

MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	POLICY AND RESOURCES COMMITTEE		
DATE:	28 JULY 2022	REPORT NO:	CFO/036/022
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE AND PROCUREMENT		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	REVENUE & CAPITAL OUTTURN 2021/22		

APPENDICES:	APPENDIX A1- A4:	2021/22 REVENUE BUDGET TO ACTUAL
	APPENDIX B:	2021/22 CAPITAL BUDGET TO ACTUAL

Purpose of Report

1. To report upon the Authority's year-end financial position for 2021/22.

Recommendation

2. That Members;
 - a. Note that actual revenue spend compared to the approved budget delivered a net underspend of £2.203m before the creation of year-end reserves.
 - b. Approve that this underspend be used to;
 - create the required year-end reserves of £0.250m to fund projects that have slipped from 2021/22 into 2022/23, and
 - increase in the inflation reserve by £1.953m in order to meet the expected higher energy costs and potential pay awards in 2022/23.
 - c. Approve the re-phasing of planned capital spend from 2021/22 into future years of £4.012m, as outlined in Appendix B.
 - d. Approve committed reserves of £30.499m and a general reserve of £3.0m as outlined in Appendix A4.

Executive Summary

The Authority approved a five-year medium-term financial plan (MTFP) at the Budget Authority meeting on 25 February 2021. The approved MTFP delivered a balanced budget for 2021/22 based on key budget assumptions around costs, in particular a pay freeze. The Authority has a strategy of maximising any savings in the year in order to fund increases in reserves or additional debt payments to free up budget in order to act as a hedge against future financial challenges or fund infrastructure investment.

The Authority has approved the building of a new Training and Development Academy at a cost in excess of £39m, and in order to reduce the borrowing requirement for this scheme Members' approved that any favourable variances be used to increase the capital investment

reserve.

The final accounts of the Authority have now been completed and after taking into account the need to create £0.250m year-end reserves a £1.953m underspend on the revenue budget has been identified. Members were advised at the May 2022 Urgency Committee, that following the end of the fixed price electricity contract the Authority faced a £1m - £2m increase in costs in 2022/23. In addition pay inflation was putting the 2.5% pay award assumption for 2022/23 at risk. This report assumes Members will support the recommendation to use the £1.953m favourable variance to increase the inflation reserve in order to meet the higher utility costs and potential pay costs in 2022/23.

At the year-end committed reserves stood at £30.499m and the General Fund balance remains as anticipated at £3.000m.

Capital spending was £6.975m resulting in a variance of £4.146m against the £11.121m budget for 2021/22. The variance can be broken down into:

- A £4.012m re-phasing of planned spend from 2021/22 into future years, requiring the carry forward of capital budget.
- A net underspend and saving on capital projects of £0.134m.

As expected no new borrowing was taken out in the year.

Introduction and Background

3. This report sets out the actual financial performance of the Authority compared to the approved 2021/22 revenue and capital budgets.
4. At the Budget Authority meeting on 25 February 2021, Members approved the 2021/22 Budget and Medium Term Financial Plan (MTFP). The financial plan made a number of assumptions around future costs including:-
 - Annual pay awards of 0.0% in 2021/22 and thereafter 2.5% per annum,
 - A 2% per annum general price inflation,
 - That all approved saving options would continue to deliver the required savings,
 - No unavoidable revenue growth would materialise in the year,
 - Capital borrowing costs would be contained within the approved revenue budget,
 - Council Tax and local Business Rates income yield would be consistent with the estimated figures provided by billing authorities, and
 - Committed reserves would be sufficient to offset the relevant associated risks and planned project spend.
5. The delivery of the 2021/22 budget and approved financial plan was monitored closely during the year and Members received quarterly financial review updates. During the year firefighters received a 1.5% and other staff a 1.75% pay award, requiring £0.612m to be drawn-down from reserves to cover the cost in the year (with a permanent budget being built into the 2022/23 budget). The last report, CFO/002/22, went to the Audit Committee on 10 February 2022, and covered the period up to December 2021. This report now provides Members with the position up to the end of the 2021/22 financial year, 31 March 2022, and covers revenue, capital and reserve movements.

