

## MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2024/25 TO 2026/27

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



For Approval

#### 1. PURPOSE OF REPORT

1.1 The purposes of the report are:

- to provide an update on the Authority's Medium Term Financial Strategy, which integrates the revenue budget, Asset Management Plan and Reserves Strategy, and underpins the delivery of the Community Integrated Risk Management Plan; and
- to enable Members to consider the recommendations referred from the Executive Committee on 19th January 2024 in relation to the Medium Term Financial Strategy, including the recommended 2023/24 Council Tax level.

#### 2. RECOMMENDATIONS

2.1 The Executive Committee has made the following recommendations:-

1. Approve the proposal to transfer the forecast 2023/24 revenue underspend of £0.160m to the Unearmarked General Fund Reserve to increase this reserve to £1.712m, which will maintain this reserve at 5% of the 2024/25 budget requirement.
2. Note the 2024/25 Local Government Finance Settlement is for one year (the 6<sup>th</sup> annual settlement) and provides an increase national Core Spending Power of **£3.903 billion (6.5%)**, which assumes **53% (£2.078 billion)** of this increase will be funded by all authorities using the available Council Tax and Adult Social Care precept flexibility.
3. Note for standalone Fire and Rescue Authorities the average Core Spending Power increase is **4.6%** (range 4.2% to 5%) and Cleveland has the joint lowest increase with West Midlands of **4.2%**.
4. Note that in line with the approach adopted by other Fire and Rescue Authorities in response to lower inflation and affordability the provision for the national Grey Book (Fire fighters) pay award for 2024 has been reduced to 3% and reflected in the revised 2024/25 budget deficit. To note that each 1% additional pay award would result in an unbudgeted cost of £223,000, which would need to be funded by making additional permanent budget reductions.

5. Approve a **3%** Council Tax increase in line with the Government's Referendum Limit, which will provide additional recurring resources of **£0.418m** to help sustain services.
6. Note that approving recommendation (5) will result in approximately 241,000 households (91.4%) having to pay a weekly increase of 5p or less, as highlighted in the following table.

2023/24		2024/25					
Annual Council Tax	Property Band	Annual Council Tax	Weekly Council Tax	Annual increase	Weekly increase (pence)	Number of households	% households
£57.91	A	£59.64	£1.15	£1.73	3p	119,016	45.1%
£67.56	B	£69.58	£1.34	£2.02	4p	49,328	18.7%
£77.21	C	£79.52	£1.53	£2.31	4p	48,132	18.3%
£86.86	D	£89.46	£1.72	£2.60	5p	24,563	9.3%
£106.16	E	£109.34	£2.10	£3.18	6p	13,999	5.3%
£125.46	F	£129.22	£2.49	£3.76	7p	5,419	2.1%
£144.77	G	£149.10	£2.87	£4.33	8p	2,949	1.1%
£173.72	H	£178.92	£3.44	£5.20	10p	296	0.1%
						263,702	100.0%

7. Note that based on recommendation (5) being approved the 2024/25 budget will be balanced through a combination of the following measures:

	£'m	Percentage of total deficit
Grant Funding Increase (net of Service Grant reduction)	0.448	30%
3% Council Tax increase	0.418	28%
Investment income	0.250	16%
Business Rates/Section 31 grants increase.	0.215	14%
Use of Budget Support Fund Reserves	0.190	12%
<b>Total Gross Deficit (paragraph 7.13)</b>	<b>1.521</b>	<b>100%</b>

8. To ensure the Authority's budget position does not become unmanageable it is recommended that the Chief Fire Officer brings forward savings proposals in two stages:
- Stage 1 savings proposals to address the deficit deferred from 2024/25 using reserves of **£0.190m**, plus any additional deficit if the national 2024 Grey book pay award is higher than provided for in the 2024/25 budget, as soon as practical after the 2024 Grey book pay award is settled for consideration by the Authority. This will enable Members to consider these proposals and if approved provide an appropriate lead time to implement these measures from 1<sup>st</sup> April 2025.
  - Stage 2 savings proposals to address the range of forecast deficits for 2025/26 and 2026/27 (detailed in paragraph 8.5) for consideration by the Authority during 2024.
9. Approve the establishment of an Investment Income phasing reserves to ensure the £0.250m of support provided to the 2024/25 budget can be sustained in 2025/26, 2026/27 and potentially 2027/28, which will continue to protect services.
10. Note the updated forecast deficits for 2025/26 and 2026/27 detailed in section 8.5.
11. Approve the updated Asset Management Plan detailed in **Appendix D** and the earmarking on one-off resources as detailed in paragraphs 9.4 and 9.5 to manage AMP inflation risks over the period 2024/25 to 2028/29. To note that if these resources are not needed to cover inflation risks a future MTFS report will detail alternative proposals for using these resources, including reducing the level of borrowing used to fund the Asset Management Plan.
12. Note the Reserves review detailed in section 10 and Robustness Advice detailed in section 11 which underpin the above decisions and the financial resilience of the MTFS pending the reintroduction of multi-year Local Government Financial Settlements.
- 2.2 On the basis of approving the recommendations detailed in paragraph 2.1 the Authority needs to approve the supporting statutory calculations detailed in **Appendix G** and the 2023/24 Revenue Budget detailed in **Appendix H** (both appendices to follow as at the time the report was prepared not all the necessary information had been received).
- 3. BACKGROUND**
- 3.1 Previous MTFS reports and presentations to Members have highlighted the significant changes in funding available to fund Fire and Rescue Authorities (FRAs) as it is important to reflect on where the Authority is starting from before considering future financial challenges. Three key factors have a permanent impact on the Authority's financial position are summarised below and detailed in **Appendix A**:

**1) Changes in funding mix**

There have been two significant changes which impact on recurring resources:

 A reduction in Government funding of **£4.7m** – a reduction of **25%** between 2013/14 and 2023/24.

