

SOUTH YORKSHIRE FIRE AND RESCUE AUTHORITY

Meeting	FIRE AND RESCUE AUTHORITY
Meeting Date	20 FEBRUARY 2023
Report of	CHIEF FIRE OFFICER / CHIEF EXECUTIVE AND CLERK AND TREASURER
Report Sponsor(s)	DEPUTY CHIEF FIRE OFFICER / CHIEF OPERATING OFFICER
Subject	FINANCIAL PERFORMANCE REPORT QUARTER 3 2022/23

EXECUTIVE SUMMARY

This report is the third in a series of reports Members will receive throughout the financial year which details 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 £59.379m, net contributions to reserves of £0.191m and funding of £57.877m. The forecast result is an overall operating overspend of £1.693m or 3% of the budget. The net contributions, as at Quarter 3 are the use of previously earmarked reserves (£0.331m) 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 risks and uncertainties detailed within the report. However, pre-empted measures taken through the earlier setting aside of funds in the Emerging Risk reserve 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. Quarter 2 reported a significant review as part of medium term planning that resulted in a reduction to £5.952m. This forecast remains unchanged.

Based on the projections in this report, there would be a net decrease in general reserves of £1.693m, 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 a forecast and work is constant to review all non-pay budgets to mitigate forecast overspends during this financial year and future years. The Annual Council Tax and Budget Report 2023/24, presented later on the agenda, is based on a number of assumptions that reflects the pressures currently being experienced that are highlighted both in this report and the Medium Term Financial Plan 2023-26, which was approved in November 2022. The current outturn position and reserves position specifically excludes known business and sector risks where the financial implications are yet to be quantified:

- Pay Inflation –The budget provided for pay increases at 2% across the service. The support staff offer was accepted with an average increase of 6.44%. The operational staff offer of 5%, which was rejected, has now been superseded with an offer of 7%. A ballot to strike was undertaken and due to the increased offer is now delayed. Both place significant cost increase to the service, compared to those originally budgeted. The Annual Council Tax and Budget Report 2023/24 details assumptions over the medium term plan.
- Industrial Action – The potential risk of periods of strike by members of the Fire Brigade Union has and may result in increased cost pressures within this financial year and potentially next.
- Inflation – currently inflation in the UK is still around 10% and the future forecast is unknown. The £1.2m overspend on utilities and fuel reported at Quarter 2 remains unchanged at this time.
- 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 along with changes to Employment Law.
- The full extent on the national and local economy of the UK leaving the European Union and the war in Ukraine are uncertain.
- 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 £1.693m 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.
-

CONTENTS

Main Report

Appendix A - Projected Outturn Monitoring report – December 2022, Quarter 3

BACKGROUND

FINANCIAL OVERVIEW YEAR TO DATE 2022/23

1. As previously reported the 2022/23 budget had been adjusted to take account of the 2021/22 approved budget carry forward funding of £0.060m and the forecast spend for the Safer Stronger Communities (SSC) fund (£0.180m), together with the approved transfer to reserves for Capital Financing of £0.521m. Slight changes at Quarter 3 has increased the forecast spend for the SSC fund to £0.262m with an addition amount from revenue grants (£0.010m) This will result in a revised revenue budget of £57.686m.
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 £59.379m against this funding will result in an operating deficit (overspend) of £1.693m. However, after the net contributions from reserve this reduces to a deficit of £1.502m.
3. The following sections (A to C) to this report (supported by Appendix A) provides a summarised narrative commentary to assist 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 December 2022

	2022/23 Budget £m	2022/23 Outturn £m	Variance £m
Employee Costs	47.447	48.564	1.117
Premises Costs	3.727	4.576	0.849
Transport Costs	0.995	1.228	0.233
Supplies and Services	4.542	4.453	(0.089)
Central/Capital Costs	2.205	1.937	(0.268)
Total Expenditure	58.916	60.758	1.842
Income	(1.230)	(1.379)	(0.149)
Net Expenditure	57.686	59.379	1.693

EMPLOYEES – Budget £47.447m, Estimated Spend £48.564m – Overspend £0.1.117m

4. Employee related costs account for circa 80% of the £58.916m 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 £1.117m (2% of budget). The overspend has increased since last quarter and below is further detail for each of the different categories of staff. Since Quarter 2 the Support Staff pay award has been actioned with an increase of £1,925 per pay grade, backdated to 1 April 2022. The forecast for Operational Staff has been increased from quarter 2, which forecasted a 5% increase, to the current offer of 7% (budgeted forecast 2%). Below is further detail for the different categories of staff costs.

- Wholetime – Budget £32.929m, Projected Spend £33.913m – Overspend £0.984m

In Quarter 2 we reflected the potential pay award of 5%, with the outcome of the Fire Brigade Union ballot to strike unknown. Currently, potential strike action is on hold pending a further ballot regarding an increased offer of 7%.

Quarter 3 has also seen a slight increase in the overspend as a result of increased overtime and contingency crew costs.

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 £1.714m, Overspend £0.133m

The current position at Quarter 3 is an increase from Quarter 2 in relation to recruitment, holiday pay and the increased pay award offer. 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 £1.481m, overspend £0.107m

The movement from Quarter 2 is an increase in the overspend due to the revised pay award offer and a reduction in the work on the Emergency Services Network project funding an element of the Station Manager's post. Work continues with HR and Control monitoring the establishment.

- Support Staff – £9.398m, Projected Spend £9.409m, Overspend £0.011m

In Quarter 2 we reported the potential pay award for support staff of £1,925 per pay grade. This was agreed by 2 of the 3 unions and processed in December 2022, with back payment to 1 April 2022. The reduction in the overspend (£0.126m) from Quarter 2 is as a result of the finalisation of the award and the increase in vacancies during the period.

