EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Policy & Resources Panel
Date	23 July 2020
Title of Report	High Level Review of Revenue Budget 2020/21 and Capital Programme 2020/21 to 2024/25
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Background Papers	None

Appendices	Appendix 1: Budget Pressures & Funding Solutions Appendix 2: Savings Programme 2020/21 Appendix 3: Revised Revenue Budget 2020/21 Subjective Summary Appendix 4: Revised Capital Programme 2020/21 - 2024/25

Implications

CORPORATE RISK		**LEGAL**	
ENVIRONMENTAL		**POLICY**	
EQUALITY IMPACT		**POLITICAL**	
FINANCIAL	✓	**OTHER (please specify)**	
HEALTH & SAFETY		**CORE BRIEF**	
HUMAN RESOURCES			

PURPOSE OF REPORT	**To report on the findings of the high level review undertaken on the Revenue Budget 2020/21 and Capital Programme 2020/21 to 2024/25.**

EXECUTIVE SUMMARY

This is the first report to Policy & Resources Panel for the 2020/21 financial year and highlights the key findings of a high level review undertaken on the Revenue Budget 2020/21 and 5 year Capital Programme, approved by the Authority in February 2020. It should be noted the review is based on currently available information and the result may change as new information emerges during the year.

Revenue pressures to the sum of £824,000 (one-off £668,000, ongoing £156,000), including £55,000 savings at risk, have been identified.

Potential funding solutions in the current financial year include the use of Contingency (£329,000), General Fund Reserves (£47,000), Covid-19 Grant (£437,000) and Budget Savings to mitigate the remaining gap of £94,000. Ongoing pressures will need to be considered alongside other priorities, as part of the budget setting process 2021/22+. These are summarised in Appendix 1 and detailed in section 2.

Performance against the Savings Programme is summarised in Appendix 2 and detailed in section 3 along with potential areas where additional savings may be possible. The Revised Budget subjective summary incorporating these pressures is at Appendix 3.

Further Revenue and Capital programme risks are detailed in section 5, focusing specifically on areas that are subject to further investigation and the outcome could result in significant additional pressures in the current and future financial years. These include the impact of Covid-19 on both the Business Rate and Council Tax Collection Funds and the potential continuation of historical pressures in Engineering and Safer Communities.

The overall 5 year Capital Programme has increased by the 2019/20 slippage brought forward of £447,000 to £24,492,000. There is also a change in funding of £452,000 from Planned Revenue Contributions to Capital Receipts.

A review of the current year Capital Projects has concluded that £1,064,000 should be slipped into 2021/22 and there may be further delays as the full impact of Covid-19 becomes apparent. Detailed information is contained within section 4 and summarised in Appendix 4.

The updated position on reserves shows an opening balance of £23,281,000, a reduction in the planned drawdown of £683,000 and an estimated closing balance of £11,743,000, as detailed in section 6. Further work is required to review likely drawdown of reserves during the current year.

There is a reduction in the interest receivable on the Authority's cash investments of £24.35m due to the Bank of England lowering its' base rates to invigorate the economy due to the impact of Covid-19. Interest payments on fixed rate loans of £11.773m are unaffected. One loan of £75,000 will mature this year for which payment arrangements are in hand, as detailed in Section 7.

The report also begins to identify the potential scale of the financial challenge facing the Authority in its planning for 2021/22 including:

- Existing savings gap identified in MTFP mid case scenario = £1.239m
- Additional ongoing pressures identified = £0.156m
- Initial estimate of loss of income through Covid 19 from council tax and business rates through the collection fund £1.5m - £2.0m
- Reliance on one-off Pensions Grant of £1.735m to fund ongoing increase in employer's contributions
- Potential cost of the remedy for the Firefighter's Pension Scheme following McCloud / Sargent case – initial estimate of historic liability approx. £5m, ongoing cost approx. £0.9m pa

In its most recent announcements the Government has indicated that the collection fund losses from 2020/21 can be spread over three financial years and given a commitment that it will, in the next Spending Review, agree an apportionment of irrecoverable council tax and business rates losses between central and local government for 2020 to 2021. Whilst this further assistance is both necessary and welcome, what the Authority needs is certainty at an early date, not just regarding mitigation of the financial impact of Covid 19, but the settlement for 2021/22 and beyond including the baselining of one-off grants and funding for pensions costs. Without this certainty officers will need to bring forward proposals that match the scale of the emerging budget gap.

