

MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	30 JULY 2020	REPORT NO:	CFO/0042/20
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 2019/20		

APPENDICES:	APPENDIX A1- A4: 2019/20 REVENUE BUDGET TO ACTUAL
	APPENDIX B: 2019/20 CAPITAL BUDGET TO ACTUAL

Purpose of Report

1. To report upon the Authority's year-end financial position for 2019/20.

Recommendation

2. That Members note;
 - a. the actual revenue performance against the approved budget, after taking into account year-end reserve adjustments, was a net underspend of £1.501m, and
 - b. that this underspend has been used to increase the actual 2019/20 minimum revenue provision (debt repayment) with the aim of freeing up future debt servicing budget to allow reinvestment back into front line services, and
 - c. capital re-phasing from 2019/20 into future years of £3.762m was necessary, and
 - d. the establishment of year-end reserves of £0.650m.

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 2019/20 was £60.282m. 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. Any additional savings would be used to fund additional minimum revenue provision, MRP (debt payment), in order to free-up future years' budget to re-invest in the front line services.

The final accounts of the Authority have now been completed and after taking into account the need to create some year-end reserves a £1.501m underspend has been delivered and used

to fund an increase in MRP.

At the year-end reserves of £0.650m were created to fund initiatives or projects planned for 2019/20 which are now expected to occur in 2020/21.

The General Fund balance remains as anticipated at £3.000m.

Capital spending was £8.915m resulting in a variance of £3.884m against the £12.800m budget for 2019/20. The variance can be broken down into:

- A £3.762m re-phasing of planned spend from 2019/20 into future years, requiring the carry forward of capital budget.
- A net underspend and saving on capital projects of £0.122m.

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 2019/20 revenue and capital budgets.
 4. At the Budget Authority meeting on 28 February 2019, Members approved the 2019/20 Budget and Medium Term Financial Plan (MTFP). Members will recall that the Government announced a four year settlement, 2016/17 – 2019/20, and that following a significant cut in the Authority's Government support the approved plan and budget would deliver the required savings to maintain a balanced financial position over this period.
 5. The financial plan made a number of assumptions around future costs including:-
 - Annual pay awards of 2% per annum,
 - A 2% per annum general price inflation,
 - That all approved saving options would be delivered as per the plan, and
 - The expected increase the Firefighter Pension Scheme(s) employer contribution rate from 2019/20 would be contained within the allocated growth provision and anticipated Government grant.
 6. The delivery of the approved financial plan was monitored closely during the year and Members received quarterly financial review updates. The last report, CFO/04/20 went to the Audit Committee on 13 February 2020, and covered the period up to December 2019. This report now provides Members with the position up to the end of the 2019/20 financial year, 31 March 2020, and covers revenue, capital and reserve movements.
 7. In summary the key assumptions were found to be robust and correct as pay and inflation increases in 2019/20 have been as expected. All the budget savings have been delivered, although the required structural changes planned as part of the station merger initiative will not be formally implemented until the build of the new St. Helens fire station is complete (October / November 2020).
 8. The rest of the report will now review the budget movements in the year and the financial performance for the year.
- How the 2019/20 Budget changed during the year**
9. The Authority Revenue Budget for 2019/20 was set at £60.282m.

10. The Authority also approved a five year capital investment programme (2019/20 – 2023/24), of £36.481m, with a planned expenditure in 2019/20 of £17.680m.
11. The Authority adopted a reserves strategy, which maintains a general reserve of £2.000m (uplifted to £3.000m during 2019/20) and had anticipated £23.122m of earmarked reserves (reducing to £23.064m after the 2018/19 year-end adjustment) to cater for specific risks and to fund specific projects.
12. Further minor budget amendments have been made since the last financial review report, CFO/004/20, that reflect already approved policy decisions. These were;

Revenue:

- The net increase in reserves of £0.161m funded from the revenue budget to cover planned committed spend in 2019/20 that will now be incurred in 2020/21, and
- A number of self-balancing virements within the revenue account. The most significant was a virement of £0.057m from the inflation provision to meet price increases, and
- Before year-end adjustments the actual to budget variance was a £2.151m “underspend”, however:-
 - £0.650m of this must be carried forward into 2020/21 to meet commitments arising from 2019/20 but actual spend will be in 2020/21. The single biggest year-end adjustment was for the payment from the Government of COVID-19 grant of £0.355m, the actual spend will be in 2020/21.
 - An additional MRP payment of £1.501m funded from the net underspend, that is based on the current policy of paying off debt early with the aim of freeing up future budget to re-invest in front line services.

