

MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	25 JULY 2019	REPORT NO:	CFO/037/18
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	REVENUE & CAPITAL OUTTURN 2018/19		

APPENDICES:	APPENDIX A1- A4:	2018/19 REVENUE BUDGET TO ACTUAL
	APPENDIX B:	2018/19 CAPITAL BUDGET TO ACTUAL

Purpose of Report

1. To report upon the Authority's year-end financial position for 2018/19.

Recommendation

2. That Members note;
 - a. the actual financial performance against the approved budget, after taking into account year-end reserve adjustments was a net revenue underspend of £0.826m, and
 - b. that this underspend has been used to increase the actual 2018/19 minimum revenue provision (debt repayment) as per our plans with the aim of freeing up future debt servicing budget to allow reinvestment back into front line services, (this strategy was approved at the 2019/20 Budget Authority meeting).

Executive Summary

The Authority approved a robust financial plan to meet the financial challenge it faced following the significant reductions to its Government grant funding from 2016/17 to 2019/20.

The approved revenue budget in 2018/19 was £59.701m. Having recognised the financial challenges facing the public sector, Members instructed officers to try to maximise savings in the year and deliver efficiencies as early as possible.

The final accounts of the Authority have now been completed and after taking into account the need to create reserves to carry funds into 2019/20 to meet re-phased project spend, a £0.826m underspend has been delivered.

At the 2019/20 Budget Authority meeting in February 2019, members approved a strategy of utilising any additional one-off savings to fund an increase in debt payments in order to free-up future budget to fund an increase in spend on frontline services. Therefore, the £0.826m underspend has been utilised to increase the actual minimum revenue provision (debt

payment) in 2018/19.

At the year-end £0.258m of earmarked reserves were drawn-down to meet expenditure in the year that was to be funded from reserves. In addition reserves of £0.091m were created to fund initiatives or projects planned for 2018/19 which are now expected to occur in 2019/20. The required year-end net movement from reserves was therefore £0.167m.

The General Fund balance remains as anticipated at £2.000m.

Capital spending was £9.697m resulting in a variance of £3.928m against the £13.625m budget for 2018/19. The variance can be broken down into:

- A £3.838m re-phasing of planned spend from 2018/19 into future years, requiring the carry forward of capital budget.
- A net underspend and saving on capital projects of £0.090m.

No new borrowing was taken out in the year, as expected.

Introduction and Background

3. This report sets out the actual financial performance of the Authority compared to the approved 2018/19 revenue (general fund) and capital budgets.
4. Elsewhere on today's agenda is a report containing the unaudited Statement of Accounts for 2018/19 for Members' consideration and approval. The Accounts and Audit (England) Regulations 2015 require the Authority to prepare a Statement of Accounts each financial year in accordance with the CIPFA Code of Practice on Local Authority Accounting (the Code). The Code requires that the Statement of Accounts is based upon International Financial Reporting Standards (IFRS). In simple terms this means that the revenue outturn report (this report) shows the true year-end position against the revenue (general fund) budget, while the Statement of Accounts includes numerous self-balancing notional charges and income.

2018/19 Budget – Background

5. Following the announcement by the Government of the final settlement funding for 2016/17 to 2019/20 the Authority received a significant cut in its Revenue Support Grant (RSG). The cumulative percentage reduction in RSG between 2011/12 and 2019/20 equates to a 33% cash reduction or approximately 50% in real terms. Given Government revenue support provided 63% of the revenue funding in 2010/11 this scale of cut meant unavoidable reductions in the front line operational services over this period. At the 2016/17 Budget Authority meeting Members approved a financial plan that delivered the £11m savings required as a result of government cuts. This plan was ratified by the 2018/19 Budget Authority meeting on 22nd February 2018.

The approved medium term financial plan made a number of assumptions around future costs including:-

- pay bill increase of 2% per annum (the pay bill includes all pay related costs including pension and national insurance contributions),
 - 2% per annum general price inflation,
 - all approved saving options will be delivered as per the plan.
6. The delivery of the approved financial plan was monitored closely during the year and all the savings have been delivered as expected. The required structural changes planned as part of the station merger initiative will not be formally implemented until the

build of the new stations is complete, however the full saving target is being delivered in cash terms as firefighter retirements are ahead of the required schedule. Pay and inflation increases in 2018/19 have been as expected, however the 2017/18 – 2018/19 firefighter annual pay increase has yet to be settled although a 2% uplift has been implemented in 2018/19.

