

Report of the Treasurer

Provisional Financial Out-turn 2018/19

Purpose of report

1. To receive provisional financial results for 2018/19 and to approve transfers to and from reserves.
 2. To review Treasury Management activities for 2018/19 and confirm compliance with Prudential Code Indicators.
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Recommendations

It is recommended that the Authority:

- i) Notes the provisional financial results for 2018/19;***
- ii) Notes the transfers between reserves previously approved in accordance with the Reserves Strategy as below;***
 - a. £0.627m from the Equipment Reserve;***
 - b. £0.124m from the Development Reserve; and***
 - c. £0.097m from the Property Maintenance Reserve.***
- iii) Notes the additional transfers to reserves approved by the Policy and Resources Committee as below;***
 - a. £0.285m to the Pay Award Reserve;***
 - b. £0.075m to the Pension Reserve (ear-marked for 2019/20).***
- iv) Approves the transfer of £0.159m to the Budget Reduction Reserve (ear-marked for Service priorities);***
- v) Notes that the Treasurer will certify the 2018/19 Statement of Accounts, in accordance with the regulatory time-scale, on 31 May 2019;***
- vi) Notes that the Audit of the accounts will be undertaken by Grant Thornton LLP; and***
- vii) Confirms that the Prudential Code Indicators for 2018/19 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 Code 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 on 1 May 2019), 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), on 30 July 2019 following completion of the external audit.
7. 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.
8. The basis of the Statement of Accounts differs from the statutory framework within which the Authority is required to manage its budget, but it is the statutory position that this report is concerned with.

Revenue Budget

9. The approved net revenue budget for 2018/19 was £32.980m (*Appendix 1 Line 32 Columns 1 and 3*)
10. This was funded by:
 - a. Grants, precept and business rate figures £32.288m (*Appendix 1 Line 40 Columns 1 and 3*) and;
 - b. Planned use of earmarked reserves £0.692m (*Appendix 1 Line 49 Columns 1 and 3*)
11. On 1 May 2019 the Policy and Resources Committee received the fourth quarter Budget Monitoring report which forecast a year end net underspend of £0.129m.
12. The Committee received a verbal update that late receipt of government grant relating to prior years Business Rates would effectively increase this forecast underspending.
13. Appendix 1 shows that the final position is now an under spending, against the Net Budget, of £0.245m (*Appendix 1 Line 41 Column 7*).
14. A summary of the gross variations is given below:

	Revised Budget £m	Actual Out-turn £m	Actual Variation £m	Reserves Impact £m	Net Variation £m
Employee Costs	21.543	21.559	0.016	0.011	0.027
Running Costs	8.110	7.842	(0.268)	0.306	0.038
Capital Financing Costs	2.997	2.727	(0.270)	0.266	(0.004)
Contingencies	0.330		(0.330)	0.285	(0.045)
	32.980	32.128	(0.852)	0.868	0.016
Special Grants	(1.223)	(1.293)	(0.070)		(0.070)
Funding Grants	(5.667)	(5.667)			
Business Rates & Grants	(2.655)	(2.846)	(0.191)		(0.191)
Council Tax	(22.743)	(22.743)			
	0.692	(0.421)	(1.113)	0.868	(0.245)
to/(from) Earmarked Reserves	(0.692)	0.421	1.113	(0.868)	0.245
	0.000	(0.000)	0.000	0.000	0.000

15. Some of variation is offsetting i.e.

- The July 2017 pay award has still not been settled, so the resultant underspend in Contingencies is recommended to be transferred to reserves.
- Expenditure on major equipment (Cutting Gear and Mobile Data), to be funded from the reserve was not incurred as fast as forecast, so the underspend on Capital Finance costs is offset by a lesser contribution from this reserve.
- Expenditure on minor equipment, to be funded from the reserve was not incurred as fast as forecast, so the underspend on Operational Logistics budgets (within the Running Costs line) is offset by a lesser contribution from this reserve.

16. The final two columns of the table adjust for these items.

17. The net result of these gross variations is shown in detail in Appendix 1 and summarised below:

	£m
Net Expenditure	32.128
Grants, Business Rates & Precept	(32.549)
Net Surplus	(0.421)

18. Part of this surplus has been dealt with as a result of decisions already taken by the Fire Authority in approving the Reserves Strategy as part of the Medium Term Financial Plan (MTFP) in February 2019 and by decision of the Policy and Resources Committee in May 2019 and the position is set out below:

	Agreed Reserve Strategy £m	P&R Committee 01-May-19 £m	Fire Authority 22-Jun-2019 £m	TOTAL £m
From Property Reserve	(0.097)			(0.097)
From Development Reserve	(0.124)			(0.124)
From Equipment Reserve	(0.627)			(0.627)
To B-way FS Reserve	0.750			0.750
To Pension Reserve		0.075		0.075
To Pay Award Reserve		0.285		0.285
To Bud. Reduction Reserve			0.159	0.159
	(0.098)	0.360	0.159	0.421
	0.098	(0.098)		0.000
	0.000	0.262	0.159	0.421

19. The table shows that £0.262m of the surplus has already been approved to move to/from balances leaving £0.159m remaining. It is recommended that this is taken to Budget Reduction Reserve to be earmarked to deliver additional Community Safety activities in 2019/20.