These changes are summarised in the table below:

	Original Budget	Approved Qtr 3 Budget	Qtr 4 Amend-ments	Final Budget	Original to Final Budget Movements
	£'000	£'000	£'000	£'000	£'000
Net Expenditure					
Fire Service	62,711	63,871	-105	63,766	1,055
Corporate	486	538	1	539	53
National Res. Assurance	0	0	0	0	0
	63,197	64,409	-104	64,305	1,108
Interest on Balances	-172	-172	0	-172	0
Inflation Provision	1,534	154	-57	97	-1,437
Contribution (from) to Reserves	-4,277	-4,109	161	-3,948	329
Total Net Expenditure	60,282	60,282	0	60,282	0
Funded By					
Government Support	-30,813	-30,813	0	-30,813	0
Council Tax	-29,469	-29,469	0	-29,469	0
	-60,282	-60,282	0	-60,282	0

Capital:

- A small increase in the capital budget of £0.212m of which £0.188m 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 budgeted level of 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 2018/19 to 2020/21 period reported to members through the quarterly financial review reports.

These changes are summarised in the table below:

	Original Budget	Approved Qtr 3	Qtr 4 Amendments	Final Budget	Original to Final Budget Movements
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Building & Land	10,822.7	7,249.2	6.8	7,256.0	-3,566.7
Fire Safety	635.0	639.5	188.0	827.5	192.5
ICT	1,729.1	2,009.1	12.3	2,021.4	292.3
Operational Equip & Hydrants	1,986.0	932.6	0.0	932.6	-1,053.4
Vehicles	2,507.4	1,757.1	5.0	1,762.1	-745.3
	17,680.2	12,587.5	212.1	12,799.6	-4,880.6
Funding					
Specific Non-Borrowing	10,045.0	8,407.6	213.6	8,621.2	-1,423.8
Borrowing	7,635.2	4,179.9	-1.5	4,178.4	-3,456.8
	17,680.2	12,587.5	212.1	12,799.6	-4,880.6

Financial Performance in the Year

13. **2019/20 Revenue Outturn Position:** The table overleaf summarises the actual revenue position for 2019/20, excluding the Home Office National Resilience Assurance (NRAT) and other Lead Authority schemes budget and costs. NRAT and other Lead Authority schemes are 100% funded from the Government and relate to national and international rather than MFRS funded initiatives for which the Service provides the lead role on behalf of the Government and all year-end variances are carried forward and belong to the Government. **Appendix A** provides a more detailed analysis of the budget to actual variances:

	Fire Service Budget	Fire Authority / Corporate Mgt	Total Budget	Actual (before Year-end reserves / adjustments)	Variance	Year-End Reserves	Year-End Adjustment	Variance Post Reserves / Adjustment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure								
Employee Costs	47,868	390	48,258	47,676	-582	116		-466
Premises Costs	3,056	0	3,056	3,056	0			0
Transport Costs	1,303	0	1,303	1,144	-159			-159
Supplies & Services	3,763	22	3,785	3,246	-539	22		-517
Agency Services	6,181	0	6,181	6,153	-28			-28
Central Support Services	488	127	615	538	-77			-77
Capital Financing	12,320	0	12,320	12,320	0		1501	1,501
Income	-11,213	0	-11,213	-11,753	-540	512		-28
Net Expenditure	63,766	539	64,305	62,380	-1,925	650	1,501	226
Contingency Pay & Prices	97		97	0	-97			-97
Interest on Balances	-172		-172	-301	-129			-129
	63,691	539	64,230	62,079	-2,151	650	1,501	0
Movement on Reserves	-3,948		-3,948	-3,948	0			
Overall Financial Position	59,743	539	60,282	58,131	-2,151			

14. 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 earmarked reserve requests of £0.650m, net expenditure was £1.501m lower than the budget. The £1.501m revenue saving has been utilised to increase the minimum revenue provision (debt payment) actual in 2019/20, 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.

15. The main variations were:

Employee Costs, -£0.582m (1.2%) favourable variance. This was made up of a number of different variations –

- Employee & Liability Insurance and other minor variances, £0.116m. The year-end assessment of the potential value of current liable claims indicated a small reduction in the number and value of outstanding claims, thereby resulting in a reduction in the required provision to meet any potential settlement. The

Authority's claims section and insurers continue to challenge any claims received where appropriate. (*note: the £0.116m has been used to increase the self-insurance reserve as part of the year-end reserves adjustments in order to smooth out the financial impact of future years' claims, that may exceed the annual budget provision*).

