

## EAST SUSSEX FIRE AUTHORITY

<b>Meeting</b>	Policy and Resources Panel
<b>Date</b>	21 July 2022
<b>Title of Report</b>	Revenue and Capital Budget 2022/23 and Capital Programme 2022/23 to 2026/27
<b>By</b>	Duncan Savage – Assistant Director Resources/Treasurer
<b>Lead Officer</b>	Alison Avery - Finance Manager

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**Background Papers** Fire Authority Service Planning processes for 2022/23 and beyond – Revenue Budget 2022/23 and Capital Asset Strategy 2022/23 to 2026/27

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**Appendices** Appendix 1: 2022/23 Funding  
Appendix 2: 2022/23 Budget Pressures  
Appendix 3: 2022/23 Savings  
Appendix 4: 2022/23 Grants  
Appendix 5: 2022/23 Reserves

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### Implications (please tick ✓ and attach to report)

*Any implications affecting this report should be noted within the final paragraphs of the report*

<b>CORPORATE RISK</b>		<b>LEGAL</b>	
<b>ENVIRONMENTAL</b>		<b>POLICY</b>	
<b>FINANCIAL</b>	✓	<b>POLITICAL</b>	
<b>HEALTH &amp; SAFETY</b>		<b>OTHER (please specify)</b>	
<b>HUMAN RESOURCES</b>		<b>CORE BRIEF</b>	

**PURPOSE OF REPORT** To report on the 2022/23 Revenue Budget and the Capital Programme 2022/23 to 2026/27.

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**EXECUTIVE SUMMARY** This is the first report to Members for the 2022/23 financial year.

Whilst a full forecast has not been undertaken at P2 this report identifies emerging risks and pressures in relation to the 2022/23 revenue and capital budgets. At this early stage it is difficult to give a definitive forecast but based on current information the Authority could face net unfunded pressures of between £1.005m (lower range) and £2.473m (higher

range). Pressures on both pay and prices are outside of the Authority's control and the former may not crystallise until later in the year when pay settlements are agreed. The situation will be regularly monitored and reported to SLT and the Fire Authority throughout the year.

There are a range of options open to the Authority to address the risks and pressures including use of revenue budget contingency, reserves and reductions in planned investment and spend controls (including vacancy management / recruitment freezes).

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**RECOMMENDATION**

**Policy and Resources Panel is recommended to note:**

(i) the current assessment of risk facing the Authority in 2022/23;

**and to approve:**

(ii) the proposed changes to the Engineering capital programme.

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**1. INTRODUCTION**

- 1.1 The Original Revenue Budget 2021/22 and Capital Strategy 2022/23 to 2026/27 was approved at the meeting of the Fire Authority on 10 February 2022.
- 1.2 This is the first report to Members for the 2022/23 financial year.
- 1.3 The Revenue Budget approved by the Fire Authority in February 2022 was a net expenditure requirement of £41,766,000
- 1.4 The savings requirement 2022/23 is £778,000.
- 1.5 The five year Capital Strategy 2022/23 to 2026/27 was approved by the Fire Authority in February 2022 at £25,181,000. This was subsequently increased to £27,197,000 to include additional elemental Estates work missed from the original programme of works and additional budgets to allow temperature control in sleeping pods.
- 1.6 The Capital Budget for 2022/23 was approved by the Fire Authority at £7,250,000. This was subsequently increased by £721,000 to £7,971,000.

**2. REVENUE BUDGET PRESSURES AND RISKS**

- 2.1 A full forecasting process has not been completed at P2, however a number of pressures and risks in relation to the 2022/23 revenue budget have been identified

and are detailed below. A full report will be provided to the Senior Leadership Team in July for P3 and subsequently at September Fire Authority now that the new finance structure is fully staffed (save for one Finance Business Partner role which is currently covered by an agency placement) and is able to engage with budget managers.

