

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

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



**For Approval**

#### 1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to provide an update of the issues impacting on the Authority's Medium Term Financial Strategy.

#### 2. RECOMMENDATIONS

- 2.1 The Executive Committee has recommended that the full Authority approves the following proposals, which will be subject to final confirmation as part of the final MTFS report to be considered on 13<sup>th</sup> February 2026:-
- i) Approve the Voluntary Revenue Provision strategy detailed in paragraphs 6.10 to 6.14.
  - ii) Approve Reserves Strategy detailed in section 7.
  - iii) Approve the Asset Management Plan changes detailed in section 8.

#### 3. BACKGROUND

- 3.1 The previous MTFS report to the Executive Committee (19.09.25) and then referred to the full Authority (17.10.25) highlighted the significant 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**.
- 3.2 The previous MTFS report detailed the forecast budget deficits for the next three financial years, which depends on the level of annual Council Tax increases and is between **£6.014m** and **£2.973m** respectively, **14.8%** and **7.8%** of the existing budget, as summarised below:

**Forecast Deficits 2026/27 to 2028/29**

	Forecast Deficits	
	<b>Without Council Tax increase</b>	<b>With £5 annual Band D Council Tax increase</b>
2026/27	£2.340m	£1.345m
2027/28	£1.818m	£0.805m
2028/29	£1.856m	£0.823m
<b>Total</b>	<b>£6.014m</b>	<b>£2.973m</b>
% of 2025/26 Budget	15.8%	7.8%

- 3.3 To provide a clear strategic direction the Authority approved the following strategy, which is based on three interdependent proposals, for managing the net forecast deficit of **£2.973m**, 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 to the lower figure of £2.973m. The actual decisions regarding the 2026/27 Council Tax level will be made in January / February 2026.

The Authority has 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**

The Authority has previously earmarked a Budget Support Fund to manage the impact of national funding reforms. In previous years use of the funding has been limited, with £0.294m approved to support the 2025/26 Revenue Budget, leaving **£2.563m** currently uncommitted.

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. On the basis of Members approving both these proposals the Treasurer will be able to support the use of **£1.345m** of this reserve (i.e. 53%) to support the 2026/27 revenue budget.

Adopting both these principles will enable the Treasurer to also discharge his statutory responsibility and confirm to the Authority when the final budget proposals are approved that they are robust.

### **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 implement 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 saving plan to the Executive Committee in July 2026 to address the forecast £2.973m deficit – with £2.150m of savings proposals implemented from April 2028 and the remaining £0.823m from April 2028.

- 3.4 This report provides further information to underpin the final budget decisions which the Authority will need to make in February 2026.

## **4. KEY DATES AND FUNDING ANNOUCEMENTS IMPACTING ON 2026/27 BUDGET**

- 4.1 As highlighted in the following table the budget process is now entering a period of intense activity, which will be driven by the timing of announcement by the Government (shaded items) and the Authority's timeline for making final Budget and Council Tax decisions for 2026/27.

	Impact / Issues
26.11.2025 Chancellor's Budget	This will detail the scale of tax increases and / or spending cuts.  The date of the Chancellor's budget impacts on the timing of the provisional 2026/27 Funding settlement and therefore the timing of the final 2026/27 Funding Settlement.
28.11.2025 Executive Committee	Executive Committee
05.12.2025 Full Authority	Consideration of this report and recommendations referred by the Executive Committee.
Late December 2025 – provisional 2026/27 Funding Settlement (potentially 19.12.25 last day Parliament before recess)	Based on previous years there have been limited changes between the provisional settlement and the final settlement.
23.01.2026 Executive Committee	The Executive Committee will receive the final MTFS update report, which will include details of the provisional 2026/27 Funding Settlement.

	As the Executive Committee will meet before the final 2026/27 Funding Settlement has been received the report will advise Members that any changes from the provisional Funding Settlement will be referred to the full Authority.
Late Jan / Early February 2026 – final 2026/27 Funding Settlement	This information is needed to enable Authorities to make the statutory 2026/27 Budget and Council Tax decisions.
13.02.26 Full Authority	Consideration of report referred from Executive Committee (23.01.2026) and impact of final 2026/27 Funding Settlement on Budget and Council Tax decisions.

- 4.2 On 20<sup>th</sup> November 2025 the Government published a “Local government finance policy statement 2026-27 to 2028-29” detailing the key principles they intend to base the provisional 2026-27 on. There is insufficient information in the Policy Statement to estimate the impact on individual authorities, however the Policy Statement confirms a number of key principles:

- **Council Tax Referendum principles**

These will be set for the next three years and will continue to play a key part in funding increases in Core Spending Power. This means authorities that do not use the available Council Tax principles will have lower increases in Core Spending Power. As reported previously these authorities will then find it incredibly challenging to claim they are underfunded.

