

ESSEX FIRE AUTHORITY

Essex County Fire & Rescue Service



Meeting	Essex Fire Authority	Agenda Item	11
Meeting Date	6 th September 2017	Report Number	EFA/108/17
Report Author:	The Finance Director & Treasurer, Mike Clayton		
Presented By	The Finance Director & Treasurer, Mike Clayton		
Subject	Medium Term Financial Strategy and Report on Progress Against Efficiency Plan		
Type of Report:	Decision		

This paper provides the annual review of the medium term financial projections and the first years report into progress against the Authority's efficient plan agreed in September 2016.

RECOMMENDATIONS

Members are asked to:

1. Note the forecast projections of income and expenditure for the Authority;
2. Agree that the strategy of using reserves to manage the timing differences from the 2020 programme should continue in 2018/19;
3. Agree that the basis of preparation for the 2018/19 budget should be a planned use of £684k of reserves;
4. Agree to publish the updated 2016 – 2020 Efficiency Plan Report; and
5. Note the risks around achievement of the Efficiency Plan if higher pay settlements are not offset by increased Authority income.

BACKGROUND

The Authority agreed significant service changes in June 2016 and an Integrated Risk Management Plan. The changes are being managed through the 2020 Programme with a number of specific projects covering appliance changes, the move from rank to role, management reviews, appliance removal and re-purposing, and crewing changes at Clacton and the four day crewed fire stations.

Through the agreement of an Efficiency Plan for the period to 2020 the Authority has secured certainty of government funding for that period and the projections included within this paper reflect this. In February 2017 the Authority agreed the budget for 2017/18, the second year of the Efficiency Plan period. The sections below cover the background

information to the key areas of income and expenditure that will influence the achievement of the Efficiency Plan.

Council Tax Base and Collection rates

We are now in the fifth year since the government implemented changes to the arrangements for council tax support. To date, the collection rates by the billing authorities has been higher than budgeted and in the current year we have a surplus on the collection account of almost £0.85m arising from 2016/17. This represents a 2.1% increase in the tax base.

Collection Fund Surplus	£'000s	Taxbase	Tax Base Change	Surplus as % Tax Base
2017/18	846	620,340	1.8%	2.1%
2016/17	881	609,102	1.8%	2.2%
2015/16	784	598,581	2.1%	2.0%
2014/15	490	586,481	1.9%	1.3%
2013/14	201	575,628	N/A	N/A

The level of the collection fund surplus is one indicator of the likely increase in the tax base for the following year as this higher figure will feed through into the taxbase calculation by the billing authorities. The Efficiency Plan assumed an overall increase of 1.5% in the tax base for each year from 2016/17 to 2019/20. Based on the figures above this has been increased to 1.75% for 2018/19 and 2019/20. With the continuation of this increase the collection fund surplus has been estimated at £400k for each of these two years.

The Billing Authorities own assumptions range between 1.0% and 1.5% and reflect their own more cautious approach to managing their own budget pressures. No billing authority currently includes amounts for the collection fund surplus in their medium term forecasts.

Council Tax Rate

The Efficiency Plan assumes an increase in the tax rate of 2% for 2018/19 and 2019/20. For recent years the government set a cap on council tax increases of 2%, this position may change if local tax increases are used as a way of funding pay increases higher than the government's 1% target. For the purposes of this update the Efficiency Plan assumption remains unchanged.

Expenditure Projections

The key assumptions on expenditure include the planned service changes agreed as part of the 2020 programme. The main area of variance to the planning assumptions relates to the level of pay. The Efficiency Plan included an assumption that the 1% target for public sector pay increases would remain in place. The 2017 pay negotiations for Firefighters have linked changes to the firefighter role map to higher rates of pay increase with a 2% offer from July 2017 and a further 3% in April 2018. The offer is also subject to government agreement to either increase the funding for fire and rescue authorities or allow freedom for larger increases in Council Tax.

It should be noted that the proposed changes to the role map could increase activity levels for firefighters, and put increased pressure on the on-call budget. Whether external bodies, including Health would be prepared to pay for firefighter activity in a wider range of activities remains unclear.

The in-year impact of any higher increases can be managed through the use of reserves, and in 2017/18 from savings in the firefighter pay budget from the lower headcount. The concern is whether the potential changes to the funding for the Authority will be sufficient to offset the increases in the running rate of expenditure by March 2020/ - this is the key concern for the Authority should higher pay rates be agreed at a national level.

