

**TYNE AND WEAR FIRE AND RESCUE AUTHORITY**

**ITEM 7**

**MEETING: 17<sup>TH</sup> JANUARY 2022**

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**SUBJECT: PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT  
2022/23**

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

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**1. PURPOSE OF THE REPORT**

- 1.1 This report updates members on the implications of the Provisional Local Government Finance Settlement for 2022/23, which was announced by the government on 16<sup>th</sup> December 2021. More detail is included within Appendix 1 of this report and Appendix 6 (copy to follow) sets out for members' information the agreed and submitted response to the consultation on the Provisional Finance Settlement for 2022/23. This response was agreed by members of the Emergency Committee because of the timings involved as this had to be submitted to government by 11:45am on 13<sup>th</sup> January 2022.
- 1.2 This position is unfortunately becoming a regular feature of recent Finance Settlement consultation papers which are being announced continually very late in December with only a short four week period of consultation.

**2. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2022/23  
– NATIONAL CONTEXT**

- 2.1 The information provided in the Settlement is derived from information and data provided by the Chancellor of the Exchequer in his 3 year Spending Review 2021 announced on 27<sup>th</sup> October 2021.
- 2.2 The summary below sets out all of the national financial information included in the published one–year Provisional Settlement for 2022/23 as follows:
- Core Spending Power increases nationally by an average of 6.9% for all of local government assuming that all local authorities levy the maximum Council Tax increases allowed in 2022/23. The LGA has commented that 'It is good that the Settlement has provided a potential increase of 6.9 per cent in council core spending power, including new government grant, to support vital local services. However, this assumes that council tax bills will rise by a maximum 3 per cent next year, including 1 per cent for social care authorities, next year, and this will continue to place a significant financial burden

on households in a year of economic uncertainty as they recover from the COVID-19 pandemic.

- The national average Core Spending Power increase for all standalone Fire and Rescue Authorities is an increase of 4.7%.
- Provides an additional £636 million of Social Care Grant so that according to the government councils can improve conditions for carers and those in need.
- Provides an additional £162 million of Social Care Reform Funding which is to be allocated in 2022/23 to support local government in preparing councils for social care reform and to help move towards providing a fair cost of care.
- Introduces a new one-off Services Delivery Grant totalling £822m for 2022/23 which is allocated to all local authorities based on their Settlement Funding Assessments (SFA). This is to help fund vital front line services but will be excluded from any proposed baseline for transitional support as a result of any funding system changes.
- Rolls over New Homes Bonus Funding of £554 million for 2022/23. The government has provided the same level of funding as in 2021/22 and has indicated that it remains committed to reforming New Homes Bonus to improve how housing growth across the country is incentivised, and that their response to the consultation on the New Homes Bonus will be published in the coming months.
- Maintains the Lower Tier Services Grant at 2021/22 levels of £111 million which benefits councils with responsibility for services such as homelessness, planning, recycling and refuse collection and leisure services. The funding floor has also been updated so that no council will have less funding available in 2022/23 than it did in 2021/22.
- Retains Rural Services Delivery Grant of £85 million which is unchanged from last year and continues the additional support for rural areas which the government claims can face additional cost pressures.
- Continues with the Business Rates Retention pilots by providing 100% Business Rates Retention schemes in Cornwall, Greater Manchester, Liverpool, West Midlands and West of England and 67% Business Rates Retention for London councils, to enable them to control more of the money they raise locally.
- Increases Revenue Support Grant in line with inflation, which is an increase of over £70 million for 2022/23.
- Provides £45m over the next 3 years to help fund the additional costs of external audit resulting from the Redmond Review and continues the funding of £15m provided in the 2021/22 Settlement.
- Fire Pensions Grant was not merged into Formula Grant as expected and is yet to be announced although the Home Office have indicated it will be at the same level of £115m as last year.
- The government has confirmed 'it is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources' and it is expected that their

proposed fair funding review and business rates reforms will be consulted upon in the Spring, however, this will not include the fire and rescue service at this stage. Transitional arrangements are expected for any changes implemented as a result of these reviews.

