

Report to	North Wales Fire and Rescue Authority
Date	18 June 2018
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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 table below sets out the draft Income and Expenditure Statement for 2017/18 which confirms that reserves of £93,083 were utilised in year. This compares favourably with the original budget requirement to utilise £414,223 of reserves and the out-turn position reflects the approved changes to the methodology used to calculate the Minimum Revenue Policy. However, cost pressures remain in a number of key areas including pay expenditure, premises and supplies. Appendix A provides a detailed breakdown and further narrative on variances is provided within sections 8 to 25 of this report.

2017/18	Budget £	Draft Out-turn £
Employees	23,951,205	24,361,178
Premises	1,553,190	1,764,879
Transport	1,212,655	1,007,603
Supplies	2,953,343	3,120,039
Agency provided services	423,608	429,088
Support Costs (SLAs)	406,083	398,500
Capital Financing	3,392,000	2,635,882
Total Expenditure	33,892,084	33,717,169
Income	(316,584)	(438,223)
Revenue contribution to capital expenditure	0	49,914
Net expenditure to be financed	33,575,500	33,328,860
Financing		
Use of Earmarked Reserve	0	74,500
Use of General Reserve	414,223	93,083
Local Authority Contributions	33,161,277	33,161,277
Total Financing	33,575,500	33,328,860

- 3 Paragraph 29 through to paragraph 39 provides information on reserves and provisions held by the Authority which are detailed within appendix B.
- 4 The Authority receives a number of grants to support specific projects and a detailed breakdown is provided within 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

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

OBSERVATIONS FROM THE AUDIT COMMITTEE

- 6 This report was presented to the Audit Committee on the 4 June 2018 in order for members to review the content prior to submission to the Fire and Rescue Authority. The Audit Committee is tasked with ensuring effective scrutiny of financial reports and based on its findings make recommendations to the Fire and Rescue Authority. Following a presentation highlighting the key areas of the report Members of the Audit Committee recommended the report for approval by the Fire and Rescue Authority.

BACKGROUND

- 7 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.
- 8 Between 2011/12 and 2015/16, the Authority has made savings of £3.5m and by absorbing increases such as pay awards, capital financing costs and general inflationary increases it was not necessary to increase the contribution from local authorities.

- 9 In order to secure the financial sustainability, the Authority adopted a 3 year financial strategy (2017/18 -2019/20) 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

- 10 During 2017/18 staff related expenditure accounted for 70% of total expenditure. In year costs increased by £1,135k to £24,361k, which represents an overspend against budget of £410k.
- 11 The pay award for 2017/18 was anticipated to be 1% and 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.
- 12 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.
- 13 The year on year increase of support staff costs reflects the inclusion of the newly formed Community Assistance Team. These additional costs are mainly supported through the receipt of Welsh Government and Local Authority Funding. Overall there is an underspend in support staff costs due to vacancies and lower than anticipated lump sum payments into the Local Government Pension Scheme.
- 14 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.
- 15 Overall pension costs are higher than budget due to the revenue contributions in to the pension fund for ill health retirements.

Premises

- 16 The repair and maintenance costs for 2017/18 were £404k which is an overspend against budget of £210k. A review of anticipated minor capital works and planned maintenance was undertaken during 2017/18 which confirmed that certain elements of expenditure should be classified as revenue rather than capital. The additional costs are partially offset by an underspend against the capital budget for premises.
- 17 The increase in energy costs against budget relates to the new facility at Wrexham and an increase in consumption due to the colder weather experienced this winter.

Transport

- 18 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 also renegotiated the insurance contract for motor vehicles. This has contributed over £85k to the underspend.

Supplies

- 19 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.
- 20 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.
- 21 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.
- 22 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.
- 23 The Authority receives a number of grants which are detailed within Appendix C. The income arising from the grants and associated expenditure is included within the detailed breakdown of income and expenditure within Appendix A.

Capital Financing

- 24 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 Minimum Revenue Policy (MRP) 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

- 25 Miscellaneous Income includes income arising from a staff secondment to Natural Resources Wales which was agreed during the financial year. The heading also includes a reduction to the bad debt provision.
- 26 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.
- 27 The Professional Charges income relates to activities associated with the Wylfa project and the Community Assistance Team.

Underspend

- 28 The original budget included a contribution from reserves of £414k. The draft out-turn confirms a contribution from reserves of £93k which is £321k less than the budgeted amount. This is primarily due to underspends within the capital financing costs due to the change of MRP policy approved during 2017/18 and slippage in the capital programme. However, cost pressures remain in a number of key areas of expenditure including employee costs, premises and supplies.

Earmarked Reserves

- 29 Members have previously been informed of the risks associated with the new national contract for radio communication. Although some project costs have been met from revenue during 2017/18 the reserve is still required due to potential additional costs arising from the following:-

- 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.
- 30 Given the position above the £300k reserve will continue to be carried forward as part of earmarked reserves.
- 31 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.
- 32 In 2016/17 £54k of funding was set aside for the fleet department to replace its 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.
- 33 Funding for ill health pension costs has been met by a contribution from the earmarked reserve.

General Reserves

- 34 A general reserve is a voluntary action by the Authority to set aside financial resources for future use. The holding of general reserves enables the Authority to meet financial demands arising from a range of issues including changes to planned activity levels or exceptional items of expenditure. 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.
- 35 The balance on the general reserve as at 31 March 2018 is £2,057k.
- 36 It is prudent for the Authority to hold a general reserve to cover any contingent liabilities that may arise and assist in future planning.

Provisions

- 37 A provision is defined as 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.

- 38 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.
- 39 As outlined in paragraph 9 above a provision has been set aside to offset the potential costs arising from concluding the pay award for 2017/18 for operational personnel.

Grant Funded Schemes

- 40 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

- 41 The original capital budget was set in December 2016 and was based on new spend and rollovers from previous years.
- 42 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.
- 43 The budget for planned maintenance and minor building works was underspent as some smaller items of capital spend were transferred to revenue.
- 44 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 has recently acquired.
- 45 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.
- 46 In 2017/18 the Authority received £569k from the sale of capital assets including the former Wrexham Fire Station. All of the receipts were fully utilised during 2017/18 to help meet the costs of the capital programme, thus reducing the need for external borrowing.