APPENDIX 1

Tyne and Wear Fire and Rescue Authority

Medium Term Financial Strategy & Efficiency Plan

2016/2017 – 2019/2020

1. PURPOSE, PRIORITIES AND PRINCIPLES OF THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

1.1 Purpose and priorities

The MTFS sets out how the Authority intends to respond to:

- the forecasted size of the financial challenge it faces in the medium term to 2019/2020 (Medium Term Financial Strategy)
- the constraints of the national economic and local landscapes
- the risks to financial resilience.

In the current financial climate the Authority's principal financial aim is to remain viable so that it can continue to work and collaborate with partners, other blue light and public sector organisations, residents and communities to deliver positive outcomes on its key service priorities:

The key outcomes that underpin 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)
- 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)
- Educating the community through home safety checks and also the promotion of measures that make people get out 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.)
- Greater collaboration with neighbouring authorities and blue light services that culminate in more effective outcomes for the public.

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

The MTFS therefore has four main objectives:

- Continue the trend of recent years to manage down the Authority's revenue budget cost base in line with reductions in overall resources;
- Monitor income levels and increase them where possible, including benefitting from the Council Tax and Business Rates tax base increases from its constituent authorities and also increases to Council Tax levels which it can influence directly
- Prudent use of reserves and balances to smooth the transition to a lower cost base, to provide temporary funding until IRMP actions are implemented and to address unforeseen challenges, and ensure that longer term budget liabilities and risks are adequately covered;
- Seek to benefit from public sector reforms as these develop.

1.2 Approach and principles

The MTFS is consistent with the priorities the Authority is pursuing, as articulated in its Strategic Community Safety Plan and Integrated Risk Management Plan.

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

Community Protection and Leadership – continue a culture and system of governance which continues to be inclusive, democratic and fits with best practice for the Fire and Rescue Service. The fact that the Authority's Integrated Risk Management Plan 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.

Working closely with partners - maintain cost-effective partnerships, and establish greater collaboration through closer working with other 'blue light' services and public sector organisations. The Authority's recent sign up to a Statement of Intent for: Enhanced Collaboration between Northumbria Police, The Police and Crime Commissioner and Northumberland Fire And Rescue demonstrates the ambition to forge greater and stronger partnership and joint working arrangements with other 'blue light' services which will further enhance the strong collaborative working that the Authority is already engaged with. For example:

Sunderland City Council – Lead Authority - SLA provides services such as Legal, HR, ICT and Finance;
Northumbria Police - Co-location at community fire stations;
North East Ambulance Service – Co location and use of community fire stations
Northumberland Fire and Rescue Service – The Authority houses and provides backup Command and Control arrangements and has other operational joint arrangements in place via a public finance initiative
Collaborating in a joint tendering arrangement with all of the other north east FRA's to procure uniforms and personal protective equipment.
SafetyWorks! – which receives support from a wide range of organisations including Northumbria Police, Northumbria Police and Crime Commissioner Nexus, and Sainsburys to provide a multi-agency interactive safety centre serving the community of Tyne & Wear.

Reducing demand, changing expectations and behaviour -

- managing and reducing demand for services through changing behaviours via home safety visits, use of sprinklers, smoke alarms 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 the statutory requirements of the Fire and Rescue National Framework. The phased changes being implemented in respect of the revised Response model operated by the Authority is a good example of using less resources to maximum effect.

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.

Devolution - to ensure the Authority can operate effectively at a local, district and regional level. The Authority's approach may be shaped by the outcome of devolution.

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 or within the community.

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.

This forecast is based on a series of assumptions which are detailed in Annex B. It is based on the current financial structure of the Authority, which is analysed in more detail at Annex A and also sets out the context of the funding reductions for the next 4 years following a period of sustained budget cuts already achieved by the authority since 2011/12.

The strategy and principles set out above lay down the framework and constraints for the next stage in the continuous cycle of operational and financial planning. Annex C shows the Efficiency Plan to meet the financial planning challenges ahead and will be the basis put forward to government in order to accept the 4 year Settlement on offer.

Annex D combines the information provided by the Authority in its existing financial planning documentation (MTFS, Capital plans and Efficiency Plan) to inform the Funding and Budget Assumptions Template required by the Home Office which will form part of the evidence they require in order to approve the Authority's 4 year settlement application.

2. MEDIUM TERM FINANCIAL FORECAST AND GAP ANALYSIS

2.1 The medium term forecast set out in section 2.9 derive from comparing forecast expenditure assuming no changes to current plans, with forecast income, to give a deficit to be managed out through budget decisions.

2.2 The starting point for the Forecast is the current financial structure of the Authority, and assumes that the existing IRMP (2014-2017) actions phased over the period 2016/17 to 2019/20 will be achieved in full (£5.5m).

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. However, given the announcements in the Local Government Settlement and March 2016 Budget there are significant changes planned for local government finance but these are at an early stage of development and means that the impact on the Authority is currently not yet known. Annex B sets out in more detail the material factors that are likely to affect the Authority's Budget forecasts up to 2019/20.

2.4 The updated MTFS is also the platform for the Efficiency Plan (Annex C) of the Authority and is also the main reference site to the figures provided to the Home Office (Funding and Budget Assumptions Template) in order to secure the multi-year settlement on the Revenue Support Grant of which 2016/17 is the first year, with a further 3 year forecast up to 2019/20. It is also assumed that the revised funding system for local authorities will not be implemented until 2020/21 although this position does need to be clarified by the government.

