

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	27 JULY 2017	REPORT NO:	CFO/049/17
PRESENTING OFFICER	IAN CUMMINS, TREASURER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC MANAGEMENT GROUP		
TITLE OF REPORT:	REVENUE & CAPITAL OUTTURN 2016/17		
APPENDICES:	APPENDIX A1- A5: 2016/17 REVENUE BUDGET TO ACTUAL APPENDIX B: 2016/17 CAPITAL BUDGET TO ACTUAL		

Purpose of Report

1. To report upon the Authority's year-end financial position for 2016/17.

Recommendation

2. That Members;
 - a. note the actual financial performance against the approved budget and the achievement of a net revenue saving in 2016/17 of £2.349m, and
 - b. approve the proposal to utilise the £2.349m saving to;
 - i. fund the creation of £0.480m year-end earmarked reserves in order to finance approved 2016/17 spend that has been re-phased into 2017/18, and
 - ii. fund an increase of £1.869m in the Capital Investment Reserve in order to increase the reserve contribution towards the planned refurbishment of the TDA.

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 2016/17 was £61.507m. 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 prior to audit and a £2.349m saving has been delivered. This report proposes that this revenue saving be allocated to fund specific year-end reserves of £0.480m to cover initiatives or projects planned for 2016/17 which are now expected to occur in 2017/18. In addition the report recommends the balance of the saving, £1.869m, be used to increase the capital investment reserve in order to increase the contribution towards the planned refurbishment of the TDA.

The Authority has an approved strategy of building up reserves in order to provide a short-term buffer while it re-engineers the service and to avoid compulsory redundancies if possible.

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

Capital spending was £3.652m resulting in a variance of £7.943m against the £11.595m budget for 2016/17. The variance can be broken down into:

- A £7.897m re-phasing of planned spend from 2016/17 into 2017/18, requiring the carry forward of capital budget. £4.620m of the rephrasing relates to re-phased building works of which £2.271m is for the new Prescott Fire Station scheme.
- A net underspend and saving on capital projects of £0.046m.

Introduction and Background

3. This report sets out the actual financial performance of the Authority compared to the approved 2016/17 revenue (general fund) and capital budgets.
4. Elsewhere on today's agenda is a report containing the audited Statement of Accounts for 2016/17 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.

2016/17 Budget – Background

5. Following the announcement by the Government of the final settlement funding for 2016/17 and the indicative figures for 2017/18 – 2019/20 the Authority had a cut in its Revenue Support Grant (RSG) of over £7.7m or 41% compared to the 2015/16 grant. This is approximately a 50% cut in real terms once inflation is taken into account. In 2015/16 RSG provided over 30% of the Authority's revenue budget funding. This level of grant cut meant the Authority had to make tough choices over the level of its future service provisions. At the 2016/17 Budget Authority meeting on 25th February 2016 Members approved a financial plan that delivered the £11m savings required as a result of government cuts. The Authority planned prudently to minimise the impact on frontline services and in the 2016/17 plan had identified significant efficiency savings of £6.0m by reducing management and support services costs and benefitted from a known £1.0m increase in the council tax base. Despite these efficiencies the Authority was left with no choice but to find the balance from the operational front line, potentially requiring a saving as high as £4m if no additional alternative savings were found.
6. The approved medium term financial plan made a number of assumptions around future costs which included:-
 - An assumption that there would be a pay-bill restraint for all staff and pay inflation would be no greater than 1%, delivering a saving of £0.500m p.a. up to £2019/20, totalling £2.0m.

- An assumption that the Authority would generate savings of £3.5m by 2019/20 from technical savings such as non-employee inflation and revenue costs associated with borrowing.
 - An assumption that the Authority would generate efficiencies from management and back office costs of £1.5m by 2018/19.
 - A potential maximum reduction of approximately 100 front line Firefighter posts equal to a 10% reduction in wholetime Firefighter roles, saving £4.0m by 2019/20.
 - Use of reserves to smooth out budget cuts.
 - An assumed Council tax increase from 2016/17 to 2019/20 of 2%.
7. The delivery of the approved financial plan was monitored closely and all the savings options have been delivered as planned. The previous financial plan's £3.4m savings from the approved station merger programme is progressing and will deliver the structural changes required to realise the £3.4m savings assumed from operational response by 2017/18. In the meantime, firefighter retirements are delivering the required operational response savings in cash terms.

