

Medium Term Financial Strategy

Introduction

1. The purpose of the Medium Term Financial Strategy (MTFS) is to provide the Authority, staff, the public and other stakeholders with information on the financial outlook and the estimated available funding over the next five years. The MTFS takes into account future high level, potential revenue and capital expenditure over the period based upon current known information and estimates.

The Budget Strategy

2. The purpose of the budget strategy is to provide a basis for determining:
 - The level of funding available in the future to deliver national and local priorities.
 - The future demands upon the revenue budget.
 - The impact of external factors.
 - The financial implications of collaborations, partnerships etc.
 - The amount of capital investment which is required to achieve corporate objectives.
 - The revenue consequences of such capital investment.
 - The future reserve levels.
 - The impact of additional demands on the level of council tax that is required.
 - The potential impact of the main financial risks facing the organisation.
3. The above helps to establish the anticipated level of funding and demands on finances over the MTFS period enabling strategic financial planning processes to address the challenges and outcomes. The following sets out the key principles for that planning process:
 - Ensure that plans contribute to improved outcomes in support of set priorities within the Community Risk Management Plan (CRMP).
 - Set a comprehensive, timely, balanced, and realistic budget.
 - Take into account pay and price inflation and achievability of savings.
 - Ensure compliance with the approved capital strategy.
 - Ensure compliance with the approved reserves strategy.
 - Ensure compliance with the approved treasury management strategy.
 - Raise awareness of and communicate key financial messages both internally and externally.

- Ensure budgets set are affordable and do not jeopardise financial stability either in the short or long term.
- Demonstrate that all spending plans achieve value for money.
- Agree spending only when the necessary funding is identified and approved.
- Seek external funding wherever it can be used in a sustainable manner that does not lead to unforeseen costs.
- Publicise significant budget proposals and where appropriate consult with key stakeholders.

Financial Scenario

4. It is imperative that the MTFS takes account of the local, regional, national, and global economies. This provides a basis for the estimates and assumptions used.
5. The Authority receives its main funding from three sources – Government grants, business rates and local council tax (known as a precept). Council Tax and Business Rates represents 85% of our funding.
6. On 5 February 2024, the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC), released the final local government finance settlement 2024/25. It is for one year only and based on the Spending Review 2021 (SR21) funding levels, updated for the 2023 Autumn Statement announcements. The main headlines for the 2024/25 budget are:
 - The council tax referendum limit will be 2.99%. The fire sector had lobbied for a £5 increase (equivalent to 6.1% for the Authority) that is consistent with 2023/24 and reflects current inflationary and demand pressures.
 - The Fire Services Pension Grant of £3.3m has been included in the Revenue Support Grant (RSG) from 2024/25, it was previously included in the service net budget. This has no overall impact, but it increases our net budget and sources of funding income by £3.3m.
 - The September CPI figure of 6.7% has been applied to increase business rates grant funding (£12.1m) and the Revenue Support Grant (£13.5m).
 - The Services Grant reduced from £0.6m in 2023/24 to £0.1m in 2024/25.
 - One year Funding Guarantee Grant received of £0.9m. We did not receive this in 2023/24 but it ensures each authority's funding overall increases by at least 4%.
7. A precept is levied on the council tax to partly fund the authority and it is the responsibility of the Authority to set the level of precept as part of the annual budget setting process. To calculate the level of council tax funding, each local authority calculates the taxbase (the assimilated number of council tax bills issued) taking into account changes in the number of houses, council tax benefits etc. These vary each year and the MTFS includes assumptions for these changes based on discussions with and forecasts supplied by the local collection authorities.

8. It is now standard for the Government to set a limit on the amount by which a local authority can increase its council tax each year, with any increase above this limit requiring a referendum. The Provisional Local Government Finance Settlement confirmed that for 2024/25 this is 2.99% at Band D for one year only.
9. Each year the council tax income is calculated based on assumed levels of collection rates by the local authorities. This means that at the end of each year, an adjustment has to be made to reflect the actual collection rate. If more has been collected, the fund will be in surplus; if less has been collected, the fund will be in deficit. The Authority will either receive its share of any surplus or be required to pay its share of any deficit and this is taken into account as part of the overall budget setting process.
10. The same process applies to the collection of local business rates in which the Authority has a 1% stake. The details of these are published by the end of the January prior to setting the budget.