- Indirect Employee Costs – Budget £2.165m, Projected Spend £2.047m – Underspend £0.118m

No significant change to the forecast which relates to underspends 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 £4.577m, overspend £0.850m

6. There has been no change to the overspend reported in Quarter 2, which is a result of significant increases in utilities due to the current economic situation globally relating to fuel. This is offset by savings on repairs and maintenance and rates.
7. The utilities, amongst other areas are being monitored closely and significant work is ongoing within Estates in regards to the Service's Sustainability Plan. A decrease in the future forecast is reported in the Annual Council Tax and Budget Report 2023/24 later on in the agenda.

TRANSPORT - Budget £0.995m, Projected Spend £1.228m, overspend £0.233m

8. The forecast overspend, as reported in Quarter 2 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 2 (£0.006m) is a result of further savings on vehicle repairs and staff mileage forecasts offset by increased fuel usage.

SUPPLIES AND SERVICES – Budget £4.541m, Projected Spend £4.453m, Underspend £0.088m

9. In Quarter 3 we have increased the forecast for the Safer Stronger Communities fund, which is fully offset by a contribution from reserves. This is as a result of increased activity on the sprinkler project.
10. There has been a slight increase in the underspend in supplies and services in Quarter 3 as work continues with budget holders. The main areas continue to be:
 - 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 £1.937m, Underspend £0.268m

11. In Quarter 2 we updated the capital financing costs, in Quarter 3 there is no change to this forecast.
12. Central expenses and the BMBC Services to the Authority has been updated to reflect the inflationary increase within the Service Level Agreement with BMBC.

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

13. There has been no change to income forecasts since Quarter 2, with the main overachievement of income due to the increase in the interest rate through the year.

Section B – Changes in Estimated Funding

14. The approved funding still remains at the end of Quarter 2 at £57.877m, based on information known at this time. As more information is provided in relation to business rates, council tax and Section 31 funding the position will be updated.
15. Included on the agenda at this Authority meeting is the Annual Council Tax and Budget Report 2023/24. This report details the provisional funding that is expected to be received by the Authority in the next financial year. Members will continue to receive timely briefings on any changes as soon as the implications are known.

Section C - Impact on Reserves

16. 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 £15.395m, split between Useable Reserves (£13.097m) and Un-useable (£2.298m). This is a slight change from last quarter due to both the Budget Carry Forward reserve and the Safer Stronger Communities reserve forecast to have remaining balances, which will now be utilised in 2023/24.
17. The current reserves position is after the approved contributions to the Emerging Risk reserve and the Minimum Revenue Provision (MRP) reserve and the approved revised 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.
18. The reported forecast overspend outturn position (£1.693m) will be a call on useable reserves after taking into account both capital and revenue forecasts. This will be split between the Rates Rebate Reserve and the Emerging Risk Reserve.
19. It should continue to be noted that the current forecast outturn position excludes financial implications that are not yet clear or quantifiable 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 award for Support Staff was 4.44% above forecast and for Operational Staff this is yet to be confirmed, however based on the current offer of 7% (5% above budget) this may result in a significant and possibly unfunded cost to the service.

- Industrial Action – The potential risk of strike action by members of the Fire Brigade Union may result in increased costs within this financial year 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 & 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 writing 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.
- Employment Law – We are currently working through the cost implication of the legal case Bear Scotland and assessing the impact in future years of the national living wage on our current support staff pay scales.
- Future long-term capital investments needs, with indicative expectations presented in the MTFP 2023-2026, approved in November 2022 and the Annual Council Tax and Budget Report 2023/24 later in this meeting.

Section D – Capital Programme Monitoring

20. 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. The programme was reviewed in detail as part of the medium term financial planning and a reduction to £5.952m was reported at Quarter 2. This projection continues with no change at Quarter 3:

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
TOTAL	10.374	5.952	-4.422

21. 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. As above no changes since last quarter are required:

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
TOTAL	10.374	5.952	-4.422

22. The significant changes at Quarter 2, reflected in the MTFP which was approved in November 2022 are also reflected in the Annual Council Tax and Budget Report 2023/24 later on the agenda for this meeting.

PROPERTY

23. No change to Quarter 2 projections as 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. Work continues as planned on the multi-purpose building at Barnsley Fire Station, the estates strategy renewal work and the new Building Management System.
24. The modular build strategy, which was approved in October 2022 has started and the Energy based decarbonisation project is underway supported by funding from Salix, which will be reflected in the 2022/23 capital outturn presented to the Authority later in the year. Other sustainability work is ongoing with most of the Estate now fitted with more energy efficient LED lighting.

TRANSPORT

25. No change to Quarter 2 projections as the transport strategy continues with regards to a number of replacement ancillary vehicles and the new rescue pumps. The latter due into service before the end of the financial year. As previously reported advance orders have been placed to ensure the rolling programme of replacement is not affected.

ICT AND COMMUNICATIONS

26. No change to Quarter 2 projections work continues with the ongoing upgrade replacement of equipment, network, software, applications and infrastructure and the continuation of the digital transformation roadmap (DT3).

OPERATIONAL EQUIPMENT

27. No change to Quarter 2 projections as investment continues as part of the operational steering groups' review of the operational equipment needs through the Service's Operational Research and Development Board.

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

28. 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

29. 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

IMPLICATIONS

30. 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">• Medium Term Financial Plan 2022-2025• Medium Term Financial Plan 2023-2026• 2022/23 Annual Revenue Budget and Council Tax Setting• Year-end Outturn Report 2021/22• Financial Performance Report Q1 and Q2 2022-2023		
Report Author:	Name:	Sara Slater – Financial Services Manager
	e-mail:	sslater@syfire.gov.uk
	Tel no:	0114 253 2330