

To: Policy and Resources Committee

From: Deputy Chief Executive Officer - Matthew Warren

Presenting officer: Deputy Chief Executive Officer - Matthew Warren

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Draft Medium Term Financial Strategy 2022 to 2025

1. Purpose

- 1.1 The purpose of this report is to present the proposed draft Medium Term Financial Strategy (MTFS) and associated draft Financial Plan for 2022 to 2025.

2. Recommendations

- 2.1 The Policy and Resources Committee is asked to:
- a) approve the proposed draft MTFS 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's Comprehensive Spending Review (CSR) was originally scheduled for publishing in the autumn of 2019. The election of a new Government in 2019 and the economic impact of the pandemic through 2020/21, resulted in the CSR not being published until 2021. The budget, announced in October 2021, confirmed that CSR 2021 will cover the financial

years 2022 to 2025. The provisional settlement figures for this period are due to be published in mid to late December 2021.

- 4.2 The budget has been built using a continued pay award of 2%, along with general inflation costs of 2%. The inflation for energy and fuel is budget at 5%. These estimates are subject to significant volatility owing to the on-going uncertainty associated with supply chains and the effects of the pandemic on business. For each additional 1% of pay inflation, £275k is added to the base budget. Whilst this additionality is broadly equal to a 1% increase in council tax, the limitation for the Authority is the council tax capping limit of 2%. Therefore, any pay award above 2% is a pressure for the Service that will result in it having to find cost savings to meet this burden.

Source Documents

Fire Authority Estimates 2021/22

Location: Fire Headquarters, Hinchbrook Cottage, Brampton Road, Huntingdon

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Appendix 1

CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY DRAFT MEDIUM TERM FINANCIAL STRATEGY 2022 to 2025

