

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Item No 7

MEETING: 14TH FEBRUARY 2022

SUBJECT: REVENUE BUDGET 2022/2023 AND MTFS 2022/2023 to 2025/2026

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

1 INTRODUCTION

1.1 The purpose of this report is to present for consideration and approval by members:

- the Revenue Estimates for 2022/2023;
- the Authority's Council Tax Requirement for 2022/2023;
- the Council Tax Precept required to be levied on the District Councils in Tyne and Wear for 2022/2023, and
- an updated Medium Term Financial Strategy Statement for 2022/2023 to 2025/2026.

1.2 A more detailed report is included in Appendix 1 for information.

2 LOCAL GOVERNMENT FINANCE SETTLEMENT 2022/2023

2.1 The Final Local Government Finance Settlement for 2022/2023 was announced on 7th February 2022 and in summary shows an improved position to the Provisional Settlement reported to the Fire Authority in January. The Authority will receive an additional £0.312m in Compensation for the Under-indexing of Business Rates Income due to the Government using the slightly lower CPI measure of inflation at the time in the Provisional Settlement as indicated in the January report. The additional income adjusts for the use of RPI which is the correct measure for inflation with respect to business rates uplift each year. This ongoing additional funding is very welcomed by the Authority.

2.2 The Government's Core Spending Power (CSP) for Tyne and Wear Fire and Rescue Authority will now increase by £2.812m or 5.61% in 2022/2023. This is largely as a result of the new one-off Service Delivery Grant for 2022/2023. Whilst this additional funding of £1.072m is welcomed, if this grant is not maintained in future years, the real underlying Core Spending Power increase for 2022/2023 remains a lot lower at 3.47% and will mean the Authority having to fund this resource gap in future years as this is in effect a cost pressure from 2023/24. In addition, the government figures assume a Council Tax increase of 2.77%, made up from an increase in precept to the maximum allowed of 1.99% and an assumption that the Authority's Tax Base will grow by 0.78%.

- 2.3 The Government's figures therefore continue to include growth forecasts for Council Tax. These increases boost the CSP measure each year and are considered overly optimistic by the Authority. As such, in the planning forecasts used by the Authority, a more realistic growth forecast based on local knowledge is used for service planning purposes.
- 2.4 The Authority's Settlement Funding Assessment (SFA) allocation will increase by £0.274m in cash terms (+1.12%).
- 2.5 The Government continues 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 2022/2023 Settlement mainly due to the fact that the government froze all business rates for 2022/2023 and inflation was running at 3.1% (higher than expected) and has fully compensated local authorities through this grant mechanism for these changes instead. The amount for 2022/2023 in the final settlement is **£1.589m, an increase over the last year of £0.779m** to fund the gap. Although the Authority was unaware of this scale increase in 2022/2023 it had uplifted the previous capped income to £0.819m in its MTFS, so the real net benefit to the Revenue Budget from this increase is an **additional £0.779m worth of grant funding**.
- 2.6 This improved position however needs to be taken into the context of past settlements as there are still funding inequities in the current system which still need to be addressed. 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. 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 BUDGET CONSULTATION

- 3.1 In compliance with the Authority's statutory obligations, Members and Officers have requested to meet with representatives of the North East Chamber of Commerce in February 2022.
- 3.2 The views of the meeting and any formal response from the North East Chamber of Commerce will be provided at the meeting of the Authority as appropriate.
- 3.3 It is recommended that Members take into account any views of those consulted as they consider the Budget proposals and the Medium Term Financial Strategy position.

REVENUE BUDGET UPDATE 2022/2023

- 4.1 The 2022/2023 Revenue Budget has been set taking full account of the funding available to the Authority this year. The Chief Fire Officer undertakes a base budget review of all delegated Budgets on an annual basis, with the intention of ensuring resources are directed at key strategic priorities as informed by the Community Safety Strategy, as well as identifying efficiency savings, which have been built into the updated Medium Term Financial Strategy (MTFS) presented at Appendix E.
- 4.2 The 2022/2023 updated budget position has changed since that indicated in the Provisional Local Government Finance Settlement report presented to Authority in January, largely due to a reduced allocation of Business Rates from District Councils and a significant business rates deficit reported for the year 2021/22 on the collection fund. This creates a gap in funding for the Authority. It is therefore proposed that the revenue budget is approved based on being temporarily supported by the use of reserves.
- 4.3 The combined impact of taking all of the changes to the resources position of the Authority together for 2022/2023, both positive and negative, allows the Authority to propose a revenue budget for 2022/2023 of £52.003m before use of balances of **£0.516m** which then produces a net budget requirement of **£51.487m** and an unchanged Council Tax Requirement of £25.614m assuming members approve the implied 1.99% increase to the precept which the government has already taken into account in the Finance Settlement for 2022/2023.

5 FIRE AUTHORITY PRECEPT

- 5.1 The Council Tax Base and the Surplus / (Deficit) on Collection Funds have now been received from the five District Councils within Tyne and Wear. The Council Tax Base for 2022/2023 is 293,239, a 1.46% increase from 2021/2022, which alone increases Council Tax precept income by £0.362m. However this increase needs to be taken into context as the real terms increase is in fact only 0.41% when compared to pre Covid-19 levels for the tax base in 2020/2021. This revised position however has been taken into account in the MTFS and budget figures for 2022/2023. There is also a one-off net surplus on the Council Tax Collection Fund for 2021/2022 of £0.222m, which improves the financing of the 2022/2023 budget.
- 5.2 The Authority's local share of business rates income, as notified by the five District Councils within Tyne and Wear for 2022/2023, totals £3.341m. This is significantly lower than the level determined by the Government in their assessed business rates income total of £4.088m included in the 2022/2023 Settlement. The Authority had projected a more realistic income collection figure of £3.843m but the estimated reported share is still £0.502m less than that anticipated. In addition to this, the Authority's share of the net deficit position on the business rates element of the Collection Fund for 2021/2022 is £1.072m, a significant cost pressure largely due to the ongoing impact of the pandemic. In effect, therefore, the actual Business Rates income is £1.574m lower than that estimated in the MTFS and £1.819m below the Government's estimate. The detriment in business rates income therefore continues to have a significant impact on funding the budget for 2022/2023 as a result.

