HIWFRA Full Authority

Purpose: Approval

Date: **5th December 2023**

Title: **QUARTER TWO BUDGET UPDATE REPORT**

Report of Chief Financial Officer

SUMMARY

1. This report sets out the quarter two forecast position for the Authority and provides financial updates following the Budget Report in February 2023.

2. An underspend of £698,000 is currently forecast against the revenue budget (c.0.75%).

3. An efficiency plan is in place to deliver cashable efficiencies and as a means of reinvesting in enhancing the Service, with progress being made in delivering these efficiencies in line with the Efficiency Plan.

4. An update on the delivery of the capital programme is also included in this report and highlights that approximately £37m of expenditure is currently expected to take place this year with a further £36m in future years, although the timing of expenditure across years may vary.

5. The report also meets the requirements of the Prudential Code and Treasury Management Code by reporting on the prudential indicators and providing a treasury management update including the treasury management indicators.

6. Updates on reserves and the latest position with the audit of the 2022/23 statement of accounts are also included within the report.

7. The report also recommends that £690,000 of one-off additional income from interest on balances is transferred to the Capital Payments Reserve to

be used as a contribution to the costs of the Fire Contaminants work identified at the October Fire Authority.

BACKGROUND

8. The Authority approved the 2023/24 revenue budget and precept in February 2023, alongside an updated Medium Term Financial Plan (MTFP). The Authority also approved updates to the capital programme, the Reserves Strategy, the Treasury Management Strategy and the Capital and Investment Strategy and received the Efficiency Plan for 2023/24. The Authority received a further update on the financial position of the service in October 2023.

2023/24 BUDGET MONITORING

9. This section covers the overall monitoring position. The forecast position for the Authority in 2023/24 is an underspend of £698,000. A breakdown of the position is set out below:

Table 1	**Budget**	**Forecast**	**Over / (under) spend**
	£'000	**£'000**	**£'000**
Wholetime Firefighters	40,669	41,038	369
On-call Firefighters	9,021	7,312	(1,709)
Staff	16,619	16,568	(51)
Other Employee Costs	2,285	2,448	163
Premises	8,183	8,459	276
Transport	2,097	2,357	260
Supplies and Services	8,741	8,880	139
Third Party Payments	2,696	2,918	222
Income	(4,022)	(4,363)	(341)
Net Service Expenditure	**86,289**	**85,617**	**(672)**
Contingency	500	500	0
Capital financing	1,029	1,029	0
Planned contributions to reserves	5,850	5,850	0
Net Expenditure	**93,668**	**92,996**	**(672)**
Funding	(93,668)	(93,694)	(26)
Net Position	**0**	**(698)**	**(698)**

10. The overall forecast is an underspend of £0.698m. This is made up of a significant underspend on on-call firefighters, partially offset by small

overspends elsewhere. The position is still subject to some degree of uncertainty, particularly around non-pay inflation. The forecast underspend is slightly lower than the £0.889m forecast at the end of Quarter 1 that was reported to the Authority in October.

11. The pay award for non-operational staff was agreed in November at the higher of £1,925 or 3.88%. This is in line with the assumptions contained within the forecast.

12. Recruitment and retention of on-call firefighters remains a challenge for our service and nationally for the sector. Additionally, the second quarter of the year was relatively quiet in terms of incidents for the on-call teams. The investment in on-call teams made by the Authority in this financial year will see a series of improvements, including targeted On-call Support Officers, delivered throughout the year. Improved recruitment and retention will likely reduce this underspend in the medium term, as will any peaks of operational activity.

13. There is a pressure on transport which relates to firefighters' travel costs and the costs of maintenance and repair. Some of this pressure will be offset by income from other local authorities. The supplies and services pressure is partly due to non-pay inflation as well as the costs of supporting employees to return to work or manage physical and mental health issues.

14. There is a pressure on third party payments due to higher than budgeted costs of the Networked Fire Services Partnership (NFSP). This pressure primarily relates to preparatory work for the control system procurement.

15. The service budget for income from the investment of balances is based on a standard level of reserve balances and a prudent assumption on the return on investment. In the past few years, the overall reserve balance has been higher due to delays in the capital programme. There is now significant progress in that programme but balances are still higher than would normally be expected. Additionally, interest rates are significantly higher than in recent years. These factors combined mean there is some one-off additional income from interest. Reducing reserve balances mean that this will not continue into future years at this level so it is a one off benefit. It is proposed that this one-off additional income is added to the Capital Payments Reserve as a contribution to the costs of the Fire Contaminants work identified at the October Fire Authority. This is contribution is reflected in the position above.

