HIWFRA Full Authority

Purpose: Approval

Date: **26 JULY 2022**

Title: **OUTTURN REPORT**

Report of Chief Financial Officer

SUMMARY

1. This report provides a summary of the 2021/22 revenue outturn position for the Hampshire and Isle of Wight Fire and Rescue Service for the 2021/22 financial year. It explains that the final year position is that spend is £2.582m lower than the budgeted amount after taking account of proposed requests to carry forward budgeted allocations of £0.616m into 2022/23. Carry forward requests have been provisionally agreed by the Chairman of the Fire Authority. This position has been achieved by the careful management of spend and will allow a necessary contribution to be made towards capital priorities.

2. The report recommends that the £2.582m available from the year end position is added to the Capital Payments Reserve to fund the future priorities of the Authority and provides an update on balances held across all reserves at the end of 2021/22.

3. In addition, the report also covers capital expenditure and financing for 2021/22, revisions to the forward-looking capital programme, and the treasury management outturn report for 2021/22.

4. This report requests Members of the Authority to review the figures as laid out in the appendices and recommends that the outturn report, including carry forwards, reserves and capital financing are approved. In addition, it recommends that the annual treasury outturn for 2021/22 is approved.

BACKGROUND

5. This is an annual report that sets out the financial position for the financial year 2021/22 as per the draft Statement of Accounts. The budget for 2021/22 was agreed in February 2021, with updates on the in-year financial position presented to the Authority in December 2021 (end of Q2) and February 2022 (end of Q3).

REVENUE EXPENDITURE 2021/22

6. A summary of the revenue position by area of spend and type of spend is shown at Appendix A. After allowing for carry forward requests, the outturn position is an underspend of £2.582m.

7. The main reasons for this underspend are:

   (a) Wholetime Firefighters – balanced position. There is a proposal later on in this report to contribute £550,000 to reserves to fund improvements within the Operations Directorate. This is the underspend on the wholetime firefighter budget, which has been achieved by careful management of vacancies. The figures in this report assume that this request is approved, therefore there is a nil variance on wholetime firefighters.

   (b) On-Call (Retained) firefighters - £0.308m underspend. This is a result of vacancies across the on-call workforce.

   (c) Green book staff - £0.690m underspend. Challenges in recruiting and retaining staff in a number of areas including IT has contributed to this underspend. The underspend is partially offset by the use of external resources, resulting in a pressure in 'supplies and services' below.

   (d) Premises costs - £0.279m underspend. This underspend is largely due to one-off underspends on utilities costs.

   (e) Transport costs - £0.105m overspend, mainly due to higher fuel prices.

   (f) Supplies and services - £0.515m underspend. The underspend mainly relates to non-pay spend within the People and Organisational Development Directorate. The use of agency staff to fill vacancies as identified above has offset some of the underspend.

   (g) Additional income - £0.636m. This mainly relates to additional investment and rental income.

8. During financial year 2021/22 the Authority continued to contribute to the response to the COVID-19 pandemic, including support to partner organisations. The cost of COVID-19 response was covered by government funding. The COVID-19 grant has now been fully committed. Should any further COVID-19 related costs emerge during the next financial year, these will become a pressure on the overall budget.

9. A larger underspend was delivered than anticipated when the financial position was last reported to the Authority in February 2022 (end of December 2021 forecasts). At that time, it was anticipated that an underspend of £0.871m would be delivered, approximately £1.7m less than the underspend ultimately achieved.

10. There is no single reason for the difference, instead it is the result of increased underspends across a range of areas including an increased underspend on staffing due to vacancies; lower premises costs than forecast relating to utilities, rates and property works; lower than expected training costs due to vacancies; additional rental and Primary Authority Scheme income; additional grant income; and lower costs associated with stock, loan interest and pension adjustments.

11. Given the challenges of the past year, this is a strong outturn position and reflects the continued focus on sound financial management within the service.

