SOUTH YORKSHIRE FIRE & RESCUE AUTHORITY

Meeting	**FIRE AND RESCUE AUTHORITY**
Meeting Date	**15 FEBRUARY 2024**
Report of	**CHIEF FIRE OFFICER / CHIEF EXECUTIVE**
Report Sponsor(s)	**DIRECTOR OF FINANCE AND PROCUREMENT** **CLERK AND TREASURER**
Subject	**FINANCIAL PERFORMANCE REPORT QUARTER 3 2023/24**

FORMAT OF REPORT

The format of the quarterly report was revised at Quarter 2 (Q2) to provide a holistic overview of the financial position. More detail on efficiency and Key Performance Indicators (KPIs) has been included in Q3 and more will be added in future quarters. Fire and Rescue Authority (FRA) feedback is welcomed.

EXECUTIVE SUMMARY

At December 2023, the forecast outturn for 2023/24 financial year is a **surplus of £1.413m**, a favourable movement compared to the approved budget deficit for the year of £1.420m and the Q2 reported outturn of 0.919m. The budget deficit was approved to be funded from the Emerging Risk reserve; the forecast surplus will be a contribution to this reserve. The main reasons for the reduced deficit are £1.206m higher Section 31 grant funding for business rates relief and inflation and more from the collection fund than budgeted, a reduced wholetime pay forecast £1.141m and a reduced capital financing forecast £0.5m.

The approved capital budget for 2023/24 was £9.651m. In Q2, capital plans were re-profiled for the medium term financial plan (MTFP), and the capital budget was revised down to £8.931m. The Q3 forecast is lower at £7.313m, but with only £3.110m committed (excluding prepayments for vehicles), this may reduce further. The Asset Management Board will work to ensure essential and invest to save projects are delivered but will pause other projects pending the Community Risk Management Plan (CRMP) review and greater certainty over funding to manage the total loan value and the revenue impacts of this. As a result, additional underspends may be reported in Q4.

Reserves are forecast to increase to £18.856m by March 2024, but useable earmarked reserves (which can be used if risks emerge) are expected to decrease to £10.965m. Risks to this year's forecast are reducing but risks to the medium term financial position could easily deplete usable reserves if they emerge.

South Yorkshire Fire and Rescue (SYFR) has generated efficiencies in 2023/24 but needs to embed processes to manage the delivery of more recurrent efficiencies to ensure we remain sustainable for the medium term.

RECOMMENDATION(S)

Members are recommended to:

a) Note the forecast outturn surplus of £1.413m which is a reduction of £2.823m compared to revised budget (Section A);

b) Note the underlying and significant financial risks and uncertainties facing the Service and Sector during the remainder of this financial year (Section A) and into 2024/25 and beyond (Section C);

c) Note the latest estimated change in General and Earmarked Reserves (Section C); and

d) Note the forecast position of the capital programme for the financial year ending 2023/24 (Section E).

Main Report
Appendix A – Annexes to the Financial Performance Report Q3 2023/24

BACKGROUND

SECTION A - FINANCIAL PERFORMANCE (Annex A)

Budget and adjustments

1. The approved budget deficit of £1.420m for 2023/24 was to be funded from the Emerging Risk reserve. SYFR also committed to identify efficiencies to address this and future deficits in the Medium Term Financial Plan (MTFP) 2023/24 and the Efficiency and Productivity Plan 2023/24 (see section D).

2. The budget has been adjusted by reserves as set out in table 1. The net movement in Q3 is a deficit reduction of £0.010m (see Annex A), and the revised budget deficit is £1.410m. A breakdown of all the adjustments/ virements and approvals is shown at Annex G. All adjustments have sufficient approval. No additional Fire and Rescue Authority (FRA) approval is required.

Table 1: Original budget, budget revisions and the revised budget

	Q2 £m	Q3 £m	Change £m
Original Net Expenditure Budget	**64.280**	**64.280**	**-**
Contribution to MRP Reserve	-0.657	-0.553	0.10
Contribution from Rates Reserve	0.048	0.015	-0.03
Contribution from Carry Forward Reserve	0.169	0.169	-
Contribution from Stronger Safer Comm.	0.164	0.164	-
Contribution from Immediate Detriment	0.194	0.194	-
Updated Net Expenditure Budget	**64.198**	**64.269**	**0.07**

Forecast outturn

3. At the end of Quarter 3, we **forecast a £1.413m surplus for 2023/24 outturn**. This is favourable variance of £2.823m compared to the revised budget deficit (£1.410m) and a favourable variance of £2.833m compared the original budget deficit (£1.420m).