EFFICIENCIES

16. The Efficiency Plan for 2023/24 was presented to the Authority as part of the budget report in February 2023, setting out how the service has delivered and plans to deliver efficiency improvements.

17. Efficiencies are intended to achieve at least one of the following objectives:

    (a) Deliver cashable savings that reduce the overall service spend

    (b) Limit future cost increases

    (c) Enable our people to support our communities more effectively.

18. This is the second year of a two-year efficiency plan which will deliver £1.3m in order to balance the budget. The bulk of these savings have been delivered by the removal of a senior management post, property related savings, additional income and focused management of resources within the Operations Directorate.

19. In addition, the Safety Plan Year 4 priorities include the delivery of 3% efficiencies during the year across workforce and non-pay headings. These efficiencies will be used to reinvest in the service to deliver improved outcomes for our communities. A programme of work within the Operations Directorate to better target resources to need will make a significant contribution towards this total. Other examples of efficiencies delivered to date include savings on IT contracts and anticipated efficiencies delivered in operational training by realising the benefits of the new live fire training facility.

DELIVERY PRESSURES

20. The Authority approved in principle and subject to affordability the following essential items to be added to the 2024/25 revenue budget:

    (a) Additional forecast costs relating to the re-procurement of the Control System

    (b) Additional costs for an enhanced in-house HR service

    (c) Additional posts to support work on the management of fire contaminants.

21. The funding of these items, alongside current service expenditure, will be considered during the budget setting process.

CAPITAL PROGRAMME

22. The Authority received an update on the capital programme as part of the Q1 Budget Update Report in October. There are no proposed additions to the programme at this stage and the budget setting report in February will include the proposed forward capital programme.

Prior years £'000	**Table 2**	**Forecasts**			
		2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**Future £'000**
19,405	Estate	21,437	7,628	6,532	310
11,864	Vehicles	14,694	12,293	5,104	1,854
439	Carbon reduction	841	500	500	1,000
31,708	**Total capital**	**36,972**	**20,421**	**12,136**	**3,164**
2,499	Revenue CPR investments	425	411	0	0
34,207	**Total**	**37,397**	**20,832**	**12,136**	**3,164**

23. The most significant elements of the programme relate to the vehicle replacement programme and investment in the estate as well as investments in carbon reduction to support the approved Carbon Reduction Pathway.

24. Inflationary pressures continue to create risks to the capital programme, relating both to the potential for increased scheme costs and to the impact inflation has had on interest rates. The Authority has approved prudential borrowing of up to £37.45m as part of the approved capital programme and the Chief Financial Officer continues to be advised by Arlingclose on the most cost-effective way to undertake external borrowing.

2024/25 BUDGET SETTING

25. The process of setting the 2024/25 budget is well underway within the service. A detailed review of budgets has been undertaken with budget holders to ensure that individual budgets are robust for 2024/25.

26. At the time of writing some key information needed to understand the overall service position is not yet available. Following the agreement of the Local Government (green book) pay award all pay awards for the current financial year are now resolved. However, there is no information about pay awards for next financial year, a significant factor in the service as such a high proportion of spend is on pay.

27. The results of the triennial actuarial valuation of the Firefighters pension scheme are expected imminently. It is likely that this will result in a significant increase in the employer's contribution rate. For context a 1% increase in rate would result in an increase of £360,000. The assumption within the budget scenarios set out below is that a grant is provided to cover the additional costs of employer's pension contributions for financial year 2024/25. Were that not to be the case, the forecast position would deteriorate considerably.

28. The rate of inflation has reduced and is forecast to reduce further by the end of the financial year, however it remains significantly higher than in recent years. Lower rates of inflation do not mean prices are falling, simply that they are not rising as quickly as before, so any level of positive inflation requires a corresponding increase in income and/or funding. The translation of inflation in the general economy to inflation within the service is also not straightforward.

29. There is very limited information available about funding for next year. However, to give an indication of what the position may look like, two scenarios have been modelled in the table below. Both are based on prudent assumptions about pay and non-pay inflation and modest grant funding increases.