6. In summary, the key assumptions, with the exception of the pay freeze one, were found to be robust and all costs were contained within the available budget.
7. The rest of this report will now review the budget movements and the financial performance for the year.

How the 2021/22 Budget changed during the year

Revenue:

8. The Revenue Budget for 2021/22 was set at £59.250m.
9. **Quarter four changes;** Further minor budget amendments have been made since the last financial review report, CFO/002/22, that reflect already approved policy decisions. These were;
 - A net increase in reserves of £1.456m;
 - An increase in the Collection Fund Deficit reserve of £1.035m to cover the expected deficit on the 2022/23 Collection fund due to lower Business Rates income in 2021/22. The lower income was as a result of Government discounts announced after the budget was set. The Government has announced it will provide a grant to cover any loss arising from the new and extended discounts in 2021/22. The increase in the reserve is funded from the expected Government grant.
 - As planned the Service drew-down £0.400m from the recruitment reserve to cover the net cost of firefighter recruits appointed in advance of expected retirements.
 - Re-phasing of projects meant £0.224m was returned to the capital reserve to allow funds to be carried forward.
 - The Government announced some grant funding to cover the costs of investing in software packages to deal with the McCloud challenge and £0.077m of the grant has been used to increase the pension reserve to cover these future costs.
 - The inflation provision underspend £0.209m and the receipt of backdated business rate refunds £0.331m were used to increase the inflation reserve by £0.540m in light of the expected increases in utility charges in 2022/23.
 - A further £0.020m was drawn-down from the energy reserve to fund planned energy saving schemes.
 - A number of self-balancing virements within the revenue account;
 - £0.235m was vired from the inflation provision to cover the cost of the non-firefighter employee pay award, 1.75%, and other inflationary increases.
 - The receipt of £0.729 external income above budget was used to increase the relevant expenditure lines. The Apprentice Levy grant income increased by £0.251m and was used to increase the available trainers and training budget; the Emergency Services Mobile Communications Programme (ESMCP) grant increase by £0.100m and was used to increase ICT and other communications spend. A variety of Prevention grant funded programmes received an increase in available funding; Street Intervention £0.044m; Princes Trust £0.052m; Winter Warm Campaigns £0.038m; Increase in fees and charges £0.143m (NWS vaccination income £0.065m). Other income increase, £0.101m.

- The National Resilience Assurance initiative budget was realigned at the year-end to reflect the final Home Office grant funding and planned spend, £0.534m.

These changes are summarised in the table below:

	Original Budget	Approved Qtr 3 Budget	Qtr 4 Amendments	Final Budget	Original to Final Budget Movements
	£'000	£'000	£'000	£'000	£'000
Net Expenditure					
Fire Service	62,756	57,733	-1,013	56,720	-6,036
Corporate	487	487	1	488	1
National Res. Assurance	0	0	0	0	0
	63,243	58,220	-1,012	57,208	-6,035
Interest on Balances	-172	-172	0	-172	0
Inflation Provision	655	444	-444	0	-655
Contribution (from) to Reserves	-4,476	758	1,456	2,214	6,690
Total Net Expenditure	59,250	59,250	0	59,250	0
Funded By					
Government Support	-31,492	-31,492	0	-31,492	0
Coll Fund Bus Rates / Council Tax Deficit	2,836	2,836	0	2,836	0
Council Tax	-30,594	-30,594	0	-30,594	0
	-59,250	-59,250	0	-59,250	0

Capital:

- The Budget Authority meeting approved a five-year capital investment programme (2021/22 – 2025/26), of £51.831m, with a planned expenditure in 2021/22 of £14.913m. During the year members' approved adjustments to the programme to reflect various re-phasing of schemes and other adjustments. Following the approval of the April – December 2021 financial review report the five-year capital programme was increased to £58.552m with a planned spend in 2021/22 of £10.273m.
- In the last quarter, January to March 2022, some small 2021/22 capital budget changes have been action as outlined below.
 - A small increase in the capital budget of £0.072m; the ICT equipment £0.015m; smoke alarm installation £0.037m; and Energy Conservation schemes £0.020m all increase but were funded from the directorate revenue budget contributions.
 - A number of appliances builds are slightly ahead of schedule resulting in the re-phasing of budget from 2022/23 into 2021/22, £0.776m.
 - The overall total level of budgeted borrowing was consistent with the approved quarter 3 figure, although £0.776m of borrowing was re-phased from 2022/23 to 2021/22.
 - The overall movement in the capital programme reflects the re-phasing of major schemes over the 2021/22 to 2025/26 period and any amendments approved by members through the quarterly financial review reports.

