

Status of Report:

Public

Agenda Item:

11

Meeting: Combined Fire Authority

Date: 9th December 2015

Subject: Mid-Year Financial Monitoring and Treasury Management

Report by: The Treasurer

Author: Adam Stretton (Area Manager – Finance) and Philippa Brown (Accountant)

For: Discussion / Decision

1. Purpose

1.1 As part of the Combined Fire Authority's (CFA's) Corporate Governance arrangements a financial monitoring report is submitted to the CFA. This report covers the capital and revenue budgets as at Financial Period 7, which ended on the 31st October 2015 and proposes changes for the CFA to approve. The report includes a review of Treasury Management activity during the first six months of 2015/16.

2. Recommendations

CFA is asked to:

- a) Note the capital and revenue budget position as at the end of October 2015.
- b) Note the ongoing savings of £638,230 which are included in the Medium Term Financial Strategy.
- c) Agree the virement of budgets to reflect the closure of the Princes Trust Team and the transfer of £150,710 from the Princes Trust Earmarked Reserve to the General Reserve to meet all ongoing expenditure, reduced income and redundancy costs.
- d) Agree the transfer of £500,000 from the on-going savings arising from the 2014/15 underspend to the Redundancy earmarked reserve.
- e) Agree the transfer of a further £200,000 from the forecast underspend in 2015/16 to earmarked reserves to cover future redundancy / over-establishment costs.
- f) Agree that £18,700 for Website Development and £16,500 for the IRMP Workload Modeller is to be added to the 2015/16 Capital Programme and funded through revenue contributions.

g) Note the mid-year Treasury Management review.

3. Executive Summary

- 3.1. The CFA agreed the revenue and capital budgets for 2015/16 at its meeting on the 11th February 2015. Revenue (£307,680) and Capital (£1,196,012) carry forwards from 2014/15 were agreed by the CFA on the 9th July 2015. The carry forwards are included in the budget figures to this report.
- 3.2. This report indicates the current financial position compared against the 2015/16 revenue budget updated for carry forwards from 2014/15. The report also indicates the current financial position compared against the 2015/16 Capital Programme.
- 3.3. The Treasury Management mid-year review report is written in conjunction with the CFA's treasury management advisors, Capita Asset Services.

4. Report Detail

Capital Programme

- 4.1. **Appendix 1** is a detailed summary of the Capital Programme showing actual expenditure and commitments that occurred to Period 7, compared to the latest approved estimate. The CFA at its meeting of the 9th July 2015 agreed to increase the 2015/16 Capital Programme by £1,196,012 as carry forwards from 2014/15. The Appendix indicates a forecast underspend for all projects of £1,628,932.
- 4.2. Following a Treasury Management review it was found that the most cost effective form of financing for the Aerial Ladder Platform vehicle was by borrowing as opposed to a finance lease. This has been reflected in **Appendix 1**.
- 4.3. The premises works and estate improvements budget of £1.75m was principally to be used to develop Wigston Fire Station as a Day Crewing Plus Station. In the light of current Integrated Risk Management Plan (IRMP) proposals this work is unlikely to be undertaken in 2015/16. The forecast at **Appendix 1** assumes that other planned premises related works will be completed in 2015/16, although they are also largely on hold pending the IRMP. An updated forecast will be provided at Period 9.
- 4.4. The final retention and professional fees costs for the Birstall Headquarters and Station build have been agreed, resulting in an underspend of £14,008.
- 4.5. The SharePoint Infrastructure Architecture and Taxonomy forecast underspend of £5,600 is based upon the budget identified in the agreed Project Initiation Document (PID).
- 4.6. The ICT Internal Phone Telephony installation will not be progressed in this financial year, due to the need to clarify requirements and properly resource the work. The budget may be requested for carry forward into 2016/17.

- 4.7. The ICT Wide Area Network improvement Project is substantively completed and the forecast underspend of £45,200 reflects the known costs with a small sum set aside for final works at Castle Donington Station.
- 4.8. An evaluation of options for the future provision of payroll facilities is to be compiled and subject to the outcomes, the budget may be requested for carry forward into 2016/17.
- 4.9. **Revenue Budget**
Appendix 2 contains a subjective summary of the revenue budget showing the proposed changes described in the body of this report. The budget figures have been updated to reflect the budget carry forwards agreed by the CFA on the 9th July 2015.
- 4.10. Column 2 reflects ongoing savings identified from the 2014/15 final outturn. The table below summarises the reductions. Total savings in 2015/16 amount to £590,845. The tables also indicate where permanent savings are included in the updated Medium Term Financial Strategy (MTFS) that were part of the presentation to the CFA in September 2015.

