

REPORT REFERENCE NO.	RC/16/11
MEETING	RESOURCES COMMITTEE
DATE OF MEETING	1 SEPTEMBER 2016
SUBJECT OF REPORT	FINANCIAL PERFORMANCE REPORT 2016-17 – QUARTER 1
LEAD OFFICER	Treasurer to the Authority
RECOMMENDATIONS	<p>(a) <i>That the monitoring position in relation to projected spending against the 2016-17 revenue and capital budgets be noted;</i></p> <p>(b) <i>That the performance against the 2016-17 financial targets be noted.</i></p>
EXECUTIVE SUMMARY	<p>This report provides the Committee with the first quarter performance (to June 2016) against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2016-17 revenue budget with explanations of the major variations. At this early stage in the financial year it is forecast that spending will be £1.298m less than budget, equivalent to 1.75% of the total budget.</p> <p>This saving is largely attributable to the ongoing crewing changes as a result of the last Corporate Plan together with a strategy to hold vacancies when staff leave the organisation. At this stage no recommendations are made in relation to how this forecast saving is to be utilised.</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 2016-17.
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 2016. As well as providing projections of spending against the 2016-17 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 2016-17

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 1	Previous Quarter	Quarter 1 %	Previous Quarter %
Revenue Targets						
1	Spending within agreed revenue budget	£73.977m	£72.679m	N/A	(1.75%)	N/A
2	General Reserve Balance as %age of total budget (minimum)	5.00%	7.14%	N/A	(2.14)bp*	N/A
Capital Targets						
3	Spending within agreed capital budget (<i>revised</i>)	£6.417m	£4.403m	N/A	(31.39%)	N/A
4	External Borrowing within Prudential Indicator limit (<i>revised</i>)	£28.101m	£27.098m	N/A	(3.57%)	N/A
5	Debt Ratio (debt charges over total revenue budget)	4.18%	4.17%	N/A	(0.01)bp*	N/A

*bp = base points

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

- SECTION A – Revenue Budget 2016-17.
- SECTION B – Capital Budget and Prudential Indicators 2016-17.
- 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 2016-17

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 £72.679m compared with an agreed budget figure of £73.977m, representing a saving of £1.298m, equivalent to 1.75% of the total budget.

TABLE 2 – REVENUE MONITORING STATEMENT 2016-17

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY						
Revenue Budget Monitoring Report 2016/17						
		2016/17	Year To	Spending to	Projected	Projected
		Budget	Date Budget	Month 3	Outturn	Variance
		£000	£000	£000	£000	over/
Line						(under)
No	SPENDING					£000
	EMPLOYEE COSTS					
1	Wholetime uniform staff	28,462	7,080	6,733	27,624	(838)
2	Retained firefighters	12,340	2,768	2,369	12,278	(62)
3	Control room staff	1,564	381	388	1,613	50
4	Non uniformed staff	10,141	2,528	2,510	9,717	(424)
5	Training expenses	961	240	413	970	10
6	Fire Service Pensions recharge	2,786	918	4,877	3,109	323
		56,253	13,915	17,291	55,312	(941)
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,193	298	653	1,194	1
8	Energy costs	612	105	31	608	(4)
9	Cleaning costs	450	113	336	444	(6)
10	Rent and rates	1,687	492	532	1,658	(29)
		3,942	1,007	1,551	3,904	(38)
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	630	157	150	616	(14)
12	Running costs and insurances	1,372	684	474	1,371	(1)
13	Travel and subsistence	1,402	266	338	1,327	(75)
		3,403	1,107	962	3,313	(90)
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,313	578	589	2,279	(34)
16	Hydrants-installation and maintenance	175	44	22	175	0
17	Communications	2,002	500	424	2,001	(1)
18	Uniforms	588	147	116	552	(36)
19	Catering	171	43	26	143	(28)
20	External Fees and Services	59	15	60	94	35
21	Partnerships & regional collaborative projects	150	38	44	141	(9)
		5,458	1,364	1,280	5,385	(73)
	ESTABLISHMENT COSTS					
22	Printing, stationery and office expenses	370	130	87	337	(33)
23	Advertising	31	8	9	33	2
24	Insurances	329	299	176	329	0
		730	437	272	699	(31)
	PAYMENTS TO OTHER AUTHORITIES					
25	Support service contracts	716	145	241	721	5
		716	145	241	721	5
	CAPITAL FINANCING COSTS					
26	Capital charges	3,615	59	213	3,566	(49)
27	Revenue Contribution to Capital spending	3,159	-	-	2,090	(1,069)
		6,773	59	213	5,656	(1,118)
28	TOTAL SPENDING	77,275	18,035	21,811	74,990	(2,285)
	INCOME					
29	Investment income	(154)	(38)	11	(154)	0
30	Grants and Reimbursements	(3,150)	(787)	(884)	(3,161)	(11)
31	Other income	(590)	(148)	(51)	(660)	(70)
32	Internal Recharges	(30)	(8)	(1)	(30)	0
33	TOTAL INCOME	(3,923)	(981)	(925)	(4,004)	(81)
34	NET SPENDING	73,352	17,054	20,886	70,986	(2,366)
	TRANSFERS TO EARMARKED RESERVES					
35	Transfer to Earmarked Reserve	625	156	625	625	0
37	Capital Funding	0		0	1,069	1,069
		625	156	625	1,693	1,069
38	NET SPENDING	73,977	17,210	21,511	72,679	(1,298)

