

## **SOUTH YORKSHIRE FIRE AND RESCUE AUTHORITY**

<b>Meeting</b>	<b>FIRE AND RESCUE AUTHORITY</b>
<b>Meeting Date</b>	<b>21 NOVEMBER 2022</b>
<b>Report of</b>	<b>CHIEF FIRE OFFICER / CHIEF EXECUTIVE AND CLERK AND TREASURER</b>
<b>Report Sponsor(s)</b>	<b>DEPUTY CHIEF FIRE OFFICER / CHIEF OPERATING OFFICER</b>
<b>Subject</b>	<b>FINANCIAL PERFORMANCE REPORT QUARTER 2 2022/23</b>

### **EXECUTIVE SUMMARY**

This report is the second in a series of reports that Members will receive throughout the financial year that informs them as to the likely financial performance for the year ended 31 March 2023. It routinely includes an estimated revenue outturn position when compared to the annual budget set on the 21 February 2022, an updated reserves position statement and an update on the Capital Programme alongside a narrative commentary to help explain the key financial changes that are contributing to each of them.

The 2022/23 approved operating budget, was £57.877m, funding was £58.827m resulting in a planned contribution to reserves of £0.950m, reflecting the one-off services grant for 2022/23 only.

Based on the latest income and expenditure forecasts the Authority is projecting a net operating spend of £58.800m, net contributions to reserves of £0.281m and funding of £57.877m. The forecast result is an overall operating overspend of £1.204m or 2% of the budget. The net contributions, as at Quarter 2 are the use of previously earmarked reserves (£0.240m) offset by the planned contribution to the Minimum Revenue Provision (MRP) reserve of £0.521m).

Members should note that the forecast overspend could still worsen, based on the risks and uncertainties detailed within the report. However, this has been pre-empted through the earlier setting aside of funds in the Emerging Risk reserve to mitigate some cost pressures such as inflation.

The 2022/23 approved Capital Programme was £8.773m, funded predominantly by external borrowing. Following the 2021/22 Outturn Report, approved 20 June 2022, the programme has been adjusted to £10.384m. However, with continuing delays for some goods/services and the review as part of the Medium Term Financial Plan (MTFP) update the programme has been updated and reduced to £5.952m.

Based on the projections in this report, there would be a net decrease in general reserves of £1.204m, this being the in-year estimated overspend, which is detailed further in section C of this report.

It should be noted that the current outturn position is only an indicator and work is ongoing to review all non-pay budgets to mitigate forecast overspends during this financial year. The MTFP 2023-2026, presented later on the agenda, which is still work in progress, has been updated based on a number of assumptions highlighted below to reflect the pressures current being experienced. The current outturn position and reserves position specifically excludes known business and sector risks where the financial implications are yet to either crystallise and/or able to be quantified:

- Pay Inflation –The current MTFP plan provided for pay increases at 2% across the Service. We are now forecasting, for this financial year, the current offers of 5% for Operational Staff and £1,925 per pay grade for Support Staff. This is a significant cost increase to the Service, compared to what was originally budgeted. The MTFP 2023-2026 details assumptions for future years.
- Industrial Action – The increased risk of periods of strike by members of the Fire Brigades Union will result in increased costs within this financial and potentially next.
- Inflation – currently inflation in the UK has risen to 10% and the future forecast to unknown. A £1.2m overspend on utilities and fuel at current prices, is currently forecast although this excludes any impact of the Energy Relief Scheme announced by Government.
- Potential future uncertainty of revenue funding from council tax and business rates.
- Any operational and financial impact from the McCloud and Sargeant pension legal case and other current pension legal cases.
- The full extent on the national and local economy of the UK leaving the European Union and the war in Ukraine.
- The ongoing impact of the Grenfell enquiry and His Majesty’s Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) and the outcome of the governments ‘white paper’ reform.
- The current situation with Government and the next Comprehensive Spending Review and the expectation that the Sector will have to put forward a compelling case to secure growth in its long-term funding.

