



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 19/40

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	30 September 2019
SUBJECT OF THE REPORT	Medium Term Finance Plan
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For endorsement and approval
EXECUTIVE SUMMARY	<p>This paper provides a financial update for Members as we approach the 2020-21 budget round.</p> <p>The paper looks at the current principles used for financial planning, provides an update on expectations around future funding, including headlines from the recent Spending Round announcement, and how this might impact on the medium term finance plan. The work currently being undertaken to address our forecast future budget gaps is outlined in Section 5.</p> <p>As the paper shows, the future funding picture remains uncertain, and it is unlikely that this will become clearer until later on in 2020 when a full Spending Review has taken place. All of this makes it difficult for us to develop and deliver a sustainable Community Safety Plan for our communities.</p>
RISK ASSESSMENT	Financial sustainability remains a key focus as a strategic risk, and as such the establishment of a robust financial outlook and financial position is a critically important for financial planning and decision making for the Authority.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report

BUDGET IMPLICATIONS	The report outlines a number of potential future funding scenarios as we begin to develop the next budget and medium term finance plan.
RECOMMENDATIONS	Members are asked to: 1. Note and comment on the content of the report
BACKGROUND PAPERS	Medium Term Finance Plan 2019-20 to 2022-23 Budget 2019-20 (Authority paper 12 February 2019)
APPENDICES	None
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1. Introduction

- 1.1 This paper explains the key financial planning issues for the Authority, covering:
- the current issues with regards to future funding
 - the financial principles that the Authority has adopted to develop its budget and medium term finance plan
 - what does the current medium term finance plan tell us?
 - what are our plans to address the forecast future financial deficits?

2. Future funding

- 2.1 2019-20 was the fourth and final year of the settlement relating to the 2015 Spending Review. The Government has been committed to reviewing the funding mechanism for all local authorities, moving towards a new Fair Funding Formula and introducing changes to the Business Rates Retention (BRR) scheme. In terms of BRR, this was originally looking at a 100% rates retention scheme but has more recently moved towards a 75% rates retention model.
- 2.2 For 2019-20, 59% of fire funding nationally comes from council tax, 24% from business rates, 13% from grants, and the remainder from general income. The move to 75% business rates retention will reduce grant income further and increase the reliance on business rates. Under the current system Fire receives 1% of business rates and a Top-Up grant from the Ministry for Housing, Communities and Local Government (MHCLG). The BRR system will be changing quite significantly, with the intention of reducing the volatility in the current system, but the impact on Fire is not clear yet.
- 2.3 The Government had also indicated that there would be a new multi-year Spending Review taking place in 2019. On 8 August the Chancellor announced that there would be a fast tracked one-year Spending Round covering 2020-21 only and the Spending Round announcement was made on 4 September.
- 2.4 From what we know so far, the main headlines for Fire from the Spending Round announcement are:
- Settlement Funding Assessment totals for 2020-21 will increase in line with inflation. Individual authority allocations will not be confirmed until the provisional Local Government Finance Settlement is announced later in the year

- Decisions on council tax precept will be subject to a consultation which will be launched shortly. The Spending Round assumes a core 2% referendum limit
- Decisions on specific grant funding from the Home Office will be made as part of the allocations process that will now follow the Spending Round. This will include consideration of the fire pensions grant, National Resilience grants, Emergency Services Network and other Home Office fire funding streams. The pensions grant will continue in to 2020-21 at the very least, although it is not yet clear whether it will also increase in line with inflation. We are planning on the assumption that we receive the same in cash terms as we have received in 2019-20
- MHCLG have confirmed that their intention to introduce the 75% BRR scheme and the Fair Funding Review from 2021-22.

2.5 Whilst the news around funding for 2020-21 is welcome and encouraging, a one-year settlement does little to help with our medium term financial planning and makes it hard to be clear about timescales for the Service changes that will be required to deal with forecast budget gaps. The longer-term picture will not now become clear until a full, multi-year Spending Review, is carried out in 2020.

3. Financial Principles

3.1 Our current set of nine financial principles on which our budget and medium term finance plan are based were set in 2018. The current principles are summarised below, and with the exception of Principles 1 and 2, remain fit for purpose. They will be used in the forthcoming budget setting process and remain in place until there is reasonable evidence to suggest that they should be updated. Principles 1 and 2 can be updated following the Spending Round announcement:

<p>Government funding</p> <p><i>These Principles will be updated once we have confirmation of actual funding for 2020-21</i></p>	<p>Principle 1 – <i>Government settlement funding assessment reduction of 2.3% in 2019-20, as provisionally stated in the previous finance settlements</i></p> <p>Principle 2 - <i>Further central Government settlement funding assessment reductions of 5% per annum beyond 2019-20.</i></p>
<p>Taxbase (equivalent band D properties)</p>	<p>Principle 3 - <i>Taxbase increases of 1.5% per annum.</i></p>

Fire precept band D (council tax) and referendum thresholds	<p>Principle 4 - Referendum thresholds of 3% for 2019-20, 2% each year thereafter</p> <p>Principle 5 - Fire precept band D council tax increases of 2.99% for 2019-20, and 1.99% per annum thereafter.</p>
Collection Fund balances	Principle 6 – Minimum surplus on collection fund balances of £250k per annum.
Pay awards and inflation	Principle 7 - Pay awards are assumed at 2% per annum (unless otherwise agreed), and non-pay inflation at 1% each year.
Budget gaps and General Balances	<p>Principle 8 - Any residual revenue budget gap will require funding from the use of reserves.</p> <p>Principle 9 - Maintain General Balances at 5% or £2.5m, transferring excess balances above 5% or £2.5m to the transformational improvement reserve.</p>

