

TYNE AND WEAR FIRE AND RESCUE AUTHORITY



Medium Term Financial Strategy

2022/2023 – 2025/2026

1 PURPOSE, PRIORITIES AND PRINCIPLES

1.1 Purpose and Priorities

The Medium Term Financial Strategy (MTFS) sets out how the Authority intends to respond to:

- the forecasted size of the financial challenge it faces in the medium term covering the period from 2022/2023 to 2025/2026;
- the constraints of the national economic and local financial landscapes;
- the risks to financial resilience; and
- the need to balance available resources with the costs of service requirements.

The current financial climate over the medium term remains unclear as only another one year 2022/23 financial settlement was provided by the government even though we have received the outcome of the Comprehensive Spending Review 2021 (CSR21) which indicated that public sector resources generally were improving up until 2024/25. Despite this more optimistic projection for public sector resources is the fact inflation is at its highest level for more than a decade, the war in the Ukraine and the continuing economic implications from Covid and Brexit are having an adverse impact on the economy, which may affect the economic recovery. The Authority's is also facing not only the uncertainty of its level of resources but concerns over both price and wage inflation, as costs are increasing significantly above the government's projections used in the CSR21. The medium term resource position has, because of all of these reasons, seen an increase in its projected deficit position to 2025/26 from almost a broadly neutral position (£0.3m) to one of a £2.3m funding shortfall. The financial aim of the Authority therefore continues to be one of remaining sustainable so that it can continue to work effectively and efficiently and to collaborate with partners, other blue light and public sector organisations, residents and communities to deliver positive outcomes on its key service priorities to the communities it serves and will always manage service capacity within its available resources.

The key outcomes that shape the financial planning of the Authority are:

- Reducing the likelihood that fires will happen (through the Prevention and Protection activities that are part of the Authority's legal duty);
- Educating the community through home safety and safe and well checks and also the promotion of measures that enable people to escape if there is a fire, or prevent the ignition and the spread of fire (sprinklers, smoke alarms, fire doors, fire retardant materials for vulnerable people etc.);
- Reducing the impact if incidents do happen. This is part of the Authority's duty to respond and provide resilience (extinguishing fires, rescuing people and being able to help the community if a major incident or disaster occurs);
- Greater collaboration with neighbouring authorities and blue light services that culminate in better outcomes for the public.

The MTFS therefore shows how the Authority will remain viable and deliver sustainable and effective fire and rescue services, whilst maximising the use of its available resources over the medium term.

1.2 Objectives

- Manage the Authority's revenue budget cost base in line with the available overall resources which also includes the revenue impact of its Capital Programme and takes into account the impact of its Treasury Management Strategy, as appropriate;
- Monitor income levels and increase them wherever possible using a more commercial approach to income generation which the Authority has successfully done in the past 5 years, including managing changes from the Council Tax and Business Rates tax bases notified from the Authority's constituent Local Authorities and also to implement increases to its Council Tax precept level which it can influence directly but only to the extent allowed by government regulation;
- Prudent use of reserves and balances as appropriate to smooth the transition to a lower cost base, to provide temporary funding if required until IRMP actions are implemented or alternatively to reinvest in service priorities where resources permit, to address unforeseen challenges, and ensure that longer term budget liabilities and risks are adequately considered and provided for; and
- Seek to influence where possible and benefit from public sector reforms as these develop.

1.3 Approach and Principles

Our approach to financial planning is underpinned by ensuring overall resources are well managed, provide value for money and are sufficient in order to provide a sustainable and effective fire and rescue service for the diverse communities it serves across Tyne and Wear and fully embeds the aims of the Public Sector Equality Duty (PSED) to eliminate unlawful discrimination, to foster good relations and to advance equality of opportunity.

The MTFS is therefore consistent with the priorities the Authority is pursuing, as articulated in both its current Strategic Community Safety Plan (SCSP) and its recently approved Integrated Risk Management Plan (IRMP).

The principles that will influence the choices the Authority will make in the future are summarised by:

Community Protection and Leadership

Continuing a culture and system of governance which continues to be transparent, inclusive, diverse, adheres to the aims of the PSED, democratic and fits with best practice for the Fire and Rescue Service. The fact that the

Authority's IRMP must be appropriately consulted upon amongst its communities and key stakeholders shows that the Authority already has these values and criteria well embedded into its current processes.

