

AVON FIRE AUTHORITY

MEETING:	Avon Fire Authority
MEETING DATE:	Friday, 17 February 2023
REPORT OF:	The Treasurer
SUBJECT:	Medium Term Financial Plan 2023 to 2027

1. **SUMMARY**

The requirement to produce and publish a Medium-Term Financial Plan (MTFP) is incorporated in the Fire and Rescue National Framework for England. This report provides the Fire Authority with an updated MTFP covering the financial years 2023/24 to 2026/27.

2. **RECOMMENDATIONS**

The Avon Fire Authority is asked to:

- a) Approve the 4-year Medium-Term Financial Plan, as detailed in this report and its appendices.

3. **BACKGROUND**

- 3.1 The MTFP outlines the projected funding, income, and expenditure forecasts for the next four financial years, as well as the key assumptions which have informed those forecasts. The financial forecasts are based on the MTFP approved by the Fire Authority in March 2022, updated for the 2023/24 Annual Budget and supporting budget planning assumptions.

4. **FINANCIAL IMPLICATIONS**

- 4.1 This 4-year Financial Strategy shows a forecast budget shortfall of £1m in 2026/27, based upon Option 1 within the Revenue Budget and Council Tax levels report considered elsewhere on the agenda to this meeting. This forecast increases to £2m should Option 2 of that report be approved.

Financial Strategy Summary:

- 4.2 The detailed financial information to support this Financial Strategy summary, can be found in Appendices 1 - 2.

5. KEY CONSIDERATIONS

Financial Modelling

- 5.1 In developing this 4-year Financial Strategy, the Finance Team has undertaken financial modelling (including sensitivity analysis) on a range of budget headings, in line with best practise and in accordance with External Audit recommendations.
- 5.2 Financial modelling has been undertaken on key Income and Expenditure variables such as the projected pay award levels, non-pay inflationary levels, contingency budgets and income levels.

Funding

- 5.3 The Authority has three primary sources of income; Council Tax Precept, Government Grants and Locally Retained Non Domestic Rates. The 4-year Financial Strategy has been based on the 2023/24 Annual Budget Income levels with assumptions made in relation to changes in funding over the following three years. Details of those assumptions and the impact on future funding levels is summarised in Table 1 below;

TABLE 1 – FORECAST FUNDING ASSUMPTIONS

Medium Term Plan Assumptions	2023/24	2024/25	2025/26	2026/27
OPTION 1 (Increase Council Tax for a Band D Property by £5 in 2023/24)				
Council Tax Precept	6.4%	2.0%	2.0%	2.0%
Council Tax Base	0.0%	0.0%	0.0%	0.0%
Revenue Support Grant	10.1%	3.0%	3.0%	3.0%
Locally Retained Non Domestic Rates	0.0%	0.0%	0.0%	0.0%
Forecast Funding (£m)	48.9	49.7	50.5	51.4
OPTION 2 (Increase Council Tax for a Band D Property by 3% in 2023/24)				
Council Tax Precept	3.0%	2.0%	2.0%	2.0%
Council Tax Base	0.0%	0.0%	0.0%	0.0%
Revenue Support Grant	10.1%	3.0%	3.0%	3.0%
Locally Retained Non Domestic Rates	0.0%	0.0%	0.0%	0.0%
Forecast Funding (£m)	47.9	48.7	49.5	50.3

- 5.4 The assumptions included in Table 1 are considered to be prudent assumptions based upon “likely” scenarios and are considered to be a Base Case. Additional modelling is carried out based upon “best” and “worse” case scenarios to ensure the MTFP can reflect all possible scenarios and inform planning accordingly.

Spending

- 5.5 Table 2 below provides a summary of key assumptions made in relation to changes in spending.

