

Report of the Treasurer

Provisional Financial Out-turn 2020-21

Purpose of report

1. To receive provisional financial results for 2020-21, to approve final transfers to/from reserves, and to approve the reallocation of reserves.
 2. To review Treasury Management activities for 2020-21 and to confirm compliance with the Prudential Code indicators.
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Recommendation

It is recommended that the Authority:

- i) Notes the provisional financial results for 2020-21;***
- ii) Notes the transfers between reserves previously approved in accordance with the Reserves Strategy, or approved by Policy & Resources Committee 2nd December 2020 as below;***
 - a) £0.310m to the Sustainability Reserve;***
 - b) £0.201m to the Protection Grants Reserve;***
 - c) £0.164m from the Day Crew Plus (DCP) Change Reserve;***
 - d) £0.098m from the Property Maintenance Reserve;***
 - e) £0.067m from the Alliance Reserve;***
 - f) £0.048m from the Safety Initiatives Reserve;***
 - g) £0.048m from the Development Reserve;***
 - h) £0.040m from the Fire Control (C&C) Reserve;***
 - i) £0.019m from the Broadway Fire Station Reserve;***
 - j) £0.011 from the Fire Prevention Reserve; and***
 - k) £0.001m from the Equipment Reserve.***
- iii) Approves the transfers to Earmarked Reserves as set out below:***
 - a) £0.054 to the Pension Reserve;***

- b) £0.130m to the Taxation Guarantee Grant (TIG) Reserve;**
 - c) £0.602m to the Budget Reduction (Covid) Reserve; and**
 - d) £1.185m to the Budget Reduction Reserve.**
- iv) Approves the reallocation of Earmarked Reserves to amend the balances to those shown in Appendix 4 Column7 involving the following net transfers:**
 - a) £1.040m to a new Organisational Excellence Reserve;**
 - b) £0.300m to the Fire Control (C&C) Reserve;**
 - c) £0.500m from the ESMCP Reserve;**
 - d) £1.000m to a new On-Call Recruitment Reserve;**
 - e) £1.200m to a new ICT Replacements Reserve;**
 - f) £0.900m to a new Capital Projects Reserve;**
 - g) £0.837m from the 2017 Pay Award Reserve to close it down;**
 - h) £0.250m to the Property Maintenance Reserve;**
 - i) £3.353m from the Budget Reduction Reserve;**
 - j) £0.121m from the Alliance Reserve to merge with Development Reserve and to close the former; and**
- v) Approves the release of reserves by the Chief Fire Officer after consultation with the Authority Chair, the Chair of Policy & Resources Committee and the Treasurer.**
- vi) Notes that the Treasurer will certify the 2020-21 Statement of Accounts, in accordance within the regulatory time-scale, provided relevant information is received from all Billing Authorities;**
- vii) Notes that the Audit of the accounts will be undertaken by Grant Thornton LLP; and**
- viii) Confirms that the Prudential Indicators for 2020-21 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. Ordinarily this would be at the July meeting prior to the 31st July deadline; however, due to a temporary change to the Account and Audit Regulations this will again be later this year.
7. 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.
8. 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.
9. This report is concerned with the statutory position under which the Authority is charged with governance.

Revenue Budget 2020-21

10. The financial year 2020-21 has been unprecedented in many ways, and shows significant variation on the budget originally set. Whilst some of these have been formally reported to Policy and Resources Committee (and informally to Group Leaders) further changes have emerged after the end of the year.

