

Safest People, Safest Places

County Durham and Darlington
Fire and Rescue Authority

FINANCE COMMITTEE

30 JANUARY 2020

REVENUE AND CAPITAL BUDGETS 2020/21 AND MEDIUM-TERM FINANCIAL PLAN

REPORT OF TREASURER

Purpose of the Report

- The purpose of this report is to set out details of the provisional local government finance settlement for 2020/21 and to consider the revenue and capital budgets and medium-term financial plan (MTFP). Following consideration of the report members will be requested to agree a firm recommendation on the budget and level of council tax to the meeting of the Fire Authority on 25 February 2020.

Background

- The MTFP which was approved by the Authority in February 2019 set out the need to identify further savings totalling £1.531M over the MTFP period in order to balance the budget. This was based upon an assumed 2.9% rise in council tax in 2019/20 followed by an increase of 1.9% in 2020/21 and 2021/22, grant reductions in line with the four-year funding settlement for 2019/20 followed by a reduction of 5% in each of the following years and assumptions on the levels of pay awards and inflation.
- The Authority's approved MTFP is set out in table 1 below:

Table 1: Medium Term Financial Plan (as approved)

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Net Expenditure	28.409	28.851	29.520	30.223
Total Government Funding	9.024	8.573	8.144	7.737
Local Business Rates	1.409	1.409	1.409	1.409
Council Tax	17.865	18.409	18.969	19.546
Surplus on Collection Fund	0.111	-	-	-
Total Funding	28.409	28.391	28.522	28.692
Shortfall	0	-0.460	-0.998	-1.531

4. The current MTFP has been revised to incorporate the latest available information on government funding, council tax, pay awards and inflation. This report sets out a draft budget for 2020/21 together with a draft medium-term financial plan (MTFP) for the four-year period covering 2020/21 to 2023/24. There are a number of significant factors affecting the MTFP which are difficult to quantify including: the level of government funding beyond 2020/21, the level of future pay awards and the level of employer's pension contributions. The draft MTFP is therefore based on a number of assumptions which could have a significant impact on the Authority's overall financial position should the actual position turn out to be different.

Government Funding

5. In September 2019 the government announced the high-level outcomes of the Spending Round for 2019. It was announced that the settlement funding assessment for 2020/21 would increase by inflation which was welcome news for the fire and rescue sector as we were expecting the cuts to continue over the medium-term. However, the Spending Round was for a single year only (2020/21) which makes longer term planning particularly challenging. Normally spending reviews are for a minimum two-year period and in 2015, the last comprehensive spending review was for a four-year period. The government have committed to a full multi-year settlement later in 2020.
6. The provisional settlement funding assessment has been calculated by formula and is the government's assessment of the financial resources to be provided from a combination of revenue support grant, local business rates income and top-up grant. Table 1 below sets out the settlement figures for 2020/21 and the current year (2019/20).

Table 1: Provisional Settlement Funding Assessment

Description	2019/20 £m	2020/21 £m
Total Government Funding	9.024	9.171
Local Non-Domestic Rates	1.409	1.431
	10.433	10.602
Change in Funding	-0.262	+0.169
% Change in Funding	-2.45%	+1.62%

7. The Authority's funding from central government will increase by £0.169M (1.62%) in 2020/21. We are unlikely to have longer term certainty around funding until the end of 2020.

Council Tax Base

8. The council tax bases for Durham County Council and Darlington Borough Council have been provided for 2020/21 and are set out in table 2 below:

Table 2: Council Tax-base Information

	Durham County Council	Darlington Borough Council	Total
2019/20 Tax-base	139,738.80	32,873.70	172,612.50
2020/21 Tax-base	141,742.00	33,329.30	175,071.30
Change	2,003.20	455.60	2,458.80

9. The increase in the council tax base generates an additional £254,486 of council tax revenue based on the current Band D council tax of £103.50.