Based on the assumptions about firefighter numbers, pensions and the grant forecast, financial projections for the years from 2016/17 onwards have been modelled. The figures only reflect major changes and are in cash terms reflecting the impact of inflation. In summary the forecast changes that impact on each year are shown in the table below:

Table 1- Budget Projections

2020 Projections	2016/17	2017/18	2018/19	2019/20	2019/20 Run Rate
Income					
Council Tax - Band D	41,224	42,822	44,399	46,035	46,035
Council Tax - Collection Fund	880	846	400	400	
Total NNDR	14,970	15,427	15,870	16,377	16,377
RSG	14,230	11,033	9,350	8,340	8,340
Total Income	71,304	70,128	70,019	71,152	70,752
Base Spend - Based on 2016-17 Budget	71,304	71,304	71,304	71,304	71,304
Normalise Reserves	303	303	303	303	303
Inflation	-	715	1,430	2,145	2,145
Apprenticeship Levy		300	300	300	300
Business as usual changes Base Spend	303	1,318	2,033	2,748	2,748
Reduction in Watch Based Firefighters	(1,297)	(3,608)	(3,772)	(4,797)	(4,797)
Increase to meet crewing requirements	0	1,800	1,268	1,596	1,391
Increase in on call Firefighters Budget	0	736	850	1,700	1,700
Support Savings	(540)	(1,010)	(1,380)	(2,060)	(2,060)
Investment in Community Safety	0	400	400	400	400
Cost of early exit options and reorganisation	2,900	0	0	0	0
Other Short tem costs & budget Savings	214	474	0	0	(160)
Net Cost/Savings Project 2020	1,277	(1,208)	(2,634)	(3,161)	(3,526)
Total Spend	72,884	71,414	70,703	70,891	70,526
Annual Surplus/(Deficit)	(1,580)	(1,286)	(684)	261	226
Cumulative Use of Reserves	(1,580)	(2,866)	(3,551)	(3,290)	

Savings Opportunities

Pay costs form the largest single element of the Authority's budget accounting for some 75% of expenditure. There remain some opportunities to achieve savings in staff costs across almost all the areas of activity within the Service. There are also pressures to increase spending in some areas, for example in Technical Fire Safety.

For other areas of non-staff expenditure the Authority has achieved significant savings in ICT expenditure in recent years with the move towards Cloud based storage and hosting. Remaining opportunities for savings in this area are limited. Other areas of higher spend such as property are have limited opportunities to make savings whilst the overall size of the portfolio remains the same. Some savings after 2020 will be made when the housing associated with the day-crewed fire stations can be disposed of.

PROGRESS AGAINST THE EFFICIENCY PLAN

The government offered fire and rescue authorities a four year funding settlement for the period 2016/17 to 2019/20. The offer was conditional on formal acceptance by the Authority and the submission of robust efficiency plans. The Authority agreed the plan in September 2016 and it was submitted to and accepted by the Government.

Appendix 1 to this paper sets out the first years report showing progress against the Efficiency Plan and once approved this will be made available on the Authority's website.

FINANCIAL AND USE OF RESOURCES IMPLICATIONS

The attached efficiency plan includes the key financial assumptions and projections for the period until 2019/20.

RISK MANAGEMENT IMPLICATIONS

A key risk for the Authority is employee pay and the need for additional funding if pay increases exceed the 1% government target reflected in the plan.

The Authority has a plan to achieve a balanced budget by March 2020. This makes use of the Authority's reserves as the timing of the service changes agreed on 2016 does not match the profiled reduction in government grants. After 2020 there is still a high risk of further reductions in government funding – the Authority will still have some £8m of revenue support grant and further reduction in this level of funding cannot be ruled out. Work will need to start in 2018 to consider how this risk should be addressed.

The risks associated with the delivery of the 2020 Programme, and with it the delivery of the Efficiency Plan are managed as part of the programme's management. There are a number of key risks to the level of change, in particular the Authority's ability to recruit and retain sufficient on-call firefighters to meet the overall response standard. This key risk is mitigated by the retained duty system project which is developing new approaches to recruitment, employer liaison, training and availability for On-Call firefighters. There have already been successful recruitment campaigns at Clacton and South Woodham Ferrers.

The other key risk is lack of employee engagement. The arrangements already established for the 2020 programme in its definition phase included regular meetings with all representative bodies. This engagement will continue. In addition, local business change managers for the areas affected will be responsible for managing employee engagement at the local level to ensure that this risk is mitigated.

LEGAL IMPLICATIONS

The Service changes outlined in the efficiency plan were agreed by the Authority in June 2016 following extensive public consultation. The offer by the government of a four year financial settlement for the Authority is a non-statutory proposal.

