

**MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2023/24
TO 2025/26****JOINT REPORT OF THE CHIEF FIRE OFFICER AND
TREASURER****For Approval****1. PURPOSE OF REPORT****1.1** The purposes of the report are:

- i. to provide an update on the Authority's Medium Term Financial Strategy, which integrates the revenue budget, Asset Management Plan and Reserves Strategy, and underpins the delivery of the Community Integrated Risk Management Plan; and
- ii. to enable Members to consider the recommendations referred from the Executive Committee on 20th January 2023 in relation to the Medium Term Financial Strategy, including the recommended 2023/24 Council Tax level.

2. RECOMMENDATIONS**2.1** The Executive Committee has made following recommendations:

- i) to note the 2023/24 Local Government Finance Settlement provides an increase in Core Spending Power, which at a national level assumes **38%** of this increase will be achieved by all authorities using the available Council Tax flexibility;
- ii) to note the Government has set a Band D Council Tax Referendum limit of £5 for Fire and Rescue Authorities for 2023/24;
- iii) approve a £5 Band D Council Tax increase for 2023/24, which will provide additional recurring resources of £0.552m to help sustain services;
- iv) to note that approving recommendation (iii) will result in 168,344 households (63.8%) having to pay a weekly increase of 7p or less, as highlighted in the following table:

2022/23		2023/24					
Annual Council Tax	Property Band	Annual Council Tax	Weekly Council Tax	Annual Increase	Weekly Increase (pence)	Number households	% households
£54.57	A	£57.91	£1.11	£3.34	6p	119,016.0	45.1%
£63.67	B	£67.56	£1.30	£3.89	7p	49,328.0	18.7%
£72.76	C	£77.21	£1.48	£4.45	9p	48,132.0	18.3%
£81.86	D	£86.86	£1.67	£5.00	10p	24,563.0	9.3%
£100.05	E	£106.16	£2.04	£6.11	12p	13,999.0	5.3%
£118.24	F	£125.46	£2.41	£7.22	14p	5,419.0	2.1%
£136.43	G	£144.77	£2.78	£8.34	16p	2,949.0	1.1%
£163.72	H	£173.72	£3.34	£10.00	20p	296.0	0.1%
						263,702.0	100.0%

- v) to note that on the basis of recommendation (iii) being approved the 2023/24 budget will be balanced by using £0.425m of temporary investment income which will defer this deficit until 2024/25 and provide a longer lead time to address this position;
- vi) approve the updated AMP detailed in **Appendix A** and delegate authority to the Treasurer, in consultation with the Chair of the Authority and Chief Fire Officer, to finalise the 2022/23 and 2023/24 funding strategy to maximise future financial flexibility and resilience of the Authority, within the Prudential Borrowing limits approved by the Authority;
- vii) to note the forecast deficits for 2024/25 to 2025/26 detailed in paragraph 6.20 and to note that once the 2022 and 2023 national pay awards for Fire fighters are agreed an update of the forecasts will be presented to a future meeting to enable work to commence on developing a strategy to address the updated budget position.

- 2.2 On the basis of approving the recommendations detailed in paragraph 2.1 the Authority needs to approve the supporting statutory calculations detailed in **Appendix D** and the 2023/24 Revenue Budget detailed in **Appendix E** (both appendices to follow as at the time the report was prepared not all of the necessary information had been received, including the final 2023/24 Local Government Finance Settlement).

3. **BACKGROUND**

- 3.1 A detailed report was considered by the full Authority on 9th December 2022, which highlighted where the Authority is starting from when preparing the 2023/24 budget and the financial challenges facing the Authority over the next three years. An update report was considered by the Executive Committee on 20th January 2023 and this report provides the same information.

- 3.2 As reported previously there are three key factors which have a permanent impact on the Authority's financial position:

