REPORT REFERENCE NO.	**RC/14/11**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**1 SEPTEMBER 2014**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2014-2015 – QUARTER 1**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a) That the monitoring position in relation to projected spending against the 2014-2015 revenue and capital budgets be noted;*** ***(b) That the performance against the 2014-2015 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the first quarter performance (to June 2014) against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2014-2015 revenue budget with explanations of the major variations. At this early stage in the financial year it is forecast that spending will be £2.062m less than budget, equivalent to just 2.72% of the total budget. This saving is largely attributable to the implementation of the Corporate Plan proposals agreed in July 2013, together with a strategy to work with budget holders to identify in-year savings against budget heads. At this stage no recommendations are made in relation to how this forecast saving is to be utilised.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY RISKS AND BENEFITS ASSESSMENT	The contents of this report are considered compatible with current equalities and human rights legislation.
APPENDICES	Appendix A – Summary of Prudential Indicators 2014-2015.
LIST OF BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1 This report provides the first quarterly financial monitoring report for the current financial year, based upon the position as at the end of June 2014. As well as providing projections of spending against the 2014-2015 revenue and capital budget, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

1.2 Table 1 below provides a summary of performance against the key financial targets.

TABLE 1 –PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2014-2015

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 1	Previous Quarter	Quarter 1 %	Previous Quarter %
	Revenue Targets					
1	Spending within agreed revenue budget	£75.794m	£73.732m	N/A	(2.72%)	N/A
2	General Reserve Balance as %age of total budget (minimum)	5.00%	6.85%	6.76%	(1.85)bp	(1.76%)
	Capital Targets					
3	Spending within agreed capital budget	£9.093m	£6.891m	N/A	(24.22)%	N/A
4	External Borrowing within Prudential Indicator limit	£23.430m *revised*	£26.214m	£26.214m	11.88%	6.98%
5	Debt Ratio (debt charges over total revenue budget)	3.85%	3.65%	N/A	(0.20)bp	N/A

1.3 The remainder of the report is split into the three sections of:

- **SECTION A** – Revenue Budget 2014-15.
- **SECTION B** – Capital Budget and Prudential Indicators 2014-15.
- **SECTION C** – Other Financial Indicators.

1.4 Each of these sections provides a more detailed analysis of performance, including commentary relating to the major variances.

2. SECTION A - REVENUE BUDGET 2014-2015

2.1 Table 2 overleaf provides a summary of the forecast spending against all agreed subjective budget heads, e.g. employee costs, transport costs etc. This table indicates that spending by the year end will be £73.732m compared with an agreed budget figure of £75.794, representing a saving of £2.062m, equivalent to 2.72% of the total budget.

TABLE 2 – REVENUE MONITORING STATEMENT 2014-2015

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY
Revenue Budget Monitoring Report 2014/15

