

TO: Policy and Resources Committee

FROM: Deputy Chief Executive Officer - Matthew Warren

PRESENTING OFFICER: Deputy Chief Executive Officer - Matthew Warren
Telephone: 01480 444619
matthew.warren@cambsfire.gov.uk

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DRAFT MEDIUM TERM FINANCIAL STRATEGY 2020 to 2024

1. Purpose

- 1.1 The purpose of this report is to present the proposed draft Medium Term Financial Strategy (MTFS) and associated Financial Plan for 2020/21 to 2023/24.

2. Recommendations

- 2.1 The Policy and Resources Committee is asked to;
- a) approve the proposed draft MTFS 2020 to 2024 attached at Appendix 1,
 - b) note the draft financial plan that includes provisional precept estimates,
 - c) approve the proposed draft 2% increase in council tax for consultation.

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 The Government spending review originally scheduled for publishing in the autumn of 2019 has been delayed. The earliest a review is now likely to be concluded is autumn 2020. This uncertainty, along with the general election on 12 December 2019 has meant the provisional one year settlement figures for 2020/2021 have not yet been announced. All indications, at this time, are that these figures will not be released until the middle of January 2020.

- 4.2 The budget has been built using a continued pay award of 2%. Council tax has been assumed to increase by 2%. As the impact of the grant settlement is unknown the draft budget has been built assuming no increase for the next financial year.

BIBLIOGRAPHY

Source Document	Location	Contact Officer
Fire Authority Estimates 2020/21	Hinchingbrooke Cottage Brampton Road Huntingdon	Matthew Warren 01480 444619 matthew.warren@cambsfire.gov.uk

CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2020 to 2024

1. Introduction

1.1 The Need for a Financial Strategy

- 1.1.1 The financial environment in which the Authority operates continues to be challenging. The Authority may be faced with some difficult decisions as the impact of the next Comprehensive Spending Review (CSR) is properly understood. The Authority will need to prepare in advance of the next CSR to ensure it can respond if further cuts to budget are required.
- 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. The Fire Authority, along with Local Authorities within Cambridgeshire, have agreed to participate in a local Business Rate pool. The 'pooling' arrangement ensures each participating authority cannot be worse off than if they had not participated. The primary aim is for each authority to derive some financial benefit from being in the pool.
- 1.2.3 Government continues to make assumptions and offer guidance around council tax capping limits where they assume they will be increased in line with inflation. This strategy estimates that increases in council tax will be approved by the Authority.
- 1.2.4 The Integrated Risk Management Plan (IRMP) is the primary strategic plan that sets out the aims and objectives for the future. The financial strategy must support the delivery of these aims and actions. Any future 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.
- 1.2.5 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.

- 1.2.6 The Authority holds reserves that are adequate to respond to the risks it currently faces. Part of this strategy is 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 in the medium term, with inflation in line with the Bank of England target. The continued constraints being placed upon public sector pay increases will also be reflected within any future budgets. However, it should be highlighted that there is increasing pressure on pay awards to be greater from the relevant bodies and the Authority will need to be aware of the impact a sudden upward pressure on pay rates will have. 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 four 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.
- 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 2% for the medium term in accordance with Government guidance. All fuel inflation is monitored and updated annually based upon latest information.

- 2.5 The budget includes costs for two additional full-time firefighters that have been approved on a temporary basis at day crewed stations. These posts are due to be reviewed after two and continued funding will be dependent on effectiveness of the posts and available funding at the time.
- 2.6 Increase costs of pensions and incremental uplift on professional support staff are the predominant factors for the remaining cost pressures. No turnover allowance for staffing is included within the budget preparation figures to date. If funding varies significantly from that estimated then an allowance for turnover could be utilised.
- 2.7 Saving figures are also shown in Appendix 1. The saving figures to 31 March 2021 are indicative at this stage and will be confirmed prior to the formal setting of the budget. In addition, should funding be significantly different from that forecast then these figures will need re-visiting.

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 detailed programme will be presented to the Policy and Resources Committee in January. A 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 operational Firefighter recruitment to maintain establishment, 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 1, along with a medium term projection.

Appendix 1

	Estimate	2020/21	Forecast	Forecast	Forecast	Forecast	Forecast
	£'000	Incr. %	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	Incr. %	£'000	£'000	£'000	£'000	£'000
Budget (previous year)	29,777		30,360	30,517	30,254	31,251	32,263
Wholetime Firefighters Pay	254						
Retained Firefighters Pay	56						
Fire Control Pay	31		0	0	0	0	0
Local Government Employees Pay (LGEs)	130		0	0	0	0	0
Other Price inflation	-42						
Inflation	429	1.4%	555	558	553	571	590
LGE Staff	67						
Control Room Staff	66						
Firefighters	237		0				
Operational Activity	-7		0				
Insurances	0						
Capital Charges	-5		170	127	335	0	0
Other	-59		12	21	21	0	0
Budget Variations	299	1.0%	182	148	356	0	0
Service Pressures/Efficiency Savings							
Budget Holder Savings	-145	-0.5%	-580	-969	88	441	468
Service Pressures/Efficiency Savings	-145	-0.5%	-580	-969	88	441	468
Budget Requirement	30,360	2.0%	30,517	30,254	31,251	32,263	33,321
RSG	-2,750		-2,750				
NNDR Related Grant	-2,887		-2,240	-3,816	-3,854	-3,892	-3,931
National Non-domestic Rates	-3,941		-3,980	-4,020	-4,060	-4,101	-4,142
Transfer from reserves	0		0	0	0	0	0
Fire Authority Precept	20,782		21,547	22,418	23,337	24,270	25,248
Tax Base	288,026		289,933	293,147	296,423	299,387	302,381
Band D Tax	£72.15		£74.32	£76.47	£78.73	£81.07	£83.50
Year on Year Increase	1.99%		3.0%	2.9%	3.0%	3.0%	3.0%

Appendix 2

MEDIUM TERM CAPITAL PROGRAMME 2020/21 TO 2023/24

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
CAPITAL EXPENDITURE				
Vehicle Replacement Programme	1,251	2,074	1,600	1,393
Equipment	209	272	195	211
Property Maintenance & Land	1,100	1,077	1,103	848
IT & Communications	350	350	350	350
TOTAL EXPENDITURE	2,910	3,773	3,248	2,802
	0	0	0	0
FINANCED BY:				
Loan	1,603	3,044	2,525	2,135
Capital Receipts	233	457	375	237
Revenue Contribution to Capital Outlay (RCCO)	193	272	348	430
Transfer from Reserves	881	0	0	0
Capital Grants	0	0	0	0
TOTAL RESOURCES	2,910	3,773	3,248	2,802