

# Financial Performance to March 2018 and Review of Reserves

## Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 255011 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, where necessary.

## 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 the review on reserves;
- d) Approve movements between reserves where indicated, and
- e) Note performance against prudential indicators to date in 2017/18.

## 3 Background

This report presents a review of financial performance to date for 2017/18, and encompasses the monitoring of revenue budgets and the review of treasury management activities, including prudential indicators.

## 4 Revenue Budget

Monitoring has continued on the revenue budgets for 2017/18, and the position to March can now be reported as follows.

	(Over) / Under spend £'000
<b><u>Service Delivery</u></b>	
<b>Whole time Overtime</b> Overtime spend has continue at higher than budgeted levels due to watch deficiencies.	(25)
<b><u>Executive and Resources</u></b>	
<b>Finance</b> <b>Interest on Investments</b> Interest on balances invested has brought a further £27k over expected levels.	27
<b>Shropshire Fire Risk Management Services Ltd Income</b> No income from recharges to the LACC has been received during 2017/18 leaving a deficit of £50k.	(50)
<b>Resources</b> <b>Repairs and Maintenance</b> A balance remains on this budget at the year end to be transferred to Building Maintenance Reserve to fund balance of new appliance bay roof at Shrewsbury.	90
<b>Uniforms</b> Purchase of helmets, fire kits for recruits, purchases for promoted officers have all contributed to an overspend of £67k	(67)
<b>Fire Kit Laundry and Repairs</b> Continued pressure on this budget arising from more scrupulous inspection regime on an aging fire kit has brought an overspend of £18k. This budget has been increased in future years.	(18)
<b>Contract Cleaning</b> Spend of £46k against budget of £70k for the cleaning of whole time sites gives underspend of £24k.	24
<b>Waste Disposal Contract</b> Annual charges of £25k against budget of £40k provides an underspend of £15k.	15
<b>Energy – Gas and Electricity</b> Charges for the year are lower than budgeted levels bringing an underspend of £35k.	35

<b>Vehicle Parts</b> A further overspend of £44k in this area is attributable to the underlying trend of more complex but less durable parts required on the appliances at incurring increased costs.	(44)
<b>Corporate Services</b>  <b>ICT</b> Annual costs of the WAN and software licensing have risen above budgeted levels. The 2018/19 budget has been updated to reflect increased charges.	(101)
<b>ICT Salaries</b> Pay budget underspent due to post undertaking work funded by ESMCP project.	53
<b>Operations</b> Annual subscription to the National Operational Guidance Programme requires permanent addition to the budget.	(15)
<b>Total</b>	<b>(76)</b>

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

### **Overtime**

While there has been a higher than planned spend in the overtime budget (25k) this has been a factor of the overall saving in the establishment budget of £470k. Including the increased overtime and “Rank to Role” backpay, this still provides a potential net efficiency saving of £320k in 2017/18 from the salary budget

### **“Rank to Role” Salary Payments**

In December 2017 the Fire Authority agreed to a settlement of the “Rank to Role” dispute that was to incur estimated costs of £67k in back pay and ongoing annual costs of £118k. The actual costs in 2017/18 amounted to £117k and are to be funded by whole time watch salary underspends as previously reported.

### **Service Transformation Programme**

Costs of staff seconded to projects within the Service Transformation Programme total £289k to the end of March 2018. These costs include ICT support and SharePoint development

Funds are available for these staff costs, within the Service Transformation Programme Staff Reserve. Members are requested to approve the transfer of funds from reserves into the revenue budget.

## 5 Overview of the Reserves Strategy

The Fire Authority has set out its financial strategy to 2019/20 in its Service Plan, and its reserves policy is an integral part of this Plan.

The Chartered Institute of Public Finance and Accountancy (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.

## 6 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.

## 7 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 **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;

- **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 useful for funding one off requests, taking pressure off the revenue budget. 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.

Members are asked to consider the recommendations made in the review and approve the proposed changes.

## **8 2017/18 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 March is shown below.

### **Capital Financing Requirement (£3.888m)**

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.

### **Authorised Limit for External Debt (£6.888m)**

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

### **Operational Boundary (£5.698m)**

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.