MTFS Key Financial Assumptions

11. Some of the key financial assumptions and estimates in the five-year MTFS are set out below:

| Key Assumptions | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Uniform Pay Award (Apr - Jun) | 5% | 3% | 2% | 2% | 2% |
| Uniform Pay Award (Jul - Mar) | 3% | 2% | 2% | 2% | 2% |
| Non-uniform Pay Award | 3% | 2% | 2% | 2% | 2% |
| General inflation | 3% | 2% | 2% | 2% | 2% |
| Establishment start of year | 654 | 636 | 634 | 635 | 640 |
| New recruits during year | 0 | 18 | 38 | 38 | 20 |
| No of Leavers | (18) | (20) | (37) | (33) | (21) |
| Establishment end of year | 636 | 634 | 635 | 640 | 639 |
| Council Taxbase % increase | 1.38% | 0.79% | 0.79% | 0.79% | 0.79% |
| Council tax precept % increase | 2.99% | 2.99% | 2.99% | 2.99% | 2.99% |

- Inflation – These include:
 - An allowance of 3% for pay awards in 2024/25 has been included with 2% thereafter.
 - Specific increases in price inflation for known areas has been assumed.
 - Other non-pay budgets have increased by the latest Office of Budget Responsibility (OBR) CPI figures; 3% in 2024/25 and 2% thereafter. If pay awards are higher than assumed, they will need to be met from reserves or in year savings in 2024/25 with additional savings made in future years. Each 1% increase results in an additional £0.5m and £0.1m for Grey book and Green book staff respectively.

- Commitments – These reflect the impact of previous decisions that have a financial consequence or are due to policy, legal or regulatory changes. In 2024/25 the commitments include:
 - The Authority reaffirmed their commitment to the North West Fire Control in December 2023 including an increased contribution to their costs due to changes in activity levels and result in an increase of £0.2m.
 - The reduction in interest rates results in a loss of investment income of £0.4m in 2024/25.
 - Vacancy levels across the organisation are forecast to be lower in 2024/25 along with more staff expected to reach Competency, this results in an increase establishment cost of £0.4m in 2024/25.
 - The Emergency Cover Review (ECR) approved by the Authority in 2022 resulted in an overall increase of 8 Wholetime Firefighter across the Service. In 2024/25 there is a resourcing commitment of £0.2m as previously agreed, to fund these posts.
 - Permanent Resourcing – These include:
 - An allowance is made in future years for replacement Personal Protective Equipment based on recommended lifespan.
 - A reduction is forecast at the next valuation of the Local Government Pension Scheme surplus resulting in a pressure in 2026/27 of £0.5m.
 - Additional borrowing is required to meet the planned capital programme from 2025/26. This results in an overall increase in borrowing costs (repayment and interest) from 20225/26 of £0.3m, rising to £2.1m by 2028/29. This is considered in more detail in the Capital Strategy Appendix.
 - One off items in 2024/25 include:
 - Opportunities for four non-operational apprentices for two years have been identified that results in a one off item of £0.1m.
 - Additional short-term funding of £0.4m is provided to meet resourcing pressures in support services.
 - Identified savings – These include:
 - A reduction in the Contribution to Capital of £1.5m is proposed, this results in a revenue contribution in 2024/25 of £2.5m; this is consistent with the average contribution made over the previous 10 years. See the Capital Strategy for further information on the Capital Programme.
 - From 2026/27 efficiencies of £2.5m are required to be delivered and are included in the MTFS.
 - Funding – Detailed assumptions are included in the MTFS, in broad terms the funding growth is between 2% and 3%.
12. The summary MTFS is set out below and in more detail in Appendix 1 of this report.

| Revenue MTFS | 24/25 £m | 25/26 £m | 26/27 £m | 27/28 £m | 28/29 £m |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Base Budget | 71.6 | 75.2 | 76.5 | 78.7 | 81.0 |
| Inflation | 2.5 | 1.6 | 1.6 | 1.6 | 1.6 |
| Commitments | 1.3 | (0.0) | 0.5 | 0.1 | (0.3) |
| Growth – permanent | 0.7 | 0.6 | 1.4 | 0.4 | 0.5 |
| One-off items | 0.5 | (0.3) | 0.2 | (0.3) | 0.1 |
| Identified Savings | (1.5) | (0.5) | (1.5) | 0.5 | 0.5 |
| Net Budget | 75.2 | 76.5 | 78.7 | 81.0 | 83.5 |
| | | | | | |
| Council Tax | (39.4) | (40.8) | (42.4) | (44.0) | (45.7) |
| Business Rates | (21.3) | (21.7) | (22.1) | (22.6) | (23.0) |
| Revenue Support Grant | (13.5) | (13.9) | (14.1) | (14.4) | (14.7) |
| Other Grants | (1.0) | (0.1) | (0.1) | (0.1) | (0.1) |
| Funding | (75.2) | (76.5) | (78.7) | (81.0) | (83.5) |

MTFS Risks and Scenarios

13. The following significant financial risks have been identified and assessed by the Director of Corporate Services and he feels these are adequately covered within the budget estimates presented or within the level of reserves currently held:

- Reductions in levels of funding over and above those forecasted.
- Changes to the Business Rates Retention Scheme.
- Adverse changes because of the implementation of the Fair Funding Review.
- Reduction in Council Tax funding.
- Higher than anticipated inflation.
- Larger increases in pension costs.
- Significant changes to retirement profiles.
- Increase in demand led pressures.
- Higher insurance claims.

