

**MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2022/23 TO 2025/26**



**JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER**

**For Approval**

**1. PURPOSE OF REPORT**

- 1.1 The report sets out 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.
- 1.2 The report enables Members to consider the recommendations referred by the Executive Committee in relation to the Medium Term Financial Strategy, including the 2022/23 Council Tax level.

**2. RECOMMENDATIONS**

- 2.1 The Executive Committee has recommended that Members note the report and approve the following recommendations:
  - (i) Note the 2022/23 Government’s forecast Spending Power increases are predicated on most FRAs increasing Council Tax by the 2% referendum limit;
  - (ii) Approve the proposal to balance the 2022/23 budget from a combination of a 1.9% Council Tax increase and increase in Government funding and approve the supporting statutory calculations detailed **Appendix E** and 2022/23 Revenue Budget detailed in **Appendix F** (both appendices to follow as at the time the report was prepared the final 2022/23 Local Government Finance Settlement had not been issued by the Government);

2021/22		2022/23			
Annual Council Tax	Property Band	Annual Council Tax	Weekly Council Tax	Annual Increase	Weekly Increase (pence)
£53.55	A	£54.57	£1.05	£1.02	2.0
£62.48	B	£63.67	£1.22	£1.19	2.3
£71.40	C	£72.76	£1.40	£1.36	2.6
£80.33	D	£81.86	£1.57	£1.53	2.9
£98.18	E	£100.05	£1.92	£1.87	3.6
£116.03	F	£118.24	£2.27	£2.21	4.2
£133.88	G	£136.43	£2.62	£2.55	4.9
£160.66	H	£163.72	£3.15	£3.06	5.9

Approximately 64% of households are in Band A or B

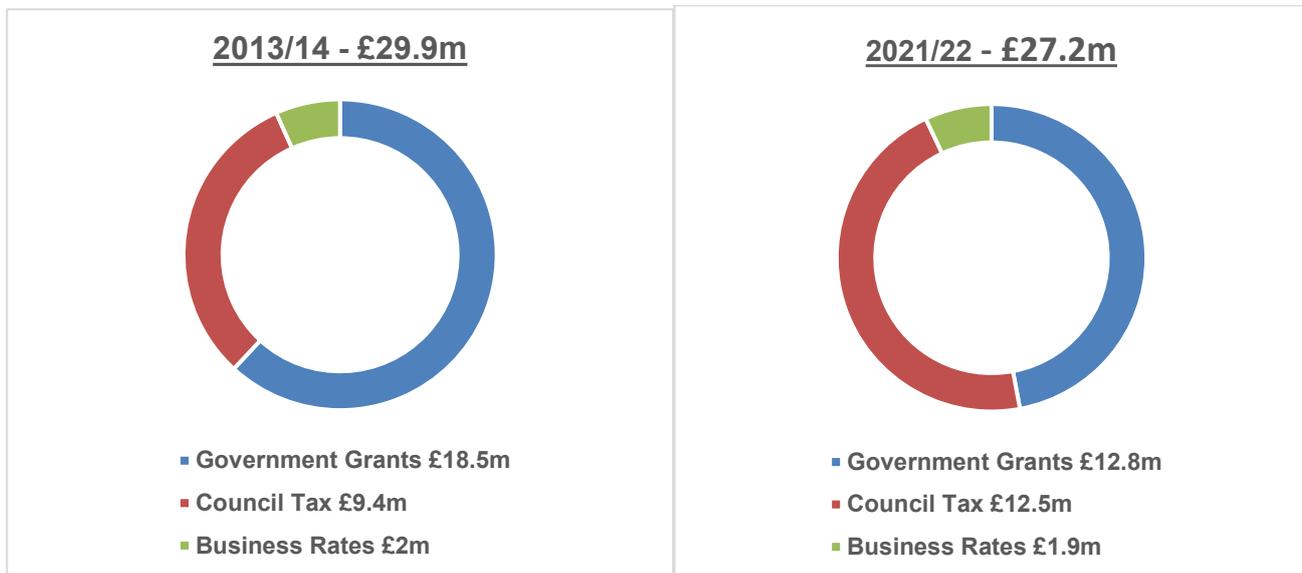
- (iii) To address the forecast deficit for 2023/24 to 2025/26 of £551,000 instruct the Chief Fire Officer to develop a contingency plan to address the potential deficit;
- (iv) Note the forecast deficits detailed in recommendation (iii) may increase if national pay awards are greater than 2% per annum, or the Pension Grant does not continue at the same level;
- (v) Approve the Reserve Strategy detailed in section 7, including noting the reduction in financial risks and uncertainty, and approve the reduction in the Budget Support Fund from £5.706m to £2.876m, with the resources released of £2.830m being allocated to fund the AMP and reduce the level of Prudential Borrowing.
- (vi) Approve that as a fall back Prudential Borrowing limits include £2.830m be set for the AMP to enable the Budget Support Fund to be reinstated in 2023/24 if the forecast budget deficits increase and to note if these limits need to be used details will be reported to a future meeting.
- (vii) Approve the updated Asset Management Plan detailed in Appendix C.

