Hereford & Worcester Fire Authority
Policy and Resources Committee
26 March 2014

Report of the Treasurer

8. 2013/14 Budget Monitoring – 3rd Quarter

Purpose of report

1. To inform the Policy and Resources Committee of the current position on budgets and expenditure for 2013/14.

Recommendation

The Chief Fire Officer and Treasurer recommend approval of the transfer of the underspend to reserves as follows:

(i) £0.400m to the Pension Tribunal Reserve
(ii) £0.573m to the Budget Reduction Reserve

Introduction and Background

2. This report relates to the Authority's financial position for the period April – December 2013 (Quarter 3 – 2013/14), and an outturn projection based on that position.

3. Separate financial reports are included to detail the position for both Revenue and Capital for this period.

4. Details are included about the Authority's Treasury Management position for the period.

Revenue

5. In February 2013 the Fire Authority set a net revenue budget for 2013/14 of £32.549m, allocated to budget heads.

6. This was subsequently amended to reflect the responsibility changes arising from Service/staff changes, budget holder savings that were still to be achieved at the time the budget was set and the allocation of budget contingency. These are included in the quarter 1 report.

7. The 3rd quarter report shows the additional reallocations to reflect all budget movements agreed by Senior Management since the 1st Quarter, as well as those in respect of the pay award provision and sums previously approved to be held and released from ear-marked reserves. These are shown at Appendix 1.

8. Appendix 1 also gives details of the projected year end expenditure and forecasts an underspend of £0.973m compared to that of £0.736m at the end of quarter 2. The reason for this increase is due to both the continued monitoring of expenditure by Budget Holders and slippage in the commencement of some programmes of Revenue work.

9. In the context of the current Medium Term Financial Plan (MTFP), it is important to understand why these variations arise and how they impact on the future gap.

10. A breakdown of the budget variation is given in the table below, with an explanation of the nature and cause of each:

Capital Financing	(0.300)
Inflation Contingency	(0.232)
Wholetime Pay	(0.213)
Support Pay	(0.104)
RDS Pay	0.108
Control Pay	(0.042)
Unallocated Budgets	(0.046)
Misc Net Other	(0.144)
	(0.973)

a. Capital Financing: as previously reported, the variation arises from three main causes:
   - Cash payments in respect of the major building schemes are proceeding at a slower pace than expected in the budget.
   - Pause on the vehicle replacement programmes pending the conclusion of the Community Risk Management Plan (CRMP) process.
   - In the short term interest rates remain low against a budget based on a historically higher average which may return during the MTFP period.

b. Inflation Contingency: represents provision made for costs that have not been required. In accordance with the budget decision the budget will be removed in 2014/15. However, following recent developments in energy prices this will continue to be reviewed.

c. Wholetime Pay: this variation arises from two main causes:

   - The anticipated saving on this budget has increased significantly since the last quarter due to the increased number of Uniformed Officers who are in temporary posts and are paid at the Development rather than Competent rate, as budgeted for.

   - The 2013/14 budget was based on the previously approved reduction in watch sizes, with a small provision to reflect the fact that this would not be fully achieved until March 2014. This has happened slightly earlier than anticipated. The full year impact of this is factored into the MTFP.

d. Support Pay: the Service has recently reviewed the Catering and Corporate Communications functions which have resulted in a reduction in the level of staffing. The full impact of these savings is now restated in the approved 2014/15 budget.

e. RDS Pay: following changes to the RDS pay there has been an increase in the total amount paid as retaining fees. Also, following the completion of the strategic training facilities, costs have increased in training as more of the RDS have increased their levels of involvement.

f. Control Pay: costs have reduced below those budgeted for following the reduction in the number of staff and a secondment to a neighbouring authority.

g. Unallocated budgets: when the 2013/14 budget was set, Officers were required to identify the final £0.181m of savings needed to balance the budget. This has been exceeded by £0.046m, which has been removed from the 2014/15 budget.

11. A number of Fire Authorities have received demands from HMRC relating to taxation of pensioners of whole time staff retiring who continue with RDS duties to maintain fire cover. Our tax specialists advise this Authority and a number of others, that HMRC interpretation is wrong, however, some Fire Authorities have not sought specialist advice and have settled with HMRC.

12. We are currently considering whether to take a joint appeal to HMRC tribunal but at this stage the Treasurer considers it prudent to set aside £0.400m of the in year underspend. In accordance with the Budget & Precept report to the FRA in February 2014 it is recommended that the balance of underspending, £0.573m, is transferred to the Budget Reduction Reserve.

Capital

13. The current capital budget (including approved rephrasing from 2012/13) detailed in Appendix 2 is £10.739m and is divided into 3 blocks:

- Vehicle Replacement
- Major Building
- Minor Schemes

14. Of the total budget of £10.766m only £1.885m (17.6%) expenditure has been incurred with a further £1.673m (15.5%) committed by way of orders; £0.180m remains as unallocated minor schemes.

15. Capital expenditure remains lower than expected in the budget, for two main reasons:

- The vehicle replacement programme has been put on hold until the outcome of the CRMP is known.
- Work has been delayed on the project to replace Worcester Station following delays with the legal completion of the land purchase.

16. Where projects have not been completed at the end of the financial year, requests will be made to roll forward the budget into following years to allow for project completion.

Treasury Management

17. Since October 2008 the Authority has adopted a policy of avoiding new long term borrowing, where working capital balances permit. The Authority will only extend long term borrowing when cash-flow requirements dictate that it is necessary, and only to finance long term assets.

18. At the beginning of the financial year (2013/14), borrowing was at a level of £14.971m. This has subsequently reduced by £0.500m to £14.471m following a repayment to the Public Works Loans Board at the beginning of February 2014.

19. In accordance with the Authority's Treasury Management Strategy, surplus funds are invested by Worcestershire County Council (WCC) alongside their own funds. Investment is carried out in accordance with the WCC Treasury Management Strategy, which has been developed in accordance with the Prudential Code for Capital Finance and is used to manage risks from financial instruments.

20. Given the uncertainty in financial markets, the Treasurer continues to advise that investment should be focussed on security. As a consequence surplus funds continue to generate low returns which are factored into the budget.

21. At 28 February 2014 short term investment with Worcestershire County Council comprised:

Organisation Type Invested in	H&WFRA (Proportion) £'000
Other Local Authorities	6,406
DMADF*	614
Bank of Scotland	272
MMF**	272
Call	436
Total	8,000

* Debt Management Account Deposit Facility
** Instant Access

22. An investment income target of £0.010m has been set for 2013/14, however as investments with the County Council have now diversified, whilst still ensuring risk levels are reduced, income levels are higher than expected. In the 9 months to 31 December 2013 the Council received income from investments of £0.025m.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	See paragraphs 4 – 9
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	None
Consultation (identify any public or other consultation that has been carried out on this matter)	None
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	None – N/A

Supporting Information

Appendix 1 – 2013/14 Revenue Budget Monitoring

Appendix 2 – 2013/14 Capital Budget Monitoring

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