

MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2018/19 to 2022/23 AND RESERVES STRATEGY



JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

For Approval

1. PURPOSE OF REPORT

- 1.1 To enable Members to consider the recommendations referred from the Executive Committee in relation to the MTFS, including the Reserves Strategy and Council Tax for 2019/20.

2. RECOMMENDATIONS

- 2.1 The following recommendations have been referred from the Executive Committee:

- (i) The Executive Committee noted details of the 2019/20 Provisional Local Government Finance Settlement which had been issued in December. Members are advised that the final settlement was issued on 29th January and this confirms:

- a Council Tax Referendum Limit for Fire and Rescue Authorities of 3%;
- a reduction in core Government funding for the Authority of £310,000, compared to indicative December 2017 reduction of £320,000;
- the allocation of one off funding of £141,000 for 2019/20, which is the Authority's share of the national Business Rates retention levy account surplus;

- (ii) Note the Chief Fire Officer will implement the approved 2019/20 CIRMP savings as follows:

	£'000
Incident Command unit alternative staffing model	43
Review of Control Room	145
Extend implementation of 4 riders to all appliances	483
Total 2019/20 savings	671

- (iii) Approve the proposal to delay implementation of the CIRMP alternative crewing model saving of £253,000 from 2019/20 to 2020/21 to provide a longer lead time to make this saving;
- (iv) Approve the proposal that in 2019/20 the delay in implementation of the CIRMP alternative crewing model saving is funded from a combination of the one off allocation from the Business Rates retention levy account surplus of £141,000, lower reduction in Core Government Grant £10,000 and use of reserves of £102,000;

- (v) Note that the proposed use of reserves may need to change to address any variation in the final Collection Fund figures for 2019/20, and details will be verbally reported at the meeting on 15 February 2019.
- (vi) Approve a 2019/20 Council Tax increases of 2.9% and supporting statutory calculations detailed in Appendix G. The recommended Council Tax increase is below the 3% Government Council Tax referendum limit, and provides recurring addition funding of £330,000 and will result in the following Council Tax levels;

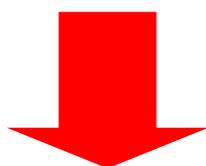
2018/19		2019/20		Annual increase £	Approximately 65% of households are in Band A or B
Weekly Council Tax £	Property Band	Annual Council Tax £	Weekly Council Tax £		
0.96	A	51.57	0.99	1.45	
1.12	B	60.17	1.16	1.70	
1.29	C	68.76	1.32	1.93	
1.45	D	77.36	1.49	2.18	
1.77	E	94.55	1.82	2.66	
2.09	F	111.74	2.15	3.15	
2.41	G	128.93	2.48	3.63	
2.90	H	154.72	2.98	4.36	

- (vii) Approve the 2019/20 revenue budget detailed in Appendix E;
- (viii) Note the significant financial risks and uncertainties facing the Authority over the period 2020/21 to 2022/23 detailed in the report;
- (ix) Instruct the Chief Fire Officer to develop a contingency savings plan based on scenarios 1a and 1b (i.e. forecast deficits of **£2.297m** and **£3.497m** respectively) and to report details to a future meeting as part of the process for setting the 2020/21 budget;
- (x) Approve the Reserves Strategy detailed in section 7 and Appendix C;
- (xi) Approve the proposals to fund increased Asset Management Plan costs of £0.983m from the uncommitted Capital Receipts of £0.580m and Capital Investment Reserve of £0.403m;
- (xii) Approve the proposal to earmarked the net uncommitted Capital Investment Reserve of £0.334m to meet potential inflation and exchange rate risks of replacing fire appliances over the period 2020/21 to 2024/25;
- (xiii) Approve the revised Asset Management Plan proposals for 2018/19 to 2025/26 as detailed in Appendix D;
- (xiv) Note the robustness advice detailed in section 9.

3. BACKGROUND

- 3.1 Financial year 2019/20 is the final year of the current four year Government financial settlement. Whilst, the four year settlement has provided financial certainty, it has resulted in further recurring cuts in Government funding received by the Authority.
- 3.2 By 2019/20 the Authority will have faced nine consecutive years of cuts in Government funding – which is unprecedented and has resulted in a significant reduction in the Authority's budget as summarised below:

Cash reduction in budget between 2010/11 and 2019/20



Recurring reduction in 2019/20 - **£7.3m**

- A reduction of **22%**

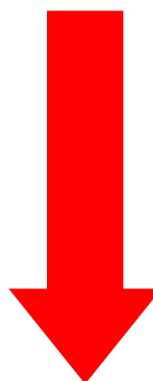
- 3.3 Whilst, the cuts in Government funding since 2010/11 have affected all Fire and Rescue Authorities, the impact on Cleveland Fire Authority is greater as we raise less income from Council Tax and were more reliant on Government funding when the cuts commenced in 2010/11.
- 3.4 As a result of the cuts in Government funding between 2013/14 and 2019/20, decisions the Authority has taken to increase Council Tax and the impact of housing growth, the proportion of overall spending funded from Council Tax has increased between 2013/14 (the first year of the current Local Council Tax Support scheme arrangements) and 2019/20 as summarised below:

Increase in recurring Council Tax income between 2013/14 and 2019/20,
compared to Grant Cut for same period



2019/20 proportion of budget funded from Council Tax – **48%**, compared to **32%** in 2013/14.

Recurring increase in Council Tax income - **£2.4m**
(includes housing growth of £950k)



Grant Cut 2013/14 to 2019/20

£6.0m

– a cut of **32%**

- 3.5 If the increased Council Tax income had not been achieved the Authority would have had to make additional recurring cuts of £2.4m. This increase has effectively enabled the Authority to maintain **58** firefighter posts, which is approximately **17%** of current firefighter establishment.

- 3.6 The approved MTFs and Community Integrated Risk Management Plan (CIRMP) covered four financial years (2016/17 to 2019/20) to align with the period of the Government financial settlement. These plans were designed to deliver recurring savings of **£3.695m** by 2019/20.
- 3.7 As a result of the funding cuts implemented over the nine years up to 2019/20 the Authority has made significant operational changes to ensure safe and effective services continue to be provided to the community. As approximately 80% of the budget is spent on staff costs (pay, pensions and national insurance) these changes have been underpinned by modernising the way services are provided, including reducing whole time firefighter posts and increasing retained duty system firefighter posts. These changes have been achieved by natural wastage and there have been no firefighter redundancies.
- 3.8 By 2019/20 these measures will have resulted in the following changes:
- **36% reduction** in the number of **whole time firefighter posts** from 518 in 2010/11 to 330 in 2019/20.
 - **33% increase** in the number of **retained duty system firefighter posts** from 72 in 2010/11 to 96 in 2019/20.
 - **38% reduction** in the number of **fire control posts** from 26 in 2010/11 to 16 in 2019/20.
 - **19% reduction** in the number of **non-uniformed support posts** from 129.21 in 2010/11 to 105.15 in 2019/20.
 - **30%** reduction in number of Elected Members from 23 to 16 – effective from June 2016.
- 3.9 At the Conservative Party Conference the Prime Minister indicated that austerity will end. The Chancellor presented the Budget to Parliament on 29th October 2018. The Budget did not provide departmental resource budgets for 2020/21 and future years. Instead it provided details of total departmental resource budgets split between NHS England and all other Departmental spending. When account is taken of the Government's commitment to increase NHS spending the rest of Government Departments will see a cash increase of just 8.4% over the period 2019/20 to 2023/24.
- 3.10 This increase is roughly in line with forecast increases in CPI (Consumer Prices Inflation), which means that other Government Departments will not see any real terms increase in funding over the period up to 2023/24. Therefore, whilst the Government has stated austerity has ended the public sector will continue to face a very challenging position up to 2023/24.
- 3.11 The 8.4% increase is an average for all Government departments, (excluding NHS England), including education, defence, police, prisons and local government. The amount allocated to individual Government departments will depend on the priorities the Government gives to individual areas in the 2019 Spending Review. There is therefore a risk that areas the Government does not prioritise may still face further funding cuts beyond 2019/20.

- 3.12 Despite the above announcements there is still considerable uncertainty in relation to the financial outlook for 2020/21 and future years. An update on these issues is provided later in the report, which indicates continuing budget deficits for the Authority.
- 3.13 Our reputation for keeping people safe is renowned and achieved through the provision of excellent community safety services developed from our sophisticated understanding of risk and community expectations; and maximum productive use of our fire fighters. The continued cuts to the Authority's grant and the subsequent requirement to further reduce the number of fire fighters seriously brings to question the sustainability of those services in the future and therefore increases the numbers of unmanaged risks to the public.

4. 2018/19 FORECAST OUTTURN

- 4.1 The Chief Fire Officer has continued to manage the 2018/19 budget extremely carefully and taken action to hold posts vacant to achieve the planned 2019/20 CIRMP savings and therefore help secure the 2019/20 financial position.
- 4.2 It is anticipated that these measures will result in a 2018/19 year-end under spend of £0.749m. A strategy for using this amount will be developed as part of the reserves strategy and further details are provided later in the report.
- 4.3 The 2018/19 budget and outturn forecast reflects the national 2% pay 'uplift' for fire fighters agreed in September.
- 4.4 The current Fire Brigades Union pay claim is for 17% and national negotiations are continuing, including in relation to 'broadening the role' and this may impact on firefighters pay levels. As it is unclear when these negotiations will be completed, what the outcome will be and the implementation date it is not possible to estimate the potential financial impact on the Authority. If these negotiations result in an increase and the Government does not provide additional recurring funding the Authority will have to identify additional permanent budget reductions. Further updates will be reported when more information becomes available.

5. 2019/20 Budget

- 5.1 As reported previously the Authority faces a budget deficit next year of £924,000 - which reflects four key issues:
- A ninth successive Government grant cut, which for 2019/20 is a further cut of 2.5%;
 - Forecast pay awards not exceeding 2%;
 - Forecast inflation not exceeding 2%;
 - A Council Tax increase of 2.9%, which is slightly below the Government Council Tax Referendum Limit for Fire and Rescue Authorities of 3%.
- 5.2 The approved CIRMP outlined the measures which will be implemented to address the 2019/20 deficit. Since the CIRMP was approved work has progressed to implement these proposals and the majority of these measures will be implemented as planned, as summarised below:

CIRMP savings to be implemented 2019/20

	£'000
Incident Command unit alternative staffing model	43
Review of Control Room	145
Extend implementation of 4 riders to all appliances	483
Total 2019/20 savings	671

- 5.3 Owing to the complexity of the alternative crewing model proposals further work needs to be completed to achieve the proposed saving of £253,000. To provide a longer lead time to complete this work and to secure this saving for 2020/21 it is recommended that the temporarily delay in this saving in 2019/20 is underwritten from a combination of the one off allocation from the Business Rates retention levy account surplus of £141,000, lower reduction in Core Government Grant £10,000 and use of reserves of £102,000. Reserves will only be used if the Chief Finance Officer cannot achieve a managed underspend in 2019/20 to offset the delay in achieving this saving. The potential impact on available one off resources is detailed later in the report.

