

EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Fire Authority
Date	3 September 2020
Title of Report	2021/22 to 2024/25 Strategic Service Planning and Medium Term Financial Plan
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Background Papers	Bank Of England Quarterly Monetary Policy Report August 2020. Fire Authority 13 February 2020
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Appendices	1. Refreshed Medium Term Financial Plan 2021/22 to 2024/25 2. LGA / NFCC CSR Submission
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Implications

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

PURPOSE OF REPORT	To roll forward the Fire Authority's medium term service planning strategy and medium term financial plan for 2021/22 to 2024/25.
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EXECUTIVE SUMMARY	Whilst the main purpose of this report is to set the financial context for the service planning process, through an update of the Medium Term Finance Plan (MTFP), the fundamental aim of the process is to determine how best to deliver the Authority's Purpose and Commitments, the IRMP and the targets and priorities that underpin them, within the context of the current estimate of available financial resources for the period 2021/22 to 2024/25. Given the level of uncertainty we have not rolled forward to 2025/26 but will do so as part of the budget setting process.
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Closer alignment of business and resource (including finance) planning is necessary to ensure that the Authority

can continue to deliver its corporate strategy and Integrated Risk Management Plan (IRMP) outcomes more effectively. This will continue for the 2021/22 budget setting process.

There remains uncertainty about the future of local government funding and this has only been increased as a result of the current Covid-19 pandemic. The Government has commenced a comprehensive spending review (CSR) covering a 3 year period from 2021/22. The fire sector has made a strong submission to CSR but the timetable is unclear and it is unlikely that the outcome will be known until later in the autumn with the provisional settlement expected in late December. Nationally the sector remains reliant on significant one off funding for pensions costs and investment in protection services, and locally forecasting of future income from Council Tax and Business Rates remains limited. This makes planning for the 2021/22 budget and beyond extremely difficult.

In this uncertain context this report seeks to identify the potential scale of the financial challenge facing the Authority over the next four years, but particularly for 2021/22. It builds on the existing Medium Term Finance Plan (MTFP) mid-case scenario and updates the assumptions that underpin it where that is possible, highlighting emerging pressures and potential risks. The revised MTFP indicates a revised funding gap of £1.659m in 2021/22 rising to £2.967m in 2024/25. In addition it is recommended that the Authority plans for a scenario where the current one off pensions grant does not continue into 2021/22. This would add a further £1.735m to the savings required in each year.

The Authority will need to continue to drive, through the service and budget planning process, identification of pressures and savings, and cashable efficiencies sufficient to provide the Authority with options to balance the budget in 2021/22 and beyond. However it is clear that if the scale of the potential financial challenge facing the Authority is as set out in this paper that efficiencies alone will not be sufficient to bridge the funding gap. The Authority will therefore need to consider a wider range of options beyond its Efficiency Strategy. This will enable the Authority, as far as is possible, to make informed choices about both balancing its budget over the medium term and delivering efficient and effective services once the position for 2021/22 and beyond is clearer.

RECOMMENDATION

The Fire Authority is asked to:

- (i) approve the updated Medium Term Financial Plan for 2021/22 to 2024/25 and its underlying assumptions;

- (ii) consider and comment upon the risks set out in section 4.6; and
- (iii) consider their policy preferences for Council Tax, should the Government set the referendum threshold higher than the 2% currently included in the MTFP

1 MEDIUM TERM SERVICE PLANNING

- 1.1 Whilst the main purpose of this report is to set the financial context for the service planning process, through an update of the MTFP, the fundamental aim of the process is to determine how best to deliver the Authority's Purpose "to make our communities safer", it's supporting commitments, it's Integrated Risk Management Plan (IRMP), and the targets and priorities that underpin them, within the available resources. This process has become even more important in recent years in the light of the sustained reduction in public sector funding and the consequent need to deliver significant savings over the period of the MTFP.
- 1.2 Members and officers will need to ensure that the service planning process, which is driven through our purpose and commitments and the IRMP, delivers sustainability in the medium term for both the revenue and capital budgets, and the Service as a whole. Officers continue to develop the service planning process to ensure that strategic planning and resource allocation processes (including financial planning / budget setting) are better aligned, ensuring that agreed policy priorities and key outcomes are properly resourced and can be delivered more efficiently and effectively. As a result of this any proposed new pressures, savings and investments will be included in future reports for Member approval.

