MEDIUM TERM FINANCIAL STRATEGY 2020/21-2022/23

JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

For Recommendation

1. PURPOSE OF REPORT

1.1 To enable Members to consider and approve:

- the arrangements for determining the statutory 2020/21 budget and council tax recommendations to be referred to the Authority; and
- the updated capital programme proposals for 2020/21 to 2025/26 to be referred to the Authority.

2. RECOMMENDATIONS

2.1 It is recommended that Members:

i) Note that the provisional 2020/21 Local Government Finance Settlement confirms a proposed a 2% Council Tax Referendum Limit for Fire and Rescue Authorities;

ii) Note that the final 2020/21 Local Government Finance Settlement had not be issued when this report was prepared and once these details are announced the 2020/21 statutory calculations to support the December 2019 Council Tax decision will be completed and referred to the Authority on 14th February 2020;

iii) Approve the updated Asset Management Plan for 2020/21 to 2025/26 to be referred to the full Authority.

3. BACKGROUND

3.1 The Authority approved the 2020/21 budget and Council Tax level on 13th December 2019. The previous MTFS report advised Members that a further report would be submitted to approve the supporting statutory calculations. These calculations cannot be completed until the Government issue the final 2020/21 Local Government Finance settlement and information has been received from the four constituent authorities.

3.2 As part of the December MTFS the Authority approved the recommendation that any variation in the final 2020/21 Government Grant allocation, Council Tax base, or final Collection Fund figures will be managed via the Budget Support Fund and details will be reported to the full Authority on 14th February 2020.

3.3 The previous report reminded Members that the Authority has managed nine years of reductions in Government funding up to 2019/20 and this has 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.

4. PROVISIONAL 2020/21 LOCAL GOVERNMENT FINANCE SETTLEMENT AND IMPACT ON THE AUTHORITY

4.1 The provisional 2020/21 Local Government Finance Settlement announcement (the settlement) was delayed owing to the General Election and was issued on the afternoon of 20 December 2019. These proposals were are subject to a four week consultation which ended on 17 January 2020. The final settlement for 2020/21 will be issued late January/early February. This section is written on the basis that there will be no changes to the provisional settlement issued in December - which is a realistic planning assumption as these proposals confirmed earlier information provided in the October 2019 technical consultation. If the final settlement is issued before this meeting a verbal update will be provided. I the settlement has not been issued before 31st January these details will be reported to the Authority on 14th February.

4.2 National impact of provisional 2020/21 settlement

4.3 The settlement determines the level of “Core Spending Power”, which the Government’s defines as consisting of three funding streams:

- **Settlement Funding Assessment** – this is Revenue Support Grant, Top-up grant and retained Business Rates income;
- **Other Government Grants** – this consists of the following grants – Section 31 grants to compensate for historic caps on business rates multiplier increases, Improved Better Care Fund, New Homes Bonus, Rural Services Delivery Grant, Winter Pressures Grant and Social Care Support Grant;
- **Council Tax** – the Government’s forecast of the increase in “Core Spending Power” for 2020/21 assumes that all authorities will increase Council Tax in line with national Council Tax Referendum limits. For FRAs the Government has confirmed a proposed 2% limit.

4.4 At a national level the Government has stated that the provisional 2020/21 Local Government Finance will provide Core Spending Power of £49.1 billion, an increase on 2019/20 of **£2.929 billion** – which equates to a cash increase of **6.3%.**

4.5 The national increase in Core Spending Power includes two key elements and continues to shift the cost of funding local services on to Council Tax:

- **55%** of the national Core Spending Power increase will come from forecast **Council Tax increases.**
- **37%** of the national Core Spending Power increase will come from an increase in **Government Grants increase.** This increase mainly reflects the additional Social Care funding of £1 billion provided for 2020/21.