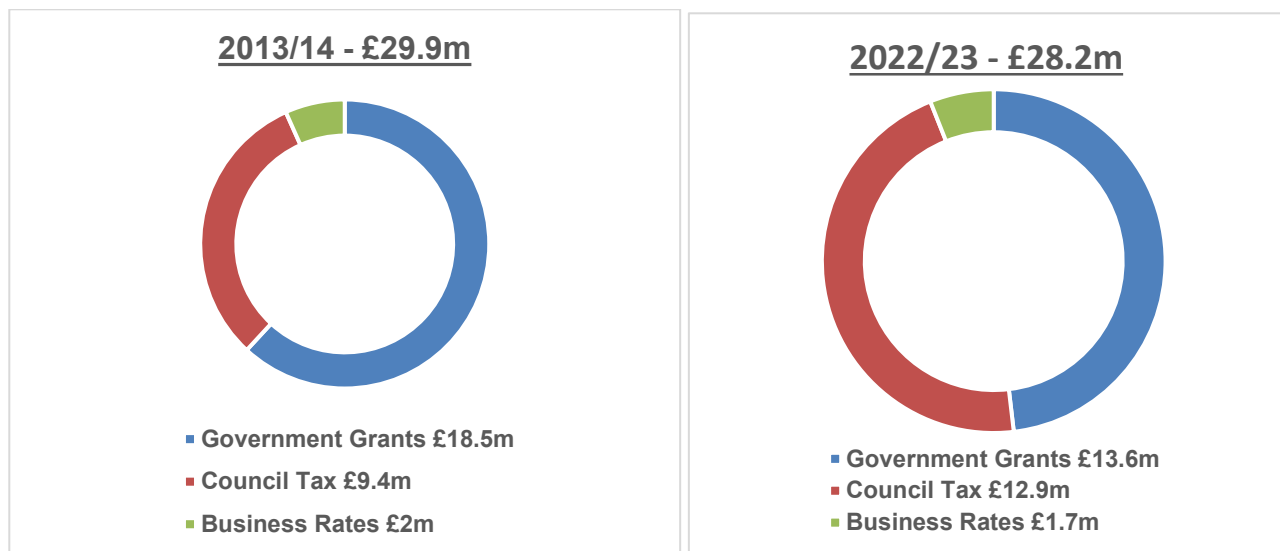
1) Changes in funding mix

There have been two significant changes which impact on recurring resources:

- A reduction in Government funding of **£4.9m** – a reduction of **26%** between 2013/14 and 2022/23.
- An increase in the percentage of the recurring resources funded from Council Tax from **31%** in 2013/14 to **46%** in 2022/23 – an increase of **£3.5m**.

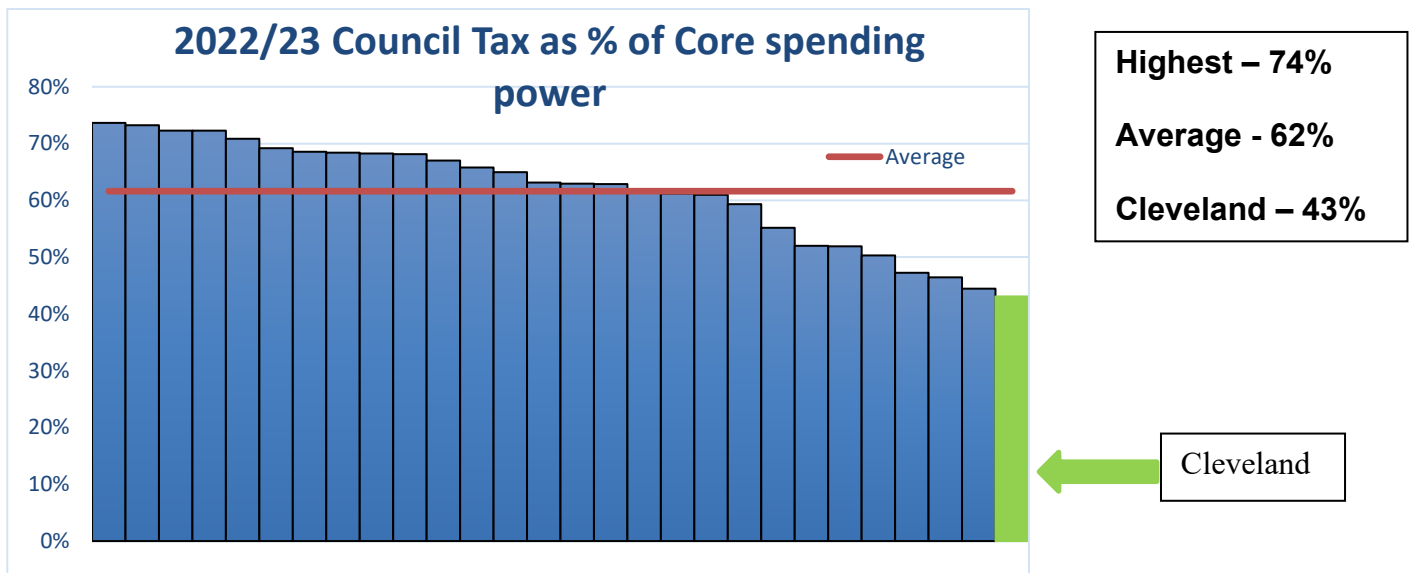
These changes are summarised in the following charts:

Changes in recurring funding 2013/14 to 2022/23



2) Low Council Tax base

The Authority has a low Council Tax base as **45%** of properties are in Band A, the lowest Council Tax band, compared to **24%** nationally. This means the Authority raises the lowest proportion of Core Spending Power from Council Tax than any other Fire and Rescue Authority (FRAs), as summarised below:



The Authority has no control over planning decisions to approve new housing developments, which increase the Council Tax base. Councils are responsible for encouraging housing growth. The scope to shift the balance of the Council Tax base towards higher value properties is determined by local economic conditions and the affordability of housing. The reality of the situation is the percentage of our Spending Power funded from Council Tax will remain low and will probably never match the FRA average.

As a consequence of the low Council Tax base the Authority remains reliant on Government grant, technically referred to as Settlement Funding Assessment (SFA), which in 2022/23 is **48% (£13.6m)** of recurring resources. The future level of this funding is therefore critical to the financial sustainability of the services provided by the Authority.

