

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 8 DECEMBER 2021
REPORT OF: TREASURER
AUTHOR: ALLAN RAINFORD/WENDY BEBBINGTON

SUBJECT: 2022/23 DRAFT BUDGET AND MEDIUM TERM
FINANCIAL PLAN

Purpose of Report

1. To provide Members with the latest available information regarding the potential funding position and the progress made in preparing a draft revenue budget and medium term financial plan.

Recommended: That Members

- [1] Note the report and the assumptions that are expected to be used to prepare the budget for 2022/23.

Background

2. The Local Government Act 1992 requires the Authority to prepare and approve its budget and set a precept (the Authority's share of council tax) before 1st March. To meet this statutory requirement, at its meeting on 9th February 2022, the Authority will be presented with the annual budget for 2022/23 and proposed council tax options for approval.

Current funding status

3. On 27th October 2021, the Chancellor issued his Autumn Budget and Spending Review 2021 (SR21). This set out the Government's financial plans for the next three years. SR21 confirmed that total departmental spending is set to grow in real terms at 3.8% a year, on average, over the current Parliament – a cash increase of over £150 billion a year by 2024/25 (£90 billion in real terms).
4. Although there is no specific mention of fire and rescue in SR21, the headline figures for the Home Office are for a real terms increase of 1.99% per annum and for local government "spending power" to increase by 3% in real terms each year. The policy costings supporting SR21 confirm that Council Tax referendum limits will be set at 2% per annum across the spending review period.

5. The Chancellor's announcement signalled the end of the "pay pause" for public sector employees. However, it is not clear if there will be additional funding to meet the cost of pay awards or the previously announced employers' national insurance increases. This picture may become clearer when the Provisional Local Government Finance Settlement is published. It is anticipated that this will be 6th December although past experience suggests that this could be deferred to a later date.
6. The funding position for 2021/22 was particularly complex as there were a number of new funding elements that the Government introduced to support local authorities for the loss of income due to the Coronavirus Pandemic. SR21 contained further measures to support local businesses, including freezing the business rates multiplier, extending transitional relief schemes and temporary rates relief for retail, hospitality and leisure sectors. The impact of these announcements will take time to be assessed and implemented by the Cheshire billing authorities. The level of any additional funding from Government to compensate for the loss of business rates income is unknown at the present time. We will not have sufficient clarity about how this will impact on the Authority funding position until the end of January 2022. This is the deadline for the billing authorities to produce their draft forecasts.
7. The Pandemic had a significant impact on the council tax and business rates collection funds that are managed by the Cheshire billing authorities. For 2021/22, there were considerable deficits reported for inclusion in the budget and while grants were provided for some of the income loss, some remained to be recovered locally. The Government also issued Regulations that allowed a proportion of these deficits to be spread over three years rather than fully recovered in 2021/22. The budget for 2022/23 will need to include the second year of the deficit contribution. It will also need to include any further contributions based on the estimated collection fund positions at December 2021. These will not be confirmed until January 2022.
8. At the present time, the only element of increased funding that we can reasonably estimate with any degree of certainty, is the level of council tax income. Assuming an estimated increase of about 1.3% in the council tax base – the precise tax base figure will not be known until January - a 1.99% increase in the Council Tax for 2022/23 would give the Authority an additional £1.041m.

Budget Process & Financial Assumptions

9. The revenue budget will need to include sufficient funding to meet the cost of pay awards and price inflation. Although there is a lack of guidance nationally as to the potential level of pay awards in 2022, following the ending of the Government "pay pause" policy, in view of the expectations relating to inflation, it is currently assumed that 2022 pay awards could be in the region of 3%, but remains subject to national pay negotiations. The position relating to price inflation will be kept under review given the concern about inflationary pressures in the economy, especially in relation to energy costs.