- 5.3 Taking all Government funding, precept income and the local share of business rates into consideration, it is possible to construct a balanced budget on the assumption that a 1.99% increase in the Precept (within the capping criteria of below 2%) is approved by members. The proposed increase in Council Tax in 2022/2023 would result in a 'basic' Band D Council Tax of £87.35, an increase of £1.71 from the previous years' precept of £85.64. The temporary use of reserves of **£0.516m** is therefore considered unavoidable to allow the Authority to set a balanced budget for this year.
- 5.4 The Localism Act 2011 governs the calculation of the Council Tax Precept and the Authority has to set out its Council Tax Requirement annually, further details of which are set out in Section 5 of Appendix 1.

6. RISK MANAGEMENT

- 6.1 A risk assessment has been undertaken to ensure that the risk to the Authority has been minimised as far as practicable. The assessment has considered an appropriate balance between risk and control, the realisation of efficiencies, the most appropriate use of limited resources and a comprehensive evaluation of the benefits. The risk to the authority has been assessed as low utilising the standard risk matrix based on control measures being in place.

7. FINANCIAL IMPLICATIONS

- 7.1 The financial implications are set out in the report and more details are provided at Appendix 1.

8. EQUALITY AND FAIRNESS IMPLICATIONS

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

9. HEALTH AND SAFETY IMPLICATIONS

- 9.1 There are no health and safety implications in respect of this report.

10. RECOMMENDATIONS

- 10.1 The Authority is recommended to:
- (a) Note the revised estimate for 2021/2022, as summarised at Appendix A;
 - (b) Approve the proposed Revenue Estimates for 2022/2023, as summarised at Appendix A and approve the planned temporary use of balances of **£0.516m** as set out in the report;
 - (c) Note the Projected Pensions Account 2022/2023 detailed at Appendix B;
 - (d) Note the associated risks and their mitigation as set out in Appendix C;

- (e) Approve the updated position on the General Reserves and Earmarked Reserves as set out in Appendix D and approve the transfer of £1.515m from the Covid-19 Reserve to the Transformation Reserve as set out in the report, which was previously agreed by members if this funding was not subsequently required to help fund Covid-19 related additional costs;
- (f) Note the updated Medium Term Financial Strategy Statement for 2022/2023 to 2025/2026 detailed at Appendix E;
- (g) Note the Council Tax base of 293,239 (known as Item T) for the year 2022/2023, as notified by the billing authorities within Tyne and Wear under the regulations;
- (h) Approve the following amounts for the Authority for the year 2022/2023 which represents a Council Tax increase of 1.99% for 2022/2023, in accordance with Sections 42A to 47 of the Local Government Finance Act 1992 as amended:
 - (i) £59,044,174 - being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(2)(a) to (d) of the Act;
 - (ii) **£33,429,748** - being the aggregate of the amounts which the Authority estimates for the items set out in Section 42A(3)(a) to (b) adjusted for item of the Act;
 - (iii) £25,614,426 - being the amount by which the aggregate at (i) above exceeds the aggregate at (ii) above, calculated by the Authority in accordance with Section 42A(4) of the Act, as its Council Tax Requirement for the year, Item R in the formula in Section 42B of the Act;
 - (iv) £87.35 - being the amount at (iii) (Item R) above divided by the Council Tax Base (Item T), calculated by the Authority in accordance with Section 42B(1) of the Act, as the basic amount of its Council Tax for the year.

(v) Valuation Bands

	£	
A	58.23	being the amount given by multiplying the amount at (iv)
B	67.94	above by the number which, in the proportion set out in
C	77.64	Section 5(1) of the Act, is applicable to dwellings listed in a
D	87.35	particular valuation and divided by the number which that
E	106.76	proportion is applicable to dwellings listed in valuation band D,
F	126.17	calculated by the Authority in accordance with Section 47(1)
G	145.58	of the Act, as the amounts to be taken into account for the
H	174.70	year in respect of categories of dwellings listed in different
		valuation bands.

- (i) Note that under Section 52ZB of the Local Government Finance Act, the increase in the Authority's relevant basic amount of council tax for 2022/2023 is not excessive in accordance with the principles determined under Section 52ZC(1) of the Act (i.e. no referendum is required).
- (j) Approve that in accordance with Section 40 of the Local Government Finance Act 1992, the billing authorities within the area of this authority be issued with precepts in the amount of £25,614,426 for the financial year beginning 1st April 2022, the amount of the respective precepts to be issued to each billing authority's area in accordance with Sections 42A to 48 of the 1992 Act.

