Shropshire and Wrekin Fire and Rescue Authority
Strategy & Resources Committee
6 September 2018

Financial Performance to July 2018

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915 or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report provides information on the financial performance of the Service, and seeks approval for action, and also provides an updated Medium Term Financial Plan.

2 Recommendations

The Committee is asked to recommend that the Fire Authority:

a) Note the position of the revenue budget;
b) Approve virements to the revenue budget, where requested;
c) Note performance against prudential indicators to date in 2018/19;
d) Approve changes to the prudential indicators, and
e) Approve the Medium Term Financial Plan to 2022/23, which will be appended to the Service Plan 2015-20.

3 Background

This report presents a review of financial performance to date for 2018/19, and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators. The report also presents an updated Medium Term Financial Planning document.

4 Revenue Budget

Monitoring has continued on the revenue budgets for 2018/19, and the position to July can now be reported as follows.

	(Over) / Under spend £'000	(Over) / Under spend % of Budget
Service Delivery		
Area Command **Wholetime Fire Fighters (Watches)** An underspend to date can be reported, due to watch headcount of 125 against a budget establishment of 136.	112	2%
Retained Duty System - Pensions This area of the budget was increased during 2017/18, and will be reviewed as part of the budget setting process for 2019/20	-40	13%
RDS Fire Control Spend to date of £1k against £40k budget. Continued spends at these levels will give a total annual underspend of £35k	35	88%
Executive		
Resources Savings from Fleet Manager post deletion Vacant Procurement Officer post	18 12	5% 4%
Professional Subscriptions A regular contribution to National Operational Guidance policy is not currently included in the subscriptions budget. In addition, contributions have been made to the Shropshire Safeguarding Adults and Children's Boards	-20	58%
Hydrants It was reported to the Authority as the accounts were closed that savings had been identified in this area, this will be reviewed as the budget is set for 2019/20	50	30%

	(Over) / Under spend £'000	(Over) / Under spend % of Budget
Operational Equipment Six thermal imaging cameras have been purchased for the Service; as these do not form part of the capital programme, it is proposed that a contribution from the Equipment Replacement Reserve is made to cover the cost of this purchase	-15	12%
Corporate Services **Planning and Performance** Savings from Service Intelligence Manager post deletion, and Analyst post being filled partway through the year **ICT Salaries** The department is currently being restructured and changes to date have resulted in an underspend; this is likely to change as the restructure is completed	12 7 14	5% 3% 4%
Total	**185**	**1%**

It is proposed that, unless specified, variances will be transferred to individual contingencies, where they will be managed with future variances.

Pay and Price Contingency – pay award for operational staff and Control staff is still in negotiation, therefore no balance on the contingency can be reported.

5 2018/19 Prudential Indicators

In line with CIPFA's Prudential Code for Capital Finance, the Treasurer is required to establish procedures to monitor performance against all forward looking prudential indicators and, in particular, that net external borrowing does not (except in the short term) exceed the requirement to borrow for capital purposes.

The Fire Authority has established that it will receive regular monitoring reports during the year; the position to the end of July is shown below.

Capital Financing Requirement

This is the amount required by the Authority to fund its capital investment. This includes all capital investment expected to be made this year, less any contributions from revenue or grant.

This indicator was set at £8.063m in February 2018; however following the close of the 2017/18 accounts, the levels of reserves available for funding the Telford improvements and other capital schemes, and the resulting borrowing requirement, have changed. Therefore members are asked to reset the indicator:

Approved in February 2018	**2018/19**	**2019/20**	**2020/21**
Opening balance	3,617	8,063	8,892
Capital expenditure	7,245	1,837	2,000
Balance available for funding, MRP	-2,799	-1,008	-387
New Indicator	**8,063**	**8,892**	**10,505**

New Indicator	**2018/19**	**2019/20**	**2020/21**
Opening balance	3,617	3,353	6,765
Capital expenditure	5,095	8,737	2,650
Balance available for funding, MRP	-5,359	-5,325	-1,130
New Indicator	**3,353**	**6,765**	**8,285**

Authorised Limit for External Debt

The Authorised Limit represents the amount required to fund the Authority's capital financing, plus a provision for temporary borrowing, should the receipt of revenue money be delayed, although this should happen very rarely.

