

2019/20 and Later Years Revenue and Capital Budgets

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 258915, or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report brings together the elements of an initial revenue budget, based on current planning assumptions, and seeks the Committee's approval for this outline to be recommended to the Fire Authority in December 2018.

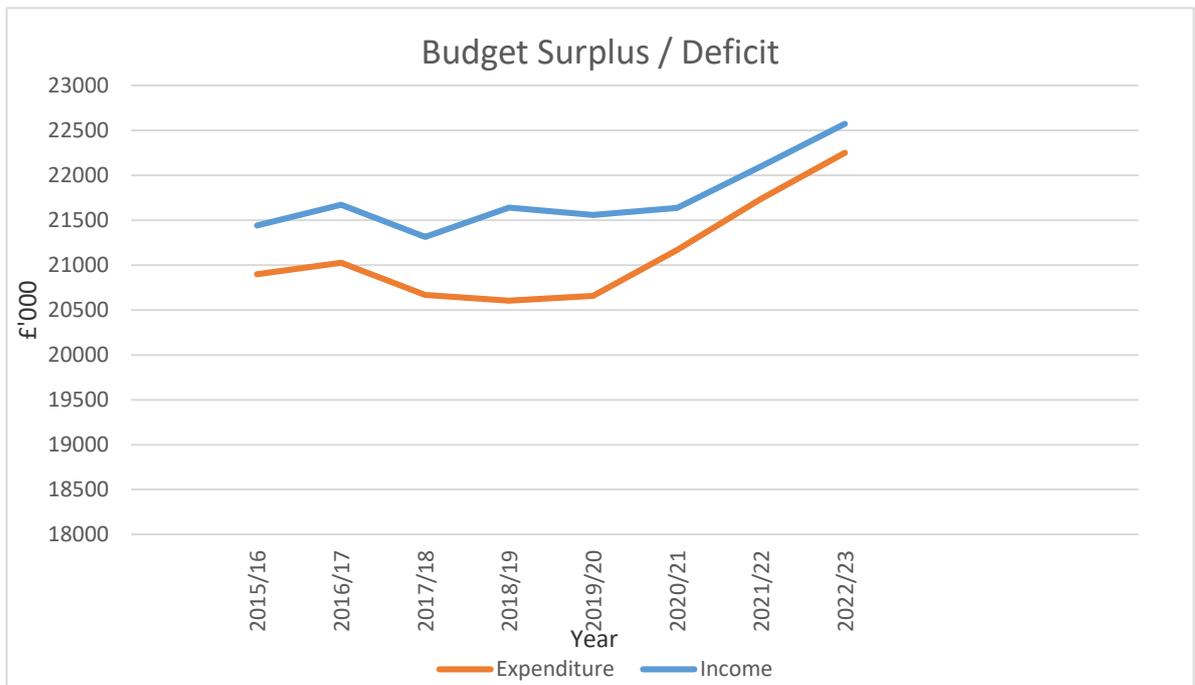
2 Recommendations

The Committee is asked to recommend that the Fire Authority:

- a) Note the revisions and the committed changes to the base budget, as shown in section 4;
- b) Bases its pay and price contingency in the revenue budget on the calculations set out in section 5;
- c) Note the process for the approval of the capital programme, and
- d) Approves the expenditure figures associated with those approved assumptions as a basis for developing the budget at the meeting of the Fire Authority on 12 December 2018.

3 Background

At its meeting in February 2018, the Fire Authority approved a revenue budget of £21.641m for 2018/19, which included a budgeted surplus of £1.037m. Revenue budgets to 2020/21 were also projected, along with the provisional four year figures provided by Department for Communities and Local Government (DCLG), which are shown in the following graph.



