



TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Item no: 4

MEETING: 13TH FEBRUARY 2023

**SUBJECT: PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT
2023/24**

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

1. PURPOSE OF THE REPORT

- 1.1 This report updates members on the implications of the Provisional Local Government Finance Settlement for 2023/24, which was announced by the government on 19th December 2022. More detail is included within Appendix 1 of this report and Appendix 6 sets out for members' information the agreed and submitted response to the consultation on the Provisional Finance Settlement for 2023/24. This response was agreed by members of the Emergency Committee because of the timings involved as this had to be submitted to government by 11:45am on 16th January 2023.
- 1.2 This position is unfortunately becoming a regular feature of recent Finance Settlement consultation papers which are being announced continually very late in December with only a short four week period of consultation.

**2. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2023/24 –
NATIONAL CONTEXT**

- 2.1 The information provided in the Settlement is derived from information and data provided by the Chancellor of the Exchequer in his 2022 Autumn Budget announced on 17th November 2022 and the policy statement issued ahead of the Settlement on 12th December 2022.
- 2.2 The summary below sets out all of the national financial information included in the published one-year Provisional Settlement for 2023/24 as follows:
- Core Spending Power increases nationally by an average of 9.2% for all of local government assuming that all local authorities levy the maximum Council Tax increases allowed in 2023/24. The LGA has commented that 'the 9.2% increase in local government core spending power will help councils deal with inflationary and other cost pressures next year. However, we will continue to make the case to government of the underlying and existing pressures that remain as councils still face significant challenges in setting budgets and trying to protect services'. They also stated that "these Government forecasts are based on the

assumption that councils will raise their council tax by the maximum permitted without a referendum. This leaves councils facing the tough choice about whether to increase council tax bills to bring in desperately needed funding at a time when they are acutely aware of the significant burden that could be placed on some households during a cost of living crisis.

- The national average Core Spending Power increase for all standalone Fire and Rescue Authorities is an increase of 7.4% however this rises to 9.4% if the increased council tax flexibility of a flat rate £5 Band D is fully adopted.
- Four specific grants totaling £239 million are being rolled into the Settlement for 2023/24. These do not impact on the fire service.
- Provides an additional £1 billion of Social Care Grant funding in 2023/24 and £1.7 billion more in 2024/25 which according to the government recognises both the Fair Cost of Care exercise and the current inflationary cost pressures facing local government despite their social care reforms being delayed by a further two years.
- Retains the Services Delivery Grant but reduced to £464m for 2023/24 (previously £822m) to reflect that the National insurance increases have been cancelled. This grant is allocated to all local authorities based on their Settlement Funding Assessments (SFA) and is to help fund vital front line services although this will continue to be excluded from any proposed baseline for transitional support as a result of any new funding system changes.
- New Homes Bonus Funding has been reduced in total from £554 million in 2022/23 to £291m. The government has reaffirmed its commitment to reforming New Homes Bonus before the next Settlement in 2024/25 in order to improve how housing growth across the country is incentivised, and has also confirmed all legacy payments have now been removed from this funding. The reduction of £263m is being recycled elsewhere within the Settlement to help the government fund the new minimum guarantee grant and to increase business rates allocations to local authorities in line with inflation.
- Removes the Lower Tier Services Grant funding of £111m which benefitted councils with responsibility for services such as homelessness, planning, recycling and refuse collection and leisure services and has recycled this money to ensure that no local authority will see less than a 3% increase in their Core spending Power in 2023/24 compared to 2022/23 (known as the minimum guarantee grant).
- Retains Rural Services Delivery Grant of £85m which is unchanged from last year and continues the additional support for rural areas which the government claims can face additional cost pressures.
- Continues with the Business Rates Retention pilots by providing 100% Business Rates Retention schemes in Cornwall, Greater Manchester, Liverpool, West Midlands and West of England and 67% Business

Rates Retention for London councils, to enable them to control more of the money they raise locally.

- Increases Revenue Support Grant in line with CPI inflation of 10.1%.
- Home Office grants will be announced in line with the announcement of the final Settlement expected in late January / early February.
- The government has clarified that the Review of Relative Needs and Resources and a reset of accumulated business growth will now not happen in the current Parliament. The LGA have commented that “when the review does happen, it needs to consider both the data and the formulas used to distribute funding and the government needs to ensure that overall government funding is sufficientto ensure that no council sees its funding reduce as a result”.

