

Report to	North Wales Fire and Rescue Authority
Date	17 December 2018
Lead Officer	Treasurer
Contact Officer	Ken Finch
Subject	Medium Term Financial Strategy 2019/22 and Budget 2019/20



PURPOSE OF REPORT

- 1 To present to Members the Medium Term Financial Strategy 2019/22 and the draft revenue and capital budgets 2019/20.

EXECUTIVE SUMMARY

- 2 The Fire and Rescue Authority (FRA) is required to set a balanced budget in December each year. This report sets out the draft revenue and capital budget for 2019/20 and the medium term financial strategy (MTFS).
- 3 This report outlines the key risks and uncertainties identified during the budget planning process and confirms the key assumptions made. The report confirms a means to fund the current level of service provision in the short term.

RECOMMENDATIONS

- 4 That Members:
 - (i) approve the capital and revenue budgets for 2019/20 based on an increase in contributions from constituent authorities of £1.7m; and
 - (ii) endorse the Medium Term Financial Strategy.

BACKGROUND

- 5 An effective organisation needs to have in place a number of corporate plans to ensure its overall strategy and improvement plans are delivered. The MTFS supports these plans and ensures that resources are directed at the areas that have been prioritised by the FRA. Production of a MTFS ensures a strategic approach is taken towards planning budgets and funding over a longer term so any proposed changes can be managed over time to ensure a smooth transition.

- 6 The FRA contributed to the austerity measures and during 2010/2017 the Authority identified savings of £3m (10% of its budget) and reduced its workforce by 9% across its staff groups.
- 7 When the budget for 2017/18 was considered, Members realised that it was becoming unsustainable to continue to try to freeze the FRA's budget and therefore, at the FRA meeting on 20 March 2017, Members agreed to endorse the FRA's draft improvement objectives for 2017/18. The second of those objectives sets out a suggested financial strategy on which the Authority could base its next MTFs, as follows:

"To secure the FRA's financial sustainability by adopting a 3-year financial strategy that combines the use of reserves, increasing financial contributions and making service reductions."
- 8 In 2017/18, the first year of this strategy, the previous FRA had agreed to increase the financial contributions from the constituent authorities by £1.28 million, an increase of 4%. This was the first significant increase since 2010. However, this was less than was required to meet increasing pay, price and capital funding costs. It was, therefore, decided to underpin the 2017/18 budget through utilising reserves. During 2018/19 expenditure increased by £0.9m which was funded through an increase in contributions from constituent authorities of £0.3m with the balance of £0.6m being met from reserves.
- 9 The initial planning assessment for 2019/20 identified a net budget requirement of £35.4m compared to £34.1m for 2018/19. This represents a year on year increase of £1.3m in net expenditure. During 2018/19 the FRA utilised £0.65m from reserves to fund running costs which is not sustainable. The initial planning assessment indicated that the required increase in contributions from constituent authorities for 2019/20 would, therefore, be £1.9m.
- 10 The Planning Working Group met on five occasions between January and April 2018 to consider various options for the management of the increase. The recommendation of the Working Group was for the FRA to consult on a budget constructed on the current level of service provision. The FRA accepted this recommendation and the public consultation commenced during September 2018.

DRAFT REVENUE AND CAPITAL BUDGET 2019/20

- 11 The public consultation on the budget proposals for 2019/20 closed on 2 November 2018. Of the respondents, 61% indicated that an increase in council contributions of £1.9m was preferable to a reduction in services. A further 24% indicated that services should be maintained although the FRS should try to reduce the increase. The draft revenue budget has been developed using current service provision, mindful of the need to reduce the increase to constituent authorities to less than £1.9m.
- 12 The budget planning assumptions and risks are outlined in appendix A. Inflationary pressures are most significant in relation to employee costs. The current planning assessment assumes a pay award of 2%, although it is noted that the National Joint Council (NJC) negotiations for pay settlement for 2018 onwards have not been concluded. The FBU is seeking an increase of 17% which would give rise to a cost pressure of £1.8m. A further risk relates to the employer pension contributions for firefighters which will increase by 9.6% following the recent revaluation by the Government Actuary's Department. The impact is estimated to be £1.2m per annum and the current budget assumption for 2019/20 is that the increase will be centrally funded.
- 13 An inflationary increase has not been applied to non-pay budgets for a number of years. As part of the budget setting process the specific risks within each budget heading have been considered.
- 14 Capital financing costs include the costs of borrowing and revenue charges for using capital assets. A rise in Bank of England base rates is anticipated during 2019/20 and this has been factored into the budget. A review of the capital programme has been undertaken to identify opportunities for reducing or deferring capital expenditure.
- 15 The detailed budget planning work outlined above has identified a net budget requirement of £35.2m which is a year on year increase in net expenditure of £1.1m. A further breakdown by budget heading is provided within appendix 2.
- 16 The FRA is not holding sufficient reserves to support ongoing running costs and the draft budget would require an increase of £1.7m from constituent authorities. This is less than the initial assessment of £1.9m reflecting measures taken as part of the budget setting process. The final proposed contribution from each constituent authority is provided within appendix C.