## **RECOMMENDATION(S)**

Members are recommended to:-

- a) Note the emerging underlying estimated revenue performance which is showing a potential operating overspend of £1.204m for the financial year ended 31 March 2023;
- b) Note the underlying and significant financial risks and uncertainties facing the Service and Sector during the remainder of this financial year and into 2023/2024 and beyond;
- c) Note the latest estimated change in General and Earmarked Reserves as set out in Section C of this report; and
- d) Note the updated position of the Capital Programme for the financial year ending 2022/23, which is in line with expectations.

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Main Report

Appendix A - Projected Outturn Monitoring report – September 2022, Quarter 2

## BACKGROUND

### FINANCIAL OVERVIEW YEAR TO DATE 2022/23

1. As reported in the quarter one report the 2022/23 budget had been adjusted to take account of the 2021/22 approved budget carry forward funding £0.060m and the forecast spend for the SSC fund (£0.180m), together with the approved transfer to reserves for Capital Financing of £0.521m. This will result in a revised revenue budget of £57.596m.
2. Funding continues to be forecast at the approved £57.877m with a planned contribution to reserves of £0.950m, which is as a result of a one-off specific grant, earmarked to the Emerging Risk reserve. The projected net operating spend of £58.800m against this funding will result in an operating deficit (overspend) of £1.204m. However, after the net contributions from reserve this reduces to a deficit of £0.923m.
3. The following sections (A to C) to this report (supported by Appendix A) provides a summarised narrative commentary to help Members understand the primary reasons for the potential operating overspend and highlight the potential, future significant risks and uncertainties that could adversely impact on this position.

### Section A – Changes in Estimated Spend

#### Summary Outturn Position as at the end of September 2022

	<b>2022/23 Budget £m</b>	<b>2022/23 Outturn £m</b>	<b>Variance £m</b>
Employee Costs	47.447	48.048	0.601
Premises Costs	3.727	4.583	0.856
Transport Costs	0.995	1.222	0.227
Supplies and Services	4.451	4.401	(0.050)
Central/Capital Costs	2.205	1.923	(0.282)
<b>Total Expenditure</b>	<b>58.825</b>	<b>60.178</b>	<b>1.353</b>
Income	(1.230)	(1.379)	(0.149)
<b>Net Expenditure</b>	<b>57.595</b>	<b>58.799</b>	<b>1.204</b>

**EMPLOYEES** – Budget £47.447m, Estimated Spend £48.048m – Overspend £0.601m

4. Employee related costs account for circa 82% of the £58.196m budget for 2022/23. The budget set in February 2022 was based on projected staffing establishment levels, forecast pay inflation at 2%, additional on-costs relating to the employment of firefighters, full year effects of substantive changes, including final pay awards for both operational and support staff reported in 2021/22 and any other known changes or assumptions.
5. Based on the latest workforce numbers and activity data the forecast variance against the employee budget is an emerging potential overspend of £0.879m (1.5% of budget). This significant change from quarter one is due to the inclusion of the potential pay awards for both operational (5%) and support staff (£1,925 per pay grade) above the forecasted 2% increase. It also includes a reduction following the government's decision to remove the National Insurance Levy from 6 November 2022. Below is further detail for the different categories of staff costs.

- Wholetime – Budget £32.929m, Projected Spend £33.359m – Overspend £0.430m

In Quarter One we presented an underspend, which related to the net of underspends on basic pay, CPD allowance, national insurance and pensions offset by overspends on overtime.

The current forecast, which has changed significantly, is as a result of now including a potential pay award of 5%. Since Quarter One the National Employers initial offer of 2% was rejected and on 4 October an improved offer of 5% was made. However, this clearly stated that a request to the Home Office to fund the improved offer had been rejected and that fire services would need to fund it. At the time of writing this report, the offer has not been accepted.

Included in the change in Quarter Two are increased costs in relation to the additional public holiday for the Queen's funeral, further increases in overtime and the relative on-costs offset by the removal of the 1.25% National Insurance levy from 6 November 2022.

