

## Report of the Treasurer

### Financial Matters

#### Purpose of report

1. To inform Members of the current position on the revenue and capital budget for 2022/23, in lieu of the cancelled September Policy and Resources Committee meeting and to provide Members with an update on the Medium Term Financial Plan (MTFP).
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#### Recommendation

*It is recommended that the Authority:*

- i. Approves re-allocations within the Revenue Budget in Appendix 1 Columns 3 and 4;*
- ii. Approves the holding of the £0.243m potential Revenue underspend until the outcome of national pay awards are known;*
- iii. Approves the revised Capital Budget set out in Appendix 2;*
- iv. Notes the potential for further capital financing under-spending;*
- v. Notes the potential future impacts on the MTFP, but acknowledges the limited certainty at this time; and*
- vi. Notes that further reports will be brought to the Authority and Committees as it emerges.*

#### Background and Introduction

2. Firstly, and following the cancellation of the September 2022 Policy & Resources Committee, the Authority is asked to consider matters normally made by the Committee.
3. Secondly the report deals with potential changes to the MTFP and the impact on future budgets.

#### 2022/23 Budget Monitoring (Policy & Resources Committee)

4. This report is normally within the terms of reference of Policy & Resources Committee and follows the established format and, for the Revenue budget, is an out-turn projection nominally based on first quarter information, but incorporating latest information up to mid August.
5. For the Capital report, because capital projects tend to last beyond a single financial year, the report shows progress against the approved scheme totals.

6. Details are also included about the Authority's Treasury Management position for the period and the latest available month end position on investments.

## **2022/23 Revenue Budget**

7. In February 2022 the Fire Authority set a Core Budget of £36.853m (*Appendix 1: Column 1, Line 38*), which was funded by Precept, Grants and Retained Business Rates of £37.012m (*Appendix 1: Column 1, Line 54*). After some technical adjustments to balances this allowed a small transfer of £0.208m to the Buildings Cost Reserve as approved by the Fire Authority. (*Appendix 1: Column 1, Line 58*).
8. The appendix (*Column 3*) shows proposed re-allocations of Running Cost budgets including allocation of the inflation provision and also (*Column 4*) of an adjustment of the budgetary provision for the increased Employers National Insurance rates, to reflect the incidence of costs within the budget compared to the estimate.
9. These changes do not impact on the overall, the Core or Net Budgets.
10. The Quarter 1 monitoring report, which would have been taken to the Committee would have shown an expected net underspend of £0.353m. Given that the papers for this meeting were already published and in the public domain the same explanation of variances is given below:
  - a. **+£0.030m** (*Line 27*): To maintain Fire Cover the Service is reliant on staff being able to move between stations using their own vehicles (for which they receive a mileage payment). As a response to the significant increase in fuel prices the Service agreed a temporary uplift to mileage rates pending a revision of the national NJC rates.
  - b. **-£0.250m** (*Line 31*): Relating to Capital Financing, Members will recall that there was significant slippage to the 2021/22 Capital Spend and this has an impact on 2022/23 financing charges. All other things being equal this should be a one-off impact if the programme is brought back on track. Derailed work is now underway as part of the on-going budget planning cycle.
  - c. **-£0.004m** (*Line 43*): Actual New Dimensions grant slightly higher than anticipated.
  - d. **-£0.110m** (*Line 44*): A significant increase in Firelink grant. Given that the Home Office stated their intention was to reduce these grant payments (and the total grant has reduced significantly) it was a surprise when the Hereford & Worcester allocation increased by nearly 50%. Having queried the calculation with the Home Office, they have advised that their methodology is correct. It is unclear whether the methodology will remain for future years.
  - e. **-£0.019m** (*Line 53*): A reduction in the expected Business Rate collection fund deficit relating to Redditch, where the figures were revised again just 5 minutes after the February Fire Authority meeting ended.

11. Since the publication of the papers the Home Office have now acknowledged that there is an error in the Firelink grant allocation. The figure is to be corrected and will give no overall variation in this grant. This reduces the net underspend to £0.243m.
12. In addition to the known quantifiable variances, the Authority is also monitoring the impact of inflation on pay and costs. Additional budget provision was made in the main areas of cost, but it is too early to project whether this provision will have been sufficient by the year end.
13. The main area of risk is around the pay award where provision has been made for a 2% award, but where it is very possible that an award in excess of this may be agreed. To put this into context each additional 1% would cost the Authority £0.184m in 2022/23 and (allowing for the July award date for Uniformed staff) £0.231m in a full year. The net underspending referred to above could be held towards any cost this year, but future years' costs will require a revision of the Medium Term Financial Plan.
14. For information purposes a 5% pay award would cost an additional £0.552m in 2022/23 and would require a draw on balances.

