OUTLINE PLAN TO MEET THE FIRE AUTHORITY'S FORECASTED MEDIUM TERM FINANCIAL DEFICITS 2020/21-2022/23

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 Outline Plan for meeting Cleveland Fire Authority's (CFA) medium term financial deficits 2020/21-2022/23.

2. RECOMMENDATIONS

2.1 That Members:

(i) note that the one year Spending Review only provides certainty for 2020/21 and the Authority may face continuing budget deficits in 2021/22 and future years, therefore it remains appropriate to plan for potential deficit of between £2.247m and £3.841m

(ii) consider and recommend approval to the Fire Authority of the Outline Plan for meeting the Authority's medium term financial deficits as fully detailed in section 4 of this report; in brief these are:

- lobbying Government for a fairer distribution of funding
- using reserves
- reviewing 'non-pay' budgets
- reviewing enabling services
- re-designing the Brigade's service delivery model
- exploring other efficiency opportunities

(iii) note the amendments to the Corporate Priorities 2019/20 as detailed in section 5 of this report

(iv) note that further regular reports will be received by the Executive Committee on any changes to the agreed financial and strategic plans

3. BACKGROUND

3.1 In 2019/20 **47% (£12.554m)** of the Authority's recurring resources is made up of Government grant, technically referred to as Settlement Funding Assessment (SFA). The future level of this funding is therefore critical to financial sustainability of the fire and rescue services provided by the Fire Authority.

3.2 The February 2019 Medium Term Financial Strategy (MTFS) report detailed the significant financial uncertainties facing Local Authorities, including Fire and Rescue Authorities (FRAs), arising from:

- the anticipated three year Spending Review covering 2020/21 to 2022/23;
- Government proposals to implement a Fair Funding Review; and
- Government proposals to increase Business Rates Retention from 50% to 75%.

3.3 Based on an assessment of information available at the time it was anticipated that further reductions in Government funding may continue over the period 2020/21 to 2022/23 of 5% per year. On this basis it was forecast that the Authority faced a budget deficit of **£2.297m.**

3.4 It was also forecast that if the Government did not continue to provide recurring funding for increased Employers' Fire fighter Pension costs in 2020/21 that this deficit would increase to **£3.841m.**

3.5 The Authority therefore instructed the Chief Fire Officer to develop a contingency savings plan based on potential deficits of between **£2.297m** and **£3.841m.** The higher figure includes the impact of the Authority not receiving recurring fire pensions grant in 2020/21 of **£1.544m.**

Phasing of Forecast Deficits

	Deficit **with** Pension increase funded 2020/21 **£'m**	Deficit **without** Pension increase funded £2020/21 **£'m**
2020/21	929	2,473
2021/22	774	774
2022/23	594	594
Total	**2.297**	**3.841**

3.6 On 4th September the Government announced a one year Spending Review for 2020/21 and for Fire and Rescue Services the key feature of this announcement is an inflation increase in SFA funding. This announcement provides the first increase in Government funding for nine years and, assuming the increase is applied to all FRAs, this Authority should see an increase in Government funding from the forecast level of £11.927m to £12.742m in 2020/21. Actual SFA funding for individual authorities will be announced later in the year in the provisional 2020/21 Local Government Finance Settlement.

3.7 The Home Office has indicated that Council Tax referendum limits will be subject to separate consultation. An analysis of the Government's national figures for the 2020/21 increase in Core Spending Power suggests that national Council Tax income will increase by between 2.5% and 3%. However, different Council Tax referendum limits may still apply to different types of authority, as was the case in previous years.

3.8 The Home Office has received an overall settlement of £12.9 billion, a real term increase of 6.1% on 2019/20. It has indicated that decisions regarding the allocation of this funding 'will include consideration of the fire pensions' grant' which is being paid in 2019/20 to meet additional employers' fire fighter pension costs. This is a critical issue for the Authority as if this funding does not continue additional budget cuts of **£1.544m** will need to be identified, as detailed in paragraph 3.5.

3.9 Whilst the Spending Review announcement provides greater clarity in relation to forecast funding for 2020/21, this is only for one year. As a result the potential financial risks arising from the planned changes detailed in paragraph 1.2 have simply been deferred until 2021/22, which still makes medium term service and financial planning challenging.

