



Safest People, Safest Places

FINANCE COMMITTEE

29 October 2020

2021/22 Budget and Medium-Term Financial Plan

Report of Treasurer

Purpose of the Report

- 1 The purpose of this report is to advise members of the proposed timetable for the consideration and approval of the 2021/22 budget and Medium-Term Financial Plan (MTFP).

Background

- 2 In view of the uncertainty surrounding future government funding, three MTFP models were presented to the Authority for approval in February 2020:
 - Best Case – based upon a 2% increase in government funding from 21/22 onwards and continuation of the £1.56M pension grant
 - Mid Case – based on no further increase in government funding from 21/22 onwards and continuation of the £1.56M pension grant.
 - Worst Case - based on no further increase in government funding from 21/22 onwards and cessation of the £1.56M pension grant

All 3 Scenarios were based on:

- Inflation and Pay Awards of 2% per annum
 - Council Tax Increase of 2% per annum
 - Council Tax Base growth of 1% per annum
- 3 The financial position for each of the MTFP models is summarised in table 1 below:

Table 1: Medium Term Financial Plan Models – Financial Position (as approved)

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Best Case	0	-0.174	-0.176	-0.186
Mid Case	0	-0.357	-0.546	-0.747
Worst Case	0	-1.916	-2.106	-2.307

Government Funding

- 4 In September 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. At that time, the government were committed to a full multi-year settlement later in 2020.
- 5 Currently, the position regarding government funding beyond 2020/21 is unknown. There is now considerable uncertainty over whether or not the government will announce a multi-year settlement due to the impact of COVID-19 on the nation's finances. It is therefore highly likely that we will receive a further single year funding settlement for 2021/22 compounding the current uncertainty surrounding future funding.
- 6 The government is also in the process of undertaking a full review of how funding is allocated and redistributed between local authorities (The Fair Funding Review). However, it has been confirmed that the Fair Funding Review has been delayed due to COVID-19 and will no longer proceed as planned in 2021.

Council Tax

- 7 The impact of COVID-19 on council tax receipts is likely to be significant. Initial indications are that there could be a shortfall in council tax receipts in the region of £380,000 in 2020/21 together with a reduction in the budgeted council tax base for 2021/22 of around £300,000. Further information should be available from the constituent authorities when they set their council tax base in November.

Efficiency Savings

- 8 Further work has been undertaken to develop savings options through the Emergency Response Review to deal with a significant reduction in funding should the need arise. Some of the options involve changes to crewing arrangements which will impact on emergency response standards. These options were discussed with members together with alternative savings options at the Strategic Planning Day held on 07 October 2020.
- 9 A summary of the options discussed is set out in table2 below:

Table 2: Summary of Savings Options

	Option	Saving	Response Standards Impact
		£m	
1	Ride with a crew of 4 on all appliances	0.749	Least
2	SRU Unit Crewed	0.208	Least
3	Remove 1 x station TRV	0.208	Least
4	Phase 2 of the Service Restructure	0.130	None
5	Review of SLT and Middle Managers	0.445	None
6	Service Headquarters	0.200	None
7	2 x stations to day crewing	1.023	Greater
8	2 x stations 2 nd pump to day crewing	0.695	Greater
9	2 x stations 1 pump and 1 TRV	1.381	Greater
10	2 x stations to RDS only	1.398	Greatest
11	2 x stations removal of 2 nd pump	1.913	Greatest

- 10 Further work will be undertaken over the coming months to develop savings options in line with the views expressed by members and staff on the proposals.

Revenue Expenditure

- 11 The budget for 2020/21 was set at £29.173M. The process of constructing the “standstill” budget for 2021/22 has commenced which will provide a comparison with the total available resources.
- 12 Whilst the quantum of pay awards, inflation and pension costs in future years will be difficult to estimate accurately, the budget process will need to incorporate a realistic view on these elements.
- 13 The current MTFP includes an allowance for pay increases of 2% over the medium-term and also includes annual price inflation of 2% each year. Each additional 1% in firefighters pay costs £170,000 and for the whole workforce costs in the region of £195,000.
- 14 The financial impact of the revaluation of the Firefighters Pension Scheme (FPS) is £1.56M per year and the government provided grant funding in 2019/20 and 2020/21 to meet the additional cost. Government

funding for the FPS beyond 2020/21 will be addressed as part of the spending review which will follow later this year. If further government funding is not forthcoming beyond 2020/21, there will be a significant increase in the MTFP deficit position as illustrated in the worst-case scenario model set out in Table 1.

- 15 In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the FPS as part of the reforms of the schemes amounted to unlawful discrimination. The Government appealed this decision however, the appeal was unsuccessful and the Court required steps to be taken to compensate employees who were transferred to the new schemes. The remedy proposed by Government will result in all affected members transferring back to their original pension scheme. This has the potential to increase the employer contribution to the FPS by a further £450K per annum.
- 16 Any increase in the cost of pay, employer pensions contributions or the rate of inflation above the levels included in the current MTFP would further increase the deficit position set out in table 1.
- 17 In the knowledge that this is again a particularly challenging budget round, the revenue budget will be constructed using a zero-based approach with the emphasis on the identification of further savings during the process.

Capital Expenditure

- 18 The MTFP includes provision for major building works at Darlington fire station, Sedgefield fire station and the Training Centre. The capital programme also includes planned expenditure on the replacement of vehicles, equipment and ICT together with some provision for minor improvements to existing buildings. The revenue implications of the capital programme will need to be incorporated into the 2021/22 budget and the MTFP.

Consultation

- 19 Consultation on budget plans for 2021/22 will include a combination of:
 - Consultation via the Authority's website
 - IRMP Consultation
 - Area Action Partnerships / Parish Councils (Durham)
 - Town / Parish councils / forums (Darlington)
- 20 The Authority also has a statutory obligation to consult non-domestic ratepayers and dates are in the process of being finalised for this element of the consultation.

Next Steps

- 21 In order to give detailed consideration to the available options in preparation for the final budget decisions, it is proposed that the Finance Committee meets between now and January to:
 - Give further consideration to savings options

- Consider the settlement information
 - Consider outline revenue and capital budgets in accordance with the parameters set out in this report
- 22 It is envisaged that the Committee will recommend an outline revenue and capital budget for 2021/22 together with an associated Medium-Term Financial Plan. The Fire Authority will consider these recommendations at the meeting on the 19 February 2021.
- 23 A proposed budget timetable is attached at Appendix A for information. Some of the dates are still to be confirmed however, updates will be provided as the dates are finalised.

Recommendations

- 24 Members are **recommended to agree** that:
- The 2021/22 revenue budget is prepared at a standstill position, highlighting requirements for any inflationary contingencies and inescapable commitments.
 - The Finance Committee considers the budget matters as outlined in this report and makes appropriate recommendations to the meeting of the Fire Authority on 19 February 2021.