

County Durham and Darlington
Fire and Rescue Authority



Safest People, Safest Places

Audit and Finance Committee

26 January 2023

Revenue and Capital Budgets 2023/24 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 2023/24 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 level of council tax to the meeting of the Fire Authority on 15 February 2023.

Background

2. To set a balanced budget for the current year (2022/23) it was necessary to draw £0.500m from reserves, which is not sustainable on an on-going basis. At the budget setting meeting, members were informed that 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.
3. The MTFP which was approved by the Authority in February 2022 is set out in table 1 below:

Table 1: Medium Term Financial Plan (approved February 2022)

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Net Expenditure	30.702	32.350	33.280	34.252
Contribution from Reserves	0.500	0	0	0
Revised Net Expenditure	30.202	32.350	33.280	34.252
Total Government Funding	9.297	9.482	9.673	9.866
Local Non-Domestic Rates	1.391	1.391	1.391	1.391
Council Tax	19.542	20.131	20.736	21.361
Services Grant	0.491	0.501	0.511	0.521
Deficit on Collection Fund	(0.519)	(0.123)	0	0
Total Funding	30.202	31.382	32.311	33.139
Surplus/(Deficit)	0	(0.968)	(0.969)	(1.113)

4. The MTFP was based on several assumptions which are set out in Table 2 below:

Table 2: 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	+5.2%	+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%

5. Based on the above assumptions, the potential shortfall in funding over the period covered by the current MTFP is £1.113M.
6. 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 2023/24 together with a draft MTFP for the four-year period covering 2023/24 to 2026/27. There are many significant factors affecting the MTFP which are difficult to quantify including: the level of government funding beyond 2023/24, 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

7. The government announced the provisional Settlement Funding Assessment on 19 December 2022 which once again is a one-year funding settlement for 2023/24, compounding the uncertainty surrounding future funding.
8. The government also announced the continuation of the Services Grant that was introduced in 2022/23 however the quantum has been reduced to pay for other parts of the settlement.
9. 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 2023/24 and the current year (2022/23).

Table 3: Provisional Settlement Funding Assessment

Description	2022/23 £m	2023/24 £m
Government Funding	9.297	9.897
Local Non-Domestic Rates	1.391	1.464
Settlement Funding Assessment	10.688	11.631
Services Grant	491	277
Total	11.179	11.638
Change in Funding	+0.557	+0.459
% Change in Funding	+5.2%	+4.1%

10. The Authority's funding will increase by £0.459M (4.1%) in 2023/24. The position beyond 2023/24 remains very uncertain and in view of this uncertainty the Authority will need to continue to prepare for further reductions in funding going forward.

Council Tax Base

11. The council tax bases for Durham County Council and Darlington Borough Council have been provided for 2023/24 and are set out in table 4 below:

Table 4: Council Tax-base Information

	Durham County Council	Darlington Borough Council	Total
2022/23 Tax-base	143,695.80	34,464.50	178,160.30
2023/24 Tax-base	145,675.90	34,814.50	180,490.40
Change	1,980.10	350.00	2,330.10

12. The increase in the council tax base of 1.3% generates an additional £255,589 of council tax revenue based on the current Band D council tax of £109.69.

Council Tax and Business Rates Collection Funds

13. COVID-19 continued to impact on council tax and business rates receipts in 2022/23. The Authority has been notified by Durham County Council and Darlington Borough Council of forecast deficits on the council tax collection and business rates collection funds for 2022/23. The Authority's estimated share of the 2022/23 deficits is £165,000 for council tax and £47,000 for business rates however we are still awaiting confirmation of the business rates deficit figure for Darlington.
14. The estimated deficits on the collection funds in 2022/23 will need to be included in the budget requirement for 2023/24.

Local Council Tax Referendum

15. The Government has also announced details of the local council tax referendum principles for 2023/24.
16. Fire and rescue authorities will have flexibility to increase Band D council tax by up to £5. Any fire and rescue authority that wishes to increase Band D council tax in 2023/24 by more than £5, as compared to the 2022/23 council tax level will be required to hold a referendum.

