

Report of the Treasurer

Budget 2022/23 and Medium Term Financial Plan (MTFP)

Purpose of report

1. To inform Members of the current position on the budget for 2022/23 and implications for the MTFP.
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Recommendation

It is recommended that the Committee:

- i. Approves the changes to the Medium Term Financial Plan (MTFP) expenditure projection;***
- ii. Recommends that the Authority increase the Band D Precept by £1.72 (1.96%);***
- iii. Notes that the MTFP funding projection awaits detailed information on Business Rates; and***
- iv. Notes that the indications are that the final MTFP will be within previously approved parameters.***

Introduction and Background

2. In February 2021 the Authority approved a budget for 2021/22 and an MTFP for the period up to 2024/25, which was updated in June 2021; this was based on very uncertain information for years beyond 2021/22.
3. The most recent report to the Authority was made in December 2021 immediately prior to the local government grant settlement announcement and prior to council tax-base information and business rate yield information from Billing Authorities and was essentially a holding report.
4. More (but not yet full) information is now available to give a more informed view on the possible final position for the Authority to consider in February.
5. Whilst there has been a three-year Comprehensive Spending Review (CSR), the deferred changes to local government grant distribution (*the impact for fire is minimal as explained below*) are that there is again only a one-year grant settlement, with no specific information on later years of the CSR or any indication of direction beyond. As a consequence, the MTFP has been limited to the CSR period.

Expenditure Projection

6. In June 2021 the Fire Authority approved a revised expenditure forecast as set out below (and there are a number of revisions to this).

	£m	£m	£m
June MTFP Projection	36.618	37.372	38.739
Wyre Forest Hub - delayed disposals	0.050		
Additional Road fuel inflation to 20%	0.055	0.055	0.055
Additional electricity/gas inflation to 50%	0.130	0.130	0.130
Revised MTFP Projection	36.853	37.557	38.924

7. The MTFP anticipates savings from the sale of surplus buildings following the opening of the Wyre Forest Hub. However, continued delays to the physical disposal of these assets may mean the achievement of the costs savings are deferred. The increases in inflation provision are self-explanatory.

Funding Resources Projection

8. As Members will be aware, funding comes from three sources: government, council tax-payers and business rate-payers, yet there are interconnections between all three, especially as government has supported the impact of Covid on the council tax-payers and other macro-policy decisions around business rates.
9. In an attempt to make this simpler and to allow more realistic year on year comparisons the analysis is split into three broad areas, all of which will include elements of grant. This analysis will be different to that used by other Authorities

Government Grant Related

10. The provisional local government settlement was issued in late December and is expected to be confirmed in late January. As usual this has been subject to the usual consultation process, but it is unlikely to change. Key features of this are that there are no grant reductions and government appear to have fulfilled its promise to fund the Employers National Insurance increases.
11. It was originally expected that Department for Levelling Up and Communities (DLUC) would implement changes to the local government funding formula this year and it had managed to secure £825m additional funding to smooth this transition. As this change has now been delayed this funding has been distributed this year as a one-off allocation, before moving into the base under the new formula from 2023/24.
12. As the Fire formula will not change for this CSR period the three-year allocation of this money to fire is highly likely to remain unchanged. One general change that will impact on fire is that the revised formula is expected to switch back from using actual to using average Council Tax levels, which could be advantageous to this Authority. No advantage has been assumed in the MTFP.

13. As Fire Revenue grants (for New Dimensions and Firelink) are technically part of central government expenditure (rather than part of the local government settlement) they cannot be announced until late February but all indications are that this will remain unchanged.
14. Pension Grant was expected to move from Home Office (HO) to DLUC this year but legal questions around the distribution mechanism under the local government settlement have seen this revert back to HO. As a consequence, this also cannot be confirmed until late February but again all indications are that this will remain unchanged.
15. It is also helpful to see that the small Rural Services Delivery Grant is to continue.
16. The table below shows a comparison between the MTFP assumptions and the provisional settlement with the 2021/22 position shown to provide context.

