

MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2026/27 TO 2028/29



JOINT REPORT OF THE CHIEF FIRE OFFICER & TREASURER

For Approval

1. PURPOSE OF REPORT

1.1 The purposes of the report are:

- to provide an update on the impact of the Provisional Local Government Finance Settlement 2026/27 on the Authority's Medium Term Financial Strategy; and
- to enable the Authority to consider the 2026/27 budget and Council Tax proposals recommended by the Executive Committee at the meeting on 23rd January 2026.

2. RECOMMENDATIONS

2.1 The Executive Committee has recommended that the Authority:-

- i) Note the national reliance on Council Tax increases to fund 75% of the forecast national Core Spending Power increase over the next three years (detailed in paragraph 4.4).
- ii) Note the detrimental impact of the 2026/27 settlement on the Authority's grant allocation and reliance on Council Tax to partly mitigate the impact on Core Spending Power over the next three years (detailed in paragraph 5.4).
- iii) Confirm the previously approved strategy to reduce the gross forecast deficit from **£4.318m** to **£1.770m** which is based on the following measures:
 - Implementing a 2026/27 Band D Council Tax increase of £5, with the same increases being approved in future years for 2027/28 and 2028/29 (subject to annual confirmation of the Council Tax referendum limit by the Government);
 - Using £0.973m of the Budget Support Fund to balance the 2026/27 budget, noting this measure defers this deficit to 2027/28;
 - Instruct the Chief Fire Officer to submit a savings plan by July 2026 to identify cuts of £1.770m, with £1.279m to be implemented from April 2027 and the remaining £0.491m from April 2028.
 - To note that implementation of the savings plan may need to be supported by using the Budget Support Fund in either 2027/28 or 2028/29 to manage the phasing of retirements / leavers to achieve the necessary permanent savings. This issue will be addressed in the July report.

- iv) Approve the following detailed Council Tax amounts for 2026/27

Council Tax Band	2026/27 Council Tax	Annual increase	Weekly increase (approximate)	% households
A	£66.31	£3.33	6p	45.1%
B	£77.36	£3.89	7p	18.7%
C	£88.41	£4.44	9p	18.3%
D	£99.46	£5.00	10p	9.3%
E	£121.56	£6.11	12p	5.3%
F	£143.66	£7.22	14p	2.1%
G	£165.77	£8.33	16p	1.1%
H	£198.92	£10.00	20p	0.1%

- v) Approve the proposal to manage any 2026/27 changes in resources between the provisional and final settlement, plus any changes in the final notifications from the four councils, by increasing / decreasing use of the Budget Support Fund. To note these details will be covered under the recommendation detailed at paragraph 2.2.
- vi) Note the risk scenarios to the revenue budget 2026/27 to 2028/29 detailed in section 6 and the financial outlook for 2029/30 detailed in section 7.
- vii) Confirm the Reserves Strategy detailed in section 8 which underpins the MTFS, AMP and ongoing financial planning.
- viii) Approve the Asset Management Plan amendments detailed in section 9, which reduce the number of fire appliances to be rephased from 6 to 5, with the resulting capital saving being allocated towards the Fire Behaviour Training Units (FBTUs). To also approve the allocation of the Collection Fund surplus (once confirmed) as a revenue contribution towards the remaining FBTUs capital funding shortfall.
- ix) Note the Treasurers statutory robustness advice detailed in paragraphs 10.8 to 10.10.

- 2.2 On the basis of Members approving the above recommendations the Authority needs to approve the supporting 2026/27 statutory budget and council tax calculation as detailed in **Appendices F and G** (to follow owing to the timing of the final 2026/27 Local Government Finance Settlement).

3. **BACKGROUND**

- 3.1 The MTFS has been developed against a background of uncertainty and proposed significant reforms to the national funding system for Local Authorities, including Fire and Rescue Services (FRSs). These issues were covered in detail in the following reports:

- Initial MTFS report to the Executive Committee (19.09.25) and then referred to the full Authority (17.10.25) highlighted the significant historic changes in funding available to fund Fire and Rescue Authorities and the specific financial

challenges facing this Authority. For reference, this information is included in **Appendix A**.

In view of the significant forecast budget deficit for 2026/27 to 2028/29 the Authority provided a clear strategic direction by approving three interdependent proposals, as follows:

Proposal 1 – Council Tax

The strategy is based on using available Council Tax flexibility to secure recurring local income to reduce the forecast deficit. It was noted that the final decisions regarding the 2026/27 Council Tax level will be made in January / February 2026.

