

MEETING: 18 NOVEMBER 2019

SUBJECT: BUDGET PLANNING FRAMEWORK 2020/2021

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

1 Purpose of Report

- 1.1 This report sets out the main considerations in drafting the Revenue Budget 2020/2021 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 sets out specifically the Budget Planning Framework for 2020/2021;
 - Providing an update on the current Medium Term Financial Strategy (MTFS) and sets out the headlines and context for the MTFS 2020/2021 to 2023/2024 which will be formally considered later in the budget cycle; and
 - Setting out additional budget savings for 2019/2020 to assist in meeting the cumulative budget gap.

2 Medium Term Financial Strategy 2019/2020 to 2022/2023

- 2.1 The Medium Term Financial Strategy 2019/2020 to 2022/2023 was approved by Authority in February 2019 as part of the budget setting process. This is summarised in the table below:

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Government Cuts	0.581	2.370	0.318	0.279
Spending Pressures	1.817	1.658	1.295	1.306
Total	2.398	4.028	1.613	1.585
Less IRMP estimated savings	(0.110)	0	0	0
Less Council Tax and Business Rate growth*	(1.100)	(2.287)	(0.804)	(0.827)
Less budget efficiencies	(0.346)	(0.051)	0	(0.011)
Funding Gap in year	0.842	1.690	0.809	0.747
Cumulative Funding Gap	0.842	2.532	3.341	4.088

**Assumptions in table at this stage include a 1.99% increase in the precept in 2020/21 and thereafter and an additional 1% growth in each year for both council tax and business rates*

- 2.2 The Authority was projecting to face a cumulative funding shortfall of £4.088m by the end of 2022/2023. The plan is continually updated to reflect changing circumstances and latest known information.
- 2.3 As set out in the Revenue Budget Second Quarterly report on the agenda today, implementation of the IRMP action to dynamically adjust the distribution and availability of appliances based on risk and demand, which members approved in the February Authority and was implemented on 2nd April 2019, has resulted in a saving of £0.746m in 2019/2020. In addition, a mid-year detailed review of the contingencies budget has been completed in order to streamline the resource implications for this and future years to make the revenue budget more sustainable, which has resulted in a saving of £0.880m in 2019/2020. However, it must be recognised that some of the financial risks previously covered in contingencies will now have to be managed from reserves instead. These two actions remove the budget gap in 2019/2020 and mean the need for the Authority to use reserves has been removed in the current year.
- 2.4 The spending pressures within the current MTFS have also been updated and revised to present the revised MTFS set out below. This review, coupled with the two actions detailed in paragraph 2.3 above, show that the Authority will now make a contribution to reserves at the end of 2019/2020 and that the cumulative funding shortfall over the four year period reduces to £1.461m. This is an improved position to that presented in February (Table at 2.1). However there remains a vast range of financial uncertainties at this time, which could impact both negatively and positively on this revised position. These factors are all set out in the following sections of this report.

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Government Cuts	0.581	2.370	0.318	0.279
Spending Pressures	0.649	1.436	1.051	1.059
Total	1.230	3.806	1.369	1.338
Less IRMP estimated savings	(0.854)	(0.002)	0	0
Less Council Tax and Business Rate growth*	(1.100)	(2.287)	(0.804)	(0.827)
Less budget efficiencies	(0.346)	(0.051)	0	(0.011)
Funding Gap in year	(1.070)	1.466	0.565	0.500
Cumulative Funding Gap	(1.070)	0.396	0.961	1.461

**Assumptions in table at this stage include a 1.99% increase in the precept in 2020/21 and thereafter and an additional 1% growth in each year for both council tax and business rates.*

3 National Economic Context to the 2020/2021 Budget

- 3.1 The Chancellor delivered his spring statement on 13th March 2019, setting out a growth forecast of 1.2% for 2019, rising to 1.4% in 2020 and 1.6% in 2021, 2022 and 2023. The Office of Budget Responsibility (OBR) confirmed that the government was on course to meet its current key fiscal rules, namely that borrowing would be no higher than 2% of GDP and that debt as a percentage of

GDP would continue to fall. The OBR did comment that the government's overall objective for the public finances of reaching a budget surplus by the middle of the 2020's appeared challenging.

