

## MEDIUM TERM FINANCIAL STRATEGY 2021/22-2023/24

JOINT REPORT OF THE CHIEF FIRE OFFICER AND  
TREASURER

For Approval

**1. PURPOSE OF REPORT**

- 1.1 To enable Members to consider and approve the recommendations referred from the Executive Committee in relation to the Medium Term Financial Strategy, including the 2021/22 Council Tax level.

**2. RECOMMENDATIONS**

- 2.1 The Executive Committee has recommended that Members note the report and approve the following proposals:
- (i) Note the economic impact of Covid-19 has resulted in a forecast Collection Fund deficit of £462,000, which exceeds the one off resources previously earmarked to manage this risk by £62,000 and approve the proposal to fund the shortfall from the Budget Support Fund;
  - (ii) Note the Government's forecast Spending Power increases are predicated on authorities increasing Council Tax, which for this Authority will provide recurring additional Council Tax income of £234,000, compared to an increase in Revenue Support Grant of £29,000;
  - (iii) Approve the proposal to balance the 2021/22 budget from a combination of using £336,000 of the Budget Support Fund and a 1.9% Council Tax increase, and approve the supporting statutory calculations detailed **Appendix E** and 2021/22 Revenue Budget detailed in **Appendix F** (to follow as at the time the report was prepared the final 2021/22 Local Government Finance Settlement had not been issued by the Government);
  - (iv) Note the following resulting Council Tax levels for 2021/22;

2020/21 Annual Council Tax £	Property Band	2021/22		Annual increase £	
		Annual Council Tax £	Weekly Council Tax £		
52.55	A	53.55	1.03	1.00	Approximately 64% of households are in Band A or B
61.31	B	62.48	1.20	1.17	
70.07	C	71.4	1.37	1.33	
78.83	D	80.33	1.54	1.50	
96.35	E	98.18	1.89	1.83	
113.87	F	116.03	2.23	2.16	
131.38	G	133.88	2.57	2.50	
157.66	H	160.66	3.09	3.00	

(v) To address the forecast deficits for 2022/23 (£577,000) and 2023/24 (£198,000) instruct the Chief Fire Officer to develop a contingency plan to address future funding reductions.

(vi) Approve the updated Asset Management Plan detailed in **Appendix D**.

### 3. **BACKGROUND**

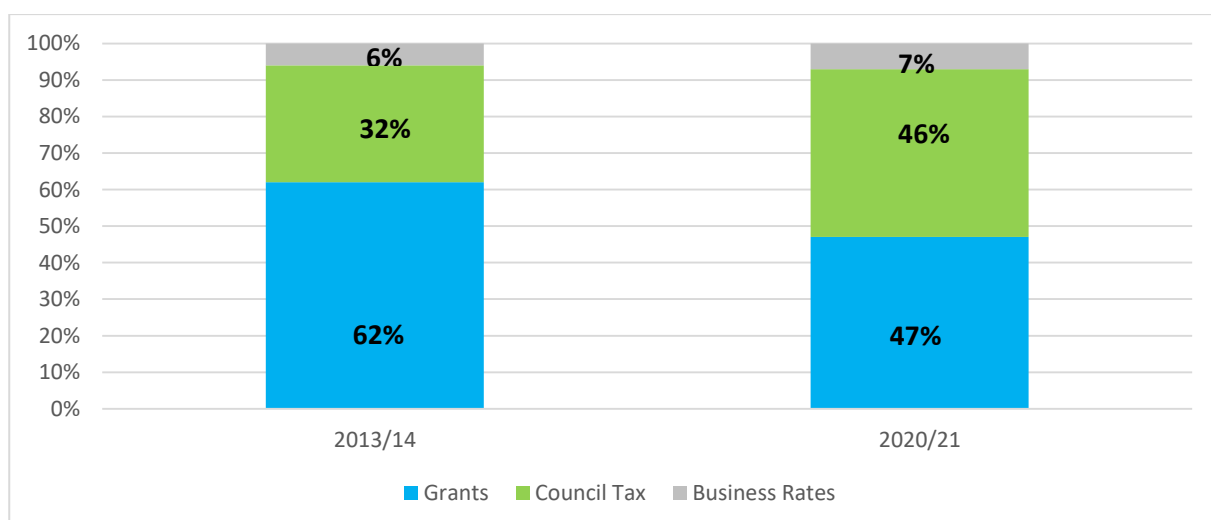
3.1 To provide context to the ongoing financial challenges Members are reminded that the Authority previously managed nine consecutive years (2011/12 to 2019/20) of reductions in Government funding and this has resulted in the following changes:

- **36% reduction** in the number of **whole-time firefighter posts** from 518 in 2010/11 to 330.
- **33% increase** in the number of **retained duty system firefighter posts** from 72 in 2010/11 to 96.
- **38% reduction** in the number of **fire control posts** from 26 in 2010/11 to 16.
- **19% reduction** in the number of **non-uniformed support posts** from 129.21 in 2010/11 to 105.15.
- **30% reduction** in number of Elected Members from 23 to 16 – effective from June 2016.