The Authority recognised that not using available Council Tax flexibility reduces recurring resources and the only viable option for replacing this income is **additional** recurring service cuts.

Proposal 2 – Use of Budget Support Fund

As reported previously using the Budget Support Fund is only a temporary solution to a permanent reduction in recurring funding and simply defers a budget deficit to a later year.

Therefore, use of the Budget Support Fund should only be used in the context of also implementing proposals 1 and 3.

Proposal 3 – Development of robust savings plan

Adoption of proposal 1 and 2 will enable the 2026/27 budget to be set without requiring service cuts to be implemented from April 2026.

However, to ensure a robust budget can then be approved for the following financial year i.e. 2027/28 a detailed budget timetable was approved. The first stage requires the Chief Fire Officer to present a savings plan to the Executive Committee in July 2026.

- Second MTFS report to the Executive Committee (28.11.25) and then referred to the full Authority (05.12.25) which detailed the linkages between the MTFS, Treasury Management Strategy, Reserves Strategy and Asset Management Plan.

- 3.2 This report updates the MTFS to reflect the provisional 2026/27 Local Government Finance Settlement and underpins the benefits of commencing the MTFS planning in the summer, including the Authority approving the strategic direction detailed above.

4. **PROVISIONAL 2026/27 LOCAL GOVERNMENT FINANCE SETTLEMENT (THE SETTLEMENT)**

- 4.1 The Settlement was presented to Parliament on 17th December 2025 (at 3.30pm) and consultation closed on 14th January 2026. The Chief Fire Officer agreed the Authority's response to the consultation as detailed in **Appendix B**, which sets out significant concerns with the Settlement and proposes measures which would provide a fairer and more sustainable settlement.
- 4.2 The timing of the consultation infers a final settlement late January / early February 2026, which may result in the final statutory budget and Council Tax calculations being tabled at the Authority meeting on 13th February. It is extremely unlikely that this will impact on the strategic recommendations made in this report, as any changes will not be financially significant.
- 4.3 The settlement is for three years, the first multi-year settlement in a decade, although figures for 2027/28 and 2028/29 are provisional and will be confirmed annually. At a national level, the changes are significant and include the following issues. The impact on the Authority is provided later in the report:
- Rolling specific grants into Core Spending Power. For Fire this is limited to National Insurance increase grant (which only covered 53% of this increase) and Business Rates section 31 grants.
 - Implementation of the Fair Funding Review which results in the implementation of the "Fair Funding Assessment" to replace the "Settlement Funding Assessment." This is much more significant than the name change suggests and as detailed later in the report has a detrimental impact on the Authority.
 - Business Rate reset – this is reflected in the Fair Funding Assessment.
 - Funding Floor – as indicated in previous reports different funding floor levels have been confirmed for different types of Authority. For Fire and Rescue (FRS) the Funding Floor is a real term increase in Core Spending Power. However, the inflation index used is disappointing as it does not address national cost pressures affecting all FRSs in relation to national pay awards and inflation.
 - Council Tax Referendum limits – confirmed as a Band D increase for FRSs of £5 and for Police £15.

Within the settlement six authorities (none of which are FRSs) have been granted significantly higher Council Tax Referendum limits to reflect the phased reduction in grant funding, which reflects their high Council Tax base and current low Council Tax levels. The inference from the settlement is that if this additional Council Tax flexibility is not used these authorities will need to cut services. This inference equally applies to all Council Tax flexibility. For information, the Council Tax limits for the six authorities are summarised below:

Specific Council Tax Referendum limits for defined Authorities

	2026-27	2027-28	2028-29
City of London	9.3%	23.3%	21.2%
Hammersmith and Fulham	7.3%	22.5%	20.0%
Kensington and Chelsea	5.4%	18.5%	16.5%
Wandsworth	7.0%	35.7%	28.5%
Westminster	6.5%	34.0%	27.3%
Windsor and Maidenhead	5.8%	15.9%	14.6%

4.4 The settlement continues to use Core Spending Power (CSP) to measure the total change in available resources, which includes Council Tax. At a national level the settlement shows the increase in CSP over the next three years consists of two components:

- Continued reliance on Council Tax, which the settlement forecasts will fund **75%** of the increase in CSP.

