

## MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	28 JULY 2016	REPORT NO:	CFO/061/16
PRESENTING OFFICER	IAN CUMMINS, TREASURER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC MANAGEMENT GROUP		
TITLE OF REPORT:	REVENUE & CAPITAL OUTTURN 2015/16		

APPENDICES:	APPENDIX A1- A4:	REVENUE BUDGET TO ACTUAL
	APPENDIX B:	2015/16 CAPITAL BUDGET TO ACTUAL

### Purpose of Report

1. To report upon the Authority's year-end financial position for 2015/16.

### Recommendation

2. That Members;
  - a. note the actual financial performance against the approved budget and the achievement of a net revenue saving in 2015/16 of £2.362m, and
  - b. approve the proposal to utilise the £2.362m saving to;
    - i. fund the creation of £0.791m year-end earmarked reserves in order to finance approved 2015/16 spend that has been re-phased into 2016/17, and
    - ii. fund an increase in the Capital Investment Reserve of £1.571m to support the planned investment in the Training and Development Academy.

### 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 between 2011/12 to 2015/16.

The approved revenue budget in 2015/16 was £62.169m. Having recognised the 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 £2.362m saving has been delivered. This report proposes that this revenue saving be allocated to fund specific year-end reserves of £0.791m to cover initiatives or projects planned for 2015/16 which are now expected to occur in 2016/17. In addition the report recommends the balance of the saving, £1.571m, be used to increase the capital investment reserve to support the

planned investment in the Training and Development Academy.

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 £4.766m resulting in a variance of £2.327m against the £7.093m budget for 2015/16. The variance can be broken down into:

- A £2.169m re-phasing of planned spend from 2015/16 into 2016/17, requiring the carry forward of capital budget. £1.322m of the rephrasing relates to the new Prescot Fire Station scheme and other building works.
- A net underspend and saving on capital projects of £0.158m.

## **Introduction and Background**

3. This report sets out the actual financial performance of the Authority compared to the approved 2015/16 revenue (general fund) and capital budgets.
4. Elsewhere on today's agenda is a report containing the audited Statement of Accounts for 2015/16 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.

### **2015/16 Budget – Background**

5. Following the announcement by the Government of an increase in the 2014/15 grant cut and a further 10% real terms cut to grant funding for 2015/16 the Authority faced a £6.3m budget deficit over the 2014/15 – 2015/16. This followed on from severe cuts from 2011/12 to 2014/15, requiring accumulated savings of £25.6m over the 2011/12 – 2015/16 period.
6. The Authority's medium term financial plan had approved savings to deal with the financial challenge but had made a number of assumptions around future costs which included:-
  - An assumption that there would be pay-bill restraint for all staff and pay inflation would be no greater than 1%, delivering a saving of £0.500m.
  - An assumption that the Authority would generate savings of £1.300m by 2016/17 from other 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 £1.100m by 2016/17. The savings resulted in a 10% reduction in managerial and back office roles.
  - A reduction of approximately 90 front line Firefighter posts equal to a 10% reduction in wholetime Firefighter roles, saving £3.400m by 2016/17.

- Use of reserves to smooth out budget cuts.
  - An assumed Council tax increase from 2015/16 to 2019/20 of 2%.
7. The delivery of the approved financial plan was monitored closely and all the saving options have been delivered as planned. The station merger programme is progressing as expected and will deliver the structural changes required to realise the savings assumed from operational response. In the meantime firefighter retirements are delivering the required operational response savings in cash terms.

#### **How the 2015/16 Budget changed during the year**

8. The Authority Revenue Budget for 2015/16 was set at £62.169m.
9. The Authority also set a five year capital investment programme (2015/16 – 2019/20), of £27.268m, with a planned expenditure in 2015/16 of £13.780m.
10. The Authority adopted a reserves strategy, which maintains a general reserve of £2.000m and had anticipated £21.081m of earmarked reserves (before any 204/15 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 saving 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/007/15, was approved by the Authority on 25<sup>th</sup> February 2015 that reflect already approved policy decisions. These were;

#### **Revenue:**

- The use of £0.291m from reserves to the revenue budget, (of which £0.100m was use of the pension reserve to reflect the cost of ill health retirements);
- A number of self-balancing virements within the revenue account.

