TYNE AND WEAR FIRE AND RESCUE AUTHORITY Item No. 9

MEETING: FIRE AUTHORITY 13TH DECEMBER 2021

SUBJECT: BUDGET PLANNING FRAMEWORK 2022/2023

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

1 Purpose of Report

1.1 This report sets out the main high level considerations in drafting the Revenue Budget 2022/2023 and longer term financial planning for the Authority which includes:

- Identifying the key factors influencing the development of the Authority's financial plans into the medium term and setting out specifically the Budget Planning Framework for 2022/2023;
- Setting out the context and planning assumptions used for drafting the Medium Term Financial Strategy (MTFS) 2022/2023 to 2025/2026 which will be formally considered later in the budget cycle.

2 Medium Term Financial Strategy 2021/2022 to 2024/2025

2.1 The Medium Term Financial Strategy 2021/2022 to 2024/2025 was approved by Authority in February 2021 as part of the budget setting process. This is summarised in the table below:

	2021/22 £m	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**
Government Funding Changes	(1.061)	2.534	(0.215)	(0.434)
Spending Pressures	3.704	1.057	1.527	1.390
IRMP Costs	0.766	0	0	0
Total	**3.409**	**3.591**	**1.312**	**0.956**
Less Council Tax and Business Rate growth*	2.480	(4.406)	(0.502)	(0.653)
Less budget efficiencies	(4.711)	(1.150)	(0.011)	0
Funding Change year	**1.178**	**(1.965)**	**0.799**	**0.303**
Cumulative Change	**1.178**	**(0.787)**	**0.012**	**0.315**

**Assumptions in table include a 1.99% increase in the precept in 2021/22 and thereafter and no growth in each year for both council tax and business rates. The projected increase in 22/23 reflects the possible change to the Business Rates Retention Scheme with lower RSG but a compensatory higher Business Rates allocation.*

2.2 The Authority based the above MTFS on the one-year Settlement provided by the government for 2021/2022 which saw the grant funding level for 2021/2022 increased by inflation. This position was then used to reflect inflation only increases to fire service funding across the medium term (which may be a fair reflection of the prospective settlement for the fire service over the next 3 financial years, however the local government Finance Settlement is required to confirm this position). The Authority was projecting to face a cumulative funding shortfall of £0.315m by the end of 2024/2025 which in the scale of things was seen as broadly finance neutral. The plan 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 despite publication of the Spending Review 2021, an updated MTFS will be presented to Authority in February 2022 as part of the 2022/23 budget setting report.

3 National Economic Context to the 2022/2023 Autumn Budget

3.1 The Chancellor delivered his 2021 Autumn Budget in early March against the backdrop of the on-going global pandemic. This set out the Chancellor's 3-point plan to protect jobs and livelihoods; by supporting people and businesses through the pandemic crisis, beginning to fix the public finances and building the future economy. The pandemic has had a significant impact on UK finances with the Government's debt now exceeding £2.2 trillion, the highest ever peacetime level.

3.2 The Monetary Policy Committee (MPC) projects Gross Domestic Product (GDP) to grow by 7.25% in 2021 but has revised upwards its forecast for 2022 from 5.75% to 6.00%. There were no changes announced to its programme of quantitative easing purchases due to end in 2021 at a total of £895bn. The latest Office for National Statistics (ONS) data shows the annualised Consumer Price Index (CPI) inflation rate at 3.2% in August 2021, up from 2.0% in July, continuing several months of volatility in the economy. The 1.2% rise from July to August 2021, is the largest ever increase in the CPI 12-month inflation rate. The large change in the level of the index is likely to be a temporary effect as the situation remains volatile and uncertain. The variability and uncertainty is a direct consequence of the covid pandemic amongst other factors. The largest impact came from base effects, in particular, discounted restaurant and cafe prices resulting from the Governments Eat out Help Out scheme and the VAT reduction for the sector introduced last August. The Bank of England (BoE) expects inflation to peak at over 4% during 2021 with MPC forecasts showing inflation slightly under its 2% target in 2-3 years, which is the basis of the Authority's MTFS assumption for inflation. It is fair to assume that higher inflation over the next two financial years will need to be taken into account in the revised MTFS.

3.3 The Government's furlough scheme introduced in March 2020, at the outset of the pandemic, ended on 30th September 2021, at an estimated cost to the Government of £66 billion. UK unemployment level data released in September indicated unemployment at 4.6%, which is 0.6% higher than before the pandemic. The current UK employment position is unlikely to be fully understood until the reaction of businesses to the furlough scheme ending is known.

3.4 The BoE's Monetary Policy Committee (MPC) meeting on 4th November 2021 voted to leave the Base Rate unchanged at 0.10%, although there was some recognition rates may have to increase to help control inflation over the medium term. Rates are still expected to remain very low for the next few years however. The MPC has therefore changed its previous stance of not tightening monetary policy, to now flagging that modest interest rate increases may be necessary.

