

## 2020/21 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 2019.

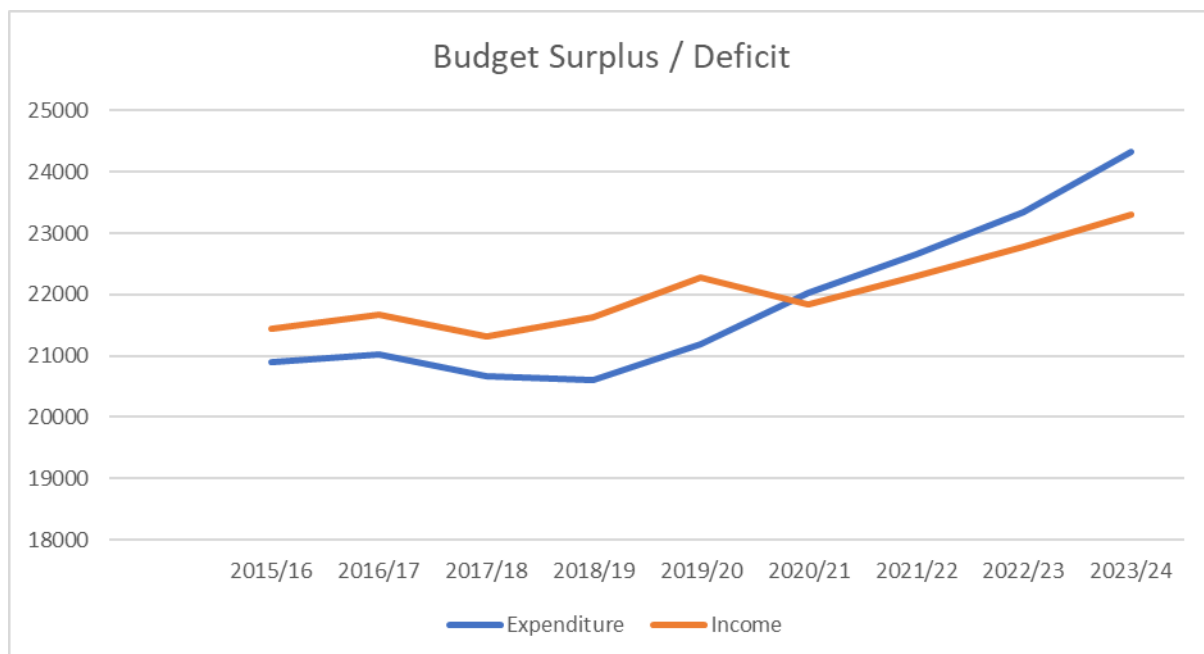
### 2 Recommendations

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 18 December 2019.

### 3 Background

At its meeting in February 2019, the Fire Authority approved a revenue budget of £22.287m for 2019/20, which included a budgeted surplus of £1.093m. 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 2.99% from 2019/20 onwards
- Pay award of 3% from 2019/20 onwards
- Revenue Support Grant reduced in line with provisional four-year settlement from Department for Communities and Local Government (DCLG) to 2019/20, then reduced to zero by 2023/24
- Council tax base growth at 2.02% in 2019/20, 1.87% 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 sent 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 was the final year of the four-year settlement; the Chancellor of the Exchequer has announced a single year rollover spending round for 2020/21, based upon a 'flat real' 2019/20 settlement. The provisional settlement which should confirm the figures for 2020/21 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 and resilience 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; this has taken into account both changes that have been made to date to the 2019/20 revenue budget, and anticipated changes for 2020/21 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.