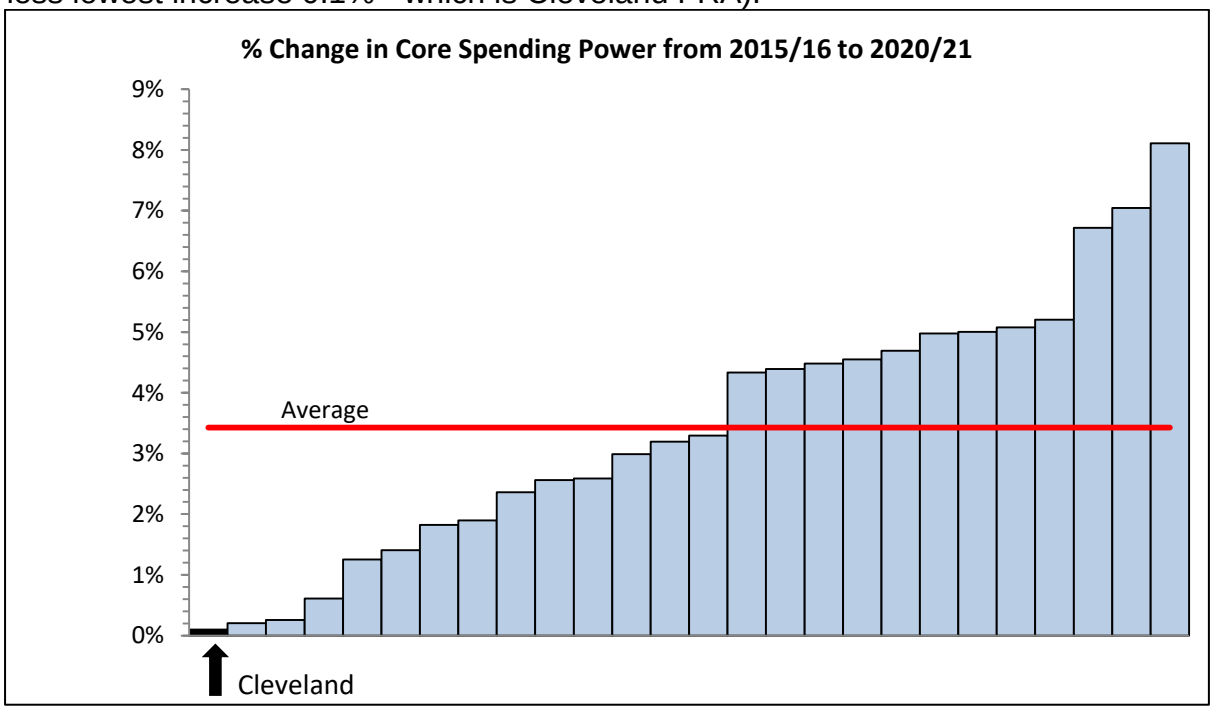
4.6 **Local impact of provisional 2020/21 settlement**

4.7 The national increase in Core Spending Power includes the additional Government resources provided for Social Care and the 2% Adult Social Care precept. These factors do not impact on Fire and Rescue Authorities (FRAs). Therefore, the increase in Core Spending Power for FRAs is significantly lower as summarised below:

<u>2020/21 Government Spending Power increases for FRAs</u>

- Cleveland Fire Authority 2.8% - the lowest increase
- Average FRA 3.2%
- Highest FRA 3.8%

4.8 As highlighted above the Authority's Spending Power increase for 2020/21 is less than the FRA average. This position has existed since at least 2015-16. Consequently over the period 2015-16 to 2020-21 there has been a significant divergence in cumulative Spending Power increases for FRAs. This position is highlighted in the table below, which shows that this difference was 8.0% (i.e. highest increase 8.1% less lowest increase 0.1% - which is Cleveland FRA).



4.9 The Authority's low Spending Power increase reflects the low Council Tax base – i.e. high proportion of properties in Council Tax Band A of 46%, compared to the national average of 24%.

4.10 The Authority's response to the provisional settlement consultation has highlighted this position and also highlighted that all FRAs face the same pay and inflation pressures. The Authority's response proposes that in future the system for distributing Revenue Support Grant needs to better reflect the ability of individual FRAs to raise income locally from Council Tax.

4.11 For 2020/21 the settlement indicates the Authority will receive a Government grant of **£12.758m**, which is **£16,000** more than the MTFS forecast of **£12.742m.**

4.12 The grant increase for 2020/21 is **1.5% (£188,000)**, which is first increase for nine years. Since the current funding system was implemented this means grant funding allocated by the Government to the Authority has reduced from **£18.849m** in 2013/14 to **£12.758m** in 2020/21 – this is a cash reduction of **£6.091m** – a reduction of **32%**.