2.5 In 2010/11 the Authority's Net budget was £59.4m, and it is now currently £48.8m in 2016/17. Given that revenue support grant is expected to end in 2020 the Authority is using a working assumption that the net budget will be circa £46.9m in current prices by 2019/20, which assumes if RSG is removed altogether in 2019/20 then an appropriate adjustment will be made to the Top and Tariff grant funding baselines, (for planning purposes this is assumed to be cost neutral although this may not be the actually case should this happen). The Budget level in 2019/20 is however mitigated by the planned budget savings to be achieved otherwise it would have been a net cost of £50.1m rather than the £46.9m position forecast. During this time the Authority is facing significant cost pressures along with the funding reductions notified by the government.

2.6 In the five years from the beginning of 2011/12 to 2015/16 the Authority has implemented a series of budget efficiencies which has supplemented the wider budget savings achieved from the actions within the Authority's IRMP's over this time frame. It has made budget reductions totalling £16.8m as a result which has helped keep the net budget requirement at £48.8m in 2016/17 despite the significant cost pressures that the Authority has also had to manage in addition to the government's funding reductions received since 2011/12. Further reductions of £5.5m are being applied during the period 2016/17 to 2019/20 as a result of the on-going IRMP (2014-2017) actions that are still to be made which along with other budget efficiencies identified of £2.7m takes the total planned savings reductions to £8.2m up to 2019/20. For planning purposes all of the identified budget efficiency and IRMP savings are assumed to be achievable.

2.7 On 15 February 2016 the Authority approved its MTFS which identified that known IRMP actions and other budget efficiency savings would amount to approximately £5.4m up to 2019/20. The basis of the MTFS also assumed that the Authority would increase Council Tax in each year to 2019/20 by 1.99%, and that its growth in both the Council Tax and its share of local business rates increased by the government assumptions set out in the 4 year settlement. This was in accordance with government guidelines. Once known spending pressures were included in the Authority's financial plans this then indicated the Authority was facing an overall revenue budget funding gap of £2.8m.

2.8 The revised MTFS on the next page however has now been amended to reflect the most up to date information on the known cost pressures the Authority is facing and also takes into account a more prudent view of growth in both locally raised Council Tax and Business Rates based on local trends and intelligence. It is considered that the result of the EU referendum has also brought further potential uncertainty to these projections but it is too early to understand the implications to the Authority. The government has announced that any adjustment to public finances will be deferred until the Office for Budget Responsibility has updated its forecast in the Autumn but the government has confirmed that some form of adjustment may be necessary. It has also announced that it has scrapped its previously agreed national Budget targets and that any revised Budget would not be implemented until the Autumn Statement expected in late November. The revised MTFS therefore has not incorporated any fresh assumptions for the national economic outlook at this stage but if the position was to materially change then the Authority's financial outlook and MTFS will be amended appropriately.

2.9 The updated MTFS set out below shows what the position would look like had the Authority not taken a proactive approach in both identifying budget efficiencies and had not developed its current IRMP (2014/2017) actions. The position also shows growth in local resources of 1% for Business Rates share and Council Tax and makes no assumptions that the Council Tax Precept is increased. The result is that the revenue budget gap would be in the region of £11.4m taking all of this detail into account.

MEDIUM TERM FINANCIAL STRATEGY 2016/2017 TO 2019/2020

Without savings and no increase in council tax precept

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Base Budget	**49,806.29**	**51,627.26**	**53,234.62**	**54,978.11**
Net Cost Pressures	1,820.98	1,607.36	1,743.49	2,072.23
Net Change to Base Budget	51,627.26	53,234.62	54,978.11	57,050.34
Efficiencies	0.00	0.00	0.00	0.00
IRMP Savings	0.00	0.00	0.00	0.00
Total Budget Requirement	**51,627.26**	**53,234.62**	**54,978.11**	**57,050.34**
Resources:				
Government Funding				
Top Up Grant	10,063.52	10,261.46	10,564.18	10,901.83
Revenue Support Grant	13,180.06	10,897.79	9,620.15	8,796.23
Section 31 Grant	171.80	0.00	0.00	0.00
Business Rates Share	4,285.47	4,048.25	4,088.73	4,129.62
SFA Adjustment	207.47	211.55	217.79	224.76
	27,908.32	25,419.05	24,490.85	24,052.43
Other Resources				
Council Tax (Precept) Income	20,960.09	21,169.69	21,381.38	21,595.20
Collection Fund - Council Tax Surplus	240.52	0.00	0.00	0.00
Collection Fund - Business Rates Deficit	(277.31)	0.00	0.00	0.00
	20,923.30	21,169.69	21,381.38	21,595.20
Total Income	**48,831.62**	**46,588.73**	**45,872.24**	**45,647.63**

Real Funding gap in year	2,795.64	3,850.25	2,459.98	2,296.84
Cumulative gap before use of reserves	2,795.64	6,645.89	9,105.87	11,402.71
(if not addressed)				
Total Resources	**51,627.26**	**53,234.62**	**54,978.11**	**57,050.34**

2.10 The MTFS set out below however includes all IRMP savings from the current IRMP (2014 to 2017) and those which have been developed since February and also includes all budget efficiencies identified over the period to 2019/20. It also assumes that a precept increase of 1.99% will be agreed for each year up to 2019/20 which is consistent with government expectations.

