Hereford & Worcester Fire Authority
22 June 2022

Report of the Treasurer

Provisional Financial Out-turn 2021-22

Purpose of report

1. To receive provisional financial results for 2021-22, to approve final transfers to/from reserves, and to approve the reallocation of reserves.

2. To review Treasury Management activities for 2021-22 and to confirm compliance with the Prudential Code indicators.

Recommendation

It is recommended that the Authority:

i) Notes the provisional financial results for 2021-22;

ii) Notes the transfers from Earmarked Reserves approved in accordance with the Reserves Strategy;

a) £132,400 from the Organisational Excellence Reserve;

b) £67,286 from the Emergency Services Mobile Communications Project (ESMCP) Reserve;

c) £38,495 from the Broadway Fire Station Reserve;

d) £5,000 from the On-Call Recruitment Reserve;

e) £277,141 from the Property Maintenance Reserve;

f) £7,910 from the Pensions Reserve;

g) £144,673 from the Protection Grants Reserve;

h) £48,035 from the Safety Initiatives Reserve; and

i) £51,154 from the Taxation Income Guarantee (TIG) Grant Reserve.

iii) Approves transfers to Earmarked Reserves as recommended by the Policy & Resources Committee:

a) £75,696 to the Safety Initiatives Reserve; and

b) £1,168,801 to the Capital Projects Reserve.

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

a) £192,675 to the Protection Grants Reserve;

b) £115,000 to the ICT Replacements Reserve;

c) £51,850 to the Pensions Reserve; and

d) £366,468 to the Capital Projects Reserve.

v) Approves the closure of the DCP Change Reserve and the transfer of the small remaining balance to the Safety Initiatives Reserve.

vi) Notes that the Treasurer will certify the 2022-22 Statement of Accounts, in accordance within the regulatory time-scale

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

viii) Confirms that the Prudential Indicators for 2021-22 were within the limits set by the Authority and no matters require further action

Background

3. The two areas covered by this report normally come under the Terms of Reference of the Policy and Resources Committee, but because they require attention between meetings of that Committee, they are considered by the Full Authority.

4. The two areas are:

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

Provisional Financial Results

5. 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.

6. 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.

7. 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.

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

Revenue Budget 2021-22

9. The financial year 2021-22 saw the continued impacts of Covid, economic impacts of exit from the European Union and latterly the impact of conflict in Ukraine.

10. An interim financial position was reported to the Policy & Resources Committee in May and identified a significant positive financial impact of a large late grant payment, and the Committee made recommendations as to its use.

11. The out-turn position, detailed in Appendix 1, is summarised below:

		£
Employee Related	*Line 7*	24,721,047
Running Costs	*Line 30*	8,155,353
Capital Financing	*Line 32*	2,365,581
Expenditure	*Line 33*	35,241,981
Funding Grants	*Line 34*	(7,504,676)
Council Tax	*Line 35*	(24,480,406)
Business Rates & Grants	*Line 36*	(3,090,931)
Special Grants	*Line 37*	(1,364,363)
Funding	*Line 38*	(36,440,376)
	Line 39	**(1,198,396)**

12. This will involve a net transfer to (i.e. an increase in) reserves of £1.198m and can in simple terms be attributed to late receipt of additional Business Rate Support Grant (as outlined in paragraph 18a below) of £1.169m.

13. However, the picture is slightly more complicated than this, as the total expenditure figure includes Invest to Improve (and other) spending which is being supported by specific earmarked reserves in accordance with the approved Reserves Strategy.

