

<b>REPORT REFERENCE NO.</b>	RC/17/6
<b>MEETING</b>	RESOURCES COMMITTEE
<b>DATE OF MEETING</b>	1 SEPTEMBER 2017
<b>SUBJECT OF REPORT</b>	FINANCIAL PERFORMANCE REPORT 2017-18: QUARTER 1
<b>LEAD OFFICER</b>	Treasurer to the Authority
<b>RECOMMENDATIONS</b>	<p>(a) <i>That the Authority be recommended to approved the budget transfers shown in Table 5 of this report;</i></p> <p>(b) <i>That the transfers between earmarked Reserves shown in Table 3 be approved; and</i></p> <p>(c) <i>That, subject to (a) and (b) above, the monitoring position of projected spending against the 2017-18 revenue and capital budgets and performance against 2017-18 financial targets, as set out in this report, be noted.</i></p>
<b>EXECUTIVE SUMMARY</b>	<p>This report provides the Committee with the first quarter performance against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2017-18 revenue budget with explanations of the major variations. At this early stage in the financial year it is forecast that spending will be £0.449m more than budget, equivalent to 0.62% of the total budget.</p> <p>This overspend is largely attributable to the potential increase to the pay award for Firefighters which we budgeted at 1%, the National Joint Council has now offered a 2% increase. Given the early stage in the financial year and that the figures will inevitably be subject to change, no recommendations are made at this stage in relation to how the overspend is financed.</p>
<b>RESOURCE IMPLICATIONS</b>	As indicated in the report.
<b>EQUALITY IMPACT ASSESSMENT</b>	An initial assessment has not identified any equality issues emanating from this report.
<b>APPENDICES</b>	Appendix A – Summary of Prudential Indicators 2017-18.
<b>LIST OF BACKGROUND PAPERS</b>	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 2017. As well as providing projections of spending against the 2017-18 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 2017-18**

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 1	Previous Quarter	Quarter 1 %	Previous Quarter %
<b>Revenue Targets</b>						
1	Spending within agreed revenue budget	£72.596m	£73.045m	N/A	0.62%	N/A
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.32%	N/A	(2.32)bp*	N/A
<b>Capital Targets</b>						
4 3	Spending within agreed capital budget ( <i>revised</i> )	£7.822m	£7.568m	N/A	(0.00%)	N/A
4	External Borrowing within Prudential Indicator limit ( <i>revised</i> )	£28.445m	£26.929m	N/A	(5.33%)	N/A
5	Debt Ratio (debt charges over total revenue budget)	5.00%	4.31%	N/A	(0.69)bp*	N/A

\*bp = base points

- 1.3. The remainder of the report is split into the three sections of:
- **SECTION A** – Revenue Budget 2017-18.
  - **SECTION B** – Capital Budget and Prudential Indicators 2017-18.
  - **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 2017-18

- 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 £73.045m compared with an agreed budget figure of £72.596m, representing a potential overspend of £0.449m, equivalent to 0.62% of the total budget.

