



TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Item No 5

MEETING: 11th DECEMBER 2023

SUBJECT: BUDGET PLANNING FRAMEWORK 2024/2025

JOINT REPORT OF THE CHIEF FIRE OFFICER/CHIEF EXECUTIVE (THE CLERK TO THE AUTHORITY) AND THE FINANCE DIRECTOR

1 Purpose of Report

- 1.1 This report sets out the key high level considerations in drafting the Revenue Budget for 2024/2025 and the longer term financial planning considerations for the Authority, which includes:
- 1.2 Identifying the main factors influencing the development of the Authority's financial plans into the medium term and setting out specifically the Budget Planning Framework for 2024/2025;
- 1.3 Setting out the context and planning assumptions used for drafting the Medium Term Financial Strategy (MTFS) 2024/2025 to 2027/2028 which will be formally considered later in the budget cycle.

2 Current Medium Term Financial Strategy 2023/2024 to 2026/2027

- 2.1 The current Medium Term Financial Strategy 2023/2024 to 2026/2027 was approved by the Authority in February 2023 as part of the budget setting process. This is shown in the table below:

Tyne and Wear Fire and Rescue Authority



	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Base Budget	52,002.63	57,200.55	58,195.40	59,126.15
Net Cost Pressures	5,197.92	994.85	930.75	949.38
Net Expenditure	57,200.55	58,195.40	59,126.15	60,075.53
Resources:				
Government Funding				
Top Up Grant	12,162.24	12,405.48	12,653.59	12,906.67
Revenue Support Grant	10,202.87	10,406.92	10,615.06	10,827.36
Business Rates Share	3,414.57	3,414.57	3,414.57	3,414.57
Service Delivery Grant	628.72	0.00	0.00	0.00
SFA Adjustment	2,747.08	2,802.02	2,858.06	2,915.22
Total Government Funding	29,155.47	29,029.00	29,541.29	30,063.82
Other Resources				
Council Tax Income	27,505.15	28,052.51	28,610.75	29,180.11
Collection Fund - Council Tax (Deficit) / Surplus	385.34	0.00	0.00	0.00
Collection Fund - Business Rates (Deficit) / Surplus	154.58	0.00	0.00	0.00
Total Other Resources	28,045.08	28,052.51	28,610.75	29,180.11
Total Resources (Income)	57,200.55	57,081.51	58,152.04	59,243.93
Real Funding gap in year	0.00	1,113.89	974.11	831.60
Cumulative gap before use of reserves	0.00	1,113.89	2,088.00	2,919.60
Planned use of reserves	0.00	1,113.89	974.11	831.60
Total Resources	57,200.55	58,195.40	59,126.15	60,075.53



- 2.2 The Authority based the above MTFs on the one year Settlement provided by the Government for 2023/2024 which saw the grant funding level for 2023/2024 increase partly as a result of the continuation of the new service delivery grant of £0.629m. This grant has not been included in future years as it is unknown if this is permanent grant funding at the present time. The Settlement for 2024/2025 should confirm this position. The Authority was projecting to face a cumulative funding shortfall of £2.920m by the end of 2026/2027, which would improve if the service delivery grant funding is retained. The MTFs is continually reviewed and updated to reflect changing circumstances and latest known information, however due to there not being enough information to build a more meaningful resource projection over the medium term, an updated MTFs will be presented to Authority in February 2024 as part of the 2024/2025 budget setting report, when resources will be confirmed.

3 National Economic Context

- 3.1 The Monetary Policy Committee (MPC) published a report in November 2023 which stated the following key points:
- The speed of price rises (inflation) is slowing.
 - Higher interest rates are helping to bring inflation down.
 - Inflation has fallen from a peak of 11% in 2022 to 6.3% in September 2023.
 - Interest rates have been kept at 5.25% this month.

In summary they stated that they would not be complacent, as inflation was still too high and would be watching closely to see if further increases in interest rates were needed. They indicated that they will keep interest rates high enough for long enough to get inflation back to the 2% government target. They also expected inflation to fall further in this financial year to around 4.5%, and a continuation of falling inflation towards its 2% target next year.

4 Autumn Statement

- 4.1 The Chancellor delivered his Autumn Statement on 22 November 2023.
- 4.2 There was however very limited detail on Local Government funding in the Autumn Statement but the Chancellor stated the following:

The Autumn Statement reaffirms the commitments made at Autumn Statement 2022 to make available up to £14.1 billion for the NHS and adult social care and provide an additional £2 billion for schools in both 2023-24 and 2024-25. Total departmental spending will be £85 billion higher in real terms by 2028-29 than at the start of this Parliament (2019-20).