3.5 To support the Government's recently announced Health and Social Care plan; "Building back Better", National Insurance contributions for both employees and employers will rise by 1.25% from April 2022. The majority of the funding (£25bn) will be directed to NHS over the next 3 years and £5.4bn over 3 years for the costs of Social Care. This is of course an additional cost pressure for the Fire Authority and is estimated to cost around £300k which will need to be recognised in the refreshed MTFS.

4 Comprehensive Spending Review 2021 (CSR21) - Government Funding Assumptions

4.1 The Chancellor announced details of the Comprehensive Spending Review (CSR) 2022/2023 to 2024/2025 on 27th October 2021, stating that every Government department will see real terms growth over the three year period form 2022/23 to 2024/25.

4.2 Key Funding announcements for Local Government included:

- Average real term funding increases over the CSR of 1.9% for the Home Office and 3% per annum for Local Government but the Fire Service share is unknown. It is however reasonable at this stage to assume that resources are expected to increase in real terms but this is unknown until the Local Government Finance Settlement in December, but importantly there looks to be no reduction to baseline grant funding which has already been factored into the current MTFS.

- Business Rates concessions announced in the Autumn Budget will be fully compensated by the government so no detriment will be incurred by the Authority from this government concession.

- Pensions Grant funding will be merged in to the General Formula Grant Funding from 2022/23 as expected.

- Emergency Services Network (ESN / ESMCP) revenue funding of £125m for 2022/2023 and £121m capital funding over the CSR period to 2024/25 was confirmed and although this is welcomed, the detail will need to be assessed when it is made available to gauge the impact on the Authority.

- Other Government Grants received by the Authority will not be confirmed until the Provisional Local Government Settlement is announced. For planning purposes, the Authority has retained all grants at the same level as for 2021/2022 over the medium term with the exception of the Firelink Grant that is expected to end in 2023/24. This position may need to be reviewed now that government funding for the ESN has been extended to 2024/25 which was confirmed in the CSR21.

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 2021/2022 a referendum requirement applied for proposed increases in Council Tax above 1.99% was in place.

The Chancellor has confirmed that the current government guidelines will remain unchanged for the fire service. The current MTFS already assumed an increase of 1.99% in its precept for 2022/2023 and also in each year of the MTFS. A decision on the level of the council tax within government parameters will need to be made as part of the budget planning process, once all other funding factors are understood from the Finance Settlement. Should the Authority be granted additional flexibility around the level of council tax (precept) increase, options will need to be considered to maximise income from this funding stream, although this may be remote now that government has provided its CSR21 guidance.

Members will however continue to be fully consulted and decisions will only be made as the budget process develops.

The Local Council Tax Support Scheme was introduced from April 2013 and will be in its ninth year of operation. 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 2022/2023.

The impact of Covid-19 on Council Tax collection rates and Local Council Tax Support Scheme is likely to continue in to 2022/2023. The situation will be monitored during the budget setting process to ensure realistic estimates are included in the Authority’s MTFS resource projections based on the best available data provided by its district councils. The position will be impacted by a number of factors; the ending of the furlough scheme, implications of Brexit on businesses and jobs and how the economy performs in comparison to government expectations. It has already been noted by the government in its latest CSR that Gross Domestic Product (GDP) has been adversely affected by both the pandemic with a 2% scale reduction and Brexit a 3% scale reduction although economic recovery had been much quicker than anticipated.

The MTFS still assumes no growth in the council tax base until more information is known from our district councils with regard to the actual collection levels for 2021/22 and their estimated income for 2022/23.

5.2 Business Rates

Under the current 50% Business Rates Retention Scheme, the Authority is allocated locally 2% of the increased business rates income arising from growth in the Local Business Rates base from its constituent authorities (however equally it shares the risk of any under achievement of income targets).

Inherent within the scheme is growth arising from annual inflationary increases to Business Rates. The government confirmed it has frozen business rates increase this year and our assumption is that any loss from this action will be fully compensated for in the Local Government Finance Settlement. They have already confirmed that further concessions set out in the SCR21 will be funded by the government with no detriment to local authorities. However, there is still continuing uncertainty, specifically around both the continuing adverse impact of both the Covid-19 and Brexit which may mean that there could still be a significant impact on the level of income collected each year. This position will be reviewed when more information is provided from the Provisional Local Government Finance Settlement.

As with Council Tax, the impact of the above factors on Business Rates is likely to continue into 2022/2023 in terms of collectability and business survival as the economy recovers, although on a more positive note the recovery has been quicker than anticipated. The position reported for 2019/20 showed business rates income had reduced significantly by over £2m from that estimated for the year but that most of this would be compensated for by the government once final accounts had been completed and audited. The outlook is more positive for 2020/21 but is still being kept under review and may require adjustment once we have more details from our district councils for this current year (any deficit impacts on 2022/23) and for the estimated income for the coming financial year 2022/23. The Budget Planning Framework position still assumes a neutral stance until more details are provided by our district councils during the budget setting process.

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 2022.