**TABLE 2 – REVENUE MONITORING STATEMENT 2017-18**

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY Revenue Budget Monitoring Report 2017/18						
Line No		2017/18 Budget £000	Year To Date Budget £000	Spending to Month 3 £000	Projected Outturn £000	Projected Variance over/ (under) £000
<b>SPENDING</b>						
<b>EMPLOYEE COSTS</b>						
1	Wholetime uniform staff	27,692	6,890	6,937	28,023	331
2	Retained firefighters	12,362	2,789	2,642	12,632	271
3	Control room staff	1,668	407	358	1,581	(86)
4	Non uniformed staff	10,035	2,503	2,705	10,036	1
5	Training expenses	680	170	438	680	-
6	Fire Service Pensions recharge	3,075	1,012	1,214	3,075	0
		<b>55,511</b>	<b>13,772</b>	<b>14,293</b>	<b>56,027</b>	<b>516</b>
<b>PREMISES RELATED COSTS</b>						
7	Repair and maintenance	1,130	282	689	1,129	(1)
8	Energy costs	585	100	39	584	(1)
9	Cleaning costs	462	116	336	437	(25)
10	Rent and rates	1,782	522	430	1,716	(66)
		<b>3,958</b>	<b>1,019</b>	<b>1,495</b>	<b>3,866</b>	<b>(93)</b>
<b>TRANSPORT RELATED COSTS</b>						
11	Repair and maintenance	814	147	221	794	(20)
12	Running costs and insurances	1,229	591	419	1,230	1
13	Travel and subsistence	1,335	255	321	1,357	22
		<b>3,378</b>	<b>993</b>	<b>961</b>	<b>3,382</b>	<b>4</b>
<b>SUPPLIES AND SERVICES</b>						
14	Equipment and furniture	2,515	565	721	2,537	23
16	Hydrants-installation and maintenance	190	47	20	190	1
17	Communications	2,085	526	139	2,065	(20)
18	Uniforms	596	149	134	619	23
19	Catering	46	12	10	46	-
20	External Fees and Services	89	22	42	108	19
21	Partnerships & regional collaborative projects	182	45	80	182	-
		<b>5,702</b>	<b>1,367</b>	<b>1,146</b>	<b>5,748</b>	<b>45</b>
<b>ESTABLISHMENT COSTS</b>						
22	Printing, stationery and office expenses	310	110	97	291	(19)
23	Advertising	44	11	5	35	(9)
24	Insurances	349	319	192	348	(1)
		<b>703</b>	<b>439</b>	<b>293</b>	<b>674</b>	<b>(29)</b>
<b>PAYMENTS TO OTHER AUTHORITIES</b>						
25	Support service contracts	705	140	303	751	46
		<b>705</b>	<b>140</b>	<b>303</b>	<b>751</b>	<b>46</b>
<b>CAPITAL FINANCING COSTS</b>						
26	Capital and lease financing costs	3,582	30	81	3,605	23
27	Revenue Contribution to Capital spending	3,427	-	-	3,427	-
		<b>7,009</b>	<b>30</b>	<b>81</b>	<b>7,031</b>	<b>23</b>
28	<b>TOTAL SPENDING</b>	<b>76,966</b>	<b>17,759</b>	<b>18,573</b>	<b>77,478</b>	<b>512</b>
<b>INCOME</b>						
29	Investment income	(79)	(20)	21	(93)	(14)
30	Grants and Reimbursements	(3,353)	(781)	(1,469)	(3,402)	(49)
31	Other income	(440)	(111)	(156)	(440)	-
32	Internal Recharges	(20)	(5)	(3)	(20)	-
33	<b>TOTAL INCOME</b>	<b>(3,892)</b>	<b>(917)</b>	<b>(1,607)</b>	<b>(3,955)</b>	<b>(63)</b>
34	<b>NET SPENDING</b>	<b>73,074</b>	<b>16,842</b>	<b>16,966</b>	<b>73,523</b>	<b>449</b>
<b>TRANSFERS TO EARMARKED RESERVES</b>						
35	Transfer to (from) Earmarked Reserve	(478)	(124)	-	(478)	-
38	<b>NET SPENDING</b>	<b>72,596</b>	<b>16,718</b>	<b>16,966</b>	<b>73,045</b>	<b>449</b>

- 2.2 These forecasts are based upon the spending position at the end of June 2017, 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 overspend of £0.449m is largely attributable to the anticipated pay award for firefighters, an update received from the National Joint Council (NJC) states they have offered 2% for 2017/18 plus possibly another element later in the year.
- 2.4 Given the forecast overspend 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. EMPLOYEE COSTS**

#### ***Wholetime Staff***

- 3.1. At this stage it is projected that spending on wholetime pay costs will be £0.331m more than budget largely as a result of the anticipated pay award which the NJC suggest will be 2%. This is greater than the 1% included within the budget. At this stage, the forecast includes an additional £0.206m to cover the increase in the pay award.

#### ***Retained Pay Costs***

- 3.2. At this stage in the financial year spending is forecast to be over budget by £0.271m, £0.120m of which is for the anticipated pay award. 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. The forecasted overspend position includes the costs of a number of pilots to improve availability, which will come to an end at the end of October.

#### ***Control Room Staff***

- 3.3. It is forecast that the Control Room will be £0.086m under spent on its staffing budget. This is due to a number of vacancies currently held within the Control room. Recruitment for the vacancies is in the final stages with the new staff looking to commence from September 2017.

### **4. PREMISES RELATED COSTS**

#### ***Rent and Rates***

- 4.1 Savings against budget of £0.066m on Business Rates as a result of successful rating appeals across the service.

