Item No 9

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

MEETING: 12th DECEMBER 2022

SUBJECT: BUDGET PLANNING FRAMEWORK 2023/2024

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 2023/2024 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 2023/2024;
- Setting out the context and planning assumptions used for drafting the Medium Term Financial Strategy (MTFS) 2023/2024 to 2026/2027 which will be formally considered later in the budget cycle.

2 Medium Term Financial Strategy 2022/2023 to 2025/2026

2.1 The Medium Term Financial Strategy 2022/2023 to 2025/2026 was approved by Authority in February 2022 as part of the budget setting process. This is summarised in the table below:

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Government Funding Changes	(1.299)	2.547	(0.417)	(0.425)
Spending Pressures	5.629	1.082	1.830	1.551
IRMP Costs	1.543	0	0	0
Total	**5.873**	**3.629**	**1.414**	**1.126**
Less Council Tax and Business Rate growth	(1.645)	(3.641)	(0.776)	(0.648)
Less budget efficiencies	(3.712)	(0.480)	0	0
Funding Change year	**0.516**	**0.024**	**0.662**	**1.140**
Cumulative Change	**0.516**	**0.540**	**1.202**	**2.342**

2.2 The Authority based the above MTFS on the one year Settlement provided by the Government for 2022/2023 which saw the grant funding level for 2022/2023 increased by £1.299m (5.88%) mainly as a result of the new potentially one-off service delivery grant of £1.072m. This grant has not been included in future years as it is unknown if this is a permanent grant or one-off funding at the present time. The Settlement for 2023/24 should confirm this position. The Authority was projecting to face a cumulative funding shortfall of £2.342m by the end of 2025/2026, which would improve if the one-off grant funding is retained. The MTFS is continually reviewed and updated to reflect changing circumstances and latest known information, however due to there not being enough information to build a more meaningful resource projection over the medium term, an updated MTFS will be presented to Authority in February 2023 as part of the 2023/2024 budget setting report, when resources will be confirmed.

3 National Economic Context

3.1 The Monetary Policy Committee's (MPC) latest projections outlined in its Monetary Policy Report published in November describes a very challenging outlook for the UK economy. It is expected to be in recession for a prolonged period and CPI inflation is to remain at over 10% in the short term. From mid 2023, inflation is expected to fall sharply, based on the elevated projected path of interest rates, and as previous increases in energy prices drop out of the annual comparison. Inflation is expected to decline to some way below the 2% government target in years two and three of their projections.

3.2 CPI inflation was 10.1% in September and is projected to peak at around 11% in Quarter 4 of 2022, which is lower than was expected in August, reflecting the impact of the EPG. Nominal annual private sector pay rose to 6.2% in the three months to August, 0.6 percentage points higher than expected in the August Report. Despite an expected decline in global price pressures and a significant fall in the prospective contribution of household energy prices to CPI inflation, domestic inflationary pressures are expected to remain over the next year. In the MPC's central projection that is conditioned on the elevated path of market interest rates, domestic inflationary pressures subside given the increasing amount of economic slack. Energy prices are projected to make a negative contribution to inflation in the medium term. CPI inflation is projected to fall sharply to 1.4% in two years' time, below the 2% target, and to 0% in three years' time. The risks around these projections are judged to be skewed to the upside. In projections conditioned on the alternative assumption of constant interest rates at 3%, CPI inflation is projected to be 2.2% at the end of the second year. However, it falls to 0.8% at the end of the third year. Given the judgement of an upside skew to the risks around the modal inflation projection, mean CPI inflation is also relevant. Conditioned on constant interest rates, mean CPI inflation is 2.7% and 1.3% based on the same assumptions.

3.3 The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 2 November 2022, the MPC voted by a majority of 7-2 to increase the Bank Base Rate by 0.75 percentage points, to 3%.

4 Autumn Statement

4.1 The Chancellor delivered his Autumn Statement on 17 November 2022 against a backdrop of the ongoing impact of the pandemic, the EU Exit, the War in Ukraine, the cost of living crisis and the resultant impact on inflation and interest rates.

4.2 Key Funding announcements for Local Government included:

- The 2021 Spending Review set UK Government departments' resource and capital Departmental Expenditure Limit (DEL) budgets. The Autumn Statement confirmed that departmental DEL budgets will be maintained at least in line with the budgets set at the 2021 Spending Review.

- At Spending Review 2021, departments were also provided with funding to cover employer costs of the Health and Social Care Levy. As the Levy is no longer being introduced as a separate tax from April 2023, departments will not face these additional costs, therefore their budgets have been adjusted to remove this compensation.

