Hereford & Worcester Fire Authority
14 October 2020

Report of the Treasurer

Medium Term Financial Plan (MTFP) Update

Purpose of report

1. To inform Members of actual and potential changes to the Medium Term Financial Plan (MTFP) to 2024/25.

Recommendation

The Treasurer recommends that the Authority:

(i) Notes that the forecast revenue out-turn would result in an in-year transfer to the Budget Reduction Reserve of £1.4m;

(ii) Notes the potential variations to the MTFP; and

(iii) **Reconfirms the strategy to hold the Budget Reduction Reserve against future budget uncertainty**.

Introduction and Background

2. This report follows on from the detailed Budget Monitoring revised MTFP provided to the Policy and Resources Committee on 16th September with updates where appropriate.

3. The report includes an assessment of the possible longer term impacts on the MTFP, although given the uncertainty of the Spending Review impacting on 2021/22 onwards, a full revision is proposed at this point.

Revenue Budget 2020/21

4. In February 2020 the Fire Authority set a Core Revenue Budget of £35.827m which, after funding by Precept, Business Rates and Grants required the use of £0.430m from the Budget Reduction Reserve.

5. At that meeting of the Authority, the Treasurer advised of late receipt of Business rate information from some of the Billing Authorities and the Authority agreed to use this gain to create a Sustainability Reserve. In addition the planned use of the property reserve was added to the budget with a result that the net draw on balances was amended to £0.342m, as below).

	£
Use of Balances : Feb 2020	(430,000)
Creation of Sustainability Reserve	309,935
Planned use of Property Reserve	(222,000)
	(342,065)

6. Against the revised budget a number of variations are now forecast, and these are summarised in the table below:

	£
WT Firefighter Pay	(400,000)
Pension Costs	40,000
2017 Pay Award Provision	(285,000)
MORSE funding - PCC	(47,000)
Other Misc. Grants	(22,635)
Covid-19 Grant	(690,234)
	(1,404,869)

7. Appendix 1 sets out the forecast variations against this revised budget, and the variations shown in Column (i) are explained below:

- -£0.400m: Wholetime pay – when the budget was prepared there was a significant chance that the backdated employer pension contributions relating to McCloud/Sargeant would be payable from 1st April 2020 and appropriate budget provision was made. It would now appear that this will not be the case and overall rates will be adjusted from the next rate change due in April 2022. There is therefore a short term gain, but this will need to be considered in the light of the MTFP impact.

- +£0.040m: Pension Costs – under the financial arrangements for firefighter pensions where there is an ill-health retirement, the Authority is required to make an additional one-off contribution spread over three years. As there are relatively few such events there is only a small budget and there are likely to be two cases this year and the cost will exceed the budget.

- -£0.285m: 2017 Pay Award – the Authority had been making provision for the interim July 2017 firefighter pay award to be increased from the 1% paid to the 2% originally offered. It now looks likely that any future settlement will not have any backdating elements so the provision (which had also been overestimated) can be removed.

- -£0.690m: Covid Grant – additional income. To meet any additional costs of dealing with Covid – including potential loss of income (which impacts on the MTFP).

- -£0.070m: Other Grant variations

- Whilst the Service has incurred costs in relation to Covid, in particular in PPE and cleaning materials etc., there have been other savings in respect of fuel, staff travel, subsistence, training materials etc. and at this stage it is anticipated that these costs will be contained within the total Running Costs budgets.

- There is also the potential that the slowdown in capital expenditure reported to the Committee will produce a financial saving in capital financing costs to be calculated at the next quarterly monitoring.

8. The net result of these changes is a change from a use of reserves to a potential transfer to reserves as below:

	£
Transfer to Balances	1,404,869
Less Planned Use of Balances	(342,065)
Revised Use of Balances	1,062,804

9. Whilst this is a significant figure, 49% of the variation relates to government grant for future costs and a further 28% to government changed timing of pension costs.

10. This variation, however, must be considered in the context of the MTFP.

Medium Term Financial Plan

11. In Feb 2020 the Fire Authority approved an MTFP up to 2024/25. Members will recall that this was set in the light of great uncertainty about future funding arrangements and included a significant range of scenarios. It was also set before the impact of Covid-19.

12. Appendix 1 (Rows 1-8) sets the approved MTFP and shows annual structural deficits of £0.3m - £0.7m, which can be covered by the Budget Reduction reserve, with £1.3m remaining as a buffer against funding changes etc., or which could have sustained the structural deficit for a further three years to 2027/28. It was also felt that the remaining structural gap might have been closed by slight improvements on the council tax base (above the cautious assumptions).

13. There have subsequently been some significant changes which will impact on this position (regardless of the outcome of the government's Spending Review). Some of these are known with values that can be calculated and others are known but only an estimate can be made.