4.13 **Other Local Issues**

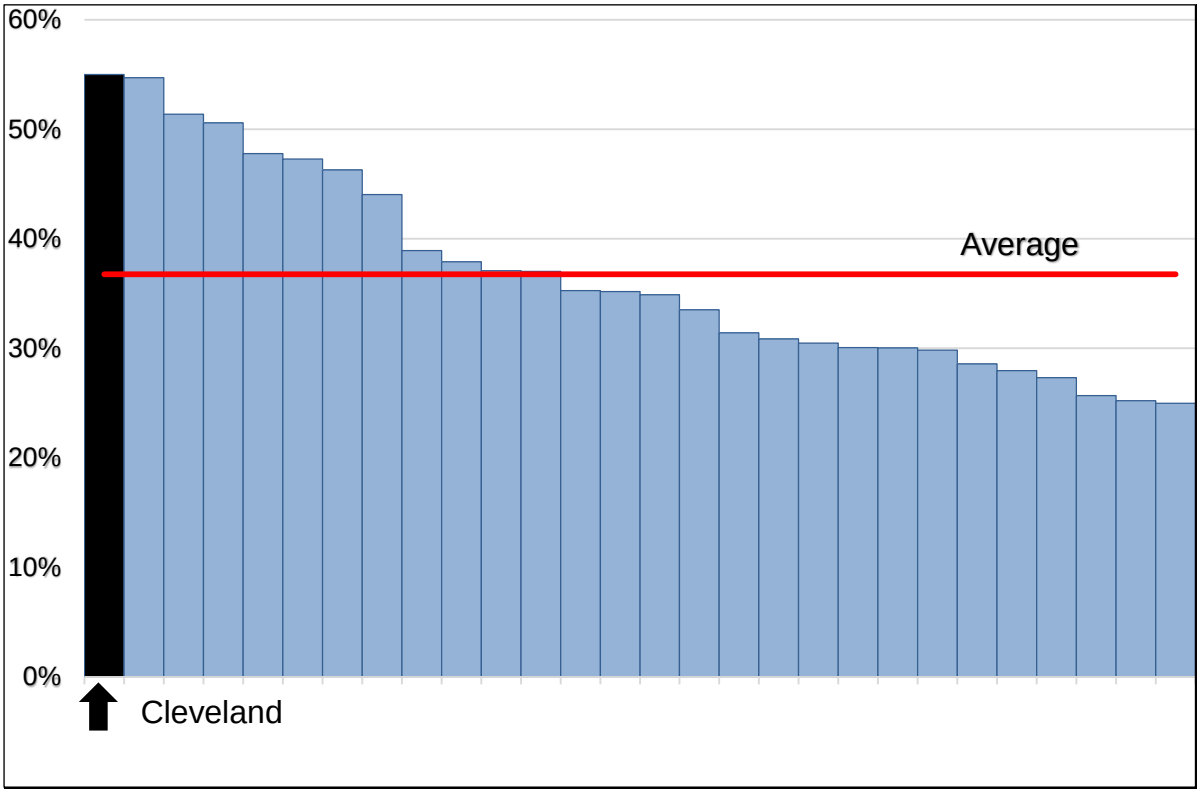
4.14 At the time the report was prepared final details of the 2020/21 Council Tax base, share of 2020/21 Business Rates income, share of section 31 Business Rates grant and Collection Fund figures had not been received from the four constituent authorities. It is not expected that there will be any significant changes to the provisional figures received from each of the authorities and reflected in the previous MTFS report. Therefore, any changes will be managed via the Budget Support Fund and details will be reported to the full Authority on 14th February 2020.

5. BUDGET 2021/22 ONWARDS

5.1 The provisional settlement provided no new information in relation to the proposed Fair Funding Review, proposed increase in Business Rates Retention from 50% to 75%, or funding arrangements for increased fire fighters pensions costs. This uncertainty makes financial planning extremely difficult for all authorities, particularly single purposes FRAs. It is unlikely that the further information will be provided until the summer and further reports will be submitted when more information is available.