 An increase in the percentage of the recurring resources funded from Council Tax from **31%** in 2013/14 to **47%** in 2023/24 – **£4.5m** increase

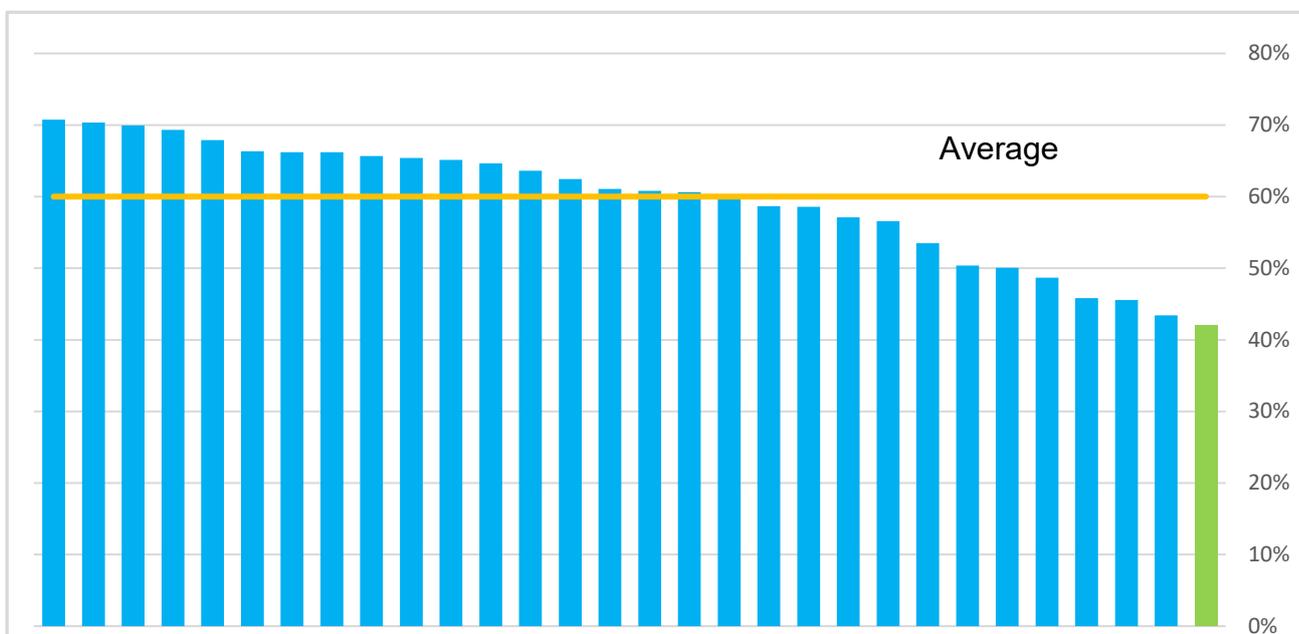
 Cash reduction in funding of £0.4m – real term reduction in resources of **£9.7m** (calculated using the Bank of England inflation calculator).

**2) Low Council Tax base**

The Authority has a low Council Tax base as **45%** of properties are in Band A, the lowest Council Tax band, compared to **24%** nationally.

This means the Authority funds **42%** of Core Spending Power from Council Tax – the lowest of any FRA and significantly below the FRA average of **60% as** summarised in the table below:

2024/2025 Forecast Council Tax as % of Core Spending Power for standalone FRAs



  
Cleveland

### 3) Impact of previous budget reductions

As a result of previous reductions in Government funding and the low Council Tax base the Authority will continue to face ongoing financial challenges. This position needs to take account of previous reduction, the most significant being:



**a 33% reduction** in the number of **wholetime firefighter posts** from 494 to 332.

3.2 In summary the Authority is starting 2024/25 with:

- less cash funding than in 2013/14.
- a low Council Tax base which means a much lower proportion of spending is funded from Council Tax than is the case for the average FRA.
- continued reliance on the level of Government funding.
- a significant challenge given the requirement to increase Council Tax to partly fund inflation pressures; and
- uncertainty regarding 2024 national pay awards and inflation.

## 4. 2023/24 FORECAST REVENUE OUTTURN

- 4.1 A comprehensive report was considered by the Audit and Governance Committee on 24 November 2023 which advised Members that whilst inflation has fallen in recent months it had remained high for the first half of the financial year. Recent announcements by the Bank of England (BoE) and the Office for Budget Responsibility (OBR) indicate inflation will take longer to fall to the 2% target level.
- 4.2 Clearly continued inflation puts further pressures on the Authority's budget. In response the Chief Fire Officer has continued to carefully manage expenditure and a year-end underspend of £0.160m is forecast. This has been achieved from temporary salary savings from staff turnover.
- 4.3 It is recommended that the year-end underspend is transfer to the Unearmarked General Fund Reserves to retain the real term value of this reserve at a time of continuing inflation. This will retain this reserve at around 5% of the 2024/25 budget (i.e. £1.712m) further information is provided in section 10.17.

## 5. **ECONOMIC OUTLOOK AND IMPACT ON PUBLIC SECTOR SPENDING**

5.1 On 22 November 2023 the Chancellor presented the Autumn Statement and the key measures included tax reductions of £19.8 billion consisting of:

- £10.715 billion tax reduction for business investment; and
- £9.055 billion National Insurance reduction from 12% to 10%.

5.2 The Autumn Statement also included updated forecasts from the OBR which highlight the challenges impacting on the economy and funding available for the public sector, as detailed in **Appendix B**. These forecasts indicate that if economic growth is not higher than forecast the next Comprehensive Spending Review, covering the period 2025/26 to 2027/28, will be extremely challenging for the next Government and requires either:

### 1. **Further reductions in non-protected Government departments**

The OBR forecast real term cuts each year from 2025/26 if protection is limited to the NHS and school funding is held flat per pupil in real terms.

If defence and overseas aid increase to the current Government's previously indicated targets the OBR forecast higher real term cuts in other areas will be required, each year from 2025/26.

### 2. **Higher taxes**

Whilst the recent Autumn statement introduced some tax reductions previous Government statements have potentially reduced the scope of higher taxes. The most significant change was the extension of the freeze in personal income tax threshold until 2027/28, which creates 'fiscal drag' meaning more people pay 20% income tax, or move into the 40% tax bracket, or 45% tax bracket.

### 3. **A combination of 1 and 2**

5.3 The Chancellor's Budget on 6 March 2024 will provide details of the current Government's priorities for public sector spending, taxation and updated forecasts from the OBR.

