Hampshire & Isle of Wight
FIRE & RESCUE AUTHORITY

HIWFRA Full Authority

Purpose: Noted

Date: **10 October 2023**

Title: **Q1 BUDGET UPDATE REPORT**

Report of Chief Financial Officer

SUMMARY

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

2. An underspend of £889,000 is currently forecast against the revenue budget (1.01%) although this position is still subject to some degree of uncertainty, particularly around non-pay inflation and the outcome of the pay award for non-operational staff. A number of delivery pressures have also been identified and are discussed in more detail below.

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 2022/23 statement of accounts are also included within the report.

BACKGROUND

7. 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.

2023/24 BUDGET MONITORING

8. This section covers the overall monitoring position. The forecast position for the Authority in 2023/24 is an underspend of £862,000. A breakdown of the position is set out below:

Table 2	**Budget**	**Forecast**	**Over / (under) spend**
	£'000	**£'000**	**£'000**
Wholetime Firefighters	40,427	40,196	5
On-call Firefighters	9,011	7,309	(1,702)
Staff	16,448	16,866	182
Other Employee Costs	2,147	2,147	0
Premises	8,003	7,918	(85)
Transport	1,779	1,887	108
Supplies and Services	9,444	9,708	264
Third Party Payments	2,619	2,799	180
Income	(3,352)	(3,167)	185
Net Service Expenditure	**86,525**	**85,663**	**(862)**
Contingency	500	500	0
Capital financing	1,029	1,029	0
Net Expenditure	**88,054**	**87,192**	**(862)**
Funding	(88,054)	(88,081)	(27)
Net Position	**0**	**(889)**	**(889)**

9. The overall forecast is an underspend of £0.889m. 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 and the outcome of the pay award for non-operational staff.

10. Recruitment and retention of on-call firefighters remains a challenge for our service and nationally for the sector. Additionally, the first 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, as will any peaks of operational activity.

11. The position on wholetime firefighters is balanced. There is a small pressure on staff costs, mainly driven by the higher than anticipated green book pay offer, which is yet to be agreed.

12. There is a small pressure on transport, which mainly relates to travel costs for firefighters. The supplies and services overspend is partly driven by an assumption that non-pay inflation will continue at a high level. It is challenging to budget for inflation as standard inflation in the economy does not translate into inflation on fire service spend in a straightforward way. With general inflation in the economy slowing, this will be an area of focus for the remainder of the year.

13. The third party payments overspend is a result of higher than budgeted costs of the Networked Fire Services Partnership. Work is ongoing to understand this position and to make sure that the partnership costs are contained within the budget.

<u>EFFICIENCIES</u>

14. 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.

15. 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.

16. 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.

17. 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

18. There are a number of anticipated delivery pressures that will need to be considered within the budget setting process for 2024/25. Based on the Medium Term Financial Plan, approved by the Authority in February 2023 there is a forecast deficit of £2.068m for next financial year. As detailed budget setting is carried out and more information about funding becomes available the forecast budget gap for 2024/25 will be refined.

19. An important part of this process annually is to consider areas where spend may need to increase to ensure that service delivery can continue effectively. There are a number of potential pressures outlined in the following paragraphs. In line with practice in previous years, a list of delivery pressures will be considered by the Fire Authority as part of the December Budget Update, for inclusion in the forward budget subject to affordability.

20. At its July meeting, the Authority considered an exempt item about the procurement of the control system. This procurement is ongoing and information about any costs will be included within the December budget update.

21. On this agenda for this meeting there are proposals relating to an enhancement of the HR service. Should these proposals be approved by the Authority they will be included within the proposed budget.

22. A further paper of on this agenda considers the potential financial implications of work relating to fire contaminants. The total cost of this work is high and it exceed available budgets in the medium term. However, subject to Fire Authority decision making on the paper, it may be possible to include elements of this work within the 2024/25 budget, subject to affordability.

CAPITAL PROGRAMME

23. The Authority approved updates to the capital programme as part of the outturn report in June 2023. The most significant elements of the Authority's forward capital 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. The latest forecasts for

the timing of expenditure are shown in the table below with more detail in appendix A1 and A2 (confidential) for approval by the Authority.