3) Impact of previous budget reductions

As a result of previous reductions in Government funding and the low Council Tax base the Authority will continue to face ongoing financial challenges. This position needs to take account of previous reductions:

- **33% reduction** in the number of **whole time firefighter posts** from 494 in 2010/11 to 330 in 2021/22.
- **33% increase** in the number of **retained duty system firefighter posts** from 72 in 2010/11 to 96 in 2021/22.
- **38% reduction** in the number of **fire control posts** from 26 in 2010/11 to 16 in 2021/22.
- **14% reduction** in the number of **non-uniformed support posts** from 129.21 in 2010/11 to 110.65 in 2021/22.
- **30% reduction** in number of Elected Members from 23 to 16 – effective from June 2016.

3.2 In summary the Authority is starting 2023/24 with:

- less cash funding than in 2013/14;
- a low Council Tax base which means a much lower proportion of spending is funded from Council Tax than is the case for the average FRA; and
- continued reliance on the level of Government funding.

4. LOCAL GOVERNMENT FINANCE SETTLEMENT 2023/24

4.1 The provisional settlement was issued on 19th December 2022 and the key issues are highlighted in the following paragraphs. The final settlement had not been issued when this report was prepared and a verbal update on any changes will be provided at the meeting.

4.2 Headline increase in Core Spending Power

4.3 This is the Government's measures for comparing all funding 'made available' through the Local Government Funding Settlement. The headline national increase is **9.2%** - a cash increase of **£5 billion** as follows:

Total Core Spending Power Increase

Council Tax and Adult Social Care (ASC) precept income	£1.916 billion
Other Grant increase	£1.581 billion
Social Care Grant	£1.506 billion
Total Core Spending Power Increase	£5.003 billion

4.4 As highlighted in the above table the Government's total Core Spending Power increase is based on the assumption that all authorities will use the available Council Tax and ASC flexibility. On this basis **38% - £1.916 billion** of the national increase in Core Spending Power will need to come from Council Tax and ASC precepts. This highlights the continued reliance of the current funding system on Council Tax to partly fund local services.

4.5 The provision of additional funding for Social Care and the increase in Council Tax limits, including the ASC precept, means that Spending Power increases are greatest for Social Care authorities.

4.6 Government figures for Spending Power increases are summarised below and are based on the full Council Tax flexibility being used by all authorities. If this flexibility is not used the actual Spending Power increases will be lower. For Fire and Rescue Authorities (FRAs) the Council Tax limit has been changed from a 2% limit to a £5 Band D increase for 2023/24.

Comparison of Spending Power Increases

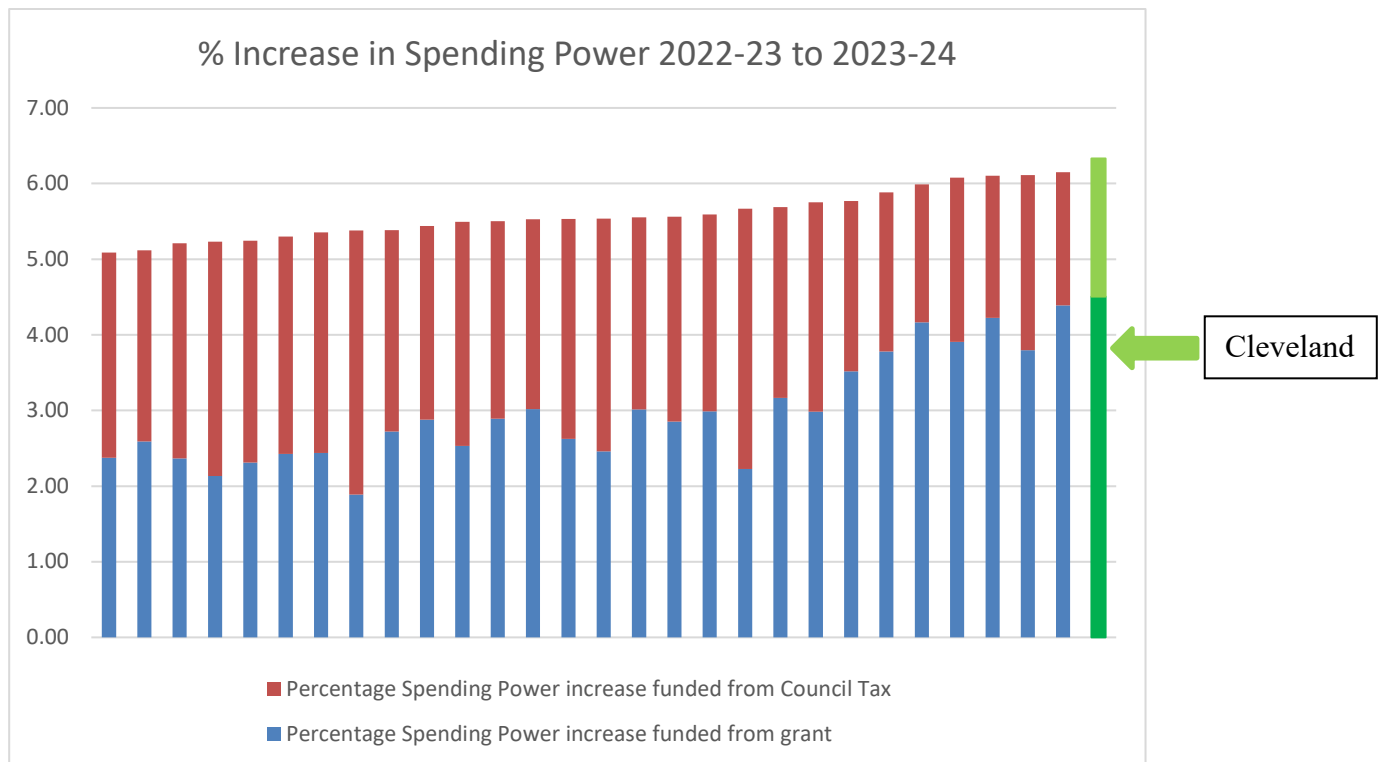
	Spending Power Increase
Metropolitan councils total	10.2%
Total for England	9.2%
Unitary councils total	9.0%
Standalone Fire Authorities	5.7%
District Councils	5.0%

