

## **Report of the Treasurer**

### **11. Provisional Financial Results 2015/16**

#### **Purpose of report**

1. To receive financial results for 2015/16 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 2015/16;***
- ii) Approves the transfer of £0.094m to the Equipment Reserve;***
- iii) Approves the transfer of £0.042m to a Fleet Funding Reserve;***
- iv) Approves the transfer of £0.130m to an Insurance Reserve;***
- v) Approves the transfer of the balance of £1.163m to the budget Reduction Reserve; and***
- vi) Approves the re-phasing and presentation of capital budgets to 2015/16 as detailed in Appendix 4.***

#### **Introduction and Background**

2. Although this subject is normally a matter for the Policy and Resources Committee, again this year 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 2015/16, and have shown that Officers are vigorously controlling budgets to minimise expenditure to prepare for the forecast future financial position.
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 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, and it is this statutory position that this report is concerned with.

## **Revenue Budget**

7. The approved net revenue budget for 2015/16 was £32.275m (*Appendix 1 Line 36 Column 2*) and was funded by the forecast grant, precept and business rate figures (*Appendix 1 Line 43 Column 2*).
8. This was increased by £0.012m by the planned use of ear-marked reserves to a total of £32.287m (*Appendix 1 Line 36 Column 4*).
9. On 21<sup>st</sup> March 2016 the Policy and Resources Committee received the third quarter Budget Monitoring report which forecast a planned year end net underspend of £1.048m.
10. This was after the proposed transfer of £0.094m delayed under spending on replacement fire ground radios, to an earmarked reserve. The gross position before this transfer was an under spending of £1.142m.
11. Appendix 1 shows that the final out-turn position is now expected to be a gross under spending of £1.429m (*Line 44 Column 6*), an increase of £0.287m since the third quarter projection.
12. There are a number of variations that give rise to this increased variation:
  - a. -£0.129m – un-budgeted service charge to PPL for occupying ground floor and income from out of county deployments.
  - b. -£0.221m – underspend in Property – PPL unable to provide any useable budget monitoring data until after end of financial year.
  - c. +£0.092m – ICT. Final settlement of Command and Control issues with prime contractor resulted in original with-held capital payments being merged with annual maintenance and licence costs. The former capital costs are no longer identifiable for capitalisation purposes.
  - d. +£0.058m – pensions costs – ill health charges budget based on lower tier and there is still one upper tier charged.
  - e. -£0.057m – further variations around pay where it represents around 0.2% of the relevant budget and is well within normal forecasting tolerances.
  - f. -£0.009m – in funding variations, mainly that Section 31 grants associated with government's Business Rate reliefs were lower than expected, but offset by other, un-budgeted Section 31 grants.
  - g. -£0.042m – receipts from sales of vehicles that individually fall below the de-minimus level for capital receipts but which will be used as such.
  - h. +£0.021m – net other variances.

13. 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.
14. Within this variation Members' attention is also drawn to the cost neutral arrangements for funding excess staff. In principle the net cost of the excess staff, less any secondment income, is funded by a transfer from the Budget Reduction Reserve. The timing of secondments meant that in 2015/16, however, there would be a transfer to the reserve.
15. At the third quarter it was projected that this transfer to reserves would be greater than expected, however the out-turn is slightly lower than expected. This is for 2 main reasons:
  - a. The forecast identified the additional secondments to Shropshire and Wales, but missed that there were a lower number than forecast seconded to West Midlands.
  - b. The additional cost of Voluntary Redundancy payments made in 2015/16, but which lead to greater savings in future years.
16. Overall, however, the position is favourable with the latest estimate that when staffing levels reach equilibrium, there will be £2m remaining in the reserve compared to the £1m originally forecast.
17. Members are reminded that over the current MTFP there is still a total of £4.356m of un-funded forecast expenditure need.
18. It is proposed that the total under-spending of £1.429m be transferred to reserves as follows:
  - a. £0.094m to the equipment reserve (regarding fire ground radios phasing of renewal).
  - b. £0.042m to a fleet funding reserve (regarding de-minimus capital receipts).
  - c. £0.130m to an Insurance reserve to cover policy excesses, now the consequences of the joint insurance with WCC have wound out.
  - d. the balance £1.163m to the budget reduction reserve (see paragraph 17 above).

## **Capital Budget**

19. The capital programme, as detailed in Appendix 2, is split into two sections:
  - a. Schemes that have received approval for spend (*Line 34 Column 2*).
  - b. Schemes awaiting either Policy and Resources Committee approval to incur expenditure (Major Building Schemes) or Senior Management Board (SMB) allocation (Minor Schemes). (*Line 37 Column 2*)
20. The former section is split into three main blocks:

- a. Vehicle Replacement.
  - b. Major Building Works.
  - c. Minor Schemes - *detailed allocation made by SMB.*
21. With the transfer of responsibility for managing property schemes to PPL, opportunity has been taken to tidy up existing capital allocations to minimise the number of on-going projects transferred. The Appendix reflects these changes.
22. The total approved capital budget for 2015/16, for which financing provision is made within the revenue budget, is £11.530m (*Line 38 Column 2*). However only £5.885m (*Line 34 Column 2*) has been approved for actual expenditure.
23. Against this budget only £3.312m (*Line 34 Column 3*) has been incurred, which represents only 56% of the budget leaving a £2.573m under-spending.
24. This variation arises from three main factors:
- a. Delays in procuring new appliances.
  - b. Delays in Minor Building schemes following property staff involvement in setting up PPL and initial disruption of PPL restructuring.
  - c. Some delays in ICT projects as a result of recruitment and retention issues within the IT department.
25. Historically this out-turn report would propose a roll forward of some or all of the unspent allocations. However, given that a number of schemes run over multi-years this approach which looks at a single year in isolation has become confusing for budget-holders.
26. As an alternative to this Appendix 3 sets out the total scheme budget for all approved schemes, showing the expenditure incurred to date and the remaining budget, which in the case of the larger schemes may be incurred wholly in 2016/17 or in later years as well. This appendix does not give approval to any more expenditure than has already been given by the Authority.
27. It is proposed that these are confirmed as the budgets for these schemes in 2016/17 and beyond, subject to the existing need for specific approval before expending commences on any major building project.
28. Appendix 4 confirms the future capital budget as approved by the Authority in February 2016, with the addition of the 2015/16 re-phasing as outlined in Appendix 3.
29. The only exception to this is a proposed re-phasing of the response vehicle replacement budget to reflect the actual pattern of replacement, and the table on the next page demonstrates that there is a small overall saving.

	Budget Report Feb 2016 £m	Out-turn Report Jun 2016 £m
2016/17	0.659	0.387
2017/18	0.120	0.089
2018/19	0.265	0.585
2019/20	0.400	0.357
	<b>1.444</b>	<b>1.418</b>

### **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 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.

### **Conclusion**

34. 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

## Supporting Information

Appendix 1: Revenue Budget 2015/16 – Provisional Out-turn

Appendix 2: Capital Budget 2015/16 – Provisional Out-turn

Appendix 3: Capital Budget Rephasing

Appendix 4: Future Capital Budget Confirmation

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