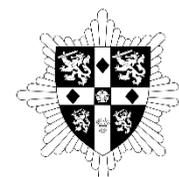


Safest People, Safest Places

County Durham and Darlington
Fire and Rescue Authority



Audit and Finance Committee

27 January 2022

Revenue and Capital Budgets 2022/23 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 2022/23 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 16 February 2022.

Background

2. The MTFP which was approved by the Authority in February 2021 set out three MTFP models reflecting a best, mid and worst-case scenario. The three models were based on differing levels of government funding and were calculated based on the on the assumptions set out in Table 1 below:

Table 1: Medium Term Financial Plan 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%

*Except for individuals earning below £24,000 who will receive £250

3. Based on the above assumptions, the potential shortfall in funding over the period covered by the MTFP ranges from £0.964m (best case) to £2.836m (worst case).
4. The Authority's approved MTFP is summarised in table 2 below:

Table 2: Medium Term Financial Plan Models – Financial Position (as approved)

	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m
Best Case	0	-0.626	-0.828	-0.964
Mid Case	0	-0.809	-1.218	-1.525
Worst Case	0	-1.269	-2.114	-2.836

5. 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 2022/23 together with a draft medium-term financial plan (MTFP) for the four-year period covering 2022/23 to 2025/26. 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 2022/23, the level of future pay awards, the level of inflation 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

6. The government announced the provisional Settlement Funding Assessment on 16 December 2021 which once again is a one-year funding settlement for 2022/23, compounding the uncertainty surrounding future funding.
7. Alongside the settlement the government announced a one-off 2022/23 Services Grant that will be distributed through the existing Settlement Funding Assessment.
8. 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 3 below sets out the settlement figures for 2022/23 and the current year (2021/22).

Table 3: Provisional Settlement Funding Assessment

Description	2021/22 £m	2022/23 £m
Government Funding	9.171	9,297
Local Non-Domestic Rates	1.503	1,431
Settlement Funding Assessment	10.674	10,728
Services Grant	0	491
Total	10,674	11,219
Change in Funding	+0.019	+0.545
% Change in Funding	+0.2%	+5.1%

9. The Authority's funding will increase by £0.545M (5.1%) in 2022/23. The position beyond 2022/23 remains very uncertain and 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 2022.

Council Tax Base

10. The council tax bases for Durham County Council and Darlington Borough Council have been provided for 2022/23 and are set out in table 4 below:

Table 4: Council Tax-base Information

	Durham County Council	Darlington Borough Council	Total
2021/22 Tax-base	141,623.20	33,479.60	175,102.80
2022/23 Tax-base	143,695.80	34,464.50	178,160.30
Change	+2072.60	+984.90	+3,057.50

11. The increase in the council tax base generates an additional £328,834 of council tax revenue based on the current Band D council tax of £107.55. This is more than the amount included in the current MTFP models which were based on a 1% increase in the tax base.

Council Tax and Business Rates Collection Funds

12. The impact of COVID-19 on council tax and business rates receipts in 2021/22 has again been significant. The Authority has been notified by Durham County Council of forecast deficits on the council tax collection and business rates collection funds for 2021/22. The Authority's estimated share of the 2021/22 deficits are £0.257m for council tax and £0.112m for business rates. Darlington Borough Council have declared a Nil position on council tax and business rates collection funds.
13. The estimated deficits on the collection funds in 2021/22 of £0.369m will need to be included in the budget requirement for 2022/23.

Local Council Tax Referendum

14. The Government has also announced details of the local council tax referendum limit for 2022/23.
15. With the exception of the 8 lowest precepting fire and rescue authorities (who have flexibility to increase council tax by up to £5), any fire authority that wishes to increase council tax in 2022/23 by more than 2%, as compared to the 2021/22 council tax level will be required to hold a referendum.

Budget Pressures

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

Pay Awards

17. In line with the government's policy on public sector pay, no allowance was made in the 2021/22 budget for pay awards. However, firefighters were awarded a 1.5% pay award from 01 July 2021 and corporate staff have been offered (although not accepted) a 1.75% pay award effective from 01 April 2021. The estimated cost of the 2021/22 pay awards in 2022/23 is £370,000. 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 £250,000. Any unfunded pay increase above the level included in the MTFP would therefore have a significant impact on the forecast deficit.

