MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUTHORITY**		
DATE:	**24 JULY 2014**	**REPORT NO:**	**CFO/079/14**
PRESENTING OFFICER	**KIERAN TIMMINS**		
RESPONSIBLE OFFICER:	**KIERAN TIMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**STRATEGIC MANAGEMENT GROUP**		
TITLE OF REPORT:	**REVENUE & CAPITAL OUTTURN 2013/14**		

APPENDICES:	**APPENDIX A1- A4:** **APPENDIX B:**	**REVENUE BUDGET TO ACTUAL** **CAPITAL BUDGET TO ACTUAL**

Purpose of Report

1. To report upon the Authority's year-end financial position for 2013/14.

Recommendation

2. That Members;
   a. note the actual financial performance against the approved budget and the achievement of a net revenue saving in 2013/14 of £1.352million; and

   b. approve the proposal to utilise the one-off saving of £1.352m to fund an increase in the Capital Investment Reserve in light of the planned station merger and investment strategy.

Executive Summary

The Authority faced a potential £10m budget deficit over the period 2013/14 – 2014/15, mainly due to a 16% cut in Government Grant. The Authority approved a robust financial plan to meet the deficit.

The approved revenue budget in 2013/14 was £66.721m. Having recognised the likely future financial challenges facing the public sector Members instructed Officers to try to further 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 £1.352m saving has been delivered. This report proposes that the additional revenue saving of £1.352m be allocated to capital investment reserve in light of the anticipated funding requirement for the station merger projects.

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

The General Fund balance remains as anticipated at £2.894m.

Capital spending was £9.375m resulting in a variance of £6.906m against the £16.280m budget for 2013/14. The variance can be broken down into:

- A £6.713m re-phasing of planned spend from 2013/14 into 2014/15, requiring the carry forward of capital budget into 2013/14. Most of the rephrasing relates to the JCC project and related ICT schemes and the other proposed works on the Authority Headquarters site, at the workshops and museum

- A net underspend and saving on capital projects of £0.193m

Introduction and Background

3. The Accounts and Audit (England) Regulations 2011 give the responsibility for signing off the unaudited statement of accounts to the responsible finance officer, who in MFRA is the Deputy Chief Executive (DCE). The DCE must sign the statement no later than 30th June immediately following the year-end. The DCE has now signed the 2013/14 statement of accounts (prior to audit) and certified that they represent a true and fair view of the financial position of the Authority. The Authority is still required to consider, approve and sign the statement of accounts for publication by 30th September 2014. The benefit of the change in procedure is that it allows Members to take into account any comments from the Auditor following the completion of their audit before considering the statement of accounts.

4. This report sets out the actual financial performance of the Authority compared to the approved 2013/14 revenue and capital budgets. Although Members are not required to consider or sign the unaudited statement of accounts at this time copies of the statement can be made available for Members' inspection.

2013/14 Budget – Background

5. The Authority faced a £10m budget deficit over the **2013/14 – 2014/15** period (the Authority has referred to this as "**phase 2"** of the austerity cuts**)** mainly due to a 16% cut in Government grant (which makes up over 66% of the Authority's revenue funding). This challenge was compounded by the fact that the Government grant had been cut 13% over the **2011/2 -2012/13** period and the Authority was required to identify £9m of saving (**phase 1)** to offset this reduction.

6. The Authority's approved financial plan had assumed council tax increases of no more than 2%. The Authority increased council tax by 2% or £1.34 for a band D property in 2013/14.

7. To deliver the required level of savings arising from this funding reduction the Authority acknowledged that as staff costs make up nearly 80% of its revenue budget then it would have to reduce the number of its staff. At the same time the Authority was and is committed to attempting to avoid compulsory redundancies and to seeking to minimise the impact of cuts on service levels to the communities of Merseyside.

8. The Authority adopted a medium term financial plan which included:-

- An assumption that Central Government's pay strategy for the public sector can be achieved and that there would be a maximum 1% pay bill increase for all staff in line with that strategy for 2013/14 and 2014/15, and 2% thereafter, saving £1.000m.
- An assumption that the Authority would generate a further £3.170m from other technical savings such as non-employee inflation and revenue costs associated with borrowing.
- An assumption that additional income could be generated from shared use of current assets and sales.
- An assumption that the Authority would generate efficiencies from management and back office costs of £2.307million.
- Despite the Authority's best efforts to minimise the impact on operational fire and rescue response the level of cuts required have necessitated a further reduction in the number of appliances (5 had previously been removed from the front line) from 37 to 28.
- Assumptions of a Council tax increase in 2013/14 and 2014/15 of 2%, and future years of 4%.

