

MEETING: 11 DECEMBER 2017

SUBJECT: FINANCIAL UPDATE REPORT

JOINT REPORT OF THE CHIEF FIRE OFFICER AND CHIEF EXECUTIVE (CLERK TO THE AUTHORITY) AND THE STRATEGIC FINANCE MANAGER

1 Purpose of Report

- 1.1 This report provides members with an update on the financial position of the Authority as requested at the last authority meeting held on 6th November 2017.

2 Medium Term Financial Strategy (MTFS) 2017/2018 to 2020/2021

- 2.1 The Medium Term Financial Strategy 2017/2018 to 2020/2021 approved by the Authority in February 2017 as part of the budget setting process is continually updated to reflect changing circumstances and latest known information. The Medium Term Financial Strategy will therefore be kept under review throughout the budget process for 2018/19 and updated as required, with a full Medium Term Financial Strategy 2018/2019 to 2021/2022 presented to Authority in February 2018.
- 2.2 The table below summarises the Medium Term Financial Strategy as reported to members in November 2017 as follows:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
*Government Cuts	1.961	1.559	0.439	0.514
Spending Pressures	2.695	1.544	1.694	1.258
Total	4.656	3.103	2.133	1.772
Less IRMP estimated savings	(2.238)	(0.516)	(1.489)	0
Less Council Tax and Business Rate growth*	(0.977)	(0.520)	(0.674)	(0.695)
Less budget efficiencies	(1.441)	(0.126)	(0.125)	(0.130)
Funding Gap in year	0.000	1.941	(0.155)	0.947
Cumulative Funding Gap	0.000	1.941	1.786	2.733

*Assumptions in table at this stage assume a 1.99% increase in the precept and also additionally 1% growth in each year for both council tax and business rates

In summary and based on the best information available at that time, the Authority was projected to be facing a cumulative funding shortfall of £2.733m by the end of 2020/21 assuming all remaining IRMP (2014/17) actions to save £4.243m were achieved. This included a saving of £1.389m in 2019/20 in respect of the final Response Review IRMP action of riding 4 on all pumps on

all stations which members previously approved as part of the Response Review. The amount of the Budget deficit within the 4 Year Efficiency Plan period which ends in 2019/20 remained as originally estimated at £1.8m based on the assumption all previous IRMP savings would be achieved.

- 2.3 As members know the budget each year must be balanced in order to satisfy legal requirements and the temporary use of reserves can help address any gap in resources provided permanent budget reductions are forthcoming. It must be stressed however that reserves cannot be used long term to fund ongoing revenue budget shortfalls as they will quickly become depleted and only delays facing the budget issues, that can, if not properly addressed and managed, cause even bigger problems for the Authority.

3 Autumn Budget 2017

- 3.1 The Chancellor's first Autumn Budget was announced on 22nd November 2017, where it was hoped that more information would be provided by the government that would help inform the Authority's budget planning process for 2018/19 and its Medium Term Financial Strategy. Unfortunately however, there were no significant matters announced in the Budget that directly impacted on the fire service and disappointingly it was silent on a number of key issues; including pay awards and who will fund them, additional responsibilities resulting from the Grenfell tragedy on the fire service, no mention of relaxation of Council Tax limits and no mention of any additional funding except for the £2.8bn announced for the National Health Service and the monies (£3bn) put aside for managing Brexit.
- 3.2 Appendix 1 to this report provides more details of the Budget 2017 which members may find useful, but in terms of financial planning was short on detail and therefore has been of very limited use
- 3.3 The main concerns from the Budget from a national context was that the economy forecast was downgraded which suggests that austerity may be prolonged further and that inflation continues to be higher than the government's 2% target for CPI inflation. Inflation is a 'hidden cost' that the Authority must manage within its budget along with the cuts to government funding. Higher inflation means higher costs for the Authority in the goods and services it uses. The government acknowledged that inflation will peak to around 3.0% in October 2017 and is expected to remain around 2.75% early next year before gradually falling to around 2.0% by the end of 2020. This means the Authority is facing higher than expected costs as government funding cuts were predicated on a 2% inflation rate over the 4 year settlement period to 2019/20.