5.4 In view of these issues the decisions the Authority makes when setting the 2024/25 budget will have a very significant impact on the financial sustainability of the Authority in future years and its ability to manage ongoing financial uncertainty.

## 6. GOVERNMENT FUNDING 2024/25

6.1 The provisional Local Government Finance Settlement was issued on 18 December 2023, the day before Parliament recessed. At a national level the settlement confirms the following:

- **Period of Settlement**

The settlement is for one-year, which is the sixth annual one-year settlement.

The forthcoming general election will determine the funding position for 2025/26 onwards. However, the timing of the election is likely to lead to a further one-year settlement for 2025/26 owing to the complexity of reforming the existing system.

- **Core Spending Power (CSP)**

This is the Government's measure of increase in resources and includes Council Tax rises based on national referendum limits.

The national increase in Core Spending Power is **£3.903 billion** (a **6.5%** increase), which reflects a combination of increased Government funding, including specific funding for Social Care, and continued reliance on Council Tax – which Government figures show for 2024/25 is just over half the national Core Spending Power increase, as follows:

### National increase in CSP 2024/25

	2024/25 Increase	Percentage of total CSP increase
<b>Council Tax and Adult Social Care precept income</b>	£ 2.078 billion (+3.5%)	53.3%
<b>Other Grant increases</b>	£ 1.133billion (+1.9%)	29.0%
<b>Social Care Grant</b>	£0.692 billion (+1.1%)	17.7%
<b>Total Core Spending Power Increase</b>	<b>£ 3.903billion (+6.5%)</b>	<b>100.0%</b>

- **Council Tax Referendum limits**

Confirmation of the indicative **3%** Council Tax referendum limit for Fire and Rescue Authorities. The previous MTFs forecasts were based on the 2023/24 referendum limit of £5 continuing for 2024/25. The lower limit of 3% means the maximum additional recurring Council Tax income the Authority can potentially achieve is **£0.384m** lower than if the £5 limit had continued.

The National Fire Chiefs Council will be writing to the Government to highlight the adverse impact of not continuing the £5 referendum limit for 2024/25 and asking for this position to be reviewed before the final settlement is issued early in 2024.

Council Tax referendum limits take no account of either an individual Authorities starting Band D Council Tax level, or the local Council Tax base. A fixed monetary Council Tax referendum limit (i.e. £5) provides all FRAs with a more equal ability to increase recurring income. This seems to have been the rationale for Police having a fixed monetary Council Tax referendum limit for many years - a position repeated for 2024/25 with a limit of £13 (2023/24 £15).

However, a fixed percentage Council Tax referendum limit is more beneficial for FRA's with a higher band D Council Tax as they can raise more recurring resources by implementing this increase as highlighted below:

- Durham and Darlington FRA 2023/24 Band D Council Tax is £114.69 - a 3% increase for 2024/25 equates to £3.44.  
(note Durham and Darlington FRA has not yet made their 2024/25 Council Tax decision)
- Cleveland Fire Authority's 2023/24 Band D Council Tax is £86.86 - a 3% increase for 2024/25 equates to £2.60.

The 3% referendum limit means this Authority raises **£0.135m** less than it would raise if it had the same monetary increase as Durham and Darlington in 2024/25. **The importance of this position over a 5-year period means Cleveland can raise £0.675m less recurring income by the fifth year.**

- **Services Grant**

Nationally this has been reduced from £483m to £77m a reduction of 84%. Most of the reduction has been used to increase the social care grant, provide resources for the 'funding guarantee' and to fund part of the increase in Revenue Support Grant. An undisclosed amount has been held back as contingency and may be allocated in the final settlement.

- **Funding Guaranteed Grant**

This grant is intended to provide a funding floor for all local authorities (including FRAs) so that no local authority will see an increase in core spending power lower than 3%, before taking into account council tax decisions and changes to funding rolled into grants.

As highlight in section 6.2 the Funding Guarantee grant is feeding into differences in FRAs Core Spending Power increases which seem to benefit FRAs with a high Council Tax base. This potentially means these FRAs will either be able to spend more on services or consider Council Tax rises below the 3% Referendum Limit (which seems unlikely as they will wish to retain financial resilience by increasing Council Tax up to the referendum limits).

- **Other areas of the settlement**

The Government “asks authorities to continue to consider how they can use their reserves to maintain services over this and the next financial year, recognising that not all reserves can be reallocated, and that the ability to meet spending pressures from reserves will vary between authorities”.

As detailed in section 10 the Authority has a robust strategy for managing reserves which underpins the Asset Management Plan and provides resources to support the MTFS. The reserves strategy is very clear that any use of reserves to address a budget deficit is not a sustainable strategy and would simply defer service cuts until a later financial year.

## 6.2 Comparison of 2024/25 Core Spending Power increase

6.3 As highlight below FRAs have the lowest increase in Core Spending Power and the highest increases are for Social Care authorities.

### Comparison of average Core Spending Power increases (based on DLUHC Settlement figures)

2023/24		2024/25
10.2%	Metropolitan Councils total	6.6%
9.2%	Total for England total	6.5%
9.0%	Unitary Councils total	6.5%
5.7%	Standalone FRAs total	4.6% (Range 4.2% to 5% and London 7.2%)
5.0%	District Councils total	<b>5.03%</b>

Cleveland’s CSP increase is **4.2%** which is the joint lowest FRA increase with West Midlands and below the **4.6%** FRA average. This position reflects the fact that FRAs (including this Authority) which raise a low proportion of Core Spending Power from Council Tax have the lowest Core Spending Power increase between 2023/24 and 2024/25. This position reflects the same long terms trend over the period 2015/16 to 2024/25 as detailed in **Appendix C**.

The table below shows a range of Spending Power increases for standalone FRAs of 4.2% (Cleveland and West Midlands) to 5% (Buckinghamshire, Dorset and Wiltshire, Hereford and Worcester, Shropshire). If Cleveland received a 5% increase this would be an additional **£0.265m** of Spending Power – if repeated over 5 years the cumulative difference is **£1.3m**.

