

<b>REPORT REFERENCE NO.</b>	<b>RC/18/1</b>
<b>MEETING</b>	<b>RESOURCES COMMITTEE</b>
<b>DATE OF MEETING</b>	<b>8 FEBRUARY 2018</b>
<b>SUBJECT OF REPORT</b>	<b>FINANCIAL PERFORMANCE REPORT 2017-18 – QUARTER 3</b>
<b>LEAD OFFICER</b>	<b>Treasurer to the Authority</b>
<b>RECOMMENDATIONS</b>	<p><i>(a) That the budget transfers shown in Table 4 of this report, be recommended to the Devon &amp; Somerset Fire &amp; Rescue Authority for approval;</i></p> <p><i>(b) That the monitoring position in relation to projected spending against the 2017-18 revenue and capital budgets be noted;</i></p> <p><i>(c) That the performance against the 2017-18 financial targets be noted.</i></p>
<b>EXECUTIVE SUMMARY</b>	<p>This report provides the Committee with the third 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 stage in the financial year it is forecast that spending will be to budget.</p> <p>Whilst this report is forecasting a reduction in net expenditure, the balanced budget position is achieved because the budgeted transfer from Reserves is reduced accordingly.</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 December 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 3	Previous Quarter	Quarter 3 %	Previous Quarter %
<b>Revenue Targets</b>						
1	Spending within agreed revenue budget	£72.596m	£72.596m	£72.866m	0.00%	0.40%
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.32%	7.32%	(2.32)bp*	(2.32)bp*
<b>Capital Targets</b>						
4	Spending within agreed capital budget ( <i>revised</i> )	£7.568m	£4.058m	£4.874m	(46.38%)	(35.60%)
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%	4.18%	4.26%	(0.82)bp*	(0.74)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 £72.596m, representing spend to budget.

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

<b>DEVON &amp; SOMERSET FIRE AND RESCUE AUTHORITY</b>						
<b>Revenue Budget Monitoring Report 2017/18</b>						
<b>Line No</b>		<b>2017/18 Budget</b>	<b>Year To Date Budget</b>	<b>Spending to Month 9</b>	<b>Projected Outturn</b>	<b>Projected Variance over/ (under) £000</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
	<b>SPENDING</b>					
	<b>EMPLOYEE COSTS</b>					
1	Wholetime uniform staff	27,692	20,739	21,220	28,070	378
2	Retained firefighters	12,362	8,981	8,730	12,349	(12)
3	Control room staff	1,668	1,243	1,131	1,547	(120)
4	Non uniformed staff	10,035	7,521	7,572	9,947	(88)
5	Training expenses	385	510	719	348	(37)
6	Fire Service Pensions recharge	3,075	2,548	2,315	2,890	(185)
		<b>55,216</b>	<b>41,541</b>	<b>41,688</b>	<b>55,152</b>	<b>(64)</b>
	<b>PREMISES RELATED COSTS</b>					
7	Repair and maintenance	1,130	847	1,090	1,139	9
8	Energy costs	585	392	267	537	(48)
9	Cleaning costs	462	347	391	443	(19)
10	Rent and rates	1,782	1,565	1,505	1,730	(52)
		<b>3,958</b>	<b>3,151</b>	<b>3,253</b>	<b>3,848</b>	<b>(110)</b>
	<b>TRANSPORT RELATED COSTS</b>					
11	Repair and maintenance	884	663	736	926	42
12	Running costs and insurances	1,229	976	1,001	1,240	11
13	Travel and subsistence	1,335	923	973	1,347	12
		<b>3,448</b>	<b>2,562</b>	<b>2,709</b>	<b>3,513</b>	<b>65</b>
	<b>SUPPLIES AND SERVICES</b>					
14	Equipment and furniture	2,610	1,958	1,679	2,590	(20)
16	Hydrants-installation and maintenance	190	142	67	181	(9)
17	Communications	2,103	1,577	1,691	2,076	(27)
18	Uniforms	596	447	516	714	118
19	Catering	46	35	31	47	1
20	External Fees and Services	89	67	105	160	71
21	Partnerships & regional collaborative projects	182	136	167	182	-
		<b>5,816</b>	<b>4,362</b>	<b>4,256</b>	<b>5,950</b>	<b>134</b>
	<b>ESTABLISHMENT COSTS</b>					
22	Printing, stationery and office expenses	310	246	208	286	(24)
23	Advertising	44	33	18	38	(6)
24	Insurances	349	339	324	351	2
		<b>703</b>	<b>617</b>	<b>550</b>	<b>675</b>	<b>(28)</b>
	<b>PAYMENTS TO OTHER AUTHORITIES</b>					
25	Support service contracts	705	492	691	858	153
		<b>705</b>	<b>492</b>	<b>691</b>	<b>858</b>	<b>153</b>
	<b>CAPITAL FINANCING COSTS</b>					
26	Capital and lease financing costs	3,582	660	762	3,646	64
27	Revenue Contribution to Capital spending	3,427	(191)	-	1,878	(1,549)
		<b>7,009</b>	<b>470</b>	<b>762</b>	<b>5,524</b>	<b>(1,485)</b>
28	<b>TOTAL SPENDING</b>	<b>76,854</b>	<b>53,194</b>	<b>53,909</b>	<b>75,519</b>	<b>(1,335)</b>
	<b>INCOME</b>					
29	Investment income	(79)	(59)	(82)	(187)	(108)
30	Grants and Reimbursements	(4,316)	(2,528)	(2,727)	(4,265)	51
31	Other income	(440)	(331)	(721)	(810)	(370)
32	Internal Recharges	(20)	(15)	(19)	(21)	(1)
33	<b>TOTAL INCOME</b>	<b>(4,855)</b>	<b>(2,933)</b>	<b>(3,549)</b>	<b>(5,283)</b>	<b>(428)</b>
34	<b>NET SPENDING</b>	<b>71,999</b>	<b>50,261</b>	<b>50,359</b>	<b>70,236</b>	<b>(1,763)</b>
	<b>TRANSFERS TO EARMARKED RESERVES</b>					
35	Transfer to (from) Earmarked Reserve	596	(496)	-	810	214
37	Capital Funding	-	-	-	1,549	1,549
		<b>596</b>	<b>(496)</b>	<b>-</b>	<b>2,359</b>	<b>1,763</b>
38	<b>NET SPENDING</b>	<b>72,596</b>	<b>49,765</b>	<b>50,359</b>	<b>72,596</b>	<b>0</b>

