

Report to	Audit Committee
Date	4 June 2018
Lead Officer	Ken Finch - Treasurer
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Subject	Financial Performance 2017/18



PURPOSE OF REPORT

- 1 This report provides Members with the draft unaudited financial performance of the Authority for 2017/18 and the financial position as at 31 March 2018. The report also seeks approval for the carry forward of earmarked reserves.

EXECUTIVE SUMMARY

- 2 The first part of the report reviews the revenue income and expenditure for 2017/18 against budget with the financial breakdown included in appendix A. The second part of the report comments on reserves and provisions held by the Authority which are detailed within appendix B. The next section of the report looks at the schemes that were grant funded with a detailed breakdown in appendix C. The final part of the report discusses capital activity for the year; the details of which can be found in appendix D.

RECOMMENDATION

- 3 Members note the financial position and performance of the Authority and recommend to the Fire and Rescue Authority to approve:-
 - (i) the rollover of the earmarked reserves as detailed in paragraphs 28 and 29.

BACKGROUND

- 4 The Combined Improvement Plan and Well Being Plan approved for 2017/18 was to deliver a comprehensive programme of prevention activity to help keep communities safe from accidental fires in living accommodation. The second objective was to facilitate high quality, responsive and better integrated fire and rescue services so that prevention activity and emergency response continue to be available when and where required, affordably, equitably and on the basis of risk.

- 5 Prior to 2017/18 for the last five financial years the Authority has made savings of £3.5m by effectively reducing the net budget requirement by 0.65% and absorbing any increases such as pay awards, capital financing costs and general inflationary increases.
- 6 In order to secure the financial sustainability of the Authority a 3 year financial strategy (2017/18 -2019/20) was adopted by the FRA on 19 December 2016, the strategy combined the use of reserves, increasing financial contributions and making service reductions. Members took the decision not to reduce services for 2017/18 but to plan for service reduction by 2019/20. The strategy included an increase in the contributions from the contributing Authorities in 2017/18 of 4% and a further increase of 1% for 2018/19. Any shortfall in funding for years 1 and 2 would be met from reserves. In year 3 the strategy approved was for Members to consider service reductions in order to make savings. The shortfall in funding to be met from reserves for 2017/18 was estimated to be £414k.

Revenue Activity

Employees

- 7 A large proportion of Fire and Rescue Service expenditure relates to pay; 70% for 2017/18. Overall expenditure on pay has exceeded the budget set by £410k.
- 8 The pay award for 2017/18 was agreed at 1% which is what was included when the budget was set. However, the final settlement for the firefighters' 2017/18 pay award has not been finalised and therefore a provision has been set aside to cover some of the potential costs. The estimated costs have been charged directly to firefighters pay in year which has increased the overall pay costs for operational staff.
- 9 The increase in pay expenditure during 2017/18 reflects the recruitment of additional personnel to increase capacity within the Retained Duty System to maintain fire cover across North Wales.
- 10 For support staff, included in the actual expenditure are the additional costs for the newly formed Community Assistance Team. Some of these costs have been met by a contribution from Welsh Government and income from a Local Authority that is in receipt of their services. However, any other additional costs not covered by income are offset by a number of vacant support staff posts and savings on the lump sum payment into the local government pension scheme.

- 11 The costs of training were higher than the budget set due to the number of new RDS recruits and apprentice positions that have been filled.
- 12 Pension costs are higher than budget due to the revenue contributions in to the pension fund for ill health retirements. To cover the shortfall £56k from an earmarked reserve has been utilised. This is shown as a contribution from earmarked reserves in Appendix A below the Net Expenditure line.

Premises

- 13 Overall the premises budget is overspent by £212k. The significant variances are on the repairs and maintenance budget due to a number of schemes that had been estimated to be part of the capital programme but due to the type of expenditure need to be classified as revenue expenditure. The rates budget now includes the full year costs of the new Wrexham Fire Station which was unknown at the time of setting the budget.
- 14 The increase in energy costs against budget is partly due to the new facility at Wrexham and an increase in consumption due to the colder weather experienced this winter.

Transport

- 15 Overall the transport budget is underspent by £205k. Fuel costs and travel expenses are less than the original budget due to the reduction in fuel prices and the activity levels in year. The service have also managed to negotiate a reduction in insurance for motor vehicles, included under the 'running expenses' budget head, this has contributed over £85k to the underspend.

Supplies

- 16 The overspend of £212k on uniforms and laundry relates to the increase in the contract costs for managing personal protective equipment (PPE) and the additional costs of providing uniform and equipment for new staff following the recruitment drive.
- 17 The majority of the overspend on computer costs is due to the additional costs associated with consultancy services for the command and control system and for ICT security around the Integrated Communication Control System (ICCS) solution. However, the additional costs have been offset by savings on the communications budget and other budget lines so it has not been necessary to utilise the reserve at this time.

- 18 The communications budget is underspent due to a number of factors which include a reduction in the cost of line rentals and mobile phone costs due to changes in the contract arrangements. The budget for communications hardware repairs and maintenance also has not been fully utilised this year.
- 19 The re-negotiation of the insurance contract has resulted in savings on public liability insurance which has contributed £26k to the underspend on insurance costs.
- 20 The Authority receives a number of grants which are detailed within Appendix C. The income arising from the grants and associated expenditure are included within the detailed breakdown of income and expenditure within Appendix A.

