



Safest People, Safest Places

Finance Committee

03 February 2021

Revenue and Capital Budgets 2021/22 and Medium-Term Financial Plan

Report of Deputy Chief Executive

Purpose of Report

1. The purpose of this report is to set out details of the provisional local government finance settlement for 2021/22 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 19 February 2021.

Background

2. The MTFP which was approved by the Authority in February 2020 set out three MTFP models reflecting a best, mid and worst case scenario. The three models were based on varying levels of government funding and were calculated on the assumption that council tax will increase by 1.9% in each year, the council tax base will increase by 1% in each year and pay awards and inflation will increase by 2% each year. Based on these assumptions, the potential shortfall in funding over the period covered by the MTFP ranges from £0.176m (best case) to £2.307m (worst case).
3. The Authority's approved MTFP 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

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 2021/22 together with a draft medium-term financial plan (MTFP) for the four-year period covering 2021/22 to 2024/25. There are many significant factors affecting the MTFP which are difficult to quantify including: the ongoing financial impact of the COVID-19 pandemic, the level of government funding beyond 2021/22, the level of future pay awards and the level of employer’s pension contributions. The draft MTFP is therefore based on assumptions which could have a significant impact on the Authority’s overall financial position should the actual position turn out to be different.

Settlement Funding Assessment

5. Due to the financial impact of COVID-19 the government has once again issued a one-year provisional funding settlement for 2021/22, compounding the uncertainty surrounding future funding.
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 2 below sets out the settlement figures for 2021/22 and the current year (2020/21).

Table 2: Provisional Settlement Funding Assessment

Description	2020/21 £m	2021/22 £m
Total Government Funding	9.171	9,190
Local Non-Domestic Rates	1.503	1,503
	10.674	10,693
Change in Funding	+0.241	+0.019
% Change in Funding	-2.3%	+0.2%

- The Authority's funding from central government will increase by £0.019M (0.2%) in 2021/22. The position beyond 2021/22 remains very uncertain and future years of the government's spending forecasts do contain real term cuts compared to the original March 2020 budget figures. In view of this uncertainty the Authority will need to continue to prepare for further reductions in funding going forward. We are unlikely to have longer term certainty around funding until the end of 2021.

Council Tax Base

- The council tax bases for Durham County Council and Darlington Borough Council have been provided for 2021/22 and are set out in table 3 below:

Table 3: Council Tax-base Information

	Durham County Council	Darlington Borough Council	Total
2020/21 Tax-base	141,742.00	33,329.30	175,071.30
2021/22 Tax-base	141,623.20	33,479.60	175,102.80
Change	-118.80	+150.30	+31.50

- The increase in the council tax base generates an additional £3,323 of council tax revenue based on the current Band D council tax of £105.48. This is significantly less than the amount included in the current MTFP models which were based on a 1% increase in the tax base.
- To compensate local authorities for the reduction in the council tax base resulting from increased council tax support following the pandemic, the government announced £670M of new funding. Based on the provisional allocation of this funding, the authority is expected to receive a one-off grant of £0.519M in 2021/22.

Council Tax and Business Rates Collection Fund

- The impact of COVID-19 on council tax and business rates receipts in 2020/21 has been significant. The Spending Review 2020 confirmed that the government will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21.
- Under normal circumstances any deficit on the collection fund would need to be built into the budget for the following year however, the government have announced that the deficit for 2020/21 (after allowing for the 75% compensation) should be spread over the following 3 years 2021/22, 2022/23 and 2023/24.
- After allowing for the 75% government support, the Authority has a forecast deficit on the collection fund for 2020/21 of £0.356M.

Local Council Tax Referendum

- The Government has also announced details of the local council tax referendum limit for 2021/22.

15. As in previous years, any fire authority that wishes to increase council tax in 2021/22 by more than 2%, as compared to the 2020/21 council tax level will be required to hold a referendum.

Medium Term Financial Plan Assumptions

16. There is a great deal of uncertainty surrounding the level of government funding from 2022/23 onwards. For this reason, three MTFP scenarios have been modelled based on different levels of government funding:

- Model 1 'Best Case Scenario' - based upon a 2% increase in settlement funding from 2022/23 onwards.
- Model 2 'Mid Case Scenario' – based upon no further increase in settlement funding from 2022/23 onwards.
- Model 3 'Worst Case Scenario' – based upon a 5% reduction in settlement funding from 2022/23 onwards.

