

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

MEETING: 13 JULY 2020

Item No. 7

**REVENUE BUDGET OUTTURN 2019/2020 AND FIRST QUARTERLY REVIEW
2020/2021**

**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 2019/2020 is currently being prepared and will be presented to the Authority's Governance Committee on 28th August 2020 in line with the revised statutory deadline for 2019/2020 because of the impact of the coronavirus. The audited accounts will then be presented to the Authority's Governance Committee on 30th November 2020 as the accounts must be approved no later than this date in accordance with the government's revised coronavirus accounting regulations.
- 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 2019/2020 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 2019/2020

- 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 2020, identified a projected net underspend of £0.999 million. The Revenue Budget Outturn for 2019/2020 is very positive, however, as the underspend has improved and increased by a further £0.516 million, which means that the net underspend for the year is now cumulatively £1.515 million. The main variations are set out in paragraph 2.4 below for members information and are supplemented

with Appendix A that shows the summary budget outturn position. 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, although in some part the underspend is also because of the late impact on the Authority's spending in March due to coronavirus.

- 2.3 Improved financial management throughout the Authority, with increased financial awareness and tighter budgetary control has achieved savings of £0.147m across the full service. I would like to thank Budget holders across the service for their efforts in continuing to identify and release revenue savings in year, which shows that financial awareness and strong budgetary control arrangements are fully embedded throughout the Authority.

Insurance services provided by the Lead Authority were reviewed and a new 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 premiums of £0.079m across employee and transport related insurances.

A net in year saving of £0.880m was identified from a mid-year review of the contingency budget in order to streamline the resource for this and future years to make the revenue budget more sustainable. This was acknowledged and approved by members at the Authority meeting held in November 2019.

Members will recall that at the Fire Authority meeting on 18th February 2019 the IRMP action to dynamically adjust the distribution and availability of appliances based on risk and demand was approved for implementation by the Chief Fire Officer. This action was implemented with effect from 2nd April 2019, resulting in an in year saving in 2019/2020 of £0.746m on employee costs. This measure has additionally had a positive impact on helping to reduce overtime during this period, which has contributed towards the increased underspend. Members will also be aware of the completion in December of the recent trainee and the Inter Service Transfer (IST) courses. The trainees and IST's are now operational on fire stations and have contributed to the reduction in requirements for overtime. The combination of these factors has meant that overtime has been reduced particularly over the last quarter of this financial year.

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 £0.835m, on all employee costs, however, further changes in staffing numbers, those in development and pension memberships have continued to vary significantly from the prudent estimates used with the consequence that this underspend

has increased to £1.473m. The staffing and pension information available in December 2019 was used to inform the assumptions used in setting the budget for 2020/21, therefore it is less likely that there will be such a significant underspend against the 2020/21 budget.

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 of this new impetus. This direction of travel has been reflected in the 2020/2021 Revenue Budget.

A review of the property portfolio by Finance and Estates identified a number of surplus assets. It is pleasing to report that the sale of Fulwell Fire Station and land to the rear of Tynemouth Fire Station were both completed in this financial year generating much needed capital receipts of over £1.2m and revenue budget savings have also been achieved as a result.

These summaries help to show members that all areas of the budget continue to be 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)

2.4 The main variations are detailed below for information subjectively. Where relevant, this includes a brief assessment of any impact that may fall into the 2020/2021 financial year.

- Employee costs (£1.473m 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 were assumed to be 5% for budget purposes; the actual vacancy level averaged 11%, generating a saving of £0.770m, and £0.166m of the saving resulted from an additional 34 staff being in development. During the year there was an average of 10 corporate vacancies, resulting in a further saving of £0.323m. Along with this, savings were 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 a reduced establishment. The savings in salaries and pensions have accommodated these increased costs. Overtime continues to be very closely monitored, with actions

considered and taken to control expenditure as appropriate.

- Premises (£38k net overspend) – This is largely due to a new electricity contract with a higher unit cost than budgeted.
- Transport (£14k net underspend) – A large part of the underspend reported during the year is due to a reduced demand for transport repairs and maintenance from Northumberland Fire and Rescue Service (NFRS) through the Service Level Agreement. This will be matched off by reduced income from NFRS, resulting in a neutral impact on the overall budget position. Savings also continue to be achieved in reduced travelling expenses. Despite these savings in transport, there is an overspend of £34k on fuel due to in year fuel price rises before the price fall and free fuel offer at the beginning of the COVID pandemic in March and the strategic decision to front load supplies in case of fuel supply issues caused by Brexit.
- Supplies and Services (£1k net overspend) – This has arisen from a number of minor over and underspends against various budgets, including postage, ICT and PPE budgets.
- Contingencies (£198k underspend) – at second review it was reported that a mid-year review of the contingency budget had been completed resulting in a saving of £0.880m. The underspend at the end of the year resulted from part of the strategic contingency and some provision for pay awards not being required or delayed in part due to the impact of the coronavirus.
- Support Services and Recharges (£46k underspend) – An in year saving has been achieved on the Service Level Agreement with the Lead Authority due to changes made after the budget was finalised. This has been reflected in the budget for 2020/21.
- Income (£406k overachieved) – the year end position shows an increase in total income received, largely due to:
 - Under-recovery of income of £43k from NFRS due to reduced demand on the service level agreement (see section 2.6);
 - Additional one-off income for courses and Trauma Support of £51k;
 - Additional secondment income of £42k;
 - Over-recovery of £60,000 from the sale of vehicles and equipment;
 - Insurance reimbursement of £35k;
 - Additional rental income of £22k;
 - Increased / new Grant allocations for New Risks, Pensions and COVID-19 of £407k;