- 2.2 These forecasts are based upon the spending position at the end of December 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 The forecast net expenditure has reduced and this has the effect of reducing the need to draw down from the Comprehensive Spending Review (CSR) reserve by a corresponding amount. Consequently, whilst forecast net expenditure has reduced, the projected outturn remains that the Authority will spend to budget. The CSR reserve budget line will continue to be used to balance any further fluctuations within this financial year.
- 2.4 Explanations of the more significant variations from budget (over £50k variance) are explained below in paragraphs 3 to 6.

### **3. NARRATIVE ON VARIANCES AGAINST BUDGET**

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

- 3.1 At this stage it is projected that spending on wholetime pay costs will be £0.378m more than budget. The forecast over spend is due to cover moves and pre-arranged overtime including cover to keep retained pumps on the run. As new wholetime recruits become more established, expenditure to support existing shift systems will reduce.

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

- 3.2 It is forecast that the Control Room will be £0.120m 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***

- 3.3 Savings of £0.088m 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 as well as savings on vacancies during recruitment processes.

#### ***Authority Pensions***

- 3.4 Savings of £0.185m are expected against the budget of £3.075 for Authority Pensions expenditure. The savings are due to fewer ill health and injury retirements during the year than was initially forecast.

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

- 3.5 Savings against budget of £0.052m due to successful business rating appeals across the various premises.

### ***Uniforms***

- 3.6 Forecast to be £0.118m over budget. These costs stem from an increase in condemned kit and also in the number of new recruits engaged by the Service.

### ***External Fees***

- 3.7 Forecast to be £0.071m over budget which is due to two factors. Firstly, unforeseen payments towards improving the Control system and secondly investment in work towards refreshing the core values of the organisation and leadership development (£0.026m).

### ***Support Services Contracts***

- 3.8 We are currently forecasting an over spend of £0.153m by the year end – £ 0.113m of this results from an increase in legal fees incurred, the balance from HR £0.040m as a result of several complex staffing issues.

### ***Revenue Contribution to Capital Spending***

- 3.9 Due to reduced in-year capital expenditure, as reported in Section B of this report, it is forecast that £1.549m 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.