2.3 The following (Band D) Council Tax Referendum principles to be applied in 2023/24 were also announced:

- A core referendum principle of up to 3% will apply to Shire County Councils, Unitary Authorities, Metropolitan districts and London Boroughs.
- All Social Care authorities will in addition be able to set a 2% Adult Social Care precept without a referendum.
- Shire districts will have a referendum principle of up to 3% or a Band D increase of £5, whichever is the higher.
- Fire and Rescue Authorities will have a principle of up to £5 Band D increase.
- A maximum of a Band D increase of £15 for Police and Crime Commissioners and Police Authorities including the police element of the GLA and the West Yorkshire and Greater Manchester Mayors.
- The non-police element of the GLA will have a referendum principle of £23.55 at a Band D level.
- No referendum principles for Mayoral Combined Authorities except where the Mayor exercises police and crime commissioner functions.
- No referendum principles for Town and Parish Councils.

No decision has been made on whether these flexibilities will be applied to 2024/25.

In addition the government also announced an additional £100m of support for the most vulnerable households. The funding will according to the government, “allow councils to deliver additional support to 3.8m households already receiving council tax support, whilst also providing councils with resources and flexibility to determine the local approaches to support other vulnerable households in their area”.

3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2023/24 – IMPLICATIONS FOR THE AUTHORITY

- 3.1 The Provisional Settlement for 2023/24 for the Authority is detailed in Appendix 2 but in summary shows that the Authority's Core Spending Power (CSP) has increased by 7.32% in 2023/24 compared to 2022/23, which is still below the national average increase for all standalone Fire and Rescue Authorities (FRA's) of 9.4%. The CSP figures provided assumes that the Authority will increase Council Tax by the £5 Band D flat rate increase allowed in the Settlement (the maximum allowed before referendum is required) although the government also continue to assume growth in the tax base of 0.79% in 2023/24.

It is disappointing that the Authority still receives a lower finance settlement compared to most other FRA's despite having some of the greatest needs and demands on its services.

It is also important to note however that the increases indicated above are predicated on a number of underlying assumptions and issues that could have an impact on the real resource position of the Authority in 2023/24:

- Government continues to assume that the Authority can grow its Council Tax base by 0.79% in 2023/24 and will also increase its precept by at least 2.99%. It can also use the additional flexibility of a £5 Band D increase which is equivalent to a 5.72% increase in council tax (without any growth in the Tax base).
- Government have assumed that there is no Business Rates detriment to the income yield expected in 2023/24 despite the continued adverse trading conditions post Covid and the significant impact of the cost of living crisis on businesses. The assumption is that income will reduce to £3.965m compared to £4.088m in 2022/23 (when actual income in 2021/22 was only £2.270m).
- The government has fully funded both the freeze in business rates for 2023/24 and the concessions outlined in their Autumn Budget. September's CPI of 10.1% was used and this means that the annual inflation increases applied to business rates and all concessions will thus remain fully protected, which is welcomed. It must be pointed out however that the Safety Net Threshold set at £14.917m for the Authority has not been properly adjusted to take into account any reduction in business rates income from the adverse impact Covid has had on business rates collection in the region, which remains unrealistically high.

- Services Grant which according to the government was one-off funding for 2022/23 has been retained in 2023/24 although this has been reduced to remove the National Insurance increases element which the government reversed in November 2022. Whilst this funding of £0.604m is welcomed, it is not certain if this grant is to remain a permanent feature of future grant settlements.

- 3.2 The Draft Revenue Budget for 2023/24 is based on the Budget Planning Framework principles presented to members in December 2022 which now takes full account of the detail within the Provisional Local Government Finance Settlement for 2023/24 and also recognises some of the additional cost pressures resulting from the increased pay awards for 2022/23 and the implications of the cost of living crisis, highlighted in the report. The main conclusion from the Settlement, in overall terms, is that the impact of the increases to grant funding for 2023/24 is a better financial settlement than the position anticipated in the Budget Planning Framework 2023/2024, although additional cost pressures and the final resources position for the revenue budget at the time of writing this report have yet to be fully finalised for 2023/24, but will be on today's agenda.
- 3.3 The table below sets out the main changes to the resources position as compared to the existing MTFS forecast for 2023/24 at this stage which helps show the detail and also includes the main cost pressure variations identified to date. A more detailed and refined MTFS is provided to members elsewhere on today's agenda as the revenue estimate process will have then been finalised and the longer term financial implications are included.