Table 3	**3% (£2.42 Band D) Council Tax increase per annum**	**6.2% (£5 Band D) Council Tax increase per annum**
	£'000	**£'000**
2024/25 opening deficit	**264**	**264**
Pay inflation	3,041	3,041
Non-pay inflation	514	514
Delivery pressures	761	761
Capital financing	500	500
Funding increase	(1,948)	(3,786)
Closing deficit	**3,132**	**1,294**

Use of Budget Equalisation Reserve	(1,458)	(1,294)
Remaining deficit	**1,673**	**0**

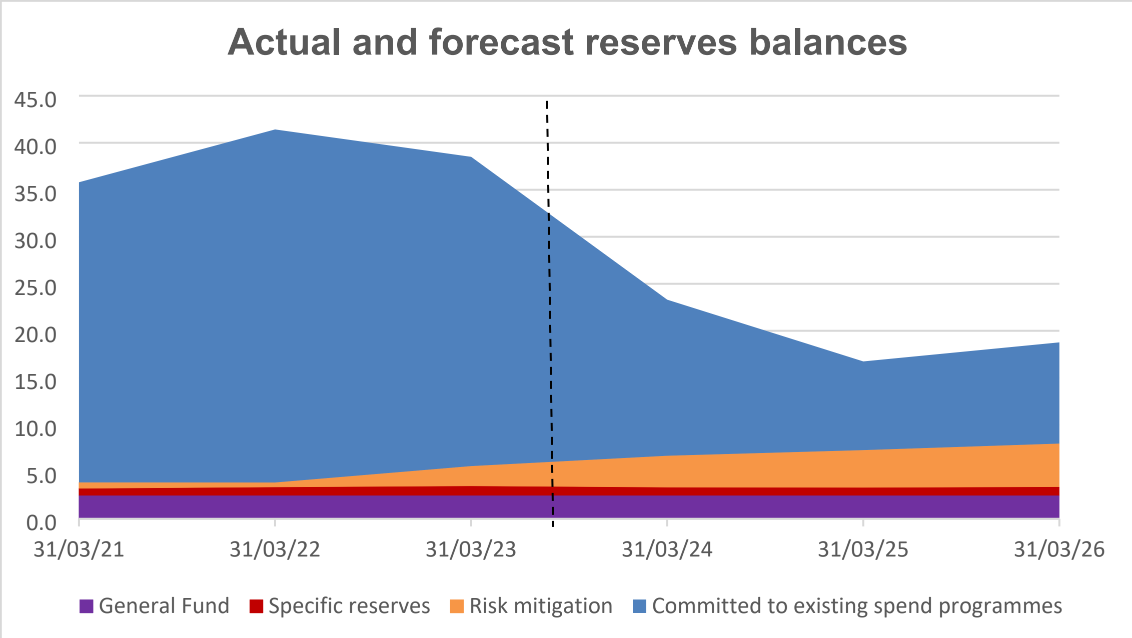
30. This shows that, based on current prudent assumptions there is a deficit in both scenarios. However, with a £5 increase in Council Tax for Band D properties, this deficit can be balanced by a draw from the Budget Equalisation Reserve, leaving a residual balance of £164,000. With a 3% council tax increase, the BER is exhausted and a deficit remains. This would need to be covered from other reserves in order to bridge the gap while plans to reduce spend were developed. In either scenario, this would create a future on-going annual pressure that would need to be addressed (as reserves can only be spent once) making the Authority's position more challenging in the medium term.

31. Given the high degree of uncertainty, the scenarios are indicative. However, they do illustrate the significant positive impact that a £5 increase in council tax would have on the Authority's financial position.

RESERVES, BALANCE SHEET AND TREASURY MANAGEMENT

32. The Reserves Strategy, Capital and Investment Strategy, and Treasury Management Strategy help to support the overall planning and financial management of the Authority, including by giving due consideration to financial sustainability, risk management and the health of the Authority's Balance Sheet.

33. The Authority's **Reserves Strategy** was last approved in February 2023 and the graph below reflects the latest projections for reserves balances. The expected reduction in reserves reflects planned expenditure, in particular in relation to the approved capital programme.



34. The **Capital and Investment Strategy** includes the prudential indicators required by the CIPFA Prudential Code (2021). The Code requires quarterly reporting on these indicators, which is included at Appendix A. The indicators continue to be in line with the agreed strategy and the requirements of the Code, demonstrating that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable.

35. A number of treasury management indicators were set within the **Treasury Management Strategy** (TMS). The quarterly Treasury Management report is included at Appendix B and provides commentary on treasury management activity during the second quarter of the financial year including the treasury management indicators. Timing differences between income and expenditure mean that investment balances fluctuate over the course of a year, however trend analysis shows that balances are starting to trend downwards as would be expected in line with the planned use of reserves to fund capital expenditure and the current internal borrowing strategy.

