

Tyne and Wear Fire and Rescue Authority Item No. 8

Meeting: 20 January 2020

**SUBJECT: PROVISIONAL LOCAL GOVERNMENT FINANCE
SETTLEMENT 2020 - 2021**

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

1. Purpose of the Report

- 1.1 This report updates members on the implications of the Provisional Finance Settlement for 2020/2021, which was announced by the new government on 20th December 2019. More detail is included within Appendix 1 of this report and Appendix 6 sets out for members information the response made to the consultation on the Provisional Finance Settlement for 2020/2021. This was agreed by the Chair, the Chief Fire Officer and the Strategic Finance Manager because this had to be submitted to government by 17th January 2020.

2. Provisional Local Government Finance Settlement 2020/2021 –

National Context

- 2.1 The information provided in the Settlement is broadly in line with the Chancellor of the Exchequer's Spending Round 2020/21 announced on 4th September 2019. The main changes for the one year settlement 2020/21 were confirmed as follows:
- a) Adult and Children's Social Care Grant Funding increased by £1.0 billion;
 - b) An inflationary increase in New Homes Bonus of £7m;
 - c) Independent Living Fund Grant is to be continued for 2020/2021 at £160.6m;
 - d) Rural Services Delivery Grant is to be maintained at £81m for 2020/21

None of the above changes however will benefit this Authority.

2.2 The Chancellor also previously announced as part of his Spending Round 2020/21 that a Comprehensive Spending Review would be carried out in the summer which would set out the government's public sector spending plans for the following 3 to 4 year period, based on the premise that 'Austerity was over'.

2.3 The Institute of Fiscal Studies has however warned that future weaknesses in the UK economy (because of the unknown impact of Brexit and the current extreme economic uncertainty) could weigh on the government's declaration of the end to austerity and of the real risk that austerity may have to return especially if the deficit and/or debt levels started to increase.

2.4 Other Funding Changes included in the Settlement

- e) The government has confirmed that the Fire Pensions Grant Funding for 2019/20 totalling £115m, for which the Authority received almost £2.7m to meet 90% of the increased costs of employer pension contributions because of changes to the discount factor has been secured for 2020/21. However the amount allocated, which is to be based on the last three financial years pension's employer data, will mean that the Authority's grant allocation will change. This was not included within the Finance Settlement but it is expected to be released before the Final Finance Settlement for 2020/2021 is announced towards the end of January.

Members will be aware that the grant provided by the government only covered 90% of the pensions liability and that the additional cost had to be met by the Authority's Revenue Budget (which was £0.480m and was recognised and planned for in the Authority's MTFS as an additional cost pressure).

The government also has indicated that the future of this grant funding will be considered as part of the SR2020. This means that this funding beyond 2020/21 could be at risk and is not necessarily guaranteed in future years. This is something that will not be known until the Spending Review is finalised in the Autumn of 2020, and therefore still represents a major financial risk to the Authority's resources in the medium term.

- f) Council tax figures for both 2019/20 and estimates for 2020/21 have been updated in the Settlement to reflect local authority decisions, revised tax base growth assumptions and assumptions on council tax increases. These changes, as is the case each year, are included in the Authority's revised Core Spending Power figures published.

2.5 Council Tax Flexibility

Most of the limits set by the government for council tax increases before a referendum is triggered have been reduced back to their original 2% levels which means the Fire Authority limit of 2% included in the Authority's MTFS is accurate for 2020/21. However more flexibility is being provided for District Councils whereby they can increase Council Tax by 2% or a flat rate Band D increase of £5 whichever is the greater. The Police and Crime Commissioners criteria was not released. The supplementary 2% increase to help councils pay for Social Care has also been maintained.