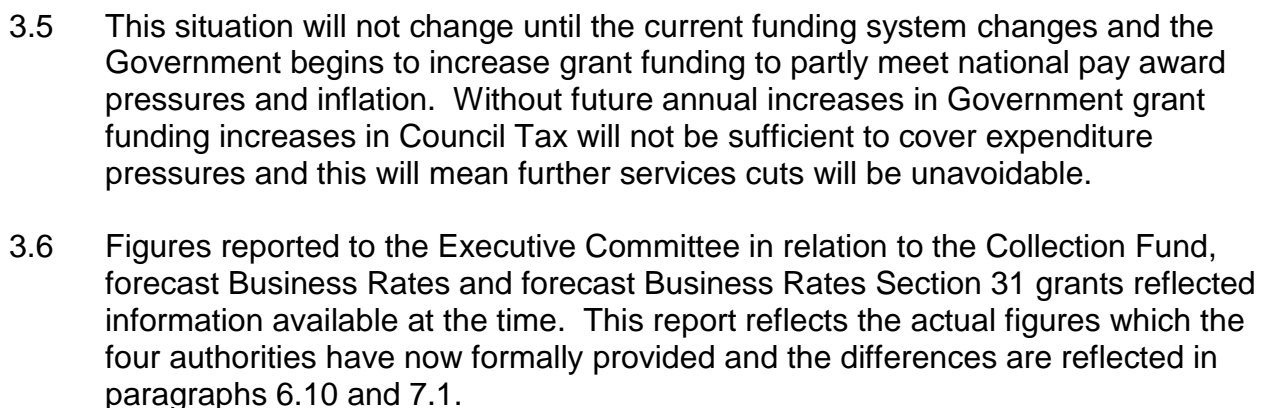
3.2 There has also been a significant shift in funding between 2013/14 (the year the current funding system was implemented) and 2020/21. Over this period this has result in the following changes to the Authority's funding:

- Government funding has fallen from **62%** of total funding to **47%**; and
- Council Tax has increased from **32%** of total funding to **46%**

Funding Changes 2013/14 to 2020/21



- ### Percentage Changes in Spending Power from 2015/16 to 2020/21



#### 4. **SPENDING REVIEW AND PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2021/22**

##### 4.1 **Spending Review**

4.2 The Chancellor presented a one year Spending Review for 2021/22 on 25 November 2020. The Chancellor advised Parliament that the Covid pandemic and the Government's response will increase public sector borrowing by **£394 billion** – the highest level of peace time borrowing. To put this figure into context;

- it is nearly three times the NHS annual budget; or
- approximately twice the annual amount raised from income tax.

4.3 The Chancellor also reported:

- that in the three months up to September unemployment had increased by 314,000 – the highest three month increase on record; and
- A public sector pay 'pause' in 2021, other than for front line NHS staff;

4.4 In view of the economic uncertainty caused by the pandemic the Chancellor only provided a one year settlement for 2021/22. It is clear that many difficult decisions will need to be made by the Government in the next Spending Review covering the period 2022/23 onwards. Details of the impact on the Authority will be reported when known.

##### 4.5 **Provisional Local Government Finance Settlement 2021/22**

4.6 The provisional settlement was issued on 17<sup>th</sup> December 2020 and included confirmation of a 2% Council Tax referendum limit for standalone Fire and Rescue Authorities. For Members information the Council Tax referendum limit for Police and Crime Commissioners is £15.