The following assumptions, upon which the budget was set, were approved by the Fire Authority:

- Precept increase of 2.99% from 2018/19 onwards
- Pay award of 2% from 2018/19 onwards
- Revenue Support Grant reduced in line with provisional four year settlement from DCLG to 2019/20
- Council tax base growth at 2.25% in 2018/19, 0.8% thereafter
- Business rates received from Shropshire Council and Borough of Telford & Wrekin
- Business rates top-up grant received from Government
- Contribution to Telford improvements capital scheme from the revenue account
- Additional grants received from DCLG at the final settlement to be treated as revenue contributions to the Telford scheme.

This report deals with the revenue budget, and proposes changes in revenue expenditure. The stages in the budget process, and the proposed updates to assumptions during, and as a result of, the review are laid out in the following sections. The Committee is asked to consider each element and approve the associated recommendations at the beginning of the report.

Although funding estimates can only be completed once final information becomes available, for Council Tax Band D base and Collection Fund surpluses planning will continue, based on the assumptions adopted by the Authority.

Four Year Efficiency Plan

As part of the move to more self-sufficient local government, an offer was set out to any authority that wished to take it up, of a four-year funding settlement to 2019/20. In order to obtain this four-year settlement, authorities were required to submit a robust and transparent efficiency plan. The offer of a four-year settlement was put forward by the DCLG; however following the move of the Fire Service to the Home Office, it was confirmed that this offer was still available to fire authorities.

The plan for this Authority was approved by members on 5 October 2016 and subsequently approved by the Home Office. The plan was based on the assumptions agreed by the Authority while setting the budget.

The financial year 2019/20 will be the final year of the four year settlement, and so indicative numbers are already known. The provisional settlement which should confirm the figures for 2019/20 will be received towards the end of the year.

Budget Management Board – overarching principles

Senior managers are members of the Service's Budget Management Board, which reviews the Authority's financial performance and its long term budget strategy. The principles within which the Board operates are as follows:

- The target remains to manage a balanced budget to 2022/23;
- The Service will focus on continued service improvement, taking into account all necessary budgetary constraints;
- Future changes to be tailored to the needs of the community and the capacity of the Service; and
- The Fire Authority will continue to pursue collaborative opportunities actively with other organisations, where they offer potential advantages to the community.

4 Stage One – Base Budget Review and Committed Changes

As the first step in the budget setting process, revenue budgets have been reviewed with officers; this has taken into account both changes that have been made to date to the 2018/19 revenue budget, and anticipated changes for 2019/20 and future years.

Work on the base budget review is ongoing, and adjustments will be made throughout the budget setting process, and reported to Members.

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
2018/19 Budget	20,604	20,604	20,604	20,604
Committed Changes				
Release from Pay Contingency		-175	-175	-175
Pensions contributions	70	750	750	750
Lease car rentals (note 1)	-29	-49	-77	-81
Emergency response fleet maintenance	10	10	10	10
Staff savings from IRMP1 (moved from 2019/20 to 2020/21))		-450	-450	-450
Base Budget Review				
Hydrants	-50	-50	-50	-50
Personal Protective Equipment maintenance (note 3)	30	30	30	30
Total	20,635	20,670	20,642	20,638
Total movement in base budget	31	66	38	34

Fire Pension Scheme Revaluation

Members will be aware that reforms have been made to public service pension schemes, and that new career average re-valued earnings (CARE) schemes were introduced in April 2015. A new framework for actuarial valuations was introduced, and the second of these valuations has been carried out, covering benefits for members employed between April 2019 and March 2023.

The two main reasons for the valuation are:

- To measure certain costs of the scheme against a target rate; the 'employer cost cap'; this implements a mechanism that shares the risks for unexpected costs between members and taxpayers; and
- To set the employer contribution rate; when combined with member contributions, contributions are expected to meet the full cost of pension benefits being earned, including past service effects.

There are two factors that have affected the valuation of the Fire schemes:

- The 'employer cost cap' sets a target of what percentage of pensionable pay is required to pay for the pension schemes; this rate is set at 16.8% with a buffer of +/- 2%. Any breach of this buffer requires an increase in employer contribution rates to ensure that the liabilities of the fund are being covered. The findings of the valuation are that the indicative cost cap is now 11.6%, a breach of 5.2%. This has been affected by reductions in the forecasts of short term pay growth and future life expectancy.

