Hereford & Worcester Fire Authority
21 June 2023

Report of the Treasurer

Provisional Financial Out-turn 2022-23

Purpose of report

1. To receive provisional financial results 2022-23, to review Treasury Management activities and to confirm compliance with the Prudential Code indicators.

Recommendation

It is recommended that the Authority:

i) Notes the provisional financial results for 2022-23;

ii) Approves the transfers to and from Earmarked Reserves in accordance with the Reserves Strategy;

a) £349,251 from the Organisational Excellence Reserve;

b) £324,348 from the On-Call Recruitment Reserve;

c) £78,459 from Fire Control Project Reserve;

d) £76,020 from the ICT Replacement Reserve;

e) £74,046 from the Fire Prevention Reserve;

f) £49,000 from the Taxation Income Guarantee Reserve;

g) £29,374 to the Capital Building Projects Reserve;

h) £23,501 from the Sustainability Reserve;

i) £21,327 from the Protection Grants Reserve;

j) £15,478 from the Pensions Reserve; and

k) £139,843 from the Budget Reduction Reserve.

iii) Notes that the production of the 2022-23 Statement of Accounts has been delayed by the late completion of the 2021-22 Audit, that Treasurer will certify them outside the regulatory time-scale, and that the Audit of the accounts will be undertaken by Grant Thornton LLP; and

iv) Confirms that the Prudential Indicators for 2022-23 were within the limits set by the Authority and no matters require further action

Background

2. The two areas covered by this report normally come under the Terms of Reference of the Policy and Resources Committee, but the timetable of meetings does not provide a suitable date for this to be done and so this report is always considered by the Full Authority.

3. The two areas are:

   a. Provisional Financial Results
   b. Treasury Management and the Prudential Indicators

Provisional Financial Results

4. 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.

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

6. The basis of the Statement of Accounts differs from the statutory framework within which the Authority is required to manage its budget. The detail of the differences between the two is dealt with in more detail by the Audit and Standards Committee.

7. This report is concerned with the statutory position under which the Authority is charged with governance.

8. Members of the Audit & Standards Committee will be aware of the delays to the completion of the Audit of the 2021-22 Accounts *(the Committee approved the audited Accounts on 19 April 2023, with no material changes to the Statements as signed by the Treasurer in July 2022)*.

9. The Committee has considered the reasons behind this (which are part of a concerning national picture) and they do not need to be repeated here, however they have had a substantial knock on effect on the closure of 2022-23 and completion of the Statements.

10. Consequently, this provisional out-turn is more provisional than is usual, and the Accounts were not completed within the current statutory timescales.

Revenue Budget 2022-23

11. The financial year 2022-23 saw the continued economic impacts of global conditions, including very significant inflation and pay awards.

12. The Quarter 3 Budget Monitoring Report presented to Policy and Resources Committee in March identified a potential net overspending of £0.5m, and recommended that this be funded from the Budget Reduction Reserve.

13. The out-turn position, detailed in Appendix 1, which is split between the core budget and reserve funded projects, is summarised below:

		Core	Projects	Total
		£m	**£m**	**£m**
Employee Related	*Line 7*	25,927,099	693,202	26,620,301
Running Costs	*Line 29*	9,842,334	270,386	10,112,720
Capital Financing	*Line 31*	2,297,189	91,993	2,389,182
		38,066,622	1,055,581	39,122,203
Funding Grants	*Line 33*	(8,153,731)		(8,153,731)
Council Tax	*Line 34*	(25,821,586)		(25,821,586)
Business Rates & Grants	*Line 35*	(2,780,280)		(2,780,280)
Other Grants	*Line 36*	(1,185,957)		(1,185,957)
		(37,941,554)	0	(37,941,554)
		125,068	1,055,581	**1,180,648**
from TIG Grant Reserve		(49,000)		(49,000)
to Buildings Project Reserve		(29,374)		(29,374)
to Protection Grants Reserve		154,170		154,170
from ICT Replacements Reserve		(61,020)		(61,020)
		139,843	1,055,581	1,195,424
from Pensions Reserve			(15,478)	(15,478)
from On Call Recruitment Reserve			(324,348)	(324,348)
from Organisational Excellence Reserve			(349,251)	(349,251)
from Fire Control Reserve			(78,459)	(78,459)
from ICT Replacements Reserve			(15,000)	(15,000)
from Fire Prevention Reserve			(74,046)	(74,046)
from Protection Grants Reserve			(175,497)	(175,497)
from Sustainability Reserve			(23,501)	(23,501)
		139,843	(0)	139,843
from Budget Reduction Reserve		(139,843)		(139,843)
		0	(0)	0

14. The net position is significantly better than forecast in March, largely due to the late receipt of additional Business Rate Support Grant, the share of the 2022-23 Rates Pool surplus and a positive adjustment to the 2021-22 Pool surplus (following completion of some Billing Authority audits).

15. The picture is slightly more complicated than this, however, and more details are given below, but the resultant demand on the Budget Reduction Reserve is now only £139,843 compared to the £0.5m forecast in March.