12. Operations teams have carefully managed their budgets to deliver a substantial underspend during 2021/22. Subject to Fire Authority approval there is a proposal to contribute part of this underspend (£550,000) to the Transformation Reserve and to ring fence this funding to deliver improvements and change within the Operations Directorate. The funding will deliver a number of change activities.

13. The largest single item is the temporary establishment of 6 On-Call Support Officer posts. These posts are essential in supporting our On Call workforce. Our people working in the rural On Call areas of Hampshire and Isle of Wight have little facility to enable the delivery of crucial Community Safety provision, for organising and facilitating training and having a provision for much needed wellbeing support. The use of On-Call Support Officers will be evaluated. In order for the posts to become permanent, additional efficiency savings will need to be found from within the Operations budget.

14. In addition, the funding will be used for assessing the quality of our current Community Safety programme against our ambitions, and for evaluating new approaches to help keep people safe from emerging risks. It also allows preparation for the important efficiency programme.

15. Spend against this ringfenced allocation will be reported to Executive Group and the Fire Authority via the standard quarterly monitoring processes. The figures in this report assume that the Fire Authority have approved this ringfenced contribution to the Transformation Reserve.

CARRY FORWARD REQUESTS

16. Requests have been received from the Operations, Corporate Services and People and Organisational Development Directorates to carry forward budget allocated in 2021/22 for work which was unable to be completed during the year. The main reason for delay in the completion of these activities during the year was the COVID-19 pandemic. These requests are:

    (a) Operations (£0.230m) – to resource the Community Safety plan as work was significantly delayed by Covid 19 restrictions. The carry forward will enable the completion of the work.

    (b) People and Organisational Development (£0.040m) – to enable the completion of external training courses planned during 2021/22 that were unable unavailable due to Covid 19 restrictions. Approval of the carry forward will enable these courses to be completed during 2022/23.

    (c) Corporate Services (£0.346m) – Supply chain issues due to the global interruption of microchip production has delayed purchases of planned replacement equipment. This along with a lack of resourcing has caused development work not to be completed in line with the 2021/22 plan, this carry forward will allow the activities to be completed.

17. These carry forward requests were provisionally agreed by the Chairman of HIWFRA in May to enable activity in these areas to continue and have therefore already been reflected in the Statement of Accounts and the figures quoted within this report.

ADDITIONAL PERMANENT POSTS

18. In line with the constitution, any budget transfer from non-pay budgets to pay budgets must be approved by the Fire Authority. This is generally covered off as part of the Budget and Precept report in February when any additional funding for these posts is also approved.

19. The Director of People and Organisational Development was previously employed by Hampshire County Council. Following a period of work between Hampshire County Council and HIWFRS a decision has been taken to transfer the role and the postholder into HIWFRS. This decision was taken in

recognition of the breadth of the role and its importance for the Service. Therefore a budget transfer is required to transfer the budget from non-pay to pay budget. The change is covered by realigning existing budgets so no additional funding is required.

20. As highlighted in this and previous financial monitoring reports, recruitment to positions within the ICT team continues to be extremely challenging. The Director of Corporate Services and his team have considered options to address this resourcing issue and have proposed the creation of two new posts within the ICT structure. These posts will be funded from non-pay savings within the ICT budget. This means that transfers from non-pay to pay budgets will also be required.

CAPITAL EXPENDITURE 2021/22

21. The Fire Authority has incurred capital spend of £1.659m during 2021/22 in addition to drawing £0.173m from the Capital Payments Reserve to fund elements of the capital programme that for accounting reasons must be treated as revenue expenditure. This results in total expenditure of £1.832m against the most recent forecast included in the February 2022 budget report of £3.743m.

22. The Capital Payments Reserve is also used to fund major revenue projects and a further £1.790m has therefore been drawn from the reserve to fund expenditure in 2021/22 on these projects, compared with the most recent forecast of £2.866m.

23. The lower than forecast spend relates to delays in the delivery of schemes within the programme. The total funding for these schemes will continue to be required to complete the programme in future years and this has been reflected in the updated capital forecast at Appendix B.

24. The financing of the expenditure incurred during 2021/22 is detailed in the following table. This compares the outturn position against the estimates included in the budget setting report in February 2022.