- 4.3 The actual grant funding level for the Fire Service will not be known until the Local Government Finance Settlement is published in December.



5 Local Income

5.1 Council Tax

The Localism Act provides for the staging of referendums to veto excessive council tax (precept) increases. This effectively places a limit on council tax increases and if authorities exceed the Government limits, the public will be able to vote to agree or veto any increase considered 'excessive'.

For 2023/2024 Fire Authorities were allowed additional flexibility to increase the Fire Precept by £5 on Band D (when previous increased limits had been capped at 1.99%).

The current MTFs approved in February 2023 assumed the £5 increase was applicable for 2023/24 only and that the lower limit of 1.99% would apply to future years.

The increase for 2024/25 will be consulted upon once the parameters are announced by government.

The Local Council Tax Support Scheme was introduced from April 2013. The Authority's Council Tax income could be affected by the individual schemes agreed by each of its district councils and therefore any proposed changes to the current schemes in operation will need to be assessed for any impact on Council Tax income for 2024/2025.

The impact of the cost of living crisis on Council Tax collection rates and Local Council Tax Support Scheme is likely to continue in to 2024/2025. The situation is being monitored in conjunction with the five Tyne and Wear Local Authorities to ensure realistic estimates are included in the Authority's MTFs resource projections based on the best available data provided by the Local Authorities.

The MTFs continues to assume little growth in the council tax base until more information is known.

5.2 Business Rates

Under the current Business Rates Retention Scheme, 50% is returned to Central Government, 49% is retained by the host Local Authority and 1% is allocated to the Fire Authority. The Fire Authority benefits from any growth in business rates but equally it shares the risk of any reduction in its business rates share.

Inherent within the scheme is growth arising from annual inflationary increases to Business Rates. In the Autumn Statement the government stated that it is committed to supporting businesses with business rates bills. Many larger retail businesses and large supermarkets benefitted from the 2023 business rates revaluation and the £13.6 billion package of support provided at Autumn Budget 2022, which together decreased total bills paid by the retail sector by an estimated 20% and large supermarkets by an estimated 15%. A third of properties in England have already been taken out of rates completely through Small Business Rates Relief, and the government has also frozen the tax rate for the last three years, extended the relief for Retail, Hospitality and Leisure (RHL) properties and removed downwards caps from Transitional Relief. The government will continue to make sure that



support is offered to small businesses, high street shops and independent cafes and pubs that need it the most. The small business multiplier will be frozen for another year, while the 75% RHL relief will be extended for 2024/2025. The standard multiplier will be updated in line with September's CPI.

These changes will take effect from 1 April 2024 in England. English Local Authorities will be fully compensated for the loss of income as a result of these government (business rates) measures and will receive new burdens funding for administrative and IT costs.

As with Council Tax, the impact of the current economic climate on Business Rates is likely to continue into 2024/2025 in terms of collectability and business survival. The position is being monitored in conjunction with the Tyne and Wear Local Authorities and may require adjustment once we have more details for this current year (any deficit impacts on 2023/2024) and for the estimated income for the coming financial year 2024/2025.

5.3 Reserves and Balances

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating its budget requirement each year.

In accordance with the approach adopted to date, all earmarked reserves will be revisited and fully reviewed as part of the budget process to ensure they still accord with the Authority's priorities and overall funding position. A revised outlook will form part of the Revenue Budget position reported to members in February 2024.

6 Other Funding Issues

6.1 Changes to Retained Business Rates

The Fair Funding Review and move to a 75% Business Rates retention model for the fire service has been delayed for a number of years now. One of the consequences of this delay is the accumulated Business Rates growth within the current system that should have been redistributed into a new baseline when Fair Funding and 75% Rates Retention was finally introduced. This funding currently resides with those authorities generating this growth rather than being redistributed as part of a baseline reset. It is expected that a redistribution would benefit the Authority, all other things being equal. The impact of any changes will be reported to members accordingly and will also be reflected in our resources position should that be the case.

In parallel, the Government was to review the needs based element of the funding formula and this change can be implemented without the need for primary legislation. Work has continued on a 'fairer funding' regime, although no detail or impacts assessment have ever been released as resources have been diverted away from this task. The Government has indicated that the funding formula for the fire service will now not be amended as part of any proposed wider amendments to local government funding formulae in this parliament but has committed to continue to work with the sector to develop a revised fairer and simpler funding formula.