If authorities do not increase Council Tax, then the forecast increase in CSP will not be achieved and services will need to be cut to address the shortfall in funding.

- Government grants and Business Rates will only fund **25%** of the forecast increase in CSP.

The increase in this funding is front loaded in 2026/27, which reflects the position outlined in the current Chancellor's first budget which showed lower public spending growth after 2026/27. Over three years the total cash increase is 7.9%, once account is taken of inflation this is a cash freeze - which reflects the low priority local government has received for funding compared to services such as the NHS and defence.

Summary of National forecast increase in CSP 2026/27 to 2028/29

(source data – Provisional 2026/27 Local Government Finance Settlement)

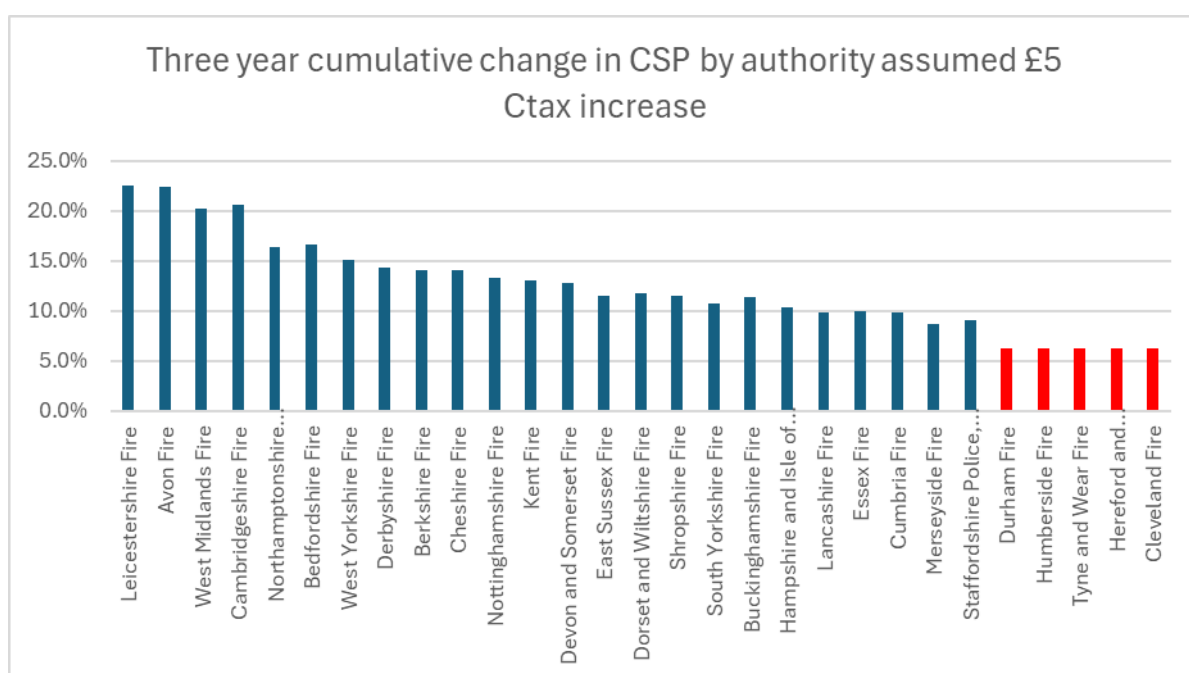
2025/26		Increase in funding			
Baseline		2026/27	2027/28	2028/29	Total
£'billion		£'billion	£'billion	£'billion	£'billion
38.656	Council Tax	2.552	2.804	2.987	8.343
34.867	Grants and Business Rates	1.637	0.525	0.589	2.751
73.523	CSP	4.189	3.329	3.576	11.094
	Annual increase in CSP	5.7%	4.3%	4.4%	15.1%

75%

25%

5. IMPACT OF SETTLEMENT ON AUTHORITY

- 5.1 The settlement is not favourable for the Authority, although it is not as bad as indicated by the Fair Funding consultation as a result of the specific Floor Funding for FRSs. This was an issue argued strongly for in our response to the Fair Funding consultation.
- 5.2 As summarised in the table below the Authority will only see a **6.3%** increase in CSP over the next three years. Only four other FRSs have similar low CSP increases, including Durham and Darlington, and Tyne and Wear. The average FRSs CSP increase is **12.5%**. The majority of FRSs gain an increase in CSP above **10%** and four gain increases in CSP above **20%**.