### 3. **BACKGROUND**

3.1 In developing the MTFs for 2022/23 and beyond it is useful to reflect on the impact of previous reductions in Government funding which had two significant impacts on recurring resources:

- A reduction in Government funding of **£5.7m** – a reduction of **31%** between 2013/14 and 2021/22.
- An increase in the percentage of the budget funded from Council Tax from **31%** in 2013/14 to **46%** in 2021/22.

These changes are summarised in the following charts:

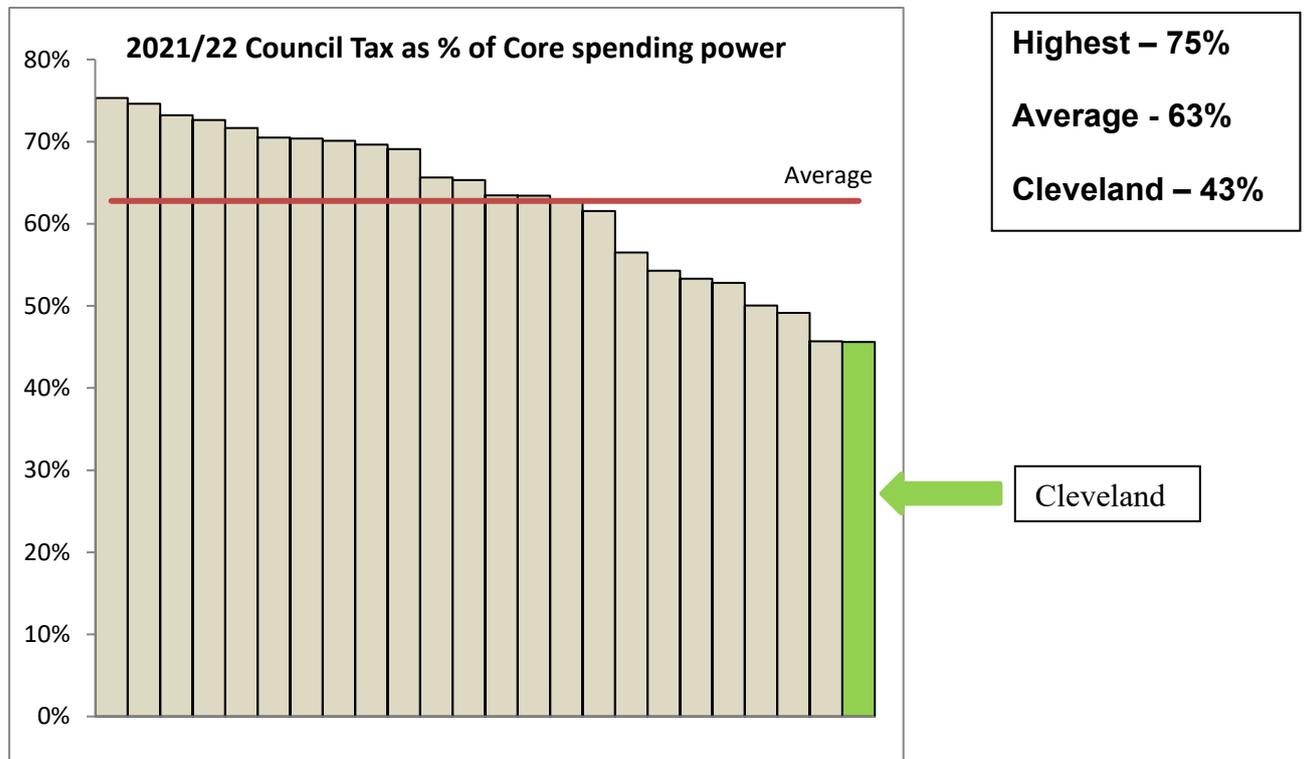
**Changes in recurring funding 2013/14 to 2021/22**

- 3.2 The cash reduction in the recurring funding takes no account of the impact of national pay awards and other inflation pressures, which had to be managed within the reduced cash budget. Based on the Bank of England's inflation calculator the 2021/22 recurring funding would have been approximately **£35m** if it had kept pace with inflation – which is **£7.8m** more than the actual recurring funding. This highlights the scale of the financial challenge previously managed by the Authority and the Chief Fire Officer.
- 3.3 As pay and inflation pressures have had to be funded from a reduced recurring resource base this has resulted in significant operational changes which required very careful management by the Chief Fire Officer. Clearly, given the scale of these reductions the Authority will find it extremely difficult to make further budget reductions.