Funding source	Estimated £'000	Actual £'000
Capital payments reserve (CPR)	2,143	550
Prudential borrowing	1,500	1,109
Capital receipts	0	0
Partner contributions	100	0
Total capitalised expenditure	**3,743**	**1,659**
Revenue expenditure from CPR	0	173
Total capital programme projects	**3,743**	**1,832**
Major revenue investments	2,866	1,790
Total cost	**6,609**	**3,622**

25. Of the expenditure incurred, £1.109m relates to the Redbridge and Cosham Station Investment Programme (SIP) schemes and will be funded through prudential borrowing, as previously agreed by the Authority. In line with the Authority's Treasury Management Strategy and advice from its treasury advisors, this prudential borrowing has not yet resulted in the Authority taking on new external debt. This is because temporary internal borrowing has been used to mitigate risks associated with borrowing too much and/or too soon. This will delay but not replace the need to borrow externally to fund these projects and given the current rising interest rate environment, the risks associated with the timing of external borrowing are being carefully monitored by the Chief Financial Officer in liaison with the Authority's treasury advisors.

26. The Authority is required to set and monitor against Prudential Indicators in accordance with the Prudential Code. These indicators cover capital expenditure, external debt, and affordability. The Authority has ensured compliance with its prudential indicators during 2021/22, including remaining within the Authorised Limit of £26.7m for the maximum affordable amount of external debt set and ensuring that over the medium-term debt will only be for capital purposes.

27. The Prudential Indicators were last updated in February 2022 during the budget setting process and actual values for 2021/22 against these estimates are shown in the table below, with the difference due to the slippage of schemes described above.

Prudential Indicators for prudence	**Estimated £m**	**Actual £m**
Capital expenditure for 2021/22	3.7	1.7
Capital financing requirement (CFR) as at 31/3/22	11.4	11.0
External debt as at 31/3/22	6.7	6.7
Prudential Indicators for affordability	**Estimated**	**Actual**
Financing costs to net revenue stream 2021/22	1.1%	0.9%

<u>CAPITAL EXPENDITURE 2022/23 TO 2025/26</u>

28. Appendix B provides an update to the capital programme for the coming years, including the latest forecast of spending requirements and funding sources. There is a summarised appendix included as Appendix B1, with a more detailed presentation containing commercially sensitive information included at exempt Appendix B2.

29. The most significant elements of the Authority's forward capital programme relate to the vehicle replacement programme and the Station Investment Programme. Other projects include the development of the Live Fire training facility, sprinkler installation at the fleet maintenance centre, and the installation of electric vehicle charging points, in addition to the finalisation of the Basingstoke Fire Station project, where the station has been in operation for some time but final works have been delayed due to Covid-19.

30. Specialist mechanical & electrical advisors have been appointed as part of the Fleet Maintenance Centre (FMC) sprinkler installation project. They have now completed a design analysis from the original feasibility completed by Hampshire County Council in 2019. The FMC building has since evolved to meet the business need and areas of risk have shifted. Therefore, a greater coverage of the site is required to ensure full asset protection. This has in turn had a knock-on impact on the size of system required including diesel pump, tank and concrete slab. In addition to this, the project has been hit with higher-than-expected inflation that has subsequently increased raw materials and prelims for the project. It is therefore recommended that the approved budget for the project is increased from the current £400,000 to £530,000. Of this increase, £60,000 relates to inflation and can be accommodated within the existing inflation contingency built into the revenue budget for 2022/23. The remaining £70,000 will be funded from the Capital Payments Reserve. This increase in budget is included within the forward looking capital programme table presented as Appendix B.

31. Significant inflationary pressures continue to affect the UK economy and officers are actively working to mitigate inflationary risks and to minimise the impact on the delivery of the capital programme.

32. The £3.5m live fire scheme as approved by Authority in 2021 is under pressure. The original budget included scope for two aspects, the live fire practical element and then the Learning & Development area fit out to enhance contamination control and gender-neutral facilities.