For Fire, the £5 Band D Council Tax Referendum limit was confirmed.

- **New Funding floor**

Complex principles will be implemented, with different floor levels for different types of Authority. For the Fire and Rescue Service this is estimated to deliver additional funding of £58 million per year nationally. The impact on individual authorities will not be known until December. It is hoped this will have a positive impact on the Authority’s funding.

- **Review of Fire Funding formula**

The fire and rescue relative needs formula will be updated to use the most recent data available, the government recognises that the formula’s underlying design was created over a decade ago and warrants further review. The Government will work with the Fire sector on a review of fire funding, which will take place ahead of the next Spending Review.

- 4.3 In summary the Policy Statement appears to be more positive for Fire and Rescue Authorities than the initial consultation proposals published in the summer. The impact on individual authorities will not be known until December, although it is hoped these proposals may reduce the forecast net budget deficit (£2.973m detailed in paragraph 3.2) facing the Authority.

## 5. **CHANCELLORS BUDGET 26.11.25**

- 5.1 A verbal update on the Chancellor’s budget announcement will be provided at the Executive Committee meeting on 28<sup>th</sup> November 2025. Based on the Chancellor’s “scene setting speech” (04.11.25) it seems clear there may be tax increases and potentially spending reductions. The exact details will not be known until the Chancellor’s budget.
- 5.2 The Chancellor’s budget and the forthcoming Provisional 2026/27 Funding Settlement will define the financial position facing the Authority for the next three years (2026/27 to 2028/29). The reality of the national financial position and the scheduled timing of the next General Elections (latest date August 2029) effectively means that decisions made over the coming months also define the funding challenges that will continue into 2029/30 and potentially beyond.
- 5.3 To highlight the challenge facing the Chancellor if she chooses to increase tax income and not impact the top four taxes (income tax, national insurance, VAT and Corporation Tax account for **72%** of all tax revenue) the following table summarises the sources of tax income. Council Tax is **4.5%** of the total - although for most households this is one of the most visible taxes.

### Summary of total national tax income 2024/25

Income Tax and National Insurance	45%
VAT	17%
Corporation Tax	10%
<b>Sub Total</b>	<b>72%</b>
Other Tax	20.8%
Council Tax	4.5%
Business Rates	2.7%
<b>Total</b>	<b>100%</b>

## 6. **TREASURY MANAGEMENT STRATEGY 2026/27**

- 6.1 The draft Treasury Management Strategy was submitted to the Audit and Governance Committee on 21<sup>st</sup> November to enable Members to scrutinise the proposed strategy, prior to the report being referred to the full Authority.
- 6.2 In relation to the links between the Treasury Management Strategy and the MTFS there are two key issues:

### 6.3 Borrowing Strategy

- 6.4 The level of borrowing is approved on an annual basis and reflects the detailed capital expenditure proposals, including buying operational vehicles / equipment and spending on buildings. These proposals are approved as part of the Asset Management Plan and relate to capital expenditure which has a benefit for many years.
- 6.5 In relation to the Authority's Borrowing Strategy the financial risk to the revenue budget arising from increased interest rates is significantly mitigated owing to the level of existing borrowing with low fixed interest rates (£6.6m of PWLB at an average interest rate of 2.92% and £2m LOBO loans at a rate of 3.95%).
- 6.6 As highlighted in the following tables these loans cover 61% of the amount the Authority needs to borrow for the Asset Management Plan (technically referred to as the Capital Financing Requirement) forecast as at 31 March 2026 and 56% at 31 March 2031.
- 6.7 The table also shows the low potential revenue budget pressure at 31 March 2031 if interest rates are 1% higher than forecast and built into the MTFs. If the Authority had not adopted the existing borrowing strategy and secured fixed interest for 56% of the forecast borrowing requirement for the AMP as at 31 March 2031 this financial risk would be significantly higher.