16. A summary comparison of Budget, Out-turn and the March forecast is given below:

		Core Budget £m	Core Out-turn £m	Core Variation £m	March Forecast £m
Employee Related	*Line 7*	25,270,400	25,927,099	656,699	955,700
Running Costs	*Line 29*	8,755,600	9,842,334	1,086,734	30,000
Capital Financing	*Line 31*	2,827,000	2,297,189	(529,811)	(450,000)
		36,853,000	38,066,622	1,213,622	535,700
Funding Grants	*Line 33*	(8,153,300)	(8,153,731)	(431)	
Council Tax	*Line 34*	(25,821,600)	(25,821,586)	14	
Business Rates & Grants	*Line 35*	(2,035,500)	(2,780,280)	(744,780)	(18,500)
Other Grants	*Line 36*	(1,002,000)	(1,185,957)	(183,957)	(4,176)
		(37,012,400)	(37,941,554)	(929,154)	(22,676)
		(159,400)	125,068	284,468	513,024
from TIG Grant Reserve		(49,000)	(49,000)	0	
to Buildings Project Reserve		208,400	(29,374)	(237,774)	
to Protection Grants Reserve			154,170	154,170	
from ICT Replacements Reserve			(61,020)	(61,020)	
		0	139,843	139,843	513,024

17. The key variations on the expenditure side are shown in Appendix 1 and explained below:

a. Employee Related **£0.657m over:** The impact of both the Grey and Green book pay awards has been considered by the Authority on several occasions throughout the year. The position is somewhat better than the forecast as more staff were involved in Reserve funded projects than were included in the March estimate.

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b. Running Costs **£1.087m over:** There are a number of different impacts here and the key ones are outlined below:

i. Property: **£0.401m** overspend. A recent review has identified that some costs that are currently charged to revenue actually relate to minor capital schemes and work is underway with the PCC property team to identify these and recode them appropriately. If this is the case it is proposed to fund this capital from revenue, increasing the Capital Financing figure, and leaving the overall out-turn position unchanged

ii. In addition, the budget assumes that **£0.100m** of relevant PCC property team costs would be capitalized against major building projects. However, these projects were not significantly advanced in 2022/23 to allow this. However, this is partially offset by savings in the Capital Financing budget.

iii. Strategic Management: **£0.062m** continued investment in leadership development across the service and control of the Invest to Improve project portfolio.
iv. Operational Policy: **£0.075m**, mainly costs of over-border support for a number of major incidents in the year
v. Fleet: **£0.147m**, mainly fuel cost above the estimated additional inflation included in the budget.
vi. Operational Logistics: **£0.167m,** includes the costs of proper cleansing of foam tanks to safely remove residual Persistent Organic Pollutants.
vii. Net Other: **£135m**

c. Capital Financing **£0.530m under** This is mainly due to the frequently reported slippage in the capital programme and £0.450m of this was already recognized and forecast in the Quarter 3 monitoring report. The net balance is largely due to significantly increased investment returns as a result of increased interest rates (Note this is a relative increase from a very low base)
This figure may be amended subject to any adjustments regarding property schemes (see 17 (b)(i) above).

18. This overall additional expenditure, compared to the Quarter 3 forecast has been more than offset by additional funding which is outlined below:

a. Business Rates and Grants **£0.745 additional**, of which there are four elements:
i. **£0.502m:** 2022/23 Business Rate Reconciliation Grant paid by DLUHC in late January. This was unexpected and not budgeted (but this was the same for all Fire Authorities in the region).
ii. **£0.047m**: Levy Surplus Grant 2021/22. A distribution of the national surplus left in this fund, and is not within the control of the Authority.
iii. **£0.128m**: The Authority's estimated share of the 2022/23 Business rate Pool gain. This is subject to confirmation of final audit of Billing Authorities and may change in the future (see below).
iv. **£0.048m**: adjustment to the Authority's estimated share of the 2021/22 following final audit of one Billing Authority. This may change again as other audits are completed.
v. **£0.020m**: late adjustment to Collection Fund surplus, already reported.

b. Other grants **£0.184m:** a number of un-budgeted grant the major one being the repeating but annually allocated Fire Prevention Grant of £0.169m. Of which the £0.154m not spent this year is to be taken to the Protection Grant Reserve.

19. In accordance with approved plans, significant expenditure £1.1m has been incurred on reserve funded projects – largely the Invest to Improve programme - and these are shown as funded from the appropriate reserve.

20. The total impact of all these factors is for a net transfer from reserves of £1.2m as indicated below:

from Organisational Excellence Reserve	(349,251)
from On Call Recruitment Reserve	(324,348)
from Fire Control Reserve	(78,459)
from ICT Replacements Reserve	(76,020)
from Fire Prevention Reserve	(74,046)
from TIG Grant Reserve	(49,000)
from Buildings Project Reserve	(29,374)
from Sustainability Reserve	(23,501)
from Protection Grants Reserve	(21,327)
from Pensions Reserve	(15,478)
from Budget Reduction Reserve	(139,843)
	(1,180,648)

21. The impact on individual reserves is shown in Appendix 2, and show that whilst balances fell it was not quite as fast as was anticipated in February 2023; however, this is after largely due to the late receipt of Business Rate grants and Rate Pooling gains, of £0.7m, as explained in 18(a) above.