Following the changes detailed above, an updated Limit is necessary:

	2018/19	**2019/20**	**2020/21**
Approved in February 2018	11,063	11,892	13,505
New Indicator	**6,353**	**9,765**	**11,285**

Borrowing currently stands at £5.698m, well within the indicator. No temporary borrowing has been necessary.

Operational Boundary

The Boundary represents the capital investment entered into by the Authority, including any loans to be taken during the year. Unlike the Authorised Limit, this may be exceeded, although this would require some investigation.

Following the changes detailed above, an updated Limit is necessary:

	2018/19	**2019/20**	**2020/21**
Approved in February 2018	7,395	8,223	9,742
New Indicator	**5,698**	**6,097**	**7,497**

Current Investments

Funds invested at 31/07/18 are shown below:

Coventry Building Society	£1.0m
Barclays	£1.0m
Debt Management Office	£2.4m
Eastleigh	£2.0m
Dumfries and Galloway	£2.0m
Handelsbanken	£2.06m
Highland Council	£1.94m
London Borough of Hounslow	£2.0m
Lloyds	£2.0m
Nationwide	£2.0m
Santander	£2.0m
Telford & Wrekin Council	£2.0m
Total	**£22.4m**

The Authority's Treasury advisors view other local authorities as safe counterparties as they are unlikely to go bust.

Handelsbanken is a Swedish bank which remains on the Authority's current acceptable counterparties list for investment.

The target rate of return on investments made at the Council is slightly higher than the similar target set for the Fire Authority. This is because the Council invests with a number of institutions that are not included in the Authority's confirmed lending list, which is aligned to each body's strategy. In addition, the Council would lend for longer periods than the Authority, although we are now allowing lending for up to six months.

The interest on investments earned to the end of June is £24,194 – an average rate of return of 0.5% against a target rate of 0.36%.

6 Medium Term Financial Planning

Following completion of their audit for the financial year 2016/17, our external auditor Grant Thornton recommended that a more detailed medium term financial plan was produced, as the strategic financial section of the Authority's Service Plan was a high level summary. Officers undertook to produce a more detailed plan which would incorporate detailed planning, accompanying information and context.

The detailed plan has now been produced and is appended to this report. Members are asked to consider the document and recommend to the Fire Authority that it is accepted as an addendum to its Service Plan, for inclusion when the Plan is rewritten in 2020.

7 Financial Implications

The financial implications are as set out in the main body of the report.

8 Legal Comment

There are no direct legal implications arising from this report.

9 Initial Impact Assessment

An Initial Impact Assessment has been completed.

10 Appendix

Medium Term Financial Plan

11 Background Papers

There are no background papers associated with this report.

