

Agenda Item no. 6

TO: Cambridgeshire and Peterborough Fire Authority

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DRAFT MEDIUM TERM FINANCIAL STRATEGY 2019/20 to 2023/24

1. Purpose

- 1.1 The purpose of this report is to provide the Fire Authority with an overview of the current position regarding the proposed draft Medium Term Financial Strategy (MTFS) 2019/20 to 2023/24.

2. Recommendation

- 2.1 The Fire Authority is asked to note the draft position regarding the MTFS 2019 to 2024 attached at **Appendix A**.

3. Risk Assessment

- 3.1 **Economic/Political** – the council tax increase must be set at an appropriate level to protect the financial stability of the Authority without breaching any reasonableness criteria that may be imposed by Government in the form of a cap.
- 3.2 **Economic** – there is significant uncertainty around the settlement figures for the next spending review period. In addition, the uncertainty around the UK's exit from the European Union is creating broader economic uncertainty, which could lead to delays in the final settlement for next year and potentially delays to the next spending review. The MTFS will have to provide flexibility to respond to any variations that may present themselves in future financial years.

4. Background

- 4.1 On 25 November 2015, the spending review for 2016/17 to 2019/20 was announced. With this announcement came guidance around individual authorities submitting efficiency plans, in return for funding certainty over the medium term. This Authority submitted its efficiency plan in October 2016.

- 4.2 As we move towards the final year of the current spending review period, the uncertainty surrounding the future financial position is heightened. Whilst it appears the Authority has the ability to increase council tax by 3%, there is a significant new pressure around unfunded public sector pension schemes. The actual financial implications of the change to the employer contribution rate are not yet known but the potential impact could be very significant. The attached draft MTFS and estimates are predicated on the gradual introduction of this pressure after 2020.
- 4.3 In addition to this the Service has started to model further reduction to its Revenue Support Grant, which has been the grant reduced by Government over the last eight years. This figure is now £2.75 million and is likely to be cut further as we move through the next spending review period.
- 4.4 The MTFS, as drafted, predicts annual 2% pay awards moving forward as well as continued housing growth and the Fire Authority increasing council tax to the estimated cap of 3%. At this stage, there are many uncertainties and as we move through to budget setting in February revised estimates will be provided for further debate.

BIBLIOGRAPHY

Source Documents	Location	Contact Officer
Fire Authority Estimates 2018/19	Hinchingsbrooke Cottage Brampton Road Huntingdon	Matthew Warren 01480 444619 matthew.warren@cambsfire.gov.uk
Local Government Finance Settlement 2018/19: technical consultation		
Cambridgeshire and Peterborough Fire Authority Efficiency Plan 2016 to 2020		
Comprehensive Spending Review 2016/17 – 2019/20		

CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2019 to 2024

1. Introduction

1.1 The Need for a Financial Strategy

- 1.1.1 The financial environment in which the Authority operates is unprecedented and will become increasingly challenging. The Authority will be faced with some difficult decisions as the impact of the Comprehensive Spending Review (CSR) and next round of Government austerity measures is felt. Further cuts to the budget will be required as a result.
- 1.1.2 The uncertainty around future funding arrangements beyond 2020, along with council tax capping limits and potential Authority decisions around referendum, all require the Authority to take proactive steps to control its own destiny to mitigate against the threat of having to react to external events.

1.2 Background

- 1.2.1 In developing a financial strategy the Authority must consider the factors that may influence the future needs and plans of the Service.
- 1.2.2 The Secretary of State has set a clear vision that by the end of the CSR period, all Local Authorities will be fully funded locally, from council tax and business rates. Government continue to work through how business rate retention will aid this strategy.
- 1.2.3 The Government offered authorities a four year 'minimum' financial settlement, if it chooses to share its efficiency plans with Government. The Authority shared its efficiency plan in October 2016 and has assumed that the settlement figures will be as suggested over the next four financial years.
- 1.2.4 In addition to the settlement information, Government has made assumptions that council tax will be increased in line with inflation over the four year period, moving away from providing authorities with council tax freeze grant. Once again, this strategy estimates that increases in council tax will be approved by the Authority.
- 1.2.5 The Integrated Risk Management Plan (IRMP) sets out the aims and objectives for the future. The strategy must support the delivery of these aims and actions. The CSR programme will continue to focus on the most appropriate options for the Service to mitigate against the

impact of future reductions in Government funding and constraints on council tax.