RECOMMENDATIONS

The Panel is recommended to note:

(i) The one-off and ongoing revenue budget pressures identified
(ii) the use of contingency to finance one-off pressures
(iii) the other proposed funding options proposed in the report
(iv) the slippage identified in the Capital Programme
(v) the risks to the agreed Savings Programme
(vi) the correction to the agreed capital financing for 2020/21
(vii) that officers will identify areas where in year savings can be delivered in 2020/21
(viii) the emerging scale of the financial challenge for 2021/22 onwards including the impact of Covid 19.

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1. Introduction

1.1 The Revenue Budget 2020/21 and Capital Strategy 2020/21 to 2024/25 was approved at the meeting of the Fire Authority on 13 February 2020.

1.2 This is the first report to P&R Panel, for the 2020/21 financial year, and highlights the key findings of a high level review undertaken on the Revenue Budget 2020/21 and Capital Programme 2020/21 to 2024/25. It should be noted the review is based on currently available information and the result may change as new information emerges during the year.

	This P & R report £'000	Last P & R report £'000	Movement £'000
Revenue (see section 2)	824	-	824
Capital in year (see section 4)	(1,064)	-	-

1.3 The Revenue Budget, approved by the Fire Authority in February was a net expenditure requirement of £39.37m. Since then pressures to the sum of £824,000 (one-off £668,000, ongoing £156,000), including savings at risk, have been identified. These are summarised in Appendix 1, along with proposed funding solutions, and detailed explanations provided in section 2 below. The net pressures are reflected in the Revised Budget 2020/21 subjective summary at Appendix 2.

1.4 It is highly likely the collection funds for council tax and business rates will be affected by Covid-19 and will impact on 2021/22 allocations. A rough estimate provided by one District assumes a 5% drop in collection rates. If this assumption comes true, and, is replicated across the Districts and Boroughs, it could mean a loss in the range of £1,500,000 to £2,000,000 in 2021/22. There is no clear indication whether the Government will step in and help finance the gap, either partially or in whole. We are working closely with colleagues from East Sussex Finance Officers Association (ESFOA) and Brighton and Hove City Council (BHCC) to keep abreast of issues in this critical area and provide SLT and the Panel with updates in future reports.

1.5 The savings requirement 2020/21 is £426,000 and early indications are that £371,000 savings are on course to be successfully delivered, whilst £55,000 savings are at risk as detailed in Appendix 2 and section 3 below.

1.6 The five year Capital Strategy 2020/21 to 2024/25 was approved by the Fire Authority in February 2020 at £24,045,000. The overall amount has increased by £447,000 to £24,492,000 taking into account slippage from 2019/20, funded from Capital Receipts.

1.7 There is estimated slippage of £1,024,000 on 2 capital projects plus a change in funding of £452,000 from Planned Revenue Contributions to Capital Receipts. This

results from an oversight during budget setting when the revenue contribution was removed from the revenue budget as a saving but not from the capital financing analysis. Detailed information is contained within section 4 and summarised in Appendix 4.

1.8 A number of Revenue Budget and Capital Programme risks are set out in section 5 which will be monitored throughout the year. The updated position on Reserves, Borrowing and Investments is provided at sections 6 and 7 respectively.

2. Revenue Budget Commentary

2.1 The Revenue Budget, approved by the Fire Authority in February was at a net expenditure requirement of £39.37m. Since then pressures to the sum of £503,000 (one-off £347,000, ongoing £156,000) have been identified. These are summarised in Appendix 1 and detailed below.

2.2 It is clear that the identified pressures are significant in value and appropriate and realistic funding solutions are urgently required. The funding proposals are summarised in Appendix 1 and are as follows:-

(i) **Covid-19 Grant –** the amount of £33,000 is considered as eligible expenditure for offsetting against the Covid-19 grant in 2020/21. We recognise we are currently reporting Covid costs of £437,000 April – September of which £354,000 is additional costs (including the IRMP consultation and commercial training of £33k already included here) plus circa £83,000 for loss of TM income which if we do cover with the Covid grant would deliver us additional flexibility (i.e. unbudgeted income) to cover pressures.

(ii) **General Fund Reserve** – the amount of £47,000 pay award deficit can be funded from revenue reserve for 1 year only. An ongoing budget is to be identified for future years.