6. FINANCIAL FORECASTS AND RISKS 2020/21 TO 2022/23

- 6.1 As reported previously the financial position for 2020/21 is the most uncertain ever faced by the Authority. This position reflects the significant uncertainty regarding factors impacting on both expenditure and resources, as follows:

- **The outcome of the 2019 Spending Review** – this will determine the Government's spending priorities for all Departments, with the exception of NHS England. These spending priorities 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. Additionally, the Government will 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 will service fair In comparison to these other areas in the Government's Spending Review?

- **Business Rates Retention and Fair Funding Review** - these changes impact on the resources the Authority will receive from the Government, which in 2019/20 account for **55%** of all recurring resources available. Nationally these resources account for approximately **40%** of recurring funding for Fire and Rescue Services. Therefore, the decisions the Government make will be fundamental to the financial sustainability of Fire and Rescue Authorities.

As this Authority is more reliant on this funding, owing to the relatively low Council Tax base and higher levels of deprivation, the decisions made in relation to these resources are even more critical.

It is not anticipated that the detailed impact will be known until late 2019, which makes financial planning extremely challenging.

- **Council Tax referendum limits** - Council Tax accounts for the remaining **45%** of recurring resources available to this Authority. This is significantly less than the national figure of **60%** for Fire and Rescue Services. This position reflects two key factors. Firstly, the Authority has a low Council Tax base. Secondly, the Authority has historically had a Band D Council Tax at broadly the national average level.

The future Council Tax limits set by the Government will also have a significant impact on the financial sustainability of the Authority. These limits will become even more important if the Business Rates and Fair Funding Review result in further funding reductions.

- **Pay Awards** – as pay costs account for approximately 80% of the budget the continued national pay negotiations in relation to ‘broadening the role’ makes financial planning challenging. As this is a national issue the current planning assumption is that additional Government funding will be provided for any increased costs which may arise from ‘broadening the role’.
- **Fire Fighters Pension contributions** - recent Government announcements have increased uncertainty regarding future employers’ pension contributions. This risk was previously reported following the Chancellor’s 2017 Budget and a provision for increased costs of £100,000 included in the 2019/20 budget forecasts. This issue affects other public sector pension schemes for the police, NHS and teachers. The latest information from the Government confirms there will be a significant increase in employers’ pension contributions for these schemes.

For 2019/20 the Government has stated they will fund 90% of the increased cost of the Fire and Rescue service and will be providing a grant of £97m. It is not yet clear if the Government will provide recurring funding, as statements so far indicate this issue will be considered as part of the Spending Review which will determine funding for 2020/21 onwards. Further information is provided later in the report on the potential impact on the Authority in 2020/21.

6.2 Further information on these issues is detailed in Appendix A.

6.3 **Fire Fighters pension scheme transition protections** – on 14 December 2018 the Court of Appeal handed down the judgement in the Fire fighters transitional appeals case. The case relates only to the transitional protection arrangements in the 2015 Fire fighters pension scheme, and whether these are discriminatory. It does not address the introduction of that scheme itself by the primary legislation of the Public Services Pensions Act 2013.

The Court of Appeal has overturned earlier judgements of the employment tribunal and the employment tribunal appeals and concluded that “the manner in which the transitional provisions have been implemented has given rise to unlawful direct age discrimination”. The judgement remits it to the employment tribunal to consider remedy, but before that step the Government can apply for permission to appeal to the Supreme Court. This means it is likely to be many months before the final position is clarified.

Depending on the outcome of this issue there may be additional one off and recurring costs which if not funded by the Government would result in additional unfunded budget pressures for individual Fire and Rescue authorities. This situation further highlights the complexity of pension changes and the potential financial risks for individual authorities. Further updates will be provided when more information is known.

- 6.4 In view of the uncertainty regarding the above issues two planning scenarios have been modelled for 2020/21 to 2022/23 as follows:

Summary of annual planning assumption 2020/21 to 2022/23

	Scenario 1a	Scenario 2a	Annual Impact of a 1% change in planning assumption
<p>Government Funding cut</p> <p>This planning assumption reflects a recent indication that further annual cuts in funding for the Fire and Rescue Service will be implemented from 2020/21. This level of cut would be slightly above the 4% annual average cut implemented over the last four years for this Authority.</p>	5%	5%	£140k
Council Tax Referendum limit	3%	3%	£120k
<p>Growth in Council Tax Base</p> <p>This reflects forecasts provided by the four constituent authorities.</p>	1.3%	1.3%	£120k
<p>Cost of living pay increases</p> <p>As pay accounts for 80% of the budget a small change in future pay awards has a significant impact on the budget. For planning purposes economic conditions suggest that 2% pay awards may apply for the three years 2020/21/22 to 2022/23 as shown for Scenario 1a.</p> <p>Scenario 2a highlights the impact if pay awards increased to 3%</p>	2%	3%	£228k
Non Pay inflation	2%	2%	£56k

- 6.5 Based on the above forecasts the Authority faces the following potential budget deficits:

Summary of potential budget deficits 2020/21 to 2022/23

Scenario	Planning Assumptions			Forecast Budget Deficits			
	Council Tax increase	Government Grant Cut	Pay increase	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
1a	2.9%	5.0%	2.0%	929	774	594	2,297
2a	2.9%	5.0%	3.0%	1,146	1,002	833	2,981

Note – 2020/21 forecast deficit includes alternative crewing model saving of £253,000 deferred from 2019/20.

- 6.6 **Scenario 1a** - These deficits could be removed if the Government increased the Council Tax Referendum Limits for Fire and Rescue for 2020/21 to 2022/23 from the forecast level of 3% per year to £7.00 per year. This is above the £5.00 limit the Authority has previously asked the Government to implement for Fire and Rescue authorities, which is the current limit applying to shire district councils.

Annual increases of £7.00 could increase the forecast 2022/23 Band D Council Tax from £85.29 based on 3% annual referendum limits to £98.36, which highlights that a slighter higher Council Tax referendum limit would protect Fire and Rescue services, based on these planning forecasts.

- 6.7 **Scenario 2a** - shows the potential impact of pay awards increasing from 2% to 3%, which highlights the sensitivity of this issue and the resulting increase in the forecast budget deficit.

Under this scenario the Government would need to set the Council Tax Referendum limits at £8 for 2020/21 to 2022/23 to protect services. This would be below the £12 Council Tax Referendum limit set for the Police Service for 2018/19, and significantly below the 2019/20 increased Police Service Council Tax Referendum limit of £24.

- 6.8 Scenarios 1 or 2 do not include any provision for additional recurring costs which may arise from ongoing national negotiations in relation to 'broadening the role'. For planning purposes it is assumed that as this is a national issue additional Government funding will need to be provided if this results in increased costs. If this is not the case this would increase the forecast budget deficits. Further updates will be provided when more information is available.

6.9 **Employers' Pensions Contributions**

- 6.10 The Government has recently confirmed that employer pension contributions for fire fighters will increase from an average of 17.6% to 30.2%. Other unfunded pension schemes for the police, teachers and NHS also face significant increases. These increases reflect the impact of changes in how future pension liabilities are calculated.

- 6.11 Nationally this will increase contributions for Fire and Rescue authorities by £107m in 2019/20. The Government will fund £97m of this cost in 2019/20. The Government has indicated the case for recurring funding for 2020/21 and future years will need to be made in the 2019 Spending Review.
- 6.12 The gross recurring cost to this Authority in 2019/20 is estimated to be £1.3m. To put this cost increase into context:
- It equates to the amount raised from a Council Tax increase of 11%;
 - It equates to the same impact as an additional cut in Government grant of 10%;
 - It equates to the cost of 31 fire fighters.
- 6.13 On the basis of the Government funding approximately 90% of this cost the Authority faces a net 2019/20 budget pressure of £130,000. This is slightly higher than the provision included in the 2019/20 budget forecast for an increase in employer pension contributions of £100,000.
- 6.14 If the Government does not provide recurring funding in 2020/21 and future years this will have a fundamental impact on the budget forecasts detailed in paragraph 6.5 and mean that over the period 2020/21 to 2022/23 the Authority may face a budget deficit of between £3.497m and £4.181m as summarised below:

**Summary of potential budget deficits 2020/21 to 2022/23 –
Reflecting potential impact of unfunded increase in Employers' Pension Costs**

Scenario	Planning Assumptions				Forecast Budget Deficits			
	Council Tax increase	Government Grant Cut	Pay increase	Pension Increase	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
1b	2.9%	5.0%	2.0%	13.0%	2,129	774	594	3,497
2b	2.9%	5.0%	3.0%	13.0%	2,346	1,002	833	4,181

Note – 2020/21 forecast deficit includes alternative crewing model saving of £253,000 deferred from 2019/20.

- 6.15 To put the above potential deficits into context:
- **Scenario 1b – forecast deficit of £3.497m**
 - equates to the cost of 84 fire fighters;
 - would require a Council Tax increase in 2020/21 of £16 (20.7%), £7 (7.5%) in 2021/22 and £6.00 (6.0%) in 2022/23.
 - **Scenario 2b forecast deficit of £4.181m**
 - equates to the cost of 101 fire fighters;
 - would require a Council Tax increase in 2020/21 of £17 (22.0%), £8 (8.5%) in 2021/22 and £7 (6.8%) in 2022/23.

- 6.16 **Strategy for managing forecast 2020/21 to 2022/23 budget deficits**
- 6.17 Until details of the actual funding regime, the impact of national ‘broadening the role’ and future employers pensions contributions are known it is extremely difficult to determine the financial position the Authority will have to manage. However, as these issues are unlikely to be clear until late 2019 the Authority needs to begin planning for 2020/21 and future years.
- 6.18 At this stage it is recommended that **scenario 1a** (detailed in the paragraph 6.5), which may require the Authority to make budget cuts of **£2.297m** by 2022/23, is the most appropriate planning scenario. There is a risk that if the Government does not provide recurring funding for increased fire fighter pension contribution in 2020/21 that this deficit could increase by **£1.2m** i.e. a total forecast total deficit of **£3.497m (scenario 1b)**. Therefore, it is recommended that the Chief Fire Officer is instructed to develop a contingency savings plan for 2020/21 to 2022/23 to address these two forecast scenarios and to report details during 2019/20 when the financial position is more certain.
- 6.19 Clearly it is becoming increasingly difficult to make further reductions in the budget, as the Authority has already made significant annual cuts for the last nine years. Therefore, in line with the House of Commons Committee of Public Accounts report – “Financial sustainability of fire and rescue services” recommendations to central government the Chief Fire Officer’s report on further savings proposals should clearly set out the authorities “capacity to make further efficiency savings, and the impact of prevention and protection activities on reducing fire risk”.
- 6.20 As reported previously the Authority began planning in 2016/17 for 2020/21 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. Action taken to manage the 2018/19 budget enables a further contribution to be made to this reserve. As detailed earlier in the report part of the Budget Support Fund will be earmarked to underwrite the 2019/20 budget and the delayed implementation of the alternative crewing model savings. This amount will only be taken from reserves if the Chief Finance Officer cannot achieve a managed underspend in 2019/20 to offset the delay in achieving this saving. After reflecting these changes the available Budget Support Fund is £3.968m, as detailed below:

Forecast Budget Support Fund 31.03.2020

	£'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

- 6.21 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.

