

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Item No 5

MEETING: 12 SEPTEMBER 2016

**SUBJECT: MEDIUM TERM FINANCIAL PLANNING AND THE 4 YEAR
SETTLEMENT 2016/17 TO 2019/20**

**JOINT REPORT OF THE CHIEF FIRE OFFICER AND CHIEF EXECUTIVE, THE
CLERK TO THE AUTHORITY AND THE FINANCE OFFICER**

1. INTRODUCTION

- 1.1 In the medium term, the landscape of local government service provision could potentially change due to the implications from a series of recent government announcements, which include the Autumn Statement and Spending Review 2015, Local Government Finance Settlement 2016/17 and the Chancellor's Budget Statement in March 2016.
- 1.2 The Medium Term Financial Strategy (MTFS) sets out the financial envelope for the Authority to deliver the key priorities which are guided by the Authority's Community Risk Profile, statutory duties and responsibilities (National Framework) and by the Strategic Community Safety Plan and Integrated Risk Management Plan.
- 1.3 The result of the EU referendum has increased the uncertainty facing local government services and its finances, however the Government has indicated that there will not be an emergency budget but that there may need to be an adjustment to deal with issues following the referendum result. They have also confirmed that previously agreed government national budget targets to 2019/20 have been scrapped and will need to be reviewed. Any such adjustment through a budget review would likely be in the autumn.
- 1.4 The impact on local government finance is not known and this forecast has not taken into account any adjustments to the local government finance envelope as a result of the EU referendum result at this stage.
- 1.5 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

- 1.6 The MTFS shows a continuing reduction in the size of the Authority's financial envelope and confirms an immediate need to identify revenue savings of at least a further circa £1.8m in order to set a balanced Budget over the next 3 years (2017/18 to 2019/20). Appendix 1 Section 3 contains details of the key risks associated with the updated MTFS forecast.

The main risk is the possible deterioration of the national economy which could lead to further austerity measures being imposed upon local government and what impact this may then have on the 4 year settlement offered by the government.

The biggest uncertainties that could affect the FA post April 2020 are the state of the national economy and also in particular the current proposed reforms of the local government funding system, which is focussed on resource self-sufficiency.

- 1.7 The Authority has the opportunity to apply for a multi-year settlement which will provide a certain level of comfort on the rate of decline of the Revenue Support Grant (RSG). Annex C to Appendix 1 of this report forms the basis of the Efficiency Plan the Authority is required to prepare if it chooses to apply for the multi-year settlement, which it must do so by 14th October 2016.

2. MEDIUM TERM FINANCIAL STRATEGY

- 2.1 The MTFS forms part of the Authority's planning and performance framework, and provides the context for the more detailed budgeting process.
- 2.2 The MTFS is refreshed regularly within each year to give a rolling three year assessment of the fiscal environment. The attached MTFS is the latest iteration as at the end of August 2016, which will help inform the Budget Planning Framework required from 2017/18 onwards.
- 2.3 The MTFS (Appendix 1) comprises three sections

Purpose, priorities and principles
Medium Term Financial Forecast and Gap Analysis
Risks associated with the Forecast

Followed by a series of annexes

Annex A – Current Cost and Resource Structure and savings delivered
Annex B – Expenditure and Resource Forecast Assumptions
Annex C – Efficiency Plan (required in support of the multi-year settlement)
Annex D – Home Office Funding and Budget Assumptions Template

- 2.4 The MTFS is typically affected by decisions made by both the Authority and by the Government's national policy changes (the next main communication is expected in the Autumn Statement towards the end of November) which could have material financial implications and therefore have a significant impact on the MTFS. The MTFS therefore will be updated as appropriate in light of any significant changes that the Authority is made aware of.
- 2.5 The MTFS is a financial and resource appraisal planning tool and more detail has been provided in Annex B that shows the planning assumptions used in drawing up the updated MTFS set out in Appendix 1.

