

## CAMBRIDGESHIRE AND PETERBOROUGH FIRE AUTHORITY

### DRAFT MEDIUM TERM FINANCIAL STRATEGY 2022 to 2028

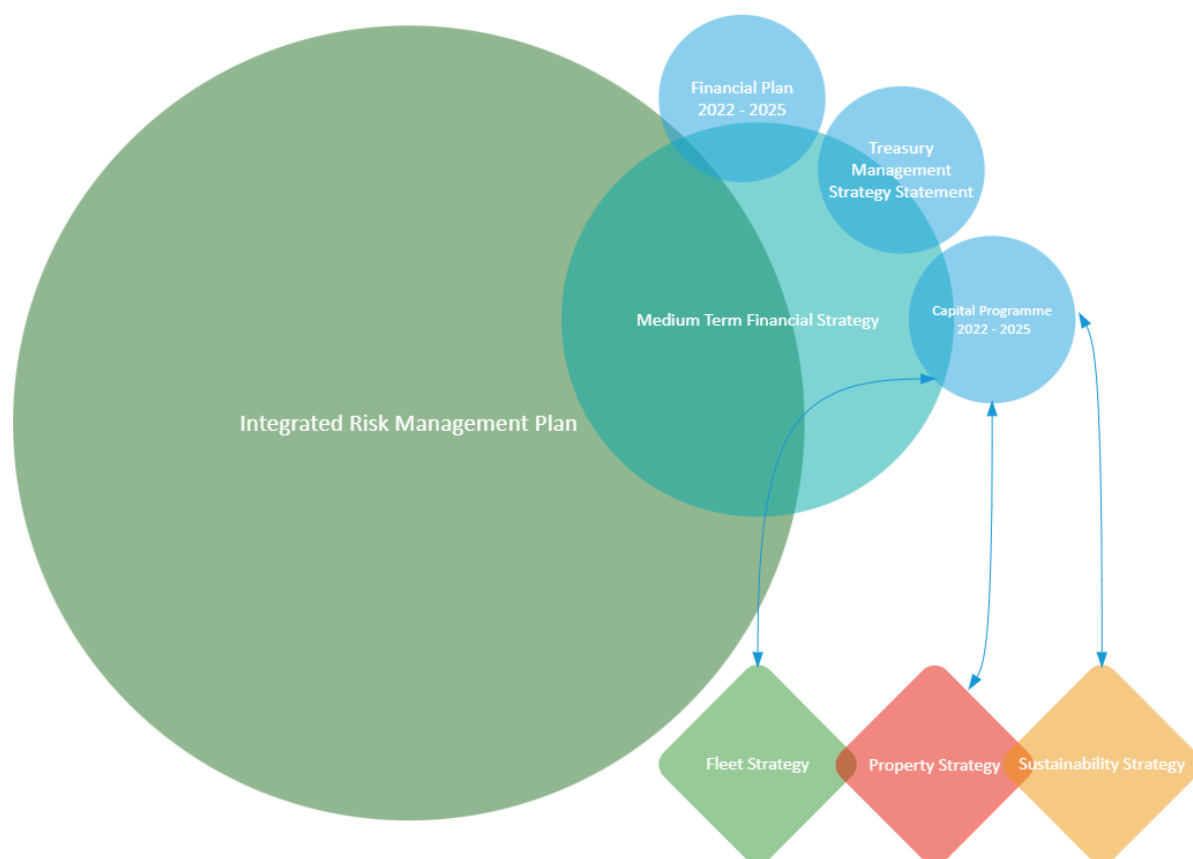
## 1. Introduction

### 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 2022, 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. 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 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 five year financial forecast, included at Appendix 1, takes the Authority beyond the end of the current CSR period. The figures contained within the forecast are subject to significant external factors with earlier years being more certain based upon current known net expenditure and timing of specific

events. Estimates beyond the current CSR period are highly speculative and will need to be further refined as we move forward.