- 6.22 Whilst, this approach would phase the forecast deficit over up to four years it would not avoid the need to make significant budget reductions.
- 6.23 The following table summarises the potential flexibility to phase savings once the financial position for 2020/21 and future years is more certain.

Impact of using reserves on Budget deficit Scenario 1a

	2020/21	2021/22	2022/23	2023/24	Total Deficit	Total Reserves Used
	£'000	£'000	£'000	£'000	£'000	£'000
Scenario 1a - Deficit before use of reserves	929	774	594	0	2,297	
Add Deficit deferred from previous year by using BSF Reserve	0	676	950	794		
Less – Use of Budget Support Fund (BSF) Reserve	(676)	(950)	(794)	0		(2,420)
Savings to be implemented	253	500	750	794	2,297	

Note - no initial forecast deficit for 2023/24 has been prepared and this column has been included to show the value of deficit deferred from 2022/23 by using reserves to provide a longer lead time to make permanent budget cuts. If additional funding cuts are implemented in this year the deficit shown in the above table would increase.

- 6.24 **The above table shows that using reserves does not provide a permanent solution to address recurring cuts in funding and budget pressures. Using reserves simply provides a slightly longer lead to either implement the unavoidable service cuts, to hold a referendum to determine if there is public support for a higher Council Tax increase to protect services, or to recognise that the Authority is not financially sustainable and needs to merge.**
- 6.25 As indicated earlier in the report the budget deficit would increase by £1.2m if increased Employers Pension costs for fire fighters are not funded by the Government providing additional recurring funding in 2020/21 and future years. The strategy outlined above for using the Budget Support Fund would commit £2.420m of the available fund, which would leave £1.543m uncommitted. This would be sufficient one off funding to cover increased Pension costs for 2020/21 if these costs are not funded from additional Government grant. However, this would simply defer a budget deficit of £1.428m to 2020/21. If this situation arises the available Budget Support Fund reserve would be fully committed sooner and would provide less time to phase in the unavoidable budget reductions. This position is summarised in the following table.

Impact of using reserves on Budget deficit Scenario 1b

	2020/21	2021/22	2022/23	2023/24	Total Deficit	Total Reserves Used
	£'000	£'000	£'000	£'000	£'000	£'000
Scenario 1b - Deficit before use of reserves	2,129	774	594	0	3,497	
Add Deficit deferred from previous year by using BSF Reserve	0	1,876	1,222	865		
Less – Use of Budget Support Fund (BSF) Reserve	(1,876)	(1,222)	(865)	0		(3,963)
Savings to be implemented	253	1,428	951	865	3,497	

7. RESERVES STRATEGY

- 7.1 Reserves are a key element of the Authority's financial planning arrangements and enable financial risks and spending priorities to be managed over more than one financial year, where these activities support the Authority's strategy to deliver a good quality of service to the public. Provisions within the Local Government Act 1992 require authorities to have regard to the level of reserves needed for meeting estimate future expenditure when calculating the budget requirement.
- 7.2 This section of the report enables the Authority to review the Reserves Strategy as an integral part of the MTFS which enables the Authority to:
- Consider the requirements outlined in the Fire and Rescue National Framework for England in relation to Reserves, as detailed in Appendix B;
 - Consider recommendations from the Treasurer, which have been developed in conjunction with the Chief Fire Officer, on the purpose and value of Earmarked Revenue Reserves to be held by the Authority;
 - Consider the planned use of reserves over the period of the current MTFS;
 - Consider the planned use of reserves beyond the period of the current MTFS;
 - Consider the level of Unearmarked General Fund reserve recommended by the Treasurer.
- 7.3 The current Reserves Strategy is the most important the Authority has ever prepared as it covers a period of significant financial uncertainty arising from external issues as detailed earlier in the report in relation to:

- The impact of the 2019 Spending Review - which will determine funding allocations for Government Departments for 2020/21 to 2023/24;
- The Fair Funding Review and increase in Business Rates Retention from 50% to 75% - which will determine future funding allocations for individual Fire and Rescue Authorities for 2020/21 and future years;
- Funding arrangements in relation to increased employers pension contributions for fire-fighters, which will be determined as part of the 2019 Spending Review;
- The outcome of National Pay negotiations – which will include ‘broadening the role’ negotiations in relation to fire-fighters and the funding arrangements if this results in an increased cost for Fire and Rescue Authorities.

7.4 The Authority holds both Earmarked Reserves and an Unearmarked General Fund Reserve. Earmarked reserves make up 84% of the Authority’s Reserves and are held to spread the cost on large scale capital projects over a number of years, to support the revenue budget and to meet other one off commitments. A detailed analysis of why these reserves are held and the planned use is provided in section 7.8. This includes how these reserves underpin the MTFS and Asset Management Plan

7.5 In the event that circumstances change and individual Earmarked Reserves are not needed, or the calls on these reserves are less than currently forecast, the position will be reviewed when the MTFS is updated. This will ensure the Reserves Strategy continues to underpin the MTFS and the financial resilience of the Authority.

7.6 Details in relation to the Unearmarked General Fund Reserve are provided in section 7.19.

7.7 **Earmarked Reserves**

7.8 The Authority’s Earmarked Reserves fall into three categories as detailed in Appendix C and summarised in the following paragraphs:

7.9 **Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS - £7.068m forecast balance 31.03.19**

7.10 These reserves relate to three keys areas:

- **Earmarked Capital Reserves (£2.177m)** - allocated to support the Authority’s Asset Management Plan which provides funding to replace or refurbish operational buildings, as detailed in section 8;
- **Budget Support Fund Reserve 2019/20 to 2022/23 (£4.070m)** - earmarked to manage the risks referred to in paragraph 7.3 and will provide a longer lead time to either implement permanent budget reductions, or secure increased Council Tax income by holding a Council Tax referendum, or a secure a merger. In the extremely unlikely event that these one off resources are not needed to provide temporary support for the revenue budget the Authority would consider

alternative uses for these resources, including funding future capital expenditure requirement, repayment of existing long term borrowing and invest to save initiatives;

- **Earmarked Revenue Reserves (£0.821m)** - allocated to fund specific projects in relation to managing income risks for services funded from specific grant/external funding, one off pension costs in relation to non uniformed staff and the provision of smoke alarms.

7.11 Appendix C provides more details in relation to these reserves, including planned use over the MTFS period to phase the implementation of future forecast budget cuts and to meet approved capital expenditure commitments.

7.12 **Category 2 - Funding for specific projects and programmes beyond the current planning period - £0.773m forecast balance 31.03.19**

7.13 The Authority holds two reserves under this category

- **Capital Phasing Reserve** - 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 to fund part of the approved Asset Management Plan, 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 Fire and Rescue Authorities which implemented PFI schemes to address building condition issues.

The MTFS provides budget provision for annual contributions over the period 2019/20 to 2020/21, which will increase this reserve to £0.761m. The reserve will then be used on a phased basis commencing in 2021/22 and by 2029/30 the reserve will have been fully used.

- **Breathing Apparatus Telemetry Reserves (£0.125m)** – This reserves is earmarked to replace this equipment in 2024/25.

7.14 **Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management - £0.470m forecast balance 31.03.18.**

7.15 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.

7.16 **Earmarked Reserves Summary**

7.17 Appendix C provides a detailed overview of the Category 1 to 3 reserves and proposed use over the period of the MTFS. In summary these reserves are forecast to reduce significantly over the next the few years as summarised below:

Earmarked Reserves – forecast balance 31.0.19 to 31.03.23

	Forecast balance 31.03.19 £'m	Forecast balance 31.03.23 if fire fighters pension costs funded £'m	Forecast balance 31.03.23 if fire fighters pension costs NOT funded £'m
Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS	8.473	2.196	0.653
Category 2 - Funding for planned expenditure on projects and programmes over the period of the current MTFS	0.723	0.765	0.765
Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management	0.470	0.470	0,470
Total	9.666	3.431	1.888

7.18 The forecast reserve balances at 31.03.2023 reflects the Authority's longer term strategy for managing financial risks and consists of the following:

Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS

The forecast balance at 31.03.23 of £0.653m is based on the Government not provided recurring funding in 2020/21 to meet increased fire fighters pension contributions, which would fully commit the Budget Support Fund. This amount consists of:

- the balance of the Capital Investment Programme Reserve (£0.334m) on the basis that this amount is not required to be used over the period 2019/20 to 2022/23, although there remains a risk that this amount may be needed if inflation/exchange rate pressures increase the cost of fire appliances to be replaced as part of the AMP. If this amount is not required for these risks the availability of this funding will be taken into account when the AMP is rolled forward;
- the balance of the Innovation Fund (£0.114m) earmarked for year five of the smoke alarm programme in 2023/24;
- the uncommitted Commissioned Services Reserve (£0.200m) on the basis that this amount is not required to be used over the period 2019/20 to 2022/23, although there remains a risk that this amount may be needed if income shortfalls arise.

If the Government provide recurring funding in 2020/21 to meet increased fire fighters pension contributions, this would reduce use of the Budget Support Fund and result in a higher forecast balance at 31.03.23 of £2.120m.

Category 2 - Funding for specific projects and programmes beyond the current planning period

The forecast balance at 31.03.23 of £0.765m consists of:

- the Capital Phasing Reserve (£0.640m) which will be used on a phased basis commencing in 2021/22 and by 2029/30 the reserve will have been fully used;
- Breathing Apparatus Reserve (£0.125m) which will be used in 2024/25 to replace this equipment.

Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management

The forecast balance of £0.470m relates to the Insurance Fund as it is difficult to forecast when these costs will be incurred. However, retaining this reserves ensures these costs do not have to be funded from the annual revenue budget.

7.19 Unearmarked General Fund Reserve - £1.552m forecast 31.03.19

- 7.20 The Authority also holds an Unearmarked General Fund Reserve. As a single purpose authority, the Authority has no opportunity to use cross service subsidies to meet unanticipated expenditure, so this reserve is a key component of our strategy for managing financial risks.
- 7.21 This is the only uncommitted reserve held by the Authority and equates to 5.8% of the 2018/19 approved revenue budget – which equates to only three weeks expenditure.
- 7.22 This reserve is approximately £200,000 above the 5% level suggested in the Fire and Rescue National Framework for England guidance. The Authority's Unearmarked General Fund Reserve is less than the national average which in 2017/18 was 9%.
- 7.23 Over the period of the MTFs the Authority's Budget Support Fund (included within Earmarked Reserves) provides one off funding to manage the main financial risks facing the Authority. However, as it is anticipated the Budget Support Fund will be used over the next few years, the level the Unearmarked General Fund Reserve will become a more important part of the Authority's future financial risk management strategy as this will be the main reserve of the Authority. Therefore, this reserve needs to be maintained. Any unplanned use of this reserve over the period of the MTFs would need to be repaid as the Authority's recurring financial position means that repayment will get more difficult, but the need to retain this reserve will become more important.