The Spending Power increases also include the 3% Funding Guarantee which is calculated before Council Tax increases. 31 out of 44 FRAs will receive this funding. This Authority is the only FRA which will not receive this funding. Overall this funding allocates £17.5m to standalone FRAs (range £46,000 – Merseyside, to £990,000 – Dorset and Wiltshire).

From this Authority's perspective it would have been better if this funding had been used to reduce the differences in Core Spending Power increases between FRAs, which all face the same national pay and inflation pressures. This point has been made in the response to the Settlement consultation.

The following table highlights differences in Core Spending Power increases and the amount allocated as Funding Guarantee grant.

Comparison of CSP increases and Funding Guarantee grant included in CSP.

	2024/25 Core Spending Power (CSP) increase	2024/25 CSP percentage increase	Funding Guarantee included in CSP increase
<b>Cleveland</b>	<b>£1.393m</b>	<b>4.2%</b>	<b>nil</b>
West Midlands	£5.171m	4.2%	£0.152m
Tyne and Wear	£2.549m	4.3%	£0.126m
Durham & Darlington	£1.636m	4.7%	£0.198m
Buckinghamshire	£1.779m	5.0%	£0.260m
Dorset and Wiltshire	£3.420m	5.0%	£0.990m
Hereford and Worcester	£1.931m	5.0%	£0.556m
Shropshire	£1.370m	5.0%	£0.174m

#### 6.4 Settlement impact on Cleveland

- 6.5 As summarised below the provisional 2024/25 settlement would have provided a 5.03% increase (forecast 5%) if the Services Grant had not been cut. However, after reflecting the cut in the Services Grant, which had not been forecast, the overall Government funding increase between 2023/24 and 2024/25 is **2.87%**, which means this funding is less than forecast, as summarised below:

#### Summary of Provisional Settlement 2024/25

2023/24 Actual		2024/25 Provisional Settlement	2024/25 Increase/ (decrease) on 2023/24 grants
£'m		£'m	
6.077	Revenue Support Grant (RSG)	6.479	6.62%
1.409	Pension Grant ##	1.409	0.0%
<b>7.486</b>	<b>Revised RSG</b>	<b>7.888</b>	n/a
7.749	Top-up Grant	8.114	4.71%
<b>15.235</b>	<b>Sub Total</b>	<b>16.002</b>	<b>5.03%</b>
0.379	Services Grant	0.06	(84.2%)
<b>15.614</b>	<b>Total</b>	<b>16.062</b>	<b>2.87%</b>
	Less 2024/25 Forecast	(16.306)	
	Decrease in 2024/25 funding compared to MTFS forecast	<b>0.244</b>	

## The provisional settlement confirms this grant has been mainstreamed and added to the RSG from 2024/25.

- 6.6 The provisional settlement confirmed the September 2023 CPI figure will be used to update section 31 grant paid to authorities to compensate for freezes in the Business Rates multiplier and various reliefs. The exact impact on the Authority will not be known until late January once the four councils have completed the detailed calculations, which are more complex than in previous years. An initial assessment indicates these grants will be £0.215m, more than forecast in the MTFS owing to higher actual inflation than forecast.

## 7. 2024/25 BUDGET REQUIREMENT AND UPDATED FUNDING POSITION

7.1 The level of inflation has remained higher than forecast in the current year and whilst it has fallen significantly from the peak inflation will remain a financial risk into 2024/25. Therefore, an updated assessment of forecast inflation impact on pay budgets has been undertaken, as set out below:

### 7.2 Pay budgets

7.3 Pay is **80% (£27.8m)** of the budget and national pay awards for 2024 will not be agreed before the Authority needs to set the 2024/25 budget. Key issues are highlighted below:

- **Green Book (Support staff) pay - 14% (£4.8m) of budget.**

National Green Book pay awards are effective from 1<sup>st</sup> April each year, but not agreed before this date. The April 2023 agreement was only reached in November 2023.

In relation to Green Book (Support Staff) the level of the National Living Wage has been a key driver of pay awards over the last two years. This is a significant issue for councils owing to make-up of the workforce and the high proportion of lower paid employees. The National Employers organisation has previously addressed this by maintaining a minimum hourly pay level above the NLW – from April 2023 £11.59 compared to £10.42 NLW. This has resulted in pay increases being targeted at the lowest paid, which is beginning to put pressures on the national pay spine.

The recently agreed April 2023 national pay award increased the Authorities Green Book pay costs by 5.6%, compared to forecast of 5%, an additional recurring cost of £33,000.

The recent announcement that the NLW will increase to £11.44 (9.8% increase) in April 2024 will continue this pressure. At this stage no pay request has been submitted by the Unions, therefore pay negotiations have not commenced.

- **Grey Book (Fire fighter) pay - 66% (£23.0m) of budget.**

National Grey Book pay awards are effective from 1<sup>st</sup> July each year and in February 2023 a two-year agreement was reached - consisting of a backdated increase from 1<sup>st</sup> July 2022 (7%) and an increase from 1<sup>st</sup> July 2023 (5%). This is better than the national increases achieved by Green Book employees at managerial/professional levels who were on similar pre 2022 and 2023 pay levels to uniformed managers.

National discussions regarding the 2024 cost of living pay award have not yet commenced and agreement will not be reached before the budget needs to be set. The continuing falls in inflation (November 2023 3.9%) and expectation of further reductions in 2024 should reduce private and public sector pay demands where pay is not directly impacted by the NLW increase, or close to the NLW.

Therefore, in view of the less favourable provisional settlement (i.e. lower grant increase than forecast and 3% Council Tax flexibility) it is recommended that the

Grey Book pay forecast is reduced from 5% to 3%. This is in line with the position being adopted by other FRAs.

This approach is not without risk as each 1% national pay increase above 3% would increase recurring costs by **£0.223m**. As outlined in the next section if this arises the Authority will have to identify further service cuts to address higher recurring pay costs.

#### 7.4 **Recurring 2024/25 Local Resources update**

7.5 These resources reflect information provided by the 4 constituent authorities in relation to the Council Tax base, Business Rates and section 31 grants. Council Tax base information is more favourable than forecast as the economy has not gone into recession (which would have increased households eligible for Council Tax support, which reduces the tax base), housing growth has remained more resilient, and authorities are applying council tax premiums on empty homes.