DETAILED REVENUE BUDGET 2022/2023

1. BUDGET CONSULTATION

- 1.1 In compliance with the Authority's statutory obligations, Members and Officers have requested to meet with representatives of the North East Chamber of Commerce in February 2022.
- 1.2 The views of the meeting and any formal response from the North East Chamber of Commerce will be provided at the meeting of the Authority as appropriate.
- 1.3 It is recommended that Members take into account any views of those consulted as they consider the Budget proposals and the Medium Term Financial Strategy position.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2022/2023

- 2.1 The Final Local Government Finance Settlement for 2022/2023 was announced on 7th February 2022 and shows as expected an improved position to the Provisional Settlement reported to the Fire Authority in January. The Authority will receive an additional £0.312m in Compensation for the Under-indexing of Business Rates Income due to the Government using the incorrect measure for inflation in the Provisional Settlement. The additional income adjusts for the use of RPI rather than CPI which was used in the Provisional Settlement and which was reported to Authority in January. This resulting additional ongoing funding is welcomed by the Authority.
- 2.2 Based on the Government's Settlement, the key elements for 2022/2023 are summarised below:
 - An increase in the Government's Core Spending Power of **£2.812m** or **5.61%**;
 - An increase in the Settlement Funding Assessment (SFA) of £0.274m or 1.12% in 2022/2023;
 - Confirmation of the Revenue Support Grant element of the settlement. This includes core revenue grant funding allocations of Formula Grant and previous Council Tax Freeze Grants. Only the Revenue Support Grant will increase by 3.10% in line with inflation;
 - Business Rates remain the same despite the detrimental impact of COVID-19 on businesses;
 - Confirmation that Government Fire Pension Grant of almost £2.7m will be received in 2022/2023, the same amount as that allocated in previous years, but is still remains a specific grant in 2022/23 despite the government indicating this funding was to form part of the general grant settlement for the fire service;
 - Government's figures include a 2.77% estimated increase in total council tax income for 2022/2023 through growth in the council tax base of 0.78% and an assumed precept increase of 1.99%;

- Government have provided a new one-off Service Grant for 2022/2023 allocated based on the SFA of the Authority. The Authority will receive £1.072m from this new funding stream, one of the main reasons for the improved financial Settlement for 2022/2023. The Minister indicated this one-off grant can be used as authorities see fit and is to help deliver vital front line services; and
 - Allocation of fire revenue grants for New Dimensions, Fire Link initiatives and PFI have yet to be announced but are expected to remain unchanged from the previous year.
- 2.3 Where grant allocations are unknown, the previous year's figures have been assumed. Any variation will be reflected in or absorbed by strategic contingencies in the first instance, but reserves may need to be utilised depending on the variation of the actual grant allocations.
- 2.4 **It is recommended that Members note the outcome of the Final Local Government Finance Settlement.**

3. REVENUE BUDGET 2022/2023

- 3.1 The 2022/2023 Revenue Budget has been set taking full account of the funding available to the Authority this year and the ongoing implications anticipated for future years.
- 3.2 The Chief Fire Officer has also undertaken a base budget review of all delegated budgets. The main intention of this is to ensure that resources are directed to address key strategic priorities as informed by the Community Safety Strategy. The delegated budgets overall have seen a small net increase of £0.042m for 2022/2023 mainly due to Corporate initiatives.
- 3.3 Appendix A shows the summary position for the Authority and the detailed budgets. The proposed revenue budget for 2022/2023 totals **£51.487m** with a 1.99% increase in the Council Tax precept. The presentation of the budget information is determined by the requirements of the Service Reporting Code of Practice as it defines best professional practice in terms of financial reporting.
- 3.4 In summary the proposed Budget for 2022/2023 has a shortfall in resources of **£0.516m**. As the Authority must set a balanced budget position, this will have to be met from a temporary use of reserves. It is proposed that £0.500m of this be allocated from the Budget Carry Forward Reserve and that the small remaining amount of **£0.016m** be allocated from the Medium Term Planning Reserve.
- 3.5 The proposed budget makes provision for the following:
- Efficiencies**
- 3.6 The Authority continues to achieve best value in all that it does and any actions / additional income that it can generate or any budget efficiencies achieved will be used to allow the Authority to redirect its limited resources into service priorities such as its TWFRS25 programme of work.

Fire Revenue Grants

- 3.7 The Airwave contract relating to telecommunications services (Firelink) continues until December 2022 so fire and rescue services will continue to make use of these services. Accordingly, the Home Office has advised that they will be allocating New Burdens Fire Revenue Firelink grant funding for 2022/2023. The precise level of this grant funding was not published in the settlement. Therefore, for planning purposes, the same level of Grant as 2021/2022 has been assumed until formal notification is received.
- 3.9 The allocation of New Dimensions funding for 2022/2023 is also still unknown. As in previous years, an assumption has been made that this will be at the same level as 2021/2022 and any variation will be met by a combination of strategic contingencies or reserves as necessary.
- 3.10 The Government has typically circulated the Fire Revenue Grant determinations to Fire and Rescue Authorities in the first quarter of the financial year. It is currently expected that the remaining actual 2022/2023 allocations will be published in a similar timescale, which is not considered helpful for setting the revenue budget.

Service Pressures

- 3.11 A number of spending pressures were identified within the MTFS and have been incorporated into the final revenue budget for 2022/2023. These include:
- 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 2021/2022 yet, 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. 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 built into the base budget for both grey and green book pay, and an additional 1% increase has been included in contingencies. Any pay award in excess of these estimated levels will become a spending pressure for the Authority to manage.
 - 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 2022/2023. 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. At this stage no allowance has been given for an increase in the pension deficiency payment from the current (nil) position.