2 ECONOMIC OUTLOOK

- 2.1 The outlook for the UK and global economies remains unusually uncertain as a result of the global Covid-19 pandemic. At the end of this year, GDP is projected to be 5% below its level a year earlier. There is higher uncertainty than usual around the outlook for unemployment. It is forecast to rise to around 7½% in Q4, before gradually declining. Over 2021, spending remains weaker than it would have been in the absence of Covid-19. Uncertainty is assumed to fade gradually, and the Bank of England's Monetary Policy Committee (MPC) forecasts that GDP does not exceed its level in 2019 Q4 until the end of 2021. In addition there remains uncertainty about the nature and impact of the UK's exit from the EU on 1 January 2021.
- 2.2 CPI inflation is projected to remain well below the MPC's 2% target in the near term, largely reflecting the direct and indirect effects of Covid-19. These include the temporary impact of lower energy prices and cut in VAT, as well as downward pressure from spare capacity in the economy. As these effects wane, inflation

rises. In the central projection, inflation is projected to be around 2% in two years' time. Interest rates are not expected to rise from their historic low of 0.1% for the next 18 months.

3 NATIONAL FUNDING ISSUES

- 3.1 There is considerable uncertainty in the national funding arena. Prior to Covid-19, the Spending Round 2020 announced on 4 September 2019 set out a more positive settlement for the fire sector nationally than had been anticipated, with a commitment to increase settlement funding assessment (SFA) by inflation for 2020/21
- 3.2 The Comprehensive Spending Review (CSR), originally meant to be published in July 2020 was delayed so the Government could focus on dealing with Covid-19. CSR will set UK Government departments' revenue budgets for the years 2021/22 to 2023/24 and capital budgets for the years 2021/22 until 2024/25. The exact timetable for the review is not clear but, external stakeholders will need to submit representations early September. The joint NFCC / LGA submission for fire has already been submitted and is included at Appendix 2. The Provisional Local Government Finance Settlement is not expected to be announced until late December when budget plans are close to being finalised ready for Authority consideration in mid-February.
- 3.3 Due to the unprecedented uncertainty, the Chancellor did not fix a set spending envelope for CSR, but confirmed that departmental spending (both capital and resource) will grow in real terms across the CSR period and that the government will deliver on the commitments made at Budget to level up and invest in the priorities of the British people. Given the split of fire funding across both the HO and MHCLG the sector is competing against other policy commitments e.g. for policing and the Border Force and local government more generally.
- 3.4 The uncertainty continues with both the Formula Funding review (FFR) and Business Rates Reform (BRR) delayed until 2022/23 at the earliest.
- 3.5 The fire fighters pension grant was provided in 2019/20 in order to mitigate most of the increase in the employer contribution rate following the most recent valuation process. This one off grant was extended into 2020/21 and will be considered as part of CSR. The MTFP assumes that the grant will continue into 2021/22 at the same value for the life of the MTFP (£1.735m). However there is a potential risk attached to this that will only be resolved once the outcome of CSR is known.
- 3.6 Whilst there is uncertainty on the cost and funding of the remedy resulting from the Sargent case, it is expected that this will be picked up in the next quadrennial review and impact on employer contributions from 2023/24. No financial impact is reflected in the MTFP and the sector position is that any additional cost should be funded by Government.
- 3.7 A new Covid-19 grant was awarded 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 the allocation for 2020/21 is £633,000. It unclear whether any further grant to support the ongoing costs of the pandemic will be forthcoming.

- 3.8 Surge Protection Grant Funding of £510,000 was awarded specifically to deal with inspections for high rise buildings and other high risk buildings by December 2021 post Grenfell. In addition, one-year New 2020/21 Infrastructure Fund with an allocation of £67,944 is to help support FRS to put in place a local Grenfell Inquiry recommendations co-ordination function which will help co-ordinate local activity and support the national work led by the NFCC; drive progress on local improvements and ensure funding for smoke-hoods and other technical investments. CSR will consider whether any of this funding will be baselined to sustain improvements in Business Fire Safety and reflect the impact of changes in legislation, on the fire service, post Grenfell Tower. It is likely we will need additional capacity to respond to the two new Bills going through the parliamentary process. An October briefing has been arranged for MPs.
- 3.9 There has been no provision for capital or transformation grants within the fire sector since 2015/16. The fire sector CSR submission highlights the need for new capital funding to replace end of life national resilience assets for which there is no local provision. The cost of replacing those assets current allocated to this Authority is approximately £1m.