- 7.24 In view of the above issues 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 of the level of resources available to fund services to the public and therefore avoid the need for in year budget cuts.
- 7.25 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 Value can reduce significantly on a temporary basis. For example in 2016/17 Rateable Value reduction resulted in a collection fund deficit 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 continues to reduce the budget there are less resources and therefore resilience to deal with potential major incidents, particularly in relation to COMAH sites. In the event that the Authority had to rely upon mutual aid to support a major incident the Authority would have to fund recharges from other Fire and Rescue Authorities. As there is no budget provision for these costs they would need to be funded from this reserve.
 - **Potential Brexit costs** - there may be costs arising from Brexit, although it is not possible to identify or determine what they may be at this stage. Therefore, if such costs arise and cannot be accommodated within the existing budget, they may need to be funded for one year from this reserve. If such costs continue they would need to be prioritised when future years' budget proposals are developed.
 - **Forecast Housing Growth risks** - the MTFS forecast for 2020/21 and 2021/22 are based on housing growth forecasts provided by the four constituent areas, which it is anticipated will provide recurring additional Council Tax income of approximately £170,000 each year, i.e. £680,000 over the period of the MTFS. If actual housing growth is less than forecast this reserve may need to be used until permanent recurring budget savings can be achieved to offset the loss of income;
 - **Forecast Council Tax Referendum limits** – the MTFS forecasts are based on 2020/21 and 2021/21 Council Tax referendum limits of 3%. If lower limits are set this reserve may need to be used until permanent recurring budget savings can be achieved to offset the loss of income;

7.26 Reserve Benchmarking

- 7.27 Using available national information we have compared the Authority's Reserves against the other 27 English Fire and Rescue Authorities.

- 7.28 This high level analysis does not include information on the detailed rational individual authorities hold reserves for. This is particularly relevant for Earmarked Reserves as it is anticipated that individual Authorities will have detailed plans for these reserves.
- 7.29 Nevertheless, this comparison provides a useful baseline for assessing this Authority's reserves as summarised below:

Standalone Fire and Rescue Authority Reserves at 31 March 2018
as a percentage of Government Spending Power figures

	General Fund Reserve %	Earmarked Reserves %
Cleveland Fire Authority	5.8	30.4
Average for England	9.0	33.0
Lowest	2.4	8.3
Highest	19.8	73.6

- 7.30 The above table shows that Cleveland Fire Authority has:
- A General Fund Reserve of 5.8%, compared to a national average of 9%. Only 8 (28%) of Authorities hold a lower General Reserve this Authority;
 - Earmarked Reserves of 30.4%, compared to a national average of 33%.

8. ASSET MANAGEMENT PLAN (AMP) 2018/19 TO 2025/26

- 8.1 The Authority developed a multi-year AMP in 2011 covering asset requirements up until 2026. The AMP covered the replacement or refurbishment of the property estate to either replace buildings which had reached the end of their operational life which it was uneconomical to refurbish, or to refurbish existing buildings where this was more cost effective. The AMP also included the requirements in relation to operational vehicles, mainly fire appliances, and operational IT.
- 8.2 The AMP is underpinned by a funding strategy which will finance capital costs through a combination of using the earmarked Capital Investment Programme reserve and Prudential Borrowing. The revenue budget includes provision to meet the interest and principle repayment costs of using Prudential Borrowing. The phasing of these costs is supported from the Capital Phasing Reserves.
- 8.3 A comprehensive review of the remaining AMP requirements for 2018/19 to 2025/26 has been completed as detailed in Appendix D. The total forecast costs are £7.227m and relate to the following:

Summary of AMP 2018/19 to 2025/26

	£'m
Replacement and refurbishment of property	2.580
Operational Fleet	3.952
Operational Equipment	0.221
Operational ICT	0.474
Total	7.227

- 8.4 The forecast cost is £0.983m higher than the initial forecast prepared in 2011 and reflects the following issues:
- **Increased cost of fire appliances - £0.440m**
The current cost of a fire appliance has increased from approximately £0.210m to £0.254m owing to exchange rate changes and inflation. Over the period 2018/19 to 2025/26 the AMP includes provision to replace 10 fire appliances.
 - **Increased cost of Training Props - £0.361m**
The increased cost reflects the specialist nature of this equipment which is designed to provide state of the art training facilities for fire fighters.
 - **Net increase in property, operational equipment and ICT - £0.182m**
The initial AMP forecast for these requirements was £31.573m and the increased cost represents a variance of approximately 0.6%. This position has been achieved by careful management of the overall programme, including value engineering.
- 8.5 A full copy of the Asset Management Plan 2018/19 - 2025/26 is available on request.
- 8.6 **Strategy for funding increased AMP costs**
- 8.7 The financing strategy for the original AMP recognised the risks of inflation and other changes. These risks included the impact of Brexit on inflation and the exchange rate which as reported previously has a significant impact on the cost of fire appliances.
- 8.8 However, the initial AMP estimates had not been adjusted to reflect these potential financial risks, as they could not be quantified at the time and had been managed within the overall costs envelope for the AMP. Therefore, to mitigate these risks the February 2018 MTFs approved the transfer of £750,000 into the Capital Investment Programme Reserve from the Organisation Implementation/Transitional Costs reserve which was no longer needed. Part of this amount (£13,000) needs to be earmarked to finance capital costs where there has been a change in the asset life, which leaves £737,000 to support the AMP.
- 8.9 In addition, forecast capital receipts have not been committed and are also available to manage these risks as sales have now been completed, which provides one off resources of £580,000.

8.10 In total one off resources of £1.317m are available to support the increased costs of the AMP of £0.983m. After reflecting these commitments £0.334m is uncommitted. It recommended that these resources are earmarked to management potential AMP risks as outlined in the next section.

8.11 **Potential AMP risks**

8.12 There is a risk of further inflation and exchange rates risk over the remaining period of the AMP – 2019/20 to 2025/26. These risks have been assessed in relation to the major components of the AMP as follows:

- **Replacement and refurbishment of estates – total forecast spend £2.580m**
Inflation risks are low as £0.647m of this spend is based on tender submissions. The remaining £1.933m relates to works scheduled to be completed during 2019/20 and the cost estimate reflects current market prices. In the event of a cost increase at tender stage Officers would seek to mitigate this by value engineering the project.

- **Operational Fleet – total forecast spend £3.952m**
Seven of the ten replacement fire appliances are scheduled for replacement in 2020/21 and future years. There is therefore a potential risk of a further inflation cost increase and a specific risk in relation to further exchange rate risks pending the outcome of the Brexit process and subsequent performance of the Pound.

In the unlikely event that these potential increased costs exceed the one off resources detailed in paragraph 8.9, which provide sufficient funding to manage a cost increase of 19%, the net increase would need to be funded from Prudential Borrowing. The Authority would then need to identify additional budget savings to meet the resulting repayment costs.

As the following examples illustrate the revenue impact of potentially using Prudential Borrowing to fund an increase in the purchase cost of fire appliances is relatively low,

- A further 10% cost in increase in relation to seven appliances replaced in 2020/21 would result in an additional capital cost of approximately £180,000. This would result in an additional loan repayment cost of £15,000 at current interest rates, and £17,000 at current interest rates plus 1%;
- A further 20% cost in increase in relation to seven appliances replaced in 2020/21 would result in an additional capital cost of approximately £360,000. This would result in an additional loan repayment cost of £30,000 at current interest rates, and £34,000 at current interest rates plus 1%.

9. ROBUSTNESS ADVICE

9.1 The Local Government Act 2003 introduced a formal requirement on authorities to consider the advice of the Treasurer on the robustness of the budget proposals, including the level of reserves. If Members ignore this advice the Act also requires the Authority to record this position. This latter provision is designed to recognise the statutory responsibilities of Treasurers.

9.2 I would advise Members that in my opinion the budget forecasts and the proposed level of reserves recommended in this report for 2019/2020 are robust. This opinion is based on consideration of the following factors:

- The work undertaken by the Chief Fire Officer and Brigade Officers regarding the preparation of detailed budget forecasts, including the costs and savings of implementing the CIRMP, income forecasts and future Pension forecasts;
- Assurance from the Chief Fire Officer that no material issues have been omitted from the budget forecasts;
- The level of Government Grant to be provided in 2019/2020;
- A prudent view of the net costs of the Authority's overall cash flow, including a prudent provision for the repayment of Prudential Borrowing;
- The recommended Reserves Strategy detailed in section 7; and
- The recommended funding strategy for the AMP, including the strategy for managing potential inflation and exchange rate risks relating to the replacement over fire appliances.

10. CONCLUSIONS

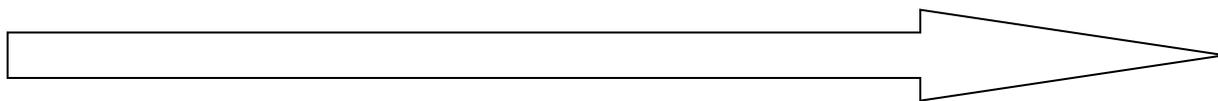
10.1 2019/20 is the final year of the current four year Government grant settlement and the ninth successive year the Authority has had to implement budget cuts. In cash terms the 2019/20 budget will be **£7.3m** less than the 2010/11 budget; this is a reduction of **22%**.

10.2 As a result of this reduction there have been fundamental changes in the Authority's staffing levels and other resources, as follows:

- **36% reduction** in the number of **whole time firefighter posts** from 518 in 2010/11 to 330 in 2019/20.
- **33% increase** in the number of **retained duty system firefighter posts** from 72 in 2010/11 to 96 in 2019/20.
- **19% reduction** in the number of **non-uniformed support posts** from 129.21 in 2010/11 to 105.15 in 2019/20.
- **30%** reduction in number of Elected Members from 23 to 16 – effective from June 2016.

