

Police, Fire & Crime Panel Report

October 2020



Finance Update as at end of August 2020 - Fire

Introduction

In February 2020 the PFCC agreed the revenue Budget for the Fire Service for 2020/21 which was based on the receipt of income totalling £35,261k. In addition to the Revenue Budget the PFCC also agreed a Capital Programme that was initially set at £2,352k for 2020/21.

This report is to provide the Panel with an update on progress in relation to the finances of the Fire Service based on the position to the end of August 2020. The report includes a forecast of the finances across the remainder of the financial year and considers any significant changes that have impacted during 2020/21 so far. The report also provides the Panel with an indication of some of the potential future challenges from a financial perspective that are likely to impact across the medium term and will therefore need to be taken into account during the 2021/22 budget and precept setting process.

Revenue Budget 2020/21

Significant progress has been made in stabilising the finances of the Fire Service over the last 18 months which resulted in returning the Medium Term Financial Plan (MTFP) to balance when the 2020/21 budget was agreed.

This more robust financial position will become vital over the coming years as the financial impacts that are likely from Covid-19 become more apparent.

In terms of the 2020/21 financial year the current forecast, as at the end of August 2020, is that the Fire Service will broadly breakeven in 2020/21 as a whole, with a very small forecast overspend of £35k set out in appendix A.

Impact of Covid-19 in 2020/21

Most of the variances highlighted within Appendix A, in terms of forecast overspends and underspends, are linked to Covid-19.

For example, the £351k forecast underspend on the Specifics Grant line is predominantly as a result of recognising additional Government Grant that, although not ringfenced to be spent on Covid-19 expenditure, was provided for this purpose.

The Fire Service has in total received 2 lots of additional funding in this respect. £108k that was received in 2019/20, however expenditure of only £26k was incurred in that year and therefore the remaining £82k was Earmarked for future use.

A further £615k was received in 2020/21, of which £276k has been spent to the end of August 2020 with a forecast that a further £90k will be spent across the remainder of the financial year.

The Service therefore has capacity to absorb around £330k more than the currently forecast expenditure on COVID before it will need to seek additional funds and/or need to absorb costs into its Core budget. If no further costs are incurred in year then this funding will be earmarked to help with the expected financial challenges that are likely to result in 2021/22.

The £276k of COVID costs incurred in the current financial year cover the following areas:

- Additional Staffing Costs - £118k
- PPE and Cleaning - £143k
- Other Costs, such as IT and Licencing - £15k

As referred to above these costs are leading to a number of the overspends recorded within Appendix A, such as against Wholetime Firefighters Pay budget, Premises, and Supplies and Services.

Other Areas of Note

In addition to the higher Wholetime Firefighter costs that are relating to Covid-19, the Fire Service is also incurring higher costs as a result of being over establishment in this area on average over the first 5 months of the financial year. The Panel will recall that during 2019/20 the Fire Service undertook the first external recruitment of Wholetime Firefighters in North Yorkshire since 2009/10 which has put the Service in a much stronger position to maintain firefighter numbers across the year, with the Service starting the 2020/21 year with 10 FTEs more than the budgeted number.

Pay Awards

Since the report covering the period to June, the pay award for Firefighters has been agreed as an increase of 2%, to come into effect from the 1st July 2020. This is 0.5% lower than the budgeted position and this is expected to save the service around £80k, during 2020/21, versus the budgeted assumption.

The Pay Award for non-firefighter roles has not yet been finalised however the current forecast now assumes a 2.75% increase, which would be 0.25% higher than budget, and would lead to additional costs, versus the budget, of approximately £10k in 2020/21.

Additional Protection Funding

The PFCC has been allocated an additional £370k of ring-fenced funding since April 2020 with three separate allocations of funding expected to be received in 2020/21.

- £60k for a Building Risk Review Programme – which will deliver a review of all high-rise residential buildings over 18 metres by the end of December 2021.
- £256k for the Protection Uplift Programme – which support initial improvements in local protection capability
- £54k has been allocated to support delivery of the lessons and relevant recommendations of the Grenfell Tower Inquiry Phase 1 report. The supporting correspondence from the HO

states this is to deliver genuine change in increasing resilience in managing a major fire with a focus on communications infrastructure and the use of smoke hoods in all services.

