

Report of the Treasurer

Budget Monitoring 2022/23 – Quarter 2

Purpose of report

1. To inform Members of the current position on the revenue and capital budget for 2022/23.
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Recommendation

It is recommended that the Committee:

- i. Approves the allocation of pay award budgets in Appendix 1 Column 3;***
- ii. Approves the revised Capital Budget allocations in Appendix 2;***
- iii. Notes the forecast Revenue Budget over spend of £0.131m; and***
- iv. Notes the potential for this to change dependent on the final pay settlement.***

Introduction and Background

2. This report follows the established format and, for the Revenue budget, is an out-turn projection nominally based on second quarter information, but incorporating latest information up to mid October.
3. For the Capital report, because capital projects tend to last beyond a single financial year, the report shows progress against the approved scheme totals.
4. Details are also included about the Authority's Treasury Management position for the period and the latest available month end position on investments.

Revenue Budget

5. In February 2022 the Fire Authority set a Core Budget of £36.853m (*Appendix 1: Column 1, Row 38*), which was funded by Precept, Grants and Retained Business Rates of £37.012m (*Appendix 1: Column 1, Row 52*). 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, Row 56*).
6. The appendix (*Column 3*) shows proposed allocations of the budget provision for pay awards, which are discussed in more detail below. The changes do not impact on the overall, the Core or Net Budgets.

7. Column 5 of Appendix 1 shows the current out-turn projection against these revised budgets, and columns 6 and 7 identify the variation. For ease of explanation this has been split between those identified at Quarter 1 and the additional variations now identified. There are three significant additions:
 - a. **+£0.574m (Line 7):** In relation to **Pay**. This is made up of a number of factors, and includes the probable Green Book (support) pay settlement and the latest employers offer to Grey Book (uniformed) at 5%.:
 - i. Green Book (+£0.242m of total). At the time of setting the budget the April 2021 award had not been settled but it was known that the likely settlement at 1.75% would exceed the budget provision made at 1.5%. The April 2022 award has now been settled at a flat rate increase of £1,925 for all staff. For the mix of grades of staff employed by the Authority this equates to a 6.73% increase in the relevant budget, considerably in excess of the 2% budget provision.
 - ii. Grey Book (+£0.402m of total). This is based on the current employers offer of 5%, and will be greater if the final settlement is any higher.
 - iii. National Insurance (-£0.070m of total). It is assumed that the reversal of the April 2022 increase is effective from 1st November, but the potential for a further change of Chancellor might impact on this decision.
 - iv. The long term impact of these factors (allowing for the full year effect of the Grey Book award) is to increase the expenditure requirement in the MTFP by £0.770m.
 - b. **-£0.200m (Line 31):** Relating to **Capital Financing** and arising from continued slippage in the capital programme. Whilst this has been a regular occurrence over the last couple of years it reflects the long-term nature of major building projects and, more recently, supply change delays. Savings cannot be permanently taken from the budget as financing will be required when expenditure is incurred in line with the approved programme.
 - c. **-£0.162m (Line 40) Fire Protection Grant.** The Authority will receive additional funding this year (and under the current Spending Review, similar sums in the next two years).
 - d. **+£0.162m (Line 11). Fire Protection.** It has not yet been fully determined how this grant will be spent so for convenience of presentation it is shown against the Protection Department budget.
8. The total impact of this would be to give a net overspend of £0.131m, and there are potentially three options to fund this:
 - a. Make a draw on the Budget Reduction Reserve
 - b. Reduce the previously approved £0.208m transfer to the Building Projects inflation reserve
 - c. Meet from potential net underspending that emerge in the next two quarters.
9. Given, the relatively small size of this figure in the context of the overall budget it is recommended that option c be taken for now.

Capital Budget

10. The current capital budget, as approved by the Fire Authority in October 2022, and subsequently amended, 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
Approved at Oct 2022	3.800	8.092	0.590	1.829	0.775	12.772	27.858
Major Schemes Allocation		0.015				(0.015)	0.000
Minor Schemes Allocation				0.609	(0.609)		0.000
New (Reserve Funded)	0.026			0.115			0.141
Approved at Sept 2022	3.826	8.107	0.590	2.553	0.166	12.757	27.999
Less Expd. to 2021/22	1.345	7.473	0.431	0.664			9.913
Unspent Budget C/fwd.	2.481	0.634	0.159	1.889	0.166	12.757	18.086

11. 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)

12. The Future Buildings Scheme figure (*Appendix 2: Row 73*) 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.

13. Allowing for the Schemes awaiting allocation or approval, the Budget available to be spent at the start of 2022/23 is £5.163m and is summarised below:

		£m
Total Approved Budget	<i>Column 5 Line 75</i>	27.999
Less: Future Buildings	<i>Column 5 Line 74</i>	(12.757)
Less: Unallocated Minor	<i>Column 5 Lines 71</i>	(0.166)
Approved to Spend		15.076
Incurrd to 2020/21	<i>Column 6 Line 75</i>	(9.913)
Balance		5.163

14. Against this budget only £0.965m or 19% (*Column 8, Row 75*) has been incurred, with a further £ 1.322m (26%) committed by way of Orders placed.
15. The revenue costs of the financing of the capital programme are contained within the revenue budget.

Treasury Management

16. 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.

17. However, it should be noted that the Authority is significantly “under-borrowed” to the extent of around £10m. This shortfall is funded by disinvesting 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.
18. As a result of recent increases in interest rates, the long term borrowing rate now exceeds the average rate of the current debt. It might be considered worth taking new borrowing now, before rates climb higher, but given the level of revenue balances in the short term this is not deemed prudent.
19. 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 charge, although the next revision of the MTFP will have to be updated for the new interest rates.
20. 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.
21. 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.
22. 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.
23. 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.
24. Short term investments via WCC at 30-Sep-2022 are shown in the table below. For completeness the current account balance is now also shown.

Money Market Funds	8.053
Cash Plus (liquidity fund)	2.631
Call	1.316
via WCC	12.000
Current Account	0.837
	<u>12.837</u>

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	Whole Report
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?)	N/A

Supporting Information

Appendix 1: Revenue Budget Monitoring 2022/23 Quarter 2

Appendix 2: Capital Budget Monitoring 2022/23 Quarter 2