4.7 An analysis of Government Spending Power increases for FRAs shows that the Authority benefits from the distribution formula used for Government grant funding, which partly mitigates the low Council Tax base of the Authority. Whilst this does not reverse the impact of previous funding reductions the 2023/24 distribution provides a more equal increase in Spending Power increases for all FRAs. This is a critical issue as all FRAs face the same financial pressures in relation to the outstanding 2022 and 2023 Fire Fighters pay awards and inflation. The Settlement for 2023/24 means that:

- FRAs with a low Council Tax base, including this Authority, are compensated for this position through the grant formula and therefore raise less of their Spending Power increase from Council Tax; and
- Conversely FRAs with a high Council Tax base are expected to raise more of their Spending Power increase from Council Tax.

Comparison of Government's forecast increase in FRA's 2023/24 Core Spending Power

Total Spending Power increase		Spending Power increase from Council Tax	Spending Power increase from Grant
6.3%	Cleveland (highest)	29%	71%
5.7%	Average FRA	47%	53%
5.1%	Lowest FRA	53%	47%



At this stage the Government figures shown in the above tables are based on a 3% Council Tax Referendum limit, the £5 limit will be included in the final settlement. This will change the above figures and mean that FRAs with a higher tax base see a higher increase in Core Spending Power than is currently shown.

4.8 Period covered by settlement

4.9 The detailed settlement is for 2023/24 and this is the fifth one-year settlement in a row and therefore continues to hamper financial planning and financial sustainability.

4.10 The settlement was supported by a policy statement which provides some information in relation to the 2024/25 settlement. The detailed impact on individual FRAs will not be known until the actual 2024/25 settlement is provided and the Government has made final decisions. These issues cover:

- 2024/25 Council Tax limit – it is unclear if the £5 Band D Council Tax limit will also apply for 2024/25, or will revert to either a 2% or a 3% limit; and
- Major grants will continue and the Revenue Support Grant will be uplifted by the September 2023 CPI.

4.11 Services Grant

4.12 This was a new grant in 2022/23 of £822m nationally. For 2023/24 the national grant has been reduced to £464m to remove the funding provided for the National Insurance increase which has been reversed.

4.13 Pension Grant

- 4.14 As was the case in previous years this grant is not part of the Provisional Settlement. For planning purposes the separate Pension grant of £1.4m is expected to continue in 2023/24 and future years.

5. IMPACT OF PROVISIONAL 2023/24 LOCAL GOVERNMENT SETTLEMENT ON RESOURCES

- 5.1 Previous MTFS reports highlighted the significant uncertainty regarding Government funding for 2023/24 over the summer owing to national political uncertainty. This resulted in two major financial statements by two separate Chancellor's and a late provisional 2023/24 Local Government Finance Settlement. As highlighted in the previous section the settlement is better than forecast and partly recognises the inflation pressures facing authorities.
- 5.2 For this Authority the provisional settlement provides an increase in grant funding for 2023/24 of £0.593m as summarised below:

Increase / (decrease) in Government Grant Funding 2023/24

	23/24 MTFS forecast £'m	23/24 Settlement figure £'m	Increase /(decrease) in funding £'m	Percentage Increase /(decrease) in funding
Revenue Support Grant	5.517	6.077	0.560	10.2%
Top Up grant	7.434	7.749	0.315	4.2%
Services Grant	0.646	0.364	(0.282)	(43.7%)
Total	13.597	14.190	0.593	4.4%

- 5.3 The Government's decision to set a 2023/24 Band D Council Tax referendum limit of £5 for FRAs provides the Authority with the opportunity to secure additional recurring Council Tax income of **£0.552m** – compared to a 1.9% increase.