14. Of the total expenditure of £35.242m, £0.501m related to expenditure funded from reserves. This funding will come from those appropriate reserves and the impact is summarised below:

		Actual £	Reserves £	Core £
Employee Related	*Line 7*	24,721,047	(314,190)	24,406,857
Running Costs	*Line 30*	8,155,353	(148,255)	8,007,098
Capital Financing	*Line 32*	2,365,581	(38,495)	2,327,086
	Line 33	35,241,981	(500,940)	34,741,041

		Budget £	Core £	Variation £	
Employee Related	*Line 7*	24,387,000	24,406,857	19,857	over
Running Costs	*Line 30*	8,392,000	8,007,098	(384,902)	under
Capital Financing	*Line 32*	2,497,000	2,327,086	(169,914)	under

Line 33	35,276,000	34,741,041	(534,959)	under

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

    a. <u>Prevention</u> **£0.075m under** *(Line 13):* Smoke alarms. Due to worldwide shortages it has been difficult to replenish stocks. As reported to the Policy & Resources Committee, there have been sufficient stocks to continue with the visit programme in 2021-22, but the Committee specifically recommended that the underspend be reserved to be used when stocks become available.
    b. <u>Fleet</u> **£0.070m under** *(Line 16):* In spite of the increases in fuel prices in the last quarter of the year, reduced mileage resulting from Covid restrictions in the earlier part of the year have seen a temporary saving in the fuel budget.
    c. <u>Property</u> **£0.100m under** *(in Line 17)* Since the transfer of property management functions from Place Partnership (PPL) to the Police & Crime Commissioner (PCC) budgets are now much more on track but the position is impacted by a large retrospective rebate on business rates on closed fire stations.
    d. <u>ICT</u> **£0.0115m under** *(Line 19)* Supply change delays causing late delivery of some hardware
    e. <u>Performance & Information</u> **£0.040m under** (*in Line 20*) Budget made provision for public consultation on changes to the Attendance measure, however this will now take place in 2022-23.
    f. <u>Insurances</u> **£0.067m over** *(Line 25)* Increased premiums as a result of a hardening market and recent claims experience.
    g. <u>Travel Costs</u> **£0.059m under** *(in Line 26)* Reduced claims for travel and subsistence etc, as a result of Covid restrictions and other changed working arrangements. This was forecast as a £0.050m underspending from Quarter 2.
    h. <u>Capital Financing</u> **£0.170 under** *(Line 31)* Arising from delay in capital spend in 2020-21 and 2021-22; was forecast as £0.160m from Quarter 2.
    i. Net other variations total £0.027m over.

16. The total variation £0.535m represents 1.5% of the relevant budget.

17. Of this total variation it is planned to take certain items to reserves to meet the expenditure when deliveries are again available:

    a. £75,696 to pay for smoke alarms - as recommended by the Policy & Resources Committee.
    b. £115,000 to cover delayed ICT hardware supplies.
    c. Remainder £344,264 – proposed transfer to Capital Projects Reserve (see paragraph 22 below).

18. On the funding side, Appendix 1 shows that the out-turn has exceeded the budget by £1.493m (i.e. there is more income than budgeted). This is attributable to additional and unexpected grants being paid at the end of (and after) the financial year.

a. Business Rate – Retail Relief Grant **£1.168m additional** *(in Line 36):* Members may recall that in 2020/21 government introduced significant additional Business Rate reliefs for retail premises in the March Budget. As this was after the statutory Retained Business Rate setting process it was compensated for in year via the Billing Authorities. However, this was adjusted out for the purposes of setting the 2021-22 Retained Business Rates, resulting in a significant Collection Fund loss, of over £1m. Government has now provided compensation for this loss.

b. The Policy & Resources Committee have recommended that this grant be reserved to meet the inflationary pressures on the major building programme to ensure the works at Hereford, Redditch, Broadway and North Herefordshire training facility can be completed.

c. Other small grants **£0.340m additional** *(in Line 37)* comprising:

   i. £0.077m unbudgeted MORSE *(Making Our Roads Safer for Everyone)* grant from the PCC.
   ii. £0.193m Fire Protection Grant – originally paid as a one-off grant in 2020/21, but later paid in 2021-22 as well. Now expected for the period 2022-23 – 2024-25 as well.
   iii. £0.042m NHS Covid Grant – paid by Home Office in late March.
   iv. £0.052m Pension Admin Grant – one-off notified and paid by Home Office after year end, to meet the future administrative costs of the pensions remedy.
   v. Offset by a reduction in FireLink grant as government had previously miscalculated the inflationary increase in the grant.