#### **Capital:**

- A small reduction of £0.036m in the fire safety and ICT budgets to reflect adjustments to planned scheme funding from revenue that was no longer required.

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

<b><u>REVENUE BUDGET MOVEMENTS IN 2015/16</u></b>					
	<b>Original Budget</b>	<b>Approved Qtr 3 Budget</b>	<b>Further Budget Amendments</b>	<b>Final Budget</b>	<b>Original to Final Budget Movement</b>
	£'m	£'m	£'m	£'m	£'m
<b>Net Expenditure</b>					
Fire Service	62.170	62.194	-0.291	61.903	-0.267
Corporate	0.562	0.567	0.000	0.567	0.005
	62.732	62.761	-0.291	62.470	-0.262
Interest on Balances	-0.372	-0.372	0.000	-0.372	0.000
Inflation Provision	1.038	0.169	0.000	0.169	-0.869
Contribution (from) to Reserves	-1.229	-0.389	0.291	-0.098	1.131
<b>Total Expenditure</b>	<b>62.169</b>	<b>62.169</b>	<b>0.000</b>	<b>62.169</b>	<b>0.000</b>
<b>Funded By</b>					
Government Grant	-36.909	-36.909	0.000	-36.909	0.000
Precept	-25.260	-25.260	0.000	-25.260	0.000
	-62.169	-62.169	0.000	-62.169	0.000

<b>CAPITAL BUDGET MOVEMENTS IN 2015/16</b>					
	<b>Original Budget</b>	<b>Approved Qtr 3 Budget</b>	<b>Further Budget Amendments</b>	<b>Final Budget</b>	<b>Original to Final Budget Movement</b>
	£'m	£'m	£'m	£'m	£'m
Total	13.780	7.129	-0.036	7.093	-6.687
Funding:					
Specific	3.375	3.187	0.059	3.246	-0.129
Borrowing	10.405	3.942	-0.095	3.847	-6.559
	13.780	7.129	-0.036	7.093	-6.687

- Financial Performance in the Year**
13. **2015/16 Revenue Outturn Position:** The table below summarises the actual revenue position for 2015/16 compared to that final budget, (**Appendix A** provides a more detailed analysis):

<b>Year-End Revenue Position</b>							
	<b>FIRE SERVICE BUDGET</b>	<b>Fire Authority</b>	<b>TOTAL BUDGET</b>	<b>ACTUAL</b>	<b>VARI- ANCE</b>	<b>Year-End Earmarked Reserves</b>	<b>Post ER VARI- ANCE</b>
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
<b>Expenditure</b>							
Employee Costs	47.584	0.406	47.990	47.294	-0.696	0.027	-0.669
Premises Costs	2.788	0.000	2.788	2.513	-0.275	0.054	-0.221
Transport Costs	1.528	0.000	1.528	1.338	-0.190	0.000	-0.190
Supplies and Services	3.724	0.067	3.791	3.053	-0.738	0.608	-0.130
Agency Services	5.645	0.000	5.645	5.626	-0.019	0.000	-0.019
Central Support Services	0.487	0.094	0.581	0.494	-0.087	0.000	-0.087
Capital Financing	7.174	0.000	7.174	6.922	-0.252	0.000	-0.252
<b>Income</b>	-7.027	0.000	-7.027	-7.132	-0.105	0.102	-0.003
<b>Net Expenditure</b>	61.903	0.567	62.470	60.108	-2.362	0.791	-1.571
<b>Contingency Pay&amp;Prices</b>	0.169		0.169	0.000	-0.169	0.000	-0.169
<b>Interest on Balances</b>	-0.372		-0.372	-0.203	0.169	0.000	0.169
	61.700	0.567	62.267	59.905	-2.362	0.791	-1.571
<b>Movement on Reserves</b>	-0.098		-0.098	-0.098	0.000		
<b>Overall Financial Position</b>	61.602	0.567	62.169	59.807	-2.362		
<b>Year-End Earmarked Reserves</b>						0.791	
<b>Increase Capital Investment Res.</b>							1.571
<b>Year-End funded Reserves</b>							0.000

14. Overall the Authority underspent on its revenue services budget by £2.362m. However, £0.791m was as a result of timing issues for projects and grant funded schemes. Specific earmarked reserves have been created to cover the phasing of this expenditure. The remaining net underspend of £1.571m is approximately a 2.5%