6. UPDATE OF MTFS FORECASTS 2023/24 to 2025/26

- 6.1 The planning environment remains extremely challenging and there is significant uncertainty regarding 2023/24 inflation. The MTFS has been updated to reflect the factors detailed in the following paragraphs.
- 6.2 **National Pay awards** - the budget for 2023/24 will need to be set before both the 2022 and 2023 national Fire Fighters pay awards are set. This position is unprecedented and coincides with a period of high inflation and significant industrial action across the public sector.

- 6.3 As reported previously pay accounts for approximately 80% of the budget and the MTFS for 2023/24 makes a prudent provision for national pay awards. However, if actual pay awards for 2022 and 2023 exceed this provision by 1% there will be and unbudgeted pressures of approximately **£0.480m** in 2023/24.
- 6.4 The position in relation to the national pay award for green book employees, payable from April 2023, is also uncertain. At a national level the National Living Wage will have a significant impact on the starting point for the pay spine. As green book pay accounts for around 14% of the Authority's budget this issue is less significant than the national fire fighters pay award. However, until the national green book pay award is settled this is also a potential financial risk.
- 6.5 **Business Rates** - the budget position will also be affected by changes in Business Rates income and section 31 grants received by the Authority. This position is complicated by the introduction of new rateable values on 1st April 2023, the continuation of various business reliefs and payment of section 31 grant to compensate authorities, and the payment of section 31 grant to compensate authorities for the under-indexing of business rates. An initial assessment of these issues has been completed and a **£0.4m** benefit forecast.
- 6.6 **Asset Management Plan (AMP)** – the current AMP was prepared before the significant increase in inflation and expectation of continuing inflation in 2023/24. An assessment of the impact of inflation on the AMP has been completed and further annual reviews will be required until inflation returns to the Bank of England target level of 2%. Based on this assessment the forecast cost of the approved 2022/23 to 2027/28 plan has increased by £1.913m.
- 6.7 In addition to the impact of inflation on the existing AMP, provision also needs to be made for the following capital costs:

- Drill Towers - £0.191m

As previously reported the AMP includes works to drill towers (at Thornaby, Redcar, Billingham, Saltburn and QMC Learning and Development Centre) to ensure these remain available for operational training requirements in relation to fires in multi- storey buildings and line rescue. It has been identified during the current procurement process that the cost of these works will exceed the existing budget provision owing to the impact of construction industry inflation. Part of this increase can be funded from the managed underspend on non pay budgets in the current year, although there is still a residual funding shortfall of £0.191m.

- Wind Turbine (with burner) - £0.3m

The expansion of wind farms as a source of renewable energy is taking place across our area and in line with our risk management arrangements it is proposed to build a facility at Queens Meadow to enhance the existing training facilities to deal with incidents on such structures /facilities. The facility will be available for internal use and potential external training / hire, which could provide a future revenue stream.

- Fire Control Mobilising Technology - £0.4m

As reported the Authority will join a collaborative procurement with three other FRAs to replace the existing system which is approaching the end of its operational life. It is expected the capital costs will exceed the existing AMP budget provision of £0.3m by £0.4m. Additionally, recurring licensing costs which will commence in 2024/25 are also expected to exceed the existing base budget. The revenue costs will need to be addressed when the 2024/25 budget is prepared and the position is more certain.

- 6.8 In terms of funding the additional capital costs it is recommended that at this stage provision is included in the revenue budget to fund these costs using Prudential Borrowing. This approach will protect the Authority's reserves until the position on national pay awards for 2022 and 2023 is certain, as in the short-term any unbudgeted pay costs may need to be funded from one off resources if these costs exceed the forecast increases. This will only be a temporary option as any increase in recurring pay costs greater than the budget provision will need to be funded by making permanent budget cuts. In the event that actual pay awards are within the forecast level the capital funding strategy can be reviewed and the level of Prudential Borrowing can be reduced.
- 6.9 Based on the above strategy the additional revenue cost is £0.136m and the updated AMP is detailed in **Appendix A**.
- 6.10 **Summary impact on 2023/24 budget** - on the basis of the updated planning assumptions detailed in the previous paragraphs the Authority can reduced the previously forecast 2023/24 budget deficit from **£1.841m** to **£0.425m** through the increase in net resources of **£1.416m**, as summarised below. For completeness the table shows the impact of not using the £5 Band D Council Tax flexibility, which would result in a budget deficit of **£0.977m**.