MEDIUM TERM FINANCIAL STRATEGY 2016/2017 TO 2019/2020

With all Savings and Council Tax Precept increases included

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Base Budget	**49,806.29**	**49,120.37**	**47,560.15**	**48,218.39**
Net Cost Pressures	1,820.98	1,607.36	1,743.49	2,072.23
Net Change to Base Budget	51,627.26	50,727.73	49,303.64	50,290.62
Efficiencies	(1,322.89)	(1,394.38)	(4.25)	0.00
IRMP Savings	(1,184.00)	(1,773.20)	(1,081.00)	(1,489.00)
Total Budget Requirement	**49,120.37**	**47,560.15**	**48,218.39**	**48,801.62**
Resources:				
Government Funding				
Top Up Grant	10,063.52	10,261.46	10,564.18	10,901.83
Revenue Support Grant	13,180.06	10,897.79	9,620.15	8,796.23
Section 31 Grant	171.80	0.00	0.00	0.00
Business Rates Share	4,285.47	4,048.25	4,088.73	4,129.62
SFA Adjustment	207.47	211.55	217.79	224.76
	27,908.32	25,419.05	24,490.85	24,052.43
Other Resources				
Council Tax (Precept) Income	20,960.09	21,590.96	22,240.83	22,910.26
Collection Fund - Council Tax Surplus	240.52	0.00	0.00	0.00
Collection Fund - Business Rates Deficit	(277.31)	0.00	0.00	0.00
	20,923.30	21,590.96	22,240.83	22,910.26
Total Income	**48,831.62**	**47,010.01**	**46,731.68**	**46,962.69**
Real Funding gap in year	288.75	261.39	936.56	352.22
Cumulative gap before use of reserves	288.75	550.14	1,486.71	1,838.93
Planned use of reserves	288.75			
Total Resources	**49,120.37**	**47,560.15**	**48,218.39**	**48,801.62**

*assumes 1.99% increase in precept in each year

2.11 In summary, the revised funding gap identified above in the updated MTFS of £1.8m is a reduced budget gap of £1.0m compared to the last reported MTFS position presented to members in February 2016 of £2.8m. The gap has narrowed primarily as a result of the Authority completing all of its actions within its IRMP 2014/2017 which has helped identify IRMP savings of a further £2.1m to those reported in February 2016 (mainly the management and organisation review saving £1.690m). It has also identified further budget efficiencies of £0.7m although this will not be achieved until 2017/18 at the earliest. The increase in savings is partially offset however by additional pension cost pressures identified of (£0.6m) and the lower income from business rates and council tax to those assessed by the government. Although the updated projected budget deficit has reduced by £1.0m the projections used still have risks attached to them which are detailed in Section 3 of the report, and which could still have a significant impact on the MTFS position.

2.12 The implication of this to the Authority is that it will have to find further budget savings to bring about a balanced budget over the period to 2019/20. This will mean further budget efficiencies and IRMP actions will have to be developed and that temporary use of reserves and balances may be necessary in the medium term until permanent budget reductions are achieved. It should also be noted that the Authority has already made very difficult budget cost reductions that has impacted upon all areas of the service but in particular front line services have also been affected too both in terms of reducing fire-fighter numbers and changes to the response model in operation. The base budget has shrunk significantly since 2010/11 (£10.6m see annex A) which with the fact all areas of the organisation have made cost savings means the budget gap identified is going to become more difficult to address.

3 RISKS ASSOCIATED WITH THE MTFS

3.1 A series of potential changes announced collectively in the Spending Review 2015, Local Government Settlement 2016/17 and the Chancellor's Budget Statement in March 2016 inevitably means there remain a number of uncertainties and the risk to the current revised forecast are considered significant. These include:

- The impact of national economic performance public sector finance following the result of the EU referendum and Brexit.
- The buoyancy of the local economy
- Fundamental review of relative needs of local authorities in a national funding Regime
- Whether the Fire Service is removed from the Business Rates Retention System (from 2020/21 or earlier?)
- Business Rates Review process, 2017 Revaluation, appeals against the rating list and future increases in the Business Rate multiplier if current funding mechanism applies to 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
- Change management (IRMP actions) risk, and the deliverability of existing budget decisions
- Contractual risk
- What devolution, regional and other aspects of public sector reform will mean for the Authority

- 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

ANNEX A

CURRENT COST AND RESOURCE BASE AND SAVINGS DELIVERED TO DATE

The projected Budget gap of circa £1.8m to 2019/20 remains a very challenging position for the Authority to manage. This is because the Authority has implemented significant changes to every area of its business since 2010/11 when the austerity measures were first introduced and has consequently cut budgets significantly over this period by £16.8m up to 2016/17 and will have made budget reductions totalling £25.5m by 2019/20 based on current planning forecasts. To close the gap identified will therefore present a much difficult task for the Authority as it seeks to produce a balanced budget over the medium term to 2019/20. This task could also become even more difficult for the Authority if some of the MTFS risks identified come to fruition, especially the unknown impact of the 2017 Rates Revaluation that will take effect from the 2018/19 financial year and also the potential loss of RSG in either 2019/20 or 2020/21 (if this is not suitably adjusted for in the Top Up and Tariff Grant mechanism).

a) Cost Base

The Authority agreed a net budget for 2016/17 of £48.832m made up of gross expenditure of £54.916m and gross income of £6.084m. As a single tier Fire Authority it is accountable for its own finances and resilience and must therefore ensure it has sufficient resources to be able to fund and provide its statutory services on an on-going basis.

An analysis of the budget shows the changes since 2010/11as follows:

	2010/11 £m	**2016/17 £m**	Change £m
Employees	50.4	**41.0**	-9.4
Premises	2.5	**2.4**	-0.1
Transport	2.3	**1.2**	-1.1
Supplies and Services	9.1	**9.5**	+0.4
Capital financing	3.0	**1.1**	-1.9
Total Gross Costs	**67.3**	**55.2**	**-12.1**
Gross Revenue Income	(7.9)	**(6.4)**	+1.5
Total (Gross) Budget	**59.4**	**48.8**	**-10.6**

The Authority has managed to reduce its gross costs by £12.1m equivalent to 18% of its total budget cost base since 2010/11 in response to the reductions in government funding and austerity measures. This figure is also masked by the effects of pay awards and inflation, which has also had to be absorbed by the Authority over this period and effectively increases the budget savings in real terms to nearer £19.6m up to and including 2016/17 (£25.5m in total by 2019/20).