- 5.3 The Authority's low CSP increase reflects two key factors:

- A reduction in Government funding of **£1m** between 2025/26 and 2028/29. This consists of a reduction in Fair Funding Assessment resources of **£3.1m** less the new Floor Funding Grant of **£2.1m**. Only 5 FRS (including Cleveland) will receive Floor Funding Grant as highlighted below.

2028/29 Floor Funding Grant allocations

(source data – Provisional 2026/27 Local Government Finance Settlement)

	2028/29 Floor Funding Grant	%age of total FRSs Floor Funding Grant
Cleveland	£2.1m	23%
Durham and Darlington	£1.2m	13%
Hertfordshire and Worcestershire	£1.0m	11%
Humberside	£1.4m	15%
Tyne and Wear	£3.5m	38%
Total for FRSs	£9.2m	100%

- A forecast increase in Council Tax income reflecting the £5 Band D Referendum Limit.

Settlement figures show that part of the increase in Council Tax from the Authority implementing annual £5 Band D increases is needed to offset a net reduction in Grant and Business Rates income of **£1m**. Without the Council Tax increase the Authority would see a **CSP reduction by 2028/29 of 9%**, which highlights the impact of Council Tax increases on CSP.

- 5.4 The impact of the above issues is highlighted in the following table, which also includes figures for Tyne and Wear and Leicestershire. The table highlights that the combined increase in CSP of Cleveland, plus Tyne and Wear is **£6.4m** from a base of **£101.9m** – which is in stark contrast to the increase of Leicestershire of **£11.6m** from a base of only **£51.2m**.

Comparative CSP increases 2025/26 to 2028/29

(source data – Provisional 2026/27 Local Government Finance Settlement)

2025/26 Base				Three year increase / (decrease)			2028/29
Council Tax	Grants & Business Rates	Total CSP		Council Tax	Grants & Business Rates	Net CSP increase	CSP
£'m	£'m	£'m		£'m	£'m	£'m	£'m
15.7	20.7	36.4	Cleveland	3.3	(1.0)	2.3	6.32%
30.7	34.8	65.5	Tyne and Wear	6.1	(2.0)	4.1	6.26%
30.3	20.9	51.2	Leicestershire	7.0	4.6	11.6	22.66%

- 5.5 From the Government perspective the Authority's forecast cumulative CSP increase provides a real term cash increase over three years. However, when account is taken of national pay awards and inflation, neither of which the Authority can control, this increase will not be sufficient to cover these costs, therefore further cuts will be unavoidable.
- 5.6 This position is in stark contrast to the majority of FRSs which will gain at least a 10% increase in CSP. This should be sufficient to cover national pay awards and inflation. If the Authority had received a 10% CSP increase (rather than 6.3%), we would have an additional CSP increase of **£1.3m** – which would reduce the next three-year deficit (detailed in section 6) of **£1.770m** by 73%.
- 5.7 We have calculated that if the Floor Funding Grant was increased from £9.2m to £18m this should provide the five FRSs receiving this funding with a cumulative CSP increase of around 10%.

6. IMPACT OF SETTLEMENT ON MTFS

- 6.1 Whilst the Settlement is not as bad as forecast the Authority still faces a net budget deficit of **£1.770m**, which would increase to **£4.318m** without annual £5 Council Tax increases as follows:

Annual deficits 2026/27 to 2028/29 to reflect impact of settlement

	Deficit no Council Tax increase	Deficit Band D increase £5
2026/27	£1.847m	£0.973m
2027/28	£1.130m	£0.306m
2028/29	£1.341m	£0.491m
Revised Total Deficit	£4.318m	£1.770m
Deficit 05.12.25	£6.014m	£2.973m