	Current MTFS 2023/24 £m	Amended MTFS 2023/24 £m	Changes £m
Cost Pressures:			
Fuel and Utility cost increases	0.100	0.600	0.500
Full year Impact of 2022/23 Pay Awards	Nil	1.010	1.010
Total Additional Costs	0.100	1.610	1.510
Resources:			
Top Up Grant	11.686	12.162	0.476
Revenue Support Grant	9.449	10.203	0.754
Compensation Indexation Grant	1.621	2.747	1.126
Service Delivery Grant	Nil	0.604	0.604
*Council Tax (1.99% v £5 = 5.72%)	26.124	27.080	0.956
**Business Rates Share	3.843	3.843	Nil
Total Resources	52.723	56.639	3.916
Remaining Resource to meet additional cost pressures in the revenue budget for 2023/24 and to address the existing MTFS funding gap of £2.344m			2.406

*no assumed growth in the council tax base

**no change assumed at this stage until notifications are received from our 5 district councils, as government estimates are not considered as accurate.

- 3.4 The Authority's Core Spending Power (CSP) increase in 2023/24 has benefitted from the funding changes announced in the Provisional Settlement which has seen fairly substantial increases across all of its resources. The Settlement saw the unexpected continuation of part of the Services Grant in 2023/24 despite the government stating this was to be one-off funding in 2022/23. This has now been reinstated to a benefit of £0.604m. It is unclear if this is to be a permanent feature of future grant settlements however. The above table also assumes members will accept the £5 flat rate Band D increase which generates almost £1m additional funds in 2023/24. There is no guarantee this flexibility will be available in 2024/25. With the government also fully compensating for inflation at 10.1% (September 2022 CPI) for both RSG and Business Rates protections means the control totals and share for the Authority has increased accordingly between settlements for 2023/24. The additional funds are then compared to those figures already assumed in the MTFS.

This has meant that the Authority has received a positive boost to its resources when it needs them the most as cost pressures will be significant once all pay awards and general inflation implications have been fully costed.

It should also be noted that the detriment to Business Rates was not known for this report but totaled in excess of £1m last year. Any projected losses on business rates collection will reduce the resources position set out above but this position is only available at the end of January (later than when this report was drafted).

- 3.5 The service has seen a lower settlement than the average increase across all standalone FRA's and this gap widens if the Council Tax flat rate £5 flexibility is factored in. The Authority's increase of almost 6.0% (in 2023/24 compares to the national average increase for all local authorities of 9.2% and is lower than the 7.4% average increase for all standalone fire authorities) . This improved position however needs to be taken into the context of past Settlements as there is still funding inequities in the current system which still need to be addressed and it is disappointing that these will not be amended as part of the government's proposed changes to the funding system being consulted upon in the spring. More information on the Authority's Core Spending Power is detailed in Appendix 3. The net increase in resources shown in the Authority's CSP shows that, in summary, the Fire Authority continues to see its resources eroded by more than the national average by a further 1.9% but is almost 0.3% above the average increase for the fire service. This means that the Authority's funding position has marginally improved compared to other FRA's in 2022/23 but overall it has still incurred significant and disproportionate funding reductions from 2010/11 to 2022/23. The fact that this is a further one year Finance Settlement with one-off funding included also means that it will make budget planning more difficult compared to a clear and transparent three year settlement that would have been much more helpful to the Authority in planning its services.
- 3.6 In Appendix 4 and Appendix 5 there is more detail on the comparable CSP information amongst fire authorities for 2023/24, over the last 7 Year period and since austerity began in 2010/11 and also how they compare to the national position across England (where this information is made available). This information provides important context to members despite the improved funding position. It is already well known, despite the improved Settlement for 2023/24, that Tyne and Wear has suffered some of the worst funding reductions since 2010/11 using the government's own measure of resources and continues to see a lower settlement despite the 'improving' position. It is also important to recognise that this information relates to funding and completely ignores the significant cost pressures also faced by the Authority since austerity began which it has also had to manage within its existing Revenue Budget. Higher inflation and pay awards will still need to be managed as part of the budget planning process, despite the welcomed increase in resources in 2023/24.
- 3.7 The Authority assumes that the total funding of £115m for increased fire pension costs will be retained in 2023/24 along with other Home Office Grants which

have not been released as part of this Finance Settlement. The position will be kept under review as this information is provided by the government.