<u>STATEMENT OF ACCOUNTS</u>

36. The Authority's 2022/23 unaudited accounts were approved by the Standards and Governance Committee in September 2023. The audit of the accounts has been delayed due to the national backlog in the audit of local bodies. Proposals to address the backlog were put forward by the Department of Levelling Up, Housing and Communities (DLUHC) during the summer of 2023, however at the time of writing the period of engagement and consultation on these proposals was still in progress and the impact on

the audit of the 2022/23 accounts is not yet known. Updates from officers and the external auditor, EY, will continue to be brought to the Standards and Governance Committee as this situation progresses.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

37. Strong financial management and a stable medium term financial position ae key enablers of our safety plan and priorities, with funding allocated to priority areas.

RESOURCE IMPLICATIONS

38. This report covers the forecast financial position for 2023/24 as at the end of Quarter 2 alongside updates on the capital programme, reserves, and treasury management.

39. The section on efficiencies sets out how objectives for 2023/24 set out within the Efficiency Plan are being implemented, while the section on delivery pressures highlights areas in which additional resources are being identified as being required to meet service priorities.

40. The report also provides a forward look at the budget for 2024/25 and the impact on the medium term financial position of uncertainty about the future financial resources that will be available to the Authority. This will be considered in further detail in the February 2024 budget setting report.

IMPACT ASSESSMENTS

41. This report does not propose the implementation of a new change activity, and/or introducing, or amending, a Service Policy, Procedure or Guidance document.

42. Where change occurs as a result of the delivery of the Efficiency Plan, delivery pressures, or the capital programme any impact assessment will be considered as part of the individual change project rather than as part of this budget update report.

LEGAL IMPLICATIONS

43. The Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs. This report is one of the ways in which the Authority meets this requirement.

44. Any legal implications relating to the delivery of the Efficiency Plan or the identified delivery pressures will be considered within specific appraisals of the individual items within these areas.

45. There are no new legal implications specifically as a result of this report.

RISK ANALYSIS

46. Risks relating to reduced central government funding and pay and price inflation are included within the organisational risk register. Strong financial management, including the regular monitoring and reporting against approved budgets and strategies as covered in this report, is an important part of mitigating these risks. The report highlights risks that may in future crystalise around relating to this uncertainty relating to the 2024/25 budget and the MTFP. These will be addressed further in the February 2024 budget setting report.

CONCLUSION

47. The Authority approved the 2023/24 revenue budget and precept in February 2023 alongside an updated Medium Term Financial Plan (MTFP). The Authority also approved updates to the capital programme, the Reserves Strategy, the Treasury Management Strategy and the Capital and Investment Strategy and received the Efficiency Plan for 2023/24.

48. This report provides (a) the second quarterly update on progress against the approved budgets and strategies during 2023/24 and (b) a look forward to budget setting for 2024/25.

49. The report highlights a projected underspend against the revenue budget for 2023/24 of £0.698m (c.0.75% of net expenditure) and notes that current forecasts are for £37m of expenditure against the capital programme this year. It also provides details of the work being undertaken to deliver efficiencies within the service and an update on the delivery pressures highlighted in the previous report. The report and appendices also meet the requirements of the Prudential Code and Treasury Management Code.

50. Looking ahead to 2024/25, the section on budget setting confirms that uncertainty remains in several key areas that will influence the budget and MTFP. The budget setting process is well underway, however until more information is available planning continues to be challenging. The report does highlight that there is the potential that even if government grants permission for the Authority to increase Council Tax by £5, taking the decision to do so could still result in a significant budget gap that would require the use of the budget equalisation reserve in 2024/25 and create a

funding pressure in subsequent years. This is an indicative position given the significant uncertainty and is being provided to assist the Authority in considering future plans ahead of the budget setting report in February.

RECOMMENDATION

51. That the forecast outturn position for the financial year 2022/23 and associated capital programme forecasts be noted by the HIWFRA Full Authority.

52. That the prudential indicators and the treasury management update including the treasury management indicators be approved by the HIWFRA Full Authority.

53. That the transfer of £690,000 of one-off additional interest income to the Capital Payments Reserve as a contribution to the costs of the Fire Contaminants work identified at the October Fire Authority be approved by the HIWFRA Full Authority

54. That the 2024/25 budget setting update and associated uncertainty be noted by the HIWFRA Full Authority.

APPENDICES ATTACHED

Appendix A – Prudential Indicators (Q2)

Appendix B – Treasury Management Update Report (Q2)

BACKGROUND PAPERS

55. HIWFRA Q1 Budget Update Report

56. HIWFRA Budget and Precept Requirement 2023/24 including Medium Term Financial Plan

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