- 6.2 On the basis the Authority confirms the strategic direction previously approved, as detailed in paragraph 3.1, the 2026/27 net deficit of **£0.973m** will be funded from the Budget Support Fund. The Chief Fire Officer will then develop detailed proposals to achieve cuts and report these to the Authority in July 2026.
- 6.3 These proposals will detail the cuts to be implemented no later than April 2027 to cover the deficit deferred from 2026/27 (**£0.973m**) plus the forecast deficit for 2027/28 (**£0.306m**), with the remaining savings (**£0.491m**) being implemented from April 2028.
- 6.4 Without pre-empting the cuts to be brought forward by the Chief Fire Officer the following scenarios highlight the scale of the potential impact of having to implement further budget cuts. As 80% of the budget is spent on pay it will not be possible to manage the scale of cuts facing the Authority without impacting on staffing levels. As has been the case in previous years the Authority will aim to achieve this through managing retirements / other vacancies as they arise. This process may require some additional use of the Budget Support Fund to manage the timing of staffing reductions; to reflect retirement profiles / vacancies and this will be addressed in the July report.
- 6.5 For completeness the potential scenarios highlight the impact of managing a significantly higher deficit with no Council Tax increase. The reality of the position now facing the Authority as a result of the settlement is that the scale of these potential cuts is not tenable without an incredibly significant detrimental impact on services and the safety of the community. Therefore, neither the Treasurer, nor Chief Fire Officer, could professionally support this approach. The settlement

effectively requires the Authority to increase Council Tax, whilst still requiring further cuts in the budget / services

Illustrative cuts scenarios

(Actual proposals to be identified by Chief Fire Officer and reported in July 2026)

	Deficit no Council Tax increase	Deficit Band D increase £5
Revised Total Deficit	£4.318m	£1.770m
Scenario 1	72 Firefighter posts (22%)	30 Firefighter posts (9%)
Scenario 2	2.7 whole time pumps	1 whole time pump
Scenarios 3	80% of Green Book	33% of Green Book

6.6 Budget Risk scenarios 2026/27 to 2028/29

6.7 The settlement provides significantly greater certainty of resources for the next three years, which mitigates the need for a series of alternative resource scenarios. The position in relation to expenditure pressures is less certain and reflects the following factors:

- **National Grey book pay awards**

An appropriate provision for 2026 has been made within the MTFS. For 2027 and 2028 this provision has been reduced to 2% on the basis that inflation reduces, which will then impact on pay awards. At a national level there is potential pressure for additional pay for an expanded role for fire fighters. Based on current information it is not possible to assess the scale of this risk and the national position will be kept under review.

A 1% variance in national pay awards would increase / decrease cost by approximately £0.250m – if repeated for three year this would be £0.750m.

- **National Green book pay awards**

The pay grade continues to be under pressure from increases in the National Minimum Wage.

An appropriate provision for 2026 has been made within the MTFS. For 2027 and 2028 this provision has been reduced to 2% on the basis that inflation reduces, which will then impact on pay awards.

1% variances in national pay awards would increase / decrease cost by approximately £0.050m – if repeated for three year this would be £0.150m.

- **Non pay inflation**

Appropriate provisions for non-pay inflation have been made over the period of the MTFS.

1% variances in inflation would increase / decrease cost by approximately £0.080m – if repeated for three year this would be £0.240m.

- 6.8 As indicated in the previous paragraphs if actual pay awards and inflation exceed the MTFS forecast by 1% this would add approximately £0.380m per year to the net forecast deficit (i.e. figures after annual Band D Council Tax increases of £5). There are potential two scenarios:

- **Scenario 1 – additional 1% applies for three years (2026/27 to 2028/29)**

Under this scenario the current forecast net deficit of **£1.770m** could increase to **£2.910m**.

- **Scenario 2 – additional 1% applies for two years (2027/28 and 2028/29)**

This scenario is potentially a more likely scenario as the pay and inflation forecasts are looking further ahead and are therefore subject to a higher risk.

Under this scenario the current forecast net deficit of **£1.770m** could increase to **£2.530m**.

- 6.9 It is recommended that pay and inflation risk are managed by maintaining an appropriate level for the Budget Support Fund. As these are one off resources this strategy would only provide temporary support and a slightly longer lead time to make additional budget cuts.

7. FINANCIAL OUTLOOK 2029/30

- 7.1 The 2026 settlement reflects a fundamental change to the national funding system and therefore provides the baseline for funding for 2029/30 and future years. For the Authority this results in two significant financial challenges:

- **Fair Funding Allocation**

As indicated earlier this is now a key component of CSP and in 2028/29 will be **£17.6m – 45%** of the Authority's CSP. This is significantly less than the 2025/26 allocation of **£20.7m – 57%** of the Authority's CSP.