These changes are summarised in the table below:

	Original Budget	Approved Qtr 3	Qtr 4 Amendments	Final Budget	Original to Final Budget Movements
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Building & Land	30,405.9	32,111.6	20.0	32,131.6	1,725.7
Fire Safety	3,175.0	3,175.0	37.0	3,212.0	37.0
ICT	5,201.0	6,630.5	15.1	6,645.6	1,444.6
Operational Equip & Hydrants	3,644.9	6,234.5	0.0	6,234.5	2,589.6
Vehicles	9,404.3	10,400.1	0.0	10,400.1	995.8
	51,831.1	58,551.7	72.1	58,623.8	6,792.7
Funding					
Specific Non-Borrowing	23,955.8	26,195.5	72.1	26,267.6	2,311.8
Borrowing	27,875.3	32,356.2	0.0	32,356.2	4,480.9
	51,831.1	58,551.7	72.1	58,623.8	6,792.7

Reserves:

12. The 2021/22 Budget Authority approved a reserves strategy which maintained a general reserve of £3.000m and had anticipated £21.171m of committed earmarked reserves at the start of 2021/22. After taking into account the committed reserves movements at the end of 2020/21, reserves increased by £4.911 and therefore the revised opening committed reserves figure for 2021/22 was £26.082m.

Financial Performance in the Year

13. **2021/22 Revenue Outturn Position:** The table overleaf summarises the actual revenue position for 2021/22, excluding the Home Office National Resilience Assurance (NRAT) and other Lead Authority schemes budget and costs. NRAT and other Lead Authority schemes are 100% funded from the Government and relate to national and international rather than MFRS funded initiatives and any year-end variances associated with these schemes are carried forward (and belong to the Home Office / Government). **Appendix A1 to A3** provides a more detailed analysis of the budget to actual variances:

	Fire Service Budget	Fire Authority / Corporate Mgt	Total Budget	Actual (before Year-end reserves / adjustments)	Variance	Year-End Reserves	Variance Post Reserves / Adjustment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
Employee Costs	51,696	343	52,039	51,092	-947		-947
Premises Costs	2,643	0	2,643	2,390	-253		-253
Transport Costs	1,286	0	1,286	1,211	-75		-75
Supplies & Services	3,549	21	3,570	3,060	-510	158	-352
Agency Services	6,595	0	6,595	6,550	-45		-45
Central Support Services	505	124	629	614	-15		-15
Capital Financing	5,885	0	5,885	5,849	-36		-36
Income	-15,439	0	-15,439	-15,863	-424	92	-332
Net Expenditure	56,720	488	57,208	54,903	-2,305	250	-2,055
Contingency Pay & Prices	0		0	0	0		0
Interest on Balances	-172		-172	-70	102		102
	56,548	488	57,036	54,833	-2,203	250	-1,953
Movement on Reserves	2,214		2,214	2,214	0		0
Overall Financial Position	58,762	488	59,250	57,047	-2,203	250	-1,953

14. The Authority has a strategy of maximising any savings in the year in order to fund increases in reserves or additional debt payments that may free up future budgets to fund infrastructure investment or act as a hedge against future financial challenges. At the May 2022 Urgency Committee Members considered a report on the expected financial challenge in 2022/23 due to significant increases in energy prices. Members supported using any uncommitted 2021/22 savings to increase the inflation reserve to cover the expected increase in energy costs and potential higher pay settlements. After taking into account the year-end earmarked reserve requests of £0.250m, net expenditure was £1.953m lower than the budget. The £1.953m underspend on the revenue budget has been used to fund an increase in the inflation reserve, and therefore the Authority's overall expenditure is consistent with its budget. The movement in year-end reserves is outlined further on in this report.

