HIWFRA Full Authority

Purpose: Approval

Date: **4 OCTOBER 2022**

Title: **BUDGET UPDATE**

Report of Chief Financial Officer

SUMMARY

1. This report provides an update on the 2022/23 financial monitoring position at quarter 1. In addition, it provides an update on the challenges relating to inflation that are affecting the service. Finally, it provides a brief update on the progress on delivering efficiency savings.

BACKGROUND

2. The 2022/23 budget including an updated Medium Term Financial Plan was approved by the Fire Authority in February 2022. A two-year funding settlement is expected this year, but no further information about funding for future years is currently available.

3. However, in light of the significant inflationary pressures facing the service and the wider economy it is now a good time to consider the impacts of inflation on this year and on the budget for 2023/24.

4. Due to the lack of information about future funding and the challenges of accurately forecasting both pay and non-pay inflation the figures contained within this report are built on a series of assumptions. These assumptions will be refined as more information becomes available.

5. The Authority is not asked to take any action at this stage, the report instead provides a timely update on assumptions, risks, and potential mitigations

related to the Authority's financial position, as would be expected as part of robust financial management arrangements in periods of significant uncertainty.

2022/23 BUDGET MONITORING

IMPACT OF INFLATION

6. Inflation is the driver of significant pressures on the 2022/23 budget. This section of the report considers only the impact of inflation, the wider monitoring position is considered in the next section.

7. The forecast impact of inflation on the 2022/23 budget position can be summarised as follows:

Table 1	£'000
Excess non pay inflation	1,158
Offset by:	
Inflation contingency	(300)
General contingency	(500)
Net impact – non pay	**358**
Forecast pay inflation	
Firefighter	1,716
Staff	793
Offset by:	
Pay inflation contingency	(1,526)
Net impact – pay	**983**
Total inflationary pressure	**1,341**

8. During the budget setting period, it became increasingly clear that inflation was rising to levels not seen in the recent past. For this reason, when the original budget was set, additional funding was allocated to inflation. As well as a pay inflation contingency of 3.3%, a non-pay inflation contingency of £0.3m was added. This was in addition to a general contingency of £0.5m.

9. At quarter one, the forecast impact of excess non-pay inflation is £1.158m. The drivers of this inflation are energy costs (£1.018m) and fuel costs (£0.140m). The non-pay inflation contingency and the general contingency, together totalling £0.8m, have been used to offset against this pressure, leaving excess unfunded non-pay inflation of £0.358m.

10. At present neither Firefighter or Staff pay awards have been agreed. The staff pay offer was a pay increase of £1,950 from April 2022 which equates

to between 10% and 4% depending on pay grade. The position in Table 1 assumes that this pay award is agreed, resulting in forecast staff pay inflation of £0.793m.

11. The firefighter pay offer was 2% from July 2022. This is below the budgeted amount of 3.3%. However, the position in table 1 assumes that a pay award of 5% is agreed, resulting in total forecast firefighter pay inflation of £1.716m. An assumption about the firefighter pay award has been included to provide the Authority with a prudent forecast, rather than as a comment on the likely outcome of any pay negotiation.

12. The impact of these forecast pay awards is offset by pay inflation contingencies, resulting in a net pay inflation pressure of £0.983m. The net impact of both pay and non-pay inflation on the 2022/23 budget is a pressure of £1.341m.

OVERALL MONITORING POSITION

13. This section covers the overall monitoring position, including the impact of inflation set out in the previous section. The forecast position for the Authority in 2022/23 is an underspend of £0.630m. A breakdown of the position is set out below:

Table 2	**Budget**	**Forecast**	**Over / (under) spend**
	£'000	**£'000**	**£'000**
Wholetime Firefighters	36,933	37,052	119
On-call Firefighters	8,318	7,731	(588)
Staff	14,624	14,974	350
Other Employee Costs	2,146	2,146	-
Premises	9,988	11,159	1,171
Transport	1,829	2,310	481
Supplies and Services	7,576	7,642	66
Third Party Payments	2,651	2,775	124
Income	(2,964)	(3,750)	(786)
Net Service Expenditure	***81,101***	***82,039***	***937***
Contingency	800	-	(800)
Capital financing	1,529	730	(799)
Net Expenditure	***83,430***		***(662)***
Funding	(83,430)	(83,398)	32
Net Position	**-**	**(630)**	**(630)**

14. In summary, there are significant ongoing pressures mainly relating to inflation, offset by additional income, the use of contingencies and lower costs of capital financing.

15. There is a forecast overspend on wholetime firefighters of £119,000. This pressure is due to the impact of the assumed pay award offset partially by vacancies. The forecast position on on-call firefighters is an underspend of £588,000. However, this was the position before the period of exceptional activity relating to the heat wave so it is likely that this underspend will reduce significantly by quarter two.

16. The forecast overspend on staff of £350,000 relates to the assumed pay award, based on the employers’ pay offer of £1,950 across all grades.

