



Safest People, Safest Places

Audit and Finance Committee

23 January 2024

Revenue and Capital Budgets 2024/25 and Medium-Term Financial Plan

Report of Deputy Chief Executive

Purpose of Report

1. The purpose of this report is to set out details of the provisional local government finance settlement for 2024/25 and to consider the revenue and capital budgets and medium-term financial plan (MTFP). Following consideration of the report, members will be requested to agree a firm recommendation on the level of council tax to the meeting of the Fire Authority on 16 February 2024.

Background

2. The current MTFP was approved at the meeting of the Authority on 15 February 2023 and members were informed at that time that to set a balanced budget for the current year (2023/24) it would be necessary to draw £571,000 from reserves. The required draw from reserves increased by a further £250,000 to £821,000 following the announcement of the firefighters pay award which was above the level included in the 2023/24 budget.
3. The MTFP which was approved by the Authority in February 2023 is set out in table 1 below:

Table 1: Medium Term Financial Plan (approved February 2023)

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Net Expenditure	32.672	34.493	35.657	36.686
Contribution from Reserves	-0.571	0	0	0
Revised Net Expenditure	32.101	34.493	35.657	36.686
Government Funding	9.897	10.094	10.296	10.502
Local Non-Domestic Rates	1.459	1.459	1.459	1.459
Council Tax	20.700	21.516	22.145	22.794
Services Grant	0.288	0.282	0.288	0.294
Deficit on Collection Fund	(0.243)	0	0	0
Total Funding	32.101	33.351	34.188	35.049
Surplus/ (Deficit)	0	(1.142)	(1.469)	(1.637)

4. The MTFP was based on several assumptions which are set out in Table 2 below:

Table 2: MTFP Assumptions

	2023/24	2024/25	2025/26	2026/27
Income Assumptions				
Council Tax Base	+1.30%	+0.90%	+0.90%	+0.90%
Council Tax Level	+4.60%	+2.99%	+1.99%	+1.99%
Settlement Funding Assessment	+4.16%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	+5.00%	+3.00%	+2.00%	+2.00%
Inflation	+5.00%	+2.00%	+2.00%	+2.00%

5. In view of the budget shortfall, members agreed to consult the public on the option of riding with a crew of 4 on all fire appliances. 68% of the respondents agreed with the proposal which would remove 16 posts from the operational establishment saving £780,000 in a full year. The change to riding with 4 was implemented from 01 July 2023 saving £571,000 in staffing costs in the current financial year.
6. To assist in balancing the budget a full review of all budget headings has been undertaken to identify savings and correct any shortfalls in current budgets. The review identified annual net savings of £309,000 which have been removed from the MTFP from 2024/25.
7. There has been a significant increase in interest on short-term investments which is forecast to exceed the budget by £250,000 in 2023/24. As the position regarding future interest rates is particularly difficult to forecast an increase of £100,000 has been built into the MTFP for 2024/25 and 2025/26.

8. The current MTFP has been revised to incorporate the latest available information on government funding, council tax, pay awards and inflation. This report sets out a draft budget for 2024/25 together with a draft MTFP for the four-year period covering 2024/25 to 2027/28. There are many significant factors affecting the MTFP which are difficult to quantify including: the level of government funding beyond 2024/25, the level of future pay awards, the level of inflation and the level of employer's pension contributions. The draft MTFP is therefore based on assumptions which could have a significant impact on the Authority's overall financial position should the actual position turn out to be different.

Provisional Settlement 2024/25

9. The government announced the provisional settlement on 18 December 2023 which once again is a one-year funding settlement for 2024/25, compounding the uncertainty surrounding future funding.
10. The Services Grant that was introduced in 2022/23 will continue in 2024/25 however the quantum has been reduced to pay for other parts of the settlement. The settlement also includes an extension to the Funding Guarantee to ensure that all local authorities see at least a 3% increase in Core Spending Power before any council tax decisions locally.
11. The provisional Settlement Funding Assessment has been calculated by formula and is the government's assessment of the financial resources to be provided from a combination of revenue support grant, local business rates income and top-up grant. Table 3 below sets out the settlement figures for 2024/25 and the current year (2023/24).