- 2.2 These forecasts are based upon the spending position at the end of June 2016, 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 £1.298m is largely attributable to savings on staffing costs primarily as a result of in year leavers and retirees not being replaced per the Corporate Plan implementation. Members will recall that when fully implemented these proposals will deliver on-going savings of £6.8m, there has now been sufficient natural turnover so that the number of staff is at establishment.
- 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. EMPLOYEE COSTS

Wholetime Staff

- 3.1 At this stage it is projected that spending on wholetime pay costs will be £838k less than budget largely as a result of more staff retirements and leavers during the year than had been budgeted, reducing staffing levels towards those required post Corporate Plan crewing changes. This projection includes the impact of the agreed 1% pay award from July 2016.

Retained Pay Costs

- 3.2 At this stage in the financial year spending is forecast to be under budget by £0.62k. 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.

Control Room Staff

- 3.3 It is forecast that the Control Room will be £50k over spent on its staffing budget. This is due to the extension of several fixed term contracts to cover sickness and ongoing training requirements on the National Fire Control Project.

Non Uniformed Pay

- 3.4 It is forecast that savings of £424k will be achieved against non-uniformed pay costs primarily as a result of staffing vacancies and management action to challenge whether vacancies are filled, as per the agreed strategy.

Pensions Recharge

- 3.5 It is forecast that expenditure will exceed budget by £323k relating to Firefighters Pensions recharges due to the projected number of Ill Health retirees in 2016-17. This figure may be subject to change as given the long term nature of these retirement cases, the leaving date may slip into future financial years. The over spend equates to an additional three expected Ill Health retirees since the budget was set.

4. TRANSPORT RELATED COSTS

Travel and subsistence

- 4.1 Forecast savings on Travel and Subsistence of £75k are mostly due to anticipated savings on lease car contributions.

5. CAPITAL FINANCING COSTS

Revenue Contribution to Capital Spending

- 5.1 Due to reduced in year capital expenditure, as reported in Section B of this report, it is forecast that £1.069m of the Revenue Contribution to Capital will not be utilised in 2016-17. The final amount of unutilised budget at year end will be transferred to the Capital funding reserve for use in future years.

6. INCOME

Other Income

- 6.1 It is anticipated that there will be a £70k surplus against a budget of £0.590m due to additional co-responding income from the ambulance service.

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 overleaf. 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 2017

	Balance as at 1 April 2016 £000	Approved Transfers £000	Spending to P3 £000	Projected Spend 2016-17 £000	Proposed Balance as at 31 March 2017 £000
RESERVES					
Earmarked reserves					
Grants unapplied from previous years	(983)	-	163	408	(575)
Change & improvement programme	(1,112)	-	249	969	(143)
Budget Carry Forwards	(696)	-	22	323	(373)
Commercial Services	(192)	-	-	-	(192)
Direct Funding to Capital	(12,911)	(625)	-	321	(13,215)
Comprehensive Spending Review*	(4,957)	-	-	107	(4,850)
Community Safety Investment	(173)	-	8	21	(152)
PPE & Uniform Refresh	(996)	-	342	342	(654)
Pension Liability reserve	(1,525)	-	-	-	(1,525)
National Procurement Project	(372)	-	27	-	(372)
NNDR Smoothing Reserve	(612)	-	-	-	(612)
Total earmarked reserves	(24,529)	(625)	810	2,491	(22,663)
General reserve					
General fund balance	(5,282)	-	-	-	(5,282)
Percentage of general reserve compared to net budget					7.14%
TOTAL RESERVE BALANCES	(29,812)				(27,946)
PROVISIONS					
Fire fighters pension schemes	(694)	-	0	62	(693)
PFI Equalisation	(295)	-	-	-	(295)
TOTAL PROVISIONS	(989)		0	62	(988)

* * 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.

