



## **AGENDA ITEM: 7**

### **NORTH WALES FIRE AND RESCUE AUTHORITY**

**19 December 2016**

### **MEDIUM TERM FINANCIAL STRATEGY 2017 - 2020 AND BUDGET 2017/18**

#### **SUMMARY**

**Report by Dawn Docx, Interim Treasurer**

#### **Purpose of Report**

- 1 To present to Members the Medium Term Financial Strategy (MTFS) for 2017/18 to 2019/20 which includes the draft budget for 2017/18.

#### **Background**

- 2 An effective organisation needs to have in place a number of corporate plans to ensure the Authority's 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 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.
- 3 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.

- 4 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 reduction in funding for public services.
- 5 The draft Improvement Objectives approved for 2017/18 and subsequent years were: to maintain the current level of fire prevention work; re-balance resources to match risk for emergency responses; diversify the role of the firefighter to offer additional service to the public and to close the three year estimated gap in funding of £2.3m for the Service.
- 6 For the last five financial years the Fire and Rescue Authority has made savings of £3.5m by effectively reducing the net budget requirement by 0.65% and absorbing any increases such as pay awards, capital financing costs and general inflation. To achieve these savings the Authority delivered on a number of options chosen by Members which included changes to the rostering system; management re-structures; a review of aerial appliance cover; community fire safety staffing and support services staffing. Overall the workforce has reduced by 9% over this period but, despite these reductions, the Authority continues to successfully deliver against its objectives.
- 7 Members agreed the financial strategy, to be recommended in the Improvement Plan, to close the funding gap over the next 3 years. The strategy agreed is to increase the contributions from the constituent authorities in year one and reduce running costs by year 3. The proposed increase in year 1 is £1.7m. Included in the increase is the budget shortfall for 2016/17 of £740k which was funded from reserves.

## **Welsh Government Provisional Settlement**

- 8 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.

- 9 The provisional settlements for the local authorities in Wales was announced on 19 October 2016 and the changes in AEF for the North Wales authorities for 2017/18 are as follows:

<u>Unitary Authority</u>	<u>% Change</u>
Isle of Anglesey	0.3
Gwynedd	0.9
Conwy	0.4
Denbighshire	0.5
Flintshire	0.1
Wrexham	-0.5
Average Change	0.28

- 10 Members will note that Welsh Government is unable to provide an indication of the AEF beyond 2017/2018.
- 11 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 3.95%.

### **Operational Issues**

- 12 Presentations around financial pressures were presented to the Improvement Planning Working Group (IPWG) and to the Audit Committee between January and June and there were extensive discussions on how to close the funding gap. Members took the decision not to reduce services for 2017/18 but to plan for service reduction by 2019/20.
- 13 The Improvement Plan includes an objective to look at re-balancing resources to match risk for emergency responses. Changes to the planning and management of fire crews will provide some savings as there will be a more efficient use of resources.

- 14 The first objective in the Improvement Plan is to continue to keep people safe from fire in their homes. In order to deliver on this important objective it was decided that there would be no reduction in the community fire safety work undertaken by the Service.
- 15 The final objective in the Improvement Plan was to explore options for expanding the role of the firefighter in order to assist more in the community and reduce the pressure on other services such as ambulance and social care. The change in role brings with it some additional costs for training and equipment and the costs associated with managing the function. However it will provide overall savings to the wider public sector.

### **Medium Term Financial Strategy Key Assumptions**

- 16 The key assumptions underpinning this MTFS include:
- operational service demands based on the Service’s strategic plans
  - the resources available from Welsh Government
  - the impact on the constituent authorities of an increase in the contributions
  - the level of inflationary pressure on key budgets such as pay
  - the introduction of the apprenticeship levy
  - delivery of transformation change projects.
- 17 The impact of general inflation is managed each year by projects aimed at reducing usage and/or efficiencies. However, there are additional costs that are unavoidable and can’t be managed downwards such as pay awards; indexation on service level agreements; insurance increases and the costs associated with having a capital programme. The assumptions used for the MTFS where the precise increase is not known at this stage are as follows:

<u>Expenditure Type</u>	<u>17/18</u>	<u>18/19</u>	<u>19/20</u>
Pay award	1%	1%	1%
Energy	1%	2%	10%*
Service Level Agreements	3%	3%	3%

\* anticipated effect of climate change levy

- 18 From the 1 April 2017 the UK Government is introducing an apprenticeship levy for all employers that have a pay bill in excess of £3m. The levy is 0.5% of gross pay and the estimated cost for the service for 2017/18 is £74k.
- 19 The revenue costs associated with having a capital programme are calculated based on the type of spend on assets and the repayment period, and an estimate of the interest payable on the additional borrowing required to fund the programme.

### **Base Budget Position**

- 20 The estimated additional costs as detailed above have been added to the previous year's base budget. Operational changes such as the realignment of the budget for retained duty system firefighters to more accurately reflect the numbers employed, provision of in-house training and other known changes have also been applied to the base budget. The position after these changes is as follows:-

<u>Adjusted Base Budget</u> <u>£m</u>	16/17 Actual	17/18	18/19	19/20
Net Expenditure Base	32.776	33.575	33.935	34.692
Constituent Authority Contribution	31.886	33.575	33.524	33.792
Budget Shortfall	0.890	0	0.411	0.90

- 21 For the Authority to implement the strategy to cover the funding gap it will have to find savings as detailed in the table above. Without the proposed increase to the constituent authorities the savings to be found would be £2.8m by 2019/20.
- 22 The proposal at this stage is to use reserves to underpin the budget for 2018/19 but, in the longer term, Members will have to make decisions as to how to make savings that may impact on service delivery.

## Reserves

- 23 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.
- 24 The appropriate management and use of reserves is part of good financial management and planning.
- 25 The anticipated usable revenue reserves of the Fire and Rescue Authority as at 31 March 2017 are shown below.

Reserve	Value £m	Purpose
General Reserve	2.70	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. Estimated that £537k will be used to underpin the budget for 16/17.
Capital Reserve	0.40	Used as a contribution towards the cost of capital expenditure to reduce capital financing costs going forward. This will be utilised in 16/17.
Earmarked Reserves	0.625	Money set aside for specific projects. Projects included are HFSC Equipment, radio transitional costs and interest rate rises. The majority will be utilised in 16/17.

- 26 It is proposed to use the earmarked reserves and the capital reserve for the purpose for which they were set aside. These have been built in to the forward planning process and, if not used for the purpose set aside, would cause the Authority to incur additional costs.
- 27 The Reserves available for general use then are estimated to be £2.16m
- 28 Given the challenges faced in reducing the base budget it is appropriate to utilise some of these reserves to assist in delivering change projects. Currently, the cost of these projects is unknown but it is prudent to ensure that funds are available if required.
- 29 The budget shortfall for 2016/17 is £0.760m which is underpinned from reserves. Current estimates show that £0.537m of the set aside reserve will be utilised in year. Given the available reserves it would be feasible to underpin the budget for 2018/19 from reserves.

### **Revenue Budget 2017/18**

- 30 In order to ensure a balanced budget for 2017/18 the contributions from the constituent authorities will have to increase by £1.7m. This is an increase of 5.3% from the 2016/17 contributions. The large increase is due to the removal of the underpinning from the previous year and the budgetary pressures for 2017/18.
- 31 The Authority recognises that this is higher than the constituent authorities were expecting. Therefore negotiations are ongoing with the section 151 officers to see if some of the increase can be phased over two years. However, if this is agreed, then it will necessitate some underpinning from reserves in 2017/18.

### **Financial Implications**

- 32 Financial implications are addressed within the body of the report.

## **Equality Risk Assessment**

33 The MTFS includes no proposals for reducing costs in 2017/18 so there is no need for an equality impact assessment.

## **Recommendation**

34 That Members:

- (i) approve the budget for 2017/18 along with the associated increase in contributions from the constituent authorities and note the medium term financial strategy;
- (ii) agree that if any changes transpire before 15 February 2017 the powers for altering the budget level be delegated to the Treasurer in consultation with the Chair, Chief Fire Officer and Clerk.