Tyne and Wear Fire and Rescue Authority

TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item No 10**

FIRE AUTHORITY MEETING: 26 JUNE 2023

SUBJECT: REVENUE BUDGET OUTTURN 2022/2023 AND FIRST QUARTERLY REVIEW 2023/2024

JOINT REPORT OF THE CHIEF FIRE OFFICER / CHIEF EXECUTIVE (CLERK TO THE AUTHORITY) AND THE FINANCE DIRECTOR

---

1. INTRODUCTION

1.1 The Authority's Statement of Accounts for 2022/2023 is currently being prepared and will be presented to the Authority's Governance Committee on 30th June 2023.

1.2 As preparation of the Statement of Accounts is on-going, the reported outturn position set out in this report may be subject to change, although no significant issues are anticipated.

1.3 This report therefore advises Members of the Revenue Budget Outturn position for 2022/2023 as it currently stands, outlining the main areas of variation and the reasons behind them. It is proposed that the Finance Director, in consultation with the Chief Fire Officer/Chief Executive and the Chairman of the Authority, be given delegated authority to take any further additional final accounts decisions beyond those included in this report. If any material changes do occur to the current position, these will be reported to the next Authority meeting.

2. REVENUE OUTTURN 2022/2023

2.1 A summarised Revenue Budget Outturn position is shown at Appendix A for information.

Outturn Position Review and summary

2.2 The Third Review, reported to Members in February 2023, identified a projected net overspend of £0.204 million. The Revenue Budget Outturn for 2022/2023 is very positive however with an underspend at the end of the financial year of £1.914m.

2.3 The main variations are set out in paragraph 2.5 below for Members information and are summarised in Appendix A. It is important for Members to understand the continued positive drive the Authority has made during the financial year to achieve this level of savings, with a number of initiatives and delays in filling corporate roles as the Authority made adjustments to accommodate the higher than expected pay awards for all of its staff.

2.4 Improved financial management is embedded throughout the Authority, with increased financial awareness and tighter budgetary control achieving a net delegated budget savings of £0.116m across the full service.

Employee budgets are set based on assumptions relating to staff turnover and vacancy levels, firefighter pension scheme membership and the numbers of operational staff who are at the development stage in their roles. As the year progresses, employee costs reflect the actual position on all of these factors which, in reality, can vary considerably against the budget assumptions made.

We have experienced significantly higher levels of corporate staff vacancies than the budget assumed over most of this financial year, which was anticipated to ease during the latter stages of the fiscal year. This factor shows staff vacancies were 14% on average across the year which has created a saving of almost £1.4m. Whilst this is a one-off saving provided the posts are filled, the service is to review the roles and necessity of some of the longer dated vacant posts to ensure they are needed.

The pay award for corporate staff was agreed at a flat cash increase of £1,925 per employee which equated to a 7% increase for Tyne and Wear and the pay award from July 2022 for firefighters was agreed at 7%. At the end of the financial year, some of the contingency budget set aside for potential costs when the budget was established for 2022/2023 has not been required. This has been reallocated to fund the increased pay awards.

Members will be aware that during the 2022/2023 financial year, two further Trainee courses were completed bringing 42 additional staff into operational crews. This has reduced overtime costs and has also contributed towards the additional underspend on the overall employee budgets highlighted.

The Authority has also had to manage and contend with significant budgetary pressures caused by the very high levels of inflation which although have reduced a little, this continues to be an ongoing issue for the Authority. On the positive side however the increase in interest rates has had a positive impact on the budget and this has helped to fund some of our budget pressures. As we hold a high level of reserves which are fully earmarked mainly to fund our ambitious Capital Programme. We have benefitted by almost £1m in excess interest received because of the high interest rates experienced across the financial year which could not have been anticipated when the budget for 2022/23 was approved.

All aspects of the Authority's finances continue to be reviewed and a more commercially based approach to income generation continues to be sensibly applied where appropriate to ensure Best Value is achieved for the Authority. Increases in income above budget during the year help to show this is continuing to be a success and income generation is expected to increase in future years as a result.

