

REPORT REFERENCE NO.	RC/17/11
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	15 NOVEMBER 2017
SUBJECT OF REPORT	FINANCIAL PERFORMANCE REPORT 2017-18: QUARTER 2
LEAD OFFICER	Treasurer to the Authority
RECOMMENDATIONS	<p>(a) <i>That the budget transfers shown in Table 4, to support the roll out of Water Misting Systems be endorsed;</i></p> <p>(b) <i>That the budget transfers shown in Table 3 of this report, approved by the Chief Fire Officer in consultation with the Chair of the Committee as a matter of urgency in accordance with Standing Order 37(4), be noted;</i></p> <p>(c) <i>That the monitoring position in relation to projected spending against the 2017-18 revenue and capital budgets be noted; and</i></p> <p>(d) <i>That the performance against the 2017-18 financial targets be noted.</i></p>
EXECUTIVE SUMMARY	<p>This report provides the Committee with the second 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 £0.288m more than budget, equivalent to 0.40% of the total budget.</p> <p>This overspend is attributable to the forecast 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>
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY IMPACT ASSESSMENT	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	Appendix A – Summary of Prudential Indicators 2017-18.
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 September 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 2	Previous Quarter	Quarter 2 %	Previous Quarter %
Revenue Targets						
1	Spending within agreed revenue budget	£72.596m	£72.866m	£73.045m	0.40%	0.62%
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.32%	7.32%	(2.32)bp*	(2.32)bp*
Capital Targets						
4	Spending within agreed capital budget (<i>revised</i>)	£7.568m	£4.874m	£7.568m	(35.60%)	(0.00%)
4	External Borrowing within Prudential Indicator limit (<i>revised</i>)	£28.445m	£26.929m	£26.929m	(5.33%)	(5.33%)
5	Debt Ratio (debt charges over total revenue budget)	5.00%	4.26%	4.31%	(0.74)bp*	(0.69)bp*

*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 £72.866m compared with an agreed budget figure of £72.596m, representing a potential overspend of £0.288m, equivalent to 0.40% of the total budget.

TABLE 2 – REVENUE MONITORING STATEMENT 2017-18

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY						
Revenue Budget Monitoring Report 2017/18						
		2017/18	Year To	Spending to	Projected	Projected
		Budget	Date Budget	Month 6	Outturn	Variance
Line		£000	£000	£000	£000	over/
No	SPENDING					(under)
						£000
	EMPLOYEE COSTS					
1	Wholetime uniform staff	27,692	13,801	14,090	28,033	342
2	Retained firefighters	12,362	5,885	5,795	12,627	265
3	Control room staff	1,668	825	731	1,582	(86)
4	Non uniformed staff	10,035	5,012	5,208	9,978	(57)
5	Training expenses	680	340	566	666	(14)
6	Fire Service Pensions recharge	3,075	1,780	1,772	3,027	(48)
		55,511	27,642	28,160	55,913	402
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,130	565	925	1,136	6
8	Energy costs	585	246	88	549	(36)
9	Cleaning costs	462	231	364	434	(28)
10	Rent and rates	1,782	1,043	975	1,721	(61)
		3,958	2,085	2,352	3,839	(119)
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	884	407	433	940	56
12	Running costs and insurances	1,229	783	583	1,211	(18)
13	Travel and subsistence	1,335	589	668	1,347	12
		3,448	1,780	1,684	3,498	50
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,610	1,257	1,175	2,693	83
16	Hydrants-installation and maintenance	190	95	41	185	(5)
17	Communications	2,103	1,051	1,616	2,090	(13)
18	Uniforms	596	298	320	660	64
19	Catering	46	23	19	44	(2)
20	External Fees and Services	89	44	80	124	35
21	Partnerships & regional collaborative projects	182	91	107	182	-
		5,816	2,860	3,358	5,978	162
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	310	174	150	276	(34)
23	Advertising	44	22	11	31	(13)
24	Insurances	349	329	202	358	9
		703	525	364	665	(38)
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	705	316	565	869	164
		705	316	565	869	164
	CAPITAL FINANCING COSTS					
26	Capital and lease financing costs	3,582	602	85	3,613	31
27	Revenue Contribution to Capital spending	3,427	(127)	-	2,617	(810)
		7,009	475	85	6,230	(779)
28	TOTAL SPENDING	77,149	35,683	36,567	76,991	(158)
	INCOME					
29	Investment income	(79)	(39)	(29)	(157)	(78)
30	Grants and Reimbursements	(3,371)	(1,685)	(2,030)	(3,292)	79
31	Other income	(440)	(220)	(429)	(804)	(364)
32	Internal Recharges	(20)	(10)	(9)	(21)	(1)
33	TOTAL INCOME	(3,910)	(1,955)	(2,497)	(4,274)	(364)
34	NET SPENDING	73,239	33,728	34,070	72,718	(522)
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to (from) Earmarked Reserve	(662)	(248)	-	(662)	-
37	Capital Funding	-	-	-	810	810
		(662)	(248)	-	148	810
38	NET SPENDING	72,578	33,479	34,070	72,866	288