11. Details of the revenue budget (split between expenditure and funding) are set out in detail Appendices 1 and 2, and a summary of the overall variation is set out in the table below:

		Budget	Out-turn	Variance
		£	£	£
Expenditure	<i>Appendix 1, Line 35</i>	36,121,000	35,421,403	(699,597)
Special Grants	<i>Appendix 2, Line 43</i>	(2,702,100)	(3,993,922)	(1,291,822)
Funding Grants	<i>Appendix 2, Line 44</i>	(5,441,200)	(5,438,636)	2,564
Business Rates & Grants	<i>Appendix 2, Line 45</i>	(3,001,935)	(3,412,023)	(410,088)
Council Tax	<i>Appendix 2, Line 46</i>	(24,561,700)	(24,561,739)	(39)
Funding		(35,706,935)	(37,406,320)	(1,699,385)
Net		414,065	(1,984,916)	(2,398,981)
To/(From) Reserves	<i>Appendix 2, Line 39</i>	(414,065)	1,984,916	2,398,981
		0	0	0

12. In overall terms this shows that expenditure was £0.7m (2.0%) lower than budgeted and funding was £1.7m (4.8%) greater than expected.

13. There are two key variations to the expenditure side which largely explain the £0.7m variation with a number of other offsetting variations and an explanation of these is given below:

- Whole-time Pay £0.400m under (*Appendix 1 in Line 1 Column 4*): provision was made for the consequences of the settlement of the McCloud/Sargeant pensions appeal, assuming that the Authority would have been liable to meet the higher contribution rates from 1st April 2020. Early in the year the Home Office confirmed that costs would be rolled up into the new contribution rates due in April 2022.
- 2017 Pay Award Provision £0.285m under (*Appendix 1 Line 33 Column 4*): as the July 2017 pay award was not formally settled (*the employer side 2% offer being rejected by the employee side, but a 1% award paid "on account"*) provision was made for the potential of the award being settled at the original offer. Circumstances have now moved on and this now settled at 1%
- Both these changes (representing £0.685m of the £0.700m) were reported during the year and their consequences incorporated in the 2021-22 Budget and Medium Term Financial Plan (MTFP).

14. There is a greater variations in funding, totalling £1.7m for a number of different reasons, the most significant are outlined below:

- Special Covid grant £0.763m additional (*Appendix 2 Line 21 Column 4*): provided by central government to meet any costs associated with the Covid crisis. (Including £0.072m allocated after the year end). Whilst the Service has incurred additional costs (and has done a huge amount of planning to assist agencies) there have been offsetting savings within year. However, as the Authority is heavily reliant on Council tax and business rates funding, the slow down in tax-base growth will have a future impact and these monies will be taken to reserves for future use in accordance with the MTFP).

- b. Retained Business Rate Income £0.390m additional (*Appendix 2 Line 21 Column 9*): The Authority joined the Worcestershire Business Rate Pool in 2020/21, to assist in the retention of funds in Worcestershire under the Retained Business Rate System. The intention was that the Authority would be in no worse a position than had it not joined the Pool. In reality the pool sharing arrangements were significantly favourable to the Authority and represent funds that would have been paid to the Treasury if the Authority had not been in the Pool.
 - c. Special (Protection) Grants £0.242m additional (*Appendix 2 Lines 11-14 Column 9*): Funding provided to Fire Authorities to increase protection capability which will be used over the next two years to embed increased capacity.
 - d. TIG Grant £0.129m additional (*Appendix 2 Line 20 Column 9*): Taxation Income Guarantee Grant – part of governments support to meet some of the future funding shortfall as a result of tax-base loss. This relates to financial years 2021-22 to 2023-24 and will be taken to reserves to be used in those years in line with the MTFP.
 - e. Pension Admin.Grant £0.054m additional (*Appendix 2 Line 15 Column 9*): Another grant paid early. This is towards the inevitable additional administration costs of implementing the McCloud/Sargeant case, in respect to the Fire-fighters Pension Schemes, which will be incurred in 2021-22 and 2022-23, and will be taken to reserves to be used in those years.
- 15. In addition to this variation there are minor variations in other grants (*Appendix 2 Column 4*): which is detailed below:
 - a. *Line 10* **£0.020m** to support Business Rate Relief granted by Government
 - b. *Line 16* **£0.008m** Transparency Grant to support cost of making information accessible to the public
 - c. *Line 17* **£0.047m** OPCC funding of “Making our Roads Safer for Everyone” (MORSE) road safety programme
 - d. *Line 18* **£0.012m** Government Grant to cover the costs of sustainability surveys of Authority buildings – matched by equal amount of expenditure.
 - e. *Line 19* **£0.033m** Ministry of Housing, Communities & Local (MHCLG) Bellwin Scheme Grant - towards the additional costs of flooding response in Feb/Mar 2020.
- 16. With the exception of items 15b and 15c, which are not material, none of these grants were known or predictable at the time that the budget was approved.
- 17. Taken together this means that there is a total of £2.399m less expenditure and more funding than was budgeted and as a result there will be a net transfer to reserves £1.985m, instead of the budgeted £0.414m transfer from reserves.