4.7 On 24<sup>th</sup> December 2020 Lord Greenhalgh Minister of State for Building Safety, Fire and Communities wrote to all Chairs and Chief Fire Officers as attached at **Appendix A.**

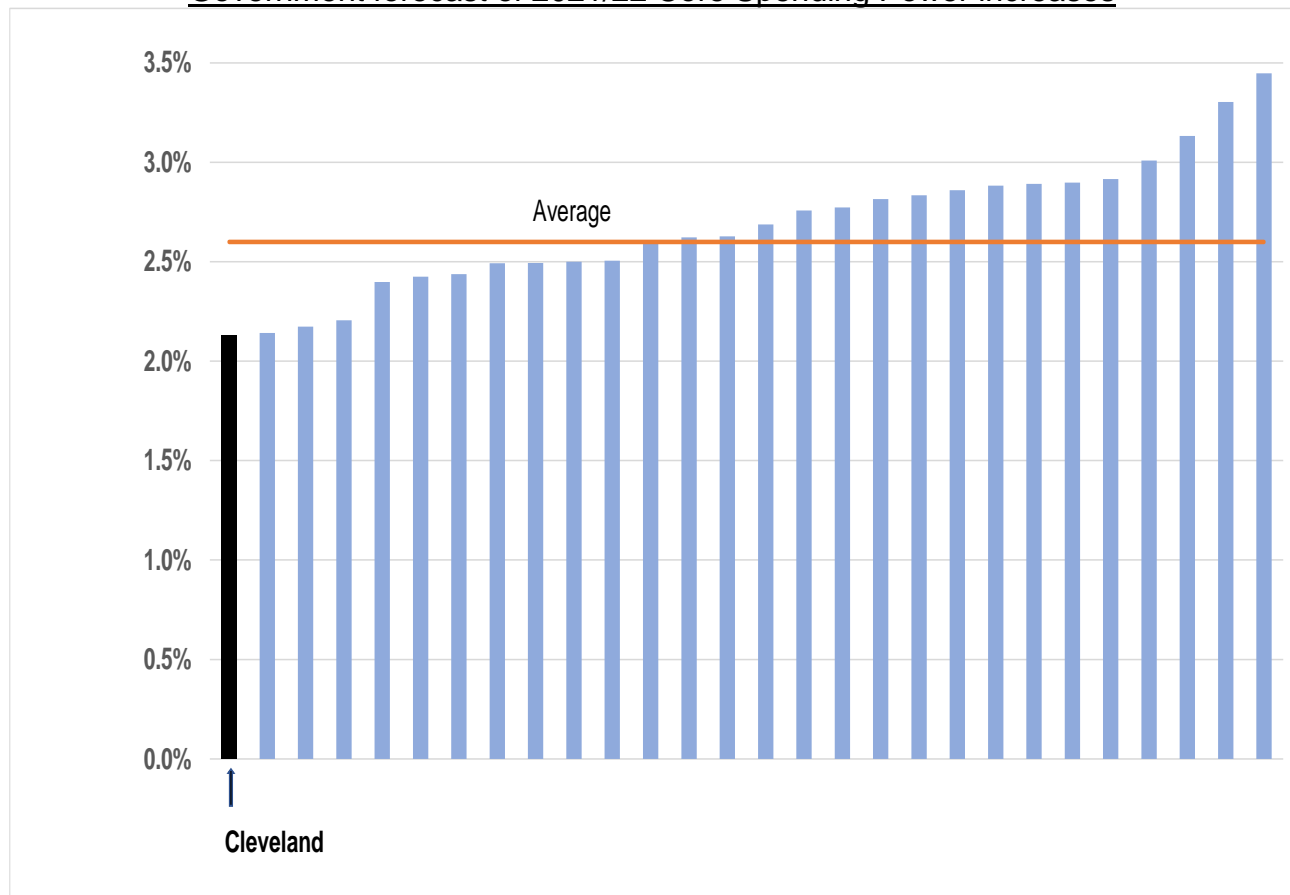
4.8 Lord Greenhalgh's letter included the following key points:

- This Government considers it a priority that local authorities have access to funding that helps maintain critical public services. In 2021/22, settlement funding assessment for local authorities – including fire and rescue services – will increase in line with inflation.
- Core spending power across standalone Fire and Rescue Authorities will increase by 2.6%.

- I can also confirm that the £115m pensions grant will continue to be paid next year, at the same allocations as last year, and will be baselined into the local government finance settlement from 2022/23.

