast grant cuts	-4.700	-7.300	-10.000	-12.400	-13.900	-15.400
Revenue support grant	**46.800**	**44.200**	**41.500**	**39.100**	**37.600**	**36.100**
Precept freeze grant	1.980	1.980	1.980	1.980	1.980	1.980
Grant fall out	-1.080	-1.080	-1.980	-1.980	-1.980	-1.980
Precept freeze grant	**0.900**	**0.900**	**0.000**	**0.000**	**0.000**	**0.000**
Precept income	30.192	30.192	30.192	30.192	30.192	30.192
Increase based on 2%	0.604	1.220	1.848	2.489	3.142	3.809
Collection fund deficit	-0.217	-0.217	-0.217	-0.217	-0.217	-0.217
Total precept income	**30.579**	**31.195**	**31.823**	**32.464**	**33.117**	**33.784**
Council tax benefit grant	**5.765**	**5.765**	**5.765**	**5.765**	**5.765**	**5.765**
Forecast funding	**84.044**	**82.060**	**79.088**	**77.329**	**76.482**	**75.649**
FORECAST BUDGET DEFICIT	**6.968**	**10.652**	**15.724**	**19.583**	**22.330**	**23.963**
Savings identified						
Sustainable underspending 2012/2013	-1.000	-1.000	-1.000	-1.000	-1.000	-1.000
Savings non recruitment	-2.100	-3.700	-6.700	-9.700	-11.900	-15.000
Fundamental review	-2.500	-2.500	-2.500	-2.500	-2.500	-2.500
IRMP retained stations (subject to consultation)			-0.400	-0.400	-0.400	-0.400
Savings identified	**-5.600**	**-7.200**	**-10.600**	**-13.600**	**-15.800**	**-18.900**
Other savings required	**1.368**	**3.452**	**5.124**	**5.983**	**6.530**	**5.063**
Impact of additional 1% loss in grant	0.515	0.957	1.372	1.763	2.139	2.500
Impact of accepting precept freeze grant	0.300	0.300	1.200	1.200	1.200	1.200

WYFRA	FINANCE AND RESOURCES COMMITTEE	30 NOVEMBER 2012	ITEM NO **7**

REPORT OF: CHIEF FINANCE OFFICER

PURPOSE OF REPORT: TO PRESENT THE TREASURY MANAGEMENT MID YEAR REPORT 2012/2013

RECOMMENDATIONS:

(i) NOTE THE TREASURY MANAGEMENT MID-YEAR REPORT 2012/2013

(ii) NOTE THE LATEST TREASURY MANAGEMENT INDICATORS

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT DETAILS

EXEMPTION CATEGORY:

ACCESS CONTACT OFFICER: Mr G Maren, Chief Finance Officer
Tel: 01274 655711
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BACKGROUND PAPERS OPEN TO INSPECTION:

SUMMARY

To present the mid-year report of the Treasury Management Strategy under the CIPFA Code of Practice covering the period 1 April to 30 September 2012.

1 Introduction

1.1 In February 2012 the Authority adopted the 2011 edition of the *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Authority to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year. This is the third mid-year report presented to the Authority under the terms of the CIPFA *Code of Practice*, and covers the period 1st April to 30th September 2012.

1.2 In addition, the Communities and Local Government *Guidance on Local Government Investments* recommends that local authorities amend their investment strategies in light of changing internal or external circumstances. This report therefore meets the requirements of both sets of guidance.

2 Treasury Management Strategy

2.1 The Authority approved the 2012/13 treasury management strategy at its meeting on 16 February 2012. The Authority's stated investment strategy was to give priority to security and liquidity before seeking the highest return, in line with Government guidelines and CIPFA's code of practice. The borrowing strategy for the year was set to assist in this by using internal balances to fund expenditure and thus reduce the requirement for borrowing until later in the financial year.

2.2 The Chief Finance Officer is pleased to report that all treasury management activity undertaken during the period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.

2.3 The Authority's treasury management activity is carried out by Kirklees Council. Until recently, the Council has used Sterling Consultancy Services (SCS) to provide advice on interest rate forecasts, ratings information etc. SCS have now been acquired by Arlingclose Limited who will continue to provide the same service as SCS – all SCS staff transferred to Arlingclose – for the remainder of the contract period which finishes at the end of January 2013. Invitations to tender for the new contract have been sent out to Arlingclose and Sector who are now the only two providers of treasury management consultancy services to the public sector. A decision is expected to be made by the end of December 2012.