Note	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
<b>2019/20 Budget</b>	<b>21,194</b>	<b>21,194</b>	<b>21,194</b>	<b>21,194</b>
<b>Committed Changes</b>				
1 Pensions contributions	1,125	1,125	1,125	1,125
1 Pensions grant	-1,101	-	-	-
1 Pay & price contingency	-	-153	-153	-153
Lease car rentals	-20	-48	-52	-52
Staff savings from IRMP1	-450	-450	-450	-450
2 HR / Payroll system	9	9	9	9
2 Pensions payroll	35	35	35	35
Pensions administration	7	7	7	7
Capital programme 19/20	13	13	13	13
Trauma and risk management training	5	5	5	5
<b>Base Budget Review</b>				
3 Vehicle parts	40	40	40	40
3 Tyres	20	20	20	20
3 Uniform}				
3 Laundry}	30	30	30	30
3 Operational equipment}				
Chaplain contract	8	8	8	8
3 Subscriptions	30	30	30	30
<b>Total</b>	<b>20,945</b>	<b>21,865</b>	<b>21,861</b>	<b>21,861</b>
<b>Total movement in base budget</b>	<b>-249</b>	<b>671</b>	<b>667</b>	<b>667</b>

**Note 1 Fire Pension Scheme Revaluation** - members will be aware that a scheme valuation was carried out on the fire pension schemes, covering benefits for members employed between 2019 and 2023. The valuation had a substantial impact on the Authority's revenue account, as employer contributions were increased by an average of 12.6%, and this resulted in an annual increase to the budget of just over £1million.

The increased cost of contributions has been added to the revenue account and this has been offset by grant from the Home Office, paid in 2019/20 and anticipated in 2020/21. The assumption for planning purposes is that this grant ceases in 2021/22.

**Note 2 HR / Payroll and Pensions systems** – during 2018/19 the Authority entered into a service level agreement with Telford & Wrekin Council for the provision of Finance, HR and Payroll services. The revenue budget was adjusted to reflect the changes during 2018/19 and further adjustment of £9,000 is required next year; however, payments to pensioners were not included in the package offered by T&W. It was therefore necessary to develop this facility with Shropshire Council, resulting in further committed costs of £35,000.

**Note 3 Adjustments to base budgets** – members were made aware in 2018/19 that a number of areas within the revenue budget were to be reviewed and rescope, as the way in which items were procured and assets maintained had changed. Officers have carried out reviews of these areas and required adjustments are shown in the table.

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 (2019/20) 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

An interim pay award of 2% was made to firefighters for 2018/19, and further negotiation was expected regarding broadening of the role. This aspect will now be taken into account as part of the Comprehensive Spending review and therefore no further award will be made for 2018/19. The pay award for 2019/20 has also been concluded at 2%.

A contingency of 3% has been built into the base budget and a scenario featuring a pay award of 2% has also been included in the Authority's strategic planning. The increase in pension contributions has also led to an increase in the pay contingency

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
<b>2020/21</b>	3.0	477	2.5	91
<b>2021/22</b>	3.0	499	2.5	95
<b>2022/23</b>	3.0	513	2.5	98
<b>2023/24</b>	3.0	529	2.5	100

Please see recommendation b).

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

The Authority has already agreed capital programmes for 2019/20 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 2020/21**

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 schemes in the early years of this planning period will be funded using cash balances, 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 initial stages will be funded from contributions from the Major Projects Reserve, which has been built up in readiness for the major development.

In the later stages of the planning period, some borrowing may be required to fund part of the Telford improvements, and some of the other later schemes. 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 2020/21. 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 2020 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:

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Previous Year's Budget	21,194	21,513	23,027	23,634
Committed Change	-249	920	-4	0
Pay and Prices	568	594	611	629
	<b>21,513</b>	<b>23,027</b>	<b>23,634</b>	<b>24,263</b>

## 8 Funding Assumptions

Officers have continued to use the Service's budget planning model, which is estimating budgets and income to 2024/25. Financial planning will forecast the position of the revenue budget to 2024/25, but with emphasis on the medium term, i.e. 2020/21 to 2021/22. Members have reviewed and endorsed this approach through approval of the Medium Term Financial Plan in October 2018. A draft of the updated Plan will be brought to the Authority in December.

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. After the rollover spending round for 2020/21, 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 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.

The Authority's Integrated Risk Management Planning (IRMP) projects to be delivered for the 2015-2021 process have been completed. A new service transformation plan will emanate from the ongoing IRMP process – currently underway and due to be completed by April 2021.

## **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 to this report.

## **13 Background Papers**

There are no background papers associated with this report.