

Report of the Treasurer

2018/19 Budget Monitoring – 1st Quarter

Purpose of report

1. To inform the Committee of the current position on budgets and expenditure for 2018/19.
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Recommendation

The Treasurer recommends that the Committee:

- (i) Note the forecast revenue underspend of £0.820m (-2.5%);***
- (ii) Approve the earmarking of £0.750m (-2.3%) of this underspend towards the cost of replacing Broadway Fire Station; and***
- (iii) Note the continuing budget risk regarding the pay award***

Introduction and Background

2. This report relates to the Authority's financial position at Quarter 1, is an outturn projection based on the period April – June 2018 and known information.
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 2018 the Authority set a Core Budget for 2018-19 of £31.236m (*Appendix 1 Column 2 Row 36*) allocated to budget heads.
6. In May 2018 the Authority considered a revised Medium Term Financial Plan (MTFP) which included a re-phasing of the savings from the HQ relocation. This increased costs by £0.173m to a new Revised Budget of £32.409m (*Appendix 1 Column 2 Row 38*). Members will recall that this was largely offset by additional Business Rate income.
7. This was subsequently amended to reflect changes in demand, planned use of earmarked reserves, additional budget holder savings and the allocation of the known pay awards. This is a revised Amended Budget of £33.078m (*Appendix 1 Column 5 Row 38*).
8. Appendix 1 gives details of the projected year end expenditure. At the end of quarter 1 (30th June 2018) the projected annual variations relate to:

- Whole time pay savings from Watch Commander vacancies is offset by temporary promotions to support 2020 Vision projects.
 - -£0.050m Retained Pay under spending – continuing prior year trends.
 - +£0.008m Control Pay – additional short term costs to ensure a smooth transfer to operation from the OCC.
 - -£0.028m unallocated budgets – may be committed to other priorities by year end.
 - Although provision is made for pay awards at 2% Members are reminded that the July 2017 uniformed staff award (Grey Book) has not been settled yet and an offer of 2% was rejected by the employee side. Any costs above 2% in either year represent a potential overspend.
9. The biggest under spending of £0.750m arises from capital financing charges and is for a number of reasons:
- Slippage in the capital programme on major buildings and vehicles has a double effect in the short term. The Authority does not have to undertake borrowing to finance the expenditure so the anticipated interest charges do not arise, nor is it necessary to set aside money to repay debts.
 - Where capital expenditure has been incurred, the high level of balances makes it more sensible to de-invest cash and lose 0.5% of interest received rather than pay 2.5-3.0% on an external loan.
10. In the medium term the capital schemes will take place, reserves will be used and additional borrowing (as planned for and controlled) will take place.
11. Elsewhere on this Agenda is a report regarding the need to replace Broadway Fire Station. This project is currently not in the Capital Programme and therefore is not funded. It is recommended that this element of under-spending be earmarked towards the cost of Broadway Fire Station replacement.

Capital

12. The current capital budget was approved by the Authority in February 2018, with amendments in May 2018 and is detailed in Appendix 2. Subsequent changes to the budget are summarised overleaf:

	Major Buildings £m	Vehicles £m	Fire Control £m	Major Equip £m	Minor Schemes £m	TOTAL £m
Total Budget approved May 2018	25.079	9.476	2.287		5.368	42.210
reallocate DCP Schemes	(0.550)				0.550	0.000
plus: cost variation Evesham	0.135					0.135
plus: revenue funded works					0.044	0.044
less: completed schemes		(0.110)			(0.746)	(0.856)
	24.664	9.366	2.287	0.000	5.216	41.533
Less post: 2018/19 starts b/fwd. vehicle schemes		(4.380) 0.322			(1.800)	(6.180) 0.322
Revised Budget	24.664	5.308	2.287	0.000	3.416	35.675
plus: Cutting Gear (Reserve)				0.564		0.564
Amended Budget	24.664	5.308	2.287	0.564	3.416	36.239
less expenditure to 2017/18	(5.456)	(0.571)	(2.026)		(1.142)	(9.195)
Remaining Budget	19.208	4.737	0.261	0.564	2.274	27.044

13. The approved Capital budget is divided into 4 blocks:

- Major Buildings
- Vehicles
- Other Schemes (Fire Control & Cutting Gear)
- Minor Schemes (allocated by Senior Management Board)

14. The Other Building Schemes figure (*Appendix 2a Row 7*) is provision for Wyre Forest Hub, Hereford and Redditch Fire Stations and the North Herefordshire Strategic Training Facility, which await tender or formal approval. It is expected that, once approved, expenditure will occur over a number of future years.

15. Of the Capital budget of £27.044m (*Appendix 2a Column 6 Row 28*), £17.457m (Row 7) still requires approval leaving £9.587m against which expenditure can be incurred.

16. At the end of Quarter 1, £5.136m (*Column 7 Row 28*) has been committed by way of expenditure and order, representing 54% of the available resources. A very creditable position at Quarter 1.

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 (2018/19), borrowing was at a level of £11.137m, this will be reduced to £10.637m by the end of the year, following planned repayments to the Public Works Loans Board.
19. It is not necessary to take out new external borrowing but it will be necessary in the medium term (see paragraph 9 above), and appropriate provision is already made within the MTFP.
20. 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.
21. 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.
22. At 31st July 2017 short term investment via Worcestershire County Council comprised:

Organisation Type Invested in	£'000
Money Markey Funds (Instant Access)	4.046
Cash Plus (Liquidity Fund)	3,002
Call	2.852
Total	9,900

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	See paragraphs 5-16, 18-19 and 22
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 – 2018/19 Revenue Budget Monitoring

Appendix 2a – 2018/19 Capital Budget Monitoring

Appendix 2b – 2018/19 Capital Budget Monitoring - Minor Schemes

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