17. The forecast overspend on premises relates to inflationary pressures discussed in the previous section. The transport overspend of £481,000 relates to inflationary pressures on fuel (£140,000), increased repairs and maintenance costs due to increases in the number and complexity of repairs on the fleet (£260,000) and additional staff travel costs (£81,000). The additional staff travel costs are more than offset by vacancies in wholetime firefighters.

18. Income is expected to be higher than budgeted due to higher investment income than budgeted and increased fleet income. There is also some additional income from work on projects that is offset by higher costs. As reserves are spent the additional income from investments will no longer be available so this is one-off underspend.

19. The underspend on the contingency budget is because the contingency has now been fully committed to non-pay inflation. The budget continues to be held here to illustrate the full impact of excess inflation.

20. There is a significant one-off underspend on capital financing. This is because external borrowing to fund the Cosham and Redbridge Station Investment Programme schemes has not yet been taken out. This is a one-off underspend that will not be available to support pressures in the next financial year.

FORWARD IMPACT OF INFLATION

21. The inflationary pressures impacting on 2022/23 will inevitably have a significant impact on the budget for 2023/24 and subsequent years.

22. The Medium Term Financial Plan produced in February 2022 suggested that there would be a deficit of £189,000 during financial year 2023/24,

which would be covered by a draw from the Grant Equalisation Reserve. Appendix 1 compares the position outlined in February 2022 (column 1, original) against a revised forecast (column 2, revised) taking into account higher inflation assumptions. Changes are highlighted in red.

23. If this were to be the position for 2023/24 it would be necessary to fully spend the Grant Equalisation Reserve balance and reduce planned contributions to reserves.

24. However, as stated previously this forecast position is based on a significant number of assumptions and these assumptions will need to be revised in light of inflation rates and the Local Government Finance Settlement, expected in December.

25. In particular it is important to note that this forecast position for 2023/24 assumes that:

    (a) 2022/23 pay and non-pay inflation is in line with the forecasts set out previously in this report

    (b) Inflation is at 5% for non-pay and 4% for pay during 2023/24

    (c) No additional support for inflation is provided by government

    (d) The Council Tax referendum limit remains at 1.99% for Fire Authorities and that the Authority proposes and agrees a rise to the maximum level.

26. The issues facing HIWFRA are not unique to the Authority or the fire sector. Officers continue to monitor the situation closely. Should the current forecast deficit position for 2023/24 materialise it will be necessary to reduce contributions to reserves to balance this budget in the short term while medium term plans to address the deficit are developed. This would be undesirable as borrowing would be needed in future to plug the gap in the capital programme where future expenditure would previously have been funded from the amounts put aside in reserves, further increasing pressures on the revenue budget through interest costs and Minimum Revenue Provision (MRP) charges. However, it would allow the Authority to set a balanced budget for 2023/24.

27. The financial forecasts continue to be prepared using prudent but realistic assumptions, however this is a period of significant uncertainty for the UK economy, and indeed for the global economy, and the situation will continue to evolve over the coming months. This will continue to be monitored closely

by officers and a further update will be brought to the December Fire Authority.

EFFICIENCIES

28. As part of the 2022/23 budget setting process, efficiencies of £800,000 were included. The development and delivery of an Efficiency Plan is a Safety Plan Year 3 Objective. To date efficiencies of £159,000 have been secured, leaving a remaining target of £641,000. Plans for delivering these efficiencies are well developed. The majority will come from efficiencies within the Operations Directorate.

29. Further detail will be provided in the December budget update, however delivery of the savings is on track and the forecast position within this report assumes that the savings will be delivered by March 2023.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

30. Strong financial management and a stable medium term financial position ae key enablers of our safety plan and priorities.

RESOURCE IMPLICATIONS

31. There are no specific resource implications of this report.

IMPACT ASSESSMENTS

32. This report is for information and does not contain any proposed changes to policies.

LEGAL IMPLICATIONS

33. The proposals in this report meet the Authority's legal requirement to plan and prepare a balanced budget for the next financial year.

RISK ANALYSIS

34. This report focuses on the risk presented by inflation to the in-year and medium term financial position of the Authority. This risk is mitigated in-year by the use of one-off underspends and in the medium term by reductions in reserve draws. This risk is recorded in the organisational risk register and is being monitored closely.

CONCLUSION

35. This report has provided an update on the financial position of the Authority during 2022/23 and provides a forecast position for 2023/24. It also provides a brief update on the delivery of efficiencies.

RECOMMENDATION

36. That the forecast outturn position for financial year 2022/23 be noted by the HIWFRA Full Authority

37. That the forecast impact of current high levels of inflation on the forecast 2023/24 budget be noted by the HIWFRA Full Authority

38. That the proposal to closely monitor the in-year and medium term position and use reserve contributions to close any budget gaps in the short term be approved by the HIWFRA Full Authority

APPENDICES ATTACHED

39. Appendix 1 – Forecast impact of Inflation on the 2023/24 budget

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