- 1.2.6 Revenue expenditure has been within budget each year for the last four years; this confirms the ability of the Authority to control expenditure. Considerable time and effort has been spent ensuring that budget holders challenge current expenditure levels and project budgets are fully understood before any commitment is made.
- 1.2.7 The Authority holds reserves that are adequate to respond to the risks it currently faces. Part of this strategy should be linked to considering the level of reserves the Authority holds in the medium term. However it should also be noted that these reserves can only be used once and cannot fill an on-going budget gap.

1.3 The Economy

- 1.3.1 This strategy assumes that the economy will continue to grow slowly in the medium term, with inflation in line with the Bank of England target. Interest rates will remain low in the short term, with increases expected in the medium term.

1.4 External Factors

- 1.4.1 The county population continues to grow and the strategy must recognise and allow for pressures and potential opportunities.

2. Financial Forecast

- 2.1 The five year financial forecast is included at Appendix 1, along with assumptions. The forecast shows the potential trend of net expenditure, based upon estimated levels and timing of events. This forecast is designed to estimate the potential savings target through to the end of the next comprehensive spending review period.
- 2.2 The tax base assumes an increase of approximately 1% year on year thereafter. However given the changes to council tax benefits and the potential impact of this on collection rates, the real impact of these changes will not be fully understood until the end of the financial year.
- 2.3 The Government is committed to the localism agenda and it is assumed that a council tax referendum will still be required for authorities where a 'reasonable' increase is not set. The term 'reasonable' is now largely defined by the Secretary of State who provides council tax capping limits. Currently the limit is suggested as 3%. The long term strategy will work within this limit, unless the Authority specifically approves a revision.
- 2.4 Inflation is based upon Treasury projections, with the exception of pay inflation which has been set at 1% for the medium term in accordance

with Government guidance. All fuel inflation is monitored and updated annually based upon latest information.

3. The Medium Term Financial Strategy

3.1 Revenue Provision

3.1.1 The priorities of the Authority are laid out in the IRMP and Business Development Programmes. Whilst the Authority will seek to accommodate additional requirements, these will be considered against the backdrop of any Government cuts. A project will only progress where a tangible benefit will result and funding exists.

3.1.2 The Authority's revenue expenditure plans will be published each year in the Authority's budget book, which will be prepared in association with the IRMP and Business Development Programme and will seek to ensure resources are allocated appropriately. Where there is competition for resources, those areas of the Service directly contributing to the vision of the Authority will take priority, unless there are any overriding factors such as a legal imperative.

3.2 Capital Programme

3.2.1 The Capital Programme will be reviewed annually by the Policy and Resources Committee and published in February alongside projected schemes for a further three years. The summarised programme is attached at Appendix 2.

3.2.2 The Authority will seek to identify capital requirements in sufficient time to ensure that its assets are always adequate to support our needs, can be adequately resourced and fully funded.

3.2.3 Prior to approving capital schemes, whole life cost details must be considered and how the scheme fits with the Capital Programme and Asset Management Plan.

3.3 Funding

3.3.1 The Authority's projected net expenditure is funded from Government grant and council tax.

3.3.2 The Government grant is determined by the allocation of a fixed sum across all local authorities.

3.3.3 The Authority will continue to monitor the Government's approach to the spending review and the impact of any future change.

3.3.4 The level of council tax will be determined each year after considering the short term financial position and an assessment of the long term outlook. The Authority will try to ensure that the level of council tax is

sufficient to provide an appropriate level of service without causing the local taxpayer any undue hardship.

- 3.3.5 The strategy to keep council tax at or below 2% will incorporate the utilisation of general reserves whilst factoring in current acceptable increases. If funding significantly changes as a result of the formula review or unforeseen events cause the general reserve to dip below a perceived prudent level, then the impact on increasing this fund to local council taxpayers will not be more than 0.1% per annum.

3.4 Financial Contingency Planning

- 3.4.1 The Authority holds a general reserve to provide contingency against unforeseen events such as a higher than usual level of operational activity or period of industrial action. This reserve may also be used to fund short term delays in realising on-going budget cuts.
- 3.4.2 Earmarked reserves are created to provide a contingency against foreseeable events that have a reasonable degree of likelihood but where timing is uncertain. The major reserves held by the Authority relate to ill health pension payments and future property development and enhancements.
- 3.4.3 The Authority will insure against relevant risks, taking into account the size of premiums and previous claims experience.
- 3.4.4 The level of working balances will be maintained at a level that provides the Authority's Treasurer with an adequate safeguard against the risk of cash flow interruptions.
- 3.4.5 The Policy on Reserves is attached at Appendix 3, along with a medium term projection.

