Hereford & Worcester Fire Authority
Full Authority
10 June 2020

Report of the Treasurer

Provisional Financial Out-turn 2019-20

Purpose of report

1. To receive provisional financial results for 2019-20 and to approve final transfers to and from reserves.
2. To review Treasury Management activities for 2019-20 and to confirm compliance with the Prudential Code indicators.

Recommendation

It is recommended that the Authority:

i) Notes the provisional financial results for 2019/20;

ii) Notes the transfers between reserves previously approved in accordance with the Reserves Strategy, or approved by the Fire Authority on 18th December 2019 as below;

a) £0.454m from the Budget Reduction Reserves;

b) £0.381m from the new Dimensions Reserve;

c) £0.300m from General Balances;

d) £0.130m from the Pensions Reserve;

e) £0.285m to the July 2017 Pay Award Reserve; and

f) £0.250m to the Broadway Fire Station Reserve

iii) Notes the revised transfers arising from timing differences previously approved in accordance with the Reserves Strategy or approved by the Fire Authority on 18th December 2019 as below as below;

a) £0.115m from the Property Maintenance Reserve;

b) £0.270m from the Equipment Reserve; and

c) £0.242m to the Prevention Reserve

iv) Approves the final transfers to Earmarked Reserves as set out below:

a) An additional £0.130m from the Pension Reserve;

b) £0.188m to the Alliance Collaboration Reserve; and

c) £0.164m to the Day Crew Plus (DCP) change reserve.

v) Notes that the Treasurer will certify the 2019/20 Statement of Accounts, in accordance within the regulatory time-scale, of 31st August 2020;

vi) Notes that the Audit of the accounts will be undertaken by Grant Thornton LLP; and

vii) Confirms that the Prudential Indicators for 2019/20 were within the limits set by the Authority and no matters require further action

Background

3. This report brings together two areas that are within the Terms of Reference of the Policy and Resources Committee but that require attention before the next scheduled meeting of that Committee.

4. The two areas are;
   a. Provisional Financial Results

   b. Treasury Management and the Prudential Indicators

Provisional Financial Results

5. Detailed budget monitoring reports have been presented to the Policy and Resources Committee on a quarterly basis throughout 2019/20 (most recently in Members Briefing format for the cancelled meeting on 6th May 2020), and, subject to the specific areas to be highlighted, the out-turn is consistent with this reporting.

6. The Audit and Standards Committee will consider the full Statement of Accounts; which will be completed on the basis of International Financial Reporting Standards (IFRS) following completion of the external audit. Ordinarily this would be at the July meeting prior to the 31st July deadline.

7. However due to the un-precedented circumstances the deadline date this year has been moved back to 30th November, and so with the agreement of the Authority and Committee Chairs, the Statements will now be presented to the October Committee.

8. Until the process is completed these financial results technically remain provisional, but it is unlikely that they will change materially as a result of the audit.

9. The basis of the Statement of Accounts differs from the statutory framework within which the Authority is required to manage its budget, but is the statutory position that this report is concerned with.

Revenue Budget 2019/20

10. Details of the revenue budget are set out in Appendix 1 and show that following the Revised Budget expenditure was expected to be £34.570m (*Line 34, Column 2*) with a net transfer from balances, to support the revenue budget as planned of £0.291m (*Line 62, Column 2*).

11. Members will recall that the budget was originally set with estimated contribution rates for the Firefighters' Pension Schemes, and that at Quarter 1 these were adjusted for the potential impact of the actual rates. Experience has shown that this adjustment was incorrect, and within the overall total, and adjustment has been made in Column 3 of the Appendix.

12. In addition it had always been planned that certain parts of the capital programme were to be funded from reserves (part of the High Volume Pump accommodation at the Wyre Forest Hub and Mobile Data Terminals). As these are funded from revenue reserves, they are brought into the budget in Column 4 of the Appendix.

13. As a consequence of this adjustment Appendix 1 show that Budgeted expenditure is now expected to be £35.271m (*Line 34, Column 5*) with a net transfer from balances, to support the revenue budget as planned of £0.993m (*Line 62, Column 5*).

14. Against the £35.271m budget it is anticipated that £35.116m (*Line 34, Column 6*) will have been incurred, a net underspend of £0.155m (0.3%). In addition the Authority is now expecting to receive an additional £0.186m in grants (*Line 49, Column 7*).