	2021/22 Actual £m	2022/23 MTFP £m	2022/23 Provisional £m
Revenue Support Grant	2.081	2.123	2.144
Business Rate Top Up Grant	3.372	3.372	3.372
S31 Grant - Freezing Business Rates	0.176	0.247	0.277
2022/23 Services Grant			0.392
Rural Services Delivery Grant	0.115		0.115
S31: Fire Revenue Grant - New Dims	0.820	0.820	0.820
S31: Fire Revenue Grant - Firelink	0.157	0.182	0.182
Pension Grant	1.568	1.568	1.568
	8.289	8.312	8.870

17. Even allowing for the fact that the settlement included funding of £0.214m of National Insurance Costs this represents a real £0.344m improvement in the position.

Precept Related

18. Precept income is a combination of the tax-base and the Band D tax-level. The Authority has approved a planning assumption of an annual increase of 1.96% which is continued. The tax-base projections were provided by the Billing Authorities and were cautious when making these projections in the midst of the unknown long-term implications of Covid and an overall increase of only 0.36% was forecast.
19. Although most of the Billing Authorities have, as yet, not formally notified the Authority of tax-bases, information provided to other Preceptors indicates that an actual overall increase of 1.93% is likely. As yet there is no indication on the Collection fund position and although we need to allow for the spreading of the 2020/21 deficit the indications from the tax-base growth suggest that a small surplus for 2021/22 may be likely. However, the current projection continues to assume a neutral position on 2021/22.

20. In the absence of information on future tax-base changes, the current assumption is for an annual 0.8% increase, which is a reasonable historical average for planning purposes.
21. In summary, the position is as set out below and again this represents a significant improvement on the MTFP position:

	2021/22 Actual £m	2022/23 MTFP £m	2022/23 Provisional £m
Council Tax Precept	24.601	25.175	25.568
Council Tax Collection Fund	(0.032)		
Council Tax Collection Fund Spread	(0.088)	(0.088)	(0.088)
LCTSS Grant	0.372		
Collection Fund Deficit Grant	0.035	0.035	0.035
	24.888	25.122	25.515

Business Rate Related

22. In principle. Business Rates are relatively straightforward, but in practice they are the area of most complication and uncertainty. Although Billing Authorities are required to provide information to Preceptors for budget setting purposes, the statutory deadline for this is not until 31 January.
23. In practice the position has historically been recorded as the baseline position (i.e. the yield the government is assuming for settlement purposes) and a plus/minus adjustment brings this to the actual level the Billing Authorities are projecting. There is then an adjustment for the Collection Fund deficit or surplus.
24. In recent years there has been an added complication that government has provided a Section 31 grant to compensate for the impact of national decisions to restrict the annual rise in the Business Rate below that was allowed for in the legislation. An estimate of this figure will be given by the Billing Authorities in January but is also estimated by government as part of its "Spending Power" calculations in the financial settlement.
25. In addition to this, government has also implemented a system of business-rate tax-relief at a national level and compensated for this locally by a further Section 31 grant. This figure will be estimated by the Billing Authorities in January. It is not clear if this scheme of relief is the same in 2022/23 as in 2021/22.
26. The third element of uncertainty is around the Collection Fund position. The deficit in 2020/21 (which formed part of the 2021/22 funding) was substantial at over £1m, representing over 40% of the gross yield. Whilst this might have been expected as a result of Covid, only a very small proportion - £0.200m - qualifies as exceptional and is being spread over three years. For MTFP purposes this

deficit was assumed to be abnormal and a return to normality was forecast for 2022/23 and beyond.

27. Reliable data is still awaited on:
 - a. Gross business rate yield
 - b. Collection Fund surplus/deficit
 - c. S31 Relief Grants

Financial Summary

28. The current uncertainty over the Business Rates position means that it is not possible to confirm whether the improvements to the grant and precept position will permit future investment or compensate for ongoing reductions in Business Rate income.
29. Members will also be aware that the current MTFP included some budget gap, which were considered acceptable pending the three-year settlement and covered by the budget reduction reserve. As a reminder the current MTFP is summarised below:

	2022/23	2023/24	2024/25
	£m	£m	£m
Gross Expenditure	36.618	37.372	38.739
Forecast Funding	(36.120)	(37.106)	(38.052)
Structural Gap	0.498	0.266	0.687