7.6 Information regarding Business Rates and section 31 grants will be received in late January 2024.

#### 7.7 **Investment income update**

7.8 The budget forecasts are based on using **£0.250m** of temporary interest income achieved on the Authority's cashflow (covering revenue, capital expenditure and the timing of long-term borrowing to fund capital expenditure) and reserves. Over the period of the MTFS reserves will be used to fund the approved Asset Management Plan and other one-off commitments.

7.9 Over the same period interest rates will reduce, although the timing of reductions and eventual new 'normal' interest rates are unclear. The higher than expected reduction in inflation in November complicates this picture, as does new international uncertainties, such as incidents in the Red Sea.

7.10 Against this background an assessment of interest income over the period of the current MTFS has been completed and on this basis the £0.25m of temporary support can be extended to cover 2025/26 and 2026/27.

7.11 As Members will appreciate using non-recurring resources is not sustainable and at some point the £0.25m will need to be replaced by reducing expenditure. This is currently anticipated to arise in 2027/28. However, if interest rates reduction are phased over a longer period it may be possible to extend this support into 2027/28. To enable this to be achieved it is recommended that an "Interest Investment Phasing" reserve is established.

7.12 **Update of 2024/25 Budget Position**

7.13 The following table summarises the updated budget position and shows the following key factors:

- A reduction in the pay and non-pay inflation provision (as detailed in section 7.2), which reduced the forecast budget deficit. This issue will remain a potential risk until national pay awards for 2024 are agreed.
- Reliance on use of the 3% Council Tax referendum limit which secures **£0.418m** of recurring income – without this income the net deficit would increase to **£0.608m**.

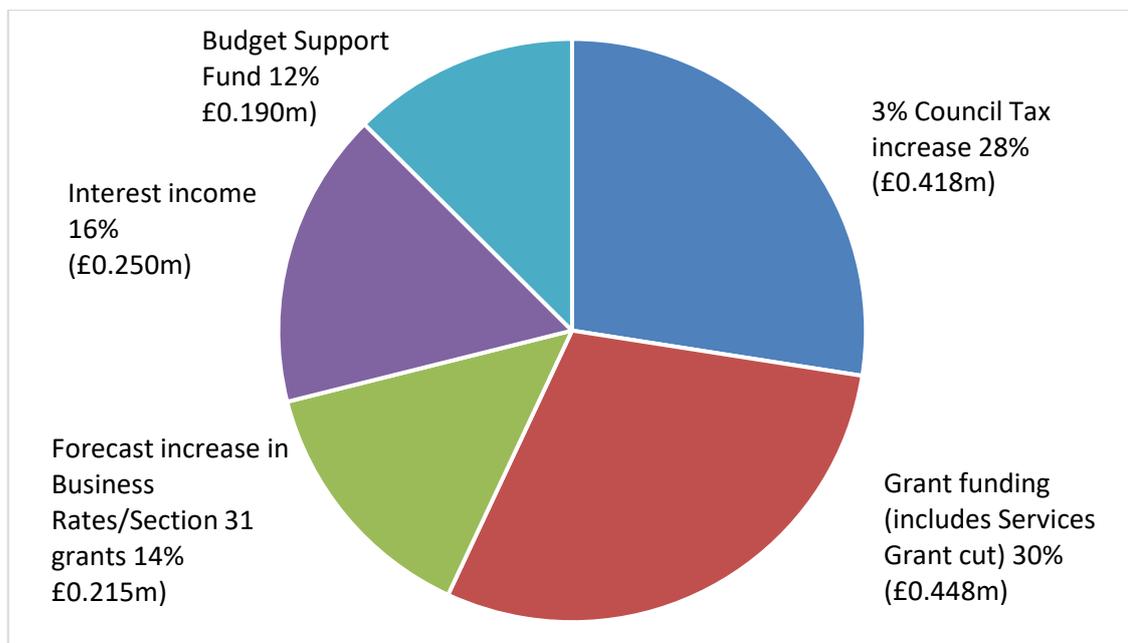
Summary of Update Budget Position 2024/25

September Forecast £'m		Updated Forecast £'m
1.727	Pay and non-pay inflation.	1.288
0.500	Add- Deficit deferred from 2023/24 to 2024/25 by using investment income	0.500
0.114	Add – Temporary Collection fund and Budget Support fund resources used in 2023/24	0.114
0.000	Less – recurring saving identified from budget review	(0.175)
(0.017)	Less – recurring income from increase in Council Tax base	(0.206)
<b>2.324</b>	<b>Gross Deficit</b>	<b>1.521</b>
(0.802)	Less – Council Tax income from forecast £5 Referendum limit	0.000
0.000	Less – Council Tax income from actual 3% Referendum limit	(0.418)
(0.787)	Less – increase in Revenue Support Grant and Top-up grant	(0.767)
0.000	Add- Reduction in Services Grant	0.319
0.000	Less – increase in Business Rates/section 31 income (note will not be confirmed until final figures received from the 4 constituent authorities in late January)	(0.215)
<b>0.735</b>	<b>Net Deficit AFTER recurring funding increases</b>	<b>0.440</b>
(0.250)	Less – 2024/25 Investment income (also sustainable in 2025/26 and 2026/27, but defers this element of the deficit to 2027/28)	(0.250)
<b>0.485</b>	<b>DEFICIT TO BE ADDRESSED FROM SERVICE CHANGES/REDUCTIONS</b>	<b>0.190</b>

7.14 **Strategy to address 2024/25 budget deficit**

- 7.15 As detailed in previous reports and presentations the Authority has made significant service cuts in previous years and the budget for 2024/25 has been prepared against a background of high inflation and funding uncertainty.
- 7.16 The recent Local Government finance settlement provides funding certainty for 2024/25 and confirms the net unfunded deficit for 2024/25 of **£0.190m**. It is recommended this amount is funded from the Budget Support Fund. Using these one-off resources does not permanently address this deficit. However, this proposal provides time to assess the actual level of pay awards and inflation in 2024/25 and avoids cutting services earlier than may be necessary.
- 7.17 There remains a risk that pay awards and inflation may be higher than forecast and if this is the case a plan will need to be developed during 2024/25 to ensure the necessary budget reductions can be achieved from April 2025 and where possible part year saving achieved in 2024/25. For example, if the national Grey Book pay award is 1% higher than the 3% budget provision this would increase recurring costs by £0.223m, which would increase the deficit from £0.190m to £0.413m.
- 7.18 As highlighted in the following chart the increased grant funding only funds **30%** of the 2024/25 budget deficit. This confirms the lower funding priority for FRAs within the overall Local Government Finance settlement which gives a higher priority to social care given the significant service pressures in these areas. This means **70%** of the deficit is funded from other sources, including increasing Council Tax by the 3% referendum limit, temporary investment income and use of the Budget Support fund.