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, £0.659m (1.4%) favourable variance. This was made up of a number of different variations –**

Variation £'m	Explanation
-1.005	Effective Vacancy Management
0.340	Employee Insurance costs
-0.021	Other minor variances
0.027	Year-end specific reserves - Various project reserves
<b><u>-0.659</u></b>	

Overall main direct employee costs underspent by approximately £1.045m. Details of the major variances are provided below: –

- **Vacancy Management, -£1.005m;** in light of the overall financial position vacant green book posts have not been actively filled resulting in a £0.215m saving. Firefighter retirements were slightly ahead of target and after taking into account spend on voluntary additional hours resulted in a £0.790m saving.
- **Employee Insurance, £0.340m;** an assessment of the potential liability of the Service's current outstanding claims indicated that if the Service was deemed negligent it would require an increase in the existing provision of £0.340m. The Authority's claims section and insurers continue to challenge any claims received where appropriate.
- **Other minor variances, -£0.021m,** an underspend on the training budget and other small variances has resulted in a small favourable variance.
- **Year-end reserves, £0.027m –** in order to fund specific projects funded from New Dimensions grant the Authority needs to carry forward some employee budget into 2016/17 in the form of a specific reserve.

**Premises Costs, -£0.221m (7.9%) favourable variance –**

- Following successful business rating valuation appeals the Service received one-off refunds on a number of historic business rate payments. This contributed to a £0.152m saving on the rates budget.
- Small underspends on other premises costs made up the balance.

**Transport Costs, -£0.190m (12.4%) favourable variance –**

- A saving on diesel, £0.124m and £0.24m for a reduction in the cost of excess insurance payments for vehicles.
- The balance is made up from small savings on lease car rentals and vehicle replacement parts.

**Supplies and Services, -£0.130m (3.4% of budget) 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 £0.130m.

**Agency Services, -£0.019m (0.3%) favourable variance.**

Small savings on the PFI and facilities management contract have resulted in a saving of £0.019m.

**Central Expenses -£0.087m (15.0%) 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, -£0.252m (3.5%) 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 interest payments of £0.252m.

**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, £0.169 adverse variance.**

The global interest rates and hence the interest rate paid on investments has remained low (average rate of return achieved on average principal available in 2015/16 was 0.77%). This has made the achievement of the £0.372m income budget impossible in the current climate.

16. **Qtr 4 Bad Debt Write-Offs.** Debtor accounts under £5,000 may be written off by the Treasurer. No accounts have been approved for write-off during the final quarter of the year.

**2015/16 Movement on Reserves.**

17. This report identifies a net increase in earmarked reserves (opening balance £23.985m to closing balance £26.248m) of £2.263m. Year-end reserves of £2.362m accounted for the overall increase in reserves, as outlined in the following paragraphs.
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 2015/16 £0.791m 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 £1.571m underspend (£2.362m saving less the £0.791m 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 2016/17 – 2020/21 capital programme includes a £1.100m scheme for the refurbishment of the TDA. The current proposals being developed for the TDA refurbishment indicate the level of investment required will be significantly greater than £1.100m. Therefore Officers are recommending Members' approve an increase in Capital Investment Reserve of £1.571m 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 A4 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 £2.362m split between £0.791m for specific reserves and £1.571m increase in the capital investment reserve.

<b>2015/16 Year-End Earmarked Reserves</b>		
Reserve	Request	Description
	£'000	
<b>Earmarked Reserves</b>		
Equipment	265	Hydrant repairs, Occupational Health equip, Asset investment
Training	230	Provision for external Collaboration support. Equal Opps support
Clothing/Boots	150	Purchase of new Operational Kit
Other	45	Various small initiatives carried over from 2015/16
<b>Ringfenced Reserves:</b>		
New Dimensions	91	Externally Funded Schemes
Innovation Fund	7	
St Helens District	4	
F.R.E.E.	-1	
	791	
<b>Capital Investment Reserve</b>		
Yr-End Underspend	1,571	Use to fund TDA refurbishment
	2,362	