3 Economic Review

3.1 The Authority's treasury management strategy and indeed its performance is directly linked to the national and global economic climate as these are the main drivers in economic confidence and interest rates. It has been well documented that the economy in the Euro Zone has remained weak and that the UK economy has remained in recession. Some of the key events that have impacted on the continued instability are detailed below

3.2 **Eurozone Economy**

- The European Central Bank's (ECB) Long-Term Refinancing Operations (LTRO), in which the central bank supplied cheap funding to the Eurozone banking system, initiated a calmer period of financial market activity in the first quarter of the year. However this intervention did not address the root causes of the Eurozone sovereign debt crisis, i.e. unsustainable debt levels in uncompetitive countries.
- The two Greek general elections, the failure of Spanish bank Bankia and subsequent bailout speculation for the sector, and signs that the Eurozone economy was experiencing a deeper downturn in economic activity than previously expected.
- Throughout the quarter, Germany resisted pressure for regional debt mutualisation or a banking union, unprepared to risk the moral hazard of supporting Mediterranean countries.
- Yields on safe haven bonds, including UK gilts and German bunds, regularly dipped to new record lows.
- At the EU summit at the end of June leaders agreed that the yet-to-be initiated bailout fund, the European Stability Mechanism (ESM), would have more flexibility, allowing it to buy the debt of struggling countries or directly recapitalise banks.
- Perhaps more significantly, at its September meeting the ECB announced proposals for unlimited purchases of the short term sovereign debt of countries that applied to the Eurozone bailouts funds for financial assistance. The highly anticipated pledge eased the fears of a short term collapse of the Eurozone, boosting risk appetite and prompting a significant reduction in Italian and Spanish government bond yields.

3.3 **United States Economy**

The US economy stuttered, with slower employment growth a particular concern placing further pressure on the Federal Reserve to engage in further monetary stimulus

3.4 **UK Economy**

In the UK the recession continued into the second quarter, with the loss of a working day to the Jubilee bank holiday the primary factor. However, as with the larger economies, the UK was not immune to the uncertainty emanating from the Eurozone, and data suggested that underlying business conditions had weakened. Trade data indicated that goods exports to the Eurozone were declining, a particular problem for a manufacturing sector struggling with weak domestic demand. The extreme wet weather in April caused a plunge in retail sales volumes, and on the positive side, a fall in inflation, while the construction sector output continued to decline amid both a weak housing market and a reduction in government capital spending.

The banking sector and credit bottleneck were perceived to be an important factor holding back economic recovery, prompting HM Treasury and the

Bank of England to announce two schemes in June to reduce bank funding costs and increase the availability of cheaper finance for businesses. The Bank's intervention in the money markets placed downward pressure on Libor rates (the inter-bank lending rates); 3-month LIBOR declined around 30 basis points during the half year to 0.70%. The deteriorating domestic and global economic conditions also boosted support for further monetary stimulus. The Bank of England Monetary Policy Committee duly increased the Asset Purchase Facility by £50bn to £375bn, the third tranche of quantitative easing.

Against this background it has been important for the Authority to maintain its low risk treasury management strategy which included avoiding investment in Money Market Funds with significant investment in Southern Europe

4 Outlook for Interest Rates

4.1 The August Inflation Report showed that the Bank of England expects little economic growth this year and a gradual recovery in 2013. The weakness in demand and margin of spare capacity is projected to place downward pressure on inflation, maintaining it around target for the next few years. The recent downward trend in the CPI inflation rate allied with the apparent synchronised global downturn led by the Eurozone has pushed market expectations for a rise in interest rates out to at least 2014. Although previously discounted by the Monetary Policy Committee (MPC), there is now also the marginal possibility of a cut in Bank Rate to 0.25%. Further asset purchases also seem likely later this year.

4.2 The latest central forecast from Kirklees Council's treasury management advisers is shown below. The risks to the forecast remain heavily to the downside, arising largely from the impact of the Eurozone sovereign debt crisis on UK business and household confidence.

Period	Bank Rate	3 month LIBOR	12 month LIBOR	25-year PWLB rate
Q3 2012	0.50	0.65	1.40	4.10
Q4 2012	0.50	0.65	1.20	4.15
Q1 2013	0.50	0.65	1.30	4.20
Q2 2013	0.50	0.70	1.40	4.25
Q3 2013	0.50	0.80	1.45	4.35
Q4 2013	0.75	0.95	1.50	4.50
H1 2014	1.00	1.20	1.80	4.85
H2 2014	1.50	1.70	2.30	5.10
H1 2015	2.00	2.20	2.80	5.25
H2 2015	2.50	2.75	3.30	5.50

4.3 From 1 November 2012, PWLB commenced offering its Certainty Rate loans, at a reduction of 0.2% on its standard loans for Local Authorities who agree to provide additional information on their capital and financing activities. The Authority has provided this information and will be able to benefit from the lower rates when it considers its funding requirements later in the financial year.