- 10.3 Council Tax resources have become more important to the Authority as they make up a higher proportion of overall resources. Increases in Council Tax income over the nine years up to 2019/20 provide additional recurring resources of **£2.4m**. This increase has effectively paid to maintain **58** firefighter posts, which is approximately **17%** of current posts.
- 10.4 As detailed in the MTFs report in February 2018 the 2019/20 budget can be balanced by confirming the 2.9% indicative Council Tax, implementing the approved CIRMP proposals, using the Authority's share on the national Business Rates retention levy account surplus and using reserves. This strategy also enables the alternative crewing model saving of £0.253m to be deferred from 2019/20 to 2020/21, which provides a longer lead time to implement this saving.
- 10.5 The financial outlook for 2020/21 and future years is extremely uncertain as the Government are planning to make significant changes to the national funding system. In addition, the Authority will be affected by the 2019 Spending Review, including arrangements for funding increased Fire fighter pension contribution in 2020/21 and national pay negotiations. One of these issues would make financial planning for 2020/21 challenging. The uncertainties in relation to such a broad range of factors and the fact that the position on these issues is unlikely to be clear until late in 2019 makes financial planning for 2020/21 and future years extremely challenging.
- 10.6 Initial forecast for 2020/21 to 2022/23 have been prepared on the basis of a range of planning assumptions, including funding arrangements for increased fire fighters pension contributions, which indicates that the Authority faces a potential budget deficit by 2022/23 of between **£2.297m and £4.181m** as summarised below:

Forecast budget deficit by 2022/23
(summarised by value, not scenario order)



	Scenario 1a	Scenario 1b	Scenario 2a	Scenario 2b
	£'000	£'000	£'000	£'000
Forecast Budget Deficit 20/21 to 22/23	2,297	3,497	2,981	4,181
Deficit as percentage 2019/20 budget	9.0%	16.7%	11.7%	16.4%

Planning Assumptions

Government Grant cut	5% Annual cut	5% Annual cut	5% Annual cut	5% Annual cut
Council Tax increase	2.9% per year	2.9% per year	2.9% per year	2.9% per year
Pay Award	2% per year	2% per year	3% per year	3% per year
Fire fighters pension costs 20/21 onwards	Funded from additional Government Grant	No additional Government Grant provided	Funded from additional Government Grant	No additional Government Grant provided

- 10.7 The above table highlights the significant financial risk if the Government does not provide recurring funding in 2020/21 and future years for increased fire fighter pension costs, which would require the Authority to make additional permanent budget cuts of £1.2.
- 10.8 Clearly further budget deficits in 2020/21 and future years will be extremely challenging as the Authority has already made significant budget reductions over the last nine years.
- 10.9 For planning purposes it is recommended that the Chief Fire Officer develops a contingency savings plan based on scenario 1a and 1b (i.e. forecast deficits of **£2.297m** and **£3.497m** respectively) and details will be reported to a future meeting as part of the process for setting the 2020/21 budget.
- 10.10 The development of contingency savings plans based on the above scenarios has been assessed for robustness against other potential scenarios in relation to the level of pay awards, grant cuts and the funding arrangements for pension costs in 2020/21 and future years. These scenarios are detailed in Appendix F.

- 10.11 As detailed in Appendix F scenario 4b would result in a deficit of £3.663m and this is the only alternative scenario which would result in a slightly higher deficit than scenario 1b of £3.497m. This demonstrates that the development of contingency savings plans based on scenarios 1a and 2b provides a robust basis for managing alternative situations.
- 10.12 In the short-term the Authority will be able to use the reserve it set aside to help manage the budget deficit forecast for 2020/21. However, this is not a permanent solution and would simply provide a longer lead time to either implement budget cuts, hold a Council Tax referendum to secure a permanent increase in funding or merge with another organisation.
- 10.13 The forecast deficits make no provision for the potential impact of national negotiations in relation to firefighter pay and 'broadening the role'. If additional costs arise from this issue and are not funded by the Government this will exacerbate the forecast budget deficits. This would bring forward consideration of either a Council Tax referendum to determine if there is public support for a higher Council Tax level to protect Fire and Rescue Services, or to seek a merger.
- 10.14 In summary, the Authority has successfully managed nine years of austerity and is able to set a balanced budget for 2019/20. It is worth noting that the 2019/20 cash budget is £26.935m, which is only a cash increase of £91,000 (0.34%) on the budget for 2018/19. This is only achievable after reflecting the 2019/20 CIRMP savings of £671,000 – which equates to a further efficiency saving of 2.5%.
- 10.15 The Authority faces an extremely uncertain financial position for 2020/21 owing to the range of external factors outside the Authority's control. This makes financial planning extremely challenging.
- 10.16 In 2016/17 the Authority began to plan for 2020/21 by setting aside one off resources to manage the external financial risks outside the Authority's control. Depending on the scale of future funding cuts and budget pressures the Authority may reach the point over the period 2020/21 to 2022/23 where it no longer has the recurring resources to deliver a safe and effective fire and rescue service. Regular update reports will be provided when more information becomes available.

CHRIS LITTLE
TREASURER

IAN HAYTON
CHIEF FIRE OFFICER

APPENDIX A**KEY FINANCIAL ISSUE 2020/21 AND FUTURE YEARS****1. Business Rates Retention and Fair Funding Review**

As reported previously Government proposals to implement changes to Business Rates Retention and to complete a Fair Funding Review (FFR) make financial planning beyond 2019/20 extremely challenging. Whilst, these changes will impact on all Fire and Rescue authorities, they will have a greater impact on Cleveland and other authorities, which are more dependent on Government funding and fund a lower proportion of spending from Council Tax.

As part of these changes the Government has indicated that Revenue Support Grant will end. For this Authority, and many other authorities, the additional retained Business Rates income of moving from a 50% scheme to a 75% scheme will not be sufficient to replace the lost grant income. Therefore, the Government will need to address this shortfall by either increasing the 'Top Up' grants allocated to authorities with a low business rates base, or address this position through the FFR.

As summarised in the following table this is a significant financial risk for the Authority as the forecast 2020/21 funding shortfall to be addressed by either an increase in Top-up grant, or through the Fair Funding Review (FFR), is **£4.404m**, which equates to **17%** of the 2019/20 net budget:

Potential impact of Business Rates increase from 50% to 75%

	£'m
2019/20 Revenue Support Grant	5.239
Less - 2019/20 forecast increase in retained Business Rates income moving from 50% to 75%	(0.835)
Forecast funding shortfall arising from implementation of 75% Business Rates Retention to be addressed by either an increase in Top-up grant, or through the FFR.	4.404

In view of the above position the FFR review will be critical to the financial sustainability of the Authority in 2020/21 and future years. At this stage there is insufficient information available to assess the impact of the FFR and changes to the Business Rates system. Further reports will be submitted when more information is available.

2. Council Tax referendum limits

The position in relation to future Council Tax referendum limits will not be known until nearer the start of 2020/21 and the Government may only issue limits for one year at a time.

An analysis of The Chancellor's November 2017 budget detailed the Government's forecast tax receipts for the financial years 2017/18 to 2022/23. The following table summarises changes in forecast income generated from different taxes over this period. The forecast increases reflect a combination of forecast economic growth, which increases tax revenues, and Government policy changes, for example the introduction of the Adult Social Care precept and higher Council Tax referendum limits for 2018/19 and 2019/20.

Forecast increase in National Tax income 2016/17 to 2022/23

(Source - HM Treasury - November 2017 Budget)

	2016/17	2022/23	Forecast increase between 16/17 and 22/23	
	£'billion	£'billion	£'billion	
Income Tax	177.2	214.3	37.1	20.9%
National Insurance	125.9	153.2	27.3	21.7%
Value Added Tax	135.4	163.1	27.7	20.5%
Corporation tax	54.1	57.2	3.1	5.7%
Council Tax	30.4	38.3	7.9	26.0%
Business Rate	29.2	33.6	4.4	15.1%
Fuel Duty	27.9	30.6	2.7	9.7%
Sub Total - top 7 taxes	580.1	690.3	110.2	19.0%
Other Taxes	92.6	120.7	28.1	30.3%
Total All Taxes	672.7	811.0	138.3	20.6%

As indicated in the above table the Government anticipates that Council Tax income will increase on an annual basis up to 2022/23. These forecasts reflect a higher level of annual increase over the period 2017/18 to 2019/20 owing to the forecast impact of the Adult Social Care precept. The rate of annual increase between 2020/21 and 2022/23 is lower, which suggests that lower Council Tax referendum will apply across the local government sector (which includes Fire & Rescue Authorities).

As the Government are currently operating different referendum limits for different types of authority they may continue to operate a similar arrangement after 2020/21. However, based on the Government's forecast Council Tax growth figures for 2020/21 to 2022/23, it would not be unreasonable at this stage to anticipate referendum limits remaining at 3% for Fire and Rescue authorities.

Clearly, a lower Council Tax referendum will reduce the Authority's ability to partly offset the impact of inflation and potential further grants cuts on services. Therefore, this increases the risk that further annual recurring budget cuts are likely to be required in 2020/21 and future years.

3. Pay Awards and non pay inflation

National pay negotiations for firefighters have been protracted and a 2% 'uplift' has only recently been agreed for 2018. Pay Awards for 2020/21 to 2022/23 will depend on the settlements agreed for 2017/18 to 2019/20 and economic conditions applying in 2020/21 onwards.

The position in relation to non pay inflation is also uncertain, although this has less impact on the Authority's overall budget as pay costs account for approximately 80% of the budget.

APPENDIX B**EXTRACT FROM HOME OFFICE – FIRE AND RESCUE NATIONAL
FRAMEWORK FOR ENGLAND****Reserves**

- 5.6 *Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 requires billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.*
- 5.7 *Fire and rescue authorities should establish a policy on reserves and provisions in consultation with their chief finance officer. General reserves should be held by the fire and rescue authority and managed to balance funding and spending priorities and to manage risks. This should be established as part of the medium-term financial planning process.*
- 5.8 *Each fire and rescue authority should publish their reserves strategy on their website, either as part of their medium term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve that is held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium term financial plan (and at least two years ahead).*
- 5.9 *Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the fire and rescue authority's medium term financial plan. The strategy should be set out in a way that is clear and understandable for members of the public, and should include:*
- *how the level of the general reserve has been set;*
 - *justification for holding a general reserve larger than five percent of budget; and*
 - *details of the activities or items to be funded from each earmarked reserve, and how these support the FRA's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.*
- 5.10 *The information on each reserve should make clear how much of the funding falls into the following three categories:*
- a. *Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.*
 - b. *Funding for specific projects and programmes beyond the current planning period.*
 - c. *As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).*

Earmarked Reserves : Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018	2018/19 Contributions and transfers	Balance after 2018/19 underspend	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
<u>Earmarked Capital Reserves</u>									
<p>Capital Investment Programme</p> <p>This reserve will be used to partly fund the Authority's approved Asset Management Plan which is designed to address operational requirements covering the Authority's buildings, including Fire Stations and the operational fire fighting and rescue vehicles. Expenditure on the Authority's buildings will ensure facilities meet operational requirements detailed in the Integrated Risk Management Plan, thereby ensuring the Authority has the buildings it needs to deliver good quality services to the public. This investment will remove back log maintenance requirements, which if not addressed would result in higher longer terms costs, which would not be an effective use of public resources. Expenditure on operational vehicles will ensure the Authority maintains its operational effectiveness and is able to respond to the significant risks within the Authority's area.</p> <p>After reflecting approved capital expenditure priorities the uncommitted balance for this reserve is £334,000. This amount is earmarked to manage potential inflation / exchange rate risks in relation to the replacement of fire appliances over the period 2020/21 to 2025/26.</p>	2,507	0	2,507	(330)	(1,843)	0	0	0	334
<p>Capital Receipts Reserve</p> <p>This reserve is also earmarked to partly fund the Authority's approved Asset Management Plan. The 2018/19 contribution reflects a land sale completed in the current year.</p>	264	316	580	(580)	0	0	0	0	0
Total Earmarked Capital Reserves	2,771	316	3,087	(910)	(1,843)	0	0	0	334