As its cost base is comparatively low to most local authorities it has less scope to reduce its cost base further without implications to front line services, which have already been impacted upon by the budget reductions already made and implemented/progressed since 2011/12.

b) Resource base

The Table below shows that in 2016/17, 51% of the Authority's net expenditure is funded from Council Tax precept (43%) and its 2% share of locally retained Business Rates (8%). As explained, there is currently work being undertaken on the development of the business rates retention reforms. These reforms are expected to be implemented in 2020. At the time of writing DCLG have had no information that 2017 rates revaluation and review of business rates retention legislation will have to make way for EU exit legislation. Given the significance of these reforms the analysis below has been projected on the basis that the current system continues to at least 2019/20 on the basis of consistency and from the significant uncertainty these reforms might mean for all Authorities.

Sources of Funding in 2016/17	**Gross £m**	**%**	**Net £m**	**%**
Government Grants	5.0	9%	0.4	1%
Revenue Support Grant	13.2	24%	13.2	27%
Fees, Charges and Contributions	1.5	3%	0.0	0%
Council Tax Precept / prior year surplus	21.2	38%	21.2	43%
Business Rates and previous year deficit	4.0	7%	4.0	8%
Government "Top Up" Grant	10.0	18%	10.0	21%
Planned Temporary Use of Reserves	0.3	1%	0.0	0%
	55.2	**100%**	**48.8**	**100%**

Looking at the prospective composition of the Authority's net budget for 2016/17 compared to that in 2019/20 (see the tables below) shows:

- Government Revenue Support Grant totals £13.2m in 2016/17 but could drop steeply when it is forecasted to reach zero in possibly 2020/21, if this occurs in 2019/20 then Top and Tariff grant adjustments will need to reflect these changes. This may not provide full protection but this is not known and it will be some time before the review will presents its recommendations.

- Whilst the Authority may choose to increase Council Tax, current rules require a referendum for increases above 2%, the cost of which is considered prohibitive.

- Council Tax income in 2016/17 makes up 43% of the net budget. It rises to 49% by 2019/20. The government have assumed much greater increases in their 4 year projections which the Authority views as overly optimistic and not achievable based on current information.

- Localised business rates are £4.156m in 2015/16 – the aim from the govt assumptions in the 4 year settlement is for these to grow to £4.510m by 2019/20, an increase of over 9.2% but this fails to adequately recognise the adverse impact of business rates appeals and losses on collection. The Authority sees annual growth of 1% per annum to be a more realistic planning assumption based on the past 3 years actuals received which means an increase overall to 2019/20 of £4.130m (3.1%) instead. It should be noted that although the amount of business rates share in 2016/17 was £4.285m, once the deficit (loss on the collection of £0.277m) is taken into account the true income is actually £4.008m. This (revised) baseline figure has then been used to project business rates share for future years which is lower than that projected by the government in their 4 year settlement.

Prospective Composition of Funding of the Authority's Net Budget £m (before any business rate reforms)

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	13.2	10.9	9.6	8.8
Localised Business Rates share†	4.0	4.0	4.1	4.1
Government Top Up Grant	10.0	10.3	10.6	10.9
Council Tax	21.2	21.6	22.2	22.9
S31 grants	0.4	0.2	0.2	0.2
Total	**48.8**	**47.0**	**46.7**	**46.9**

Prospective Composition of Funding of the Authority's Net Budget % (before any business rate reforms)

	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Revenue Support Grant	27	23	20	18
Localised Business Rates†	8	9	9	9
Government Top Up Grant	21	22	22	23
Council Tax	43	46	48	49
S31 grants	1	1	1	1
Total	**100**	**100**	**100**	**100**

† 2016/17 business rates are supressed due to deficit on collection as a result of successful appeals

The clear message, as the Authority is required to absorb further reductions in Government funding, is that the Authority's ability to grow and influence its local resources (council tax and business rates bases), in order to sustain fire and rescue services, takes on increasing significance. This is however to a large extent out of the control of the Fire Authority, as it is fully reliant on the successes of its constituent councils to deliver this 'local' growth. The only area where it can directly control is its level of precept, and the government has effectively reduced this flexibility significantly by already building in an assumed annual increase of 1.75% per annum which is just below the 1.99% maximum increase allowed before a referendum is triggered.

c) Savings delivered to date

Five consecutive years of reductions in Government funding, and inflationary and other cost pressures have required the Authority to make budget reductions / savings over the period of £16.8m.

	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m	**Total £m**
Budget Savings	3.393	1.965	4.635	3.228	3.604	**16.825**

A further analysis shows that of the total budget savings made, IRMP actions account for almost 51% of this total.