5 Summary of Transactions

5.1 The following table summarises the treasury management transactions undertaken during the first half of this financial year:

		Principal Amount £m
Investments	- as at 31st March 2012	1.868
	- matured in period	72.990
	- arranged in period	93.353
	- as at 30th Sept 2012	22.231
Debt	- as at 31st March 2012	59.351
	- matured/repaid in period	9.818
	- arranged in period	8.700
	- as at 30th Sept 2012	58.233
Net Debt at 31st March 2012		57.483
Net Debt at 30th September 2012		36.002

5.2 The investment balance at 30 September is higher than forecast for a number of reasons. Several PWLB loans are due to mature in 2012/13 but not until the new calendar year & capital expenditure has not taken place as early as expected. Additionally, the Authority has invested the grant received from Government towards the replacement control centre for West and South Yorkshire. The high level of investments generally, exists only because of the Government's method of financing the pension contributions – paying the full year's contributions in July. This amount will be used during the remainder of the year but current cashflow projections show that there will still be an investment balance in excess of the planned level until the end of December.

6 Interim Performance Report

6.1 The average investment balance held was £12.6m and the average rate of return was 0.34%, generating investment income of £0.022m. The treasury management budget assumed investment income of £0.046m for the year, so given that investment balances have been at their highest, it is unlikely that the investment income budget for the year will be achieved. The rate of return was 0.20% below the weighted benchmark rate (7 day LIBOR) of 0.54% mainly because of the lack of viable counterparties and the priority given in the strategy to security and liquidity. The same period in 2011/12 saw rates of 0.38% being achieved against a benchmark of 0.60%. The interest earned includes an amount of £0.005m in respect of the investment of the replacement control centre grant.

6.2 The average temporary debt balance held was £3.1m and the average rate paid was 0.63%, generating interest payable of £0.009m. The budget for the year for interest on temporary borrowing was only £0.008 so interest paid has exceeded the annual budget. This is due to a decision to take temporary borrowing at relatively low rates of interest during 2011/12 rather than longer term PWLB. The excess interest paid on temporary borrowing will be offset by savings in interest payable on PWLB loans. The average rate paid was 0.21% above the weighted benchmark (7 day LIBOR) rate of 0.52%.

6.3 Based on performance to date and forecasts that interest rates will remain flat for the remainder of the financial year, the latest projected revenue outturn is for interest paid to be £0.126m under budget. However, if there is an unexpected rise in interest rates, this figure could fall.

7 Treasury Management Indicators

7.1 The Authority measures its exposures to treasury management risks using the following indicators. The Authority is asked to note the following indicators as at 30th September 2012.

7.2 Interest rate exposures
This indicator is set to control the Authority's exposure to interest rate risk. The exposures to fixed and variable rate interest rates, expressed as an amount of net principal borrowed were:

	Limit	Actual	Met?
Upper limit on fixed rate exposures	60% to 100%	79.6%	✓
Upper limit on variable rate exposures	0% to 40%	20.4%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

7.3 Maturity structure of borrowing
This indicator is set to control the Authority's exposure to refinancing risk. The maturity structure of fixed rate borrowing was:

	Upper Limit	Lower Limit	Actual	Met?
Under 12 months	20%	0%	1.5%	✓
12 months and within 24 months	20%	0%	0.5%	✓
24 months and within five years	50%	0%	5.6%	✓
Five years and within 10 years	80%	0%	2.1%	✓
10 years and above	100%	20%	90.2%	✓

The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.4 Principal sums invested for periods longer than 364 days
The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its long-term investments. No sums were invested for longer than 364 days.

8 Conclusion

8.1 The overall treasury management activity of the Authority has remained within the strategy approved in February 2012. Following the review of the economic position and considering the advice of officers from Kirklees Council plus other relevant indicators, the Chief Finance Officer does not advise any changes to the Treasury Management Strategy for the remainder of the financial year.

9 Financial Implications

9.1 The financial implications are included in the body of the report.

10 Equality and Fairness Implications

10.1 There are no equality and fairness issues arising from this report.