Hereford & Worcester Fire Authority
Policy & Resources Committee
16 September 2020

Report of the Treasurer

Budget Monitoring 2020/21 – Quarter 1

Purpose of report

1. To inform Members of the current position on budgets and expenditure for 2020/21, and potential impact on the Medium Term Financial Plan (MTFP) to 2024/25.

Recommendation

The Treasurer recommends that the Authority:

(i) Notes that the forecast revenue out-turn would result in an in-year transfer to the Budget Reduction Reserve of £1.4m; and
(ii) Notes the potential variations to the MTFP.

Introduction and Background

2. This report follows the familiar format and is an out-turn projection nominally based on first quarter information but incorporating latest information up to mid-August 2020.

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

4. The report also includes an assessment of the possible longer term impacts on the MTFP, although given the uncertainty of the Spending Review impacting on 2021/22 onwards, no formal revision is proposed at this point.

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

Revenue Budget

6. In February 2020 the Fire Authority set a Core Revenue Budget of £35.827m (*Appendix 1 Column c/Row 38*), which was funded by Precept, Business Rates and Grants of £35.597m *(Row 50)* and use of the Budget Reduction Reserve of £0.430m *(Row 55)*.

7. At that meeting of the Authority, the Treasurer advised of late receipt of Business rate information from some of the Billing Authorities and the Authority agreed to use this gain to create a Sustainability Reserve. This adjustment is shown in *Appendix 1 Column d*.

8. In addition, there are adjustments to pay in respect of restructuring Fire Control *(Column e)*, the approved use of the Property Reserve *(Column f)* and the usual SMB allocation of the inflation provision and other adjustments *(Column g)*, which bring the revised revenue budget to £36.049m *(Column h/Row 38).*

9. Appendix 1 sets out the forecast variations against this revised budget, and the variations shown in *Column i* are explained below:

- -£0.400m: Wholetime pay – when the budget was prepared there was a significant chance that the backdated employer pension contributions relating to McCloud/Sargeant would be payable from 1st April 2020 and appropriate budget provision was made. It would now appear that this will not be the case and overall rates will be adjusted from the next rate change due in April 2022. There is therefore a short term gain, but this will need to be considered in the light of the MTFP impact.

- +£0.040m: Pension Costs – under the financial arrangements for firefighter pensions where there is an ill-health retirement, the Authority is required to make an additional one-off contribution spread over three years. As there are relatively few such events there is only a small budget and there are likely to be two cases this year and the cost will exceed the budget.

- -£0.285m: 2017 Pay Award – the Authority had been making provision for the interim July 2017 firefighter pay award to be increased from the 1% paid to the 2% originally offered. It now looks likely that any future settlement will not have any backdating elements so the provision (which had also been overestimated) can be removed.

- +£0.180m: 2020/21 Pay Awards – whilst the budget provision was agreed at 2%, indications are that the final settlement will be higher. Support staff have been offered 2.5% and as a comparator the Police have been given a similar figure. Whilst, not providing for the FBU double-digit claim, it appears prudent to anticipate an additional 1%.

- -£0.690m: Covid Grant – additional income. To meet any additional costs of dealing with Covid – including potential loss of income (which impacts on the MTFP).

- -£0.070m: Other Grant variations *(Rows 39-47)*

- Whilst the Service has incurred costs in relation to Covid, in particular in PPE and cleaning materials etc., there have been other savings in respect of fuel, staff travel, subsistence, training materials etc. and at this stage it is anticipated that these costs will be contained within the total Running Costs budgets *(Row 30).*

10. The net result of these changes is a variation of £1.225m *(Column i/Row 51)* and with use of the 2017 pay award reserve to fund the potential 1% pay increase will leave a transfer to the Budget Reduction reserve of £1.405m. Whilst this is a significant figure, 49% relates to government grant for future costs and a further 28% to government changed timing of pension costs.

11. This variation, however, must be considered in the context of the MTFP.

Medium Term Financial Plan

12. In Feb 2020 the Fire Authority approved an MTFP up to 2024/25. Members will recall that this was set in the light of great uncertainty about future funding arrangements and included a significant range of scenarios. It was also set before the impact of Covid-19.