- As the Fire schemes are unfunded, a notional pot of assets (Superannuation Contributions Adjusted for Past Experience - SCAPE) is used to calculate the appropriate level of contributions to be paid in to the scheme to meet the cost of accruing benefits. In the last valuation this would have taken into account the introduction of the Modified scheme, GAD vs Milne cases and the Contributions Holiday for those reaching 30 years before age 50.

The discount rate used to calculate the present value of future money (SCAPE rate) was reduced in the 2016 Budget, from 3% to 2.8%, and is expected to reduce again from April 2019, from 2.8% to 2.4%. This means that future money is now worth less. This change has had the greatest impact on the changes proposed for the employer contribution rates.

The effects of these changes are still being exemplified; however information provided to date suggest that **the average employer contribution rate for the Fire schemes will increase from 17.6% to 30.2% from 1 April 2019.**

The impact on the Fire sector as a whole will be an increased cost of £107m from 2019/20. It is understood that the Treasury will cover £97m of the costs in the first year, and the costs in the years following will be taken into account in the Comprehensive Spending Review from 2020/21.

A high level calculation for this Authority indicates that **the additional costs from 2020/21 may be between £750,000 and £1m**, and work is ongoing to establish how this cost can be covered.

Note 1 – In February 2018 the Authority approved a capital scheme which will see the introduction of a new emergency response vehicle fleet into the Service. The costs of these vehicles will be covered in part by the reduction in costs for vehicles that are currently leased, being phased out as the leases came to an end. The reduction shown above reflects this change, and also allows for an increase in servicing and maintenance costs of the new fleet.

Note 2 – members will be aware that a major capital scheme to replace personal protective equipment (PPE) throughout the Service was funded with a capital scheme and was completed in 2014. Due to the investment in new PPE and a recognition that there would be fewer repairs, this revenue budget was reduced accordingly.

In 2018/19, it was necessary to increase the revenue budget, reflecting the increase in repairs as the kit became older, and more stringent kit inspection regimes were introduced. Following a review of expenditure in the current year, the budget has been increased again to reflect these increasing costs.

Please see recommendation a).

5 Stage Two – Pay and Price Contingency

Officers have used the following methodology for establishing pay and prices contingencies:

- Analyse base budget (2018/19) into the spending areas, where pay or price changes can be significant;
- Make pay assumptions for firefighters, based on a realistic expectation for the outcome of the nationally negotiated settlement;
- Make pay assumptions for other pay, based on a realistic expectation of the outcome of any outstanding negotiations;
- Take account of known issues, such as increments; Continuing Professional Development, National Insurance and tax changes; and
- Analyse the non-pay and income budgets into key elements, including those to which no inflation applies, and create an appropriate contingency.

Current Developments

Despite a public sector pay cap of 1% being in place, negotiations on the pay award for 2017/18 resulted in an offer to employees of a 2% award. This was retrospectively built into the revenue budget in 2018/19.

Negotiations for the 2018/19 pay award are ongoing, however an interim award of 2% has been awarded while talks continue. A contingency of 2% has been built into the base budget and following recommendations by members, a scenario featuring a pay award of 3% has also been included in the Authority's strategic planning.

In terms of prices, non pay increases have been provided for at 2.5% to reflect current levels. Where inflationary increases are higher than this level, adjustments will be accommodated within the contingency.

Conclusions

It is proposed that the figures for pay and price assumptions over the planning period will be budgeted as follows:

	Pay		Prices	
	%	£'000	%	£'000
2019/20	2.0	291	3.0	88
2020/21	2.0	289	3.0	91
2021/22	2.0	294	3.0	93
2022/23	2.0	300	3.0	95

Please see recommendation b).

