MEDIUM TERM FINANCIAL STRATEGY 2022/23 to 2023/24

JOINT REPORT OF THE CHIEF FIRE OFFICER AND TREASURER

CLEVELAND FIRE AUTHORITY

For Approval

1. PURPOSE OF REPORT

1.1 To provide an update on the medium term financial strategy and to outline the proposed timetable for approving the 2022/23 budget and council tax level.

2. RECOMMENDATIONS

2.1 It is recommended that Members:

(i) Note the report;

(ii) Note that 2022/23 Provisional Local Government Finance Settlement is not expected to be announced until December 2021;

(iii) Note the proposed strategy to address the 2022/23 budget deficit detailed in paragraph 5.7;

(iv) Approve the proposal to submit budget reports to the Executive Committee on 21 January 2022 and the full Authority on 11 February 2022 to set the 2022/23 Budget and Council Tax;

(v) Note the MTFS will be rolled forward to 2024/25 once the 2022/23 Provisional Local Government Finance Settlement is announced.

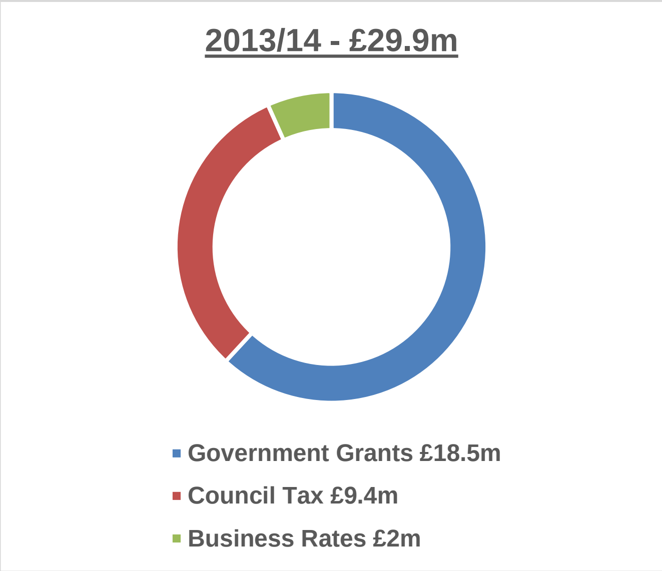
3. BACKGROUND

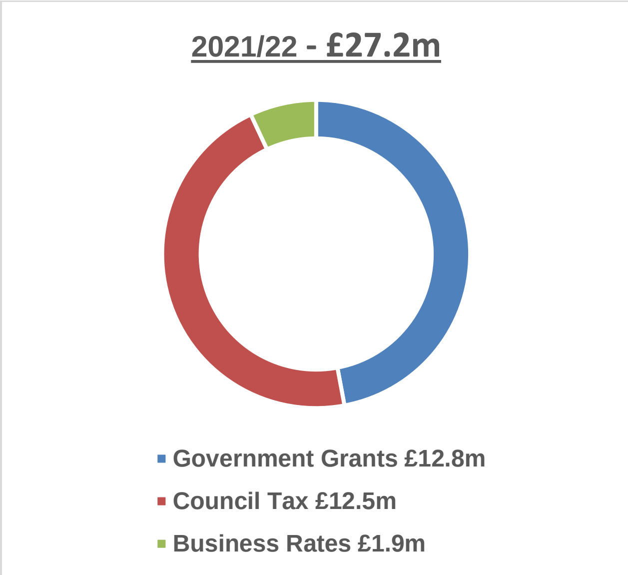
3.1 In developing the MTFS for 2022/23 and beyond it is useful to reflect on the impact of previous reductions in Government funding which had two significant impacts on recurring resources:

- A reduction in Government funding of **£5.7m** – a reduction of **31%**.
- An increase in the percentage of the budget funded from Council Tax from **31%** in 2013/14 to **46%** in 2021/22.

These changes are summarised in the following charts:

Changes in recurring funding 2013/14 to 2021/22





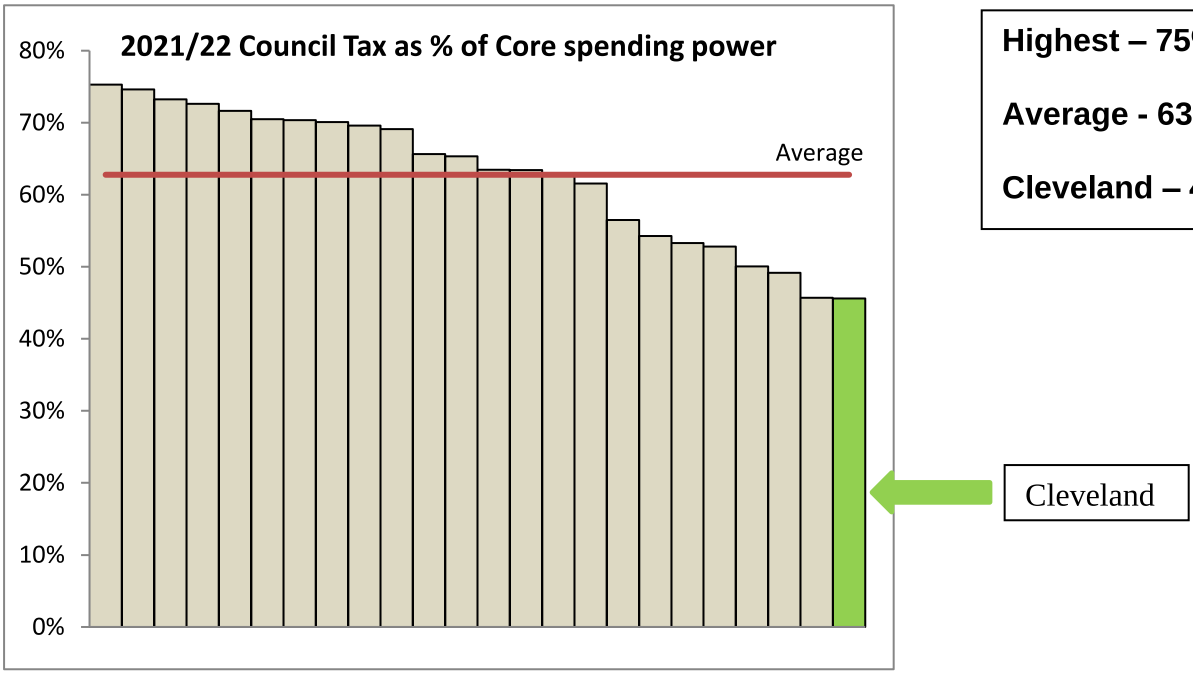
3.2 The cash reduction in the recurring funding takes no account of the impact of national pay awards and other inflation pressures, which had to be managed within the reduced cash budget. Based on the Bank of England's inflation calculator the 2021/22 recurring funding would have been approximately **£35m** if it had keep pace with inflation – which is **£7.8m** more than the actual recurring funding. This highlights the scale of the financial challenge previously managed by the Authority and the Chief Fire Officer.

3.3 As pay and inflation pressures have had to be funded from a reduced recurring resource base this has resulted in significant operational changes which required very careful management by the Chief Fire Officer. Clearly, given the scale of these reductions the Authority will find it extremely difficult to make further budget reductions.

Summary of previous budget reductions

- **36% reduction** in the number of **whole time firefighter posts** from 518 in 2010/11 to 330 in 2021/22.
- **33% increase** in the number of **retained duty system firefighter posts** from 72 in 2010/11 to 96 in 2021/22.
- **38% reduction** in the number of **fire control posts** from 26 in 2010/11 to 16 in 2021/22.
- **19% reduction** in the number of **non-uniformed support posts** from 129.21 in 2010/11 to 106.21 in 2021/22.
- **30%** reduction in number of Elected Members from 23 to 16 – effective from June 2016.

3.4 The other key issue for the Authority is the areas low Council Tax base as **46%** of properties are Band A, the lowest Council Tax band, compared to **24%** nationally. This means the Authority raises the lowest proportion of Core spending power from Council Tax than any other Fire and Rescue Authority (FRAs), as summarised below:



Highest – 75%

Average - 63%

Cleveland – 43%

3.5 As a consequence of the low Council Tax base the Authority remains reliant on Government grant, technically referred to as Settlement Funding Assessment (SFA), which in 2021/22 is **47% (£12.8m)** of recurring resources. The future level of this funding is therefore critical to the financial sustainability of the services provided by the Authority.

4. 2021 SPENDING REVIEW (SR)

4.1 The Chancellor presented details of the Government's spending plans for the next three years (2022/23 to 2024/25) to Parliament on 27 October 2021. In broad terms the SR indicates that Core Spending Power for local authorities is estimated to increase by an average of 3% in real terms each year, including investment in Adult Social Care reform. There are two critical aspects to this position:

- **The Core Spending Power increase is predicated on a 2% Council Tax referendum limit, plus a 1% Adult Social Care precept for authorities with this responsibility**.

  The 2% limit is the MTFS planning assumption and increases at this level only increase the Authority's Spending Power by approximately 1%.