(iii) **Corporate Contingency** – the uncommitted balance is currently £454,000 and it is proposed that £329,000 of one-off pressures are funded from this source in 2020/21. It should be noted that the remaining balance of £125,000 reduces considerably the Authority's ability to deal with new unforeseen pressures.

(iv) **Revenue Budget** – Savings to be identified within the current year's budget to mitigate pressures of £94,000. Ongoing pressures should be included within the budget setting requirement for 2021/22.

2.3 Of these pressures, £55,000 (£30,000 one-off £25,000 ongoing) relate to savings at risk and detailed information on these can be found in section 3 below. The remainder are as follows:

2.3.1 **Pensions Abatement:** £18,000 ongoing – this may be partially or fully mitigated by being funded from existing service budgets

2.3.2 **Pay Award:** the pay award was allowed for in the 2020/21 at 2% increase. However, the employer's side has offered a Green Book pay award of 2.75%, which would result in a 0.75% budgeted deficit estimated at £47,000. This could be fully funded by revenue reserves in 2020/21 and future years built into the budget requirement.

2.3.3 **Extensions to secondments:** £152,000 – these one-off costs could be fully funded through Corporate Contingency.

2.3.4 **Swift Water Rescue:** £10k one-off this risk crystalised during 2019/20 following the resolution of a challenge by the FBU regarding Additional Availability Allowances and majority of costs (for historic liabilities) were accrued for in the 2019/20. A small pressure of £10,000 will also impact in 2020/21 which can be funded from Corporate Contingency.

2.3.5 **Scheme Sanction Charges:** Unknown – resulting from a requirement to change the way these charges are applied. Further work is required to scale this cost.

2.3.6 **New Workwear:** £60,000 one-off – relating to the roll out of new workwear using a new national contract could be funded from Corporate Contingency.

2.3.7 **IRMP consultation:** £45,000 one-off – as agreed by Fire Authority, of which £18,000 is additional cost arising from Covid 19 and will be funded from the Covid 19 grant. The remainder £27,000 could be funded from Corporate Contingency.

2.3.8 **Leadership and Behavioural Framework:** £50,000 one-off for training and communications as part of roll out agreed by SLT could be funded from Corporate Contingency.

2.3.9 **Safer Communities and ORR:** there were overspends totalling £538,000 across these directorates in 2019/20 (excluding SCC / ESFC) and work is underway to establish what is one off and what is ongoing and will impact in 2020/21.

2.3.10 **Financing:** Early indications are that it is highly likely the collection funds for council tax and business rates will be affected by Covid-19 and will impact 2021/22 allocations. This is mainly due to the uncertainty in the employment market, the respective loss in earnings which will impact on the ability to collect local tax, the level of claimants for council tax support and the impact on local businesses. There is no clear indication whether the Government will step in and help finance the gap, either partially or in whole.

2.3.11 **Section 31 Grant:** there is an anticipated surplus in grant of £565,000 during the year which is recommended to be placed into the Business Rates Reserve (BRR) as it reflects losses that will form part of the Collection Fund deficit distributed in 2021/22

2.3.12 **Business Rates & Council Tax:** It is highly likely the collection funds for council tax and business rates will be affected by Covid-19 and will impact on 2021/22 allocations. A rough estimate provided by one District assumes a 5% drop in collection rates. If this assumption comes true, and, is replicated across the Districts and Boroughs, it could mean a loss in the range of £1,500,000 to

£2,000,000 in 2021/22. There is no clear indication whether the Government will step in and help finance the gap, either partially or in whole. We are working closely with colleagues from East Sussex fire Officers Association (ESFOA) and Brighton and Hove City Council (BHCC) to keep abreast of issues in this critical area and provide SLT and the Panel with updates in future reports.

2.3.13 **Grants:** The Government has allocated two new grants namely, Covid-19 and Surge Protection Funding as follows:

2.3.13.1 **Covid-19 –** this is to alleviate an increase in expenditure and shortfall in income relating to Covid-19. £137,000 was allocated toward the end of 2019/20 and almost all (£136,000) has been brought forward in an earmarked reserve. The allocation for 2020/21 is £633,000 and for the purpose of this exercise, it is assumed it will all be spent. It is imperative that we are able to identify and evidence relevant net additional expenditure so that we avoid unnecessary costs against the base budget and retain this grant funding.