Line No		2014/15 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 3 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	30,339	7,576	7,311	29,563	(776)
2	Retained firefighters	12,454	2,807	2,400	11,977	(477)
3	Control room staff	1,630	400	394	1,644	14
4	Non uniformed staff	9,637	2,400	2,221	9,334	(302)
5	Training expenses	1,043	261	386	1,043	0
6	Fire Service Pensions recharge	2,211	733	(751)	2,232	21
		57,313	**14,177**	**11,961**	**55,793**	**(1,520)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,407	352	453	1,240	(167)
8	Energy costs	627	108	363	629	2
9	Cleaning costs	442	110	328	422	(20)
10	Rent and rates	1,615	471	631	1,619	4
		4,091	**1,042**	**1,775**	**3,910**	**(181)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	611	153	94	610	(1)
12	Running costs and insurances	1,329	635	150	1,326	(3)
13	Travel and subsistence	1,506	283	365	1,486	(20)
		3,445	**1,071**	**609**	**3,421**	**(24)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,839	710	964	2,839	0
15	Supplies Internal Recharges	0	0	0	-	-
16	Hydrants-installation and maintenance	128	32	9	128	-
17	Communications	2,057	514	498	2,060	3
18	Uniforms	1,176	294	104	1,168	(8)
19	Catering	158	39	81	159	1
20	External Fees and Services	72	18	48	36	(36)
21	Partnerships & regional collaborative projects	138	35	15	138	-
		6,569	**1,642**	**1,719**	**6,529**	**(40)**
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	353	127	88	314	(39)
23	Advertising	32	8	14	32	0
24	Insurances	372	341	458	377	5
		757	**476**	**560**	**723**	**(34)**
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	601	119	217	590	(11)
		601	**119**	**217**	**590**	**(11)**
	CAPITAL FINANCING COSTS					
26	Capital charges	4,377	0	0	4,187	(190)
27	Revenue Contribution to Capital spending	1,815	-	-	1,815	-
		6,192	**0**	**0**	**6,002**	**(190)**
28	**TOTAL SPENDING**	**78,968**	**18,527**	**16,841**	**76,968**	**(2,000)**
	INCOME					
29	Treasury management investment income	(100)	(25)	(0)	(125)	(25)
30	Grants and Reimbursements	(2,322)	(694)	(73)	(2,317)	5
31	Other income	(741)	(186)	(140)	(803)	(62)
32	Internal Recharges	(40)	(10)	(3)	(35)	5
33	**TOTAL INCOME**	**(3,203)**	**(914)**	**(216)**	**(3,280)**	**(77)**
34	**NET SPENDING**	**75,766**	**17,613**	**16,625**	**73,688**	**(2,077)**
	TRANSFERS TO EARMARKED RESERVES					
35	Grants Unapplied					0
35	Transfer to Earmarked Reserve	29	0	0	44	15
37	Capital Funding					0
		29	**-**	**-**	**44**	**15**
36	**NET SPENDING**	**75,794**	**17,613**	**16,625**	**73,732**	**(2,062)**

2.2 These forecasts are based upon the spending position at the end of June 2014, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. retained pay costs which are linked to activity levels, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report.

2.3 This projection for an underspend of £2.062m is largely attributable to savings on staffing costs primarily as a result of the continued implementation of the Corporate Plan proposals agreed in July 2013. Members will recall that when fully implemented these proposals will deliver on-going savings of £6.8m, however it is recognised that this full saving would take a number of years dependent on the natural turnover of staff through retirements.

2.4 In addition all budget managers have been tasked by the Chief Fire Officer and Executive Board to reduce spending 'in year' and managers are responding accordingly.

2.5 Explanations of the more significant variations from budget (over £50k variance) are explained below in paragraphs 3 to 6.

3. <u>EMPLOYEE COSTS</u>

Wholetime Staff

3.1 At this stage it is projected that spending on wholetime pay costs will be £776k less than budget largely as a result of more staff retirements during the year than had been budgeted. This projection includes the impact of the agreed 1% pay award from July 2014.

Retained Pay Costs

3.2 At this stage in the financial year spending is forecast to be under budget by £0.477m. In making this projection an assumption has been made that activity levels in the remainder of the financial year are consistent with the average for the same period for the last three financial years. It should be emphasised that by its very nature retained pay costs can be subject to significant variations e.g. volatility to spending caused from spate weather conditions.

3.3 As Members will be aware this budget heading is at risk pending further information on the number of retained firefighters (current and retired) who opt to join the firefighters pension scheme, and potentially back date to the year 2000, as a consequence of the Employment Tribunal verdict which ruled in favour of retained staff under the Part Time Workers (Less than Favourable Working Conditions) Regulations. An options exercise is currently underway to identify the level of interest from retained staff which when completed will provide a more informed indication of the financial impact, both to current budget, and future pension arrangements. It is anticipated that the results of this options exercise will be available later in the financial year.

3.4 The Authority has so far set aside an amount of £2m in a Provision which is ring fenced to provide some funding towards future pension liabilities, including the liability from the employment tribunal. Given the risk of this being insufficient to meet the full liability it is important that the Authority looks to protect Reserve balances until the final outcome is known.