Budget Heading	2015/16 £	Ongoing MTFP £
<u>Ongoing Savings from the 2014/15 underspend:</u>		
Retained Pay	(150,000)	(150,000)
Recruitment Advertising	(10,000)	(10,000)
Training	(50,000)	(50,000)
Training – New Recruits	0	(70,000)
Energy costs	(50,000)	(50,000)
Fuel costs	(40,000)	(40,000)
Casual Mileage Fire Protection Officers	(10,000)	(10,000)
Printing and Photocopying Expenses	(12,000)	(12,000)
Debt Management reduced borrowing	(200,000)	(200,000)
Sub Total Ongoing Savings	(522,000)	(592,000)

<u>Other Variances:</u>		
Disestablishment of the Training Academy Manager Post	(31,230)	(31,230)
EMAS rental income Castle Donington	(3,750)	(15,000)
Disestablishment of Director of Finance and Corporate Services Post net of City Council costs	(42,000)	0
Training Academy Instructor post vacancy to end August 2015	(9,050)	0
National Resilience income for ISAR deployment in Nepal	(18,015)	0
<u>Additional Costs:</u>		
Revenue Contribution to Capital Outlay (RCCO) for Website Development software	18,700	0
RCCO for IRMP Workload Modeller Software	16,500	0
Sub total Other Net Savings	(68,845)	(46,230)
TOTAL SAVINGS	(590,845)	(638,230)

4.11. Column 3 of **Appendix 2** represents the variances across expenditure headings following the closure of the Princes Trust Team at the end of August 2015. In the 2015/16 budget the Princes Trust Team is cost neutral as all expenditure was anticipated to be met from income generated. It is proposed that a virement is undertaken to reduce expenditure budgets and reduce the offsetting income budget as indicated in Column 3, resulting in a net budget saving of £6,560. It is anticipated that all ongoing Princes Trust Team costs, reduced income and redundancy payments can be met from the Princes Trust Earmarked Reserve with no additional burden to the CFA. It is proposed that £150,710 is transferred from the Princes Trust Earmarked Reserve into the General Reserve to cover such costs.

4.12. Column 4 of **Appendix 2** highlights further forecast variances to the budget following an analysis of actual expenditure to date against budget. The variations are noted in the table below:

Budget Heading	2015/16 £	Note
Administrative Pay	(144,700)	Admin vacancies including Health and Safety Team and Solicitor and Monitoring Officer Post

Administrative Agency Costs	127,000	Estimated annual cost of 5 current agency staff
Operational Overtime Pay	(70,000)	Reduced use of overtime due to over-establishment
Bank Holiday Pay	96,800	Additional bank holidays within 2015/16 financial year
Control Pay	(68,000)	5 under establishment and lower than anticipated overtime requirement for new fire control system training
Insurance – Employee Related	35,000	Cost of Ill Health Insurance for Local Government Pension Scheme
Contract Cleaning	50,000	Expenditure to known contracted level
Operating Leases	(25,000)	To known vehicle commitments in 2015/16
Casual Mileage	(20,000)	On profile expenditure to date
Protective Clothing	(45,000)	Expenditure to known contracted level
Hospitality	(6,000)	Director's / Princes Trust Team hospitality not used (half budget)
Interest Earned	20,000	Effect of internal borrowing and low interest rates
Debt interest payments	(100,000)	Less than anticipated borrowing due to low capital expenditure
NET IDENTIFIED SAVINGS	(149,900)	

The total forecast variance in Column 5 therefore amounts to an underspend of £747,305. It is proposed to commit the majority of this as follows:

- a) Transfer £500,000 of the ongoing savings from the 2014/15 underspend in 2015/16 to the Redundancy Earmarked reserve;
- b) Transfer a further £200,000 of 2015/16 savings to the earmarked reserves to cover future redundancy / over-establishment costs; and
- c) Fund the £18,700 for Website Development and £16,500 for the IRMP Workload Modeller and add them to the 2015/16 Capital Programme (funded through revenue contributions).

- 4.13. The further forecast variances in column 2 are also being analysed to assess whether they can be built into future years' budgets on an on-going basis. This will be reflected in the Period 9 report.

Treasury Management

- 4.14. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management has been adopted by the CFA. Capita Asset Services advise the CFA.

