Hereford & Worcester Fire Authority
30 May 2018

Report of the Treasurer

Financial Matters 2017/18

Purpose of report

1. To receive provisional financial results for 2017/18, to approve treatment of financial variations and transfers to and from reserves.

2. To approve revisions to the Medium Term Financial Plan (MTFP)

3. To review Treasury Management activities for 2017/18 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 2017/18;

ii) Approves the transfers between reserves as below;

i. £0.574m from the Grant Phasing Reserve

ii. £0.285m from the Equipment Reserve

iii. £0.045m from the NNDR Phasing Reserve

iv. £0.659m to the Property Maintenance Reserve

v. £0.308m to the ESMCP Reserve

vi. £0.511m to the Budget Reduction Reserve

vii. £0.267m to a new Pay Award Reserve

iii) Note that the Treasurer will certify the 2017/18 Statement of Account, in accordance with the regulatory time-scale, on 31st May;

iv) Note that the Audit of the accounts will be undertaken by Grant Thornton LLP;

v) Confirm the changes to the MTFP and the consequential adjustments to the phasing of the use of balances within the approved Reserves Strategy;

vi) Note that the MTFP is now balanced to 2023/24; and

vii) Confirm that the Prudential Indicators for 2017/18 were within the limits set by the Authority and no matters require further action.

Background

4. This report brings together three areas that have historically been reported to the Fire Authority and/or Policy & Resources Committee over the period June to September.

5. These are being brought together early, partly as a result of the revised time-frame for the approval of the Statement of Accounts and partly due the potential demise of the existing Fire Authority, originally anticipated at 31st May 2018.

6. The three areas, to be dealt with in sequence are;

   a. Provisional Financial Results

   b. Revision to the Medium Term Financial Plan

   c. Treasury Management and the Prudential Indicators

Provisional Financial Results

7. Although financial matters are within the remit of the Policy and Resources Committee, the Committee would not normally meet between the end of the financial year and the date by which the Statement of Accounts must be approved by the Treasurer. As a consequence the necessary decisions will need to be made by the full Authority.

8. Detailed budget monitoring reports have been presented to the Policy and Resources Committee on a quarterly basis throughout 2017/18, and, subject to the specific areas to be highlighted, the out-turn is consistent with this reporting.

9. Under normal circumstances, the Audit and Standards Committee would consider the full Statement of Accounts; which will be completed on the basis of International Financial Reporting Standards (IFRS); in July following completion of the external audit. It is not yet clear how this will be dealt with if the Authority ceases to exist.

10. 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.

11. 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

12. The approved net revenue budget for 2017/18 was £32.897m *(Appendix 1 Line 36 Column 1)*

13. This was funded by:

    a. Grants, precept and business rate figures £31.940m *(Appendix 1 Line 50 Column 1)and;*

    b. Planned use of earmarked reserves £0.957m *(Appendix 1 Line 59 Column 1)*

14. On 28th March 2018 the Policy and Resources Committee received the third quarter Budget Monitoring report which forecast a year end net underspend of £0.720m. Largely due to savings in the costs of excess staff.

15. The Committee approved the addition of £0.713m to the Property Maintenance Reserve (a net increase of £0.659) and noted a £0.200m reduction in the call on the Budget Reduction Reserve and the use of £0.193m from the Equipment Reserve.

16. Appendix 1 shows that the final position is now an under spending, against the Net Budget, of £1.362m *(Appendix 1 Line 36 Column 3).*

17. In addition Funding Grants (*Appendix 1 Line 50 Column 3)* are £0.436m greater than budgeted.

18. A summary of the gross variations, with a comparator to the Quarter 3 projection is given below:

	Quarter 3 Variance £m	**Change £m**	**Provisional Out-turn £m**
Employee Costs	**0.050**	(0.199)	**(0.149)**
Information & Comms Technology	**0.000**	(0.191)	**(0.191)**
Human Resources	**0.000**	(0.076)	**(0.076)**
Ops Logistics	**0.193**	0.092	**0.285**
Other Running Costs	**0.000**	(0.117)	**(0.117)**
Capital Financing	**0.000**	(0.001)	**(0.001)**
Pay Awards	**0.000**	(0.267)	**(0.267)**
Excess Staff	**(0.913)**	0.067	**(0.846)**
	(0.670)	**(0.692)**	**(1.362)**
Fire Revenue Grant	**0.000**	(0.080)	**(0.080)**
S31 Business Rate Grants	**(0.050)**	(0.001)	**(0.051)**
ESMCP Grants	**0.000**	(0.308)	**(0.308)**
Other Grants	**0.000**	0.003	**0.003**
	(0.720)	**(1.078)**	**(1.798)**
To/(from) Budget Reduction Reserve	**0.200**	0.595	**0.795**
to/(from) CSR Phasing Reserve	**0.000**	0.000	**0.000**
to/(from) NNDR Reserve	**0.000**	0.000	**0.000**
To/(from) Property Reserve	**0.713**	0.000	**0.713**
To/(from) Equipment Reserve	**(0.193)**	(0.092)	**(0.285)**
To/(from) ESMCP Reserve	**0.000**	0.308	**0.308**
To/from) Pay Award reserve	**0.000**	0.267	**0.267**
	(0.000)	**0.000**	**0.000**