33. Due to pressure from Brexit, Covid and now the Ukraine war we have hit the perfect storm in the construction industry. Since the budget was approved by the Authority in 2021, the construction sector has changed significantly with low levels of material supplies nationally, limited labour resource which is expensive and significant inflation for certain materials (steel prices for example have increased 50% since February 2022).

34. To remain within the current financial envelope it will be necessary to remove the Learning & Development fit out and deliver the live fire element only. This would mean that the project would not provide the necessary support and welfare facilities to enable live fire training to a standard that meets the five estate Design Principles, most notably “healthy and inclusive” facilities to improve decontamination processes and ensure the Service provides inclusive facilities for trainers and trainees.

35. Specifically, if the project is descoped the following benefits will not be achieved:

    (a) Benefits to the health and wellbeing of personnel through dedicated welfare facilities and decontamination routes and initiatives

    (b) Providing an accessible and inclusive place of work for HIWFRS personnel, partners and visitors with the introduction of a lift, access ramp and gender-neutral facilities to the Learning and Development suite.

    (c) Improved contamination control.

    (d) Alignment to the Design Principles to ensure the Service is providing a Service fit for the future

36. Therefore it is recommended that additional funding of up to £1m is allocated to this project from the Capital Payments Reserve. This can be accommodated from the reserve due to the additional contribution from revenue underspends. This funding would otherwise have been used towards the retrospective design principles work approved by the Authority in April

2022 for which a funding source has yet to be identified. This increase in budget is included within the forward looking capital programme table presented as Appendix B.

37. Elements of planned expenditure on the Redbridge and Cosham SIP schemes will have to be classified as revenue expenditure for accounting reasons. The Authority therefore agreed as part of the February 2021 budget setting report that up to £2m of such costs for the Redbridge scheme could be funded from the Capital Payments Reserve (CPR), providing that the total scheme cost remained within the approved budget. To preserve the funding within the CPR, it was agreed that an equivalent amount of borrowing would be used to fund eligible capital expenditure on other schemes in place of the use of the CPR. The intention is for the same approach will be taken for any revenue costs associated with the Cosham scheme. No relevant expenditure against either project has been incurred to date.

PROVISIONS

38. Provisions are included in the year end position for future liabilities where the timing or amount is uncertain at the end of the financial year. Increases and decreases in provisions impact on the revenue budget. The following provisions have been adjusted during the 2021/22 financial year:

(a) **Provision for pension liabilities (£28,000 decrease)** This provision covers the costs of pension liabilities relating to one-off lump sum payments for temporary promotions that the Authority has agreed to fund. The decrease reflects the use of the provision as affected firefighters retire.

(b) **Provision for uninsurable and other claims (£14,000 decrease)** This provision covers the excess on insurance claims. There is an excess of £25,000 on employee liability claims and £50,000 on motor vehicle claims. These cases may take a number of years to settle. The decrease is based on the latest assessment of outstanding claims.

RESERVE BALANCES

39. An updated reserves position is included as Appendix C. It is recommended that the Authority approves the transfer of the 2021/22 underspend of £2.582m to the Capital Payments Reserve (CPR). This will result in a balance on the CPR of £30.6m, however given the significant commitments already built into the capital programme and the estates delivery pressures highlighted within the recent Medium Term Financial Plan update presented to the Authority in February 2022, in addition to emerging inflationary pressures, significant future

draws on this reserve are anticipated to meet the Authority's capital priorities. Appendix C has been prepared on the basis that this recommendation is approved by the Authority.

40. There are two different types of reserve, and these are:

(a) Earmarked Reserves – these reserves are held to fund a specific purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

(b) General Reserve – use of this Reserve is non-specific and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant on-call pay costs. Generally, this is deemed to be a reserve of 'last resort' and the Authority has never been required to use its General Reserve.