- Non-operational vacancies / staff not being at the top of their budget grade combined with firefighter retirements being slightly ahead of schedule meant a direct employee saving of £0.454m.
- Other, £0.012m; other smaller variances over a number of other direct and non-direct employee budgets.

Transport Costs, -£0.159m (12.2%) favourable variance –

- The Authority's vehicle workshop undertakes work for external partners and is reimbursed for this activity. The costs/income will reflect the level of activity in the year. For 2019/20 the level of activity resulted in a reduction in expenditure relative to the budget and a "saving" of £0.061m on direct transport costs (with a similar reduction in income). Spend on fuel will reflect the movement in diesel price and activity levels (mileage). The cost of fuel has fluctuated throughout the year and this combined with fuel demand in the year resulted in spend being £0.045m lower than budget. The balance is made up from small savings on lease car, car allowances, and indirect transport costs.

Supplies and Services, -£0.539m (14.2%) favourable variance –

- 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 £0.173m.
- Professional fees saving, £0.305m, reflects the partial delivery of the 2019/20 support service saving ahead of schedule and some projects being re-phased into 2020/21 resulting in a saving on project support costs.

Agency Services, -£0.028m (0.5%) favourable variance.

- PFI default penalties and other adjustments resulted in a small saving on unitary charge payments of £0.030m. The balance was on other outsourced contract lines.

Central Support Services, -£0.077m (12.5%) favourable variance.

- Small savings on the financial systems contract consultancy line as some development work was done in-house or deferred until 2020/21 resulted in a £0.070m saving.

Capital Financing, £0.000m (0.0%).

- Spend was within the approved budget. However, as outlined in the reserves section further on, the 2019/20 year-end £1.501m revenue saving has been utilised to increase the minimum revenue provision (debt payment) actual in 2019/20.

Income (including interest on balances), £0.669m (5.9%) favourable variance.

- Increase in specific grants was £0.586m greater than the budget. This was mainly due to the receipt of the phase 1 COVID-19 grant, £0.355m, at the end of March 2020. The grant will be carried forward as a specific reserve into 2020/21. The balance relates to other one-off grants but in particular a higher than expected s31 compensation grant relating to the restriction on small business

rate increase, that is paid based on the actual level of local business rates, but the budget is based on estimated income.

- Interest earned on investments and balances exceeded the budget by -£0.129m 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 level of reserves being higher than expected (as the planned use is now expected in 2020/21 or later years).

2019/20 Movement on Reserves.

16. This report identifies a net reduction in committed earmarked reserves (opening balance £23.064m and a closing balance £18.767m) of £4.297m. Due to the planned reduction in committed reserves, Members approved an increase in the general reserve during the year of £1m to £3m. This meant the general reserve is now at the normal benchmark standard of 5% of the operating budget.
17. Year-end reserves of £0.650m have been created to cover costs associated with specific risks and projects now expected to be incurred in 2020/21 or future years:
 - Phase 1 COVID-19 grant, £0.355m, received at the end of March 2020, but will be required to cover anticipated costs during 2020/21.
 - Increase in the self-insurance reserve of £0.116m, funded by the one-off revenue saving in 2019/20 due to a reduction in the required insurance provision attributable to lower settlement payments in the year and a reduction in the expected payments for outstanding claims. By crediting the self-insurance reserve with the £0.116m it will provide funding for future years when the actual payments or number of claims exceeds the annual budget provision. The insurance reserve smooths out peaks and troughs associated with movements in annual self-insurance claims.
 - Increase the Prince's Trust reserve of £0.082m that reflected additional income above spend in the year due to the higher than expected income generation from 2018/19, and a small saving on costs.
 - Planned spend of 2019/20 New Dimensions grant of £0.075m has been re-phased into 2020/21 and will be carried forward as part of the New Dimensions reserve.
 - Some equipment purchases and health and safety schemes have been re-phased into 2020/21 and the relevant existing reserves have been increased by £0.022m to cover this planned spend.
18. The table overleaf summarises the reserve movements in the year and Appendix A4 provides more details on the changes throughout the year.