Revised 2023/24 Budget Deficit

	Position with 1.9% Council Tax increase £'m	Position with £5 Band D Council Tax increase £'m
Deficit reported 09.12.22	1.841	1.841
Less - Increase in Government grant	(0.593)	(0.593)
Less Additional Council Tax base growth	(0.007)	(0.007)
Less - Additional recurring Council Tax income from £5 Band D increase	0.000	(0.552)
Less - Increase in Business Rates / Section 31 grant income	(0.400)	(0.400)
Add – Impact on inflation on AMP	0.136	0.136
Deficit still to be addressed	0.977	0.425

- 6.11 On the basis of Members approving a £5 Band D Council Tax increase it is recommended that the remaining 2023/24 deficit of **£0.425m** is funded from temporary investment income. As reported previously the opportunity was taken in late summer to take advantage of interest rate volatility and secure 12 month investment interest rates of 5.3%. This secures investment income of £0.5m. This income is not sustainable as the Authority will use reserves to fund the AMP and interest rates are not expected to remain at this level - current 12 month interest rates are 4.6%.
- 6.12 The strategy of using temporary investment income is appropriate and whilst this will defer a deficit of £0.425m from 2023/24 to 2024/25 the strategy provides time to see if inflation falls as predicted by the Bank of England and for national pay awards for Fire fighters to be settled. Resolution of these issues will then provide a more stable basis for future financial planning.
- 6.13 **Budget Forecast up to 2025/26** – as indicated in previous paragraphs the financial environment remains uncertain and is driven by factors outside the Authority's control - i.e. inflation and national pay awards. The Government's provisional 2023/24 Local Government Finance Settlement recognises this risk and indicates that for 2024/25 grants will increase in line with the September 2023 CPI. This increase should apply to all authorities, although the exact position will not be confirmed until Government issues the 2024/25 settlement.
- 6.14 For planning purposes no increase in grants is currently forecast as it is expected this will need to be allocated to fund higher inflation pressures not yet reflected in the forecast deficit for 2024/25. At best the planning assumption is that these issues will be budget neutral for 2024/25, although there is a risk this is not the case as detailed later in the report. The position will be updated when the 2024/25 budget is prepared and there is more certainty regarding these issues.
- 6.15 On the basis of the strategy recommended for setting the 2023/24 budget the updated three year position is summarised below and shows the base line deficits for 2023/24 to 2025/26 has reduced from **£2.270m** to **£1.008m**. This is a reduction of around £1.3m which reflects the increase in recurring 2023/24 resources.

Updated Baseline Forecast Deficit 2023/24 to 2025/26

	2023/24	2024/25	2025/26	Total
Council Tax increase	£5	1.9%	1.9%	
Revised Baseline Deficit	£0.425m	£0.356m	£0.227m	£1.008m
Less – Use of temporary investment income to defer deficit from 2023/24 to 2024/25	(£0.425m)	£0.425m	£0m	£0.000m
Rephased Baseline Deficit	£0m	£0.781m	£0.227	£1.008m

- 6.16 The above forecasts are based on a 1.9% Council Tax increase for 2024/25. If the Government continue the £5 limit this could potentially provide additional recurring Council Tax income which would reduce the three years deficits from £1.008m to £0.447m, as highlighted below. This position would be more manageable and supports the use of one off temporary investment income in 2023/24 budget as this provides time for additional recurring Council Tax income to be achieved in 2024/25.

Updated Baseline Forecast Deficit 2023/23 to 2025/26 – with a
£5 Council Tax Referendum limit applying for two financial years

	2023/24	2024/25	2025/26	Total
Council Tax increase	£5	£5	1.9%	
Rephased Baseline Deficit	£0m	£0.781m	£0.227m	£1.008m
Less – additional recurring Council Tax income from a 2024/25 increase of £5, compared to a 1.9% increase #	(£0m)	(£0.544m)	(£0.017m)	(£0.561m)
Reduced Baseline Deficit	0	£0.237m	£0.210m,	£0.447m

The £17,000 additional income for 2025/26 reflects the impact of applying a 1.9% increase to the higher 2024/25 base income figure if a £5 increase is implemented in 2024/25.

- 6.17 **Risk Scenarios 2023/24 to 2025/26** - the settlement for 2023/24 has removed the risk of Government grant cuts for 2023/24 and 2024/25. The position for 2025/26 will be determined by the next Spending Review and whether delayed reforms of the national funding system are implemented.
- 6.18 The major risk for the next three years, particularly for 2023/24, remains the level of inflation and national pay awards. If actual inflation and pay awards exceed the MTFS forecasts by 1% each year this would increase the forecast total budget deficit by approximately £1m, which underlines the importance of these factors.
- 6.19 The position is summarised in the table below, which also highlights the impact of the £5 Council Tax referendum limit either applying just for 2023/24, or for 2023/24 and 2024/25. All scenarios are based on the recommended use of temporary investment income to balance the 2023/24 budget, which defers a deficits of £0.425m to 2024/25.
- 6.20 The forecasts will be updated during 2023 once the outcome of national pay settlements for Fire Fighters for 2022 and 2023 are known, and the outlook for inflation becomes more certain.