EQUALITY IMPLICATIONS

The Service changes agreed by the Authority will mean a significant number of On-Call firefighters will be recruited over the next few years. The Service recognises that this provides an opportunity to ensure that the new recruits are representative of the communities they will serve. To support this there will be pre-application development provided to support under-represented groups in meeting the fitness and academic

standards required. In addition the proposed changes to the availability bandings for On-Call firefighters are designed to make the roles more suitable to a wider range of potential applicants.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
Appendix 1 – Efficiency Plan 2016-2020	
List of background documents - None	
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EFFICIENCY PLAN 2016 - 2020

The Essex Fire Authority initiated a programme of change (Programme 2020) in April 2015 to ensure that the Service was:

- ✓ *Service Led,*
- ✓ *Community Focused,*
- ✓ *Values Driven* (which has developed to kind culture)
- ✓ *Financially Sustainable.*

During the definition phase of the programme the Authority undertook two major public consultations, firstly on the response standards for the service and the balance between prevention and response activities and secondly on the options for Service changes in the period 2016 to 2020.

After considering the fact that the majority of respondents supported the proposed standards in the first consultation the Authority adopted two key response standards for first attendance at an incident. These are:

- To get our first attendance to an incident which is potentially life-threatening within an average of 10 minutes from the time we receive a call; and
- To get our first attendance to an incident within 15 minutes on 90% of occasions from the time we receive a call.

It also agreed the following targets for its prevention and protection activities:

- Delivery of safety messages to every school child in Essex;
- Ensure there is a working smoke alarm in 100% of households;
- Working with partner agencies in meeting the social needs of the vulnerable members of our communities;
- Supporting the installation of systems such as sprinklers for the protection of buildings and occupants; and
- Working with drivers and riders to reduce the number of people killed or injured on the roads.

The commitments to response standards and the continued focus and investment of resources in prevention activities with clear and measurable targets for the Authority will ensure that the Authority's vision of a safer Essex are realised during the plan period.

SERVICE CHANGE PROPOSALS

A second consultation in 2016 sought the views of stakeholders on a range of options for Service changes to reduce the number of fire appliances and to convert the crewing of appliances to the On-Call (retained) duty system. The consultation had over 17,000 responses with a clear majority supporting the option that the Fire Authority approved in June 2016. In summary the key changes are:

- **End September 2016 (completed)** – Removal of second fire engines from operational service at Corringham, Orsett, Rayleigh Weir and Loughton fire stations. Commence the change to the crewing system for the first fire engine at Great Dunmow from Day Crew to On-Call;
- **End March 2018** (was September 2017)- Removal of Pinzgauer fire engines and introduction of replacement off-road capability;

- **End December 2017** – Removal of second fire engine from Frinton fire station,
- **End December 2017** – Transition to On-Call from wholetime for the second fire engine at Clacton fire station.
- **End March 2020** - Transition to On-Call at Dovercourt, South Woodham Ferrers, Great Baddow and Waltham Abbey fire stations;

The Service change proposals will enable the Authority to meet the Attendance standards set in 2015 and will support the release of additional resources to deliver against the community safety targets. This will include broadening the role of station and watch based firefighters to ensure that the key focus on prevention activity extends across the Service.

The Service changes will reduce the numbers of wholetime firefighters and increase the number of appliances crewed by On-Call firefighters. Progress will be dependent on the ability to recruit and retain On-Call firefighters and the opportunity to use the recruitment process to address the under representation of women and black ethnic minorities in the workforce will be fully exploited.

OTHER SAVINGS PROPOSALS

The reductions in the numbers of appliances and the change to the crewing of appliances will generate a net £6.4m of savings by 2020. In addition savings of £2.1m have been identified from the following areas:

- Management Review (Service Leadership changes in 2016 and Middle Managers from 2017) £0.9m (£0.5m achieved to date);
- Collaboration and Integration with Essex Police from 2019 (was 2017) onwards £0.5m;
- Reduction in the use of temporary staff £0.3m; and
- Reduced consultancy and external support £0.3m.

COUNCIL TAX

The public consultation on the proposed Service changes included a range of change options with differing assumptions about the future growth in the rate of Council Tax. The consultations response was clear with almost three quarters of respondents supporting the option with the smallest degree of change and the highest proposed increases in Council Tax. The assumption is that Council Tax will increase by around 2% per annum during the forecast period. The Authority had previously agreed a freeze in the rate of Council Tax from 2010.

The impact of this on the expected rate of Council Tax is shown in the table below:

2020 Projections	2015/16	2016/17	2017/18	2018/19	2019/20
Rate	£66.42	£67.68	£69.03	£70.38	£71.73

In addition to the increases in the rate of Council Tax the Authority is projecting an annual increase in the tax base averaging 1.75% through the growth in housing and improvements in the collection rate from the joint approach adopted across Essex billing authorities.