41. The changes to reserves during the year, including the contribution of the underspend to the Capital Payments Reserve, can be summarised as follows with more detail available in Appendix C:

	Earmarked Reserves (£'000)	General Reserve (£'000)
Opening balance	33,761	3,023
Contributions	10,541	-
Draws	(5,381)	(523)
Closing balance	38,921	2,500

Although the reserve balances are significant, the majority of the balance (94%) is committed to the capital and other investment programmes over the next five years. There are uncommitted balances totalling £2.4m in the Transformation Reserve and the Grant Equalisation Reserve. These balances are held for service improvement and to mitigate against the financial uncertainty generated by the lack of a multi-year funding settlement respectively.

42. In addition, the Authority has £6.7m of outstanding PWLB borrowing from the funding of capital expenditure in previous years that will mature and require repayment over the next 15 years. The presentation of the financial position means that these amounts are shown separately i.e. the reserves position shown above does not reflect the outstanding PWLB borrowing or any internal borrowing.

43. The transferred Isle of Wight reserves balance (£0.983m) was received in year and the opening reserves balances shown in the table above and in Appendix C have been adjusted accordingly to reflect the opening reserves position for the new Combined Authority as at 1 April 2021. The majority of this balance has been allocated to the Capital Payments Reserve (£0.842m) to support future investment with the remainder related to grants (£0.141m) placed in the Revenue Grants Unapplied Reserve (RGUR).

TREASURY MANAGEMENT

44. The Treasury Management Strategy approved by the Authority in February 2021 and updated in February 2022 was followed throughout the year. All the limits and boundaries set were fully complied with.

45. The year end report for Treasury Management is set out as Appendix D for Members' approval.

STATEMENT OF ACCOUNTS

46. The timescales for the publication of draft and audited accounts have been temporarily extended through amendments to the Accounts and Audit Regulations over recent years due to the impact of Covid-19.

47. Despite these extended deadlines, the national picture is that the audits of a significant majority of local authority accounts were not completed on time in 2020/21. The Department for Levelling Up, Housing and Communities therefore published details of measures to support the improved timeliness of local audit in December 2021. One of the outcomes was to extend the deadline for the sign-off of audited accounts for 2021/22 to the end of November 2022. Under these proposals, the deadline will then revert to 30 September for the subsequent 6 years.

48. The Fire Authority's annual accounts are presented to the Standards and Governance Committee for approval. Officers are working with the external auditors EY with the aim of presenting audited accounts for 2021/22 to the 28 September 2022 meeting.

FINANCIAL MANAGEMENT CODE

49. The CIPFA Financial Management (FM) Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) in response to a number of local authorities experiencing high profile issues with their financial management. The Code notes that there is much good practice across the sector but that the failure of a small number of authorities threatens stakeholders' confidence in local government as a whole. The FM Code therefore sets out principles to guide local authorities in managing their finances and minimum standards that should be achieved, although it is not prescriptive about how this should happen.

50. The FM Code was formally adopted across local government from the 2021/22 financial year and includes six principles within the Statement of Principles of Good Financial Management as a benchmark against which financial management should be judged. These six principles are then translated into financial management standards, covering:

    (a) The responsibilities of the chief financial officer and leadership team

    (b) Governance and financial management style

    (c) Long to medium term financial management

    (d) The annual budget

    (e) Stakeholder engagement and business plans

    (f) Monitoring financial performance

    (g) External financial reporting

51. A self-assessment of the Authority's financial management has been undertaken by the Chief Financial Officer and the Executive Group and has concluded that the Authority is compliant with the requirements of the Code. Although Compliant, the Executive Group has discussed opportunities to further enhance the Authority's financial management and will continue to actively do so as opportunities arise.

PENSIONS MATTERS – COST CAP ENVELOPE

52. In 2016 the former Hampshire Fire Authority made a local decision to include periods of temporary promotion as part of pensionable pay for a small cohort of affected firefighters. Because these benefits were in excess of the statutory

minimum, the costs need to paid by the Fire Authority rather than the Home Office.

53. The current cost cap envelope is:

    (a) £291,000 for one-off lump sum payments

    (b) £38,700 per annum for ongoing payments.

