



Safest People, Safest Places

Audit and Finance Committee

27 September 2023

Medium-Term Financial Plan Update

Report of Deputy Chief Executive

Purpose of Report

1. The purpose of this report is to provide an update on the medium-term financial plan (MTFP) position based upon the latest available information.

Background

2. The current MTFP was approved at the meeting of the Authority on 15 February 2023 and members were informed at that time that to set a balanced budget for the current year (2023/24) it would be necessary to draw £571,000 from reserves. The required draw from reserves increased by a further £250,000 to £821,000 following the announcement of the firefighters pay award which was above the level included in the 2023/24 budget.
3. To assist in balancing the budget in future years, members agreed to consult the public via the Community Risk Management Plan (CRMP) on the option of riding with a crew of 4 on all fire appliances. Consultation took place between 17 February and 11 May 2023 and 68% of the respondents agreed with the proposal. This option would remove 16 posts from the operational establishment saving £780,000 in a full year.
4. The change to riding with 4 was implemented from 01 July 2023 saving £571,000 in staffing costs in the current financial year.

Approved MTFP

5. The Authority's approved MTFP is set out in Table 1 below:

Table 1: Medium Term Financial Plan (approved February 2023)

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Net Expenditure	32.672	34.493	35.657	36.686
Contribution from Reserves	-0.571	0	0	0
Revised Net Expenditure	32.101	34.493	35.657	36.686
Total Government Funding	9.897	10.094	10.296	10.502
Local Non-Domestic Rates	1.459	1.459	1.459	1.459
Council Tax	20.700	21.516	22.145	22.794
Services Grant	0.288	0.282	0.288	0.294
Deficit on Collection Fund	(0.243)	0	0	0
Total Funding	32.101	33.351	34.188	35.049
Surplus/ (Deficit)	0	(1.142)	(1.469)	(1.637)

6. The approved MTFP was based on several assumptions which are set out in Table 2 below:

Table 2: Approved MTFP Assumptions

	2023/24	2024/25	2025/26	2026/27
Income Assumptions				
Council Tax Base	+1.30%	+0.90%	+0.90%	+0.90%
Council Tax Level	+4.6%	+2.99%	+1.99%	+1.99%
Settlement Funding Assessment	+4.16%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	+5.00%	+3.00%	+2.00%	+2.00%
Inflation	+5.00%	+2.00%	+2.00%	+2.00%

7. Based on the above assumptions, the potential shortfall in funding over the period covered by the approved MTFP was £1.637m.

Review of the Current MTFP

8. The approved budget and MTFP was based on firefighter pay awards of 6% from July 2022 and 5% from July 2023. The actual pay award was announced after approval of the budget and MTFP and resulted in a further 1% increase in firefighter pay from July

2022 to 7%. This increased the estimated drawing from reserves in 2023/24 and the shortfall in future years by a further £250,000.

9. To assist in balancing the budget a full review of all budget headings has been undertaken to identify savings and correct any shortfalls in current budgets. The review identified annual net savings of £309,000 which have been removed from the MTFP from 2024/25.
10. There has been a significant increase in interest on short-term investments which is forecast to exceed the budget by £250,000 in 2023/24. As the position regarding future interest rates is particularly difficult to forecast an increase of £100,000 has been built into the MTFP for 2024/25 and 2025/26.
11. The move to riding with a crew of 4 on all fire appliances (effective from 01 July 2023) will save £571,000 in 2023/24 and £780,000 in a full year, further reducing the MTFP deficit.
12. There are many significant factors affecting the MTFP which are difficult to quantify including: the level of government funding and council tax limits beyond 2023/24, the level of future pay awards, the level of inflation and the level of employer's pension contributions. The revised MTFP is therefore based on assumptions which could have a significant impact on the Authority's overall financial position should the actual position turn out to be different.

Revised MTFP 2023/24 to 2026/27

13. The revised MTFP in Table 3 below is based on the assumptions outlined in Table 2 and the changes outlined in paragraphs 8 to 11:

Table 3: Revised Medium Term Financial Plan 2023/24 to 2026/27

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Net Expenditure	32.672	34.493	35.657	36.686
Riding with a crew of 4	(0.571)	(0.780)	(0.780)	(0.780)
Interest on Investments	(0.250)	(0.100)	(0.100)	(0.100)
Net Savings Identified	0	(0.309)	(0.309)	(0.309)
Additional 1 % pay award	0.250	0.250	0.250	0.250
Contribution from Reserves	0	0	0	0
Revised Net Expenditure	32,101	33.554	34.718	35.747
Total Government Funding	9.897	10.094	10.296	10.502
Local Non-Domestic Rates	1.459	1.459	1.459	1.459
Council Tax	20.700	21.516	22.145	22.794
Services Grant	0.288	0.282	0.288	0.294
Deficit on Collection Fund	(0.243)	0	0	0
Total Funding	32.101	33.351	34.188	35.049
Surplus/ (Deficit)	0	(0.203)	(0.530)	(0.698)

14. The approved budget for 2023/24 included an estimated drawing of £0.571M from reserves. Following the implementation of riding with 4 the drawing from reserves will not be required.
15. The overall shortfall over the MTFP period has been reduced from £1.637M to £0.698M.

Impact of Changes to Assumptions on the MTFP

16. Several assumptions have been made in relation to settlement funding, council tax increases, pay, prices and pension costs across the MTFP period and there is a risk that the actual position could turn out to be different.
17. Table 4 below sets out the potential impact of changes to the main assumptions on the MTFP position:

Table 4: Impact of Changes to Expenditure and Income Assumptions

Impact of Changes to Expenditure Assumptions	Annual Impact £m
1% change in level of pay award	£0.250
1% change in level of Inflation	£0.075
1% change in level of council tax	£0.198
1% change in level of settlement funding	£0.112

Alternative MTFP Scenarios

18. There is a great deal of uncertainty surrounding the level of inflation, pay awards and funding going forward. Whilst it is impossible to predict what might happen in the future, five alternative scenarios have been modelled for illustrative purposes:

- **Model 1 Increased Pay Awards**

The MTFP includes increases in pay awards of 3% in 2024/25 and 2% in 2025/26 and 2026/27. This model sets out the impact of pay awards above this level. An increase of 5.0% in 2024/25, 3.0% in 2025/26 and 2% in 2026/27 has been assumed in this model.

Table 5 Alternative Scenario Model 1

	2024/25	2025/26	2026/27
	£m	£m	£m
MTFP Deficit	(0.203)	(0.530)	(0.698)
Model 1 Deficit	(0.703)	(1.280)	(1.448)
Increase in Deficit	(0.500)	(0.750)	(0.750)

- Model 2 Increase in settlement funding in line with Inflation in 2024/25**
 The MTFP includes a 4.16% increase in settlement funding in 2023/24 and 2% thereafter. This model sets out the impact of an increase in settlement funding in line with the estimated September 2023 inflation rate (estimated at 7%).

Table 6 Alternative Scenario Model 2

	2024/25	2025/26	2026/27
	£m	£m	£m
MTFP Deficit	(0.203)	(0.530)	(0.698)
Model 3 Surplus / (Deficit)	0.293	(0.025)	(0.182)
Reduction in Deficit	0.496	0.505	0.516

- Model 3 A further £5 increase in Band D council tax in 2024/25**
 The MTFP includes council tax increases of £5 (4.6%) in 2023/24, 2.99% in 2024/25, 1.99% in 2025/26 and 1.99% 2026/27. A further £5 (4.36%) increase in Band D council tax in 2024/25 has been assumed in this model.

Table 7 Alternative Scenario Model 3

	2024/25	2025/26	2026/27
	£m	£m	£m
MTFP Deficit	(0.203)	(0.530)	(0.698)
Model 3 Surplus / (Deficit)	0.078	(0.244)	(0.406)
Reduction in Deficit	0.281	0.286	0.292

- Model 4 Services Grant received in 2023/24 only.**
 Alongside the 2023/24 settlement the government announced the continuation of the one-off Services Grant that was introduced in 2022/23. The future distribution of this grant will be decided following consultation with local authorities therefore the MTFP has been compiled on the assumption that this funding will continue beyond 2023/24. This model sets out the impact of no further funding from this source beyond 2023/24.

Table 8 Alternative Scenario Model 4

	2024/25	2025/26	2026/27
	£m	£m	£m
MTFP Deficit	(0.203)	(0.530)	(0.698)
Model 4 Deficit	(0.491)	(0.823)	(0.997)
Increase in Deficit	(0.288)	(0.293)	(0.299)

- **Model 5 A Combination of the scenarios in Models 1 - 4**

Whilst it is impossible to predict what will happen regarding the assumptions in the MTFP a possible outcome could be a combination of all the scenarios outlined in models 1-4. This model sets out the combined impact of increased pay awards, an inflationary increase in settlement funding, a £5 increase in council tax and loss of the Services Grant.