How the 2018/19 Budget changed during the year

7. The Authority Revenue Budget for 2018/19 was set at £59.701m.
8. The Authority also approved a five year capital investment programme (2018/19 – 2022/23), of £31.946m, with a planned expenditure in 2018/19 of £16.814m.
9. The Authority adopted a reserves strategy, which maintains a general reserve of £2.000m and had anticipated £23.279m of earmarked reserves (rising to £25.715m after the 2017/18 year-end adjustment) to cater for specific risks and to fund specific projects.
10. Throughout the year Members received regular financial review reports detailing the Service's progress in implementing the approved savings options, any additional budget amendments required, plus the movements from and to reserves.
11. Further minor budget amendments have been made since the last financial review report, CFO/004/19, was approved by the Audit Committee on 14th February 2019 that reflect already approved policy decisions. These were;

Revenue:

- The net increase in reserves of £0.109m funded from the revenue budget to cover committed spend in 2018/19 that will now be incurred in 2019/20, and
- A number of self-balancing virements within the revenue account. The most significant was a virement of £0.708m from one-off inflation and employee budgets to allow an increase in the minimum revenue provision, (MRP), budget. The purpose of increasing MRP in 2018/19 is to free-up future debt repayment budget to fund re-investment back into frontline services from 2019/20.

These changes are summarised in the table below:

	Original Budget	Approved Qtr 3 Budget	Qtr 4 Amendments	Final Budget	Original to Final Budget Movements
	£'000	£'000	£'000	£'000	£'000
Net Expenditure					
Fire Service	61,833	61,769	99	61,868	35
Corporate	510	489	0	489	-21
National Res. Assurance	0	0	0	0	0
	62,343	62,258	99	62,357	14
Interest on Balances	-172	-172	0	-172	0
Inflation Provision	1,915	208	-208	0	-1,915
Contribution (from) to Reserves	-4,385	-2,593	109	-2,484	1,901
Total Net Expenditure	59,701	59,701	0	59,701	0
Funded By					
Government Support	-31,502	-31,502	0	-31,502	0
Council Tax	-28,199	-28,199	0	-28,199	0
	-59,701	-59,701	0	-59,701	0

Capital:

- A small increase in the capital budget of £0.080m of which £0.066m was as a consequence of the capitalisation of smoke alarm installation costs to reflect the actual cost, but this increase is funded from the freed-up revenue employee budget. The level of budgeted borrowing was consistent with the approved quarter 3 figure. The overall movement in the capital programme reflects the re-phasing of major schemes over the 2017/18 to 2019/20 period reported to members through the quarterly financial review reports.

These changes are summarised in the table below:

	Original Budget	Approved Qtr 3 Budget	Qtr 4 Amendments	Final Budget	Original to Final Budget Movements
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Building & Land	11,646	7,325	0	7,325	-4,321
Fire Safety	635	835	66	901	266
ICT	943	1,667	14	1,681	738
Operational Equip & Hydrants	1,310	1,094	0	1,094	-216
Vehicles	2,280	2,624	0	2,624	344
	16,814	13,545	80	13,625	-3,189
Funding					
Specific Non-borrowing	10,000	7,285	80	7,365	-2,635
Borrowing	6,814	6,260	0	6,260	-554
	16,814	13,545	80	13,625	-6,378

Financial Performance in the Year

12. **2018/19 Revenue Outturn Position:** The table below summarises the actual revenue position for 2018/19 compared to the final budget, (**Appendix A** provides a more detailed analysis):

Programme	Fire Service Budget	Fire Authority	National Resilience	Total Budget	Actual	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Employee Costs	43,676	395	1,944	46,015	45,716	-299
Premises Costs	2,746	0	0	2,746	2,862	116
Transport Costs	1,384	0	5,881	7,265	7,100	-165
Supplies and Services	3,453	23	1,982	5,458	4,574	-884
Agency Services	5,954	0	780	6,734	6,706	-28
Central Support Services	436	71	256	763	714	-49
Capital Financing	12,448	0	7	12,455	13,281	826
Income	-8,229	0	-10,850	-19,079	-18,335	744
Net Expenditure	61,868	489	0	62,357	62,618	261
Contingency Pay & Prices	0			0	0	0
Interest on Balances	-172			-172	-266	-94
	61,696	489	0	62,185	62,352	167
Movement on Reserves	-2,484			-2,484	-2,651	-167
Overall Financial Position	59,212	489	0	59,701	59,701	0