- 2.2 The tax base assumes an increase of approximately 1.95% for next financial year, as the economy and taxbase recovers from the pandemic. It is then forecast to grow by 1% per annum thereafter.
- 2.3 The Government continues to be committed to the localism agenda but continue to provide clear guidance around council tax increases. A council tax referendum will be required for authorities where a 'reasonable' increase is not set. The term 'reasonable' is now defined by the Secretary of State who provides council tax capping limits. Currently the limit is suggested as 2% for Fire Authority's unless their Band D equivalent is within the bottom quartile of Authority's, where it can be set at up to £5. Cambridgeshire currently sits just outside of the bottom quartile. The long-term strategy will work within these parameters, unless the Authority specifically approves a revision.
- 2.4 Inflation is an area of significant risk in the short term owing to the on-going economic uncertainty. 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 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 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.
- 2.6 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. Preparing for the Comprehensive Spending Review**

- 3.1 The Service has been preparing for the potential challenges that the CSR may present. The professional support service has been subject to rigorous challenge, with each group providing scenarios for savings, highlighting the impact on service delivery for each scenario.
- 3.2 Operational scenarios are now being robustly analysed so we best understand the impact changes will have on the operational response model of the Service. Similarly to the professional support scenarios, the focus on operational delivery will highlight savings and impact on service delivery.
- 3.3 The CSR work will also focus on where we might use savings from a specific area to improve the Service elsewhere as well as how we would use

additional funding. This significant piece of planning work will feed the IRMP and Financial Strategy and Plan 2023/24 and beyond.

## **4. The Medium-Term Financial Strategy**

### **4.1 Revenue Provision**

- 4.1.1 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 the CSR. A project will only progress where there is a tangible benefit and funding exists.
- 4.1.2 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.
- 4.1.3 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. As detailed in Paragraph 3 above, 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.

### **4.2 Capital Programme**

- 4.2.1 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. A summarised programme is attached at Appendix 2.
- 4.2.2 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.
- 4.2.3 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.
- 4.2.4 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.

### **4.3 Funding**

- 4.3.1 The Authority's projected net expenditure is funded from Government grant and council tax.
- 4.3.2 The Government grant is determined by the allocation of a fixed sum across all local authorities.
- 4.3.3 The Authority will continue to monitor the Government's approach to the spending review and the impact of any future change.
- 4.3.4 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.
- 4.3.5 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.

### **4.4 Financial Contingency Planning**

- 4.4.1 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.
- 4.4.2 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.
- 4.4.3 The Authority will insure against relevant risks, taking into account the size of premiums and previous claims experience.
- 4.4.4 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.
- 4.4.5 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 |
|---|------------------|-------|------------------|------------------|------------------|------------------|------------------|
| <b>Inflation</b>                                  | 563              | 1.8%  | 625              | 647              | 667              | 689              | 710              |
| LGE Staff   | 154              |       |                  |                  |                  |                  |                  |
| Control Room Staff                                | 60               |       |                  |                  |                  |                  |                  |
| Firefighters                                      | 7                |       | 0                |                  |                  |                  |                  |
| Operational Activity                              | 5                |       | 0                |                  |                  |                  |                  |
| Insurances  | 0                |       |                  |                  |                  |                  |                  |
| Capital Charges                                   | 95               |       | 207              | 187              | 261              | 0                | 0                |
| Other   | -192             |       | 115              | 0                | 0                | 0                | 0                |
| <b>Budget Variations</b>                          | 129              | 0.4%  | 322              | 187              | 261              | 0                | 0                |
| <b>Service Pressures/Efficiency Savings</b>       |                  |       |                  |                  |                  |                  |                  |
| Budget Holder Savings                             | -148             | -0.5% | 171              | 169              | 144              | 400              | 427              |
| <b>Service Pressures/Efficiency Savings</b>       | -148             | -0.5% | 171              | 169              | 144              | 400              | 427              |
| <b>Budget Requirement</b>                         | 31,226           | 1.8%  | 32,344           | 33,347           | 34,419           | 35,508           | 36,645           |
| <b>Less:</b>                                      |                  |       |                  |                  |                  |                  |                  |
| Settlement Amendments                             |                  |       |                  |                  |                  |                  |                  |
| RSG   | -2,897           |       | -2,897           | -2,897           | -2,897           | -2,897           | -2,897           |
| Transfer to Special Grant re localisation Reserve |                  |       |                  |                  |                  |                  |                  |
| Developer Revenue Grant Contributions             |                  |       |                  |                  |                  |                  |                  |
| NNDR Related Grant (Top Up Grant)                 | -2,335           |       | -2,335           | -2,335           | -2,335           | -2,335           | -2,335           |
| National Non-domestic Rates                       | -3,780           |       | -3,780           | -3,780           | -3,780           | -3,780           | -3,780           |
| Transfer from reserves                            | 0                |       | 0                | 0                | 0                | 0                | 0                |
| <b>Fire Authority Precept</b>                     | 22,214           |       | 23,332           | 24,335           | 25,407           | 26,496           | 27,633           |
| <b>Tax Base</b>                                   | 296,307          |       | 301,295          | 305,686          | 310,331          | 313,434          | 316,568          |
| <b>Band D Tax</b>                                 | £74.97           |       | £77.44           | £79.61           | £81.87           | £84.53           | £87.29           |
| <b>Year on Year Increase</b>                      | 2.0%             |       | 3.3%             | 2.8%             | 2.8%             | 3.2%             | 3.3%             |