54. The lump sum payments are covered by the provision mentioned in paragraph 32 above. This amount remains sufficient. Based on retirements to date (36 of the cohort of 41) it is recommended that the allocation for ongoing payments is increased by £11,300 to £50,000.

55. There are a number of reasons why the forecast ongoing payment may have increased since the 2016 forecasts, including the impacts of the McCloud remedy, pay increases, unbroken periods of temporary promotion and changes to commutation factors. These could not have been anticipated in 2016. It is recommended that the Authority approve a revised cost cap envelope as follows:

    (a) £291,000 for one-off lump sum payments - unchanged

    (b) £50,000 per annum for ongoing payments – an increase of £11,300 per annum.

56. The increase in the cost cap envelope can be funded from within the existing allocation for ongoing pension costs.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

57. Ensuring that funding is appropriately accounted for is vital for all public sector organisations. 2021/22 has continued to be challenging due to the extra pressures and uncertainty resulting from the COVID 19 pandemic. Strong budget management has meant that an underspend has been achieved in year.

RESOURCE IMPLICATIONS

58. This report reflects the financial position for the previous financial year and does not contain any requests which would affect the future financial position other than the carry forward requests and the proposed transfer of the underspend to the Capital Payments reserve providing for future funding needs.

IMPACT ASSESSMENTS

59. This is a factual report that looks back over the financial performance during the last financial year. Any financial decisions taken during that year, or future decisions about the use of the amounts added to reserves will be subject to separate impact assessments.

LEGAL IMPLICATIONS

60. This report is part of the final accounts process. There is a legal requirement that the Statement of Accounts be approved and signed off by external audit. The deadline for the sign-off of the accounts has been extended in recent years through temporary amendments to the Accounts and Audit Regulations due to the impact of Covid-19 and well documented challenges across the country in meeting deadlines for the sign-off of audited accounts. The sign off of the audited accounts for the Authority is planned for the end September, which is within the timescales dictated by current legislative requirements.

RISK ANALYSIS

61. This report covers the draft outturn position prior to the full audit of the accounts. If any significant errors are uncovered during the audit process these will be referred back to the Authority.

EVALUATION

62. The finance team preparing the Authority's accounts evaluates the process of preparing the accounts and liaising with the external auditors to identify lessons learned and areas to further streamline and improve the process for future financial years.

CONCLUSION

63. It is requested that the Authority review and approve the financial position for the year ended 31st March 2022 as detailed in this report.

RECOMMENDATION

64. That that the outturn position for 2021/22 (including Appendix A) and the use of reserves set out in paragraph 39 and appendix C of this report be approved by the HIWFRA Full Authority

65. That the carry forward requests totalling £616,000 as set out in paragraph 16 of this report be approved by the HIWFRA Full Authority

66. That the contribution of £550,000 from the Operations Directorate budget to the Transformation Reserve, to be ringfenced for improvements as set out in paragraphs 12 - 15

67. That the transfer of budgets from non-pay to pay to cover the post of Director of People and Organisational Development and two additional posts within the ICT team be approved by the HIWFRA Full Authority

68. That the capital outturn position in 2021/22 and the capital spend profile going forwards including the additional funding for the sprinkler project set out in appendix B be approved by the HIWFRA Full Authority

69. That the increase in funding of £1m for the Live Fire project be approved by the HIWFRA Full Authority

70. That the financing for capital payments set out in paragraph 24 be approved by the HIWFRA Full Authority

71. That the revised cost cap envelope for temporary promotions set out in paragraph 55 be approved by the HIWFRA Full Authority

72. That the annual Treasury outturn report set out in appendix D of this report be approved by the HIWFRA Full Authority

APPENDICES ATTACHED

Appendix A – Revenue Outturn by type of spend and service areas

Appendix B1 – Capital Outturn, forecast and funding (public)

Appendix B2 – Capital Outturn, forecast and funding (exempt)

Appendix C – Reserves Position

Appendix D – Treasury Management Outturn

Contact: Catherine Edgecombe, Chief Financial Officer, catherine.edgecombe@hants.gov.uk, 0370 779 6214