Non Uniformed Pay

3.5 It is forecast that savings of £302k will be achieved against non-uniformed pay costs primarily as a result of more staff vacancies than anticipated. Members will recall that in setting the budget for the current year this budget line has already suffered a reduction over £1m as a result of Management action taken to reduce the number of support staff by 41.

4. PREMISES RELATED COSTS

Repair and Maintenance

4.1 Forecast savings against budget of £167km for Repair and Maintenance are due to an anticipated reduction in the number of planned projects to be completed due to staffing vacancies in the Estates Department.

5. CAPITAL FINANCING COSTS

Capital charges

5.1 Current forecast of spending on Capital Charges is £4.187m representing a saving of £190k. This is primarily due as a consequence of slippage in capital spending in 2013-14 and 2014-15, resulting in a reduction in debt charges.

6. INCOME

Other Income

6.1 It is anticipated that income targets from this budget head will be exceeded by £62k. This primarily relates to unbudgeted income from a seconded officer to another local authority.

7. RESERVES AND PROVISIONS

7.1 As well as the funds available to the Authority by setting an annual budget, the Authority also holds reserve and provision balances.

Reserves

7.2 There two types of Reserves held by the Authority:
Earmarked Reserves – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is **non-specific** and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

7.3 In addition to reserves the Authority may also hold provisions which can be defined as:

Provisions – a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

7.4 A summary of predicted balances on Reserves and Provisions is shown in Table 3 below. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

TABLE 3 – FORECAST RESERVES AND PROVISION BALANCES 31 MARCH 2015

RESERVES AND PROVISIONS						
RESERVES	**Balance as at 1 April 2014 £000**	**Proposed Transfers £000**	**Spending to P3 £000**	**Projected Spend 2014-15 £000**	**Projected Balance as at 31 March 2015 £000**	
Earmarked reserves						
Grants unapplied from previous years	2,503	44	118	400	2,147	
Change & improvement programme	739		-	150	589	
Commercial Services	211		23	30	181	
Direct Funding to Capital	4,099	12	-	3,021	1,090	
CSR 2010	3,389		-	-	3,389	
Budget Carry Forwards	304		6	204	100	
Community Safety Investment	405		-	310	95	
PPE & Uniform Refresh	450		-	150	300	
Total earmarked reserves	**12,100**	**56**	**146**	**4,265**	**7,891**	
General reserve						
General fund balance	**5,191**				**5,191**	
Percentage of general reserve compared to net budget						6.85%
TOTAL RESERVE BALANCES	**17,291**				**13,082**	
PROVISIONS						
Fire fighters pension schemes	2,084				2,084	
PFI Equalisation	295				295	
TOTAL PROVISIONS	**2,379**	**0**	**0**	**0**	**2,379**	

*** *The CSR 2010 Reserve has been established to provide additional financial contingency during the period of austerity, which is now anticipated to go beyond the current CSR 2010 period until at least 2017-18. Given that the proposals within the Corporate Plan are to be implemented with no compulsory redundancies this Reserve will be utilised over the period of austerity measures to fund staffing costs, including voluntary redundancy costs, where required. It also provides further contingency in the event that government grant reductions are larger than included in the Authority Medium Term Financial Plan.*

8. SUMMARY OF REVENUE SPENDING

8.1 At this stage it is forecast that spending will be £2.062m less than the agreed budget figure for 2014-15, which aligns with the strategy adopted to deliver in-year savings where possible to be available to enhance Reserve balances.

8.2 Given that we are at an early stage in the financial year and the figures will inevitably be subject to change, this report does not make any recommendation as to how this forecast saving is to be utilised. Future decisions to be made by the Committee on utilisation of in-year savings will be influenced by other factors e.g. clarity around the liability in respect of retained pension costs (see Para 3.4), the need to support capital spending plans therefore reducing debt exposure, and also the need to maintain sufficient Reserve balances during the period of austerity, now anticipated to be to at least 2017-18.

9. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2014-15

Monitoring of Capital Spending in 2014-2015

9.1 Table 4 below provides a summary of forecast spending against the 2014-2015 capital programme. Latest projection is for capital spending to be £6.891m against a revised programme of £9.093m. It should be noted that the 2014-15 programme has increased by an amount of £1.266m from the original programme agreed at the budget meeting held on 24 February 2014, to include:

a. Inclusion of £1.046m relating to additional slippage against the 2013-14 capital programme, as reported to the Fire and Rescue Authority meeting on the 29 May 2014 as part of the final 2013-14 financial outturn report.
b. A further £0.200m to fund additional works at some stations to comply with Water Regulations, as agreed at the Fire and Rescue Authority meeting on the 29 May 2014.
c. A further £0.020m to fund works to the training tower at Appledore to be funded from revenue contributions.

9.2 It should be emphasised that none of these additions require any increase in the external borrowing requirement.

TABLE 4 – CAPITAL OUTTURN 2014-15

Capital Programme 2014/15

Item	PROJECT	2014/15 £000 Budget	2014/15 £000 Projected outturn	2014/15 £000 Variation to budget
	Estate Development			
1	SHQ major building works	58	28	(30)
2	Major Projects - Training Facility at Exeter Airport	420	240	(180)
3	Minor improvements & structural maintenance	1,962	1,050	(912)
4	Projects funded from Reserves	278	226	(52)
5	Minor Works slippage from earlier years	680	656	(24)
	Estates Sub Total	**3,398**	**2,200**	(1,198)
	Fleet & Equipment			
7	Vehicles Slippage from 13/14	1,170	550	(620)
8	Equipment - Slippage from 13/14	415	415	-
9	Appliance Replacement	2,557	2,557	-
10	Equipment	1,454	1,070	(384)
11	USAR Funding from Reserves	100	100	-
	Fleet & Equipment Sub Total	**5,695**	**4,691**	**(1,004)**
	Overall Capital Totals	**9,093**	**6,891**	(2,202)
	Programme funding			
	Main programme	2,849	647	(2,202)
	Revenue funds	4,468	4,468	-
	Earmarked Reserves	378	378	-
	Grants	1,398	1,398	-
		9,093	**6,891**	**(2,202)**

Slippage in 2014-15

9.3 As is illustrated in Table 4 slippage against the 2014-15 programme has already been identified. At this stage the Head of Physical Assets has forecast slippage against projects to be £2.202m. It is a common feature of capital spending that individual projects included in the programme can be subject to delays, for instance as a consequence of weather delays, or pending planning consents. Under the Prudential Code this does not cause any problems as slippage can be carried forward into the following years, which has a positive impact in terms of debt charges as it defers any external borrowing requirements for one year.

9.4 In this case the slippage has primarily been caused from unexpected staffing vacancies within the Estates Department, which realistically will mean some delays in completion of individual projects. In addition delays in the commencement of procurement processes and issues of planning decisions have added to the slippage.

9.5 In light of this slippage, and with no possibility of catching up in the remainder of this financial year, it is proposed that the three year programme 2014-15 to 2016-17 be adjusted to move to an amount of £2m from 2014-15 to 2015-16. This proposal merely reflects the changes in timing of project delivery rather than changing the overall programme. Elsewhere on the agenda to this meeting is a separate report RC/14/x "Revised Capital Programme 2014-15 to 2016-16" which incorporates this proposed change and provides further information on the financial impact to the overall programme.

Prudential Indicators (including Treasury Management)

9.6 Table 4 also illustrates how the forecast spending of £6.891m is to be financed, including the impact to the borrowing requirement in 2014-15.

9.7 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 June 2014 stands at £26.214m (no change from previous quarter). This level of borrowing is well within the Authorised Limit for external debt of £31.120m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.

9.8 Investment returns in the quarter yielded an average return of 0.46% which outperforms the LIBID 3 Month return (industry benchmark) of 0.41%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.100m by 31 March 2015.

