



Medium Term Financial Plan

25 April 2019

Contents

Medium Term Financial Plan 1

Introduction 2

Four Year Plan 2

Introduction

- 1 The Medium Term Financial Plan (MTFP) represents a key part of the London Fire Commissioner's decision making process in financial planning for the future. The MTFP brings together all the known factors affecting an organisation's financial position and its financial sustainability into one place. The information that is set out in this report supported the approval of the 2019/20 LFC budget and will inform the budget process for future years.

Four Year Plan

- 2 The MTFP covers a four year period from 2019/20 to 2022/23 and is included at Appendix 1. Table 1 below sets out a summary of the forecast budget position in each of those four years, reflecting the changes set out in the MTFP. The table shows that the LFC is anticipating that there will be a budget shortfall of £18m by 2021/22.

1. Table 1: Four Year Budget Forecast

	2019/20 Budget £000s	2020/21 Budget £000s	2021/22 Budget £000s	2022/23 Budget £000s
Operational Staff	270,179	273,741	279,267	284,959
Other Staff	59,886	58,339	58,878	59,561
Employee Related	20,383	19,895	20,717	21,209
Firefighter's Pensions	22,058	22,303	22,552	22,552
Premises	51,441	38,699	40,186	41,138
Transport	18,924	16,963	17,499	17,846
Supplies and Services	31,128	29,556	30,646	29,597
Third Party Payments	1,817	1,817	1,817	1,817
Capital Financing Costs	9,775	11,292	12,353	12,353
Central Contingency	(313)	(313)	(313)	(313)
Savings to be achieved	0	0	(17,820)	(18,014)
Total Revenue Expenditure	485,279	472,291	465,782	472,706
Income	(38,012)	(39,653)	(41,689)	(42,883)
Net Revenue Expenditure	447,267	432,639	424,093	429,823
Use of Earmarked Reserves	(23,849)	(20,888)	(3,805)	(689)
Financing Requirement	423,418	411,751	420,288	429,134
Specific Grants	31,113	12,492	12,492	12,492
GLA Funding	392,305	399,259	407,796	416,642

- 3 The MTFP includes a range of financial items, including the impact of inflation, staff pay awards, growth and saving proposals, decisions made by the LFC, and unavoidable items such as legal or regulatory changes. The largest of these include a £25m pressure as a result of the outcome of

the revaluation of the Firefighter Pension Schemes, £26m for inflation and staff pay awards and additional ongoing funding from the GLA by the end of the period of £30m.

- 4 The assumptions and forecasts set out in this report are under continual review and will be refreshed to fully support the budget process for 2020/21.

	Description	2019/20	2020/21	2021/22	2022/23	Comments
		£k	£k	£k	£k	
	Previous Years Net Expenditure	401,087	447,267	432,639	424,093	
1	Central Contingency for Inflation	4,299	7,286	7,391	7,449	This includes both staff and non staff inflation. Staff costs are based on pay awards of 2% annually for all staff.
	Other Budget Pressures					
	STAFF BUDGETS					
2	Pensions Auto Enrolment	802	267	0	0	These are potential additional employers pensions contributions from staff entering the pension schemes, as part of the governments auto enrolment scheme. This assumes that 40% of staff enrolled into the scheme stay in the scheme.
3	Firefighter Pension Scheme - Change to Discount Rate	25,278	0	0	0	In his March 2016 Budget Announcement the Chancellor stated that unfunded public sector employer pension contributions will increase from 2019 by an estimated £2bn per annum. This was as a result of the regular revaluation of the scheme. LFC previously forecast an additional pressure of £5.1m based on the change to discount rate, £2.8m following a reduction in contributions and £0.9m for the impact of funding retained fire fighter schemes. The total pressure has now been revised to a £25.3m impact. The 2019/20 impact is offset by additional one-off grant of £21.7m for the LFC, for a net impact of £3.6m
4	Changes to Staff on Development Rates of Pay	(2,594)	(549)	1,376	1,200	This reduction reflects the anticipated change in the profile of the operational workforce, which will shift to include more less experienced staff on lower pay rates, following increased recruitment levels.
5	Local Government Pensions Scheme - Early Retirement Costs	(110)	(30)	(30)	(30)	This movement reflects ongoing reductions in the number of pensioners receiving these payments.
6	Local Government Pensions Scheme - Past Service Deficit	215	224	0	0	This is the forecast 'inflationary' increase in the cost of the past service deficit payments on the Local Government Pension Scheme.
7	Local Government Pensions Scheme - 2017 Valuation	(115)	(122)	0	0	Savings following the valuation on the LFC's LGPS pension fund.
8	Firefighters' Injury Pensions	279	245	250	0	This relates to inflation increases on injury pensions and assumptions around numbers in receipt of injury pensions.
9	Firefighter Pension Sanction Charge	45	0	0	0	This increase reflects current forecast for numbers of staff choosing to commute their pension above the HMRC tax limit.
10	Operational Staff Vacancy Margin	3,724	0	0	0	This pressure is as a result of the removal of the one-off increase to the Vacancy Margin in 2018/19. This reflects that staff numbers are now expected to return to established levels from 2019/20.
11	FRS Vacancy Margin	(1,000)	1,000	0	0	This reflects a temporary increase to the vacancy margin for FRS staff in 2019/20 in light of ongoing vacancy levels. These are expected to reduce but could still result in an additional underspend at the start of the financial year.