- 3.2 At the time of the Spring Statement, and based on the growth forecasts, the Chancellor had "headroom" against the borrowing target that could be used to support the economy, including a 'No Deal' Brexit scenario.
- 3.3 This Brexit uncertainty, together with wider geopolitical events and rhetoric around global free trade, has had a negative impact on economic growth in 2019, not just in the UK, but also Europe and beyond. Whilst the OBR has not issued any revised growth forecasts, it is clear that economic growth has slowed during the year. As such, many economic forecasters believe that the fiscal headroom referred to in the Spring Statement has diminished.
- 3.4 The fact that a General Election has been called for 12th December 2019 also adds another layer of uncertainty to the economy and also to the prospective level of public sector resources.

4 Government Core Funding

- 4.1 The financial year 2019/2020 is the final year of the four-year funding settlement offer made as part of the Comprehensive Spending Review 2015 (CSR15). Originally, funding for 2020/2021 was to be dependent on the anticipated Spending Review in 2019 to determine the quantum of money Local Government would receive from the government, as well as the introduction of both the Fair Funding Review and the proposed 75% Business Rates retention scheme from 1st April 2020. However, whilst progress has been made by government in all of these important areas of local authority finance, the timescales have been pushed back because of Brexit which is currently causing significant financial uncertainty and lack of clarity for the Authority's funding position for 2020/2021 and beyond.
- 4.2 In September, the Chancellor of the Exchequer Sajid Javid MP presented a one-year Spending Round for public sector spending for 2020/2021 to help public sector authorities plan ahead, whilst acknowledging delays to the planned Comprehensive Spending Review and that the local government funding system and review would also be delayed until 1st April 2021. This was announced ahead of the Provisional Local Government Finance Settlement which he confirmed would set out the detailed 2020/21 funding position for all local authorities. The Chancellor also announced that 'austerity was over' and that all government departments would see at least an inflationary increase to their existing 2019/2020 funding.
- 4.3 A full multi-year Comprehensive Spending Review will be conducted in the summer of 2020. Until this time, future funding continues to remain uncertain, although the Spending Round for 2020/2021 has given an indication of funding levels which will help the Authority to plan its budget for the next financial year. However, specific grant funding allocations for the fire service were not

announced as part of the Spending Round so these will not be known until the Provisional Local Government Finance Settlement is published later in December. This position could however change depending on the outcome of the General Election.

4.4 Key Funding pre-election announcements for Local Government include:

- Revenue Support Grant (RSG) – This was expected to reduce significantly in 2020/2021 and be replaced by higher business rates as part of the move to the revised 75% business rates retention scheme. Pending implementation of the scheme (now from 1st April 2021), RSG is being retained in 2020/2021 with an inflationary increase. The Authority's exact allocation remains to be confirmed but 2% has been used for planning purposes in the interim.
- Other Government Grants 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 2019/2020. This poses a further degree of risk, especially as the new Fire Pension Grant awarded last year to help address 90% of the additional cost of the firefighter pension funding shortfall due to changes to the pension discount rate and other factors, is worth almost £2.6m to the Authority in the current year. A loss or reduction in this grant would have a material impact on the Revenue Budget for 2020/21 and beyond.

4.5 According to the Chancellor, the improved financial outlook for the economy is sustainable. This would mean resources available to the Authority could improve to those reflected in the current MTFS which is predicated on the fire service continuing to receive cuts to government funding year on year into the medium term. However, until the provisional finance settlement is announced in December which will confirm actual grant funding for 2020/21, and the multi-year settlement (CSR 2020) is issued next Autumn, the Authority can only continue to speculate what level of resources it is likely to receive in the medium term, at this stage and whether the outcome of the general election has any further impact.

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 2019/2020 a referendum requirement applied for proposed increases in Council Tax above 2.99%.

Decisions by government on the council tax precept for 2020/2021 are currently subject to consultation. The current MTFS has therefore assumed a 1.99% increase in its precept for 2020/2021 based on current government guidelines

until further information is provided. 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.

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 is in its seventh 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 2020/2021, along with any adverse impacts from the introduction of Universal Credit across the region.

5.2 Business Rates

Under the current 50% Business Rates Retention Scheme, which is to remain unchanged for 2020/21, 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. However, there is continuing uncertainty, specifically around appeals and avoidance tactics, which can significantly impact on the level of income collected each year. The position will be kept under review and changes to Business Rates income will be reflected in the Budget Planning Framework as appropriate.