  The Authority could only achieve average annual 3% Spending Power increases if there were annual increases in Government funding of 4%. This will not happen as the funding allocated in the SR will be targeted at Social Care – including the impact of a 6.6% increase in the National Living Wage and the impact of the 1.25% National Insurance increase.

- **Additional national funding of £1.6 billion for local authorities**

  The distribution of this funding will be determined by the provisional 2021/22 Local Government Finance settlement. Whilst this funding is front loaded in 2022/23 a significant element will be committed to costs that are also front loaded, namely:

  - Supporting Adult Social care authorities meet the costs of the 6.6% increase in the National Living Wage;

  - Meeting the costs of the 1.25% National Insurance increase;

  - Resource Equalisation for the 1% Adult Social Care precept - this will be necessary to support Adult Social authorities with a low Council Tax base which raise less resources the precept. These areas have higher demands on Adult Social care costs owing to demographic issues.

  For planning purposes it is still anticipated the 1.25% National Insurance increase, which will increase costs by £157,000 from April 2021, will be funded. If this is not the case the Authority will face an increased budget deficit. The position on this issue and the normal Government grant funding will not be confirmed until the provisional 2021/22 Local Government Finance settlement in December.

  At this stage there are too many unknown factors to estimate the impact on the normal Government grant funding allocated to the Authority – each 1% increase could potentially equate £128,000.

4.2 The SR also included the following issues:

- **Removal of Public Sector Pay 'Pause'**

  No additional funding will be provided. Therefore, if pay awards exceeds the 2% MTFS planning assumption the Authority will face increased budget deficits. Each 1% additional pay award is £235,000. This is a risk against the current increase in inflation.

- **Business Rates**

  Businesses with be supported through a freeze in the business rates multiplier and an extension of Retail, Hospitality and Leisure relief. The Government anticipates this will cost £1.7 billion nationally in 2022/23.

  Authorities will be compensated though the payment of section 31 grants, which will fully cover the extension of Retail, Hospitality and Leisure relief. The section 31 grant for the freeze in the multiplier will be determined by the inflation factor the Government use. As the MTFS assumed a cash freeze in business rates income this should provide increased income – each 1% increase equates to approximately £19,000.

4.3 Since the Government announced their intention in 2015 to increase Business Rates Retention from 50% to 75% previous MTFS reports have highlighted the significant financial risk to the Authority of this proposal. It is therefore helpful that in a recent speech to the House of Commons Housing, the Communities and Local Government Committee, Michael Gove informed MPs that increasing Business Rates Retention would conflict with the government's 'levelling up agenda' and that the government would now "proceed with caution" on the issue. Instead, the government will now look at the mechanism for redistributing funding to the authorities most in need. Mr Gove told MPs:

- "You have a situation where those local authorities that have the most resilient council tax base and also the highest portion of business rates are, relatively speaking, in a stronger position, relatively speaking, with more in the South East.
- It goes against the broader principle of 'levelling up' to move precipitately to a system whereby 75% of business rates is retained because that works against the process of redistributing money to those who need it most particularly in the wake of Covid-19, particularly because Covid-19 has reinforced some inequalities.
- It would be "crude" to represent the move as seeking to help councils in the north more than those elsewhere.
- I am conscious of the fact that if you have a less resilient council tax base, and you've been through Covid-19, then we may need to look at how we can do more to help those local authorities in the next three years."

5. LOCAL PLANNING ASSUMPTIONS 2022/23 ONWARDS

5.1 The current MTFS covers 2021/22 to 2023/24 and was prepared against an uncertain financial background pending the outcome of the 2021 SR and potential changes to the funding system. Based on the information available earlier in the year the following budget deficits were forecast:

Current Forecast Budget deficits 2021/22 to 2023/24 – with Pension Grant continuing

	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total savings to be made before start 2023/24 £'000
Forecast Deficit	336	241	198	775
Deficit deferred from 21/22 to 22/23 by using reserves	(336)	336	0	0
Deficit to be addressed in year	0	577	198	775

5.2 The current forecasts reflect the following key planning assumptions:

- Annual pay awards and non-pay inflation of 2%
- Annual Council Tax increases of 1.9%
- Recovery of the Council Tax base from Covid impact

- Freeze in Government funding and Business Rates income for three years.
- Employers' National Insurance increase will be funded
- Pension grant of £1.409m will continue, or will be mainstreamed at this level.

5.3 As outlined early in the report the position in relation to resources for 2022/23 will be clarified in December when the 2022/23 provision Local Government Grant Settlement is issued. This is likely to be a one year settlement as the Government has deferred the Fair Funding Review to 2023/24. This means the financial position will remain uncertain and challenging to manage.