### **5. RESERVES AND PROVISIONS**

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

## **Reserves**

5.2 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**

5.3 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.

5.4 Movements between Reserves are requested as per the table 3 below. The movement of £3k is as a result of members' request to treat an existing reserve for Non-domestic Violence as Community Safety funding rather than returning it to the general fund as proposed under the 2016-17 outturn report.

5.5 The transfer to the Emergency Services Communications Project reserve reflects an amount of funding which was allocated to the Change & Improvement reserve for this purpose in 2015-16 and it is proposed that this amount be moved out as there is now a specific reserve for the project.

**TABLE 3 – MOVEMENT WITHIN RESERVES**

<b>Reserves</b>			
<b>Note</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>
b	Change and Improvement Reserve	100,000	
e	Emergency Services Mobile Communications Project		(100,000)
d	Community Safety Investment		(3,000)
f	General Reserve	3,000	

5.6 A summary of predicted balances on Reserves and Provisions is shown in Table 4 overleaf. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

**TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES 30 JUNE 2017**

RESERVES AND PROVISIONS							
	Note	Balance as at 1 April 2017 £000	Approved Transfers £000	Proposed Transfers £000	Spending to P3 £000	Forecast Spend 2017-18 £000	Proposed Balance as at 31 March 2018 £000
<b>RESERVES</b>							
<b>Earmarked reserves</b>							
Grants unapplied from previous years	a	(1,469)	-	(18)	723	1,035	(452)
Change & improvement programme	b	(501)	-	100	45	128	(273)
Budget Carry Forwards		(1,130)	-	-	176	741	(389)
Commercial Services		(172)	-	-	21	50	(122)
Direct Funding to Capital		(16,576)	-	-	-	2,147	(14,429)
Comprehensive Spending Review*	c	(4,957)	578	(82)	-	-	(4,461)
Community Safety Investment	d	(89)	-	(3)	7	92	-
PPE & Uniform Refresh		(542)	-	-	65	130	(412)
Pension Liability reserve		(1,525)	-	-	-	-	(1,525)
PIMS Replacement		(230)	-	-	-	230	-
National Procurement Project		(399)	-	-	128	327	(71)
NNDR Smoothing Reserve		(642)	-	-	-	-	(642)
Digital Transformation Strategy		(430)	-	-	56	300	(130)
Firefighter fitness monitoring & support		(175)	-	-	10	175	-
Operational Safety - new training model		(404)	-	-	0	404	-
Emergency Services Mobile Communications Programme	e	(744)	-	(100)	20	150	(694)
<b>Total earmarked reserves</b>		<b>(29,985)</b>	<b>578</b>	<b>(103)</b>	<b>1,250</b>	<b>5,908</b>	<b>(23,602)</b>
<b>General reserve</b>							
General fund balance	f	(5,319)	-	3	-	-	(5,316)
Percentage of general reserve compared to net budget							7.32%
<b>TOTAL RESERVE BALANCES</b>		<b>(35,304)</b>					<b>(28,918)</b>
<b>PROVISIONS</b>							
Fire fighters pension schemes		(755)	-	-	-	695	(60)
PFI Equalisation		(295)	-	-	-	-	(295)
<b>TOTAL PROVISIONS</b>		<b>(1,050)</b>				<b>695</b>	<b>(355)</b>

\* The CSR Reserve has been established to provide additional financial contingency during the period of austerity, which is now confirmed by the CSR 2015 to run until at least 2019-20. It provides contingency in the event that transfers from reserves are required to meet government grant reductions and spending pressures in the Authority's Medium Term Financial Plan.

## 6. **BUDGET VIREMENTS**

- 6.1 Table 5 overleaf provides details of the proposed budget transfers (virements) between subjective budget headings. Financial regulations require that in-year virements between subjective budget lines in excess of £50,000 require the approval of the Resources Committee, and the full Authority where the amount exceeds £150,000. These budget transfers are already reflected in table 2 Revenue Monitoring Statement above on the basis that Members are minded to approve these proposed transfers.

