Financial Briefing

- **Position on the transfer of Governance** - after setting the first PFCCFRA precept/budget I made the PFCC aware of the following:
  'The PFCC inherited a Medium Term Financial Plan (MTFP) from the former Fire Authority that had an underlying £1.2m annual imbalance, and organisational plans that would have seen this imbalance increase to at least £2.5m across the life of that 4 year plan. That MTFP assumed a 2.99% increase in 2019/20. While much work has been done to stabilise the financial position of the organisation this proposed Precept increase unfortunately does little to address the underlying budget imbalance that the PFCC inherited. Options will therefore need to be developed over the coming 2 years to return the Fire service to a recurring balanced financial position.'

- **In the 2022 Strategic Briefing to HMICFRS** we stated that at the Last Inspection: 2019-20 MTFP - the financial position was stabilised after the transfer of governance however still with a gap of £1m per year by 2022/23.

  However, for the 2022/23 MTFP we stated that – revenue budget is projected to balance for the next 4 years with no use of 'general reserves'. Although additional pressures are already materialising.

- As part of the **initial feedback from HMICFRS** they have indicated that 'We were concerned that the service doesn't have robust plans in place to stop relying on its reserves to balance its budget'

Given these different perspectives I thought it would be helpful to collate information that has been included within the last 4 MTFPs that have been published each February.

The first question to address is: How have we moved from a financial plan that was projected to be out of balance by £2.5m, to one that now balances when both are based on the same IRMP?

As set out within all of the MTFP's since the transfer of Governance we have been on a constant search for savings, with the ultimate objective (as set out within Ambition 2025) to realise a position where we could save to invest. Since the inherited 2018/19 MTFP, through to the 2022/23 MTFP, the following savings and changes have been made, totalling just under £2.9m.

Savings and Changes since Feb 2018	£000s
Capital Charges	(634)
HQ, Rates and Lease savings	(458)
Procurement and Contract Savings	(481)
Management Savings Challenge	(316)
Staff Transformation Savings	(275)
Senior Mgmt Review and Governance Tfr	(214)
Other sundry savings	(187)
Other Staff Travel and Subsistence	(141)
Injury Pensions	(80)
Supervisor Mgmt Review	(70)
Total Savings and Reductions to 2022/23	**(2,856)**

This has therefore enabled a summary financial position for 2022/23 and beyond to be as follows:

	Actual Budget 2021/2022 £'000	Forecast Budget 2022/2023 £'000	Forecasts 2023/2024 £'000	2024/2025 £'000	2025/2026 £'000
Funding					
TOTAL FUNDING	**(35,936)**	**(37,345)**	**(38,293)**	**(39,280)**	**(40,287)**
%age change in Total Funding		3.9%	2.5%	2.6%	2.6%
Expenditure					
Direct Staff Costs	**24,694**	**26,442**	**26,868**	**27,265**	**27,686**
Total Indirect Staff and Non Staff Costs	**8,500**	**9,192**	**8,767**	**8,831**	**9,005**
PENSIONS	819	831	847	862	879
TOTAL EXPENDITURE BEFORE CAPITAL CHARGES	**34,013**	**36,465**	**36,482**	**36,958**	**37,570**
Total Capital Charges	**2,248**	**1,696**	**2,120**	**2,486**	**2,736**
TOTAL EXPENDITURE BUDGET	**36,260**	**38,161**	**38,602**	**39,444**	**40,306**
(Surplus)/Deficit before Reserves	343	816	309	164	18
Planned Transfers to/(from) Earmarked Reserves:					
Revenue Budget Support	(343)				
New Developments Reserve	0	(239)	(187)	(124)	0
Pensions Grant		(45)			
ESMCP/Local Transition Resource Reserve	0	(94)	(18)	(18)	(18)
Home Office Protection Uplift Grant Reserve	0	(417)	(82)	0	0
Collection Fund reserve		(22)	(22)	(22)	
(Surplus)/Deficit After Reserves	**0**	**0**	**0**	**0**	**0**

Whereas in 2021/22 there was a deficit that was being funded to 'Support the Revenue Budget', the position from 2022/23 onwards is that the reserves being used are not supporting the Core activities of the Service – these are specific pieces of funding (such as Protection Uplift Grant, Pensions Grant and ESMCP Grant – all from the Government and that we have to hold in reserves as the funding has been provided in advance of need).

None of these reserves are supporting the IRMP resources that are providing the core service and without these reserves we wouldn't be undertaking the work that they're funding (at which point we would cease to incur the expenditure that this funding is matching to) and the budget would continue to balance.

The above position is quite different to the one reported to the Police and Crime Panel in February 2022 – why? And what happened?

As part of the overall budget setting process a Police, Fire and Crime Commissioner is required (by law) to propose a precept to the Police, Fire and Crime Panel, for their consideration. The Panel have the ability to veto the first precept proposal in certain circumstances. It is important to recognise that the panel is 'only' considering the precept proposal – they have no power to approve the overall budget for Fire. The PFCC therefore proposed a precept and provided context and information to support this proposal. At this point the budget setting process is not yet complete, in fact at the time have being required (by law) to submit this proposal the Government funding for Fire was still in draft format. This wasn't finalised until later in February 2022.