The savings comprised a 15% reduction in managerial and back office roles and a 10% reduction in wholetime Firefighter roles – a total reduction of 147 posts.

9. The delivery of the approved financial plan was monitored closely in addition the formal implementation of a small number of saving options from the previous phase 1 financial plan had to be delivered. The table below summarises progress;

Value of Saving Optons yet to be formally implemented					
	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
2013/14 - 2014/15 "PHASE 2 "					
Technical					
Inflation Provision Review	-1,000	-1,300	-1,425	-1,500	-1,500
Reduce PAY inflation assumption in 2013/14 from 2 to 1 %	-400	-500	-500	-500	-500
Reduce PAY inflation assumption in 2014/15 from 2 to 1 %		-400	-500	-500	-500
Phase 1 additional savings to date on Mgt/Support & other	-670	-670	-670	-670	-670
Saving on revenue costs associated with Capital Spend	-1,000	-1,000	-1,000	-1,000	-1,000
	-3,070	-3,870	-4,095	-4,170	-4,170
Income					
Joint Control Room		-200	-200	-200	-200
Income PFI Stations	-75	-100	-100	-100	-100
Workshops			-100	-100	-100
Smoke Alarm	-100	-100	-100	-100	-100
	-175	-400	-500	-500	-500
Proposed Cuts in Support Savings	-1,675	-2,257	-2,307	-2,307	-2,307
Proposed Cuts in Front Line Savings	-305	-1,750	-3,100	-3,100	-3,100
SMG Contingency Reserve	100				
Use of Smoothing Reserve		-1,783			
TOTAL 2013/14 "Phase 2" SAVINGS	**-5,125**	**-10,060**	**-10,002**	**-10,077**	**-10,077**
2011/12 - 2012/13 "Phase 1"Approved Savings:					
Approved Saving Options yet to be formally implemented:					
Outsource Estates function	-250	-250	-250	-250	-250
Flexible Shift Patterns at Whiston	-300	-300	-300	-300	-300
	-550	**-550**	**-550**	**-550**	**-550**

10. The Authority Revenue Budget for 2013/14 was set at £66.7million.

11. The Authority also set a five year capital investment programme, (2013/14 – 2017/18), of £31.484m, with a planned expenditure in 2013/14 of £14.926m.

12. The Authority adopted a reserves strategy, which maintains a general reserve of £2.894m and maintained £23.082m of earmarked reserves to cater for specific risks, fund specific projects and one-off initiatives.

How the 2013/14 Budget changed during the year

13. Throughout the year Members received regular financial review reports detailing the Service's progress in implementing the approved saving options, any additional budget amendments required, plus the movements from and to reserves.

14. Further minor budget amendments have been made since the last financial review report, CFO/010/14, was approved by the Authority on 27th February 2014, that reflect already approved policy decisions these were:

Revenue:

- The further use of £0.344m from reserves to the revenue budget, (of which £0.250m was a drawdown from the insurance reserve to reflect the anticipated cost of employee insurance claims);
- A number of self-balancing virements within the revenue account.

Capital:

- A small reduction of £0.210m in the capital budget for the anticipated reduction in smoke alarm installations costs to reflect the number of smoke alarms to be fitted in the year.

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

REVENUE BUDGET MOVEMENTS IN 2013/14

	Original Budget	Approved Qtr 3 Budget	Further Budget Amendments	Final Budget	Original to Final Budget Movement
	£'m	£'m	£'m	£'m	£'m
Net Expenditure					
Fire Service	67.344	67.969	0.355	68.324	0.980
Corporate	0.599	0.567	0.000	0.567	-0.032
	67.943	68.536	0.355	68.891	0.948
Interest on Balances	-0.332	-0.267	0.000	-0.267	0.065
Inflation Provision	0.792	0.180	-0.011	0.169	-0.623
Contribution (from) to Reserves	-1.682	-1.728	-0.344	-2.072	-0.390
Total Expenditure	66.721	66.721	0.000	66.721	0.000
Funded By					
Government Grant	-44.047	-44.047	0.000	-44.047	0.000
Precept	-22.674	-22.674	0.000	-22.674	0.000
	-66.721	-66.721	0.000	-66.721	0.000