- To keep spending focused on the Government's priorities and help manage pressures from higher inflation, Government departments will continue to identify efficiency savings in day to day budgets. To support departments to do this, the Government is launching an Efficiency and Savings Review. This will include reprioritising spending away from lower value and low priority programmes, and reviewing the effectiveness of public bodies.

- To ensure key public services continue to deliver, the Government is prioritising further funding to support the healthcare system and schools. As a result of this targeted additional funding, total departmental spending (total DEL) will grow in real terms at 3.7% a year on average over this Spending Review period, although this will not impact equally on all services.

- As part of the OBR forecast process, the Government also provides an assumption for the future path of departmental spending. After this Spending Review period, departmental resource spending is expected to grow at 1% a year in real terms.

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

5 Local Income

5.1 Council Tax

The Localism Act provides for the staging of referendums to veto excessive council tax (precept) increases. This effectively places a limit on council tax increases and if authorities exceed the Government limits, the public will be ableto vote to agree or veto any increase considered ‘excessive’. For 2022/2023 a referendum requirement applied for proposed increases in Council Tax above 1.99%.

The Autumn Statement however has confirmed that for 2023/2024 Local Authorities including Fire Authorities can increase their council tax by up to 3% (5% for Local Authorities with social care responsibilities).The current MTFS assumed an increase of 1.99% in its precept for 2023/2024 and also in each year of the MTFS. An additional 1% increase would generate £0.256m. 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.

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. 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 2023/2024.

The impact of the cost of living crisis on Council Tax collection rates and Local Council Tax Support Scheme is likely to continue in to 2023/2024. The situation is being monitored in conjunction with the five Tyne and Wear Local Authorities to ensure realistic estimates are included in the Authority’s MTFS resource projections based on the best available data provided by the Local Authorities.

The MTFS continues to assume no growth in the council tax base until more information is known.

5.2 Business Rates

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

Inherent within the scheme is growth arising from annual inflationary increases to Business Rates. The Government confirmed in the Autumn Statement that it has frozen the business rates multiplier this year and the government has since confirmed that any loss from this action will be fully compensated for in the Local Government Finance Settlement as has been the case in previous years.

In addition to freezing the multiplier, the Government announced from 1st April 2023, business rate bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of targeted support worth £13.6 billion over the next 5 years will the government claim 'will support businesses as they transition to their new bills, protect businesses from the full impact of inflation, and support our high streets'. English Local Authorities will be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs.

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

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 2023.

6 Other Funding Issues

6.1 Changes to Retained Business Rates

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

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

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

7 Spending Pressures and Commitments

In addition to planning for funding changes, the Authority must also plan for a range of spending pressures and commitments that are not funded or are partially funded by Government. It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2023/2024, 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

The Autumn Statement stated it is important that pay awards deliver value for the taxpayer whilst also recognising the vital importance of public sector workers. For 2022/2023, the Government accepted the pay recommendations of the independent Pay Review Bodies for the NHS, teachers, police and the armed forces. This delivered the highest uplifts in nearly twenty years, with most awards targeted towards the lower paid. The Government is seeking recommendations from Pay Review Bodies where applicable for pay awards for 2023/2024.

For the Fire Service, the green book April 2022 pay increase of £1,925 on all salary scale points has been agreed. The grey book offer for operational fire-fighting staff of 5% from July 2022 has recently been rejected by FBU members and there has been no improved offer made by the national employers side.

These increases, whether agreed or provisional, are both in excess of the amounts included in the 2022/2023 base budget for pay awards and have therefore added pressure to the revenue budget in year.

For 2023/2024 a provision of 2% has been factored into the budget planning framework for both grey and green book pay awards. The position will however be kept under review throughout the budget process and any pay award in excess of these estimated levels will become a spending pressure for the Authority to manage.

7.1.1 National Living Wage

The Government implemented the national living wage of £7.20 with effect from April 2016. This has increased annually and the Government announced in the Autumn Statement that following the recommendations of the independent Low Pay Commission (LPC), the Government will increase the NLW for individuals aged 23 and over by 9.7% to £10.42 an hour from 1 April 2023. This does not impact directly on any of the Authority's pay grades.

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 2022/2023. The next Review will conclude in March 2023 and prudent provision was included within the MTFS for the potential impact of a further increase in employer contributions, however South Tyneside Council who administer the LGPS on our behalf, have recently notified us that the Employers rate for 2023/24, 2024/24 and 2025/25 will be 17.8% (a marginal reduction from the current level of 17.9%) which is welcomed and that there will continue to be no pension deficiency payments required over the next three year period (which was already anticipated in our planning forecasts).