10. At the present time, the following key financial assumptions have been included in the draft revenue budget:
- Funding: flat cash Government Grants, i.e. the same amount of funding as provided in 2021/22 and a 1.99% increase in council tax subject to approval by the Authority in February 2022
 - Pay inflation: it is assumed that pay awards will be at 3% in 2022.
 - Price inflation: in line with the Office of National Statistics (Consumer Price Index - CPI) as well as any known specific increases where applicable, for example contractual increases or high inflationary items such as energy.
 - Unavoidable commitments: these include the additional capital financing costs associated with the new training centre. It also includes the impact of the increase in employer's national insurance contributions that were announced by the Government in September and which will add £0.2m to expenditure.
11. For 2021/22, the Authority's Council Tax at Band D is £80.87. With the forecast increase in taxbase, without an increase to the council tax precept, this change in taxbase would be expected to generate additional funding of £417k in 2022/23. Assuming the 1.99% increase to the council tax precept, the 2022/23 Band D charge would be £82.48, an increase of £1.61, or 3p per week. The following table summarises the overall position based on a 1.99% increase in the Council Tax precept and the estimated increase in taxbase.

| Funding | £000 |
|--|--------------|
| Forecast Council Tax Increase of 1.99% | 1,041 |
| Proposed Additions | |
| Pay and Price Inflation | 1,250 |
| Commitments | 806 |
| | 2,056 |

12. The above table illustrates that a 1.99% council tax increase alone will not be sufficient to balance the budget for 2022/23. This is the case even before the inclusion of any growth proposals. As part of the budget process, the Chief Fire Officer and Chief Executive has led discussions with Service Management Team colleagues to review the current base budget, consider the level of unavoidable cost increases and to identify revenue savings. This process is still ongoing but is on track to deliver proposals for a balanced budget position. It is anticipated that once complete and with further clarity around the funding position, the level of proposed additional expenditure will be broadly offset by savings together with any additional funding.

13. At the present time, the budget will be prepared on the basis of the above assumptions and will be finalised in January 2022 in time for the Authority meeting in February 2022. Members will be aware that the Treasurer (as Section 151 Officer) has to provide a view as to the “robustness of estimates” in recommending a revenue budget for approval. Once this work has been completed, a full schedule of the proposed additional expenditure and savings will be recommended to the Authority.

14. Medium Term Financial Plan

15. With the Government announcing the three-year spending review, there has been some clarity given around the direction of travel. However, with fire and rescue not being specifically mentioned, there is still some uncertainty over how this will impact directly. The review did include the assumption that council tax increases would be limited to 2%.

16. Even with this further detail, there are a number of outstanding items that could materially revise forecasts and assumptions. These include:

- The impact of the McCloud ruling on pensions and how this will be funded.
- In the spending review/budget, it notes ‘reform of business rates will make the system fairer, more responsive and more supportive of investment’. It is unclear how this will affect the Authority’s funding.
- White Paper on Fire Reform

17. For the purposes of medium-term planning, assumptions have been made about the level of funding and about the potential costs increases that may be faced by the Authority. The following being the key drivers.

- Pay inflation – assumptions within the MTFP include an annual pay rise for each year from 2022. Based on the forecast inflationary pressures for 2022, 3% has been included in the initial year of this MTFP with 2% thereafter.
- Price inflation – in line with the Office of National Statistics (Consumer Price Index - CPI) and known specific increases where applicable, for example contractual increases or high inflationary items such as energy.
- Government funding to remain static – i.e. flat cash
- Precept increase of 1.99% per annum
- Taxbase movement in line with local authority’s forecasts

18. As explained previously there is uncertainty around funding and the MTFP will be refined once further information becomes available.

Financial Implications

19. This report considers financial matters.

Legal Implications

20. There are no legal implications arising from the report.

Equality and Diversity Implications

21. There are no equality and diversity implications arising from this report.

Environmental Implications

22. There are no environmental implications arising from this report.

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BACKGROUND PAPERS: NONE