Shropshire and Wrekin Fire Authority

Medium Term Financial Planning

Context

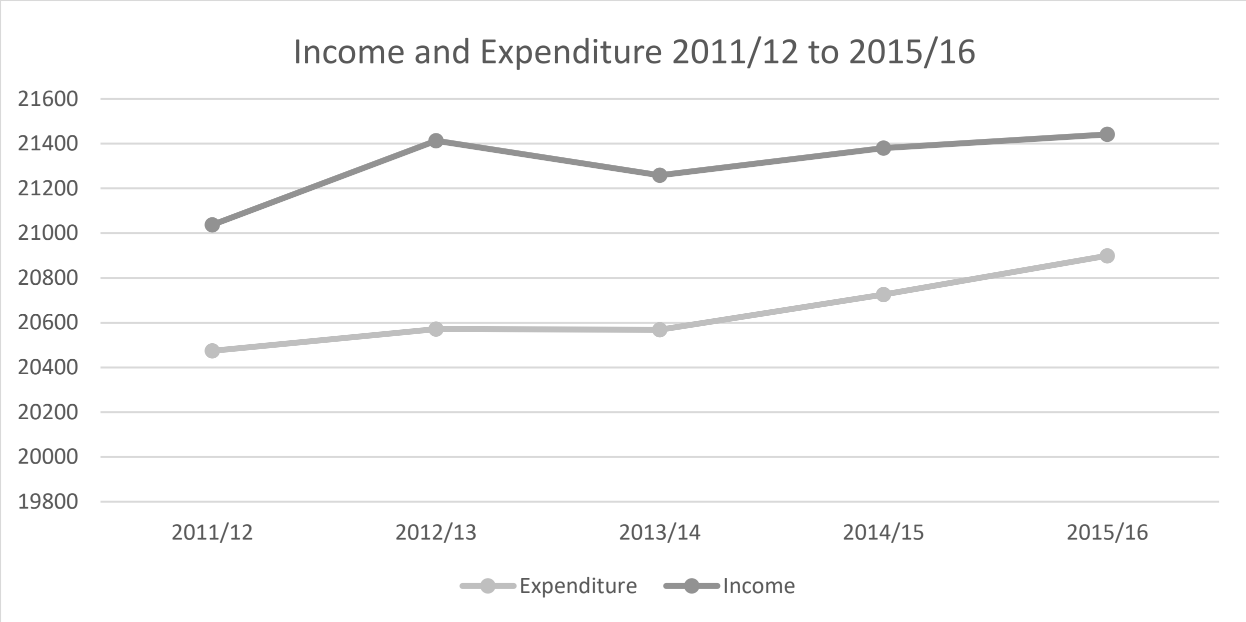
The Fire Authority has been successful over the last eight years, during a period of major public spending cuts, in identifying and implementing revenue budget reductions. Effective financial planning has successfully combined revenue budget cuts, a long term precept strategy, and effective use of reserves and surplus funds to avoid borrowing costs for future tax payers.

It is important to recognise how the Authority's strategic planning and change programme over the last eight years has contributed to its current financial position, and how crucial its ability to produce timely and meaningful forecasts will be in future planning cycles.

Shropshire and Wrekin Fire Authority suffered large reductions in its grant income in the previous Spending Review and subsequent Finance Settlement. A change in risk factors within its needs assessment led to grant reductions of 9.5% in 2011/12 and 3.4% in 2012/13, the highest percentage reduction over these two years. The Authority realised that major budget reductions were crucial to ensure that service delivery to the public of Shropshire did not suffer, and embarked upon a major consultation and cost cutting exercise, which was named Public Value. This exercise involved staff from every station and every department throughout the county. Staff and members worked side by side to identify where budget reductions could be made.

This programme of reductions began in 2011/12 and over the four year Spending Review period, over £3million was cut from a revenue budget of £21million.

Throughout this four year period of cost cutting, the employee retirement profile was used to identify the most opportune time to remove posts from the establishment. During the process these posts were at times removed before the budget reduction was required, avoiding future redundancy costs and the detrimental impact on staff, but resulting in a surplus on the revenue budget. This surplus was used to fund capital schemes, for example the replacement of fire appliances and specialist vehicles, and investment in IT infrastructure and training facilities and funds were also added to reserves to support future revenue reductions, in areas such as operational equipment, training and pensions.



The Authority also took the opportunity to use some of the surplus to prepare the Service for the worsening financial position of the economy, and introduced the Service Transformation Programme (STP). The STP was a high level programme of activities, reviews and projects established in 2012/13, to ensure that the Service was best placed to meet the challenges it faced in the coming years. These included process re-engineering and deployment of technical solutions to reduce the burden attached to some processes.

The next stage

Despite the reductions to the Authority's revenue budget and a direction from members to increase council tax by just below the referendum spending limit, long term forecasts still predicted a deficit by the end of the planning period. Therefore the Authority was required to identify further savings in order to meet the deficit and protect the Service.