3.10 The 2020/21 settlement may provide a new base line for future years and if this level of funding is sustained in 2021/22 and 2022/23 this would significantly reduce the budget cuts required over the next three years. However, if funding cuts re-commence in 2021/22 the position will be less favourable. The following table updates the existing forecast on the basis that the fire pension grant is sustainable:

Forecast Budget deficit WITH Fire Pension Grant Sustained

SFA Planning assumptions	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
February MTFS forecast	929	774	594	2.297
2020/21 SFA inflation increase and cash freeze 2021/22 and 2022/23	113	178	27	318
2020/21 SFA inflation increase and 5% cut 2021/22 and 2022/23	113	815	633	1.561

3.11 If the fire pension grant is not sustained this would increase the above deficits by £1.544m, as follows:

Forecast Budget Deficit WITHOUT Fire Pension Grant Sustained

SFA Planning assumptions	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
February MTFS forecast	2.473	774	594	3.841
2020/21 SFA inflation increase and cash freeze 2021/22 and 2022/23	1.657	178	27	1.862
2020/21 SFA inflation increase and 5% cut 2021/22 and 2022/23	1.657	815	633	3.105

3.12 In summary the Government's one year Spending Review will provide certainty for 2020/21. It is anticipated that when the provisional 2020/21 Local Government Finance Settlement is announced that the Authority will receive a small grant increase, compared to a forecast cut. However, significant uncertainty remains in relation to funding for 2021/22 and 2022/23, therefore it remains appropriate for the Fire Authority to continue to plan for future budget deficits until future funding is certain.

4. OUTLINE PLAN TO MEET THE AUTHORITY'S FORECASTED MEDIUM TERM FINANCIAL DEFICITS 2020/21-2022/23

4.1 The Outline Plan to meet the Authority's forecasted medium term financial deficits 2020/21- 2022/23 includes a number of component parts; these are:

Lobbying Government for Fairer Funding

4.2 The outcome of the 2019 Comprehensive Spending Review (CSR) will determine the Government's spending priorities for all Departments, with the exception of NHS England. These will need to reflect financial pressures that have been built into the system as a result of austerity, such as demographic pressures in relation to Adult Social Care and demand pressures for Looked after Children. The Government will also face continuing demands for more expenditure for a range of services, including education, police and prisons. The key issue for this Authority is how the Fire and Rescue Service fairs in comparison to these other areas in the Government's Spending Review.

4.3 The Chancellor's announcement on the 4 September advised of a one-year Spending Round (2020/2021), with a full Spending Review to be held in 2020, reviewing public spending as whole and setting multi-year budgets from 2021/22.

4.4 The current unfair system for allocating funding to FRAs has been in place for over a decade and it is well recognised both locally and nationally that CFA has been and continues to be one of the hardest hit FRAs as a result. The now deferred Fair Funding Review seems predicated on developing a new system for allocating existing funding and will not address the fundamental questions of whether the overall funding allocation for local authorities reflects an assessment of needs. There is increasing evidence that the overall funding allocation is not sufficient to meet existing need and to some extent this has been recognised through the Adult Social Care Precept and the £24 referendum limit for Police.

4.5 The Authority's believes that 'relative needs' and 'relative resources' are inextricably linked and resolution of these and other associated issues are critical to ensuring all FRAs can meet the needs to their communities.

4.6 Working with local Members of Parliament, the Authority intends to lobby Government to explain how the current disproportionate funding mechanism impacts public safety and seek a fairer distribution of funding based on relative needs going forward.

Use of Reserves

4.7 As reported previously the Authority began planning in 2016/17 for 2020/21 onwards when it took action to establish a Budget Support Fund reserve to manage financial risks and provide a longer lead time to identify additional recurring budget cuts. The current Budget Support Fund Reserve formed an integral part of the current, approved MTFS.

4.8 Details of the forecasted Budget Support Fund is £3.968m as at 31st March 2020 as detailed below:

Budget Support Fund Reserve	**£'m**
Balance 31.03.18	3.321
Add - Forecast 2018/19 managed underspend	0.749
Sub Total – Forecast Balance 31.03.19	**4.070**
Less – Earmarked to underwrite 2019/20 budget (to provide a longer lead time to implement alternative crewing model)	(0.102
Uncommitted Balance forecast 31.03.20	**3.968**

4.9 In the short-term the availability of the Budget Support Fund will play a critical role in enabling the Authority to respond to further potential budget cuts being required in 2020/21 and future years by phasing when these cuts will need to be implemented.