Inflation

18. The Authority has been notified of a significant increase in the cost of gas and electricity totalling £110,000 in 2022/23. For budget purposes all non-pay budgets have been frozen at 21/22 levels except for gas and electricity. Budget holders will be expected to contain spend within existing budgets by reducing demand where necessary. An allowance to cover exceptional inflationary pressures has been made within the contingencies budget which can be allocated to budget holders on an exceptional basis should the need arise.

Health and Social Care Levy

19. On 7 September 2021, the Government announced the creation of a new Health and Social Care levy which commences from 6 April 2022. For the 2022/23 tax year the levy will be implemented by a 1.25% increase in the rate of national insurance contributions (NICs) paid by both employers and employees. From April 2023, this will be replaced with a new tax - the "Health and Social Care Levy". For 2022/23 the Authority has received government funding to offset the rise in NIC's via the one-off Services Grant however at this stage it is not clear how this funding will be paid in future years.

Firefighters Pension Scheme (FPS)

20. 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 2021/22 and we have been informed that this funding will continue in 2022/23. We expect this funding to be mainstreamed into the settlement funding assessment at some point in the future.

COVID-19

21. The Authority received government grant of £599,000 in 2020/21 to deal with the impact of COVID-19 however no government funding was made available 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.

Efficiency Savings

22. The 2022/23 revenue budget has been constructed using a zero-based approach and all budget heads have been reviewed with an emphasis on the identification of efficiency savings. Where savings have been identified based on historic and predicted future spend the relevant amount has been removed from the 2022/23 budget.

Staff Vacancies

23. To allow for the future implementation of savings options and minimise the need for compulsory redundancies, a recruitment freeze has been in place since December 2021. The 2022/23 pay budget has been reduced to incorporate operational and corporate staff vacancies which will help to smooth the transition prior to the implementation of any changes.

Medium Term Financial Plan (MTFP)

24. The MTFP incorporates 2022/23 and future year's expenditure and income estimates. The estimates for 2023/24 onwards are less robust as they are based on assumptions therefore there is a significant risk that the actual position could turn out to be different.
25. The MTFP is based on assumptions which are set out in table 5 below. At this stage the assumptions are believed to be reasonable based upon the information that is available.

Table 5: MTFP Assumptions

	2022/23	2023/24	2024/25	2025/26
Income Assumptions				
Council Tax Base	+1.75%	+1.00%	+1.00%	+1.00%
Council Tax Level	+1.99%	+1.99%	+1.99%	+1.99%
Settlement Funding Assessment	+5.1%	+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%

26. The Authority has been notified of collection fund deficits (the reduction in council tax and business rates collected over that which was budgeted to collect) in relation to 2021/22 which have been included in the 2022/23 budget. No surplus or deficit has been incorporated into the MTFP models for future years.
27. The MTFP below is based on the assumptions outlined in Table 5 and include a 5.1% increase in government funding in 2022/23 as notified in the Provisional Settlement.

Table 6: Medium Term Financial Plan

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Net Expenditure	30.871	32.391	33.321	34.293
Contribution from Reserves	0.500	0	0	0
Revised Net Expenditure	30.371	32.391	33.321	34.283
Total Government Funding	9.297	9.482	9.673	9.866
Local Non-Domestic Rates	1.432	1.432	1.432	1.432
Council Tax	19.543	20.131	20.736	21.361
Services Grant	0.491	0.501	0.511	0.521
Deficit on Collection Fund	(0.392)	(0.123)	0	0
Total Funding	30.371	31.423	32.352	33.180
Surplus/ (Shortfall)	0	(0.968)	(0.969)	(1.113)

28. To arrive at a balanced budget position in 2022/23 it will be necessary to draw £0.500m from reserves. The use of reserves to balance the budget is not sustainable on an on-going basis. If there is no increase in the level of government funding or the council tax referendum limit going forward, alternative methods of service delivery will need to be considered and agreed to balance the budget from 2023/24 onwards.