- Reduced allocation of section 31 Business Rates grant of £173k; and
 - Other minor variances of £5k.
- Interest Received (£118k over budget) – increases to cash flow levels and a steady base rate has resulted in more interest received on the Authority's cash balances during the year.
- Capital Financing (£146k under budget) – savings have been made on debt charges and reflects the lower debt charge interest applied during the year. In addition the use of revenue to finance the capital programme has impacted favourably.
- Reserves and Provisions Appropriations (£850k increase) – underspends against budget have reduced the need to draw from Reserves in year. In addition, appropriations into the Revenue Budget Carry Forward Reserve have been made for known future requirements, including transfer of unspent COVID-19 grant and New Risks funding for demands in 2020/2021. Adjustments have also been made to reflect the IFRS Employee Benefit accounting entry and adjustments to the Council Tax Collection Fund balance required for 2019/2020. Final information relating to the Business Rate collection fund is still to be received 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 2019/2020 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 (£24.808m); and
Reserves to support service delivery requirements (£5.691mm).

This analysis helps to further confirm that all reserves are not only fully earmarked for specific purposes but that the bulk of the reserves (£24.808m or 81.34%) 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 totalling £1.515m to a newly created Covid-19 Reserve that is proposed to be temporarily established to meet the financial implications of the Covid-19

pandemic, including the reduction in Council Tax and Business rates resources identified in paragraphs 4.4 and 4.5 below if no government resources are forthcoming. This Reserve is expected to remain in place until March 2021, when it will be fully reviewed.

3. GENERAL BALANCES

- 3.1 The balance of the General Fund as at 31st March 2020 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 2020/2021

- 4.1 Regular monitoring of the budget continues to take place and the full impact of the 2019/2020 revenue budget outturn, alongside current spending against budgets will continue to be evaluated during the early part of 2020/2021.
- 4.3 The COVID-19 pandemic is, and will continue 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 as this is expected to have far wider financial repercussions on the Authority than just on the 2020/21 financial year.
- 4.4 Due to COVID-19, it has been estimated that income from Council Tax and Business Rates is expected to reduce nationally by 2.88% and 4.54% respectively. This will be closely monitored throughout the year but based on these projections this will effectively reduce the income that we can expect to receive from the district councils by an estimated £0.885million. A further factor that will affect the resources to fund the 2020/21 budget is the actual value of the Council Tax and Business Rate surplus for 2019/20 which was taken into account at the time of setting the budget for 2020/21. In February (prior to the coronavirus) the district councils estimated that our share of their collection fund surpluses would provide income totalling £0.489m. From the information received to date, (with some still outstanding) this estimate has now been reduced to £0.253m, resulting in a further potential budget pressure of £0.236m in 2020/21.
- 4.2 The total budget pressure relating to these two factors for 2020/21 is therefore estimated to be £1.121m. As outlined in paragraph 2.6 above, it is proposed to make provision for this potential loss of income if the government does not intervene and to meet other Covid-19 related budget pressures by transferring the £1.515m underspend from the 2019/20 budget into the Covid-19 Reserve.
- 4.3 In recognition of the operational and budget pressures that the Covid-19 pandemic is having on public sector organisations, the Government has allocated additional grant funding to help meet this financial burden. TWFRS has to date received £1,120,705, with £284,000 spent by the end of May, an

additional £320,000 projected to be spent by the end of September 2020, and further commitments of £107,000 to be paid by the end of 2020/21. This leaves approximately £409,000 (36.5%) uncommitted at this stage. Expenditure against this grant funding will be tracked, monitored and reported to Members later in the year, with the expectation all of this funding will be fully utilised.

5. FINANCIAL OUTLOOK

- 5.1 The MTFS approved by Members in February 2020 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 one year settlement, but the unknown impact on public finances of both the current coronavirus pandemic and BREXIT planned for later in the year. The financial position for the Authority will therefore not be clear until the outcome of the Spending Review is known and a multi-year funding settlement is put in place by the government which takes into account these factors.
- 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 2021/22.
- 5.3 In summary there remains considerable and significant uncertainty over fire and rescue service funding and there is insufficient detail to be able to confirm what the financial prospects of the Authority are both in year and also over the medium term, at this stage. What is clear is that planning for the fire service remains very difficult in these very unique and challenging circumstances which may result in the need for a mid year budget rebalancing review if not adequately addressed by the measures outlined above.
- 5.4 Members will be updated on the financial 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 The Authority is recommended to:

- note the Revenue Budget Outturn position for 2019/2020, set out at paragraphs 2.2 to 2.5;
- approve the proposed creation of the Covid-19 Reserve and transfer of funds as set out in paragraph 2.6;
- note the General Fund position detailed at paragraph 3.1; and
- note the position with regard to the Revenue Budget for 2020/2021 detailed at section 4.