**Summary of previous budget 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.

3.4 The other key issue for the Authority is the areas low Council Tax base as **46%** of properties are 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:



3.5 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 2021/22 is **47% (£12.8m)** of recurring resources. The future level of this funding is therefore critical to the financial sustainability of the services provided by the Authority.

**4. BUDGET REQUIREMENT 2022/23**

4.1 The budget requirement reflects the resources needed to implement our CIRMP. The forecasts for 2022/23 and future years were prepared in January 2021 and need to be reviewed to reflect changing external circumstances covering the following key issues:

- **National Pay Awards**

Pay accounts for approximately 79% (£23.3m) of the budget and the level of national pay awards has a significant impact on the budget.

For 2021/22 the Government announced a “pay pause” for the public sector, with the exception of the NHS where a 3% pay award was made. The “pay pause” applied to many areas of the public sector, including the Civil Service, Police and Teachers.

As Firefighters and Local Government pay awards are determined separately by the National Employers Organisation a 1.5% increase for 2021/22 was agreed for Firefighters and a 1.75% increase offered for Local Government – which has not been accepted by the Trade Unions.

The MTFs forecasts are based on annual national pay awards of 2%. With inflation at a significantly higher level and likely to continue at a high level throughout 2022/23 there will be increased pressures for pay awards.

At this stage it is not proposed to increase the 2022/23 forecasts as this would require the identification of new service efficiencies or cuts. There is a risk that higher national pay awards will be made to the Authority's staff and this may be driven by pay awards for other parts of the public sector – including the NHS, Police and Teachers.

If higher pay awards are made a savings plan will need to be developed as each additional 1% increase would increase recurring costs by £230,000.

- **Non Pay inflation**

The November 2021 Consumer Price Index (CPI) was 5.1% and the Retail Prices Index (RPI) was 7.2%. These are the highest November figures since 2011 and include the impact of higher energy and fuel costs. There was further increase to 5.4% in December and inflation is anticipated to continue at a high level for much of 2022/23.

On this basis it would be prudent to include an inflation contingency in the 2022/23 base budget to cover the difference between the MTFs provision of 2% and inflation being 5%. This equates to approximately £160,000.

- **National Insurance increase**

The 1.25% increase in Employers National Insurance contributions will increase recurring costs by £157,000. This commitment will need to be funded from the new Services Grant which is being provided in 2022/23 and further details are provided later in the report.

- **Capital Programme**

Details of the capital programme are provided later in the report and in summary the costs of replacing operational equipment will be higher than when the equipment was last replaced. This increase reflects the cumulative impact of inflation, including the current significant increase. Previous MTFs reports recognised that these additional costs would need to be funded when they arose and built into future budget plans.

At this stage it is recommended that an additional revenue provision of £100,000 is made to begin to address ongoing operational equipment requirements.

- 4.2 After reflecting the above issues the revised 2022/23 budget requirement is summarised below:

Budget Requirement 2022/23

	£'m
Initial forecast budget requirement 2022/23	30.205
Add - Additional inflation provision	0.160
Add - National Insurance increase	0.156
Add – Funding for capital programme – replacement of operational equipment	0.100
<b>Revised Budget Requirement 2022/23</b>	<b>30.621</b>

## 5. 2022/23 RESOURCES

### 5.1 Local Government Finance Settlement Funding

- 5.2 The provisional settlement was issued on 16<sup>th</sup> December 2021 (the last day of Parliament before the Christmas recess). The key issues for standalone FRA's are:

- **Services Grant**

This is a new grant for 2022/23 for councils and FRAs, worth £822 million nationally, and is the most significant general funding increase for many years. For 2022/23 this funding will be distributed using the existing Settlement Funding Assessment formula and this benefits the Authority in 2022/23 as the allocation of this grant makes up a larger proportion of the increase in forecast Core Spending Power than is the case for FRAs which raise a greater proportion of resources from Council Tax. Nationally FRAs will receive **£25.095m** and the Authority **£646,000**.

The Government has indicated that for 2023/24 and beyond they “want to take the time to fully consider its future distribution in consultation with councils”. They have also stated this funding will be excluded from any proposed baseline for transitional support as a result of any proposed funding system changes.

Whilst there are no conditions to this grant this funding needs to cover the Employers National Insurance increase of 1.25% in April 2022 – which commitments **£157,000** i.e. **24%** of these resources.

- **Revenue Support Grant and Top up Grant**

The MTFs forecasts were based on these grants being frozen and this has been confirmed for the Top Up Grant, which is **£7.434m**.

Revenue Support Grant will be increased from £5.354m in 2021/22 to £5.517m in 2022/23 – an increase of **£163,000** – i.e. **3%**



Therefore, whilst the additional Government funding is welcome it further increases ongoing dependency on the distribution of Government funding in 2023/24 and future years.

This means the implementation of the Fair Funding Review and subsequent annual increases in Government funding remain critical issues for the financial resilience of the Authority in 2023/24 and beyond.

