



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 20/31

MEETING	Dorset & Wiltshire Fire and Rescue Authority
DATE OF MEETING	30 September 2020
SUBJECT OF THE REPORT	Strategic Financial Update
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For consideration and approval
EXECUTIVE SUMMARY	<p>This paper provides a strategic financial update for Members as we approach the 2021-22 budget round. It looks at our current financial planning assumptions; provides an update on expectations around future funding, including the economic impact of the coronavirus pandemic and the forthcoming Comprehensive Spending Review (CSR). As well as setting out how this might impact on the Medium Term Finance Plan (MTFP), the paper outlines the work currently being undertaken by Officers to address our forecast future budget gap.</p>
RISK ASSESSMENT	<p>Financial sustainability remains a significant strategic risk that is increasing as a consequence of the coronavirus pandemic. As such the establishment of a robust financial outlook and financial position is critically important for financial planning and decision making for the Authority.</p>
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	<p>The report outlines a number of potential future funding scenarios as we begin to develop the next budget and Medium Term Finance Plan.</p>

RECOMMENDATIONS	Members are asked to: <ol style="list-style-type: none">1. Note and consider the content of the report2. Approve the changes to Financial Principles outlined in paragraph 2.2 and Appendix A.
BACKGROUND PAPERS	Medium Term Finance Plan 2020-21 to 2023-24 Budget 2020-21 (Authority paper 12 February 2020)
APPENDICES	Appendix A – Financial Principles Appendix B – NFCC/LGA Fire Spending Review Proposal
REPORT ORIGINATOR AND CONTACT	Name: Ian Cotter, Head of Financial Services & Treasurer Email: ian.cotter@dwfire.org.uk Tel no: 01722 691109

1. Introduction

1.1 This paper outlines the key financial planning issues for the Authority, covering:

- what does the current Medium Term Finance Plan tell us?
- the current issues with regards to the financial fallout from the coronavirus pandemic and how this might impact future funding, along with the Comprehensive Spending Review
- what are our plans to address the forecast future financial deficits?

2. Current Medium Term Finance Plan

2.1 The current Medium Term Finance Plan covers the period to the 2023-24 financial year. Based on the financial principles outlined in Appendix A this indicates budget deficits starting at £1.5m in 2021-22, and rising to £3m by 2023-24, as shown below:

	2020-21	2021-22	2022-23	2023-24
	£m	£m	£m	£m
Council tax increase	1.99%	1.99%	1.99%	1.99%
Taxbase increase	0.88%	1.50%	1.50%	1.50%
Council tax	£76.36	£77.88	£79.43	£81.01
Council tax funding	£42.397	£43.890	£45.434	£47.033
Collection fund surplus	£0.176	£0.250	£0.250	£0.250
Settlement funding	£14.311	£13.595	£12.916	£12.270
Funding change	+1.6%	-5.0%	-5.0%	-5.0%
Total funding	£56.884	£57.735	£58.600	£59.553
Pay awards	2%	2%	2%	2%
Estimated Service Budget	£56.884	£59.241	£61.103	£62.605
Budget surplus (+) / deficit (-)	£0.000	-£1.506	-£2.503	-£3.052

2.2 Officers have been reviewing the agreed financial principles, with the assumptions for future taxbase increases and collection fund balances already being questioned in light of recent experience, before considering the impact of the coronavirus pandemic. Reducing the taxbase assumption down to 1% each year and removing the assumption about collection fund surpluses would bring us in to line with the general pre-coronavirus assumptions made by our four local authorities, which range from 0.75% to 1% taxbase increases and no collection fund surplus or deficit. Both changes are recommended as prudent approaches.

- 2.3 Our future pay award assumptions may also need to be revised. For 2020, operational staff have just accepted a 2% pay award (applying from July 2020), which is in line with the MTFP assumption, and a 2.75% pay award has recently been agreed for corporate staff (applying from April 2020). This increased award for corporate staff will add an additional £90k to the budget requirement. Each 1% pay award variation equates to roughly £450k if applied to all staff groups and there remains significant pressure for pay awards above 2% in future years.
- 2.4 The future of pensions funding following the Government's recent actuarial review remains a significant financial risk for fire and rescue authorities. Our budget assumptions include continuation of the £2.7m Home Office grant provided to offset most of the impact of the April 2019 employer contributions increase. Currently, however, there is no commitment to this funding continuing after 2020-21. Any removal of the pensions funding would have a significant detrimental impact on our budget. We are also waiting for clarity on the cost implications of the McCloud pension judgement. This is likely to see a further increase in employer contributions.