Budget Pressures

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

Pay Awards

18. The current MTFP includes an allowance for pay increases of 2% each year however there is growing evidence that this assumption is no longer appropriate in view of current economic conditions. In the current year (2022/23) corporate staff have received a flat rate pay award of £1,925 on all pay points which equates to an average increase of 5%. A revised pay offer has also been made to firefighters of 5% across the board although this has not been accepted and the Fire Brigades Union are currently balloting firefighters on whether they are prepared to take industrial action to secure an improved pay offer. In view of this, the revised MTFP includes an allowance for pay awards of 5% in 2022/23, 5% in 2023/24, 3% in 2024/25 and 2% thereafter. 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

19. In addition to the increase in general inflation, there have been significant increases in the cost of gas, electricity, and fuel during 2022/23 and further increases are likely going forward. For 2022/23 budget purposes all non-pay budgets were frozen at 21/22 levels except for gas and electricity and budget holders were expected to contain spend within existing budgets by reducing demand where necessary. For 2023/24, the budgets for gas, electricity and fuel have been increased to reflect current prices and an allowance of 4% has been added to other non-pay budget headings. A further 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.

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. In previous years, the government have made grant funding available towards the additional cost and we have been informed that this funding will continue in 2023/24. We expect this funding to be mainstreamed into the settlement funding assessment at some point in the future.

Efficiency Savings

21. The 2023/24 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 2023/24 budget.

Staff Vacancies

22. To allow for the future implementation of savings options and minimise the need for compulsory redundancies, firefighter recruitment has been temporarily paused. The 2023/24 pay budget has however been compiled on the basis of a full establishment.

Medium Term Financial Plan 2023/24 to 2026/27

23. The MTFP incorporates 2023/24 and future year's expenditure and income estimates. We are still awaiting confirmation of some figures which are likely to change before the final version of the MTFP is presented to the Authority for approval. Any changes are expected to be marginal and will not impact on the proposed level of council tax for 2023/24.
24. The estimates for 2024/25 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

	2023/24	2024/25	2025/26	2026/27
Income Assumptions				
Council Tax Base	+1.30%	+0.90%	+0.90%	+0.90%
Band D Council Tax Level	+£5.00	+2.99%	+1.99%	+1.99%
Settlement Funding Assessment	+4.10%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	+5.00%	+3.00%	+2.00%	+2.00%
Inflation	+4.00%	+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 2022/23 which have been included in the 2023/24 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 4.1% increase in government funding in 2022/23 and a £5 (4.6%) increase in Band D council tax.

Table 6: Medium Term Financial Plan 2023/24 to 2026/27

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Net Expenditure	32.890	34.737	35.916	36.959
Contribution from Reserves	-0.765	0	0	0
Revised Net Expenditure	32.125	34.737	35.916	36.959
Total Government Funding	9.897	10.094	10.296	10.502
Local Non-Domestic Rates	1.465	1.465	1.465	1.465
Council Tax	20.698	21.514	22.143	22.791
Services Grant	0.277	0.282	0.288	0.294
Deficit on Collection Fund	(0.212)	0	0	0
Total Funding	32.125	33.355	34.192	35.052
Surplus/ (Shortfall)	0	(1.382)	(1.724)	(1.907)

28. To arrive at a balanced budget position in 2023/24 it will be necessary to draw £0.765M from reserves. The use of reserves to balance the budget is not sustainable on an on-going basis. It is essential that alternative methods of service delivery are considered and agreed to balance the budget over the period covered by the MTFP.