19. This £1.493m additional income will fall to balances as follows:

   a. £192,675 to the Protection Grants Reserve.
   b. £51,850 to the Pension Reserve.
   c. £1,168,801 to the Capital Projects Reserve, to provide cover for building costs inflation on the major building projects – as recommended by Policy & Resources Committee.
   d. Remainder £80,850 – proposed transfer to Capital Projects Reserve (see paragraph 22 below).

20. There is one variation to report in relation to the use of reserves. When setting the budget, it was expected that government would be paying grant to support the loss of tax-base as a result of Covid. In February 2021 this was anticipated to give £0.116m to draw on in support of the 2021-22 budget. By the time the final figures emerged this support was £0.065m less than budgeted

21. The total impact of these variations on the transfer to reserves is given below:

		£	£	£
From Reserves - Invest to Improve etc.				(500,940)
To Reserves - Expenditure				
Smoke Alarms (P&R)			75,696	
ICT Hardware			115,000	
Remainder	#		344,264	534,960
To Reserves - Funding				
Protection Grants Reserve			192,675	
Pensions Reserve			51,850	
Capital Projects Reserve (P&R)			1,168,801	
Remainder	#		80,050	1,493,376
				1,527,396
To/(From) Reserves - Budgeted				
		Planned	Adjust	Actual
Property Reserve (planned)		(220,000)		(220,000)
TIG Grant Reserve (planned)		(116,000)	64,846	(51,154)
Budget Reduction Reserve (planned)		7,000	(7,000)	0
		(329,000)	57,846	(271,154)
				1,256,242
Reduction in TIG Reserve (paragraph 20)	#			(57,846)
				1,198,396

22. It is proposed that within the spirit of the concerns of the Policy & Resources Committee about building costs inflation that items marked "#" above, totalling £366,468 are also taken to the Capital Projects Reserve.

Impact on Reserves

23. As a reminder the outrun position on the General Fund is shown in Column 4 of Appendix 1 and is summarised below:

		£
Expenditure	*Line 32*	35,241,981
Funding	*Line 37*	(36,440,376)
Difference	*Line 38*	(1,198,396)

24. There will therefore be a net transfer to balances of £1.198m, but this will be made up of a number of different movements, for reasons explained above, and the individual reserve transactions are as set our below:

In accordance with approved Budget	
Transfer from: Property Maintenance Reserve	(220,000)
Transfer from: TIG Grant Reserve	(51,154)
	(271,154)

In accordance with MTFP Reserves Strategy	£
Transfer from: Organisational Excellence Reserve	(132,400)
Transfer from: ESMCP Reserve	(67,286)

Transfer from: Broadway Reserve	(38,495)
Transfer from: On Call Recruitment Reserve	(5,000)
Transfer from: Property Maintenance Reserve	(57,141)
Transfer from: Pensions Reserve	(7,910)
Transfer from: Protection Grants Reserve	(144,673)
Transfer from: Safety Initiatives Reserve	(48,035)
	(500,940)

Recommendations of Policy & Resources Committee	**£**
Transfer to: Safety Initiatives Reserve *(Smoke Alarms)*	75,696
Transfer to: Capital Projects Reserve *(Inflation)*	1,168,801
	1,244,497

Final Proposals	**£**
Transfer to: Protection Grants Reserve *(2021-22 grant)*	192,675
Transfer to: ICT Replacements Reserve *(late deliveries)*	115,000
Transfer to: Pensions Reserve *(one-off grant)*	51,850
Transfer to: Capital Projects Reserve *(Inflation)*	366,468
	725,993
	£ 1,198,396

25. There is a small amount (£462.60) remaining on the DCP Change Reserve and it is proposed to transfer this to the Safety Initiatives Reserve to allow the former, un-required, reserve to be closed.