3. Impact of the coronavirus pandemic

- 3.1 Whilst the coronavirus pandemic has already had a major financial impact worldwide, we are yet to fully understand the longer-term economic impact and how this may shape the future of public services, such as the fire and rescue service.
- 3.2 Recent commentary in the public finance press suggests that, amongst major European nations, UK local authorities are likely to see the worst financial effects of the coronavirus pandemic. It is suggested that pre-coronavirus financial performance was relatively weak and authorities faced challenging decisions on spending cuts or use of reserves to balance budgets. Although we are somewhat shielded from the most significant cost pressures and drops in general income experienced by local authorities, we can nevertheless expect some costs to rise, such as property maintenance and repair costs and vehicle purchase prices.
- 3.3 A series of immediate measures have been put in place by the Government to mitigate the initial financial impact. Those that are particularly relevant or have impact on fire and rescue authorities include:
- £3.2 billion one-off funding boost for immediate cost pressures.
 - A number of grant funding streams have been paid early to assist with cashflow
 - Expanded business rates discount scheme
 - Legislation had been put in place to bring the next Business Rates Revaluation forward from 2022 to 2021. This has now been postponed
 - The deadline for publication of statutory financial statements has been extended to 30 November 2020

- The government has confirmed that the Review of Relative Needs and Resource and 75% business rates retention will no longer be implemented in 2021-22
- Legislation is planned to allow local authorities to spread any 2020-21 collection fund deficits over a three-year period (2021-22 to 2023-24) instead of a 100% impact on 2021-22.

- 3.4 These measures have undoubtedly helped us in this initial phase of response. From the £3.2 billion funding provided by MHCLG our share is £1.3m. This is un-ringfenced grant funding which we have been using in support of local response arrangements. We currently estimate that we will have spent £800k of this funding by March 2021.
- 3.5 The more significant financial impact of the coronavirus pandemic for us will be seen from 2021-22 onwards, and in particular, the impact on the collection of council tax and business rates income. Council tax represents 75% of our total funding leaving us particularly vulnerable to a drop in receipts. It is still too early to accurately predict what this impact could be in overall terms, but to give an indication, a council tax collection fund deficit of 3%-4% would equate to a financial loss of between £1.3m and £1.7m. We will, however, be able to spread this loss over three years, rather than funding all in one year. Reducing our assumption about future taxbase growth, as indicated in paragraph 2.2, has a cumulative effect of reducing funding by something approaching a further £700k by 2023-24. We are continuing to monitor the situation closely.
- 3.6 In terms of the current 2020-21 financial year the first quarter financial report to the Finance & Audit Committee this month shows a favourable short-term position. This will help to mitigate some of the significant adverse financial impact we expect to see, particularly for the 2021-22 financial year. Overall, the report indicates a potential underspend of £2.7m. This includes the coronavirus grant funding and current spending profile, and short-term savings in some areas, such as recruitment, fuel and mileage allowances, prevention and training, where there has inevitably been a slowdown in activity. Employee costs are currently projected to be 2% below budget and overall funding is slightly better than expected.

4. Comprehensive Spending Review

- 4.1 Whilst the Government had been committed to a new multi-year Spending Review in 2019, this was postponed in light of national political changes. In August last year the Chancellor announced that there would instead be a fast tracked one-year Spending Round covering 2020-21 only, with a full Spending Review taking place in 2020.

- 4.2 As Members are aware, the Local Government Finance Settlement announced in February 2020 confirmed that all fire and rescue authorities would receive a 1.6% increase in their settlement funding assessment in 2020-21, which was welcome news. The continued uncertainty over longer-term funding, however, did little to help with our medium term financial planning. The current MTFP continues to assume that Government funding will reduce by 5% year on year from 2021-22 to 2023-24 and this removes £2m from base funding over that period. If this were to improve, perhaps to a flat-cash settlement (i.e. the same government grant as the previous year), we would be in a much stronger financial position. The Fire Spending Review Proposal document developed by the Local Government Association (LGA) and National Fire Chiefs Council (NFCC) (Appendix A) is seeking inflation increases to government grant of just over 2% each year, which equates to £3m of additional base funding over 3 years for this Authority, compared to the 5% reduction.
- 4.3 It had previously been thought that the planned Spending Review 2020 could be postponed as a result of the coronavirus pandemic, with a further one-year Spending Round being implemented for 2021-22 only. However, in July the Chancellor formally launched the 2020 Comprehensive Spending Review, which we understand will set revenue funding for 2021-22 to 2023-24 and capital funding for 2021-22 to 2024-25.
- 4.4 For the first time in a number of years, the sector, through the LGA and NFCC, has submitted a joint submission setting out the request for long-term funding. This covers three key elements:
- The base case for Fire and Rescue funding – looking to secure an inflation increase in core funding
 - Significant cost pressures – pay and pensions, the impact of the coronavirus pandemic on council tax and business rates income, funding the replacement of national resilience assets and funding the emergency services network project
 - Improvement activity arising from the Grenfell Tower Public Inquiry and the Dame Judith Hackitt review of building regulations and fire safety– particularly focused on ensuring that the one-off grant funding provided in 2020-21 becomes part of base funding in future years.
- 4.5 The LGA/NFCC submission also references the need to allow local council tax flexibility with a £5 referendum threshold for Band D. As Members are aware, for some time, we have continued to lobby for this increased flexibility on council tax levels, with a series of meetings taking place with local MPs. The importance of this local flexibility in the fire precept cannot be underestimated. Looking at the