## MEDIUM TERM CAPITAL PROGRAMME 2022/23 TO 2025/26

|   | 2022/23<br>£'000 | 2023/24<br>£'000 | 2024/25<br>£'000 | 2025/26<br>£'000 |
|---|------------------|------------------|------------------|------------------|
| <b>CAPITAL EXPENDITURE</b>                    |                  |                  |                  |                  |
| 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              |
| <b>TOTAL EXPENDITURE</b>                      | <b>6,919</b>     | <b>3,399</b>     | <b>3,486</b>     | <b>2,221</b>     |
| <b>FINANCED BY:</b>                           |                  |                  |                  |                  |
| Loan  | 3,019            | 2,741            | 2,511            | 1,341            |
| Capital Receipts                              | 543              | 406              | 608              | 523              |
| Revenue Contribution to Capital Outlay (RCCO) | 357              | 252              | 367              | 357              |
| Transfer from Reserves                        | 3,000            | 0                | 0                | 0                |
| Capital Grants                                | 0                | 0                | 0                | 0                |
| <b>TOTAL RESOURCES</b>                        | <b>6,919</b>     | <b>3,399</b>     | <b>3,486</b>     | <b>2,221</b>     |

|   | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | Narrative  |
|---|---------|---------|---------|---------|---------|--|
|   | £'000   | £'000   | £'000   | £'000   | £'000   |  |
| Estimated Reserves at Start of Financial Year | 11,535  | 10,856  | 4,023   | 2,123   | 3,423   |  |
| Property Development Reserve                  | 8,350   | 8,350   | 2,398   | 898     | 2,398   | The Property Development Reserve is earmarked to fund major property improvement and new capital schemes. A decision on Planning is expected imminently (before end of January 2021) on the proposed Training Centre and Fire Station at St John's in Huntingdon. This reserve will be used to finance the build and then partly re-imbursed through the sale of land at St Ives and Huntingdon. |
| Capital Financing Property Improvements       | -       | 5,952   | 3,000   | 1,500   |         |  |
| General Reserve                               | 2,098   | 1,383   | 502     | 502     | 502     |  |
| Capital Financing                             | - 715   | - 881   |         |         |         |  |
| Underspends                                   |         |         |         |         |         |  |
| Community Safety Reserve                      | 200     | 200     | -       | -       |         | This reserve is held to fund specific projects and programmes. It will be called upon when required but it is not expected to be held for the long-term.   |
| Operational Firefighter Reserve               | 400     | 400     | 200     | -       |         | The Service has been over-established for Firefighters during 2021/22 and this reserve will be used to cover any overspend in the short-term.  |
| Pension Reserve                               | 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                | 10,856  | 4,023   | 2,123   | 3,423   | 2,900   |  |
| General Reserves at Year end                  | 1,383   | 502     | 502     | 502     | 502     |  |
| Earmarked Reserves at year end                | 9,473   | 3,521   | 1,621   | 2,921   | 2,398   |  |