- 3.8 In summary a more favourable funding Settlement than expected (as the Chancellor was expected to cut public sector spending) which is welcomed and this will help to meet the known and also the undoubted additional cost pressures that are inevitable from higher inflation. Pay award inflation may still be an issue for 2023/24 as all settlements so far have exceeded the 2% indicative level set by previous government regimes. The Settlement also shows that the government have honoured their commitment to match increases in grant to inflation which has boosted funding to help meet the higher costs from the very high inflation levels now being experienced. The retention of the Services Grant in 2023/24 is very much welcomed and is something this Authority campaigned and lobbied hard for at the last settlement. Hopefully this will become a permanent feature of the funding settlement now. It is also hoped that the indicative funding for 2024/25 is provided earlier to help authorities to better plan their services and that some of the positive features in 2023/24 are retained.
- 3.9 The Authority's response to the Government's consultation on the Provisional Finance Settlement is set out in Appendix 6 for Members information.

4. REVIEW OF GENERAL BALANCES AND RESERVES

- 4.1 As in previous years, a full financial risk analysis of general balances and earmarked reserves will have been undertaken prior to the submission of the final budget proposals to the Authority in February. As part of this analysis, the level of uncommitted general balances will be reviewed in light of the latest Authority decisions and the final budget position.

5. RECOMMENDATIONS

- 5.1 The Authority is requested to note:
- a) the contents of the report which includes the updated Draft Revenue Budget resources position for 2023/24 taking into account the implications of the provisional local government finance settlement at this stage;
 - b) the comments made on the Authority's behalf to the government's consultation on the Provisional Grant Settlement for 2023/24;
 - c) the final Revenue Budget and Precept for 2023/24 is presented elsewhere on today's agenda together with an updated and more detailed MTFs as this report was written in early January.

Appendix 1

DRAFT REVENUE BUDGET 2023/24

1. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2023/24

- 1.1 On 19th December 2022, the Secretary for Levelling Up, Housing and Communities, Michael Gove MP, announced the 2023/24 Provisional Funding Settlement and launched a consultation on the proposed settlement ending on 16th January 2023.
- 1.2 The Provisional Settlement sets out the Government's Core Spending Power (which measures total available resources for all local authorities) for 2023/24 will see an overall increase nationally of 9.2% using this measure.
- 1.3 Under the Retained Business Rates funding arrangements for Local Government implemented from April 2013, 50% of the Business Rates collected will be retained by local authorities. There are a number of local authority's trialing both a 100% and 75% Business Rates retention models in preparation for the new proposed funding system which has been further delayed along with the planned business rates reset which will both now not be implemented in this Parliament according to the government.
- 1.4 The Government has retained the safety net threshold for each authority to limit the losses on Business Rates income collected in any one year. This has been increased from £14.379m to £14.917m for 2023/24 based on the Authority's local share funding baseline figure of £16.127m which was increased by CPI inflation in the Settlement. It is very unlikely however that activation of the Safety net will be called upon for most top up authorities in 2023/24 and the continual increases in the safety net adds additional risk to Authorities (who bear any Business Rates losses up to the threshold amount). For this Authority it means that business rates would have to fall by £1.210m before any government funding would be triggered.
- 1.5 The Localism Act provides for the provision of referendums to veto excessive council tax increases. This effectively places a limit on council tax increases and if authorities exceed Government limits then the public must be able to vote to agree or veto any considered 'excessive' increase.
In the Provisional Settlement the minister announced that the referendum threshold principles would be subject to an increase of no more than 3% for most local Authorities. For this Authority this means an increase of below 3% is allowed for 2023/2024, although the government made a late change to allow all Fire and Rescue Authorities to increase their Council Tax by a £5 flat rate increase to their Band D level. More flexibility is also being provided for District Councils whereby they can increase by 2% or a flat rate increase of £5 at Band

D whichever is the greater, and the Police and Crime Commissioners can increase by a flat rate increase of £15 at Band D (an increase of £5 on last year's limits). The supplementary increase to help councils pay for Social Care has also been amended to an additional 2% in 2023/24 (was 1% in 2022/23).