Investments - The CFA held £6.477m of investments as at 30 September 2015 (£4.765m at 31 March 2015). The investment portfolio yield for the first six months of the year was 0.55%, against a 3 month benchmark of 0.45%. The CFA's budgeted investment return for 2015/16 is £63,000. Performance for the half year was £9,000 below budget; hence an income shortfall of £20,000 is shown at para. 4.12. The approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16.

Borrowing - The CFA's capital financing requirement (CFR) for 2015/16 is £24.11m, which denotes the underlying need to borrow for capital purposes. The balance of external and internal borrowing is generally driven by market conditions. At September 2015, the CFA had borrowings and finance leases of £19.19m and is estimated to have utilised £4.25m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate. Due to the lower than anticipated capital spending, no new external borrowing has been undertaken in the first six months and hence a revenue saving of £100,000 on debt financing costs is shown at para. 4.12. However, some new borrowing is anticipated during the second half of the financial year.

Prudential Indicators – No changes are proposed to the Prudential indicators as set by the CFA at its meeting of the 11th February 2015.

5. Report Implications / Impact

5.1. *Legal (including crime and disorder)*

- a) None.

5.2. *Financial (including value for money, benefits and efficiencies)*

- a) These are included in the main body of the report.

5.3. *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

- a) It is important to be aware of how the budget is progressing as it enables early action to be taken to address any issues that arise. For example, it is easier to manage a potential overspend if it is identified early and any corrective action will be less harsh than if late action was required. Also, if a budget is going to be underspent, it allows consideration to be given to either accelerating progress, virement proposals or seeking CFA approval to carry forward resources into future years.

b) The report deals with the results of the attitude to risk adopted by the CFA in its treasury management activities.

5.4. ***Staff, Service Users and Stakeholders (including the Equality Impact Assessment)***

a) Employee costs account for just under 72.2% of the CFA's 2015/16 agreed budget, with a further 1.8% being spent on indirect employee expenses. If any restrictions were enforced as a result of planning efficiencies this would probably have to impact upon these budgets.

5.5. ***Environmental***

a) None.

5.6. ***Impact upon Our Plan Objectives***

a) The Medium Term Financial Plan is constructed with reference to Our Plan. Any variation in levels of funding or expenditure has the potential to impact on delivery of Our Plan. Conversely, any delays or changes to the projects within Our Plan can impact on the achievement of efficiencies and adherence to budgets.

6. **Background Papers**

a) Budget 2015/16 (CFA 11th February 2015)

b) Final Outturn 2014/15 (CFA 9th July 2015)

7. **Appendices**

1. Capital Programme Financial Summary as at 31st October 2015

2. Mid-Year Revenue Forecast Outturn

CAPITAL PROGRAMME EXPENDITURE TO BUDGET 2015-16

PROJECT	PARA REF	CFA 11.02.15 ORIGINAL PROGRAMME 2015-16 £	CFA 09.07.15 AGREED CARRY FORWARD £	UPDATED CAPITAL PROGRAMME FOR 2015-16 £	ACTUAL SPEND AND COMMITMENTS TO OCT 15 £	FORECAST 2015-16 £	VARIANCE £
Vehicles:							
Replacement Aerial Ladder Platform	4.2	0	50,318	50,318	1,481	50,318	0
Property:							
New Premises Works and Estate Improvements	4.3	1,750,000	0	1,750,000	8,480	347,480	-1,402,520
Birstall Headquarters / Station Retention	4.4	0	0	0	-13,000	-13,000	-13,000
New Birstall Headquarters Professional Fees	4.4	0	5,000	5,000	3,992	3,992	-1,008
Erection of Tower at Wigston Station		0	25,000	25,000	0	25,000	0
New Castle Donington Day Crewing Plus (DCP) Fire Station		1,688,267	298,337	1,986,604	1,331,821	1,986,604	0
IT and Equipment:							
Information Communications Technology (ICT) Technology Developments		50,000	0	50,000	0	50,000	0
SharePoint Infrastructure Architecture and Taxonomy	4.5	62,500	0	62,500	42,350	56,900	-5,600
ICT Internal Phone (IP) Telephony Installation	4.6	90,000	0	90,000	0	0	-90,000
ICT Wide Area Network Improvements	4.7	127,498	55,591	183,089	39,217	137,905	-45,184
Agresso upgrade to latest version (Milestone 4)		70,000	0	70,000	0	70,000	0
Procurement of Payroll System	4.8	70,000	0	70,000	0	0	-70,000
Operational Equipment - Breathable Fire Tunics		87,750	0	87,750	86,130	86,130	-1,620
Operational Equipment - Breathing Apparatus (BA) Communication Units		35,200	0	35,200	0	35,200	0
Operational Equipment - Bluetooth enabled Radios		16,000	0	16,000	0	16,000	0
Fire Control Project (Local and Regional)		0	730,301	730,301	66,324	730,301	0
Premises Improvement Project		0	31,465	31,465	31,465	31,465	0
TOTALS		4,047,215	1,196,012	5,243,227	1,598,260	3,614,295	-1,628,932

