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**SUBJECT: 2023/24 MEDIUM TERM BUDGET UPDATE REPORT**

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Background Papers: 2022/23 FRA Budget Papers – FRA meeting of February 2022

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## **PURPOSE**

To present the latest position to Members, of the medium-term budget for 2023/24 onwards. This is an update after setting the 2022/23 budget in February 2022 and receiving updated business rates information and other material changes such as inflation.

## **RECOMMENDATION:**

That the report be reviewed, considered and noted.

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### 1. Introduction

- 1.1 On 10th February 2022, the Fire and Rescue Authority (FRA) approved a Revenue Budget Requirement for 2022/23 of £33.393m, a Capital Programme of £1.357m and the Band D council tax at £104.45. Due to receiving late material adjustments to business rates, it was agreed that the Treasurer would represent the 2023/24 to 2025/26 medium-term financial position in 2022/23.

## 2. The 2023/24 Indicative Medium-Term Revenue and Capital Budget

2.1 The paragraphs below highlight the changes made and uncertainties that remain, for the years 2023/24 to 2025/26 post the setting of the 2022/23 budget.

2.1.1 **Revenue** – The 2022/23 final settlement covered just one year, so the Authority will not receive indicative 2023/24 funding figures from the Home Office/Department of Levelling Up, Housing and Communities (DLUHC) until November this year, with the final figures expected in late January/early February 2023.

Since setting the current years budget in February 2022, there have been significant world events that have contributed to inflationary pressures that have surpassed any projections. These inflationary pressures in year have been covered on this agenda as part of the 2022/23 Budget Monitoring report. The narrative below and appendices to this report take into account these pressures where deemed necessary for 2023/24 onwards.

2.1.2 **Capital** – The scheduling of the vehicles in the Capital Programme will be updated for 2023/24, following further work on a project fully reviewing the fleet, the mobilising/use of the vehicle and what equipment the vehicles carry.

This paper is a presentation to Members on the updated outlook for 2023/24 onwards. It is not seeking any approvals but highlighting the current position ahead of the work that will imminently commence for the 2023/24 to 2026/27 budget years. As in previous years, this will involve Members throughout the process.

## 2.2 **Medium Term 2023/24 Outlook**

2.2.1 A full list of assumptions and uncertainties was presented as part of the 2022/23 budget setting process. The key ones that remain are Pensions, Pay, the potential change to formula and business rates funding and increasingly inflationary pressures. There has also been an update on the funding for Airwave, with a £50k Government funding reduction this year and 20% each year after. We are advised that future funding settlements should compensate for this, so a new funding risk.

2.2.2 Following the presentation of the 2023/24 forecast budget in February 2022, the key changes to the attached appendices are:

- i. Pay award assumptions (showing 3% and 4%)

- ii. Business Rates income assumptions (showing allocations currently received and a reduced position)
- iii. Changes to the budget to mitigate the business rates position if required (highlighted in the appendices)

There is a funding risk worth highlighting again and that is Business Rates. It is uncertain if there will be a business rates reset or redesign and if there will be, when. I have liaised with each of the Authority's unitary authorities and discussed their planning arrangements around this. As it is so uncertain, limited planning has been undertaken, but one authority has benefitted from having some external evaluation completed. At this moment it is not possible to quantify what the impact will be as there is no definitive proposal regarding the new approach, which is likely to be implemented alongside a 'Fairer funding review' for Local Government which looks at other income sources such as grants and Council Tax. It could lead to material funding changes and a less optimistic funding position has been captured in the scenarios below. A formula funding review for the police sector is currently progressing, so the local government funding formula review including the fire sector could follow.

## 2.3 Presentation of scenarios:

- 2.3.1 A summary table at the end of this section highlights the gap to be closed in the financial year 2025/26, and therefore gives an indication at this point in time, of the gap plus inflation in the following year (if all was equal, but as we know the position will considerably change). This summary table also shows the balance at the end of 2025/26 of the Transformational/Budget Reserve.

The attached appendices cover in more detail the alternative scenarios and are summarised below:

Appendix 1 – an updated appendix from the one presented to Members in February, with additional forecast business rates in years 2023/24 to 2025/26 (line 60). The updates are:

- The in year unbudgeted business rates receipt was £392k, this appendix takes a prudent view in light of the potential business rates reform, at £200k per annum for this S31 grant. The level of this grant was £200k for 2020/21, the Treasurer prudently did not include any forecast for 2022/23 as on speaking to the Home Office, he couldn't establish if the grant would be received or not.
- A 4% pay award for all staff remains in this presentation.

Due to this reduced funding position, the compensating items reduced are highlighted in yellow in order to present a more balanced medium-term position.