## Capital Budget

15. The current capital budget, as approved by the Fire Authority in June 2022 is detailed in Appendix 2 and summarised below.

	Vehicle Prog £m	Major Build £m	Other Major £m	Alloc Minor £m	Unalloc Minor £m	Future Builds £m	TOTAL £m
<b>Approved at June 2022</b>	2.715	8.092	0.590	2.411	0.190	12.772	<b>26.770</b>
2022/23 New Schemes	1.410				0.600		<b>2.010</b>
Reserve Funded	0.075						<b>0.075</b>
Closed Schemes	(0.439)			(0.558)			<b>(0.997)</b>
Minor Schemes Allocation	0.039			(0.024)	(0.015)		<b>0.000</b>
<b>Approved at Sept 2022</b>	<b>3.800</b>	<b>8.092</b>	<b>0.590</b>	<b>1.829</b>	<b>0.775</b>	<b>12.772</b>	<b>27.858</b>
Less Expd. to 2021/22	1.345	7.473	0.431	0.664			<b>9.913</b>
Unspent Budget C/fwd.	<b>2.455</b>	<b>0.619</b>	<b>0.159</b>	<b>1.165</b>	<b>0.775</b>	<b>12.772</b>	<b>17.945</b>

16. The approved capital budget is divided into four blocks:
  - Major Buildings – in accordance with the approved Property Strategy
  - Vehicles – in accordance with the approved Vehicle Strategy
  - Other Major Schemes - Fire Control and Mobile Data Terminals
  - Minor Schemes - allocated by Strategic Leadership Board (SLB)
17. The Future Buildings Scheme figure (*Appendix 2: Line 71*) is provision for Hereford, Redditch and Broadway fire station replacements and the North Herefordshire Strategic Training Facility. These schemes are not disclosed

separately to protect the Authority's procurement interest until contracts are actually awarded.

18. Allowing for the Schemes awaiting allocation or approval, the Budget available to be spent at the start of 2022/23 is £3.451m and is summarised below:

		£m
Total Approved Budget	<i>Column 5 Line 73</i>	27.858
Less: Future Buildings	<i>Column 5 Line 72</i>	(12.772)
Less: Unallocated Minor	<i>Column 5 Lines 68/69</i>	(0.775)
<b>Approved to Spend</b>		<b>14.311</b>
Incurred to 2020/21	<i>Column 6 Line 73</i>	(9.913)
<b>Balance</b>		<b>4.398</b>

19. Against this budget only £0.353m or 8% (*Column 8, Line 73*) has been incurred, with a further £ 1.535m (35%) committed by way of Orders placed.
20. The revenue costs of the financing of the capital programme are contained within the revenue budget and it is possible that further slippage against the expected cashflow will result in further underspending in the revenue budget, which will be reviewed at Quarter 2.

### Treasury Management

21. Since October 2008 the Authority has adopted a policy of avoiding long term borrowing where working cash balances permit, and will only incur long term borrowing to finance long term assets.
22. However, it should be noted that the Authority is significantly "under-borrowed" to the extent of around £10m. This shortfall is funded by dis-investing the large cash balances held in relation to the ear-marked revenue reserves. As the invest to improve programme progresses this cash will be used up and additional long term borrowing will be required.
23. It is unlikely that additional borrowing will be required this year but rates are always under review to ensure borrowing is taken at an appropriate point. Members can be assured that the MTFP takes account of the impact of this need in respect of Capital financing charges.
24. At 31 March 2022, long term borrowing stood at £10.411m, with £1.365m scheduled to be repaid this year, leaving an expected £9.046m at 31 March 2023.
25. All existing borrowing is via the Public Works Loans Board (PWLB), and it is probable that any future borrowing will be from the same source, as PWLB remains the only practical alternative for the Fire Authority.
26. In accordance with the Authority's Treasury Management Strategy (approved in February each year by the Fire Authority) surplus funds are invested by Worcestershire County Council (WCC) alongside their own funds. Investment is carried out in accordance with WCC's own Treasury Management Strategy,

which is developed from the Prudential Code for Capital Finance and is used to manage risks from financial instruments.

27. The Treasurer continues to advise that investment should be focused on security and, as a consequence, surplus funds continue to generate low returns, which are factored into the revenue budget.

