

EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Fire Authority
Date	5 September 2019
Title of Report	2020/21 Strategic Service Planning and Medium Term Financial Plan
By	Duncan Savage, Assistant Director Resources/Treasurer
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Background Papers	Office for Budget Responsibility: Economic and fiscal outlook, March 2019. Fire Authority 14 February 2019 Item 84 Service Planning Processes for 2019/20 and beyond.
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Appendices	<ol style="list-style-type: none">1. Medium Term Financial Plan 2020/21 to 2024/252. 2020/21 Revenue Budget Commitments.3. Council Tax increase scenarios
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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 2020/21 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 review 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 2020/21 to 2024/25.
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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 2020/21 budget setting process.

There remains uncertainty about the future of local government funding. There are consultations on the future funding arrangements but at this stage it appears likely that they will not be concluded in time for the 2020/21 Local Government Finance Settlement. The likelihood is that we will face a one year spending round with the three year comprehensive spending review along with changes to the funding formula and business rates taking effect from 2021/22. This will limit the Authority's ability to plan effectively over the medium term.

At the time of writing there is no date set for the provision of much of the detailed information that is required from Government to set the budget for 2020/21 and prepare the Authority's MTFP.

The updated MTFP models, two scenarios, a probable and a worst case and the savings required under each are:

- Probable – savings required in 2020/21 of £0.763m increasing to £3.669m by 2024/25
- Worse case – savings required in 2020/21 of £1.033m increasing to £4.712m by 2024/25

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 2020/21 and beyond. This will enable the Authority to make informed choices about both balancing its budget over the medium term and delivering efficient and effective services once the position for 2020/21 and beyond is clearer.

RECOMMENDATION

The Fire Authority is asked to:

- (i) Approve the updated Medium Term Financial Plan for 2020/21 to 2024/25 and its underlying assumptions;
 - (ii) Consider and comment upon the risks set out in section 3; and
 - (iii) Consider their modelling preferences for Council Tax, should the Government set the referendum threshold higher than the 2% currently included in the MTFP
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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", its supporting commitments, its 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.
- 1.3 In recent years the delivery of multi-year settlements has provided certainty in the planning process however the previous four year plan has now come to an end. It appears likely that major changes to local government funding being planned by central government for 2020/21 will be delayed and a one year spending round put in place instead. This will limit our ability to plan effectively for the future.

2 NATIONAL CONTEXT

- 2.1 On the domestic front the ongoing negotiations with the EU following the UK's decision to leave and escalating trade disputes between major economies continues to add to financial uncertainty in the short to medium term. Consensus on interest rates was for very slow increases into 2022/23, however the increased potential for a disorderly exit from the EU means that we may see reductions in rates in the shorter term. Interest rates remain historically low. Forecasts for economic growth have proven to be broadly in line with results and the forecasts for future periods remain generally unchanged. The Office of Budget Responsibility (OBR) measured GDP in 2017 at 1.8% (last year's forecast 1.7%) and expected it to grow by 1.4% in 2018 (up from 1.3% previously forecast). Further ahead, GDP is expected to grow by 1.2% in 2019 (down from 1.6%), 1.4% in 2020 (no change) and 1.6% in 2021 and beyond.
- 2.2 The Government's stated fiscal objective is to balance the budget by 2025/26 and the OBR suggest that there is a 40% chance of achieving this by 2023/24 (where the OBR forecasts end). However they do highlight pressures of the ageing population and impacts of different Brexit outcomes making the outlook more uncertain than usual.

3 LOCAL POSITION

Medium Term Finance Plan

3.1 The rolled forward MTFP is included at Appendix 1. The MTFP was previously updated when the 2019/20 Budget was set in February 2019. At that stage there was forecast to be a balanced budget for 2019/20 but while there was acknowledgement that central funding was uncertain further savings of £2.837m by 2023/24 would be required. A range of savings of £0.589m had been identified across the Service. Reflecting this uncertainty a scenario of 7.5% reductions in central support identified a savings target of £3.727m by 2023/24. In preparing the new MTFP the main issues considered are set out in the following paragraphs. The risks set out in paragraph 3.2 below and the likely further reductions in public spending and impact of the UK's exit from the EU makes preparing a MTFP with any degree of certainty more difficult than usual.