Summary of Savings made to date

	Cumulative Savings to 2015/16 £m	Cumulative Savings by 2019/20 £m
Community Safety Review	**0.665**	0.665
Retained Station	**0.060**	0.060
Day Crewing Close Call	**0.914**	0.914
HR	**0.203**	0.203
Administration	**0.240**	0.240
Data & Information Team	**0.071**	0.071
Fire Safety Protection & Technical Activities	**0.480**	0.480
Occupational Health Services	**0.010**	0.010
Policy, Review, Corp Comms	**0.129**	0.129
Estates	**0.058**	0.058
Finance & Procurement	**0.051**	0.051
Contingencies & Special Projects Team	**0.325**	0.325
Transport, Ops Servicing, Stores	**0.220**	0.220
Response Support	**0.250**	0.250
Flexible working on Fire Stations	**0.450**	0.450
Management review	**0.350**	0.350
Dual Staffing of Specialist Appliances	**0.786**	0.786
Control	**0.130**	0.342
Organisational Review		1.690
Learning & Development	**0.494**	0.494
Regional Posts	**0.017**	0.017
Catering	**0.463**	0.464
Cleaning	**0.031**	0.031
Response (Front Line Fire Stations)	**2.117**	5.175
Charitable Company Donations		0.616
Total IRMP Savings	**8.514**	**14.091**
Other measures (including mainly Budget Efficiencies)	**8.311**	**11.359**
Total Savings to meet budget reductions	**16.825**	**25.450**

Summary position

The savings achieved by the Authority have been instrumental in delivering a balanced budget since 2010/11 and every area of the budget has contributed towards these savings.

From the latest updated MTFS set out at in paragraph 2.9 this shows that the budget gap would have been £11.403m in 2019/20 had no savings been identified/ achieved. The table below shows in summary how the Authority has managed this position to the point where the budget gap using the best information available has reduced this position to £1.839m as set out in detail in the refreshed MTFS set out at paragraph 2.10.

	Budget gap £m
MTFS starting point (para 2.9)	11.403
Less: Assumed Council Tax Precept increases	(1.315)
Revised Gap	10.088
Less Savings:	
Budget Efficiencies	(2.722)
IRMP Savings	(5.527)
Updated Budget Gap per updated MTFS (2.10)	**1.839**

If council tax is not increased by 1.99% each year then a further £1.3m will need to found in additional savings to those set out above and would mean the budget gap would increase to £3.154m.

To date the Authority has absorbed a disproportionate share of the Government funding reductions and has tried to protect front line fire and rescue services as much as possible. The Authority will continue to focus on reducing costs and improving efficiency and productivity but finding new savings totalling at least £1.839m will inevitably lead to a further review of frontline services.

With a budget gap of almost £2m to meet, the Authority can utilise reserves on a temporary basis until more permanent budget savings are achieved. This will involve developing a further IRMP(2017/2020) to cover the next 3 financial years to 2019/20 in order to maintain a sustainable and balanced budget into the medium term.

ANNEX B

EXPENDITURE AND RESOURCE FORECAST ASSUMPTIONS

EXPENDITURE (COST PRESSURE) ASSUMPTIONS

In addition to the government's funding reductions each year the Authority also has to manage and absorb known cost pressures, which are often outside the control of the Authority, in order to balance its annual revenue budget each year. The MTFS includes projected costs which have been identified but these estimates may vary once the full position is actually known. There is also the risk that additional costs may be incurred because of a change in government policy or some other external factor beyond the control of the Authority eg pension actuarial reviews, inflation, etc.

The impact of cost pressures increases the Budget gap which means higher levels of savings are required to be found in order to balance the budget each year.

The known considerations and the estimated impact on the Authority's Revenue Budget are set out below in detail and their implications are included in the updated MTFS:

1.1 Inflation

a) Pay

Although the Authority does not receive any specific funding for pay awards an amount equivalent to 1.0% for 2016/17 and for each year up to 2019/20 has been included in the MTFS. Budgets are also expected to absorb all incremental increases.

b) Non Pay

The Bank of England published their forecast of CPI in July 2016, which indicated that inflation would increase to 2% by the end of 2017/18. Given this, an inflation rate of 1.5% has been assumed for contract inflation as the average rate during 2017/18, levelling off at 2.0% in future years. All Premises and Transport related costs have been increased by 2% in all years.

1.2 Pension Contribution Rates

Local Government Pension Scheme

The next Actuarial Valuation is being progressed with an implementation date of 1st April 2017. The current Employers' pension contribution rates have been fixed at 15.3% until the end of 2016/17. The forecast assumes that further provision will have to be made in 2017/18 to address the service pension deficit. An increase of 2% on the Employers' contributions has been incorporated into the forecast. Following the referendum vote to leave the EU the gilt yields have fallen. If the gilt yields do not recover which seems likely then this may have implications for the pension deficit as the gilt yields are used as a benchmark for calculating LGPS fund liabilities. Similarly, if the fall in share prices remains lower than before the Brexit then this factor too will have a negative impact on the triennial valuation. The estimated additional cost is currently reflected in the MTFS as £155,000 in 2017/18.

Firefighters Pension Scheme

Government changes to the scheme came in to force from 1st April 2015 with the addition of the new 2015 scheme and Modified Scheme. Changes to both employer and employee contribution rates across the firefighter pension schemes will impact on pension expenditure. The financial implications of this have been estimated and reflected in the 2016/2017 budget and in the MTFS. This will be kept under review and amended accordingly as more information becomes available.

The government has also indicated that it is to amend the discount rate in 2019/20 used for fire-fighter pension schemes as part of the March 2016 Budget. The impact of this change is expected to see an increase in both the employee and employer contribution rates and the Authority has built in a 2% increase in its pension costs budget in 2019/20 as a result. This will be monitored as more information is provided form government but currently represents a possible additional cost in excess of £450k.

1.3 Living Wage

The Government's proposal to implement the national living wage of £7.20 from 1st April 2016 rising to £9.00 by 2020/21 represents an additional cost pressure for the Authority in terms of increased direct staff costs for those affected, the consequential impact upon its staffing structure differentials and from any external contract suppliers passing these additional costs on through increased contract prices.

The Authority has assessed the likely impact upon its staffing costs and structures and has built in the projected additional costs within the MTFS. This position will also be kept under review as necessary.