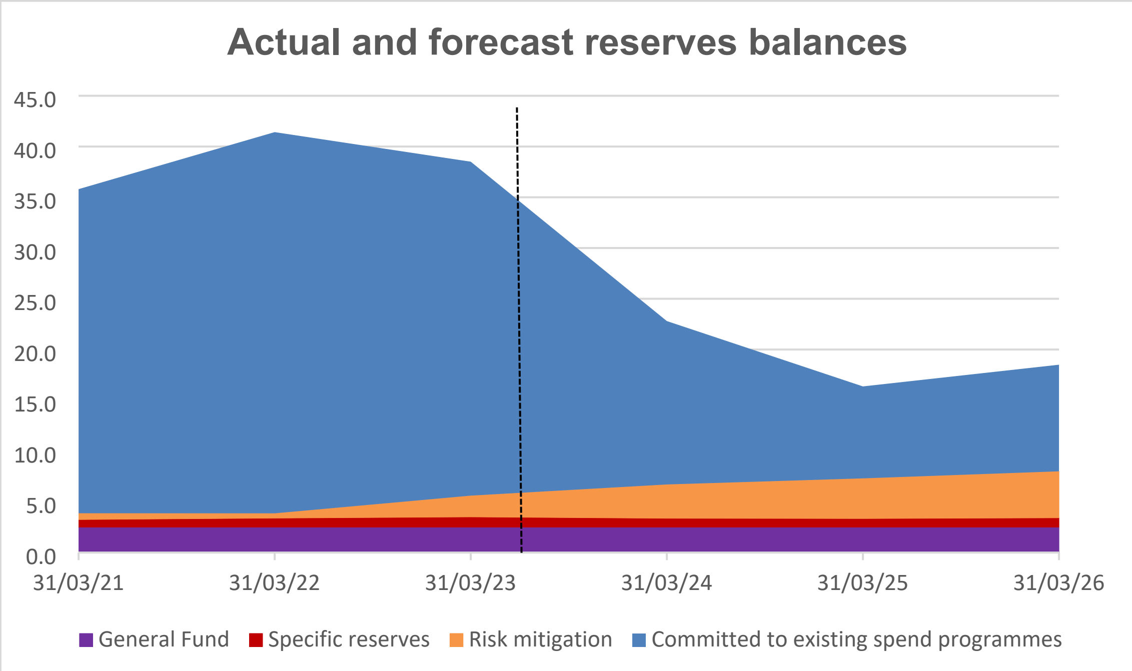
Prior years £'000		**Forecasts**			
		2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**Future £'000**
19,405	Estate	21,437	7,628	6,532	310
11,864	Vehicles	14,694	12,293	5,104	1,854
439	Carbon reduction	841	500	500	1,000
31,708	**Total capital**	**36,972**	**20,421**	**12,136**	**3,164**
2,499	Revenue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

24. As reported in June, inflationary pressures continue to create risks to the capital programme. These risks related to the potential for increased costs for schemes that have not yet been tendered and/or that do not have fixed prices, and also the impact inflation has on interest rates, as the Authority has approved prudential borrowing of up to £37.45m as part of the approved programme. The delivery of the programme to date has not yet required the Authority to take on new external borrowing and the Chief Financial Officer continues to be advised by Arlingclose on the most cost-effective way to undertake borrowing.

RESERVES, BALANCE SHEET AND TREASURY MANAGEMENT

25. Alongside setting the budget and updating the Medium Term Financial Plan (MTFP) in February 2023, the Authority updated the following strategies: the Reserves Strategy, the Capital and Investment Strategy, and the Treasury Management Strategy. These three documents 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.

26. The anticipated contributions to and draws from reserves were profiled through to 2026/27 in the **Reserves Strategy**. The graph below reflects the most recent projections and shows the planned significant reduction in balances projected by the end of the forecast period due in particular to expenditure on the approved capital programme.



27. The Reserves Strategy in February set out that an additional one-off contribution to the Capital and Investment Risk Reserve of £1.5m would be made in 2023/24, subject to affordability. Given the slower than originally planned expenditure on capital schemes to be funded from borrowing, capital financing costs are lower in the short term than budgeted, allowing this contribution to be made. This does not affect the chart above because it had already been assumed this contribution would be made.

28. The **Capital and Investment Strategy** includes the prudential indicators required by the CIPFA Prudential Code (2021). Starting in 2023/24, there is a requirement to report against these indicators on a quarterly basis. This reporting is included in Appendix B and shows the impact of the planned capital expenditure on the Authority's debts and capital financing costs over time. The indicators continue to be in line with the agreed strategy and requirements of the Prudential Code, demonstrating that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable. The indicators reflect the later than previously planned capital expenditure as set out earlier in this report.

29. The Treasury Management Code (2021) also includes a requirement to regularly report on treasury management indicators set within the **Treasury Management Strategy** (TMS). This reporting is included within the treasury management update report at Appendix C and provides a commentary on treasury management activity during the first quarter of 2023/24. 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.