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 2020.

6 Other Funding Issues

6.1 Changes to Retained Business Rates

At this stage the Government's plans for Business Rates retention remain unclear. The Government had proposed to introduce 75% retention of business

rates in 2020/2021 but as indicated the Chancellor has now delayed this further to 1st April 2021.

In parallel, the government is reviewing 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 continue to work on a 'fairer funding' regime, although no detail or impacts assessment have been released.

The delays to both of these key components of local authority funding create uncertainty and make financial planning beyond 2020/2021 extremely difficult. In the absence of detailed information in respect of the impact of the fair funding review, 75% retained business rates system changes and the outcome of the CSR20, it is assumed for budget planning purposes at this stage 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 in the initial year of 2021/2022 and it has been further assumed that a flat rate plus inflation increase will be applied to fire service funding into the medium term at this stage.

6.2 Brexit

At the time of writing this report the possible impacts of the further delay in Brexit on the economy is unclear although the Chancellor remains of the opinion that austerity has ended despite the continued uncertainty around Brexit. It remains to be seen what implications Brexit will have on the economy and the effect this may have on public sector spending levels to be announced in the Autumn of next year. This is another layer of uncertainty that makes financial planning particularly difficult, especially into the medium term. Members should note that all MTFS projections, especially those beyond 2020/2021, are provided using the best information available and could change significantly over the next 12 months as resources are clarified.

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 by Government. It is proposed to take into account the following spending commitments in the Budget Planning Framework for 2020/2021, noting that in a number of cases specific cost details cannot be finalised at this stage and will be subject to further review and refinement throughout the budget setting process:

7.1 Pay and Pensions

At this stage no formal pay offer has been made for 2020/2021 or future years. Pending a formal offer and on the presumption that austerity is over, a prudent provision of 2.5% has been factored into the budget planning for both uniformed and non-uniformed pay. The position will be kept under review throughout the budget process. Any pay award in excess of these estimated levels will become

a spending pressure for the Authority to manage and depending on outcomes could be significant.

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 latest forecasts from the Office of Budget Responsibility suggest an increase to £8.63 in 2020, rising each year to £9.49 by April 2023. This represents an additional cost pressure for the Authority both through its own staffing costs and from external contract suppliers passing the costs on through increased contract prices. Provision has been factored into the budget planning.

7.1.2 Pensions

Local Government Pension Scheme

The Triennial Actuarial review of the Local Government Pension Scheme is currently being undertaken and will be concluded by March 2020 to take effect from 1st April 2020. Indicative outcomes of the emerging position are anticipated during the Autumn. Prudent provision is included within the MTFS for the potential impact and no increase in the pension deficiency payment is assumed.

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 31%. A specific grant of £2.6m was allocated for 2019/2020 to fund the increased rate, but the future of this grant funding is unknown until the outcome of the Spending Review 2020. Provision has been made in the budget and the MTFS for future years but, should this grant not continue, the Authority would then face a significant additional budget pressure of £2.6m.

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 2020/2021 is expected to be in the region of £0.125m. The Authority is in the process of identifying how it can best utilise government levy funds available to the Authority. The outcomes will be reflected in the 2020/2021 budget as plans are developed with a chosen provider.

7.2 Energy Prices

Energy and vehicle fuel prices continue to be volatile. It is therefore proposed that prudent provision be included for continued annual increases in charges for gas, electricity and vehicle fuel for the medium term. However, it is also important to note that increases continue to be lower than anticipated because

of the Authority's proactive approach and actions it has taken in respect of maintaining focus on reducing carbon emissions.

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.

8 Efficiency Plan

8.1 The Efficiency Plan 2016/2017 to 2019/2020 has now expired and no alternative arrangement has been indicated in the current Spending Round. This may be a feature in the next Comprehensive Spending Review but we will have to continue to keep a watching brief on this area to ensure we meet any future government requirements.

8.2 In the meantime the IRMP actions agreed and being implemented will be used as an efficiency tool to allow the Authority to redirect resources as required should this become necessary.

