

2021/22 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 2020.

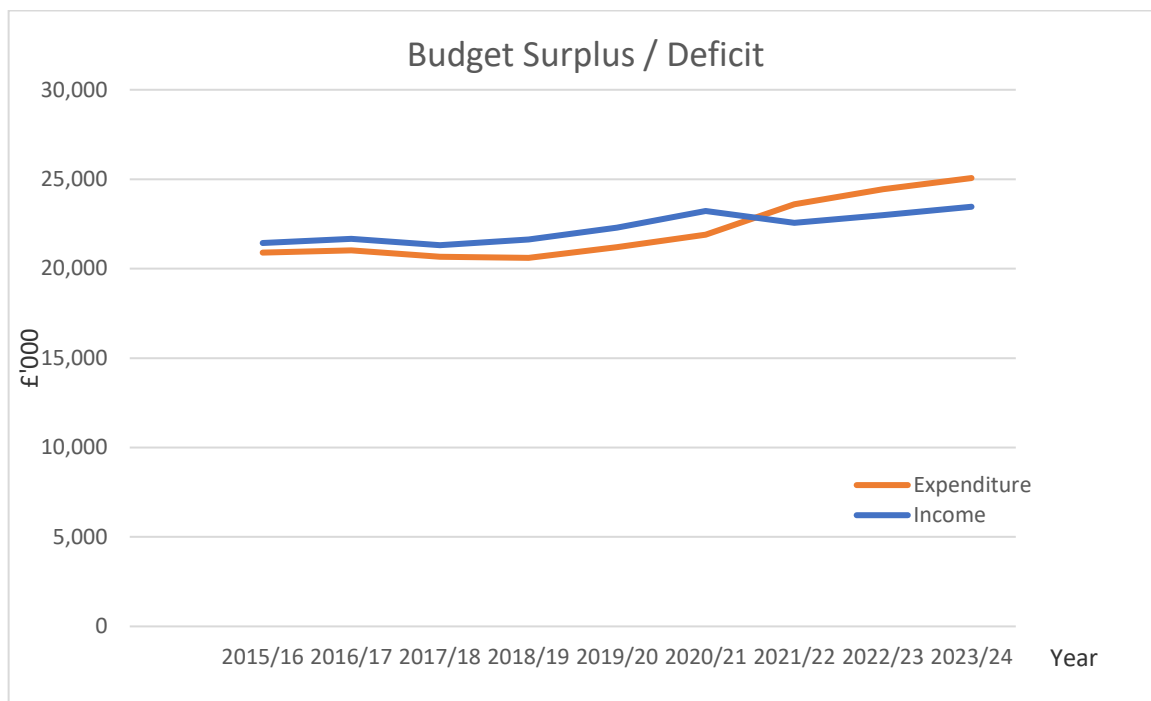
2 Recommendations

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 16 December 2020.

3 Background

At its meeting in February 2020, the Fire Authority approved a revenue budget of £23.221m for 2020/21, which included a budgeted surplus of £1.322m. Revenue budgets to 2022/23 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 2020/21 onwards
- Pay award of 3% for 2020/21 and 2% thereafter
- Revenue Support Grant increased in line with 1-year rollover spending round, then reduced to zero by 2023/24
- Council tax base growth at 2.19% 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 Department for Communities and Local Government (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 and Spending Round

The financial year 2019/20 was the final year of a four-year settlement which was agreed with the Home Office. The Chancellor of the Exchequer then announced a single year rollover spending round for 2020/21, based upon a 'flat real' 2019/20 settlement.

Given the current pressures due to the Coronavirus pandemic, a further one-year settlement will be announced for the financial year 2021/22. This announcement is expected in late November.

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 2020/21 revenue budget, and anticipated changes for 2021/22 and future years.

Whilst reviewing the base budget for future years, it is important to recognise the extraordinary circumstances of the current financial year. The Service's activities have been distorted due to the Coronavirus pandemic and therefore performance against budget will not be reflective of the expenditure anticipated as the budget was set in February. As a result, there are few movements in the base budget, with officers concluding that allocations are sufficient. 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	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
2020/21 Budget	21,899	21,899	21,899	21,899
Committed Changes				
1 Pensions contributions	1,101	1,101	1,101	1,101
Pensions contributions - LGPS	-	50	50	50
1 Pay & price contingency	-150	-150	-150	-150
Lease car rentals	-46	-46	-46	-46
Contribution to capital	46	46	46	46
Growth posts – 2020/21	-	40	40	40
Capital charges from 2020/21	75	75	75	75
Capital charges (TC) from 2021/21	97	158	158	158
Base Budget Review				
2 IT and Communications	146	146	146	146
3 Leases	-16	-16	-16	-16
Total	23,152	23,303	23,303	23,303
Total movement in base budget	1,253	1,404	1,404	1,404

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 again in 2020/21. The assumption for planning purposes is that this grant ceases in 2021/22. The associated increase in budget is shown in the table, with a contribution from the pay and price contingency to offset some of the cost.

Note 2 IT and Communications – it has been recognised for some time that the way in which ICT products and services are procured has changed, from a traditional large capital spend and smaller running cost, to a wraparound approach where a complete service is purchased with a regular monthly revenue charge.

The Service's costs in this area have been profiled and an increase to the annual budget is required to cover all regular charges plus the inevitable unknown and reactive costs. This reflects realistic budget provision rather than excessive costs on technology and communications.

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 (2020/21) 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

The pay award for 2020/21 for firefighter pay has been concluded at 2%, and pay award for support staff was 2.75%.

In his announcement on the Spending Review, 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.”

A contingency of 2% had been built into the base budget for future years, and this seems appropriate in light of the statement above.

In terms of prices, non-pay increases have been provided for at 2.5%. Although inflation is much lower than this rate at the present time, the purchases made by the Service often attract price increases at a higher than average rate, and 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		Prices	
	%	£'000	%	£'000
2021/22	2.0	343	2.5	124
2022/23	2.0	354	2.5	127
2023/24	2.0	360	2.5	131
2024/25	2.0	367	2.5	134

Please see recommendation b).

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

The Authority has already agreed capital programmes for 2020/21 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 2021/22

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 2021/22. 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 2021 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	21,899	23,619	24,251	24,742
Committed Change	1,253	151	0	0
Pay and Prices	467	481	491	501
	23,619	24,251	24,742	25,243

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. 2021/22 to 2022/23.

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 one year spending review for 2021/22, 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.

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.