It is currently unclear what will happen to Fair Funding Allocations from 2029/30, and this issue will be kept under review as more information becomes available.

- **Floor Funding Grant**

This is a new funding allocation from 2026/27 and by 2028/29 will be **£2.1m – 5.4%** of the Authority's CSP.

As this funding is designed to support the transition to the new national funding system there is a significant risk this funding is completely withdrawn after 2028/29. For the five FRAs receiving this funding this would be a financial disaster.

Continuation and inflation uplift of this funding will remain a priority for the Authority to pursue with the Government. This will include making the case that the total 2028/29 for the five FRAs receiving this funding of **£9.2m** is only a small element of total FRA Fair Funding allocation.

- 7.2 The above risks will also need to be managed by maintaining an appropriate level for the Budget Support Fund. These risks also underline the continued need for the Authority to have a financial plan which looks beyond the three-year settlement period.

8. RESERVES STRATEGY

- 8.1 As detailed in the December 2025 MTFS report the Reserves Strategy has been developed over a number of years and is a key element of the Authority's financial planning arrangements, which enables financial risks and spending priorities to be managed over more than one financial year. 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.
- 8.2 The funding reforms confirmed in the 2026/27 settlement confirm the strategic importance of the Reserves Strategy in providing a period of stability to enable robust plans to be developed and consulted upon for the three years commencing 2026/27. This approach would not be possible if the Authority had not taken a medium term strategic approach to managing finances and reserves in previous years.
- 8.3 The Reserves Strategy underpins the MTFS by helping to manage financial risks / uncertainty and complies with the requirements outlined in the Fire and Rescue National Framework for England in relation to Reserves, as detailed in **Appendix C**.
- 8.4 **Reserves Benchmarking**
- 8.5 The most recent comparative national figures are for 2022. The national reserve figures consist of two components – Earmarked Reserves and General Fund Reserve.
- 8.6 The following table compares the Authority's position with the national average using the 2022 comparative figures and the Authority's figures which would have been used for 2025 benchmarking. Both figures show that the Authority's split is broadly in line with the national split. It is not expected this split would have

changed if benchmarking had been undertaken in 2025 as FRAs have historically maintained General Fund Reserves at a consistent level.

Split between Earmarked Reserves and General Fund Reserve

2022 National	2022 Cleveland		2025 Cleveland
86%	88%	Earmarked Reserves	86%
14%	12%	General Fund Reserves	14%
100%	100%	Total	100%

- 8.7 The existing approved Reserves Strategy and updated decisions regarding the use of the Budget Support Fund to address the impact of the 2026/27 settlement will result in a significant reduction in reserves over the period of the MTFS i.e. the amount uncommitted at 31.03.29. Some reserves are planned to be used over a slightly longer period.
- 8.8 In summary the Authority's earmarked reserves are forecast to reduce from **£13.172m** (31.03.25) to **£4.022m** (31.03.31) which reflects planned support of the revenue budget and planned support of capital expenditure to avoid higher borrowing. There may be some changes in the phasing of when individual reserves are used, particularly to fund capital expenditure.
- 8.9 However, the underlying trend is a significant reduction in reserves, which will mean the annual budget needs even more careful management. Additionally, the Authority will have significantly less financial flexibility than it had in the past as reserves are committed. This underlines the importance of:
- using available Council Tax flexibility to secure additional recurring resources, and
 - developing and implementing a robust plan to secure recurring revenue budget cuts to replace reliance on use of reserves to fund the revenue budget, as this is not sustainable.
- 8.10 The key reserve available to support the MTFS and ongoing financial risks is the Budget Support Fund. After reflecting support for the 2026/27 budget the forecast uncommitted balance on this reserve will be used to:
- Manage pay and inflation risks over the period of the MTFS, as detailed in paragraph 6.8; and
 - To manage risk in relation to Government Grant funding from 2029/30, as detailed in section 7.
- 8.11 The other reserves with a forecast balance at 31.03.31 relate to the following issues:-

- Insurance Fund – forecast 31.03.31 balance £0.569m**
 This is earmarked to fund payments that fall within the Authority's insurance policy excesses. As future claims are unknown and the timing uncertain no forecast use is shown for this reserve.
- Commissioned Services – forecast 31.03.31 balance £0.261m**
 These services operate on a 'self-funding' basis by securing grant funding from external sources. The reserve is held to manage potential in-year shortfalls if grant funding is not secured. Use of the reserve would provide time to secure alternative grant funding, although if this is not secured services would be scaled back or stopped. No forecast use is shown as it is not possible to pre-empt external grant funders decisions.
- Capital Phasing Reserve – forecast 31.03.31 balance (£2.105m) - 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 and by 2033/34 the reserve will be fully used.**

8.12 **Appendix D** details the Authority's reserves and the following table shows forecast reserves at 31.03.29 (the end of the current three year MTFS period) and at 31.03.31.