4. There are 3 main variances causing this improved outturn:

   - In Q1 we received £1.206m more Section 31 funding relating to Business Rates and an increase in the collection fund and inflation above our budget assumptions,

   - The Wholetime pay forecast is under budget by £1.141m. Basic pay (based on pay to December plus known recruitment plans) is forecast to underspend by £1.503m. This underspend reflects vacancies at firefighter level including after backfilling manager positions on temporary promotion. This underspend is offset by an overspend in overtime of £0.8m. A project has commenced to review overtime usage, and

   - The capital financing costs are forecast to be £0.5m lower than budget in Q3 as less loans have been taken out to fund capital.

5. Since the Q2 report, the forecast surplus has increased from £0.918m to £1.412m. The main movements are £0.2m more interest, £0.1m less capital financing costs, £0.1m savings on premises repairs and £0.1m reduced forecast on vehicle costs (diesel) and other miscellaneous costs (Lifewise and canteen).

Variances to budget

6. The explanations for variances to budget can be seen at Appendix A. The variances over £0.1m in order are shown in Table 2.

Table 2: Showing variances between forecast outturn and revised budget over £0.1m

£m	Fav/Adv.	Explanation
£1.206m	Favourable	Increase in S31 funding for business rates relief, collection fund and inflation against budget.
£1.141m	Favourable	£1.5m underspend on Wholetime basic pay based on pay in post and planned recruitment. Overtime overspend £0.8m, pension underspend £0.3m.
£0.499m	Favourable	Reduction in interest forecast due to less capital loans.
£0.350m	Favourable	Increase interest rate income from investments.
£0.242m	Adverse	Reduction in government grants for new dimensions, Princes Trust and protection grant due to low levels of spend.
£0.241m	Favourable	Underspend on corporate staff pay mainly due to vacancies.
£0.214m	Favourable	Reduction in vehicle running costs due to lower diesel prices.
£0.162m	Adverse	Increase in laundry contract and uniform costs.
£0.147m	Favourable	Reduction in repair and maintenance premises contract costs.
£0.102m	Adverse	Increase in ICT and network due to Airwave and Systel contracts and increased maintenance costs.

7. Forecasts at Annex A include estimates for all known and expected costs for the financial year. Table 3 below details some of the risks, which may change that forecast or impact the final outturn.

Table 3: Risks to the forecast outturn 2023/24

Area of Spend	**Estimated value of risk**	**Description of identified risks not in Forecast**
Employee costs (c83% of budgeted expenditure)	Up to £0.1m adv	1) Increase use of operational overtime. 2) Additional on costs above budget- incl. Bear Scotland legal case holiday pay forecast impact could change from estimates. 3) On-Call forecast may be impacted by work to increase availability of crews and engines. 4) Corporate recruitment challenges – may require retention payments for key roles but vacancies could also provide opportunity for savings. 5) Indirect pay includes pensions McCloud remedy. Costs may differ to estimates. May be funded by central government. 6) Changes to assumed workforce planning profiles including retirements, sickness and other absences/modified duties and unplanned leavers.

Premises costs	Up to £0.1m adv	7) Inflation may impact contract costs and utilities above forecast assumptions. We are mitigating risks through procurement and contract management. 8) Fluctuation in rates expenditure can be mitigated from the rates reserve. 9) Sustainability savings forecast may not materialise. New building management system to control usage and mitigate this risk.
Transport costs	Up to £.02m adv	10) Risk of Fuel and spare part inflation.
Supplies and Services	Up to £0.05m adv	11) Risk of continued inflation impacts not yet in forecast.
BMBC services/ Central costs/ Capital financing	Up to £0.05m fav	12) Capital financing costs could change if capital spend profile changes or interest rates change.
Income	Up to £0.1m fav	13) Individual government grants e.g. Firelink could be lower than excepted. Protection grants funding available is dependent on ability to spend against this grant.
Funding	Up to £0.1m fav	14) May receive additional grant funding from central government as in 2022/23 e.g. business rates relief.