Neither this above funding nor the corresponding expenditure is yet reflected in the financial summary at Appendix A, however plans are currently being developed in the line with funding terms.

Efficiencies and Savings

Work continues to deliver savings to support wider investments and pressures. A further £60k of savings have been identified over the last couple of months, from areas such as the PFI contract, reductions in staff mileage and subsistence due to new ways of working and less use of support contracts since the change in governance arrangements.

These savings are being used to offset in year pressures from excesses on insurance claims and also to ensure that key roles within the service have the required level of training to undertake the full responsibilities of their roles.

Capital Programme 2020/21

Capital expenditure in the first 5 months totals only £85k against a revised programme of £1.44m. This is not however unexpected due to lockdown arrangements of some suppliers.

One of the largest areas of expenditure within the Capital programme – which is set out at Appendix B – is on vehicles. The Emergency One factory closed upon lockdown which is expected to have an impact on the build of the new Appliances which were expected in 2020/21.

A revised build schedule in respect of Appliances is awaited however the current estimate suggests that only £500k of the £1,360k will be spent in 2020/21. Therefore, at this stage £860k is reported as being required to be carried forward into future years although this will be kept under review. A further £200k, which was also earmarked to be spent on an Incident Command Unit, as part of a wider regional collaboration, is also not going to be spent this year.

All areas continue to be reviewed with Budget holders with further updates expected during October to determine how these areas are expected to progress over the remainder of the financial year.

Conclusion

The Fire Service now has a firm grip on the finances of the organisation and in normal times could start to consider some of the areas of significant investment that are needed in the service. These relate to the Fire Estate, the Kit and Equipment used in the service and the Work Force, in line with the Fire and Rescue Plan and the Ambition 2025 vision. However, the likely impact of covid-19 on the finances of the organisation will need to be clearly understood before this can realistically happen.

Future Impact of Covid-19 from a Financial Perspective

As referred to in the last finance update to the Panel the biggest financial challenge, resulting from COVID-19, for the organisation is likely to materialise in 2021/22 with a likely recurring, but smaller impact in the years thereafter. The impact is expected to come from both a reduction in Council Tax payments and Business Rates and a further impact on the overall tax base in future years in comparison to previous plans.

Currently £22.1m, or 62%, of the Fire Budget is funded from Council Tax with a further £3.1m, or 9%, funded directly from local Business Rates.

What is the likely Financial Impact

While it remains too early to be precise, and much can, and will, change over the coming months it is important to start to plan for the financial impact. Most of the national work would seem to indicate that collection rates are between 5% and 6% lower across Council Tax than would otherwise be expected in 2020/21, with further concerns that this might increase as current levels of support are reduced.

A 5.5% deficit across Council Tax equates to approximately £1.2m for Fire in North Yorkshire.

The Government have recognised the challenge and have provided the flexibility to all billing and major precepting authorities (including police and fire authorities) to phase the deficit over a fixed period of three years.

- The phased amount will be the entire collection fund deficit for 2020-21 as estimated on the 15 January 2021 for council tax and in the 2021-22 NNDR1 for business rates.
- The deficit will be phased in three equal and fixed amounts across the financial years 2021-22, 2022-23 and 2023-24.
- The amounts to be paid off during 2021-22 will therefore be only 1/3rd of each authority's share of the estimated 2020-21 deficit.

We are therefore currently estimating a £0.4m charge in each of the next 3 years. Which equates to a £0.5m reduction against our planning assumption next year, as we previously forecast a council tax collection surplus of £100k each year.

In addition to this impact it is also likely that the calculated number of Band D properties in 2021/22 will be lower than currently forecast, which was for an annual growth of 1% from the previous year's base. A couple of scenarios are set out below to model the potential impact from changes to the council tax base forecasts:

Revised Planning Assumptions

Until more information is available scenarios are starting to be developed based on the following assumptions:

Scenario 1:

This scenario assumes a 1.75% reduction in the Tax Base in 2021/22, followed by larger increases, than previously forecast, in the years that follow. This is based on the assumption that the need for Council Tax Support reduces over the medium term and that by 2024/25 the Tax Base recovers to where it was previously forecast to reach.