5.2 The proposal in relation to the Fair Funding Review and increase in Business Rates will be critical for FRAs, including Cleveland, which have a higher dependency on these resources owing to their low Council Tax base. As highlighted in the following table in 2020/21 **55%** of the Authority's resources will be affected by these changes. This is significantly higher than the average for FRAs of **37%.**

2020/21 Percentage of Core Spending Power funded from Government Grant and Business Rates income



5.3 The 2020/21 settlement may provide a new base line for future years. If this level of funding is sustained in 2021/22 and 2022/23 this would significantly reduce the budget cuts required over the next three years. However, if funding cuts re-commence in 2021/22 the position will be less favourable. The following table updates the existing forecast on the basis of a 2% Council Tax Referendum limit and the fire pension grant being sustainable:

Forecast Budget deficit WITH Fire Pension Grant Sustained

SFA Planning assumptions	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
2020/21 SFA inflation increase and cash freeze 2021/22 and 2022/23	221 #	294	152	667
2020/21 SFA inflation increase and 5% cut 2021/22 and 2022/23	221 #	931	758	1.910

The 2020/21 savings of **£221,000** have been addressed through contract negotiations in relation to ICT hardware and software and building security and cleaning.

5.4 If the fire pension grant is not sustained the Authority will need to make further budget reductions of **£1.544m**. On the basis that the pension grant is phased out over three years commencing 2021/22 the final additional cuts would be deferred to 2023/24, when the Authority will need to make further savings of **£514,000.** These savings will be in addition to any savings which may be required if core grant funding does not keep pace with inflation. The impact up to 2022/23 of the pension grant being phased out is as follows:

Forecast Budget Deficit WITHOUT Fire Pension Grant Sustained

SFA Planning assumptions	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
2020/21 SFA inflation increase and cash freeze 2021/22 & 2022/23	221	808	667	1.695
2020/21 SFA inflation increase and 5% cut 2021/22 & 2022/23	221	1,445	1.272	2.938

5.5 In view of funding uncertainty for 2021/22 onwards it remains appropriate to continue to develop a contingency savings plan to identify further potential budget cuts of up to **£2.717m** (i.e. current worst case forecast £2.938m less £0.221m savings achieved 2020/21). Implementation of future budget reductions may need to be supported by using the Budget Support Fund to provide a slightly longer lead time to implement changes. However, reliance on one off resources will not provide a sustainable solution to address future potential cuts in recurring funding, which can only be addressed by making recurring reductions in spending.

6. ASSET MANAGEMENT PLAN (AMP)

6.1 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.

6.2 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.

6.3 A comprehensive review of the remaining AMP requirements was completed last year and these forecasts have been updated to reflect progress in implementing the remaining projects. Details for 2020/21 to 2025/26 are set out in **Appendix A** and these requirements can be funded from the remaining capital resources.

6.4 As reported in February 2019 there is a risk of further inflation and exchange rates changes over the remaining period of the AMP – 2020/21 to 2025/26. These risks have been assessed in relation to Operational Fleet, which is the main remaining component of the AMP as follows:

- **Operational Fleet – total forecast spend £2.795m**
  Eleven fire appliances are scheduled for replacement over the period 2020/21 to 2024/25. 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.

  The Authority has an existing uncommitted capital risk reserve of £0.239m to manage these risks, which provides sufficient funding to manage a cost increase of 8.6%. In the event that potential cost increases exceed this amount, 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 5% 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 £11,000 at current interest rates, and £15,000 at current interest rates plus 1%

7. CONCLUSION

7.1 The Authority approved the 2020/21 Council Tax in December 2019 and noted that a further report would be submitted to the full Authority on 14th February to approve the supporting statutory calculations. These calculations cannot be completed until the Government issues the final 2020/21 Local Government Settlement, which is expected in late January / early February. It is not expected that there will be any changes to the figures detailed in this report or to the Council Tax referendum limits.

7.2 The report also advices Members that the Government have not provided any further information in relation to planned national funding changes which have been delayed until 2021/22. Further details are not expected until the summer, which makes financial and service planning beyond 2020/21 extremely challenging. Therefore, it remains appropriate for the Chief Fire Officer to develop a contingency saving plan to address the potential deficits detailed in section 5.

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CHIEF FIRE OFFICER

CHRIS LITTLE
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