Local Council Tax Referendum

10. The Government has also announced details of the local council tax referendum limits for 2020/21.
11. Any fire authority that wishes to increase council tax in 2020/21 by more than 2%, as compared to the 2019/20 council tax level will be required to hold a referendum.

Medium Term Financial Plan Assumptions

12. There is a great deal of uncertainty surrounding the level of government funding (both settlement funding and funding for pensions) from 2021/22 onwards. For this reason, three MTFP scenarios have been modelled based on differing levels of government funding:
- Model 1 'Best Case Scenario' - based upon a 2% increase in grant funding from 2021/22 onwards and continuation of the £1.5m per annum pensions grant.
 - Model 2 'Mid Case Scenario' – based upon no further increase in grant funding from 2021/22 onwards and continuation of the £1.5m per annum pensions grant.
 - Model 3 'Worse Case Scenario' – based upon no further increase in grant funding from 2021/22 onwards and cessation of the £1.5m per annum pensions grant after 2020/21.
13. The MTFP models are based on other assumptions which are set out in table 3 below. At this stage the assumptions are believed to be prudent based upon the information that is available.

Table 3: MTFP Assumptions

	2020/21	2021/22	2022/23	2023/24
Income Assumptions				
Council Tax Base	+1.42%	+1.02%	+1.02%	+1.02%
Council Tax Level	+2.00%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	+2.00%	+2.00%	+2.00%	+2.00%
Inflation	+2.00%	+2.00%	+2.00%	+2.00%

14. The Authority has been notified of a collection fund surplus of £48,583 (the excess council tax and business rates collected over that which was budgeted to collect) which will be received in 2020/21. No surplus or deficit has been incorporated into the MTFP models for future years.

Budget Pressures

15. The following budget pressures have been identified some of which have been incorporated into the revised MTFP:

Pay Awards

16. The MTFP includes an allowance for pay increases of 2% in each year. Each additional 1% increase in firefighters pay costs approximately £170,000 and for the whole workforce costs in the region of £195,000. The Fire Brigades Union (FBU) are still in discussion with the national employers regarding broadening the role of firefighters in return for a significant increase in pay. Whilst the sector has made it clear that any increase in firefighter's pay above 2% would need to come with assurances of additional funding from government any unfunded pay increase above 2% would have a significant impact on the MTFP.

Firefighters Pension Scheme (FPS)

17. Following the last valuation of the Firefighters' Pension Scheme there was an average increase of 12.6% in the employer's contribution rate which resulted in an increase of £1.5M in the overall cost. The government have stated that grant funding will be made available towards the additional cost in 2020/21 and the position from 2021/22 onwards will be addressed as part of the forthcoming spending review.

BREXIT

18. The UK is now in a transitional period until December 2020 by which time it is anticipated that a trade deal can be reached with the European Union. There is however a risk of a longer-term impact from an economic and procurement perspective which is unknown at this point. By way of example, the purchase cost of items such as vehicles could increase and there is the potential for a rise in demand should poverty increase in the service area.

Medium Term Financial Plan Models

19. The MTFP models incorporate 2020/21 and future year's expenditure and income estimates. The estimates for 2021/22 onwards are less robust as they are based on assumptions therefore there is a risk that the actual position could turn out to be different.
20. All 3 models below are based on the assumptions outlined in Table 3 and include a 1.62% increase in settlement funding in 2020/21 as notified in the Provisional Settlement.