How the 2016/17 Budget changed during the year

8. The Authority Revenue Budget for 2016/17 was set at £61.507m.
9. The Authority also set a five year capital investment programme (2016/17 – 2020/21), of £38.156m, with a planned expenditure in 2016/17 of £20.600m.
10. The Authority adopted a reserves strategy, which maintains a general reserve of £2.000m and had anticipated £23.096m of earmarked reserves (rising to £26.248m after the 2015/16 year-end adjustment) to cater for specific risks and to fund specific projects.
11. 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.
12. Further minor budget amendments have been made since the last financial review report, CFO/013/17, was approved by the Authority on 23rd February 2017 that reflect already approved policy decisions. These were;

Revenue:

- The net movement in reserves of £2.139m from the revenue budget, (of which £2.114m was due to the rephrasing of the use of the capital investment reserve for the new Prescott Community Fire station from 2016/17 to 2017/18);
- A number of self-balancing virements within the revenue account.

Capital:

- A small increase in the capital budget of £0.120m of which £0.112m was due to the increase in capitalised installation costs associated with smoke alarms and fire safety work.

The following tables show how the **overall** budget has changed across the year:

REVENUE BUDGET MOVEMENTS IN 2016/17					
	Original Budget	Approved Qtr 3 Budget	Further Budget Amendments	Final Budget	Total Original to Final Budget Movements
	£'000	£'000	£'000	£'000	£'000
Net Expenditure					
Fire Service	64,618	61,802	-2,112	59,690	-4,928
Corporate	533	537	1	538	5
National Resilience Assurance	0	0	0	0	0
	65,151	62,339	-2,111	60,228	-4,923
Interest on Balances	-372	-172	0	-172	200
Inflation Provision	1,044	218	-28	190	-854
Contribution (from) to Reserves	-4,316	-878	2,139	1,261	5,577
Total Expenditure	61,507	61,507	0	61,507	0
Funded By					
Government Grant	-34,926	-34,926	0	-34,926	0
Precept	-26,581	-26,581	0	-26,581	0
	-61,507	-61,507	0	-61,507	

CAPITAL BUDGET MOVEMENTS IN 2016/17					
	Original Budget	Approved Qtr 3 Budget	Further Budget Amendments	Final Budget	Total Original to Final Budget Movements
	£'000	£'000	£'000	£'000	£'000
Total	20,600	11,475	120	11,595	-9,005
Funding:					
Specific	13,935	6,005	116	6,121	-7,814
Borrowing	6,665	5,470	4	5,474	-1,191
	20,600	11,475	120	11,595	-9,005

Financial Performance in the Year

13. **2016/17 Revenue Outturn Position:** The table below summarises the actual revenue position for 2016/17 compared to the final budget, (**Appendix A** provides a more detailed analysis):