Reserves Strategy Update

20. The approved MTFP envisaged that total earmarked reserves would reduce by £0.671m from £12.348m at 31 March 2018 to £11.677 at 31 March 2019, with planned reductions thereafter.
21. Appendix 2 sets out that the net position at out-turn is a net increase of £0.421m, a difference of £1.092m. As set out in the appendix, a large part of this (£0.922m) is due to timing issues and will rectify itself in 2019/20.
22. The remaining sum, which largely arose from late grant adjustments relating to prior years, will, if approved, be utilised in 2019/20 to support Community Safety activities in 2019/20.
23. With these timing adjustments taken into account the Strategy remains on overall target.

Capital Budget

24. In June 2016 the Fire Authority changed the way in which the capital programme is reported. Multi-year schemes are now approved in total without annual phasing, and actual expenditure (within that approved total) is incurred as determined by project management needs, any uncommitted sums at year end being automatically rolled forward until completion of the scheme.
25. The Programme is split between:
- i. Major Building Schemes.
 - ii. Vehicle Schemes
 - iii. Major Equipment Schemes

iv. Minor Schemes - *detailed allocation made by SMB*

26. Within the Major Building Schemes block the “Other Schemes Provision” line represents schemes either awaiting Policy and Resources Committee approval or approved but still subject to a tender process.

27. A summary of the programme position is shown in the table below:

	Major Buildings £m	Vehicles £m	Major Equip £m	Minor Schemes £m	TOTAL £m
Approved Programme (Feb-19):	25.664	12.551	3.191	5.816	47.222
less: post 2018/19 Starts		(7.895)		(2.400)	(10.295)
	25.664	4.656	3.191	3.416	36.927
Omitted OPE Funded Scheme	0.084				0.084
Vehicle Replacement b/fwd		0.357			0.357
Reinstate closed Schemes				0.173	0.173
Reallocations (P&R: May-19)	0.248			(0.248)	0.000
	25.996	5.013	3.191	3.341	37.541
Final 2018/19 Reallocations		0.075		(0.075)	0.000
Budget to 2018/19	25.996	5.088	3.191	3.266	37.541
Closed Schemes now removed	(0.158)	(1.564)	(0.564)	(1.328)	(3.614)
Budget Carried-forward	25.838	3.524	2.627	1.938	33.927
less: Expenditure to Date	8.418	2.537	2.046	0.873	13.874
Remaining Budget	17.420	0.987	0.581	1.065	20.053

28. Appendices 3a and 3b show the position on individual schemes and shows that £8.037m (*Appendix 3a Line 28 Column 5*) has been incurred on approved schemes in 2018/19.

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

Role of the Audit and Standards Committee

30. 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.

31. 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.

32. This is because there are significant items which:

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

- b. 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 require that the Statement of Accounts is signed by the Chief Financial Officer (the Treasurer) no later than 31 May. This was done.
- 35. These Regulations also oblige the Authority to approve and publish the audited Statement of Accounts by 31 July 2019, and the Audit and Standards Committee is scheduled to do this on 30 July.

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 reviewed by Members twice a year.
- 39. The final review of 2018/19 would normally have been brought to Policy and Resources Committee in September, to allow inclusion of audited data within the Prudential Code Indicators, but has been brought forward this year.

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. An extract of the relevant elements of WCC Treasury Management Strategy for 2018/19 is included at Appendix 4

43. At 31 March 2018 the Authority had long-term debt totalling £11.137m. Of this total £0.500m was repaid, as planned, during the financial year 2018/19. There has been no additional borrowing requirement during this financial year, so the balance that remains outstanding at the end of March 2019 is £10.637m.
44. In accordance with the SLA investment risk is shared with WCC proportionate to the relative funds invested. At 31 March 2019 the share of investment is as below:

	£m
Money Market Funds (Instant Access)	2.116
Cash Plus Funds	1.667
On Call	0.950
Other Local Authorities	0.667
	5.400

45. 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.
46. Historically performance has been measured against the “7-Day London Inter-bank Bid Rate” (LIBID) as a benchmark. However, the very low risk strategy evolved for Authority investment means that at present this measure is less meaningful. The relevant figure for the second half of 2018/19 was an average of 0.58%.
47. 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

48. In considering the budget and precept for the year, the Authority approves indicators and limits in respect of capital expenditure, borrowing and revenue consequences.
49. These are set by the Authority, as part of the overall budget setting process, in February prior to the start of the financial year.
50. Appendix 5 sets out the relevant indicators as they were approved and how they have out-turned, and demonstrates that they are within the limits of the Medium Term Financial Plan.

Conclusions

51. It can be seen that the Authority's finances for 2018/19 were well controlled and that, despite the late one-off items, the resultant under spend is part of a planned response to known future budget constraints.
52. 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 Code Indicators has demonstrated that the Authority has complied with its Treasury Management targets.

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 2018/19 – Provisional Out-turn
Appendix 2: Reserves Strategy 2018/19 – Provisional Out-turn
Appendix 3a: Capital Budget 2018/19 – Provisional Out-turn
Appendix 3b: Capital Budget (Minor Schemes) 2018/19 – Provisional Out-turn
Appendix 4: Treasury Management Strategy 2017/18 (WCC Extract)
Appendix 5: Prudential Code Indicators – 2017/18 Provisional Out-turn

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