Table 3: Provisional Settlement

Description	2023/24 £m	2024/25 £m
Government Funding	9.897	11.962
Local Non-Domestic Rates	1.459	1.531
Settlement Funding Assessment	11.356	13.493
Services Grant	288	45
Funding Guarantee	0	198
Total	11.644	13.736
Pensions Grant	1.560	0
Adjusted Total Funding	13.204	13.736
Change in Funding	+0.465	+0.532
% Change in Funding	+4.2%	+4.0%

12. In 2023/24 the Authority received a separate Pensions Grant which has been rolled into revenue support grant (government funding) in 2024/25. The Authority's overall funding will increase by £0.532M (4.0%) in 2024/25. The position beyond 2024/25 remains uncertain and in view of this uncertainty the Authority will need to continue to prepare for the possibility of further reductions in funding going forward.

Council Tax Base

13. The council tax bases for Durham County Council and Darlington Borough Council have been provided for 2024/25 and are set out in table 4 below:

Table 4: Council Tax-base Information

	Durham County Council	Darlington Borough Council	Total
2023/24 Tax-base	145,675.90	34,814.50	180,490.40
2024/25 Tax-base	146,624.00	35,300.80	181,924.80
Change	+948.10	+486.30	+1,434.40

14. The increase in the council tax base of 0.79% generates an additional £164,557 of council tax revenue based on the current Band D council tax of £114.69.

Council Tax and Business Rates Collection Funds

15. COVID-19 and the cost-of-living crises continued to impact on council tax receipts in 2023/24. The Authority has been notified by Durham County Council and Darlington Borough Council of forecast deficits on the council tax collection funds for 2023/24. The Authority's estimated share of the 2023/24 deficits is £179,000. With regard to business rates, we have been notified by Durham County Council of a surplus of £58,000 for 2023/24 however we are still awaiting confirmation of the business rates surplus/deficit figure for Darlington.
16. The estimated deficits on the collection funds in 2023/24 will need to be included in the budget requirement for 2024/25.

Local Council Tax Referendum

17. The Government has also announced details of the local council tax referendum principles for 2024/25.
18. Fire and rescue authorities will have flexibility to increase Band D council tax by up to 3%. Any fire and rescue authority that wishes to increase Band D council tax in 2024/25 by 3% or more, as compared to the 2023/24 council tax level will be required to hold a referendum.

Budget Pressures

19. The following budget pressures have been identified some of which have been incorporated into the revised MTFP:

Pay Awards

20. The current MTFP includes an allowance for pay increases of 3% in 2024/25 and 2% in 2025/26 and 2026/27 however there is a great deal of uncertainty surrounding the level of pay awards going forward. Each additional 1% increase in pay for the whole workforce costs in the region of £270,000. Any unfunded pay increase above the level included in the MTFP would therefore have a significant impact on the forecast deficit.

Inflation

21. In addition to the increase in general inflation, there have been significant increases in the cost of gas, electricity, and fuel during 2023/24 and further increases are possible going forward. For 2024/25, the budgets for gas, electricity and fuel have been increased to reflect current prices and an allowance of 3% has been added to other non-pay budget headings. A further allowance to cover exceptional inflationary pressures has been made within the contingencies budget which can be allocated to budget holders on an exceptional basis should the need arise.

Firefighters Pension Scheme (FPS)

22. The results of the latest actuarial valuation of the Firefighters Pension Scheme were published on 19 December 2023. Following the valuation, the revised employer contribution rate will be 37.6% of pensionable pay from 01 April 2024, an increase of 8.5%. The Home Office have confirmed that they will be providing a new pensions grant to fire and rescue services in 2024/25 in relation to the additional employer contributions along with a further grant towards additional pension administration costs. This is a one-off grant in 2024/25 only at this stage and the Home Office will need to bid for funding in the forthcoming Spending Review to secure the grant for future years.

Efficiency Savings

23. The 2024/25 revenue budget has been constructed using a zero-based approach and all budget heads have been reviewed with an emphasis on the identification of efficiency savings. Where savings have been identified based on historic and predicted future spend the relevant amount has been removed from the 2024/25 budget.

Medium Term Financial Plan 2024/25 to 2027/28

24. The MTFP incorporates 2024/25 and future year's expenditure and income estimates. We are still awaiting confirmation of some figures which are likely to change before the final version of the MTFP is presented to the Fire Authority for approval. Any changes are expected to be marginal and will not impact on the proposed level of council tax for 2024/25.
25. The estimates for 2025/26 onwards are less robust as they are based on assumptions therefore there is a significant risk that the actual position could turn out to be different.
26. The MTFP is based on assumptions which are set out in table 5 below. At this stage the assumptions are believed to be reasonable based upon the information that is available.