- The savings/efficiencies have had a small increase in years 2024/25 and 2025/26 (line 24).
- the main update is the removal of the £200k per annum Green/Environmental Fund (line 85) and the £250k Strategic Projects/Improvement Fund (line 84). There will of course be detrimental impacts from not having these, or indeed increasing savings/efficiencies/income elsewhere for some of these initiatives to continue.
- The earmarked reserves and general reserve have also been reduced, as has the capital receipts reserve for this presentation (capital reserve of £507k reduced to £307k). (lines 86, 87).
- The income from our investments of reserves/cash has been increased (line 20) and in contrast to this the inflationary costs/pressures have been increased for utilities and contracts (lines 37 and 38).

2.3.2 Appendix 2 – The updates from the appendix presented to Members in February is pay award at 3%. It has been communicated by Government, that public sector pay awards will not exceed 3% in 2022/23, hence this alternative presentation with a lower pay award. We are yet to be advised what the pay awards are for green book for 2022/23 that was due on 1<sup>st</sup> April 2022 and grey book that was due on 1<sup>st</sup> July 2022. Negotiations are ongoing between the employers and the unions.

Please note, the in-year budget as approved by the FRA in February 2022, has a 4% budgeted pay award for green and grey book staff and this remains in place.

The updates highlighted above to investment income, inflationary pressures and reserve reductions are also reflected in this appendix and the below. A £100k budget for Green and Strategic budget too, has been reintroduced (lines 84 and 85).

A balanced medium-term budget is presented, with little investment allocated towards the much needed strategic work/initiatives and the green agenda.

2.3.3 Appendix 3 – a more positive position with Business Rates remaining at the current level with 4% pay award, therefore the £392k grant going forward. Again like the above two appendices, the Green and Strategic funding allocations have been removed.

2.3.4 Appendix 4 – as above but with a 3% pay award in line with the comments in 2.3.2 above. Reduced Green/Environmental and Strategic Projects/Improvement Fund have been reintroduced in 2023/24, 2024/25 and 2025/26.

2.3.5 Appendix 5 - In contrast to the above and more in line with the medium term budget that was presented in February 2022, this appendix includes the increased investment income, the increased inflationary pressures, the £200k per annum business rates and the continued investment of the Green/Strategic Projects. Clearly a large gap in this presentation.

2.3.6 Table 1 below provides a highlight of the current medium-term position at the end of 2025/26 from the five appendices. This is at this point in time, and will of course change when other amendments are made in due course, such as the confirmation of the green and grey book pay award, actual inflation increases, business rates income, funding settlements, taxbase etc.

However, as summarised below, currently the likely gap to be rolled forward into the next year if all things remained equal (ignoring the 2026/27 year's pay award increases for example), the gap ranges between £1.075m and £1.539m. So currently, this is the gap that will need closing between now and then. Material savings/efficiencies/additional income will therefore need to be planned. If for example our Service was able to raise council tax by £5, this would greatly assist in closing these future gaps. As Members are aware, for 2022/23 only the lower quartile of council tax charges in the fire sector were able to raise up to this amount. The list of authorities have previously been reported.

Table 1: Summary of Appendices at the end of year 2025/26

<b>2025/26 position</b>	<b>Appendix 1</b>	<b>Appendix 2</b>	<b>Appendix 3</b>	<b>Appendix 4</b>	<b>Appendix 5</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Contribution to (from) reserves to balance the year (line 46)</b>	(1,536)	(1,267)	(1,347)	(1,075)	(1,539)
<b>Transformation/Innovation reserve balance at the end of 2025/26 (line 88)</b>	(767)	45	(191)	71	(2,617)

2.3.7 The above scenarios are presented to show Members that the figures can significantly change, depending on the assumptions included (business rates income for example), the use of reserves and also the funds allocated to Green/Strategic Projects.

What is certain, is that an updated medium-term plan will be presented to Members at the FRA in February 2023, and discussed in detail prior to this at the Members budget workshops.

For the purpose of this meeting, the Treasurer advises to use Appendices and scenarios as a guide to the variances that will need to be addressed over the coming months/years. These appendices in summary, show the S31 business rates grant as a reduced £200k and the current £392k, with the pay award at 3% that is what the Government is currently advising will not be exceeded and the agreed 4% budgeted position. There has been no green book pay offer to date, the grey book pay offer is currently 2%.

The Government has previously announced, last year, that there would be a public sector pay freeze and we know that this did not take place in all areas of the public sector. So, we are yet to see if pay awards are indeed above the 3% announced.

As covered above, two of the scenarios (appendices 2 and 4) do present a balanced medium-term position.

## 2.4 Summary

2.4.1 The budget process internally commences each summer, so work will imminently commence on the 2023/24 medium term budget, working up to budget setting in February 2023. A key impact will be the agreed pay awards for the 2022 financial year, so the medium-term forecast will be updated accordingly and represented to members as part of the planned budget workshops and FRA meetings over 2022/23.

## 3. Conclusion

3.1.1 This report presents updated medium-term financial scenarios to Members. Members will be kept informed of progress throughout the year, leading up to the 2023/24 revenue budget, council tax and capital programme setting in February 2023.

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