A further consultation was undertaken as part of the Integrated Risk Management Plan (IRMP) to review possible reductions over the next Spending Review period to 2019/20.

It was possible for some of the savings identified to be realised in the revenue budget in the earlier years, and as a result, a further £300k was saved in 2015/16.

The main projects from the IRMP review involved the development and implementation of major changes to shift patterns and working practices on operational watches and in Fire Control. These two projects have required extensive consultation and negotiation, and savings of around £450k will have been achieved by 2020. As this change comes into effect the additional capacity is being used to support change management.

The current position

Meanwhile, work has continued on the projects and activities within the Service Transformation Programme, with the majority of the projects modernising and strengthening the Service's IT infrastructure and systems. The focus has very much been on improving the systems available to staff, both operational and support, and introducing new ways of working across the organisation. These improvements have begun to generate non cashable efficiencies in terms of officer hours and days being reinvested into more effective working practices. The Service has recognised that these non cashable efficiencies have the potential to translate into real staff savings over the coming years.

The work undertaken by officers of the Service and members of the Authority has contributed to its current stable position. A long term view has been taken of the financial position of the Authority and this has influenced current decision making. In terms of strategy, the Authority directed officers to model precept increases of 0.5% for the three years to 2019/20. Announcements on firefighter pay awards introduced more cost pressure, however this was accommodated by increasing precept increases but remaining within referendum limits.

However, the identification of efficiencies has always been an integral part of the Authority's budget setting process, and this approach will continue, particularly in the changing financial landscape.

From 5 January 2016, ministerial responsibility for Fire and Rescue Services was transferred from the Department of Communities and Local Government (DCLG) to the Home Office, in order to support a radical transformation of how police and fire and rescue services work together. Although DCLG published the finance settlement in February 2016, responsibility for Fire budgets moved to the Home Office on 1 April 2016.

Local authorities were issued with a provisional four year settlement which covered the financial years 2016/17 to 2019/20, and were told that these settlements would be confirmed over the period, if Efficiency Plans covering the same period were produced and submitted to the Home Office. Following the acceptance of its Efficiency Plan in February 2017, the Authority now has a degree of financial certainty in its planning process for the planning period.

The Authority is committed to delivering a fire and rescue service that provides value for money and enhances public safety, and to this end, has collaborated with Hereford and Worcestershire Fire Authority to form a strategic alliance. This provides the advantages associated with large organisations without losing the agility of being two small, lean and community focused fire and rescue services.

Prior to 2012, this arrangement had been informal in nature, however it was recognised that a formal alliance has the potential to deliver benefits from aligning processes and procedures and sharing resources, expertise and experience. Officers of both services can now develop a plan to form a long and sustainable strategic alliance that will increase capacity and resilience into the next decade.

The Planning Cycle

The Authority continues to monitor and review its strategic planning options and is well placed to react to future funding decisions. Financial planning is reviewed and considered by officers and members in Strategy & Resources Committee, before being recommended to the Fire Authority for decision. There is also opportunity for further discussion at the Authority's Strategy and Planning Working Group (StraP).

The Authority prepares short, medium and long term revenue and capital budgets, leading in February each year to the setting of the precept (council tax) for the year ahead.

The detailed process for budget planning is agreed and the leading factors are service planning, government grant settlement and precept strategy. Effective strategic planning demands that all service plans are consistent with the budgets as agreed each February.

To be successful, strategic planning must ensure that the Service's ambitions are quantified in the revenue budget and capital programme, both now and in the medium term. Attention must also be paid to long term budget requirements and the resources likely to be available. Exact budgets cannot be formulated in such uncertain circumstances and so the Authority should have a range of options available to redesign service delivery according to varying levels of budget reduction.

The Revenue Budget

There are a number of stages to the review of the revenue budget and they are outlined in the table below.