17. The MTFP models are based on other assumptions which are set out in table 4 below. At this stage the assumptions are believed to be prudent based upon the information that is available.

Table 4: MTFP Assumptions

	2021/22	2022/23	2023/24	2024/25
Income Assumptions				
Council Tax Base	0	+0.50%	+0.50%	+0.50%
Council Tax Level	+1.96%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	0	+2.00%	+2.00%	+2.00%
Inflation	+1.00%	+2.00%	+2.00%	+2.00%

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

Budget Pressures

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

Pay Awards

20. The Spending Review 2020 set out the government's plans to introduce a freeze on public sector pay in 2021/22 with the exception of employees earning below £24,000 who will receive a minimum £250 increase. The pay budget for 2021/22 has been compiled on basis. From 2022/23 onwards the MTFP includes a pay award of 2% per

annum. Each additional 1% increase in pay for the whole workforce costs in the region of £230,000. Any unfunded pay increase above the level included in the MTFP would therefore have a significant impact on the forecast deficit.

Firefighters Pension Scheme (FPS)

21. 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 made grant funding available towards the additional cost in 2020/21 and we have been informed that this funding will continue in 2021/22. From 2022/23 onwards we expect this funding to be mainstreamed into the settlement funding assessment although this has not been confirmed at this stage.

COVID-19

22. The Authority received government grant of £599,000 in 2020/21 to deal with the impact of COVID-19. The government have stated that looking to the future, they are optimistic about overcoming the spread of the virus and on that basis, their working assumption is that COVID-19 costs will start to decline significantly from Easter onwards. Whilst they have committed to keeping the situation under review, authorities have been told to plan on the basis of no further funding to meet COVID-19 costs in 2021-22. Should the Authority continue to incur expenditure related to COVID-19 it may be necessary to use reserves as no provision has been made in the MTFP for this additional cost.

Medium Term Financial Plan Models

23. The MTFP models incorporate 2021/22 and future year's expenditure and income estimates. The estimates for 2022/23 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.
24. All 3 models below are based on the assumptions outlined in Table 3 and include a 0.2% increase in settlement funding in 2021/22 as notified in the Provisional Settlement.

Table 5: Medium Term Financial Plan – Model 1 ‘Best Case Scenario’

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Net Expenditure	29.917	30.679	31.573	32.490
Total Government Funding	9.191	9.374	9.561	9.752
Local Non-Domestic Rates	1.503	1.503	1.503	1.503
Council Tax	18.832	19.290	19.775	20.271
Council Tax Support Grant	0.519	0	0	0
Deficit on Collection Fund	(0.128)	(0.114)	(0.114)	0
Total Funding	29.917	30.053	30.725	31.526
Surplus/ (Shortfall)	0	(0.626)	(0.848)	(0.964)

The MTFP in Table 5 above shows a shortfall in funding of £0.626M in 2022/23 rising to £0.964M in 2024/25

Table 6: Medium Term Financial Plan – Model 1 ‘Mid Case Scenario’

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Net Expenditure	29.917	30.679	31.573	32.490
Total Government Funding	9.191	9.191	9.191	9.191
Local Non-Domestic Rates	1.503	1.503	1.503	1.503
Council Tax	18.832	19.290	19.775	20.271
Council Tax Support Grant	0.519	0	0	0
Deficit on Collection Fund	(0.128)	(0.114)	(0.114)	0
Total Funding	29.917	29.870	30.355	30.965
Surplus/ (Shortfall)	0	(0.809)	(1.218)	(1.525)

The MTFP in Table 6 above shows a shortfall in funding of £0.809M in 2022/23 rising to £1.525M in 2024/25.