2.3 The following (Band D) Council Tax Referendum principles to be applied in 2022/23 were also announced:

- a general core principle of up to 2% applying to Shire County Councils, Unitary Authorities, London Boroughs, the Greater London Authority (GLA) and Fire and Rescue Authorities
- a continuation of the Adult Social Care precept, with an additional 1% flexibility available for Social Care authorities on top of the core principle of 2%
- Those Social Care authorities which did not use the entirety of the 3% Adult Social Care precept in 2021/22 can use the unused flexibility in 2022/23
- up to 2% or a £5 referendum, whichever is the higher, for Shire District Councils
- a £5 referendum principle for the 8 lowest-charging Fire and Rescue Authorities
- a maximum of £10 for Police and Crime Commissioners including the police element of the GLA
- No referendum principles for Mayoral Combined Authorities or Town and Parish Councils.

**3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2022/23 – IMPLICATIONS FOR THE AUTHORITY**

3.1 The Provisional Settlement for 2022/23 for the Authority is detailed in Appendix 2 but in summary shows that the Authority's Core Spending Power has increased by 4.99% in 2022/23 compared to 2021/22, which is slightly above the national average increase for all standalone Fire and Rescue Authorities (FRA's) of 4.7%.

It is important to note however that the 4.99% increase is predicated on a number of underlying assumptions and issues that could have an impact on the real resource position of the Authority in 2022/23:

- Government continues to assume that the Authority can still grow its Council Tax base by 0.78% in 2022/23 and will also increase its precept by the maximum allowed of 1.99%.
- Government have assumed that there is no Business Rates detriment to the income yield expected in 2022/23 despite the

continued adverse and devastating impact of Covid on businesses. The assumption is that income will remain at £4.088m in 2022/23.

- The government has fully funded both the freeze in business rates for 2022/23 and the concessions outlined in their Spending Review. The LGA has confirmed however that the increase used in the Provisional Settlement uses CPI and at the Final Settlement will be updated for RPI thereby increasing funding to local government by approximately £275 million. This means that the annual inflation increases applied to business rates and all concessions will then remain fully protected, which is welcomed. It must also be pointed out that the Safety Net Threshold set at £14.379m for the Authority has not been adjusted to take into account any reduction in business rates income from 2020/21 when covid impacted.
  - New Services Grant which according to the government is one-off funding for 2022/23 distorts the sustainable funding position. Whilst this additional funding of £1.072m is welcomed, if this grant is not maintained in future years then the real underlying Core Spending Power increase for 2022/23 is actually lower at 2.85%. It also creates uncertainty of funding levels for future settlements unless this can be fully consolidated into the Grant Funding Settlement and is a cause for concern.
- 3.2 The Draft Revenue Budget for 2022/23 is based on the Budget Planning Framework principles presented to members in December 2021 which now takes full account of the detail within the Provisional Local Government Finance Settlement for 2022/23 and also recognises some additional cost pressures resulting from changes in government policy highlighted in the SR21. The main conclusion from the Settlement, in overall terms, is that the impact of the increases to grant funding for 2022/23 is a better financial settlement than the position anticipated in the Budget Planning Framework 2022/2023, although additional cost pressures and the final resources position for the revenue budget are yet to be finalised for 2022/23.
- 3.3 The table below sets out the main changes to the resources position as compared to the existing MTFS forecast for 2022/23 at this stage which helps show the detail and also includes the main cost pressure variations identified to date. A more detailed and refined MTFS will be provided to members in February when the revenue estimate process has been finalised and the longer term financial implications are included.

	Current MTFS 2022/23 £m	Amended MTFS 2022/23 £m	Changes £m
<b>Cost Pressures:</b>			
Additional NI employer costs	Nil	0.325	0.325
Full year Impact of 2021/22 Pay Awards	0.067	0.692	0.625
<b>Total Additional Costs</b>	<b>0.067</b>	<b>1.017</b>	<b>0.950</b>
<b>Resources:</b>			
Top Up Grant	11.571	11.457	(0.114)
Revenue Support Grant	9.079	9.263	0.184
Compensation Indexation Grant	0.819	1.277	0.458
New Service Delivery Grant	Nil	1.072	1.072
**Council Tax	25.135	25.135	Nil
**Business Rates Share	3.810	3.810	Nil
<b>Total Resources</b>	<b>50.414</b>	<b>52.014</b>	<b>1.600</b>
<b>Remaining Resource to meet additional cost pressures in the revenue budget for 2022/23 (forecast to be insufficient at this time)</b>			<b>0.650</b>

