

2023/24 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 Executive Summary

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 2022.

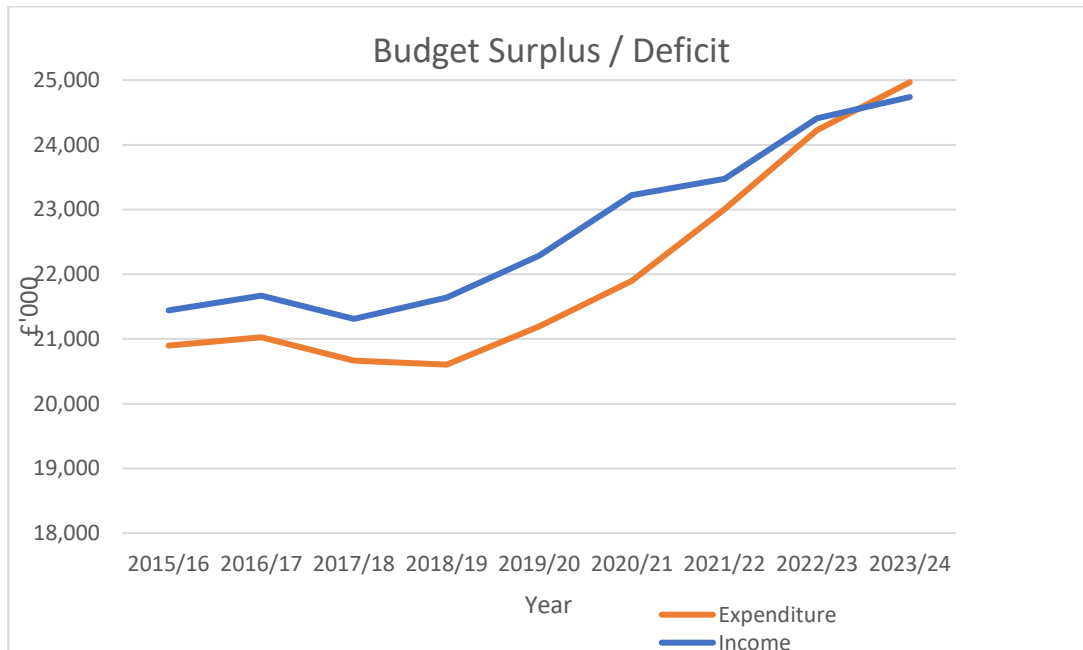
2 Recommendations

The Committee is asked to recommend that the Fire Authority:

- a) Notes 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 14 December 2022.

3 Background

At its meeting in February 2022, the Fire Authority approved a revenue budget of £24.410m for 2022/23, which included a budgeted surplus of £0.182m. Revenue budgets to 2024/25 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 2022/23 onwards
- 3% pay award for 2022/23 and 2023/24 and 2% thereafter
- Revenue Support Grant increased in line with 1 year spending review, then 2% thereafter
- Council tax base growth at 0.2% in 2022/23, 1.87% thereafter
- Business rates received from Shropshire Council and Borough of Telford & Wrekin, increased by 2%
- Business rates top-up grant received from Government, increased by 1.5%

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.

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 were 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 and one year settlements were received for 2022/23.

A spending review is expected on 17 November 2022; however, the details and term of the settlement is not yet known. Settlements for individual authorities are expected before Christmas.

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.

For future spending reviews, the Treasury will expect to see evidence of efficiency and productivity improvements from fire and rescue services. Work is currently being undertaken by the Home Office, Local Government Association and National Fire Chiefs Council to ensure that this is measurable and available for the next Spending Review submission.

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

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 2022/23 revenue budget, and anticipated changes for 2023/24 and future years.

It is important at this stage in the process to review where efficiencies can be identified, following new ways of working or as a result of technological improvements.