- **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% increasing to 30.2%. The average for Tyne and Wear is now 29.25%. A specific grant of almost £2.7m has been allocated in the last three years to fund the increased rate and this funding will again be provided in 2022/2023. This funding is to be included in general grant funding in future finance settlements which is welcomed as this funding has now been secured although this may have a re-distributional effect on the funding.
- **Pensions Remedy** – It is anticipated that there may 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.
- **Apprenticeship Levy** – 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 to reduce the budgeted cost of training for recruits and other staff.
- **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. The impact of this measure on the Authority's budget is estimated to be £0.324m, which is an ongoing cost that will increase annually as earnings increase.
- **Energy Prices** - Although the Government has cancelled its plan to increase fuel duty, energy and vehicle fuel prices are increasing significantly above inflation. Prudent provision has therefore been made for continued annual increases in charges for gas, electricity and vehicle fuel for the medium term. However, it is 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.
- **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 2022/2023, and 2% will not be achieved until 2024/2025 which is likely to erode the effect of any inflationary increase in the Authority's resources. The budget has an additional budget provision of £100k as a result.

- 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. 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.

Capital Programme

- 3.12 The 2022/2023 Capital Programme is presented for Members' attention elsewhere on today's Agenda. With no specific capital funding provided by the government since 2014/2015, it is proposed to fund the majority of the Programme through earmarked Capital and other Reserves, as well as RCCO. The Authority continues to monitor its available resources to fund the Capital Programme.

Revenue Implications of the Capital Programme

- 3.13 The Capital Programme has been reviewed to identify any revenue implications. These can be contained within the Revenue Budget as presented and take into account the proposed £0.250m of RCCO in 2022/2023.

General Balances and Earmarked Reserves

General Balances Policy

- 3.14 In considering a prudent minimum level of balances, the Authority considers:
- known commitments against balances in future years;
 - volatile elements of service delivery, which make accurate prediction of expenditure more difficult;
 - financial risks faced by the Authority and the measures in place to mitigate them or meet them financially, as outlined in the Financial Risk Analysis at Appendix C.
- 3.15 Taking account of the level of risk within this Authority, which has increased under the new government funding regime, the retention of a minimum level of general fund balances of approximately £4.1million is considered prudent after taking into consideration the following:
- the unknown impact of future government funding settlements on the Fire and Rescue Authority;
 - a significant modernisation programme which brings with it both financial and change management risks;
 - the uncertainty regarding price and pay inflation, including energy prices and the impact of potential further cost changes;
 - uncertainty regarding the future funding for national projects;
 - uncertainty of the impact of the localised council tax benefit scheme on the amount of precept income;
 - uncertainty created by the continuing implications of both Brexit and the coronavirus pandemic and its impact on both public sector funding and the cost of goods and services;

- expectations that Council Tax can be increased year on year without any detriment despite other government revenue raising measures (eg National Insurance increases) impact on household incomes;
- continued uncertainty on the amount of business rates allocated from its constituent councils and its appropriateness to adequately fund local government especially in uncertain economic times;
- The Government plans in relation to any impact of their Fair Funding and Business Rates Retention reviews impacting on their current year 2022/23 and future years funding settlements;
- Funding implications of the Pensions Grant being included within Formula Grant from 2023/2024;
- Any remedy to local authority (including Firefighter) pension schemes regarding McCloud / Sergeant that will impact on the Authority's finances.
- Financial Risks identified in the analysis included at Appendix C.

Minimum Level of General Fund Balances

- 3.16 The estimated balance of the General Fund as at 31st March 2022 and 31st March 2023 is £4.090m following approval during 2021/2022 to transfer the remaining COVID-19 grant of £0.146m from the Covid-19 Reserve to the General Fund. Based on the Financial Risk Analysis attached to this report, a level of uncommitted general balances of £4.1m is considered reasonable. **The current balance represents 7.9% of the proposed revenue budget for 2022/2023 and is within the range specified.**

Earmarked Reserves

- 3.17 The Authority retains an appropriate level of earmarked reserves as determined by the Authority's MTFS and Financial Risk Analysis. A Statement of the Estimated Earmarked Reserves and Provisions and their planned usage in 2022/2023 is provided at Appendix D for information.
- 3.18 The reserves have been subject to a thorough review by senior management of the Authority, including the Finance Director, to ensure they are robust, appropriate and will meet the assessed financial risks of the Authority.
- 3.19 Members will recall in July 2020 it was agreed to allocate the surplus funds for 2019/2020 of £1.515m to a newly created Covid-19 Reserve temporarily established to meet the financial implications of the Covid-19 pandemic, including the reduction in Council Tax and Business rates resources if no government resources were forthcoming. Following notification of section 31 grant to cover the large deficit on the Collection Fund, this reserve is no longer required for its original intention. Therefore, it is proposed to transfer £1.515m to the Transformation and Reform Reserve to be used at a future date for initiatives planned under the TWFRS 2025 Programme.
- 3.20 It is recommended that the Authority considers the above and approves the proposed revenue estimates for the year ended 31st March 2023 as detailed in Appendix A.

4. MEDIUM TERM OUTLOOK

4.1 An updated Medium Term Financial Strategy Statement is set out at Appendix E. This has been prepared taking account of all available supporting Strategies and Plans and the following main areas:

- National Economic Context – announcements regarding future funding, precept expectations and national economic prospects and projects;
- Local Funding Position:
 - the budget decisions made in finalising the 2022/2023 Revenue Budget;
 - the position and policies in relation to General Fund Balances and Major Reserves;
- Spending Pressures and Commitments; and
- Revenue implications of the Capital Programme.