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

- 3.4 The Authority's Core Spending Power (CSP) increase in 2022/23 has benefitted from the funding changes announced in the Provisional Settlement but is mainly because of the new one-off Services Grant for 2022/23 which has been allocated based on the Settlement Funding Assessments (SFA) of each local authority. This has meant that the Authority has received a marginally better settlement than the average increase across all standalone FRA's. The Authority's increase of almost 5.0% in 2022/23 compares to the national average increase for all local authorities of 6.9% and is slightly better than the 4.7% average increase for all standalone fire authorities. This improved position however needs to be taken into the context of past Settlements as there is still funding inequities in the current system which still need to be addressed and it is disappointing that these will not be amended as part of the government's proposed changes to the funding system being consulted upon in the spring. More information on the Authority's Core Spending Power is detailed in Appendix 3. The net increase in resources shown in the Authority's CSP shows that, in summary, the Fire Authority continues to see its resources eroded by more than the national average by a further 1.9% but is almost 0.3% above the average increase for the fire service. This means that the Authority's



funding position has marginally improved compared to other FRA's in 2022/23 but overall it has still incurred significant and disproportionate funding reductions from 2010/11 to 2022/23. The fact that this is a further one year Finance Settlement with one-off funding included also means that it will make budget planning more difficult compared to a clear and transparent three year settlement that would have been much more helpful to the Authority in planning its services.

- 3.5 In Appendix 4 and Appendix 5 there is more detail on the comparable CSP information amongst fire authorities for 2022/23, over the last 7 Year period and since austerity began in 2010/11 and also how they compare to the national position across England (where this information is made available). This information provides important context to members despite the improved funding position. It is already well known, despite the slightly improved Settlement for 2022/23, that Tyne and Wear has suffered some of the worst funding reductions since 2010/11 using the government's own measure of resources and continues to see a lower settlement despite the 'improving' position. It is also important to recognise that this information relates to funding and completely ignores the significant cost pressures also faced by the Authority since austerity began which it has also had to manage within its existing Revenue Budget. Higher inflation and pay awards will still need to be managed as part of the budget planning process, despite the welcomed increase in resources in 2022/23.
- 3.6 The Authority welcomes the retention of the additional funding nationally of £115m provided by the government for the increased Pension costs which is worth almost £2.7m to the Authority (the same figure as the three preceding years) but means that the allocations are not keeping up with the actual additional costs being incurred and still only meet roughly 90% of the costs involved. The Authority along with the NFCC and LGA successfully lobbied the government to secure this funding for future funding settlements. It was expected that this funding was to be merged into the general fire service funding control total for 2022/23 although this was not a feature of the Settlement but this will inevitably change the basis of the grant allocations to each fire authority once implemented.
- 3.7 In summary a more favourable funding Settlement than expected which is welcomed and this will help to meet the known and also the undoubted additional cost pressures that are expected from higher inflation (as confirmed by the OBR and the Bank of England) and possibly higher pay awards in 2022/23 now that the public sector pay freeze has ended. The Settlement also shows that without the additional new one-off Service Grant for 2022/23 the Authority would find itself in a much more challenging position. It is hoped that this funding is not one-off and can be made a permanent feature of the next two years funding settlements up to 2024/25 in order to provide more clarity on levels of resources for the Authority so that it can more effectively plan its services into the medium term. Failure to

secure this funding for future years however will undoubtedly mean a much more challenging financial position for the service to manage in both 2023/24 and 2024/25.

- 3.8 The Authority's response to the Government's consultation on the Provisional Finance Settlement is set out in Appendix 6 (Copy to follow) for Members information.

#### **4. REVIEW OF GENERAL BALANCES AND RESERVES**

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

#### **5. RECOMMENDATIONS**

- 5.1 The Authority is requested to note:
- a) the contents of the report which includes the updated Draft Revenue Budget resources position for 2022/23 taking into account the implications of the provisional local government finance settlement at this stage;
  - b) the comments made on the Authority's behalf to the government's consultation on the Provisional Grant Settlement for 2022/23;
  - c) the final Revenue Budget and Precept for 2022/23 will be presented to the Authority at its meeting in February together with an updated and more detailed MTFS.