- 4.9 Confirmation of the pension grant for 2021/22 is welcome. There remains a risk that baselining this funding from 2022/23 may result in different funding allocations in future years, and also the loss of transparency regarding the provision of ring fenced funding for a cost outside the control of individual authorities. The future funding formula used to distribute this funding will be critical as the pension grant received by the Authority in 2021/22 is **£1.408m**. To put this into context it equates to **26%** of the 2021/22 Revenue Support Grant. There is also uncertainty regarding the costs arising from the remediation required as a result of the McCloud judgement in relation to firefighters pensions and whether the Government will provide additional funding.
- 4.10 An analysis of Government core spending increases for 2021/22 for standalone Fire and Rescue Authorities shows that this increase is mainly predicated on authorities increasing Council Tax by the 2% referendum limit. As authorities have different tax bases (i.e. mix of properties in the eight different Council Tax bands) this means there are differences in core spending increases, as summarised in the following graph:

Government forecast of 2021/22 Core Spending Power increases



4.11 The above analysis shows:

- Cleveland Fire Authority's increase is only **2.1%** - this is below the average of **2.6%** and also the lowest increase of all standalone Fire and Rescue Authorities.

This position reflects the lower proportion of funding the Authority raises from Council Tax, which reflects the low Council Tax base of the area owing to the higher than average numbers of properties in the lowest two Council Tax bands (i.e. bands A and B).

Government 2021/22 Spending Power forecasts show Council Tax will provide different levels of the overall Spending Power for individual authorities as summarised below. The lower this percentage the less ability there is to raise additional resources from Council Tax:

- 46% Cleveland (joint lowest)
  - 62% Average for FRS
  - 75% Highest individual FRS
- The highest core spending increase for 2021/22 is **3.4%**.

If Cleveland had this increase the additional recurring funding would equate to **£0.356m** – which highlights the impact of the low Council Tax base.

## **5. 2020/21 BUDGET POSITION**

- 5.1 In response to continued uncertainty regarding Government funding for 2021/22 and future years the Chief Fire Officer has continued to manage the current year's budget extremely carefully. A managed underspend of £500,000 is forecast and includes the impact of staff turnover. It is recommended that this amount is earmarked to support the Budget Support Fund and further details are provided later in the report.

## **6. FINANCIAL IMPACT OF COVID-19 ON 2020/21 RESOURCES**

- 6.1 The amount of money the Authority will receive in 2020/21 for the Council Tax precept and share of Business Rates income is guaranteed at the level forecast when the budget was set. This income is paid from the Collection Funds managed by the four constituent councils.
- 6.2 However, there will always be changes to these forecasts during the year and these changes will be accounted for within the Collection Funds at the end of the financial year. This balance can either be:
- **A surplus** - where actual income is greater than forecast, which for example could reflect higher housing completions than forecast, an increase in business ratepayers, or a reduction in the number of households eligible for Local Council Tax Support; OR

- **A deficit** - where actual income is less than forecast, which for example could reflect lower housing completions than forecast, a decrease in business ratepayers, or an increase households eligible for Local Council Tax Support.
- 6.3 Collection Fund surpluses/deficits are shared in proportion to the precepts set by councils, fire and police (Council Tax only as police do not share Business Rate income). Current regulations require Collection Fund balances to be accounted for a year in arrears. In normal circumstances Council Tax and Business Rates Collection Fund balances are generally not significant.
- 6.4 Covid-19 will have an unprecedented impact on the 2020/21 Collection Funds and there will be deficits reflecting three factors:
- An increase in households eligible for Local Council Tax Support;
  - Unachieved forecast council tax base growth arising from lower house building and;
  - Lower Business Rates owing to company failures and higher number Business Rate appeals.
- 6.5 This position has been recognised by the Government as they will allow 2020/21 Collection Fund deficits to be repaid over three financial years – i.e. 2021/22, 2022/23 and 2023/24.
- 6.6 As reported previously it was not clear if the Government would also provide additional one off grant funding to also help authorities meet the impact of Collection Fund deficits. In a separate document issued alongside the provision Local Government Finance settlement the Government has now set out proposals to provide one off grant to assist authorities. The actual value of this grant will not be known until May/June 2021 when the four constitution authorities finalise the 2020/21 Collection Fund accounts for the year.
- 6.7 The initial forecast deficit reported in October 2020 was between £370,000 and £615,000. Based on the Government's grant scheme and information recently received from the four constituent councils the forecast 2020/21 Council Tax Collection Fund deficit is **£362,000**, net of Government grant, and the Business Rates Collection deficit is £100,000. The total of these deficits is higher than the forecast reported to the Executive Committee in January 2021 and also higher than the Collection Fund Deficit Reserve earmarked to manage this risk by £62,000, as summarised below:

Collection Fund Deficit Reserve

	Total £'000
Forecast Council Tax Collection Fund deficit	362
Forecast Business Rates Collection Fund deficit	100
Less - Collection Fund Deficit Reserve	(400)
<b>Forecast Unfunded Deficit</b>	<b>62</b>

- 6.8 To avoid the unfunded deficit impacting on the resources available for services in 2021/22 it is recommended that £62,000 is allocated from the Budget Support Fund. As detailed in paragraph 9.17 the Authority will still retain an uncommitted Budget Support Fund to manage financial risks in 2022/23 and future years.