1. Introduction

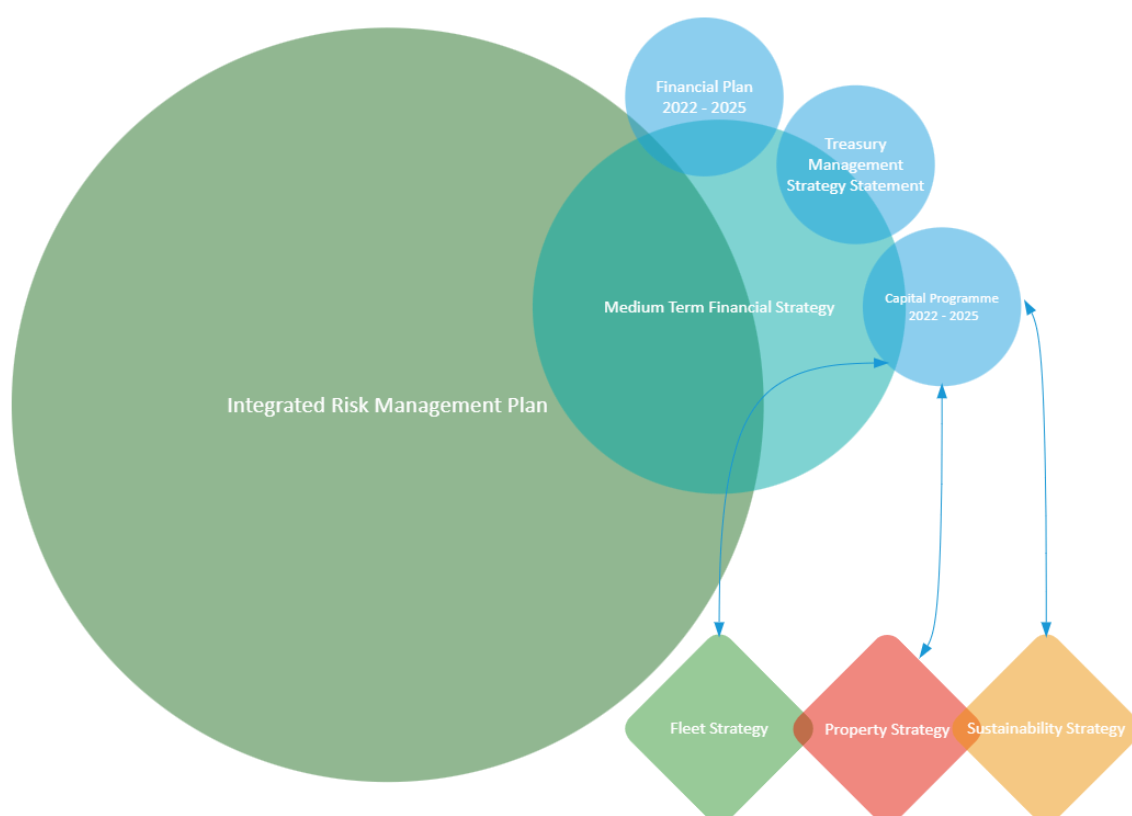
1.1 The Need for a Financial Strategy

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 2021, along with council tax capping limits and potential 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. The diagram below provides a picture of how different plans and strategies influence the financial strategy.



- 1.2.2 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. However, it is important to highlight that a 1% increase in council tax will broadly cover a 1% increase in employee costs. If council tax is set below employee inflation, then budget savings will be required to balance the budget.
- 1.2.3 The Integrated Risk Management Plan (IRMP) is the Service's overarching strategic plan that sets out the aims and objectives for the future. The financial strategy must consider and 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 potential future reductions in Government funding and constraints on council tax.
- 1.2.4 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 is spent ensuring that budget holders challenge current expenditure levels and project budgets are fully understood before any commitment is made.
- 1.2.5 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. However, it should be highlighted that there is increasing pressure, from the relevant bodies, for pay awards to be greater 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 three year financial forecast, included at Appendix 1, takes the Authority to the end of the current CSR period. The forecast shows the potential trend of net expenditure, based upon estimated levels and timing of specific events.
- 2.2 The tax base assumes an increase of approximately 2% next financial year, as the economy and tax base recovers from the pandemic. It is then forecast to grow by 1% per annum thereafter.

- 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, except for pay inflation which has been set at 2%. It is worth highlighting that pay negotiations between the Fire Brigades Union and the National Joint Council do not commence until after the budget has been set, so there is always a risk that an award will not be in line with that budgeted. All fuel and general inflation is monitored and updated annually based upon latest information.
- 2.5 Increased 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.
- 2.6 Saving figures are also shown in Appendix 1. The saving figures to 31 March 2023 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 there is a tangible benefit 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.
- 3.1.3 Significant planning has started on potential revenue savings, should the Service be impacted in the short to medium term by funding pressures and restrictions on funding. The Service has already been through a process to identify savings within the professional support service, highlighting the impact on service delivery. In addition, a review of operational resources has commenced with findings and recommendations expected by the end of 2022.

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.
- 3.2.4 The Service has commenced a piece of work looking at sustainability and how it can achieve a position of net zero. This work will significantly impact on how we use our buildings and fleet in the medium term. It is likely that investment will be required to enable us to fulfil the ultimate aim of achieving net zero. A detailed strategy and action plan will be presented alongside the final budget in February 2022.

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 Reserve Schedule is attached at Appendix 3, along with a medium term projection.

