

2022/23 and Later Years Revenue and Capital Budgets

Report of the Treasurer

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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 2021.

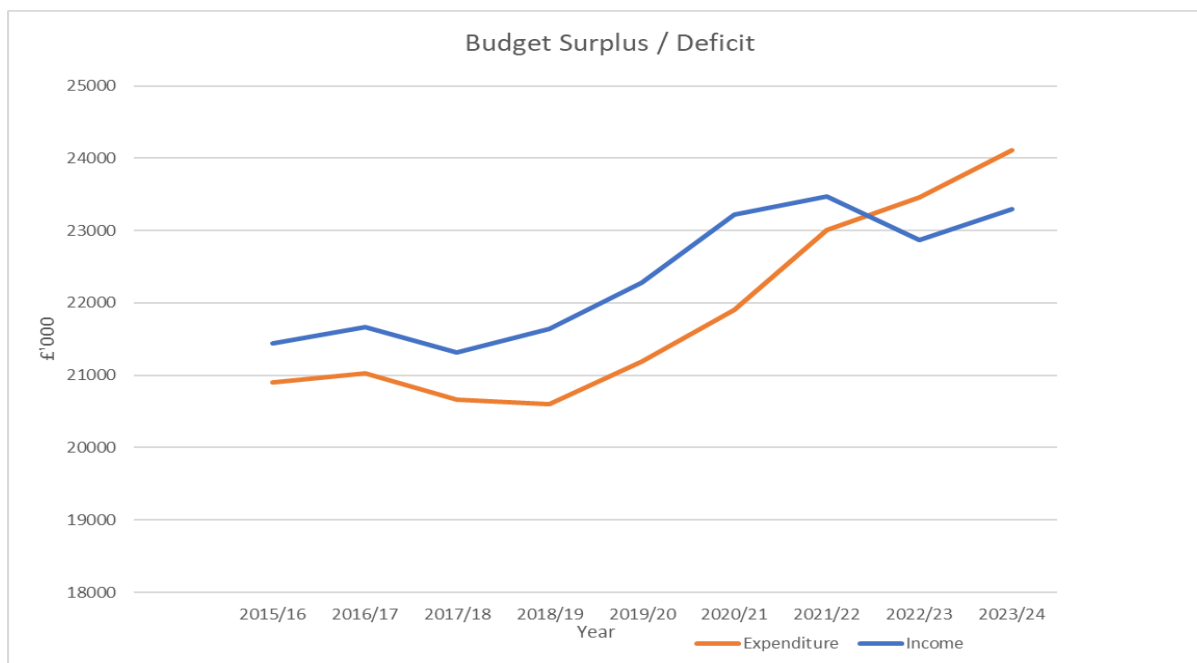
2 Recommendations

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) Notes 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 15 December 2021.

3 Background

At its meeting in February 2021, the Fire Authority approved a revenue budget of £23.473m for 2021/22, which included a budgeted surplus of £0.466m. Revenue budgets to 2023/24 were also projected, although members were advised that, due to the uncertainty about future funding, these were purely estimates. This noted position is shown in the following graph:



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

- Precept increase of 1.99% from 2021/22 onwards
- Nil pay award for 2021/22 and 2% thereafter
- Revenue Support Grant increased in line with 1 year spending review, then reduced to zero by 25/26
- Council tax base growth at 0.3% in 2020/21, 1.87% thereafter
- Business rates received from Shropshire Council and Borough of Telford & Wrekin
- Business rates top-up grant received from Government
- 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 balances, planning will continue, based on the assumptions adopted by the Authority.

Four Year Efficiency Plan and Spending Round

The financial year 2019/20 was the final year of a four-year settlement which was agreed with the Home Office. Single year settlements have been published in the following two years, due to the pressure of Brexit in 2020/21, and the impact of the Coronavirus pandemic in 2021/22.

The Chancellor of the Exchequer announced the Government's Spending Review for 2022/23 and future years on 27 October 2021. Settlements for individual authorities are expected in early December 2021.

4 Stage One – Base Budget Review and Committed Changes

As the first step in the budget setting process, revenue budgets have been reviewed; this has taken into account both changes that have been made to date to the 2021/22 revenue budget, and anticipated changes for 2022/23 and future years.

Whilst reviewing the base budget for future years, it is important to recognise the impact that Coronavirus continues to have on the revenue budget. The Service's activities were distorted due to the pandemic during 2020/21, and some areas are still affected and will have incurred minimal spend during 2021/22 or will be catching up with enhanced activities.

Officers will continue to review their budgets with Finance staff, with the opportunity to make changes within the total provided where necessary.

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

Note	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
2021/22 Budget	23,007	23,007	23,007	23,007
Committed Changes				
Contribution – Telford improvements	-500	-500	-500	-500
Pensions contributions – LGPS	50	50	50	50
1 Growth – training instructor	60	60	60	60
WM Employers recruitment subscription	15	15	15	15
Operational debrief system	18	18	18	18
Capital charges from 2021/22	302	302	302	302
Base Budget Review				
2 Capital programme	-200	-200	-200	-200
3 Investment income	30	30	30	30
4 Operational equipment maintenance – Workshops	50	50	50	50
5 PPE and clothing	30	30	30	30
6 Laundry	20	20	20	20
7 Vehicle parts and servicing	15	15	15	15
8 On call system – Tech Services	23	23	23	23
Total	22,920	22,920	22,920	22,920
Total movement in base budget	-87	-87	-87	-87

Note 1 Growth – Training instructor – a number of posts were added to the budget in 2020/21. It was agreed that this instructor post would be funded from reserves and reviewed prior to being added to the establishment in 2022/23.