CAPITAL BUDGET MOVEMENTS IN 2013/14

	Original Budget	Approved Qtr 3 Budget	Further Budget Amendments	Final Budget	Original to Final Budget Movement
	£'m	£'m	£'m	£'m	£'m
Total	14.926	16.490	-0.210	16.280	1.354
Funding:					
Specific	10.194	11.656	-0.215	11.441	1.247
Borrowing	4.732	4.834	0.005	4.839	0.107
	14.926	16.490	-0.210	16.280	1.354

Financial Performance in the Year;

2013/14 Revenue Outturn Position:

15. The table below summarises the actual revenue position for 2013/14 compared to that final budget, (**Appendix A** provides a more detailed analysis):

2013/14 REVENUE OUTTURN SUMMARY					
SPEND ANALYSIS	**Budget**	**Actual**	**Variance**	**Adjustment for Year-end Reserves**	**Adjusted Variance**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fire Service					
Employee	51,637	51,448	-189	695	506
Premises	3,175	2,945	-230	2	-228
Transport	1,778	1,606	-172	0	-172
Supplies & Services	4,243	3,444	-799	151	-648
Agency	4,557	4,462	-95	-18	-113
Central Expenses / Capital	8,977	8,939	-38	0	-38
	74,367	72,844	-1,523	830	-693
Income	-6,043	-6,795	-752	125	-627
	68,324	66,049	-2,275	955	-1,320
Corporate Management	567	523	-44	0	-44
Interest Receivable	-267	-86	181	0	181
Inflation Provision	169	0	-169	0	-169
Net Cost of Services	68,793	66,486	-2,307	955	-1,352
Movement to/from Reserves	-2,072	-1,117	955	-955	0
Total Net Operating Spend	66,721	65,369	-1,352	0	-1,352

16. Overall the Authority underspent on its revenue services budget by £2.307m. However, £0.955m was identified as being as a result of timing issues for projects and grant schemes. Therefore specific earmarked reserves have been created to cover the phasing of this planned future spend. The net underspending of £1.352m reflects the continuing drive by the Service to maximise savings in the year in light of the financial challenge ahead.

17. The main variations explaining the underspending of -£1.352m were :

Employee Costs, £0.506m (1.0%) adverse variance –
Overall main employee costs underspent by approximately £0.8m but it is deemed prudent to take advantage of this to make prudent provision for ill health retirement costs and claims against the Authority in the current year. This means there was a net £0.506m (+0.1%) adverse variance which is explained in more detail below: –

Variation £'m	Explanation
-0.640	Effective Vacancy Management
-0.170	Employee Training Costs
0.560	Employee Insurance costs
0.122	Cost of Early Retirement
-0.061	Other minor variances
	Year-end specific reserves;
0.660	Cost of Ill Health retirements (charged in year rather than spread over a longer period)
0.035	Various project reserves
0.506	

- **Vacancy Management -£0.640m**; in light of the pending financial challenge vacant green book posts have not actively filled resulting in a £0.316m saving and Firefighter retirements are slightly ahead of target £0.324m.
- **Training Costs -£0.170m**; officers have been reviewing the training needs of staff throughout the year and the revised phasing of training programme has resulted in a £0.170m saving in the year.
- **Employee Insurance, £0.560m**; unfortunately an incident occurred involving a member of staff that is likely to result in a significant payment. This case is still on-going but a significant increase in the employee insurance provision was required to meet the potential value of any settlement. The Authority's insurers continue to challenge any claims received where appropriate. Members have received separate fuller reports on this matter
- **Cost of Early Retirement, £0.122m**; as part of the voluntary staff reduction scheme some staff have been eligible to access their pensions early resulting in pension strain charges to the Authority. Although the Authority has established a severance reserve to meet such costs as the cost could be prudently contained within the overall revenue budget no draw down on the reserve has been made to meet this net overspend.
- **Ill Health Retirement £0.660m;** Eight Firefighters have left or are about to leave the service during the first few months of 2014/15 via Ill health retirements as a consequence of becoming permanently disabled for undertaking their roles as a Firefighter. These cases commenced sometime in the past. The Authority must contribute a fixed amount to the pension fund for each retirement but it can spread the cost over a three year period. An increase in the ill health earmarked reserve of £0.660m has been made to cover the penalty charge for these eight cases.

Premises Costs, £0.228m (7.7%) favourable variance –

- The phasing of the opening of the final PFI stations meant a saving on the non-domestic rates bill of £0.117m as the service received relief on this charge while the buildings were not available.
- Small underspends on other premises costs made up the balance.