## Appendix 1

### DRAFT REVENUE BUDGET 2022/23

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#### 1. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2022/23

- 1.1 On 16th December 2021, the Secretary for Levelling Up, Housing and Communities, Michael Gove MP, announced the 2022/23 Provisional Funding Settlement and launched a consultation on the proposed settlement ending on 13th January 2022.
- 1.2 The Provisional Settlement sets out the Government's Core Spending Power (which measures total available resources for all local authorities) for 2022/23 will see an overall increase nationally of 6.9% using this measure.
- 1.3 Under the Retained Business Rates funding arrangements for Local Government implemented from April 2013, 50% of the Business Rates collected will be retained by local authorities. There are a number of local authority's trialling both a 100% and 75% Business Rates retention models in preparation for the new proposed funding system which has been further delayed and is subject to the outcome of a government consultation in the Spring. This was mainly because of the impact of both the Coronavirus but also work being prioritised to complete a Brexit trade deal. The Government also announced a freeze on all business rates for 2022/23 because of the Coronavirus and that the planned reset for 2022 would be reviewed in line with the Chancellors Autumn Spending Review announcements, however, all authorities affected would be fully compensated for these measures, which have been confirmed in this Settlement.

The government stated that they will provide transitional arrangements for those authorities adversely impacted by any changes resulting from their Fair Funding Review and Reform of the Business Rates Retention system consultation. Whilst local government funding is under review, the Fire and Rescue part of the current funding formula is not expected to change. As in pre pandemic discussions, the fire and rescue formula may or may not be expected to be reviewed in the coming years.

- 1.4 The Government has retained the safety net threshold for each authority to limit the losses on Business Rates income collected in any one year. This has been frozen once more at £14.379m based on the Authority's local share funding baseline figure of £15.545m which was also unchanged from 2021/22. It is very unlikely however that activation of the Safety net will be called upon for most top up authorities in 2022/23 and the continual increases in the safety net adds additional risk to Authorities (who bear any



Business Rates losses up to the threshold amount). For this Authority it means that business rates would have to fall by £1.166m before any government funding would be triggered.

- 1.5 The Localism Act provides for the provision of referendums to veto excessive council tax increases. This effectively places a limit on council tax increases and if authorities exceed Government limits then the public must be able to vote to agree or veto any considered 'excessive' increase. In the Provisional Settlement the minister announced that the referendum threshold principles would return to an increase of no more than 2% for most Authorities. For the Authority this means an increase of below 2% is allowed for 2022/2023, although the lowest 8 Fire and Rescue Authorities can increase their Council Tax by a £5 flat rate increase to their Band D level. More flexibility is also being provided for District Councils whereby they can increase by 2% or a flat rate increase of £5 at Band D whichever is the greater, and the Police and Crime Commissioners can increase by a flat rate increase of £10 at Band D (the same as in 2021/22). The supplementary increase to help councils pay for Social Care has also been reduced from 2% in 2021/22 to 1% in 2022/23.

### **Impact on Tyne and Wear Fire and Rescue Authority**

- 1.6 The Government's Core Spending Power for Tyne and Wear Fire and Rescue Authority will increase by £2.500m or 4.99% in 2022/23 to £52.595m compared to an adjusted £50.095m in 2021/22.
- 1.7 The breakdown of the total Core Spending Power is shown in Appendix 2. This is the overall funding available to the Authority including Council Tax, Locally Retained Business Rates and other government funding. This may have to be reviewed once the final Local Government Settlement has been announced in late January or early February.

### **Settlement 2022/23**

- 1.8 As set out in 1.6 above the Authority's indicative Core Spending Power in 2022/23 will increase by 4.99% to £52.595m.
- 1.9 The changes include:
- The government has provided a new one-off Service Grant for 2022/23 of £822m nationally which has been allocated based on all authorities SFA's. The Authority has received £1.072m from this new funding stream and this is one of the main reasons for the improved financial Settlement for 2022/23. The Minister indicated this one-off grant can be used as authorities see fit and is to help them deliver vital front line services.