3.2 There are a range of risks that has the potential to impact on the Authority's ability to deliver its budget plans over the medium term to which Members must give consideration, 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 need to maintain resilience funding for the operational establishment until the outcomes from the Operational Response Review are consulted upon and agreed, and the revenue impact of continued investment in IT
- Uncertainty over the impact of the successful legal challenge to the transitional protections in place for local government and firefighters pension schemes
- The impact of funding for the SCC Programme on the Authority's reserves and the likely requirement for significant further investment in our Mobilising Strategy in the short to medium term
- Lack of clarity about the financial impact of the national Emergency Service's Mobile Communication Programme
- Uncertainty about future governance and funding including:
 - The likely delay in three major Government funding reviews all now expected to take effect from 2021/22:
 - the three year Comprehensive Spending Review
 - the impact of the Fairer Funding Review
 - proposals for further (75%) localisation of business rates
 - the risk of a one year Spending Round to one-off funding particularly the grant provided in 2019/20 to mitigate the impact of increases in employer's pension contributions in the fire sector
 - 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.
- 3.3 In overall terms the updated assumptions and service changes mean that the revised MTFP shows savings required in every year, from £0.763m in 2020/21 and then a need to deliver savings of £3.669m by 2024/25. This is based on a probable scenario of 5% year on year reductions in Settlement Funding Assessment (SFA). However we have also modelled a worse case scenario where SFA is cut by 7.5% per year and in this case savings required in 2020/21 are of £1.033m increasing to £4.712m by 2024/25. In both cases it is assumed that the Authority will increase Council Tax by 1.94% each year.

Expenditure

- 3.4 Existing expenditure plans, based on the agreed 2019/20 Revenue Budget and MTFP have been rolled forward to financial year 2024/25 following initial consultation with budget managers and known commitments, and reflect the following assumptions and pressures:
- The level of pay award for the fire & rescue service will be determined nationally through the National Joint Council (NJC). The rolled forward 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 have made it clear that higher awards will be funded from efficiencies. Each 1% increase in pay is equivalent to £293,500.
 - The OBR forecasts for CPI inflation are broadly 2.0% or just below for the duration of the MTFP however there has been speculation that one Brexit scenario will increase this as high as 4%. The MTFP currently provides 2.5% p.a. for price inflation on goods and services which has been rolled forward to 2023/24. Each 1% increase in prices is equivalent to £103,000
 - Budget adjustments reflecting year-on-year changes in revenue funding to support current strategies for example the end of additional funding for the Programme Management Office
 - Removal of the one year only business rates retention pilot and resilience crewing
 - Increases in employer's contributions of 0.5% p.a. for the Local Government Pension Scheme (LGPS). The next triennial revaluation of the LGPS is due

for 2020/21 and some commentators are optimistic about the outcome. Based on recent experience the MTFP assumes increase in the contribution rate of 1.0% p.a. will continue until 2024/25.

- 3.5 The Authority has been conducting a review of its Fleet & Equipment and its IT Strategies and this is expected to be concluded within 2019/20. The Authority will need consider the funding implications that result in its budget proposals and MTFP.
- 3.6 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 £435,000 for 2020/21, falling to £206,800 in 2021/22 before rising slowly to £213,500 by 2024/25.

Grant Funding

- 3.7 Between 2015/16 and 2018/19 Revenue Support Grant reduced from £7.514m to £3.660m or 51% and with our participation in the BRR pilot fell to nil in 2019/20. In the same period, 2015/16 to 2019/20 overall Settlement Funding Assessment (SFA) fell by 23.5% or £5.92m. The rolled forward MTFP continues to make the assumption on overall funding of a year on year reduction of 5% SFA (probable scenario). This “roll forward” of the assumption reflects the delay and uncertainty around a future CSR and the Fairer Funding Review which is now not expected until 2021/22. A worst case scenario is also modelled which reflects a 7.5% year on year reduction in SFA in case the average of a 5% annual reduction across the fire sector is not evenly distributed.
- 3.8 In the 2019/20 settlement the fire and rescue sector benefitted from a Home Office grant funding 90% of the cost of increased employers’ contributions to the Firefighter pension scheme. This Authority received £1.7m in support. The suggested one-year roll forward settlement is based on baseline funding of which this grant is not part. The MTFP assumes that the funding will continue in some form however should it be withdrawn or reduced there would be a major impact on the finances of the Authority and the sector nationally.
- 3.9 The Authority currently receives a small number of on-going specific revenue grants from Central Government for FireLink and New Dimensions. There is uncertainty over the future of these grants despite previous Government assurances so it is assumed they will reduce by 10% per annum.
- 3.10 The replacement for FireLink was planned to be deployed locally in 2018/19 however the programme has slipped and following a review by the Secretary of State a revised deployment is being planned. It remains the Home Office’s stated policy that the FireLink grant (a New Burden grant) will be phased out reflecting expected lower costs to blue light end users. The MTFP assumes the Authority will be no worse off with ongoing costs. No provision is made for one off implementation costs or grant income however there is an overall funding envelope from the Home Office for the South-East region of circa £2.2m over the next three years.