For planning purposes it is assumed that the 2022/23 funding allocation will be the minimum allocation in 2023/24 and beyond.

- FRAs with a high Council Tax base have received a lower allocation of the Services Grant as they are able to fund more of their increase in Spending Power from an increase in Council Tax.

This generally applies to the eight FRAs allowed a £5 increase in Council Tax as most of these authorities already raise a higher percentage of Spending Power from Council Tax, than the 43% raised by this Authority, as summarised below:

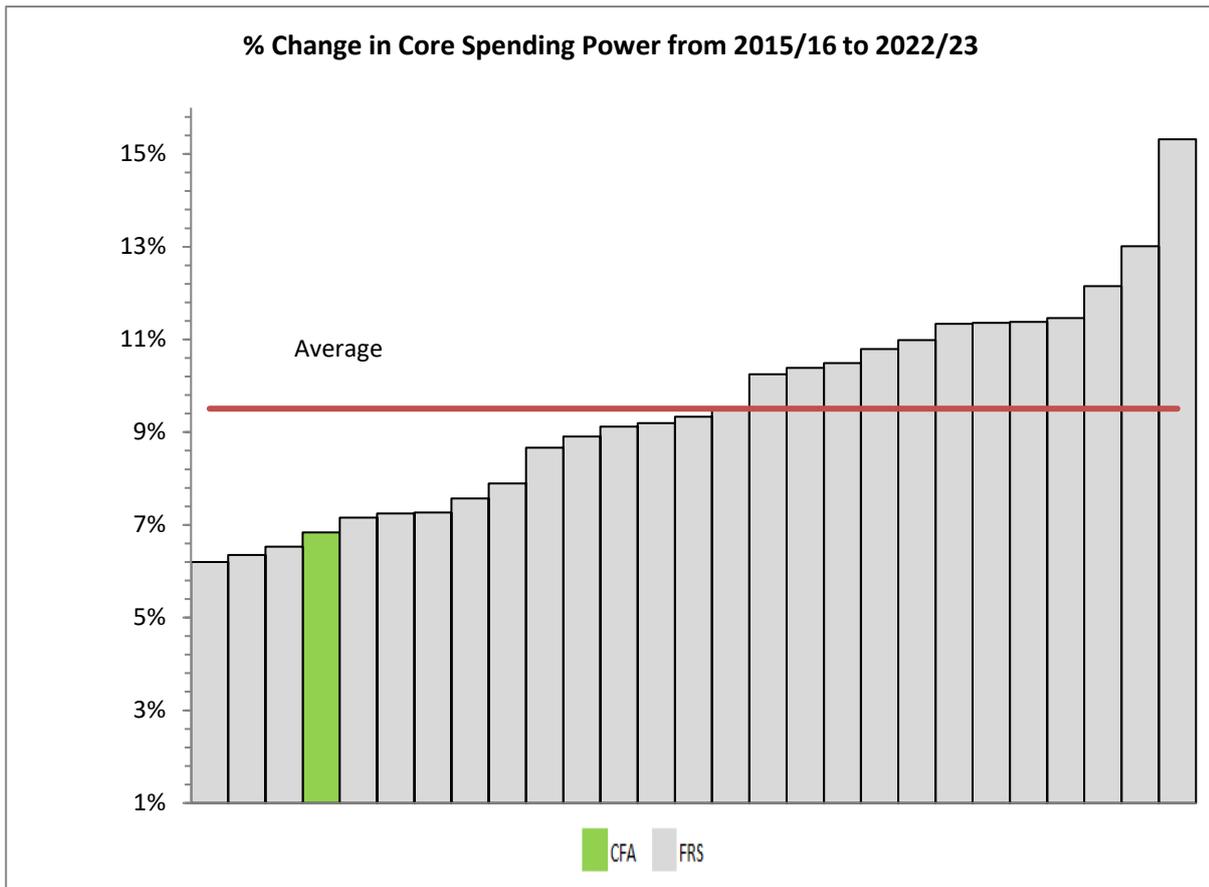
Analysis of FRAs with £5 Council Tax Referendum Limit

	2021/22 Band D Council Tax	2021/22 Percentage of Spending Power funded from Council Tax	2022/23 Government forecast increase in Core Spending Power
Berkshire	£68.95	68%	4.4%
Buckinghamshire	£67.16	72%	4.2%
Hampshire	£70.43	65%	4.5%
Lancashire	£72.27	55%	4.9%
Leicestershire	£69.29	61%	5.0%
Northamptonshire	£63.20	60%	4.9%
West Midlands	£63.04	44%	5.3%
West Yorkshire	£67.18	52%	5.0%

5.5 The increase in Government Funding for 2022/23 of **£0.809m** does not address the recurring reductions up to 2021/22 of **£5.7m**. Therefore, the majority of previous funding cuts are locked into the Authority's base funding. As a result the Authority's Spending Power increase over the period 2015/16 to 2022/23 of 7% is:

- The fourth lowest;
- Significantly below the FRA average of 10%;
- Less than half the Authority with the highest Spending Power increase of 15%

The following table highlights this position:



**5.6 Other Resources**

5.7 These resources consist of Council Tax income, Business Rates Income and Business Rates Section 31 grants. At the time the report was prepared the details of these resources had not finalised as these calculations have again been complicated by changes in Business Rates Reliefs to be implemented for 2022/23. It was reported to the Executive Committee that it was anticipated these resources will be higher than forecast in January 2021. This is still expected to be the case and an update will be presented at the meeting. This position reflects two issues.

- Council Tax base - the economic impact of Covid on the numbers of households eligible for Local Council Tax Support has been less and recovered to pre-Covid levels earlier than anticipated. Additionally, house building has also recovered.
- Business Rates Section 31 grants – higher inflation means that this grant will increase by more than previously forecast.

## 5.8 Summary of 2022/23 Forecast Resources

5.9 In summary the 2022/23 forecast resources have increased to **£30.437m** as summarised below:

Increase in 2022/23 Authority Funding  
(reported to Executive Committee 21.01.22)

	Previous Forecast Resources £'m	Latest Forecast Resources £'m	Increase in forecast resources £'m
Revenue Support Grant	5.354	5.517	0.163
Top up Grant	7.434	7.434	0.000
Pension Grant (to be confirmed)	1.409	1.409	0.000
Service Grant	0.000	0.646	0.646
Covid Council Tax compensation grant	0.147	0.147	0.000
Council Tax, Business Rates and Business Rates Section 31 Grants (to be confirmed)	15.047	15.047	0.000
<b>Sub Total</b>	<b>29.391</b>	<b>30.200</b>	<b>0.809</b>
Recommended 2022/23 Council Tax increase	0.237	0.237	0.000
<b>Total 2022/23 Forecast Resources</b>	<b>29.628</b>	<b>30.437</b>	<b>0.809</b>

## 5.10 2022/23 Revised Budget Deficit

5.11 The increase in 2022/23 Government funding, which is mainly the result of the introduction of the new Services Grant, has a positive impact on resources. Additionally confirmation of the 2% Council Tax referendum limit means that recurring resources of **£0.237m** will be secured from a 1.9% Council Tax increase.

5.12 At the time the Executive Committee considered the budget they were advised that the Council Tax increase and the improved Government grant allocation reduced the 2022/23 budget deficit reduces from **£0.577m** to **£0.184m** as summarised below.

Budget Deficit 2022/23  
(reported to Executive Committee 21.01.22)

	Previous Forecast £'m	Revised Forecast £'m
Budget Requirement	30.205	<b>30.621</b>
Less Forecast Resources – before 2022/23 Council tax increase	(29.391)	<b>(30.200)</b>
<b>Sub Total</b>	0.814	<b>0.421</b>
Less Recommended 2022/23 Council Tax increase	(0.237)	<b>(0.237)</b>
<b>Budget Deficit</b>	0.577	<b>0.184</b>

5.13 The Executive Committee were also advised that it was anticipated increases in local resources (i.e. the Council Tax base, Business Rates and Business Rates Section 31 grants) should address the deficit of £0.184m. This is still expected to be the case and an update will be presented at the meeting.

## 6. **FINANCIAL OUTLOOK 2023/24 to 2025/26**

- 6.1 The financial outlook beyond the current one year settlement for 2022/23 remains uncertain as only **43%** of Spending Power is funded from Council Tax and the remaining **57%** will be determined by national changes to the funding formula – including how the new Services Grant is allocated in 2023/24 and future years.
- 6.2 This funding split is important as without annual increases in both sources of income the Authority will face annual budget deficits. Based on available information annual Council Tax Referendum Limits of 2% are anticipated and will be a key component in increasing Spending Power.
- 6.3 The position in relation to other funding is uncertain and will depend on reforms to the Local Government funding system. The Government funding settlement for 2022/23 is a significant change and provides a robust basis for developing the MTFS. Therefore, for planning purposes it would be prudent to plan for a cash freeze in funding.
- 6.4 The other important factors will be the level of national pay awards and inflation. For planning purposes it is assumed that inflation returns to the Bank of England 2% target from 2023/24, which will reduce both inflationary and pay award pressures. However, this cannot be guaranteed and current inflation pressures may continue into 2023/24 and beyond. As this position is uncertain the planning assumption is 2% for pay and non-pay inflation from 2023/24.
- 6.5 In summary based on the above planning assumptions the forecast budget deficit by 2025/26 is **£0.551m** and is phased as follows:

### Forecast Budget Deficits 2023/24 to 2025/26

	<b>2023/24 £'m</b>	<b>2024/25 £'m</b>	<b>2025/26 £'m</b>
Budget Requirement	31.018	31.419	31.837
Less - Forecast Council Tax income (includes annual increase of 1.9% and annual Tax Base Growth)	(13.362)	(13.769)	(14.203)
Less - Other Funding	(17.463)	(17.463)	(17.463)
<b>Forecast Deficit</b>	<b>0.193</b>	<b>0.187</b>	<b>0.171</b>

- 6.6 It is therefore recommended that the Chief Fire Officer is asked to develop a contingency plan to address this level of deficit so that these proposals can be considered when the 2023/24 Local Government Finance Settlement is issued in December 2022.