#### Potential financial risk of a 1% borrowing cost increase for new borrowing

	31.03.26 Forecast	31.03.29 Forecast	31.03.31 Forecast
Amount Authority needs to borrow for Asset Management Plan (AMP)	£14.063m	£15.809m	£14.377m
<u>Less</u> Amount Authority needs to borrow for AMP <b>covered</b> by existing fixed rate loans	(£8.589m) (61%)	(£8.255m) (52%)	(£8.016m) (56%)
Amount Authority needs to borrow for AMP <b>not covered</b> by existing fixed rate loans	<b>£5.474m (39%)</b>	<b>£7.554m (48%)</b>	<b>£6.361m (44%)</b>
Potential Revenue budget pressures of actual borrowing costs exceeding forecast of 5.0% by 1% for new AMP borrowing <b>not covered</b> by existing fixed rate borrowing	£0.055m	£0.076m	£0.064m

- 6.8 The next call date for the LOBO is March 2028, at which point the lender may change the interest rate and the borrower (the Authority) can either accept the new rate, or repay without penalty. In the event the LOBO is repaid the level of borrowing not covered by existing fixed rate loans would increase by £2m. By 31.03.31 this would mean the amount not covered by existing fixed rate loans would increase from £6.361m (paragraph 6.7) to £8.361m. In turn this would increase the potential revenue pressure of a 1% interest rate increase from £0.064m to £0.083m.

- 6.9 The annual borrowing costs (i.e. interest and provision for repayment of the amount borrowed) will be 3.53% of the Authorities forecast 2027/28 budget and this percentage will not increase significantly over the period up to 31 March 2030. To provide context, figures from the Office for Budget Responsibility show that Government interest costs for 2024/25 will be 7.3% of Government Spending (which includes Pensions and Welfare spending).

#### **6.10 Voluntary Revenue Provision**

- 6.11 The investment strategy has secured investment income to support the Medium Term Financial Strategy to 2028/29 at the rate of £0.250m per year. As interest rates on investments are continuing at a higher level than previously forecast, following slower reductions in the Bank of England base rate than anticipated, the investment strategy will also provide additional one-off income in 2025/26 of £0.863m. It is recommended this amount is earmarked as a Voluntary Revenue Provision (VPR).
- 6.12 VPR contributions are discretionary and can be made in addition to Minimum Revenue Provision (MRP) charges. MRP charges are the legal provisions which must be made in relation to an Authority's Capital Financing Requirement to ensure it is repaid over the useful life of assets.
- 6.13 After reflecting the above proposal and a VPR made in a previous year the cumulative VPR at 31.03.26 will be £1.163m. This amount will either be held to
- (a) permanently reduce the Capital Financing Requirement, or
  - (b) used to reduce future MRP payments by at least £0.250m per year for 4 years commencing 2029/30, which will effectively extend this level of support for the revenue beyond 2028/29.
- 6.14 The decision between options (a) and (b) will be made within a future Treasury Management Strategy and Medium Term Financial Strategy to reflect the financial position of the Authority at the time. By earmarking these resources now, the Authority increases future financial flexibility at a time of continued financial uncertainty.

#### **7. RESERVES STRATEGY**

- 7.1 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.
- 7.2 The proposed funding reforms for 2026/27 underpin 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.



7.3 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 B**.

#### 7.4 Reserves Benchmarking

7.5 The most recent comparative national figures are for 2022. The national reserve figures consist of two components – Earmarked Reserves and General Fund Reserve.

7.6 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 Authorities 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%
<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>

7.7 The existing approved Reserves Strategy and updated decisions made at the full Authority meeting on 17<sup>th</sup> October regarding the use of the Budget Support Fund will result in a significant forecast 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.

7.8 In summary the Authority's earmarked reserves are forecast to reduce from **£13.172m** (31.03.25) to **£2.693m** (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.

7.9 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 savings plan to secure recurring revenue budget savings to replace reliance on use of reserves to fund the revenue budget, as this is not sustainable.



7.10 The following table shows forecast reserves at 31.03.29 (the end of the current three-year MTFS period) and at 31.03.31. The 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 (£1.863m)** - 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.

Summary of actual and forecast reserves.

				Actual Balance 31.03.25 £'000	Forecast Balance 31.03.29 £'000	Forecast Balance 31.03.31 £'000
<b>Earmarked General Fund Reserves</b>						
Budget Support Fund				2,857	0	0
Budget Support Fund- income				630	0	0
				<b>3,487</b>	<b>0</b>	<b>0</b>
<b>Earmarked Revenue Reserves</b>						
Invest to Save Reserve				856	0	0
Insurance Fund				569	569	569
Innovation Fund				453	0	0
Commissioned Services				261	261	261
Grenfell Action Plan				90	0	0
Non-statutory Community Projects				40	0	0
				<b>2,269</b>	<b>830</b>	<b>830</b>
<b>Earmarked Capital Reserves</b>						
Capital Investment Programme				3,602	984	0
Capital Phasing Reserve				2,638	2,494	1,863
Asset Management Plan Inflation Risk				1,067	163	0
Capital Receipts Unapplied				109	0	0
				<b>7,416</b>	<b>3,641</b>	<b>1,863</b>
<b>Total Earmarked Reserves</b>				<b>13,172</b>	<b>4,471</b>	<b>2,693</b>

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

7.12 The Authority also holds an Un-earmarked General Fund Reserve. As a single purpose authority, the Authority has no opportunity to use cross service subsidies to meet unanticipated expenditure, so this reserve is a key component of our strategy for managing financial risks.