1.4 Apprenticeship Levy

A forecast of £129k per annum has been included in the forecast for the introduction of Apprenticeship Levy from April 2017. The levy is to be 0.5% of the total pay bill. As the criteria for eligible apprenticeships have not been fully worked through no income returned from the levy has been assumed in this forecast.

1.5 Capital Financing

No prudential borrowing has been included within the medium term financial position at this stage, but the position will be continuously reviewed to ensure that the future use of resources reflects best value and can be adapted to enable strategic priorities of the Authority to proceed into the future as planned.

1.6 Devolution

As part of the Spending Review the Government invited submissions for proposals in line with their Devolution agenda. The North East Combined

Authority responded with a submission based on the principle of subsidarity with devolution from Whitehall, accompanied by a strengthening of local and community leadership. The proposals include a number of asks from Government relating to both fiscal and financial elements, as well as seeking to deliver an ambitious vision for the social and economic future of the North East.

Discussions with Government are progressing. Whether these negotiations will slow down or even stop following the EU referendum vote to leave the EU is unclear. For the purposes of the MTFS forecasts in this document, no assumptions, either positive or adverse have been made about the financial consequences of such a deal on the Authority if any. However as the position becomes clearer, the implications for the North East authorities will be taken into consideration as part the Authority's budget setting process and medium term financial strategy.

RESOURCE ASSUMPTIONS

1.7 National influences

The Local Government Settlement and the Chancellor's March 2016 budget have both outlined that further austerity measures will be applied during the remainder of this current Parliament. There are several reviews and consultations taking place that will affect local government financing over the period covered by this forecast but as these have not yet concluded there is more uncertainty than in previous years. The reviews and consultations are referenced in the appropriate sections below.

The EU referendum vote to leave the EU brings further uncertainty and it is unclear whether there will be an adjustment to local government finances or what the size of any such adjustment may be. No adjustments have been made to this forecast but the situation will be under constant review during the budget setting process.

The 2016/17 change in the Authority's core spending power was a reduction of 1.9% compared to an average of 2.3% for England and 1.7% for the whole of the Fire Service. By 2019/20 the forecast core spending shows a total reduction of 2.8% compared to the national average of 0.4% and 2% for the whole Fire Service. The Authority therefore continues to bear a much higher brunt of the funding reductions despite already incurring significantly higher disproportionate cuts to funding since 2011/12.

The projections also included significant growth in local resources of the Authority of an increase in Council Tax of 17.1% over the 4 year period and a net 9.2% increase in its local share of business rates. Revenue Support Grant included within the SFA will reduce by 41.1% to £8.8m by 2019/20.

The table below has been replicated from the Local Government Finance Final Settlement issued in February 2016 which also set out projections up until 2019/20, with the proviso that the Business Rates Retention system may be introduced in 2020 (The MTFS assumed this means 2020/21 at this current time).

Tyne and Wear Fire and Rescue Authority Core Spending Power
Source: Final core spending power supporting information published by DCLG Feb 2016

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment (SFA) *	29.054	27.407	25.404	24.555	24.208
Council Tax, of which:	20.265	20.987	21.842	22.755	23.729
Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)	*20.265*	*20.987*	*21.842*	*22.755*	*23.729*
additional revenue from referendum principle for social care	*0*	*0*	*0*	*0*	*0*
Improved Better Care Fund	0	0	0	0	0
New Homes Bonus†	0	0	0	0	0
Core Spending Power	**49.319**	**48.394**	**47.246**	**47.310**	**47.937**

*2019-20 Settlement Funding Assessment has been modified to include a provisional tariff or top-up adjustment
†The New Homes Bonus is a pro-rata share of the assumed level of national control total for NHB using projected proportions of funding distributed to each authority for 2016/17. It is not therefore a forecast of the NHB likely to be received.

a) Review of Relative Need

A fundamental review of the relative needs of local authorities is being undertaken for implementation in 2020. The relative needs determines the baseline for the Settlement Funding Assessment, in other words it sets out how the pot of local government funding may be split. The baseline need is currently determined by the 2013/14 four block model, specific grants rolled into the Revenue Support Grant and subsequent funding reductions. This model was actually frozen at 2013/14 and is derived from a Central Allocation (on a per capita basis), Relative Need (a combination of relative need measures), Relative Resource (council tax collected) and Damping (to restrict gains or losses).

The fundamental review of the relative needs is being undertaken by the Technical Working Group that reports into the Business Rates Retention Steering Group. The review will tackle some fundamental questions about need and how to measure it. A review on this scale has not been undertaken for a decade. A call for evidence was issued by DCLG on 5th July 2016 with responses due by 26th September 2016.

It is likely that any gains or losses will be reflected through the Top up / Tariff adjustment. The Authority may gain or lose from this fundamental review but for the purposes of this forecast a neutral position has been assumed.

b) Revenue Support Grant (RSG)

The Final 2016/17 Local Government Settlement announced in February 2016 provided the opportunity for local authorities to apply for a multi-year settlement up to and including 2019/20. In essence the multi-year settlement only covers the Revenue Support Grant (RSG) and the rate of reduction during that period and it may be adjusted due to unforeseen circumstances. Clearly the result of the Brexit vote may be classed as an unforeseen event in relation to the multi-year settlement. The Chancellor has announced that he will await the Office for Budget Responsibility’s forecast on the economy in the autumn and following that there may be an Autumn Budget. It is not known whether this will lead to further austerity measures or if such measures are implemented whether they will be directed towards local authorities. This forecast assumes that the multi-year settlement is still on offer and will not change from that presented in February.

The Secretary of State for Communities and Local Government in his statement to Parliament on 8th February 2016 said “ultimately the Revenue Support Grant will disappear altogether, as we move towards 100% business rate retention.” It is recommended that the Authority applies for the multi-year settlement and on that basis the indicative RSG published by DCLG has been included in this forecast. Annex C sets out the Authority’s Efficiency Plan that underpins the application for the multi-year Settlement.