6.7 These forecasts are based on two key planning assumptions:

- National Council Tax Referendum Limits will continue at 2% and the Authority will implement annual increases of 1.9%, which by 2025/26 will secure recurring income of approximately £0.755m;
- The Council Tax base will continue to increase, which by 2025/26 will secure recurring income of approximately £0.500m;

6.8 In relation to other planning assumptions there are two key recurring issues which may impact on the forecast deficit detailed above:

- The level of pay and inflation.

If inflation becomes sustained and exceeds the current 2% planning assumption each 1% increase in annual inflation and pay awards would add approximately £0.3m to the annual budget deficit.

- Increase in Government funding

Future funding will not be known until details of planned reforms to the Local Government funding system are announced.

Based on recent trends it is only anticipated that parts of this funding i.e. Revenue Support Grant and Business Rates income may increase.

This only accounts for approximately £7.7m of these resources – so 2% annual increase would only be approximately £0.150m.

- 6.9 On the basis of the above planning assumptions the forecast deficit could increase from £0.551m to between £1.027m and £1.467m, as summarised below:

Forecast budget scenarios 2023/24 to 2025/26

Scenario		2023/24 deficit £'m	2024/25 deficit £'m	2025/26 deficit £'m	Total deficit £'m
<b>1</b>	<b>Baseline Forecast Deficit</b>  Key planning factors <ul style="list-style-type: none"> <li>• 2% annual pay and non-pay inflation,</li> <li>• three year cash freeze in Government funding</li> </ul>	<b>0.193</b>	<b>0.187</b>	<b>0.171</b>	<b>0.551</b>
<b>2</b>	<b>Mid Case</b>  Key planning factors <ul style="list-style-type: none"> <li>• 3% annual pay and non-pay inflation,</li> <li>• 2% annual increase in in Government funding</li> </ul>	<b>0.344</b>	<b>0.342</b>	<b>0.341</b>	<b>1.027</b>
<b>3</b>	<b>Worst Case</b>  Key planning factors <ul style="list-style-type: none"> <li>• 3% annual pay and non-pay inflation,</li> <li>• three year cash freeze in Government funding</li> </ul>	<b>0.484</b>	<b>0.492</b>	<b>0.491</b>	<b>1.467</b>

- 6.10 Addressing the higher potential deficits detailed above would be significantly more challenging and require a longer lead time to identify additional reductions, consult on these proposals and then implement. As the funding position beyond 2022/23 will not become certain until December 2022 it would be appropriate to delay development of any further savings until the position is clear. This strategy can continue to be underpinned using the Budget Support Fund to provide a longer lead time if higher budget deficits arise.
- 6.11 The above forecasts all assume that the Pension Grant of £1.409m will continue in 2023/24 and future years. As this funding is expected to be confirmed as a separate grant for 2022/23 (the third successive year) this is a reasonable planning assumption. However, as highlighted previously there is a risk that this funding may be mainstreamed or removed, which may potentially increase the forecast budget deficits significantly. The position will continue to be monitored closely.

## 7. **RESERVES**

- 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.
- 7.2 This section of the report enables the Authority to review the Reserves Strategy as an integral part of the MTFS which enables the Authority to:
- Consider the requirements outlined in the Fire and Rescue National Framework for England in relation to Reserves, as detailed in **Appendix A**;
  - Consider recommendations from the Treasurer, which have been developed in conjunction with the Chief Fire Officer, on the purpose and value of Earmarked Revenue Reserves held by the Authority;
  - Consider the planned use of reserves over the period of the current MTFS;
  - Consider the planned use of reserves beyond the period of the current MTFS;
  - Consider the level of Unearmarked General Fund reserve recommended by the Treasurer.
- 7.3 The Reserves Strategy is an important element of the Authority's financial strategy and covers a period of continued financial uncertainty, including the impact of inflation and funding levels for 2023/24 and beyond.
- 7.4 The Authority holds both Earmarked Reserves and an Unearmarked General Fund Reserve. Earmarked reserves make up 86% 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 sections 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	86%	85%
General Fund Reserves	14%	15%
Total	100%	100%

- General Fund Reserve as a percentage of Spending Power

The Authority has a slightly lower level of General Fund Reserve as a percentage of Spending Power. However, the Authority’s current level is based on a risk assessment and the available Budget Support Fund. The level of the General Fund Reserve may need to be reviewed when a strategy is developed for the use of the Budget Support Fund. This position will continue to be kept under review as part of the annual updating of the MTFS.