- 2.2 These forecasts are based upon the spending position at the end of September 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 £0.328m is 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. The forecast over spend has reduced by £139k since last quarter.
- 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 £0.342m 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 £0.265m, £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 ended during October 2017.

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 to fill the vacancies has been successful with all new starters now having completed their initial training. The costs of the new staff are included in the forecast.

Non Uniformed Staff

- 3.4. Savings of £0.057m are expected against the budget for non-uniformed staff. At this stage in the year the savings are due to a small reduction in flexible workers such as advocates and agency staff.

4. PREMISES RELATED COSTS

Rent and Rates

- 4.1 Savings against budget of £0.061m due to successful business rating appeals across the various premises.

5. TRANSPORT RELATED COSTS

Repair and Maintenance

- 5.1 Forecast to be £0.056m over budget due to a high number of light vehicle kit outs (£28k) and an increase in unplanned vehicle maintenance costs (£35k).

6. SUPPLIES AND SERVICES

Equipment and Furniture

- 6.1 The forecast over spend of £0.083m arises from several items of expenditure, the most significant of which is £0.013m for Breathing Apparatus and £0.019m on Operational Equipment (replacement of defective water rescue equipment). £27k has also been spent on the "HeartStart" initiative in West Somerset which is off-set by income.

Uniforms

- 6.2 Forecast to be £0.064m over budget. These costs stem from an increase in condemned kit and also in the number of new recruits engaged by the Service.

7. PAYMENTS TO OTHER AUTHORITIES

Support Services Contracts

- 7.1 We are currently forecasting an over spend of £0.164m by the year end – £ 0.124m of this results from an increase in legal fees incurred, the balance from HR £0.040m as a result of several complex staffing issues.

8. CAPITAL FINANCING COSTS

Revenue Contribution to Capital Spending

- 8.1 Due to reduced in-year capital expenditure, as reported in Section B of this report, it is forecast that £0.810m of the Revenue Contribution to Capital will not be utilised in 2017-18. The final amount of unutilised budget at year end will be transferred to the Capital funding reserve for use in future years.

9. INCOME

Investment Income

- 9.1 Due to higher than forecast cash balances and an improved performance against the benchmarked yield for investments, a surplus of £78k investment income is forecast.

Grants and Reimbursements

- 9.2 Forecast to be £0.079m below the budget of £3.371m. The shortfall is largely made up of a reduced grant from the Home Office for national resilience activity (£44k) and fewer Phoenix courses being run by the Community Safety department (£19k), which is offset by reduced expenditure.

Other Income

- 9.3 A surplus of £0.364m is forecast for Other Income, made up of Red One Ltd contribution forecast to exceed the budget by £0.258m, £38k of additional income from Procurement frameworks and £29k of income received from the Heartstart initiative in Somerset in addition to other minor variances.

RESERVES AND PROVISIONS

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

Reserves

- 10.2 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

- 10.3 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.