Review of the base budget	Individual budget areas are reviewed by officers and amended where necessary
Committed costs	Changes to expenditure are made where decisions have already been taken i.e. pension scheme increases, leasing costs, debt charges for approved capital scheme
Pay and prices	Assumptions are made around likely pay awards and inflationary pressures, and adjustments are made to the budget
Efficiencies	Reductions to the budget will be made where more efficient ways of working are identified
Capital programme	Where capital schemes are to be funded from borrowing, the associated debt charge will be reflected in the revenue budget

Revenue Resources available

The revenue budget is funded from the following:

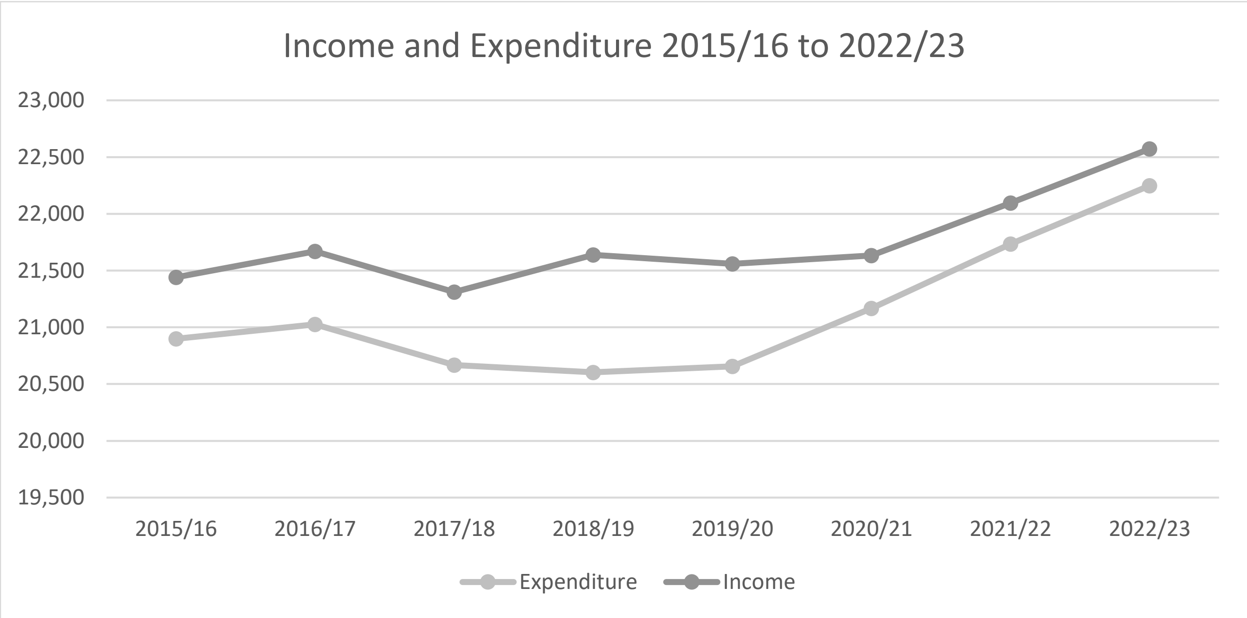
Council Tax	Precept income is the largest of the Authority's income streams, and currently covers around 70% of the budget requirement
Business rates from authorities	Business rates are no longer collected centrally and redistributed by central government; they are paid to the Authority directly from Shropshire Council and Borough of Telford & Wrekin
Business rates top up grant	Top up grant is paid to the Authority as the direct payment of business rates from the constituent authorities is less than the previously redirected rates from central government
Revenue Support Grant	This is a grant received directly from central government; this element of the Authority's income has been reducing since the Local Government Finance Settlement in 2011/12.
Other grants	The Authority receives a number of smaller grants directly from central government, including transition grant and rural services delivery grant in recent years.

Current assumptions around cost pressures and funding streams are shown in the table below, and the 'Surplus / -Deficit' figure indicates whether the Authority has sufficient income to fund the revenue budget.