IMPACT ON TYNE AND WEAR FIRE AND RESCUE AUTHORITY

- 1.6 The Government's Core Spending Power for Tyne and Wear Fire and Rescue Authority will increase by £3.892 or 7.32% in 2023/24 to £56.975m compared to an adjusted £53.083m in 2022/23. This includes £5 council tax increase and the government's assumption of growth in the Council Tax Base.
- 1.7 The breakdown of the total Core Spending Power is shown in Appendix 2. This is the overall funding available to the Authority including Council Tax, Locally Retained Business Rates and other government funding. This may have to be reviewed once the final Local Government Settlement has been announced in late January or early February.

SETTLEMENT 2023/24

- 1.8 As set out in 1.6 above the Authority's indicative Core Spending Power in 2023/24 will increase by 7.32% to £56.975m assuming the flat rate Band D increase of £5 in council tax is approved by the Authority. This was a very late change and was not properly reflected in the published data in the Settlement.
- 1.9 The changes include:
 - The government unexpectedly retained the Service Grant for 2023/24 (although reduced to £464m nationally) which has been allocated based on all authorities SFA's. The Authority has received £0.604m from this unexpected change in government policy.
 - The government figures assume a Council Tax increase of 3.78% made up from the revised cap put in place last year which allows an increase for the fire service of below 3% (2.99%) and an assumption the Authority's Tax Base will grow by 0.79%. This is another reason the Authority's Core Spending Power for 2023/24 has improved although set out below are the other reasons for this improved overall funding position and it should be noted however that the Authority takes a much more prudent estimate of council tax income than that set out in the Settlement. If the Authority was to accept the additional flexibility of a £5 flat rate increase then this is equivalent to a 5.72% increase in funding worth an extra £0.956m in 2023/24.
 - The Settlement Funding Assessment (SFA) has been increased, by 5.99%, which is a cash increase of £1.521m in 2023/24. The figures however are thus significantly higher than those already forecast in the current Budget Planning Framework 2023/24 by £1.230m in total. This is

mainly because both Revenue Support Grant and top up grant were uplifted by inflation but Business Rates was frozen in line with the government's measures to freeze business rates again for 2023/24 because of the adverse impact of multiple adverse economic factors culminating in the current cost of living crisis on businesses.

- The Government continues however to allocate the Authority Compensation for the Under-indexing of Business Rates Income which provides funding to make up the gap between the capped business rates increase applied by the government (over a number of years now) in order to protect small businesses from the statutory inflationary increases. The amount has increased higher than expected in the 2023/24 Settlement mainly due to the fact that the government froze all business rates again for 2023/24 and inflation was running at 10.1% (significantly higher than expected) and has fully compensated local authorities through this grant mechanism for these changes instead. The amount for 2023/24 is £2.747m, an increase over last year of £1.158m to fund the gap, although the Authority was unaware of this scale increase in 2022/23 it had uplifted the previous capped income to £1.621m in its MTFS, so the real net benefit to the Revenue Budget for 2023/24 from this increase is an additional £1.126m worth of grant funding.

- The Government also is projecting Business Rates to reduce to £3.965m in 2023/24 compared to £4.088m in 2022/23 (which was totally unrealistic and the current assessment is also considered very optimistic) for the Authority despite the detrimental impact Covid, the war in the Ukraine, the EU exit and the cost of living crisis has had on businesses. This estimate was already considered optimistic based on past business rates received by the Authority and the fact every year the amount collected is under the estimates provided by each of the Authority's district councils, which tends to create a deficit position to that expected. This optimistic projection for Business Rates is another reason why the Core Spending Power for 2023/24 is higher than budgeted in the MTFS. The MTFS and budget for 2023/24 however includes lower more realistic figures for both Council Tax and Business Rates income growth based on local knowledge of what is achievable and may also need to be revised lower once more information is received from its district councils.

- The net impact of all of the above changes to the Authority's MTFS is additional funding of £3.916m.

- The Core Spending Power measure however importantly excludes spending pressures faced by the Authority over the next financial year. These continue to be refined and will be updated to show the final position for 2023/24 and beyond but are expected to be significant in the current economic climate.

SETTLEMENT FUNDING ASSESSMENT (SFA) FOR 2023/24

- 1.10 The Settlement Funding Assessment (SFA) comprises of three elements as indicated below:

Retained Business Rates - reliant on a 2% share of each district council's local share;

Revenue Support Grant - determined by central government and the funding reductions/changes are routed through this allocation each year;

Top Up Grant - fixed, until the next planned reset in the next Parliament.