Work continues with Human Resources and Emergency Response to monitor and adjust forecasts to take cognisance of any further changes in strength, terms and conditions and the ongoing impact of staff availability and sickness on overtime, detached duty levels etc.

- On-Call - Budget £1.581m, Projected Spend £1.650m, Overspend £0.069m

The current position at Quarter Two, as with wholetime employee costs, is a forecast overspend primarily relating to increasing the forecast pay award from 2% to 5% and the removal of the National Insurance levy. The Service are continuing with a number of improvement projects in this area to ensure full establishment is maintained and this is monitored closely.

- Control - Budget £1.374m, Projected Spend £1.452m, overspend £0.078m

The movement from Quarter one is a slight reduction in the overspend. This is the net effect of increasing the forecast, as with above, in line with forecast pay awards and the forecast reduction in the National Insurance levy and staffing as movement back towards the established number of posts. Work continues with HR and Control monitoring the position.

- Support Staff – £9.398m, Projected Spend £9.535m, Overspend £0.137m

As with wholetime, the significant change in Quarter two relates to the potential pay award for support staff. The offer, agreed by Unison only at the time of this report is for an award of £1,925 per pay grade, which is an average increase of approximately 6%. GMB and Unite are yet to confirm/reject the offer and 2 out of the 3 is required to accept for adoption.

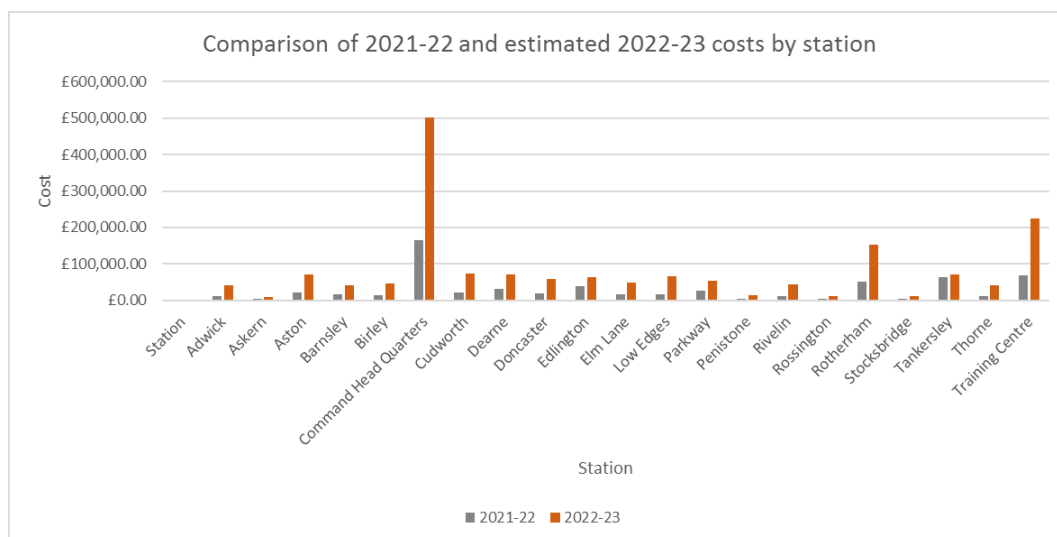
The increase is forecast lower than anticipated due a number of vacancies across the Service and the removal of the National Insurance levy.

- Indirect Employee Costs – Budget £2.165m, Projected Spend £2.052m – Underspend £0.113m

Slight underspend on operational costs offset by an increase in costs relating to accessibility measures for staff and a realised saving on insurance.

**PREMISES – Budget £3.727m, Projected Spend £4.583m, overspend £0.856m**

6. We reported in Quarter One an overspend of £0.589m, which was a net position of the significant increases in utilities (gas 219% and electric 120%) due to the current economic situation globally relating to fuel. This was offset by savings on repairs and maintenance and rates.
7. For Quarter Two, the main change has been an increased forecast in the overspend on gas of £0.250m. The chart below shows the forecast costs this year for utilities combined against last year's cost per station:



8. The utilities, amongst other areas are being monitored closely and significant work is ongoing within Estates in regards to the Service's Sustainability Plan.