8. **SUMMARY OF REVENUE SPENDING**

8.1 At this stage it is forecast that spending will be £1.298m less than the agreed budget figure for 2016-17, which aligns with the strategy adopted to deliver in-year savings where possible to be available to enhance Reserve balances and prepare the Authority for future austerity measures.

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. 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.

9. SECTION B – CAPITAL PROGRAMME AND PRUDENTIAL INDICATORS 2016-17

Monitoring of Capital Spending in 2016-17

- 9.1 At the Resources Committee on 17 May 2016 (report RC/16/7 refers) amendments were made to the 2016-17 Capital Programme as a result of changes to 2015-16 outturn and planned expenditure, since the budget was set in February 2016. As was reported at that meeting, whilst this amendment has resulted in an increase to the 2016-17 Capital Programme from £5.062m to £6.417m, this does not result in any additional funding requirement as it only reflects changes in the timing of capital spending between years.
- 9.2 Table 4 below provides a summary of anticipated expenditure for this financial year and demonstrates the funding requirements.

TABLE 4 – FORECAST CAPITAL EXPENDITURE 2016-17

PROJECT	2016/17 £000 Revised Budget	2016/17 £000 Outturn	2016/17 £000 Forecast Slippage	2016/17 £000 Over/ (under) spend
Estate Development				
Minor improvements & structural maintenance	2,095	1,844	(250)	(1)
Estates Sub Total	2,095	1,844	(250)	(1)
Fleet & Equipment				
Appliance replacement	1,854	1,764	(90)	0
Community Fire Safety	0	0	0	0
Specialist Operational Vehicles	265	265	0	0
Equipment	1,377	454	(20)	(903)
ICT Department	800	50	(750)	0
Water Rescue Boats	26	26	0	0
Fleet & Equipment Sub Total	4,322	2,559	(860)	(903)
Overall Capital Totals	6,417	4,403	(1,110)	(904)
Programme funding				
Earmarked Reserves:	1,266	321	(945)	0
Revenue funds:	3,159	2,090	(165)	(904)
Application of existing borrowing	1,992	1,992	0	0
Total Funding	6,417	4,403	(1,110)	(904)

- 9.3 Forecast Capital expenditure for the year is £4.403m against a revised budget of £6.417m. £1.110m of the movements against budget represent timing differences whereby the budget for those projects will be spent in future years. Additionally £0.904m of budget has been returned as a result of strategic decisions as outlined in Para. 9.5.

- 9.4 The majority of the slippage figure of £1.110m is due to delays to the purchase of new Mobile Data Terminals (MDTs) in fire appliances (£750k). There is uncertainty over this project due to the planned change of carrier for communications in 2019 (was Airwave) under the Emergency Services Mobile Communications Project. Analysis is underway to assess whether MDTs can be purchased which are compatible with both systems and offer good value for money for the transitional period whilst alternatives such as using second hand items from another service are also being explored.
- 9.5 Two projects for investment in equipment have been deferred by management on the basis that they are not required at this time, releasing £0.904m of Capital funding back to the Earmarked Reserve for Capital expenditure.
- 9.6 In 2014-15, £895k of funding was originally allocated to the harmonisation of Breathing Apparatus (BA) sets across Devon & Somerset at which time operations were considering investment in a completely new BA set including telemetry. Due to a recurrent fault in the type of BA set used in Somerset, £161k Capital was spent in 2015-16 to purchase new sets for the county, of the same type used in Devon. Sets are now harmonised across the Service which improves operational efficiency and qualitative feedback from other Services is that telemetry on BA sets is still in development; the resulting decision is to maintain the current BA set provision and therefore the remaining £734k funding is no longer required in the medium term. BA provision is subject to ongoing review which will bring together the priority of Staff safety with requirements of the new communications network and seek to take advantage of new technology in this area.
- 9.7 A further £169k of funding which was allocated to retrofit auxiliary batteries in a number of fire appliances will now be released, because the cost per unit was considerably lower than estimated.
- 9.8 None of these changes require any increase in the external borrowing requirement.