Funded by:

DCLG Fire Control Grant	0	720,301	720,301	64,938	720,301	0
Revenue Contribution to Capital Outlay (RCCO)	87,750	0	87,750	86,130	86,130	-1,620
Earmarked Reserve	39,538	0	39,538	0	39,538	0
Capital Receipts	261,500	0	261,500	261,268	261,268	-232
Finance Lease	0	50,318	50,318	1,481	0	-50,318
Prudential Borrowing	3,658,427	425,393	4,083,820	1,184,443	2,507,058	-1,576,762
	4,047,215	1,196,012	5,243,227	1,598,260	3,614,295	-1,628,932

Revenue Forecast Outturn at end October 2015					
Column No.	1	2	3	4	5
Cipfa Description	Annual Budget £	Ongoing Savings from 2014/15	Princes Trust Team Closure	Further Forecast Variances	Total Forecast Outturn
Direct Employee Expenses	26,771,016	-238,280	-132,100	-58,900	26,341,736
Indirect Employee Expenses	683,700	-60,000	-58,200	35,000	600,500
Pension	277,370	0	0	0	277,370
Employees	27,732,086	-298,280	-190,300	-23,900	27,219,606
Repairs Alterations and Maintenance of Buildings	683,930	0	0	0	683,930
Energy Costs	421,440	-50,000	-930	0	370,510
Rents	43,550	0	-8,010	0	35,540
Rates	694,930	0	0	0	694,930
Water	60,070	0	0	0	60,070
Fixture and Fittings	17,040	0	0	0	17,040
Apportionment of Expenses of Operational Buildings	10,350	0	0	0	10,350
Cleaning and Domestic Supplies	247,790	0	0	50,000	297,790
Grounds Maintenance Costs	21,130	0	0	0	21,130
Premises Insurance	36,360	0	0	0	36,360
Refuse Collection	16,530	0	0	0	16,530
Premises-Related Expenditure	2,253,120	-50,000	-8,940	50,000	2,244,180
Direct Transport Cost	751,930	-40,000	-850	0	711,080
Recharges	197,710	0	0	-25,000	172,710
Public Transport	30,460	0	-7,830	0	22,630
Transport Insurance	146,860	0	0	0	146,860
Car Allowances	113,350	-10,000	-180	-20,000	83,170
Transport-Related Expenditure	1,240,310	-50,000	-8,860	-45,000	1,136,450
Equipment Furniture and Materials	675,000	0	-3,220	0	671,780
Catering	26,630	0	0	0	26,630
Clothes Uniforms and Laundry	559,740	0	-2,530	-45,000	512,210
Printing Stationery and General Office Expenses	78,670	-12,000	-1,350	0	65,320
Services	221,810	6,000	-150	0	227,660

Cipfa Description	Annual Budget £	Ongoing Savings from 2014/15	Princes Trust Team Closure	Further Forecast Variances	Total Forecast Outturn
Communications and Computing	1,434,510	0	-4,770	0	1,429,740
Expenses	72,460	0	-7,170	-6,000	59,290
Grants and Subscriptions	74,280	0	-140	0	74,140
Miscellaneous Expenses	162,050	0	0	0	162,050
Supplies & Services	3,305,150	-6,000	-19,330	-51,000	3,228,820
Other Local Authorities	50,000	0	0	0	50,000
Third Party Payments	50,000	0	0	0	50,000
Support Services	71,700	0	0	0	71,700
Government Grants	-9,827,086	0	0	0	-9,827,086
Other Grants/Reimbursements and Contributions	-18,761,235	0	371,580	0	-18,389,655
Customer and Client Receipts	-8,509,497	-21,765	0	0	-8,531,262
Interest	-63,280	0	0	20,000	-43,280
Income	-37,161,098	-21,765	371,580	20,000	-36,791,283
Interest Payments	988,850	-110,000	0	-100,000	778,850
Debt Management Expenses	1,519,882	-54,800	-150,710	0	1,314,372
Capital Financing Costs	2,508,732	-164,800	-150,710	-100,000	2,093,222
	0	-590,845	-6,560	-149,900	-747,305