

AVON FIRE AUTHORITY

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| MEETING: | Avon Fire Authority |
| MEETING DATE: | Monday, 19 February 2024 |
| REPORT OF: | Statutory Finance Officer |
| SUBJECT: | Medium Term Financial Plan |

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 2024/25 to 2027/28.

2. RECOMMENDATIONS

2.1 The 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 February 2023, updated for the 2024/25 Annual Budget and supporting budget planning assumptions.

4. FINANCIAL IMPLICATIONS

4.1 This 4-year Financial Strategy shows a forecast budget shortfall of £4.1m in 2027/28, 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 £5.1m 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 and 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 practice and in accordance with External Audit recommendations.
- 5.2 Financial modelling has been undertaken on key Income and Expenditure variables such as projected pay award levels, non-pay inflationary levels 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 2024/25 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 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|--|-------------|-------------|-------------|-------------|
| OPTION 1 (Increase Council Tax for a Band D Property by 2.99% in 2024/25) | | | | |
| Council Tax Precept | 2.99% | 1.99% | 1.99% | 1.99% |
| Council Tax Base | 1.80% | 0.50% | 0.50% | 0.50% |
| Revenue Support Grant | 6.70% | 3.00% | 3.00% | 3.00% |
| Locally Retained Non Domestic Rates | 0.00% | 0.00% | 0.00% | 0.00% |
| Forecast Funding (£m) | 52.9 | 53.4 | 54.5 | 55.7 |
| OPTION 2 (Increase Council Tax for a Band D Property by 0.0% in 2024/25) | | | | |
| Council Tax Precept | 0.00% | 1.99% | 1.99% | 1.99% |
| Council Tax Base | 1.80% | 0.50% | 0.50% | 0.50% |
| Revenue Support Grant | 6.70% | 3.00% | 3.00% | 3.00% |
| Locally Retained Non Domestic Rates | 0.00% | 0.00% | 0.00% | 0.00% |
| Forecast Funding (£m) | 52.0 | 52.4 | 53.6 | 54.7 |

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 “worst” 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 relations to changes in spending:

TABLE 2 – FORECAST SPENDING ASSUMPTIONS

| Medium Term Plan Assumptions | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|-------------------------------------|----------------|----------------|----------------|----------------|
| Pay Costs Inflation | 4.00% | 2.00% | 2.00% | 2.00% |
| Non-pay Costs Inflation | 3.00% | 3.00% | 3.00% | 3.00% |
| Forecast Spending (£m) | 61.8 | 62.3 | 63.4 | 64.6 |

Pay Budgets

- 5.6 Pay awards of 4% have been assumed for 2024/25 based on previous awards and review of potential awards across the sector. These are then assumed to return to previous levels of 2% from 2025/26 onwards.

Non-Pay Budgets

- 5.7 Inflation of 3% has been included in all four years of the MTFP for non-pay costs. Where specific contracts and SLA's include higher levels of inflation and where specific cost pressures have been identified prudent provisions have been made. A breakdown of the non-pay budgets can be viewed in **Appendices 1 and 2**.
- 5.8 The Financial Strategy incorporates revenue budgets for the Capital Financing Costs, which cover the interest payments and the cost of loan repayments for Fire Authority borrowings. Currently the Fire Authority has two external loans, but it is projected that additional loans will be required to support the ongoing Capital Programme from 2025/26. It has been assumed that the Authority will be able to take out new borrowing at an interest rate of 4%, and an overall cost of capital of 8%.
- 5.9 The 4-year Financial Strategy includes a budget to support the work streams identified following the Service's recent HMICFRS inspection and also a contribution to capital reserves in 2024/25 in order to defer borrowing to reduce revenue impacts where possible. These costs have not been included after 2024/25 to reduce the impact on efficiency requirements.

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 2024/25, 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 increases.
- 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 reviews.
- g) Future operational cost pressures and additional requirements arising from the Grenfell Tower Inquiry, the Manchester Arena Inquiry, HMICFRS action plans and the Fire Reform White Paper.
- h) Additional resource requirement from the revenue budget in relation to prudential borrowing to fund the capital programme.

Financial Risk Mitigations

6.2 In formulating this 4-year Financial Strategy, the following measures have been undertaken 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 2024/25 budgets and 2023/24 forecasts.
- c) The Devolved Budgetary Framework has been implemented and embedded across the Service ensuring appropriate oversight and management of budgets in all areas.
- d) The Strategy has incorporated contingencies within budget lines which can be allocated to unknown cost pressures and future service developments.
- e) A Finance Business Partnering model has 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 2024/25 Budget and Precept process, presented to the Fire Authority in February 2024.

8. BACKGROUND PAPERS

- a) 2024/25 Budget Setting and Precept – AFA 19.02.2024
- b) Medium Term Financial Plan 2023 to 2027 – AFA 17.02.2023 paper 8

9. APPENDICES

- 1. MTFP Income and Expenditure Summary 2024/25 – 2027/28 (Based upon Option 1 of the 2024/25 Budget and Council Tax Report)
- 2. MTFP Income and Expenditure Summary 2024/25 – 2027/28 (Based upon Option 2 of the 2024/25 Budget and Council Tax Report)

10. REPORT CONTACT

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