30. Based on the latest information the revised position can be summarised as follows:

	2022/23	2023/24	2024/25
	£m	£m	£m
Gross Expenditure	36.853	37.557	38.924
Grant Related Funding	(8.870)	(8.986)	(8.922)
Council Tax Related Funding	(25.515)	(26.223)	(27.007)
Known Business Rate Related Funding	(0.137)	(0.141)	(0.198)
Gap Before Business Rates & Council Tax collection Fund	2.331	2.207	2.797
Business Rates at 2021/22 levels	(1.702)	(1.736)	(1.771)
	0.629	0.471	1.026
Business Rates at MTFP levels	(0.858)	(0.875)	(0.893)
	(0.229)	(0.404)	0.133

31. It can clearly be seen how much the overall position is determined by the outcome on Business Rates, although Members are reminded that the estimates do not currently include any Council Tax Collection Fund figures either.

Future Variables

32. As has been stated previously there is still uncertainty over direction of funding that may arise from the CSR and the table below just gives an indication of some of the potential impacts. *(Note: a figure in brackets indicates an impact that reduces the deficit).*

	2022/23	2023/24	2024/25
	£m	£m	£m
1) 5% cut per year in SFA		0.391	0.790
2) 25% cut per year in RSG		0.547	1.116
3) 10% cut per year in SFA		0.782	1.580
4) 15% cut per year in SFA		1.173	2.231
5) Freezing Council Tax in 2022/23	0.492	0.504	0.520
6) 0.1% additional increase in tax-base		(0.026)	(0.054)

SFA = Settlement Funding Assessment – the figure which government determines will be funded from Retained Business Rates, Business Rate Top-up Grant and Revenue Support Grant.

RSG = Revenue Support Grant, one of the elements that make up RSG.

33. In addition, the following areas have uncertainty around them:
- Pension Grant - £1.6m. Introduced as a temporary funding measure in 2019/20 to cover the significantly increased cost of employers' contributions; this was intended to be dealt with through the next CSR. In the interim it has been passed from Home Office back to DLUC for inclusion in core funding and it is uncertain if the existing distribution can be maintained.
 - Pension Costs – FFPS rates are due for revision from April 2024 indications are of another increase.
 - Pension increases – As injury pensions (and On-call pensions prior to 2006/2000) are paid from the revenue account the “triple-lock” arrangement, if implemented, would increase costs by an additional £0.050m.
 - Early indications are that the cost of the Emergency Service Network (ESN) may be less than the current Firelink arrangements, by up to £0.2m from 2024/25, but there is still a lot of detail to be provided before this can be relied upon.

ESN is the new national emergency services communications network being developed by government. Firelink is the Fire element of the existing government developed communications system, sometimes known as Airwave.

“Spending Power”

34. As part of the local government settlement, the government provides information on changes to local authority spending power. This is a slightly odd calculation because it uses some actual data and some where government is

making estimates (e.g. council tax-base growth). It is noteworthy that government is assuming that all Authorities increase precept by 2%.

35. Government is quoting an average increase for Fire of 4.7% but the figure for Hereford & Worcester is only 4.0%. This compares to 4.7% for Shropshire although the difference is due to differences in assumptions about council tax-base growth.

Conclusion

36. The overall position is totally dependent on the business rate yield. The previous MTFP projected a position that was some 50% better than in 2021/22 (allowing for the abnormal Collection Fund loss), but to provide a balanced budget only requires an improvement of around 40%. At the other extreme an improvement of only 10% will result in overall deficits in line with the previous MTFP and which were considered to be within the manageable parameters accepted in Feb 2021.
37. It would not be unreasonable, therefore, to expect a revised MTFP that is financially more favourable than the previous one.
38. A final report, with confirmed information, will be brought to the Authority in February for decision on Budget and Precept for 2022/23.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	Whole Report
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	None
Consultation (identify any public or other consultation that has been carried out on this matter)	None
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	N/A
Data Protection Impact Assessment (where personal data is processed a DPIA must be completed to ensure compliant handling)	