- 3.11 There has been no provision for capital or transformation grants within the fire sector since 2015/16. In the context of a one year spending round there is unlikely to be any change to this position in the short term.

Business Rates

- 3.12 The current MTFP is modelled on the basis of further Business Rates reform commencing in 2020/21. Whilst there has been no official announcement it seems increasingly likely that the move the 75% local retention will be delayed to 2021/22. The Government proposals as they stand continue to limit the fire service's exposure to both the risks and opportunities of the Business Rates system. The BR base is assumed to remain static – locally the business rates base remains exposed to any economic downturn especially in the retail sector. CPI multiplier assumptions are based on the latest projections from the OBR which indicate that current levels will be maintained to the Bank of England target of 2.0% for the period 2020/21 to 2024/25. The risk of fire authorities being removed from the Business Rates regime and compensated with a Home Office grant appears to have receded as it requires primary legislation and there is no plan for this currently.
- 3.13 The Government has continued to extend rate reliefs for small businesses. The MTFP assumes that the payment by Government to compensate for this loss of income will stop after 2020/21 when the existing multi-year settlement ends and is shown separately in the funding section of the MTFP.

Business Rate Retention Pilot

- 3.14 East Sussex successfully bid to establish a 75% Business Rates Retention for 2019/20. At the time this was expected to be a one year pilot in advance of national changes in 2020/21. It is not clear whether the Government will allow pilots to continue for a further year. The MTFP assumes the pilot will cease after the current year.

Council Tax

- 3.15 The underlying assumption in the MTFP is for a Council Tax base increase of 1.1% for the duration of the MTFP across the whole of Brighton & Hove and East Sussex. This is the same as previously assumed. Over the last five years growth has averaged 1.68% per year however 2019/20 at 1.02% was the lowest of those five years and the factors that influence this growth are complex (including house building, Council Tax Support Caseload, changes to Local Council Tax Reduction Schemes (LCTRS) etc.) so an overall rate of 1.1% has been retained. LCTRS's can be reviewed annually but we understand that only Hastings BC is considering changes to its scheme for 2020/21. The Authority is a statutory consultee.
- 3.16 The MTFP assumes that the threshold for triggering a referendum on Council Tax which was increased to 3% in 2018/19 and 2019/20 will reduce back to 2.0% and so the MTFP assumes the Authority will increase council tax by 1.94% for the duration of the MTFP. In 2018/19 and 2019/20 the Government increased the threshold to 3% but there has been no confirmation that this will be continued. Each 1% increase in Council Tax, with the assumed 1.1% council tax base growth, generates approximately £273,000 in additional income. Appendix 3 illustrates

the impact should the Government extend the 3% Council Tax threshold in 2020/21.

Collection Fund Surplus and Deficit

3.17 Based on past performances across the Authority's region the average net Collection Fund position for both council tax and business rates is an overall surplus of £233,000. This is a one-off amount that is difficult to forecast and with no other information and with other uncertainties no amount is included in the MTFP.

Savings Plans and Efficiency Strategy

3.18 Since the 2010/11 the Authority has made, and has planned to make, savings totalling £9.274m of which £9.158m will have been delivered by 2019/20. The savings included in the revised MTFP, planned to be achieved in 2020/21 and 2021/22 are the result of the 2017/18 management restructure, the Efficiency Strategy (PPE and work wear) and other savings from the 2019/20 budget setting process.