15. Both of these factors have an impact on the draw on reserves, with some of it being directly inter-related and, where relevant, these are referred to in the explanations below.

16. The reasons for the key variations shown in Appendix 1 and summarised above are given below:

    a. <u>Whole-time Pay/Secondment income</u> **£0.118m under** – largely due to the timing of the ending of the Day Crew Plus (DCP) arrangement. For budget purposes it was estimated that the temporary costs of pay would have occurred in 2019/20, but will now be from May 2020. It is suggested that this underspend is used to fund the costs as they occur in 2020/21.
    b. <u>On-call(RDS) Pay</u> **£0.049m over** – just over 1% of budget and reflects increased activity levels this year
    c. <u>Other Employee Costs</u> **£0.035m under** – in connection with the National Insurances cost of officers cars, where a temporary change I the tax rules had an unexpected and financially favourable consequence. *(This was not identified in time for the Policy and Resources Committee update)*

d. Pension costs **£0.140m over** – relates to additional underpayment of back-dated injury pensions (pensions must be reduced where certain benefits are received, a small number of pensioners have been identified where benefit has ceased but they had failed to notify the Authority for reduced pension to be re-instated).
e. Training **£0.029m under** – impact of delays in reaching agreement on crewing changes earlier in the year.
f. Ops Logistics **£0.064m over** – some redirection of underspends elsewhere in preparation for Covid-19 restrictions.
g. Fleet **£0.047m over** – changes to law regarding permitted age of commercial vehicle tyres required earlier replacement than budgeted and un-planned repairs to vehicles damaged during the flood response.
h. Property **£0.064m under** – largely (£0.077m) as a result of delays to planned maintenance programme and a consequential reduction in the transfer from the Property Reserve.
i. PPL charges (net) **£0.047m over** – arises from inability to capitalise project costs as planned, as programme delays, particularly in relation to Hereford Fire Station replacement have not yet created an asset against which costs can be capitalised. It should be stressed that this is not an increase in overall costs from PPL
j. Human Resources **£0.064m under**. Largely around development training budget and for same reasons as (e) above.
k. Legal Services – of which **£0.032m over** relates to the Authority's Judicial Reviews
l. Insurances **£0.073m over** – of which £0.077m relates to insurance excess on a claim. The Authority holds an Insurance Reserve for this purpose, but this will use 60% of that reserve and it would be prudent to make up that reduction by an equivalent transfer back to the reserve.
m. Finance (FRS) **£0.092m under** – represents three sources of additional income:
    i. Primary Authority Scheme £0.010m
    ii. Office of the Police & Crime Commissioner (PCC) support for "Dying to Drive" campaign £0.010m
    iii. High Volume Pump (HVP) deployment to Derbyshire FRS £0.048m
    iv. The balance being Service wide savings on travel & subsistence costs
n. Alliance Costs **£0.188m** under. The Authority set aside a £0.200m, one-off budget for the Alliance programme with Shropshire & Wrekin Fire Authority. However, the programme and associated shared costs will be spread over several years. It is suggested that the underspend is carried to an Alliance Reserve to meet the agreed costs in future years as they occur.

17. As stated at paragraph 14 (above) the net effect of these and minor variations is an under-spend of £0.155m. This differs from the position reported to Policy & Resources Committee (as stated) that was an estimate prior to the completion of the Accounts closedown process.

18. In addition to this variation in expenditure there also a variation in funding which is detailed below:

a. £0.016m Fire Revenue Grant – Firelink – higher than expected but without explanation, the confirmed 2020/21figure is back at the budget level.
b. £0.088m redistributed regionally allocated Emergency Service Mobile Communications Project (ESMCP) grant.
c. £0.008m – Ministry of Housing, Communities & Local (MHCLG) Transparency Grant - towards costs of publishing information for public – omitted from budget in error.
d. £0.024m – OPCC funding of “Making our Roads Safer for Everyone” (MORSE) road safety programme.
e. £0.027m – Reconciliation Grant and
f. £0.019m – Levy Account Surplus, both arising from the MHCLG Retained Business Rate system and, as such, were unpredictable.

19. Taken together with the minor variations, this is a net £0.186m more funding income than was expected.

20. The net impact of the Expenditure and Funding variations is a reduction in the draw on reserves of £0.342m *(Line 63, Column 7)*, and after allowing for the reserve adjustments arising directly from expenditure variations explained above in real terms leaves an unplanned increase in reserves of £0.164m.