15. The main variations were:

Employee Costs, -£0.947m (1.8%) favourable variance –

- **Non-operational** vacancies and staff not being at the top of their budget grade meant a direct employee saving of £0.778m.
- The balance is made up from smaller variances over a number of non-direct employee budgets such as employee insurances, training expenses, injury pensions and ill health retirement charges.

Premises Costs, -£0.253m (9.6%) favourable variance –

- The water service charges for PFI stations had not been uplifted by the supplier since 2019/20. A provision for three years' worth of retrospective increases had been included in the 2021/22 budget. This contributed to a £0.100m saving on the Water Charges for 2021/22. The balance is made up from backdated business rate revaluation refunds and lower building and site maintenance repair costs.

Transport Costs, -£0.075 (5.8%) favourable variance –

- Actual diesel spend was £0.031m below budget as total mileage was less than budgeted for. The balance relates to lower car allowance costs, £0.010m, due to vacant posts and other associated vehicle running costs.

Supplies and Services, -£0.510m (14.3%) favourable variance –

- The PPE/Clothing budget underspent by £0.100m but £0.090m of this is to be carried forward as an earmarked reserve to meet orders placed at the year-end but delivery will be at the beginning of the 2022/23.
- Professional fees saving, £0.139m. Of this £0.068m relates to unspent grant monies for building risk, protection uplift works, and other initiatives that are now re-phased into 2022/23 along with the relevant grant income. Some planned work was either carried out in-house or no longer required, saving £0.60m on professional fees. The balance relates to small savings on professional fees over a number of projects.
- Officers are continuing to strictly manage controllable expenditure lines such as operational; computing; prevention and training supplies in light of the financial challenge. After taking into account year-end requests of £0.038m for spend now expected in 2022/23, a number of small favourable variances totalling of £0.233m have materialised.

Agency Services, -£0.045m (0.7%) favourable variance.

- Small one-off efficiency savings on outsourced contracts delivered a £0.045m saving.

Central Support Services, -£0.015m (2.4%) favourable variance.

- Small savings on the financial systems contract consultancy line as some development work was carried out in-house or deferred until 2022/23 resulted in a net £0.015m saving on Central Support Services.

Capital Financing, -£0.036m (0.1%).

- Interest payments on debt were slightly lower than forecast.

Income (*including interest on balances*), £0.332m (2.1%) favourable variance.

- Increase in specific grants was £0.274m greater than the budget. The Authority received more s31 business rates discount relief grant than forecast in the budget and suffered no loss of grant following the 2020/21 outturn business rates return.
- Fees and charges income was £0.077m higher than expected in part due to an increase in special services income.
- Interest earned on investments and balances was lower than the budget by £0.102m as interest rates continued to be suppressed by the ongoing economic challenges faced by the Country.
- The balance is due to small variances on other income and contributions.

2021/22 Movement on Reserves.

16. This report identifies a net increase in committed earmarked reserves (opening balance £26.082m and a closing balance £30.499m) of £4.417m. The quarterly financial review reports up to December 2021 outlined a net movement in reserves of £0.758m, and as outlined in paragraph 9 of this report a further £1.456m increase in reserves relates to the planned use of reserves in quarter 4, totalling a £2.214m planned increase in the year.
17. At the year-end budget managers review their year-end position and if relevant request reserves to carry forward funds to meet spend now expected in 2022/23 or future years. Year-end reserves of £0.250m have been created to cover;
 - A £0.090m PPE/Clothing reserve to meet orders placed at the year-end but delivery will be at the beginning of the 2022/23.
 - Planned spend of the 2021/22 urban search and rescue / marauding terrorist firearms attacks grant of £0.075m has been re-phased into 2022/23 and will be carried forward as part of the New Dimensions Reserve.
 - Some community initiatives, equipment purchases, and health and safety schemes have been re-phased into 2022/23 and the relevant existing reserves have been increased by £0.085m to cover this planned spend.
18. The final accounts of the Authority have now been completed and after taking into account the need to create £0.250m year-end reserves a £1.953m underspend on the revenue budget has been identified. Members were advised at the May 2022 Urgency Committee, that following the end of the fixed price electricity contract the Authority faced a £1m - £2m increase in costs in 2022/23. In addition pay inflation was putting the 2.5% pay award assumption for 2022/23 at risk. This report assumes Members will support the recommendation to use the £1.953m favourable variance to increase the inflation reserve in order to meet the higher utility costs and potential pay costs in 2022/23.
19. The Authority held £10.292m of unapplied Home Office capital monies as at 31 March 2022 for NRAT asset refresh. The Authority is required to include the £10.292m within the Authority's Statutory Financial Statements as a usable reserve, BUT as this money is not available to the Authority to fund any of its own investments it has been excluded from the available reserve balance quoted in this report.
20. The general reserve remained unchanged at £3m or 5% of the operating budget.
21. The table overleaf summarises the reserve movements in the year and Appendix A4 provides more details on the changes throughout the year;

