

Report to	Fire and Rescue Authority
Date	18 December 2017
Lead Officer	Treasurer
Contact Officer	Ken Finch
Subject	Medium Term Financial Strategy 2018-2021 and Budget 2018-2019



PURPOSE OF REPORT

- 1 To present to Members the Medium Term Financial Strategy 2018-2021 and the draft budget 2018-2019.

EXECUTIVE SUMMARY

- 2 This report sets out the Authority's Medium Term Financial Strategy (MTFS) and sets out the pay assumptions used in constructing the Authority's draft revenue budget for 2018-2019. Pay is just one of the unknown factors in setting a balanced budget for next year. This report outlines those risks and uncertainties and suggests a means to fund the current level of service provision in the short term.

RECOMMENDATIONS

- 3 That Members:
 - a. endorse the Medium Term Financial Strategy
 - b. approve the Capital and Revenue Budget for 2018-2019 based on an increase in contributions from the Constituent Authorities of not more than 1.5% with a balancing contribution from General reserves.

BACKGROUND

- 4 An effective organisation needs to have in place a number of corporate plans to ensure its overall strategy and improvement plans are delivered. The Authority's MTFS supports these plans and ensures that resources are directed at the areas that have been prioritised in the Improvement Plan. 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.

- 5 The annual Improvement Plan sets out how the Authority intends to deliver its statutory and non-statutory responsibilities to the people it serves. It is updated annually in consultation with stakeholders and sets out the main objectives for the year ahead and, as such, the document is a key element of the MTFs.
- 6 The objectives set out how the Authority can maintain and improve on operational service delivery whilst recognising the need to limit additional budget requirement due to the continued overall reduction in funding for public services. The improvement objectives approved for 2017-2018 and subsequent years were to maintain the current level of fire prevention work; diversify the role of the firefighter to offer additional service to the public and to implement a three-year financial strategy which sought to provide some stability for both the Service and the constituent authorities.
- 7 To put the MTFs in context, it should be remembered that, in order to contribute to the austerity measures across the whole of the public sector, North Wales Fire and Rescue Authority froze its budget from 2011-2012 until 2014-2015. In 2015-2016, there was a very small increase in the region of £113k and, in 2016-2017, the Authority used reserves to once again freeze the budget. During this period North Wales Fire and Rescue Authority found £3 million savings (10% of its budget) and saw its workforce – including managers, firefighters, community safety and support staff – reduce by 9%. Statistics for 2015-2016 published on StatsWales show a sharper decrease in staff numbers in North Wales FRS than in Mid and West and South Wales FRSs.
- 8 When the budget for 2017-2018 was considered, Members realised that it was becoming unsustainable to continue to try to freeze the Authority's budget and therefore, at the Fire and Rescue Authority meeting on the 20 March 2017, Members agreed to endorse the Authority's draft improvement objectives for 2017-2018. The second of those objectives sets out a suggested financial strategy on which the Authority could base its next MTFs. The decision was:
 - i. "To secure the Authority's financial sustainability by adopting a 3-year financial strategy that combines the use of reserves, increasing financial contributions and making service reductions."
- 9 In 2017-2018, the first year of this strategy, the previous Fire and Rescue Authority 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 2017-2018 budget with an additional £414,000 from reserves, and to revisit the requirement for the additional £414,000 in 2018-2019.

WELSH GOVERNMENT PROVISIONAL SETTLEMENT

- 10 North Wales Fire and Rescue Service is funded from contributions from the six constituent authorities in North Wales. Funding for local authorities in Wales is through Aggregate External Finance (AEF) (comprising of the revenue support grant and redistributed non-domestic rates), and changes in local taxation revenues. The funding split for most authorities is 75% AEF : 25% Council Tax. This means that for a 2% reduction in AEF, Council Tax would need to increase by 6% to maintain the same level of funding.
- 11 The provisional settlements for the local authorities in Wales was announced on 10 October 2017 and the change in AEF for the North Wales authorities for 2018-2019 is as follows:

Unitary Authority	% Change
Isle of Anglesey	-0.1
Gwynedd	-0.1
Conwy	-1.0
Denbighshire	-0.9
Flintshire	-0.9
Wrexham	-0.3
Average Change	-0.55

- 12 Members will note that the Welsh Government is unable to provide an indication of the AEF beyond 2018/2019.
- 13 There is no official cap imposed on Council Tax increases, but most authorities do not go beyond a 'self-imposed' cap of 5%. The average increase across the North Wales authorities for the previous year was 3.07%.