14. The key budget risks are quantified below in the following budget scenarios:

| Budget Scenarios | 24/25 £m | 25/26 £m | 26/27 £m | 27/28 £m | 28/29 £m |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| General Reserve | 4.8 | 4.9 | 5.1 | 4.9 | 4.9 |
| Revised GR after: | | | | | |
| - 1% higher pay award | 4.4 | 3.9 | 3.5 | 2.7 | 2.0 |
| - Grant freeze 25/26 to 28/29 | | 4.5 | 4.4 | 3.2 | 2.0 |
| - 10% funding reduction from 2025 | | 3.6 | 2.7 | 1.0 | (0.5) |

15. The analysis shows that whilst the general reserve is sufficient to meet an element of volatility however, there would need to be structural changes to the

underlying cost base should any of these scenarios materialise in order to maintain financial sustainability for the period of the MTFS.

Indicative Capital Programme

16. The Authority has a ten-year capital programme, from 2024/25 to 2033/34. This reflects the Authority's capital aspirations in the Fleet, Estates and ICT strategies. The first five years of the strategy are set out below. Work is ongoing to refine the later years of the programme (from years 6 to 10), in particular with detailed condition surveys across our estate.
17. The table below shows the Authority's first five years of the Capital Programme and how it is anticipated that it will be funded.

| Capital Programme | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | 2028/29 £m |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| Vehicles | 3.2 | 1.6 | 1.6 | 1.6 | 2.1 |
| Operational Equipment | 1.3 | 1.0 | 0.9 | 0.4 | 0.6 |
| Buildings | 3.5 | 15.4 | 15.4 | 7.9 | 10.8 |
| ICT | 2.2 | 2.3 | 0.6 | 0.2 | 0.5 |
| | 10.2 | 20.3 | 18.5 | 10.0 | 13.9 |
| Funding | | | | | |
| Revenue Contributions | 2.5 | 2.0 | 3.0 | 3.5 | 4.0 |
| Capital Reserve | 7.7 | 11.1 | 0.0 | 0.0 | 0.0 |
| Capital Receipts | 0.0 | 0.0 | 0.0 | 5.0 | 0.0 |
| Grants | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 |
| Borrowing | 0.0 | 6.2 | 15.5 | 1.5 | 9.9 |
| Total | 10.2 | 20.3 | 18.5 | 10.0 | 13.9 |

18. Full details of the 10-year capital programme and its associated funding are included in the Capital Strategy. In addition, given the above funding proposals includes borrowing, the impact of this is discussed in more detail within the Treasury Management Strategy.

Appendix 1

Analysis of Budget by Service Area

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| | £m | £m | £m | £m | £m |
| Service Delivery | 40.74 | 41.28 | 42.41 | 43.33 | 44.02 |
| Prevention & Protection | 3.39 | 3.47 | 3.54 | 3.62 | 3.70 |
| Centralised Administration | 0.92 | 0.94 | 0.96 | 0.98 | 1.00 |
| Control | 2.07 | 2.11 | 2.21 | 2.25 | 2.30 |
| Corp Comms | 0.39 | 0.40 | 0.41 | 0.42 | 0.43 |
| Digital Transformation | 0.80 | 0.81 | 0.75 | 0.76 | 0.78 |
| Exec Board | 1.13 | 1.16 | 1.18 | 1.21 | 1.23 |
| Finance | 0.21 | 0.22 | 0.22 | 0.23 | 0.23 |
| Fleet Services | 3.61 | 3.49 | 3.56 | 3.64 | 3.71 |
| Health & Safety | 0.28 | 0.29 | 0.29 | 0.30 | 0.31 |
| Human Resources | 1.04 | 0.99 | 1.01 | 1.03 | 1.05 |
| IT | 3.41 | 3.48 | 3.52 | 3.60 | 3.67 |
| OCC Health | 0.31 | 0.32 | 0.33 | 0.33 | 0.34 |
| Pensions | 1.43 | 1.45 | 1.48 | 1.50 | 1.53 |
| Procurement | 0.79 | 0.91 | 0.90 | 0.91 | 0.93 |
| Service Development | 1.98 | 2.02 | 2.06 | 2.10 | 2.14 |
| Special Projects | 0.04 | 0.04 | 0.04 | 0.04 | 0.04 |
| TOR | 4.47 | 4.55 | 4.82 | 4.96 | 4.89 |
| Property | 4.12 | 4.35 | 4.45 | 4.54 | 4.64 |
| Overheads | 4.03 | 4.23 | 4.57 | 5.30 | 6.54 |
| Grand Total | 75.16 | 76.50 | 78.71 | 81.04 | 83.45 |