Year-End Revenue Position

	FIRE SERVICE BUDGET	Fire Authority	National Resilience	TOTAL BUDGET	ACTUAL	VARI- ANCE	Year-End Earmarked Reserves	Post ER VARI- ANCE
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Expenditure								
Employee Costs	45.883	0.402	0.546	46.831	45.879	-0.952	0.240	-0.712
Premises Costs	2.509	0.000	0.000	2.509	2.346	-0.163	0.000	-0.163
Transport Costs	1.390	0.000	0.043	1.433	1.215	-0.218	0.000	-0.218
Supplies and Services	3.341	0.044	0.982	4.367	3.770	-0.597	0.088	-0.509
Agency Services	5.976	0.000	0.022	5.998	5.889	-0.109	0.030	-0.079
Central Support Services	0.435	0.092	0.075	0.602	0.561	-0.041	0.000	-0.041
Capital Financing	6.890	0.000	0.011	6.901	6.844	-0.057	0.000	-0.057
Income	-6.734	0.000	-1.679	-8.413	-8.420	-0.007	0.122	0.115
Net Expenditure	59.690	0.538	0.000	60.228	58.084	-2.144	0.480	-1.664
Contingency Pay&Prices	0.190			0.190	0.000	-0.190	0.000	-0.190
Interest on Balances	-0.172			-0.172	-0.187	-0.015	0.000	-0.015
	59.708	0.538		60.246	57.897	-2.349	0.480	-1.869
Movement on Reserves	1.261			1.261	1.261	0.000		
Overall Financial Position	60.969	0.538		61.507	59.158	-2.349		
Year-End Earmarked Reserves							0.480	
Increase in Capital Investment Res.								1.869
Year-End funded Reserves								2.349

14. Overall the Authority underspent on its revenue services budget by £2.349m. However, £0.480m was as a result of timing issues for projects and grant funded schemes. Specific earmarked reserves have been created to cover the rephasing of this expenditure. The remaining net underspend of £1.869m is approximately a 3% variance on the budget and reflects the continuing drive to maximise savings in the year in light of the financial challenge ahead.

15. The main variations were :

Employee Costs, £0.712m (1.5%) favourable variance. This was made up of a number of different variations –

Variation £'m	Explanation
-0.530	Effective Vacancy Management
-0.363	Employee Insurance costs
-0.059	Other minor variances
0.240	Year-end specific reserves - Various project reserves
-0.712	

Details of the major variances are provided below: –

- **Vacancy Management, -£0.530m;** After taking account of the dynamic staff saving target of £1.756m (basically the uniform staff saving yet to be formally implemented pending the implementation of the station merger initiatives) and spend on firefighter voluntary additional hours, uniform employee savings of £0.163m above what was expected were delivered in the year. Vacant green book posts have not been actively filled resulting in a £0.220m saving. Due to the re-phasing of National Resilience Assurance schemes spend on employee costs was lower than anticipated, £0.147m, however this was offset by grant monies being rephased into 2017/18.
- **Employee & Liability Insurance, -£0.363m;** an assessment of the potential liability of the Service's current outstanding claims indicated that if the Service was deemed negligent it would require a reduction in the current provision based on the latest estimates, resulting in a one-off credit back to revenue of £0.363m. The Authority's claims section and insurers continue to challenge any claims received where appropriate.
- **Other minor variances, -£0.059m,** an underspend on the training budget and other small variances has resulted in a small favourable variance.
- **Year-end reserves, £0.240m –** Material movements in the estimated value of potential employee and public uninsured claims (that can significantly change from one year to the next) and require an adjustment to the insurance provision via the revenue account, the report recommends using £0.200m of the identified employee saving to increase the insurance reserve. This reserve can then be used to cover any significant increase in the insurance provision in future years. A further £0.040m is required to be carried forward in specific reserves to fund projects that have now been rephased into future years.

Premises Costs, -£0.163m (6.5%) favourable variance –

- Lower gas unit rates resulted in a £0.096m saving on the energy budget. One-off relief from business rates for vacant dwellings resulted in a £0.051m saving.
- Small underspends on other premises costs made up the balance.

Transport Costs, -£0.218m (15.2%) favourable variance –

- A saving on diesel, £0.149m and car allowance payments arising from a reduction in the fleet and business mileage undertaken in the year.
- The balance is made up from small savings on lease car rentals and vehicle replacement parts.

Supplies and Services, -£0.509m (11.7%) 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 £0.369m.

Agency Services, -£0.079m (1.3%) favourable variance.

Small savings on the facilities management contract and the ending of the Fire Support Network contract have resulted in a saving of £0.079m.

Central Expenses -£0.041m (6.8%) favourable variance.

This is due to a saving on the financial systems contract consultancy line as some development work was done in-house.