Note 2 Capital programme – the element of debt charge that is charged to replace future assets (minimum revenue provision) has reduced by £100k in 2022/23. In addition, the amount of debt charge required to fund Telford improvements has reduced.

Note 3 Investment income – the return on the Authority's investments is much lower than in previous years due to the impact of the pandemic on the markets.

Note 4 Operational equipment maintenance (Workshops) – This corrects the budget allocation for maintenance of operational fleet equipment such as rescue equipment and light portable pumps, carried out by Workshops.

Note 5 PPE and clothing – firekit is ageing and requiring more maintenance and replacement is becoming a more economical option. Replacement of firekit is being reviewed and may result in capital funds being brought forward. Supply of uniform and clothing remains a challenge due to supply chain impacts and garments having to be sourced as and when available.

Note 6 Laundry – costs are set to rise in this area due to a change in supplier, and the increase in decontamination costs, to ensure firefighter safety.

Note 7 Vehicle parts and servicing – this is to recognise the increasing costs of specialist repairs and maintenance of non-standard appliances and vehicles

Note 8 – On call system – Tech Services – this was approved and introduced during 2020 during the pandemic and will now be incorporated into the base budget to ensure that crews have on call operational support.

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 (2021/22) 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

In his announcement on the Spending Review in 2021/22, the Chancellor stated that “in the interest of fairness we must exercise restraint in future public sector pay awards, ensuring that across this year and the spending review period, public sector pay levels retain parity with the private sector.”

In line with this statement, no pay contingency was built into the base budget for 2021/22, with 2% built in for future years. However, pay awards were, or are being, negotiated for the current financial year, and have been found from existing balances and one-off underspends elsewhere in the budget. These must now be accounted for in the revenue budget for 2022/23.

In terms of prices, non pay increases in recent years have been provided for at 2.5%. However, the Office of Budget Responsibility's forecasts for CPI inflation have risen in the short term to a peak in 2022 of 4.0%, due to energy prices, trade disruptions and imported inflation. Preferred products may not be available and therefore more expensive alternatives are having to be considered. Rates are expected to settle around 2% (the Government's target) by 2024.

Purchases made by the Service often attract price increases at a higher than average rate but given the range of goods and services in the Authority's basket of goods, it is anticipated that a contingency at this level will ensure that budgets will remain realistic and adequate.

Conclusions

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

Pay 2021/22		
	%	£'000
2022/23	1.5	261

Pay 2022/23		Prices		
	%	£'000	%	£'000
2022/23	3.0	279	4.0	204
2023/24	3.0	541	2.6	138
2024/25	2.0	408	2.1	114
2025/26	2.0	380	2.0	111

Please see recommendation b).

6 Stage Three – Capital Programme 2022/23 to 2025/26

The Authority has already agreed capital programmes for 2021/22 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 2022/23

The schemes under consideration include appliances, operational equipment and building improvements, and are currently being reviewed by officers. The Earmarked Capital Reserve will be used to fund schemes that have already been approved, and new schemes within this planning period will be funded from borrowing, in line with the Authority's Capital Strategy. Decisions around the need to borrow funds will be discussed with Treasury Services and borrowing costs have been factored into the revenue budget.

Funding for the major capital scheme at Telford is also being reviewed; the Major Projects Reserve has been built up in readiness for this development.

In the later stages of the planning period, some borrowing may be required to fund part of the Telford improvements. The associated borrowing costs are currently included in the Authority's scenario planning, but again the requirement to borrow will be discussed with Treasury Services.

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 2022/23. 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 2022 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 its Capital Strategy, which includes 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 Efficiencies

The budget setting process includes consideration of where savings can be made, for example following implementation of a new system or a change in working patterns.

As work progresses on planning for the next spending review period, it will be important for the Authority to recognise where efficiencies have been made across the Service, in terms of cash reductions and productivity. Reductions in budget areas can be reinvested into new areas or those that require improvement. They can also be utilised to meet cost pressures such as increases in pay and inflation, anticipated over the next two years.

Officers will continue to work with budget holders to identify, record and report efficiencies and improvements in productivity.

8 Revised Budget Summary

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

	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
Previous Year's Budget	23,007	23,804	24,483	25,005
Committed Change	-87	0	0	0
Pay and Prices	884	679	522	491
	23,804	24,483	25,005	25,496

9 Funding Assumptions

Officers have continued to use the Service's budget planning model, which is estimating budgets and income to 2025/26. Financial planning will forecast the position of the revenue budget to 2025/26, but with emphasis on the medium term, i.e. 2022/23 to 2023/24.

The Authority's scenario planning shows that changes in assumptions can significantly alter the financial position of the Authority. Officers will continue to update the planning model as more information becomes available.

Revenue surpluses, which accumulated following the process, have been used to fund capital schemes, therefore maintaining stable capital reserves, but these reserves will be reduced to nil as current schemes are completed. The announcement of a multi-year settlement in December will offer a firmer basis upon which to estimate the Authority's funding, however the assumptions made are indicative.

Forecasts for the longer term are provided within the table above 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.

10 Financial Implications

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

11 Legal Comment

There are no direct legal implications arising from this report.

12 Initial Impact Assessment

An Initial Impact Assessment has been completed for this report.

13 Appendices

There are no appendices to this report.

14 Background Papers

There are no background papers associated with this report.