

## **Report of the Treasurer**

### **Provisional Financial Results 2016/17**

#### **Purpose of report**

1. To receive financial results for 2016/17 and to approve treatment of financial variations.
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#### **Recommendations**

##### ***It is recommended that the Authority:***

- i) Notes the provisional financial results for 2016/17;***
- ii) Approves the transfer of £0.033m to an ICT Reserve;***
- iii) Approves the additional transfer of £0.791m to the existing £0.500m ESMCP Reserve previously approved by the Policy and Resources Committee;***
- iv) Approves the transfer of the balance of £1.063m to the Budget Reduction Reserve; and***
- v) Approves the re-alignment of reserves as set out in Appendix 2.***

#### **Introduction and Background**

2. Although financial matters are within the remit of the Policy and Resources Committee, the Committee does not 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.
3. Detailed budget monitoring reports have been presented to the Policy and Resources Committee on a quarterly basis throughout 2016/17, and, subject to the specific areas to be highlighted, the out-turn is consistent with this reporting.
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); in September following completion of the external audit.
5. 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.
6. 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

7. The approved net revenue budget for 2016/17 was £31.992m (*Appendix 1 Line 41 Column 2*).
8. The underlying Core Budget (*Appendix 1 Line 34 Column 2*) was £32.825m.
9. This was funded by:
  - a. Planned use of earmarked reserves (*Appendix 1 Line 40 Column 2*) and;
  - b. Grants, precept and business rate figures (*Appendix 1 Line 51 Column 2*).
10. On 22<sup>nd</sup> March 2017 the Policy and Resources Committee received the third quarter Budget Monitoring report which forecast a planned year end net underspend of £1.268m against the Core Budget.
11. The Committee approved the creation of a £0.500mn earmarked reserve for potentially unfunded ESMCP costs and noted a £0.145m reduction in the call on the Budget Reduction reserve in respect of Excess Staff, leaving a net under spending of £0.623m.
12. Appendix 1 shows that the final position is now an under spending, against the Core Budget, of £1.790m (*Appendix 1 Line 34 Column 4*), an increase of £0.522m since the third quarter projection.
13. In addition Funding Grants (*Appendix 1 Line 51 Column 4*) are £0.886m more than budgeted.
14. The projected third quarter variations have been explained in detail at Policy & Resources Committee but the reasons for the change variation are given below:
  - a. -£0.201m – underspend in Property – Policy & Resources Committee were aware that there was a risk of under spending (that was not included in the third quarter projections) as a consequence of un-reliable budget monitoring from PPL.
  - b. +£0.131m – delays in delivery of services as a result of staff retention and recruitment issues.
  - c. -£0.090m – revised service charge to PPL for occupying ground floor and income from the Primary Authority Scheme (PAS)
  - d. -£0.059m – further variations around Retained pay.
  - e. -£0.041m – net other
15. The funding variation of £0.886m has three causes
  - a. -£0.791m – late receipt of advance grant for future ESMCP costs. This was notified and paid to the Authority in the last week of 2016/17 and represents expected funding of known future costs. (as compared to the potentially unfunded costs referred to at paragraph 11 above).

- b. -£0.050m - Section 31 grants associated with government's Business Rate reliefs were higher than expected,
  - c. -£0.045m – Section 31 grants in respect of Firelink costs were higher than anticipated, plus some other small unbudgeted Section 31 grants.
16. Other than the PPL service charge, which is on-going and will be taken into account in the next review of the MTFP, the items in the above list are all one-off events and have no impact on the future budget requirement.
17. This gross financial variation of £2.676m (£1.790m + £0.886m) impacts on the use of earmarked reserves as indicated in the table below:

	<b>£m</b>
<b>Gross Variation</b>	<b>(2.676)</b>
reduced draw on Bud Red Reserve for Excess Staff	0.129
reduced draw on Property Reserve	0.202
use of Fleet Financing Reserve	(0.042)
ESMCP Reserve - approved P&R Cttee	<u>0.500</u>
	<b>(1.887)</b>
ICT Mobile devices reserve	0.033
ESMCP Reserve - advanced S31 grant	<u>0.791</u>
	<b>(1.063)</b>

18. This remaining net variation compares to the figure of £0.623m that was projected at the third quarter and it is proposed that this sum be transferred to the Budget Reduction Reserve for re-designation as outlined below.

### **Earmarked Reserves**

19. As part of the approved Medium Term Financial Plan (MTFP) the Authority has authorized the use of some of the Budget Reduction Reserve to temporarily fund the MTFP budget gap, until phased budget reduction measures are fully implemented. This plan left some of the Reserve uncommitted.
20. There are a number of known capital investment needs that currently fall outside the MTFP period but that will require future funding. Principally these are:
- a. Respiratory Protective Equipment (RPE) replacement, i.e. breathing apparatus, at an initial estimated cost of £1m.
  - b. Command and Control (C&C) refresh/update, at an initial estimated cost of £1m
21. It is estimated that the annual revenue capital financing costs of this capital expenditure will add £200,000 to the budget requirement. This is largely because the existing C&C investment was funded by government grant.
22. It is therefore considered prudent to re-allocate the uncommitted ear-marked reserves for these purposes.

23. In addition it has been identified that investment in replacement of currently serviceable equipment with modern equivalents will allow the service to take advantage of technological developments and reduce future maintenance and repair costs, and a £0.400m increase in the equipment reserve is proposed.
24. Appendix 2 sets out the impact of these proposals.

### **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 £5.278m has been incurred in 2016/17, the bulk of which (68%) on the new Evesham station, (largely funded by Wychavon District Council).
29. There are 3 schemes to which Members attention is drawn:
- a. Small overspending on the Malvern and Worcester projects. This will add £.0007m to annual revenue capital financing costs and can be contained within the approved budget.
  - b. Small overspendings on individual heating schemes at Kingsland and Ledbury, are more than offset by savings on other heating schemes (marked “\*” on the Appendix.
  - c. Evesham Fire Station Project shows the full cost of the project, including that funded by contributions from Wychavon DC. The anticipated net cost to the Fire Authority, subject to shared cost risk on abnormal ground-works, approved by Policy & Resources Committee on 21<sup>st</sup> September 2016 was £0.694m
30. In respect of the buildings related Minor Schemes, once confirmation is received from PPL that all expenditure has been incurred, any outstanding balances will be returned to the un-allocated budget for funding future schemes.

## Role of the Audit and Standards Committee

31. 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.
32. 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 report.
33. 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.
34. The Statement of Accounts will reconcile these differences and the Audit and Standards Committee will scrutinise this reconciliation as well as the Accounts themselves.

## Conclusion

35. It can be seen that the Authority's finances are 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.

## Corporate Considerations

<b>Resource Implications</b> (identify any financial, legal, property or human resources issues)	Whole report
<b>Strategic Policy Links</b> (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
<b>Risk Management / Health &amp; Safety</b> (identify any risks, the proposed control measures and risk evaluation scores).	n/a
<b>Consultation</b> (identify any public or other consultation that has been carried out on this matter)	n/a

<b>Equalities</b> (has an Equalities Impact Assessment been completed? If not, why not?)	n/a
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### **Supporting Information**

Appendix 1: Revenue Budget 2016/17 – Provisional Out-turn

Appendix 2: Earmarked Reserves Extract

Appendix 3: Capital Budget 2016/17 – Provisional Out-turn

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