Capital Financing

- 21 The charges to the revenue budget for funding the capital programme are less than budgeted due to the rollover of some projects from 2016/17 to 2017/18. The reduced expenditure in 2016/17 has also meant that there has been less debt to furnish. Lower interest costs have also been achieved by 'internally borrowing', where reserves and balances have been used to fund the programme rather than taking out new borrowings. Approval of the change in the MRP policy has resulted in additional savings of £366k on the capital financing charges for 2017/18 as well as providing reduced charges for future budgets. The overall saving is £756k.

Income

- 22 The Miscellaneous budget heading includes income for a secondment to Natural Resources Wales which was agreed during the financial year. The heading also includes a transfer of the balance of a grant reserve that is no longer required and a reduction to the bad debt provision.
- 23 Interest on balances was less than the original budget due to the low interest rates and the use of reserves and balances to fund the capital programme.
- 24 The Professional Charges budget head is new income in year. The income received is for professional services provided to the Wylfa project and services provided by the Community Assistance Team.

Underspend

- 25 The original budget included a contribution from reserves of £414k. Due to underspends on a number of budget heads the contribution from reserves required to balance the budget was £93k, £321k less than the budgeted amount. This is primarily due to underspends within the Capital financing costs due to slippage in the Capital programme.

Earmarked Reserves

- 27 Members have previously been informed of the risks associated with the new national contract for radio communication. Some of the project costs have been funded from the revenue budget in 2017/18 rather than use the reserve set aside specifically for the project. However, as the project is still ongoing it is necessary to have funding available to cover the risk of the service incurring additional costs in the following areas:-
- a. If the timescales for transition are not met it may be necessary to extend the current contract which could be significantly more expensive.
 - b. The current system is partially funded by a grant from the Welsh Government and it is not guaranteed that this will continue.
- 28 Given the position above the £300k reserve will continue to be carried forward as part of earmarked reserves.
- 29 An earmarked reserve of £194k was set up in 2015/16 following the Welsh Government's intention to reduce the grant for community fire safety. Funding for 2016/17 reduced by 50% and even though the level of funding for 2017/18 increased it is expected that the grant for future years will reduce. It is therefore prudent to carry over this reserve to fund future expenditure.
- 30 In 2016/17 £54k of funding was set aside for the fleet department to replace their transporter vehicle. The vehicle has now been replaced at a cost of £35k and the balance on the reserve has been transferred to the General Fund balance.
- 31 Funding for ill health pension costs has been met from a contribution from the earmarked reserve, £56k.

General Reserves

- 32 A reserve is defined 'as a voluntary action by the Authority to set resources aside for future schemes'. The Authority held £2,150k in a general reserve as at 1 April 2017. The contribution to the revenue budget for 2017/18 was £93k to cover the shortfall in funding in year. There was also £50k transferred from an earmarked reserve and a grant reserve in to the General Reserve as they are no longer required.
- 33 The balance on the general reserve as at 31 March 2018 is £2,057k.
- 34 It is prudent for the Authority to hold a general reserve to cover any contingent liabilities that may arise and assist in future planning to mitigate budget increases.

Provisions

- 35 The Authority has always been able to hold provisions and a provision is defined as 'funds set aside when the Authority has a present obligation as a result of a past event (legal or constructive) and it is probable that a settlement will be made some time in the future'. The Authority has set aside two provisions in year the details of which are below.
- 36 A new provision was established in 2017/18 to cover the potential costs arising from back pay due to the WDS Rural Firefighters following a review of the payment structure set up for this category of staff. The costs have been shown against WDS Rural pay in 2017/18.
- 37 As outlined in paragraph 8 above a provision has been set aside to offset the potential costs arising from concluding the award for 2017/18 for operational personnel.

Grant Funded Schemes

- 38 The Authority has received funding for a number of schemes mainly from the Welsh Government; the total funding received is £1.43m for revenue grants and £596k in capital grants. Members will be aware of the benefits to the community created by these schemes including the Phoenix scheme, installation of free smoke alarms, and the Arson Reduction Team. A comprehensive list of these schemes is detailed in appendix C.

Capital Activity

- 39 The original capital budget was set in December 2016 and was based on new spend and rollovers from previous years.
- 40 Following the closure of the accounts for 2016/17 the capital budget for 2017/18 was revised to incorporate any schemes that had been rescheduled from 2016/17. The budget was then increased by £3.18m to £5.47m.
- 41 The budget for planned maintenance and minor building works was underspent as some smaller items of capital spend were transferred to revenue.
- 42 The expenditure on special appliances relates to the equipment funded by Welsh Government for flood alleviation. The expenditure includes the final payment for the High Volume Pump and the water rescue boats the service have recently acquired.
- 43 The expenditure on IT and other equipment is less than budget due to the rescheduling of a number of transformational projects. The budget for these specific projects will be rolled over to 2018/19.
- 44 In 2017/18 the Authority received £569k from the sale of capital assets. The major receipt was for the sale of the old Wrexham Fire Station. In order to reduce future capital financing costs the receipts will be utilised in year to offset Capital Expenditure.