Transport Costs, £0.172m (09.7%) favourable variance –

- A saving on diesel, £0.094m.
- The balance is made up from small savings on lease car rentals and vehicle replacement parts.

Supplies and Services, £0.648m (15.2% of budget) favourable variance–

Variation £'m	Explanation
-0.100	Effective Management of Clothing and Uniform issues
-0.106	ICT and Computing supplies
-0.152	Operational, Fire Prevention and Training Supplies
0.151	Year-end project reserves
-0.441	Other minor variances
-0.648	

- **Other minor variances -£0.441m**; reflect a large number of small underspends in controllable budget lines such as administrative costs; travel & subsistence; subscriptions; and printing and stationery.

Agency Services, £0.113m (2.5%) favourable variance. Slight delays and deductions from the contractor for slow performance response at the PFI stations have resulted in a saving on the unitary charge payments of £0.092m.

Central Expenses £0.038m underspend:-

- **Central Services, £0.012m (3.6%) favourable variance.** Saving on the finance application contract.
- **Capital Financing, £0.026m (0.3%) favourable variance.** Robust management of the Authority's cashflow combined with the re-phasing of some capital schemes into future years meant the need for new borrowing was not required and resulted in a one-off saving on interest payments of £0.025m.

Income, £0.629m (9.3%) additional income above budget-

- Secondment income being higher than budgeted by £0.180m.
- After taking into account grant money required to meet future spend, additional grants of £0.205m were received
- Increase in Fees and Charges £0.083m

Corporate Management, £0.044m (-7.8%) favourable variance. A reduction in members' subsistence, travelling and accommodation costs delivered a £0.034m saving.

Inflation Provision, £0.169m 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 £0.169m.

Interest and Investment Income, £0.181 adverse variance. Global interest rates and hence the interest rate paid on investments has remained low (average rate of return achieved on average principal available in 2013/14 was 0.69%) and has led to an underachievement of investment income of £0.181m.

2013/14 Movement on Reserves

18. The Authority receives grants and external funding during the year to deliver specific projects. Because these sometimes span financial years, this necessitates the carry forward of the funding through creation of earmarked reserves. Also any potential liabilities arising in the year or previous year for which the Authority is required to set

aside a contingency will also require the creation of a reserve. This report identifies increases to current specific or new reserves of £0.955m:

	Increase £'m
Ill Health Firefighter Pension Penalty	0.660
Drawdown PFI Annuity	-0.018
Capital Investment – H&S Equipment/accommodation	0.135
Drawdown Fire Service Direct reserve	-0.047
New Dimensions	0.125
Other Ringfenced Reserves	0.083
Other Grant/Income/ Ext Contributions	0.017

	0.955

(More details are available in the unaudited statement of accounts)

19. In addition this report recommends that the one-off additional revenue saving of £1.352m be used to increase the capital investment reserve.

20. The General Fund remains unchanged at £2.894m. A detailed analysis of the planned and actual movement on reserves in 2013/14 has been prepared and is attached as **Appendix A2** to this report.

Qtr 4 Bad Debt Write-Offs:

21. Since the last financial review no further debts have been written off.

2013/2014 Capital Spending

22. The Authority current capital budget for 2013/14 was £16.280m. Actual spending in the year was £9.375m, a net variation of £6.905m. The variance can be broken down into:

    - A £6.713m re-phasing of planned spend from 2013/14 into 2014/15, requiring the carry forward of capital budget into 2014/15. Most of the rephrasing relates to the JCC project and related ICT schemes and the other proposed works on the campus at the workshops and museum.

    - A net underspend and saving on capital projects of £0.192m

    A summarised capital programme outturn position statement is outlined below:

2013/14 Capital Programme Summary of Changes to Expenditure & Funding					
Programme	**Original Budget**	**Final Budget**	**Actual Expenditure**	**Year-end Re-phasing from 2011/12 into 2012/13**	**Variance after Re-Phasing Adjustment**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
EXPENDITURE					
Building/Land	10.144	12.004	7.648	4.392	0.036
Fire Safety	1.283	0.811	0.619	0.000	-0.192
ICT	1.048	2.274	0.750	1.524	0.000
Operational Equip & Hydrants	0.667	0.831	0.269	0.526	-0.036
Vehicles	1.784	0.360	0.089	0.271	0.000
TOTAL	14.926	16.280	9.375	6.713	-0.192
FINANCING					
Capital Receipts	1.300	0.000	0.000	0.000	0.000
Revenue Contribution	0.730	0.499	0.499	0.000	0.000
Capital Investment Reserve	1.818	2.827	2.827	0.000	0.000
Grants	2.344	3.044	2.344	0.700	0.000
External Contributions	4.002	5.070	3.321	1.749	0.000
Unsupported Borrowing	4.732	4.840	0.384	4.264	-0.192
TOTAL	14.926	16.280	9.375	6.713	-0.192