	Description	2019/20	2020/21	2021/22	2022/23	Comments
		£k	£k	£k	£k	
12	Operational Pension Scheme Changes	(1,147)	(373)	(318)	(290)	This saving is achievable based on forecast numbers of staff in the current schemes, and the reduced costs as staff leave the older schemes and recruits join the new scheme. It also includes a forecast of 30 staff opting out of the scheme per year, based on current trends.
13	Role to Rank Project	88	89	0	0	The proposed investment will incur increased staff costs of no more than £609k per annum, alongside savings of at least £432k per annum for the LFB by the 2020/21 financial year. Critical performance improvements will also be delivered, including on-station officer-led training; and greater productivity from a significant reduction in standby movements for officers. It will also consensually resolve a long-running dispute, and its associated risks, with the trade union since the 2010 industrial action.
14	Trainee Firefighter Recruitment	168	(443)	(281)	(63)	These costs reflect the anticipated salary cost of trainee firefighters in each year.
15	Additional Resilience Requirements	1,188	(364)	229	0	Additional items included in FEP2673
16	Increase in Cadet Units to all London Boroughs	1,050	(1,050)	0	0	The Mayor has awarded LFC an extra £1.1m of funding for fire cadets to open 15 new units over the next 2 financial years. This will be funded as one off uplifts to the business rates allocation.
STAFF RELATED BUDGETS						
17	Apprenticeship Levy	(890)	(225)	0	0	An apprenticeship levy came into effect in April 2017, at a rate of 0.5% of an employer's pay bill. This levy has been transferred into a digital account and this saving reflects the use of the levy from 2019/20.
18	Additional Payments into the Local Government Pension Scheme (LGPS) Fund and resulting on-going savings	115	(1,481)	0	0	In light of the impact of the actuarial revaluation of the LGPS, it is proposed that the new savings generated are re-invested back into the scheme in order to reduce the deficit further. These payments would then result in additional savings following the outcome of the next revaluation in 2020/21. If the savings are used in this way they would result in a £3.1m additional payment against the deficit by 2019/20, with a forecast saving of £350k in 2020/21.
19	Training Contract	(1,423)	(297)	245	(46)	As stated in the Future Options for Training report (FEP1829X) the fixed fee element of the Training Contract will reduce after the first six years of the contract.
PREMISES BUDGETS						
20	Business Rates	(277)	91	170	170	The forecast budget movement have been amended based on data received from Estates Management Consultant in December 2018.
21	Energy Costs	237	68	70	71	The budget requirement for 2019/20 has been reviewed following changes to electricity contracts, to half hourly billing, that had led to an overspend in 2017/18. These forecasts also take into account the reduction in cost following the disposal of Southwark Training Centre.