13. At the 2019/20 Budget Authority meeting in February 2019, members approved a strategy of utilising any additional one-off savings to fund an increase in debt payments in order to free-up future budget to fund an increase in spend on frontline services. After taking into account a year-end net drawdown from earmarked reserves of £0.167m, net expenditure was £0.826m lower than the budget. The £0.826m revenue saving has been utilised to increase the minimum revenue provision (debt payment) actual in 2018/19, and therefore the Authority's overall expenditure is consistent with its budget. The movement in year-end reserves is outlined further on in this report.
14. The main variations were :

Employee Costs, -£0.299m (0.6%) favourable variance. This was made up of a number of different variations –

- National Resilience Assurance Team, -£0.407m. The re-phasing of National Resilience Assurance schemes meant spend on employee costs was lower than anticipated, £0.407m, however this was offset by grant monies being re-phased into 2019/20.
- Employee & Liability Insurance and other minor variances, +£0.117m. The year-end assessment of the potential value of current liable claims indicated a small increase in the number of outstanding claims resulting in an increase in the required provision to meet any potential settlement. The Authority's claims section and insurers continue to challenge any claims received where appropriate. The £0.117m has been offset from a drawdown from the insurance reserve as part of the year-end reserves adjustments outlined further on.
- Other, -£0.009m; other smaller variances over a number of other direct and non-direct employee budgets.

Premises Costs, £0.116m (4.2%) adverse variance –

- Utility costs (energy and water) exceeded the budget by £0.155m due to price increases. However, approximately 50% of this has been met from income recovered from partners who occupy MFRA premises. The budget will be uplifted in 2019/20 from the inflation provision and a virement funded from an increase in fees and charges.
- Small favourable variances on other premises costs made up the balance.

Transport Costs, -£0.165m (2.2%) favourable variance –

- National Resilience Assurance Team, -£0.035m. Due to the re-phasing of National Resilience Assurance schemes spend on transport costs was lower than anticipated, however this was offset by grant monies being re-phased into 2018/19.
- The balance is made up from small savings on lease car, car allowances, and indirect transport costs.

Supplies and Services, -£0.884m (16.2%) favourable variance –

- National Resilience Assurance Team, -£0.460m. Due to the re-phasing of National Resilience Assurance schemes spend on supplies and services costs was lower than anticipated, however this was offset by grant monies being re-phased into 2019/20.
- Officers are continuing to strictly manage controllable expenditure lines such as ICT, Computing, Operational, Prevention and Training supplies in light of the financial challenge resulting in an overall underspend of £0.119m.
- Professional fees saving, £0.305m, reflects the partial delivery of the 2019/20 £0.426m support service saving ahead of schedule.

Agency Services & Central Expenses, -£0.077m (1.0%) favourable variance.

- Small savings on the financial systems contract consultancy line as some development work was done in-house, £0.040m. The balance was on various outsourced contract lines.

Capital Financing, +£0.826m (6.2%) adverse variance;

- At the 2019/20 Budget Authority meeting in February 2019, members approved a strategy of utilising any additional one-off savings to fund an increase in debt payments in order to free-up future budget to fund an increase in spend on frontline services. The 2018/19 year-end £0.826m revenue saving has been utilised to increase the minimum revenue provision (debt payment) actual in 2018/19.

Income (including interest on balances), £0.650m (3.4%) adverse variance.

- National Resilience Assurance Team, £0.936m; Due to the re-phasing of National Resilience Assurance schemes spend the required grant use was lower than forecast in the budget by £0.936m. This was offset by reductions in spend. Overall the NRAT net cost was £0.0m to the Authority.
- Contributions from partners, fees and sales income was £0.192m greater than the budget. This was mainly due to an increase of £0.125m in the s31 compensation grant regarding the restriction on small business rate increase.
- Interest earned on investments and balances exceeded the budget by -£0.094m as the level of investments was higher than expected throughout the year as a result of unapplied capital grants (NRAT asset replacement was re-phased) and the use of capital reserves for the St Helens and TDA new build schemes is now planned to commence during 2019/20.

Movement on Reserves, £-0.167m.

- Draw-down to cover expenditure incurred at the year-end for which reserves had been created, -£258m. The most significant was -£0.117m to cover the year-end assessment of the potential increase in the value of current liable claims.
- Increase in specific reserves to cover future expenditure for which grants or budget had been received in 2018/19, £0.091m. Of this £0.041m related to Government new dimensions grant received in the year.