4.2 The projected budgets in future years are based on a series of assumptions and there is a large degree of uncertainty regarding a number of factors, including:

- The general economic position and especially the continued impact of Covid-19 and the implications of Brexit;
- The outcome of the Government's Fair Funding and Business Rates Retention Reviews impacting on 2023/2024 and beyond;
- The future of Fire Service grant funding for New Dimensions and Firelink;
- Funding implications of the Pensions Grant being included within Formula Grant from 2023/2024;
- Any remedy to local authority (including Firefighter) pension schemes regarding McCloud/Sergeant that could impact on the Authority's finances;
- Impact of continued higher inflation than government forecasts used to allocate grant funding and the higher costs of goods and services;
- The government's optimistic assumptions of high and sustained levels of growth in the council tax base and annual increases to the precept in line with CPI;
- The actual level of the Council Tax Base in each district which will continue to be affected by the current economic position and the localisation of council tax benefit arrangements;
- The level of business rates income receivable from each district and the unpredictable impact of the pandemic on future income generation,
- The level of deficits on the Collection Fund that create a budget pressure because of the continued detrimental impact of the pandemic;
- The level of pay awards and inflation; and
- The impact of national projects and any possible implications of a rebalancing of the regions throughout the UK.

4.3 There are a range of options to be explored and, if necessary, implemented, to meet the demands placed on the budget, including:

- reducing the base budget, through the generation of further efficiency savings, implementing alternative financing options, or reducing services on a risk assessed basis;
- utilisation of balances to meet cost pressures and through other means to offset costs;
- generating additional income, including maximising resources through external funding streams;

- working with other Fire and Rescue Authorities and other key partners to increase collaboration, co-operation and agree actions that will lead to improvements in efficiency and generate cost savings; and
 - identifying areas of priority for additional investment if resources are available to achieve ongoing revenue savings (Invest to Save Initiatives).
- 4.4 In accordance with Part 2 of the Local Government Act 2003, there is a requirement for the Finance Officer to report upon the robustness of the estimates and the minimum level of reserves. In making the statement, the Finance Officer relies on information provided to him by other officers of the Authority, as part of the budget setting process. This process involves reasonable checks and other verification, which are undertaken in accordance with the overall system of internal control to validate the information provided.
- 4.5 A full risk analysis has been undertaken on the level of general balances and reserves held by the Authority. Further information is given in Appendix D regarding the adequacy of the reserves.

4.6 The Finance Director, in his role as Finance Officer, states:

'Based upon the information used in determining this Revenue Budget 2022/2023 report, including specifically:

- the Risk Analysis set out at Appendix C;
- the Earmarked Reserves and Provisions set out at Appendix D, and
- the updated Medium Term Financial Strategy summary set out at Appendix E.

The Revenue Budget is considered robust and the level of reserves is considered to be sufficient for 2022/2023 after an assessment of the financial risks faced by the Authority has been taken into account.'

- 4.7 It is recommended that Members note the updated Medium Term Financial Strategy Statement and the Finance Officer's comments on the robustness of the estimates, the adequacy of reserves and the risks in the Revenue Budget.

5. FIRE AUTHORITY PRECEPT

Council Tax Options

- 5.1 The Government has kept the threshold council tax limit to hold a referendum to 2% for 2022/2023 for this Authority. The Localism Act 2011 provides for the provision of referendums to allow a veto of 'excessive' council tax 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 considered 'excessive' increase.
- 5.2 The potential additional costs of a referendum and rebilling would be significant (in excess of £1m). Therefore, any proposal to increase council tax above the Government's principles would need careful consideration as, regardless of the outcome of the vote, there would be costs which could, in effect, negate the benefits from the proposed council tax increase.

- 5.3 Taking these factors into account, alongside the revenue resources, the base budget and efficiency proposals in year, it is proposed that members agree an increase in Council Tax by 1.99%, in order to comply with the council tax 'referendum' regulations.

Calculation of the Precept

- 5.4 The calculation of the Council Tax Requirement (precept) takes into account the Authority's proposed Net Revenue Budget, Government funding and the local share of business rates. Allowance also has to be made for the Authority's share of any surplus or deficit on the five District Council's council tax collection fund and business rates collection fund.
- 5.5 The estimated balances at the year ending 31st March 2022 on the billing authorities' Collection Funds in respect of Council Tax are as follows:

	£
Gateshead	(7,094)
Newcastle	173,237
North Tyneside	(64,868)
South Tyneside	50,573
Sunderland	69,769
Total Net Surplus	<u>221,617</u>

- 5.6 The estimated balances at the year ending 31st March 2022 on the billing authorities' Collection Funds in respect of Business Rates are as follows:

	£
Gateshead	(252,642)
Newcastle	(426,034)
North Tyneside	(93,903)
South Tyneside	(51,953)
Sunderland	(246,969)
Total Deficit	<u>(1,071,501)</u>

- 5.7 Assuming a net budget of **£51,486,645** is approved, the calculation of the Council Tax Requirement (precept) is shown in the following table:

2022/2023	£	£
Fire Authority's Net Budget		52,002,633
Less: Proposed Use of Reserves		(515,988)
Net Budget Requirement		51,486,645
Less: Revenue Support Grant	(9,263,345)	
Top-Up Grant	(11,457,053)	
SFA Adjustment	(1,588,792)	
Service Delivery Grant	(1,071,649)	(23,380,839)
Local Share of Business Rates		(3,341,264)
		24,764,542
Less: Estimated net surplus on Collection Fund at 31 st March 2022 (Council Tax)	(221,617)	
Add: Estimated net deficit on Collection Fund at 31 st March 2022 (Business Rates)	1,071,501	
Council Tax Requirement / (Precept)		25,614,426