	Description	2019/20	2020/21	2021/22	2022/23	Comments
		£k	£k	£k	£k	
22	New Technical Logistics Centre	(129)	(100)	0	0	The figures shown are based on the rates, rents and other running costs required to run the two logistics centres while the new Technical Logistics Centre is set up. The increase in the on-going cost is largely due to higher rent for the new centre. This cost is considered to be reasonable by the Authority's agents bearing in mind current market conditions and the type of lease agreed.
23	Property PFI Unitary Payment	50	50	50	50	The figures shown here reflect the payments required for the Property PFI fire stations. From 2017/18 an annual price review is applicable to the variable element of Unitary Charge based on RPlx. The standard RPlx has been applied to this value from 2017/18.
24	Building Maintenance	1,354	0	0	0	Increased cost of new building maintenance contracts for MEP (mechanical, electrical, plumbing) and Fabric Services. A report seeking approval of this new contract is scheduled to be reviewed by Commissioners Board during July 2018.
25	New Premises contracts (hard and soft FM services)	387	149	158	0	The Property Services Review Report FEP2430 (item 39) identified the potential for a significant increase in costs for the provision of all works/services when tendering for new contracts. These increases are in addition to the 'inflationary pressures' submitted for Premises budgets.
26	Rental Increases	21	120	0	0	Increase in rental costs for premises following rent reviews.
27	LFB Training Centre Croydon	0	0	50	550	The report on the Third Training Centre (FEP 2646) for the project now renamed "LFB Training Centre Croydon" states that there would be an ongoing revenue pressure of £0.6m in running costs and £0.2m in lost income. The financial impact of the running costs, set out here, is based on occupation by October 2019.
28	Lease for an increase in parking spaces	37	0	0	0	This reflects the cost to execute a new lease agreement for car parking for Union Street staff (LFC-0044D).
TRANSPORT BUDGETS						
29	EFCC contract First Aid Recertification training	(126)	0	0	0	As is outlined in FEP 2321, the EFCC contract attracts an additional charge in Years 1 and 4 for first aid recertification. Year 4 of the contract spans parts of FY 2017/18 and FY 2018/19, hence the total (unindexed) charge £126k has been allocated across these two periods.
30	Command Unit Replacement	0	180	0	0	This budget is for an increase in the slot price following the replacement of command units.
31	Lease Car Charges	46	8	8	0	Increase in cost of subsidy for lease cars based on indexation and an increase in the number of cars in use through the scheme.
SUPPLIES AND SERVICES BUDGETS						

	Description	2019/20	2020/21	2021/22	2022/23	Comments
		£k	£k	£k	£k	
32	ICT Equipment Replacement Holiday	(278)	0	0	0	Moving to Union Street allowed a move from a rolling programme of replacements to a more defined cycle as the equipment has a defined life. This represents the periodic re-instatement of that budget to update the equipment at Union Street, This would include wireless access points, physical servers and some desktop equipment.
33	Portable Hygiene Units (PHUs)	72	0	0	0	This budget is to support to on-going maintenance and call out charges relating to the purchase of two new PHUs built to LFB specification, hosted with a third-party supplier.
34	Business Intelligence platform	231	0	0	0	The Resources Committee agreed capital funding for this project in March 2016 (FEP 2578). There are associated revenue cost to cover the licensing of the products to be deployed. To achieve maximum benefit it is likely that the licensing will need to enable full interaction with the product which is licensed on an individual basis. The figures included here represent the middle ground in terms of deployment options. Discussions are underway with Microsoft regarding an adaptation of the licensing model to reflect the watch based nature of LFB. This does not yet take into account any savings that may be realised from this project, which could help offset this additional cost. The overall position will be kept under review.
35	e-Recruitment	20	0	0	0	This is to fund the additional cost of the replacement e-Recruitment system (support for the previous system has been withdrawn). The current budget for the existing solution is £24,500 whereas the annual support fees for the new solution is £44,006.25, a shortfall of £19,506.25pa.
36	CFOA Subscription	16	0	0	0	The National Fire Chiefs Council have agreed a new banding arrangement for payments. The impact of this is anticipated to increase LFC's contribution to an annual payment of £65k.
37	Health and safety System	36	0	0	0	This is to extend reporting facilities for the new hosted system to all users. The current budget for the existing solution is £12,135 whereas the annual support fees for the new solution is £48,560, a shortfall of £36,425pa.
38	Airwave Contract	49	51	54	56	This reflects ongoing inflation on the Airwave Contract.