Cost assumptions	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Pay award - brigade managers (Gold book conditions)	3.0%*	2.0%	2.0%	2.0%	2.0%
Pay award – operational and Control staff (Grey book conditions)	3.0%*	2.0%	2.0%	2.0%	2.0%
Pay award - support staff (Green book conditions)	3.0%*	2.0%	2.0%	2.0%	2.0%
*includes backdated pay award					
Prices	2.5%	2.5%	2.5%	2.5%	2.5%

Funding assumptions - Current	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Precept	2.99%	2.99%	1.99%	1.99%	1.99%
Council tax base growth	2.25%	0.80%	0.80%	0.80%	0.80%
Business rates	3.0%	2.0%	2.0%	2.0%	2.0%
Business rates top up grant	3.0%	2.0%	2.0%	2.0%	2.0%
RSG	-23.5%	-16.0%	-6.0%	-6.6%	-6.6%
Rural services delivery grant	-	-	-100.0%	-	-
Surplus / -Deficit	***1,035***	***903***	***468***	***363***	***324***

Using the assumptions above, the graph below demonstrates that expenditure is within the resources available to 2022/23.



In order the test the Authority's financial resilience and ability to adapt to changing conditions, a number of scenarios are created which test the sensitivity to changes in planning assumptions.

	Surplus / -Deficit				
Changes in funding assumptions	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Current	1,035	903	468	363	324
Current, with IRMP savings from shift pattern changes moved from 19/20 to 20/21	1,035	453	468	363	324
Option 1 Increase reduction in RSG from 6% to 10% per year from 20/21	1,035	453	416	273	210
Option 2 Increase reduction in RSG from 6% to 15% per year from 20/21	1,035	453	351	160	61
Option 3 Reduce total funding (RSG, top up grant and business rates) by 5% per year from 20/21	1,035	453	455	91	-197
Option 4 Reduce total funding (RSG, top up grant and business rates) by 5% per year from 20/21 Increase Council tax base growth from 0.8% to 2% in 19/20 and 1.5% in 20/21	1,035	644	767	412	132

The table is by no means exhaustive and financial years beyond the current finance settlement (from 2020/21) will be indicative only. However the Authority must demonstrate that it has considered the potential changes to funding streams and has plans in place to manage them.

Reserves Strategy

Overview of the Reserves Strategy

The Fire Authority's reserves strategy is an integral part of its financial planning and capital strategy.

CIPFA state that when reviewing their medium term financial plans and preparing their annual budgets, local authorities should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events and emergencies – this also forms part of general reserves
- A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

Adequacy of Reserves

As the revenue budget was set for 2018/19, members considered the reserves held by the Authority, and deemed them to be adequate and reflective of its risks. There had been some increases to reserves over the year, which were additions to the capital reserves, for capital schemes not yet completed, and for contributions towards the improvements at Telford.

The reasons for holding reserves are still valid in terms of risk areas for the Authority; however it was agreed that a review of the levels of individual reserves would be carried out as the accounts were closed for 2017/18. Given the anticipated spend on the Telford site as well as the future capital programme, it is more prudent to make further funds available for these projects and avoid future borrowing costs in the revenue account.

It was proposed that any reductions identified in the Authority's reserves would be diverted to the capital reserves. However, officers would ensure that the Authority still has sufficient funds available to deal with planned activities which require reserve contributions, and also unanticipated events in the future.

Proposals following review of reserves

The appendix to the report shows the reserves currently held by the Authority, grouped into the areas which follow CIPFA recommendations. The rationale for each reserve is shown along with an estimated use over the next five years.

The appendix also includes a narrative proposing changes to the level of the reserve or recommending slight variation in its use, to reflect the actual use of reserves over the past few years.