**Summary of measures to address 2024/25 deficit of £1.521m**



**8. BUDGET FORECASTS 2025/26 and 2026/27**

- 8.1 Forecasting beyond 2024/25 remains challenging as the outlook for inflation and interest rates remain uncertain and is unlikely to become clearer until late 2024. Additionally funding settlements for 2025/26 onwards will depend on the priorities of the next Government and whether the long-delayed reforms of the Local Government Funding system are implemented.
- 8.2 In terms of funding for the Authority there are three key sources of recurring income:
- Government funding – **47%** (£16.1m) of recurring 2024/25 funding, including the mainstreamed Pension Grant.
  - Council Tax - **42%** (£14.5m) of recurring 2024/25 funding.
  - Business Rates/section 31 grant – **11%** (£3.9m) of recurring 2024/25 funding.
- 8.3 To remain financially sustainable all three sources of funding need to increase annually to offset inflation, including national pay awards, and other financial pressures. The recent Autumn Statement suggest Government funding will at best standstill in cash terms and at worst may be reduced in 2025/26 and 2026/27.
- 8.4 In relation to inflation pressures from 2025/26 the planning assumption is based on the Bank of England bringing inflation back to the 2% limit.
- 8.5 A range of planning scenarios are set out below and are based on Members approving the proposed strategy to balance the 2024/25 budget, which includes deferring a deficit of £0.190m from 2024/25 to 2025/26.

**Planning Scenarios - Alternative potential budget deficits 2025/26 to 2026/27**

	2025/26 Deficit (Note 1) £'m	2026/27 deficit £'m	Total deficit £'m	Total Deficit as percentage 24/25 budget
<b>Updated Baseline forecast - scenario 1</b>	0.530	0.254	<b>0.784</b>	2.3%
Annual planning factors <ul style="list-style-type: none"> <li>• Inflation and pay awards <b>2%</b></li> <li>• Council Tax increase <b>2%</b></li> <li>• Government grant freeze</li> <li>• £0.250m Investment income sustained in 25/26 and 26/27 (defers deficit to 27/28)</li> </ul>				
<b>Scenario 2 – Mid Case (a)</b>	0.804	0.598	<b>1.402</b>	4.1%
Annual planning factors <ul style="list-style-type: none"> <li>• Inflation and pay awards <b>3%</b></li> <li>• Council Tax increase <b>2%</b></li> <li>• Government grant freeze</li> <li>• £0.250m Investment income sustained in 25/26 and 26/27 (defers deficit to 27/28)</li> </ul>				
<b>Scenario 3– Mid Case (b)</b>	0.691	0.413	<b>1.104</b>	3.2%
Annual planning factors <ul style="list-style-type: none"> <li>• Inflation and pay awards <b>2%</b></li> <li>• Council Tax increase <b>2%</b></li> <li>• Government grant reduction <b>1%</b></li> <li>• £0.250m Investment income sustained in 25/26 and 26/27 (defers deficit to 27/28)</li> </ul>				
<b>Scenario 4 – Worst Case</b>	0.965	0.757	<b>1.722</b>	5.1%
Annual planning factors <ul style="list-style-type: none"> <li>• Inflation and pay awards <b>3%</b></li> <li>• Council Tax increase <b>2%</b></li> <li>• Government grant reduction <b>1%</b></li> <li>• £0.250m Investment income sustained in 25/26 and 26/27 (defers deficit to 27/28)</li> </ul>				

**Note 1 – all scenarios for 2025/26 include the deficit deferred from 2024/25 of £0.190m.**

- 8.6 Clearly, based on the reductions made in previous years addressing deficits that arise in 2025/26 and 2026/27 will be extremely challenging and options will need careful consideration at future meetings.
- 8.7 To ensure the Authority's budget position does not become unmanageable it is recommended that the Chief Fire Officer brings forward proposals to address the deficit deferred from 2024/25 as soon as practical after the 2024 Grey book pay award is settled for consideration by the Authority. This will enable Members to consider these proposals and if approved provide an appropriate lead time to implement these measures from 1<sup>st</sup> April 2025.
- 8.8 The second stage of this strategy will involve identifying additional budget reductions once the forecast deficits for 2025/26 and 2026/27 are more certain. These proposals will reflect the actual Government funding settlement for 2025/26 determined after the General Election by whichever party(s) form the next Government. The timing of the General Election is likely to mean that once again the settlement for 2025/26 will be issued in late December 2024 and will be for one year. Therefore, some use of the Budget Support Fund may be necessary in 2025/26 to support the phasing of budget cuts. This position underlines the importance of the budget decisions to be made when setting the 2024/25 budget and the continued longer term financial planning adopted by the Authority at a time of continuing one-year Government funding settlements.
- 9. ASSET MANAGEMENT PLAN (AMP)**
- 9.1 The AMP covers planned capital expenditure on buildings, vehicles, equipment and IT systems needed to deliver fire and rescue services. The AMP is rolled forward annually and as detailed in **Appendix D** the proposal now includes requirement up to 2028/29. This longer-term planning period reflect this longer lead for capital expenditure. The total planned AMP investment is £15.697m (at 2023/24 prices) and is funded from a combination of borrowing and the capital reserve (one off funding set aside to reduce the level of borrowing required).
- 9.2 The higher than forecast level of inflation during 2023 and OBR forecast of continuing inflation into 2024/25 has a significant impact on the AMP. This position is complicated by lead in times for capital schemes and the need to ensure individual project specifications are robust.
- 9.3 To manage these risks an assessment has been made of the impact higher inflation has on the forecast costs. There is a greater risk that these forecasts may underestimate the inflation risk for later years if inflation does not fall and is then sustained by the Bank of England at the 2% target level. Therefore, the position will need to be reviewed annually until inflation reduces and becomes stable. As summarised below an inflation provision of **£1.190m** is recommended, which equates to 7.6% of the 2024/25 to 2028/29 AMP value.