9 Proposed Budget Planning Framework for 2020/2021

9.1 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 Chancellor's Budget due in November 2019 and the Local Government Finance Settlement expected in December 2019;
- 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 be accommodated within existing budgets;
- The position regarding the Council Tax Precept increase will need to be kept under review and if there is a relaxation of the referendum limit, any increased flexibility will need to be fully considered by members as part of the budget setting process, with confirmation of these proposals being sought as soon as practicably possible;
- Commitments against general balances and earmarked reserves to be reviewed and updated as necessary throughout the budget process; and
- The fact that the government has indicated austerity has ended means there could be increased risk of higher pay expectations beyond those planned at this stage and this could also have a further inflationary impact on the Revenue Budget;
- Any 'Invest to Save' schemes.

10 Summary Resources, Pressures and Commitments Position

10.1 The total of changes in resources and spending pressures represents the estimated gross funding gap. However, at this stage there remains a number of significant uncertainties:

- The implications of the Chancellor's Autumn Budget Statement;
- The implications of the outcome of the General Election;
- The outcome and implications of Brexit;
- The Local Government Finance Settlement for 2020/2021 to confirm the Authority's actual allocations, which will not be available until December and will not be finalised until end of January 2020;
- Specific Fire Revenue Grant announcements and their future especially the Fire Pension Grant;
- The Government plans in relation to Fair Funding, Business Rates and the departmental spending review all impacting on 2021/2022 and beyond;
- The general economic position and public sector finances including any potential impact of Brexit negotiations;
- Impact of further roll out of Universal Credits on Council Tax income;
- The Districts' Collection Fund positions for both Council Tax and Business Rates for 2019/2020;
- Confirmation and update on IRMP savings assumptions;
- Additional budget pressures which may arise throughout the remainder of the budget process;
- Any remedy to local authority (including Firefighter) pension schemes regarding McCloud / Sergeant that could impact on the Authority's finances.

11 Updated Projected Budget Position

11.1 Based on the current information available as set out in the report, applying a 2% inflationary increase to the assumed government funding for 2020/2021, a flat rate position for all specific grants and a 1.99% increase in Council Tax, the Authority is still facing a funding gap of £0.660m in 2020/2021.

11.2 As documented in this report, financial planning beyond 2020/2021 is very difficult because of the complexity and number of uncertainties that exist.

The Authority however must still produce its financial plans in order for the fire service to be planned and provided to the public. The revised MTFS set out below therefore is based on a number of key assumptions. These include:

- Overall revised government grant funding increases by inflation of 2% each year;
- Council Tax increases by 1.99% per annum with growth in the tax base of 1% each year;
- All specific grants have been rolled forward on a flat rate basis each year until more information is known; and,
- Assumptions on budgetary pressures are based on the known costs facing the Authority.

Using all of this information shows an improved MTFS position with the Authority having a sustainable budget position over the medium term (cumulative surplus of £0.730m at 2022/2023). However, it must be stressed that this is a very provisional position in that there are currently so many factors that could materially change this outcome. An updated position will be provided in February.

Revised MTFS based on the assumptions in the report are set out below:

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Government Changes	0.581	(0.402)	1.576	(0.398)
Spending Pressures	0.649	1.436	1.051	1.059
Total	1.230	1.034	2.627	0.661
Less IRMP estimated savings	(0.854)	(0.002)	0	0
Less Council Tax and Business Rate growth*	(1.100)	(0.321)	(2.770)	(0.827)
Less budget efficiencies	(0.346)	(0.051)	0	(0.011)
Funding Gap in year	(1.070)	0.660	(0.143)	(0.177)
Cumulative Funding Gap	(1.070)	(0.410)	(0.553)	(0.730)

12 Risk Management Implications

- 12.1 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.

13 Financial Implications

- 13.1 The Budget Planning Framework provides the necessary guidance and information on the key financial aspects that will need to be considered by the Authority in drafting the 2020/2021 Revenue Budget to be approved by members in February 2020.

14 Health and Safety Implications

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

15 Equality and Fairness Implications

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

16 Recommendations

- 16.1 Members are recommended:
- To note the contents of the report and the estimated 'fluid' funding gap based on the most up to date information;

- b. To agree the proposed Budget Planning Framework summarised at Section 9 of the report which will guide the preparation of the Revenue Budget for 2020/2021; and
- c. To note the updated current MTFS and that the full MTFS 2020/2021 to 2023/2024 will be presented to Authority in February 2020.

