

Report of the Treasurer

Budget Monitoring 2021/22 – Quarter 4

Purpose of report

1. To provide Members with an interim view out-turn position on the revenue and capital budget for 2021/22, in advance of the Provisional Financial Out-turn Report to the Fire Authority in June.
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Recommendations

It is recommended that the Committee:

- (i) Approves the revised core revenue budget at £35.276m;*
- (ii) Notes the net revenue and capital out-turn projections are still subject to change; and*
- (iii) Approves the principle that the additional rates grant is earmarked for the major building schemes.*

Introduction and Background

2. Although this report follows the established format, it is by nature of timing a very provisional position.
3. The financial year to which it relates has now ended and the process of accounts closedown has commenced. This means that there is a mixture of actual and estimated data in the report. There will be a formal provisional out-turn report provided, as usual, to the Fire Authority meeting in June and there has to be a balance of effort in providing an accurate early estimate against knowing that the detail will be available in a few weeks' time. This is particularly so when the report is being finalised mid-April.
4. It is probable that the details of the report will change at final out-turn but the trends are unlikely to be different.
5. As capital projects tend to last beyond a single financial year, the capital report shows progress against the approved scheme totals.
6. 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

7. In December 2021 the Policy & Resources Committee approved a Revised Core Budget of £35.356m (*Appendix 1: Column 2, Row 34*), which was funded by Precept, Grants and Retained Business Rates of £35.065m (*Appendix 1: Column 2, Row 39*), and planned net transfers from reserves of £0.291m (*Appendix 1: Column 2, Row 53*).
8. There are a number of changes to the budget outlined below:
 - a. In preparation for the replacement Fire Control project, and to allow the release of staff, there was intended to be a temporary increase in Fire Control staffing to give time for sufficient staff to be trained and ready before existing staff are abstracted onto the project.
 - i. This cost was to be funded from the specific reserve set aside for this project and the budget had therefore been increased appropriately.
 - ii. Unfortunately, the increase in staff coincided with other leavers so the net staff levels remained the same. The budget adjustment is therefore reversed and the reserve funding will now be utilised in 2022/23 when further recruitment has taken place.
 - b. The original budget provided for the receipt of the Tax Income Guarantee Grant; however, this grant was paid in 2020/21 and there is an adjustment to show this as a transfer from reserves rather than a grant receipt.
 - c. There are further presentational changes to the funding budgets to bring them in line with the analysis used in the recently approved 2022/23 Budget and Medium Term Financial Plan (MTFP).
9. The new Revised Core Budget of £35.276m is shown at *Appendix 1: Column 5, Row 34*.
10. Column 6 of Appendix 1 shows the current out-turn projection (subject to the limitations referred to at paragraph 3 above) against these revised budgets.
11. As the report is now an estimated out-turn rather than a forecast it includes expenditure that will be funded from reserves, particularly in the “Invest to Improve” projects and the impact of these is adjusted out to give an underlying position in Column 9 of Appendix 1.

12. The underlying variations, with a comparison against the Quarter 2 projections, are shown below:

| | Underlying Variation £m | Qtr. 2 Projection £m |
|---------------|-------------------------------|----------------------------|
| Employees | 0.078 | 0.236 |
| Running Costs | (0.280) | (0.050) |
| Cap Fin | (0.110) | (0.160) |
| | (0.312) | 0.026 |
| Funding | (1.249) | |
| | (1.561) | 0.026 |

13. It should be noted that the Running Cost figure awaits final accruals to go through and will probably increase and the capital financing costs await final investment income figures from Worcestershire County Council (WCC).
14. The employee costs figure still includes an estimate of the final months On-Call pay (it is paid one month in arrears) and is based on a lower estimate than previously used. This, combined with a lesser use of the resilience register to support appliance availability and more costs being attributed to reserve funded projects, has reduced the potential overspend. This figure will change once the final On-Call pay is known.
15. The overwhelming variation is however in respect of funding and the majority (94%) of the grant variation relates to one grant.
- Members may recall that in 2020/21 government introduced significant additional Business Rate reliefs for retail premises in the March budget. As this was after the statutory Retained Business Rate setting process it was compensated for in year via the Billing Authorities.
 - However, this was adjusted out for the purposes of setting the 2021/22 Retained Business Rates, resulting in a significant Collection Fund loss, of over £1m.
 - Government has now provided compensation for this loss totalling £1.171m.
16. It will be recommended that this windfall gain is earmarked to cover the inflationary pressures on the major building schemes programme to ensure these can be completed to meet the operational needs of the Service.