2021-22 financial year, a £5 council tax uplift would provide £2m of additional funding, a dramatic positive impact on the financial position of the Authority. It remains to be seen whether there will be any support within Government for such a measure.

- 4.6 We expect the headline messages and outcomes from the CSR to be published in October at the earliest, but the detail of individual settlements and referendum thresholds for fire precepts will not be clear until the Provisional Local Government Finance Settlement is published. This could happen as late as the final parliamentary day before Christmas. We will update Members with as much detail as possible at the December Authority meeting.

5. Resourcing and Savings Programme

- 5.1 Given the level of financial uncertainty, and the forecast financial deficits indicated in the current MTFP, Officers were already undertaking a comprehensive, Service-wide financial review, as a lead into budget setting for 2021-22, and to support the next Community Safety Plan.
- 5.2 This review process was initially paused as we began dealing with the impact of the coronavirus pandemic, but it is now back on track. For planning purposes at the current time, we are using a working assumption that we need to find base budget savings of between £2 million and £2.5 million from 2021/22.
- 5.3 The Resourcing and Savings Programme looks to review all options for future savings and efficiencies. The areas of work included in the programme cover:
- Departmental Functional Reviews across all areas of the Service
 - Smarter Working
 - Capital Programme and capital financing
 - Harmonisation of remaining aspects of community safety
 - Emergency Cover changes aligned to the agreed IRMP principles.
- 5.4 A range of scalable options are being considered, with capacity to deliver savings at a variety of levels, depending on financial need.
- 5.5 A comprehensive planning timetable has been developed to manage the programme of work. Key milestones within the timetable are:

30 September 2020	Strategic financial update
4 November 2020	Resourcing & Savings Programme Chairs Briefing
10 December 2020	All Members Finance Seminar
Late December	Provisional Local Government Finance Settlement

13 January 2021	All Members Finance Seminar
11 February 2021	2021-22 Revenue Budget & Capital Programme 2021-22 to 2024-25 MTFP Draft Community Safety Plan 2021-2024
16 June 2021	Final Community Safety Plan 2021-2024

- 5.6 At the Authority seminar in December, Members will be provided with an outline of our draft financial plans for 2021-22 to 2024-25 for further discussion. This will be an important milestone as we start to finalise the draft Community Safety Plan, our budget plans and the next MTFP, in readiness for the Authority meeting on 11 February 2021.

6. Summary and key points

- 6.1 As the paper has outlined, the future funding picture remains uncertain, although we hope for some clarity on Government funding for the next three years when the CSR concludes. The longer-term impact of the coronavirus pandemic is not yet known, but we hope to understand more of the local funding impact in the coming months.
- 6.2 Officers are currently working on plans to address our forecast future budget gaps, through the Resourcing and Savings Programme and this work will be brought together for Members at the seminar planned for December.

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Financial Principles

Government funding	Principle 1 - <i>Further central Government settlement funding assessment reductions of 5% per annum beyond 2020-21.</i>
Taxable (equivalent band D properties)	Principle 2 - <i>Taxbase increases of 1.5% per annum.</i> <i>Taxbase increases of 1% per annum.</i>
Fire precept band D (council tax) and referendum thresholds	Principle 3 - <i>Referendum threshold of 2% for 2020-21 and each year thereafter.</i> Principle 4 - <i>Fire precept band D council tax increases of 1.99% for 2020-21 and each year thereafter.</i>
Collection Fund balances	Principle 5 – <i>Minimum surplus on collection fund balances of £250k per annum.</i> Removed
Pay awards and inflation	Principle 6 - <i>Pay awards are assumed at 2% per annum (unless otherwise agreed), and non-pay inflation at 1% each year.</i>
Budget gaps and General Balances	Principle 7 - <i>Any residual revenue budget gap will require funding from the use of reserves.</i> Principle 8 - <i>Maintain General Balances at 5% of revenue budget or £2.5m.</i>