3. **Provisional Local Government Finance Settlement 2020/2021 – Implications for the Authority**

- 3.1 The Draft Revenue Budget for 2020/2021 is based on the MTFS presented to members in November 2019 which now takes full account of the detail within the Provisional Local Government Finance Settlement for 2020/2021. Summary key headline figures for the Authority are set out in Appendix 2.
- 3.2 The main conclusion from the Settlement, in overall terms, is that the impact of the increases to grant funding for 2020/21 are broadly in line with those forecast in the Budget Planning Framework 2020/2021 reported in November. There is a reduction in both the Top Up Grant of £42k and the Revenue Support Grant of £32k because the inflationary increase was actually 1.63% (our planning was based on a 2% increase) and an increase in the Compensation for under-indexing Business Rates funding of £114k as the government announced more protection for small businesses on the high street as part of the Spending Round 2020/21. However in total, resources have marginally improved by £40k in the year.
- 3.3 The Authority's Core Spending Power (CSP) increase in 2020/2021 continues to show that the Authority's resources remain comparatively lower than other Authorities with an increase of 2.8% in 2020/2021 compared to the national average increase for all local authorities of 6.4%. The 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 has continued to see its resources eroded by more than the national average of a 3.6% difference in its increase. This means that the Authority despite incurring significant and disproportionate

funding reductions from 2010/11 to 2020/21 is still receiving a one year Finance Settlement worse than the national average position which continues to have a detrimental impact on the service.

- 3.4 In Appendix 4 and Appendix 5 there is more detail on the comparable CSP information amongst fire authorities for 2020/21, over the last 5 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). From the information it is clear 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 slightly 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.
- 3.5 The Authority welcomes the retention of the additional funding provided by the government for the increased Pension costs which was worth almost £2.7m last year, although the government has not released the allocations for 2020/21 yet. It remains a major concern however that the total cost to the Authority is not still not being fully funded at a time when it is facing other significant cost pressures that are outside of its control (eg inflation, Brexit, unfunded pay awards that could escalate if austerity is over etc.). The Authority needs the government to secure this grant funding on a permanent basis especially in view of the recent firefighter pension scheme remedy ruling on 18th December 2019 which will have a significant potential cost to the fire service as a whole that will need to be funded.
- 3.6 In summary, the Provisional Settlement has confirmed, that there has been a small change to the resources position set out in the Revenue budget for 2020/21 reported in November which has improved marginally by £40k.
- 3.7 The Authority's response to the Government's consultation on the Provisional Finance Settlement is attached at Appendix 6 for members information.

4. Summary of Resources and Spending Pressures

- 4.1 The table below summarises the overall revised MTFS which includes the amended resource position of the Authority taking into account the changes to resources set out in the Provisional Settlement at this stage and an assumption that inflation only funding increases are received in all years.

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Government Grant Changes	0.581	(0.327)	1.578	(0.396)
Spending Cost Pressures	0.649	1.436	1.051	1.059
Total	1.230	1.109	2.629	0.663
Less IRMP estimated savings	(0.854)	(0.002)	0	0
Less Council Tax and Business Rate growth	(1.100)	(0.436)	(2.773)	(0.830)
Less budget efficiencies	(0.346)	(0.051)	0	(0.011)
Funding Gap in year	(1.070)	0.620	(0.144)	(0.178)
Cumulative Funding Gap	(1.070)	(0.450)	(0.594)	(0.772)

5. Review of General Balances and Reserves

- 5.1 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.

6. Recommendations

- 6.1 The Authority is requested to note:
- a) the contents of the report which includes the updated Draft Revenue Budget resources position for 2020/2021 taking into account the implications of the provisional local government finance settlement;
 - b) the comments made on the Authority's behalf to the government's consultation on the Provisional Grant Settlement for 2020/2021;
 - c) that the final Revenue Budget and Precept for 2020/2021 will be presented to the Authority at its meeting in February together with an updated MTFS.