- 1.11 The SFA total of £26.330m is, in summary, made up of:

Retained Business Rates (per Govt)	£3.965m
Revenue Support Grant	£10.203m
Top Up Grant	£12.162m

RETAINED BUSINESS RATES

- 1.12 According to the government's funding assessment, the forecast income from Business Rates for 2023/24 for the Fire Authority is £3.965m which is a slightly lower projection than that used by the government in 2022/23. This represents the amount of business rates the Authority can expect, according to the government, in total from the five constituent councils in Tyne and Wear. Any variation to this figure has to be met by the Authority if it is short, but it will gain from any additional income above the level assessed by the government. The risk, however, is that with business rates appeals, both backdated and current year, government business rate projections may be considered optimistic especially in light of the detrimental impact of the coronavirus and other economic factors affecting all businesses in the last year. The Authority will not be notified of its business rates income until each district council has determined its total business rates for 2023/24 which it must do by no later than 31st January 2023.
- 1.13 Consequently, the Authority's local share of business rates will be reported when the final budget is set; this may incur an additional financial risk to the Authority if our actual share is significantly different from that included in our MTFS for the year which currently is £3.843m based on a more prudent assessment, although this was made before the cost of living crisis, so there is significant risk of a much lower business rates allocation in prospect.

REVENUE SUPPORT GRANT

- 1.14 The amount of Revenue Support grant to be received by the Authority is £10.203m. This includes core revenue grant funding allocations of Formula Grant and previous Council Tax Freeze Grants. The Authority, as set out in the Chancellors Autumn Budget is seeing its RSG funding increased (10.1%) in line with inflation which continues the government's policy of providing at least inflationary increases for public sector services. The MTFS assumed an increase of 2%, so there is significant additional RSG for the Authority of £754k from this variation. It is important to note that the Settlement data in the MTFS was predicated on inflation using CPI before the cost of living crisis occurred.

TOP-UP GRANT

- 1.15 The amount of Top-Up Grant to be received as part of the Local Government Finance Settlement has also increased from £11.686m to £12.162m. This element of the funding has been increased by CPI of 10.1% for 2023/24, although business rates was frozen once more by the government. This element of funding tends to be one of the more certain elements within the current funding regime.

COMPENSATION FOR UNDER-INDEXING BUSINESS RATES

- 1.16 The Government has allocated the Authority a grant of £2.747m in 2023/24 to fund the gap between the capped business rates applied to all businesses and the rate of inflation. The funding each year is increased both by any further government concessions (which is the case for 2023/24 as all business rates were frozen once again as they were in 2021/22 and 2022/23 in light of the impact of the pandemic and other more recent factors affecting the economy and also is uprated by inflation to ensure the 'lost business rates' funding from all concessions does not diminish the income due to local government in real terms.

OTHER REVENUE GRANT FUNDING NOT IN SFA

- 1.17 There are other revenue funding streams that the Authority receives from the home Office in respect of Pensions Grant, New Dimensions Grant, Fire Link Grant, PFI Grant and other specific grants relating building safety, but at this stage this funding has not been released as part of the Settlement. The budget currently assumes no significant changes for this funding for 2023/24 at this stage on the basis the government has stated it is honouring these grants in 2023/24. Grant funding streams will be confirmed and allocations for 2023/24 will inform the final Budget position once they are made available which is expected to be around the time of the Final Local Government Finance Settlement 2023/24 at the end January / early February.

COUNCIL TAX INCOME (PRECEPT)

- 1.18 Funding settlements the Authority receive are predicated on the assumption that Council Tax precept increases will be taken in full by Members. This in effect forces the Authority to make annual Council Tax precept rises to avoid a revenue budget shortfall. The Authority continues to set its precept each year and relies on each district council within Tyne and Wear to collect the council tax income on its behalf. The Authority is awaiting the council tax base information from each Council to be able to assess if this will have an impact on the precept collectable in 2023/24 as it did in 2022/23. Current planning in the MTFS was based on no growth in the Tax Base (because of the adverse impact of the pandemic), along with a proposed 1.99% increase (the maximum allowed by government at that time without the need for a referendum) in the precept. However the government released the Settlement allowing all Fire Authorities to increase their precept by 2.99%. A late decision by the government has however allowed further flexibility to all FRA's whereby they can increase their Council tax by a flat rate £5 at Band D. This is equivalent to an increase of 5.72% assuming no growth in the tax base. The amount this is expected to raise from Council Tax assuming no growth in the Tax Base is currently £27.080m and this has been used for budget planning purposes. It is however currently still very difficult to project the exact yield from Council Tax for 2023/24, until final confirmation is received from our 5 district councils.
- 1.19 The localisation of council tax arrangements introduced from 2013/14 poses an additional risk each year for the Authority as the individual council tax schemes determined annually by each district council could impact on the Authority's collectable income. The extent of this will be clarified by the end of January 2023 when the district councils are obliged to advise the Authority of their surplus/deficit position on their Collection Funds and projections of their council tax base for 2023/24. This then allows the authority to estimate its expected council tax income for 2023/24. This will be reported as part of the final revenue budget.
- 1.20 The table below summaries the 2023/24 provisional estimated resources position for Tyne and Wear Fire and Rescue Authority from the Provisional Settlement data.

