NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Policy and Strategy Committee

FINANCIAL IMPACT OF THE COVID-19 OUTBREAK

Report of the Chief Fire Officer

Date: 01 May 2020

Purpose of Report:

To update Members on the impact of the Covid-19 situation on the financial function of the Authority and to recommend actions required to maintain financial security until the governance arrangements return to normal.

Recommendations:

That Members approve:

- Increasing the operational boundary from £31,850m to £33,850m (Section 2.6);
- Increasing the authorised limit from £35,035m to £37,035m (Section 2.6);
- Increase the loan maturity profile limit from 20% to 30% (Section 2.7);
- The transfer of £309k from general reserves to an earmarked reserve to cover any additional costs related to the Covid-19 outbreak that cannot be contained within the grant awarded by central government (Section 2.16);
- The write-off of £95k second hand PPE out of the stock account (Section 2.23).

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1. BACKGROUND

1.1 In response to the worsening Covid-19 outbreak in the UK, the Government has introduced the following measures and financial support packages to those affected:

- Everybody to stay at home and only go outside for food, health reasons or work if it is not possible to work from home;

- £330bn worth of Government-backed loans and more than £20bn in tax cuts and grants for companies threatened with collapse (including business rate relief);

- £25bn of financial support for individuals and businesses experiencing financial difficulties, including a £500m hardship fund for Council Tax payers;

- £5bn response fund to provide any extra resources needed by the NHS and other public services to tackle the virus – Nottinghamshire Fire and Rescue Service (NFRS) has received £191k grant as part of this package;

- The creation of new legal powers enabling it to offer whatever further financial support it thinks necessary to support business.

1.2 The impact on NFRS has been significant, both on its ability to deliver frontline services and the governance of the organisation. This report reviews the impact on, and some necessary changes to, the following financial areas:

- Treasury Management Strategy;
- Prudential indicators for capital financing;
- Revenue and capital budgets for 2020/21;
- Medium Term Financial Strategy;
- Internal and external audit;
- 2019/20 Statement of Accounts.

2. REPORT

TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS

2.1 The Treasury Management Strategy and Prudential Limits were approved by Fire Authority on 28 February 2020. These included:

- Prudential and treasury indicators;
- The borrowing strategy and borrowing requirement;
- Cash management arrangements;
- Creditworthiness policy, including counterparty limits.

2.2 Circumstances have changed significantly since the Strategy and Prudential Limits were approved. In particular, the measures that local councils are putting in place to support business rates and Council Tax along with the response from central government may impact on the timings and amounts of income received. This, along with additional expenditure being incurred, could impact on the Service's short-term cash flow. In order that the Service is able to maintain a positive cashflow, the following amendments to the prudential limits are recommended:

OPERATIONAL BOUNDARY AUTHORISED LIMIT

2.3 The operational boundary (currently £31,850m) is the Authority's estimate of its likely maximum external debt during the year. It is possible for the operational boundary to be temporarily breached to take account of unusual movements in cash flow, but this should not be a regular occurrence. A variation from the operational boundary is permissible, but will be reported to the Fire Authority.

2.4 The authorised limit (currently £35,035m) is essentially the same as the operational boundary, but allows headroom over and above it to take account of unusual movements in cash flow and therefore should be the maximum amount of external debt that the Authority is exposed to at any given time. Any proposed variation from the authorised limit must be authorised by the Fire Authority.

2.5 It is proposed to increase both these limits by £2m to provide additional flexibility regarding short-term borrowing should it be required for cashflow purposes during the Covid-19 crisis.

2.6 This would increase these limits as follows:

Limit	2020/21 Current Limit £'m	2020/21 Revised Limit £'m
Operational Boundary	31,850	33,850
Authorised Limit	35,035	37,035

2.7 Any additional borrowing will be of a short-term nature and will therefore impact on the maturity structure of the Authority's borrowing. The upper limit for borrowing under 12 months is currently 20% of total borrowing. It is proposed that this is increased to 30% for the remainder of 2020/21.

COUNTERPARTY LIMITS

2.8 The risks associated with investing are minimised by limiting the amount of investment with a single counterparty to £4m. Whilst officers will adhere to this limit wherever possible, there may be some occasions where this limit is breached with the Authority's bankers. This may occur, for example, where grant is unexpectedly paid early and not invested until the following day. If this occurs the Treasurer and Chair of the Finance and Resources Committee will be informed at the next available opportunity.