THE FINANCIAL PROJECTIONS

The forward forecast Authority's income and expenditure as at August 2017 is shown below:

	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
(i) Funding Assumptions				
Settlement Funding Assessment				
Baseline Funding - Business Rates / Top Up	14,970	15,427	15,870	16,377
RSG	14,230	11,033	9,350	8,340
Settlement Funding Assessment Total	29,200	26,460	25,220	24,717
Adjustment for Local Business Rate share (NNDR1) to DCLG Figure				
Council Tax Forecast				
Band D Council Tax (£)	39,758	41,224	42,822	44,400
Actual / Assumed Council Tax base increase on previous year (£)	699	761	749	777
Yearly Council Tax Precept Increase (£)	767	837	828	858
Collection Fund (council tax & business rates) (£)	880	846	400	400
Estimated Total Council Tax Income	42,104	43,668	44,800	46,435
Council Tax Band D Precept Increase (%)	1.90%	1.90%	1.90%	1.90%
Growth in Council Tax Base Yield to Previous Year (%)	1.50%	1.85%	1.75%	1.75%
TOTAL	71,304	70,128	70,020	71,152
(ii) Budget Assumptions				
Employee Cost Pressures (£'000)				
Base Employment costs Budget	50,190	50,190	50,190	50,190
Pay Award		715	1,430	2,145
Apprenticeship levy		300	300	300
Normalise Reserves	303	303	303	303
Reorganisation & Exceptional Costs costs - Pay	3,114	474	0	0
Investment in Community Safety	0	400	400	400
Total Employee Costs	53,607	52,382	52,623	53,338
Cost Pressures (£'000)				
Base Non Pay Bill Costs	25,036	25,036	25,036	25,036
Total Non Pay Bill Costs	25,036	25,036	25,036	25,036
Revenue Expenditure Funded from Capital Receipts				
INCOME				
Section 31 Grants				
Base Line Income	-1,985	-1,985	-1,985	-1,985
Other Service Income				
Base other Income				
Includes County Emergency Planning collaboration, secondments, Community Safety work, Ariel site commission, section 13/16	-1,937	-1,937	-1,937	-1,937
Total Income	-3,922	-3,922	-3,922	-3,922
Budget Requirement	74,721	73,496	73,737	74,452
Financial Challenge Before Efficiencies	-3,417	-3,368	-3,717	-3,300
(iii) Efficiency Savings Assumptions (£'000)				
Savings from pay bill relating to operational response	1,297	1,072	1,654	1,501
Savings in Support Costs	540	1,010	1,380	2,060
Total	1,837	2,082	3,034	3,561
Forecast Net Position (surplus / deficit) after efficiency savings	-1,580	-1,286	-684	261
(iv) Capital				
Estimated Capital Expenditure (£'000)				
Capital Expenditure	5,369	11,910	9,319	8,281
Capital Expenditure Financing				
Capital Receipts	8,605			
Reserves				
Government grants & other contributions				
Direct Revenue Contributions	5,369	11,910	9,319	8,281
Unsupported / Prudential Borrowing				

(v) Estimated Financial Reserves Levels (£'000)	2016-17	2017-18	2018-19	2019-20
	£'000	£'000	£'000	£'000
General Fund Balance	6,754	6,754	6,754	7,015
Earmarked General Fund Reserves	5,459	5,459	5,459	5,459
Expected Use of Earmarked Reserves	0	0	0	0
	12,213	12,213	12,213	12,474

COMPARISON WITH ORIGINAL PLAN

The updated forecast shows that the overall aim of achieving a balanced budget by March 2020 remains on-track. Key pressures that could impact on this remain the national position on pay, and directly related to that, the government's willingness to either increase authority funding or allow higher council tax increases linked to changes to the firefighter role map and higher than planned increases in firefighter pay.

The table below reports on the main differences to the original plan agreed in September 2016.