8. The above risks and potential financial impacts are reducing for 2023/24. These will be monitored and reflected as appropriate, in Q4 forecasts.

SECTION B – BALANCE SHEET (Annex B)

9. A balance sheet forecast is not available in Q3 but is being developed for future reporting.

SECTION C – RESERVES (Annex C)

10. The Total Reserves was predicted to reduce to £12.148m by 31 March 2024 in the 2023/24 budget paper approved by FRA. Annex C shows the Total Reserves are now predicted to be £18.856m. The £6.708m variance includes £3.510m more in the emerging risk reserve, £1.009m more in the immediate detriment reserve and higher balances remaining on service improvement and grants unapplied reserve. The movement on emerging risk reserve is due to a favourable variances in 2022/23 and forecast in 2023/24. The immediate detriment reserve will be rolled into the Emerging Risk Reserve at March 2024 as recommended in the 2024 to 2027 MTFP. The total cost of Immediate Detriment (£0.615m) is expected to be recovered during 2024/25; this is not reflected in reserves.

11. While total reserves is expected to rise, the Useable Earmarked Reserves will decrease to £10.965m by March 2024. SYFR must retain an MRP reserve to cover capital loan commitments and should also retain a Minimum General Reserve of £5m as recommended by the Section 151 Officer. The Useable Earmarked Reserves represents the total value SYFR can use to cover revenue deficits should these arise from risks emerging, which cannot be mitigated by further efficiencies. The risks to the longer term financial position (see below) could quickly erode these reserves, which would require the S151 Officer to reconsider their assessment of SYFR sustainability.

Longer Term Risks

12. In addition to the risks identified above, there are risks, which may impact the longer term financial position of the SYFRA (see table 4). These risks are considered when setting reserves levels.

Table 4: Long Term risks considered when setting reserves.

Risks	**Potential £ impact per annum /over 3 year period***	**Explanation**
Industrial Action	Up to £0.2m per week of action	Could lead to additional contracted resource being required (Non-Pay) and Pay costs could increase.
Pay inflation	1% over 3 years £1.8m 2% over 3 years £3.6m	Future pay costs may increase above funded level. Each 1% above budget pay % would cost £0.6m.
Overtime costs could escalate	£0.25m pa /£0.75m	Overtime could rise by this amount per annum without additional efficiency challenge.
Employer's Pension contributions may not be fully funded	£0.6m pa (if only 80% funded)/ £1.8m	Employer's contributions for the firefighter's pension increase by 8.8%, £3m per annum from April 2024 following actuarial revaluation. Grant funding is expected to cover 100% of costs in 2024/25 (subject to the allocation formula), but there is no confirmation of funding for 2025/26 onwards. LGPS contributions are known.
Non-Pay Inflation	additional 1% CPI could cost £0.13m pa/£0.39m	Non-pay may continue to increase or be volatile.
Interest Rates	£0.5m pa/ £1.5m	Funding the capital programme through loans may cost more and returns on investments may improve.
Funding	£2m pa/£6m	One-year funding settlement and future settlements not expected to cover all costs. Business rates local retention rates and the funding formulas may also be reviewed in the medium term. Council tax and Business Rates bases of collection rates could differ.
Economic and Political uncertainty	See funding above	Current climate could potentially affect the level of funding from both government and local authorities. The pending general election could impact on funding settlements and precept levels.
Employment Law – pay and pensions	Recovery of £0.6m costs	McCloud and Matthews pension case remedy is now being processed – costs are expected to be funded. Immediate Detriment paid to date and expect to be able to recoup.
Capital Investment requirements	Revenue impact of capital +£1.6m pa/ £4.8m	Investment is required to ensure the Service has the assets it needs and to meet net zero requirements. Opportunities for funding are being explored but much of this £15m may need to be financed from reserves or loans. Costs of

		the capital investment may increase from forecasts.
Responding to HMICFRS, Inquiries and other national changes	Possible investment of up to £0.2m pa to comply.	May increase the costs of operation in need to comply but national targets to increase productivity may reduce some budgets.
CRMP/ Service Improvement and the Annual Service Plans	TBC	The CRMP refresh for 2025 to 2028 CRMP may significantly change the last 2 years of this MTFP, as zero based budgeting exercise is undertaken. Plans may require investment.
Changes to workforce and pay assumptions	+/-£1m pa/£3m	Assumptions on workforce planning profiles for wholetime firefighter retirements, sickness and other absences / modified duties and unplanned leavers may be wrong and create financial variances and pressures

*value provided are estimates to give rough order of magnitude.