Council Tax Base

- 5.8 The 'council tax bases' of the five District Councils are used to calculate the proportion of the Fire Authority's total precept to be levied on each Authority. The tax base is the estimated full year equivalent number of chargeable 'Band D' dwellings with two or more liable adults in respect of which tax will be received.
- 5.9 The 'council tax bases' for 2022/2023, as notified to the Fire Authority, and the total precepts proposed to be levied are set out in the table below:

District Council	Council Tax Base	Precept £
Gateshead	52,661	4,599,938
Newcastle	67,172	5,867,474
North Tyneside	62,229	5,435,703
South Tyneside	39,016	3,408,048
Sunderland	72,161	6,303,263
Total	293,239	25,614,426

Calculation of Fire Authority's Basic Council Tax

- 5.10 The Basic Council Tax for the Fire Authority is calculated by dividing the total precept by the aggregate of tax bases as shown below:

$$\frac{\text{Council Tax Requirement}}{\text{Total Council Tax Base}} = \text{Basic Council Tax (at Band D)}$$
$$\frac{\pounds 25,614,426}{293,239} = \pounds 87.35$$

- 5.11 A Basic Council Tax (at Band D) of £87.35 for the year 2022/2023 represents a 1.99% increase as compared to the 2021/2022 level.
- 5.12 Based on the Council Tax Requirement of £25,614,426 (known as Item R) and a basic Council Tax of £87.35 (R / T), it is recommended that the Authority adopts the following resolutions:

That for the year ended 31st March 2023:

- (i) the 'council tax base' for the whole of the Authority's area be noted as xx (known as Item T);
- (ii) the 'basic amount of council tax' be £87.35 and the amount of council tax for each category of dwelling be approved as set out below:

Valuation Band	(Proportion of 'Basic Amount')	Council Tax
		£
A	6/9	58.23
B	7/9	67.94
C	8/9	77.64
D	9/9	87.35
E	11/9	106.76
F	13/9	126.17
G	15/9	145.58
H	18/9	174.70

- (iii) Under Section 52ZB of the Local Government Finance Act, the increase in the Authority's relevant basic amount of council tax for 2022/2023 is not excessive in accordance with the principles determined under Section 52ZC(1) of the Act (i.e. no referendum is required).
- (iv) Approve that in accordance with Section 40 of the Local Government Finance Act 1992, the billing authorities within the area of this authority be issued with precepts in the amount of £25,614,426 for the financial year beginning 1st April 2022, the amount of the respective precepts to be issued to each billing authority's area in accordance with Sections 42A to 48 of the 1992 Act.

REVENUE ESTIMATES 2022/2023

SUMMARY OF ESTIMATES

Actual 2020-21 £'000	Original Estimate 2021-22 £'000	Revised Estimate 2021-22 £'000	Original Estimate 2022-23 £'000
4,913	5,092	6,107	6,156
40,885	44,811	43,578	45,813
190	212	212	212
257	(491)	(491)	(494)
(36)	(5)	(5)	(41)
0	1,700	557	2,291
500	500	500	500
		Capital Financing Costs:	
1,945	1,882	1,882	1,832
(3,587)	(4,479)	(4,479)	(4,479)
3,471	250	254	250
		Pensions IAS19:	
4,080	(20)	(20)	(620)
(5,250)	(375)	(375)	(85)
47,368	49,077	47,720	51,335
1,966	(535)	822	152
49,334	48,542	48,542	51,487
		Less:	
8,940	8,989	8,989	9,263
11,457	11,457	11,457	11,457
3,702	3,842	3,842	3,341
468	810	810	1,589
412	(47)	(47)	222
78	(2,086)	(2,086)	(1,071)
1,584	0	0	0
0	826	826	0
0	0	0	1,072
26,641	23,791	23,791	25,873
24,280	24,751	24,751	25,614
292,047	289,014	289,014	293,239

COMMUNITY SAFETY

Actual 2020-21 £'000	Original Estimate 2021-22 £'000	Revised Estimate 2021-22 £'000		Original Estimate 2022-23 £'000
3,621	4,449	5,563	Employee Expenses	5,589
282	56	56	Premises Related Expenditure	66
39	53	47	Transport Related Expenditure	53
153	195	268	Supplies and Services	172
2,203	1,269	1,126	Support Services	1,121
6,298	6,022	7,060	Total Expenditure	7,001
1,385	930	953	Less Income	845
4,913	5,092	6,107	Total Budget	6,156

FIRE FIGHTING & RESCUE OPERATIONS

Actual 2020-21 £'000	Original Estimate 2021-22 £'000	Revised Estimate 2021-22 £'000		Original Estimate 2022-23 £'000
28,458	30,551	30,145	Employee Expenses	32,147
2,156	2,333	2,351	Premises Related Expenditure	2,638
270	341	335	Transport Related Expenditure	345
3,726	8,026	8,134	Supplies and Services	7,917
0	0	0	RCCO	0
11,305	8,519	7,744	Support Services	7,716
45,915	49,770	48,709	Total Expenditure	50,763
5,030	4,959	5,131	Less Income	4,950
40,885	44,811	43,578	Total Budget	45,813

MANAGEMENT & SUPPORT SERVICES

Actual 2020-21 £'000	Original Estimate 2021-22 £'000	Revised Estimate 2021-22 £'000		Original Estimate 2022-23 £'000
10,059	8,068	7,975	Employee Expenses	7,911
228	212	214	Premises Related Expenditure	170
592	634	639	Transport Related Expenditure	653
1,553	1,593	1,630	Supplies and Services	1,674
3,478	3,336	3,336	Capital Charges	3,336
15,910	13,843	13,794	Total Expenditure	13,744
15,910	13,843	13,794	Less Income	13,744
0	0	0	Total Budget	0

CORPORATE & DEMOCRATIC CORE

Actual 2020-21 £'000	Original Estimate 2021-22 £'000	Revised Estimate 2021-22 £'000		Original Estimate 2022-23 £'000
45	44	44	Supplies and Services	44
108	112	112	Cost of Member Services	112
37	56	56	Support Services	56
190	212	212	Total Expenditure	212
0	0	0	Less Income	0
190	212	212	Total Budget	212

Appendix C

Medium Term Financial Strategy – Financial Risk Analysis

Impact of the outcome of the future Spending Reviews and Proposed Changes to Local Government Funding

A one year Finance Settlement with one-off funding included makes budget planning difficult.