- 2.2 **Safer Communities:** The 2021/22 provisional outturn position within Safer Communities was an overspend of £463,000, largely relating to being over establishment and the use of overtime to cover crewing challenges.
  - 2.2.1 Due to Immediate Detriment the number of grey book staff currently retiring is much lower than anticipated. This coupled with the 22 firefighter recruits means the Service is currently over-establishment. If all 22 new recruits remained supernumerary until 31 March 2023 then this could result in a pressure of up to £750,000. However this should allow the Service to reduce the number of grey book fixed term contracts and spend on overtime.
  - 2.2.2 The Finance team have developed forecasting and monitoring packs and these will provide budget holders with greater visibility of their budgets than previously. Finance will be providing training to and working closely with Group Managers across Safer Communities to support them in managing their budgets.
  - 2.2.3 Further detailed analysis is being undertaken within Finance and HR in relation to pay, with the support of budget managers, to understand the potential financial impact for the Service.
- 2.3 **Training:** The training department outturn position in 2021/22 was an overspend of £87,000, excluding firefighter recruitment costs, but with some significant variances within this overall figure. Finance will be working closely with Training to understand the reason for the overspend and ensure controls are in place to ensure this does not occur again in 2022/23.
- 2.4 **2022/23 Pay Awards:** The budget provided 2% for pay awards across gold, grey and green book staff. However, with high inflation rates, there is pressure from representative bodies for significantly higher pay awards.
  - 2.4.1 There have been suggestions that local authorities should forecast based on a 4% pay settlement – if, as an example, this was applied across all staff groups the additional cost / pressure would be £410,000.
  - 2.4.2 The impact of pay awards will be higher if operational strength is over-establishment.
- 2.5 During the budget setting process the 10% allowances for the Crewing Pool were not included in error, this causes a pressure of £34,000 (full year). The actual pressure will depend on the go-live date of the pool.
- 2.6 **Utilities and Fuel Inflationary Increases:** There have been considerable inflationary rises in utilities and fuel costs, which have been exacerbated by the ongoing conflict in Ukraine.

- 2.6.1 Utilities: An additional pressure of £85,000 over and above the standard 2% inflationary factor was included in the budget for 2022/23. However, the current forecast is indicating overspend in the region of £260,000.
- 2.6.2 Fuel: Prices are currently an average of 35% higher than in the first quarter of 2021/22, indicating potential overspend of £97,000.
- 2.7 **Inflationary Contract Increases:** The Procurement team are working to review the contractual spend with key suppliers and the potential for inflation to impact non-pay spend.
- 2.7.1 In addition to utilities, additional budget provision was allocated for timber (£40,575) and catering (£13,000).
- 2.7.2 A standard 2% inflationary budget increase was included for all non-pay, totalling £227,000. However, spend is expected to be in excess of this and may result in potential additional exposure of between £325,000 (if non pay inflation is averaged at 5%) and £868,000 (if non pay inflation is averaged at 10%).

### 3. **REVENUE BUDGET OPPORTUNITIES**

- 3.1 Whilst the full forecasting process has not been completed there are a number of areas where an underspend/additional income is expected based on the current known information.
- 3.2 **Business Rates Rebate:** The Estates team successfully challenged the business rates payable for sites across the Service's estate. The reductions for the 2022/23 financial year allow Estates to deliver their savings of £45,000 and additional underspend of £132,000 on rates will be reported.
- 3.3 **Interest Receivable:** Additional interest income of between £150,000 and £180,000 is expected as detailed in section 10.
- 3.4 **Funding:** Current information indicates that the Service will receive additional funding of £399,000 as shown in Appendix 1.
- 3.4.1 When the budget paper was presented to the Fire Authority in February the exact position regarding business rates income was unknown. Updated information from Local Government Futures based on billing authorities NNDR1 forms indicates additional income of £393,000.
- 3.4.2 An additional £27,000 will be received from Council Tax and Business Rates Covid-19 Tax Income Guarantee following confirmation of final amounts last financial year.
- 3.4.3 This additional income is offset by a pressure of £40,000 in Council Tax as an incorrect tax base was provided by one billing authority during the budget setting process.

#### **4. MANAGING REVENUE BUDGET PRESSURES**

- 4.1 Whilst there is still significant work to be completed to understand the expected outturn forecast, the early analysis indicates pressures in 2022/23 could be between £1,005,000 and £2,473,000, as detailed in Appendix 2.
- 4.2 There are opportunities to support this pressure from the budgeted contingency (section 7) and reserves (section 9). However, when a more robust forecast is available it may be necessary to implement further controls on spend, including managing underspends and vacancies / recruitment.

