

Report of the Treasurer

2016/17 Budget Monitoring – 3rd Quarter

Purpose of report

1. To inform the Committee of the current position on budgets and expenditure for 2016/17.
-

The Treasurer recommends that the Committee:

- *note the forecast revenue underspend of £1.268m; and*
- *approve the creation of £0.500m ESMCP Reserve.*

Introduction and Background

2. This report relates to the Authority's financial position for the period April – December 2016 (Quarter 3 – 2016/17), and an outturn projection based on that position. Separate financial reports are included to detail the position for both Revenue and Capital for this period.
3. Details are also included about the Authority's Treasury Management position for the period.

Revenue

4. In February 2016 the Authority set a net revenue budget for 2016/17 of £31.992m, allocated to budget heads.
5. This was subsequently amended to reflect the proposed use of earmarked reserves, allocation of pay award provision, and the additional budget changes approved by Policy and Resources Committee at their meeting on 17 November 2016.
6. Appendix 1 details the annual budget and gives details of the projected year end expenditure against this amended budget. A figure of £1.268m, compared to a forecast of £0.928m (after virement) at the end of Quarter 2.
7. The change in the forecast is summarised in the table overleaf:

	Quarter 2		Quarter 3	
	Amended	change	Variance	
	£m	£m	£m	Note
RDS FF Pay	(0.092)	(0.036)	(0.128)	a
Control Pay	0.000	(0.020)	(0.020)	
Support Pay	0.000	0.019	0.019	b
	(0.092)	(0.037)	(0.129)	
Strategic Management	0.000	(0.001)	(0.001)	
New Dimensions	0.000	(0.036)	(0.036)	
Technical Fire Safety	0.000	(0.004)	(0.004)	
Community Safety	0.000	(0.007)	(0.007)	
Training Department	0.000	(0.042)	(0.042)	
P & I	0.000	(0.017)	(0.017)	
Ops Policy	0.000	(0.002)	(0.002)	
Human Resources	0.000	(0.008)	(0.008)	
Ops Logistics	0.000	(0.039)	(0.039)	
FRA Costs	0.000	(0.001)	(0.001)	
ICT	0.000	(0.090)	(0.090)	
Insurance	0.000	0.017	0.017	
Finance (FRS)	0.000	0.013	0.013	
Legal Services	0.000	(0.006)	(0.006)	
	0.000	(0.223)	(0.223)	c
Capital Financing	(0.250)	0.000	(0.250)	
	(0.250)	0.000	(0.250)	
Excess Staff (Net)	(0.065)	(0.080)	(0.145)	d
	(0.065)	(0.080)	(0.145)	
Pay & Inflation Provision	(0.437)	0.000	(0.437)	
Unallocated Budgets	(0.084)	0.000	(0.084)	
	(0.521)	0.000	(0.521)	
	(0.928)	(0.340)	(1.268)	

8. The key variations changes since this refocus are explained below:

- a) RDS underspending has moved slightly within the normal forecasting constraints but continues to reflect the 2014/15 and 2015/16 outturn position.
- b) Support Pay overspend reflects the costs relating to the departure of a non-uniformed member of staff.
- c) Net underspending in budget holder areas against amended budgets is £0.223m, 3% of the budget concerned.

- d) Net saving on remaining excess staff, has improved by £0.080m.
9. There is no variation in respect of Facilities Management costs as Place Partnership Limited (PPL) are still unable to supply reliable forecast data.
 10. Under the contractual arrangement with PPL, they are not permitted to incur expenditure in excess of agreed budgets so the question is more about how underspent we might be at the year end.
 11. There is a potential budget pressure in relation to the capitalisation of property staff costs (now PPL costs) against major capital schemes. The budget assumes that £0.100m of costs would be capitalised, but the lack of capital project recharge information may make it necessary to charge these additional costs to Revenue.
 12. It should be noted that of the £1.268m underspend, £0.916m is reflected in the recently approved 2017/18 budget.

ESMCP Reserve

13. Members will be aware of the national project to replace the whole of the emergency services radio communications infrastructure. Whilst it was anticipated that government would be funding a “like for like” replacement, it is now clear that additional costs will fall on Fire Authorities. Work is currently being undertaken to quantify the potential impact, but it is considered prudent to consider setting aside around £0.500m of this year’s underspending to meet these costs.

Capital

14. The current capital budget (including approved rephasing from 2015/16) was approved by the Authority in June 2016 and is detailed in Appendix 2 (*column 4*). It is in two parts:
 - Capital Budget (approved schemes) £7.896m
 - Schemes awaiting approval £12.024m
 - Total Capital Strategy £19.920m
15. The approved Capital budget is divided into 4 blocks:
 - Vehicles
 - Major Buildings
 - Fire Control
 - Minor Schemes (allocated by Senior Management Board)
16. The Schemes waiting Approval total includes provision for Hereford and Redditch Fire Station replacement and the North Herefordshire Strategic Training Facility. It is expected that, once approved, expenditure will occur over a number of future years.

17. Although approval has recently been given by the Fire Authority at the meeting on 11 October 2016, for the construction of the Wyre Forest Emergency Services Hub, this has not been included separately within this report because it is still subject to tender at this time.
18. Of the Capital budget of £7.896m, £4.813m (61%) has been committed by way of expenditure and orders.
19. Again comment must be made regarding the lack of financial information from PPL which is hampering forecast of minor building scheme projects.

Treasury Management

20. 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.
21. At the beginning of the financial year (2016/17), borrowing was at a level of £13.137m, this will be reduced in February 2017 by an additional £0.500m to £12.637m following planned repayments to the Public Works Loans Board.
22. 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.
23. 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.
24. At 30 December 2016 short term investment with Worcestershire County Council comprised:

Organisation Type Invested in	H&WFRA (Proportion) £'000
Other Local Authorities	5,640
Debt Management Account Facility	2,880
Money Market Funds (Instant Access)	2,390
Call	1,490
Total	12,400

25. An investment income target of £0.040m has been set for 2016/17, however as investments with the County Council are now more diversified, whilst still ensuring risk levels are reduced, income levels are higher than expected. In the 9 months to 31st December 2016 the Authority received income from investments of £0.036m; this slightly increased level is reflected in the capital financing variation.

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 – 2016/17 Revenue Budget Monitoring

Appendix 2 – 2016/17 Capital Budget Monitoring

Contact Officer

Martin Reohorn, Treasurer to the Authority
(01905 368205)
Email: mreohorn@hwfire.org.uk