- The government figures assume a Council Tax increase of 2.77% made up from the revised cap put in place last year which allows an increase for the fire service of below 2% (1.99%) and an assumption the Authority's Tax Base will grow by 0.78%. This is one of the reasons the Authority's Core Spending Power for 2022/23 has improved although below are the other reasons for this improved overall funding position and it should be noted however that the Authority takes a much more prudent estimate of council tax income than that set out in the Settlement.
- The Settlement Funding Assessment (SFA) has been increased, by 1.12%, which is a cash increase of £0.274m in 2022/23. The figures however are marginally higher than those already forecast in the current Budget Planning Framework 2022/23 by only £0.070m in total. This is mainly because only Revenue Support Grant was uplifted by inflation of 3.10% but Business Rates and Top Up Grant were both frozen in line with the government's measures to freeze business rates for 2022/23 because of the adverse impact of the Coronavirus on businesses.
- 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 2022/23 Settlement mainly due to the fact that the government froze all business rates for 2022/23 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 2022/23 is £1.277m, an increase over last year of £0.467m to fund the gap, although the Authority was unaware of this scale increase in 2022/23 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 £458k worth of grant funding.
- The government also is projecting Business Rates to standstill at £4.088m in 2021/22 for the Authority despite the detrimental impact the Coronavirus has had on businesses. This estimate was already considered optimistic based on past business rates received by the Authority and the fact every year the amount collected is under the estimates provided by each of the Authority's district councils, which tends to create a deficit position to that expected. This optimistic projection for Business Rates is another reason why the Core Spending Power for 2022/23 is higher than budgeted in the MTFS. The MTFS and budget for 2022/23 however includes lower more realistic figures for both Council Tax and Business Rates income growth based on local knowledge of what is achievable and may also

need to be revised lower once more information is received from its district councils.

- The net impact of all of the above changes to the Authority's MTFS is additional funding of £1.600m.
- The Core Spending Power measure however excludes spending pressures faced by the Authority over the next financial year. These continue to be refined and will be updated to show the final position for 2022/23 and beyond in February.

### **Settlement Funding Assessment (SFA) for 2022/23**

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

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

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

**Top Up Grant** - fixed (and usually uprated by inflation) now until 2023, the next planned reset.

- 1.11 The SFA total of £24.808m is, in summary, made up of:

Retained Business Rates (per Govt)	£4.088m
Revenue Support Grant	£9.263m
Top Up Grant	£11.457m

### ***Retained Business Rates***

- 1.12 According to the government's funding assessment, the forecast income from Business Rates for 2022/23 for the Fire Authority is £4.088m which is unchanged from the previous year. This represents the amount of business rates the Authority can expect, according to the government, in total from the five constituent councils in Tyne and Wear. Any variation to this figure has to be met by the Authority if it is short, but it will gain from any additional income above the level assessed by the government. The risk, however, is that with business rates appeals, both backdated and current year, government business rate projections may be considered optimistic especially in light of the detrimental impact of the coronavirus. The Authority will not be notified of its business rates income until each district council has determined its total business rates for 2022/23 which it must do by no later than 31<sup>st</sup> January 2022.

- 1.13 Consequently, the Authority's local share of business rates will be reported in February when the final budget is set; this may incur an additional financial risk to the Authority if our actual share is significantly different from that included in our MTFS for the year which currently is £3.810m based on a more realistic assessment.

### ***Revenue Support Grant***

- 1.14 The amount of Revenue Support grant to be received by the Authority is £9.263m. This includes core revenue grant funding allocations of Formula Grant and previous Council Tax Freeze Grants. The Authority, as set out in the Chancellors Spending Review 2021, is seeing its RSG funding being increased (by 3.10%) in line with inflation which continues the government's policy of providing at least inflationary increases for public sector services. The MTFS assumed an increase of 1%, so there is additional RSG for the Authority of £184k from this variation. The Settlement was predicated on inflation using CPI when Business Rates requires RPI to be used instead. Any increase in funding is to be reflected in the Final Settlement according to the LGA who have estimated the national funding total for local government could increase by £275m overall.

### ***Top Up Grant***

- 1.15 The amount of Top Up Grant to be received as part of the Local Government Finance Settlement remains at £11.457m. This element of the funding has been fixed again until the next reset (2023/2024) and usually increases by inflation each year, although as business rates was frozen by the government it also meant it had to freeze the top up and tariffs applied for 2022/23 in addition. This element of funding tends to be one of the more certain elements within the current funding regime.