## 7. **2021/22 BUDGET AND FUTURE YEARS FINANCIAL OUTLOOK**

- 7.1 The following table compares the initial forecast 2021/22 resources with the latest forecasts, which reflects the provisional Local Government Finance Settlement and information recently received from the four constituent authorities:

2021/22 Resources

	Initial Forecast  £'000	Revised Forecast  £'000	Increase /(decrease)  £'000
Revenue Support Grant	5,325	5,354	29
Top-up Grant	7,434	7,434	0
Business Rates	1,868	1,878	10
Business Rates Section 31 Grants	456	456	0
Council Tax	12,692	12,540	(152)
Council Tax losses grant	0	152	152
Total Resources	27,775	27,814	39
Less Budget Requirement	28,150	28,150	0
Funding Shortfall	375	336	39

- 7.2 The above resources reflect the following issues:

- **Revenue Support Grant – increase of £29,000**

No increase was forecast and the actual increase reflects the Government's decision to apply a CPI inflationary increase to this grant.

- **Top-up grant**

As expected there has been no increase in this grant. This is a worrying precedent as this grant is now more important to the Authority than Revenue Support Grant.

- **Business Rates and Business Rates Section 31 grants**

This forecast is the Authority's share of these resources and is based on the latest available information.

However, dependent on the economic recovery and any structural changes to business sectors (e.g. more on-line shopping / home working) it is possible that increased appeals may be lodged in 2021/22, and this may detrimentally impact on the 2021/22 Collection Fund position and future years recurring income.



This is a national issue and it is not yet clear if the Government will provide additional funding to compensate for this outcome, or whether authorities will have to manage the position themselves. This will be kept under review and may result in a further call on the uncommitted Collection Fund Deficit Reserve.

- **Council Tax**

Initial indications suggested a reduction in forecast 2021/22 Council Tax of between **£185,000** and **£307,000** depending on the economic impact of Covid-19 on the Council Tax base – i.e. the increase in households eligible for Local Council Tax Support and the level of house building.

The actual reduction of **£152,000** is less than previously forecast. This was always a difficult area to forecast as Covid-19 has resulted in the first economic shock since responsibility for LCTS transferred to local authorities – a financial risk which also impacts on Fire and Rescue Authorities, and the Police.

The lower reduction in the Council Tax base for 2021/22 should also reduce the impact in future years. However, as reported previously it is still expected the Council Tax base will remain lower than it would otherwise have been if Covid-19 had not occurred. These reductions will be funded from the Government grant referred to in the next bullet point.

- **Local Council losses grant**

The Government is providing £670m of one off funding to local authorities, fire and rescue authorities and police. The Authority has been allocated £422,000.

This funding will compensate for the reduction in Council Tax income of £152,000 in 2021/22. The balance of this one off funding will also offset forecast Council losses in 2022/23 (£147,000) and 2023/24 (£123,000) as the economy recovers from the impact of Covid. This income is reflected in the 2022/23 and 2023/24 budget forecasts detailed later in the report.

### 7.3 **2021/22 Budget Deficit and strategy for managing**

7.4 As detailed in the table at paragraph 7.1 the deficit for 2021/22 has reduced slightly from **£375,000** to **£336,000**. These figures include a forecast 1.9% Council Tax increase which will secure recurring additional resources of **£234,000**, which is **eight times** the increase in Revenue Support Grant of **£29,000** provided by the Government. This underlines the continued shift in funding for fire and rescue services on to Council Tax.

7.5 These figures also include a contingency provision which will either be used to meet the cost of pay awards for firefighters and support staff, or to advance the Asset Management Plan, or to reduce the level of borrowing required for the capital programme if there is a pay “pause”.