14. Appendix 1 (Rows 10-19) shows the more quantifiable changes and these are summarised below:

    - Business Rate yield, already referred to above. The ongoing impact is lower as a large part of the 2020/21 gain is a collection fund surplus which won't be sustained. The 2020/21 Column shows the use of the gain to create the Sustainability Reserve

    - Ill-health retirement charges, already referred to above

    - Other Grant/Income variation, already referred to above

    - McLoud/Sargeant Employer Contributions. Short-term saving has been referred to above although the revised rates from 2022/23 will recover these costs. It is not possible to estimate what this impact might be as it will be smoothed out across all Fire Authorities, but as a planning assumption it has been prudent to assume the same impact as already provided.

- Provision for the back-dating of the July 2017 pay award. It has been concluded that this is now unlikely to happen. The Authority will have to consider how the reserve built up to date (£0.837m) will be used.

- Fire Control. The MTFP included a prudently costed potential saving of Fire Control costs through collaboration with either/or both Shropshire & Wrekin Fire Authority and West Mercia Police. It is now apparent that the expected impact of meeting the recommendations of both the Grenfell and Kerslake enquiries will actually absorb this saving.

- Finally, there was a minor error in the approved MTFP which underestimated the Council Tax yield in 2024/25 by £0.3m.

15. There are, however, a number of other significant impacts which, whilst known, are to quantify exactly at present, but which will have a major impact on resources. These are shown in lines 21-24 and are explained below:

    - Council Tax Collection Fund losses as a result of Covid. Early estimates from the Billing Authorities were that the figure was around the national average loss of around 4%, which equates to just under £1m for the Fire Authority. Government has indicated that it will make Regulations to allow this loss to be spread over three years rather than being met in 2021/2 as would currently be required.

    - Council Tax Base – there will be two causes for this; one is the slow down in the number of new properties being completed and added to the tax-base and the other is from a potential increase in the number of claimants of council tax support. As yet, there is no data on this, so a planning assumption has been made that future growth is all delayed by one year.

    - This Business Rate deficit is harder to project as last minute changes by government significantly changed the tax-base that Billing Authorities will collect tax from, compared to that on which they estimated and will pay to the Preceptors. In other words, a significant proportion of the payments that are paid to the Fire Authority are now funded by grant to the Billing Authorities rather than collected from tax-payers. However, an assumption based on national projections of 12% has been used.

    - There is also the potential that the economic impact of Covid-19 will lead to a reduction in the tax-base. No data is yet available on this and the impact may be felt more in the retail sector which is currently subject to significant one-off reliefs. As a marker a 10% reduction has been modelled.

16. All the above would significantly increase the Structural Gap to just below £0.7m (Column h/Row 25) in 2024/25, with sufficient Budget Reduction Reserve available to close the gap up to that point, but would leave nothing in reserve to buffer any Spending Review changes.

17. The joint Home Office and NFCC submission to the Spending Review calls on government to give what is euphemistically called precept "flexibility". This would be to allow Fire Authorities to choose to increase precept by up to £5 (5.8% for H&WFA) in 2021/22. Appendix 1 (Rows 31-38) shows the potential impact of this,

which actually results in a structural surplus by 2024/25 and an increase in the Budget Reduction Reserve. It should be noted however, that government has not previously looked favourably on this request from Fire Authorities, even with Home Office support.

18. In addition to the above and the potential variations within the approved MTFP (as considered by the Fire Authority in Feb 2020) we have yet to see the government's final approach to council tax and business rate income loss across the whole local government sector.

19. As a result of this uncertainty it is recommended that no formal change is made to the MTFP at this stage.

20. Appendix 2 shows the potential impact of these changes (including the 2019/20 out-turn variation) on the level of balances over the period. Please note that these do not include any precept flexibility.

Conclusion

21. Members will recall that the MTFP approved in February 2020 was based on significant uncertainty, and the strategy adopted was to hold the Budget Reduction Reserve until there was more certainty. The quantum of the potential changes has had a major impact on this uncertainty.

22. The strategy of holding reserves has proved sound as it would allow the Authority to absorb most of this potential impact over the MTFP period, although this leaves little in reserve for the underlying uncertainty and still results in a bigger structural budget gap at the end of the period.

23. The illustrated example of precept flexibility, which results in a budget surplus, further demonstrates the range of future outcomes.

24. Given that the possibility of another one year settlement is once again being discussed it remains prudent to hold balances until there is more information and certainty about the future.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	Whole Report
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	None
Consultation (identify any public or other consultation that has been carried out on this matter)	None
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	None – N/A

Supporting Information
Appendix 1- Potential Changes to MTFP
Appendix 2 – Potential Impact on Reserves