**MEDIUM TERM FINANCIAL PLAN**

**2022/23 – 2025/26**



**Published February 2022**



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**MEDIUM TERM FINANCIAL PLAN**

**1. Economic Backdrop**

There has been a significant deterioration in the macro-economic environment over the last few months. The Bank of England has raised interest rates for a second time in three months, to 0.5%, as it warned that surging energy bills would push inflation higher than previously expected. The move to raise rates to 0.5% comes after CPI hit a 30-year high of 5.4% in December. The Bank said inflation was now on course to peak close to 7.25% in April, a sharp adjustment to its previous forecast of 6%. The significant uplift in inflationary pressures is likely to feed through to pay awards negotiations and will push up the cost of supplies and services.

The Bank also revised down its growth forecast for 2022 from 3.75% to 3.25%, stating that the energy price crisis will have a bigger impact than Omicron, whose impact was likely to be limited and of short duration. For this reason, the Governor indicated that further tightening in monetary policy would be modest. Expectations for interest rates is a move to 0.75% in March with 1% priced in for May and a final push to 1.25% towards the end of the year.

**2. Precept Flexibility**

Whilst the Authority has been rated “good” across all three inspection areas by HMICFRS, it nevertheless remains the case that the Authority has seen a funding gap open up over the last few years which ultimately would have to be bridged by cuts in the service the public. For this reason, and given the fact that the Authority is one of the lowest precepting fire authorities in the country, the Chairman of the Authority has lobbied local MPs to request that we be granted greater flexibility when deciding council tax levels.

This lobbying has been successful and the Government has now recognised that those authorities in the lowest quartile in relation to band D precepts face the greatest challenges in addressing immediate pressures and that they require a sustainable funding baseline for the future. The Government has therefore provided flexibility for these fire and rescue services to raise council tax by up to £5 per annum in 2022/23 without the need for a referendum.

**3. Funding**

As set out in the section above, the Authority firmly believes that a sustainable level of base funding is a prerequisite to the delivery of an efficient and effective service to the public.

The Authority is therefore using the flexibility offered by the Government to increase council tax by £5 in 2022/23. It is then assumed that the precept will increase by 1.99% in the three subsequent years. The impact of assumed increases in council tax is shown below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2022/23** | **2023/24** | **2024/25** | **2025/26** |
| Council Tax rise | 7.25% | 1.99% | 1.99% | 1.99% |
| Council Tax for band D | £73.95 | £75.42 | £76.92 | £78.45 |
| Annual Increase | £5 | £1.47 | £1.50 | £1.53 |

As well as the level of council tax, revenue also depends on the size of the tax base. In 2021/22, Covid had a negative impact, with the base shrinking by 0.08%. Fortunately, relatively strong growth in the tax base has been predicted for 2022/23 with the result that the tax base should be 1.84% larger. Beyond 2022/23, the MTFP assumes growth of 1.5% in the tax base although it remains to be seen how the performance of the economy nationally may affect the rate of growth.

The business rates collection fund deficit that needs to be repaid to unitary authorities in 2022/23 is just under £1.7m. S31 grants, which are estimated to be worth £1.3m should be received in 2022/23 to offset the part of the collection fund deficit that is related to Covid-specific rates relief. There will also be additional S31 grants to offset the reliefs provided in 2022/23, amounting to £1.4m.

Whilst the exceptional support provided by the Government should solve the funding issues for 2022/23, the much-delayed resetting of the business rates baseline will reduce the amount of funding that the Authority receives. Currently the funding above the baseline (excluding Covid reliefs) is around £0.5m.

In terms of Government funding, the Authority was expecting a multi-year settlement but instead the Government decided on a one-year roll over of funding. Revenue Support Grant will increase by last September’s CPI for 2022/23 whilst the business rates baseline and top-up grant see no increase compared to 2021/22. The Government will, in addition, provide a one-off Service Grant in 2022/23 to cover the increase in National Insurance contributions as well as to cover other inflationary pressures. However, whilst the funding is for one year only it should be noted that the cost burdens are ongoing with the introduction of the Health and Social Care levy in 2023/24.

A summary of funding projections is shown in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Funding** | **2022/23**  **£000** | **2023/24**  **£000** | **2024/25**  **£000** | **2025/26**  **£000** |
| Revenue Support Grant | 3,391 | 3,459 | 3,528 | 3,599 |
| Business Rates Baseline | 5,175 | 5,175 | 5,175 | 5,175 |
| Business Rates Top-up Grant | 1,952 | 1,952 | 1,952 | 1,952 |
| **Settlement Funding Assessment** | **10,518** | **10,586** | **10,655** | **10,726** |
| S31 Business Rates Grants | 2,686 | 720 | 720 | 720 |
| Business Rates surplus / (deficit) above the baseline | -94 | 480 | 480 | 480 |
| Council Tax (incl. tax base growth of 1.84% in 2022/23 and 1.5% thereafter) | 26,517 | 27,450 | 28,416 | 29,416 |
| Collection Fund surplus / (deficit) | (1,672) | (132) |  |  |
| Exceptional one-off Service Grant | 491 |  |  |  |
| **Total Funding** | **38,446** | **39,104** | **40,271** | **41,342** |