**TRANSPORT - Budget £0.995m, Projected Spend £1.222m, overspend £0.227m**

9. The forecast overspend, as reported in Quarter One relates primarily to the cost of fuel, as with utilities this has seen a significant increase and fluctuation over this financial year. The increase from quarter one is due to further work in this area as we have a further 3 months actual data.

**SUPPLIES AND SERVICES – Budget £4.451m, Projected Spend £4.401m, Underspend £0.050m**

10. In Quarter One we increased the budget to include the Safer Stronger Communities fund, which is fully offset by a contribution from reserves. There has been no change to this forecast in Quarter Two.
11. We also reported a slight overspend in supplies and services, however as further work has been carried out in Quarter Two with Budget Holders we are now forecasting an overall underspend. The main areas are:
  - Equipment, Furniture & Materials – savings are being realised under furniture and fittings with minimal replacements now planned,
  - Office Expenses – savings are being realised on office equipment with minimal spend now forecast,

- Professional Services – savings are being realised based on trend to date and historical spending,
- ICT & Network – Savings are realised, however these are offset by increased costs in our communication network as work continues to upgrade lines and replace the network. Further work is ongoing with BT to ensure charges are appropriate.

**OTHER EXPENSES AND CAPITAL FINANCING COSTS – Budget £2.205m, Projected Spend £1.923m, Underspend £0.282m**

12. Previously we have always shown an underspend in relation to the MRP Policy and the reducing savings that are earmarked each year to ensure future costs are provided for. This is include within the capital financing cost which includes the interest and MRP principal payable in relation to the Service’s loan debt outstanding and capital financing requirements.
13. For Quarter Two we have amended this to now show the contribution to reserve as a reduction in budget rather than an underspend. Therefore the actual underspend shown relates to underspends forecast in year that are useable. This is the update of the capital financing costs, which based on the updated Capital Programme reduces the cost of financing and Central Expenses.
14. Central expenses principally relates to the provision of South Yorkshire Fire and Rescue Authority Members related allowances, development and expenses, fees relating to Internal Audit (RSM LLP) and External Audit (Deloitte) and the provision of services to the Authority and Barnsley MBC officers.

**INCOME – Budget £1.230m, Projected Receipts £1.379m, Overachievement £0.149m**

15. Quarter Two has seen a movement from an under achievement of income to an overachievement. This is primarily due to the rise in interest rates affecting the forecast income from investments.

**Section B – Changes in Estimated Funding**

16. The approved funding still remains at the end of quarter two at £57.877m, based on information known at this time. As more information is provided through the year in relation to business rates, council tax and Section 31 funding the position will be updated.
17. Included on the agenda at this Authority meeting is the MTFP 2023–2026. The MTFP details the future assumptions on funding that is expected to be received by the Authority over the period 2023-2026. Members will continue to receive timely briefings on any changes as soon as the implications are known.