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018 £'000	2018/19 Contributions and transfers £'000	Balance after 2018/19 underspend £'000	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk £'000
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
<p>Budget Support Fund 2019/20 to 2022/23</p> <p>As detailed in section 6 of the MTFS report this reserve is earmarked to manage financial risks in 2020/21 and future years arising from a range of potential changes to future funding and the cost of providing services. The planned phasing is based on planning scenario 1a and this will change depending on the impact of external changes. There is also a risk that this reserve may need to be used earlier if additional Government funding is not provided for higher pay awards than provided for within the MTFS, or for the increase in employers pension contributions. If this is the case this reserve would be fully committed by 2002/23.</p> <p>The MTFS report advises Members that using this one off funding would not provide a permanent solution to address recurring funding cuts, or recurring additional cost increases. However, the reserve would provide a slightly longer lead time to implement permanent budget cuts.</p>	2,913	1,157	4,070	0	(102)	(676)	(950)	(794)	1,548
Budget Support Fund 2019/20 to 2022/23	2,913	1,157	4,070	0	(102)	(676)	(950)	(794)	1,548
<u>Earmarked Revenue Reserves</u>									
<p>CIRMP 2018/19 Implementation reserve</p> <p>This reserve is earmarked to support the MTFS in 2018/19. This reserves enables the Authority to manage budget cuts over a slightly longer period and therefore avoids a reduction in the quality of services provided to the public, whilst operational changes are implemented to achieve recurring budget reductions.</p>	850	(408)	442	(442)	0	0	0	0	0
<p>Innovation Fund</p> <p>Is earmarked primarily to fund the installation of Fire alarms and this will have a positive impact on community safety.</p>	566	0	566	0	(113)	(113)	(113)	(113)	114

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018	2018/19 Contributions and transfers	Balance after 2018/19 underspend	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
<p>Commissioned Services</p> <p>This reserve is earmarked to manage income volatility and to provide a longer lead time to manage temporary income reductions. The availability of this reserves avoids temporary income reductions having to be funded from the Authority's revenue budget in the year they arise. This therefore protects funding available for front line services. The reserve also enables the Authority to protect staffing resources allocated to undertake these initiatives until alternative external funding can be secured.</p>	200	0	200	0	0	0	0	0	200
<p>Pension Reserve</p> <p>This reserve is earmarked to fund fixed annual contribution to the Teesside Pension Fund arising from the actuarial valuation of the Pension Fund covering the period 2017/18 to 2019/20. Funding these costs from this reserve avoids having to make additional budget reductions, as it is hoped that these additional contribution will not be required from 2020/21.</p>	108	0	108	(53)	(55)	0	0	0	0
Total Earmarked Revenue Reserves	1,724	(408)	1,316	(495)	(168)	(113)	(113)	(113)	314
Total Earmarked Capital and Revenue Reserves	7,408	1,065	8,473	(1,405)	(2,113)	(789)	(1,063)	(907)	2,196

Balance 31 March	7,068	4,955	4,166	3,103	2,196
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Earmarked Reserves : Category 2 - Funding for specific projects and programmes beyond the current planning period

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018 £'000	2018/19 Contributions and transfers £'000	Balance after 2018/19 underspend £'000	Planned contribution / (Use of Reserves)					Balance Allocated to Manage Ongoing Risk £'000
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
Breathing Apparatus Is earmarked to meet the costs of Telemetry associated with the breathing apparatus in line with the replacement programme scheduled for 2024/25, as detailed in the Asset Management Plan.	125	0	125	0	0	0	0	0	125
Capital Phasing Reserve 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 to fund part of the approved Asset Management Plan, are uneven and therefore avoids temporary increases/decrease 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 Fire and Rescue Authorities which implemented PFI schemes to address building condition issues. This reserves will be used on a phased basis commencing in 2021/22 and by 2029/30 the reserve will have been fully used.	598	0	598	50	62	51	(28)	(93)	640
Total	723	0	723	50	62	51	(28)	(93)	765

Balance 31 March	773	835	886	858	765
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Earmarked Reserves : Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018	2018/19 Contributions and transfers	Balance after 2018/19 underspend	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
Insurance Fund	200	270	470	0	0	0	0	0	470
This is earmarked to fund payments that fall within the Authority's insurance policy excesses. The 2018/19 transfer reflects resources held by the Authority which manages insurance claims. As the timing of insurance claims/settlements is unknown no usage is shown. The availability of this reserves avoids the cost of unbudgeted insurance claims having to be funded from the Authority's revenue budget in the year they arise and therefore protects funding available for front line services.									
Total	200	270	470	0	0	0	0	0	470

Balance 31 March	470	470	470	470	470
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Summary of Earmarked Reserves

Category 1	7,408	1,065	8,473	(1,405)	(2,113)	(789)	(1,063)	(907)	2,196
Category 2	723	0	723	50	62	51	(28)	(93)	765
Category 3	200	270	470	0	0	0	0	0	470
Total Earmarked Reserves	8,331	1,335	9,666	(1,355)	(2,051)	(738)	(1,091)	(1,000)	3,431

Balance 31 March	8,311	6,260	5,522	4,431	3,431
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Earmarked Reserves : Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018	2018/19 Contributions and transfers	Balance after 2018/19 underspend	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
<u>Earmarked Capital Reserves</u>									
<p>Capital Investment Programme</p> <p>This reserve will be used to partly fund the Authority's approved Asset Management Plan which is designed to address operational requirements covering the Authority's buildings, including Fire Stations and the operational fire fighting and rescue vehicles. Expenditure on the Authority's buildings will ensure facilities meet operational requirements detailed in the Integrated Risk Management Plan, thereby ensuring the Authority has the buildings it needs to deliver good quality services to the public. This investment will remove back log maintenance requirements, which if not addressed would result in higher longer terms costs, which would not be an effective use of public resources. Expenditure on operational vehicles will ensure the Authority maintains its operational effectiveness and is able to respond to the significant risks within the Authority's area.</p> <p>After reflecting approved capital expenditure priorities the uncommitted balance for this reserve is £334,000. This amount is earmarked to manage potential inflation / exchange rate risks in relation to the replacement of fire appliances over the period 2020/21 to 2025/26.</p>	2,507	0	2,507	(330)	(1,843)	0	0	0	334
<p>Capital Receipts Reserve</p> <p>This reserve is also earmarked to partly fund the Authority's approved Asset Management Plan. The 2018/19 contribution reflects a land sale completed in the current year.</p>	264	316	580	(580)	0	0	0	0	0
Total Earmarked Capital Reserves	2,771	316	3,087	(910)	(1,843)	0	0	0	334

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018 £'000	2018/19 Contributions and transfers £'000	Balance after 2018/19 underspend £'000	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk £'000
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
<p>Budget Support Fund 2019/20 to 2022/23</p> <p>As detailed in section 6 of the MTFS report this reserve is earmarked to manage financial risks in 2020/21 and future years arising from a range of potential changes to future funding and the cost of providing services. The planned phasing is based on planning scenario 1a and this will change depending on the impact of external changes. There is also a risk that this reserve may need to be used earlier if additional Government funding is not provided for higher pay awards than provided for within the MTFS, or for the increase in employers pension contributions. If this is the case this reserve would be fully committed by 2002/23.</p> <p>The MTFS report advises Members that using this one off funding would not provide a permanent solution to address recurring funding cuts, or recurring additional cost increases. However, the reserve would provide a slightly longer lead time to implement permanent budget cuts.</p>	2,913	1,157	4,070	0	(102)	(676)	(950)	(794)	1,548
Budget Support Fund 2019/20 to 2022/23	2,913	1,157	4,070	0	(102)	(676)	(950)	(794)	1,548
<u>Earmarked Revenue Reserves</u>									
<p>CIRMP 2018/19 Implementation reserve</p> <p>This reserve is earmarked to support the MTFS in 2018/19. This reserves enables the Authority to manage budget cuts over a slightly longer period and therefore avoids a reduction in the quality of services provided to the public, whilst operational changes are implemented to achieve recurring budget reductions.</p>	850	(408)	442	(442)	0	0	0	0	0
<p>Innovation Fund</p> <p>Is earmarked primarily to fund the installation of Fire alarms and this will have a positive impact on community safety.</p>	566	0	566	0	(113)	(113)	(113)	(113)	114

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018	2018/19 Contributions and transfers	Balance after 2018/19 underspend	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
<p>Commissioned Services</p> <p>This reserve is earmarked to manage income volatility and to provide a longer lead time to manage temporary income reductions. The availability of this reserves avoids temporary income reductions having to be funded from the Authority's revenue budget in the year they arise. This therefore protects funding available for front line services. The reserve also enables the Authority to protect staffing resources allocated to undertake these initiatives until alternative external funding can be secured.</p>	200	0	200	0	0	0	0	0	200
<p>Pension Reserve</p> <p>This reserve is earmarked to fund fixed annual contribution to the Teesside Pension Fund arising from the actuarial valuation of the Pension Fund covering the period 2017/18 to 2019/20. Funding these costs from this reserve avoids having to make additional budget reductions, as it is hoped that these additional contribution will not be required from 2020/21.</p>	108	0	108	(53)	(55)	0	0	0	0
Total Earmarked Revenue Reserves	1,724	(408)	1,316	(495)	(168)	(113)	(113)	(113)	314
Total Earmarked Capital and Revenue Reserves	7,408	1,065	8,473	(1,405)	(2,113)	(789)	(1,063)	(907)	2,196

Balance 31 March	7,068	4,955	4,166	3,103	2,196
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Earmarked Reserves : Category 2 - Funding for specific projects and programmes beyond the current planning period

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018 £'000	2018/19 Contributions and transfers £'000	Balance after 2018/19 underspend £'000	Planned contribution / (Use of Reserves)					Balance Allocated to Manage Ongoing Risk £'000
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
Breathing Apparatus Is earmarked to meet the costs of Telemetry associated with the breathing apparatus in line with the replacement programme scheduled for 2024/25, as detailed in the Asset Management Plan.	125	0	125	0	0	0	0	0	125
Capital Phasing Reserve 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 to fund part of the approved Asset Management Plan, are uneven and therefore avoids temporary increases/decrease 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 Fire and Rescue Authorities which implemented PFI schemes to address building condition issues. This reserves will used on a phased basis commencing in 2021/22 and by 2029/30 the reserve will have been fully used.	598	0	598	50	62	51	(28)	(93)	640
Total	723	0	723	50	62	51	(28)	(93)	765