Risk is that funding will not increase in line with inflation and the funding cuts have a significantly greater impact on the Authority's financial position than currently envisaged as a result of the unknown factors. Assumptions beyond 2022/2023 are based on indicative data released by Government as part of the 2022/2023 settlement, adjusted for best local knowledge and information currently available, and will be updated regularly for the impact of government reviews of funding and related announcements.

Business Rates Retention Scheme

Risk is that each district council does not collect the level of income indicated, which would then filter through to a reduction to the funding received, becoming a budget pressure in future years.

Risk that the Government's safety net level in the new arrangements is not directly linked to the level of business rates collectable and as such has been set too low.

From notifications of each district's business rates, the projected position for 2022/2023 is indicating a deficit over the government's assessment of business rates income, provided the level of business rates notified is actually collected in the year.

These risks will be mitigated by regular monitoring of the actual positions on collection with each of its district councils to identify issues and to take corrective action where possible. The Authority has earmarked funding in a separate reserve to address this risk should it arise.

Council Tax Support Scheme

Risk that the new Council Tax Benefit schemes are determined by each district council so the Authority has little real influence over the schemes which could impact on the collectable income. This will become transparent when the surplus/deficit position on the Collection Fund is reported by each district.

The risk will be mitigated by regular monitoring of the actual positions on collection with each of its district councils, to identify issues and to take corrective action where possible. This action will complement funding that the Authority has earmarked in a separate reserve to address this risk should it arise.

Inflation

Risk is that pay and price increases may exceed the levels provided for within the MTFS.

This is very unlikely to occur due to the realistic provisions made:

- Prudent provision has been made for all employees' pay awards;
- Expenditure in respect of most of the budget heads can be either influenced or controlled.
- 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 2022/2023 and 2% will not be achieved until 2024/2025. Provision has been made in the Authority's budget for the anticipated increase.

Debt Charges

Risk is that Debt Charges will be greater than budgeted.

This is very unlikely to arise due to:

- the current level of variable rate debt is low in comparison to the fixed-rate level of debt;
- the impact of the increase in interest rates has been considered. Future increases are expected to be gradual;
- the economic outlook is that base rates are likely to remain low over the course of the coming year and the Treasury Management Strategy can be adjusted to minimise the impact of any significant increases;

Investment Interest

Risk is that income generated will not match budget provision.

This is unlikely to arise in relation to investment income as a prudent rate of return has been included in the budget which reflects the investments made to date, the prevailing market conditions and the economic forecasts for the year ahead.

Other sources of income are small in the context of the overall budget.

Contingencies

Risk is that the contingency provision will be insufficient to meet the needs identified.

This is unlikely to occur due to:

- prudent estimates included for each category of contingency provision;
- specific contingencies are created for all known spending pressures;
- the total contingency provision is deemed sufficient in the context of the net revenue budget;

- past experience suggests an underspending against the contingency provision;
- can, if required, be supplemented by use of reserves should the need arise.

Risk Management

Risk is that all risks have not been identified and that major financial consequences may result.

This is very unlikely to occur due to:

- existence of Bellwin Scheme;
- a corporate risk profile in place, which is regularly and formally reviewed, and action is taken to mitigate and manage risks;
- Authority risk management action plans developed;
- comprehensive self and external insurance arrangements are in place;
- an adequate self insurance fund.

Financial Planning

Risk is that a major liability or commitment currently exists but has not been taken into account in the financial planning of the Authority.

This is unlikely to arise due to:

- the existence of a comprehensive Medium Term Financial Strategy process with regular updates during the year;
- benchmarking and networking with other senior finance staff in other Authorities who are likely to identify similar liabilities.

Revenue Budget - Budgetary Control

Risk is that the budget will be overspent in the year.

This is very unlikely to occur due to:

- monthly budget monitoring procedures;
- quarterly Revenue Budget Budgetary Control reviews undertaken, reported to the Authority and corrective action agreed or set in train;
- Financial Procedure Rules relating to delegated budgets provide for virements and carry forward of under / over spending to be used / met in the following financial year;
- clear budget management responsibilities in place;
- demonstrable track record.

Capital Programme Implications

Risk is that funding will not be available as planned or that over spending may occur.

This is unlikely to happen due to:

- prudent level of capital receipts retained;

Creating the Safest Community

- quarterly Capital Programme Budgetary Control reviews undertaken through the Asset Management Group, reported to the Authority and corrective action agreed or set in train;
- Revenue Contribution to Capital and prudential regime gives added flexibility in terms of financing the Capital Programme.

Reductions to the Revenue Budget

Risk is that planned reductions to the Revenue Budget will not occur or are unachievable.

