

**MEETING: 27th JULY 2022**

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**REVENUE BUDGET OUTTURN 2021/2022 AND FIRST QUARTERLY REVIEW  
2022/2023**

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

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**1. INTRODUCTION**

- 1.1 The Authority's Statement of Accounts for 2021/2022 is currently being prepared and will be presented to the Authority's Governance Committee on 29th July 2022 and is within the revised statutory deadline for 2021/2022 of 31<sup>st</sup> July 2022.
- 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 2021/2022 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 2021/2022**

- 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 2022, identified a projected net overspend of £0.051 million. The Revenue Budget Outturn for 2021/2022 is positive with an underspend at the end of the financial year of £0.272m. This is in addition to the realised savings of £0.700m already reported at the Second Review stage and agreed by Members to be transferred to the Transformation and Reform Reserve.

- 2.3 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 continued positive drive the Authority has made during the financial year to achieve greater savings in the year, with a number of initiatives. However, a large degree of the underspend is due to changes in the way of working and restrictions to activities caused by the COVID-19 pandemic, which has still been prevalent in the financial year 2021/22.
- 2.4 Improved financial management is embedded throughout the Authority, with increased financial awareness and tighter budgetary control achieving net savings of £0.098m across the full service. I would like to thank Budget holders across the service for their efforts in continuing to manage their budgets effectively, and identify and release revenue savings in 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 second review stage realised savings of £0.575m were confirmed and transferred to reserves. Further changes in staffing numbers and those in development and pension memberships have continued to vary significantly from the prudent estimates used, with the consequence of a further underspend of £0.489m. The staffing and pension information available in December 2021 was used to inform the assumptions applied in setting the budget for 2022/2023, therefore it is becoming less likely that there will be such a significant underspend in the new year budget.

Members will be aware that during the 2021/2022 financial year, two further Trainee courses were completed bringing 53 additional staff into operational crews. This has reduced overtime costs, particularly over the last quarter of this financial year, and has contributed towards the additional underspend on the overall employee budgets highlighted.

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 improved direction of travel has been reflected in the 2022/2023 Revenue Budget.

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 2022/2023 financial year.

- Employee costs (£0.410m net underspend) – the main reason for the underspend relates to the operational and corporate vacancy levels and the numbers 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 increased vacancy levels. 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 (£0.078m net overspend) – the overspend is from energy charges and the significant increase in electricity and gas tariffs. This has been accommodated within the budgets for 2022/2023 but the extent of the increase remains uncertain. The increased bills have been partially offset by savings on water and rates for the year and the previous considerable investment in lower energy lighting across the service.
- Transport (£0.076m net underspend) – further savings have been made on car allowances and travel expenses due to changes in the ways of working and more remote access to services. This is in addition to a saving on the annual transport insurance premium.
- Supplies and Services (£0.003m net overspend) – budgets have been closely monitored and reallocated during the year to achieve this almost neutral position.
- Contingencies (£0.510m underspend) – as indicated at the Third Review stage a full review of the remaining contingency provision has been carried out resulting in a one-off saving of £0.510m, largely due to the strategic contingency budget not being required in 2021/2022, although it will be required in 2022/23.
- Support Services and Recharges (£0.018m net underspend) – there has been an in year change to the staffing model recharges for the USAR National Resilience responsibilities.
- Income (£0.044m underachieved) – the year end position shows a reduction in total income received against the revised budget.

Reductions in income from Princes Trust Courses, Contract Income from Primary Authority Scheme arrangements and rechargeable COMAH work, and under-recovery of catering income due to reduced sales have been partially offset by additional income from training courses, a one-off PFI Authority Support repayment, additional apprenticeship income, and refunds relating to prior year energy and rates.

In addition, there is an overall net increase of Section 31 Grants made up of Pension Admin Grant and NHS COVID-19 Grant, and a reduction in the Firelink Grant allocation.