## TABLE 5 – PROPOSED BUDGET VIREMENTS

Row in Table 2 (Reserves note)	Description	Debit £	Credit £
	<b>Change to maintenance arrangements for USAR assets</b> <i>The Home Office has devolved the financial management of maintenance for USAR assets to a local level so the Service is now required to make payments directly. A grant will be made to cover these costs.</i>		
11	Repair and maintenance	227,600	
30	Grants and Reimbursements		(227,600)
	<b>Revise annual budget to include Private Finance Initiative accounting adjustments</b> <i>As reported in the 2016/17 outturn position, PFI financing has historically been reported as a year end accounting adjustment. To improve synergy between financial reporting to the Authority and the year end accounts the PFI financing of the Tri-service training facility contract at Avonmouth will now be reported as part of the financial performance report. A budget adjustment is therefore required.</i>		
5	Training Expenses		(292,800)
26	Capital and Lease financing costs	203,000	
27	Revenue Contribution to Capital	7,500	
35 (c)	Transfers to Reserves (MRP already budgeted for)	82,300	
	<b>Amend 2017/18 revenue budget to reflect Airwave Grant receipt in advance</b> <i>The Home Office brought forward the timing of its grant payments to Fire Authorities for the Airwave Communications contract in March 2017 and so the Authority established an Earmarked Reserve of £714,100 for the 2017/18 grant received in advance. As the arrangement were changed post 2017/18 budget setting, a budget transfer is required to bring the funding back in to the revenue account.</i>		
30	Grants and Reimbursements	714,100	
35 (a)	Transfer to (from) Earmarked Reserve		(714,100)
	<b>Amend 2017/18 revenue budget to reflect Airwave Grant receipt in advance - 2018/19</b> <i>As above, The Home Office has confirmed that Airwave grant payments will be made in March 2018 for the 2018/19 financial year and so in anticipation a budget transfer is requested to move the funding in to an Earmarked reserve for that purpose.</i>		
30	Grants and Reimbursements		(732,000)
35 (a)	Transfer to (from) Earmarked Reserve	732,000	
	<b>Amend 2017/18 revenue budget to reflect change in classification of Appliance equipment</b> <i>Following a review of Capital Expenditure conducted by Grant Thornton LLP as part of the year end financial audit 2016-17 it has been identified that planned capital expenditure would be better classified as revenue given the Authority de minimis limit for capital of £5,000. A budget transfer is required to move the allocated funding from the Capital Programme in to the revenue budget.</i>		
14	Equipment and Furniture	254,000	
27	Revenue Contribution to Capital		(254,000)

### 7. SUMMARY OF REVENUE SPENDING

- 7.1 At this stage it is forecast that spending will be £0.449m more than the agreed budget figure for 2017-18, mainly due to the potential of the pay award which is greater than budgeted. The Service will endeavour to bring the outturn position back to a neutral position throughout the financial year.
- 7.2 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 overspend will be found.

## 8. **SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2017-18**

### ***Monitoring of Capital Spending in 2017-18***

- 8.1 Table 6 overleaf provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.
- 8.2 As at the end of Quarter 1, the only anticipated variance to the Capital Programme is on operational equipment where an amount of £0.254m is to be reclassified as revenue spending rather than capital resulting from an internal review following the 2016/17 audit of the financial statements. This reclassification has been reflected in the budget transfers requested in Table 5 above.
- 8.3 Since the Capital Programme was set at £7.814m by the Authority in May 2017 the programme has been increased by £7,500 to reflect the Capital element of the PFI contract as outlined in table 5 above.

**TABLE 6 – FORECAST CAPITAL EXPENDITURE 2017-18**

	2017/18 £000	2017/18 £000	2017/18 £000	2017/18 £000
PROJECT	Revised Budget	Forecast Outturn	Timing Differences	Re- scheduling / Savings
<b>Estate Development</b>				
Minor improvements & structural maintenance	2,401	2,401	0	0
<b>Estates Sub Total</b>	<b>2,401</b>	<b>2,401</b>	<b>0</b>	<b>0</b>
<b>Fleet &amp; Equipment</b>				
Appliance replacement	3,567	3,567	0	0
Community Fire Safety	0	0	0	0
Specialist Operational Vehicles	187	187	0	0
Equipment	821	567	0	(254)
ICT Department	800	800	0	0
Water Rescue Boats	46	46	0	0
<b>Fleet &amp; Equipment Sub Total</b>	<b>5,421</b>	<b>5,167</b>	<b>0</b>	<b>(254)</b>
<b>Overall Capital Totals</b>	<b>7,822</b>	<b>7,568</b>	<b>0</b>	<b>(254)</b>
<b>Programme funding</b>				
Earmarked Reserves:	2,158	2,158	0	0
Revenue funds:	3,681	3,427	0	(254)
Application of existing borrowing	1,962	1,962	0	0
<b>Total Funding</b>	<b>7,822</b>	<b>7,568</b>	<b>0</b>	<b>(254)</b>