	Cleveland	National average
General Fund Reserve	5.7%	7.1%

7.8 The previous paragraphs provide comparative national information when the survey was published in summer 2021. The following paragraphs provide more update information on the forecast position of the Authority’s reserves at 31.03.22.

## 7.9 The Authority’s Earmarked Reserves

7.10 The Authority’s Earmarked Reserves fall into three categories as detailed in **Appendix B** and the forecast position at 31.03.22 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 - £6.895m forecast balance 31.03.22**

7.12 These reserves relate to three keys areas:

- **Budget Support Fund Reserve (£2.876m)** – this reserves was initially earmarked to manage financial risks and uncertainties regarding funding in 2022/23 and future years, including the potential mainstreaming of the pensions grant in 2022/23.

The previous review of reserves reflected the significant financial uncertainties at the time, including the timing of the Spending Review. We have now had the 2021 Spending Review which provides the broad direction for public sector spending for the next three years. Additionally, whilst the 2022/23 Provisional Local Government Finance Settlement is only for one year and reforms to the funding system will not be made until 2023/24, this announcement also provides more certainty.

Therefore, as detailed in previous sections, it is not unreasonable to plan on a cash freeze in resources at the 2022/23 level for the following three years (2023/24 to 2025/26). Clearly, this position cannot be guaranteed and the Authority needs to maintain an appropriate level of reserves to manage financial uncertainty and risks. Against this background the level of the Budget Support Fund can be reviewed as at the end of the current financial year (31<sup>st</sup> March 2022) this reserve would be **£5.706m** if not reviewed.

Based on an updated assessment of potential financial risks it is recommended that this reserve is maintained at **£2.876m** which would be sufficient to cover the following risks and provide an appropriate lead time to manage these risks if they occur

- The potential **scenario 2** deficit of £1.467m for the period 2023/24 to 2025/26, detailed in the previous section; plus
- The potential withdrawal, or reduction, in the Pension Grant of £1.409m.

This strategy then enables the remainder of the Budget Support Fund of **£2.830m** (i.e. £5.706m less £2.876m) to be reallocated to fund the Asset Management Plan (AMP), which will reduce the use of Prudential Borrowing.

The reduction in Prudential Borrowing will be applied to Water Tenders which would have been funded over fifteen years. The resulting interest and loan repayment savings, plus interest earned setting these amounts aside each year, will be earmarked to fund replacement of these assets in future years.

This strategy increases financial resilience as the financing model for the AMP begins to move from a Prudential Borrowing funded model, to a 'save to invest' model.

Until the financial outlook for 2023/24 and future years is certain it is also recommended that as a fall-back position this strategy is backed up by approving Prudential Borrowing limits for the AMP. These limits will only be used if the revenue budget deficits increase and the Budget Support Fund needs to be reinstated to support the budget and protect services whilst a plan to address a higher budget deficit is determined

- **Earmarked Capital Reserves (£2.889m)** - 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 (£1.130m)** - 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 - £1.445m balance 31.03.22**

7.14 The Authority reserves under this category

- **Capital Phasing Reserve (£0.997m)** - 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 2021/22 and by 2029/30 the reserve will have been fully used.

- **Other Reserves under this category (£0.448m)** – the main items are resources earmarked for Breathing Apparatus replacement (£0.125m), deliver of our Grenfell Action Plan (£0.197m) and grant funding for specific initiatives (£0.111m).

7.15 **Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management - £0.662m balance 31.03.22.**

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 31.03.22**

7.18 The Authority also holds an Unearmarked 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 5.7% of the 2021/22 approved revenue budget – which equates to only three weeks expenditure.

7.20 This reserve is approximately £180,000 above 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 continues to reduce 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. **ASSET MANAGEMENT PLAN (AMP)**

- 8.1 The ongoing AMP covers operational properties, including vehicles (mainly Water Tenders). The AMP is underpinned by a funding strategy which will finance capital costs through a combination of using the earmarked Capital Investment Programme reserve, Prudential Borrowing and the proposal outlined in the previous section.
- 8.2 The revenue budget includes provision to meet the interest and principal repayment costs of using Prudential Borrowing. The phasing of these costs is supported from the Capital Phasing Reserve.
- 8.3 The financial requirements to deliver the AMP requirements up to 2025/26 are detailed in **Appendix C**.
- 8.4 The AMP is provided at **Appendix D** and sets out how the Authority will effectively manage assets to achieve our Vision and to deliver continuous service improvements, whilst at the same time reducing costs through the adoption of new ways of working. Through our Asset Management plans in recent years we have embarked on major areas of change in the development of our estates, technology, transport fleet and operational equipment, enabling our staff to work much more flexibly alongside our partners in the communities.
- 8.5 The AMP covers fifteen-year and the detailed requirements cover the technical disciplines of Estates, Fleet, Equipment and ICT. This longer term planning period will underpin the development of the MTFS in future years.