3. RISK MANAGEMENT AND GOVERNANCE ISSUES

- 3.1 The principal risks arising from the strategic assessment emerge from:
- the sensitivity of financial estimates to actions beyond the immediate control of the Authority, in particular Government decisions on local authority financial regimes and spending levels. This is particularly significant for this forecast given the National reforms currently being considered to the local government funding system
 - the capability of the Authority to influence Council Tax and Business Rate levels (recognising the latter is beyond the control of the Fire Authority).
 - the impact on the economy and any resulting adjustment to the local government financial envelope resulting from the EU referendum vote to leave the European Union.

4. FOUR YEAR SETTLEMENT

- 4.1 In December 2015, the Secretary of State first announced an option for local authorities to access four year financial settlements. This was intended to offer more financial certainty in order to encourage efficiency savings.

This “guaranteed” minimum grant funding will be available for each year of the 4-year spending review period, and will include:

- Revenue Support Grant
- Transitional funding (for the first 2 years)
- Rural Services Delivery Grant

but excludes other elements of Core Spending Power, namely Actual amounts of Business Rates and impact of the 2017 revaluation in 2018/19, Top ups and Tariffs, and other grant funding notably New Homes Bonus and enhanced Better Care funding both of which do not benefit the Authority.

However, the full implications of accepting or rejecting the offer, as well as the contents of the plan, remain uncertain. The Secretary of State for DCLG has said: “I do not intend to provide further guidance on what efficiency plans should contain – they should be... locally driven”. The Home Office have however prepared a template for Fire Authorities to use in formulating their Efficiency Plans which can be found in Annex D.

- 4.2 There is no obligation on authorities to accept, but acceptance by 5pm on 14th October 2016 is likely to counterbalance some of the volatility associated with the phasing and timing of future funding cuts.
- 4.3 Though settlements are “guaranteed” by the Secretary of State, this will only be true if no significant, unforeseen financial changes occur for central or local government.

The Secretary of State has also said that he “cannot guarantee future levels of funding for those who prefer not to have a four year settlement”.

- 4.4 Specific Home Office guidance received also set out some of the details expected in the Efficiency Plan (which are consistent with previous DCLG guidance), the Home Office specifies:

Conditions of the multi-year settlement

The Home Office will offer any Fire and Rescue Authority a four-year funding settlement to 2019-20, in return for a robust, transparent and locally owned efficiency plan.

Each efficiency plan should:

- be published and easily accessible to the public on the fire and rescue authority’s website, clearly stating what it contains;
- include the full 4 year period to 2019-20, and be open and transparent about the benefits the plan will bring to both the fire and rescue authority and the local community;
- demonstrate the level of cashable and non-cashable savings you expect to achieve through the Spending Review period, the timetable for delivery, and key risks and mitigation strategies;
- include the approach to increasing collaboration, including with the police and local public sector partners and in relation to procurement;
- demonstrate how more flexible working practices will be achieved, including more effective utilisation of retained firefighters;
- include a commitment to the publication of transparent performance information;

- include a clear strategy for the use of reserves; and
- include a commitment to publishing annual reports on the progress of the efficiency plan alongside the fire and rescue authority's statutory assurance statement, enabling local people to scrutinise progress.

Efficiency plans do not need to be a separate document. They can be combined with Medium Term Financial Strategies or the strategy set out in the guidance (<https://www.gov.uk/government/publications/guidance-on-flexible-use-of-capital-receipts>) on how you intend to make the most of capital receipt flexibilities if appropriate.

The Home Office has provided a Funding and Budget Assumptions Template that must be completed if the 4 year settlement application by the Authority is to be successful. This is intended to provide high level indicative figures of how certainty afforded by the 4 year settlement will allow a forecast balanced net position over the 4 year term. The Home Office advise that the completed template should reflect and refer back to the figures included in the Authority's existing financial planning documents, (eg MTFS, Capital plans and Efficiency plans). Annex D provides members with a copy of the completed Template that will accompany the Authority's application, should members agree to the acceptance of the 4 year settlement.