It was this report that then informed and provided the context and commentary included within the Police, Fire and Crime Panel's Annual report. It is really important to recognise that this is neither a PFCCFRA (Fire Authority) document nor a Fire Service document, and as the Panel is not the body that approves the final budget and MTFP then this is not the appropriate Governance body to consider for most/any aspects of inspection activity. The Panel's role is set out on page 3 of their Annual report and is worth reflecting on.

Of particular interest, in the context of the finances of the Fire Service, are the following comments within that Annual Report:

The Panel heard that government funding is failing to keep up with the organisation's costs and investment needs, and that both pay and non-pay inflationary costs are expected to present a significant challenge moving forward. The Panel noted that reserves are being drawn on to balance the planned budgets for 2022/23 and 2023/24 but that thereafter there is currently an unbalanced budget position. Members expressed their concerns at the precarious financial position that the service is currently forecasted to be in over the next few years and that planning assumptions around pay and non-pay costs are fairly tight for 2022/23.

What Changed between January (precept proposal) and February 2022 (final budget set)?

There were some changes from the position between proposing the precept and the setting out the details of the final budget. These were set and discussed via a presentation to SLT on the 17th February 2022 (attached)

The final budget papers were then set out for approval by the PFCC at the meeting of EB on the 22nd February and a formal decision of the PFCC was then published, along with the budget papers, on the 28th February 2022, please see the link below:

https://www.northyorkshire-pfcc.gov.uk/decision-notices/dn-04-2022-2022-23-fire-budget-medium-term-financial-plan-and-associated-papers/

It is these final papers (and only these final papers) that set out the approved budget and MTFP for 2022/23 – anything up to this point is part of the work to develop the budget but ultimately is simply a work in progress until these final papers are approved.

Why didn't the 2022/23 MTFP include anything in relation to the 'new' RRM/IRMP?

The public consultation didn't start until the 23rd May 2022 and the plan is that a consultation summary report and final Risk and Resource Model will be presented to the Commissioner's Executive Board in September 2022 for adoption. Following this we will publish the final document.

Once the new RRM is adopted then the financial plans will reflect this, however our current financial plans continue to reflect the IRMP that is currently agreed and that is in line with the Service Delivery Model that the Service is working to.

What about the savings from the proposed RRM and the link to the Transformation Programme?

The consultation set out that the implementation of the proposals would deliver recurring savings, building up to just over £1.5m per year from 2025/26. This has been profiled (see below) in line with an estimate of future leavers. In line with the Transformation Programme some of the savings will be available for investment into 'On-Call', while displaced Firefighters will be used to bolster Prevention work, while the Service transitions to a lower number of Wholetime Firefighters.

RRM Revenue Savings and Investment Profiles	Y1 - 22/23 Revenue	Y2 - 23/24 Revenue	Y3 24/25 Revenue	Y4 25/26 Revenue	Y5 26/27 Revenue	Y6 27/28 Revenue	Y7 28/29 Revenue
Phased Savings from RRM proposals (phase 1)	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Recruitment paused to deliver RRM proposals	(270)	(675)	(1,350)	(1,530)	(1,530)	(1,530)	(1,530)
Resource released for re-investment		(675)	(180)				
Investment in Prevention		675	180				
Revenue Investment Profiling							
On-Call Improvements	290	370	330	1,980	1,630	1,630	1,590
Use of Reserves	(20)	305	845	(450)	(100)	(100)	(60)
Overall Position after On-Call Investment	**0**	**0**	**(175)**	**0**	**0**	**0**	**0**
Average Whole-time FTEs in post	305	293	277	266	259	259	259
Average Whole-time FTEs in Establishment	311	278	273	266	259	259	259
RRM Capital Savings and Investment Profiles	Y1 Capital	Y2 Capital	Y3 Capital	Y4 Capital	Y5 Capital	Y6 Capital	Y7 Capital
RRM Phase 1 Capital	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Investment in On-Call (Phased)	280	260	80	30	30	30	30
Capital Saving from 1 less Appliance		(320)					
Use of Reserves/Tfrs from Revenue	(280)	60	(80)	(30)	(30)	(30)	(30)
Overall Position after On-Call Investment	**0**	**0**	**0**	**0**	**0**	**0**	**0**

This will lead to a revised Wholetime Firefighter Strength as per the below:

Wholetime Firefighters for new RRM	
2022/23 Wholetime Budget	**311**
less:	
Secondments	-3
Protections Grant	-3
Transformation	-3
Core Establishment	**302**
OSR	-7
	295
Huntington	-24
Day Crewed Self Rostering	-5
Harrogate	-5
Scarborough	-5
Future Core Establishment	**256**
(model above still assumes 3 secondments)	