The annual revenue budget is also consulted upon before it is approved by members, which also takes into account all budget efficiencies that have been identified and quantified, the impact of its IRMP proposals, its Capital Programme and its Treasury Management policies and strategies.

Working closely with Partners

Maintaining cost effective partnerships, and establish greater collaboration through closer working with other 'blue light' services and public sector organisations. The Authority has an excellent track record of strong partnership and joint working arrangements with other 'blue light' services which it is further enhancing with the strong collaborative working that the Authority is already engaged with.

These include:

Sunderland City Council (SCC) – Lead Authority – Service Level Agreement (SLA) provides specialist services such as Legal, HR, and Architectural, housing the council's CCTV operations at Station Headquarters and any other joint initiatives that benefit both parties;

Northumbria Police – Co location at some of our community fire stations;

North East Ambulance Service (NEAS) – Co location and use of some of our community fire stations;

Northumberland Fire and Rescue Service (NFRS) – The Authority provides backup Command and Control arrangements and has other operational joint arrangements in place via a public finance initiative. The Authority also provides stores and vehicle repair and maintenance facilities to NFRS under a Service Level Agreement (SLA);

Collaboration in joint tendering arrangements nationally for PPE and also with other North East FRA's regarding procurement of uniforms or any other initiatives where it is beneficial to do so;

SafetyWorks! – which receives support from a wide range of external organisations, including Northumbria Police, Northumbria Police and Crime Commissioner, Nexus, and Sainsburys to provide a multi-agency interactive safety centre serving the communities of Tyne & Wear.

Other organisations where co-location and collaborative working helps the Authority to maximize the use of its property portfolio and helps generate commercial income as a result.

Reducing demand, changing expectations and behaviour:

- managing and reducing demand for services through changing behaviours via home safety and safe and well visits, use of sprinklers, fire safety checks,

smoke alarms, changes to false alarm call responses and providing education and training to the public and business communities in order to reduce fire and rescue incidents.

- changing expectations about the level and scope of the fire service whilst still demonstrating how the Authority meets all of its statutory requirements and those included in the Fire and Rescue National Framework. The changes implemented in respect of the revised Response model operated by the Authority is a good example of using its limited resources to maximum effect to the benefit of the community of Tyne and Wear.

Investing in prevention and early intervention measures

Assessing risk and taking actions early in order to prevent incidents from occurring, but responding appropriately to incidents if they do happen in an appropriate and measured way.

Productivity and Value for Money

Making sure that the fire and rescue service provides value for money and maximises the potential use of all available assets, be they in the public, private or third sector within the community.

1.4 Performance Management

The Authority has robust performance management arrangements in place to ensure value for money, sustainability, efficiency gains and the effectiveness of resource allocations that can be demonstrated across the service.

Partnerships and commissioned service delivery have mechanisms in place by which performance against these can be measured and managed. This will be strengthened in order to provide an increasing understanding of performance against priorities set within the context of the financial resource envelope.

2. Medium Term Financial Forecast

- 2.1 The medium term financial forecast is formally reported to members at the February Authority meeting as part of the Revenue Budget setting exercise each year. This forecast currently assumes no changes to the Authority's structure or single tier status and uses previous budget plans as a basis for the forecasts produced. Forecast income is based on the best data available from both internal and government sources.
- 2.2 The starting point for the Forecast is the current financial structure of the Authority, and assumes that the government's view that austerity has ended is correct and sustainable. Income from government is thus based on the third consecutive one year (2022/2023) Settlement using a flat rate resource position but increased each year by inflation. The CSR21 has confirmed that this approach is reasonable although it failed to set out the detailed resources for the Fire Service over the medium term as anticipated by delivering only a one year settlement in December 2021. The remaining settlements covering the next two year period (2023/24 to 2024/25) are still not known.