Impact of Changes to Assumptions on the MTFP

29. Several assumptions have been made in relation to settlement 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.

30. Table 7 below sets out the potential impact of changes to the main assumptions on the MTFP position:

Table 7: Impact of Changes to Expenditure and Income Assumptions

Impact of Changes to Expenditure Assumptions	Annual Impact £m
1% change in level of pay award	£0.248
1% change in level of Inflation	£0.076
1% change in level of council tax	£0.191
1% change in level of settlement funding	£0.112

Balancing the Budget over the Medium Term

31. At the Fire Authority strategic planning day on 29 October 2021, 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 service delivery. A summary of the savings options is set out in Table 8 below.

Table 8: Summary of Options

	Option	Saving	Response Standards Impact
		£m	
1	Ride with a crew of 4 on all appliances	0.720	Least
2	SRU Unit Crewed	0.196	Least
3	Remove 1 x station TRV	0.196	Least
4	Phase 2 of the Service Restructure	0.078	None
5	Review of SLT and Middle Managers	0.328	None
6	Service Headquarters	0.200	None
7	2 x stations to day crewing	0.794	Greater
8	2 x stations 2 nd pump to day crewing	0.698	Greater
9	2 x stations 1 pump and 1 TRV	1.439	Greater
10	2 x stations to RDS only	1.293	Greatest
11	2 x stations removal of 2 nd pump	1.803	Greatest

32. At this stage none of the above options have been incorporated into the budget for 2022/23 or the MTFP.

Proposed Council Tax Increase

33. The MTFP is based on a council tax increase of 1.99% in 2022/23 and 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 1.99% council tax increase in 2022/23 on each of the property bands:

Table 9: Effect of a 1.99% Increase in Council Tax

Council Tax Band	Proportion of 'Basic Amount'	2021/22 Council Tax	1.99% Increase (per annum)	2022/23 Council Tax	1.99% Increase (per week)
Band A	6/9	£71.70	£1.42	£73.12	2.7p
Band B	7/9	£83.65	£1.66	£85.31	3.2p
Band C	8/9	£95.60	£1.90	£97.50	3.7p
Band D	'Basic Amount'	£107.55	£2.14	£109.69	4.1p
Band E	11/9	£131.45	£2.61	£134.06	5.0p
Band F	13/9	£155.35	£3.09	£158.44	5.9p
Band G	15/9	£179.25	£3.57	£182.82	6.9p
Band H	18/9	£215.10	£4.28	£219.38	8.2p

34. A 1.99% increase in council tax will generate an additional £381,000 of council tax income in 2022/23.

35. Members are requested to consider the level of council tax for 2022/23 with a view to making a firm recommendation to the meeting of the Fire Authority to be held on 16 February 2022.

Capital Programme

36. The capital programme includes provision for major building works at Wheatley Hill 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.

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

Table 10: Capital Programme 2021/22 – 2025/26

	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Major Works	0.750	0.700	0	0	0
Minor Works	0.150	0.300	0.250	0.250	0.250
Vehicles	0.596	1.147	0.956	1.023	1.683
Equipment	0.653	0.479	0.214	1.037	0.647
ICT	0.240	0.150	0.150	0.150	0.150
Total Expenditure	2.389	2.776	1.570	2.460	2.730

Risks

38. There are several risks associated with the MTFP that need to be considered when setting the 2022/23 budget:

Local Business Rates Retention

39. 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

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

Covid-19

41. 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

42. Assumptions have been made in relation to government funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are reasonable at this stage, there is a risk that the actual position could turn out to be different.
43. 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 2023/24 onwards if this funding is mainstreamed into the settlement.
44. 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

45. 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.
46. 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.
47. 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 £1.459M
48. The estimated reserves position at the end of 2021/22 and for the remainder of the MTFP period is set out in table 11 below:

Table 11: Estimated Reserves Position 2021/22 – 2025/26

Reserve	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
General Reserve	1.459	1.459	1.459	1.459	1.459
Earmarked Reserves	5.682	4.841	4.047	4.047	4.047

TOTAL RESERVES	7.141	6.300	5.506	5.506	5.506
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Recommendations

49. Members are recommended to:

- (i) **consider** the information in this report
- (ii) **consider** the level of council tax for the 2022/23 financial year
- (iii) **note** the risks that have been identified as part of the budget setting process
- (iv) **agree** a firm recommendation on the 2022/23 budget and level of council tax to be made to the Combined Fire Authority meeting on the 16 February 2022.