The Government is making a clear commitment to provide minimum allocations for each year of the Spending Review period, should authorities choose to accept this offer, and they also reserve the right to publish all efficiency plans.

5. FOUR YEAR SETTLEMENT - OPTIONS

- 5.1 There are two options to consider by members, whether the Authority wishes to apply for the multi-year settlement or whether to reject the offer. In simple terms the multi-year offer will fix the Revenue Support Grant (RSG) up to and including 2019/20. Annex B section 1.7b) sets out the RSG on offer over the 4 year term but in summary is as follows:

Forecasted RSG from multi year settlement	2017/18	2018/19	2019/20
	£m	£m	£m
RSG included in the forecast	10.9	9.6	8.8

The multi-year settlement guarantee is subject to unforeseen circumstances and the EU referendum vote to leave the EU may be classed as such an event. However, it is too early to say whether any Autumn Budget will affect the multi-year offer. The other unknown variable is whether the government implement the review of the local government funding system in 2019/20 or if this will be put in place in 2020/21 instead.

- 5.2 Interest in accepting the multi-year offer will only be considered by the government if a link to a published Efficiency Plan is received by 5pm Friday 14th October 2016.

Those Authorities that choose not to accept the offer, or do not qualify as a result of their submitted Efficiency Plan being considered unsuitable, will then be subject to the existing yearly process for determining the local government finance settlement.

Allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit. At present we do not expect any further multi-year settlements to be offered over the course of this parliament.

- 5.3 Option 1 – Accept the multi-year deal. This option will provide more certainty as to the rate at which RSG will change and the Authority can then plan accordingly. The MTFS assumes that RSG will fall to zero by April 2020 in line with Government announcements.

Option 2 – Reject the multi-year deal and be subject to the annual settlement announcement.

- 5.4 Despite the significant savings already achieved by the Authority (and those in progress), there continues to be a budget gap as indicated by this MTFS, an element of certainty over the next three years on a funding stream will help in planning to address this gap. It is considered extremely unlikely that by locking into the RSG there would be a missed opportunity for an increase in RSG.
- 5.5 Having considered the two options it is recommended that the Authority applies for the multi-year settlement based on this MTFS and in particular the Efficiency Plan at Annex C. The position will however be reviewed up to 14th October 2016 to ensure that if any new information comes to light, (for example further austerity measures as a result of the EU referendum vote to leave the EU), this can be taken into account before submitting the application for the multi-year settlement.

6. RECOMMENDATIONS

- 6.1 The Authority is recommended to:
- 6.2 Consider the Medium Term Financial Strategy as an assessment of the Authority's financial outlook to 2019/20, and a framework for it to remain financially viable and deliver sustainable fire and rescue services in line with its priorities using the principles contained in the Efficiency Plan (Annex C).
- 6.3 Approve the updated and revised Medium Term Financial Strategy at Appendix 1 of this report.
- 6.4 Delegate to the Chief Fire Officer/Chief Executive in consultation with the Chair, Vice Chair and the Finance Officer, to apply to take up the multi-year Settlement supported by the Efficiency Plan, (based on their assessment of

whether this will be in the best interests of the Authority should any new and material information become available up to the deadline date of 14th October 2016 that may change the proposed take up of the offer).

- 6.5 Note the completed Funding and Budget Assumptions Template (Annex D) that the Home Office requires.

7. APPENDICES

- 7.1 Appendix 1- Medium Term Financial Strategy 2017/18 to 2019/20, including the annexes to the Strategy and specifically Annex C the proposed Efficiency Plan for the Authority and Annex D the Funding and Budget Assumptions Template required by the Home Office.

8. BACKGROUND DOCUMENTS

- 8.1 Local Government Finance Settlement 2016/2017;
Authority's Revenue Budget Report 15th February 2016;
Home Office Correspondence 1st August 2016 - Funding and Budget Assumptions Template (detailed guidance and spreadsheet)

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and Rescue Authority**
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