13. Appendix 2 *(Rows 1-8)* sets the approved MTFP and shows annual structural deficits of £0.3m - £0.7m, which can be covered by the Budget Reduction reserve, with £1.3m remaining as a buffer against funding changes etc., or which could have sustained the structural deficit for a further three years to 2027/28. It was also felt that the remaining structural gap might have been closed by slight improvements on the council tax base (above the cautious assumptions).

14. There have subsequently been some significant changes which will impact on this position (regardless of the outcome of the government's Spending Review). Some of these are known with values that can be calculated and others are known but only an estimate can be made.

15. Appendix 2 (Rows 12-20) shows the more quantifiable changes and these are summarised below:

- Business Rate yield, already referred to above. The ongoing impact is lower as a large part of the 2020/21 gain is a collection fund surplus which won't be sustained. The 2020/21 Column shows the use of the gain to create the Sustainability Reserve

- Ill-health retirement charges, already referred to above

- Other Grant/Income variation, already referred to above

- McLoud/Sargeant Employer Contributions. Short-term saving has been referred to above although the revised rates from 2022/23 will recover these costs. It is not possible to estimate what this impact might be as it will be smoothed out across all Fire Authorities, but as a planning assumption it has been prudent to assume the same impact as already provided.

- Provision for the back-dating of the July 2017 pay award. It has been concluded that this is now unlikely to happen

- Fire Control. The MTFP included a prudently costed potential saving of Fire Control costs through collaboration with either/or both Shropshire & Wrekin Fire Authority and West Mercia Police. It is now apparent that the expected impact of meeting the recommendations of both the Grenfell and Kerslake enquiries will actually absorb this saving.

- Finally, there was a minor error in the approved MTFP which underestimated the Council Tax yield in 2024/25 by £0.3m.

16. If these were the only variations they would reduce the draw on the Budget Reduction reserve to £0.656m leaving £2.926m to mitigate the impact of any unknown future changes (including the Spending Review) and leave an ongoing structural deficit of £0.078m which could be covered by the reserve for a further 35 years.

17. However, there are a number of other significant impacts which, whilst known, it is not yet possible to quantify exactly but which have a major impact on resources, and are again summarised below:

- Potential additional 1% pay award for 2020/21 only, referred to above

- Council Tax Collection Fund losses as a result of Covid. Early estimates from the Billing Authorities were that the figure was around the national average loss of around 4%, which equates to just under £1m for the Fire Authority. Government has indicated that it will make Regulations to allow this loss to be spread over three years rather than being met in 2021/2 as would currently be required.

- Council Tax Base – there will be two causes for this; one is the slow down in the number of new properties being completed and added to the tax-base and the other is from a potential increase in the number of claimants of council tax support. As yet, there is no data on this, so a planning assumption has been made that future growth is all delayed by one year.

- This Business Rate deficit is harder to project as last minute changes by government significantly changed the tax-base that Billing Authorities will collect tax from, compared to that on which they estimated and will pay to the Preceptors. In other words, a significant proportion of the payments that are paid to the Fire Authority are now funded by grant to the Billing Authorities rather than collected from tax-payers. However, an assumption based on national projections of 12% has been used.

- There is also the potential that the economic impact of Covid-19 will lead to a reduction in the tax-base. No data is yet available on this and the impact may be felt more in the retail sector which is currently subject to significant one-off reliefs. As a marker a 10% reduction has been modelled.

18. All the above would significantly increase the Structural Gap to just below £1m in 2024/25. Assuming the re-purposing of the Pay Award reserve and the full use of the Budget Reduction Reserve, the residual gap can be closed fully to 2023/24 and partially in 2024/25, but would leave nothing in reserve to buffer any Spending Review changes.

19. The joint Home Office and NFCC submission to the Spending Review calls on government to give precept flexibility to Fire Authorities to increase precept by £5 in 2021/22. Appendix 2 (Rows 36-44) shows the potential impact of this, which actually results in a small structural surplus by 2024/25 and the bulk (£3.680m) of the Budget Reduction Reserve still available.

20. In addition to the above and the potential variations within the approved MTFP (as considered by the Fire Authority in Feb 2020) we have yet to see the government's final approach to council tax and business rate income loss across the whole local government sector.

21. As a result of this uncertainty it is recommended that no formal change is made to the MTFP at this stage.

22. Appendix 3 shows the potential impact of these changes (including the 2019/20 out-turn variation) on the level of balances over the period. Please note that these do not include any precept flexibility.