COUNTRY LIMITS

2.9 The Authority only uses approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch Ratings (or equivalent). An exception is identified in the Treasury Management Strategy for the UK in the event that its credit rating is downgraded to AA-. Given the current global crisis, there is a risk that all countries could be downgraded. If this occurs, this limit may need to be revised in line with the arrangements set out in Section 2.12.

COUNTERPARTY LIMITS

2.10 Similarly, the ratings of the counterparties that the Authority currently invests in may be affected by the current economic situation. These are monitored by the Authority's treasury advisors, Link Asset Services. Should the downgrading require that investments are withdrawn from the counterparty, this will be acted upon with immediate effect.

BANK OVERDRAFT

2.11 The bank overdraft level is £200,000 and this is usually sufficient. There are occasions when the overdraft exceeds £200,000 and temporary arrangements are made with the bank to increase the limit to £500,000. This may be further extended as a last resort should the need arise. Temporary borrowing from other sources will be investigated in the first instance.

2.12 Should any of the Authority's treasury management and prudential limits require further revision, this will be approved under existing urgent powers in consultation with group leaders and the Chair of Finance and Resources Committee

2.13 Any amendments or breaches of limits will be reported back to Members at the next available committee meeting.

REVENUE AND CAPITAL BUDGETS

2.14 The 2019/20 revenue and capital expenditure is expected to be largely unaffected by the Covid-19 outbreak which began to significantly impact on the Service in mid-March. The Home Office (HO) and Ministry of Housing, Communities and Local Government (MHCLG) are collating costs on a monthly basis.

2.15 At the end of March, the Service submitted a return of £13k. This comprised of ICT equipment to enable home working for key members of staff, personal protective equipment (PPE) and additional cleaning.

2.16 The Service has received a grant from central government of £191k. This is intended to cover both the additional costs to this Service and the costs of supporting other organisations such as East Midlands Ambulance Service. At present, expenditure is expected to exceed the grant and it is not yet known whether further funding will be made available to cover costs. Approval is sought to create an earmarked reserve from general fund reserves to the value of £309k to create a total available budget of £500k to fund additional Covid-19 related expenditure. The earmarked reserve will only be utilised if further funding is not available from central government or expenditure cannot be funded from underspends elsewhere in the budget.

2.17 The Nottinghamshire Local Authorities are expecting the financial hardship being felt by some households to have an impact on Council Tax collection. The Government announced a £500m hardship fund for Council Tax payers and this is being used to provide relief to support economically vulnerable people. This is in addition to existing local Council Tax support schemes run by local authorities, the costs of which are met by the collection fund.

2.18 The 2020/21 budget includes an anticipated surplus in the Council Tax collection fund of £94k, which is based on estimates from the precepting authorities. It is still too early to tell what the total impact on collection rates will be, but it is expected that there will be an impact and the collection fund will most likely run at a deficit this year. NFRS will take its proportionate share of this deficit. The impact of this will be monitored as part of the budget monitoring process.

2.19 The Government also announced National Non-Domestic Rates (NNDR) relief for many businesses. Whilst the Service will be compensated for loss of income, it is unclear whether this will be at the assumed collection levels or actual income not received, which is higher. This could impact on income levels to a maximum level of £208k.

2.20 Underspends on some budgets are expected where activity has either significantly reduced or halted, such as training, prevention and protection work. The capital budget is expected to be delayed which will result in a likely underspend in the Minimum Revenue Provision (MRP). Any underspends will be used in the first instance to offset reductions in Council Tax and NNDR income and then to fund any excess expenditure on Covid-19 related expenditure.

2.21 Under normal circumstances, budget monitoring reports are considered by the Finance and Resources Committee at each meeting. The monitoring position was due to be reported to the cancelled Finance and Resources Committee on 3 April 2020. It was predicting an underspend position of £781k, which is largely in line with previous forecasts. Capital expenditure to the end of January was £1.072m against a total budget of £6.467m. Slippage of £2.6m was already expected for the new station at Worksop, but there have been delays in some other projects which were due to be completed in March which will affect the outturn position and required slippage into 2020/21.

2.22 One of the capital projects related to the purchase of new PPE. This has now been delivered to stations. The old PPE is no longer being used and is being disposed of for further use by the museum, preservation society and oversees services.

2.23 When used PPE is returned to stores it is given a notional value (currently £95k) and added back to the stock account. This represents the use it has left to the Service rather than the resale value, which is negligible. Now that it is no longer being used it needs writing out of the stock account. This requires the authorisation of Finance and Resources Committee due to the value being over £10k. Approval is therefore requested from this Committee given that the Finance and Resources Committee on 3 April 2020 was cancelled.

