MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2018/19 to 2022/23 - UPDATE

JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

For Approval

1. PURPOSE OF REPORT

1.1 To update Members on the impact of increases in employers pension rates for fire fighters applying from 1st April 2019 and Government funding arrangements.

2. RECOMMENDATIONS

2.1 It is recommended that Members:

i) Note the report;

ii) Approve the proposal that the additional 2019/20 unfunded employers pension costs of £136,000 are either funded as:

- a first call on the 2018/19 outturn if this is higher than previously forecast; and
- any residual shortfall is then funded as a first call on any managed underspend achieved in 2019/20, or if a 2019/20 underspend is not achieved will need to be funded from the Budget Support Fund.

iii) Instruct the Chief Fire Officer to update the development of the contingency savings plan based on the existing scenario 1a and revised scenario1b (i.e. forecast deficits respectively of **£2.297m** and **£3.841m** (February MTFS 1b forecast £3.497m) and to report details to a future meeting as part of the process for setting the 2020/21 budget;

3. BACKGROUND

3.1 As detailed in the February 2019 MTFS report the Government had confirmed an increase in employers' pension contribution rates for fire fighters. Other unfunded pension schemes for the police, teachers and NHS also face significant increases. These increases reflect the impact of changes in how future pension liabilities are calculated.

3.2 The Government also indicated that employer pension contributions for fire fighters would increase from an average of 17.6% to 30.2%. However, details of the impact of this change across the four fire fighter pension schemes were not been provided, which made financial planning difficult.

3.3 Nationally the Government had previously estimated an increase in contributions for Fire and Rescue authorities of £107m and indicated they would fund £97m of this cost in 2019/20. The Government also indicated the case for recurring funding for 2020/21 and future years will need to be made in the 2019 Spending Review.

3.4 Based on information available at the time the February 2019 MTFS report was prepared the gross recurring cost to the Authority in 2019/20 was estimated to be £1.3m.

3.5 On the basis of the Government funding approximately 90% of this cost it was estimated that the Authority faced a net 2019/20 budget pressure of £130,000. This was slightly higher than the provision included in the 2019/20 budget forecast for an increase in employer pension contributions of £100,000. The estimated cost of £130,000 is included in the approved 2019/20 budget.

4. UPDATED POSITION

4.1 The Government confirmed the actual 2019/20 employers' pension rates for fire fighters in late March 2019 and different increases will apply to the four fire fighters pensions schemes as follows:

	1992 Scheme	Modified Scheme	2006 Scheme	2015 Scheme
Previous Rate	21.7	21.7	11.9	14.3
Rate from 01.4.19	37.3	37.3	27.4	28.8

4.2 The Government has indicated that the national funding available for 2019/20 will increase from **£97m** to **£115m.** The Authority's share of this funding will increase from **£1.170m** to **£1.408m**. Both the national and local funding allocation are subject to a formal grant announcement.

4.3 The impact of the actual 2019/20 pension rates has been assessed and the estimated additional cost is **£1.674m**. This is **£374k** higher than the previous forecast and reflects the higher actual increase in the employers' pension rates. The revised grant allocation for the Authority covers **84%** of the increased cost, compared to the initial forecast of **90%**. The Government has not yet provided an updated national forecast of the additional costs, therefore it is not possible to determine how much of this cost is funded by the increased grant allocation.

4.4 For 2019/20 the additional net budget pressure is **£136,000**. This is after reflecting the increase in Government grant as detailed below:

	Latest Forecast £'000
Additional Pension Costs	1,674
Less - 2019/20 Grant	(1,408)
Net Budget Pressures 2019/20	266
Less – 2019/20 budget provision	(130)
Additional budget pressure 2019/20	**136**

4.5 It is recommended that the additional 2019/20 budget pressures of £136,000 is either funded as a:

- a first call on the 2018/19 outturn if this is higher than previously forecast; and
- any residual shortfall is then funded as a first call on any managed underspend achieved in 2019/20, or if a 2019/20 underspend is not achieved will need to be funded from the Budget Support Fund.

4.6 The fall back option of using the Budget Support Fund will avoid the need for in year budget cuts and the potential use of this amount will not have a significant impact on the uncommitted Budget Support Fund available to support the budget in future years.

5. CONCLUSIONS

5.1 As part of the MTFS recommendations approved in February it was determined that the Chief Fire Officer should develop a contingency savings plan based on scenarios 1a and 1b (i.e. forecast deficits of **£2.297m** and **£3.497m** respectively) and report details a future meeting as part of the process for setting the 2020/21 budget.

5.2 The scenario 1b forecast deficit was based on the Government not providing additional recurring funding for increase fire fighter pension costs in 2020/21 and future years.

5.3 Confirmation of the pension rates for 2019/20 onwards means the Authority faces additional unbudgeted costs in 2019/20 of **£136k**. A proposed strategy for managing this position is detailed in paragraph 4.5.

5.4 The actual increase in pension rates is higher than forecast and this means the funding arrangements for 2020/21 onwards are even more important. If additional recurring Government funding of £1.674m is not provided as part of the 2019 Spending Review for increased pension costs the forecast 2020/21 to 2022/23 budget deficit (scenario 1b) may increase from **£3.497m** to **£3.841m**.

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CHIEF FIRE OFFICER

CHRIS LITTLE
TREASURER