- 10.4 A transfer from Earmarked Reserves was approved by the Chief Fire Officer, in consultation with the Chair of the Resources Committee, as a matter of urgency in accordance with Standing Order 37(4) during Quarter 2 to support unplanned repairs to the Fire Boat based in Plymouth. As a result, a virement has been actioned which is shown in Table 3 below.

TABLE 3 – BUDGET TRANSFER FROM RESERVES

Row in Table 2	Description	Debit	Credit
11	Repairs and Maintenance- Fire Boat repairs	70,000	
35	Transfer from Reserves - funding of Fire Boat repairs		(70,000)

- 10.5 Elsewhere on the agenda for this meeting is an item regarding Water Misting Systems, which required funding through an additional transfer from Earmarked Reserves of £95,500. These transfers are included in the forecast outturn figures in Table 2.

TABLE 4 – BUDGET TRANSFER FROM RESERVES

Row in Table 2	Description	Debit	Credit
14	Equipment - Water misting systems	95,500	
35	Transfer from Reserves - funding of water misting systems		(95,500)

10.6

A summary of predicted balances on Reserves and Provisions is shown in Table 5 overleaf. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

TABLE 5 – FORECAST RESERVES AND PROVISION BALANCES 30 SEPTEMBER 2017

	Balance as at 1 April 2017 £000	Approved Transfers £000	Proposed Transfers £000	Spending to P6 £000	Forecast Spend 2017-18 £000	Proposed Balance as at 31 March 2018 £000
RESERVES						
Earmarked reserves						
Grants unapplied from previous years	(1,469)	(18)	-	725	1,299	(187)
Change & improvement programme	(501)	100	-	44	300	(101)
Budget Carry Forwards	(1,130)	-	-	234	799	(331)
Commercial Services	(172)	-	-	38	90	(82)
Direct Funding to Capital	(16,576)	-	(810)	-	-	(17,386)
Comprehensive Spending Review*	(4,957)	566	96	-	662	(3,634)
Community Safety Investment	(89)	(3)	-	72	92	-
PPE & Uniform Refresh	(542)	-	-	50	101	(441)
Pension Liability reserve	(1,525)	-	-	-	-	(1,525)
PIMS Replacement	(230)	-	-	-	-	(230)
National Procurement Project	(399)	-	-	147	294	(104)
NNDR Smoothing Reserve	(642)	-	-	-	-	(642)
Digital Transformation Strategy	(430)	-	-	135	300	(130)
Firefighter fitness monitoring & support	(175)	-	-	19	175	-
Operational Safety - new training model	(404)	-	-	32	350	(54)
Emergency Services Mobile Communications Programme	(744)	(100)	-	40	150	(694)
Total earmarked reserves	(29,985)	545	(715)	1,536	4,611	(25,543)
General reserve						
General fund balance	(5,319)	3	-	-	-	(5,316)
Percentage of general reserve compared to net budget						7.32%
TOTAL RESERVE BALANCES	(35,304)					(30,859)
PROVISIONS						
Fire fighters pension schemes	(755)	-	-	-	695	(60)
PFI Equalisation	(295)	-	-	-	-	(295)
TOTAL PROVISIONS	(1,050)				695	(355)

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.

11. **SUMMARY OF REVENUE SPENDING**

11.1

At this stage it is forecast that spending will be £0.288m 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.

11.2

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.

12. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2017-18

Monitoring of Capital Spending in 2017-18

- 12.1 Table 6 below provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.
- 12.2 As outlined in the first Quarter performance report to this Committee, since the Capital Programme was set at £7.814m by the Authority in May 2017 the programme has been reduced to £7.568m which reflects a reduction of £254k in to the revenue budget for Rapid Intervention Vehicles equipment and a small increase of £7,500 to reflect the Capital element of the Private Finance Initiative contract.
- 12.3 As at the end of Quarter 2, there is a forecast variance of £2.694m against the revised capital programme of £7.568m which is made up of timing differences. £0.880m of the timing differences relate to a delay in the set-up of the Rapid Intervention Vehicle production line at our suppliers Emergency One, meaning the vehicles will be delivered in the next financial year.
- 12.4 Another £1.550m of fleet capital expenditure is now due to go ahead in 2018/19 as a final strategy on numbers of Medium Rescue Pumps and Four by Four vehicles will result from the Integrated Risk Management Plan which has not yet been finalised.
- 12.5 A further £0.150m of Estates projects and £0.114m of Fleet projects are now scheduled to go ahead in the next financial year.