Prudential Indicators (including Treasury Management)

- 9.9 Total external borrowing with the Public Works Loan Board (PWLB) as at 30 June 2016 stands at £25.817m (no change from balance as at 31 March), and forecast to reduce to £25.724m as at 31 March 2017. This level of borrowing is well within the Authorised Limit for external debt of £28.101m (the absolute maximum the Authority has agreed as affordable). No further external borrowing is planned in this financial year.
- 9.10 Investment returns in the quarter yielded an average return of 0.52% which outperforms the LIBID 3 Month return (industry benchmark) of 0.46%. It is forecast that investment returns from short-term deposits is anticipated to exceed the budgeted figure of £0.154m by 31 March 2017.
- 9.11 Appendix A provides a summary of performance against all of the agreed Prudential Indicators for 2016-2017, 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 Quarter 1 were £24,658 (previous quarter £813,413). Table 5 overleaf provides a summary of all debt outstanding as at 30 June.

10.2 Of this figure an amount of £4,023 (£494 as at 31 March 2016) was due from debtors relating to invoices that are more than 85 days old, equating to 16.32% (0.06% as at 30 March 2016) of the total debt outstanding.

TABLE 5 – OUTSTANDING DEBT AS AT 30 JUNE 2016

	Total Value £	%
Current (allowed 28 days in which to pay invoice)	1,884	7.64%
1 to 28 days overdue	9,579	38.85%
29-56 days overdue	1,356	5.50%
57-84 days overdue	7,815	31.69%
Over 85 days overdue	4,023	16.32%
Total Debt Outstanding as at 30 June 2016	24,658	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	2	£465	Each debt being pursued by the Risk and Insurance Officer.
Devon & Cornwall Police	1	£3,529	Invoice relates to facilities charges at Axminster station and is currently under dispute. Regular contact is being made by our Estates team to facilitate a resolution.

Payment of Supplier Invoices within 30 days

10.4 There is a statutory requirement from April 2015 for the Authority to pay all undisputed invoices within 30 days. The performance was 98.5% for 2015-16. So far this financial year, there has been an issue with the finance system which has prevented the data being accessible for this performance measure. Officers recognise the importance of this measure to ensure that suppliers are being paid promptly and have therefore reported the issue to the system supplier who are looking for a solution.

The statutory requirement is to publish performance data on supplier performance on an annual basis and therefore there is not a current risk of breach. Information will be passed on to members on year to date performance when this becomes available.

KEVIN WOODWARD
Treasurer to the Authority

APPENDIX A TO REPORT RC/16/11

PRUDENTIAL INDICATORS 2016-17

Prudential Indicators and Treasury Management Indicators		Forecast Outturn £m	Target £m	Variance (favourable) /adverse £m
Capital Expenditure		4.403	6.417	(£2.014)
External Borrowing vs Capital Financing Requirement (CFR) - Total		27.098	27.098	£0.000
- Borrowing		25.724	25.724	
- Other long term liabilities		1.374	1.374	
External borrowing vs Authorised limit for external debt - Total		27.098	28.101	(£1.003)
- Borrowing		25.724	26.824	
- Other long term liabilities		1.374	1.278	
Debt Ratio (debt charges as a %age of total revenue budget)		4.17%	4.18%	(0.01)bp
Cost of Borrowing – Total		1.092	1.092	(£0.000)
- Interest on existing debt as at 31-3-16		1.092	1.092	
- Interest on proposed new debt in 2016-17		0.000	0.000	
Investment Income – full year		0.154	0.154	(£0.000)
		Actual (30 June 2016) %	Target for quarter %	Variance (favourable) /adverse
Investment Return		0.52%	0.46%	(0.06)bp
Prudential Indicators and Treasury Management Indicators	Forecast (30 March 2016) %	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	6.34%	75.00%	0.00%	(66.78%)
10 years and above	89.91%	100.00%	50.00%	(10.14%)
- 10 years to 20 years	17.34%			
- 20 years to 30 years	16.33%			
- 30 years to 40 years	20.21%			
- 40 years to 50 years	36.03%			