These summaries help to show members that all areas of the budget continue to be monitored, challenged and proactively managed to ensure the Authority achieves Best Value from its limited resources and helps the revenue budget become more sustainable.

Main Revenue Budget Variations (Subjective Analysis)

2.5 The main variations are detailed below for information. Where relevant, this includes a brief assessment of any impact that may fall into the 2023/2024 financial year.

- Employee costs (£2.190m net underspend) – the main reason for the underspend relates to the level of operational and corporate vacancies and the higher number of operational staff in development. Along with these, savings have been made on employer pension costs, arising from the impact of temporary staffing arrangements, transitional movements between pension schemes, and employees opting out of the pension scheme altogether.

  Operational overtime costs continue to be a significant budget pressure, particularly working with the increased vacancy levels experienced. The savings in salaries and pensions have accommodated these increased costs however. Overtime continues to be very closely monitored, with actions considered and taken to control expenditure as appropriate.

- Premises (£0.315m net underspend) – as reported at third review, a refund in respect of Business Rates was expected to be received before the end of the financial year. The Authority has now received this one – off refund of £479,000 which has helped to absorb the overspend on electricity and gas charges of £113,000 incurred during the financial year. Energy charges are being closely monitored with information from Sunderland City Council and increased tariffs have been accommodated in the budget for 2023/2024.

- Transport (£0.087m net overspend) – increased fuel costs during the first part of the financial year have had an impact on the transport budget in addition to an increased cost for outside contractors and an increase in travel across the service.

- Supplies and Services (£0.260m net overspend) – as reported at third review, work has been carried out by the PFI providers resulting in an increase in the unitary charge payment for the full year and future years due to the rise in utility charges. The PFI smoothing reserve will be utilised next year to help fund these additional costs.

- Contingencies – an adjustment has been made in the final quarter of the year to reallocate the full contingency budget to partly finance the firefighters pay award.

- Support Services and Recharges (£0.012m net overspend) – there has been an in year change to the staffing model recharges for the USAR National Resilience responsibilities.

- Income (£0.206m overachieved) – the year end position shows an increase in total income received against the revised budget.

  Reductions in income from Princes Trust Courses, Contract Income from Primary Authority Scheme arrangements and under-recovery of catering income due to reduced sales have been offset by additional income from training courses, a one-off PFI Authority Support repayment, additional secondment income, and income from sale of equipment.

- Interest Received (£0.953m overachieved) – the budget was significantly reduced in 2022/2023 and set at £0.041m due to a drop in interest rates to 0.5%. At Third Review, it was estimated that the Authority would receive a total of £0.500m for 2022/2023 due to an increase in the bank base rate, but rates have continued to rise during the final quarter of the financial year, resulting in interest received of £0.994m in total. The budget set for 2023/2024 reflects the improved interest rate position., Although this very high level is not expected to be a long term gain.

- Capital Financing (£0.041m under budget) – small savings have been made on debt charges and MRP charges due to the lower debt charge interest applied during the year.

- Reserves and Provisions Appropriations (£1.432m decrease) – underspends against budget have reduced the need to draw down from Reserves in year. Adjustments have also been made to reflect the IFRS Employee Benefit accounting entry and the Council Tax and Business Rates Collection Fund balance required for 2022/2023.

Earmarked Reserves

2.6 Earmarked reserves are funds that are set aside to meet costs for specific purposes in future financial years. Such reserves ensure that the Authority can adopt and operate a more flexible approach to budget management and meet cost pressures of committed and known future service costs. A statement showing the movement on earmarked reserves in 2022/2023 is provided at Appendix B for information at this stage.

The detail in Appendix B has been categorised as follows:

Reserves to prevent an increase in revenue budgets (£29.432m); and
Reserves to support service delivery requirements (£2.312m).

This analysis helps to further confirm that all reserves are not only fully earmarked for specific purposes but that the bulk of the reserves (£29.432m or 93%) are being held to mitigate against known future costs that the revenue budget would otherwise have to accommodate, for example, insurance, PFI, capital developments to help reform and transform the service etc.