Summary of Inflation impact on AMP 2023/24 to 2028/29

	Current Estimate	Additional costs to cover inflation
	£'m	£'m
2023/24	2.779	0
2024/25	7.587	0.490
2025/26	0.580	0.050
2026/27	1.485	0.170
2027/28	0.856	0.110
2028/29	2.410	0.370
<b>Total</b>	<b>15.697</b>	<b>1.190</b>

- 9.4 In terms of funding the additional AMP inflation it is recommended that most of this cost can be offset from the following one-off resources:

Summary of resources to fund potential AMP inflation 2023/24 to 2028/29

	£'m
Recommended inflation provision	1.190
Less – Release of Collection Fund Deficit Reserve	(0.406)
<p>This reserve was set aside to cover the costs for forecast Collection Fund deficits arising from Covid and the phasing of these over three financial years (2021/22 to 2023/24).</p> <p>Provisional Collection Fund figures received from the <b>four</b> constituent authorities indicate Collection Funds have recovered from the financial impact of Covid. Therefore, this reserve can be released.</p>	
Less – Forecast Collection Fund Surpluses	(0.500)
<p>The Collection Fund balances will not be known until late January. In normal circumstances (i.e. pre Covid) the impact on the Authority is small. However, several of the constituent councils have indicated they are reviewing their methodology for calculating bad debt provisions in relation to council tax and business rates. This is expected to result in a one-off benefit through the four Collection Funds. The Authority's provisional share is expected to be in the order of £0.5m.</p>	
<b>Inflation provision still to be funded</b>	<b>0.284</b>

- 9.5 The whole of the inflation provision does not need to be funded at this stage as it is a forecast covering the period up to 2028/29 and the potential shortfall can be managed over this period.
- 9.6 In the event that AMP inflation pressures are less than the provision a strategy for using any unused funds can be developed as part of a future MTFS, including using these funds to reduce the level of borrowing for the AMP, which would then reduce annual loan repayment costs.

## 10. **RESERVES REVIEW**

- 10.1 Reserves are a key element of the Authority's financial planning arrangements and enables 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.
- 10.2 This section details how the Authority's Reserves Strategy underpins the MTFS by helping to manage financial risks / uncertainty and outlines how the Authority complies with the requirements outlined in the Fire and Rescue National Framework for England in relation to Reserves, as detailed in **Appendix E**.
- 10.3 The Authority holds both Earmarked Reserves and an Unearmarked General Fund Reserve. Earmarked reserves make up 88% 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.
- 10.4 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.
- 10.5 **Reserves Benchmarking**
- 10.6 No national reserve benchmarking was undertaken during 2023, therefore the most recent comparative national figures are for 2022. The national reserve figures consist of two components – Earmarked Reserves and General Fund Reserve.
- 10.7 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 2023 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 2023 as FRA's have historically maintained General Fund Reserves at a consistent level.

Split between Earmarked Reserves and General Fund Reserve

2022 National	2022 Cleveland		2023 Cleveland
86%	88%	Earmarked Reserves	88%
14%	12%	General Fund Reserves	12%
<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>

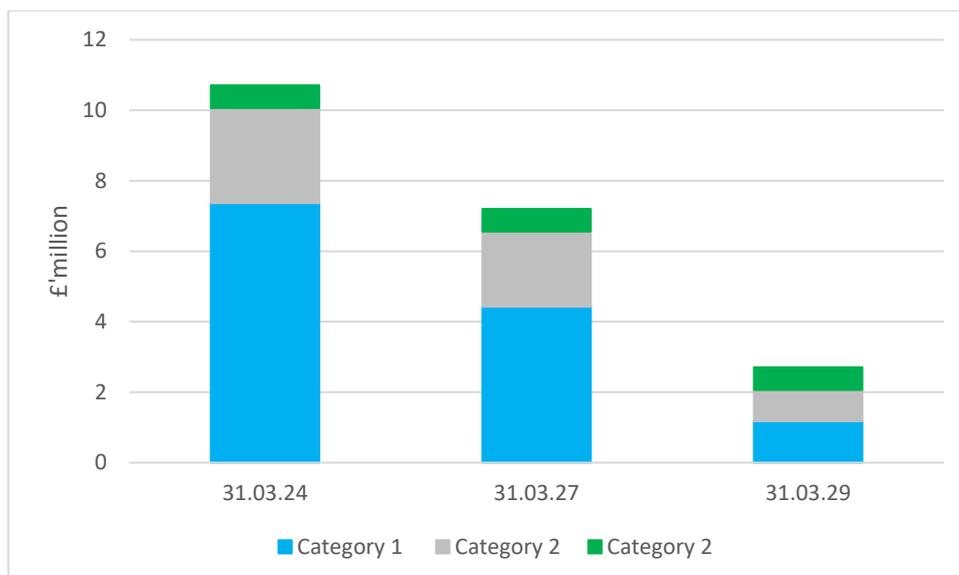
10.8 The following paragraphs provide more up to date information on the forecast position of the Authority’s reserves over the period of the MTFS.

10.9 **The Authority’s Earmarked Reserves**

10.10 The Authority’s Earmarked Reserves fall into three categories as detailed in **Appendix F** which shows the planned use of reserves up to 2028/29. Over this period Earmarked Reserves will reduce significantly as these one-off resources are used to fund planned commitments as follows:

- Category 1 Reserves – there will be significant use of these reserves as the main reserves are the Capital Programme Reserve, which support the AMP plan, and the Budget Support Fund Reserves, which supports the phased implementation of budget cuts.
- Category 2 Reserves – these will be used to support AMP borrowing costs and n invest to safe initiatives.
- Category 3 Reserve – this is the Authority’s insurance fund and no planned use of forecast as this will depend on potential claims not covered by insurance.