Table 4: Medium Term Financial Plan – Model 1 ‘Best Case Scenario’

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Net Expenditure	29.134	29.947	30.715	31.510
Total Government Funding	9.171	9.354	9.541	9.732
Local Non-Domestic Rates	1.432	1.432	1.432	1.432
Council Tax	18.482	19.045	19.624	20.221
Surplus on Collection Fund	0.049	0	0	0
Total Funding	29.134	29.831	30.597	31.385
Surplus/ (Shortfall)	0	(0.116)	(0.118)	(0.125)

The MTFP in Table 4 above currently shows a shortfall in funding of £0.116M in 2021/22 rising to £0.125M in 2023/24

Table 5: Medium Term Financial Plan – Model 2 ‘Mid Case Scenario’

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Net Expenditure	29.134	29.947	30.715	31.510
Total Government Funding	9.171	9.171	9.171	9.171
Local Non-Domestic Rates	1.432	1.432	1.432	1.432
Council Tax	18.482	19.045	19.624	20.221
Surplus on Collection Fund	0.049	0	0	0
Total Funding	29.134	29.648	30.227	30.824
Surplus/ (Shortfall)	0	(0.299)	(0.488)	(0.686)

The MTFP in Table 5 above currently shows a shortfall in funding of £0.299M in 2021/22 rising to £0.686M in 2023/24.

Table 6: Medium Term Financial Plan – Model 3 ‘Worse Case Scenario’

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Net Expenditure	29.134	31.507	32.275	33.071
Total Government Funding	9.171	9.171	9.171	9.171
Local Non-Domestic Rates	1.432	1.432	1.432	1.432
Council Tax	18.482	19.045	19.624	20.221
Surplus on Collection Fund	0.049			
Total Funding	29.134	29.648	30.227	30.824
Surplus/ (Shortfall)	0	(1.859)	(2.048)	(2.247)

The MTFP in Table 6 above currently shows a shortfall in funding of £1.859M in 2021/22 rising to £2.247M in 2023/24.

Emergency Response Review

21. At the Fire Authority strategic planning day on 11 October 2019, members received an update on the Emergency Response Review which included proposals for achieving further efficiency savings in response to ongoing reductions in the Authority’s grant funding. The Authority is currently consulting with the public on some of these options via the IRMP consultation which closes on 06 March 2020. The savings options identified in the Emergency Response Review are set out in Table 7 below:

Table 7: Emergency Response Review Options

Option	Annual Saving
1. Move Durham’s second appliance to Spennymoor	£0.110M
2. Change DC+ to day crewing only at Seaham and Newton Aycliffe	£0.350M
3. Ride with a crew of 4 on all appliances	£0.740M
4. Change wholetime appliance to day crewing	£0.400M
5. Change wholetime appliance to day crewing	£0.400M
6. Removal of on call second appliances at stations 08,09 and 14	£0.180M
TOTAL	£2.180M

22. At this stage none of the above options have been incorporated into the budget for 2020/21 or any of the MTFP models set out above.

Proposed Council Tax Increase

23. The MTFP models all assume a council tax increase of 2% in 2020/21 followed by increases of 2% in each of the following years. This is the maximum increase

allowed without holding a referendum. Table 8 below sets out the effect of a 2% council tax increase in 2020/21 on each of the property bands:

Table 8: Effect of a 2% Increase in Council Tax

Council Tax Band	Proportion of 'Basic Amount'	2019/20 Council Tax	2% Increase (per annum)	2019/20 Council Tax	2% Increase (per week)
Band A	6/9	£69.00	£1.38	£70.38	2.7p
Band B	7/9	£80.50	£1.61	£82.11	3.1p
Band C	8/9	£92.00	£1.84	£93.84	3.5p
Band D	'basic amount'	£103.50	£2.07	£105.57	4.0p
Band E	11/9	£126.50	£2.53	£129.03	4.9p
Band F	13/9	£149.50	£2.99	£152.49	5.8p
Band G	15/9	£172.50	£3.45	£175.95	6.6p
Band H	18/9	£207.00	£4.14	£211.14	8.0p

24. A 2% increase in council tax will generate an additional £362,000 of council tax income in 2020/21
25. **Members are requested to give consideration to the level of council tax for 2020/21 with a view to making a firm recommendation to the meeting of the Fire Authority to be held on 25 February 2020.**

Capital Programme

26. The capital programme includes provision for major building works at Darlington fire station, Sedgfield fire station and the training centre together with minor building works, vehicle and equipment renewals and ICT replacement. The revenue costs associated with the capital programme have been incorporated into the MTFP.
27. The Authority's capital programme is summarised in table 9 below.

