

TYNE AND WEAR FIRE AND RESCUE AUTHORITY



Medium Term Financial Strategy

2024/2025 – 2027/2028

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 2024/2025 to 2027/2028;
- 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 financial climate over the medium term continues to be very unclear as only another one year 2024/2025 financial settlement was provided by the government, despite publication of its CSR21. This, unfortunately, is the fifth consecutive annual settlement and consequently makes medium term financial planning much more difficult and uncertain. The war in the Ukraine and other economic factors have seen a cost of living crisis develop with inflation in double figures which although has subsided a little but is still hovering around 4% at the time of updating the MTFS.

The Finance Settlement for 2024/2025 was released to try and help local authorities adapt and meet the unprecedented higher costs of both price and wage inflation as both have escalated well above the 2% government target. The government had no choice but to deviate from its projections in its Comprehensive Spending Review 2021 (CSR21) although they continue to assure the public austerity has ended. Despite this assurance for public sector resources is the fact inflation is still well above the government guideline of 2%, the war in the Ukraine and the continuing economic implications from the pandemic, the EU exit and the cost of living crisis are all still having an adverse impact on the economy, which is still affecting the economic recovery over the medium term and as a result a more pragmatic outlook has been factored into the MTFS forecasts for the Authority as a result.

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 still significantly above the government's projections used in the CSR21. The medium term resource position is therefore projected to be a deficit position to 2027/2028 with a £3.3m funding shortfall. It is important to note that the Authority will take any action necessary in order to balance its annual budget each year and that the MTFS is an important guide to help forecast and provide an indication of the financial position of the Authority over the medium term.

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 position is fluid and dependent on government actions adds yet another layer of complexity and uncertainty to the financial planning process.

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 so over the past 6 years, including managing the changes from the Council Tax and Business Rates tax bases notified by 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 CRMP actions are implemented or alternatively to re-invest 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 views of the external auditor each year are an important external assessment of the Authority's Value for Money arrangements which they provide in their Annual Audit Report each year. The latest AAR can be found on the Authority's Website in accordance with statutory requirements.

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 Corporate Risk Management Plan (CRMP).

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 CRMP 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 CRMP 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 an expanding use of

most 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 for 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 and Wear.

Other organisations where co-location and collaborative working helps the Authority to maximise 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 has been 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 fifth consecutive one year (2024/2025) settlement, the unexpected continuation of the Local Services Grant albeit at a lower level, and general grant funding increased in line with inflation, however in line with most other FRA's, we received a minimum funding guarantee grant which the government introduced to ensure funding was at least 4% more than the previous year. The Settlement for 2024/2025 was therefore better than expected compared to our planning assumptions however pay awards for both grey and green book staff for 2024/25 are still to be agreed and if they are higher than the budget provision for pay awards there will be an increased funding pressure. The cost of living crisis also continues to have an impact on the revenue budget over the medium term as inflation remains stubbornly high (around 4%) compared to the government's original target of 2% throughout the CRS21 period. It remains to be seen if government policy and funding reflects the higher costs still being incurred by the fire service. Future planning therefore represents a worst case scenario for service planning purposes on the basis a better settlement means more freedom to improve the service should it transpire. The remaining settlements covering the next three year period (2025/2026 to 2027/2028) are therefore still not known as the government has departed from its own CRS21 forecasts for public spending and continues to provide one year settlements.
- 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 have now been further delayed until the next Parliament. These changes are still being developed but the government has stated that they will not be introduced until after the next election. Consequently planning the resource position of the Authority over the medium term is proving very 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 funding 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 2027/2028 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 only 2.99% per annum over the MTFS period despite the additional flexibility afforded in 2023/2024 (as this was not confirmed as an ongoing feature of future finance settlements), and that its growth in both the Council Tax base and its share of local business rates will continue to be fairly slow until the impact of the pandemic eases and businesses recover to pre covid levels which may take longer 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 the EU exit and the Pandemic have had on the wider economy and the sustainability of the government's public spending limits. If the assumptions assumed in the current MTFS published in February 2024 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 CRMP proposals included in the current CRMP (2024 to 2027) that the Authority agreed in March 2024. The majority of the recommendations were to manage changes within existing resources and as such there is no anticipated financial impact of these proposals on the MTFS approved in February 2024. Should efficiencies need to be made in future years then these actions would result in a supplementary CRMP that would need Authority approval. As mentioned previously, the Authority will always balance its annual revenue budget and will take any necessary actions to ensure this is achieved each year either through budget efficiencies or through actions set out in future CRMP's.
- 2.9 There remains at this time continued and considerable financial uncertainty, with now five single year Settlements provided by the government as it continues to manage out the implications of the EU exit, the pandemic, the continued impact of the war in the Ukraine and the cost of living crisis as inflation remains much higher than the governments annual targets. The underlying message from the government despite all of these major factors is that austerity is over and their spending plans continue to reflect 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 but not until the next Parliament which is a concern as this was supposed to be in place by 1st April 2022. There continues to be very little in the way of detail being released on the impact this may have on local authority resources. It is hoped that this clarity is provided by the government in advance of its introduction in the next Parliament where preferably there will be a resumption of multi-year settlements.