Summary of actual and forecast Earmarked reserves

Appendix C - Category		Actual Balance 31.03.25 £'000	Forecast Balance 31.03.29 £'000	Forecast Balance 31.03.31 £'000
	Earmarked General Fund Reserves			
1	Budget Support Fund	2,857	1,087	1,087
1	Budget Support Fund- income	630	500	0
		3,487	1,587	1,087
	Earmarked Revenue Reserves			
2	Invest to Save Reserve	856	229	0
3	Insurance Fund	569	569	569
1	Innovation Fund	453	0	0
1	Commissioned Services	261	261	261
2	Critical Incidents	90	0	0
2	Non-statutory Community Projects	40	0	0
		2,269	1,059	830
	Earmarked Capital Reserves			
1	Capital Investment Programme	3,602	0	0
2	Capital Phasing Reserve	2,638	2,736	2,105
1	Asset Management Plan Inflation Risk	1,067	163	0
1	Capital Receipts Unapplied	109	0	0
		7,416	2,899	2,105
	Total Earmarked Reserves	13,172	5,545	4,022

8.13 The Authority's General Fund Reserve - £2.073m 31.03.25

- 8.14 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.
- 8.15 This is the only uncommitted reserve held by the Authority and equates to 5% (which is the level suggested in the Fire and Rescue National Framework for England guidance) of the proposed 2026/27 revenue budget – which equates to less than three weeks expenditure.
- 8.16 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.
- 8.17 The importance of this reserve will increase as Earmarked Reserves are committed as the Authority will continue to face financial risks and cannot cover all potential risks within the recurring base budget.

9. ASSET MANAGEMENT PLAN (AMP)

- 9.1 The AMP covers capital expenditure in relation to operational vehicles, equipment and property. The current plan covers the period 2025/26 to 2029/30 and was approved in February 2025 as part of the MTFS. Two amendments were approved in previous MTFS reports and the final recommendations in relation to these issues are set out below:

- **Fire Appliances**

The October 2025 MTFS report approved a proposal to rephase the purchase of 6 fire appliances, with the caveat this decision will be reviewed after the provisional 2026/27 settlement.

As the settlement confirms revenue funding cuts it is recommended that the number of fire appliances to be rephased is reduced from 6 to 5.

It is also recommended that the capital saving from this decision is allocated towards addressing the capital funding shortfall for Fire Behaviour Training Units.

- **Fire Behaviour Training Units (FBTUs)**

The December MTFS identified an estimated cost of £1m to replace the FBTUs and funding of £630,000 towards these costs, from removing some drill tower replacements and undertaking repairs to other towers where necessary.

The capital funding shortfall can be reduced from £370,000 by allocating the capital resources released from reducing the number of rephased fire appliances from 6 to 5. This reduces the funding shortfall to £320,000.

Provisional indications from the four councils indicate the Authority will receive a net share of collection fund surpluses of £170,000, potentially reducing the capital funding shortfall from £320,000 to £150,000.

The actual collection fund surplus will not be known until late January. It is recommended this amount is allocated as a Revenue Contribution to Capital for the FBTUs. The residual capital funding shortfall for the FBTUs will be confirmed when tenders are received and a funding strategy developed at that stage.

- 9.2 **Appendix E** details the AMP for the period 2025/26 to 2029/30, which reflects the above proposals.