<u>SECTION D – EFFICIENCIES (Annex D)</u>

13. £1.061m (1.7% of net operating expenditure) of efficiencies were included in the medium term financial plan (MTFP) commencing 2023/24. Efficiencies totalling £1.031m were budgeted in 2023/24 (see Annex D). At Q3 we forecast £1.2m will be achieved against these planned efficiencies, with unplanned items a total of £2.79m efficiencies are forecast. Inflation pressures and a lack of reporting and accountability reviews are thought to have contributed to under delivery of planned efficiencies. More savings have been achieved due to less loans for capital being taken in 2022/23 due to lower capital spend and a treasury strategy to use internal borrowing to fund capital spending while interest rates in the market were high. In addition to the unplanned savings on operational staff costs, corporate staff costs and on diesel prices.

14. While total efficiencies of £2.79m (4.5% of net operating expenditure) exceed our target for the year, it should be noted that the majority of these savings, £2.096m, are non-recurrent (i.e. they are only savings for one year and the budget will rise again in year 2) and only £0.694m were recurrent savings. More recurrent savings are needed each year to offset the recurrent and cumulative impact of inflation and allow for ongoing investment.

<u>SECTION E – CAPITAL PROGRAMME (Annex E)</u>

15. The original approved capital programme for 2023/24 was £9.651m. Following the 2022/23 outturn reported to the Authority in July 2023, this was increased to £12.964m. In Q2, the capital programme was re-profiled and the 2023/24 capital budget and forecast reduced to £8.930m. In Q3, we forecast that £7.313m will be spent but report only £3.110m of capital is committed (excluding the prepayment for vehicles, which will be delivered and accounted for in 2024/25). The low level of commitment on capital indicates this forecast may be optimistic. Finance will continue to work closely with spending departments to revise and refine the capital forecasting process. The Asset Management Board will begin work to revise the capital spend assessment criteria to include essential (for legal and regulatory compliance) and invest to save projects and review the capital programme to consider deferring any non-essential projects pending a full review of the CRMP and more certainty over future funding.

SECTION F – CASHFLOW AND TREASURY (Annex F)

16. Annex F will be developed for future reporting to FRA.

SECTION G – VIREMENTS (Annex G)

17. Annex G shows the virements and reserves adjustments to budget since the original budget was approved and what approvals are in place. All required approvals are held for these adjustments. No further approvals are required from FRA.

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

CONTRIBUTION TO SERVICE IMPROVEMENT

☒ HMICFRS Inspection Framework e.g. Diagnostic area and/ or diagnostic questions

☒ SYFR Inspection report Areas for Improvement (AFIs)

☒ Fit for the Future Improvement Objectives

☒ Professional Standards for Fire & Rescue Services in England

☒ SYFR Service Plan 2023-24 Priorities

☒ SYFR Community Risk Management Plan 2021-24

Contribution to managing resources effectively and efficiently.

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:

CORPORATE RISK ASSESSMENT AND BUSINESS CONTINUITY IMPLICATIONS

18. Delivering the MFTP and annual budget is a strategic risk that is proactively managed by the Executive and the Authority 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:

There are no Equality issues arising from this report

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

19. 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 and reserves management.

IMPLICATIONS

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

List of background documents

Medium Term Financial Plan – 2023-2026 – November 2022 Medium Term Financial Plan – 2024–2027 – November 2023 2022/23 Outturn Financial Performance report – July 2023 2023/24 Annual Revenue Budget and Council Tax Setting report – February 2023 Efficiency and Productivity Pan – March 2023 2023/24 Financial Performance Report Quarter 1 and Quarter 2		
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