Table 5: MTFP Assumptions

	2024/25	2025/26	2026/27	2027/28
Income Assumptions				
Council Tax Base	+0.79%	+0.90%	+0.90%	+0.90%
Band D Council Tax Level	+2.99%	+1.99%	+1.99%	+1.99%
Government Funding	+4.00%	+2.00%	+2.00%	+2.00%
Expenditure Assumptions				
Pay Awards	+3.00%	+3.00%	+2.00%	+2.00%
Inflation	+3.00%	+2.00%	+2.00%	+2.00%

27. The Authority has been notified of collection fund deficits (the reduction in council tax and business rates collected over that which was budgeted to collect) in relation to 2023/24 which have been included in the 2024/25 budget. No surplus or deficit has been incorporated into the MTFP models for future years.
28. The MTFP below is based on the assumptions outlined in Table 5 and include a 4.0% increase in government funding in 2024/25 and a 2.99% increase in Band D council tax.

Table 6: Medium Term Financial Plan 2024/25 to 2027/28

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Net Expenditure	35.104	36.095	37.377	38.226
Government Funding	11.962	12.201	12.445	12.694
Local Non-Domestic Rates	1.531	1.531	1.531	1.531
Council Tax	21.489	22.118	22.766	23.432
Services Grant	0.045	0.045	0.046	0.047
Funding Guarantee	0.198	0.198	0.198	0.198
Deficit on Collection Fund	(0.121)	0		
Total Funding	35.104	36.093	36.986	37.903
Surplus/ (Shortfall)	0	(0.002)	(0.391)	(0.323)

29. The MTFP in Table 6 above shows a balanced budget for 2024/25 and a shortfall in funding of £0.002M in 2025/26 rising to £0.323M in 2027/28.
30. Following the implementation of riding with a crew of 4 on all fire appliances together with the identification of savings and increased investment income, the forecast shortfall over the MTFP period has significantly reduced from £1.637M to £0.323M. However, due to the uncertainty around future funding and the number of assumptions

which could turn out to be different, the figures for 2025/26 onwards are less robust and are for indicative purposes only at this stage.

Impact of Changes to Assumptions on the MTFP

31. Several assumptions have been made in relation to settlement funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are reasonable at this stage, there is a risk that the actual position could turn out to be different.
32. Table 7 below sets out the potential impact of changes to the main assumptions on the MTFP position:

Table 7: Impact of Changes to Expenditure and Income Assumptions

Impact of Changes to Expenditure Assumptions	Annual Impact £m
1% change in level of pay award	0.270
1% change in level of Inflation	0.082
1% change in level of council tax	0.206
1% change in level of settlement funding	0.120

Balancing the Budget over the Medium Term

33. At the Fire Authority strategic planning day on 10 October 2022, members received an update on the available options that have been modelled to shape the Service's Emergency Response provision in future years together with alternative options for service delivery. A summary of the savings options is set out in Table 8 below:

Table 8: Summary of Options to Balance the Budget

Option Number	Option	Saving £m	Response Standards Impact
1	Service Headquarters	0.200	IMPLEMENTED
2	Phase 2 of the Service Structure	0.013	IMPLEMENTED
3	Review of SLT and Middle Managers	0.445	IMPLEMENTED
4	Ride with a crew of 4 on all appliances	0.780	IMPLEMENTED
5	SRU Unit Crewed	0.452	LEAST
6	Remove 1 x station TRV	0.446	LEAST

7	1 X RDS station removal of second pump	0.120	GREATER
8	1 x station second pump to day crewing	0.287	GREATER
9	1 x station to day crewing	0.478	GREATER
10	1 x station 1 pump and 1 TRV	0.427	GREATER
11	1 x wholetime station removal of second pump	0.870	GREATER
12	1 x station to RDS only	1.132	GREATER

34. Options 1-4 in the table above are complete and the savings have been built into the 2024/25 budget and the MTFP. At this stage none of the other options have been incorporated into the budget for 2024/25 or the MTFP.