21. It is proposed that this £0.164m *(Line 59, Column 7)* be transferred to a reserve to meet the one-off costs of pay protection following the ending of the DCP system as referred to at paragraph (16)(a) above.

Use of Reserves

22. Appendix 2 shows the planned and actual use of individual reserves in 2019/20.

23. The total movement from reserves is £0.836m less than expected *(Line 32, Column 4)* although most of this £0.903m *(Line 27 Column 4)* relates to the Future Expenditure Reserves and represents timing differences.

24. In summary the budget anticipated that reserves would fall by £1.487m *(Line 43 Column 3*) they have only fallen by£0.651m *(Line 43 Column 4).*

25. The net movements in reserves can be summarised as follows:

	£m	£m	£m
In accordance with MTFP Reserves Strategy			
Transfer from the Budget Reduction Reserve			(0.454)
Transfer from General Balances			(0.300)
Transfer from the New Dimensions Reserve			(0.381)
In accordance with the MTFP Reserves Strategy			
(adjusted for timing of expenditure)	Budget	Timing	
Transfer from Property Reserve	(0.192)	0.077	(0.115)
Transfer from Equipment Reserve	(0.320)	0.050	(0.270)

<u>**As agreed by Fire Authority 18 December 2019**</u>			
Transfer to Broadway FS Reserve			0.250
Transfer to Jul 2017 Pay Reserve			0.285
Transfer from Pension Reserve			(0.130)
<u>**As agreed by Fire Authority 18 December 2019**</u>			
(adjusted for timing of expenditure)	Budget	Timing	
Transfer to Prevention Reserve	0.250	(0.008)	0.242
<u>**Final Transfers Recommended**</u>			
Additional Transfer from Pension Reserve			(0.130)
Transfer to Fire Alliance Costs Reserve			0.188
Transfer to DCP Change Reserve			0.164
			(0.651)

Capital Budget 2019/20

26. Details of the approved capital budget are set out in Appendix 3, and are summarised in the table below.

	Major Build Schemes £m	Vehicle Prog £m	Major Equip Schemes £m	Allocated Minor Schemes £m	Other £m	Total £m
Revised Budget Qtr. 2	13.696	6.536	2.627	2.237		**25.096**
Major Schemes Provision					12.141	**12.141**
Unalloc. Minor Schemes					0.301	**0.301**
Revised Budget Qtr. 2	13.696	6.536	2.627	2.237	12.442	**37.538**
Minor Scheme Allocation				0.301	(0.301)	**0.000**
Rounding				0.001		**0.001**
Funded by ESMCP Grant				0.012		**0.012**
Revised Budget	**13.696**	**6.536**	**2.627**	**2.551**	**12.141**	**37.551**
Expenditure to 2018/19	8.915	2.537	2.046	0.873		**14.371**
Expenditure 2019/20	4.229	1.789	0.281	0.396	0.027	**6.722**
Remaining Budget C/fwd.	**0.552**	**2.210**	**0.300**	**1.282**	**12.114**	**16.458**

27. Schemes shown as “#” in the Appendix are completed and will be removed from future monitoring reports.

Role of the Audit and Standards Committee

28. The Statement of Accounts will be prepared on an IFRS basis and will show the true economic cost (but not the overall economic benefits) of providing a Fire and Rescue Service.

29. The IFRS basis differs substantially from the statutory basis on which Members are charged with managing the finances of the Fire Authority which is the basis of this Provisional Financial Results element of this report.

30. This is because there are significant items which:

31. Are required to be charged by statute but which are not permitted under IFRS.

32. Are required to be charged under IFRS but which are prohibited by statute.

33. The Statement of Accounts will reconcile these differences and the Audit and Standards Committee will scrutinise this reconciliation as well as the Accounts themselves.

34. The Accounts and Audit Regulations normally require that the Statement of Accounts is signed by the Chief Financial Officer (the Treasurer) no later than 31st May. The Regulations have been temporarily amended this year to make the date 31st August. Progress was on track to achieve this by the original date, although this relies on the supply of information from organisations that are also subject to the relaxed deadline.

35. These Regulations also oblige the Authority to approve and publish the audited Statement of Accounts normally by 31st July, although this year this has been amended to 30th November, and the Audit & Standards Committee is scheduled to do this on 8th October.