2.7 It is proposed, subject to Members' approval, to allocate the surplus funds totalling £1.914m to a new Mobilisation Smoothing Reserve. Elsewhere on today's agenda is a separate report on this business critical area for the service and the fact a new system is required which is expected to be a cloud based solution (which will be a revenue budget cost pressure) when previously this was expected to be a capital programme issue, which borrowing could have been accessed. Unfortunately the Authority cannot borrow to fund revenue costs. The Authority has no clear understanding of the increased costs of this solution at this initial stage but expects the costs of the revised system to create an annual cost pressure of at least £500k per annum on an ongoing basis. The Smoothing Reserve will therefore help bridge the gap for this additional cost until the savings from the end of the PFI Contract in 2028/29 can be accessed.

3. GENERAL BALANCES

3.1 The balance of the general fund as at 31st March 2023 is expected to remain at £4.089m on the basis that this is viewed as an appropriate level of General Fund Balance for the size and risks faced by the Authority.

4. REVENUE BUDGET 2023/2024 FIRST REVIEW

4.1 Regular monitoring of the revenue budget continues to take place and the full impact of the 2022/2023 revenue budget outturn, alongside current spending against budgets will continue to be evaluated during the early part of 2023/2024.

4.2 The high levels of inflation continue to have implications on the revenue budget for 2023/2024. This position will be monitored closely over the coming months and Members will be updated on the financial impact of this and any other external influences throughout the financial year.

5. FINANCIAL OUTLOOK

5.1 The MTFS approved by Members in February 2023 was predicated on the Fire and Rescue Service receiving annual increases in funding in line with RPI. Whether or not this position is sustainable is very difficult to predict with the uncertainty caused not only by a continuation of one year settlements, but the unknown impact on public finances of the ongoing economic issues currently being experienced, especially high inflation and the prospects of a stagnating economy which could then impact on the government's financial plans for the public sector. The financial position and longer term prospects for the Authority therefore remain unclear at this stage early in the new financial year.

5.2 Another potential uncertainty on the Authority's financial resources is the unknown impact of the government's planned changes to how local government resources are to be distributed under the 'self-sufficiency' agenda, although this aspect has now been further delayed.

5.3 There still remains considerable and significant uncertainty over fire and rescue service funding and there is insufficient detail to be able to confirm at this stage what the financial prospects of the Authority are over the medium term. Of real concern is the additional costs of higher inflation which is still running at almost 9% when the rate was expected to be lower than this for April 2023. The Authority is fortunate to be able to plan ahead for the agreed firefighter pay award of 5% from July 2023, but the Corporate pay award is still under negotiation (with a higher than budgeted settlement in prospect) which will mean an additional budget pressure for 2023/24 unless the government takes measures in year to ease the financial burden on local authorities, which is considered unlikely.

5.4 Members will be updated on the position at the Second Review stage in November.

6. RISK MANAGEMENT

6.1 A risk assessment has been undertaken to ensure that the risk to the Authority has been minimised as far as practicable. The assessment has considered an appropriate balance between risk and control, the realisation of efficiencies, the most appropriate use of limited resources and a comprehensive evaluation of the benefits. The risk to the authority has been assessed as low utilising the standard risk matrix based on control measures being in place.

7. FINANCIAL IMPLICATIONS

7.1 The financial implications are set out in Appendix A of the report.

8. EQUALITY AND FAIRNESS IMPLICATIONS

8.1 There are no equality and fairness implications in respect of this report.

9. HEALTH AND SAFETY IMPLICATIONS

9.1 There are no health and safety implications in respect of this report.

10. RECOMMENDATIONS

10.1 Members are requested to:

- Note the Revenue Budget Outturn position for 2022/2023, set out at paragraphs 2.2 to 2.5;
- Approve the proposed transfer of £1.914m to a newly created Mobilisation Smoothing Reserve as set out in paragraph 2.7;
- Note the General Fund position of £4.089m as detailed at paragraph 3.1; and
- Note the position with regard to the Revenue Budget for 2023/2024 for Quarter 1 detailed at section 5 and the uncertainties identified.