### ***Investment Income***

- 3.10 Due to higher than forecast cash balances and an improved performance against the benchmarked yield for investments, a surplus of £0.108m investment income is forecast.

### ***Grants and Reimbursements***

- 3.11 Forecast to be £0.051m below the revised budget of £4.316m. 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***

- 3.12 A surplus of £0.370m 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.

### ***Transfer to reserves***

- 3.13 The Authority set its annual budget for 2017-18 to include a transfer from the Comprehensive Spending Review reserve (CSR). Due to savings on other budget lines, a smaller transfer from reserves will be needed in order to balance the budget. At Quarter 3 the saving is £0.214m.

## **4. RESERVES AND PROVISIONS**

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

## Reserves

4.2 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

4.3 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.

### TABLE 3 – BUDGET TRANSFERS

Row in Table 2	Description	Debit	Credit
35	Create reserve for PFI equalisation fund	295,000	
5	Release provision for PFI equalisation fund		(295,000)
35	USAR Grant received in advance - transfer to reserves	945,300	
30	USAR Grant received in advance		(945,300)

4.4 The Committee is asked to recommend to the Devon & Somerset Fire & Rescue Authority the budget virements (transfers between budget lines) shown in Table 3 above for approval. The transfers are reflected in Table 2 overleaf - budget monitoring statement.

4.5 As part of the audit of the 2016/17 accounts, the external auditors, Grant Thornton, recommended that a Provision which is being held on the Authority's balance sheet for Private Finance Initiative (PFI) equalisation (specifically for Severn Park training centre) would be better classified as an earmarked reserve. Accounting regulations mean that the provision must be returned to the revenue budget before being placed in to an earmarked reserve and therefore a budget transfer of £0.295m is requested for this purpose.

4.6 Notification has been received from the Home Office that it intends to pay Fire Authorities their 2018/19 grant for Urban Search and Rescue (USAR) in March this year. Again due to accounting regulations, it is a requirement to recognise grant income in the year in which it is received. Given that the grant of £0.945m will be received in 2017/18 it is proposed to transfer this amount immediately to an Earmarked Reserve where it will be ring fenced for USAR expenditure in the next financial year.

- 4.7 A summary of predicted balances on Reserves and Provisions is shown in Table 4 below. 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 31 DECEMBER 2017**

	Balance as				Forecast	Proposed
	at 1 April 2017 £000	Approved Transfers £000	Proposed Transfers £000	Spending to P8 £000	Spend 2017-18 £000	Balance as at 31 March 2018 £000
<b>RESERVES</b>						
<b>Earmarked reserves</b>						
Grants unapplied from previous years	(1,469)	(18)	(945)	840	1,117	(1,315)
Change & improvement programme	(501)	100	-	119	391	(10)
Budget Carry Forwards	(1,130)	-	-	359	759	(371)
Commercial Services	(172)	-	-	75	71	(101)
Direct Funding to Capital	(16,576)	-	(1,549)	-	-	(18,125)
Comprehensive Spending Review*	(4,957)	662	-	-	559	(3,737)
Community Safety Investment	(89)	(3)	-	48	54	(38)
PPE & Uniform Refresh	(542)	-	-	52	52	(490)
Pension Liability reserve	(1,525)	-	-	-	-	(1,525)
PIMS Replacement	(230)	-	-	-	-	(230)
National Procurement Project	(399)	-	-	166	188	(211)
NNDR Smoothing Reserve	(642)	-	-	-	-	(642)
Digital Transformation Strategy	(430)	-	-	182	208	(222)
Firefighter fitness monitoring & support	(175)	-	-	34	122	(53)
PFI Equalisation	-	-	(295)	-	-	(295)
Operational Safety - new training model	(404)	-	-	115	304	(100)
Emergency Services Mobile Communications Programme	(744)	(100)	-	77	103	(741)
<b>Total earmarked reserves</b>	<b>(29,985)</b>	<b>641</b>	<b>(2,789)</b>	<b>2,066</b>	<b>3,927</b>	<b>(28,206)</b>
<b>General reserve</b>						
General fund balance	(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>(33,522)</b>
<b>PROVISIONS</b>						
Fire fighters pension schemes	(755)	-	-	-	695	(60)
PFI Equalisation	(295)	-	295	-	-	-
<b>TOTAL PROVISIONS</b>	<b>(1,050)</b>		<b>295</b>		<b>695</b>	<b>(60)</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.