	Opening Balance	Closing Balance
Committed Reserves	£'000	£'000
<u>Emergency Related Reserves</u>		
Bellwin/Emergency Planning	222	222
Insurance Reserve	499	499
COVID-19 Reserve	200	0
Collection Fund Reserve	3,788	2,420
<u>Modernisation Challenge</u>		
Smoothing Reserve	2,000	1,588
Pensions Reserve	55	652
Recruitment Reserve	2,000	1,450
Invest to Save/Collaboration	282	282
<u>Capital Investment Reserve</u>	13,584	17,720
<u>PFI Annuity Reserve</u>	1,866	1,442
<u>Specific Projects</u>		
Community Sponsorship Res	74	55
Equipment Reserve	152	205
Community Engagement Res	8	8
Training Reserve	150	150
Health and Wellbeing Reserve	25	7
Inflation Reserve	500	3,019
Clothing Reserve	25	90
<u>Ringfenced Reserves</u>		
Princes Trust Reserve	82	15
Community Risk Mgt Res	308	303
Energy Reserve	98	133
New Dimensions Reserve	164	239
Total Earmarked Reserves	26,082	30,499
General Revenue Reserve	3,000	3,000
Total Reserves	29,082	33,499

2021/22 Capital Expenditure.

22. Actual spend in the year was £6.975m resulting in a variance of £4.146m against the £11.121m budget for 2021/22. The variance can be broken down into:

- A £4.012m re-phasing of planned spend from 2021/22 into future years, requiring the carry forward of capital budget.
- A net underspend and saving on capital projects of £0.134m.

The rephrasing of schemes into future years and the small net underspend, resulted in actual borrowing in the year being £2.840m lower than budgeted.

A summarised capital programme outturn position statement is outlined below:

	Final Budget	Actual	Re-phasing into future years	Variance
	£'000	£'000	£'000	£'000
Expenditure				
Building & Land	3,607	1,937	1,666	-4
Fire Safety	672	565	0	-107
ICT	1,510	710	800	0
Operational Equip & Hydrants	3,766	2,314	1,429	-23
Vehicles	1,566	1,449	117	0
	11,121	6,975	4,012	-134
Funding				
Specific Non-Borrowing	5,776	4,546	1,172	-58
Borrowing	5,345	2,429	2,840	-76
	11,121	6,975	4,012	-134

23. The year-end re-phasing of capital schemes into 2022/23 is outlined in the table below

Re-phasing £'m	Scheme	Explanation
0.402	New TDA and Station.	Work was on hold pending final planning approval and report to the Authority for final approval. In June 2022 after receiving planning permission Members signed off the scheme.
0.103	Station roofs and canopy replacements.	Work on Bromborough roof was postponed due to supplier issues and will now be completed 2022/23, slight delay on some other schemes.
0.293	Speke/Garston & Old Swan stations refurbishment	Work was rescheduled to 2022/23 as Estates team prioritised finalising new TDA scheme.
0.868	Other Building works.	A number of routine planned fire station and general building investment schemes are commencing slightly later than planned as delays in finalising specifications re-tendering work, and scheme priorities has put completion dates back slightly.
0.145	Capita Vision 3 Update	Scheme expected to be finished over the half of 2022/23 as some parts of the investment had to be finalised towards the end of 2021/22.
0.187	I.C.T. Hardware	Planned Audio Visual Refresh at existing TDA is only being actioned when assets need to be refreshed to alleviate duplication of works required. Audio Visual