4 LOCAL POSITION

4.1 Medium Term Finance Plan

- 4.1.1 The refreshed MTFP is included at Appendix 1. The MTFP was previously updated when the 2020/21 Budget was set in February 2020. At that stage there was forecast to be a balanced budget for 2020/21 but given the level of uncertainty about future funding we modelled a range of scenarios which highlighted the potential need to make further savings of between £0.7m and £3.6m by 2024/25. In preparing the refreshed MTFP the main issues considered are set out in the following paragraphs, but we have adopted the mid-case scenario, which was based on a 5% year on year reduction in Settlement Funding Assessment (a combination of funding from business rates and core grant i.e. RSG). The Authority must also consider the risks set out in paragraph 4.6 below when considering its financial planning.

4.2 Expenditure

- 4.2.1 The level of pay award for the fire & rescue service will be determined nationally through the National Joint Council (NJC). The refreshed MTFP has a provision for pay inflation of 2.0% for the duration of the MTFP. The Government have relaxed the public sector pay cap but has made it clear that higher awards should be funded from efficiencies. The FBU is seeking significant pay increases for its members. For each 0.5% increase in pay-award, this is equivalent to £157,569 on the employee base 2020/21 (adjusted for an additional 0.75% anticipated increase for support staff over and above the 2% original MTFP assumption). The sector's CSR submission makes it clear that any pay award above 2% is unaffordable, however to be prudent and recognising there is pressure in the system the provision has been increased by 0.5% each year across all staff.

4.2.2 The MTFP currently provides 2.0% p.a. for price inflation on goods and services which has been rolled forward to 2024/25. Each 1% increase in prices is equivalent to £121,000. We are working with the procurement team to assess the level of indexation on our major contracts and understand whether there is an opportunity to reduce our provision for non-pay inflation in 2021/22 in the light of the MPC's forecast for lower than 2% inflation in the near short term.

4.2.3 To provide Senior Leadership Team (SLT) with flexibility in managing budget in-year there is a Corporate Contingency included in the Revenue Budget and MTFP. This is set at £454,000 for 2020/21, falling to £308,600 in 2021/22 before rising slowly to £327,500 by 2024/25.

4.3 **Emerging Pressures**

4.3.1 The following emerging pressures have been identified through the high level review of the budget reported to Policy & Resources Panel in July and subsequent budget monitoring. At this stage we have not included the potential pressure arising from the IT Strategy paper elsewhere on this agenda:

- **ESFC / P21:** The Authority has made provision in its revenue budget to support the running of the interim East Sussex Fire Control (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 this project (P21) and the funding within the SCC and Mobilising Strategy Reserve. The delay in go live date from March to September 2021 means that the interim service will need to run for a further 6 months. An initial impact of the additional cost has been made at approximately £0.3m and will be funded from the P21 risk contingency and drawn down from the Mobilising Strategy Reserve. It is currently estimated that an additional £0.070m per annum needs to be made available to fund operation of the new service, due to the original budget provision for 2021/22 being understated.
- **Engineering:** There is risk that overspends seen in previous years will continue into 2021/22 and beyond estimated at £80,000. Work is ongoing between the finance and engineering teams to confirm this position and the extent to which increased spend on external repairs and maintenance can be managed / mitigated and the outcome will be fed into the budget setting process
- **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 a pressure on pension costs in previous years of around £100,000.
- **External Audit Fees:** Our external auditors Ernst & Young (E&Y) are reviewing fees for their public sector assignments through the PSAA contract. They have proposed a significant increase in fees of circa £30,000.

We are awaiting further information from them and will be engaging with PSAA who must approve any fee variation.

- **Unachievable Savings:** This includes the impacts of a review by Principal Officer Appointment Panel of senior officer terms and conditions on the final tranche of savings from the 2016 management restructure (£29,000) and a reduction in savings from the new PPE contract due to higher than anticipated issue levels as a result of continued use of fixed term contracts and assistant instructors at Service Training Centre (£20,000)
- **Outdated income budgets:** a review of income budgets for our Covid-19 return has identified a number of historic income budgets that are no longer achievable and need to be corrected (£51,000)

4.4 Capital Strategy

4.4.1 The Authority has been conducting a number of reviews that will impact on its future investment plans and potentially its future revenue costs:

- IT Strategy Refresh 2020-25 – this is reported elsewhere on this agenda and if approved presents a one-off funding pressure of £0.2m and an ongoing revenue pressure of £0.7m by the end of the MTFP. Further work is required to determine what projects within the Strategy could be treated as capital.
- Fleet & Equipment – these strategies are under review and the review of special appliances is expected to be reported to SLT in the autumn. The intention is to contain any changes within the existing scheme budgets.