## 5. **SUMMARY OF REVENUE SPENDING**

- 5.1 At this stage, it is forecast that spending will match the agreed budget figure for 2017-18, which is achieved by a reduction in forecast net expenditure being offset by a corresponding reduction in the planned requirement to draw from Earmarked Reserves. The Service will continue to endeavour to deliver further savings throughout the financial year.

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

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

6.1 Table 5 below provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

6.2 As at the end of Quarter 3, there is a forecast variance of £3.445m against the revised capital programme of £7.503m 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.

6.3 Another £1.890m 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.

6.4 Plans to install new Mobile Data Terminals in appliances are delayed due to development of user requirements which represents £0.400m of the timing differences.

6.5 A further £0.275m of Estates projects are now scheduled to go ahead in the next financial year.

**TABLE 5 – FORECAST CAPITAL EXPENDITURE 2017-18**

<b>PROJECT</b>	<b>2017/18 £000 Revised Budget</b>	<b>2017/18 £000 Forecast Outturn</b>	<b>2017/18 £000 Timing Differences</b>	<b>2017/18 £000 Re- scheduling / Savings</b>
<b>Estate Development</b>				
Site re/new build	0	0	0	0
Improvements & structural maintenance	2,401	2,133	(275)	7
<b>Estates Sub Total</b>	<b>2,401</b>	<b>2,133</b>	<b>(275)</b>	<b>7</b>
<b>Fleet &amp; Equipment</b>				
Appliance replacement	3,567	1,137	(2,430)	0
Community Fire Safety	0	0	0	0
Specialist Operational Vehicles	187	187	0	0
Equipment	502	201	(294)	(7)
ICT Department	800	400	(400)	0
Water Rescue Boats	46	0	(46)	0
<b>Fleet &amp; Equipment Sub Total</b>	<b>5,102</b>	<b>1,925</b>	<b>(3,170)</b>	<b>(7)</b>
<b>Overall Capital Totals</b>	<b>7,503</b>	<b>4,058</b>	<b>(3,445)</b>	<b>0</b>
<b>Programme funding</b>				
Earmarked Reserves:	2,158	262	(1,896)	0
Revenue funds:	3,362	1,813	(1,549)	0
Application of existing borrowing	1,962	1,962	0	0
<b>Total Funding</b>	<b>7,503</b>	<b>4,058</b>	<b>(3,445)</b>	<b>0</b>

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



- 6.6 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 December 2017 stands at £25.677m (from £25.677m as at 30 September), 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.
- 6.7 Investment returns in the quarter yielded an average return of 0.59% which outperforms the LIBID 3 Month return (industry benchmark) of 0.35%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.108m by 31 March 2018.
- 6.8 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.

## 7. **SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS**

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

- 7.1 Total debtor invoices outstanding as at Quarter 3 were £647,748 (previous quarter £624,565). Table 6 below provides a summary of all debt outstanding as at 31 December.
- 7.2 Of this figure an amount of £421,115 (£404,411 as at 30 September 2017) was due from debtors relating to invoices that are more than 85 days old, equating to 65.0% (64.75% as at 30 September 2017) of the total debt outstanding.

**TABLE 6 – OUTSTANDING DEBT AT END OF QUARTER**

	<b>Total Value £</b>	<b>%</b>
Current (allowed 28 days in which to pay invoice)	222,992	34.4%
1 to 28 days overdue	2,934	0.5%
29-56 days overdue	650	0.1%
57-84 days overdue	48	0.0%
Over 85 days overdue	421,115	65.0%
<b>Total Debt Outstanding as at 30 December 2017</b>	<b>421,115</b>	<b>100.00%</b>

7.3

Table 7 below provides further analysis of those debts in excess of 85 days old.

**TABLE 7 – 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	35	£420,397	Invoices raised for Services supplied to Red One relating to services provided in 2016/17. 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/18/1

**PRUDENTIAL INDICATORS 2017-18**

Prudential Indicators and Treasury Management Indicators		Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure		4.058	7.503	(3.445)
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)		4.18%	5.00%	(0.82)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		0.187	0.079	(0.108)
		Actual (30 December 2017) %	Target for quarter %	Variance (favourable) /adverse
Investment Return		0.59%	0.35%	(0.24)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%			