19. Some of this gross change is offsetting i.e.

a. Late receipt of £0.308m of ESMCP Grants for future costs on the further delayed project is recommended to be transferred to reserves.

b. The July 2017 pay award has not been settled so the resultant underspends is recommended to be transferred to reserves.

c. Expenditure on equipment, to be funded from the reserve was incurred earlier than forecast resulting in a larger contribution from this reserve,

20. The table below is adjusted for these items:

	Change from Q3 £m	Off-Setting £m	Underlying change £m
Employee Costs	**(0.199)**		**(0.199)**
Information & Comms Technology	**(0.191)**		**(0.191)**
Human Resources	**(0.076)**		**(0.076)**
Ops Logistics	**0.092**	(0.092)	**0.000**
Other Running Costs	**(0.117)**		**(0.117)**
Capital Financing	**(0.001)**		**(0.001)**
Pay Awards	**(0.267)**	0.267	**0.000**
Excess Staff	**0.067**		**0.067**
	(0.692)	**0.175**	**(0.517)**
Fire Revenue Grant	**(0.080)**		**(0.080)**
S31 Business Rate Grants	**(0.001)**		**(0.001)**
ESMCP Grants	**(0.308)**	0.308	**0.000**
Other Grants	**0.003**		**0.003**
	(1.078)	**0.483**	**(0.595)**
To/(from) Budget Reduction Reserve	**0.595**		**0.595**
to/(from) CSR Phasing Reserve	**0.000**		**0.000**
to/(from) NNDR Reserve	**0.000**		**0.000**
To/(from) Property Reserve	**0.000**		**0.000**
To/(from) Equipment Reserve	**(0.092)**	0.092	**0.000**
To/(from) ESMCP Reserve	**0.308**	(0.308)	**0.000**
To/from) Pay Award reserve	**0.267**	(0.267)	**0.000**
	0.000	**0.000**	**0.000**

21. The projected third quarter variations have been explained in detail at Policy & Resources Committee but the main reasons for the change in the variation are given below:

a. -£0.199m – underspend on Employee costs mostly elating to On-Call (RDS) pay , reflecting continuing lower levels of operational activity..

b. £0.191m – delays in delivery of ICT strategy as of staff retention and recruitment issues and consequent later commencement of licences.

c. -£0.076m – underspending in HR on recruitment, occupational health and development training

d. -£0.117m – net underspending on other running costs (equal to 2% of those budgets)

e. +£0.067m – where actual costs of excess staff (funded in line with the approved strategy) were slightly greater than forecast at Quarter 3.

f. -£0.080m – additional grant for New Dimensions and Airwave, as a result of grant allocations being made on a part year basis.

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

	£m
Net Expenditure	31.535
Grants, Business Rates & Precept	(32.376)
Net Surplus	(0.841)

23. It is recommended that this surplus is dealt with as below:

	£m
Transfer to Property Maintenance Reserve *as agreed by Policy & Resources Committee*	0.659
Transfer to ESMCP Reserve *grant for future expenditure on delayed project*	0.308
Transfer to a Pay Award Reserve *to meet backdated costs when award agreed*	0.267
Transfer from Equipment Reserve *to meets costs as agreed*	(0.285)
Transfer from Grant Phasing Reserve *in accordance with agreed MTFP funding strategy*	(0.574)
Transfer from NNDR Phasing Reserve *in accordance with agreed MTFP funding strategy*	(0.045)
Transfer to Budget Reduction Reserve *balancing figure*	0.511
	0.841

24. The impact of these changes on the MTFP and approved Reserves Strategy is given in detail in paragraphs 37-48 below.

Capital Budget

25. In June 2016 the Fire Authority changed the way in which the capital programme is reported.

26. 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 un-committed sums at year end being automatically rolled forward until completion of the scheme.

27. The Programme is split between:

    a. Schemes that have received approval for spend
        i. Vehicle Replacement.
        ii. Major Building Works.
        iii. Fire Control Project
        iv. Minor Schemes - *detailed allocation made by SMB*
    b. Schemes awaiting either Policy and Resources Committee approval to incur expenditure (Major Building Schemes) or Senior Management Board (SMB) allocation (Minor Schemes

28. Appendix 2 shows the expenditure incurred on individual schemes and shows that £2.567m has been incurred on approved schemes in 2017/18.