The potential delays to these key components of local authority funding does create uncertainty and makes financial planning more difficult especially for the fire service in particular. In the absence of detailed information in respect of the impact of the fair funding review and the 75% retained business rates system changes, it is assumed for budget planning purposes that the Government will take action to ensure a 'status quo' impact on the funding position for each Authority through the top ups and tariff system, to ensure no detrimental impact on their overall funding position when this is finally implemented. This will of course be kept under review but appears to be less significant in the next few years for the fire service unless there is a change of government policy.

7 Spending Pressures and Commitments

In addition to planning for funding changes, the Authority must also plan for a range of spending pressures and commitments that are not funded or are partially funded by Government. It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2024/2025, noting that in a number of cases specific cost details cannot be finalised at this stage until we have more information and so will be subject to further review and refinement throughout the budget setting process.

7.1 Pay and Pensions

For the Fire Service, the green book April 2023 pay increase of £1,925 on all salary scale points up to scp 43 and 3.88% on those scales above has been agreed. The grey book two year pay offer for operational fire-fighting staff of 7% from July 2022 and 5% from July 2023 has also been accepted and implemented.

These increases, were both in excess of the amounts included in the 2023/2024 base budget for pay awards and have therefore added pressure to the revenue budget in year.

For 2024/2025 a provision of 3% has been factored into the budget planning framework for both grey and green book pay awards. The position will however be kept under review throughout the budget process and any pay award in excess of these estimated levels will become a spending pressure for the Authority to manage.

7.1.1 National Living Wage

The Government implemented the national living wage of £7.20 with effect from April 2016. This has increased annually and the Government announced that it will increase the NLW for individuals aged 21 and over by 9.8% to £11.44 an hour from 1 April 2024. This is a change from the previous age of 23 and over. This does not impact directly on any of the Authority's pay grades. There is the possibility of an upside risk to future pay awards to maintain pay differentials based on the higher NLW increases. This position will be monitored accordingly.



7.1.2 Pensions

Local Government Pension Scheme

The last Triennial Actuarial review of the Local Government Pension Scheme resulted in a revised rate of 17.8% from 1st April 2023. This was a minor reduction from the previous rate of 17.9%. There was also no deficiency payments due. This rate will apply for the three years 2023/24, 2024/25 and 2025/26 with a further review for 2026/27. No new cost pressures are anticipated as a result until 2026/27 at the earliest.

Firefighters Pension Scheme

All Fire Fighters are now in the 2015 scheme which has a current rate of 28.8%.

Changes in the employer contribution rates were due to be implemented from April 2023 for the majority of unfunded public service pension schemes. These valuations have already begun, and require intensive work across schemes, departments and the Government Actuary's Department (GAD) over several years. Due to interactions with wider pension policies, in particular the implementation of the McCloud remedy reforms, completion of the 2016 valuation process, and the review of the cost control mechanism, work would need to be undertaken in unprecedentedly short timetables to amend employer contribution rates for the April 2023 revaluation. We have been informed that changes to employer contribution rates resulting from the 2020 valuations will therefore be delayed from April 2023 to April 2024. At this point in time there has been no further update to the rate and when it will come into effect.

A specific Fire Pension Grant of almost £2.6m was allocated in 2023/2024. It still remained a specific grant in 2023/2024 despite the Government indicating this funding was to form part of the general grant settlement. At this stage it is assumed that it will remain a specific grant for 2024/2025 but this will not be confirmed until the Local Government Settlement in December.

Pensions Remedy

It is anticipated that there will be additional costs associated with Pensions Remedy, however it still remains unclear at this stage what these will be or where the additional cost burden will lie. This did not form part of the CSR21, and developments will continue to be monitored and evaluated as more clarity becomes available.

7.1.3 Apprenticeship Levy

The Apprenticeship Levy, introduced in April 2017 for large employers (over 250 employees) has been reflected in the base budget since 2017/2018. For Tyne and Wear Fire and Rescue Authority the cost in 2023/2024 continues to be in the region of £0.160m. The Authority has now put effective arrangements in place to fully utilise the government's levy funds made available each year to the Authority and the outcomes are now reflected in the 2023/2024 base budget, which has helped reduce the budgeted cost of training for our recruits and other staff.