9.9 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2014-2015, which illustrates that there was no breach of any of these indicators.

10. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

10.1 Total debtor invoices outstanding as at 30 June 2014 were £233,716. This represents a significant decrease on the previously reported figure of £1,056,629 at 31 March 2014, which is largely due to the processing of year end invoices in the previous quarter.

10.2 Of this figure an amount of £60,796 (£68,058 as at 30 June 2014) was due from debtors relating to invoices that are more than 85 days old, equating to 26.01% (6.44% as at 30 June 2014) of the total debt outstanding. Table 5 below provides a summary of all debt outstanding as at 30 June 2014.

TABLE 5 – OUTSTANDING DEBT AS AT 30 June 2014

	Total Value £	**%**
Current (allowed 28 days in which to pay invoice)	139,684	59.77%
1 to 28 days overdue	25,339	10.84%
29-56 days overdue	7,148	3.06%
57-84 days overdue	749	0.32%
Over 85 days overdue	60,796	26.01%
Total Debt Outstanding as at 30 June 2014	**233,716**	**100.00%**

10.3 Table 6 below provides further analysis of those debts in excess of 85 days old.

TABLE 6 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	**Total Value**	**Action Taken**
Individual Debts less than £1,000	6	£1,677	Each debt being pursued by the Risk and Insurance Officer.
L Davies	1	£2,681	This relates to an overpayment to a former employee and payment by instalments has been negotiated.
Georgia Group	1	£56,438	This is a claim that relates to a breach of contract and refunds due to the Authority in relation to training courses not delivered. As previously reported this debt is subject to an agreed instalment plan which to date is being honoured.

Payment of Supplier Invoices within 30 days

10.4 The Authority attempts to pay its suppliers promptly. The target is that 98% of invoices should be paid within 30 days (or other agreed credit terms). Actual performance to the end of June 2014 was 89.61% compared to the previous reported figure of 96.08% as at 31 March 2014. The Finance Team will work with administration staff across the Service to attempt to improve this performance.

KEVIN WOODWARD
Treasurer to the Authority

APPENDIX A TO REPORT RC/14/11

PRUDENTIAL INDICATORS 2014-2015

Prudential Indicators and Treasury Management Indicators	Outturn £m	Target £m	Variance (favourable) /adverse
Capital Expenditure	**6.891**	**9.093**	**(£2.202m)**
External Borrowing vs Capital Financing Requirement (CFR) - Total	**27.723**	**24.939**	**£2.784m**
- Borrowing	26.214	23.430	
- Other long term liabilities	1.509	1.509	
External borrowing vs Authorised limit for external debt - Total	**27.723**	**32.569**	**(£4.846m)**
- Borrowing	26.214	31.120	
- Other long term liabilities	1.509	1.449	
Debt Ratio (debt charges as a %age of total revenue budget	**3.65%**	**3.85%**	**(0.20)bp**
Cost of Borrowing – Total	**1.075**	**1.075**	**(£0.000m)**
- Interest on existing debt as at 31-3-13	1.075	1.075	
- Interest on proposed new debt in 2013-14	0.000	0.000	
Investment Income – full year	**0.125**	**0.100**	**(£0.025m)**
	Actual (30 June 2014) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.46%**	**0.41%**	**(0.05)bp**

Prudential Indicators and Treasury Management Indicators	Forecast (30 March 2015) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00%)
Maturity structure of borrowing limits				
Under 12 months	3.51%	30.00%	0.00%	(26.49%)
12 months to 2 years	0.99%	30.00%	0.00%	(29.01%)
2 years to 5 years	1.15%	50.00%	0.00%	(48.85%)
5 years to 10 years	5.03%	75.00%	0.00%	(69.97%)
10 years and above	**89.31%**	**100.00%**	**50.00%**	**(10.69%)**
- 10 years to 20 years	16.59%			
- 20 years to 30 years	13.62%			
- 30 years to 40 years	24.66%			
- 40 years to 50 years	34.45%			