**9. ROBUSTNESS ADVICE**

- 9.1 The Local Government Act 2003 introduced a formal requirement on authorities to consider the advice of the Treasurer on the robustness of the budget proposals, including the level of reserves. If Members ignore this advice the Act also requires the Authority to record this position. This latter provision is designed to recognise the statutory responsibilities of Treasurers.
- 9.2 I would advise Members that in my opinion the budget forecasts and the proposed level of reserves recommended in this report for 2022/23 are robust. This opinion is based on consideration of the following factors:
- The work undertaken by the Chief Fire Officer and Brigade Officers regarding the preparation of detailed budget forecasts;
  - Assurance from the Chief Fire Officer that no material issues have been omitted from the budget forecasts;
  - The level of Government Grant to be provided in 2022/23;
  - A prudent view of the net costs of the Authority's overall cash flow, including a prudent provision for the repayment of Prudential Borrowing;
  - The recommended Budget Support Fund reserve detailed in this report; and
  - The recommended Council Tax increase, which secures additional recurring income.
- 9.3 The Government's approach to funding increases in 2022/23 Spending Power for FRAs is reliant on a combination of an increase in Revenue Support grant, the new Services grant and a 2% Council Tax referendum limit for the majority of FRAs. Eight FRAs will be allowed a £5 increase, which if applied to this Authority would have equated to a 6.2% increase and provided additional recurring income of approximately £0.5m.
- 9.4 FRAs which do not increase Council Tax by the referendum limits will
- not achieve an increase in recurring Council Tax income which will need to be addressed by making budget reductions;
  - find it more difficult to put forward a case that they are unfunded, as the Department for Levelling Up, Housing and Communities (DLUHC) are unlikely to be sympathetic to authorities that have not used available Council Tax limits;
- 9.7 At a local level another important consideration is the level of the budget funded from Council Tax, which at 43% is significantly below the average FRA level of 63%. Whilst the recommended Council Tax increase will not address this gap it will secure additional recurring resources and ensure the gap does not increase.
- 9.8 Therefore, against this background the recommended 1.9% increase Council Tax provides the most robust and sustainable basis for services in 2022/23 and future years.

9.9 The Chartered Institute of Public Finance (CIPFA) has issued a Financial Management Code of Practice and a self-assessment against these criteria has been completed. As this document brings together existing best practice the Authority complies with the majority of these requirements. There are a small number of areas where improvements can be made and these will be addressed during 2022/23. In the main these issues relate to the development of a long term MTFS that demonstrates the sustainability of the budget. This is difficult without a multi-year settlement. This report clearly sets out the implications of the 2022/23 budget decisions and the forecast deficits to be addressed in 2023/24 to 2025/26.

## 10. CONCLUSION

- 10.1 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 firefighter posts, as detailed in section 3.
- 10.2 The one year settlement for 2022/23 provides increased Government funding of **£0.809m**, including the new Services Grant of £0.646m. Whilst this increase is welcome, particularly at a time of increased inflation, it does not address the recurring grant reductions up to 2021/22 of **£5.7m**. Therefore, services changes made in previous years are locked in.
- 10.3 The Government's national 2022/23 Spending Power figures are based on a 2% Council Tax referendum limit for most FRAs, including this Authority, and the assumption FRAs will implement these increases. This underlines the continued reliance on Council Tax increases to fund services.
- 10.4 Overall the 2022/23 Government grant settlement, approval of a 1.9% Council Tax increase and increase in local resources eliminates the previously forecast budget deficit.
- 10.5 The one year settlement for 2022/23, review of how the new Services Grant will be allocated in 2023/24 and further delay of major reforms to the national funding system until 2023/24 continues to make planning beyond 2022/23 challenging. Additionally, the current inflation environment and potential impact on pay awards, is an additional uncertainty.
- 10.6 Against this background a range of budget scenarios have been detailed in the report and these show a potential deficit of between **£0.551m** and **£1.467m** for the period 2023/24 to 2025/26. At this stage it is recommended that the Chief Fire Officer should be instructed to develop a contingency plan to address the lower deficit figure of **£0.551m**. The risk of a higher deficit could be managed in the short-term (i.e. 2023/24) from the temporary use of the Budget Support Fund, which would enable plans to be developed in 2023/24 and implemented in 2024/25 if there is a higher deficit.

**IAN HAYTON**  
**CHIEF FIRE OFFICER**

**CHRIS LITTLE**  
**TREASURER**

# **APPENDICES ATTACHED SEPARATELY**