Capital Budgets

23. The current capital budget, approved by the Authority in June 2020, and is summarised below.

	Major Build Schemes £m	**Vehicle Prog £m**	**Major Equip Schemes £m**	**Allocated Minor Schemes £m**	**Other £m**	**TOTAL £m**
Allocated Schemes	13.696	6.536	2.627	2.551		**25.410**
Major Schemes Provision					12.141	**12.141**
rounding				(0.001)	0.001	**0.000**
	13.696	6.536	2.627	2.550	12.142	**37.551**
less closed schemes	(6.173)	(4.292)	(2.037)	(0.330)		**(12.832)**
Allocation	0.100				(0.100)	**0.000**
Extra Programme Year					0.600	**0.600**
Revised Budget	**7.623**	**2.244**	**0.590**	**2.220**	**12.642**	**25.319**
Fire Authority: Jun 2020						
Vehicle Programme		0.409				**0.409**
SMB Allocation				0.454	(0.454)	**0.000**
Revised Budget	**7.623**	**2.653**	**0.590**	**2.674**	**12.188**	**25.728**
P&R Committee: Sep 2020						
Expenditure to 2019/20	(7.008)		(0.290)	(0.952)		**(8.250)**
Remaining Budget C/fwd.	**0.615**	**2.653**	**0.300**	**1.722**	**12.188**	**17.478**

24. The approved capital budget is divided into 4 blocks:

- Major Buildings
- Vehicles
- Other Schemes (Fire Control & Mobile Data Terminals)
- Minor Schemes (allocated by Senior Management Board)

25. The changes to the vehicle programme reflect the changes shown in Appendix 5, which are mainly due to the state of the fleet being significantly better than anticipated at the beginning of the current Fleet Strategy (set five years ago) and meaning replacement of some assets is not as imminent as previously forecast. The Assistant Chief Fire Officer will be able to provide more information.

26. Other Building Schemes figure (*Appendix 2a, Column 2, Line 6*) is provision for Hereford, Redditch and Broadway Fire Stations and the North Herefordshire Strategic Training Facility, which await tender or formal approval. These schemes are not disclosed separately to protect the Authority's procurement interests. It is expected that, once approved, expenditure will occur over a number of future years.

27. Allowing for the schemes awaiting approval and previous expenditure ongoing schemes the position shown in detail in Appendix 4 is summarised below:

		£m
Total Approved Budget	*Column d/Row 64*	25.728
Less: Awaiting Approval	*Column d/Rows 66-67*	(12.188)
Approved to Spend		**13.540**
Incurred to 2019/20	*Column e/Row 68*	(8.250)
Balance		**5.290**
Incurred 2020/21 to date	*Column g/ Row 68*	(0.401)
		4.889

28. It can be seen that against the £5.3m available, only £0.4m (8%) has been incurred. This represents significant slippage and will have implications for capital financing costs, which will be reviewed at the end of the next quarter.

Treasury Management

29. 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.

30. At the beginning of the financial year (2020/21), borrowing was at a level of £13.637m of which £1.500m is repayable in this year as planned.

31. It was anticipated that borrowing might be undertaken this year to fund the approved capital programme (and for which provision is made in the MTFP for the revenue costs). Up to now it has been possible to avoid new long term borrowing, by the temporary use of cash balances, arising from the earmarked revenue reserves and the timing of cash receipts from the disposal of the old fire station at Bromsgrove and the old HQ building.

32. With the sale of the old HQ completing in early 2020/21 and the slow down in capital expenditure referred to above, this borrowing requirement may be deferred.

33. All existing borrowing and potentially all future borrowing is with the Public Works Loans Board, as it remains the only practical alternative to the Fire Authority.

34. In accordance with the Authority’s Treasury Management Strategy, surplus funds are invested by Worcestershire County Council 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.

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

36. At 31-July-2020 short term investment via Worcestershire County Council comprised:

Organisation Type Invested in	£m
Other Local Authorities	0.000
Debt Management Account Deposit Facility	0.000
Money Market Funds (Instant Access)	9.949
Cash Plus (Liquidity Fund)	3.068
Call	2.483
Total	**15.500**

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?)	None – N/A

Supporting Information

Appendix 1 – 2020/21 Revenue Budget
Appendix 2- Potential Changes to MTFP
Appendix 3 – Potential Impact on Reserves
Appendix 4 – 2020/21 Capital Budget Monitoring
Appendix 5 – Revised Vehicle Capital Programme