		Refresh at SHQ - Conferencing - some AV has been refreshed but a full replacement solution is still being designed to ensure future proofed and fit for MFRS purposes. The final solution is not expected to be agreed until post April 2022, hence the slippage of the works into 2022/2023. Audio Visual Refresh at Stations - awaiting quotes from supplier and agreement from MFRS for set-up sign off.
0.099	ICT - Servers	The refresh project is still being worked on by Telent, and the order should be agreed and placed soon. Ageing Servers need replacing – but this is being tied into future software upgrades, hence the need to slip the works into 2022/2023
0.092	ESMCP Project Control Room Integration	The remaining Capita Project Services are not expected until post April 2022 as delays experienced in getting final sign-off by Home Office.
0.054	New Emergency Services Network (ESN)	Awaiting Home Office final decision on ESN proposal
0.224	ICT Schemes	The commencement of other schemes was delayed due to delays in receiving hardware, completion of building / cabling works, or competing demands on limited staff resources resulting in the prioritisation of work.
1.173	Operational Equipment – NRAT Asset Refresh	The Authority acts as the lead authority for the Home Office for the procurement of national resilience assets. The Home Office are reviewing capability needs in light of what the future challenge may be, and therefore delayed the commencement of the asset replacement programme.
0.255	Operational Equipment	Reviews are ongoing about what the future ask and need of the Service is. Therefore, the equipment requirements will only be known once these reviews are finalised, and orders will be placed for the replacement equipment.
0.117	Vehicles	Orders have been raised later than planned for new vehicles, but delivery is expected in 2022/23.
<u>4.012</u>		

24. A full detailed breakdown of the 2021/22 capital budget movements, year-end variances and proposed slippage can be found attached to this report as Appendix B.

Equality and Diversity Implications

25. Resources are invested to support equality and diversity.

Staff Implications

26. Over 70% of revenue expenditure is directly staff related.

Legal Implications

27. None arising from this report.

Financial Implications & Value for Money

28. At the Urgency Committee in May 2022 Members approved using any available one-off year-end savings to fund an increase in the inflation reserve in order to offset rising energy costs in 2022/23 and potential higher pay awards. After taking into account year-end reserve requests of £0.250m, net expenditure was £1.953m lower than the budget. The £1.953m revenue saving has been utilised to increase the inflation reserve in 2021/22, and therefore the Authority's overall expenditure is consistent with its budget.

29. Capital spending was £6.975m resulting in a variance of £4.146m against the £11.121m budget for 2021/22. The variance can be broken down into:

- A £4.012m re-phasing of planned spend from 2020/21 into future years, requiring the carry forward of capital budget.
- A net underspend and saving on capital projects of £0.134m.

30. The General Fund Balance as at 31st March 2022 was, as anticipated, £3.000m. MFRA committed reserves as at 31st March 2022 stand at £30.499m (excluding the £10.292m unapplied Home Office capital monies held by the Authority for the NRAT asset refresh).

Risk Management, Health & Safety, and Environmental Implications

31. None arising from this report.

Contribution to Our Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

32. The achievement of actual expenditure within the approved financial plan and delivery of the expected service outcomes is essential if the Service is to achieve the Authority's Mission.

BACKGROUND PAPERS

CFO/010/21 "MFRA Budget and Financial Plan 2021/2022-2025/2026" Authority 25 February 2021.

CFO/050/21 "Financial Review 2021/22 – April to June" Audit Committee 28 September 2021.

CFO/067/21 "Financial Review 2021/22 – April to September" Policy and Resources Committee 18 December 2021.

GLOSSARY OF TERMS

CAPITAL EXPENDITURE Section 40 of the Local Government and Housing Act 1989 defines ‘expenditure for capital purposes’. This includes spending on the acquisition of assets either directly by the Authority or indirectly in the form of grants to other persons or bodies. Expenditure that does not fall within this definition must be charged to a revenue account.

RESERVES Amounts set aside to meet future contingencies but the use does not affect the Authority’s net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account.

REVENUE EXPENDITURE This is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.