Proposed Council Tax Increase 2024/25

35. The MTFP is based on a Band D council tax increase of 2.99% in 2024/25, and 1.99% in each of the following years. This is the maximum increase allowed without holding a referendum. Table 9 below sets out the effect of a 2.99% Band D council tax increase in 2024/25 on each of the property bands:

Table 9: Effect of a 2.99% Increase in Council Tax

Council Tax Band	Proportion of 'Basic Amount'	2023/24 Council Tax	Increase (per annum)	2024/25 Council Tax	Increase (per week)
Band A	6/9	£76.46	£2.29	£78.75	4.4p
Band B	7/9	£89.20	£2.67	£91.87	5.1p
Band C	8/9	£101.95	£3.04	£104.99	5.8p
Band D	'Basic Amount'	£114.69	£3.43	£118.12	6.6p
Band E	11/9	£140.18	£4.19	£144.37	8.1p
Band F	13/9	£165.66	£5.07	£170.62	9.8p
Band G	15/9	£191.15	£5.72	£196.87	11.0p
Band H	18/9	£229.38	£6.86	£236.24	13.2p

36. A 2.99% increase in the basic amount (Band D) council tax will generate an additional £624,000 of council tax income in 2024/25.
37. Members are requested to consider the level of council tax for 2024/25 with a view to making a firm recommendation to the meeting of the Fire Authority to be held on 16 February 2024.

Capital Programme 2024/25 to 2027/28

38. The capital programme includes provision for building works, vehicle and equipment renewals and ICT replacement. The revenue costs associated with the capital programme have been incorporated into the MTFP models set out in this report.
39. The Authority's capital programme is summarised in table 10 below.

Table 10: Capital Programme 2024/25 – 2027/28

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Major Works	0	0	4.000	0
Minor Works	0.500	0.500	0.500	0.500
Vehicles	1.610	1.749	0.980	2.107
Equipment	0.516	0.418	0.415	0.157
ICT	0.150	0.150	0.150	0.150
Total Expenditure	2.776	2.817	6.045	2.914

Risks

40. There are several risks associated with the MTFP that need to be considered when setting the 2024/25 budget:

Local Business Rates Retention

41. The local business rates retention scheme introduces risks in relation to the Authority being exposed to fluctuations in business rates income in County Durham and Darlington. The Authority is also exposed to collection rate risk and if collection rates fall then there will be a direct impact on the Authority's available financial resources.

Local Council Tax Benefit Schemes

42. The local council tax benefit schemes administered by Durham County Council and Darlington Borough Council exposes the Authority to a further council tax collection rate risk.

Expenditure and Income Assumptions

43. Assumptions have been made in relation to government funding, pay, prices and pension costs across the MTFP period. Whilst the assumptions are reasonable at this stage, there is a risk that the actual position could turn out to be different.
44. The outcome of the latest valuation exercise for the Firefighters Pension Scheme resulted in an increase of 8.5% in the average employer's contribution rate. The Home Office have stated that grant funding will be made available in 2024/25 towards the additional cost however there is a risk that the Home Office is unable to secure this funding in future years.

45. The above risks will be closely monitored, and the Authority will be notified of any significant movement in the financial assumptions and projections that have been made within the MTFP.

Reserves

46. The National Framework document which sets out the priorities and objectives for fire and rescue authorities (FRA's) makes specific reference to reserves. The document requires FRA's to provide information to enable understanding of the purpose for which each reserve is held and how holding each reserve supports the FRA's MTFP.
47. The information which FRA's are required to publish includes:
- how the level of the general reserve has been set.
 - justification for holding a general reserve larger than five percent of budget.
 - whether the funds in each earmarked reserve are legally or contractually committed, and if so, what amount is so committed; and
 - a summary of what activities or items will be funded by each earmarked reserve, and how they support the fire and rescue authority's strategy to deliver good quality services to the public.
48. The reserves held by the Authority are reviewed on an ongoing basis in accordance with the agreed reserves policy which states that the Authority will:
- Set aside sufficient sums in earmarked reserves as it considers prudent to do so.
 - Aim to maintain a general reserve of 5% of the net expenditure currently £1.605M
49. The estimated reserves position at the end of 2023/24 and for the remainder of the MTFP period is set out in table 11 below:

Table 11: Estimated Reserves Position 2023/24 – 2027/28

Reserve	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
General Reserve	1.605	1.605	1.605	1.605	1.605
Earmarked Reserves	2.756	2.157	2.157	2.157	2.157
TOTAL RESERVES	4.361	3.762	3.762	3.762	3.762

Recommendations

50. Members are recommended to:
- (i) **consider** the information in this report
 - (ii) **consider** the level of council tax for the 2024/25 financial year
 - (iii) **note** the risks that have been identified as part of the budget setting process
 - (iv) **agree** a firm recommendation on the 2024/25 level of council tax to be made to the Combined Fire Authority meeting on the 16 February 2024.