	Opening Balance	Qtr 4 Closing Balance	Year-End Reserves	Closing Balance
	£'000	£'000	£'000	£'000
Committed Reserves				
Emergency Related Reserves				
Bellwin / Emergency Planning	222	222		222
Insurance Reserve	383	383	116	499
COVID-19	0	0	355	355
				0
Modernisation Challenge				0
Smoothing Reserve	450	2,000		2,000
Pensions Reserve	0	0		0
Recruitment Reserve	3,000	3,000		3,000
Invest to Save / Collaboration	895	549		549
				0
Capital Investment Reserve	14,431	8,426		8,426
PFI Annuity Reserve	1,986	1,862		1,862
Specific Projects				0
Health & Safety Reserve	30	30	3	33
Equipment Reserve	92	77	14	91
Community Engagement	24	8		8
Training Reserve	150	150		150
Health & Wellbeing	35	15	5	20
Inflation Reserve	700	700		700
Clothing Reserve	242	328		328
				0
Ringfenced Reserves				0
Community Risk /Princes Trust	364	318	82	400
Energy Reserve	19	8		8
New Dimensions Reserve	41	41	75	116
Total Committed Reserves	23,064	18,117	650	18,767
General Revenue Reserve	2,000	3,000	0	3,000
Total Reserves	25,064	21,117	650	21,767

2019/20 Capital Expenditure.

19. The Authority's **final** capital budget for 2019/20 was £12.800m. Actual spend in the year was £8.916m resulting in a variance of £3.884m. The variance can be broken down into:

- A £3.762 re-phasing of planned spend from 2019/20 into future years, requiring the carry forward of capital budget.
- A net underspend and saving on capital projects of £0.122m.

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 overleaf:

	Final Budget	Actual	Re-phasing into future years	Variance
	£'000	£'000	£'000	£'000
Expenditure				
Building & Land	7,256.0	5,702.2	1,502.3	-51.5
Fire Safety	827.5	784.1	4.5	-38.9
ICT	2,021.4	535.3	1,485.4	-0.7
Operational Equip & Hydrants	932.6	481.9	420.0	-30.7
Vehicles	1,762.1	1,411.9	350.2	0.0
	12,799.6	8,915.4	3,762.4	-121.8
Funding				
Specific Non-Borrowing	8,621.2	8,016.6	-137.9	-742.5
Borrowing	4,178.4	898.8	3,900.3	620.7
	12,799.6	8,915.4	3,762.4	-121.8

20. The year-end re-phasing of capital schemes into 2020/21 is outlined in the table below:

Re-phasing £'m	Scheme	Explanation
0.549	New St Helens Fire Station	The new station should be completed towards the end of 2020 as expected. The year-end re-phasing reflects the fact that the budget phasing was not in line with the planned spend.
0.953	Other	A number of routine planned fire station and general building investment schemes are commencing slightly later than planned as delays in finalising specifications re-tendering work and scheme priorities has put completion dates back slightly.
0.805	Capita Vision 3 Update	Delays in the supplier receiving delivery of the required hardware meant the scheme completion date was delayed. The project is now in the implementation phase and will be completed this year.
0.220	I.C.T. Network	An upgrade to the station network was delayed while the contract with Virgin Media, that was due to end, was renegotiated. The contract has now been agreed and the order for the work has been placed.
0.460	ICT Schemes	The commencement of other schemes was delayed due to changes being made to project specifications following site visits with staff, (station audio visual refresh), or, competing demands on limited staff resources resulting in the prioritisation of work.
0.240	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 in light of what the future challenge may be, and therefore delayed the commencement of the asset replacement programme.

0.180	Operational Equipment	Reviews are ongoing about what the future ask and need of the Service is and therefore the equipment requirements. As these reviews are finalised orders will be placed for replacement equipment.
0.350	Vehicles	Following a review of the ancillary fleet orders were raised later than planned for new ancillary vehicles, but delivery is now expected in 2020/21.
0.005	Fire Safety	Slight re-phasing of planned work into 2020/21
3.762		

21. A full detailed breakdown of the 2019/20 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 directly 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 £1.501m lower than the budget. The £1.501m revenue saving has been utilised to increase the minimum revenue provision (debt payment) actual in 2019/20, and therefore the Authority's overall expenditure is consistent with its budget.
26. Capital spending was £8.915m resulting in a variance of £3.884m. The variance can be broken down into:
- A £3.762m re-phasing of planned spend from 2019/20 into future years, requiring the carry forward of capital budget.
 - A net underspend and saving on capital projects of £0.122m.
27. The General Fund Balance as at 31st March 2020 was as anticipated, £3.000m. MFRA committed reserves as at 31st March 2020 stand at £18.767m.

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/009/19** "MFRA Budget and Financial Plan 2019/2020-2023/2024" Authority 28th February 2019.
- CFO/050/19** "Financial Review 2019/20 – April to June" Audit Committee 26th September 2019.
- CFO/056/19** "Financial Review 2019/20 – April to September" Policy and Resources Committee 19th December 2019.
- CFO/004/20** "Financial Review 2019/20 – April to December" Audit Committee 13th February 2020"

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.