**4. Efficiency Plan Update**

The Authority’s Efficiency Plan set an ambitious target of saving £2.4 million from the revenue budget. The final savings from the plan will be delivered in 2022/23 with the closure of Pangbourne fire station.

|  |  |  |  |
| --- | --- | --- | --- |
| **Efficiency Plan Savings from Base Budget** | **2016/17 to 2021/22**  **£000** | **2022/23**  **£000** | **Total**  **£000** |
| Senior Management Restructure | 162 |  | 162 |
| Service Restructure | 793 |  | 793 |
| Fleet Maintenance Shared Service | 94 |  | 94 |
| IRMP Review | 1,143 | 168 | 1,311 |
| Mast Income | 15 |  | 15 |
| Directors' car allowance savings | 26 |  | 26 |
| **Total** | **2,233** | **168** | **2,401** |

**5. Additional Savings / Income**

In addition to the Efficiency Plan savings that are being delivered, officers are continually looking at how the service to the public can be provided more efficiently and effectively.

Over the past year, the Authority has successfully appealed business rate charges on 16 of its properties. This will produce a saving of £77,000 in the base budget going forward. The sale of the Dee Road site and the move of the fire station to Theale will make the management of the estate more efficient, reducing running costs by an estimated £55,000. The Authority is currently generating higher levels of cross border income so an extra £35,000 of income will be built into the 2022/23 budget. Finally, the investment in fleet is resulting in lower maintenance costs, the budget for which will be reduced by £10,000 in 2022/23.

|  |  |
| --- | --- |
| **Income / Savings from Base Budget** | **2022/23**  **£000** |
| Business Rates Appeals | 77 |
| Estate Rationalisation | 55 |
| Cross Border Income | 35 |
| Fleet Efficiencies | 10 |
| **Total** | **177** |

**6. Budget Pressures**

Over the last few years, Budget Reports to Fire Authority have stressed the significant impact that unbudgeted pay awards would have on the Revenue Account. Unfortunately, from a budgeting perspective, this risk crystallised in 2021/22. Salary budgets were set based on the Central Government position of a public sector pay freeze. The NJC has subsequently agreed a Grey Book pay award of 1.5% whilst a final offer of 1.75% has been made for Green Book staff, although this has yet to be accepted. The cost of these two unbudgeted pay awards is £439,000 which has been built into the 2022/23 Budget.

In terms of pay assumptions for 2022/23 and beyond, the MTFP has been built on the assumption of an annual pay awards of 2.5% for 2022/23 and 2% thereafter. Given that pay is agreed nationally by the NJC, there is an obvious risk that future pay awards will be agreed at a higher level, especially given that inflation rate is currently 5.4%. For this reason, this issue has been addressed in the Authority’s Reserve Strategy where provision has been made. However, this can only be a short-term solution and in the medium term any unbudgeted pay awards will need to be funded from cuts to expenditure on other budget lines. Building in pay increases into the MTFP has a significant impact: each additional 1% increase in pay for both Grey and Green Book staff adds £285,000 to the base budget.

A certain pressure in relation to employment costs is the Government’s announcement of revised national insurance contributions for the year 2022/23. The cost to the Authority is £215,000; fortunately, the Government has committed to provide funding for this additional burden through the one-off Service Grant. The MTFP assumes that funding will stop after 2022/23, in line with the Government announcement, but given the Authority will face the same pressure from the introduction of the Health and Social Care Levy in 2023/24, the Authority has already started lobbying Government to provide funding to cover this ongoing additional cost.

From 2019/20 the Authority has faced a very steep increase in employer contributions to the Firefighter pension schemes. Fortunately, the Government has provided a grant on a rolling one-year basis to offset most of these increased costs. For 2022/23 the Government has again announced one-year funding, fixed in nominal terms. However, there is uncertainty of funding thereafter, especially with the additional administrative burdens and financial risks arising from the McCloud and Matthews cases. The MTFP assumes ongoing Government funding of £1,663,000 per annum until 2025/26 to cover the increased employer pension contributions. The Reserves Strategy takes account of the other possible pension costs that could arise over the course of the MTFP.

Finally, there is growing pressure on supplies and services budget lines due to increases in the inflation rate. Whilst every effort is made to ensure value for money through contract management and re-tendering exercises, increased costs in certain areas are inevitable. The MTFP assumes price increases of 3% in 2022/23 and 2% thereafter.

