

## AGENDA ITEM 6

Essex Police Fire and Crime Panel	<b>EPCP/ /18</b>
Date: 6 December 2018	

### **Finance Update for the Year to Date and Scene Setting for 2019/20**

#### **Incorporating the 2018/19 budget monitoring report and scene setting for the PFCC's January 2019/20 budget and precept proposal**

Report by the Acting Chief Finance Officer

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#### **1. Purpose of the report**

##### **1.1 This report lays out:**

- i) The 2018/19 full year forecast as at 30th September 2018.
- ii) Current and anticipated budget issues that will inform the Panel's discussions on the 2019/20 budget and precept.

#### **2. Recommendation**

##### **2.1 The Panel is requested to:**

- i) Note the financial performance for the financial year 2018/19.
- ii) Consider budget issues and associated risks prior to the forthcoming proposed precept to be presented to this Panel on 24<sup>th</sup> January 2018. Views of Panel members will inform the development of the budget strategy and precept proposal.

#### **3. Executive Forward**

##### **3.1 The budget is being prepared taking into account the work previously undertaken to develop an efficiency plan that would deliver a balanced budget by 2020. A number of factors now mean that a balanced budget for 2019/20 will not now be achievable. These are:**

- Increased pay inflation following a relaxation of public sector pay policy. The draft 2019/20 budget includes an additional 1% inflation cost of c. £520K.
- The conversion of four day crewed appliances and one whole time appliance to crewing using an on-call shift pattern has been subject to some delays. The main reason for the delay relates to an insufficient number of candidates responding to our recruitment drives in each area and subsequently demonstrating the relevant standards to join ECFRS.

The impact of this is that anticipated savings of 18 firefighters have not been realised in the draft budget for 2019/20. The additional whole time officers and drivers are necessary to supplement the available on-call crew at the affected locations to ensure that each appliance has sufficient opportunity to meet availability targets.

- The previous budget setting methodology was to include a vacancy factor as firefighter numbers were historically lower than establishment. It is proposed that this vacancy factor (c.3%) be removed in 2019/20. This results in an increase to the firefighter pay budget of c. 18 posts.

Because of the foregoing, it will be necessary to use reserves to balance the budget in 2019/20. On this basis the budget will need to be approved on the basis that the new efficiency plan covering the period 2020/21 to 2023/24 contains robust financial measures to ensure that a balanced budget is achieved by no later than the 2021/22 financial year

- 3.2 Constructive critical challenge from Panel members will be invited on the Fire and Rescue budget and precept proposal which will be presented on 24<sup>th</sup> January in order to enable the PFCC to resource the Fire and Rescue Authority for Essex.
- 3.3 This report outlines the financial position for the year to date, financial backdrop and key financial matters for members' consideration.

#### **4. Financial Year 2018/19 to date**

##### ***Revenue Account***

- 4.1 The forecast outturn has been reviewed to reflect the position at the end of September 2018. This forecast is summarised below and this position is reflected in the comparative figures used in this report.

Description	2018-19 Budget £'000s	2018-19 Forecast £'000's	Forecast Variance £'000's
Firefighters	29,842	30,121	280
Firefighters - Retained Duty System	6,401	5,812	(589)
Control	1,436	1,385	(51)
Support Staff	12,959	13,276	317
<b>Total Employment Costs</b>	<b>50,638</b>	<b>50,594</b>	<b>(43)</b>
Support Costs	1,803	2,273	470
Premises & Equipment	10,698	10,256	(442)
Other Costs & Services	3,583	3,449	(134)
Firefighters' Pension Scheme	2,200	2,230	30
Lease and Interest charges	1,551	1,441	(110)
Statutory Provision for Capital Financing	5,492	4,800	(692)
Financing Items	-	-	-
Operational income	(3,732)	(3,950)	(217)
Contribution to/(from) Reserves	332	-	(332)
<b>Total Other Costs</b>	<b>21,927</b>	<b>20,500</b>	<b>(1,427)</b>
<b>Total Budget</b>	<b>72,565</b>	<b>71,095</b>	<b>(1,470)</b>
<b>Total Funding</b>	<b>(69,996)</b>	<b>(70,108)</b>	<b>(112)</b>
<b>Funding Gap / (Surplus)</b>	<b>2,569</b>	<b>987</b>	<b>(1,582)</b>