- 7.6 There is considerable uncertainty regarding pay as the Chancellor's November 2020 Spending Review announced a pay "pause" for public sector worker, other than for the NHS and staff earning below £24,000 who will receive an increase of £250. Whilst, the Chancellor has announced a pay "pause" the actual pay settlements for both firefighters and local government employees (which covers the Authority's support staff) are set by national bodies, so it is uncertain what the position will be for 2021.
- 7.7 When the Government announced previous pay freezes these applied to both firefighters and support staff. However, this occurred at a time of significant cuts in Government funding and was before the Covid-19 pandemic. There will be significant pressures from the trade unions representing public sector workers for parity with the NHS, particularly where the workforce has played a key role in supporting the response to the pandemic and services are already closely integrated with the NHS. Therefore, against this background there is significant uncertainty regarding 2021 pay awards and this issue is unlikely to be resolved until much later in the year.
- 7.8 In view of this uncertainty it remains appropriate to use the Budget Support Fund to address the 2021/22 budget deficit. This strategy will defer a budget deficit of **£336,000**, which will provide a longer lead time to assess the medium term financial position of the Authority and the future level of Government funding.

## **8. FINANCIAL OUTLOOK 2022/23 AND 2023/24**

- 8.1 Government funding for 2022/23 onwards will be determined by the next Spending Review, including whether the Government implements the Fair Funding Review and 75% Business Rates Retention. These are critical issues for the Authority as this covers **57%** of recurring resources, compared to the average of **37%** for all Fire and Rescue Authorities.
- 8.2 For planning purposes it is assumed that these resources will be frozen in 2022/23 and 2023/24. There is risk that this may not be the case and each 1% reduction is approximately **£150,000**.
- 8.3 The other key areas of uncertainty are:
- **National pay awards**  
Pay costs account for approximately 80% of the budget and each 1% increase is approximately £230,000. Therefore, national pay awards are the biggest financial risk to the Authority. For planning purposes the 2022/23 and 2023/24 budget forecasts include potential annual national pay awards of 2%.
  - **Council Tax Referendum Limits**  
It is anticipated that Council Tax increases will continue to play a key role in funding Fire and Rescue Authorities and 2% referendum limits for 2022/23 and 2023/24 are an appropriate planning assumption.

Each 1% increase generates approximately £125,000.

- **Pensions costs**

As referred to earlier there remain risks in relation to the impact of the current separate pension grant being mainstream from 2022/23 and also the impact of the McCloud judgement which may increase the forecast deficit set out in the next paragraph.

- 8.4 On the basis of the above planning assumptions the forecast deficits for 2021/22 to 2023/24 are summarised below and includes the total forecast savings to be achieved before the start of 2023/24.

Forecast Budget deficits 2021/22 to 2023/24

	2021/22	2022/23	2023/24	Total savings to be made before start 2023/24
	£'000	£'000	£'000	£'000
Forecast Deficit	336	241	198	775
Deficit deferred from 21/22 to 22/23 by using reserves	(336)	336	0	0
Deficit to be addressed in year	0	577	198	775

- 8.5 To address the 2022/23 and 2023/24 forecast deficits it is recommended that Members instruct the Chief Fire Officer to develop a contingency plan to address future funding reductions. This will provide the Authority with a longer lead time to manage this situation and to consider the strategy for using the Budget Support Fund to potentially support the phased implementation of this plan. These details will be reported to a future meeting.

## **9. RESERVES STRATEGY**

- 9.1 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.
- 9.2 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 B**;
  - 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.

- 9.3 The Reserves Strategy is an important element of the Authority's financial strategy and covers a period of significant financial uncertainty arising from external issues which will determine funding levels for 2022/23 and beyond. As implementation of these issues has been delayed the reserves strategy, particularly in relation to the Budget Support Fund, will need to evolve as the position regarding the level of recurring funding for 2022/23 and future years is known.
- 9.4 The Authority holds both Earmarked Reserves and an Unearmarked General Fund Reserve. Earmarked reserves make up 85% 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.
- 9.5 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.
- 9.6 **Minister of State for Building Safety, Fire and Communities - comments on FRA's Reserves**
- 9.7 As detailed in **Appendix A** the Minister made the following comments regarding reserves:
- "In relation to reserves, stand-alone fire service resource reserves amounted to £538 million or 39% of their Core Spending Power in March 2019. I am aware that this is the pre-COVID position, and that approaches to capital investment across fire and rescue services differ for good reasons, with some choosing to fund such investments through borrowing and others building up reserves for capital spend. However, I am keen to understand Fire and Rescue Authority reserve strategies in more detail and my officials will be working with NFCC on these in the new year".
- 9.8 As detailed above total national reserves equate to **39%** of Spending Power and the figure for Cleveland is **40%**. On this basis the Authority's ranks 18<sup>th</sup> out of 29 FRAs.
- 9.9 However, using Spending Power takes no account of the significantly different elements of resources included in individual FRA's Spending Power, which consists of Government grant, Business Rates income and Council Tax.