Council Tax Assumptions						
	Feb 2020 MTFP			September 2020 MTFP		
	Tax Base	Collection Fund Surplus	Band D Increase	Tax Base	Collection Fund	Band D Increase
2021/22	+1%	£100k	+1.99%	-1.75%	-£400k	+1.99%
2022/23	+1%	£100k	+1.99%	1.5%	-£300k	+1.99%
2023/24	+1%	£100k	+1.99%	2.0%	-£300k	+1.99%
2024/25	+1%	£100k	+1.99%	2.0%	+£100k	+1.99%

The impact of these revised assumptions on the income received from the Fire element of the Council Tax bill, in comparison to the February 2020 forecast position, is as follows:

Council Tax Income Forecasts	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
As at February 2020	(22,850)	(23,535)	(24,245)	(24,970)
As at September 2020	(21,725)	(22,605)	(23,525)	(24,880)
Forecast Reduction in Income	1,125	930	720	90

If this scenario materialised it would result in around £2.9m less Council Tax income, across the next 4 years, than was included in the February 2020 plans.

Scenario 2:

This scenario assumes a 3% reduction in the Tax Base in 2021/22, followed by larger increases, than previously forecast, in the years that follow. This is based on the assumption that the need for Council Tax Support reduces over the longer term and that by 2026/27 the Tax Base recovers to where it was previously forecast to reach.

Council Tax Assumptions						
	Feb 2020 MTFP			September 2020 MTFP		
	Tax Base	Collection Fund Surplus	Band D Increase	Tax Base	Collection Fund	Band D Increase
2021/22	+1%	£100k	+1.99%	-3.0%	-£400k	+1.99%
2022/23	+1%	£100k	+1.99%	2.0%	-£300k	+1.99%
2023/24	+1%	£100k	+1.99%	2.0%	-£300k	+1.99%
2024/25	+1%	£100k	+1.99%	2.0%	+£100k	+1.99%

The impact of these revised assumptions on the income received from the Fire element of the Council Tax bill, in comparison to the February 2020 forecast position, is as follows:

Council Tax Income Forecasts	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000
As at February 2020	(22,850)	(23,535)	(24,245)	(24,970)
As at September 2020	(21,440)	(22,420)	(23,335)	(24,690)
Forecast Reduction in Income	1,410	1,115	910	280

If this scenario materialised it would result in around £3.7m less Council Tax income, across the next 4 years, than was included in the February 2020 plans.

Business Rates and Government Funding

Similar challenges with Business Rates could add a further £100k pressure per year to the above scenarios.

Beyond the Local funding that comes from Council Tax and Business Rates then there is an element of core funding, of £5.7m, that comes directly from the Government. The current plan assumes that this will increase at 1.6% per year, however lower levels of general inflation and future challenges around the overall finances of the country may result in this being lower than the current plan.

The financial plans will continue to be kept under review and as more information is available around all of these areas they will be updated. At this stage however no changes have been made to the current service delivery plans.

Reserves

The PFCC FRA has general reserves of £1m and earmarked reserves of £3.8m and therefore some limited capacity, if needed, to help support the organisation during these unprecedented times however this will only provide a short period of time to transition to a sustainable service delivery model based on the finances available.

NORTH YORKSHIRE POLICE, FIRE & CRIME COMMISSIONER (FIRE & RESCUE AUTHORITY)