Treasury Management and Prudential Indicators

36. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

37. The revised guidance issued in November 2011 makes it clear that investment priorities should be security and liquidity, rather than yield and that authorities should not rely solely on credit ratings, but consider other information on risk.

38. In accordance with both the Chartered Institute of Public Finance and Accountancy's Treasury Management Code of Practice, and current Fire Authority Financial Regulations the Treasury Management Activities are required to be reviewed by Members twice a year, but are now incorporated into the quarterly budget monitoring reports.

39. The final review of 2019/20 would normally have been brought to Policy & Resources Committee in September but, to allow inclusion of audited data within the Prudential Indicators, this has again been brought forward this Authority Report.

Treasury Management Activities

40. Treasury Management is about managing the Authority's cash flow and investments to support its finances for the benefit of the Public and the Services that it provides. These activities are structured to manage risk foremost and then optimise performance.

41. The Treasury Management function strives to ensure the stability of the Authority's financial position by sound debt, cash and risk management techniques. The need to minimise risk and volatility is constantly addressed whilst aiming to achieve the treasury management objectives.

42. Banking arrangements and the Treasury Management functions for the Authority, in respect of lending and borrowing, are carried out by Worcestershire County Council under a Service Level Agreement (SLA). All Authority funds are invested or borrowed by the County Council in accordance with their Treasury Management Strategy; this means that the Authority is subjected to the same levels of risk and return as the County Council. A extract of the relevant elements of WCC Treasury Management Strategy for 2019/20 is included at Appendix 4

43. At 31 March 2019 the Authority had long-term debt totalling £10.637m. In 2019/20 additional borrowing of £3.000m was taken, in line with the Capital Financing Requirement, to replace temporary funding of capital from internal cash balances and anticipating the maturity of £1.500m of loans in 2020/21.

44. The balance of long term debt out-standing at the end of March 2020 is £13.637m and, without further borrowing, it would fall to £12.137m by 31 March 2021.

45. This borrowing was planned and is in line with the Capital Financing Requirement (CFR), and replaces temporary funding from internal cash balances which become less available as balances are used up. As a rule of thumb borrowing should not exceed the CFR which at 31 March 2020 stood at £21.238m.

46. In accordance with the SLA investment risk is shared with WCC proportionate to the relative funds invested. At 31st March 2020 the share of investment is as below:

	£m
Money Market Funds (Instant Access)	2.178
Cash Plus Funds	0.730
On Call	0.394
Other Local Authorities	0.198
	3.500

47. As part of the defined investment risk strategy Authority funds are currently deposited with the Bank of England and other organisations deemed to be low risk, such as other Local Authority Bodies, WCC Treasury Management keeps this policy under constant review. With the downgrading of several large financial institutions, to comply with the AA credit rating required by the Treasury Management Strategy, which ensures the continued reduction of risk exposure, there are now fewer financial institutions available where investments can be made which increases reliance upon the Bank of England/HM Treasury.

48. However, with investment rates remaining as low as they currently are, a less prudent risk strategy would not greatly increase the expected yield whilst significantly increasing the associated risk.

Prudential Indicators

49. In considering the budget and precept for the year the Authority approves indicators and limits in respect of capital expenditure, borrowing and revenue consequences.

50. These are set by the Authority, as part of the overall budget setting process, in February prior to the start of the financial year.

51. Appendix 5 sets out the relevant indicators as approved and as they out-turn, and demonstrates that they are within the limits of the Medium Term Financial Plan.

Conclusion

52. It can be seen that the Authority's finances for 2019/20 were well controlled and that the resultant under spending is part of a planned response to known future budget constraints.

53. The SLA with the County Council and the use of its Strategy Statement ensures that the Authority invests its resources within a robust and effective framework to deliver a maximum return on investments within a secure environment. The monitoring of the Prudential Indicators has demonstrated that the Authority has complied with its Treasury Management target

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	Whole Report
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	Budget prepared in support of current policy priorities
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	n/a
Consultation (identify any public or other consultation that has been carried out on this matter)	n/a
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	n/a

Supporting Information

Appendix 1: Revenue Budget 2019/20 – Provisional Out-turn
Appendix 2: Reserves Strategy 2019/20 – Provisional Out-turn
Appendix 3: Capital Budget 2019/20 – Provisional Out-turn
Appendix 4: Treasury Management Strategy 2019/20 (WCC Extract)
Appendix 5: Prudential Indicators – 2019/20 Provisional Out-turn