Balance 31 March	773	835	886	858	765
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Earmarked Reserves : Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018	2018/19 Contributions and transfers	Balance after 2018/19 underspend	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
Insurance Fund	200	270	470	0	0	0	0	0	470
This is earmarked to fund payments that fall within the Authority's insurance policy excesses. The 2018/19 transfer reflects resources held by the Authority which manages insurance claims. As the timing of insurance claims/settlements is unknown no usage is shown. The availability of this reserves avoids the cost of unbudgeted insurance claims having to be funded from the Authority's revenue budget in the year they arise and therefore protects funding available for front line services.									
Total	200	270	470	0	0	0	0	0	470

Balance 31 March	470	470	470	470	470
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Summary of Earmarked Reserves

Category 1	7,408	1,065	8,473	(1,405)	(2,113)	(789)	(1,063)	(907)	2,196
Category 2	723	0	723	50	62	51	(28)	(93)	765
Category 3	200	270	470	0	0	0	0	0	470
Total Earmarked Reserves	8,331	1,335	9,666	(1,355)	(2,051)	(738)	(1,091)	(1,000)	3,431

Balance 31 March	8,311	6,260	5,522	4,431	3,431
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Earmarked Reserves : Category 1 - Funding for planned expenditure on projects and programmes over the period of the current MTFS

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018	2018/19 Contributions and transfers	Balance after 2018/19 underspend	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
<u>Earmarked Capital Reserves</u>									
Capital Investment Programme This reserve will be used to partly fund the Authority's approved Asset Management Plan which is designed to address operational requirements covering the Authority's buildings, including Fire Stations and the operational fire fighting and rescue vehicles. Expenditure on the Authority's buildings will ensure facilities meet operational requirements detailed in the Integrated Risk Management Plan, thereby ensuring the Authority has the buildings it needs to deliver good quality services to the public. This investment will remove back log maintenance requirements, which if not addressed would result in higher longer terms costs, which would not be an effective use of public resources. Expenditure on operational vehicles will ensure the Authority maintains its operational effectiveness and is able to respond to the significant risks within the Authority's area. After reflecting approved capital expenditure priorities the uncommitted balance for this reserve is £334,000. This amount is earmarked to manage potential inflation / exchange rate risks in relation to the replacement of fire appliances over the period 2020/21 to 2025/26.	2,507	0	2,507	(330)	(1,843)	0	0	0	334
Capital Receipts Reserve This reserve is also earmarked to partly fund the Authority's approved Asset Management Plan. The 2018/19 contribution reflects a land sale completed in the current year.	264	316	580	(580)	0	0	0	0	0
Total Earmarked Capital Reserves	2,771	316	3,087	(910)	(1,843)	0	0	0	334

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018 £'000	2018/19 Contributions and transfers £'000	Balance after 2018/19 underspend £'000	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk £'000
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
<p>Budget Support Fund 2019/20 to 2022/23 As detailed in section 6 of the MTFS report this reserve is earmarked to manage financial risks in 2020/21 and future years arising from a range of potential changes to future funding and the cost of providing services. The planned phasing is based on planning scenario 1a and this will change depending on the impact of external changes. There is also a risk that this reserve may need to be used earlier if additional Government funding is not provided for higher pay awards than provided for within the MTFS, or for the increase in employers pension contributions. If this is the case this reserve would be fully committed by 2002/23.</p> <p>The MTFS report advises Members that using this one off funding would not provide a permanent solution to address recurring funding cuts, or recurring additional cost increases. However, the reserve would provide a slightly longer lead time to implement permanent budget cuts.</p>	2,913	1,157	4,070	0	(102)	(676)	(950)	(794)	1,548
Budget Support Fund 2019/20 to 2022/23	2,913	1,157	4,070	0	(102)	(676)	(950)	(794)	1,548
<u>Earmarked Revenue Reserves</u>									
<p>CIRMP 2018/19 Implementation reserve This reserve is earmarked to support the MTFS in 2018/19. This reserves enables the Authority to manage budget cuts over a slightly longer period and therefore avoids a reduction in the quality of services provided to the public, whilst operational changes are implemented to achieve recurring budget reductions.</p>	850	(408)	442	(442)	0	0	0	0	0
<p>Innovation Fund Is earmarked primarily to fund the installation of Fire alarms and this will have a positive impact on community safety.</p>	566	0	566	0	(113)	(113)	(113)	(113)	114

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018 £'000	2018/19 Contributions and transfers £'000	Balance after 2018/19 underspend £'000	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk £'000
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
Commissioned Services This reserve is earmarked to manage income volatility and to provide a longer lead time to manage temporary income reductions. The availability of this reserves avoids temporary income reductions having to be funded from the Authority's revenue budget in the year they arise. This therefore protects funding available for front line services. The reserve also enables the Authority to protect staffing resources allocated to undertake these initiatives until alternative external funding can be secured.	200	0	200	0	0	0	0	0	200
Pension Reserve This reserve is earmarked to fund fixed annual contribution to the Teesside Pension Fund arising from the actuarial valuation of the Pension Fund covering the period 2017/18 to 2019/20. Funding these costs from this reserve avoids having to make additional budget reductions, as it is hoped that these additional contribution will not be required from 2020/21.	108	0	108	(53)	(55)	0	0	0	0
Total Earmarked Revenue Reserves	1,724	(408)	1,316	(495)	(168)	(113)	(113)	(113)	314
Total Earmarked Capital and Revenue Reserves	7,408	1,065	8,473	(1,405)	(2,113)	(789)	(1,063)	(907)	2,196

Balance 31 March	7,068	4,955	4,166	3,103	2,196
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Earmarked Reserves : Category 2 - Funding for specific projects and programmes beyond the current planning period

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018 £'000	2018/19 Contributions and transfers £'000	Balance after 2018/19 underspend £'000	Planned contribution / (Use of Reserves)					Balance Allocated to Manage Ongoing Risk £'000
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
Breathing Apparatus Is earmarked to meet the costs of Telemetry associated with the breathing apparatus in line with the replacement programme scheduled for 2024/25, as detailed in the Asset Management Plan.	125	0	125	0	0	0	0	0	125
Capital Phasing Reserve 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 to fund part of the approved Asset Management Plan, are uneven and therefore avoids temporary increases/decrease 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 Fire and Rescue Authorities which implemented PFI schemes to address building condition issues. This reserves will used on a phased basis commencing in 2021/22 and by 2029/30 the reserve will have been fully used.	598	0	598	50	62	51	(28)	(93)	640
Total	723	0	723	50	62	51	(28)	(93)	765

Balance 31 March	773	835	886	858	765
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Earmarked Reserves : Category 3 - General contingency or resources to meet other expenditure needs held in accordance with sound principles of good financial management

Description and how reserve supports the authority's strategy to deliver good quality services	Balance at 31/3/2018	2018/19 Contributions and transfers	Balance after 2018/19 underspend	Planned Use of Reserves					Balance Allocated to Manage Ongoing Risk
				2018/19	2019/20	2020/21	2021/22	2022/23	
				£'000	£'000	£'000	£'000	£'000	
Insurance Fund	200	270	470	0	0	0	0	0	470
This is earmarked to fund payments that fall within the Authority's insurance policy excesses. The 2018/19 transfer reflects resources held by the Authority which manages insurance claims. As the timing of insurance claims/settlements is unknown no usage is shown. The availability of this reserves avoids the cost of unbudgeted insurance claims having to be funded from the Authority's revenue budget in the year they arise and therefore protects funding available for front line services.									
Total	200	270	470	0	0	0	0	0	470

Balance 31 March	470	470	470	470	470
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Summary of Earmarked Reserves

Category 1	7,408	1,065	8,473	(1,405)	(2,113)	(789)	(1,063)	(907)	2,196
Category 2	723	0	723	50	62	51	(28)	(93)	765
Category 3	200	270	470	0	0	0	0	0	470
Total Earmarked Reserves	8,331	1,335	9,666	(1,355)	(2,051)	(738)	(1,091)	(1,000)	3,431

Balance 31 March	8,311	6,260	5,522	4,431	3,431
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2018/19				Funding		
Item Ref	Description	Financed Over Years	Estimate £	Prudential Borrowing £	Reserves £	Capital Receipts £
1	Grangetown Fire Station	40	56,300	0	56,300	0
2	Queens Meadow Training Yard	40	25,000	0	25,000	0
3	QMC Training Fire House Fit Out	20	110,478	0	30,162	80,316
4	QMC Training Fire House Linings	20	15,000	0	15,000	0
5	QMC Fit Out Fire House Car Fire	20	16,000	0	16,000	0
6	QMC Training Radio Mast	20	16,700	0	16,700	0
7	QMC Training Vehicle Ramp	20	22,100	0	22,100	0
8	4x4 Specialist Vehicle M4	12	60,000	0	60,000	0
9	2 Water Tenders	15	499,684	0	0	499,684
10	Departmental Vehicles	9	19,754	0	19,754	0
11	Outboard Engine	10	2,500	0	2,500	0
12	Fireground Radios & BA Comms	10	66,000	0	66,000	0
	TOTALS		909,516	0	329,516	580,000

2019/20				Funding		
Item Ref	Description	Financed Over Years	Estimate £	Prudential Borrowing £	Reserves £	Capital Receipts £
1	QMC Training Petro Chemical Rig	20	321,000	321,000	0	0
2	QMC Training LPG Fit Out	20	40,000	40,000	0	0
3	QMC Training FBT & Smoke Cleansing	20	245,000	47,684	197,316	0
4	QMC Design Fees & contingencies	20	80,180	80,180	0	0
5	Loftus Fire Station	20	231,921	27,901	204,020	0
6	Guisborough Fire Station	20	306,099	306,099	0	0
7	Stockton Fire Station	20	1,093,815	0	1,093,815	0
8	1 Water Tender	15	254,205	254,205	0	0
9	Fireground Radios & BA Comms	10	49,500	49,500	0	0
10	Mobile Data Terminals (MDT's)	5	148,000	0	148,000	0
	TOTALS		2,769,720	1,126,569	1,643,151	0

2020/21				Funding		
Item Ref	Description	Financed Over Years	Estimate £	Prudential Borrowing £	Reserves £	Capital Receipts £
1	4 Water Tenders	15	1,016,820	1,016,820	0	0
2	Fire Appliance CCTV Upgrade	7	63,000	63,000	0	0
	TOTALS		1,079,820	1,079,820	0	0

2021/22				Funding		
Item Ref	Description	Financed Over Years	Estimate £	Prudential Borrowing £	Reserves £	Capital Receipts £
1	2 Water Tenders	15	508,410	508,410	0	0
2	Rescue Boat	12	35,000	35,000	0	0
3	17 Departmental Vehicles	9	255,000	255,000	0	0
4	4x4 Operational car	9	23,000	23,000	0	0
5	Mini Bus	9	26,000	26,000	0	0
6	24 Thermal Image Cameras	10	96,000	96,000	0	0
	TOTALS		943,410	943,410	0	0