- 15. Qtr 4 Bad Debt Write-Offs.** Debtor accounts under £5,000 may be written off by the Director of Finance. Ten accounts totalling £3,683 plus VAT have been written off in the year based on advice received from litigation services.

2018/19 Movement on Reserves.

- 16.** This report identifies a net reduction in committed earmarked reserves (opening balance £25.715m and a closing balance £23.064m) of £2.651m. The general reserve remained unchanged at £2.0m. In addition the Authority also holds, on behalf of the Home Office, specific grants to fund the purchase of national resilience assets, training and other investments. Also, the Home Office have awarded the Authority a capital grant towards the cost of the station merger initiative, which must be repaid if the scheme(s) are not completed. The Code of Practice for preparing the year-end Financial Statements requires that these unapplied grants are recorded within the usable reserves figure, hence they have been included in the table below that summarises the movement in reserves in the year:

Budgeted Movement on Reserves 2018/19

	Opening Balance	Closing Balance
<u>Earmarked Reserves</u>	£'000	£'000
<u>Emergency Related Reserves</u>		
Bellwin Reserve	147	222
Insurance Reserve	859	383
Emergency Planning Reserve	75	0
Catastrophe Reserve	100	0
<u>Modernisation Challenge</u>		
Smoothing Reserve	1,806	450
Ill Health Penalty Reserve	322	0
Recruitment Reserve	3,000	3,000
Invest to Save / Collaboration	1,000	895
<u>Capital Investment & Debt Repayment</u>	12,379	14,431
<u>Specific Projects</u>		
PFI Annuity Reserve	2,092	1,986
Equality / Accessibility Reserve	285	0
Health & Safety	6	30
Equipment Reserve	347	92
Contestable Research Fund	24	24
Training Reserve	450	150
Healthy Living / Olympic Legacy	35	35
Inflation Reserve	700	700
Clothing / Boots Reserve	308	242
<u>Ringfenced Reserves</u>		
Princes Trust Reserve	121	39
Community Risk Management	325	325
Energy Reserve	141	19
New Dimensions Reserve	1,193	41
Total Earmarked Reserves	25,715	23,064
General Revenue Reserve	2,000	2,000
Total Reserves	27,715	25,064
Home Office Capital Grants Unapplied:		
HO National Resilience Assurance Grant (Held by MFRA on behalf of HO for National work)	1,069	3,080
Transformation Capital Grant Unapplied (Station Mergers)	3,976	1,776
	5,045	4,856
Statement of Accounts - Usable Reserves	32,760	29,920

17. The Authority receives grants and external funding during the year to deliver specific projects. Because these sometimes span more than one financial year this necessitates the carrying forward of the funding through creation of earmarked reserves. Any

potential liabilities arising in the year or previous years for which the Authority is required to set aside a contingency will also require the creation of a reserve. At the end of 2018/19 £0.091m of earmarked reserves were established to cover timing issues between funds and spend for projects and grant funded schemes, nearly half of which was for New Dimensions grant received but not yet utilised.

18. Appendix A4 outlines the movement on reserves throughout the year, *(more details are available in the statement of accounts report elsewhere on today's agenda)*.

2018/2019 Capital Expenditure.

19. The Authority's **final** capital budget for 2018/19 was £13.625m. Actual spend in the year was £9.697m resulting in a variance of £3.928m. The variance can be broken down into:

- A £3.838m re-phasing of planned spend from 2018/19 into future years, requiring the carry forward of capital budget.
- A net underspend and saving on capital projects of £0.090m.

As most of the re-phasing was being funded via borrowing the level of actual borrowing in the year was significantly lower than budgeted for.

A summarised capital programme outturn position statement is outlined below:

Programme	Final Budget	Actual Expenditure	Re-Phased from 2018/19 into 2019/20	Variance
	£'000	£'000	£'000	£'000
Expenditure				
Building/Land	7,325.3	5,895.9	1,424.0	-5.4
Fire Safety	901.0	741.4	101.0	-58.6
ICT	1,681.1	1,141.5	540.0	0.4
Operational Equip & Hydrants	1,093.9	502.9	564.6	-26.4
Vehicles	2,623.6	1,415.3	1,208.0	-0.3
TOTAL	13,624.9	9,697.0	3,837.6	-90.3
Financing				
Capital Receipts	1,050.0	1,664.6	0	614.6
Revenue and Reserves	3,438.7	3,438.7	0	0.0
Grants	2,875.9	2,299.3	576.6	0.0
Unsupported Borrowing	6,260.3	2,294.4	3,261.0	-704.9
TOTAL	13,624.9	9,697.0	3,837.6	-90.3

