TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item 5**

MEETING: 12 JULY 2021

REVENUE BUDGET OUTTURN 2020/2021 AND FIRST QUARTERLY REVIEW 2021/2022

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

1. INTRODUCTION

1.1 The Authority's Statement of Accounts for 2020/2021 is currently being prepared and will be presented to the Authority's Governance Committee on 30th July 2021 in line with the revised statutory deadline for the 2020/2021 accounting year.

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 now anticipated.

1.3 This report therefore advises Members of the Revenue Budget Outturn position for 2020/2021 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 2020/2021

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 January 2021, identified a projected net underspend of £0.490 million. The Revenue Budget Outturn for 2020/2021 is very positive, however, as the underspend has increased by a further £0.475 million, which means that the net underspend for the year is now cumulatively £0.965 million. The main variations are set out in paragraph 2.4 below for members information and are summarised in Appendix A. It is important for Members to understand the positive drive the Authority has made during the financial year to achieve this level of savings, with a number of initiatives. However, a large part of the underspend is due to changes in the way of working and restrictions to activities caused by the COVID-19 pandemic. It is therefore anticipated that most of these further savings will be one-off nature as normal business resumes in 2021/22 as the impact of the pandemic begins to wane.

2.3 Improved financial management is embedded throughout the Authority, with increased financial awareness and tighter budgetary control achieving savings of £0.209m across the full service. Expenditure in these areas has also been significantly impacted by COVID. I would like to thank Budget holders across the service for their efforts in continuing to manage their budgets effectively, and identifying and releasing revenue savings in this very difficult and challenging year.

Insurance services provided by the Lead Authority were reviewed and a revised approach was adopted by Sunderland City Council (SCC), whereby all policies are separately tendered to ensure best value. This has led to a further year end saving on insurance premiums of £0.132m across particularly employee and transport related insurances.

Members will recall the approval at the Fire Authority meeting on 12th October 2020 of the IRMP actions to pilot the introduction of a second appliance at West Denton Fire Station and primary staffing of the Aerial Ladder Platform (ALP) at Marley Park Fire Station for 12 months. This action was implemented with effect from 1st November 2020, adding 28 additional operational posts into the establishment. Members will also be aware that during the 2020/2021 financial year, two further Trainee courses were completed bringing 41 additional staff into operational crews. The combination of these factors has meant that overtime has been reduced, particularly over the last quarter of this financial year, and has also contributed to the increased underspend on employee budgets.

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, vary against the budget assumptions made. Members will recall at third review stage there was a projected underspend of £0.128m on all employee costs. However, further changes in staffing numbers (particularly senior green book vacancies) and those in firefighter development roles and pension memberships have continued to vary significantly from the prudent estimates used, with the consequence that this underspend has increased to £0.694m. The staffing and pension information available in December 2020 was used to inform the assumptions used in setting the budget for 2021/2022, therefore it is less likely that there will be such a significant underspend against the new year budget and senior vancant posts have also now been filled.

All aspects of the Authority's finances continue to be reviewed and a more commercially based approach to income generation is carefully and 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. This welcome direction of travel has been reflected in the 2021/2022 Revenue Budget.

A review of the property portfolio by Finance and Estates identified a number of surplus assets. It is pleasing to report the sale of the Technical Services Facility (TSF) on Saltmeadows Road has been completed in the 2020/2021 financial year generating a capital receipt in excess of £0.220m (net of fees).

This summary helps 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 to become more sustainable and has also been flexed accordingly even in the most challenging year the Authority has ever operated within because of the pandemic.

Main Revenue Budget Variations (Subjective Analysis)

2.4 The main variations are detailed below for information. Where relevant, this includes a brief assessment of any impact that may fall into the 2021/2022 financial year.

- Employee costs (£0.694m net underspend) – the main reasons for this significant level of underspend relate to the operational and corporate vacancy levels and the numbers of operational staff in development. Operational vacancy levels have continued to be at a higher level than assumed for budget purposes, generating a saving of £0.490m, and £0.271m of the saving resulting from an additional 60 staff being in development. Since the Second Review, there has been an average of 12 corporate vacancies, resulting in a further saving of £0.188m. 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 continues to be a budget cost pressure, particularly working with increased vacancy levels. The savings in salaries and pensions have helped to accommodate these increased costs incurred over the financial year. Overtime continues to be very closely monitored, however, with actions considered and taken to control expenditure as appropriate.

- Premises (£0.026m net overspend) – the overspend is from a combination of increased cleaning costs due to COVID-19 which have been funded from the Government's COVID-19 Grant, increased water costs due to some backdated supply issues and increased premises related insurance premiums. These have been partially offset by savings as a result of reduced electricity and gas consumption across the estate due to the ongoing COVID-19 pandemic arrangements.

- Transport (£0.098m net underspend) – further savings of just over £70,000 have been made on fuel from continued reduced usage and extended access to free fuel from BP. This is in addition to the realised savings of £90,000 reported to Members at Second Review. There have also been additional savings on car allowances, travel expenses and the annual transport insurance premium. These underspends have been reduced by essential costs on repairs and running expenses relating to the older vehicles in the Service's fleet.

- Supplies and Services (£0.072m net underspend) – savings have been made on subsistence due to a reduction in travel, catering provisions due to a reduced service in the SHQ canteen, and uniforms due to a reduction in demand during the financial year.