5.4 At this stage it is anticipated that there may be an increase in Government funding and Section 31 grant in relation to Business Rates. However, there is insufficient information to quantify the impact and the actual position will be known soon.

5.5 Additionally, it is anticipated the Council Tax base will be higher than forecast as the economic impact of Covid has been less than feared. This information will also be confirmed shortly as the four constituent councils are currently working through the detailed calculations.

5.6 On the downside there are increased risks and uncertainty in relation to future national pay awards and inflation which will increase costs.

5.7 Therefore, against this uncertain background a comprehensive update of the MTFS planning assumptions will be completed and details reported to the Executive Committee on 21 January 2022. This will then enable Members to determine the budget proposals to be referred to the full Authority on the 11 February 2022. It is anticipated this strategy will be based on recommending the 2022/23 deficit is addressed from a combination of the following:

- a 1.9% Council Tax increase to secure recurring resources;

  The Government is expected to confirm a 2% referendum limit for Fire Authorities and this will be reflected in their Spending Power figures. Therefore, authorities which do not increase Council Tax will not achieve increases in Spending Power and will not be able to argue for additional Government funding as available Council Tax flexibility will not have been used.

- Implement efficiencies savings which can be achieved without impacting on services. Details are currently being identified by the Chief Fire Officer and will be included in the next MTFS report;

- Allocate the forecast increases in Government grant, Business Rates section 31 grant and the Council Tax base to reduce the deficit as these resources should be sustainable;

- Use of the Budget Support Fund to address the residual 2022/23 budget deficit;

5.8 On the basis that the Pension grant continues and the Employer's National Insurance increase are fully funded this strategy will defer a budget deficit from 2022/23 to 2023/24. This approach will provide a longer lead time to develop a strategy to reflect the recurring resources available to the Authority, including the delayed announcement of the Fair Funding review.

5.9 In the unlikely event the Pension grant does not continue and the Employer's National Insurance increase is not funded a significantly higher budget deficit will be deferred from 2022/23 to 2023/24. This would then require even more fundamental service changes to be implemented, which would require an appropriate lead time to develop, then consult upon and finally implement after approval of the Authority. Using the Budget Support Fund in this situation would still be appropriate as this is the purpose of the reserve.

5.10 The next report will also integrate the Reserves Strategy with the MTFS and the Capital Strategy.

5.11 It is also recommended the Budget Support Fund may need to be used to address potential additional costs in 2022/23 costs if national pay awards exceed 2%, if in-year budget savings cannot be achieved.

6. CONCLUSION

6.1 The Chancellor's 2021 Spending Review provides details of the broad direction of public spending for the next three years and indicates all Government departments will see an increase in funding. This is better than the forecast cash freeze in funding. There is reference to a 5% efficiency target within the Spending Review, although no details of how this will be implemented.

6.2 There is additional funding for local authorities, which it is anticipated includes FRA's. The majority of this funding will be allocated for Adult Social Care. Individual authorities will not know the impact until the provisional Local Government settlement announcement in December. For planning purposes it is assumed the settlement will confirm the continuation of the Pension Grant and new funding for the Employers' National Insurance increase. If this is not the case the Authority will face a significantly greater financial challenge.

6.3 The proposed 75% Business Rates changes will not be implement, which removes financial risk. The Fair Funding Review (FFR) will not be implemented for 2022/23 and implementation for 2023/24 remains challenging. This suggests a one year grant settlement for 2022/23. Whilst FFR delay makes financial planning challenging the 2022/23 grant settlement should define the resources base for future years and implementation of the FFR review may potentially increase resources. Therefore, once the 2022/23 grant figure is know the MTFS will be rolled forward to cover three years up to 2024/25, which will then enable a three year plan to be developed.

6.4 The Spending Review confirmed Council Tax increases will continue to fund increases in Spending Power. It is anticipated the provisional Local Government settlement announcement in December should confirm a 2% referendum limit for FRA's, which is the MTFS planning assumption.

6.5 As Members appreciate this Authority raises less than most other FRA's for each 1% increase in Council Tax. Nevertheless these increases secure recurring resources to protect services. Authorities which do not increase Council Tax will not achieve increases in Spending Power and will not be able to argue for additional Government funding as available Council Tax flexibility will not have been used.

6.6 There are increasing risks in relation to national pay awards and inflation (including gas, electricity and fuel prices) which will need to be assessed and managed when setting the 2022/23 budget. Further information will be provided in the next MTFS to enable a strategy to be developed to manage these issues.

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