20. The year-end re-phasing of capital schemes into 2019/20 is outlined in the table below:

Re-phasing £'m	Scheme	Explanation
0.487	LLAR Formby – New Accommodation build	Poor ground conditions meant a delayed start to the new build which has now commenced and the build should be completed in 2019.
0.146	New St Helens Fire Station	After receiving planning permission this year most of the preliminary work has now been completed although poor ground conditions have meant the start of the construction phase will be delayed by a few weeks. The new station should be completed by the middle of next year, 2020.
0.791	Other	A number of routine planned fire station and general building investment schemes are commencing slightly later than planned as priority was given to new build schemes.
0.101	Fire Safety	The offer of capital grants to assist with the installation of sprinkler systems in residential blocks is progressing well and the remaining funds have been committed and will be allocated out in 2019.
0.540	ICT Schemes	Priority was given to upgrading fire appliance mobile data terminals and fire control systems during 2018/19. This meant that the fire station ICT kit upgrades, £0.215m, were re-phased into 2019/20. Delays to the national Emergency Services Mobile Communications Programme (ESMCP) has meant planned spend on the emergency services network (ESN) has been rescheduled into 2019/20, £0.169m. The balance relates to the re-phasing of the replacement of hardware and software, and most orders have or are about to be placed.
0.431	Operational Equipment – NRAT Asset Refresh	The Authority acts as the lead authority for the Home Office for the procurement of national resilience assets. The Home Office are reviewing capability needs and therefore delayed the commencement of the asset replacement programme into 2019/20.
0.134	Operational Equipment	Delay in finalising some of the equipment specifications has meant orders didn't go in until the year-end so spend will be incurred in early 2019/20.
1.208	Vehicles	The delivery of 3 new fire appliances is expected in early 2019/20 as the build work has taken longer than expected, resulting in the rephrasing of £0.687m. The balance relates to new ancillary vehicle orders that were made late in 2018/19 but arrived early in 2019/20.
<u>3.838</u>		

21. A full detailed breakdown of the 2018/19 capital budget movements, year-end variances and proposed slippage can be found attached to this report as Appendix B.

Equality and Diversity Implications

22. Resources are invested to support equality and diversity.

Staff Implications

23. Over 70% of revenue expenditure is directly staff related.

Legal Implications

24. None arising from this report.

Financial Implications & Value for Money

25. At the 2019/20 Budget Authority meeting in February 2019, members approved a strategy of utilising any additional one-off savings to fund an increase in debt payments in order to free-up future budget to fund an increase in spend on frontline services. After taking into account the year-end drawdown from reserves, net expenditure was £0.826m lower than the budget. The £0.826m revenue saving has been utilised to increase the minimum revenue provision (debt payment) actual in 2018/19, and therefore the Authority's overall expenditure is consistent with its budget.
26. Capital spending was £9.697m resulting in a variance of £3.928m. The variance can be broken down into:
- A £3.838m re-phasing of planned spend from 2018/19 into future years, requiring the carry forward of capital budget.
 - A net underspend and saving on capital projects of £0.090m.
27. The General Fund Balance as at 31st March 2019 was as anticipated, £2.000m. MFRA committed earmarked reserves as at 31st March 2019 stand at £23.064m.

Risk Management, Health & Safety, and Environmental Implications

28. None arising from this report.

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

29. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Service is to achieve the Authority's mission.

BACKGROUND PAPERS

CFO/004/18 "MFRA Budget and Financial Plan 2018/2019-2022/2023" Authority 22nd February 2018.

- CFO/059/18** “Financial Review 2018/19 – April to June” Audit Committee 27th September 2018.
- CFO/073/18** “Financial Review 2018/19 – April to September” Policy and Resources Committee 13th December 2018.
- CFO/004/19** Financial Review 2018/19 – April to December” Audit Committee 14th February 2019.

GLOSSARY OF TERMS

- CAPITAL EXPENDITURE** Section 40 of the Local Government and Housing Act 1989 defines ‘expenditure for capital purposes’. This includes spending on the acquisition of assets either directly by the Authority or indirectly in the form of grants to other persons or bodies. Expenditure that does not fall within this definition must be charged to a revenue account.
- RESERVES** Amounts set aside to meet future contingencies but the use does not affect the Authority’s net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account.
- REVENUE EXPENDITURE** This is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.