- Contingencies (£0.058m underspend) – as indicated at the Third Review stage a full review of the remaining contingency provision has been carried out, with a proposal to transfer £0.880m of the contingency underspend to the Transformation and Reform Reserve. Most of this funding was earmarked to fund TWFRS 2025 priorities but the pandemic has adversely impacted on this aspect of the business but will still be required to help develop the Authority's proposed all hazards approach initiatives and £0.108m is earmarked for delayed departmental restructures now being implemented in 2021/2022. This leaves a small underspend of £0.058m.

- Support Services and Recharges (£0.035m overspend) – there has been an in year change to the staffing model recharges for our USAR National Resilience responsibilities.

- Income (£0.467m overachieved) – the year end position shows an increase in total income received against the revised budget:

  Net reductions in income from Princes Trust Courses (-£0.094m), Contract income from Primary Authority Scheme arrangements and rechargeable COMAH work (-£0.071m) have been partially offset by COVID-19 related Lost Income Compensation Grant successfully applied for and received from MHCLG (£0.134m).

£0.115m net additional Section 31 Grants were received relating to Firelink, Fire Safety, Business Rates and COVID-19.

The Authority received £0.287m in relation to its Training provider status for Firefighter Apprenticeships. The ongoing financial implications of this arrangement have been included in the 2021/2022 Revenue budget.

Refunds relating to prior year energy, water and PFI Insurances totalling £0.075m were received during the year. The remainder of the Income budget variance (£0.021m) is the net effect of a number of smaller over and under recoveries.

- Interest Received (£0.229m under budget) – a reduction in the mid year interest rates due to COVID-19 has reduced the interest received on balances to significantly under budget. The budget set for 2021/2022 reflects this lower interest rate position.

- Capital Financing (£1.211m under budget) – a number of Capital Projects that are to be funded from RCCO have slipped into 2021/2022, reducing the in year Capital Financing Charge. This is reflected in the additional Reserve Appropriations below. Some of this has been managed through use of the COVID-19 grant to finance capital projects required because of the pandemic. Savings have also been made on debt charges and reflects the lower debt charge interest applied during the year.

- Reserves and Provisions Appropriations (£1.345m increase) – underspends against budget have reduced the need to draw down from Reserves in the year. In addition, appropriations into the Revenue Budget Carry Forward Reserve have been made for known future requirements, including RCCO and transfer of a number of Fire Safety Grants and the Pension Administration Grant to be used in 2021/2022. Adjustments have also been made to reflect the IFRS Employee Benefit accounting entry and adjustments to the Council Tax Collection Fund balance required for 2020/2021. Final information relating to the Business Rate collection fund is still awaited from the Districts.

Earmarked Reserves

2.5 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 2020/2021 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 (£27.842m); and
Reserves to support service delivery requirements (£5.425m).

This analysis helps to further confirm that all reserves are not only fully earmarked for specific purposes but that the bulk of the reserves (£27.842m or 83.69%) are being held to mitigate against known future costs that the revenue budget would otherwise have to accommodate, for example, insurance, PFI, reform and transformational costs etc.

2.6 It is proposed, subject to Members' approval, to allocate the surplus funds resulting from the net revenue budget savings totalling £0.965m into the Transformation and Reform Reserve.

COVID-19 Grant funding

2.7 The Authority has received additional government grant funding of £1.483m to date, although the additional funding of £0.228m from the Home Office was only announced on 16th March 2021. As at 31st March 2021, the Authority had used £1.256m. Of the remaining £0.227m unspent grant that has been transferred into the COVID Reserve in line with the Fire Authority decision at the June 2021 meeting, there are firm commitments of £0.124m, and the balance of £0.103m will be held to meet any potential additional costs.

2.8 The Authority continues to keep a close track of all additional costs and lost income in respect of the impact of the virus with a view to recovering any additional funds from central government should that be necessary. To date the amount of government funding received has covered the additional costs faced by the Authority but the pandemic position remains fluid and unpredictable. Should the pandemic flare up again, the Authority may require further funding from the government and there is always the risk of a shortfall in government funding to meet the additional costs of COVID-19, in which case earmarked reserves would have to be used.

3. GENERAL BALANCES

3.1 The balance of the general fund as at 31st March 2021 is expected to remain at £3.943 million 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 2021/2022

4.1 Regular monitoring of the budget continues to take place and the full impact of the 2020/2021 revenue budget outturn, alongside current spending against budgets will continue to be evaluated during the early part of 2021/2022.

4.2 The COVID-19 pandemic continues to impact on Service activity, and the financial implications of this will be monitored closely over the coming months. Members will be updated on the financial impact of the coronavirus throughout this financial year.

5. FINANCIAL OUTLOOK

5.1 The MTFS approved by Members in February 2021 is 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 further one year settlement, but the unknown and ongoing impact on public finances of both the current coronavirus pandemic and BREXIT. The financial position for the Authority will therefore not be clear until the outcome of the Spending Review expected later this year is known and a multi-year funding settlement is put in place by the government.

5.2 A further 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 which have been further delayed to 2022/2023.

5.3 In summary there remains considerable and possibly 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 both in year for 2021/22 and also over the medium term.

5.4 Members will be updated 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 The Authority is recommended to:

- note the Revenue Budget Outturn position for 2020/2021, set out at paragraphs 2.2 to 2.5;
- approve the proposed transfers of £0.880m and £0.965m to the Transformation and Reform Reserve as set out in paragraphs 2.4 and 2.6;
- note the General Fund position detailed at paragraph 3.1; and
- note the position with regard to the Revenue Budget for 2021/2022 detailed at section 4.