Summary of resources position 2023/24	Amount £m
Projected Income from Council Tax Precepts (no growth)	27.080
Top up Grant	12.162
Revenue Support Grant	10.203
Business Rates (MTFS)*	3.843
Services Grant	0.604
Compensation for under-indexing Business Rates	2.747

Potential Total Estimated Resources (Settlement)	56.639
MTFS Estimated Resources (reported in February 2022)	52.723
Change in resources (at this stage)	+3.916

* The Authority's Business Rates estimate from the govt is currently £3.965m with no detriment because of covid / brexit included.

It is important to note that cost pressures have already increased by at least £1.510m in 2023/24 as a result of the fact fire sector staff have been awarded at least a 5% pay offer for 2022/23 and a flat rate increase of £1,925 for every grade for non-operational staff (equivalent to a 7.6% average pay increase). These were significantly higher than the 3% allowed in last year's budget and therefore need to be funded in the budget for 2023/24. In addition there is also the increased cost of utility and fuel costs which have escalated over the past year. The net impact on the MTFS at this stage is a net increase in overall resources of £2.406m, although more work is still required before the revenue budget can be finalised. There are other significant cost pressures still to finalise and the resources position is also not yet confirmed which will impact on the final position for the Revenue Budget for 2023/24. It is important to note that the MTFS approved by members last February showed a resources shortfall of £2.4m which still needs to be addressed and the resources position if confirmed could address the bulk of this funding gap.

Members will also need to consider whether to accept the proposed maximum Council Tax increase of a flat rate £5 Band D increase in light of final information on resources as part of the budget setting process.

- 1.21 Comments on the Settlement which formed part of the Authority's consultation response are set out in Appendix 6 for Members information and approval along with any additional comments that Members wish to raise.

2. SERVICE PRESSURES

- 2.1 A number of spending pressures were identified within the Budget Planning Framework and have been incorporated into the draft budget for 2023/24. They include:
- Inflation
 - Firefighter Pension Increase
 - Best estimate of Pay Awards from 2022/23 (as operational staff have yet to settle)
 - Pay award provision for 2023/24 (based on affordability)
 - Unitary charge uplift for 2023/24
 - Utility cost increases

These will continue to be refined in order to finalise the revenue budget position.

3. OVERALL POSITION

- 3.1 The implications of the provisional settlement are better than anticipated especially as the Chancellor was expected to cut public sector funding in his Autumn Budget which did not happen. Local Authorities are facing significant cost pressures because of the high unfunded pay awards of 2022/23 and the very high impact of cost inflation that is expected to continue in 2023/24 and this has to a degree been recognised by the government in the Settlement. They have retained the Services Grant (which was to be one-off funding in 2022/23) which is welcomed and something this Authority lobbied hard for, so it is pleasing to see this funding as part of the Settlement and is with £0.604m in 2023/24. As inflation was 10.1% in September 2022 this also played a large part in increasing the funding allocated to local government via the Business Rates Retention system and the positive impact on Revenue Support Grant and Top up Grant. The government have also provided more flexibility for council Tax increases for the fire service which will have a wide scale of benefits across the sector depending upon the size of each FRA's Council Tax Base. Tyne and Wear has a very low tax base and will benefit less from this measure and would have preferred more additional grant to recognise this anomaly in the current funding system. Although this measure has been widely welcomed across the fire sector this is a clear shift of passing on some of the cost burden to the public to help fund the fire service, at a time when people are struggling financially with the cost of living crisis. Costs have also increased significantly since the last MTFS was reported in February 2022 and the net income or benefit at this stage in the budget preparation process shows a net improved financial position of £2.406m, although the revenue budget has not yet been finalised and as indicated in paragraph 1.20 above and the MTFS funding gap of £2.4m still needs to be resolved.
- 3.2 There is still work to be completed before a final revenue budget for 2023/24 can be presented for consideration by members and most of the outstanding issues are summarised in Section 6 at the time of writing this report which can impact on the final budgeted position.
- 3.3 The detailed Revenue budget for 2023/24 and the updated MTFS are however reported separately on today's agenda.