	Estimate 2022-23		Forecast 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28
	£'000	Incr. %	£'000	£'000	£'000	£'000	£'000
Budget (previous year)	30,682		31,511	32,528	33,593	34,707	35,801
Wholetime Firefighters Pay	198						
Retained Firefighters Pay	44						
Fire Control Pay	25		0	0	0	0	0
Local Government Employees Pay (LGEs)	138		-2	0	0	0	0
Other Price inflation	55						
Inflation	460	1.5%	628	651	672	694	716
LGE Staff							
Control Room Staff	91						
Firefighters	60		0				
Operational Activity	46		0				
Insurances	-35						
Capital Charges	0						
Other	86		273	246	298	0	0
	121		-69	0	0	0	0
Budget Variations	369	1.2%	204	246	298	0	0
Service Pressures/Efficiency Savings							
Budget Holder Savings	0	0.0%	185	168	144	400	427
Service Pressures/Efficiency Savings	0	0.0%	185	168	144	400	427
Budget Requirement	31,511	2.7%	32,528	33,593	34,707	35,801	36,944
Less:							
Settlement Amendments							
RSG	-2,811		-2,811	-2,811	-2,811	-2,811	-2,811
Transfer to Special Grant re localisation Reserve							
Developer Revenue Grant Contributions							
NNDR Related Grant (Top Up Grant)	-2,424		-2,424	-2,424	-2,424	-2,424	-2,424
National Non-domestic Rates	-3,999		-4,079	-4,161	-4,244	-4,329	-4,416
Transfer from reserves	0		0	0	0	0	0
Fire Authority Precept	22,277		23,214	24,197	25,228	26,237	27,293
Tax Base	297,144		300,971	304,831	308,707	311,794	314,912
Band D Tax	£74.97		£77.13	£79.38	£81.72	£84.15	£86.67
Year on Year Increase	2.0%		2.9%	2.9%	2.9%	3.0%	3.0%

MEDIUM TERM CAPITAL PROGRAMME 2022/23 TO 2025/26

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
CAPITAL EXPENDITURE				
Vehicle Replacement Programme	1,655	1,602	1,715	1,607
Equipment	269	227	201	214
Property Maintenance & Land	4,220	1,220	1,220	50
IT & Communications	775	350	350	350
TOTAL EXPENDITURE	6,919	3,399	3,486	2,221
FINANCED BY:				
Loan	2,875	2,597	2,367	1,197
Capital Receipts	543	406	608	523
Revenue Contribution to Capital Outlay (RCCO)	501	396	511	501
Transfer from Reserves	3,000	0	0	0
Capital Grants	0	0	0	0
TOTAL RESOURCES	6,919	3,399	3,486	2,221

	20/21	21/22	22/23	23/24	24/25	Narrative
	£'000	£'000	£'000	£'000	£'000	
Estimated Reserves at Start of Financial Year	13,289	12,374	4,966	3,266	3,066	
Property Development Reserve	8,406	8,406	2,454	954	2,454	The Property Development Reserve is earmarked to fund major property improvement and new capital schemes. The prjcey to build a new Training Centre and Fire Station commenced in August 2021, with fundig being drawn from the Property Development Reserve over 21/22 and 22/23 financial years. On completion, the current Huntingdon and St Ives sites will be sold with the receipts being used to top up the earmarked Property Development Reserve.
Capital Financing Property Improvements	-	5,952	3,000			
			1,500	1,500		
General Reserve	3,185	2,470	1,589	1,589	1,589	General Reserve is kept under review to ensure it will meet the need of short notice financial risks which might include a significant incident or spate conditions (flooding or prolonged dry and hot coniditions).
Capital Financing Underspends	- 715	- 881				
Operational Firefighter Reserve	975	400	200	-	-	This reserve was used to finance an over establishment whilst the service went through a period of significant turnover. The service is now implementing a more controlled and smoother recruitment profile. This will include smaller groups of new recruits and transferees from other services to ensure establishment levels remain more consistent. This reserve will ensure this new strategy is implemented and will be exhausted through the next financial year.
Pension Reserve	523	523	523	523	523	This reserve is held to fund ill health retirements that are often unexpected and to fund the current funding shortfall owing to the revaluation of the Firefighter Pension Fund.
Estimated Reserves at Year end	12,374	4,966	3,266	3,066	4,566	
General Reserves at Year end	2,470	1,589	1,589	1,589	1,589	
Earmarked Reserves at year end	9,904	3,377	1,677	1,477	2,977	