Appendix 1

	Current CSR	2020 - 2024 - CSR				Notes
	2019/20	2020/21	2021/22	2022/23	2023/24	
RSG	2,750	2,578	2,406	2,234	2,063	
Business Rates	3,820	3,820	3,820	3,820	3,820	
Top up	2,240	2,240	2,240	2,240	2,240	
CT Freeze Grant						
Transition Grant						
	8,810					
Grant Cuts to be Found	-331	-172	-172	-172	-172	
% Grant Cut	-4%	-6%	-7%	-7%	-8%	
Add Pressure (Inflation)	-503	-511	-519	-510	-512	Pay Awards @ 2% plus Pension Pressure from 2020/21
Potential Pension Pressure		-328	-109	-109	-109	
Total Pressure	-834	-1,011	-800	-791	-793	
	2019/20					
Band D Houses (Estimated)	281,248	285,613	288,782	291,670	294,587	Housing Growth @ 1%
Band D Council Tax	£70.93	£73.06	£75.25	£77.50	£79.83	CT Increase of 3%
Differential	£2.07	£2.13	£2.19	£2.26	£2.33	
Additional Funding from CT Increase	581	608	633	658	685	
	19,948	20,866	21,730	22,606	23,517	
Additional Precept Funding	806	917	864	876	911	
Remaining Cut to be Found	-28	-94	64	85	118	

MEDIUM TERM CAPITAL PROGRAMME 2019/20 TO 2022/23

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
CAPITAL EXPENDITURE				
Vehicle Replacement Programme	1,435	1,176	1,843	1,447
Equipment	263	314	209	272
Property Maintenance & Land	1,205	1,210	500	500
IT & Communications	350	350	350	350
TOTAL EXPENDITURE	3,253	3,050	2,902	2,569
	0	0	0	0
FINANCED BY:				
Loan	0	0	1,100	1,587
Capital Receipts	-91	-41	-85	-108
Revenue Contribution to Capital Outlay (RCCO)	1,073	1,088	1,061	1,090
Transfer from Reserves	2,271	2,003	826	0
Capital Grants	0	0	0	0
TOTAL RESOURCES	3,253	3,050	2,902	2,569

Policy on Reserves

- 1.1 The key aims of the Medium Term Financial Strategy (MTFS) are to provide a sound financial base for the delivery of the Authority's medium term priorities and to secure the necessary revenue and capital resources to deliver these priorities. As part of this strategy and in assessing its annual budget requirement, the Authority will maintain reserves at a level appropriate to help ensure financial stability and to meet identified potential future commitments.
- 1.2 Reserves will be distinguished in the balance sheet in accordance with the CIPFA Statement of Recommended Practice whereby:

A reserve is a contingency to meet a specific anticipated future requirement such as a potential liability or a smoothing of net expenditure (earmarked reserves) or to help cushion the impact of uneven cash flows, unexpected events or emergencies (general reserve).
- 1.3 Reserves will be managed in accordance with the Authority's Financial Regulations.
- 1.4 Reserves will not, except under extreme circumstances, be used to support on-going expenditure. However in certain circumstances they may be used to cushion significant fluctuations in expenditure.
- 1.5 The level of reserves will be reviewed annually by the Fire Authority Treasurer, in consultation with the Policy and Resources Committee, as part of the annual budget process and when preparing the final accounts to ensure that the purpose, amounts and timing for each item is still relevant and appropriate.
- 1.6 As part of the regular review a risk assessment of each reserve, considering likelihood of the liability and its potential impact, will be carried out to inform assessment of need.
- 1.7 The total amount held will be determined by the assessment of financial need rather than by application of artificial parameters.
- 1.8 Reserves will be held on the balance sheet and controlled by the Treasurer; transfers will be made at the year-end directly from the revenue accounts.
- 1.9 The Treasurer will report on the adequacy of reserves each year as part of the budget process, both for the coming year and in respect of the medium term financial strategy. This report will specifically identify any application of reserves to support on-going expenditure.

Summary of CFRS Reserves			
	2017/18 Opening Balances	2017/18 Applied Reserves	2018/19 Opening Balances
	£	£	£
Property Reserves			
Property Development Reserve	4,443,517	-	4,443,517
Capital Grants Unapplied	4,224,335	-1,637,513	2,586,822
Capital Receipts	1,206,041	227,152	1,433,193
Total Property Reserves	9,873,893	-1,410,361	8,463,532
Other Reserves			
General Reserves	2,422,764	48,500	2,471,264
Community Fire Safety	200,000	0	200,000
Revenue Pension	823,860	0	823,860
Wholetime Recruitment	975,000	0	975,000
Total Other Reserves	4,421,624	48,500	4,470,124
Total CFRS Reserves	14,295,517	-1,361,861	12,933,656