RISKS AND OPPORTUNITIES

- 14 As always with budget setting the main risks to the Authority are around the prospect of a higher than anticipated pay award being granted, increased activity levels, the reduction or removal of direct grants from the Welsh Government and the outcome of the provisional local government settlement from the Welsh Government.
- 15 Although the provisional local government settlement is known, the other variables are currently unknown. What makes the calculation more difficult is the ongoing pay negotiations for firefighters at the National Joint Council (NJC). The pay award for 2017-2018 has not yet been agreed. The original offer of 2% exceeded the amount in the 2017-2018 budget by 1% (approximately £130,000). However, this has

subsequently been rejected. As a consequence, the 2017- 2018 outturn report assumes an increase of 1% and the budget for 2018-2019 assumes a further 1%. Other fire and rescue authorities in Wales are assuming 2% increase in pay for 2017-2018 and 3% for 2018-2019. The assumption of 1% brings with it the risk that the pay settlement in both years may be in excess of 1%. General Reserves would be a potential source of funding should this be the case.

- 16 The current estimate of the difference between the cost of a continuation budget and the current budget is an increase of £1.34 million, including the £414,000 underpinning, which needs to be found.
- 17 There is the opportunity of closing some of the gap of £1.34 million by changes to the Minimum Revenue Provision (MRP), which is the subject of a separate report to this meeting. This could save £366,000 pa and closes the gap to £978,000. General reserves could be used to underpin the budget for 2018-2019. However, Members are reminded of the risk associated with this strategy as the Authority would need to make those savings the following year before any additional savings required to meet pay and price inflation.
- 18 The Fire and Rescue Authorities in Wales are unusual in that they have only been able to hold reserves since 2009 following the enactment of 'The Combined Fire and Rescue Services Schemes (Variation) (Wales) Order 2009'. The change in legislation came about in recognition of the possible burden on council budgets should the Authorities require an additional contribution in any year. From 2009 onwards, the use of reserves has been a critical component in managing the financial affairs of the Fire and Rescue Authority, and has ensured that in any year there would be no need for revised contributions.
- 19 The usable reserves of the Fire and Rescue Authority as at 31 March 2017 are shown below.

Reserve	Value £m	Purpose
General Reserve	2.149	To cushion the impact of unexpected events, emergencies and uneven cash flows. To cover the transitional costs of schemes that could not be funded from the revenue budget. Used to temporarily underpin the revenue budget.
Earmarked Reserves	0.75	Money set aside for specific projects. Projects included are HFSC Equipment, Radio transitional costs and interest rate rises.

- 20 It is anticipated that the earmarked reserves will be utilised for the purpose for which they were set aside and they have been built in to the forward planning process. If they were not used for the purpose set aside it would cause the Authority to incur additional costs in due course.
- 21 The outturn report estimates that £317k of the General Reserve will be utilised if Members do not approve the amendments to the MRP Policy. This would leave a balance of £1.832m on the General Reserve, which could be utilised to underpin the budget. It would be prudent to consider that the General Reserve would be at this value after considering the risks associated with settling the annual pay awards as mentioned earlier in the report.
- 22 In setting the budget for 2018-2019 Members are reminded that there will be even greater financial challenges facing the Authority in 2019-2020. The firefighters' pension schemes will be revalued in 2018 and this could significantly increase the cost of employers' contributions and there will be additional expenditure associated with moving to the new national communication systems. As the quantity of these cost pressures is currently unknown, they will have to be addressed during the 2019-2020 budget setting process.
- 23 Due to future cost pressures, Members may wish to continue with a 'mixed strategy' for 2018 -2019 as that for 2017-2018 by increasing the contributions from constituent authorities and underpinning from General Reserves. The table below sets out the effect of various percentage increases in contributions from the constituent authorities and General Reserves.

Percentage Increase for Constituents	Actual Increase in Contributions from Constituents £	Contribution from General Reserve £	Total Increase to be Funded £
1%	331,600	646,700	978,300
1.5%	497,400	480,900	978,300
2%	663,200	315,100	978,300
2.5%	829,000	149,300	978,300

- 24 In considering the options above, Members' attention is drawn to the options of increasing contributions by the constituent authorities by 1% or 1.5% which would go some way to recognising the financial pressures and risks on those organisations as well as the Authority itself. Furthermore, Members are reminded that 2019-2020 sees AEF reduce by 1.5% so some Reserves may need to be kept in hand. Also, as Treasurer, the absolute limit that General Reserves could be regarded as being at a prudent level is 2.0% of net revenue budget - approximately £660k.

- 25 If the pay award for Firefighters in 2017/18 is 2% and for 2018/19 2% for Firefighters and Local Government the impact on the budget for 2018/19 would be an additional requirement of £360k. If the recommendations are approved to underpin the budget by reserves there would still be sufficient reserves available to underpin the budget further should the pay settlements be agreed at more than the 1% used to set the budget.

IMPLICATIONS

Wellbeing Objectives	The budget enables the Authority to achieve its long-term well-being objectives which are: 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 as to the difference between the existing budget and the requirement for 2018-19 is £1.3 million
Legal	The Fire and Rescue Authority has a legal duty to set a balanced revenue budget.
Staffing	None
Equalities/Human Rights/ Welsh Language	None
Risks	That the pay award for firefighters is agreed at above 1% for 2017-18 and 2018-19. There is the risk of an increase in activity levels and the removal or reduction of direct grants from the Welsh Government.