Firefighters Pension Scheme

The last 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 on average to just over 30%. The average for Tyne and Wear in 2022/23 was actually 28.33% and this will be used until the actual rate applicable for 2023/2024 is known.

Changes in the employer contribution rates were due to be implemented from April 2023 for the majority of unfunded public service pension schemes. These valuations have already begun, and require intensive work across schemes, departments and the Government Actuary's Department (GAD) over several years. Due to interactions with wider pension policies, in particular the implementation of the McCloud remedy reforms, completion of the 2016 valuation process, and the review of the cost control mechanism, work would need to be undertaken in unprecedentedly short timetables to amend employer contribution rates for the April 2023 revaluation. We have been informed that changes to employer contribution rates resulting from the 2020 valuations will therefore be delayed from April 2023 to April 2024 and this has now been confirmed by the government.

A specific Fire Pension Grant of almost £2.7m was allocated in 2022/2023, the same amount as that allocated in previous years, although this funding was to form part of the wider fire services finance settlement. It still remained a specific grant in 2022/2023 despite the Government indicating this funding was to form part of the general grant settlement. At this stage it is assumed that it will remain a specific grant for 2023/2024 but this will not be confirmed until the Local Government Settlement in December.

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

7.1.3 Apprenticeship Levy

The Apprenticeship Levy, introduced in April 2017 for large employers (over 250 employees) has been reflected in the base budget since 2017/2018. For Tyne and Wear Fire and Rescue Authority the cost in 2022/2023 continues to be in the region of £0.160m. The Authority has now put effective arrangements in place to fully utilise the government's levy funds made available each year to the Authority and the outcomes are now reflected in the 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 April 2022 to help pay for the impact of the coronavirus pandemic on the NHS. This was built into the 2022/2023 revenue budget. This increase however has now been reversed from 1st November 2022 and the reversal will be reflected in the 2023/2024 budget.

7.2 Energy Prices

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

7.3 Capital Financing

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

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

7.4 National Non Domestic Rates

In the Autumn Statement, the Chancellor froze the business rates multiplier for 2023/2024, but this will need to be considered as part of the resource implications for the Authority once the Local Government Finance Settlement is released to confirm that the Government has in fact fully reimbursed local authorities for the reduced income from this measure.

7.5 General inflation

CPI inflation was 10.1% in September 2022 and the MPC estimates it to remain over 10% in the short term, reducing to around 2% by the end of 2023. High inflation impacts on the costs of most of the goods and services the Authority procures. The impact of inflation will be assessed as part of the 2023/2024 budget setting process.

8 Proposed Budget Planning Framework for 2023/2024

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 2022;
- Provision for spending commitments to be included at this stage on the basis set out at section 7 and kept under review;
- Budgets to be prepared on the basis that all spending pressures not specifically identified above as commitments will need to be accommodated within existing budgets wherever possible;
- Commitments against general balances and earmarked reserves to be reviewed and updated as necessary throughout the budget process;
- The uncertainty around the national economy which means there could be

increased risk of a return to austerity measures and lower grant funding which in turn could adversely impact on the Revenue Budget will need to be monitored and considered throughout the budget setting process;
- Any 'Invest to Save' schemes to be fully costed, evaluated and adopted where possible;
- 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 2023/2024 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 2023/2024 to inform the Authority's grant allocations, which will not be available until mid-December and will not be finalised until end of January 2023;
- 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 2023/2024 and beyond;
- Funding implications of the Pensions Grant being included within Formula Grant in future years;
- The general economic position and especially the continued impact of the pandemic, War in Ukraine, EU Exit, the cost of living crisis and the resultant high levels of inflation.
- Impact of continued higher inflation and pay awards than Government forecasts used to allocate grant funding;
- The District Council's Collection Fund projected outturn positions for both Council Tax and Business Rates for 2022/2023;
- 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 recognized or included within the report at this stage.

11 Financial Implications

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

12 Health and Safety Implications

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

13 Equality and Fairness Implications

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

14 Recommendations

14.1 Members are recommended to:

a. Agree the proposed Budget Planning Framework summarised at Section 8 of the report which will guide the preparation of the Revenue Budget for 2023/2024; and

b. Note that the MTFS 2023/2024 to 2026/2027 will be presented to Authority in February 2023 as part of the budget setting process.