4.10 Whilst, this approach would phase the forecast deficit up to four years it would not avoid the need to make significant budget reductions. Using reserves does not provide a permanent solution to address recurring cuts in funding and budget pressures but it provides a slightly longer lead to consider other unavoidable service cuts or proposals such as for example a referendum to determine if there is public support for a higher Council Tax increase to protect services, or to determine that the Authority is not financially sustainable and needs to consider integration.

Review of 'Non-Pay' Budgets

4.11 The Authority's 'non-pay' budgets relate to the:

- **capital requirements** (estates, fleet, equipment and ICT) of the Authority as set out in its Asset Management Plan; this amounts to £7.2m over the eight year period 2019/20 to 2025/26

- **revenue requirements** (e.g. estates, fleet, equipment, ICT, training, uniform, consumables, stationery, utilities etc.) of the Authority; this amounts to £4.9m in 2019/20 which is 18.57% of the overall revenue budget

4.12 The Review will aim to ensure the efficient and effective use of 'non-pay' resources and will include an analysis of historic spend combined with a budget holder explanation/challenge on expenditure including issue and replacement policies and processes; and procurement routes.

Enabling Services Review

4.13 As a professional response to the changing and challenging financial climate CFA sought to explore collaborative opportunities in order to secure continued improvements to public safety and efficiencies to the public purse.

4.14 Building upon a long history of working together and strengthening current excellent collaborative arrangements, in October 2018, the CFA, Chief Fire Officer, Police and Crime Commissioner for Cleveland and Chief Constable signed a Statement of Intent to collaborate on all business support services by 2022.

4.15 It is now proposed to expand this piece of collaborative work and explore wider collaborative opportunities for the provision of enabling services with other Fire and Rescue Services and Local Authorities. In addition, a 'best value' style review will be undertaken on all 'in scope' functions.

Service Delivery Re-Design

4.16 As society changes around us, the types and quantities of incidents we attend and the activities we are involved in change too. As a proactive organisation we must respond to these changes by configuring our community safety services and resources to ensure we are working in the optimal way, with the right number of staff in the right roles at the right time.

4.17 Our Service Delivery Re-design will follow a thorough review of the Authority's Community Safety Services including Fire Cover Configuration, Incident Command and Prevention and Protection services.

Exploring Other Efficiency Opportunities

4.18 It is important that we continue to seek value for money in all our service activities; to this end we will continue to explore opportunities for efficiencies through other activities such as, for example, income generation and review of local agreements.

5. CORPORATE PRIORITIES 2019/20

5.1 Implementation of the above Outline Plan will naturally depend on the financial position and, as this is emerging, it will require our priority work and associated timelines to remain flexible.

5.2 To reflect our current financial position and to address the complexity of some of the projects it is proposed that the following Corporate Priorities 2019/20 be subsumed into and/or aligned to those associated within the Outline Plan above:

- SSC3: Introduce a Strategic Reserve to sustain the optimum operational configuration of 18 fire appliances
- UOR2: Review of Flexi-Duty System
- UOR10: Undertake an Interim Review of CIRMP

6. CONCLUSION

6.1 The one year Government Spending Review provides certainty of funding for 2020/21. For planning purposes it is assumed that the Authority will receive an increase in Government funding in 2020/21, this will be the first time this funding has not been reduced in nine years. The actual figure will not be known until the provisional Local Government Finance Settlement announcement is made later in the year.

6.2 On the basis of a 2020/21 grant increase the Authority faces a considerably lower budget deficit than previously forecast. However, this deficit could increase significantly if the Government do not continue to provide pension funding. The range of potential deficits for 2020/21 and future years are summarised in paragraphs 3.10 to 3.11.

6.3 It is hoped that the increased funding provided for 2020/21 is sustained in future years, although this will depend on the outcome of the Spending Review to be completed in 2020. For current service level to be maintained this funding actually needs to increase in line with inflation from 2021/22, with additional funding being provided if national pay awards for fire fighters exceed inflation.

6.4 The Government's decision to delay implementation of the Fair Funding Review and 75% Business Rate Retention until 2021/22 also makes service and financial planning beyond next year (2020/21) challenging, as these changes will determine how funding is allocated. In view of these uncertainties it therefore remains appropriate to plan for future potential deficits.

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