DRAFT REVENUE BUDGET 2020/2021

1. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2020/2021

- 1.1 On 20th December 2019, the Parliamentary Under Secretary of State for Communities and Local Government announced the 2020/21 Funding Settlement and launched a consultation on the proposed settlement ending on 17th January 2020.
- 1.2 The Provisional Settlement follows the revised funding format introduced for 2018/2019. The Government's Core Spending Power (which measures total available resources for all local authorities) for 2020/2021 will see an overall increase nationally of 6.4% 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 authorities trialling a 75% Business Rates retention model in preparation for the new proposed funding system to be introduced from 1st April 2021. This system has been delayed a further year due to Brexit and the December General Election. Government continues to cap business rate increases for small businesses in line with past Budget announcements. Authorities are however, fully compensated for these initiatives.
- 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 increased to £14.379m based on the Authority's local share funding baseline figure of £15.545m. It is very unlikely however that activation of the Safety net will be called upon for most top up authorities in 2020/2021 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 2020/2021. More flexibility is 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, however the Police and Crime Commissioners criteria was not released. The supplementary 2% increase to help councils pay for Social Care has also been maintained.

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 £1.350m or 2.79% in 2020/2021 to £49.652m compared to an adjusted £48.302m in 2019/2020.
- 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 2020/2021

- 1.8 The Authority's indicative Core Spending Power in 2020/2021 will increase by 2.79% or £1.350m in cash terms, to £49.652m compared to the adjusted 2019/2020 (£48.302m) position.
- 1.9 The changes include:
 - The government figures assume a Council Tax increase of 3.51% 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 1.52%. This is the major reason the Authority's Core Spending Power for 2020/2021 has improved although below are the other reasons for this improved overall funding position.
 - The Settlement Funding Assessment (SFA) has been increased, now that austerity is over, by 1.63%, a cash increase of £0.393m in 2020/2021. The figures are marginally lower however than those forecast in the Budget Planning Framework 2020/2021 reported in November by £0.074m in total.
 - 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 for 2020/21 was £0.623m, an increase over

last year of £0.125m to fund the gap, although the Authority already was aware of this and uplifted the income to £0.509m in its MTFS, so the potential benefit to the Revenue Budget is an additional £114k provided this has no adverse impact on business rates actually collected.

- The government also is projecting Business Rates of £4.088m in 2020/21 for the Authority. However this estimate is 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 growth is another reason why the Core Spending Power for 2020/21 is higher than expected. The MTFS and budget for 2020/21 however includes lower more realistic figures for both Council Tax and Business Rates income growth based on local knowledge of what is achievable.

- The Core Spending Power measure also excludes spending pressures faced by the Authority over the next financial year of almost £1.436m. These continue to be refined and will be updated to show the final position for 2020/2021 in February.

Settlement Funding Assessment (SFA) for 2020/2021

- 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 uprated by inflation until 2021.

- 1.11 The SFA total of £24.485m is, in summary, made up of:

Retained Business Rates (per Govt)	£4.088m
Revenue Support Grant	£8.940m
Top Up Grant	£11.457m

Retained Business Rates

- 1.12 According to the government's funding assessment, the forecast income from Business Rates for 2020/2021 for the Fire Authority is £4.088m. 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. The Authority will not be notified of its business rates income until each district council has determined its total business rates for 2020/2021 which it must do by no later than 31st January 2020.
- 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 £3.932m based on a more realistic assessment.

Revenue Support Grant

- 1.14 The amount of Revenue Support grant to be received by the Authority is £8.940m. 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 Round for 2020/2021, is seeing its RSG funding being increased (by 1.63%) in line with inflation which is the first time this has happened since austerity began in 2010/2011.

Top Up Grant

- 1.15 The amount of Top Up Grant to be received as part of the Local Government Finance Settlement is £11.457m. This element of the funding is fixed until 2021/2022 and increases by inflation each year, as such this is one of the more certain elements within the current funding regime. This level of fixed funding, however, is quite low in comparison to the total funding the Authority will receive.

Compensation for under-indexing Business Rates

- 1.16 The Government has allocated the Authority a grant of £0.623m in 2020/21 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 and also is uprated by inflation to ensure the 'lost business rates' funding does not diminish 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 2020/21 at this stage. Final allocations will inform the final Budget to be presented in February.