2.3.13.2 **Surge Protection Grant Funding –** the allocation for this Service is £510,000 specifically to deal with inspections for high rise buildings and other high risk buildings. Whilst the precise grant conditions are awaited, including the deadline by which the grant must be spent, a project group has been set up, and, a delivery plan will be drawn up, to ensure full use of the grant.

3. Savings Programme 2020/21

3.1 Appendix 2 summarises the savings requirement 2020/21 of £426,000. Early indications are that £371,000 savings are course to be successfully delivered, whilst £55,000 savings are at risk as follows:-

(i) Management restructure - £5,000 (ongoing) is at risk due to the outcome of the Principal Officer Appointment Panel review of senior officer terms and conditions;

(ii) Personal Protective Equipment - £20,000 (ongoing) is at risk due to the continuing use of FTCs and assistant instructors at STC. The remaining £71,000 should be achieved; and

(iii) Maritime Savings - £30,000 (one-off) due to the pay protection period for Maritime Allowance at Newhaven is likely to extend to the end of the financial year.

3.2 There is potential that mitigating savings may be able to be achieved in part due to the impact of Covid 19. Covid 19 monitoring is currently forecasting the following savings April – September 2020:

(i) External training - £201,000 – there may be some potential for part / all of this to be spent in the second half of the year if providers can deliver virtually / within Government guidelines but this will require further work to assess.

(ii) Fuel - £22,000 – this is likely to be realisable

(iii) Travel and subsistence - £35,000 – this is likely to be realisable.

3.3 In addition given the delay to the planned HMI inspection in Spring 2021 it is unlikely that the agreed one off funding for inspection support (£35,000) will be required in 2020/21.

3.4 Officers will work to identify in year savings that could be used to mitigate the ongoing pressures identified in paragraph 2.2 (iv) above.

4. Capital Programme Commentary

4.1 The 2020/21 Capital Budget and five year Capital Strategy was approved by the Fire Authority in February 2020.

4.2 The Original Capital programme 2020/21 to 2024/25 was approved at £24,045,000 funded by Capital Receipts £7,566,000, Reserves £4,208,000, Planned Revenue Contributions £2,260,000 and Borrowing £10,458,000.

4.3 The original Capital Budget for 2020/21 is £5,992,000, funded through capital receipts and revenue contributions. There is a change in funding of £452,000 from Planned Revenue Contributions to Capital Receipts for 2020/21. This results from an oversight during budget setting when the revenue contribution was removed from the revenue budget as a saving but not from the capital financing analysis.

4.4 The provisional outturn 2019/20 has resulted in slippage of £447,000 into 2020/21. In addition, Service managers have advised that it is unlikely to complete the Ancillary vehicles (£994,000) and Telemetry (£70,000) projects within 2020/21 and asked for these schemes to be slipped into 2021/22. The Estates team is reviewing the impact of Covid-19 on the Estate's capital programme and further revisions may be necessary. The revised Capital Programme is summarised in the table below and detailed in Appendix 4.

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Original Approved Programme	5,992	6,767	4,461	3,906	2,919	24,045
Slippage from 2019/20	447	0	0	0	0	447
Revised Programme	**6,439**	**6,767**	**4,461**	**3,906**	**2,919**	**24,492**
Slippage 2020/21 to 2021/22	(1,064)	1,064	0	0	0	0
Revised Capital Programme	**5,375**	**7,831**	**4,461**	**3,906**	**2,919**	**24,492**
Funded by:						
Capital Receipts	5,375	2,643	0	0	0	8,018
Reserves	0	2,708	500	500	500	4,208
Revenue Contributions	0	452	452	452	452	1,808
New Borrowing / Need to Borrow	0	2,028	3,509	2,954	1,967	10,458
Revised Financing	**5,375**	**7,831**	**4,461**	**3,906**	**2,919**	**24,492**

5. Revenue Budget and Capital Programme Risks

5.1 **Covid 19:** The immediate financial impact of Covid 19 has been funded by grant from Government. There may be delays to capital projects and Covid 19 will continue to impact on the Authority's finances through 2020/21 and more markedly into 2021/22 where the impact on both the Business Rate and Council Tax Collection Funds will be felt.

5.2 **ESFC / P21:** The Authority has made provision in its revenue budget to support the running of the interim ESFC service through 2020/21 and to fund investment in the transition to a new tripartite service in September 2021. Further work is required to consolidate the financial baseline for P21 and the funding within the SCC and Mobilising Strategy Reserves.

