

TO: Policy and Resources Committee

FROM: Deputy Chief Executive Officer - Matthew Warren

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DRAFT MEDIUM TERM FINANCIAL STRATEGY 2017 TO 2020

1. Purpose

- 1.1 To seek approval of the proposed draft Medium Term Financial Strategy (MTFS) 2017/18 to 2019/20.

2. Recommendation

- 2.1 The Policy and Resources Committee is asked to approve the proposed draft MTFS 2017 to 2020 attached at Appendix 1.

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. 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, attached at Appendix 4, in October 2016 and confirmation of it is expected in December 2016.
- 4.2 The MTFS makes a number of assumptions around increases in council tax housing levels and council tax capping rates. It is also assumed that the efficiency plan will be approved and grant income will be in line with that already announced.

BIBLIOGRAPHY

Source Documents	Location	Contact Officer
Fire Authority Estimates 2017/18	Hinchingsbrooke Cottage Brampton Road Huntingdon	Matthew Warren 01480 444619 matthew.warren@cambsfire.gov.uk
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 2017 to 2020

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 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, 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 comprehensive spending review period, all Local Authorities will be fully funded locally, from council tax and business rates. Government are currently working through how business rate retention will aid this strategy. It is not yet known what impact the transfer of fire and rescue services into the Home Office will have on funding. At this time, it is assumed that there will be no change.
- 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 sets out the aims and objectives for the future. The strategy must support the delivery of these aims and actions. The comprehensive spending review 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. The constraints being placed upon public sector pay increases will also be reflected within any future budgets. 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 six 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 2%. 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.

- 2.5 Saving figures are also shown in Appendix 1. These savings targets are speculative at this point and rely on grants being confirmed by Government. The strategy will not be accurate until detailed information relating to the settlement for the next three financial years is known.

3. The Medium Term Financial Strategy

3.1 Revenue Provision

- 3.1.1 The priorities of the Authority are laid out in the Integrated Risk Management Plan 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 Integrated Risk Management Plan 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

	Estimate 2016/17		Forecast 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
	£'000	Incr. %	£'000	£'000	£'000	£'000	£'000
Budget (previous year)	28,534		28,332	27,727	27,779	28,131	27,553
Wholetime Firefighters Pay	110						
Retained Firefighters Pay	23						
Fire Control Pay	15		0	0	0	0	0
Local Government Employees Pay (LGEs)	97		-7	0	0	0	0
Insurance	-1						
Other Price inflation	-36						
Inflation	208	0.7%	276	277	277	281	276
LGE Staff	188						
Control Room Staff	15						
Firefighters	-140		0				
Operational Activity	127		0				
Capital Charges	-80		-6	12	48	0	0
Additional Govt Grants	-86						
Other	48		11	11	11	0	0
Budget Variations	72	0.3%	5	23	59	0	0
Service Pressures/Efficiency Savings							
Budget Holder Savings	-667	-2.3%	-886	-248	16	-859	-232
Council Tax Freeze Grant Transferred to RSG	185						
Service Pressures/Efficiency Savings	-482	-1.7%	-886	-248	16	-859	-232
Budget Requirement	28,332	-1.3%	27,727	27,779	28,131	27,553	27,597
Less:							
RSG	-5,080		-3,800	-3,140	-2,750		
Top-up Grant	-2,060		-2,110	-2,170	-2,240	-3,816	-3,251
National Non-domestic Rates	-3,540		-3,600	-3,710	-3,820	-3,858	-3,897
Fire Authority Precept	17,652		18,217	18,759	19,321	19,879	20,449
Tax Base	269,410		272,807	276,232	279,478	282,273	285,096
Band D Tax	£65.52		£66.78	£67.91	£69.13	£70.42	£71.73
Year on Year Increase	2.0%		1.9%	1.7%	1.8%	1.9%	1.9%

DRAFT SUMMARY MEDIUM TERM CAPITAL PROGRAMME 2016/17 TO 2019/20

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
CAPITAL EXPENDITURE (details – Appendix 3)				
Vehicle Replacement Programme	1,731	1,725	1,176	1,751
Equipment	345	191	254	146
Property Maintenance & Land	940	1,280	1,075	500
IT & Communications	350	350	350	350
TOTAL EXPENDITURE	3,366	3,546	2,855	2,747
FINANCED BY:				
Loan	0	0	677	661
Capital Receipts	456	369	163	466
Revenue Contribution to Capital Outlay (RCCO)	1,508	1,493	1,372	1,518
Transfer from Reserves	1,402	1,684	643	112
Capital Grants	0	0	0	0
TOTAL RESOURCES	3,366	3,546	2,855	2,747

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 Chartered Institute of Public Finance and Accountancy (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.

Appendix 3

Reserves as at 18th January 2016:						
	Property Development Reserve (Capital Reserve)	General Reserve	Pension Reserve	On-call Reserve	Community Safety Reserve	Totals
	£'000	£'000	£'000	£'000	£'000	£'000
Current Balance	9,707	2,556	824	975	200	14,262
Capital Programme 2016 - 2020	-3,842					-3,842
New HQ	-7,000					-7,000
Modified Pension Scheme			-400			-400
Projected Income from sale of HQ and Huntingdon	3,000					3,000
Projected Balance by 31st March 2020	1,865	2,556	424	975	200	6,020