- 9.10 As detailed earlier in the report the Authority only raises 46% of Spending Power from Council Tax, which is the joint lowest. This compares to a FRA average of 62% and 75% for the highest FRA. This means the Authority has less financial flexibility to manage financial risks, cost pressures and potential cuts to Government grant in 2022/23 or future years.
- 9.11 Therefore, from the Authority's perspective it is more appropriate to compare total reserves as a percentage of Spending Power raised from Government grant and Business Rates income. On this basis the Authorities reserves equate to **71%** of these resources, which is significantly lower than the national average of **115%**. This is a more appropriate comparison of total reserves as it more accurately reflects ability to manage financial risks, particularly in relation to future potential reduction in Government grant. The following table summarises the position

	Total Reserves as a percentage of total Spending Power	Total Reserves as a percentage of Government Grant and Business Rates income
FRA average	39%	115%
Cleveland	40%	71%
Cleveland ranking out of 29 (with 29 having the lowest percentage)	18th	21 <sup>st</sup>

- 9.12 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 holds a higher proportion of reserves as Earmarked Reserves than the national average. This reflects the Budget Support Fund that has been built up to manage financial risks and provide temporary support of the revenue budget and services.

	Cleveland	National total
Earmarked Reserves	85%	73%
General Fund Reserves	15%	17%
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. If the Authority had the national average percentage the General Fund reserve would be £200,000 higher. However, the 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	6%	6.8%

9.13 The previous paragraphs provide comparative national information at 31.03.19. The following paragraphs provide the forecast position of the Authority's reserves at 31.03.21.

9.14 **The Authority's Earmarked Reserves**

9.15 The Authority's Earmarked Reserves fall into three categories as detailed in **Appendix C** and the forecast position at 31.03.21 is summarised in the following paragraphs:

9.16 **Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS - £7.407m forecast balance 31.03.21**

9.17 These reserves relate to three keys areas:

- **Earmarked Capital Reserves (£1.149m)** - allocated to support the Authority's Asset Management Plan which provides funding to replace operational vehicles and equipment;
- **Budget Support Fund Reserve (£5.204m)** - earmarked to manage financial risks and uncertainties regarding funding in 2022/23 and future years, including the mainstreaming of the pensions grant in 2022/23. Use of this reserve will provide a longer lead time to implement permanent budget reductions.

After reflecting the recommendations in this report to use £0.336m of this reserve to support the 2021/22 budget and £0.062m for the unfunded Council Tax and Business Rates Collection Fund deficit the uncommitted balance to manage ongoing financial risks is **£4.806m**.

If this reserve is used to defer 2022/23 and 2023/24 forecast budget cuts until 2024/25 this would commitment £2.157m (based on 2022/23 and 2023/24 grant freezes and the mainstreaming of the pensions grant continuing at the current level). These figures highlight the significant financial risks and uncertainties facing the Authority and how quickly this one off resource could be committed to temporarily support services whilst a plan to deliver permanent savings was developed and the implemented.



Use of the reserve would increase if grants are cut in 2022/23 and 2023/24, or the mainstreaming of the pension grant results in a lower allocation.

Until the financial position for 2022/23 and future years is more certain this reserve needs to be maintained to provide financial resilience and provide a slightly longer timeframe to manage the impact of lower grant funding.

In the extremely unlikely event that these one off resources are not needed to provide temporary support for the revenue budget over the next few years the Authority could consider alternative uses for these resources. This may include funding future capital expenditure, repayment of existing long term borrowing or invest to save initiatives.

- **Earmarked Revenue Reserves (£1.054m)** - allocated to fund Collection Fund deficits, installation of fire alarms and managing income risks for services funded from specific grant/external funding.

9.18 **Category 2 - Funding for specific projects and programmes beyond the current planning period - £1.123m balance 31.03.21**

9.19 The Authority holds two reserves under this category

- **Capital Phasing Reserve (£0.998m)** - 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.

- **Breathing Apparatus Telemetry Reserves (£0.125m)** – This reserves is earmarked to replace this equipment in 2023/24.