Table 9: Capital Programme 2020/21 – 2023/24

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Major Works	3.900	0	0	0
Minor Works	0.250	0.250	0.250	0.250
Vehicles	1.612	0.120	0.578	1.246
Equipment	0.306	0.169	0.050	0.308
ICT	0.155	0.100	0.100	0.100
Total Expenditure	6.223	0.639	0.978	1.904

28. The MTFP models set out above include the associated borrowing costs, use of reserves, revenue contributions and capital receipts to finance the capital programme.

Risks

29. There are a number of risks associated with the MTFP that need to be considered when setting the 2020/21 budget:

Local Business Rates Retention

30. The local business rates retention scheme introduces risks in relation to the Authority being exposed to fluctuations in business rates income in County Durham and Darlington. The Authority is also exposed to collection rate risk and if collection rates fall then there will be a direct impact on the Authority's available financial resources.

Local Council Tax Benefit Schemes

31. The introduction of local council tax benefit schemes by Durham County Council and Darlington Borough Council exposes the Authority to a further council tax collection rate risk.

Expenditure and Income Assumptions

32. A number of assumptions have been made in relation to government funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are considered to be reasonable at this stage, there is a risk that the actual position could turn out to be different.
33. Whilst the sector has made it clear that any increase in firefighter's pay above 2% would need to come with assurances of additional funding there is a risk that firefighters could secure an increase in pay which is unfunded. This would have a significant impact on the forecast deficit position.
34. The employer costs of pensions are extremely difficult to forecast with any certainty. The outcome of the valuation exercise for the Firefighters Pension Scheme has resulted in an increase of 12.6% in the average employer's contribution rate. The government have stated that grant funding will continue to be made available towards the additional cost in 2020/21 and the position from 2021/22 onwards will be addressed as part of the forthcoming spending review. There is a risk that the Authority does not receive sufficient funding through the spending review to meet the ongoing cost.
35. The above risks will be closely monitored and the Authority will be notified of any significant movement in the financial assumptions and projections that have been made within the MTFP.

Reserves

36. The National Framework document which sets out the priorities and objectives for fire and rescue authorities (FRA's) makes specific reference to reserves. The document requires FRA's to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's MTFP.
37. The information which FRA's are required to publish includes:
- how the level of the general reserve has been set;
 - justification for holding a general reserve larger than five percent of budget;
 - whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is so committed; and

- a summary of what activities or items will be funded by each earmarked reserve, and how they support the fire and rescue authority's strategy to deliver good quality services to the public.

38. The reserves held by the Authority are reviewed on an ongoing basis in accordance with the agreed reserves policy which states that the Authority will:

- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
- Aim to maintain a general reserve of 5% of the net expenditure currently £1.4M

39. The estimated reserves position at the end of 2019/20 and for the remainder of the MTFP period is set out in table 10 below:

Table 10: Estimated Reserves Position 2019/20 – 2023/24

Reserve	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
General Reserve	1.425	1.425	1.425	1.425	1.425
Modernisation Reserve	3.407	0.948			
Use of Reserve – Capital Financing	-2.459	-0.948			
Closing Balance	0.948	0	0	0	0
Other Earmarked Reserves	2.458	2.209	1.250	1.250	1.250
TOTAL RESERVES	4.831	3.634	2.675	2.675	2.675

Recommendations

40. Members of the Committee are recommended to:

- consider** the information in this report;
- consider** the level of council tax for the 2020/21 financial year;
- note** the risks that have been identified as part of the budget setting process and comment accordingly;
- agree** a firm recommendation on the 2020/21 budget and level of council tax to be made to the Combined Fire Authority meeting on the 25 February 2020.

