Hereford & Worcester Fire Authority
26 June 2024

Report of the Treasurer

Provisional Financial Out-turn 2023-24

Purpose of report

1. To receive provisional financial results 2023-24, 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 2023-24;

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

a) £367,355 from the Organisational Excellence Reserve;

b) £324,108 from the On-Call Recruitment Reserve;

c) £84,318 from Fire Control Project Reserve;

d) £428,026 from the ICT Replacement Reserve;

e) £95,916 from the Fire Prevention Reserve;

f) £46,000 from the Taxation Income Guarantee Reserve;

g) £854,551 from the Capital (Building) Projects Reserve;

h) £7,197 to the Protection Grants Reserve;

i) £94,000 from the Development Reserve;

j) £24,592 from the Safety Initiatives Reserve;

k) £616,808 from the RPE/BA Replacement Reserve;

l) £47,435 from the Property Maintenance Reserve;

m) £24,726 from the Pensions Reserve; and

n) £139,439 from the Budget Reduction Reserve.

iii) Confirms that the Prudential Indicators for 2023-24 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) and published 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.

Revenue Budget 2023-24

8. The Quarter 3 Budget Monitoring Report presented to Policy and Resources Committee in March identified a revised budget deficit of £117,000 and a projected over-spend of £27,000 – giving a total call on the Budget Reduction Reserve of £144,000.

9. The out-turn position, detailed in Appendix 1, (split between the core budget and reserve funded projects), and the core budget is summarised below. This shows a marginally reduced overspend at £23,000 and call on the Budget Reduction Reserve of £139,000.

		Revised Budget £	Provisional Out-turn £	Provisional Variation £
Employee Related	*Line 7*	27,448,200	27,683,554	235,354
Running Costs	*Line 29*	9,604,600	10,327,752	723,152
Capital Financing	*Line 31*	2,399,000	1,854,254	(544,746)
		39,451,800	**39,865,560**	**413,760**
Funding Grants	*Line 33*	(8,785,800)	(8,776,705)	9,095
Council Tax & Coll. Fund	*Line 34*	(27,246,000)	(27,244,229)	1,771
Business Rate	*Line 35*	(2,463,700)	(2,463,652)	48
Business Rate S31 Reliefs	*Line 36*	(643,200)	(768,653)	(125,453)
Business Rate Pool Gain	*Line 37*	0	(96,858)	(96,858)
Special Grants	*Line 38*	(960,700)	(1,141,551)	(180,851)
		(40,099,400)	**(40,491,648)**	**(392,248)**
		(647,600)	(626,088)	21,512
Reserve Transfers		763,900	765,527	1,627
		116,300	**139,439**	**23,139**
Budget Reduction Reserve		(116,300)	(139,439)	(23,139)
		0	**0**	**0**

10. Variation in Expenditure totals £414,000 and a summary of each of the three budget areas is given here:

    a. Employee related: £235,000. The underlying reasons for these variations are unchanged from what was reported to Policy and Resources Committee in March 2024, but Members are reminded that there was overspending on the Resilience Register to support WT availability which was offset by savings in allowances (as a result of delayed implementation of the new Day Crewing arrangements). It is anticipated that the full year impact of the new Day Crewing arrangements and, if approved, the Resource Review recommendations elsewhere on this agenda, will have a positive impact on this budget in 2024/25
    b. Running Costs: £723,000 of which £168,000 is matched by use of earmarked reserves leaving a net figure of £555,000. This compares to Quarter 3 projections of £299,000, £94,000 and net £205,000. An overall change of £350,000. There are 2 major reasons for this change:
        i. Finance SLA costs – represents re-alignment of External Audit fee costs. Previously these were charged to the year when the Audit was carried out, but the Treasurer agrees with the new External Auditors that the correct treatment is to charge to the year to which they relate. This has a one off impact of around £64,000.
        ii. Property Services: Due to a lack of accurate financial information at Quarter 3, this budget was assumed to be neutral but the out-turn is showing significant variations in Utilities, Cleaning and Business Rates costs. Officers are liaising with the PCC property team to understand the reasons.
    c. Capital Financing: £545,000. Of which £400,000 was identified at Quarter 3. The change since then is almost entirely due to the Treasurer's initial caution about releasing capital financing savings too early.

11. In respect of the Funding there is more variation of £392,000 of which of £169,000 of the Special Grant variation (£180,000) relates to Protection Grant which is being taken to Earmarked Reserves leaving a net difference of £223,000. This is largely made up of:

   a. Business Rate Pool surplus £96,000. This figure is not budgeted because it is not guaranteed.
   b. S31 Business Rate Relief – improved by £125,000. This is subject to the business rate collections of the individual Billing Authorities and may change in future as 2023/24 Billing Authorities are audited (Note: some are their audits are several years in arrears)

12. In addition to the Core Budget, Appendix 1, Column 5 shows expenditure of £3,766,000 on reserve funded projects – mostly the Invest to Improve Programme. This expenditure is summarised below:

	Invest to Improve £	**Other £**	**TOTAL £**
Broadway FS Replacement	1,338,073		1,338,073
BA Replacement	916,808		916,808
NOG Project	367,355		367,355
On Call Project	324,108		324,108
Alerting Station End Equipment		187,289	187,289
Protection Grants		182,835	182,835
Equipment Tracking	138,075		138,075
Intel Systems	102,662		102,662
Prevention Reserve		95,916	95,916
Fire Control Replacement	84,318		84,318
Firefighter Pension Remedy		24,726	24,726
Safety Initiatives		4,000	4,000
	3,271,399	**494,766**	**3,766,165**

Impact on Reserves

13. For explanatory purposes the core budget and reserve funded projects have been treated separately, but the consequential net movement in reserves is brought together in the table below:

	Core £	Out-turn £	Projects £	Total £
EMR Developments	(94,000)		0	(94,000)
EMR Pensions	0		(24,726)	(24,726)
EMR Property Maint.	(47,435)		0	(47,435)
EMR Fire Control	0		(84,318)	(84,318)
EMR Safety Initiatives	0		(24,592)	(24,592)
EMR Protection Grants	169,439		(162,243)	7,197
EMR TIG Reserve	(46,000)		0	(46,000)
EMR Organisational Excellence	0		(367,355)	(367,355)
EMR On Call Project	0		(324,108)	(324,108)
EMR ICT Replacements	0		(428,026)	(428,026)
EMR Capital (Building) Projects	483,522		(1,338,073)	(854,551)
EMR Fire Prevention	0		(95,916)	(95,916)
EMR BA Replacement	300,000		(916,808)	(616,808)
EMR Budget Reduction		(139,439)		(139,439)
	765,527	**(139,439)**	**(3,766,165)**	**(3,140,077)**

14. The impact on individual reserves is shown in Appendix 2, and shows that whilst balances fell significantly it was not quite as fast as was anticipated in February 2024. This is because expenditure on some Invest to Improve projects has not incurred as early as was anticipated, although these projects are well underway.

Capital Budget 2022-23

15. Details of the approved capital budgets are set out in detail in Appendix 3, and are summarised in the table below:

	Vehicles £m	Major Builds £m	Major Equip £m	Alloc. Minor £m	Unalloc Minor £m	Future Builds £m	TOTAL £
Approved Feb 2024	5.062	2.423	1.300	2.912	0.315	8.632	**20.644**
Major Scheme Allocation	(0.003)			(0.060)	0.063		**0.000**
Minor Schemes Allocation		0.130				(0.130)	**0.000**
Reserve Funded				0.210			**0.210**
	5.059	2.553	1.300	3.062	0.378	8.502	**20.854**
Expenditure to 2022/23	2.982	0.737		0.949			**4.668**
Available Budget	2.077	1.816	1.300	2.113	0.378	8.502	**16.186**

16. Major Schemes provision is that for Hereford Fire Station, the North Herefordshire Strategic Training Facility, and some costs for the relocation of training. These are not disclosed separately in case they prejudice any future tender/contract processes.

17. Allowing for the schemes awaiting approval or paused, actual expenditure has been at 70% which is the best performance for a number of years.

	£m
Capital Budget	**20.854**
Less: Future Building Schemes	(8.502)
Less: Unallocated Minor Schemes	(0.377)
Less: Paused Pump Replacement	(1.747)
Less: Prior Year Expenditure	(4.668)
Available to Spend 2023/24	**5.560**
Actual Spend 2023/24	**3.882**
	70%

18. Of the total revised Capital Budget of £20.854m, schemes totalling £4.563m (Lines 76 and 77 in Appendix 3) are completed and closed and will be removed from future monitoring reports.

Role of the Audit and Standards Committee

19. 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.

20. 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 the Provisional Financial Results element of this report.

21. 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.

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

23. 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.

24. These Regulations also oblige the Authority to approve and publish the audited Statement of Accounts normally by 30 September.

25. Members of the Audit and Standards Committee will be aware that the prolonged audit of the 2021-22 Accounts has already had a knock-on effect on the production of the 2022-23 statements. This will have a consequence on completion of the 2023-24 Statements. The Treasurer is working with both Grant Thornton as auditors of the 2022-23 statements and Bishop Fleming as auditors of 2023-24 to try to recover this slippage as soon as practical, however this may take several years.

Treasury Management and Prudential Indicators

26. 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.

27. 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.

28. 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.

29. The final review of 2023-24 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

30. 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.

31. 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.

32. 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.

33. At 31 March 2023 the Authority had long-term debt totalling £9.046m, and during 2023-24 £0.211m was repaid as planned, bringing the total debt at 31 March 2024 to £8.835m.

34. 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.

35. As a rule of thumb borrowing should not (other than temporarily) exceed the Capital Financing Requirement (CFR), which at 31 March 2024 provisionally stands at £21.172m.

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

37. 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

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

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

40. 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 & Core Code of Ethics (Identify how proposals link with current priorities & policy framework and align to the Core Code of Ethics)	Budget prepared in support of current policy priorities, in line with the CRMP and MTFP. The report has been prepared also to support the ethical principles in line with the Core Code of Ethics.
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: Provisional Out-turn 2023-24: Revenue Budget
Appendix 2: Provisional Out-turn 2023-24: Reserves Strategy
Appendix 3: Provisional Out-turn 2023-24: Capital Budget
Appendix 4: Provisional Out-turn 2023-24: Prudential Indicators