The government has also retained the special grant for 2020/21 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 £0.48m 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 2020/21 (allocations of which were not included in the Settlement) there is considerable uncertainty about this funding in future years as the government has indicated this funding issue will need to be considered as part of the wider context of its public sector spending plans (SR2020) and firefighter pension considerations.

Council Tax Income (Precept)

- 1.18 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 2019/2020. Current planning is based on a 1% increase in the Tax Base and 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 £24.426m and is already included in the MTFS.
- 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 2020 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 2020/2021. This will be reported as part of the final revenue budget in February.

- 1.20 The table below summaries the 2020/2021 provisional estimated resources position for Tyne and Wear Fire and Rescue Authority.

Summary of resources position 2019/2020	Amount £m
Projected Income from Council Tax Precepts	24.426
Top Up Grant	11.457
Revenue Support Grant	8.940
Business Rates (MTFS)*	3.932
Compensation for under-indexing Business rates	0.623
Business Rates Levy Account Rebate – (TBC)	0.000
Potential Total Estimated Resources (Settlement)	49.378
MTFS Estimated Resources (reported in November)	49.338
Change in resources (at this stage)	+0.040

* The Authority's Business Rates estimate from the govt is currently £4.088m

It should be noted that Members will 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 form 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 2020/2021. They include:
- Inflation
 - Firefighter Pension Increase
 - Pay Awards

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 marginally better than those forecast in the Budget Planning Framework report presented to the Authority in November. The table below has been updated to show the revised funding position of (£0.772m) that now presents itself to the

Authority after taking in to account details of the Provisional Settlement. Previously this amounted to (£0.730m) as reported in November 2019.

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Government Grant Changes	0.581	(0.327)	1.578	(0.396)
Spending Cost Pressures	0.649	1.436	1.051	1.059
Total	1.230	1.109	2.629	0.663
Less IRMP estimated savings	(0.854)	(0.002)	0	0
Less Council Tax and Business Rate growth	(1.100)	(0.436)	(2.773)	(0.830)
Less budget efficiencies	(0.346)	(0.051)	0	(0.011)
Funding Gap in year	(1.070)	0.620	(0.144)	(0.178)
Cumulative Funding Gap	(1.070)	(0.450)	(0.594)	(0.772)

- 3.2 It should be noted that the MTFS projections from 2021/22 onwards are based on assumed growth in government funding of inflationary increases which takes into account the fact that austerity is considered over by the Chancellor. If this position changes then the projected funding position will be changed accordingly.
- 3.3 The detailed Revenue budget for 2020/2021 and the updated MTFS will be reported to the meeting of the Authority on 17th February 2020.

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 The Authority no longer receives any capital grant funding from the government since 2016/17 which was a feature of the 4 Year Funding Settlement. The Authority is therefore having to self-fund its Capital Programme from reserves.

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 2020/2021 is still under consideration, and will be reported to Members in February. Given the financial pressures facing the Authority over, at least the medium term, 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 more 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);
 - 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 14 pumps, the fire boat and the fire 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 outstanding issues that will need to be clarified prior to submission of the final budget proposals to the meeting of the Authority in February 2020.

- 6.2 The outstanding issues are as follows:

- final preparation of the budget requirement for 2020/2021 is still ongoing at this stage, and may 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 may make within the Final 2020/21 Settlement;
- awaiting notification of the Council Tax Bases of Billing Authorities for 2020/21, this will impact on the Precept total;
- awaiting notification of any net surplus/deficit on the collection fund of the Billing Authorities for council tax;
- awaiting notification of business rates income from each council for 2020/2021;
- awaiting notification of any net surplus/deficit on the collection fund of the Billing Authorities for business rates for 2019/20;
- confirmation of the decision from the Authority to increase the Council Tax Precept by 1.99% for 2020/2021;
- confirmation of other revenue grant funding allocations and
- confirmation by government of any rebate on the Business Rates Levy Account;
- Any financial implications that may result from the recent firefighters pensions remedy announced by the Tribunal on 18th December 2019.