4. GENERAL FUND BALANCES, EARMARKED RESERVES AND PROVISIONS

- 4.1 As in previous years, a full financial risk analysis of general balances and major earmarked reserves will be undertaken prior to the submission of the final budget proposals. As part of this analysis, the level of uncommitted general

balances will be reviewed in light of the latest Authority decisions and the final budget proposals agreed.

5. CAPITAL PROGRAMME

Capital Grant Funding

- 5.1 Since 2015/16 the Authority no longer receives any capital grant funding from the government which has and continues to be a feature of Local Government Finance Settlements for the fire service. The Authority is therefore having to self-fund its Capital Programme from reserves and where possible from its revenue budget.

Prudential Indicators

- 5.2 Members will be aware that Government support for capital expenditure has previously been provided by supported revenue allocations through Formula Grant that allow authorities to control the amount that they borrow without seeking government approval. The basic principle is that authorities are free to borrow as long as their capital plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs, all authorities must follow a prudential code. This involves the setting of various prudential limits that must be decided upon by the Authority as part of the budget process. Prudential indicators must be set covering the following areas:
- Affordability;
 - Prudence;
 - Capital Expenditure and Capital Commitments;
 - External Debt;
 - Treasury Management.

As part of the budget process, these prudential indicators will be updated and reported to the Authority in February for approval.

Capital Financing

- 5.3 The Capital Programme for 2023/24 is still under review, and the final position will be reported to Members elsewhere on today's agenda. Given the financial position planned for the Authority over the medium term (to 2026/27), consideration will be given to the financing arrangements of the Capital Programme in the context of balancing the overall revenue budget position for the Authority and achieving, as far as possible, the agreed objectives of setting a sustainable budget.
- 5.4 The various options available for financing the Capital Programme will be kept under review until the Revenue and Capital Budgets are finalised to ensure that the optimum use is made of the available resources. These options include:

- Revenue Contributions to Capital Outlay (RCCO) funding permitting;
- Use of the earmarked Capital Development Reserve;
- One-off Funding received in year;
- Capital Receipts;
- Other financing arrangements where considered appropriate.

Revenue Implications Arising from the Capital Programme

- 5.5 The Capital Programme has been aligned to the MTFS and will include all approved capital projects, the main features being receipt of the remaining 10 pumps in late March early April and completion of the new tri station at Hebburn. There are a number of other capital schemes which will need to be funded from the Capital Development Reserve on a phased basis and from the Revenue budget if funding is available. At this stage, the planning assumption is that the revenue implications will, in overall terms, be resource neutral but this position may change as the budget is further developed.

6. OUTSTANDING ISSUES IN EARLY JANUARY

- 6.1 It must be stressed that the figures presented are indicative only at this stage and there were a number of significant and outstanding issues and some financial assumptions made will be clarified prior to submission of the final budget proposals outlined on today's agenda.

- 6.2 The outstanding issues are as follows:

- Review of inflation provision in light of escalating costs
- Review of pay award provision with ending of the public sector pay freeze
- Final preparation of the budget requirement for 2023/24 is still ongoing at this stage, and will be subject to variation;
- Update of the MTFS is ongoing following announcement of the provisional finance settlement and will be further updated as necessary to reflect any changes that the government will make within the Final 2023/24 Settlement;
- Awaiting notification of the Council Tax Bases of Billing Authorities for 2023/24, this will directly impact on the Precept total;
- Awaiting notification of any net surplus/deficit on the collection fund of the Billing Authorities for council tax for both 2022/23;
- Awaiting notification of business rates income from each council for 2023/24;
- Confirmation of the decision from the Authority to approve the Council Tax Precept by the £5 Band D increase for 2023/24;
- Confirmation of other revenue grant funding allocations; and
- Confirmation of any rebate from the Business Rates Levy Account.