23. The year-end re-phasing of schemes into 2013/14 is outlined in the table below:

Re-phasing £'m	Scheme	Explanation
3.326	SHQ JCC	Asbestos removal has delayed the final stage of the project. In addition some ongoing design modification and additional security work has meant the project completion date has been slightly extended.
0.350	Vesty Workshop enhancement works	Originally it was hoped the contract could be let as part of the SHQ LCC scheme, however this was not possible and the work has had to go out to tender resulting in the scheme being re-phased into 2014/15.
0.110	SHQ Training Tower	The construction of the Tower was linked into the phasing of work for the SHQ JCC. Although work is well under way the expected completion date is now 2014/15.
0.112	5 Year Electrical Test	Due to the amount of new build work and PFI investment the electrical test programme has only recently been finalised but it due to commence in 2014/15.
0.082	Equality Act. Compliance	Members approved the Access Audit report, CFO/032/14, at the Policy & Resources meeting on 1st

		April 2014. Work on Equality Act improvements is now scheduled to commence in 2014/15.
0.412	Property Refurbishment	Variety of Smaller schemes
0.868	SHQ JCC / Airwave Solution	Detailed ICT plan has been signed off and relevant contracts have been agreed. Work is in progress and scheme should be completed in the early part of 2014/15.
0.433	F.M.I.S. Replacement & TRM System	The replacement finance systems has been achieved within the required timeframe. The “second” phase of the project involving HR and TRM systems development is now entering the implementation phase and is due for completion by the end of 2014.
0.223	ICT Schemes	Mainly delay in procurement of Hardware/Software as service seeks to gain savings by packaging tender document in a way to deliver best VFM. Proceeding with spend this year.
0.271	Vehicles	Minor delays in purchasing some ancillary and specialist vehicles.
0.526	Operational equipment	The BA cylinder replacement, £0.222m, has been delayed due some issues over the tendering process. These have now been resolved and an order is due to be placed imminently. Minor variations on a number of schemes
6.713		

24. A number of small variances on other schemes meant there was a net underspending of £0.192m.

25. A full detailed breakdown of the 2013/14 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 80% of expenditure is directly staff related.

Legal Implications

28. There are legal implications relating to matters of insurance that have been referred to in paragraph 17 of this report and in addition were the subject of a detailed report presented to Members in June 2014

Financial Implications & Value for Money

29. Subject to members approving the proposed use of the £1.352m underspend on the revenue account to increase the capital investment reserve the final revenue position can be summarised as:

2013/14 Revenue Year-End Position

	Budget	Actual	Variance
	£'m	£'m	£'m
Net Expenditure on Services	66.721	64.414	-2.307
Year-End adjustment to Project Reserves		0.955	0.955
Utilisation of Year-End savings to increase capital reserve		1.352	1.352
	66.721	66.721	0.000

30. The Authority has an approved strategy of building up reserves in anticipation of future funding cuts and the creation of the year-end reserves is consistent with this strategy.

31. Capital spending was £9.375m resulting in a variance of £6.905m against the £16.280m budget for 2013/14. The variance can be broken down into:

- A £6.713m re-phasing of planned spend from 2013/14 into 2014/15, requiring the carry forward of capital budget into 2014/15, Most of the rephrasing relates to the JCC project and related ICT schemes and the other proposed works on the campus at the workshops and museum

- A net underspend and saving on capital projects of £0.192m

32. The General Fund Balance as at 31 March 2014 was as anticipated, £2.894m.

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/025/13 "MFRA Budget and Financial Plan 2013/2014-2017/2018" Authority 26th February 2013.

CFO/115/13 "Financial Review 2013/14 April to June" Policy & Resources Committee 26 September 2013.

CFO/129/13 "Financial Review 2013/14 April to September" " Policy & Resources Committee 19 November 2013.

CFO/010/14	"Financial Review 2013/14 – April to December Review" Authority 27th February 2014.

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 whose 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.