The Authority will need consider the funding implications, including capital investment requirements that result in its budget proposals and MTFP. For every £1m borrowed, this will cost an estimated £70,000 per annum in interest payments and Minimum Revenue Provision (MRP) to repay the loan upon maturity.

4.5 Reserves and Balances

4.5.1 Reserves and balances are held in accordance with the Authority's agreed policy. The planned use of reserves and balances will be reviewed as part of the service planning process in light of the savings requirement, any changes to the Capital Strategy, the outcome of grant funding bids to Government, and, the need to fund the costs of up-front investment to support the delivery of savings proposals.

4.5.2 The level of reserves held is expected to reduce significantly over the next four years and by 2024/25 is forecast to comprise primarily an unallocated risk provision (General Balance 88.9% of total reserves and 5.2% of the total General Fund Revenue Budget in 2024/25) of £2.2m and no resources to fund the Capital Strategy without recourse to borrowing.

4.6 Risks

4.6.1 There are a range of risks that have the potential to impact on the Authority's ability to deliver its budget plans over the medium term to which Members must give consideration, some of which are discussed in more detail elsewhere in this paper, primarily:

- Our ability to identify and deliver the savings required to balance the budget over the medium term through the Efficiency Strategy and the Integrated Risk Management Plan (IRMP);
- The impact of additional budget pressures for example, the net cost of the revised IRMP proposals in the short term and the revenue impact of continued investment in IT;
- The impact on Covid 19 on income from Council Tax and Business Rates and potential ongoing cost pressures e.g. additional cleaning, loss of Treasury Management income, loss on commercial training income
- Uncertainty over the impact of the remedy to the transitional protections in place for local government and firefighters pension schemes;
- Lack of clarity about the financial impact of the national Emergency Service's Mobile Communication Programme;
- The potential for a national pay award to exceed the 2% provision in the budget;
- Uncertainty about future governance and funding including:
 - o the three year Comprehensive Spending Review
 - o the impact of the Fairer Funding Review
 - o proposals for further (75%) localisation of business rates
- The potential impact of the UK's decision to leave the EU including the impact of currency movements on the cost of goods and services purchased from the EU and more widely on the economy and the Governments fiscal objectives
- The impact of local growth and additional housing, road and commercial risks;
- Any further development of local devolution proposals;
- Any further proposals by the Police & Crime Commissioner for changes to fire service governance in Sussex;
- Outcomes for the fire service nationally and locally from the HMICFRS inspection process;
- Potential changes to the role of the Authority resulting from the Hackitt and Moore-Bick inquiries.

4.7 **Financing**

Council Tax Increase

4.7.1 It is assumed the Authority will increase council tax by 1.99% for the duration of the MTFP following the council tax referendum threshold set at 2% for fire authorities in 2020/21. Through CSR the sector is lobbying for precept flexibility of £5 in order to improve local flexibility and financial sustainability without the need for a costly referendum.

4.7.2 If the Government was to allow an increase in the council tax referendum threshold to 3%, this would generate estimated additional CT precept of £282,945 whilst a change to £5 per council tax payer would result in an additional

£1,114,842 in 2021/22. The latter is considered regressive since the impact is felt equally on households regardless of household income and tax banding leading to a greater percentage increases for those in the lower tax bandings, however it would have a significant impact on funding sustainability.

Council Tax Base

- 4.7.3 Although there is currently limited information coming from the billing authorities, given the uncertainty and impact of Covid-19 on the economy, the tax base is expected to reduce in the short-term. However in the MTFP we have assumed that growth in Council Tax base will fall from our current assumption of 1% to 0.3% in 2021/22 and 0.5% in 2022/23, followed by a continuation of 1% year on year growth 2023/24 onwards, this would mean an estimated reduction in Council Tax income of around £199,405 (2021/22), £351,113 (2022/23) rising to £372,588 (2024/25).

Council Tax and Business Rates Collection Funds

- 4.7.4 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. Our current estimate based on a combination of local and nation data forecast 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. The Government has indicated it may provide cover for lost business rates and council tax income similar to the guarantee scheme on sales, fees and charges. We are awaiting detail on the protection / tax guarantee that might be offered through CSR. Previously the Government had indicated that councils could account for council tax and business rates deficits over three years instead of one. On this basis we have modelled a loss of £0.6m each year for the period 2021/22 to 2023/24.