29. Minor schemes shown as completed 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 no later than 31st May. This is currently proceeding to plan for the Treasurer to sign tomorrow.

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

36. It is not yet clear where responsibility for approving the 2017/18 Statement of Accounts will fall, once the Authority has ceased to exist.

Revised Medium Term Financial Plan (MTFP)

37. In February 2018 the Fire Authority approved an MTFP for the period up to 2023/24 based on a set of assumptions about an unknown funding future.

38. The limitations on this forecast remain as outlined to the Authority in February, i.e.:
    a. overall public spending levels,
    b. the local government share,
    c. the size of the fire "pot"
    d. individual fire authority allocations
    e. business rate yield volatility
    f. the impact of 75% business rate retention

39. All of these remain unknown, but will come into effect in the 2020/21 financial year, and government has informally indicated that Authorities will not be aware of the details of the individual impacts until late November or early December 2019.

40. There are however three events that affect the known areas of the plan and that have a consequential significant impact on the phasing of the budget gap.

41. These items are:

    a. Late provision of Retained Business Rate information by two of the billing authorities
    b. Policy and Resources Committee approval of lease terms for the vacated HQ building
    c. The provisional out-turn position for 2017/18

42. As a reminder, the MTFP as approved in February is summarised below:

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	£m	£m	£m	£m	£m
MTFP Expenditure Need	32.236	33.299	33.988	34.145	34.852	35.438
MTFP Use of Property Reserve	(0.260)	(0.120)	(0.185)	(0.160)	(0.147)	
MTFP Forecast Resources	(31.938)	(32.234)	(32.181)	(33.023)	(33.910)	(34.822)
MTFP Core Budget Gap	**0.038**	**0.945**	**1.622**	**0.962**	**0.795**	**0.616**
Using General Balances		(0.300)				
Using Budget Reduction Res.	(0.038)	(0.645)	(1.622)	(0.962)	(0.098)	
MTFP Gap	**(0.000)**	**0.000**	**0.000**	**0.000**	**0.697**	**0.616**

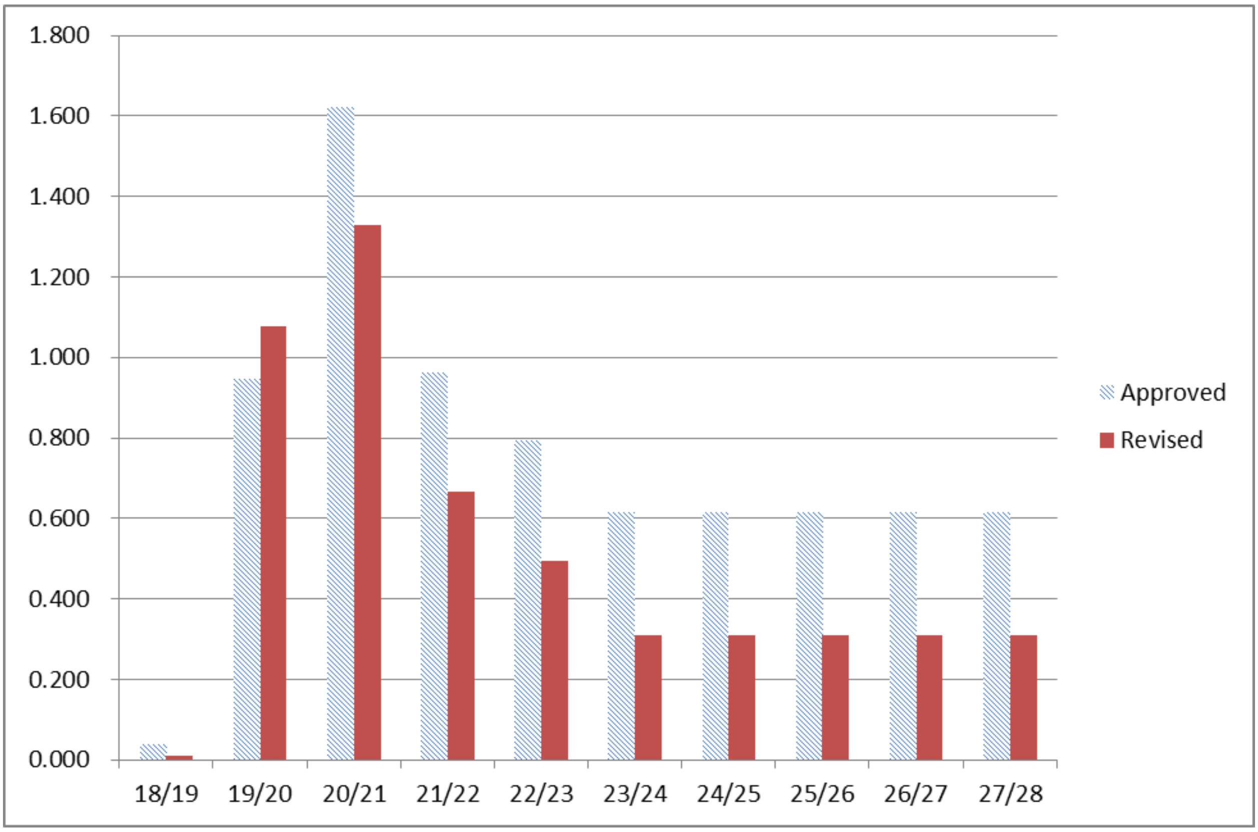
Un-committed Budget Reduction Reserve	0.000