### ***Compensation for under-indexing Business Rates***

- 1.16 The Government has allocated the Authority a grant of £1.277m in 2022/23 to fund the gap between the capped business rates applied to small businesses and the rate of inflation. The funding each year is increased both by any further government concessions (which is the case for 2022/23 as all business rates were frozen once again as they were in 2021/22 in light of the impact of the Coronavirus on the economy) and also is uprated by inflation to ensure the 'lost business rates' funding from all concessions does not diminish the income due to local government in real terms.

## **Other Revenue Grant Funding not in SFA**

- 1.17 There are other revenue funding streams that the Authority receives from government in respect of New Dimensions Grant, Fire Link Grant and PFI Grant, but at this stage this funding has not been released as part of the Settlement. The budget currently assumes no significant changes for this funding for 2022/23 at this stage on the basis the government has stated it is providing stability of funding for 2022/23. Final allocations will inform the final Budget to be presented in February.

The government did not make any mention of the funding for building safety in the settlement, including funding for local authority building control and for fire services to increase capacity to deliver the functions of the Building Safety Regulator. This is a concern as sufficient funding will be required to enable the fire service and local authorities to support the regulator in its work to deliver meaningful change to the built environment.

The government has also retained the special grant for 2022/23 to help fire authorities meet the significant cost of changes to the pensions discount factor for the firefighters pension scheme which was originally trailed by the Chancellor in his 2016 Budget. The Authority prudently included £0.480m in the MTFs as a spending pressure, based on the likely increase at that time but revisions saw this cost escalate to the point that the Authority was facing a £3.2m overall liability. The Authority's share of the grant monies from government was almost £2.7m so this extra funding and the provision in the MTFs actually met this cost in 2019/20. Although the grant has been maintained for each year to 2021/22 at the same level since 2019/20 and is expected to remain unchanged for 2022/23. This grant as previously mentioned has been secured for future years but will be distributed as general grant funding in future years (possibly from 2023/24).

## **Council Tax Income (Precept)**

- 1.18 Funding settlements the Authority receive are predicated on the assumption that Council Tax precept increases will be taken in full by Members. This in effect forces the Authority to make annual Council Tax precept rises to avoid a revenue budget shortfall. The Authority continues to set its precept each year and relies on each district council within Tyne and Wear to collect the council tax income on its behalf. The Authority is awaiting the council tax base information from each Council to be able to assess if this will have an impact on the precept collectable in 2022/23 as it did in 2020/21 and is expected to have an adverse impact in 2021/22 too. Current planning remains unchanged based on no growth in the Tax Base (because of the adverse impact of the continuation of covid19), along with a proposed 1.99% increase (the maximum allowed by government without the need for a referendum) in the precept. The amounts this is expected to raise from



Council Tax is currently £25.135m. It is however currently still very difficult to project the yield from Council Tax for 2022/23 at this stage, until final confirmation is received from our 5 district councils.

- 1.19 The localisation of council tax arrangements introduced from 2013/2014 poses an additional risk each year for the Authority as the individual council tax schemes determined annually by each district council could impact on the Authority's collectable income. The extent of this will be clarified by the end of January 2022 when the district councils are obliged to advise the Authority of their surplus/deficit position on their Collection Funds and projections of their council tax base for 2022/23. This then allows the authority to estimate its expected council tax income for 2022/23. This will be reported as part of the final revenue budget in February but may be impacted by the continuing adverse impact on council tax income collection, which the additional LCTS funding provided by the government last year is helping to mitigate.
- 1.20 The table below summaries the 2022/23 provisional estimated resources position for Tyne and Wear Fire and Rescue Authority.

<b>Summary of resources position 2022/23</b>	<b>Amount £m</b>
Projected Income from Council Tax Precepts	25.135
Top up grant	11.457
Revenue Support Grant	9.263
Business Rates (MTFS)*	3.810
Services Grant (one-off)	1.072
Compensation for under-indexing Business rates	1.277
<b>Potential Total Estimated Resources (Settlement)</b>	<b>52.014</b>
MTFS Estimated Resources (reported in February 2021)	50.414
<b>Change in resources (at this stage)</b>	<b>+1.600</b>

\* The Authority's Business Rates estimate from the govt is currently £4.088m with no detriment because of covid / brexit included.