10. **CONCLUSION AND ROBUSTNESS ADVICE**

- 10.1 In response to previous cuts in Government funding the Authority has made significant service cuts in previous years, most significantly reducing the number of wholetime firefighters from **494** to **331** – a reduction of **33%**, compared to a national reduction of **25%**. This position clearly impacts on the ability of the Authority to manage further cuts in Government funding.
- 10.2 The Authority also raises the least recurring resources from Council Tax – **43%** compared to an FRS average of **60%**. This position reflects the Authority's low Council Tax base – i.e. the higher than average proportion of properties in the Council Tax bands A and B, the lowest two bands. This position is also impacted by the Authority's 2025/26 Band D Council Tax of **£94.46** being slightly below the FRA average of **£95.94**.
- 10.3 The combined impact of the above factors means the Authority has much less recurring financial resilience than most other FRSs. The Authority has partly mitigated this position by having a robust reserves strategy and pro-active Treasury Management strategy. However, reserves are one-off resources and can only provide temporary support of the revenue budget.
- 10.4 As highlighted in the following table the 2026/27 provisional settlement confirms Council Tax increases will fund the majority of CSP increases between 2025/26 and 2028/29. The national position reflects the funding priority for social care, although even these Authorities need to implement the 2% Adult Social Care precept (for the 10th successive year) to achieve CSP increases.
- 10.5 For this Authority the provisional settlement is extremely stark as a CSP increase will only be achieved if Council Tax is increased, as there is actually a decrease in Government funding.

Comparison of CSP increase components 2025/26 to 2028/29

	CSP increase funded from Council Tax	CSP increase funded from Grants and Business Rates	Total CSP increase
National position for all types of Authorities	75%	25%	100%
Cleveland FRA	100%	0%	100%

- 10.6 The clear inference from the provisional settlement for all Authorities, including this Authority, is either increase Council Tax to increase CSP to protect services, or replace the reduction in recurring resources by making service cuts.
- 10.7 The position for the Authority is challenging and is a budget deficit between **£4.318m** and **£1.770m** respectively **10.6%** and **4.6%** of the existing budget, as summarised below:

Forecast Deficits 2026/27 to 2028/29

	Deficit no Council Tax increase	Deficit Band D increase £5
Revised Total Deficit	£4.318m	£1.770m
Scenario 1	72 Firefighter posts (22%)	30 Firefighter posts (9%)
Scenario 2	2.7 whole time pumps	1 whole time pump
Scenarios 3	80% of Green Book	33% of Green Book

- 10.8 Whilst, the provisional settlement results in lower deficits than forecast, which reflects the implementation of the Floor Funding grant, the deficits remain significant. Therefore, the strategic planning decisions previously made by the Authority of increasing Council Tax at Band D by £5 (less than 10p per week), using the Budget Support Fund to manage the remaining 2026/27 deficit to provide a

longer lead time for the Chief Fire Officer to develop a savings plan (to be reported in July 2026) remain appropriate and provide a robust basis for the 2026/27 budget.

10.9 The robustness of the 2026/27 budget is also underpinned by:

- Making appropriate provisions for forecast 2026 national pay awards and 2026/27 non- pay inflation;
- Recognising the risk the above provisions may not be sufficient and retaining an element of the Budget Support Fund to cover these risks, pending the implementation of further budget cuts if this is necessary. These risks will be regularly reviewed. They are considered to be low for 2026/27, although higher for 2027/28 onwards as reduced provision has been made on the basis of inflation falling and being sustained at the Bank of England 2% target, which should then reduce both pay and non-pay pressures;
- The continuation of the existing multi-year reserves strategy and the earmarking of part of the Budget Support Fund to manage risk beyond 2028/29, which continues the Authority's longer term financial planning horizon;
- The robust approach to managing the AMP, including the Treasury Management Strategy;
- The continued robust arrangements for preparing the detailed 2026/27 budget adopted by the Chief Fire Officers Executive Leadership Team and Finance Officers; and
- The continued robust arrangements for continuing to monitor and manage the budget during 2026/27, including regular reports to the Audit and Governance Committee.

10.10 The Treasurer will not be able to sign off the budget as robust if a £5 Band D Council Tax is not approved, as this will reduce recurring income by **£0.874m**, which would need replacing with budget cuts implemented from 1st April 2026. This approach would then make it even more difficult to balance future budgets as cuts of £1.770m will still then be required. Therefore, not increasing Council Tax for 2026/27 immediately increases the deficit to **£2.644m** (£0.874m plus £1.770m).

10.11 The 2026/27 impact on households is recognised in the recommendations, which show for properties in Band A (45% of our properties) the weekly increase is 6p and for properties in Band B (19% of our properties) the weekly increase is 7p.

PETER RICKARD
Chief Fire Officer

CHRIS LITTLE
Treasurer