	Description	2019/20	2020/21	2021/22	2022/23	Comments
		£k	£k	£k	£k	
39	MDT Support following removal of Airwave support	23	23	0	0	Whilst the removal of this service from the Airwave was anticipated it was envisaged that this would result in a cost saving against the contract which could be re purposed to support the new MDTs. However, the re negotiated Airwave contract has increased overall costs whilst removing this element of the service - this increase has been included in the inflationary pressures return. As a consequence there is now an additional requirement for the ongoing support of the new devices deployed to the fleet which has been estimated based on the failure rate of the existing MDTs flexed to reflect the changes in the nature of their use and the expansion of the provision to include tablet devices and satnavs. The first year provision has been reduced due to part year implementation. The increase over time reflects the increase anticipated to reflect the failures due to age and use of the equipment.
40	Extension and Re-procurement of the Personal Protective Equipment (PPE) Contract (FEP2381)	370	0	0	0	By extending the current contract with Bristol Uniforms by an additional two years from October 2016, the Authority generated one-off savings of £640k in 2017/18 and £370k in 2018/19. The adjustment shown reduces the saving in 2018/19 and removes it from the budget in 2019/20.
41	Replacement of Extended Duration Breathing Apparatus (EDBA) cylinders	(4)	26	0	0	This is the reversal of one off spend in 2017/18 on the progressive replacement of EDBA cylinders as they reach the end of their maximum design life, to maintain the authorities operational capacity.
42	National Operational Guidance (NOG) Integration	(56)	0	0	0	This is the reversal of one off funding of £0.9m in 2017/18, for the implementation of the NOG project for the Authority. The majority of the budget is removed in 2018/19, with the balance in 2019/20.
CAPITAL FINANCING BUDGETS						
43	Borrowing Costs	5	1,517	1,061	0	This estimate is based on the borrowing costs required for the current capital programme. It is subject to review, both in respect of the forecast level of capital receipts and the actual expenditure requirements as individual projects are progressed.
Total other budget pressures		27,756	(927)	3,091	1,668	
INCOME BUDGETS						
44	Insurance Company Income	(970)	(1,020)	(1,070)	(1,120)	These increases assume growth of 3.5% per annum going forward. This is in addition to savings that were agreed as part of the 2017/18 budget setting process.
45	Reduction in PEG income	25	0	0	0	Reduction in breathing apparatus maintenance income due to loss of custom.
46	FBU Secondments	60	0	0	0	4 posts are currently seconded to the FBU, with 2 funded by LFB and 2 by the FBU. This has changed in recent years and the income received reduced also.

	Description	2019/20	2020/21	2021/22	2022/23	Comments
		£k	£k	£k	£k	
47	LFB Company	170	0	0	0	The LFC owned company LFB is entering a dormant phase in order that it can be preserved for possible future use as a trading entity or for other activities in the future as required. The LFC currently has an income budget of £170k for recharges of staff time to LFB. That budget will be removed from 2019/20.
48	Interest Receivable	80	0	0	0	This forecast is based on the interest rates received on our cash deposits and reflects a reduction in our forecast cash balances and thus the interest earned.
49	Reduction in rental income at HQ	162	0	0	0	There is a proposal for the accommodation at Union Street that has recently been vacated by London Travel Watch not to be re-let but re-occupied by LFB staff to enable the Hackitt Review team to be located within Union Street. It is unclear if HCLG would provide any funds to cover accommodation costs for this team.
50	Reduction in Shut in Lift charging	110	10	10	10	This adjustment reflects observed decreases in income and as the aim of this charge, to reduce demand, is realised.
	Total income	(363)	(1,010)	(1,060)	(1,110)	
	Total Unavoidable Pressures and Savings identified	31,692	5,350	9,422	8,007	
51	Change in Expenditure funded from Specific Grants and Reserves	14,064	(17,525)	(332)	(1,726)	
	Revised Net Revenue Expenditure	446,843	435,092	441,729	430,375	
52	Growth Agreed in Previous Years	(115)	0	0	0	Proposals included in 2017/18 Budget report (FEP2708) and 2018/19 Budget Report (FEP2825)
53	2019/20 Savings Proposals	(1,386)	(2,172)	184	(358)	
54	2019/20 Growth Proposals	1,925	(281)	0	0	
55	Budget Surplus/ (Deficit)	0	0	(17,820)	(195)	
	Proposed Net Revenue Expenditure	447,267	432,639	424,093	429,823	
	Use of Budget Flexibility Reserve	(3,578)	(18,141)	(1,391)	0	
	Use of Earmarked Reserves	(20,272)	(2,747)	(2,415)	(689)	
	Financing Requirement	423,417	411,751	420,288	429,134	
	Specific Grants	31,113	12,492	12,492	12,492	
	Financing Requirement after use of Specific Grants	392,305	399,259	407,796	416,642	