28. At 22-Jun-2022 short term investment via WCC comprised:	
Other Local Authorities	0.285
Money Market Funds	5.696
Cash Plus (liquidity fund)	1.519
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	<b>7.500</b>

### Medium Term Financial Plan Update

29. The current, approved MTFP covered the three years up to 2024/25 to match the government's three year Comprehensive Spending Review (CSR) – although in the end the government only gave a one year Local Government financial settlement.
30. As set out in Appendix 3 Line 5 showed a generally balanced budget over the first the two years with a very small deficit in 2024/25. The MTFP has now been forecast for a further two years, based on a continuation of the same core assumptions and displays small budget surpluses.
31. Members will also be aware that the Authority has maintained the Budget Reduction Reserve at £2.056m as a buffer against changes in the second two years of the CSR.
32. Unfortunately, at this relatively early stage, government has given no indications of local government grant policy for the remainder of the CSR period or indeed when, and if, the already delayed financing reforms will be implemented. As such there is currently no update to the main funding elements of the MTFP.
33. Members attention is drawn to three key areas of change which do have a substantial impact on the MTFP:
- **Firelink grant** – government has now expressed an intention to phase this grant out early (it was always anticipated to disappear completely when the much delayed new national emergency services communications system (ESN) was introduced) and the 2023/24 grant will reduce by £0.036m. The MTFP had always assumed that the grant would end after 2023/24 anyway so if it continues beyond that year as a result of the ESN delays there might be additional grants of £0.116m, £0.093m and £0.075m respectively, over the three years to 2026/27. These are not currently included in the MTFP.
  - **Pay Awards 2022/23.** – it is highly probable that the pay awards will be settled at a figure higher than the 2% included in the budget. Without making any judgements on fairness or overall affordability, an indicative planning assumption of 5% has been used. This will be updated for future reports and

for the final budget paper in February 2023. For planning purposes, a return to 2% annual awards thereafter has been assumed.

- **Urban Search & Rescue (USAR).** HWFRS is one of several Services to receive funding to provide part of a national response. Government has undertaken a review of this national facility and it is expected that HWFRS will shortly be one of the Service's given notice that this capability is no longer required. This will involve the loss of annual grant but with an offsetting saving in cost, giving a net negative impact of £0.580m. This does not take account of potential costs for maintaining some of the functionality within the Service or any government financial support for downsizing (if any!).
34. The net impact of these changes is that the balanced MTFP now has a substantial long term structural deficit. This is shown in Line 12 of Appendix 3.
35. The cumulative effect of these changes is shown in Line 13 of the Appendix, while line 14 shows that, in accordance with Authority policy, the gap could be met from the Budget Reduction Reserve until the latter part of 2024/25 to give time for considered budget reductions to be fully in place by 1 April 2025. This is into the next CSR period and beyond the next General Election.
36. There are three possible mitigating factors, which are being discussed and may or may not emerge when the direction of the local government financial settlement emerges:
- Reversal of the National Insurance increases. Given that government has already funded these by way of additional grant, then it is probable that the impact for local government would be neutral. This has subsequently been announced, although only from 2023/24 so there may be a small benefit in the current financial year as the rate reduction is scheduled from November 2022.
  - Additional funding for the pay award. Again, this has been debated and for illustrative purposes an assumption of government funding the costs of a 5% award above 3 ½% has been shown.
  - An increase in the council tax referendum limit to 5% and assuming the Authority would be minded to take that option.
37. The impact of the two non-neutral factors is shown in Appendix 3 at Line 18. Members are reminded that this is speculative and government may not sanction what may be seen as inflationary measures. Although it is also fair to say that for certain parts of the local government family, where collapse is imminent, government will have to take some action.
38. The Authority has previously considered the implications of holding a local referendum to increase Council Tax above the approved maximum (currently 2%), and decided against. As that decision was taken some time ago, and in different circumstances, it is suggested that the Policy and Resources (P&R) Committee review this prior to the next Fire Authority meeting.

## **Future Progress**

39. This report is illustrative at present but as firm information emerges it will be brought to further meetings of the Authority and the Policy and Resources

Committee.

### Corporate Considerations

<b>Resource Implications</b> (identify any financial, legal, property or human resources issues)	Whole Report
<b>Strategic Policy Links</b> (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None
<b>Risk Management / Health &amp; Safety</b> (identify any risks, the proposed control measures and risk evaluation scores).	None
<b>Consultation</b> (identify any public or other consultation that has been carried out on this matter)	None
<b>Equalities</b> (has an Equalities Impact Assessment been completed? If not, why not?)	N/A
<b>Data Protection Impact Assessment</b> (where personal data is processed a DPIA must be completed to ensure compliant handling)	N/A

### Supporting Information

Appendix 1: Revenue Budget Monitoring 2022/23 Quarter 1  
Appendix 2: Capital Budget Monitoring 2022/23 Quarter 1  
Appendix 3: Medium Term Financial Plan Revision