43. The impact of the changes outlined at paragraph 41 (above) is shown below;

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
MTFP Core Budget Gap	0.038	0.945	1.622	0.962	0.795	0.616
Business Rates/ HQ Lease	(0.027)	0.132	(0.292)	(0.296)	(0.302)	(0.306)
Updated Core Budget Gap	**0.011**	**1.077**	**1.330**	**0.666**	**0.493**	**0.310**
Using General Balances		(0.300)				
Use of 17/18 underspend	(0.011)	(0.564)				
Using Budget Reduction Res.		(0.213)	(1.330)	(0.666)	(0.493)	(0.310)
Updated Budget Gap	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

Un-committed Budget Reduction Reserve	(0.374)

44. The impact of these changes can be seen in the graph below which shows the change in the underlying deficit project forward 10 years. (The period beyond 2023/24 is indicative only)



45. This shows that, all other things remaining the same, as the size of the gap has reduced this allows budget gap to be eliminated until the 2025/26 financial year and where the residual gap has fallen from £0.6m to £0.3m.

46. In the context of the MRFP strategy, this would give the Authority flexibility to deal with the future grant/funding arrangements, take a different line on council tax increases or have the ability to re-invest new efficiencies to save more lives rather than meet the funding reductions.

47. The revised MTFP is shown in full at Appendix 3 and the revised Reserves Strategy, now shown in more detail is set out in Appendix 4.

48. It should be noted that although overall reserves have increased by £0.841m, £0.675m of this is due to government early payment of ESMCP grant (£0.308m) and the late payment of the pay award (£0.267m).

Treasury Management and Prudential Indicators

49. 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.

50. 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.

51. 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.

52. The final review of 2017/18 would normally have been brought to Policy & Resources Committee in September, to allow inclusion of audited data within the Prudential Indicators, but has been brought forward this year.

Treasury Management Activities

53. 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.

54. 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.

55. 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 2017/18 is included at Appendix 5

56. At 31 March 2017 the Authority had long-term debt totalling £12.637m. Of this total £1.500m was repaid, as planned, during the financial year (2017/18). There has

been no additional borrowing requirement during this financial year, so the balance that remains outstanding at the end of March 2018 is £11.137m.

57. Surplus cash is invested on a day-to-day basis under a Service Level Agreement with Worcestershire County Council. The average interest rate achieved for the second half of the period was 0.28%.

58. In accordance with the SLA investment risk is shared with WCC proportionate to the relative funds invested. At 31st March 2018 the share of investment is as below:

	£m
Money Market Funds (Instant Access)	4.753
Cash+ Funds	3.852
Call	2.745
Debt Management Account Deposit Facility (DMADF) - HM Treasury	0.550
	11.900

59. 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.

60. 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 2017/18 was an average of 0.32%.

61. 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

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

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

64. Appendix 6 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.

Conclusions

65. It can be seen that the Authority's finances for 2017/18 were well controlled and that, despite the late one-off items, the resultant under spending is part of a planned response to known future budget constraints.

66. Subject to the estimates about the unknown funding future the Authority has a sustainable MTFP for the foreseeable future. In this period it does not need to make any further significant reductions but is in a good position to exploit future efficiencies to contribute to saving more lives.

67. The SLA with the County Council and the implied 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 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 2017/18 – Provisional Out-turn
Appendix 2: Capital Budget 2017/18 – Provisional Out-turn
Appendix 3: Revised MTFP 2018/19 to 2023/24
Appendix 4: Revised Reserves Strategy
Appendix 5: Treasury Management Strategy 2017/18 (WCC Extract)
Appendix 6: Prudential Indicators – 2017/18 Provisional Out-turn

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