- Interest Received (£0.054m over budget) – the budget was significantly reduced in 2021/2022 due to a drop in interest rates during the pandemic. Actual interest received is more than budgeted due to a rise in rates during the year. The budget set for 2022/2023 reflects the improved interest rate position.
- Reserves and Provisions Appropriations (£0.670m increase) – underspends against budget have reduced the need to draw down from Reserves in year. In addition, appropriations into the Revenue Budget Carry Forward Reserve have been made for known future requirements, including transfer of additional Fire Safety Grant, NHS Covid-19 Grant and Pension Administration Grant to be used in 2022/2023. 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 2021/2022.

## **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 2021/2022 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 (£28.816m); and  
Reserves to support service delivery requirements (£5.399m).

This analysis helps to further confirm that all reserves are not only fully earmarked for specific purposes but that the bulk of the reserves (£28.816m or 84%) 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.

- 2.7 It is proposed, subject to Members' approval, to allocate the surplus funds totalling £0.272m to the Transformation and Reform Reserve.

### **3. GENERAL BALANCES**

- 3.1 The balance of the general fund has been increased to £4.089m following approval at second review to transfer the remaining COVID-19 grant of £0.146m. The balance continues to be viewed as an appropriate level of General Fund Balance for the size and risks faced by the Authority.

### **4. REVIEW OF RESERVES**

- 4.1 As part of the year end closing down process, the Chief Fire Office and the Finance Director have undertaken a detailed review of the usable reserves and the following movements are recommended for Members approval:

- Transfer the remaining COVID-19 balance of £0.044m to the Transformation and Reform Reserve; and
- Transfer uncommitted balances of £0.676m from the Budget Carry Forward Reserve to the Development Reserve to assist with the Capital Programme in 2022/2023.

### **5. REVENUE BUDGET 2022/2023 FIRST REVIEW**

- 5.1 Regular monitoring of the revenue budget continues to take place and the full impact of the 2021/2022 revenue budget outturn, alongside current spending against budgets will continue to be evaluated during the early part of 2022/2023.
- 5.2 The financial impact of the COVID-19 pandemic continues to have implications on the budget but is affecting business rates income and to a lesser extent council tax income although problems in the economy and the adverse impact of the very high levels of inflation being experienced could have further implications on the revenue budget for 2022/23. This position will be monitored closely over the coming months and Members will be updated on the financial impact of these and any other external influences throughout the financial year.

### **6. FINANCIAL OUTLOOK**

- 6.1 The MTFS approved by Members in February 2022 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 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, which is of real concern. The financial position and prospects for the Authority therefore remain unclear at this stage early in the new financial year.

- 6.2 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 to beyond the life of this parliament for the fire service.
- 6.3 In summary, however, 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 both in year and also over the medium term despite the publication of the long awaited Spending Review published in November 2021. Of real concern is the additional costs of higher inflation which is now running at over 10% and that the Bank of England is now forecasting a prolonged period of high inflation. This coupled with the prospect of higher pay demands means the budget for 2022/23 could become under pressure unless the government takes measures in year to ease the financial burden on local authorities.
- 6.4 Members will be updated at the Second Review stage in November.

## **7. RISK MANAGEMENT**

- 7.1 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 re-assessed and increased to medium risk utilising the standard risk matrix based on the increasing uncertainty around public finances and the escalating cost of goods and services despite the control measures being in place.

## **8. FINANCIAL IMPLICATIONS**

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

## **9. EQUALITY AND FAIRNESS IMPLICATIONS**

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

## **10. HEALTH AND SAFETY IMPLICATIONS**

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

## **11. RECOMMENDATIONS**

11.1 The Authority is recommended to:

- Note the Revenue Budget Outturn position for 2021/2022, set out at paragraphs 2.2 to 2.5;
- Approve the proposed transfer of £0.272m to the Transformation and Reform Reserve as set out in paragraph 2.7;
- note the General Fund position of £4.089m as detailed at paragraph 3.1;
- Approve the proposed transfers between reserves as detailed at paragraph 4.1; and
- Note the position with regard to the Revenue Budget for 2022/2023 detailed at section 5 and the uncertainties identified.