TABLE 1: SUMMARY OF NEW SAVINGS BUILT INTO THE MTFP

CUMULATIVE CURRENT SAVINGS		2020/21	2021/22
Category	Description	£,000	£,000
2017/18 budget setting	Management Restructure	(5)	(5)
2019/20 budget setting	Engineering; cutting equipment funded in 2018/19	(60)	0
Efficiency Strategy	PPE & Workwear	(91)	(91)
2019/20 budget setting	Other operational savings	(20)	(20)
TOTAL		(176)	(116)

3.19 In September 2017 the Authority agreed to adopt a more strategic approach to delivering efficiencies that moved beyond previous approaches that had focussed on delivering savings necessary to balance the revenue budget. An update was provided to Policy and Resources Panel in November 2018 and concluded that:

- Good progress is being made but the work is still at a relatively early stage and this is reflected in the level of efficiencies identified so far
- Further work is required to identify and deliver a greater return on investment, and specifically an increase in the level of cashable efficiencies delivered. SLT is committed to doing this as the Efficiency Strategy, and the activities within it are further developed and matured
- As the MTFP indicates, we need to be in a position to react to the new funding position for 2020/21 and have in place as a minimum sufficient cashable savings to balance the budget that year i.e. £1.033m

- Work on a new IRMP has commenced in 2019/20 and that this includes an operational response review. This will assess the level of resource required to meet changing risk in the communities we serve, and provides a key opportunity to identify efficiencies from operational services that form the majority of the Authority's Revenue Budget.

3.20 We have already mapped efficiency opportunities over the next four years (see table below). This indicates that for timing reasons balancing the 2020/21 budget through efficiencies alone will be challenging. We have already started work with SLT and Group Managers to identify other savings that could bridge this gap. There remains the potential to use reserves to smooth any timing issues but the Authority has fully committed its Earmarked Reserves and its General Balances are currently below its agreed Policy minimum.

TABLE 2: TIMING OF CASHABLE EFFICIENCY OPPORTUNITIES

Potential Cashable Efficiencies

	2020/21	2021/22	2022/23	2023/24	2024/25
Operational Response Review					
Estates Strategy		81	162	324	485
Strategic review of Training					
Admin review					
CRM	23	23	23	23	23
BI					
FW	25	25	25	25	25
ITF - Shared Service					
Primary Authority					
EDRMS / Office365					
HR BPR					
Demand Management					
Fleet & Equipment Strategy					
Procurement Category Plans					
FPS Administration	23	23	23	23	23
CCTV - Insurance	20	20	20	20	20
Mobilising Strategy					
Hydrant Management	5	5	5	5	5
New Dimensions / CERA 20/21 only)	452				
Income Generation / Charity					
Total cashable efficiencies identified	548	177	258	420	581

Reserves and Balances

3.21 Reserves and balances are held in accordance with the Authority's agreed policy, and table 3 below summarises their current values and planned use over the period. The planned use of reserves and balances will be reviewed as part of the service planning process in the 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.

3.22 The level of reserves held is expected to reduce over the next five years and by 2024/25 is forecast to comprise primarily an unallocated risk provision (General Balance 71.2% of total reserves and 5.2% of the total General Fund Revenue Budget in 2019/20) and no resources to fund the Capital Strategy without recourse to borrowing.

3.23 **Sussex Control Centre:** a report was presented to the Fire Authority on 3 July 2019 setting out a way forward for the four work streams of the SCC project:

- Phase 2
- Exits Strategy
- Project 21
- SCC Operations

The cost, was forecast as £1.8m (excluding the cost of implementing the Project 21 solution which will be the subject of a full business case to a Fire Authority meeting in the autumn). Funding was agreed from existing sources (£0.425m) and the balance of £1.375m from the Authority's reserves.

3.24 There are a number of risks and consequences resulting from this:

- General Balances will be reduced below the minimum set out in the Authority's Reserves Policy
- Capacity for investment in improvement and efficiency projects will be reduced significantly
- The Authority's financial flexibility and ability to manage risks will be reduced
- Revenue income from short term investments will reduce (£1m invested at 1% would provide £10,000pa) and the need for external borrowing to fund other programmes will be brought forward increasing revenue costs.
- The Business Rates Pilot Reserve is vulnerable to volatility in business rates income

The Authority will need to consider the extent to which it intends to replace the amounts drawdown from its Reserves as part of its future financial planning, potentially, by generating additional / earlier revenue savings.