7.13 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 2025/26 revenue budget – which equates to less than three weeks expenditure.

- 7.14 The level of this reserve is considered appropriate and has been set at this level to reflect recurring financial risks facing the Authority not covered by other reserves. If these risks materialise this would have an adverse financial impact on the Authority and use of this reserve would avoid an immediate impact on the level of resources available to fund services to the public and therefore avoid the need for in year budget cuts.
- 7.15 The importance of this reserve will increase as Earmarked Reserves are committed as the Authority will continue to face continue financial risks and cannot cover all potential costs within the recurring base budget.

## **8. ASSET MANAGEMENT PLAN (AMP)**

- 8.1 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. These plans are currently being reviewed, any proposed updates will be included in the final MTFS report for Members consideration and approval.
- 8.2 As Members will recall the October 2025 MTFS report approved a proposal to rephase the purchase of 6 fire appliances, with the caveat this decision will be reviewed when the provisional 2025/26 Local Government Funding settlement is announced.
- 8.3 Since the above proposal was approved work to update the AMP has identified the requirement for upgrades to the Fire Behaviour Training Units at an estimated cost of £1m. There is no funding for this project. Therefore, to avoid this requirement increasing existing borrowing costs, which would increase the forecast budget deficits, Officers have reviewed the AMP. This has identified saving of £630,000 towards these potential costs, which would be achieved by
- Removing the schemes to provide new towers at Stockton and Hartlepool. These have a combined allocated AMP budget of £270,000. It is proposed to retain £100,000 in the AMP for repairs to the existing towers and to release the remaining £170,000.
  - Remove the provision of proposed new towers at Loftus, Coulby Newham and Yarm, freeing up £460,000.
- 8.4 The above proposals reflect an updated assessment of the operational and structural requirements of the existing towers.
- 8.5 At this stage the proposals do not cover the full potential cost of the Fire Behaviour Training Units as further work is required to finalise the technical requirements and forecast costs. However, this proposal makes a significant contribution towards addressing this issue.

## 9. CONCLUSION AND ROBUSTNESS ADVICE

- 9.1 The report advises Members that the provisional 2025/26 Local Government Finance Settlement is not expected until the week commencing 15<sup>th</sup> December 2026, as late as 19<sup>th</sup> December when Parliament goes into recess. This means the final 2025/26 Local Government Finance Settlement will be late January or early February 2026, depending on the consultation period the Government adopts. Based on recent years this timing is not unusual.
- 9.2 However, this timing is particularly challenging for 2026/27 as a result of the major reforms of the funding system proposed by the Government.
- 9.3 As reported previously the proposed funding reforms were forecast to have a detrimental impact on the Authority, with the forecast budget deficit for the next three financial years depending on the level of annual Council Tax increases. The forecast deficit is between **£6.014m** and **£2.973m** respectively **14.8%** and **7.8%** of the existing budget, as summarised below:

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% of 2025/26 Budget	15.8%	7.8%

- 9.4 The strategic planning decisions made by the Authority at the October 2025 meeting provide a robust basis for managing the financial challenges facing the Authority.
- 9.5 The proposals in this report build on these decisions and provide the Authority with continuing updates. This will ensure that when the final budget and council tax decisions are made in January/February 2026 Members are fully aware of the financial challenges facing the Authority and recommended strategy for addressing this position.

- 9.6 The Policy Statement, published by the Government on 20<sup>th</sup> November 2025, appears to be more positive for Fire and Rescue Authorities than the initial consultation proposals published in the summer. The impact on individual authorities will not be known until December, although it is hoped these proposals may reduce the forecast net budget deficit (£2.973m detailed in paragraph 3.2) facing the Authority.
- 9.7 As Members will be aware from previous MTFS reports the section 151 officer (Treasurer) is required to provide assurance on the robustness of the budget decisions to be made by the Authority. This advice will be provided in the final MTFS report, as it cannot be provided until we know the 2025/26 Local Government Funding settlement. The decisions made in October by the Authority and the recommendations in this report provide the foundation for the appropriate robustness advice being provided as part of the final MTFS report.

**PETER RICKARD**

Chief Fire Officer

**CHRIS LITTLE**

Treasurer