Table 7: Medium Term Financial Plan – Model 3 ‘Worst Case Scenario’

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Net Expenditure	29.917	30.679	31.573	32.490
Total Government Funding	9.191	8.731	8.295	7.880
Local Non-Domestic Rates	1.503	1.503	1.503	1.503
Council Tax	18.832	19.290	19.775	20.271
Council Tax Support Grant	0.519	0	0	0
Deficit on Collection Fund	(0.128)	(0.114)	(0.114)	0
Total Funding	29.917	29.410	29.459	29.654
Surplus/ (Shortfall)	0	(1.269)	(2.114)	(2.836)

The MTFP in Table 7 above shows a shortfall in funding of £1.269M in 2022/23 rising to £2.836M in 2024/25.

Savings Options

25. At the Fire Authority strategic planning day on 07 October 2020, members received an update on the available options that have been modelled to shape the Service’s Emergency Response provision in future years together with alternative options for savings. A summary of the savings options is set out in Table 8 below:

Table 8: 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

26. At this stage none of the above options have been incorporated into the budget for 2021/22 or any of the MTFP models set out above.

Proposed Council Tax Increase

27. The MTFP models all assume a council tax increase of 1.96% in 2021/22 followed by increases of 2% in each of the following years. This is the maximum increase allowed without holding a referendum. Table 9 below sets out the effect of a 1.96% council tax increase in 2021/22 on each of the property bands:

Table 9: Effect of a 2% Increase in Council Tax

Council Tax Band	Proportion of 'Basic Amount'	2020/21 Council Tax	1.96% Increase (per annum)	2021/22 Council Tax	1.96% Increase (per week)
Band A	6/9	£70.32	£1.38	£71.70	2.7p
Band B	7/9	£82.04	£1.61	£83.65	3.1p
Band C	8/9	£93.76	£1.84	£95.60	3.5p
Band D	'basic amount'	£105.48	£2.07	£107.55	4.0p
Band E	11/9	£128.92	£2.53	£131.45	4.9p
Band F	13/9	£152.36	£2.99	£155.35	5.8p
Band G	15/9	£175.80	£3.45	£179.25	6.6p
Band H	18/9	£210.96	£4.14	£215.10	8.0p

28. A 1.96% increase in council tax will generate an additional £362,000 of council tax income in 2021/22.

29. Members are requested to give consideration to the level of council tax for 2021/22 with a view to making a firm recommendation to the meeting of the Fire Authority to be held on 19 February 2021.

Capital Programme

30. The capital programme includes provision for major building works at Sedgfield fire station 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 models set out in this report.

31. The Authority's capital programme is summarised in table 10 below.

Table 10: Capital Programme 2020/21 – 2023/24

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Major Works	0.500	0	0	0
Minor Works	0.250	0.250	0.250	0.250
Vehicles	0.436	1.036	1.223	0.632
Equipment	0.513	0.109	0.438	0.737
ICT	0.240	0.150	0.150	0.150
Total Expenditure	1.939	1.545	2.061	1.769

Risks

32. There are a number of risks associated with the MTFP that need to be considered when setting the 2021/22 budget:

Local Business Rates Retention

33. 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

34. 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.

Covid-19

35. No further government funding has been announced to meet costs associated with COVID-19. Should the Authority continue to incur expenditure on COVID-19 it may be necessary to use reserves as no provision has been made in the MTFP for this additional cost.

Expenditure and Income Assumptions

36. 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.
37. The outcome of the valuation exercise for the Firefighters Pension Scheme 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 however there is a risk that the Authority does not receive sufficient funding from 2022/23 onwards if this funding is mainstreamed into the settlement.

38. 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

39. 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.

40. 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.

41. 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 £1.45M

42. The estimated reserves position at the end of 2020/21 and for the remainder of the MTFP period is set out in table 11 below:

Table 11: Estimated Reserves Position 2020/21 – 2024/25

Reserve	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
General Reserve	1.459	1.459	1.459	1.459	1.459
Earmarked Reserves	4.473	4.317	3.505	3.505	3.505
TOTAL RESERVES	5.932	5.776	4.964	4.964	4.964

Recommendations

43. Members are recommended to:

- (i) **consider** the information in this report
- (ii) **consider** the level of council tax for the 2021/22 financial year
- (iii) **note** the risks that have been identified as part of the budget setting process
- (iv) **agree** a firm recommendation on the 2021/22 budget and level of council tax to be made to the Combined Fire Authority meeting on the 19 February 2021.