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 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	£0.250
1% change in level of Inflation	£0.075
1% change in level of council tax	£0.198
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 10 October 2022, 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 to Balance the Budget

Option Number	Option	Saving £m	Response Standards Impact
1	Service Headquarters	0.200	None
2	Phase 2 of the Service Structure	0.013	None
3	Review of SLT and Middle Managers	0.445	None
4	SRU Unit Crewed	0.208	Least
5	Remove 1 x station TRV	0.208	Least
6	Ride with a crew of 4 an all appliances	0.749	Least
7	2 x stations 1 pump and 1 TRV	1.381	Greater
8	2 x stations 2 nd pump to day crewing	0.695	Greater
9	2 x stations to day crewing	1.023	Greater
10	2 x stations removal of 2nd pump	1.913	Greatest
11	2 x stations to RDS only	1.398	Greatest

32. Options 1-3 in the table above are complete and the savings have been built into the 2023/24 budget and the MTFP. At this stage none of the other options have been incorporated into the budget for 2023/24 or the MTFP.

Proposed Council Tax Increase 2023/24

33. The MTFP is based on a Band D council tax increase of £5.00 (4.6%) in 2023/24, 2.99% in 2024/25 and 1.99% 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 £5 Band D council tax increase in 2023/24 on each of the property bands:

Table 9: Effect of a £5 Increase in Band D Council Tax

Council Tax Band	Proportion of 'Basic Amount'	2022/23 Council Tax	Increase (per annum)	2023/24 Council Tax	Increase (per week)
Band A	6/9	£73.12	£3.37	£76.46	6.4p
Band B	7/9	£85.31	£3.89	£89.20	7.5p
Band C	8/9	£97.50	£4.45	£101.95	8.6p
Band D	'Basic Amount'	£109.69	£5.00	£114.69	9.6p
Band E	11/9	£134.06	£6.12	£140.18	11.8p
Band F	13/9	£158.44	£7.22	£165.66	13.9p
Band G	15/9	£182.82	£8.33	£191.15	16.0p
Band H	18/9	£219.38	£10.00	£229.38	19.2p

34. A £5.00 increase in the basic amount (Band D) council tax will generate an additional £902,000 of council tax income in 2023/24.
35. Members are requested to consider the level of council tax for 2023/24 with a view to making a firm recommendation to the meeting of the Fire Authority to be held on 15 February 2023.

Capital Programme 2022/23 to 2026/27

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 2022/23 – 2026/27

	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
Major Works	0.450	0.431	-	-	-
Minor Works	0.300	0.250	0.250	0.250	0.250
Vehicles	0.701	1.993	1.525	1.749	0.980
Equipment	0.479	0.284	1.081	0.398	0.408
ICT	0.150	0.150	0.150	0.150	0.150
Total Expenditure	2.080	3.108	2.006	2.547	1.788

Risks

38. There are several risks associated with the MTFP that need to be considered when setting the 2023/24 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 2024/25 onwards if this funding is mainstreamed into the settlement.

Escalating Cost of Command and Control System

44. Indications from our command and control system supplier suggest that their future pricing model will increase from quarter 3 2022. This increase could be in the order of £0.5M per annum. The Service has a fixed price contract in place until December 2023 at which point the cost will increase. Currently the service is in negotiation with the supplier about future pricing and may explore alternative options however for budget purposes a price increase of £0.5M from December 2023 has been built into the MTFP.
45. 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

46. 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.
47. 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.
48. 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 £1.510M
49. The estimated reserves position at the end of 2022/23 and for the remainder of the MTFP period is set out in table 11 below:

Table 11: Estimated Reserves Position 2022/23 – 2026/27

Reserve	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
General Reserve	1.510	1.510	1.510	1.510	1.510
Earmarked Reserves	2.772	1.826	1.201	1.201	1.201
TOTAL RESERVES	4.282	3.333	2.711	2.711	2.711

Recommendations

50. Members are recommended to:
- (i) **consider** the information in this report
 - (ii) **consider** the level of council tax for the 2023/24 financial year
 - (iii) **note** the risks that have been identified as part of the budget setting process
 - (iv) **agree** a firm recommendation on the 2023/24 level of council tax to be made to the Combined Fire Authority meeting on the 15 February 2023.