## **Section C - Impact on Reserves**

18. The final position of the reserves as at 31 March 2022, approved by the Authority was £18.751m split between Useable Reserves (£16,974m) and Un-useable Reserves (£1.771m). The current forecast, based on the quarter position is showing the forecast final balance at 31 March 2023 of £14.921m, split between Useable Reserves (£12.623m) and Un-useable (£2.298m). However, this does not include an updated position based on the MTFP included on this agenda.
19. The current reserves position is after the approved contributions to the Emerging Risk reserve and the Minimum Revenue Provision (MRP) reserve and the approved use of the Stronger Safer Community (SSC) reserve, Revenue and Capital Grant reserves, Service Improvement reserve, Invest to Save reserve and the Capital Receipts reserve.
20. The reported overspend outturn position (£1.204m) as at Quarter Two will be a call on useable reserves after taking into account both capital and revenue forecasts. We are proposing to utilise £0.600m of the Rates Rebate Reserve with the remaining from the Emerging Risk Reserve.
21. As stated at paragraph 18 above, this position does not take into account updates in relation to the MTFP for 2023-2026. This report includes a number of scenarios due to the uncertainty and risks faced by the fire and rescue service nationally. Therefore it should continue to be noted that the current forecast outturn position excludes financial implications are not yet clear and / or not able to be quantified with any certainty at this point in time:
  - Economy - There is significant economic uncertainty as a result of the current climate. The increasing price inflation, the position of the current government, the full extent of the UK's decision to withdraw from the European Union and the ongoing war in Ukraine are all uncertain and unquantifiable risks at this time and in the future.
  - Pay Inflation – The current financial year is potentially seeing the highest increase in pay inflation for a number of years and this could continue for future years. The 2022/23 pay awards are yet to be confirmed, however based on the current offers this is a significant, unfunded cost to the Service.
  - Industrial Action – The increased risk of periods of strike by members of the Fire Brigades Union will result in increased costs within this financial and potentially next.
  - COVID-19 – The current pandemic will have a lasting effect on the financial position of the Service and Sector. This could potentially affect the level of funding from government and local authorities. The latter will likely be due to down turns on the local economy, which will reduce both the council tax and the business rates bases as well as the level of surpluses on the collection fund accounts.
  - Pension Legal Cases – There are several high profile legal cases with the most significant being McCloud and Sargeant and Matthews. The Authority has set aside reserves for the potential costs of processing Immediate Detriment cases in relation to McCloud and Sargeant. To date a number of category 1 cases have been processed and at the time of this report we have a large number of category 2 applications currently being processed. In addition, there are related legal claims to this case that may have a potential financial impact on the Service.

- Future long-term capital investments needs and funding are as yet not fully defined, with indicative expectations being presented in the MTFP 2023-2026 later in this meeting.

## **Section D – Capital Programme Monitoring**

22. The original approved Capital Programme for 2022/23 was £8.773m. Taking into account, the 2021/22 capital outturn reported to the Authority on 25 June 2022 the profiled Capital Programme for 2022/23 increased to £10.384m. As reported in Quarter One, the programme has since been reviewed in detail as part of the medium term financial planning. The projection for the current financial year has reduced significantly as a result of the changing economic situation with some programmes re-profiled or re-evaluated:

CAPITAL PROGRAMME	APPROVED CAPITAL PROGRAMME 2022/23 £m	UPDATED CAPITAL PROJECTION 2022/23 £m	CHANGE £m
Property	5.532	2.499	-3.033
Transport	2.484	2.375	-0.109
ICT and Communications	0.932	0.588	-0.344
Operational Equipment	1.426	0.490	-0.936
<b>TOTAL</b>	<b>10.374</b>	<b>5.952</b>	<b>-4.422</b>

23. Most of the spend in 2022/23 is to be financed from new approved borrowing, except for funding which is forecast from external grants, capital receipts, agreed funding from other earmarked reserves:

CAPITAL FINANCING	APPROVED CAPITAL PROGRAMME 2022/23 £m	UPDATED CAPITAL PROJECTION 2022/23 £m	CHANGE £m
Capital Receipts	0.295	0.295	0
Capital Grants	0.359	0	-0.359
Grenfell Grant	0	0.010	0.010
Covid Grant	0	0.008	0.008
Service Improvement	0	0.012	0.012
Invest to Save Reserve	0.041	0.041	0
Direct Revenue Funding	0.100	0.100	0
Borrowing	9.579	5.486	-4.093
<b>TOTAL</b>	<b>10.374</b>	<b>5.952</b>	<b>-4.422</b>



24. A significant amount of changes above relate to the re-profiling of projects as detailed below by each area of programme. The MTFP, which is also on the agenda for this meeting, has been updated to reflect these proposed changes.

## **PROPERTY**

25. The proposed reduction of £3.033m in the current year's budget includes £2.882m that relates to projects originally earmarked as major refurbishments and contingency projects. With the potential for the Service to look to developing a 'modular' build strategy, which was presented to the Authority in October, £2.132m will carry forward and support this and £0.750m will carry forward to support the ongoing estates improvement plan, both in 2023/24. The remaining £0.150m, which related to potential energy decarbonisation work has been removed following the successful bid for Salix funding to support this and other sustainability work.
26. Investment continues to maintain the fabric and integrity of the building assets as specified as part of the Estates Condition and Fire Risk Assessment surveys. This includes the provision of the multi-purpose building within the curtilage of the new Barnsley Fire Station, the estates strategy renewal works which has provided a long-term plan for each building and a new Building Management System.