This is unlikely to occur due to:

- the reductions to budgets planned have all been subject to due diligence and there are no significant barriers to implementation;
- the budgetary control processes that are in place will identify any shortfall and remedial action will be taken;
- contingencies exist to safeguard against the non-realisation of some of the efficiency reductions.

Income from Business Rates and Council Tax

Risk is that forecast levels of income from Business Rates and Council Tax are not achieved.

This is unlikely to occur due to:

- a prudent approach taken in setting the forecast income levels;
- the establishment of enhanced monitoring processes to identify any shortfall and remedial action will be taken;
- provision exists to meet any shortfall in business rates income above the safety net threshold
- government interventions may also be made depending on circumstances (eg in year losses additional grant funding).

Availability of Other Funds

Risk is that the Authority could not call on any other funds to meet unforeseen liabilities.

This is very unlikely as the Authority has a range of other funds which, whilst earmarked, are not wholly committed, so could be used in an emergency.

Appendix D

Statement of Earmarked Reserves and Provisions

Title and Purpose of Earmarked Reserve / Provision	Estimated Opening Balance (01/04/22)	Estimated Movement in 2022/2023	Estimated Closing Balance (31/03/23)
	£000	£000	£000
Insurance Reserve Reserve held to protect the Authority from unexpected volatility from changes in legislation that could be retrospective, unknown exposures that may arise in the future, and to cover a possible shortfall in the eventual settlement in respect of MMI.	1,127	(22)	1,105
Early Retirements Reserve Reserve to cover future compensatory added years payments associated with an early retirement during 2002/2003. This ensures no ongoing revenue implications.	1	(1)	0
PFI Smoothing Reserve Reserve established to smooth the impact of the PFI scheme on the Authority's revenue budget over the 25 year life-span of the scheme.	8,112	(500)	7,612
Budget Carry Forward Reserve Reserve established to fund the slippage of specific items of revenue expenditure.	795	(558)	237
Transformation and Reform Reserve Reserve covers expected costs following a review of the organisational changes required for the Authority to operate more effectively.	12,308	(6,372)	5,936
Capital Development Reserve Reserve created to fund medium term and long term capital and revenue developments.	2,859	(2,859)	0
Medium Term Planning Reserve Reserve established to plan for future grant reductions and the effects of localisation of business rates retention.	1,336	(16)	1,320
Injury Pension Reserve Negative reserve established to absorb the difference that would arise on the General Fund Balance from recognising the over claimed pensions top up grant as a long term liability. As annual repayments are made, the	(6,639)	500	(6,139)

Title and Purpose of Earmarked Reserve / Provision	Estimated Opening Balance (01/04/22)	Estimated Movement in 2022/2023	Estimated Closing Balance (31/03/23)
	£000	£000	£000
reserve will be reduced.			
COVID-19 Reserve Reserve temporarily established to deal with the implications of the COVID-19 pandemic.	27	0	27
Collection Fund Resilience Reserve Reserve established for the Local Council Tax Support Scheme grant received in 2021/2022 to meet potential reductions in council tax income impacting on future budgets.	826	0	826
Total Reserves that prevent an increase in revenue budgets	20,752	(9,828)	10,924
Resilience Reserve Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	3,500	0	3,500
New Dimensions Reserve Reserve to be used to provide for any adverse effect of potential changes in grant arrangements and to provide resources to support delivery of the Urban Search and Rescue response.	578	(70)	508
ESMCP Reserve Reserve to finance the Emergency Services Mobile Communications Project	1,516	(1,516)	0
Total Reserves to support service delivery requirements	5,594	(1,586)	4,008
Total Reserves	26,346	(11,414)	14,932

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Base Budget	49,719.94	52,002.63	52,605.01	54,435.42
Net Cost Pressures	4,451.30	1,082.38	1,830.41	1,551.09
Net Change to Base Budget	54,171.24	53,085.01	54,435.42	55,986.51
Efficiencies	(3,711.71)	(480.00)	0.00	0.00
IRMP Actions	1,543.10	0.00	0.00	0.00
Net Expenditure	52,002.63	52,605.01	54,435.42	55,986.51
Resources:				
Government Funding				
Top Up Grant (index linked to rpi)	11,457.05	19,213.55	19,597.82	19,989.78
Revenue Support Grant	9,263.35	0.00	0.00	0.00
Business Rates Share	3,341.26	5,763.75	5,879.03	5,996.61
LCTS	0.00	0.00	0.00	0.00
Service Delivery Grant	1,071.65	0.00	0.00	0.00
SFA Adjustment	1,588.79	1,620.57	1,652.98	1,686.04
	26,722.10	26,597.87	27,129.83	27,672.42
Other Resources				
Council Tax Income	25,614.43	26,124.15	26,644.02	27,174.24
Collection Fund - Council Tax (Deficit) / Surplus	221.62	(109.07)	0.00	0.00
Collection Fund - Business Rates (Deficit)	(1,071.50)	(32.20)	0.00	0.00
	24,764.54	25,982.88	26,644.02	27,174.24
Total Income	51,486.64	52,580.75	53,773.85	54,846.66
Real Funding gap in year	515.99	24.25	661.56	1,139.84
Cumulative gap before use of reserves	515.99	540.24	1,201.80	2,341.65
Planned use of reserves	515.99	24.25	661.56	1,139.84
Total Resources	52,002.63	52,605.01	54,435.42	55,986.51
Resources - summary				
	2022/23	2023/24	2024/25	2024/25
Council Tax	25,836	26,015	26,644	27,174
Business Rates	2,270	5,732	5,879	5,997
Government Funding	23,381	20,834	21,251	21,676
Totals	51,487	52,581	53,774	54,847