Planning Scenarios - Alternative potential budget deficits 2023/24 to 2025/26

	2023/24 deficit	2024/25 deficit	2025/26 deficit	Total deficit	Total Deficit as percentage of 2022/23 budget
	£'m	£'m	£'m	£'m	
Updated Baseline forecast - scenario 1 (details paragraph 6.16)	0.000	0.781	0.227	1.008	3.3%
Key planning factors					
<ul style="list-style-type: none"> £5 Council Tax limit only for 2023/24, then 2% 					
Best Case – scenario 2 (details paragraph 6.16)	0.000	0.237	0.210	0.447	1.5%
Key planning factors					
<ul style="list-style-type: none"> £5 Council Tax limit for 2023/24 and 2024/25, then 2% 					
Mid Case – scenario 3	0.281	0.564	0.553	1.398	4.7%
Key planning factors					
<ul style="list-style-type: none"> £5 Council Tax limit for 2023/24 and 2024/25, then 2% <u>Plus impact of 1% additional inflation for 3 years</u> 					
Worst Case – scenario 4	0.281	1.108	0.570	1.959	6.6%
Key planning factors					
<ul style="list-style-type: none"> £5 Council Tax limit only for 2023/24, then 2% <u>Plus impact of - 1% additional pay award and inflation per year for three years</u> 					

7. RESERVES REVIEW

- 7.1 Reserves are a key element of the Authority's financial planning arrangements and enable financial risks and spending priorities to be managed over more than one financial year, where these activities support the Authority's strategy to deliver a good quality of service to the public. Provisions within the Local Government Act 1992 require authorities to have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. A comprehensive review of reserves was approved as part of the 2022/23 budget process. This review released part of the Budget Support Fund (£2.830m) to fund the AMP and reduce the use of Prudential Borrowing.

- 7.2 The remaining Budget Support Fund of £2.920m was retained to manage ongoing financial risks regarding Government funding, national Fire Fighters Pay awards and inflation. Whilst the 2023/24 settlement has removed the risk regarding Government funding for the next two years the risks in relation to national pay awards and inflation remain and are potentially greater than when the reserves review was completed. Until these issues are resolved the existing Budget Support Fund remains appropriate.
- 7.3 This section details how the Authority's Reserves Strategy underpins the MTFS by helping to manage financial risks / uncertainty and outlines how the Authority complies with the requirements outlined in the Fire and Rescue National Framework for England in relation to Reserves, as detailed in **Appendix B**.
- 7.4 The Authority holds both Earmarked Reserves and an Unearmarked General Fund Reserve. Earmarked reserves make up 88% of the Authority's Reserves and are held to spread the cost of large scale capital projects over a number of years, to support the revenue budget and to meet other one off commitments.
- 7.5 In the event that circumstances change and individual Earmarked Reserves are not needed, or the calls on these reserves are less than currently forecast, the position will be reviewed when the MTFS is updated. This will ensure the Reserves Strategy continues to underpin the MTFS and the financial resilience of the Authority.
- 7.6 **Reserves Benchmarking**
- 7.7 The national reserve figures consist of two components – Earmarked Reserves and General Fund Reserve and the following table compare Cleveland's position with the national average.

Split between Earmarked Reserves and General Fund Reserve

The Authority's split of reserves is broadly in line with the national total.

	Cleveland	National total
Earmarked Reserves	88%	86%
General Fund Reserves	12%	14%
Total	100%	100%

General Fund Reserve as a percentage of Spending Power

	Cleveland	National average
General Fund Reserve	5.7%	5.6%

- 7.8 The previous paragraphs provide comparative national information at 31.02.22. The following paragraphs provide more update information on the forecast position of the Authority's reserves at 31.03.23.

7.9 The Authority's Earmarked Reserves

7.10 The Authority's Earmarked Reserves fall into three categories as detailed in **Appendix C** and the forecast position at 31.03.23 is summarised in the following paragraphs.

7.11 **Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS - £7.305m forecast balance 31.03.23**

7.12 These reserves relate to three keys areas:

- **Budget Support Fund Reserve (£2.920m)** – this reserves is earmarked to manage financial risks and uncertainties regarding national pay awards, inflation and the level of Government funding from 2025/26. Using this reserve to manage the recurring impact of these risks materialising would not provide a permanent solution. However, it would provide a longer lead time to address this position should it arise, which would be more manageable than implementing in-year measures to reduce costs.
- **Earmarked Capital Reserves (£3.123m)** - allocated to support the Authority's Asset Management Plan which provides funding to replace operational vehicles and equipment. The balance includes the amount transferred from the Budget Support Fund as detailed in the previous paragraphs.
- **Earmarked Revenue Reserves (£1.262m)** - allocated to fund Collection Fund deficits, installation of fire alarms and managing income risks for services funded from specific grant/external funding.

7.13 **Category 2 - Funding for specific projects and programmes beyond the current planning period - £2.320m forecast balance 31.03.23**

7.14 The Authority reserves under this category are:

- **Capital Phasing Reserve (£1.376m)** - this reserve will be used over a number of years to smooth the interest and loan repayment costs which are charged to the annual budget. The reserve recognises that the annual charges, which arise from the use of Prudential Borrowing are uneven. The reserve therefore avoids temporary increases/decreases in the annual charge to the revenue budget, which would impact on resources available to fund services.

This reserve achieves the same objectives as a PFI (Public Finance Initiative) Smoothing reserve operated by FRAs which implemented PFI schemes to address building condition issues.

The reserve will be used on a phased basis commencing in 2024/25 and by 2031/32 the reserve will have been fully used.