## **TRANSPORT**

27. The transport strategy continues with regards to a number of replacement ancillary vehicles and the new rescue pumps, with the latter due into service before the end of the financial year. As previously reported due to issues with supply, advance orders will be placed to ensure the rolling programme of replacement is not affected.
28. The proposed change is to defer to next financial year the purchase of the new Welfare vehicle until the specification is finalised and the Workshop van, due to the tender timescales.

## **ICT AND COMMUNICATIONS**

29. The approved programme for ICT includes the ongoing upgrade replacement of equipment, network, software, applications and infrastructure and the continuation of the digital transformation roadmap (DT3). The reduction for this financial year (£0.344m) relates the re-profiling of the ongoing Emergency Services Network (ESN) and Control collaboration project.

## **OPERATIONAL EQUIPMENT**

30. Investment continues as part of the operational steering groups review of the operational equipment needs through the Service's Operational Research and Development Board. The reduction of £0.936m relates to a change in requirements resulting in a saving of £0.253m and re-profiling to 2023/24 of (£0.695m). An additional £0.012m was required in relation to the Grenfell project, funded from grant income.

### CONTRIBUTION TO OUR ASPIRATIONS

- Be a great place to work- we will create the right culture, values and behaviours to make this a brilliant place to work that is inclusive for all
- Put people first- we will spend money carefully, use our resources wisely and collaborate with others to provide the best deal to the communities we serve
- Strive to be the best in everything we do- we will work with others, make the most of technology and develop leaders to become the very best at what we can be

### OPPORTUNITIES FOR COLLABORATION

- Yes
- No

If you have ticked 'Yes' please provide brief details in the box below and include the third party/parties it would involve:

The report makes reference to joint working with South Yorkshire Police

### CORPORATE RISK ASSESSMENT AND BUSINESS CONTINUITY IMPLICATIONS

- 31. Delivering the medium term financial plan and annual budget is a strategic risk that is proactively managed by the Executive and the FRA as is the delivery of the Capital Programme.

### EQUALITY ANALYSIS COMPLETED

- Yes

If you have ticked 'Yes' please complete the below comment boxes providing details as follows:

Summary of any Adverse Impacts Identified:	Key Mitigating Actions Proposed and Agreed:

- No
- N/A

If you have ticked 'No' or 'N/A' please complete the comments box below providing details of why an EA is not required/is outstanding:

Financial Report based on the income and expenditure of the Service

### HEALTH AND SAFETY RISK ASSESSMENT COMPLETED

- Yes
- No
- N/A

If you have ticked 'No' or 'N/A' please complete the comments box below providing details of why a Health and Safety Risk Assessment is not required/is outstanding:

There are no risks in relation to Health and Safety.

## SCHEME OF DELEGATION

32. Under the South Yorkshire Fire and Rescue Authority [Scheme of Delegation](#) a decision \*is required / \*has been approved at Service level.

Delegated Power  Yes  
 No

If yes, please complete the comments box indicating under which delegated power?

Financial regulations: the provision of budgets and funding, carry forward requests, reserves management
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## IMPLICATIONS

33. Consider whether this report has any of the following implications and, if so, address them below: Industrial Relations, Financial, Legal, Asset Management, Environmental and Sustainability, Diversity, Communications and Health and Safety implications have been considered in compiling this report.

List of background documents		
<ul style="list-style-type: none"><li>• Medium Term Financial Plan 2022-2025</li><li>• Medium Term Financial Plan 2023-2026</li><li>• 2022/23 Annual Revenue Budget and Council Tax Setting</li><li>• Year-end Outturn Report 2021/22</li><li>• Financial Performance Report Q1 2022-2023</li></ul>		
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