9.20 **Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management - £0.657m balance 31.03.21.**

9.21 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.

**9.22 The Authority's General Fund Reserve - £1.552m 31.03.21**

- 9.23 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.
- 9.24 This is the only uncommitted reserve held by the Authority and equates to 5.7% of the 2020/21 approved revenue budget – which equates to only three weeks expenditure.
- 9.25 This reserve is approximately £180,000 above the 5% level suggested in the Fire and Rescue National Framework for England guidance.
- 9.26 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.

**9.27 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.

There are also increased Business Rates appeals risks arising from the economic impact of Covid-19 and these are not expected to be resolved until during 2021/22.

- **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.

**10. ASSET MANAGEMENT PLAN (AMP)**

- 10.1 The ongoing AMP covers operational properties, vehicles (mainly fire appliances) and operational IT. The AMP is underpinned by a funding strategy which will finance capital costs through a combination of using the earmarked Capital Investment Programme reserve and Prudential Borrowing. 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 Reserves.



- 10.2 An annual review of the ongoing AMP requirements has been completed and details up to 2026/27 are set out in **Appendix D**. These requirements can largely be funded from the remaining capital resources and prudential borrowing funded from the existing revenue budget.
- 10.3 The forecast cost of replacing equipment, particularly fire appliances which are used for a minimum of 15 years, has increased since they were previously purchased. As detailed earlier in the report this will result in a higher level of prudential borrowing and an increase in repayment costs of £70,000 from 2022/23. This is reflected in the forecast revenue budget for 2022/23.

## **11. ROBUSTNESS ADVICE**

- 11.1 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.
- 11.2 I would advise Members that in my opinion the budget forecasts and the proposed level of reserves recommended in this report for 2021/22 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 2021/22;
  - 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 proposed Council Tax increase, which secures additional recurring income.
- 11.3 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 2021/22. 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 2021/22 budget decisions and the forecast deficits to be addressed in 2022/23 and 2023/24.

- 11.4 Replacing the proposed Council Tax increase would not be robust unless alternative recurring savings were approved. Using reserves to freeze Council Tax would not be robust as this would permanently reduce the recurring resource base of the Authority and reduce reserves, therefore adversely impacting on the Authority's ongoing financial resilience.

## **12. CONCLUSION**

- 12.1 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.
- 12.2 The report highlights the economic impact of Covid-19 which has result in a Collection Fund deficit of £462,000. One off resources of £400,000 were previously earmarked to manage this risk. The report recommends funding the remaining shortfall of £62,000 from the Budget Support Fund to avoid this impacting on the resources available for services in 2021/22.
- 12.3 As a single service authority the Authority does not have the same financial flexibility as unitary authorities, or the financial backing of being part of a County Council, to manage financial risks and shocks. The economic impact of Covid-19 underlines the importance of sustaining the Authority's recurring resources and maintaining an appropriate level of reserves.
- 12.4 The one year settlement for 2021/22 means the financial environment facing local government and FRAs remains uncertain in 2022/23 and future years. The list of uncertainties is a significant challenge to budget planning and the key issues, in no particular order are:
- the outcome of the 2021 Spending Review;
  - the impact of delayed major reforms of the funding system until 2022/23;
  - the overall level of grant funding in the settlement for 2022/23 and future years;
  - national pay awards for 2022 and 2023;
  - Pensions costs and funding arrangements; and
  - the trigger level for the 2022/23 council tax referendum limits.
- 12.5 The Authority has previously set aside one off resources in the Budget Support Fund and Collection Fund Deficit reserves to manage financial risks and uncertainty. Therefore, the recommended strategy is to use some of these reserves to support the 2021/22 budget and the reductions in Council Tax and Business Rates income arising from the economic impact of Covid.

- 12.6 This strategy is an appropriate way of managing financial uncertainty and income reductions, which are outside the Authority's control. However, Members need to recognise that using reserves is not sustainable and the strategy is designed to provide a longer lead time to manage the budget position. It therefore remains appropriate for the Chief Fire Officer to develop a contingency plan to address a current forecast deficit in 2022/23 of **£0.577m** and 2023/24 of **£0.198m – i.e. total £0.775m.**
- 12.7 These deficits may increase if Government grant cuts resume in 2022/23, the mainstreaming of the pension grants results in a different allocation, or national pay increases exceed the MTFS forecasts. Regular updates will be provided as more information become available.

**IAN HAYTON**  
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