REVENUE BUDGET 2020/2021 as at 31st August 2020

	2020/21 Approved Budget £'000	Budget Year To Date £'000	Actual Year To Date £'000	Variance Year To Date £'000	2020/21 Forecast Outturn £'000	2020/21 Forecast Variance £'000
Funding						
Funding for Net Budget Requirement	(31,322)	(13,051)	(13,051)	0	(31,322)	0
Specific Grants	(1,682)	(701)	(950)	(250)	(2,033)	(351)
Pensions Mitigation Grant	(1,711)	(713)	(713)	0	(1,711)	0
General Income	(547)	(228)	(209)	19	(728)	(180)
Total Funding	(35,261)	(14,692)	(14,923)	(231)	(35,793)	(532)
Expenditure						
Wholetime Firefighters	16,721	7,551	7,658	108	16,987	266
Retained Firefighters	3,325	1,101	1,029	(72)	3,258	(67)
Administrative, Technical & Clerical	3,319	1,509	1,417	(92)	3,282	(36)
Control Room Staff	765	345	332	(13)	771	7
Total Direct Staff Costs	24,130	10,506	10,437	(69)	24,299	169
Indirect Staff Costs	429	89	81	(8)	457	28
PFCC Staff Expenses	74	31	31	0	74	0
Wholetime Recruitment	11	5	15	10	13	2
Premises	2,109	879	942	63	2,176	67
Transport	804	335	316	(19)	830	26
Supplies and Services	3,461	1,447	1,433	(14)	3,617	156
Operating Leases	75	31	35	3	75	0
External Service Agreements	196	82	70	(12)	179	(17)
PFI	1,461	619	608	(11)	1,429	(33)
Total Indirect Staff and Non Staff Costs	8,620	3,517	3,529	12	8,850	230
Pensions	912	320	322	2	927	15
TOTAL EXPENDITURE BEFORE CAPITAL CHARGE	33,662	14,344	14,289	(54)	34,075	413
Provision For Debt Repayment	991	413	413	0	991	0
External Interest	550	219	219	(0)	543	(8)
Revenue Contribution to Capital	340	0	0	0	452	112
Total Capital Charges	1,882	632	632	0	1,986	104
Delegation to the Tactical Leadership Team	0	0	0	0	50	50
TOTAL EXPENDITURE	35,544	14,976	14,921	(54)	36,112	568
(Surplus)/Deficit before Reserve Transfers	282	282	(3)	(286)	317	35
Transfer from Revenue Budget Support Reserve	(244)	0	0	0	(244)	0
<u>Other Transfers to/(from) Earmarked Reserves:</u>						
Asset Management System project	(38)	0	0	0	(38)	0
Final Forecast Over/(Under) Spend	0	282	(3)	(286)	35	35

CAPITAL PROGRAMME 2020/2021 as at 31st August 2020

	2020/21 Approved Budget £'000	Additional Slippage from 2019/20 £'000	2020/21 New approved items and changes to budgets £'000	2020/21 Slippage/Carry forward to future years £'000	2020/21 Revised Estimate £'000	2020/21 Year To Date Budget £'000	2020/21 Spend To Date Budget £'000	2020/21 Variance Year To Date £'000	2020/21 Forecast Outturn £'000	2020/21 Forecast Variance £'000
Vehicles										
Fire Appliances	1,347	13	0	(860)	500	0	0	0	500	0
Aerial Appliances	0	4	0	0	4	1	1	0	4	0
Vans & Support Vehicles	52	0	0	0	52	0	0	0	52	0
4 x 4 Vehicles	0	2	0	0	2	0	0	0	2	0
Incident Command Unit	200	0	0	(200)	0	0	0	0	0	0
Globetrotter	0	0	0	0	0	0	0	0	0	0
Response & Pool Cars	193	0	0	0	193	0	0	0	193	0
Sub Total Vehicles	1,792	19	0	(1,060)	751	1	1	0	751	0
Property:										
Minor Works	355	55	0	0	410	0	32	32	410	0
Major Schemes	0	0	0	0	0	0	0	0	0	0
Sub Total Property	355	55	0	0	410	0	32	32	410	0
Information Technology:										
Mobilising, Telephony & Bearers	124	0	0	0	124	0	0	0	124	0
Major IT Schemes	35	0	0	0	35	0	0	0	35	0
Core Hardware Infrastructure Replacement Project (CHIRP)	0	0	0	0	0	0	(0)	(0)	0	0
Ancillary Hardware & Software	47	0	24	0	71	47	52	5	71	0
Sub Total Information Technology	206	0	24	0	230	47	52	5	230	0
Delegation to the Tactical Leadership Team	0	0	50	0	50	0	0	0	50	0
TOTAL CAPITAL EXPENDITURE	2,352	74	74	(1,060)	1,440	48	85	37	1,440	0
FUNDING										
Capital Receipts	-								0	
Revenue Contribution to Capital - Car Disposals	244				244				244	
Revenue Contribution to Capital - Other	96				194				194	
Internal Borrowing	-				-				-	
External Borrowing	2,147				1,137				1,137	
TOTAL FUNDING	2,487	0	0	0	1,575	0	0	0	1,575	
CAPITAL RESERVES CARRIED FORWARD	135				135				135	