30. As set out in the TMS the CIPFA Code requires the Authority to invest its funds prudently and have regard to the security and liquidity of investments before seeking the highest yield. Investments in externally managed pooled funds offer the potential for enhanced returns over the longer term but are more likely to be volatile in the short term. The TMS therefore sets out that for these investments to be appropriate it must be the case that the Authority plans to hold them for at least the medium term. This is to ensure that any initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell investments at a loss for liquidity purposes.

31. Given the anticipated ongoing reduction in balances over time as a result of the approved capital programme and other planned expenditure from reserves, the Chief Financial Officer has, after taking advice from Arlingclose, therefore determined it to be prudent to reduce exposure to pooled fund investments, from £7m down to £3.25m, with the redemption of these investments taking place during August 2023.

32. The redemptions resulted in a small loss on the principal sum invested of £18,532 (or less than 0.5% of the £3.75m invested) however the Authority has received approximately £1m in dividends from these pooled funds since purchase, giving a total return of c.25% over an average holding period of between 5 and 6 years. The Chief Financial Officer will continue to seek the advice of Arlingclose on the ongoing suitability of the remaining pooled fund investment balance. In addition, the Capital and Investment Risk Reserve continues to provide mitigation for investment risks. The current higher interest rate environment means the small loss on the principal sum invested can be covered from additional interest income generated this year.

<u>STATEMENT OF ACCOUNTS</u>

33. As reported to the Authority in June, the draft Statement of Accounts was published on 31 May 2023 in accordance with the statutory deadlines. The external auditor’s audit planning report setting out the planned timescales for the audit of the accounts was included in the papers for the Standards and Governance Committee meeting in July, however EY reported at the meeting that this plan is now subject to change. This is because of developments at a national level, whereby the Department for Levelling Up, Housing and Communities (DLUHC) has communicated its proposals to address the well-publicised backlog with local authority audits. DLUHC is currently engaging in dialogue with stakeholders, including those from the

fire sector, ahead of a planned formal consultation period in the autumn. At this stage it is unknown when the 22/23 accounts will be audited.

34. The external auditor presented the auditor's annual report on the 2021/22 accounts to the July Standards and Governance Committee meeting. This report included EY's Value for Money (VFM) assessment and commentary, reiterated the auditor's unqualified audit opinion, and confirmed that the auditor had not identified any VFM or public interest issues to report in reviewing the 2021/22 accounts.

35. The Authority's 2022/23 unaudited accounts were presented to the Standards and Governance Committee for consideration and approval on 27 September 2023.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

36. 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

37. This report covers the forecast financial position for 2023/24 as at the end of Quarter 1 alongside updates on the capital programme, reserves, and treasury management.

38. 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.

39. The sale of pooled funds generated a small loss (£18,532 on the principal sum originally invested) however the investments have delivered significant additional income over the holding period and the loss on the principal sum invested can be covered from higher investment income this year without the need to call upon the Capital and Investment Risk Reserve.

IMPACT ASSESSMENTS

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

41. 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

42. 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.

43. The Authority is required to approve and publish its Statement of Accounts in accordance with the Accounts and Audit Regulations. The authority to approve the accounts is delegated to the Standards and Governance Committee and was dealt with as part of the 27 September 2023 meeting of the Standards and Governance Committee.

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.

EVALUATION

47. Washup sessions are held by the finance team at key points within the budget cycle as part of continuously improving the way in which the finance service is provided by evaluating what has been successful and what lessons can be learned for the future.

CONCLUSION

48. 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. This report provides an update as at the end of the first quarter of 2023/24.

49. This report provides an update at the end of the first quarter of the year on each of these items. It highlights a projected underspend against the revenue budget and provides details of the work being undertaken to deliver efficiencies within the Service. It also highlights delivery pressures that have emerged. The report also meets the requirements of the Prudential Code and Treasury Management Code in terms of monitoring and reporting on prudential and treasury indicators on a quarterly basis. A quarterly update on treasury management is included as well as an update on the annual accounts and audit process.

50. The report includes a number of recommendations for the Authority to note the contents of this report and the forecast position at the end of quarter one.

RECOMMENDATION

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

52. That the updated capital programme forecasts (appendices A1 and A2) be noted by the HIWFRA Full Authority

53. That the quarterly prudential indicators (appendix B) be noted by the HIWFRA Full Authority

54. That the quarterly treasury management update report including the treasury management indicators (appendix C) be noted by the HIWFRA Full Authority

55. That the sale of pooled fund investments (paragraph 32) be noted by the HIWFRA Full Authority

APPENDICES ATTACHED

Appendix A1 – Capital Programme Update

Appendix A2 – Capital Programme Update (confidential)

Appendix B – Prudential Indicators (Q1)

Appendix C – Treasury Management Update Report (Q1)

BACKGROUND PAPERS

Budget and Precept Requirement 2023/24 including Medium Term Financial Plan (MTFP)

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