### **Current Investments**

Funds currently invested are shown below:

Santander	£2.00m
Handelsbanken	£1.30m
Barclays	£2.00m
Lloyds	£2.00m
Nationwide	£2.00m
Southampton City Council	£1.00m
Highland Council	£1.00m
Surrey Heath Borough Council	£1.50m
Coventry Building Society	£1.00m
Leeds City Council	£2.00m
Blackpool Borough Council	£1.50m
Eastleigh Borough Council	£2.00m
<b>Total</b>	<b>£19.30m</b>

## **9 Financial Implications**

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

## **10 Legal Comment**

There are no direct legal implications arising from this report.

## **11 Initial Impact Assessment**

An Initial Impact Assessment has been completed.

## **12 Appendix**

Schedule of Reserves

## **13 Background Papers**

There are no background papers associated with this report.

	Reserves Analysis 16/17 to 22/23	Movement	16/17 £000	17/18 £000	18/19 £000	19/20 £000	20/21 £001	21/22 £002	22/23 £003	Comments	Current Narrative	Proposed Narrative
A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing	<b>Pension Liabilities Reserve</b> Apr-15		1,755	1,630	930	870	750	570	430	Based on 2 higher tier ill health retirements per year - lower  Level of reserve to be reviewed at	Set up as a result of the introduction of the new Firefighters Pension Scheme on 1 April 2006, the original reserve was required to pay for unexpected sickness retirements and other payments, which remain the responsibility of the Authority's revenue account. In 2008/09, the reserve was expanded to cover other staff matters, including the costs following the Retained Firefighters & Part Time Regulations Tribunal	Around 8 ill health retirements since inception of 2006 pension scheme - contributions into pensions account for ill health retirements have been removed from revenue account. This reserve allows for ten lower tier ill health retirements over period to 22/23.  <b>Release £700k into other reserves</b> and leave a balance of £300k for unexpected one off pension costs
	Contribution to revenue	-125										
	Ill health pension charge 1819 (3)				-60	-60	-60					
	Ill health pension charge 1920 (3)					-60	-60	-60				
	Ill health pension charge 2021 (3)						-60	-60	-60			
	Ill health pension charge 2122 (1)							-20	-40			
	<b>Transfer of balance</b>	-700		-700								
	Mar		1,630	930	870	750	570	430	330			
	<b>ICT Reserve</b> Apr		1,083	1,083	1,083	468	468	468	468		This reserve was established using unspent balances from 2010/11 and approved budgets for ICT projects. It is intended that this reserve will be used to manage information technology and communications issues as they arise, and ensure a consistent and managed approach to ICT investment.	To be used for capital IT schemes: Replacement MDTs LTE Network
	Replacement MDTs				-115							
	Replacement Emergency Comms - LTE Network				-500							
	Mar		1,083	1,083	468	468	468	468	468			
	<b>Operational Equipment Reserve</b> Apr		158	59	309	309	309	309	309		This reserve was established to help provide some stability in this area of the revenue budget. Where a need for new equipment is identified, contributions can be made from the reserve, and any ongoing requirements for the equipment can be established.	This reserve has been useful for one off requests for money in this area, taking pressure off the revenue budget. Therefore it is proposed that some funding is added to the reserve to ensure its continued use in future years
	To revenue for spend		-99	-50								
	Proposed increase 17/18	300		300								
	Mar		59	309	309	309	309	309	309			Increase by £300k
	<b>Service Delivery Reserve</b> Apr		236	236	236	236	236	236	236	Contains New Dimension Funding - has been used to fund training instructor	This reserve was set up to fund initiatives in service delivery and prevention.	Does include New Dimension funding which is used to fund training instructor - if New Dimensions grant removed from revenue account, training post would have to be funded with this until it was depleted.
	Mar		236	236	236	236	236	236	236			
	<b>Training Reserve</b> Apr		255	255	210	210	210	210	210	Revenue budget reduced from 15/16	There have been, and will continue to be, changes in the management structure of the Service, which will inevitably require additional training and development of staff. This reserve was created to enable this training and development to be carried out, without adding additional pressure to the revenue budget.	Do we have training needs not in the revenue account? We have just funded wholetime recruitment but unlikely to recruit again? Initially created to cover one off management restructure training costs.
	Whole time recruitment contribution			-45								
	Mar		255	210	210	210	210	210	210			
	<b>Buildings Maintenance Reserve</b> Apr		408	408	358	358	358	358	358		The revenue budget in this area is used to fund preventative or controlled maintenance in line with the Authority's Asset Management Plan, and also covers unexpected reactive maintenance. This reserve was created to deal with exceptional, unexpected repairs that do not require a regular revenue budget.	A valid reserve for unexpected and reactive maintenance work - takes pressure off revenue budget. Reasonable level.
	Appliance bay roof contribution			-50								
	Mar		408	358	358	358	358	358	358			
	<b>Earmarked Capital Reserve</b> Apr		4,983	4,662	2,693	2,128	791	0	0		This reserve is used to fund smaller capital projects, therefore reducing the need to borrow.	No changes proposed
	1617 and prior capital spend		-1,326									
	1516 cap ex rev schemes not yet spent - moved to reserve											
	1617 cap ex rev schemes not yet spent - moved to reserve		1,005									
	16/17 schemes not funded from revenue											
	17/18 schemes not funded from revenue			-1,969								
	18/19 schemes not funded from revenue				-565							
	19/20 schemes not funded from revenue					-1,337						