- **Other Reserves under this category (£0.944m)** – as detailed in Appendix C the main items are resources earmarked for Invest to Save, Breathing Apparatus replacement, Grenfell Action Plan and Property issues.

- 7.15 **Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management - £0.517m balance 31.03.23.**
- 7.16 The Authority only holds one reserve within this category – the Insurance Fund. This is earmarked to fund payments that fall within the Authority's insurance policy excesses.
- 7.17 **The Authority's General Fund Reserve - £1.552m 31.03.23**
- 7.18 The Authority also holds an Un-earmarked General Fund Reserve. As a single purpose authority, the Authority has no opportunity to use cross service subsidies to meet unanticipated expenditure, so this reserve is a key component of our strategy for managing financial risks.
- 7.19 This is the only uncommitted reserve held by the Authority and equates to 4.9% of the proposed 2023/24 revenue budget – which equates to only three weeks expenditure.
- 7.20 This reserve is broadly in line with the 5% level suggested in the Fire and Rescue National Framework for England guidance.
- 7.21 The level of this reserve is considered appropriate and has been set at this level to reflect recurring financial risks facing the Authority not covered by other reserves. If these risks materialise this would have an adverse financial impact on the Authority and use of this reserve would avoid an immediate impact on the level of resources available to fund services to the public and therefore avoid the need for in year budget cuts.
- 7.22 The potential one off events relate to:
- **Business Rates income risks** - the overall business rates base for the authority's area consists of a number of major rate payers where business rates income is volatile as Rateable Values can reduce significantly on a temporary basis. For example in 2016/17 Rateable Value reductions resulted in a collection fund deficit (i.e. reduction in Business Rates income) for the Authority of £0.615m. This situation could potentially be repeated if the Nuclear Power station had an unplanned shutdown, as the Valuation Office Agency would approve a temporary rateable value reduction.
 - **Incident costs** - as the Authority previously reduced the budget there are less resources and therefore less resilience to deal with major incidents, particularly in relation to COMAH sites. In the event that the Authority had to rely upon mutual aid to support a major incident the Authority would have to fund recharges from other Fire and Rescue Authorities. As there is no budget provision for these costs they would need to be funded from this reserve.

8. **ROBUSTNESS ADVICE AND CONCLUSIONS**

- 8.1 Prior to 2020/21 the Authority had managed nine years of austerity and cuts in Government grant funding. As the majority of the budget is spent on front line services the Authority has made significant changes, including reductions in the number of whole time Fire fighter posts, as detailed in section 3.
- 8.2 Since the 2022/23 budget was set the level of inflation has increased significantly and in October 2022 CPI was 11.1%. This underlines the scale of the increase in inflation. The main impact on the budget deficit will be how this feeds through to national pay awards as the Government has said additional funding will not be provided. Therefore, the level of national pay awards will determine the size of the budget deficit facing the Authority.
- 8.3 The Local Government Finance settlement is only for 2023/24. However, a policy statement issued alongside the settlement provides early indication that 2023/24 funding will continue in 2024/25, which helps with financial planning.
- 8.4 The key feature of the Government's approach to funding local services, including services provided by FRAs, is reliance on a mix of increased grant funding and increased Council Tax limits. As Council Tax limits are year specific if they are not used the income is permanently lost. Authorities not using the available Council Tax flexibility will find it very difficult to argue for additional Government funding in future years.
- 8.5 For FRAs the Band D Council Tax referendum limit for 2023/24 is £5. As detailed in the recommendations the majority of households will pay a lower increase – which for the 64% of households in Band A and B is an annual increase of either £3.34 (6p per week) or £3.89 (7p per week) respectively.
- 8.6 From a budget perspective the £5 Band D limit is helpful and provides recurring funding of **£0.552m**, which alongside the increase in Government grant funding of **£0.593m** provides a significantly more robust position for the 2023/24 budget than forecast.
- 8.7 Achieving the increase in Council Tax income is particularly important for the Authority's financial sustainability and managing budget risks. This includes having to manage the situation of setting the 2023/24 budget before national pay awards for Fire Fighters for 2022 and 2023 have been resolved. There is clearly a risk that if the actual pay settlements exceed the budget forecast then costs will exceed the 2023/24 budget and the three year budget deficit will be higher than forecast.
- 8.8 As Members are aware an annual decision is needed to increase the Council Tax level and the income that is then raised. For many other taxes the income raised increases automatically. For example:-
- In a period of inflation if VAT stays at 20% it is paid on the higher cost of goods / services and this increases VAT income received by the Government;

- Similarly, as wages rise additional income tax receipts are generated by the Treasury if income tax thresholds are frozen. This is known as “Fiscal drag” as people pay either 20% income tax on any pay award they receive, or more people pay 40% income tax if their pay increase pushes their income above the relevant tax threshold.

8.9 The recommended Council Tax increase provides the most robust basis for setting the 2023/24 budget and the increased recurring income will help protect services during a period of unprecedented financial uncertainty and continuing high level of inflation.

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