4 Government Funding and the 4 Year Settlement

- 4.1 The Authority accepted the four year funding settlement offer made by government which sets out the levels of Revenue Support Grant (RSG) that the

Authority will receive up to 2019/2020. The offer is limited to the level of indicative RSG provided through this funding source only.

- 4.2 There was no reference to the Four Year Funding Settlement in the Budget apart from further business rates relief for businesses, with the government using CPI inflation rather than RPI inflation when increasing business rates annually from 1st April 2018. We will need to understand if the government will fully fund the shortfall in resources this will cause (estimated benefit to businesses of £2.3m) but it is currently deemed to be resource neutral to the Authority's financial position on the basis that the government have in the past fully funded such changes.
- 4.3 We know that Government funding is forecast to reduce overall by £1.559m in 2018/2019 compared to the current year and that Revenue Support Grant (forecast to be £9.620m), accounts for most of this reduction (i.e. £1.278m or -13%) if the 4 Year settlement is honoured. Top up grant and the business rates multiplier are anticipated to increase in line with inflation (CPI). The government's figures also assume growth in council tax (both in the tax base and the precept).
- 4.4 The Provisional Local Government Finance Settlement for 2018/19 is expected to be announced before Christmas, where it will confirm the resources the Authority can expect from the government for the next financial year.
- 4.5 The Authority's financial plans at this stage therefore assume that the 4 Year settlement along with the existing Council Tax referendum limits will not change, however, the Authority awaits the outcome of the Government's Technical Consultation on the Local Government Finance Settlement 2018/19 which may possibly see some relaxation of the resources position and Council Tax limitation criteria. The Authority's response submitted to the consultation process is set out in Appendix 2 for information.

5 Updated Medium Term Financial Strategy

- 5.1 The table below shows the updated Medium Term Financial Strategy as at end of November 2017 as follows:

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
*Government Cuts	1.961	1.559	0.439	0.514
ⁿ Spending Pressures	2.695	1.544	1.694	1.258
^f Total	4.656	3.103	2.133	1.772
^g ⁿ Less IRMP estimated savings	(2.238)	0.000	*(1.389)	0
ⁱ ^e Less Council Tax and Business Rate growth**	(0.977)	(0.520)	(0.674)	(0.695)
^v ^e Less budget efficiencies	(1.441)	(0.126)	(0.125)	(0.130)
Funding Gap in year	0.000	2.457	(0.055)	0.947
Cumulative Funding Gap	0.000	2.457	2.402	3.349

* Assumption that the Response Review Final phase is fully implemented from 1st April 2019

***Assumptions this stage assume a 1.99% increase in the precept and also additionally 1% growth in each year for both council tax and business rates*

- 5.2 From the table members will see that the financial position of the Authority has deteriorated since that presented in November (see Table 2.2) based on all known facts to date. A separate report is to be presented to members in January, because of legal considerations, which will provide more detailed information on the main reason for this change, that sees the Authority's revenue budget gap increase to £2.4m by 2019/20 and a forecast gap in resources by 2020/21 of over £3.4m.

6 Risk Management Implications

- 6.1 The approach adopted is considered prudent at this stage and there are no real concerns or risks that have not been covered within the report.

7 Financial Implications

- 7.1 The updated financial position includes all of the up to date information on the key financial aspects that will need to be considered by the Authority in drafting up the 2018/19 Revenue Budget and its revised MTFS.

8 Health and Safety Implications

- 8.1 There are no Health and Safety implications from this report.

9 Equality and Fairness Implications

- 9.1 There are no Equality and Fairness implications in respect of this report.

10. Recommendations

- 10.1 Members are recommended:
- a. To note the contents of the report and the estimated revised funding gap based on the most up to date information available;
 - b. To note the updated current Medium Term Financial Strategy and that the full Medium Term Financial Strategy 2018/2019 to 2021/2022 will be presented to Authority in February 2018 as part of the Revenue Budget 2018/19 process.