The table below sets out pressures on the base budget.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Pressures on Base Budget** | **2022/23**  **£000** | **2023/24**  **£000** | **2024/25**  **£000** | **2025/26**  **£000** |
| Unbudgeted Grey Book Pay Award 2021/22 | 307 |  |  |  |
| Unbudgeted Green Book Pay Award 2021/22 | 132 |  |  |  |
| Grey Book Pay Award | 521 | 427 | 436 | 444 |
| Green Book Pay Award | 192 | 158 | 161 | 164 |
| National Insurance increase | 215 |  |  |  |
| Pay Increments | 160 | 164 | 167 | 170 |
| Increase in firefighter pension contributions | 38 | 39 | 40 | 41 |
| Increase in LGPS pension contributions | 13 |  |  |  |
| Contract Pressures | 287 | 197 | 201 | 205 |
| Additional cost of running TVFCS | 19 |  |  |  |
| Reduction in Airwave Grant and extra SANH cost | 36 |  |  |  |
| **Total** | **1,920** | **985** | **1,005** | **1,024** |

**7. Impact of Capital Investment**

The Authority’s Strategic Asset Investment Framework (SAIF) sets out a vision for the replacement and renewal of capital assets and is split into four phases. Given the level of investment in our assets, the Authority has always recognised the need to increase the amount of revenue resources that are allocated to invest in the capital programme. If MTFP assumptions hold in the medium term, especially in relation to pay and pensions, then the increase in the precept for 2022/23 could potentially go some way to securing the Fleet & Equipment and ICT capital programmes into Phase 2 of the SAIF.

If revenue resources can be used to invest in ICT and Fleet assets, the capital receipt from the sale of Wargrave Fire Station, as well as the future receipts from Dee Road and Pangbourne fire stations could be used to fund the property element of the SAIF. However, these resources, together with some additional borrowing are not sufficient to fund Phase 2 property plans as they stand so work will take place over the next year to ensure the most appropriate use of the limited resources, taking into account the condition of the whole estate. The revenue financing costs of delivering the SAIF over the next four years have been built into the MTFP. Annual changes to the base revenue budget from capital activities are shown below.

Rising interest rates together with future capital receipts will result in additional interest being received in 2022/23 of approximately £50,000.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Revenue Investment in Capital Programme** | **2022/23**  **£000** | **2023/24**  **£000** | **2024/25**  **£000** | **2025/26**  **£000** |
| Additional investment in capital programme | 1,066 |  |  |  |
| Additional financing costs of capital programme | 47 | (2) | (27) | 142 |
| Additional investment income | (50) |  |  |  |
| **Total** | **1,063** | **(2)** | **(27)** | **142** |

**8. Overall Impact of Funding and Expenditure Changes**

The year-on-year effect of the changes described above to expenditure and income are shown in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Summary of Base Budget Changes** | **2022/23**  **£000** | **2023/24**  **£000** | **2024/25**  **£000** | **2025/26**  **£000** |
| Efficiency Plan Savings | (168) |  |  |  |
| Additional Savings / Income | (177) |  |  |  |
| Cost Pressures | 1,920 | 985 | 1,005 | 1,024 |
| Revenue Investment in Capital Programme | 1,063 | (2) | (27) | 142 |
| **Total Changes to Base Budget** | **2,638** | **983** | **978** | **1,166** |

**9. Use of Reserves to Support the Revenue Budget**

Since the publication of last year’s Medium Term Financial Plan (MTFP), work has been ongoing to obtain additional funding and savings to balance the budget. The current position is that there will be a balanced budget in 2022/23. However, the one-year financial settlement from Government includes the one-off Service Grant of almost half a million pounds, which means that further savings will be required in 2023/24 even before considering the possibility of above-budget pay awards and pension costs.

These medium-term pressures highlight why the Chairman of the Fire Authority and Budget Lead Member having been lobbying local MPs and the Government for increased flexibility around the setting of the precept. Without this flexibility, cuts to the Revenue Budget would have been required in 2022/23.

The table below summarises projected budget pressures and savings as well as the use of reserves over the next four years.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year-on-Year Base Budget Movements** | **2022/23**  **£000** | **2023/24**  **£000** | **2024/25**  **£000** | **2025/26**  **£000** |
| **Funding (Council Tax, Business Rates & Govt. Grant)** | **38,446** | **39,104** | **40,271** | **41,342** |
|  |  |  |  |  |
| Prior-Year Net Expenditure Budget | 35,808 | 38,446 | 39,104 | 40,271 |
| Identified Pressures / Savings | 2,638 | 983 | 978 | 1,166 |
| Unidentified (Savings) / Expenditure |  | (325) | 189 | (95) |
| (Use of Reserves) |  |  |  |  |
| **Net Revenue Budget** | **38,446** | **39,104** | **40,271** | **41,342** |

Whilst this MTFP is a best estimate of changes in income and expenditure, it is important to also consider the unbudgeted risks that have been identified. As noted above, each 1% pay increase adds a pressure of £285,000 to the base budget and the loss of part or all of the Service Grant would have an impact on the level of service that we can deliver to people living and working in Berkshire.