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		2023/24	2024/25	2025/26
		£'000	£'000	£'000
	2022/23 Budget	24,227	24,227	24,227
	Committed Changes			
	One off transformation growth (from 2022/23)	-200	-200	-200
	Capital charges – 22/23 schemes	67	67	67
	Fitness contract increase	22	22	22
	Pensions contributions	0	50	50
1	Removal of NI increase	-107	-107	-107
	Payroll contract increase	23	23	23
	Base Budget Review			
	Staff survey costs	10	10	10
2	Investment income	-50	-50	-50
	Rents income	7	7	7
3	Contribution for operational equipment replacement	40	40	40
4	Reduction in insurance premiums	-50	-50	-50
5	Reduction in wide area network contract	-111	-111	-111
5	Cyber security systems	111	111	111
	Total	23,989	24,039	24,039
	Total movement in base budget	-238	-188	-188

Note 1 Removal of NI increase – the introduction of the Health and Social Care Levy as an increase in NI contributions, has been removed.

Note 2 Investment income – the return on the Authority's investments is now forecast to be higher due to the increase in interest rates.

Note 3 Operational equipment – This provides an increase to the Operational Equipment Reserve, to fund the replacement programme, and smooths expenditure in the revenue budget.

Note 4 Insurance premiums – a successful insurance claims history has resulted in a reduction in premiums from 2022/23.

Note 5 ICT – a renegotiated contract for the Services' wide area network has reduced annual costs by £111,000. These savings will be redirected to investment in crucial cyber security systems.

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 (2022/23) 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 then 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, however, pay awards were negotiated at 1.5% for staff conditioned to the Grey Book, and 2.7% for Green Book staff. These awards were found from existing balances and one off underspends elsewhere in the budget, and were built into the revenue budget in 2022/23.

A pay contingency of 3% was agreed for 2022/23 and 2023/24, however, members will be aware that pay awards above this level have been agreed or are being considered through national negotiation. Pay in excess of contingency will be found in 2022/23 using reserves and underspends. It is anticipated that the additional pay will be built into the budget from 2023/24, although this will be determined when more information is known about the finance settlement.

In light of the current position on pay and cost of living pressures, it is prudent to continue to budget for higher pay awards into the medium term; therefore, a pay award of 5% is proposed.

In terms of prices, non pay increases in recent years have been based on the Office of Budget Responsibility's (OBR) forecasts for CPI inflation. Inflation is currently at historically high levels but in the most recent forecasts (March 22), OBR expects this to fall into the medium term to levels nearer 2%. Given the events since this forecast, it is more realistic to allow for higher estimates.

The OBR will produce updated forecasts following the Spending Review on 17 November 2022; therefore, it is proposed that assumptions are based on higher estimates and updated following the announcement.

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 2022/23*	
	%	£'000
2023/24 Grey	2	218
2023/24 Green	3	96

*Difference between pay contingency and actual award
 Grey Book staff – 5% - 3%
 Green Book staff – 6% - 3%

	Pay 2023/24		Prices	
	%	£'000	%	£'000
2023/24	5.0 Grey / 6.0 Green	936	5.0	265
2024/25	5.0/6.0	963	3.0	167
2025/26	5.0/6.0	1,014	3.0	172

Please see recommendation b).

6 Stage Three – Capital Programme 2023/24 to 2026/27

The Authority has already agreed capital programmes for 2022/23 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 2023/24

The schemes under consideration include appliances, operational equipment building and technological improvements, and are currently being reviewed by officers. The Earmarked Capital Reserve will be fully utilised in funding existing 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.

Borrowing decisions will be made at the most financially optimal time, in line with the needs of the Authority's Capital Financing Requirement. The associated borrowing costs are currently included in the Authority's scenario planning.

It should be noted that revenue consequences are limited to financing costs – any other costs need to be included as part of the project appraisals. Also, the Authority is presently only committing itself to schemes that start in 2023/24. 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 2023 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 Revised Budget Summary

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

	2023/24	2024/25	2025/26
	£000	£000	£000
Previous Year's Budget	24,227	25,504	26,684
Committed Change	-238	50	0
Pay and Prices	1,515	1,130	1,186
	25,504	26,684	27,870

8 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. 2023/24 to 2024/25.

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. It is not yet known if settlement information provided in December 2022 will be multi-year; this would 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.

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 Equality Impact Assessment

There are no equality or diversity implications arising from this report. An e-EQIA is not, therefore, required.

12 Appendices

There are no appendices to this report.

13 Background Papers

There are no background papers associated with this report.