	Reserves Analysis 16/17 to 22/23	Movement	16/17 £000	17/18 £000	18/19 £000	19/20 £000	20/21 £001	21/22 £002	22/23 £003	Comments	Current Narrative	Proposed Narrative
A means of building up funds to meet known or predicted requirements	20/21 schemes not funded from revenue						-791					
	Mar		4,662	2,693	2,128	791	0	0	0			
	Major Projects Capital Reserve (formerly Unearmarked Capital Reserve)											Rename 'Major Projects Capital Reserve' - only unearmarked because the other reserve contained specific schemes and this was originally for Shrewsbury scheme.
	Apr		2,817	4,439	6,843	1,050	0	0	0			
	Added 1415 / 1516 closedown											
	Surplus from revenue budget		667	645	1,035	903				surplus from revenue budget; set		Divert surplus balances here following review of reserves.
	Telford Scheme (additional contribution)			709								
	Telford Scheme		955		-6,828	-903						
	Other	1,050		1,050		-1,050						
	Mar		4,439	6,843	1,050	0	0	0	0			
A contingency to cushion the impact of unexpected events or emergencies	Staff Reserve (formerly STP Staff Reserve)											Rename 'Staff Reserve'
	Apr		237	2	252	252	252	252	252	Estimated spend		STP staff reserve was extremely effective in introducing staff or skills as and when required to meet a one off business need.
	Used for STP staff costs		-395							Proposed contributions		Service recognises that there are occasions when additional staff or specialist services are required.
	Added 1415 / 1516 closedown		160									Not always available in lean organisation. Not specific to any service area.
	Potential addition for 'Staff Reserve'	250		250								Eg Business intelligence, strategic planning, collaboration, operational projects.
	Mar		2	252	252	252	252	252	252			Contribution of £250k
	Income Volatility Reserve											Not required - introduced following changes in funding. Some uncertainty in funding and cash flow recognised in make up of General Reserve.
	Apr		1,137	1,137	237	237	237	237	237	Level of reserve to be reviewed at		Balance for transformation
	Potential reduction?	-900		-900								Reduction of £900k
A contingency to cushion the impact of unexpected events or emergencies	Mar		1,137	237	237	237	237	237	237			Still a valid reserve - no changes proposed
	Extreme Incidents Reserve											
	Apr		334	334	334	334	334	334	334	Level of reserve to be reviewed at year end		
	Mar		334	334	334	334	334	334	334			
	General Reserve											Costs and probabilities for items in this reserve reviewed, in conjunction with balances held in other reserves.
	Apr		577	577	577	577	577	577	577			
	Mar		577	577	577	577	577	577	577			
	Grand Total	0	14,822	14,062	7,029	4,522	3,551	3,411	3,311			
	Revenue budget		21,670	21,311	21,639	21,559	21,634	22,096	22,572			
	% of revenue budget		68%	66%	32%	21%	16%	15%	15%			