TABLE 3: FORECAST OF USEABLE RESERVES BASED ON EXISTING PLANS

	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	£'000	£'000	£'000	£'000	£'000	£'000
Capital Programme Reserve	5,261	2,865	0	0	0	0
Other Earmarked Reserves	4,821	2,344	1,288	1,069	292	292
Total Earmarked Reserves	10,082	5,209	1,288	1,069	292	292
General Fund	2,119	2,022	2,022	2,022	2,022	2,022
Capital Reserves	4,123	0	0	0	0	0
Total Useable Reserves	16,324	7,231	3,310	3,091	2,314	2,314

Capital Strategy

- 3.25 The Authority has been conducting a review of its Fleet & Equipment and its IT Strategies and this is expected to be concluded within 2019/20. The Authority will need consider the funding implications, including capital investment requirements that result in its budget proposals and MTFP.

MEDIUM TERM FINANCIAL PLAN 2020/21 – 2024/25
Increase Council Tax by 1.94%

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Gross Revenue Service Budget	40,395	41,542	42,436	43,330	44,255
Less					
Specific grants	(1,669)	(1,649)	(1,631)	(1,614)	(1,600)
Other income	(2,011)	(2,061)	(2,112)	(2,165)	(2,218)
Total income	(3,680)	(3,710)	(3,743)	(3,779)	(3,818)
Net Service Budget	36,715	37,832	38,693	39,551	40,437
Capital financing costs less interest receivable	852	874	1,049	1,386	1,686
Capital expenditure from the Revenue Account	452	452	452	452	452
Transferred to Balances	1,049	1,065	1,092	1,092	1,092
Total Net Expenditure	39,068	40,223	41,286	42,481	43,667

Net Budget brought forward	39,037	39,068	40,223	41,286	42,481
Unavoidable cost pressures					
Pay inflation	587	594	612	623	636
Price inflation	206	202	207	212	217
Total inflation	793	796	819	835	853
Changes in Capital Financing	0	(16)	(44)	(182)	(519)
Budget commitments	(586)	315	288	542	852
Savings approved	(176)	60	0	0	0
Total Net Expenditure	39,068	40,223	41,286	42,481	43,667

APPENDIX 1 (cont.)

Sources of Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2023/24 £'000
Locally Retained Business Rates Business Rate Top Up Business Rates Baseline					
Revenue Support Grant					
Settlement Funding Assessment	10,256	9,743	9,256	8,793	8,353
Section 31 Grant Business Rates adjustment	0	0	0	0	0
Council Tax Collection Fund (Deficit) / Surplus	0	0	0	0	0
Business Rates Collection Fund (Deficit) / Surplus	0	0	0	0	0
Council Tax Requirement	28,049	28,907	29,792	30,706	31,645
Total Resources Available	38,305	38,650	39,048	39,499	39,998
Additional Savings Required / (surplus)	763	1,573	2,238	2,982	3,669

Impact of using 7.5% annual Settlement Funding Assessment reduction

Total Resources Available	38,035	38,144	38,336	38,609	38,955
Additional Savings Required / (surplus)	1,033	2,079	2,950	3,872	4,712

Commitments already included in the 2020/21 Revenue Budget

	£'000
Removal of temporary increases	
Cessation of the Business Rates Pool income plans to spend in Business Safety.	(550)
Reduction in contribution to Sprinklers earmarked reserve.	(150)
Removal of the 2019/20 resilience crewing in Safer Communities.	(240)
Removal of Programme Management Office (PMO).	(130)
Net adjustment to the Engineering Strategy spending plans.	(1)
Service pressures	
Reduce FireLink Grant by 10%	22
Reduce New Dimensions Grant by 10%	1
Increase in LGPS employers' contribution rate of 0.5%.	25
Support Staff Pay and Grading Review.	128
Estimate of the need to borrow.	0
Other adjustments	
Capital expenditure funded from the revenue account.	452
Changes to Corporate Contingency	(143)
TOTAL	(586)

Appendix 3

Council Tax 2020/21

The table below illustrates the impact of a 2.94% increase in Council Tax in 2020/21 on the probable 5.0% scenario.

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Additional savings required	763	1,573	2,238	2,982	3,669
Additional council tax income	273	282	291	297	307
Revised additional savings required	490	1,291	1,947	2,685	3,362

The table below illustrates the impact of a 2.94% increase in Council Tax in 2020/21 on the worse case 7.5% scenario.

	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Additional savings required	1,033	2,079	2,950	3,872	4,712
Additional council tax income	273	282	291	297	307
Revised additional savings required	760	1,797	2,659	3,575	4,405