2022/23				Funding		
Item Ref	Description	Financed Over Years	Estimate £	Prudential Borrowing £	Reserves £	Capital Receipts £
1	1 Water Tender	15	254,205	254,205	0	0
	TOTALS		254,205	254,205	0	0

2023/24				Funding		
Item Ref	Description	Financed Over Years	Estimate £	Prudential Borrowing £	Reserves £	Capital Receipts £
1	6 Departmental Vehicles	9	96,000	96,000	0	0
2	Mobile Data Terminals (MDT's)	5	148,000	148,000	0	0
	TOTALS		244,000	244,000	0	0

2024/25				Funding		
Item Ref	Description	Financed Over Years	Estimate £	Prudential Borrowing £	Reserves £	Capital Receipts £
1	3 Water Tenders	15	762,615	762,615	0	0
2	4 Departmental Vehicles	9	54,000	54,000	0	0
3	BA Telemetry	10	125,000	0	125,000	0
	TOTALS		941,615	816,615	125,000	0

2025/26				Funding		
Item Ref	Description	Financed Over Years	Estimate £	Prudential Borrowing £	Reserves £	Capital Receipts £
1	3 Departmental Vehicles	9	44,500	44,500	0	0
2	Mobile Workshop	15	40,000	40,000	0	0
	TOTALS		84,500	84,500	0	0

	GRAND TOTAL CAPITAL		7,226,786	4,549,119	2,097,667	580,000
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Overall Summary

		Estimate	Prudential Borrowing	Reserves	Capital Receipts
ESTATES		2,579,593	822,864	1,676,413	80,316
FLEET		3,951,693	3,369,755	82,254	499,684
EQUIPMNET		221,000	96,000	125,000	0
ICT		474,500	260,500	214,000	0
TOTALS		7,226,786	4,549,119	2,097,667	580,000

FIRE BRIGADE BEST VALUE BUDGET 2019/2020 - BEST VALUE FORMAT

Staff F.T.E.	Budget 2018/19		Staff F.T.E.	Budget 2019/20
	£	COMMUNITY FIRE SAFETY		£
11.00	527,150	INSPECTION (STATUTORY WORK/ENFORCEMENT)	11.00	531,220
6.00	385,170	PREVENTION & EDUCATION	6.00	404,650
	1,568,570	PREVENTION & EDUCATION - NOTIONAL STNS SPLIT		1,551,090
4.00	240,070	ARSON TASK FORCE	4.00	222,200
4.00	121,250	ADVOCATES	4.00	127,420
9.00	344,190	HOME FIRE SAFETY	9.00	372,600
7.00	102,710	YOUTH ENGAGEMENT	7.00	85,710
1.00	29,830	LEARN AND LIVE	1.00	31,390
42.00	3,318,940	TOTAL COMMUNITY FIRE SAFETY	42.00	3,326,280
		FIREFIGHTING & RESCUE OPERATIONS		
8.00	615,740	DISTRICT/LOCALITY MANAGEMENT	8.00	637,470
	244,610	OPERATIONAL EQUIPMENT		365,450
45.87	1,943,860	MIDDLESBROUGH FIRE STATION	41.87	1,798,720
57.54	1,810,740	STOCKTON FIRE STATION	53.54	1,931,290
45.54	1,770,000	GRANGETOWN FIRE STATION	45.54	1,867,460
41.54	1,363,480	REDCAR FIRE STATION	41.54	1,405,450
44.54	1,777,680	THORNABY FIRE STATION	44.54	1,821,320
28.43	1,139,720	BILLINGHAM FIRE STATION	28.43	1,191,160
28.00	1,464,190	COULBY NEWHAM FIRE STATION	28.00	1,175,950
45.54	1,738,450	STRANTON FIRE STATION	41.54	1,782,000
12.00	137,520	HEADLAND RETAINED FIRE STATION	12.00	141,880
12.00	143,950	YARM RETAINED FIRE STATION	12.00	172,080
12.25	249,070	GUISBOROUGH RETAINED FIRE STATION	12.25	232,390
12.25	195,970	SALTBURN RETAINED FIRE STATION	12.25	193,090
12.25	202,540	SKELTON RETAINED FIRE STATION	12.25	190,490
12.25	236,280	LOFTUS RETAINED FIRE STATION	12.25	195,990
20.00	1,181,680	MOBILISATION & COMMUNICATION (EX SUPPORT COSTS)	16.00	1,096,430
3.00	146,390	WATER	3.00	149,960
441.00	16,361,870	TOTAL FIREFIGHTING AND RESCUE	425.00	16,348,580
		MANAGEMENT & SUPPORT SERVICES		
	560,120	HEADQUARTERS AND CENTRAL SUPPORT		616,330
	838,100	CAPITAL FINANCING COSTS		838,100
	80,000	APPRENTICESHIP LEVY		76,700
3.00	150,120	BUSINESS DEVELOPMENT	3.00	117,670
	260,000	INSURANCES		260,000
8.00	606,300	ICT	8.00	634,700
5.00	746,760	CFA MANAGEMENT & SECRETARIAT	5.00	644,660
5.00	429,160	FINANCE/PAYROLL	5.00	442,210
6.15	243,870	CORPORATE SUPPORT SERVICES	6.15	254,200
6.50	322,120	HUMAN RESOURCES	6.50	330,500
	145,000	OCCUPATIONAL HEALTH		145,000
	(404,260)	SECONDMENTS		(201,900)
15.00	1,291,360	LEARNING AND DEVELOPMENT	15.00	1,202,160
	210,000	PENSIONS INJURY AWARDS		221,000
6.50	255,120	RISK AND PERFORMANCE	6.50	266,800
	37,000	LEGAL SERVICES		37,740
5.50	276,120	HEALTH & SAFETY/OPS ASSURANCE	5.50	245,080
5.00	148,630	LOGISTICS/STORES	5.00	147,120
3.50	128,630	PROCUREMENT	3.50	141,980
3.00	116,030	PROPERTY SERVICES	3.00	120,390
6.00	532,090	TRANSPORT MAINTENANCE	6.00	553,730
1.00	38,110	EMERGENCY PLANNING	1.00	31,620
	(47,900)	NEW DIMENSION/CBRN		(54,000)
79.15	6,962,480	TOTAL MANAGEMENT & SUPPORT SERVICES	79.15	7,071,790
		FIREFIGHTERS PENSIONS		
	13,138,590	ONGOING PENSION PAYMENTS		13,114,940
	3,297,420	LUMP SUM PAYMENTS		1,961,020
	(13,219,370)	PENSION DEFICIT GRANT		(11,987,950)
	(260,000)	TRANSFER VALUES/ILL HEALTH CHARGES		(291,000)
	(2,956,640)	PENSION CONTRIBUTIONS		(2,797,010)
0.00	0	TOTAL PENSIONS	0.00	0
3.00	200,710	CORPORATE EXPENSES	3.00	188,350
3.00	200,710	TOTAL CORPORATE EXPENSES	3.00	188,350
565.15	26,844,000	NET BUDGET REQUIREMENT FOR SERVICES	549.15	26,935,000

SUMMARY OF ALTERNATIVE PLANNING ASSUMPTIONS AND FORECAST BUDGET DEFICITS 2020/21 TO 2022/23

Scenario	Planning Assumptions				Forecast Budget Deficit			
	Council Tax increase	Government Grant Cut	Pay increase	Government funding for Pensions costs continues 2020/21 and future years	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
1a	2.9%	5.0%	2.0%	Yes	929	774	594	2,297
2a	2.9%	5.0%	3.0%	Yes	1,146	1,002	833	2,981
1b	2.9%	5.0%	2.0%	No	2,129	774	594	3,497
2b	2.9%	5.0%	3.0%	No	2,346	1,002	833	4,181
3a	2.9%	3.5%	2.0%	Yes	741	601	437	1,779
4a	2.9%	3.5%	3.0%	Yes	958	829	676	2,463
3b	2.9%	3.5%	2.0%	No	1,941	601	437	2,979
4b	2.9%	3.5%	3.0%	No	2,158	829	676	3,663
5a	2.9%	1.5%	2.0%	Yes	490	363	210	1,063
6a	2.9%	1.5%	3.0%	Yes	707	591	449	1,747
5b	2.9%	1.5%	2.0%	No	1,690	363	210	2,263
6b	2.9%	1.5%	3.0%	No	1,907	591	449	2,947

2019/20 COUNCIL TAX RESOLUTION FOR 2.9% INCREASE

The Authority is recommended to approve as follows:

1. For the purpose of Section 42 A, B of the Local Government Finance Act 1992, the following amounts in respect of 2019/20:
 - (a) The Council Tax Base for 2019/20 as 153,408.70 as notified by the relevant billing authorities.
2. That the Council Tax requirement for the Authority's own purposes for 2019/20 is £11,867,697.
3. That the following amounts be calculated by the Authority for 2019/20 in accordance with Sections 42 to 48 of the Local Government Finance Act 1992 and relevant regulations:-
 - (a) £26,264,544 Being the aggregate of the amounts which the Authority estimates for the items set out in Section 42 to 48 of the Local Government Finance Act 1992 and relevant regulations.
 - (b) £14,396,847 Being the aggregate of the sums which the Authority estimate will be payable to it in respect of Revenue Support Grant £5,238,799, Top Up Grant of £7,315,215, Business Rates income of £1,833,388, and the estimate to be paid from the Collection Funds of the billing authorities of £9,445 as at 31st March 2019, in accordance with Section 99 (3) (b) of the Local Government Finance Act 1988 and the Local Government Charges for England (Collection Fund Surpluses and Deficits) Regulations 1995 amended.
 - (c) £11,867,697 Being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Authority in accordance with Section 42B (1) (2) of the Act as its Council Tax requirement for the year.
 - (d) £77.36 Being the amount calculated by the Authority in accordance with Section 44 of the Local Government Finance Act 1992, as the basic amount of Council Tax for the year.
4. That the Authority, in accordance with Section 47 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2019/20 for each of the categories of dwellings:

Property Band	Council Tax (£)
A	51.57
B	60.17
C	68.76
D	77.36
E	94.55
F	111.74
G	128.93
H	154.72

5. The precept payable by each billing authority in accordance with Section 48 of the 1992 Act, as follows:-

Billing Authority	£
Hartlepool	1,888,435
Middlesbrough	2,599,915
Redcar and Cleveland	3,038,469
Stockton	4,340,878

6. Approve that the Authority's basic amount of Council Tax for 2019/20 is not excessive in accordance with the principles approved under section 52ZB Local Government Finance Act 1992 and that no local referendum will be carried out in relation to Chapter 4ZA of the Local Government Finance Act 1992.