TABLE 2 – FORECAST SPENDING ASSUMPTIONS

Medium Term Plan Assumptions	2023/24	2024/25	2025/26	2026/27
Pay Costs	5.0%	2.0%	2.0%	2.0%
Non Pay Costs	5.0%	3.0%	3.0%	3.0%
Contingency (£m)	0.8	0.0	0.0	0.0
Forecast Spending (£m)	48.9	49.9	51.0	52.4

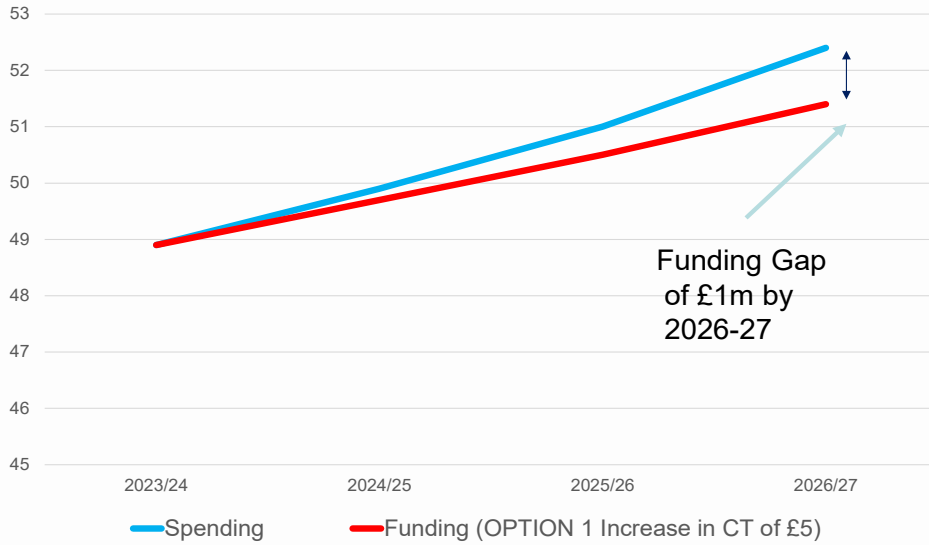
Non-Pay Budgets

- 5.6 Inflation of 5% has been included in 2023/24 and 3% in future years. Where specific contracts/SLA's include higher levels of inflation and where specific cost pressures have been identified, such as an increase to energy costs, prudent provisions have been provided for. A breakdown of the non-pay budgets can be viewed in **Appendices 1 and 2**.
- 5.7 The Financial Strategy incorporates revenue budgets for the Capital Financing Costs, which cover the interest payments and the cost of loan repayments for the Fire Authority borrowings. Currently the Fire Authority has two external loans, but it is projected the organisation will need to take out additional loans from 2024/25 to fund the 3-year Capital Programme. It has been assumed that the Authority will be able to borrow at similar interest rates (3%) to its existing loans.
- 5.8 The 4-year Financial Strategy provides for a contingency budget of 1.7% in 2023/24, however, there is no contingency included from 2024/25 onwards. This contingency budget has been incorporated into the MTFP to absorb any in-year cost pressures, which were not known at the time of setting the Financial Strategy, for example higher than expected inflation rates.

Forecast Budget Shortfall

- 5.9 A detailed analysis of forecast funding and spending against each budget is included as **Appendix 1 and 2**. These forecasts indicate that based upon "Base Case" scenario the revenue budget will have a budget shortfall of £1m by 2026/27, rising to £2.1m, should the Authority decide to agree to Option 2 of the Revenue Budget and Council Tax report considered elsewhere on the agenda. This forecast shortfall position is illustrated in the graphs overleaf:

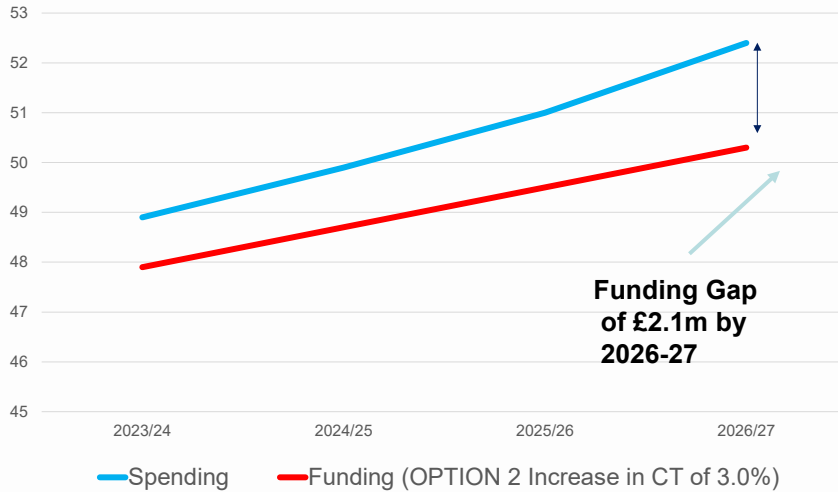
Medium Term Financial Plan 2023 to 2027



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6. RISKS

6.1 The following issues are considered to represent the key financial risks of the 4-year Financial Strategy:

- a) Uncertainty over future funding levels because of a one-year agreement for 2023/24, rather than the anticipated Comprehensive Spending Review which would have incorporated a three-year agreement.
- b) A potential reduction in future Central Government and Local Government funding as a result of austerity measures.
- c) Increased collection fund deficits above those assumed in this Strategy as a result of cost of living.
- d) Pay awards being confirmed at rates above those included in this Strategy.
- e) Non-pay inflation rates over and above the level assumed, particularly on certain materials including fuel and vehicle parts.
- f) Increase in pension costs not funded centrally as a result of actuarial review or immediate detriment processing.
- g) Future operational cost pressures and additional requirements arising from the Grenfell Tower Inquiry and Manchester Arena Inquiry.
- h) Uncertainty as a result of the current conflict within Europe and its impact on supply chain and costs.

Financial Risk Mitigations

6.2 In formulating this 4-year Financial Strategy, we have undertaken the following measures to match resources to risk in the most effective, efficient and economical way. This prudent approach has been undertaken to support the achievement of Value for Money for the organisation.

- a) Financial Modelling, including sensitivity analysis in key areas, has been undertaken on key budgets to assess risk levels within the Financial Strategy.
- b) The Strategy has been based on robust 2023/24 budgets and 2022/23 forecasts.
- c) The Devolved Budgetary Framework has now been implemented and embedded across the Service ensuring appropriate oversight and management of budgets in all areas.
- d) The Strategy has incorporated contingencies which can be allocated to unknown cost pressures and future service developments.
- e) A Finance Business Partnering model has now been adopted by the Finance Team ensuring review and scrutiny of all budgets as appropriate.
- f) The Service continues to explore options around collaboration with partners to provide efficiencies and promote cross-service working in a number of areas including both capital and revenue funded projects.

7. LEGAL/POLICY IMPLICATIONS

This Financial Strategy has been based on the statutory requirements for the 2023/24 Budget and Precept process, presented to the Fire Authority in February 2023.

8. BACKGROUND PAPERS

- a) 2023/2024 Revenue Budget Setting Paper 17.02.2023
- b) 2022-2026 Medium Term Financial Plan 30.03.2022 – Paper 9

9. APPENDICES

- 1. MTFP Income and Expenditure Summary 2023/24 – 2026/27 (Based upon Option 1 of the 2023/24 Budget and Council Tax Report)
- 2. MTFP Income and Expenditure Summary 2023/24 – 2026/27 (Based upon Option 2 of the 2023/24 Budget and Council Tax Report)

10. REPORT CONTACT

Claire Bentley, Head of Finance
Kevin Woodward, Temporary Treasurer

PLEASE NOTE THAT MINOR FINANCIAL ADJUSTMENTS WILL BE MADE AT THE MEETING, DUE TO THE TIMING OF A REVISED PAY OFFER FOR EMPLOYEES UNDER THE GREY BOOK CONDITIONS OF SERVICE.