7.2 Energy Prices

Energy and vehicle fuel prices increases have slowed down but they are still volatile. It is therefore proposed that prudent provision be included for continued annual increases in charges for gas, electricity and vehicle fuel over the medium term. However, it is also important to note that increases continue to be lower than anticipated because of the Authority's highly effective and proactive approach in respect of maintaining focus on reducing carbon emissions and implementing low voltage lighting on its property portfolio.

7.3 Capital Financing

No prudential borrowing has been included within the medium term financial position at this stage, but the position will be continuously reviewed to ensure that the future use of resources reflects best value and can be adapted to enable strategic priorities of the Authority to proceed in the future as required.

However the current position of using reserves to fund the Authority's Capital Programme in the longer term is not sustainable and borrowing will need to be considered as appropriate as the Authority assumes the Government will continue its policy of not providing capital funding to the fire service.

7.4 National Non Domestic Rates

In the Autumn Statement, the Chancellor froze the small business rates multiplier for 2024/2025, but this will need to be considered as part of the revenue implications for the Authority once the Local Government Finance Settlement is released to confirm that the Government has in fact fully reimbursed local authorities for the reduced income from this measure.

7.5 General inflation

CPI inflation was 4.7% in October 2023 reducing from 6.3% in September 2023. High inflation impacts on the costs of most of the goods and services the Authority procures. The impact of inflation will be assessed as part of the 2024/2025 budget setting process.

8 Proposed Budget Planning Framework for 2024/2025

It is proposed the budget planning framework as set out below is adopted:

- Budget planning to be based on the high level position outlined at section 4 and updated in light of the Local Government Finance Settlement in December 2023;
- Provision for spending commitments to be included at this stage on the basis set out at section 7 and kept under review;
- Budgets to be prepared on the basis that all spending pressures not specifically identified above as commitments will need to be accommodated within existing budgets wherever possible;



- Commitments against general balances and earmarked reserves to be reviewed and updated as necessary throughout the budget process;
- The uncertainty around the national economy which means there could be increased risk of a return to austerity measures and lower grant funding which in turn could adversely impact on the Revenue Budget will need to be monitored and considered throughout the budget setting process;
- Any 'Invest to Save' schemes to be fully costed, evaluated and adopted where possible.

9 Summary Resources, Pressures and Commitments Position

9.1 The Budget Planning Framework sets out the main financial considerations to be used when drawing up and finalizing the Revenue Budget for 2024/2025 which details changes in both likely resources and spending pressures over the medium term. However, at this stage there remains a number of significant uncertainties:

- The Local Government Finance Settlement for 2024/2025 to inform the Authority's grant allocations, which will not be available until mid-December and will not be finalised until end of January 2024;
- Specific Fire Revenue Grant announcements and their future but especially Fire Protection Uplift Grant, Building Risk Review, Grenfell Tower Infrastructure and Firelink Grants;
- The Government plans in relation to any impact of their Fair Funding and Business Rates Retention reviews impacting on settlements beyond 2024/2025;
- Funding implications of the Pensions Grant being included within Formula Grant in future years;
- The general economic position and especially the continued negative impact of the pandemic, War in Ukraine, EU Exit, the cost of living crisis and continuation of the high levels of inflation.
- Impact of continued higher inflation and pay awards than Government forecasts used to allocate grant funding;
- The District Council's Collection Fund projected outturn positions for both Council Tax and Business Rates for 2023/2024;
- Additional budget pressures which may arise throughout the remainder of the budget process;
- Impact of the anticipated significant increases in costs (both capital and revenue) from the implementation of a new Operating Communications system that will go live in November 2025; and,
- Any remedy to local authority (including Firefighter) pension schemes regarding McCloud / Sergeant that will impact on the Authority's finances.



10 Risk Management Implications

- 10.1 Risk implications have been considered in drafting the necessary guidance which is an essential early part of the Authority's robust revenue budget planning arrangements. The approach is reasonable and there are no real concerns or risks that have not been recognised or included within the report at this stage.

11 Financial Implications

- 11.1 The Budget Planning Framework provides the necessary guidance and information on the key financial aspects that will need to be considered.

12 Health and Safety Implications

- 12.1 There are no Health and Safety implications from this report.

13 Equality and Fairness Implications

- 13.1 There are no equality and fairness implications in respect of this report.

14 Recommendations

- 14.1 Members are recommended to:
- a. Agree the proposed Budget Planning Framework summarised at Section 8 of the report which will guide the preparation of the Revenue Budget for 2024/2025; and
 - b. Note that the MTFS 2024/2025 to 2027/2028 will be presented to Authority in February 2024 as part of the budget setting process.