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 2024 is set out below:

MEDIUM TERM FINANCIAL STRATEGY 2024/2025 TO 2027/2028

	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000
Base Budget	57,201	63,373	64,968	66,218
Net Cost Pressures	6,172	1,595	1,250	1,121
Net Expenditure	63,373	64,968	66,218	67,339
Resources:				
Government Funding				
Top Up Grant	12,713	12,967	13,227	13,491
Revenue Support Grant	13,471	13,740	14,015	14,296
Business Rates Share	3,710	3,858	4,013	4,173
Services Delivery Grant	109	0	0	0
SFA Adjustment	3,217	3,281	3,347	3,414
Funding Guarantee	689	0	0	0
	33,909	33,846	34,602	35,374
Other Resources				
Council Tax Income	28,720	29,579	30,463	31,374
Collection Fund - Council Tax (Deficit) / Surplus	528	0	0	0
Collection Fund - Business Rates (Deficit) / Surplus	216	0	0	0
	29,464	29,579	30,463	31,374
Total Income	63,373	63,425	65,065	66,748
Real Funding gap in year	0	1,543	1,153	591
Cumulative gap before use of reserves/ savings	0	1,543	2,696	3,287
Planned use of reserves/ savings	0	1,543	1,153	591
Total Resources	63,373	64,968	66,218	67,339

2.11 In summary, the updated MTFs shows a balanced budget position for 2024/2025 and overall a net deficit in resources by 2027/2028 of £3.3m but this position does not take into account any budget efficiencies that may be

generated from 2024/2025 onwards or any CRMP actions that may be considered necessary should the projections based on a single year finance settlement for 2024/2025 over the medium term prove to be correct. Price and wage inflation has been considered and increased for known cost variations but these could change should inflation remain high and public sector wage constraint prove unsustainable.

As previously mentioned this is considered a worst case scenario at this stage with all known data being used to assess the situation over the Medium Term. A General Election may possibly see a change in government and a change in government policy on public sector spending. The current government may continue to support the public sector whilst inflation remains high in which case the resources position may change from the financial assessments currently anticipated. These are uncertainties cannot be measured nor planned for with any degree of accuracy and may as a consequence have a material impact on the financial position of the Authority's MTFS. Conversely 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 funding gap in resources before actions are taken to make the necessary savings to achieve a more stable and sustainable budget for the 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 fifth single year settlement of 2024/2025 provided by the government, despite the publication of the CSR21. This has not been helped by the fact there was additional flexibility provided in 2023/2024 which was not continued in 2024/2025 or in future years at this stage. (This included retention unexpectedly of the one-off Service Delivery grant funding for another year although this was significantly reduced again in 2024/25). It is unclear if this will continue in future years and as such has not been factored into the MTFS for this reason. Council Tax was also increased by a flat rate increase of £5 in 2023/24 (equivalent to a 5.76% increases) significantly higher than the previous 1.99% increases of the past. This increase was welcomed but it did not continue for 2024/2025 (where a 2.99% increase was allowed) and government have not provided any indication if this will be considered in future years and as such this has not been anticipated in the future forecasts contained within the MTFS. These two issues being excluded has caused an adverse change in the financial outlook for the Authority in this revised MTFS for 2024/2025 to 2027/2028 by increasing its projected shortfall in resources from £2.9m to £3.3m although the implications of future resources may improve this position should either or both of these measures be continued in 2025/2026.

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 MTFFS 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 MTFFS.

3. Risks Associated with the MTFFS

- 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 the EU exit, the continuing impact of the pandemic, the war in the Ukraine and the fall out from the cost of living crisis;
- 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 in the next Parliament;
- Business Rates Funding System Review – Funding system is to allow local authorities to retain 75% of their Business Rates but this too has been delayed further and will now not impact until the next Parliament apart from those in the existing trial, the risk to the Authority remains beyond 2024/2025 however depending on outcomes;
- Inflation – a 1% variance in pay equates to £0.500m and a 1% change in prices would have a £0.100m 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 (CRMP 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 it’s financial resources (such as an alternative mayoral controlled fire service);
- 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;
- Pay award uncertainty and unaffordable pay escalation;
- The continued impact on the economy of the war in the Ukraine (which has 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 a potential change in government despite the publication of the CSR21 as this has not delivered a multi-year settlement which was desperately needed to help effective planning for the fire service.