#### **5. SAVINGS PROGRAMME 2022/23**

- 5.1 Appendix 3 summarises the net savings requirement 2022/23 of £778,000.
- 5.2 A full review of savings delivery is yet to be undertaken, however the following is known at this point:
- 5.2.1 Savings of £25,000 for Firewatch were duplicated and will not be achieved. Other savings are also at risk including Education Team (£40,000), RDSO (£50,000) and Project management consolidation (£25,000).
- 5.2.2 The impact of Immediate Detriment on retirements may have an impact on the delivery of IRMP savings. A workshop will be held to review the expected impact on IRMP savings and this will be reported when available.

#### **6. GRANTS 2022/23**

- 6.1 The Government has awarded grants for use on specific purposes and officers will ensure these are delivered in accordance with grant conditions. These include grants awarded in year, brought forward from previous years where their spending plans fall over more than one financial year and others that require development of spending plans. The grants are summarised in Appendix 4.
- 6.2 The latest grants are detailed below:
- 6.2.1 **Covid-19:** £95,855 has been carried forward following Covid-19 grant funding. No further spend is expected to be coded for Covid-19 and as such this should be used towards something that improves efficiency or productivity.
- 6.2.2 **Surge Protection Grant Funding:** it has been confirmed a further £358,079 will be received in 2022/23. Work is underway to understand the impact of planned costs for 2022/23 and the coming financial years. Costs totalling £300,000 across 2022/23 and 2023/24 have been budgeted to be funded by a drawdown from the Business Rates Pool reserve.
- 6.2.4 **Fire Fighter Pension Scheme:** this is used towards the shortfall in employer's pension contributions.
- 6.2.5 **Firelink:** this grant has been confirmed as £191,277 indicating a pressure against the IT budget of £65,823. This reflects the Home office's decision to reduce the

grant by 20% per annum from 2022/23 to reduce the costs of the existing Airwave solution in advance of its replacement by the Emergency Services Network in 2028. Officers will assess if there are any options to reduce costs to mitigate the impact of this loss of income.

## **7. CONTINGENCY 2022/23**

7.1 The Fire Authority maintains a contingency in order to assist it in managing one-off unforeseen pressures and making investments within the financial year. At its' meeting held in February 2022, the Fire Authority agreed a contingency of £298,000 for the 2022/23 financial year.

## **8. CAPITAL PROGRAMME**

8.1 **Estates:** The impact of worldwide supply chain disruption is impacting on construction projects across the nation. The dwindling supplies along with increased costs and long delivery times being experienced by the construction industry could impact on the Capital Programme. The Estates team are working to understand the potential financial impact and it is likely that this will become evident as we move planned projects through procurement to delivery during 2022/23. There are two potential impacts, firstly increases in the cost of projects and secondly slippage of projects and spend into future years (which could in itself lead to additional increased costs). The Estates team will work with stakeholders to bring tender costs back within budget through value engineering where possible on those projects which the Authority committed to following the phase 1 review of the Estates Capital Programme. The Phase 2 review which is considering all projects at Day Crewed and On Call stations will need to assess the impact of increased costs and affordability before it feeds into the next round of budget setting.

8.2 **Engineering:** Supply chain disruption is also having an impact on the delivery of the Engineering capital programme. Lead times have increased by 45% for HGV chassis and doubled for light vehicles in comparison to pre-pandemic. Engineering have explored the option of using other manufacturers for light commercial fleet, but the lead time for these has tripled.

8.3 The Finance team will work closely with the Estates and Engineering teams to identify slippage as early as possible and a formal request for slippage will be made mid-year.

### **8.4 Variation to Engineering Capital Programme**

8.4.1 In September 2020 SLT approved the following in relation to special vehicles:

1. The replacement of Newhaven Operational Support Unit (OSU)
2. The introduction of Hazardous Material Response Vehicle
3. The introduction of a dedicated Fire Investigation (FI) Vehicle.