26. The impact on individual reserves is shown in Appendix 2.

27. The Reserves Strategy envisaged the holding of the Budget Reduction Reserve pending the outcome of any future funding reductions. Whilst the current Comprehensive Spending Review (CSR) looked reasonably favourable, and might have allowed release of some of this £1.9m reserve. However, current and projected inflationary pressures may require a re-think and this will be reviewed by officers during 2022-23.

Capital Budget 2021/22

28. 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 Dec 2021	2.715	7.916	0.590	2.423	0.177	12.949	**26.770**
Major Scheme Allocation		0.177				(0.177)	**0.000**
Minor Scheme Allocation				(0.013)	0.013		**0.000**
	2.715	8.093	0.590	2.410	0.190	12.772	**26.770**
Expenditure to 2020/21	0.423	7.219	0.318	0.590			**8.550**
Available Budget	2.292	0.874	0.272	1.820	0.190	12.772	**35.320**

29. 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.

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

31. Members' attention is drawn to the Redditch scheme (Line 12) where £0.506m has been allocated to preliminary costs. Following discussion with the PCC regarding financing of this joint project it now appears to be more economical to the tax-payer if the project is initially funded by the PCC (a significant Stamp Duty Land Tax saving). This will involve a number of budget changes in the future:

    a. The transfer of the some of the expenditure already incurred to the PCC;
    b. The removal of the capital scheme and consequential capital financing from the fire budget and the replacement with an equivalent rent type payment. The net budget impact should be at least neutral.

32. Schemes shown as "#" in the Appendix are completed and will be removed from future monitoring reports.

Role of the Audit and Standards Committee

33. 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.

34. 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.

35. 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.

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

37. The Accounts and Audit Regulations normally require that the Statement of Accounts is signed by the Chief Financial Officer (the Treasurer) no later than 31 May. The Regulations have again been temporarily amended this year to make this date 31 July. Progress is on track to achieve this date.

38. These Regulations also oblige the Authority to approve and publish the audited Statement of Accounts normally by 31 July, although this year this has been amended to 30 September.

Treasury Management and Prudential Indicators

39. 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.

40. 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.

41. 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.

42. The final review of 2021-22 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 to this Authority Report.

Treasury Management Activities

43. 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.

44. 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.

45. 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. An extract of the relevant elements of WCC Treasury Management Strategy for 2021-22 is included at Appendix 4.

46. At 31 March 2021 the Authority had long-term debt totalling £12.137m, and during 2021-22 £1.726m was repaid as planned, bringing the total debt at 31 March 2022 to £10.411m.

47. A further £1.365m is scheduled for repayment in 2022-23 and, 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.

48. As a rule of thumb borrowing should not exceed the Capital Financing Requirement (CFR), which at 31 March 2022 stood at £20.914m.

49. In accordance with the SLA investment risk is shared with WCC proportionate to the relative funds invested. At 31 March 2022 the share of investment is as below:

	£m
Money Market Funds	3.581
Call (instant access)	1.049
Cash Plus (liquidity fund)	1.913
Other Local Authorities	0.957
	7.500

50. 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.

51. 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

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

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

54. 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

55. Since the advent of Austerity in 2011-12, where the underlying level of budget has remained virtually unchanged, the Authority has prudently managed its finances to ensure stability and overall finances remain well controlled.

56. The SLA with WCC 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 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 2021-22: Provisional Out-turn
Appendix 2: Earmarked Reserves 2021-22: Provisional Out-turn
Appendix 3: Capital Budget 2021-22: Provisional Out-turn
Appendix 4: Treasury Management Strategy: 2021-22 (WCC Extract)
Appendix 5: Prudential Indicators: 2021-22 Provisional Out-turn