18. As a consequence of this it is appropriate to look at the level and purpose for which reserves are held. This is further considered below.

Use of Reserves

19. Appendix 3 shows the planned and actual use of individual reserves in 2020-21.
20. The Reserves Strategy splits reserves into three types of Earmarked Reserves and a General Reserve, and there are a number of suggested reclassifications of existing Earmarked Reserves, shown in Column 2.
21. The budget and out-turn do involve some planned movements to and from reserves and these are summarised below:

<u>In accordance with MTFP Reserves Strategy</u>	£m
Transfer to Sustainability Reserve	0.310
Transfer to from DCP Change Reserve	(0.164)
Transfer from Property Maintenance Reserve	(0.098)
Transfer from Alliance Reserve	(0.067)
Transfer from Safety Initiatives Reserve	(0.048)
Transfer from Development Reserve	(0.048)
Transfer from Fire Control (C&C) Reserve	(0.040)
Transfer from Broadway Reserve	(0.019)
Transfer from Fire Prevention Reserve	(0.011)
Transfer from Equipment Reserve	(0.001)
<u>Policy & Resources Committee 2 December 2020</u>	
Transfer to Protection Grants Reserve	0.201
<u>Final Transfers Recommended</u>	
Transfer to Pension Reserve	0.054
Transfer to TIG Reserve	0.130
Transfer to Budget Reduction Reserve	1.185
Transfer to Budget Reduction Reserve (Covid)	0.602
	1.986

22. The Reserves Strategy envisages the holding of the Budget Reduction Reserve pending the outcome of any future funding reductions following from the governments Comprehensive Spending Review (CSR) which has been delayed by two years. However, the out-turn results for this year, would mean that there would potentially be £5.5m in this reserve which would exceed requirements and necessity.
23. With the agreement of Group Leaders the new Chief Fire Officer/Chief Executive has undertaken a review of reserves and has identified areas where they can be used effectively to give significant organisational impacts. This is also in-line with HMICFRS recommendations in their previous State of Fire Report 2019, where all Fire Authorities were advised to review their reserves and make investments in the near future rather than holding or accumulating excessive reserve levels.

24. It is therefore recommended that existing reserves are reallocated in line with Appendix 3 Column 6 to support the new Chief Fire Officer's ambitious strategic change and investment programme. This programme supports the newly developed Response, Protection and Prevention Strategies at its core and focusses on improving the services provided to our communities, alongside upgrading and investing in new technologies and systems to deliver future efficiencies. The re-allocation will provide reserve funding for:
- £1.000m** On-Call Recruitment: a sustained and in-depth approach to On-Call recruitment over four years
 - £1.200m** for replacement of key IT systems including equipment tracking/monitoring, Intel (Intelligence on Operational Risks) systems and Station End Equipment for the Alerting system.
 - £0.900m** to provide funding to complete the North Herefordshire Strategic Training Facility and continue to move training facilities from the cramped site at Droitwich.
 - £1.040m** to embed National Operational Guidance (NOG), enhance Command training, and achieve accreditation of the Fire Investigation function.
 - £1.500m** for the replacement of the life-expired Fire Control system originally acquired in 2010.