Approval was also given to allocate £200,000 of capital funding for the replacement of the OSU, but no capital allocation was made for the Hazardous Material Vehicle or the Fire Investigation Vehicle.

8.4.2 In May 2022 options were presented to the IRMP Strategic Board on how to fund these vehicles, within the current capital programme so that the delivery of the related IRMP work package would not be delayed.

8.4.3 The Strategic Board agreed with the option that the £200,000 allocated to replace the OSU at Newhaven, is repurposed to fund the HazMat Vehicle, FI Vehicle and that the OSU is replaced with an alternative vehicle (based on a Van) with budget allocated as below:

£65,000 – OSU  
 £70,000 – Fire Investigation  
 £65,000 – HazMat vehicle

8.4.4 The Strategic Board requested that SLT approve the option and that, following advice from the Treasurer, that Policy and Resources Panel ratify the decision in line with the requirements of Financial Regulations.

## 9. **RESERVES**

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

9.2 The opening balance at 1 April is £19,161,000 including the provisional net underspend 2021/22 of £20,000 brought forward in an earmarked reserve.

9.3 The forecast net drawdown from reserves totals £11,944,000 compared to the original planned net drawdown of £11,780,000. This is a net increase in drawdown of £164,000 resulting in an estimated balance at 31 March 2023 of £7,197,000. As summarised in the table below and detailed over individual reserves in Appendix 5.

	Balance at 1 April 2022	Original Planned Net Transfers	Forecast Net Transfers	Net change	Month 2 Balance at 31 March 2023
	£'000	2021/22 £'000	2021/22 £'000	2021/22 £'000	£'000
Earmarked Reserves	12,973	(7,763)	(7,927)	(164)	5,046
General Fund	1,913	0	0	0	1,913
<b>Total Revenue Reserves</b>	<b>14,886</b>	<b>(7,763)</b>	<b>(7,927)</b>	<b>(164)</b>	<b>6,959</b>
Total Capital Reserves	4,255	(4,017)	(4,017)	0	238
<b>Total Usable Reserves</b>	<b>19,141</b>	<b>(11,780)</b>	<b>(11,944)</b>	<b>(164)</b>	<b>7,197</b>

9.4 The approved budget for 2022/23 already utilised £432,000 to balance the revenue budget with drawdowns from Business Rates Pool (£200,000) to support Protection, Sprinklers (£200,000) and Business Rates Retention Pilot – financial stability (£27,000).

9.5 In terms of managing any pressures in year the reserves that are available / are not currently committed against defined spend plans are:

- General Balances = £1.913m
- Financial Stability Reserve = £0.080m

- Improvement & Efficiency = £0.525m
- Sprinklers = £0.440m

## 10. **BORROWING AND INVESTMENT**

10.1 As at end May, the Authority held cash balances of £17,600,000 which are invested in accordance with the Treasury Management Strategy, as follows:

<b>Counterparty</b>	<b>Duration</b>	<b>Amount</b>	<b>Interest Rate</b>
		<b>£m</b>	<b>%</b>
Aberdeen Cash Money Market Fund	Overnight Access	4.000	0.88
Deutsche Money Market Fund	Overnight Access	2.600	0.83
Barclays	95 Day Notice	4.000	1.05
Santander	95 Day Notice	4.000	0.99
Standard Chartered ESG	Fixed to 05/07/22	2.000	1.11
Standard Chartered ESG	Fixed to 05/10/22	1.000	1.46
<b>Total Investments</b>		<b>17.600</b>	

10.2 The Bank of England continues to increase the base rate, which is currently at 1.25%, its highest rate for 13 years. We are seeing the impact as banks increase their rates on investments, resulting in slightly higher levels of interest receivable. It is expected interest receivable could be in the region of £150,000 to £180,000 overachievement against the budget of £20,000. However the amount receivable will depend both on the interest rate and the balances available to invest. The budget has been reduced over the previous years due to the impact of interest rates falling and to reflect a planned reduction in funds available to invest short term.

10.3 The Authority has borrowing totalling £10,298,000 and there is no impact on the interest payable, as these are subject to fixed interest rate deals.