### ***Prudential Indicators (including Treasury Management)***

- 8.4 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 June 2017 stands at £25.723m (no change from balance as at 31 March), and forecast to reduce to £25.631m as at 31 March 2018. This level of borrowing is well within the Authorised Limit for external debt of £28.445m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.
- 8.5 Investment returns in the quarter yielded an average return of 0.37% which outperforms the LIBID 3 Month return (industry benchmark) of 0.19%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.079m by 31 March 2017.
- 8.6 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2017-2018, which illustrates that there is no anticipated breach of any of these indicators.

## **9 SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS**

### ***Aged Debt Analysis***

- 9.1. Total debtor invoices outstanding as at Quarter 1 were £436,527 (previous quarter £622,278). Table 7 below provides a summary of all debt outstanding as at 30 June.
- 9.2. Of this figure an amount of £164,474 (£1,845 as at 31 March 2017) was due from debtors relating to invoices that are more than 85 days old, equating to 37.69% (0.30% as at 31 March 2017) of the total debt outstanding. Table 8 below provides an analysis of all debt in excess of 85 days.

**TABLE 7 – OUTSTANDING DEBT AS AT 30 JUNE 2017**

	<b>Total Value £</b>	<b>%</b>
Current (allowed 28 days in which to pay invoice)	5,840	1.33%
1 to 28 days overdue	28,731	6.58%
29-56 days overdue	89,371	20.47%
57-84 days overdue	148,068	33.93%
Over 85 days overdue	164,517	37.69%
<b>Total Debt Outstanding as at 30 June 2017</b>	<b>436,527</b>	<b>100.00%</b>

- 9.3. Table 8 overleaf provides further analysis of those debts in excess of 85 days old.

**TABLE 8 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS**

	<b>No</b>	<b>Total Value</b>	<b>Action Taken</b>
Name not disclosed.	1	£1,651	This debt results from the vehicle costs of an ex-employee, the debt is being pursued by the Risk and Insurance Officer.
Red One Ltd	2	£162,866	Invoices raised for Services supplied to Red One. This was discussed at the Fire Authority meeting held on the 26/07/2017. Accordingly, the credit terms have been increased.

**KEVIN WOODWARD**  
Treasurer to the Authority

APPENDIX A TO REPORT RC/17/6

**PRUDENTIAL INDICATORS 2017-18**

Prudential Indicators and Treasury Management Indicators		Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure		7.568	7.822	(£0.254)
External Borrowing vs Capital Financing Requirement (CFR) - Total		26.929	26.929	£0.000
- Borrowing		25.630	25.630	
- Other long term liabilities		1.299	1.299	
External borrowing vs Authorised limit for external debt - Total		26.929	28.445	(£1.516)
- Borrowing		25.630	27.005	
- Other long term liabilities		1.299	1.439	
Debt Ratio (debt charges as a %age of total revenue budget)		4.31%	5.00%	(0.69)bp
Cost of Borrowing – Total		1.088	1.088	(£0.000)
- Interest on existing debt as at 31-3-17		1.088	1.088	
- Interest on proposed new debt in 2017-18		0.000	0.000	
Investment Income – full year		0.093	0.079	(£0.014)
		Actual (30 June 2017) %	Target for quarter %	Variance (favourable) /adverse
Investment Return		0.37%	0.19%	(0.18)bp
Prudential Indicators and Treasury Management Indicators	Forecast (30 March 2018) %	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	0.36%	30.00%	0.00%	(29.51%)
12 months to 2 years	0.36%	30.00%	0.00%	(29.14%)
2 years to 5 years	3.03%	50.00%	0.00%	(48.92%)
5 years to 10 years	16.06%	75.00%	0.00%	(66.78%)
10 years and above	80.18%	100.00%	50.00%	(10.14%)
- 10 years to 20 years	7.26%			
- 20 years to 30 years	18.27%			
- 30 years to 40 years	48.82%			
- 40 years to 50 years	5.83%			