It is important to note that cost pressures have already increased by £0.950m in 2022/23 as a result of the fact fire sector staff were given a pay award of 1.5% for operational staff and at least a 1.75% pay award for non-operational staff which was unexpected and therefore unfunded in 2021/22. In addition there is also the increased cost of National Insurance Contributions in 2022/23 (£0.325m) that the government announced just before the Autumn Budget so the net impact on the MTFS is a net increase in overall resources of £0.650m in reality at this stage although more work is still required before the revenue budget can be finalised. There are significant cost pressures still to finalise and the resources position is also not yet confirmed which will impact on the Revenue Budget for 2022/23.

Members will also need to consider whether to accept the proposed Council Tax increase of 1.99% in light of final information on resources as part of the budget setting process in February.

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

## **2. Service Pressures**

- 2.1 A number of spending pressures were identified within the Budget Planning Framework and have been incorporated into the draft budget for 2022/23. They include:
- Inflation
  - Firefighter Pension Increase
  - Pay Award from 2021/22
  - National Insurance costs
  - Pay award provision for 2022/23

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

## **3. Overall Position**

- 3.1 The implications of the provisional settlement are better than anticipated but this is mainly due to the introduction of the new Services Grant one-off grant funding worth £1.072m to the Authority in 2022/23. As inflation was 3.1% in September 2021 this also played a part in increasing the funding allocated to local government via the Business Rates Retention system and the positive impact on Revenue Support Grant. Costs have however also increased since the last MTFS was reported in February 2021 and the net income or benefit at this stage in the budget preparation process shows a net improved financial position of £0.650m, although the revenue budget has not yet been finalised and as indicated in paragraph 1.20 above.
- 3.2 There is still work to be completed before a final revenue budget for 2022/23 can be presented for consideration by members and most of the outstanding issues are summarised in Section 6 of this report which can impact on the final budgeted position.
- 3.3 The detailed Revenue budget for 2022/23 and the updated MTFS will be however be reported to the meeting of the Authority on 14<sup>th</sup> February 2022.

#### **4. General Fund Balances, Earmarked Reserves and Provisions**

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

#### **5. Capital Programme**

##### **Capital Grant Funding**

- 5.1 Since 2016/17 the Authority no longer receives any capital grant funding from the government which has and continues to be a feature of Local Government Finance Settlements for the fire service. The Authority is therefore having to self-fund its Capital Programme from reserves and where possible from its revenue budget.

##### **Prudential Indicators**

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

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

##### **Capital Financing**

- 5.3 The Capital Programme for 2022/23 is still under consideration, and will be reported to Members in February. Given the financial position planned for the Authority over, at the medium term (to 2025/26), consideration will be given to the financing arrangements of the Capital Programme in the context of balancing the overall revenue budget position for the Authority

and achieving, as far as possible, the agreed objectives of setting a sustainable budget.

5.4 The various options available for financing the Capital Programme will be kept under review until the Revenue and Capital Budgets are finalised to ensure that the optimum use is made of the available resources. These options include:

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

### **Revenue Implications Arising from the Capital Programme**

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

## **6. Outstanding Issues**

6.1 It must be stressed that the figures presented are indicative only at this stage and there are a number of significant and outstanding issues and some financial assumptions made may need to be clarified prior to submission of the final budget proposals to the meeting of the Authority in February 2022.

6.2 The outstanding issues are as follows:

- Review of inflation provision in light of escalating costs
- Review of pay award provision with ending of the public sector pay freeze
- Final preparation of the budget requirement for 2022/23 is still ongoing at this stage, and will be subject to variation;
- Update of the MTFS is ongoing following announcement of the provisional finance settlement and will be further updated as necessary to reflect any changes that the government will make within the Final 2022/23 Settlement;
- Awaiting notification of the Council Tax Bases of Billing Authorities

- for 2022/23, this will directly impact on the Precept total;
- Awaiting notification of any net surplus/deficit on the collection fund of the Billing Authorities for council tax for both 2021/22;
  - Awaiting notification of business rates income from each council for 2022/23;
  - Awaiting notification of any net surplus/deficit on the collection fund of the Billing Authorities for business rates for 2021/22;
  - Confirmation of the decision from the Authority to increase the Council Tax Precept by 1.99% for 2022/23;
  - Confirmation of other revenue grant funding allocations; and
  - Confirmation of any rebate from the Business Rates Levy Account.