4. Medium Term Finance Plan

- 4.1 The current medium term finance plan (MTFP) covers the period to 2022-23 and is based on the financial principles previously agreed. Prior to the Spending Round announcement this indicated budget deficits starting at £0.942m in 2020-21, and rising to £2.203m by 2022-23, as shown below:

	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Council tax increase	2.99%	1.99%	1.99%	1.99%
Council tax	£74.87	£76.36	£77.88	£79.43
Council tax funding	£41.209	£42.659	£44.161	£45.715
Collection fund surplus	£0.554	£0.250	£0.250	£0.250
Settlement funding	£14.082	£13.378	£12.709	£12.074
Total funding	£55.845	£56.287	£57.120	£58.039
Estimated Service Budget	£55.845	£57.229	£58.783	£60.242
Budget surplus (+) / deficit (-)	£0.000	-£0.942	-£1.663	-£2.203

- 4.2 This MTFP forecast assumes that total settlement funding will reduce by 5% year on year. This has been our working assumption for some time now, but we have also been looking at other potential options for funding reductions. The two tables below show a couple of possibilities. Firstly, the impact of an average 10% reduction over the next three years:

Impact of 10% settlement funding reduction over 3 years	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Council tax increase	2.99%	1.99%	1.99%	1.99%
Council tax	£74.87	£76.36	£77.88	£79.43
Additional settlement funding	£0.000	£0.235	£0.450	£0.647
Budget surplus (+) / deficit (-)	£0.000	-£0.707	-£1.213	-£1.557

and secondly the impact of a flat cash settlement i.e. the same level of cash funding as in 2019-20.

Impact of flat cash settlement	2019-20	2020-21	2021-22	2022-23
	£m	£m	£m	£m
Council tax increase	2.99%	1.99%	1.99%	1.99%
Council tax	£74.87	£76.36	£77.88	£79.43
Additional settlement funding	£0.000	£0.704	£1.373	£2.008
Budget surplus (+) / deficit (-)	£0.000	-£0.238	-£0.290	-£0.195

- 4.3 Moving now to consider council tax funding, the Authority has been lobbying for increased flexibility on council tax levels for some time now, with a £5 de-minimis increase for fire the favoured option. Looking at the 2020-21 financial year, a £5 council tax uplift would provide almost £2m of additional funding. Such an increase would have a dramatic positive impact on the financial position of the Authority.
- 4.4 The continuation of the 2.99% referendum principle applying for the last two years could have a similarly positive impact, if applied over a three-year period, raising an additional £1.36m by the third year. It remains to be seen whether there will be any support within Government for any increased council tax flexibility. The Spending Round headline of a core 2% referendum principle suggests not.
- 4.5 All of the above scenarios assume the continuation of current pensions funding. Our budget estimated additional costs of £2.6m for 2019-20, based on average employer contributions increasing from 17.6% to 30.2%, or 12.6 percentage points. Grant funding of £2.3m was expected to mitigate most of this increase. Actual contribution rates increased by more than 12.6

percentage points on average, with the estimate additional cost rising to around £3m. The Government provided additional funding for 2019-20, with our grant increased to £2.7m. Whilst we expect some form of grant to continue, at least for 2020-21, future years remain uncertain and this represents a significant financial risk for fire authorities. Even with the most optimistic funding scenarios, removal of the pensions funding would require significant cuts to the Service budget to bridge the likely budget deficits. The lack of a full Spending Review will mean that this uncertainty is unlikely to be removed until later in 2020.

5. Addressing the deficit

- 5.1 As section 4 demonstrates, relatively small changes to funding variables, for example a referendum limit of 2.99% instead of 1.99%, can have quite a significant impact on our forecast budget position. The current uncertain picture of long-term funding makes it difficult for us to develop a sustainable Community Safety Plan.
- 5.2 Against the backdrop of this uncertainty, Officers are currently developing a range of savings options through the work of the Emergency Cover Review Group (ECRG). The options being looked at are guided by the Integrated Risk Management Principles that the Authority has adopted. The ECRG work will provide a range of possible options for service delivery changes, with each option clearly setting out the level of savings that can be achieved, any risks associated with the option and the likely timescales required to deliver. This all needs to be mindful of when savings are required, as predicted in the MTFP, as well as the impact of staffing profiles and our workforce planning requirements.
- 5.3 Officers are also working on the development of a new efficiency plan. This will include a programme of work to review key areas of spend to ensure that all opportunities for efficiency are maximised, before any fundamental changes to the service delivery model are implemented.
- 5.4 This work includes the development of a value for money framework and recording template so that we can demonstrate the wider societal savings that the Service is contributing. Whilst not always delivering cashable savings, this is an important area of work to show the impact that Fire has in wider economic terms and supports the national business case for a long-term sustainable funding model.

5.5 The Authority seminar in December will bring all of this work together, covering:

- An update on financial principles and assumptions
- What savings and efficiencies have been delivered to date, and plans for the future
- Our current financial position and medium-term outlook, and
- An overview of the work being delivered by the ECRG.

This will be an important milestone as we start to finalise our budget plans and the next MTFP in readiness for the Authority meeting on 12 February 2020.

6. Summary and Key Points

- 6.1 As the paper has outlined, the future funding picture remains uncertain, although the recent Spending Round announcement will, hopefully, mean positive news about funding for 2020-21. The lack of a full multi-year Spending Review is disappointing and makes it difficult for us to develop and deliver a sustainable Community Safety Plan.
- 6.2 Officers are currently working on plans to address our forecast future budget gaps and this work will be brought together for Members at the seminar planned for December.

September 2019