4.2 The forecast shows that we expect to run at a deficit of £987K for the year. This is better than the original budget deficit for 2018/19 of £2,569k as presented to the Panel on 22<sup>nd</sup> January 2018. This improvement is as a result of robust financial controls and will reduce the planned draw on reserves in 2018/19 by £1,582K. The main reasons for the improved position are:

- The overspend on support costs includes additional costs arising from a settlement with day crewed firefighters regarding accommodation (£176K) and additional training (£200k)
- A combination of both lower headcount and activity levels for on-call firefighters will account for an underspend of (£589K)
- An underspend in capital financing charges (£692K) arising from the review in capital expenditure for both 2018/19 and 2019/20. This follows an extensive review and challenge process on capital expenditure carried out by the Finance team in conjunction with budget holders in September 2018.
- ICT projects are expected to be £500K underspent this year.

### **Capital Account**

4.3 The affordability of the overall capital programme remains a key factor for the Authority in the next few years. Only if the overall capital programme can deliver financial benefits to offset the additional revenue burden of its financing costs will the projects outlined in this section be initiated.

- 4.4 Most significant projects already require PFCC approval before they can be initiated. All projects coming forward for approval will be required to demonstrate how the financing costs will be met and whether this will be from efficiencies generated by the project or from other areas.
- 4.5 The initial draft budget is set out below. The most significant projects are on property asset protection and renovation of Shoeburyness station. ICT includes ICCS and CAD replacement for control. Vehicle spend includes planned replacements for light vehicles and vans.
- 4.6 The budget is summarised in the table below:

	Revised Capital Budget 2018/19	Forecast 2018/19	Budget 2019/20
<b>CAPITAL BUDGET 2019/20</b>			
New Premises			
Service Workshops	3,000	-	100
Existing Premises			
Asset Protection	2,000	2,000	2,000
Asset Improvement Works	-	200	500
<b>Total Property</b>	<b>5,000</b>	<b>2,200</b>	<b>2,600</b>
<b>Equipment</b>	<b>778</b>	<b>287</b>	<b>360</b>
<b>Information Technology</b>			
Projects	1,970	990	1,425
<b>Total Information Technology</b>	<b>1,970</b>	<b>990</b>	<b>1,425</b>
<b>Vehicles</b>			
New Appliances	2,060	100	-
Other Vehicles	2,228	1,531	940
<b>Total Vehicles</b>	<b>4,288</b>	<b>1,631</b>	<b>940</b>
<b>Total Capital Expenditure</b>	<b>12,036</b>	<b>5,108</b>	<b>5,325</b>

An extensive review of all capital expenditure was carried out by the Finance team in conjunction with budget holders in September and October 2018. Because of this, a number of projects were either rescheduled or cancelled. The budget has been reduced from £12m to £5m following this exercise. A further review of capital expenditure will be carried out based on the Fire and Rescue Plan and Integrated Risk Management Plan (IRMP) to assess requirements from 2020 to 2024.

## 5 Scene setting for the 2019/20 Budget and Precept proposal

- 5.1 The following subjects will be considered:

- i) Local Government Finance Settlement
- ii) Medium Term Financial Strategy (MTFS)
- iii) Reserves
- iv) Incremental Cost Increases

### **Local Government Finance Settlement**

- 5.2 There are two main sources of income for Essex Fire - Government grant and the council tax (precept). Together these need to support the net expenditure required by Essex Fire and Rescue Service in 2019/20.

- 5.3 The table below sets out movement in both central government grant and precept income, at either a 2% or 3% increase for 2018/19 and 2019/20.
- 5.4 In September 2016, the Authority approved an efficiency plan for the period to 2019/20 and this was submitted to the Government. As a result, the Authority has benefit from relative certainty on government funding to March 2020. On this basis the provisional settlement figures for 2019/20 to be announced around 6th December are expected to reflect those included in the efficiency plan to 2020.