6 Other Funding Issues

6.1 Changes to Retained Business Rates

The Fair Funding Review and move to a 75% Business Rates retention model has been delayed for a number of years now with the Covid-19 pandemic the latest issue that has limited Central Government's ability to consult upon and progress this significant funding change. 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. Although the government has indicated this will be implemented from 1st April 2022 most of the details are not yet known and may be set out in more detail as part of the Local Government Settlement. 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. Both MHCLG and Local Government have continued to work on a 'fairer funding' regime, although no detail or impacts assessment have been released which is understandable since work on Brexit and then the impact of the pandemic have diverted resources away from this task. The government has recently indicated that the funding formula for the fire service will not be amended as part of any proposed wider amendments to local government funding formulae but has committed to continue to work with the sector to develop a revised fairer and simpler funding formula to be implemented within the CSR21 period.

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. This will of course be kept under review.

This is particularly desirable in the current circumstances when funding stability is very important so that the public sector can continue to operate effectively over the medium term despite the continuing effects of both the pandemic and Brexit.

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 2022/2023, 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

Although there was an announcement that the public sector pay freeze will end in March 2022, grey book employees had already been awarded a 1.5% pay award with effect from 1 July 2021. There has been no agreement for green book employees for 2021/22, however the latest offer from the employers that was rejected by the Representative Bodies was 1.75% with the exception of Spinal Column point 1 where a 2.75% increase was offered. These increases will be built into the 2022/23 base budget for planning purposes, with any award above this level being a spending pressure in the current and forthcoming years. No formal pay offer has been made for future years. Pending agreement and formal offers and on the presumption that the government will now not intervene in public sector matters, a provision of 2% has been factored into the budget planning framework for both grey and green book pay. 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 rising to £9.50 for 2022/2023 which does not impact directly on any of the Authority's pay grades. Any indirect impact to maintain differentials between the lower grades, while not thought to be significant at first view, will be incorporated into the refreshed MTFS.

7.1.2 Pensions

Local Government Pension Scheme
The Triennial Actuarial review of the Local Government Pension Scheme was undertaken and concluded in March 2020 which took effect from 1st April 2020. The provision made within the MTFS was prudent and reflected the anticipated increases to the employers' rates with no deficiency pension payments for the 3 year cycle to 2022/23. The next Review will conclude in March 2023 and prudent provision is included within the MTFS for the potential impact of a further increase in employer contributions in line with inflation and at this stage no increase in the pension deficiency payment has been included.

Firefighters Pension Scheme
The latest actuarial valuation of the Firefighters Pension Scheme was completed for 2019/2020. The output of this valuation was an updated employer contribution rate to apply from April 2019 to March 2023 with the average employer contribution rate of 17.6% estimated to increase to 30.2%. The average for Tyne and Wear in 2020/21 was 29.5%. A specific grant of £2.6m has been allocated for the last three years to fund the increased rate. This is now part of the General Formula Grant Funding and will be analysed to assess the impact this change may have on the Authority's resources position.

Pensions Remedy
It is anticipated that there will be costs associated with Pensions Remedy, however it is very 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 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 2022/2023 continues to be in the region of £0.148m. 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 2022/2023 base budget, which has helped reduce the budgeted cost of training for our recruits and other staff.

7.1.4 National Insurance

On 7 September 2021, the Prime Minister announced an increase of 1.25% in Employers National Insurance rates with effect from 1 April 2022 to help pay for the impact of the coronavirus pandemic on the NHS, as highlighted in paragraph 3.5 above. The impact of this measure on the Authority's budget is about £0.3m.

7.2 Energy Prices

Although the Government has cancelled its plan to increase fuel duty, energy and vehicle fuel prices are increasing significantly above inflation. 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 budget, the chancellor cancelled the proposed increase in the rates multiplier for 2022/23, but this will need to be considered as part of the resources implications for the authority once the local government Finance Settlement is released to gauge if the government is to reimburse local authorities for the reduced income from this measure.

7.5 Brexit and Covid-19

These factors continue to impact on the economy in terms of availability and increased prices of goods and services and will be factored in if considered significant.

7.6 General inflation

The Government target for inflation remains at 2%, however the Office for Budgetary Responsibility (OBR) has indicated that 4% is more likely for CPI in 2022/23, and 2% will not be achieved until 2024/25 which is likely to erode the effect of any inflationary increase in the Authority's resources.

8 Proposed Budget Planning Framework for 2022/2023

8.1 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 2021;
- 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;
- 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;
- Any residual Covid-19 related additional costs will be met fully from the General Fund; and
- The assumption that any major grant distribution system introduced is resource neutral.

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 finalising the Revenue Budget for 2022/2023 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 2022/2023 to inform the Authority's grant allocations, which will not be available until mid-December and will not be finalised until end of January 2022;
- 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 2022/2023 and beyond;
- Funding implications of the Pensions Grant being included within Formula Grant from 2022/2023;
- The general economic position and especially the continued impact of Covid-19 and the implications of Brexit;
- Impact of continued higher inflation than government forecasts used top allocate grant funding;
- The District Council's Collection Fund positions for both Council Tax and Business Rates for 2021/2022;
- Additional budget pressures which may arise throughout the remainder of the budget process; 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 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 2022/2023; and

b. Note that the MTFS 2022/2023 to 2025/2026 will be presented to Authority in February 2022.