- 2.3 Forecast cost pressures and future resources are affected by a number of factors, some that are within the Authority's control and others that are not. Given the past government announcements in the Local Government Settlement and Budget there are significant changes planned for local government finance which are to be implemented from 1st April 2022, however these are still being developed but the government has stated that these changes will not be implemented for the fire service and mean that the impact on the Authority is still not known. Consequently planning the resource position of the Authority is proving difficult because of the uncertainty around the detail of future finance settlements and the lack of clarity on the implications of the proposed changes to the system for allocating resources for the rest of local government as this may impact on the fire service indirectly.
- 2.4 The Authority as part of the budget setting exercise and to inform the MTFS provides more detail of the material factors that are likely to affect the Authority's Budget forecasts up to 2025/26 in its Budget Planning Framework Report produced each November. This information is supplemented with confirmation of the detailed resources released by the Government (usually in early December) in the Local Government Finance Settlement each year.
- 2.5 The updated MTFS published each February informs the Efficiency Plans of the Authority as required and is also the main reference point for government should they require a formal response to any Home Office initiatives (eg Funding, Productivity or Efficiency Savings).
- 2.6 The MTFS is also predicated on assumptions that the Council Tax precept will increase by 1.99% per annum over the period, and that its growth in both the Council Tax base and its share of local business rates will continue to be fairly static until the impact of the pandemic eases and businesses recover to pre covid levels which may take some time to achieve and remains a factor that is prudently reflected in the forecasts at this stage.
- 2.7 The current published MTFS has not incorporated any new assumptions for the national economic outlook at this point because of the unknown implications that Brexit and the Pandemic may still have on the wider economy and the sustainability of the government's public spending limits published in the long awaited CSR21. If the assumptions assumed in the current MTFS published in February 2022 were to materially change then the Authority's financial outlook and MTFS would be amended and reported to Authority appropriately.
- 2.8 The latest MTFS set out below in Section 2.10 includes all budget efficiencies achieved to date and includes the draft IRMP proposals included in the current IRMP (2021 to 2024) that the Authority has agreed and the Authority has now implemented from 1st April 2022. At this time it is not anticipated that any changes to these proposals will be made so the MTFS reflects these actions. Should efficiencies need to be made in future years then these actions would result in a supplementary IRMP that would need Authority approval.
- 2.9 There remains at this time considerable financial uncertainty, with now three single year Settlements provided by the government as it continues to manage out the implications of Brexit, the pandemic and now the impact of the war in the Ukraine. The underlying message from the government despite all of these major

factors is that austerity is over and their spending plans set out in the CSR21 reflects this position.

The government also confirmed it will introduce changes to the way local government will be funded in the form of a review of business rates from 2023/24 but there remains little in the way of detail being released on the impact this may have on Fire service resources. It is hoped that this clarity is provided by the government in advance of the next financial settlement which preferably would be a multi-year settlement.

The MTFs is being monitored closely because of all of these uncertainties and a revised MTFs will be provided to Authority should any major issues or factors occur that could have a material impact on the current financial planning within the current MTFs set out below.

2.10 The current MTFs summary position published in February 2022 is set out below:

MEDIUM TERM FINANCIAL STRATEGY 2022/2023 TO 2025/2026

	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000
Base Budget	49,719.94	52,002.63	52,605.01	54,435.42
Net Cost Pressures	4,451.30	1,082.38	1,830.41	1,551.09
Net Change to Base Budget	54,171.24	53,085.01	54,435.42	55,986.51
Efficiencies	(3,711.71)	(480.00)	0.00	0.00
IRMP Actions	1,543.10	0.00	0.00	0.00
Net Expenditure	52,002.63	52,605.01	54,435.42	55,986.51
Resources:				
Government Based Funding				
Top Up Grant (index linked to rpi)	11,457.05	19,213.55	19,597.82	19,989.78
Revenue Support Grant	9,263.35	0.00	0.00	0.00
Business Rates Share	3,341.26	5,763.75	5,879.03	5,996.61
Service Delivery Grant	1,071.65	0.00	0.00	0.00
SFA Adjustment	1,588.79	1,620.57	1,652.98	1,686.04
	26,722.10	26,597.87	27,129.83	27,672.42
Local Resources				
Council Tax (Precept) Income*	25,614.43	25,243.71	26,644.02	27,174.24
Collection Fund - Council Tax Surplus	221.62	(109.07)	0.00	0.00
Collection Fund - Business Rates				
(Deficit)	(1,071.50)	(32.20)	0.00	0.00
	24,764.54	25,982.88	26,644.02	27,174.24
Total Income (Resources)	51,486.64	52,580.75	53,773.85	54,846.66
Real Funding gap in year	515.99	24.25	661.56	1,139.85
Cumulative gap before use of reserves	515.99	540.24	1,201.80	2,341.65
Planned use of reserves	515.99	24.25	661.56	1,139.85
Total Resources	52,002.63	52,605.01	54,435.42	55,986.51