The review includes a renaming of two of the reserves;

- The **Unearmarked Capital Reserve** becomes the **Major Projects Capital Reserve** – this reserve was referred to as unearmarked as it did not relate to specific schemes within the capital programme, but it has always been in place to fund major projects.
- The **Service Transformation Programme (STP) Staff Reserve** becomes the **STP Staff Reserve** – this reserve proved extremely useful as the STP schemes were undertaken, as resources could be brought in quickly and effectively to complete projects without impacting on the revenue budget. As a result, it is recommended that a reserve is still held to create capacity for the Service when required, but is accessible to all areas of the organisation.

Two of the reserves see large reductions following the review;

- **Income Volatility Reserve** – this reserve was set up to smooth any volatility or fluctuations in the funding received against estimates in the Authority's strategic financial planning. Members will be aware that the finance settlements have fluctuated from plans fairly regularly, however additional grants, unexpected increases in council tax base and one off benefits in collection funds have meant that this reserve has not been called upon. It is therefore more prudent to divert some of this reserve to the Major Projects Capital Reserve to contribute towards the costs of the improvements at Telford.

  A balance will be held in this reserve to fund transformation costs likely over the next financial year.

- **Pensions Reserve** – the rationale behind this reserve was to cover sickness retirement contributions into the Pensions Account, and to cover costs anticipated as a result of the Retained Firefighters & Part Time Regulations Tribunal. The Authority has enjoyed very low levels of ill health retirements, although provision will still have to be made to fund instances in future years. In addition, the Modified Pension Scheme has now been introduced to retained firefighters with no one off costs now anticipated. It is considered that this reserve can be reduced while still maintaining a buffer for future costs.

Increases in levels of reserves include;

- **Transformation Staff Reserve** – following its change from the STP Staff Reserve (which was fully depleted), it is recommended that this reserve is grown to provide capacity for the projects and programmes which will be undertaken by officers over the next two years. Levels can be reviewed and further increases made as the reserves are reviewed in the future.

- **Operational Equipment Reserve** – this reserve has been used for funding one off requests, taking pressure off the revenue budget, examples include fire investigation kits and rope rescue equipment. It is therefore proposed that this reserve is increased to ensure its continued use in future years.

General Reserve
This reserve represents a risk assessment of the pressures likely to face the Authority, based on the probability of the occurrence of those risks. This is a small proportion of the total reserves held, as the majority of the pressures identified are recognised in the earmarked reserves. However there are still occurrences that need to be provided for that are unanticipated, and this reserve provides funding for those events.

The content of the General Reserve is reflective of the risks recorded corporately and departmentally. There are no plans to amend the balance held, although the proportions held for events within the reserve may change over time. However, a review will be held over the next year to reassess the General Reserve.

	Balance 01/04/18 £000	Spend £000	Income £000	Interest £000	Balance 31/03/19 £000	Spend £000	Income £000	Interest £000	Balance 31/03/20 £000	Spend £000	Income £000	Interest £000	Balance 31/03/21 £000
General	577	0	0	0	577	0	0	0	577	0	0	0	577
Earmarked Capital	4,851	-3,234	0	0	1,617	-826	0	0	791	-791	0	0	0
Major Projects	6,086	-6,337	1,744	0	1,493	-1,946	453	0	0	0	0	0	0
Extreme Incidents	334	0	0	0	334	0	0	0	334	0	0	0	334
Pensions and Other Staff Matters	930	-60	0	0	870	-120	0	0	750	-180	0	0	550
Information and Communications Technology (ICT)	1,083	-615	0	0	468	0	0	0	468	0	0	0	468
Income Volatility	237	-107	0	0	130	0	0	0	130	0	0	0	130
Service Transformation Programme Staff	250	-50	0	0	200	-50	0	0	150	-50	0	0	100
Service Delivery	236	-20	0	0	216	-20	0	0	196	-20	0	0	176
Building Maintenance	408	0	0	0	408	0	0	0	408	0	0	0	408
Operational Equipment	359	-50	0	0	309	-50	0	0	-259	-50	0	0	209
Training	255	-45	0	0	210	0	0	0	210	0	0	0	210