Capital Budget

17. The current capital budget, as amended by this Committee in December 2021 is detailed in Appendix 2 and summarised below:

| | Vehicles | Major Builds | Major Equip | Alloc. Minor | Unalloc Minor | Future Builds | TOTAL |
|------------------------------|----------|--------------|-------------|--------------|---------------|---------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m |
| Approved at Dec 2021 | 2.715 | 7.916 | 0.590 | 2.468 | 0.177 | 12.949 | 26.815 |
| Major Scheme Allocation | | 0.170 | | | | (0.170) | 0.000 |
| Minor Scheme Allocation | | | | 0.025 | (0.025) | | 0.000 |
| Closed Scheme | | | | (0.045) | | | (0.045) |
| | 2.715 | 8.086 | 0.590 | 2.448 | 0.152 | 12.779 | 26.770 |
| Expenditure to 2020/21 | 0.423 | 7.219 | 0.318 | 0.590 | 0.000 | 0.000 | 8.550 |
| Expenditure 2021/22 | 1.316 | 0.489 | 0.090 | 0.573 | | | 2.468 |
| Unspent Budget C/fwd. | 0.976 | 0.378 | 0.182 | 1.285 | 0.152 | 12.779 | 15.752 |

18. 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)

19. The Future Buildings Scheme figure (*Appendix 2: Row 66*) 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.

20. Allowing for the schemes awaiting allocation or approval, the budget available to be spent at the start of 2021/22 is £5.290m and is summarised below:

| | | £m |
|--------------------------|-------------------------|---------------|
| Total Approved Budget | <i>Column 2 Line 67</i> | 26.770 |
| Less: Future Buildings | <i>Column 2 Line 66</i> | (12.778) |
| Less: Unallocated Minor | <i>Column 2 Line 63</i> | (0.152) |
| Approved to Spend | | 13.840 |
| Incurred to 2020/21 | <i>Column 3 Line 67</i> | (8.550) |
| Balance | | 5.290 |

21. Against this budget £2.467m (*Column 5, Row 67*) has been incurred. This represents 47% of the relevant budget.

22. As with the revenue budget there are potential additional accruals still to be posted to expenditure.

23. Members' attention is drawn to the Redditch scheme, where future arrangements for financing the project with the Police & Crime Commissioner may remove the capital expenditure from the Fire Authority, and the revenue capital financing costs replaced with a long-term rental type payment. The change would have no impact on the overall MTFP.

Treasury Management

24. 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.
25. As the Authority is currently holding significant earmarked revenue reserves, sold the old HQ building in 2020/21 and recently disposed of surplus assets in Bromsgrove, Bewdley and Stourport the cash balance does not currently require additional external borrowing.
26. At 31 March 2021 long term borrowing stood at £12.137m, with £1.726m to be repaid this year as scheduled, leaving a balance of £10.411m at 31 March 2022.
27. It is unlikely that additional borrowing will be required this year (see paragraph 25 above), but rates are always under review to ensure borrowing is taken at an appropriate point.
28. 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.
29. 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.
30. 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.
31. At 31 March 2022 short term investment via WCC comprised:

| | £m |
|----------------------------|--------------|
| Money Market Funds | 3.581 |
| Call (instant access) | 1.049 |
| Cash Plus (liquidity fund) | 1.913 |
| Other Local Authorities | 0.957 |
| | <hr/> |
| | 7.500 |

Corporate Considerations

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| 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 2021/22 – Quarter 4

Appendix 2: Capital Budget Monitoring 2021/22 – Quarter 4