Forecasted RSG †	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21 onwards**
	£m	**£m**	**£m**	**£m**	**£m**
RSG allocations	13.2	10.9	9.6	8.8	0?

†Only 2017/18 to 2019/20 are covered by the multi-year settlement as 2016/17 has already been agreed and finalised by the govt but the figures are included for completeness

The profile of reductions suggests a steady fall in RSG which then fall sharply between 2019/20 and 2020/21. These reductions are reflected in the MTFS. Adjustments to needs assessments and Top up and Tariff grant arrangements will mean that the full impact of the potentially severe reduction in 2020/21 will be mitigated, but this position cannot be guaranteed and will be dependent on the outcomes of the Government’s Business Rates Retention Review and when it is actually implemented.

c) Business Rates Retention

The move to 100% business rates retention has been widely publicised and a Business Rates Retention Steering Group has been established with government representatives and interested parties. It is being hosted by DCLG and the Local Government Association (LGA). In addition to the fundamental review of relative need there are also reviews on the NNDR baseline and new burdens associated with the move to 100% rates retention. A further two working groups are tasked with looking at these issues. A consultation on 100% business rate retention was launched by DCLG on 5th July 2016 with responses due by 26th September 2016.

Systems Design Working Group – this group is looking at the mechanisms needed to set up and run 100% business rate retention. It will cover many issues such as redistribution mechanisms, managing appeal risks, safety net, split between tiers of local government, amongst other issues.

A key task for this working group is to make recommendations on establishing the new Business Rates baselines for all local authorities. The baseline will determine the target level of business rates to be achieved. Since the new Business Rate Retention system was introduced in 2013/14 the Authority has not received its local share of the target level of business rates from its constituent authorities. This is primarily due to a number of factors but the main reason is the adverse effect of successful appeals which has exacerbated the gap between the baseline and actual business rates income collected. The Business Rates baseline is important as it is deducted from the Settlement Funding Assessment to derive the Top Up Grant the Authority receives each year.

It is not explicit from the papers released so far but it appears that there will not be a levy system for above target growth in future. The levy system was introduced to avoid local authorities with potential for high growth making large surpluses and the levies were used to fund the safety net for local authorities that failed to reach a set percentage of their business rates. If the levy system is abolished this will remove the incentive for business rate pools as it is the levy payable that is redirected into the local business rate pool rather than back to central government.

The Business Rates baseline and mechanisms to be put in place for 100% business rate retention may lead to gains or losses for the Authority, independent of the review of relative needs. In this forecast it has had to be assumed that the Business Rates baseline will be neutral for the Authority.

Responsibilities Working Group – this working group is reviewing the potential new burdens that will come with 100% business rate retention. It has been assumed that the move to 100% business rates retention will be fiscally neutral for HM Treasury so the new burdens will be offset by any increased share of the business rates income.

One issue that has caused some concern is the extension of the Small Business Rate Relief for which local authorities are compensated for the loss of income by a Section 31 Grant funded by central government's share of the business rate 50% income share. The Secretary of State for Communities and Local Government has indicated that when 100% business rate retention is introduced the new burdens will be adjusted to allow for the current Section 31 grant compensation.

Alongside the business rates reform there will also be a business rates revaluation introduced in 2017 which is likely to bring fresh appeals. Nothing has been factored into this forecast for the effect of the 2017 business rates revaluation process which is very difficult to gauge the impact this will have on 2018/19 onwards.

A potential new power was suggested would become available to local government to cut the business rate multiplier going forward but such a power could quite easily become a race to the bottom and is also fraught with potential state aid implications. The fact the Fire Authority has very little influence over these areas is a real cause for concern as its income could be reduced by the policies of its constituent authorities or by government decisions. None of these implications have been reflected in the MTFS at this stage.

1.8 Local Influences

a) Business Rates

As explained above the landscape for business rates is changing which makes the forecasting of the business rate income very difficult for the Authority who is reliant on its constituent authorities of its area for its annual 2% local share of business rates set out in statute. For the purposes of this forecast any changes to the national system are assumed to be revenue neutral to the Authority.

The Authority has compared actual business rates received since 2013/14 compared to government baseline figures they use in calculating RSG and Top Up Grant allocations and has found that it has received £338k less than the baseline business rates assessed by the government. On this basis the Authority has revised the government's projections used in the 4 year settlement in order to reflect a more likely and prudent assessment of business rates likely to be received over the period 2017/178 to 2019/20. The MTFS therefore reflects net growth of 1% in each of the next 3 years (after 2016/17) and will update its growth assumptions annually in light of actual business rates received each preceding year (both growth and inflationary increases but offset by losses from appeals, etc.).

In 2016/17 the Authority is to receive £0.2m in Section 31 grants to compensate the Authority for the loss of business rates income as a result of Business Rates Reliefs included in the March 2016 budget.

b) Council Tax Levels

For 2016/17 to 2019/20 the limit on raising council tax remains at below 2% for the Fire service.

The Authority increased its precept for the first time in 5 years by 1.99% in 2016/17 and raised £20.9m in Council Tax for the year. The Precept level at Band D is now £76.11 and is one of the highest of the six metropolitan fire authorities.

Any future increase in Council Tax will be consulted on as part of the Budget process, but for planning purposes the MTFS has assumed an increase of 1.99% will be agreed in each of the next 3 years to 2019/20. If council tax is not increased by 1.99% each year then a further £1.3m will need to found in additional savings to those set out above and would mean the budget gap would increase to £3.154m.