Capital Financing, -£0.057m (0.8%) favourable variance;

Robust management of the Authority's cashflow combined with the short-term use of internal cash has delayed the take-up of new loans to fund capital schemes financed by borrowing. This has resulted in a one-off saving on debt servicing costs of £0.057m.

Income, £0.115m (1.3%) favourable variance.

Contributions from partners, fees and sales income are slightly higher than budgeted for resulting in the achievement of £0.145m of income above the budget.

Inflation Provision, -£0.190m favourable variance.

In the first instance any inflationary increase in non-employee costs is expected to be contained within the relevant department's controllable budget before any request is made to cover rising costs from the inflation provision. This approach has delivered a saving on the inflation provision of £0.190m.

16. **Qtr 4 Bad Debt Write-Offs.** Debtor accounts under £5,000 may be written off by the Treasurer. Four accounts totalling £2,664 have been written off in the year based on advice received from litigation services.

2016/17 Movement on Reserves.

17. This report identifies a net increase in earmarked reserves (opening balance £26.248m to closing balance £29.858m) of £3.610m. Approved increases in the firefighter recruitment reserve of £1.000m funded from one-off revenue savings reported to members during 2016/17, and the proposed year-end reserves outlined below of £2.349m account for the majority of the overall increase in reserves.
18. 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 2016/17 £0.480m of earmarked reserves were established to cover timing issues between funds and spend for projects and grant funded schemes.
19. It is proposed that the Authority use the £1.869m underspend (£2.349m saving less the £0.480m used for new earmarked year-end reserves) to increase the capital investment reserve to fund required investment in the Training and Development Academy (TDA). The current capital programme includes a £1.089m scheme for the refurbishment of the TDA and £1.675m is held in the capital investment reserve. The current proposals being developed for the TDA refurbishment indicate the level of investment required will be potentially £3.5m to £4.5m significantly greater than the £2.764m funding currently available. Therefore Officers are recommending Members' approve an increase in Capital Investment Reserve / TDA of £1.869m funded from the net revenue underspend. The Authority has recognised that it has relatively high debt levels and that if possible it should seek to avoid borrowing for the capital investment projects. It has therefore created a substantial capital investment reserve to support that aim.
20. Appendix A5 outlines the movement on reserves throughout the year, (*more details are available in the statement of accounts report elsewhere on today's agenda*).

21. The table below sets out year-end reserve requests totalling £2.349m split between £0.480m for specific reserves and £1.869m increase in the capital investment reserve.

2016/17 Year-End Earmarked Reserves		
Reserve	Request	Description
	£'000	
Earmarked Reserves		
Insurance	200	To cover future Employee & Public Liability claims
Capital	186	PFI annuity & specific investment projects started in 16/17
Other	22	Various small initiatives carried over from 2016/17
Ringfenced Reserves:		
New Dimensions	63	Externally Funded Schemes
Prince's Trust	-27	
Community Risk Mgt	36	
	480	
Capital Investment Reserve		
Yr-End Underspend	1,869	Use to fund TDA refurbishment
	2,349	

22. The General Fund reserve balance remains at £2.000m.

2016/2017 Capital Expenditure.

23. The Authority's **final** capital budget for 2016/17 was £11.595m. Actual spend in the year was £3.652m, a net variance of £7.943m. The variance can be broken down into:
- A £7.897m re-phasing of planned spend from 2016/17 into 2017/18, requiring the carry forward of capital budget. £4.620m of the rephasing relates to the new Prescott Fire Station scheme and other building works.
 - A net saving on capital projects of £0.046m

A summarised capital programme outturn position statement is outlined below:

Programme	Final Budget	Actual Expenditure	Re-Phased from 2016/17 into 2017/18	Variance
	£'000	£'000	£'000	£'000
Expenditure				
Building/Land	6,620.1	2,000.5	4,620.0	-0.4
Fire Safety	877.1	829.9	0.0	47.2
ICT	1,116.2	360.5	776.3	-20.6
Operational Equip & Hydrants	1,320.0	362.2	938.0	19.8
Vehicles	1,661.3	98.7	1,562.6	0.0
TOTAL	11,594.7	3,651.8	7,896.9	46.0
Financing				
Capital Receipts	400.0	0.0	400.0	0.0
Revenue and Reserves	2,782.9	669.0	2,113.9	0.0
Grants	2,938.0	1,827.9	1,110.1	0.0
Unsupported Borrowing	5,473.8	1,154.9	4,272.9	46.0
TOTAL	11,594.7	3,651.8	7,896.9	46.0

24. The year-end re-phasing of capital schemes into 2017/18 is outlined in the table below:

Re-phasing £'m	Scheme	Explanation
2.271	Prescot Fire Station	Members have received numerous reports throughout the year on the challenges over the land issues and uncertainty over North West Ambulance Service's participation in the scheme. These issues delayed the start of the build stage of the project but construction has commenced and the build should be completed in 2017.
2.349	Building enhancement and refurbishment work	This reflects a number of smaller value building scheme re-phasing that has arisen as staff have prioritised work on the station merger schemes development and other major building schemes. Also delays in securing planning approval, (Saughall Massie) and discussions with other blue light services on sharing assets have delayed the start of works.
0.776	ICT Schemes	Delay in the procurement of Hardware/Software as the Service seeks to gain savings by packaging the tender document in a way to deliver best VFM.
0.938	Operational Equipment	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 £0.402m of the planned spend, funded via a government grant, has been rephased. Technical advances are constantly being made that can delay the finalisation of product choices resulting in small timing delays over a number of schemes such as personal protection equipment, water delivery systems etc., delivery is now expected in 2017.
1.563	Vehicles	Orders have been raised in 2017 for fire appliances, specialised and other vehicles and delivery is expected during 2017 and 2018.
<u>7.897</u>		

25. A full detailed breakdown of the 2016/17 capital budget movements, year-end variances and proposed slippage can be found attached to this report as Appendix B.

Equality and Diversity Implications

26. Resources are invested to support equality and diversity.

Staff Implications

27. Approximately 75% of expenditure is directly staff related.

Legal Implications

28. None arising from this report.

Financial Implications & Value for Money

29. Subject to members approval this report recommends using the £2.349m revenue underspend to increase specific earmarked reserves of £0.480m to cover financial commitments re-phased into 2017/18. Officers recommend the remaining underspend of £1.869m, be used to increase the Capital Investment Reserve to fund the required refurbishment at the TDA. The final revenue position can be summarised as:

2016/17 Revenue Year-End Position			
	Budget	Actual	Variance
	£'m	£'m	£'m
Net Expenditure	61.507	59.158	-2.349
Year-End Earmarked Reserves		0.480	0.480
Utilisation of underspend to increase Capital Reserve / TDA		1.869	1.869
	61.507	61.507	0.000

30. The Authority has an approved strategy of building up reserves in anticipation of future funding cuts and the creation of year-end reserves is consistent with this strategy.
31. Capital spending was £3.652m resulting in a variance of £7.943m against the £11.595m budget for 2016/17. The variance can be broken down into:
- A £7.897m re-phasing of planned spend from 2016/17 into 2017/18, requiring the carry forward of capital budget into 2017/18.
 - A net underspend and saving on capital projects of £0.046m.
32. The General Fund Balance as at 31st March 2017 was as anticipated, £2.000m. Earmarked reserves as at 31st March 2017 stand at £29.858m.

Risk Management, Health & Safety, and Environmental Implications

33. None arising from this report.

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

34. 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/008/16 "MFRA Budget and Financial Plan 2016/2017-2019/2020" Authority 25th February 2016.

CFO/074/16	"Financial Review 2016/17 April to June" Audit & Scrutiny Committee 15th September 2016.
CFO/086/16	"Financial Review 2016/17 April to September" Policy & Resources Committee 15th December 2016.
CFO/013/17	"Financial Review 2016/17 – April to December Review" Authority 25th February 2016.

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.