22. The commencement of these invest to save projects, and further approved Schemes (e.g. Fire Control replacement, completion of Broadway Fire station, Breathing Apparatus replacement etc.) mean that there will be a further significant fall in reserves in 2023/24.

Capital Budget 2022-23

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

	Vehicles	Major Builds	Major Equip	Alloc. Minor	Unalloc Minor	Future Builds	TOTAL
	£m	£m	£m	£m	£m	£m	£m
Approved at Mar 2023	**3.826**	**8.183**	**0.590**	**2.660**	**0.058**	**12.682**	**27.999**
Major Scheme Allocation		0.333				(0.333)	**0.000**
Minor Scheme Allocation				0.124	(0.124)		**0.000**
Sustainability Reserve				0.023			**0.023**
ICT Reserve Adjustment					0.108		**0.108**
	3.826	**8.516**	**0.590**	**2.807**	**0.042**	**12.349**	**28.130**
Expenditure to 2021/22	1.345	7.473	0.431	0.664			**9.913**
Available Budget	**2.481**	**1.043**	**0.159**	**2.143**	**0.042**	**12.349**	**18.217**

24. Major Schemes provision is that for Hereford, Redditch and Broadway Fire Stations and the North Herefordshire Strategic Training Facility, which are not disclosed separately in case they prejudice any future tender/contract processes.

25. Expenditure against these schemes has been slow for a number of reasons including significantly longer lead times on supplies from the European Union.

26. It should be noted that the Future Builds provision still includes the Redditch scheme even though it is intended that this will now be funded via the PCC. This is because we are waiting an opportunity to adjust the budget without disclosing

information which may identify individual scheme provisions before contracts have been awarded.

27. Excluding the Future Buildings provision, total budgets of £5.527m were approved with expenditure of £2.783m being incurred. This figure may increase following review of property costs as referred to at 17 (b)(i) above.

28. In relation to the schemes in Appendix 3 that are showing apparent overspends, the following information is provided:

    a. Response Vehicles *(Line 13)* **£0.099m**: this scheme was split over two years, but it has been beneficial to order as a single batch, with some delivery slightly earlier than was planned. There is capital provision in 2023/24 and the timing will have a marginal impact on capital finance in costs.
    b. Traffic Management – Droitwich *(Line 44)* **£0.004m**: it is believed that this a revenue cost and will be adjusted as part of the review referred to at 17 (b)(i) above.
    c. Ladders *(Line 71)* **£0.010m**: is again an early order against a 2023/24 allocation.

Role of the Audit and Standards Committee

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

30. 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.

31. This is because there are significant items which are: either required to be charged by statute but which are not permitted under IFRS, or required to be charged under IFRS but which are prohibited by statute.

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

33. 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 has not been achieved (see below).

34. Members of the Audit and Standards Committee will be aware of the prolonged audit of the 2021-22 Accounts (although no material changes were required as a result) and this has already had a knock-on effect on the production of the 2022-23 statements. It has also now emerged that due to the delay in signing off the 2021-22 statements, the External Auditors may now require a recalculation of pension liability data (to reflect data now available) and amendment of the 2021-22 accounts. If it is necessary to carry this out it will further divert resources from production of the 2022-23 statements.

35. The Treasurer is in discussion with the External Auditor about the implications of this requirement. Whilst it is technically correct, it arises solely because of the delays to the Audit and, given that the 2022-23 statements will be published soon, it is the Treasurer's view that this change will not have a material impact on users of the Accounts.

36. These Regulations also oblige the Authority to approve and publish the audited Statement of Accounts normally by 31 July.

Treasury Management and Prudential Indicators

37. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to 'have regard to' the Chartered Institute of Public Finance and Accountancy (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.

38. This guidance continues to make 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.

39. In accordance with both the CIPFA 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.

40. The final review of 2022-23 would normally have been brought to Policy and Resources Committee in September but this has again been brought forward to the Fire Authority.

Treasury Management Activities

41. 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.

42. 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.

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

44. At 31 March 2022 the Authority had long-term debt totalling £10.411m, and during 2022-23 £1.365m was repaid as planned, bringing the total debt at 31 March 2023 to £9.046m.

45. As revenue reserves (currently used in lieu of external borrowing) are used up as the Invest to Improve projects are progressed, it may be necessary to take further borrowing in future.

46. As a rule of thumb borrowing should not (other than temporarily) exceed the Capital Financing Requirement (CFR), which at 31 March 2023 provisionally stands at £19.265m.

47. In accordance with the SLA investment risk is shared with WCC proportionate to the relative funds invested.

48. 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.

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 4 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.

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
Data Protection Impact Assessment (where personal data is processed a DPIA must be completed to ensure compliant handling)	n/a - No personal data is involved

Supporting Information

Appendix 1: Revenue Budget 2022-23: Provisional Out-turn
Appendix 2: Reserves Strategy 2022-23: Provisional Out-turn
Appendix 3: Capital Budget 2022-23: Provisional Out-turn
Appendix 4: Prudential Indicators 2022-23: Provisional Out-turn