No Council Tax freeze grant was offered as part of the 2016/17 Final Local Government Settlement, which a significant step change in central government policy by recognising and then passing on some of the funding cuts to the local residents in the form of higher Council Tax bills.

The Fire Authority is also reliant on its constituent authorities to notify it of the likely Council Tax Base growth it can expect each year. The government has assumed growth up to 2019/20 of 10.1% over the period. This is considered overly optimistic and based on past increases over the past 7 years growth of 1% is considered more appropriate. The 1% annual growth in the tax base and the 1.99% increase in the precept have been butyl into the income resources for the Authority in each year to 2019/20 as a result. This may prove to be a relatively cautious estimate and will be kept under review as the actual position develops.

There are various factors that impact upon the tax base in each of the Authority's constituent council areas but one of the most significant is that the number of new homes built are usually in the lower tax bands and thus generate less council tax income. This is common in the more deprived areas of the country such as the North East. The other main factor is the Council Tax Reduction Scheme (CTR) which provides help with Council Tax for people on low incomes.

As a result of more people being in employment the CTR awarded in the current year is reducing, which has the potential to impact negatively on the income collected.

This position gives each council the opportunity to either:

- change the current CTR scheme by increasing the protection granted to vulnerable groups or reducing the percentage of Council tax residents on low income are expected to pay; (which is a budget pressure on the council); or,
- increase the Council Tax base included in the Forecast and reduce the funding gap identified in each year of the Forecast (but this increases the risk of non payment from those on lower incomes caught by the changes and will have to pay more).

Because of these reasons it is considered prudent to lower the income expected from the precept in each year of the 4 year settlement. The estimated 2016/17 Council Tax income is already below that estimated by the government which supports the lower projections made in the MTFS at this stage. The position will be regularly monitored and adjusted accordingly within the MTFS.

1.9 Core Funding – Specific Grants

In addition to the funding announced in the Final Local Government Settlement details of the other revenue grants that will be paid to the Authority have been announced as follows:

	2016/17 £m
FireLink	0.212
New Dimensions (assumes £446k will be confirmed)	0.893
PFI	3.358
Total	**4.463**

PFI grant is the most significant revenue grant which remains constant each year until the Authority's PFI schemes end. As the PFI costs increase significantly over the life of the schemes due to the build-up of RPI contract inflation the Authority has created a smoothing reserve to help address the future years cost pressures and thereby neutralising this anticipated budget pressure in future years. Utilisation of this reserve will commence in 2017/18.

FireLink and New Dimensions Grant fund government specific fire related service areas mainly with regard to national resilience response requirements. The Authority will need to manage down its costs if these grants should ever reduce or cease altogether and has earmarked funds set aside for this purpose, should it occur.

The Authority is currently not in receipt of any European funding and does not receive any separate funding in respect of helping to fund the Authority's Capital Programme costs.

1.10 Reserves

At the start of year, the Authority has £32.7m of reserves in total, £3.9m of unallocated reserves (General Fund) of which £0.3m has been used immediately to support the 2016/17 Budget. This is seen as a temporary utilisation of reserves until the Authority achieves further IRMP savings it has identified and will achieve in later years. The Authority has an unallocated general fund balance of £3.881k (approximately 7.1% of the Authority's gross revenue budget). This is regarded as appropriate and prudent and as such is in line with suggested best practice whereby it meets the External Auditor's view that unallocated reserves should not be allowed to fall below the level determined prudent by the Authority's Section 151 Officer.

All other earmarked reserves totalling £28.8m are made up of Capital Reserves of £3.3m which are all earmarked to help fund the existing Capital Programme of the Authority and the remaining £25.5m relates to revenue reserves. As reported recently to Authority on 13th June 2016 these reserves are fully committed and set aside to meet the cost of future commitments. The utilisation and purpose of which will be subject to regular scrutiny.

Earmarked reserves are funds that are set aside to meet costs of specific purposes in future financial years. Such reserves ensure that the Authority can adopt and operate a more flexible approach to budget management and meet cost pressures of committed and known future service costs. The revenue reserves have been categorised into two areas, those that prevent an increase in revenue budgets in future years (£22.525m) for example the PFI Smoothing Reserve, Organisational Change Reserve etc.; and those that will help to support service delivery requirements (£2.959m) for example Contingency planning arrangements reserve and Community Safety Reserve.

This helps to further confirm that all reserves are not only fully earmarked for specific purposes but that the bulk of the reserves (almost £22m or 88%) are being held to mitigate against known future costs that the revenue budget would otherwise have to accommodate eg insurance, PFI, organisational change costs etc.

Reserves	**£000**	**At April 2016 £000**
General Fund Balance (unallocated)		**3,943**
Capital Reserves (earmarked)		**3,285**
Revenue Reserves (earmarked)		**25,484**
PFI Smoothing Reserve	7,163	
Insurance Reserve	1,097	
Early Retirement Reserve	23	
Development Reserve	5,768	
Budget Carry Forward Reserve	302	
Organisational Change Review Reserve	7,472	
Medium Term Planning Reserve	700	
Revenue Budget related		**22,525**
Contingency Planning Reserve	1,512	
Civil Emergency Reserve	200	
Carbon Management Plan Reserve	122	
New Dimensions Reserve	764	
Community Safety Reserve	244	
Command and Control Reserve	117	
Service Delivery related		**2,959**

The Authority has agreed to the temporary use of some of its reserves / balances to plug the projected financial gap of £1.8m until further permanent budget savings (from either its budget efficiency initiatives or through further IRMP actions) have been identified and achieved. This position is considered temporary and the duration of the use of reserves will be made as short as possible as reserves are in fact all earmarked for specific purposes.