<b>FUNDING 2018/19 &amp; 2019/20</b>	<b>2018/19 Budget £'000</b>	<b>2019/20 Projections £'000</b>		<b>Change</b>	
Rate of Council Tax increase	2.00%	2.00%	3.00%	2.00%	3.00%
Total Budget	69,996	71,170	71,622	1,174	1,626
<b>Sources of Finance</b>					
Revenue Support Grant	9,347	8,340	8,340	(1,007)	(1,007)
National Non-Domestic Rates	15,720	16,377	16,377	657	657
Total Grant	25,067	24,717	24,717	(350)	(350)
Collection Fund Surplus	688	400	400	(288)	(288)
Council Tax Precept	44,241	46,053	46,505	1,812	2,264
Tax Base	628,600	642,242	642,242	13,642	13,642
<b>Council Tax (Band D)</b>	<b>£70.38</b>	<b>£71.71</b>	<b>£72.41</b>	<b>£1.33</b>	<b>£2.03</b>

### **Medium Term Financial Strategy (MTFS)**

- 5.5 The forecast position of the Authority over the period 2020/21 to 2023/24 will be developed in conjunction with the Fire and Rescue Plan and new Integrated Risk Management Plan (IRMP). This must ensure that the Authority moves forward with a cost base that is both affordable and financially sustainable. Items to be considered include the following:
- i) Pay inflation and National Joint Council negotiations including firefighter role map
  - ii) The impact of pension revaluations for the firefighters and the local government pension scheme
  - iii) Unavoidable non-pay inflation
  - iv) One-off costs no longer funded from reserves
  - v) Revenue consequences of the capital programme
  - vi) Precept policy
  - vii) Comprehensive spending review from 2020/21
  - viii) Fair funding review / fire funding formula
  - ix) Additional cost burdens arising from legislative change.
  - x) Government section 31 grant levels

### **Reserves**

- 5.6 At 31<sup>st</sup> March 2018, the Authority had £20.4m of usable reserves. This was made up of earmarked reserves (£5.8m), capital receipts reserve (£7.8m) and general reserve

(£6.8m). A re-allocation of earmarked reserves will form part of the 2019/20 budget process.

- 5.7 Although useable reserves were £20.4m at 31<sup>st</sup> March 2018 the cash balances of the Authority were £10.1m at 31<sup>st</sup> March 2018. The main reason for this is that cash balances have been used to fund past capital expenditure in order to avoid additional borrowing costs for the Authority.

### ***Incremental Cost Increases***

- 5.8 There are a number of significant cost increases which the PFCC is anticipating for 2019/20. Some of these increases will affect the budgets of future years and are summarised below:

#### ***Fire Officer Pensions***

- 5.9 As part of the 2016 Pension Valuation Her Majesty's Treasury announced Public Sector Pension Valuations 'Directions' which intend to increase the Employer Contribution rate from 2019/20. This will affect the Firefighter Pension Scheme.
- 5.10 The main change is the change in discount rate from 3% to 2.4%, which converts future pension payments into present day value. For 2019/20, the cost to Fire nationally is anticipated to be circa £107m.
- 5.11 The full impact in 2019/20 for Essex is £3.3m, however with the expected Treasury support this cost is expected to be mitigated to £0.3m in 2019/20. There are discussions taking place at a national level regarding the pension impact on Fire budgets.

#### ***Emergency Service Mobile Communications Programme (ESMCP)***

- 5.12 There are well-publicised delays in the government led plan to replace the current communication system, known as Airwave. The Emergency Services Network (ESN) is a new closed communications system that will allow the UK's emergency services to communicate with each other securely and reliably, operating in a commercial 4G environment but with increased geographic coverage.
- 5.13 Additional capital costs will be incurred to purchase replacement Airwave handsets. The full financial impact of these changes will be included as the new Medium Term Financial Plan is developed for the period 2020 to 2024.
- 5.14 The programme has been subject to a review by the Public Accounts Committee and remains under scrutiny.