6 Stage Three – Capital Programme 2019/20 to 2022/23

The Authority has already agreed capital programmes for 2018/19 and earlier years. It has also agreed how these schemes are funded and the revenue consequences for future years.

This stage deals with the options available for new schemes, starting next year.

The Capital Programme from 2018/19

The schemes under consideration include appliances and operational equipment, and are currently being reviewed by officers. The schemes in the early years of the planning period will be funded by Earmarked Capital Reserve, or government grant. Therefore there are no revenue consequences associated with the funding of the programme.

Funding for the major capital scheme at Telford is also being reviewed; the initial stages are likely to be funded from contributions from the Unearmarked Capital Reserve, which has been built up in readiness for the major development.

In the later stages of the planning period, some borrowing will be required to fund part of the Telford improvements, and some of the other later schemes. However, the associated borrowing costs should be offset by savings from the Integrated Risk Management Plan shift changes project.

It should be noted that revenue consequences are limited to financing costs – any other costs need to be flagged up as part of the project appraisals. Also, the Authority is presently only committing itself to schemes that start in 2019/20. The majority of schemes are currently shown as being spent in the start year. However, experience shows that payments often slip into later years, thereby slowing the build-up of costs and resulting in revenue underspend.

The capital programme proposed will be brought to the Committee in January 2019 for consideration; it will then go forward to the Fire Authority for approval.

Appraisals for each scheme will confirm their service value, the capital cost, phasing of expenditure and revenue consequences. There is, therefore, scope for these figures to change, especially if there are any associated revenue consequences, such as running costs of property or systems.

Prudential Guidelines

In addition to the merits of the individual schemes within the final capital programme presented in February, the Authority will need to evaluate the programme in the light of Prudential and Treasury Management Guidelines. Compliance with these indicators will demonstrate the affordability, sustainability and prudence of the proposed programme of schemes.

Future Capital Schemes

The forward capital programme is being thoroughly reviewed by officers and any future requests for schemes will be considered as part of the ongoing strategic planning process. Projects for consideration will be tested to ensure that, as far as possible, they are both realistically costed and resourced; will start when scheduled; and that, where possible, they have long-term revenue saving potential.

Please see recommendation c).

7 Revised Budget Summary

The changes to revenue expenditure, covered in the previous sections, can be summarised as follows:

	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000
Previous Year's Budget	20,604	21,014	21,429	21,788
Committed Change	31	35	-28	-4
Pay and Prices	379	380	387	395
	21,014	21,429	21,788	22,179

8 Funding Assumptions

Officers have continued to use the Service's budget planning model, which is estimating budgets and income to 2022/23. Financial planning will forecast the position of the revenue budget to 2022/23, but with emphasis on the medium term, i.e. 2018/19 to 2020/21. Members have reviewed and endorsed this approach through approval of the Medium Term Financial Plan in October 2018.

Work undertaken to date indicates that the Authority's budget planning strategy is on target, although changes detailed above regarding the Fire pension scheme revaluations will require careful consideration.

Revenue surpluses, which accumulated following the process, have been used to fund capital schemes, therefore maintaining stable capital reserves. After the four year finance settlement, there is no basis upon which to estimate the Authority's funding, therefore the assumptions made are indicative.

Forecasts for the longer term are provided within the table on page 7 as an indication of the financial position, based on a number of uncertain assumptions. Officers and Members should note this longer-term position and have plans and options available to meet a range of possible outcomes. The Authority's Integrated Risk Management Planning 2020 projects have ensured that the Service has plans in place to reshape service delivery into 2020/21 and beyond the current planning period.

9 Financial Implications

The financial implications are as outlined in the main body of the report.

10 Legal Comment

There are no direct legal implications arising from this report.

11 Initial Impact Assessment

An Initial Impact Assessment has been completed for this report.

12 Appendices

There are no appendices attached to this report.

13 Background Papers

There are no background papers associated with this report.