2.24 The 2019/20 outturn position was due to be considered by Finance and Resources Committee on 26 June 2020, as was the revenue, capital and prudential code monitoring report to the end of May 2020. It is anticipated that this meeting will be cancelled. All reports that are reported for information only will be circulated to all members of the Finance and Resources Committee by Thursday 18 June 2020 in line with normal practice.

2.25 The Finance and Resources Committee are responsible for approving:

- Slippage in the capital programme;
- Variation of tender values in excess of 5% or £50,000;
- Variation in capital project costs in excess of 5% or £50,000;
- Creation of earmarked reserves;
- Virements between budgets with a value in excess of £50,000;
- Stock adjustments above the value of £10,000;
- Write-off of bad debts in excess of £10,000;
- Acquisition and disposal of land.

2.26 Prior to the resumption of Finance and Resources Committee meetings, urgent powers will be used to make any required decisions in consultation with group leaders and Chair of the Finance and Resources Committee.

AUDIT

2.27 The Finance and Resources Committee is responsible for reviewing audits. The internal audit annual report is normally presented to the June meeting of this Committee. This report will be circulated to members of the Committee, the Treasurer and the Clerk. It will also be considered by the Strategic Leadership Team (SLT). It is unlikely that there will be any outcomes requiring decisions from the Committee.

2.28 The External Audit Plan has been provided to the Authority by its external auditors, Ernst Young. This would normally also be considered by Finance and Resources Committee at the June meeting. This will similarly be circulated amongst members of the Committee. The audit consists of two parts – an interim and a final audit. The interim audit was successfully completed remotely during April. This indicates that the final audit can also be completed remotely should circumstances require this.

STATEMENT OF ACCOUNTS

2.29 The deadline for approving the audited 2019/20 statement of accounts by Fire Authority has been extended until 30 November 2020 (from 31 July 2020). The deadline for publishing the unaudited statement of accounts for public scrutiny has similarly been extended to 31 August 2020 (from 31 May 2020). The Chartered Institute of Public Finance and Accountancy (CIPFA) had put forward proposals to accept simplified 2019/20 accounts, but this was rejected by the regulators and auditor bodies.

2.30 The Finance Team is working effectively from home and are intending to complete as much work as is practically possible in line with the original timetable. It still may not be possible to finalise the accounts until August given that the deadline for the precepting authorities to submit business rates final collection figures to the Service has also been extended until 31 July. Any significant delays in completing the statement of accounts will have a significant impact on the team's ability to develop the Medium Term Financial Strategy and the budget for 2021/22 and beyond. The 2021/22 budget process will in itself be more challenging given that the Comprehensive Spending Review has already been delayed from the Spring to the Autumn and Covid-19 has increased uncertainty in the economy.

2.31 Discussions with the External Auditors, Ernst Young (EY), are ongoing regarding audit dates. Members will be aware that the 2018/19 audit was delayed due to EY resourcing issues and the audited 2019/20 Statement of Accounts were not approved until December 2019. The Service had already been made aware that the 2019/20 audit was unlikely to take place before September 2020, and this will clearly be impacted by the current situation.

2.32 The Accounts and Audit Regulations 2015 require that the Statement of Accounts must be considered and approved "by way of a committee or by the members meeting as a whole". The approval of the accounts cannot be delegated. Should it not be possible to hold such a meeting the approval of the statement of accounts will need to be delayed.

3. FINANCIAL IMPLICATIONS

Financial issues are set out in the body of this report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising directly from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this report is not associated with a policy, function or service.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

The recommendations of this report should ensure that all required decisions are made in accordance with the Authority's governance structure.

8. RISK MANAGEMENT IMPLICATIONS

The Covid-19 situation has created an environment of heightened financial risk. The recommendations in this report will ensure that decisions can be made to react to the changing circumstances where possible.

9. COLLABORATION IMPLICATIONS

There are no collaboration implications arising from this report.

10. RECOMMENDATIONS

It is recommended that Members approve:

10.1 Increasing the operational boundary from £31,850m to £33,850m (Section 2.6).

10.2 Increasing the authorised limit from £35,035m to £37,035m (Section 2.6).

10.3 Increase the loan maturity profile limit from 20% to 30% (Section 2.7).

10.4 The transfer of £309k from general reserves to an earmarked reserve to cover any additional costs related to the Covid-19 outbreak that cannot be contained within the grant awarded by central government (Section 2.16);

10.5 The write-off of £95k second hand PPE out of the stock account (Section 2.23).

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley
CHIEF FIRE OFFICER