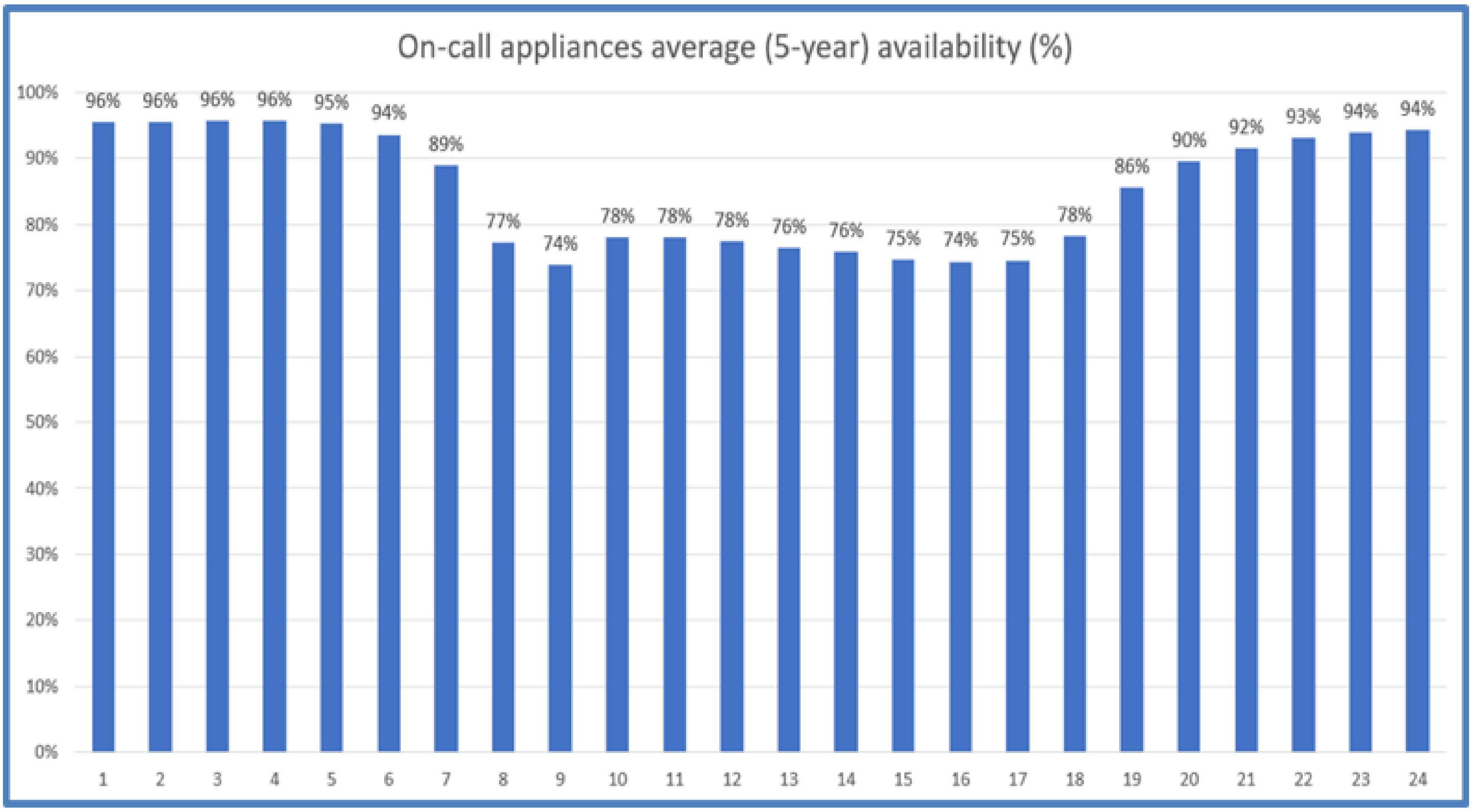
Other aspects of the Transformation Programme would need to be addressed via further changes to the RRM and while these have been modelled they, similarly, will not be included within any financial plans unless/until these are proposed as part of any updated RRM.

<u>What happens if the savings from the new RRM aren't delivered?</u>

<u>The Service currently has a balance financial plan and it will continue to do so</u> whether the current RRM, or a different version of the proposed RRM is developed/delivered as the Service simply must work within the finances it has available.

The more important aspect is how much Risk the Service will have to tolerate to be able to deliver a service within the Resource levels it has.

We know the current IRMP results in the following levels of On-Call availability:



The investment in On-Call, from the savings from the new RRM, is therefore seen as essential to deal with the significantly lower level of appliance availability (and therefore higher levels of Risk that is being tolerated), during the periods of higher demand, which has resulted from the current IRMP.

If the savings from the RRM are absorbed by higher levels of inflation and/or pay increases then the Service will continue to have to tolerate the above levels of appliance availability and Risk, unless further funding is available and/or further changes can be made to the Service Delivery Model to release further savings.