5.3 **Engineering:** There is risk that overspends seen in 2019/20 will carry on into 2020/21 and beyond. A joint comprehensive review of the budget and commitments is being undertaken by Engineering and Finance staff to identify and manage these issues.

5.4 **Safer Communities:** This is the largest and most complex budget which has seen improvement in control over whole-time establishment and staffing costs over recent years and continues to benefit from additional resilience funding. Work is underway to validate funding for a number of Community Safety posts and also to understand an apparent spike in RDS pension costs in 2019/20.

5.5 **Pensions Costs:** There is continued reliance on one-off grant to fund increased employer contributions for FPS as well as the uncertainty on the cost and funding of the remedy resulting from the Sargent case (initial estimate of historic liability approx. £5m, ongoing cost approx. £0.9m pa). In addition, there is a risk around LGPS (triennial review concluded in 2020) new contribution rates which started in April 2020, but the LGPS (East Sussex Pension Fund) may want to undertake an

interim review of contribution levels following the Covid-19 impact on Fund asset values. At this stage it is understood that any impact is unlikely to be until 2021/22.

5.6 **External Audit Fees:** Our external auditors Ernst & Young (E&Y) are reviewing fees for all their public sector assignments through the PSAA contract. They have proposed a significant increase in fees of circa £25,000. We are awaiting further information from them and will be engaging with PSAA who must approve any fee variation.

5.7 These risks will continue to be monitored in 2020/21 and should they materialise the Authority will need to determine how the financial impact is to be managed. The Authority has a number of options open to it to manage budget pressures: Identification of additional savings or managed underspends, use of the Corporate Contingency and/or use of General Balances.

6. Reserves

6.1 The Fire Authority maintains Reserves in order to assist it in managing its specific spending plans across the financial year (Earmarked Reserves) and making provisions for the financial risks it faces (General Fund Reserves).

6.2 The opening balance at 1 April is £23,281,000. The planned net transfer from reserves of £12,221,000 has decreased by a total of £683,000 resulting in an estimated closing balance of £11,743,000 as summarised in the table below:

	Balance at 1 April 2020	Planned Net Drawdown (Out) / In 2020/21	Revised Net Drawdown (Out) / In 2020/21	Net Variation (Out) / In 2020/21	Est. Balance at 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Total Revenue Reserves	15,725	(6,681)	(6,163)	518	9,562
Total Capital Reserves	7,556	(5,540)	(5,375)	165	2,181
Total Usable Reserves	**23,281**	**(12,221)**	**(11,538)**	**683**	**11,743**

6.3 Revenue Reserves £518,000 - due to retaining the anticipated surplus of £565,000 on Section 31 grant in the Business Rate Relief (BRR) reserve to contribute towards potential shortfalls in 2021/22 arising from Covd-19 and use of General Fund Reserve to fund the deficit on pay award of £47,000.

6.4 Capital Reserves £165,000 – due to the use of capital slippage from 2019/20 £447,000, the increase in capital financing of £452,000 from planned revenue contributions, less the capital slippage into 2021/22 of £1,064,000.

6.5 Further work is required with budget managers to confirm planned use of revenue reserves in 2020/21.

7. Borrowing and Investment

7.1 As at the 1 April, the Authority held cash balances of £24.35m which are invested in accordance with the Treasury Management Strategy. As noted above further work is required to confirm the forecast level of drawdown from reserves during the year. The Authority's budget anticipated a reduction from £19.8m to £7.5m and this will mean the need to liquidate investments during the year. Finance is working with the ESCC Treasury Management team to improve cash-flow monitoring to facilitate this.

7.2 The Bank of England reduced its' base interest rate from 0.75% to 0.10% to invigorate the economy due to the impact of Covid -19. We are beginning to see an impact as Banks start to reduce their rates on investments, resulting in lower interest receivable. We are awaiting further modelling but at this stage we expect to be able to deliver budgeted interest receipts of £75,000. If interest rates had stayed at their prevailing rates, we would have seen additional income of approximately £75,000, similar to that realised in the last two financial years, to use towards managing current pressures. It is possible that the Covid 19 grant may compensate for part of this loss in income.

7.3 The Authority has debts totalling £11,773,000 and there is no impact on the interest payable, as these are subject to fixed interest rate deals. £75,000 of the debt will mature at the end of the current financial year for which payment arrangements are in hand.