Business Rates

- 4.7.5 Business rates income is based on the mid case scenario where total Settlement Funding Assessment reduces by 5% year on year. However, we have revised our assumption regarding S31 grants for business rate reliefs and have modelled them continuing at the level forecast in the MTFP but reducing by 5% each year in line with the SFA. This increases funding by £0.759m in 2021/22 reducing to £0.651m by 2024/25.

4.8 Savings Plans and Efficiency Strategy

- 4.8.1 Between 2010/11 and 2019/20 the Authority has made savings of approximately £9.2m. In 2017 the Authority determined to take a more holistic and strategic approach to delivering efficiencies that moved beyond previous approaches that had focussed on delivering savings necessary to balance the revenue budget. Officers remain committed to delivering on this approach, but it is clear that the enabling activities, for example CRM, Firewatch and Business Intelligence projects, as well as partnership projects such as ITF have required increased investment and longer delivery times to put in place. Alongside delivery activity SLT and project boards continue work to identify and deliver improved return on

investment and increased cashable efficiencies. An updated mapping of potential efficiencies is set out in table 1 overleaf.

4.8.2 However it is clear that if the scale of the potential financial challenge facing the Authority is as set out in this paper that efficiencies alone will not be sufficient to bridge the funding gap. The Authority will therefore need to consider a wider range of options beyond its Efficiency Strategy and this will include:

- Opportunities to reduce costs by 5 / 10 / 15 % across all services as part of the budget setting process
- Reverting to the original IRMP proposals as set out elsewhere on this agenda
- Reducing its ambition to invest through its Estates, IT and Fleet & Equipment Strategies
- The use of reserves to smooth the savings requirements in the early years of the MTFP (albeit the Authority has fully committed its Earmarked Reserves and its General Balances are currently at / below its agreed Policy minimum).

4.8.3 Proposals will be developed through the budget setting and service planning process and reviewed for impact and deliverability through Star Chambers before presentation to SLT in November. These proposals will be reported to the Authority in January and February 2021 for review and approval.

TABLE 1: POTENTIAL CASHABLE EFFICIENCIES

Potential Cashable Efficiencies		2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Service Area	Description	£'000	£'000	£'000	£'000	£'000	£'000
Income Generation	Income Generation - Primary Authority	19	19	19	19	19	19
Other	New Dimensions / CERA (20/21 only)	452					
Support Services	Estates Strategy	20	40	120	240	360	485
Support Services	Firefighter Pension Scheme Administration	24	24	24	24	24	24
Total already included in the MTFP		515	83	163	283	403	528
IRMP	IRMP (subject to approval)			74	171	424	525
Improvement & Efficiency	Firewatch		25	25	25	25	25
IT Strategy	CRM		23	23	23	23	23
IT Strategy	Hydrant Management		5	5	5	5	5
Support Services	Insurance - CCTV on fleet		20	20	20	20	20
Total potential cashable efficiencies identified		0	73	147	244	497	598

APPENDIX 1

REFRESHED MEDIUM TERM FINANCIAL PLAN 2019/20 - 2024/25 Mid case scenario – 5% per annum reduction in SFA 2021/22 onwards

	Year 1	Year 2	Year 3	Year 4
	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000
Net Existing Budget Requirement (Mid-case Scenario)	40,386	41,322	42,205	43,054
Resulting Savings Requirement	1,239	1,827	2,310	2,708
Funding	39,147	39,495	39,895	40,346
Updated Assumptions				
Council Tax base	199	351	362	373
Council Tax & Business Rates collection	600	600	600	0
Continuation of S31 Grant for Business Rate Reliefs at level assumed in MTFP for 2020/21 with adjustment for 5% reduction in SFA	(759)	(721)	(685)	(651)
Potential Loss (Surplus) in Funding	40	230	277	(278)
Updated Assumptions				
Pay award additional 0.5%	158	148	151	154
New Pressures:				
External Audit Fees	30	30	30	30
Non realisation of savings	49	49	49	49
Safer Communities	100	100	100	100
Engineering	80	80	80	80
P21 - operation of new service	70	70	70	70
Outdated Income Budgets	51	51	51	51
Total Additional Expenditure	380	380	380	380
Net Additional Pressures	420	610	657	102
Refreshed MTFP Net Budget Requirement (Mid-case Scenario)	40,806	41,932	42,862	43,156
Revised MTFP Forecast Savings Requirement	1,659	2,437	2,967	2,810
Pension Grant at Risk	1,735	1,735	1,735	1,735

Appendix 2

Refer to separate document

Fire Spending Review Proposal - Collaborative LGA and NFCC Submission for SR 2021