Table 9 Combined Scenario Model 5

	2024/25 £m	2025/26 £m	2026/27 £m
MTFP Deficit	(0.203)	(0.530)	(0.698)
Change in Deficit			
Model 1	(0.500)	(0.750)	(0.750)
Model 2	0.496	0.505	0.516
Model 3	0.281	0.286	0.292
Model 4	(0.288)	(0.293)	(0.299)
MTFP Deficit	(0.214)	(0.782)	(0.939)

19. The alternative scenario models set out above illustrate how sensitive the overall MTFP deficit position is to small changes in the underlying assumptions.

Budget Pressures

20. The following budget pressures have been identified some of which have been incorporated into the revised MTFP:

Pay Awards

21. The MTFP includes an allowance for pay increases of 3% in 2024/25 and 2% in 2025/26 and 2026/27. If inflation does not reduce in line with government expectations pay awards could exceed this level. Each additional 1% increase in pay costs in the region of £250,000. Any unfunded pay increase above the level included in the MTFP would therefore have a significant impact on the forecast deficit.

Inflation

22. In addition to the increase in general inflation, there have been significant increases in the cost of gas, electricity, and fuel. The MTFP includes an allowance for inflation of 5% in 2023/24 and 2% thereafter. A further allowance to cover exceptional inflationary pressures has been made within the contingencies budget which can be allocated to budget holders on an exceptional basis should the need arise.

Interest Rates

23. The Authority now borrows to fund the majority of capital expenditure. Recent rises in interest rates continue to have an impact on the revenue budget as the repayment cost of borrowing increases.

Firefighters Pension Scheme (FPS)

24. Following the last valuation of the Firefighters' Pension Scheme there was an average increase of 12.6% in the employer's contribution rate which resulted in an increase of £1.5M in the overall cost. In previous years, the government have made grant funding available towards the additional cost and this funding continued in 2023/24. We expect this funding to be mainstreamed into the settlement funding assessment at some point in the future.

Balancing the Budget over the Medium-Term

25. At the Fire Authority strategic planning day on 10 October 2022, members received an update on the options that have been modelled to shape the Service's Emergency Response provision in future years together with alternative options for service delivery. A summary of the identified savings options which have not been implemented is set out in Table 10 below:

Table 10: Summary of Options to Balance the Budget

Option	Saving £m	Response Standards Impact
SRU Unit Crewed	0.208	Least
Remove 1 x station TRV	0.208	Least
2 x stations 1 pump and 1 TRV	1.381	Greater
2 x stations 2 nd pump to day crewing	0.695	Greater
2 x stations to day crewing	1.023	Greater
2 x stations removal of 2nd pump	1.913	Greatest
2 x stations to RDS only	1.398	Greatest

26. At this stage none of the above options have been incorporated into the MTFP.

27. Work is ongoing to revise the above list of options and further details will be presented to members for discussion at the strategic planning day on 16 November 2023.

Reserves

28. The reserves held by the Authority are reviewed on an ongoing basis in accordance with the agreed reserves policy which states that the Authority will:
- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
 - Aim to maintain a general reserve of 5% of the net expenditure currently £1.605M
29. The estimated reserves position at the end of 2022/23 and for the remainder of the MTFP period is set out in table 11 below:

Table 11: Estimated Reserves Position 2022/23 – 2026/27

Reserve	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
General Reserve	1.605	1.605	1.605	1.605	1.605
Earmarked Reserves	3.902	2.756	2.157	2.157	2.157
TOTAL RESERVES	5.507	4.361	3.762	3.762	3.762

30. The total reserves balance on 31 March 2023 was £5.507M, a reduction of £243,000 on the previous year. Total reserves are forecast to reduce by a further £1.745M to £3.762M over the MTFP period. Whilst the level of reserves is considered to be adequate, they are not sufficient to assist in balancing shortfalls in the MTFP.

Conclusion

31. Following the implementation of riding with a crew of 4 on all fire appliances together with the identification of savings and increased investment income, the forecast shortfall over the MTFP period has reduced from £1.637M to £0.698M. However, this is based upon a number of assumptions which could turn out to be different affecting the forecast shortfall position.
32. Work has commenced on preparing the 2024/25 budget and MTFP and the assumptions will be updated as information becomes available. Further reports will be presented to the Committee prior to approval of the 2024/25 budget and MTFP at the meeting of the Fire Authority on 16 February 2024.

Recommendations

33. Members are requested to **note** the report.