*assumes 1.99% increase in precept in each year

- 2.11 In summary, the updated MTFS shows a balanced budget position for 2022/23 and overall a net deficit in resources by 2025/26 of £2.3m but this position does not take into account any budget efficiencies that may be generated from 2023/24 onwards or any IRMP actions that may be considered necessary should the projections based on a single year finance settlement for 2022/23 prove to be correct. Price and wage inflation has been considered and increased for known cost variations but these could be changed should inflation remain high and public sector wage constraint proves unsustainable.

Contrary to this financial forecast position is that if resources should reduce and austerity has not in fact ended then the Authority will have no option but to amend its spending plans for the service accordingly based on the revised information in a further refreshed and updated MTFS. The Authority will thus always amend and adapt its spending plans to match its projected resources as it has done successfully in every year since it was established. It has a strong track record in this regard and has reserves available to use temporarily in order to bridge any gap in resources before actions are taken to make the necessary savings to achieve a sustainable budget and fire service.

- 2.12 The implication of another one year settlement to the Authority is that it is very difficult to plan the service moving forward until it has a much clearer view and more certainty of its resources over the medium term beyond the third single year settlement of 2022/23 provided by the government, despite the publication of the CSR21. This has not been helped by the fact one off funding of almost £1.1m was provided for 2022/23 to meet additional costs however these costs will continue to be a cost pressure for the Authority in future years as they will not be funded from 2023/24. This has as a result caused an adverse change in the financial outlook for the Authority in this revised MTFS for 2022/23 to 2025/26 by increasing its projected shortfall in resources by £2m to £2.3m although the implications of future resources may improve this position.
- 2.13 The Authority has a robust Reserves Policy which details under what circumstances and how each of the Earmarked Reserves or General Fund Reserve can be used to temporarily support the MTFS as illustrated in the “planned use of Reserves” line of the MTFS shown in paragraph 2.10 above.
- 2.14 The Authority also has an ambitious yet affordable Capital Programme underpinned by a strong and prudent Treasury Management Strategy that ensures this is prudent, sustainable, making the best and effective use of the Authority’s existing resources and also limits the impact and exposure on the Authority’s Revenue Budget, which is important should revenue resources not match anticipated funding set out in the CSR21.

3. Risks Associated with the MTFS

- 3.1 As mentioned there remains a number of uncertainties and the risk to the current revised forecast are considered significant.

These include:

- The impact of national economic performance on public sector

finance following the implementation of Brexit and the lasting impact of the pandemic;

- The continued buoyancy of the national and local economy;
- Fundamental review of relative needs of local authorities in a national funding Regime to be introduced from April 2022 however this will not be applied to fire service in this CSR according to the government;
- Business Rates Funding System Review – Funding system is to allow local authorities to retain 75% of their Business Rates from April 2023 which will impact on the resources of the Authority;
- Inflation – a 1% variance in pay equates to £0.400m and a 1% change in prices would have a £0.150m impact on expenditure assumptions;
- Treasury management – the extent to which cash balances will drive the need to borrow to finance capital investment and the continued poor return on investments;
- Change management (IRMP actions) risk, and the sustainability of existing budget decisions and alternative service delivery options;
- Contractual risk;
- What, if any, aspects of public sector reform will mean for the Authority and its financial resources;
- Impact of demographics in terms of both additional demand and additional growth;
- The potential costs of transition and further restructuring;
- Triennial valuations of the local government and Firefighters pension schemes;
- Pension remedy for all public sector schemes and their financial impacts which continue to be complex and uncertain;
- Pay award uncertainty and unaffordable pay escalation;
- The impact on the economy of the war in the Ukraine (which has already had an impact on fuel costs and higher prices for some goods and services) on the economy and public sector spending in the longer term; and
- Uncertainty from the CSR21 as this has up until now not provided a multi-year settlement which was desperately needed to help effective planning for the fire service.