VARIANCE TO EFFICIENCY PLAN SEPTEMBER 2016 (£000s)	2016/17	2017/18	2018/19	2019/20	2019/20 Run Rate
Annual Surplus/(Deficit) at August 2017	(£1,580)	(£1,286)	(£684)	£261	£226
Annual Surplus/(Deficit) at September 2016	(£2,882)	(£332)	(£623)	£238	£44
Total Variance Variance Better/(Worse)	£1,302	(£954)	(£61)	£23	£182
Made up of :					
Total Income	£0	£1,046	£700	£824	£424
Wholetime Firefighters	£394	(£30)	£9	(£401)	(£2)
On Call Firefighters	£0	(£736)	£0	£0	£0
Suuprt Savings	£0	(£360)	(£370)	£0	£0
Investment in Community Safety	£0	(£400)	(£400)	(£400)	(£400)
Cost of early exit options and reorganisation	£200	£0	£0	£0	£0
Other Short tem costs & budget Savings	£708	(£474)	£0	£0	£160
Total Variance as above - Better/(Worse)	£1,302	(£954)	(£61)	£23	£182

The revised plan reflect higher actual levels of council tax in 2017/18 through increases to the tax base and the collection fund surplus. These increases have been projected forward to 2020.

On the expenditure side the main changes are bringing forward into 2017/18 some of the increases in the on-call budget to reflect the agreed timing for the changes at Clacton and early recruitment at other locations. Some of the support staff savings from collaboration have been deferred until 2019 and the level of investment in community safety reduced to reflect the position agreed in the Dispute Resolution document with the Fire Brigades Union where more resources were added to watches to allow for an increase in their community safety activities.

THE USE OF RESERVES

The Authority's ability to reduce costs through the changes to the crewing system for appliances from wholetime firefighter to On-Call firefighters is largely determined by the speed at which new staff can be recruited, trained and developed to become competent firefighters. The Authority has experience of such conversions in recent years and the planned timetable is a realistic one based on this experience. After completion of their initial training firefighters need time to develop to become competent and new policies and agreements around mixed crewing by both wholetime and On-Call firefighters will support this process.

Reserves will be used to balance the budget. The key requirements are:

- 2016/17 – Use of reserves to support the one-off costs of early exit options to reduce wholetime firefighter numbers;

- 2017/18 – Use of reserves to balance budget before completion of On-Call recruitment and training;
- 2018/19 – Use of reserves to support the development period for On-Call firefighters.

The overall requirement for reserves will be managed through the Authority's accounting policies utilising the capital receipts reserve. This reserve is included in the "ear marked reserves" shown in the table on Page 8. In effect this means that we will use this ear marked reserve to reduce the annual requirement to fund past capital expenditure from the income and expenditure account.

THE KEY RISKS

A key risk for the Authority is employee pay and the need for additional funding if pay increases exceed the 1% government target reflected in the plan.

The Authority manages the key risks around the level of Council Tax and Non-Domestic Business Rates collection through the use of ear marked reserves so that short term fluctuation from specific events can be managed. Longer term adverse trends would need to be managed through offsetting savings initiatives. Reserves are also available to manage time delays between when savings are required and when they can be delivered.

The risks associated with the delivery of the 2020 Programme, and with it the delivery of the Efficiency Plan will be managed as part of the programmes management. There are a number of key risks to the level of change, in particular the Authority's ability to recruit and retain sufficient On-Call firefighters to meet the overall response standard. This key risk is mitigated by the retained duty system project which is developing new approaches to recruitment, employer liaison, training and availability for On-Call firefighters.

The other key risk is lack of employee engagement. The arrangements already established for the 2020 Programme in its definition phase included regular meetings with all representative bodies. This engagement will continue. In addition, local business change managers for the areas affected will be responsible for managing employee engagement at the local level to ensure that this risk is mitigated.

COLLABORATION

The Home Secretary approved the business case from the Police and Crime Commissioner for a governance change. This planned to take place in October 2017. This will support the programme of work to develop closer working in a number of key areas including community safety and support services. Savings from this collaboration have been reflected in the forward plans from 2019. The Authority is also undertaking a trial of co-responding in partnership with the East of England Ambulance Service. The trial will run until February 2017.

The Authority undertakes a wide range of collaborative procurement. We led a regional programme to develop a common specification for fire engines and completed a collaborative procurement with Bedfordshire Fire and Rescue Authority. We have also led on the procurement of working at height equipment on behalf of the national procurement board and participate in other joint projects including personal protective equipment. The Authority is a member of the Fire and Rescue Indemnity Company Ltd, a collaborative approach to risk protection and insurance with eight other Authorities.

PERFORMANCE MANAGEMENT

The Authority is committed to improving its performance management arrangements and has strengthened the Service Leadership Team to highlight the importance of the assessment and evaluation of performance data. The Authority's Audit, Governance and Review Committee receive a performance report at each meeting and these are publically available. Work to ensure that performance measure are relevant, meaningful and

understood will ensure that progress through the period of the Efficiency Plan is monitored and understood by all stakeholders.

The Authority will publish annual reports on the progress of the efficiency plan alongside the fire and rescue authority's statutory assurance statement, enabling local people to scrutinise progress.