TABLE 6 – FORECAST CAPITAL EXPENDITURE 2017-18

Item	PROJECT	2017/18 £000 Revised Budget	2017/18 £000 Forecast Outturn	2017/18 £000 Timing Differences	2017/18 £000 Re- scheduling / Savings
2	Estate Development Minor improvements & structural maintenance	2,401	2,257	(150)	6
	Estates Sub Total	2,401	2,257	(150)	6
	Fleet & Equipment				
3	Appliance replacement	3,567	1,137	(2,430)	0
5	Specialist Operational Vehicles	187	187	0	0
6	Equipment	567	467	(94)	(6)
7	ICT Department	800	800	0	0
8	Water Rescue Boats	46	26	(20)	0
	Fleet & Equipment Sub Total	5,167	2,617	(2,544)	(6)
	Overall Capital Totals	7,568	4,874	(2,694)	0
	Programme funding				
	Earmarked Reserves:	2,158	274	(1,884)	0
	Revenue funds:	3,427	2,617	(810)	0
16	Application of existing borrowing	1,962	1,962	0	0
17	Grant - Responding to new risks	21	21	0	0
	Total Funding	7,568	4,874	(2,694)	0

Prudential Indicators (including Treasury Management)

- 12.6 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 September 2017 stands at £25.677m (from £25.724m as at 30 June), and is 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.
- 12.7 Investment returns in the quarter yielded an average return of 0.32% which outperforms the LIBID 3 Month return (industry benchmark) of 0.17%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.079m by 31 March 2018.
- 12.8 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.

13. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

- 13.1 Total debtor invoices outstanding as at Quarter 2 were £624,565 (previous quarter £436,527). Table 7 below provides a summary of all debt outstanding as at 30 September.
- 13.2 Of this figure an amount of £404,411 (£164,474 as at 30 September 2017) was due from debtors relating to invoices that are more than 85 days old, equating to 64.75% (37.69% as at 30 June 2017) of the total debt outstanding.

TABLE 7 – OUTSTANDING DEBT AS AT 30 SEPTEMBER 2017

	Total Value £	%
Current (allowed 28 days in which to pay invoice)	22,199	3.55%
1 to 28 days overdue	279	0.04%
29-56 days overdue	197,652	31.65%
57-84 days overdue	24	0.00%
Over 85 days overdue	404,411	64.75%
Total Debt Outstanding as at 30 September 2017	624,565	100.00%

13.3

Table 8 below provides further analysis of those debts in excess of 85 days old.

TABLE 8 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	Total Value	Action Taken
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	35	£402,721	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. As at 03/11/2017, £179,643 has been received towards the outstanding balance. Discussions are ongoing with Red One Ltd regarding settlement of the remaining outstanding balance.

AMY WEBB
Director of Finance (Treasurer)

APPENDIX A TO REPORT RC/17/11

PRUDENTIAL INDICATORS 2017-18

Prudential Indicators and Treasury Management Indicators		Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure		4.874	7.568	(2.694)
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)		4.26%	5.00%	(0.74)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		0.157	0.079	(0.078)
		Actual (30 June 2017) %	Target for quarter %	Variance (favourable) /adverse
Investment Return		0.32%	0.17%	(0.15)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%	(29.64%)
12 months to 2 years	0.36%	30.00%	0.00%	(29.64%)
2 years to 5 years	3.03%	50.00%	0.00%	(46.97%)
5 years to 10 years	16.06%	75.00%	0.00%	(58.94%)
10 years and above	80.18%	100.00%	50.00%	(19.82%)
- 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%			