Forecast Earmarked Reserves



The following paragraphs provide more information on reserves based on the forecast starting position at 31.03.24.

10.11 **Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS - £7.362m forecast balance 31.03.24.**

10.12 These reserves relate to three keys areas:

- **Earmarked Capital Reserves (£3.841m)** - allocated to support the Authority's Asset Management Plan which provides funding to replace operational vehicles and equipment.
- **Budget Support Fund Reserve (£2.857m)** – this reserve is earmarked to manage financial risks and uncertainties regarding national pay awards / inflation over the period of the MTFS (including in 2024/25) and the level of Government funding from 2025/26. Using this reserve to manage the recurring impact of these risks materialising would not provide a permanent solution. However, it would provide a longer lead time to address this position should it arise, which would be more manageable than implementing in-year measures to reduce costs.
- **Earmarked Revenue Reserves (£0.664m)** - allocated to fund Collection Fund deficits, installation of fire alarms and managing income risks for services funded from specific grant/external funding.

10.13 **Category 2 - Funding for specific projects and programmes beyond the current planning period - £2.704m forecast balance 31.03.24.**

10.14 The Authority reserves under this category are:

- **Capital Phasing Reserve (£1.644m)** - 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 2029/30 the reserve will be fully used.

- **Other Reserves under this category (£1.060m)** – as detailed in Appendix C the main items are resources earmarked for Invest to Save, Grenfell Action Plan and Ring Fenced Grants reserve.

10.15 **Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management - £0.643m balance 31.03.24.**

10.16 The Authority only holds one reserve within this category – the Insurance Fund. This is earmarked to fund payments that fall within the Authority's insurance policy excesses.

**10.17 The Authority's General Fund Reserve - £1.712m 31.03.24**

10.18 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.

10.19 This is the only uncommitted reserve held by the Authority and equates to 4.9% of the proposed 2024/25 revenue budget – which equates to less than three weeks expenditure.

10.20 This reserve is broadly in line with the 5% level suggested in the Fire and Rescue National Framework for England guidance.

10.21 The level of this reserve is considered appropriate and has been set at this level to reflect recurring financial risks facing the Authority not covered by other reserves. If these risks materialise this would have an adverse financial impact on the Authority and use of this reserve would avoid an immediate impact on the level of resources available to fund services to the public and therefore avoid the need for in year budget cuts.

10.22 The potential one-off events relate to:

- **Business Rates income risks** - the overall business rates base for the authority's area consists of a number of major rate payers where business rates income is volatile as Rateable Values can reduce significantly on a temporary basis. For example, in 2016/17 Rateable Value reductions resulted in a collection fund deficit (i.e. reduction in Business Rates income) for the Authority of £0.615m. This situation could potentially be repeated if the Nuclear Power station had an unplanned shutdown, as the Valuation Office Agency would approve a temporary rateable value reduction.
- **Incident costs** - as the Authority previously reduced the budget there are less resources and therefore less resilience to deal with major incidents, particularly in relation to COMAH sites. If 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.

**11. ROBUSTNESS ADVICE AND CONCLUSION**

11.1 Prior to 2020/21 the Authority had managed nine years of austerity and cuts in Government grant funding. As most of the budget is spent on front line services the Authority has made significant changes, including a 33% reduction (494 to 332) in the number of whole time Fire fighter posts.

11.2 The provisional settlement indicates a total increase in national core Spending Power of **6.5%**, an increase of £3.903 billion. This increase includes the assumption all authorities use the full Council Tax referendum limits which could raise £2.078 billion – i.e. **53%** of the increase in Spending Power.

- 11.3 The Authority's Core Spending Power increase is **4.2%** (joint lowest with West Midlands) and below the FRA average of **4.6%** and highest **5%** increase for 4 FRAs (Buckinghamshire, Dorset and Wiltshire, Hereford and Worcester, Shropshire). This position reflects the Authority's low Council Tax base and allocation of the Funding Guarantee grant.
- 11.4 Whilst the 2024/25 percentage differences in Core Spending Power may seem small between FRAs the financial value is significant. If this Authority Core Spending Power increase matched the 5% increase this would equate to an additional **£0.265m** in 2024/25. If this pattern of differential increases is repeated in future years over a 5-year period, the difference is **£1.325m**.
- 11.5 The key impact of the Core Spending Power increase set out in the Local Government Finance Settlement for the Authority is the net increase in Government grant funding of **£0.448m (2.87%)**. This is only **30%** of the 2024/25 budget deficit of **£1.521m**. This means the remaining **70% (£1.073m)** of the deficit is being funded from local resources (including the income from a 3% Council Tax increase and the Authority's share of Business Rates and section 31 grants) as detailed in paragraph 7.18.
- 11.6 The proposals and recommendations in this report enable the Authority to:
- Set a balance budget for 2024/25.
  - Manage the financial uncertainties facing the Authority in 2024/25 – i.e. national pay awards and inflation.
  - Protect existing services; and
  - Provide financial resilience into 2025/26 and 2026/27 when hopefully inflation will have reduced to the Bank of England's 2% target and then by 2026/27 multi-year financial settlements are reinstated.
- 11.7 Achieving the increase in Council Tax income is particularly important for the Authority's financial sustainability and managing budget risks. This includes having to manage the situation of setting the 2024/25 budget before national pay awards for Fire Fighters have been resolved. There is clearly a risk that if the actual pay settlements exceed the budget forecasts the three-year budget deficit will be higher and require greater service cuts from 2025/26.
- 11.8 As Members are aware an annual decision is needed to increase the Council Tax level. For many other taxes the income raised increases automatically, for example: -
- In a period of inflation if VAT stays at 20% it is paid on the higher cost of goods / services and this increases VAT income received by the Government.
  - Similarly, as wages rise additional income tax receipts are generated by the Treasury if income tax thresholds are frozen. This is known as "Fiscal drag" as people pay either 20% income tax on any pay award they receive, or more people pay 40% income tax if their pay increase pushes their income above the relevant tax threshold.

- 11.9 The recommended Council Tax increase provides the most robust basis for setting the 2024/25 budget and the increased recurring income will help protect services during a period of continued financial uncertainty and inflation above the Bank of England target.

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