- 17 The initial capital assessment indicated a capital requirement of £4.9m for 2019/20. Action taken to review and re-profile the capital programme has reduced the proposed draft capital plan for 2019/20 to £3.1m.

MEDIUM TERM FINANCIAL STRATEGY 2019/22 (MTFS)

- 18 The draft MTFS is provided within appendix B and is an assessment of the costs associated with maintaining the current level of service provision. Employee related expenditure remains the main cost driver and the medium term financial strategy is based on a planning assumption of a 2% pay award.
- 19 The matters identified within appendix A are the key risks and uncertainties relating to the MTFS. The current planning assumption for the MTFS is that pay awards in excess of 2% and the additional pension costs arising from the GAD valuation will be centrally funded.

IMPLICATIONS

Wellbeing Objectives	The budget enables the Authority to achieve its long-term well-being objectives which are: <ul style="list-style-type: none"> • To support people to prevent accidental dwelling fires and stay safe if they do occur; • To facilitate high quality, responsive and better integrated fire and rescue services so that prevention activity and emergency response can continue to be available when and where required, affordably, equitably and on the basis of risk.
Budget	The current estimate of the difference between the revenue budget for the current financial year and the requirement for 2019/20 is £1.1 million.
Legal	The Authority has a legal duty to set a balanced revenue budget.
Staffing	None
Equalities/Human Rights/Welsh Language	None
Risks	There is a risk that the pay award for firefighters is agreed at above 2% and will not be fully funded by the Welsh Government. The risk that the increase of 9.6% in employer pension costs will not be centrally funded.

Summary of planning assumptions and risks

Heading	Percentage of net expenditure	Planning assumptions	Risks and uncertainties
Employee costs	71%	<ul style="list-style-type: none"> • No significant changes to staffing structures are anticipated • Original planning assumptions for 2018/19 included a cost of living increase of 1%. The current working assumption is that pay inflation will be 2% over the period of the MTFS • No increases in national insurance contributions are anticipated • The planning assumption for the MTFS is that employer contribution rates will remain unchanged. 	<ul style="list-style-type: none"> • The Government Actuary's Department has provided the outcome from its 2016 valuation of the Firefighters' Pension Schemes. This has highlighted a significant increase in employer contributions arising from changes in the discounts rates used. The current planning assumption is that the increase of 9.6% in employer contributions will be funded by Government for the period of the MTFS although this remains a key risk • The National Joint Council (NJC) has not yet finalised the ongoing pay negotiations for 2018 onwards. The FBU is seeking an increase of 17% to include a review of firefighter role maps. There is a risk that increases above 2% will not be fully funded by Government.
Non Pay	20%	<ul style="list-style-type: none"> • An inflationary increase has not been applied and budget managers are required to find savings to mitigate general cost pressures. 	<ul style="list-style-type: none"> • Cost pressures are being experienced in a number of areas including ICT and Estates • The uncertainty associated with Brexit remains a key risk.
Capital Financing	10%	<ul style="list-style-type: none"> • The original planning assessment included a capital programme for 2019/20 of £4.9m. The capital programme has been reduced over the period of the MTFS giving rise to reductions in capital financing. • An increase in interest rates has been factored into the budget planning 	<ul style="list-style-type: none"> • The potential increase in interest rates is unknown and may exceed planning assumptions.
Income	-1%	<ul style="list-style-type: none"> • Income budgets have been reviewed and set in line with previous years. 	<ul style="list-style-type: none"> • No specific risks have been identified.