Capital Budget 2019/20

25. Details of the approved capital budget are set out in Appendix 4, and are summarised in the table below.

	Vehicle Prog £m	Major Build £m	Other Schemes £m	Minor Schemes £m	Other £m	Total £m
Revised Budget	2.653	20.864	0.590	2.804		26.911
Major Schemes Provision		(13.223)			13.223	0.000
Unalloc. Minor Schemes				(0.083)	0.083	0.000
Approved for Spending	2.653	7.641	0.590	2.721	13.306	26.911
Expenditure to 2019-20		7.007	0.290	0.962		8.259
Expenditure in 2020-21	0.441	0.212	0.028	0.419		1.100
Remaining Budget C/fwd.	2.212	0.422	0.272	1.340	13.306	17.552

26. 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 processes.
27. For a number of reasons including Covid shutdowns and the run-down of Place Partnership capital expenditure has been very low this year at £1.1m and, as a consequence, there have been some savings in the capital financing revenue budget. This has allowed some revenue financing of capital to be undertaken which has released £0.080m of base budget for re-investment in Authority priorities. The planned use of reserve funding referred to above may also release future capacity for further priority investment.

28. Schemes shown as “#” in the Appendix are completed and will be removed from future monitoring reports.

Role of the Audit and Standards Committee

29. 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.
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 normally require that the Statement of Accounts is signed by the Chief Financial Officer (the Treasurer) no later than 31st May. The Regulations have again been temporarily amended this year to make this date more flexible. Progress was on track to achieve this by the original date, although this relies on the supply of information from Billing Authorities that have already indicated that this may not be available until 30th June.
34. These Regulations also oblige the Authority to approve and publish the audited Statement of Accounts normally by 31st July, although this year this has been amended to 30th September, and the Audit & Standards Committee will do this.

Treasury Management and Prudential Indicators

35. 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.
36. 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.
37. 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 required to be reviewed by Members twice a year, but are now incorporated into the quarterly budget monitoring reports.

38. The final review of 2020-21 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 this Authority Report.

Treasury Management Activities

39. 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.
40. 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.
41. 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 2020-21 is included at Appendix 5.
42. At 31 March 2020 the Authority had long-term debt totalling £13.637m, and during 2020-21 £1.500m was repaid as planned, bringing the total debt at 31 March 2021 to £12.137m. Without further borrowing, it would fall to £10.411m by 31 March 2022.
43. As a rule of thumb borrowing should not exceed the Capital Financing Requirement (CFR), which at 31 March 2021 stood at £20.330m.
44. In accordance with the SLA investment risk is shared with WCC proportionate to the relative funds invested. At 31st March 2021 the share of investment is as below:

	£m
Other Local Authorities	3.086
Money Market Funds (Instant Access)	2.822
On Call	2.681
Cash	1.411
	10.000

45. 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.
46. 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

47. In considering the budget and precept for the year the Authority approves indicators and limits in respect of capital expenditure, borrowing and revenue consequences.
48. These are set by the Authority, as part of the overall budget setting process, in February prior to the start of the financial year.
49. 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.

Conclusion

50. 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. Whilst 2019/20 was a very unusual year, and saw some very large unexpected increase in income, finances remain well controlled. Having achieved this stability, it is now open to the Authority to change strategy and make some key investments for the future.
51. 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 target.

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 Expenditure 2020-21: Provisional Out-turn

Appendix 2: Revenue Funding 2020-21: Provisional Out-turn

Appendix 3: Use of Reserves Strategy 2020-21: Provisional Out-turn

Appendix 4: Capital Budget 2020-21: Provisional Out-turn

Appendix 5: Treasury Management Strategy: 2020-21 (WCC Extract)

Appendix 6: Prudential Indicators: 2020-21 Provisional Out-turn