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

**2015/2016 Capital Expenditure.**

23. The Authority **final** capital budget for 2015/16 was £7.093m. Actual spending in the year was £4.766m, a net variation of £2.327m. The variance can be broken down into:
- A £2.169m re-phasing of planned spend from 2015/16 into 2016/17, requiring the carry forward of capital budget. £1.322m of the rephrasing relates to the new Prescot Fire Station scheme and other building works.
  - A net saving on capital projects of £0.158m

A summarised capital programme outturn position statement is outlined overleaf:

**CAPITAL BUDGET MOVEMENTS IN 2015/16**

	Original Budget	Final Budget	Actual Expenditure	Year-End Re-phasing 2015/16 to 2016/17	Variance
	£'m	£'m	£'m	£'m	£'m
<b>Expenditure</b>					
Building / Land	9.366	3.450	1.984	1.321	0.145
Fire Safety	0.777	0.735	0.733	0.000	0.002
ICT	0.737	1.119	0.802	0.316	0.001
Operational Equip & Hydrants	0.225	0.686	0.447	0.228	0.011
Vehicles	2.675	1.103	0.800	0.304	-0.001
<b>Total</b>	<b>13.780</b>	<b>7.093</b>	<b>4.766</b>	<b>2.169</b>	<b>0.158</b>
<b>Funding:</b>					
Capital Receipts	0.275	1.065	0.430	0.625	0.010
Revenue Contribution / Reserves	1.330	1.381	0.987	0.394	0.000
Grants	1.770	0.300	0.212	0.068	0.020
External Contributions	0.000	0.500	0.551	0.000	-0.051
Borrowing	10.405	3.847	2.586	1.082	0.179
	<b>13.780</b>	<b>7.093</b>	<b>4.766</b>	<b>2.169</b>	<b>0.158</b>

24. The year-end re-phasing of capital schemes into 2016/17 is outlined in the table below:

Re-phasing £'m	Scheme	Explanation
0.485	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 have delayed the start of the build stage of the project which is about to commence and it is hoped be completed by the end of 2016/17.
0.837	Building enhancement and refurbishment work	This reflects a number of smaller value building scheme re-phasing that have arisen as staff have prioritised work on the station merger schemes development and the major building schemes.
0.316	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.
0.228	Operational Equipment	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., but delivery is now expected in 2016.
0.240	Ancillary Vehicles	Orders have been raised in late 2015/16 for vans and cars and delivery is expected early in 2016/17.
0.063	Other	A number of small re-phasings on a variety of schemes.
<b><u>2.169</u></b>		



25. A full detailed breakdown of the 2015/16 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 approving this report recommends using the £2.362m revenue underspend to increase specific earmarked reserves of £0.791m to cover financial commitments re-phased into 2016/17. Officers recommend the remaining underspend, £1.571m, be used to increase the Capital Investment Reserve to fund the required refurbishment at the TDA. The final revenue position can be summarised as:

<b>2015/16 Revenue Year-End Position</b>			
	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
Net Expenditure	62.169	59.807	-2.362
Year-End Earmarked Reserve Requests		0.791	0.791
Utilisation of remaining underspend to increase Capital Investment Reserve		1.571	1.571
	62.169	62.169	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 £4.766m resulting in a variance of £2.327m against the £7.093m budget for 2015/16. The variance can be broken down into:
- A £2.169m re-phasing of planned spend from 2015/16 into 2016/17, requiring the carry forward of capital budget into 2016/17.
  - A net underspend and saving on capital projects of £0.158m.
32. The General Fund Balance as at 31<sup>st</sup> March 2016 was as anticipated, £2.000m.

### **Risk Management, Health & Safety, and Environmental Implications**

33. None arising from this report.

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.

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## **BACKGROUND PAPERS**

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<b>CFO/014/15</b>	"MFRA Budget and Financial Plan 2015/2016-2019/2020" Authority 26th February 2015.
<b>CFO/074/15</b>	"Financial Review 2015/16 April to June" Policy & Resources Committee 17th September 2015.
<b>CFO/091/15</b>	"Financial Review 2015/16 April to September" " Authority 17th December 2015.
<b>CFO/007/16</b>	"Financial Review 2015/16 – April to December Review" Authority 25th February 2016.

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## **GLOSSARY OF TERMS**

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<b>CAPITAL EXPENDITURE</b>	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.
<b>RESERVES</b>	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.
<b>REVENUE EXPENDITURE</b>	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.